

23 July 2020

Property | REITS

CapitaLand Mall Trust (CT SP)

Neutral (Maintained)

Walking a Tightrope

- **Keep NEUTRAL and SGD2.03 TP, 1% upside.** 1H20 results were broadly in line with market expectations. While shopper traffic pace has picked up post Phase 2 reopening, it remains far from normal and there are also clear signs of pressure on mall occupancy and rents. We expect the retail sector outlook to remain challenging in the mid- to long-term with COVID-19 accelerating structural headwinds. However CapitaLand Mall Trust's quality assets, strong sponsor backing and proposed merger should mitigate risks.
- **2Q20 DPU declined 28% YoY** on the back of rental rebates partially offset by CMT releasing SGD23.2m retained in 1Q. For 1H20, DPU fell 49% YoY (27% YoY including SGD46.4m of income retention). It has so far committed to rental support (including tax rebates and government grants) of SGD154.5m, of which SGD76.5m is the REIT's share, most of which has already been provided in 1H20. Based on management's estimates ~60% of its tenants are SMEs that qualify for the mandatory 2-month rent relief (from landlord). It expects to get clarity on the exact number of tenants in 3Q. Less than 1% of its tenants have so far submitted for rent deferral under COVID-19 Bill and pre-termination of leases so far remains minimal (<2%).
- **Key focus will be on sustaining mall occupancy.** Management's key priority amidst challenging market conditions will be to sustain high occupancy levels and be more flexible on rents. It is also open to explore alternative lease structures ie higher turnover rent proportion during the early period of lease tenure, short-term lease extensions for new market entrants, tenants adopting omni-channel strategies, and tenants impacted by COVID-19. As such, CMT expects variable rent component to increase steadily from current 5% of total. YTD, portfolio occupancy fell 1.6ppts to 97.7% mainly due to lower occupancy at Clarke Quay, Bedok Mall and The Atrium at Orchard. 1H rent reversions were flat at +0.1%, but lower than 1Q (+1.6%) indicating 2Q rent reversions were in negative territory. Shopper traffic post Circuit Breaker is picking up, with better heartland malls reaching ~80% of normal levels but weaker ones still below 50%.
- **Portfolio value dropped 2.5%** compared to Dec 2019 on the back of lower rental growth assumption by valuers (and taking into account new leases signed). Cap rates have so far remained steady as there have been no major transactions since COVID-19. We believe there is further room for valuation decline in 2H20 with possible cap-rate expansion of 15-25bps. Overall, we expect a 4% decline in portfolio value for 2020F.
- **Merger plans still on track** with intentions to conduct the EGM and trust scheme meeting before the long stop date of end-September. Delay from the initial timeline is mainly due to management's shift in focus on operational challenges amid COVID-19.
- **Earnings changes.** Our FY20F DPU is lowered by 6% factoring additional rent rebates and FY21F-22F DPU is raised by 1% on lower interest costs.

Target Price (Return): SGD2.03 (+1%)
 Price: SGD2.02
 Market Cap: USD5,369m
 Avg Daily Turnover (SGD/USD): 39.0m/28.1m

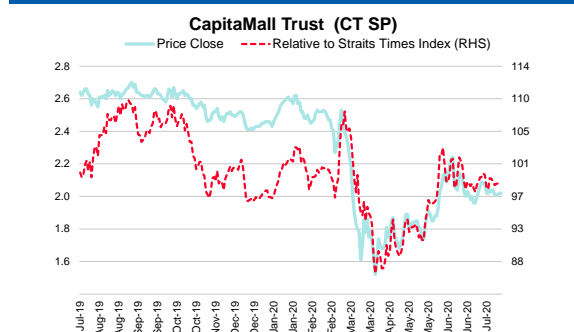
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(17.9)	1.0	16.8	(22.0)	(22.3)
Relative	0.5	1.0	13.7	(2.8)	(0.6)
52-wk Price low/high (SGD)				1.52 – 2.70	



