

25 September 2020

Property | REITS

CapitaLand Commercial Trust (CCT SP)

Neutral (Maintained)

One Step Closer To a Mega Merger

Target Price (Return): SGD1.70 (+1%)
 Price: SGD1.69
 Market Cap: USD4,768m
 Avg Daily Turnover (SGD/USD) 17.8m/12.9m

- **Keep NEUTRAL and TP of SGD1.70, 1% upside.** CapitaLand Commercial Trust unitholders will be voting on the proposed merger with CapitaLand Mall Trust next week. We recommend unitholders to vote in favour of merger. The underlying benefits are better diversified portfolio with potential cheaper cost of capital, greater redevelopment and rejuvenation potential of combined entity outweighing negative retail sector outlook.
- **A mega merger to keep pace with the rapidly changing commercial landscape.** Earlier this month CCT and CMT announced a revised timeline for the proposed merger with an expected completion by Nov 2020 (from end-Sep 2020). The scheme consideration remains unchanged with every CCT unitholder set to receive 0.72 units of CMT and SGD0.259 in cash. However, the CMT manager announced one-off waiver of acquisition fee (1% of CCT portfolio value) amounting to SGD111.2m in light of COVID-19. This should result in a higher pro-forma (FY19) DPU accretion of 7.6% compared to 6.5% but will be mildly dilutive (2.2%) to CCT's NAV.
- **Merged entity set to become largest S-REIT and second largest REIT in Asia-Pacific** in terms of market cap, which is likely to result in higher trading liquidity and lower cost of capital. We believe other key benefits are a better diversified portfolio, thereby reducing asset and tenant concentration risks especially in light of COVID-19 and greater growth potential in terms of acquisition target and rejuvenation/redevelopment of its existing assets into mixed-use space and integrated developments, which have been a key evolving trend in global real estate market. These benefits should outweigh the structural challenges faced by CMT's retail assets, with COVID-19 accelerating digital and e-commerce trends. The combined entity will be mainly Singapore focused (96% of total assets) with a balanced mix of retail (33%), office (38%) and integrated developments (29%).
- **CCT's office assets showing resilience but leasing challenges remain.** Overall portfolio occupancy remained stable at 95.2% as at end-2Q20 with CCT securing two-thirds of expiring leases in 2020 at positive rental reversion. Looking ahead with expiring rents for remaining leases in 2020-2021 still 10-20% below market rent, we believe CCT will still be able to achieve slight positive rental reversion. Overall asset value declined 1.7% mainly due to lower market rent and rental growth assumption by valuers in light of COVID-19, while cap rates remain largely unchanged.
- **Slight construction delays expected.** Asset enhancement works at Six Battery Road, 21 Collyer Quay (21CQ) and the redevelopment of CapitaSpring are expected to see slight construction delays (1-2 quarters) due to COVID-19. For 21CQ, management noted that WeWork is committed to occupy the entire asset on a 7-year lease despite market concerns on a potential pullback in demand from co-working operators.

Analyst

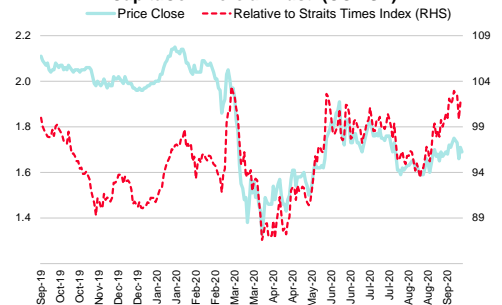
Vijay Natarajan
 +65 6232 3872
vijay.natarajan@rhbgroup.com



Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(15.1)	4.3	(4.5)	15.8	(19.5)
Relative	7.9	6.6	1.1	10.8	1.9
52-wk Price low/high (SGD)				1.33	2.15

CapitaCommercial Trust (CCT SP)



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (SGDm)	394	412	391	432	462
Net property income (SGDm)	473	321	309	344	361
Reported net profit (SGDm)	687	441	300	341	356
Total distributable income (SGDm)	331	350	306	347	356
DPS (SGD)	0.09	0.09	0.08	0.09	0.09
DPS growth (%)	0.5	2.1	(12.4)	13.2	2.2
P/B (x)	0.92	0.90	0.91	0.91	0.91
Dividend Yield (%)	5.1	5.3	4.6	5.2	5.3
Return on average equity (%)	10.3	6.3	4.1	4.7	4.9
Return on average assets (%)	7.2	4.5	2.9	3.3	3.4