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (SGDm)	698	787	682	793	799
Net property income (SGDm)	494	558	487	566	570
Reported net profit (SGDm)	685	715	(47)	448	453
Total distributable income (SGDm)	438	480	366	444	449
DPS (SGD)	0.12	0.12	0.10	0.12	0.12
DPS growth (%)	3.0	4.0	(19.5)	21.9	1.2
P/B (x)	1.00	0.96	1.01	1.01	1.01
Dividend Yield (%)	5.7	5.9	4.8	5.8	5.9
Return on average equity (%)	9.5	9.4	(0.6)	6.1	6.2
Return on average assets (%)	6.2	6.2	(0.4)	4.0	4.0

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Singapore	Recurring EPS (SGD)	0.19	0.19	-	0.01	0.12
Property	EPS (SGD)	0.19	0.19	-	0.01	0.12
CapitaLand Mall Trust	DPS (SGD)	0.12	0.12	0.10	0.12	0.12
CT SP	BVPS (SGD)	2.02	2.11	1.99	1.99	2.00
Neutral	Return on average equity (%)	9.5	9.4	(0.6)	6.1	6.2
	Weighted avg adjusted shares (m)	3,568.69	3,688.30	3,689.07	3,689.60	3,690.12
Valuation basis	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
DDM methodology	Recurring P/E (x)	10.51	10.42	na	16.64	16.44
	P/E (x)	10.52	10.42	na	16.64	16.44
Key drivers	P/B (x)	1.0	1.0	1.0	1.0	1.0
i. Successful merger with CCT presenting scale and reducing risks to retail sector;	FCF Yield (%)	7.7	7.7	6.3	7.8	7.5
ii. Leadership position in Singapore and repositioning of it older malls;	Dividend Yield (%)	5.7	5.9	4.8	5.8	5.9
iii. Strong Sponsor and asset pipeline.	EV/EBITDA (x)	-	0.80	-	0.01	-
	EV/EBIT (x)	-	0.80	-	0.01	-
Key risks	Income statement (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
i. Accelerating structural headwinds facing retail sector;	Total turnover	698	787	682	793	799
ii. Mass exit of popular retail and fashion brands;	EBITDA	445	506	434	511	515
iii. Concentration risks towards the Singapore retail sector.	Depreciation and amortisation	(1)	(2)	0	0	0
	Operating profit	445	504	434	511	515
	Net interest	(87)	(111)	(120)	(121)	(120)
	Income from associates & JVs	129	89	56	57	58
	Exceptional income - net	(1)	0	(0)	0	0
	Pre-tax profit	685	715	(47)	448	453
	Taxation	0	0	0	0	0
	Recurring net profit	686	715	(47)	448	453
Company Profile	Cash flow (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
CapitaLand Mall Trust is a real estate investment trust which owns and invests in retail properties primarily in Singapore. The Company's properties are strategically located in the suburban areas and downtown core of Singapore.	Change in working capital	19	7	1	32	2
	Cash flow from operations	580	600	472	581	556
	Capex	(28)	(30)	0	0	0
	Cash flow from investing activities	58	(121)	15	15	16
	Dividends paid	(456)	(384)	(366)	(444)	(449)
	Cash flow from financing activities	(812)	(625)	(514)	(568)	(566)
	Cash at beginning of period	523	349	202	176	204
	Net change in cash	(174)	(146)	(26)	29	6
	Ending balance cash	349	203	176	204	210
	Balance sheet (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total cash and equivalents	349	202	176	204	210
	Tangible fixed assets	3	3	3	3	3
	Total investments	11,096	11,257	10,840	10,840	10,840
	Total other assets	27	243	243	243	243
	Total assets	11,502	11,732	11,285	11,318	11,324
	Short-term debt	529	260	412	190	140
	Total long-term debt	3,099	3,301	3,176	3,398	3,448
	Total liabilities	4,072	3,964	3,931	3,959	3,960
	Shareholders' equity	7,429	7,767	7,355	7,359	7,364
	Total equity	7,429	7,767	7,355	7,359	7,364
	Net debt	3,279	3,359	3,412	3,384	3,378
	Total liabilities & equity	11,502	11,732	11,285	11,318	11,324
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	2.2	12.8	(13.3)	16.3	0.8
	Recurrent EPS growth (%)	3.5	0.9	(106.5)	0.0	1.2
	Operating EBITDA margin (%)	63.9	64.3	63.7	64.5	64.5
	Net profit margin (%)	98.2	90.9	(6.9)	56.5	56.7
	Dividend payout ratio (%)	62.7	64.6	(778.2)	99.0	99.0
	Capex/sales (%)	4.1	3.8	0.0	0.0	0.0
	Interest cover (x)	4.53	4.25	3.56	4.19	4.22

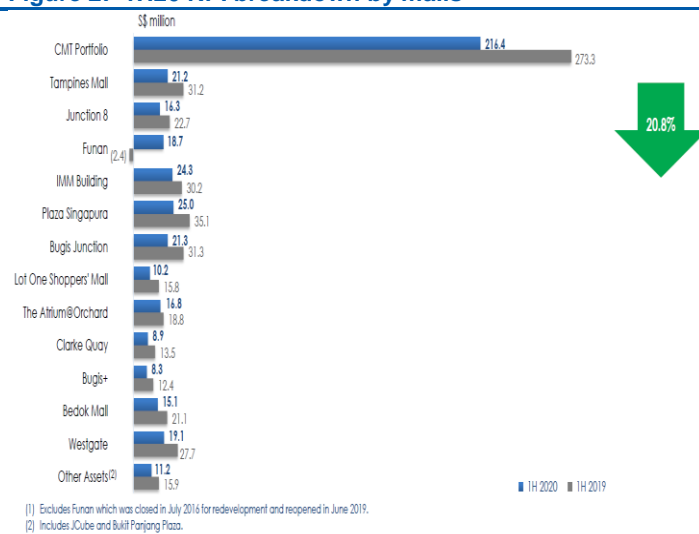
Source: Company data, RHB

Figure 1: CMT – fair value based on Dividend Discount Model

	FY20F	FY21F	FY22F	FY23F	Terminal value
DPU (SG cents)	9.64	11.73	11.87	11.89	222.16
Fair value (SGD)	2.03				
Current price (SGD)	2.02				
Price upside (%)	0.5				
Distribution yield (%)	4.8				
Assumptions					
Risk-free rate (%)	2.8				
Beta	0.8				
Cost of equity (%)	7.3				
Terminal growth (%)	1.8				

Source: RHB

Figure 2: 1H20 NPI breakdown by malls



Source: Company data

Figure 3: Mall occupancy trend

(%, As at)	31 Dec 2011	31 Dec 2012	31 Dec 2013	31 Dec 2014	31 Dec 2015	31 Dec 2016	31 Dec 2017	31 Dec 2018	31 Dec 2019	30 Jun 2020
Tampines Mall	100.0	100.0	100.0	99.5	100.0	99.2	100.0	100.0	100.0	99.1
Junction 8	100.0	99.6	99.4	100.0	100.0	99.9	100.0	100.0	100.0	99.5
Funan ⁽¹⁾	100.0	100.0	98.2	97.9	95.3	N.A. ⁽²⁾	N.A. ⁽²⁾	N.A. ⁽²⁾	99.0 ⁽³⁾	99.2 ⁽³⁾
IMM Building ⁽⁴⁾	100.0	98.1	99.0	96.0 ⁽⁵⁾	96.0	97.9	99.5	99.7	99.4	98.2
Plaza Singapura	100.0	91.3	100.0	100.0	99.7	100.0	100.0	99.9	100.0	99.3
Bugis Junction	100.0	100.0	100.0	100.0	99.7	99.9	99.3	99.8	100.0	98.7
Other assets ⁽⁶⁾	80.9 ⁽⁵⁾	99.8	100.0	98.1	92.6	95.3	96.4	94.8	95.6	95.4
Raffles City Singapore ⁽⁴⁾	100.0	100.0	100.0	100.0	99.6	99.7	99.9	99.4	98.9	97.6
Lot One Shoppers' Mall	99.7	99.8	100.0	100.0	99.8	99.9	100.0	99.8	99.3	97.6
The Atrium@Orchard ⁽⁴⁾	65.5 ⁽⁵⁾	95.3	99.5	99.9	98.2	97.6	98.6	99.1	99.6	97.4
Clarke Quay	100.0	97.9	100.0	95.9	88.2	90.7	98.8	98.3	100.0	92.3
Bugis+		99.5	100.0	100.0	99.2	100.0	100.0	100.0	100.0	99.8
Westgate			85.8	97.7	97.6	99.6	98.0	99.4	99.9	98.8
Bedok Mall					99.9	100.0	99.2	100.0	99.5	96.9
CMT Portfolio	94.8	98.2	98.5	98.8	97.6	98.5	99.2	99.2	99.3	97.7