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Singapore	Recurring EPS (SGD)	0.19	0.12	0.08	0.09	0.09
Property	EPS (SGD)	0.19	0.12	0.08	0.09	0.09
CapitaLand Commercial Trust	DPS (SGD)	0.09	0.09	0.08	0.09	0.09
CCT SP	BVPS (SGD)	1.83	1.87	1.85	1.85	1.86
Neutral	Return on average equity (%)	10.3	6.3	4.1	4.7	4.9
	Weighted avg adjusted shares (m)	3,676.29	3,801.06	3,893.31	3,933.94	3,943.94
Valuation basis						
DDM						
Key drivers	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Recurring P/E (x)	9.08	14.55	21.95	19.50	18.74
	P/E (x)	9.05	14.55	21.95	19.50	18.74
i. Stronger-than-expected surge in office demand especially from the technology sector;	P/B (x)	0.9	0.9	0.9	0.9	0.9
ii. Singapore gaining status as prominent Asia financial hub;	FCF Yield (%)	4.7	4.6	4.1	4.5	4.8
iii. Strong sponsor backing and good quality assets.	Dividend Yield (%)	5.1	5.3	4.6	5.2	5.3
	EV/EBITDA (x)	0.18	0.56	0.48	0.45	0.46
	EV/EBIT (x)	0.18	0.56	0.48	0.46	0.47
Key risks	Income statement (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
i. Prolonged economic recession resulting in muted office demand;	Total turnover	394	412	391	432	462
ii. Structural changes in office demand arising from rising WFH trend;	EBITDA	449	295	286	319	336
iii. Higher co-working exposure.	Depreciation and amortisation	(0)	(0)	(1)	(1)	(1)
	Operating profit	448	295	285	318	334
	Net interest	(80)	(63)	(80)	(83)	(85)
	Income from associates & JVs	118	116	95	106	107
	Pre-tax profit	687	441	300	341	356
	Recurring net profit	685	441	300	341	356
Company Profile	Cash flow (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
CapitaLand Commercial Trust is a property trust company that invests in commercial real estate properties.	Change in working capital	(16)	8	(0)	(6)	1
	Cash flow from operations	300	305	281	308	332
	Capex	(10)	(8)	(10)	(10)	(10)
	Cash flow from investing activities	59	(249)	90	18	18
	Dividends paid	(304)	(354)	(306)	(347)	(356)
	Cash flow from financing activities	(288)	(28)	(277)	(358)	(409)
	Cash at beginning of period	123	175	205	376	353
	Net change in cash	71	29	94	(32)	(60)
	Ending balance cash	194	203	300	344	294
	Balance sheet (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total cash and equivalents	175	205	376	353	347
	Total investments	9,417	9,916	9,935	10,034	10,134
	Total other assets	1	2	2	3	3
	Total assets	9,642	10,186	10,378	10,458	10,556
	Short-term debt	121	43	50	200	200
	Total long-term debt	2,493	2,768	2,880	2,810	2,850
	Total liabilities	2,779	2,968	3,093	3,173	3,221
	Shareholders' equity	6,863	7,218	7,285	7,285	7,335
	Total equity	6,863	7,218	7,285	7,285	7,335
	Net debt	2,439	2,605	2,554	2,657	2,703
	Total liabilities & equity	9,642	10,186	10,378	10,458	10,556
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	16.7	4.7	(5.1)	10.5	6.9
	Recurrent EPS growth (%)	5.3	(37.6)	(33.7)	12.6	4.1
	Operating EBITDA margin (%)	113.9	71.5	73.0	73.7	72.6
	Net profit margin (%)	174.3	107.0	76.6	78.8	77.0
	Dividend payout ratio (%)	48.3	79.2	102.0	101.8	100.0
	Capex/sales (%)	2.4	2.0	2.6	2.3	2.2
	Interest cover (x)	5.31	4.26	3.34	3.71	3.78