Source: Company data

Figure 4: Rental reversion by malls (1H20)

From 1 January to 30 June 2020 (Excluding Newly Created and Reconfigured Units)					
Property	No. of Renewals / New Leases	Retention Rate (%)	Net Lettable Area		Increase in Current Rental Rates vs Preceding Rental Rates (typically committed three years ago) (%)
			Area (sq ft)	Percentage of Mall (%)	
Tampines Mall	21	85.7	42,379	11.9	0.3
Junction 8	18	77.8	38,166	15.0	1.6
Funan ⁽¹⁾	3	100.0	1,744	0.5	1.4
IMM Building ⁽¹⁾	33	90.9	31,827	7.5	2.1
Plaza Singapura	31	80.6	131,483	27.2	2.9
Bugis Junction	31	96.8	41,243	10.4	(3.8)
Raffles City Singapore ⁽¹⁾	20	80.0	25,026	5.9	(1.9)
Lot One Shoppers' Mall	32	90.6	19,386	8.5	(3.1)
The Atrium@Orchard ⁽¹⁾	4	100.0	3,089	2.3	(4.5)
Clarke Quay	4	100.0	9,832	3.5	2.5
Bugis+	5	60.0	8,482	4.0	1.5
Bedok Mall	25	92.0	20,867	9.4	(1.5)
Westgate	37	97.3	31,815	7.7	1.1
Other Assets ⁽²⁾	27	100.0	21,082	5.7	(0.9)
CMT Portfolio ⁽³⁾	291	90.0	426,421	10.1	0.1

(1) Based on retail leases only.
(2) Includes JCube and Bukit Panjang Plaza.
(3) Excludes Funan which was closed in July 2016 for redevelopment and reopened in June 2019.

Source: Company data

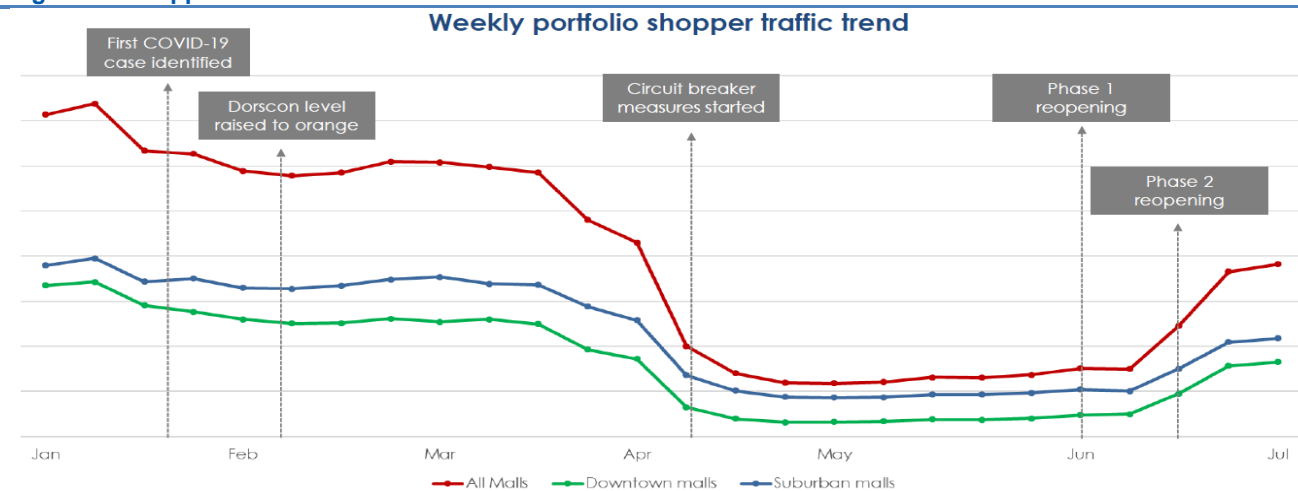
Figure 5: Lease expiry profile as of Jun 2020

Weighted Average Expiry by Gross Rental Income		2.0 Years	
		Gross Rental Income per Month ⁽²⁾	
As at 30 June 2020	Number of Leases	\$'000	% of Total
2020	320	4,909	7.6
2021	985	18,580	28.6
2022	1,003	21,592	33.3
2023	520	12,168	18.7
2024	68	4,615	7.1
2025 and beyond	44	3,038	4.7
Total	2,940⁽³⁾	64,902	100.0

(1) Based on committed leases. Includes CMT's 40.0% interest in Raffles City Singapore (excluding hotel lease).
(2) Based on the month in which the lease expires and excludes gross turnover rent.
(3) Of which 2,530 leases are retail leases.

Source: Company data

Figure 6: Shopper traffic trend across malls in 2020



Source: Company data

Figure 7: Mall valuations

	Valuation as at 30 Jun 20 S\$ million	Valuation as at 31 Dec 19 S\$ million	Variance S\$ million	Valuation as at 30 Jun 20 S\$ per sq ft NLA	Cap Rate as at 30 Jun 20 and 31 Dec 19 %
Tampines Mall	1,072.0	1,085.0	(13.0)	3,009	4.70
Junction 8	794.0	799.0	(5.0)	3,125	4.70
Funan ⁽¹⁾	742.0	775.0	(33.0)	1,396	Retail: 4.85 Office: 3.90
IMM Building	660.0	675.0	(15.0)	685 ⁽²⁾	Retail: 6.20 Warehouse: 7.00
Plaza Singapura	1,300.0	1,349.0	(49.0)	2,685	4.40
Bugis Junction	1,087.0	1,106.0	(19.0)	2,742	4.70
JCube	276.0	288.0	(12.0)	1,314	4.85
Lot One Shoppers' Mall	531.0	537.0	(6.0)	2,333	4.70
Bukit Panjang Plaza	324.0	330.0	(6.0)	1,980	4.80
The Atrium@Orchard	740.0	764.0	(24.0)	1,913 ⁽²⁾	Retail: 4.65 Office: 3.75
Clarke Quay	394.0	414.0	(20.0)	1,344	4.85
Bugis+	353.0	357.0	(4.0)	1,646	5.20
Bedok Mall	779.0	794.0	(15.0)	3,502	4.60
Westgate	1,087.0	1,131.0	(44.0)	2,657	4.50
Total CMT Portfolio excluding Raffles City Singapore	10,139.0	10,404.0	(265.0)		

Share of Joint Venture's investment property

Raffles City Singapore (40.0% interest)	1,306.4	1,353.6	(47.2)	N.M. ⁽³⁾	Retail: 4.70 Office: 3.95 Hotel: 4.75
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(1) Reflects the valuation of the retail and office components of the integrated development.

(2) Reflects valuation of the property in its entirety.

(3) Not meaningful because Raffles City Singapore comprises retail units, office units, hotels and convention centre.

N.M.: Not meaningful

Source: Company data

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-05-03	Neutral	2.03	1.89
2020-01-22	Neutral	2.38	2.59
2019-03-14	Neutral	2.20	2.37
2018-10-16	Neutral	2.14	2.11
2018-04-23	Neutral	na	2.10
2018-01-24	Neutral	2.10	2.08

Source: RHB, Bloomberg

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