Source: Company data, RHB

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

	FY20F	FY21F	FY22F	FY23F	Terminal Value
DPU (SG cents):	7.78	8.81	9.01	9.13	199.10
Fair Value:	1.70				
Current Price:	1.58				
Price Upside (%):	7.6				
Distribution Yield (%):	5.6				
Assumptions:					
Risk-free rate (%)	2.8				
Beta:	0.8				
Cost of Equity (%):	8.1				
Terminal Growth (%):	2.0				

Source: RHB

Figure 2: Updated merger timeline

Event	Date and Time
Last date for lodgement of proxy forms	• 27 September 2020
CMT's EGM	• 29 September 2020, 10.30 a.m.
CCT's EGM and Trust Scheme Meeting	• EGM: 29 September 2020, 2.00 p.m. • Trust Scheme Meeting: 29 September 2020, 2.30 p.m. ⁽¹⁾
Expected date of Court hearing of the application to sanction the Trust Scheme	• 13 October 2020
Expected last day of trading of the CCT Units	• 16 October 2020
Expected Record Date in order to determine the entitlements of CCT Unitholders in respect of the Trust Scheme	• 20 October 2020
Expected Relevant Date	• 20 October 2020
Expected Effective Date	• 21 October 2020
Expected date for the payment of the Cash Consideration and the allotment and issuance of the Consideration Units	• 28 October 2020
Expected delisting of CCT	• 3 November 2020
Expected payment date of CMT Permitted Distributions and CCT Permitted Distributions (i.e. the clean-up distributions)	• By 30 November 2020
Long-Stop Date	• 30 November 2020

Notes: The timeline above is indicative only and subject to change. For the events listed above which are described as "expected", please refer to future SGXNET announcement(s) by the CMT Manager and/or the CCT Manager for the exact dates of these events.

(1) Or in the event that CCT's EGM concludes before 2.30 p.m., as soon thereafter following the conclusion of CCT's EGM.

Source: CCT

Figure 3: Unitholder approval requirements

	Approvals	Requirements
A	CCT Trust Deed Amendments Resolution (Extraordinary Resolution)	• At least 75% in value of the total number of CCT Units held by CCT Unitholders present and voting by proxy ⁽²⁾
B	The Merger of CCT and CMT by way of the Trust Scheme (Trust Scheme Resolution)	• More than 50% approval by headcount representing at least 75% in value of the total number of CCT Units held by CCT Unitholders present and voting by proxy ⁽²⁾⁽³⁾

Resolution A is not conditional on Resolution B being passed but Resolution B is contingent upon the passing of Resolution A

Notes:
 (1) Or in the event that the EGM concludes before 2.30 p.m., as soon thereafter following the conclusion of the EGM.
 (2) Due to the current COVID-19 restriction orders in Singapore, CCT Unitholders will not be able to attend the EGM and/or the Trust Scheme Meeting in person. If a CCT Unitholder (whether individual or corporate) wishes to exercise his/her/its voting rights at the EGM or the Trust Scheme Meeting, he/she/it must appoint the Chairman of the EGM or the Trust Scheme Meeting (as the case may be) as his/her/its proxy to attend, speak and vote on his/her/its behalf at the EGM or the Trust Scheme Meeting (as the case may be).
 (3) The CMT Manager Concert Party Group and Common Substantial Unitholders (including CapitaLand Limited) will abstain from voting.

Source: CCT

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-04-21	Neutral	1.70	1.50
2019-07-19	Neutral	1.98	2.15
2019-04-22	Neutral	1.86	1.93
2018-10-16	Neutral	1.80	1.69
2018-05-18	Neutral	na	1.71
2018-05-17	Neutral	1.65	1.72

Source: RHB, Bloomberg

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KUALA LUMPUR

RHB Investment Bank Bhd

Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 9280 8888
Fax : +603 9200 2216

JAKARTA

PT RHB Sekuritas Indonesia

Revenue Tower, 11th Floor, District 8 - SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel : +6221 509 39 888
Fax : +6221 509 39 777

BANGKOK

RHB Securities (Thailand) PCL

10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799

SINGAPORE

RHB Bank Berhad (Singapore branch)

90 Cecil Street
#04-00 RHB Bank Building
Singapore 069531