

CHINA
DEVELOPMENT
FINANCIAL

CapitaLand Retail China Trust

(CRCT SP/CRCT.SI)

Short-term impact from coronavirus

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- **4Q19 within expectations.** CRCT reported 4Q19 distributable income of S\$28.4mn (+19.6% YoY), mainly led by the first full quarter contributions from CapitaMall Xuefu, Yuhuating and Aidemengdun.
- **Lower 4Q19 DPU due to enlarged unit base.** 4Q19 DPU declined 3.3% YoY to 2.34 Sing cents due to the enlarged unit base from the private placement where 105mn units were issued on 14 Aug 2019 and preferential offering where 87mn units were issued on 3 Sep 2019.
- **Maintain Outperform; opportunity to accumulate.** CRCT returned -6.2% year-to-date, significantly underperforming the FTSE ST REIT Index's +3.5% year-to-date total returns (inclusive of dividends), as concerns over the impact of the coronavirus weighed on its unit price. However, we believe this is an attractive opportunity to accumulate CRCT for its 6.6%-7.0% FY20-22F dividend yields.

Financials & Key Operating Statistics					
YE Dec (\$m)	2018	2019	2020F	2021F	2022F
Gross revenue	222.7	238.2	263.3	269.5	274.0
Net property income	147.4	165.4	181.7	186.0	189.0
Distributable income	99.7	110.8	123.0	128.7	131.4
DPU (SGD cents)	10.2	9.9	10.1	10.5	10.7
DPU growth (%)	1.2	(3.1)	2.2	4.2	1.5
Div Yield (%)	7.5	6.5	6.6	6.9	7.0
NAV per unit (SGD)	1.6	1.5	1.6	1.6	1.7
Price / Book (x)	0.9	1.0	1.0	0.9	0.9
NPI Margin (%)	66.2	69.4	69.0	69.0	69.0
Net Margin (%)	57.2	70.0	44.5	45.6	45.8
Gearing (%)	34.8	36.3	35.5	35.0	34.6
ROE (%)	3.8	3.6	6.0	6.1	6.1

Source: Company Data, KGI Research

4Q/FY19 review. It was busy year for CRCT as it completed RMB 3.6bn of acquisitions and RMB 0.6bn of divestments. Most recently, on 6 Feb 2020, it announced that it will be divesting CapitaMall Erqi for RMB 777mn, a 20.5% premium to its independent valuation. Full-year performance had an uplift from three newly acquired malls (Xuefu, Yuhuating and Aidemengdun). However, CRCT's 9.90 Sing cents FY2019 DPU declined from 10.22 Sing cents in FY2018, mainly due to the enlarged unit base from the private placement and preferential offering in 3Q19. The REIT will be paying out 3.61 Sing cents, with ex-date on 14 February 2020. This implies a full-year dividend yield of 6.5% based on its current unit price.

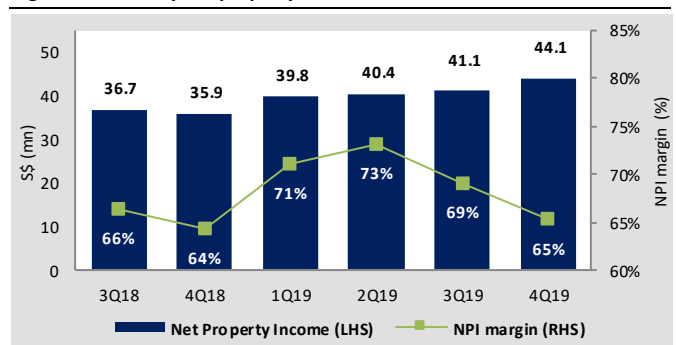
Resilient portfolio; 73% NPI from Tier 1 Cities. CRCT's portfolio occupancy remained robust at 96.7% as at end 4Q19 as it delivered a positive 4.7% YoY rental reversion in 4Q19 and 6.4% YoY for full-year FY2019. Its gearing ratio improved to 36.7% as at end 4Q19, from 37.2% as at end 3Q19, and should further improve following the divestment of CapitaMall Erqi. CRCT's healthy 5.0x interest coverage should allow it to increase its gearing beyond the 45% regulatory limit, giving it significant debt headroom for acquisitions, when MAS recalibrates the leverage limit.

Outperform - Maintain			
Price as of 12 Feb 20 (SGD)	1.54	Performance (Absolute)	
12M TP (\$)	1.66	1 Month (%)	-5.6
Previous TP (\$)	1.74	3 Month (%)	-1.3
Upside, incl div (%)	14.7%	12 Month (%)	12.3
Trading data		Perf. vs STI Index (Red)	
Mkt Cap (\$mn)	1,850		
Issued Shares (mn)	1,209		
Vol - 3M Daily avg (mn)	3.1		
Val - 3M Daily avg (\$mn)	4.9		
Free Float (%)	64.63		
Major Shareholders		Previous Recommendations	
CapitaLand Ltd	24.2%	31-Oct-19	OP S\$1.74
CapitaLand Mall Trust	11.0%	2-Aug-19	OP S\$1.68
Prudential PLC	6.0%	20-Mar-19	OP S\$1.61

China retail industry: Challenging 1H 2020 but look beyond.

The coronavirus will have the largest short-term impact on the retail, transport, travel and hospitality sectors in China. So far, the direct impact on CRCT is the temporary closure of its Minzhongleyuan mall in Wuhan (less than 0.5% of NPI), and shorter hours for the rest of its malls. Over the next 6 months, it is likely that CRCT will have to offer rental concessions to its tenants, which we estimate may be anywhere between 1-3 months, in order to tide through this challenging period. Assuming the outbreak subsides as we approach the summer months of July and August, most sectors should recover by 2H2020.

Figure 1: Quarterly net property income trend



Source: Company Data, KGI Research

Valuation & Action: Maintain OUTPERFORM with a lower TP of US\$1.66. While we acknowledge the short-term impact from the coronavirus, we remain positive on CRCT's long-term fundamentals and on management's pro-active strategy of recycling assets into better performing malls.

Risks: Longer-than-expected impact from the slowdown in China's retail sector due to the coronavirus. Forex risks for local investors as revenues are in RMB; this is partially mitigated by hedging 62% of undistributed income into SGD.

Valuations

Figure 2: DDM valuation

Fiscal year ending: December 31	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Distribution per unit (SGD cents)	10.22	9.90	10.11	10.53	10.69	10.91	11.12	11.35
<i>YoY Growth (%)</i>		-3.1%	2.1%	4.2%	1.5%	2.0%	2.0%	2.0%
Terminal value per unit (SGD cents)								178.12
Cost of equity	7.43%							
Target price (SGD)	1.66							
<i>Capital Appreciation</i>	8.7%							
<i>Forward Dividend Yield</i>	6.6%							
Upside/(Downside)	15.3%							

Source: KGI Research

Financials

FYE 31 December					
INCOME STATEMENT (SGD mn)	2018A	2019F	2020F	2021F	2022F
Gross revenue	222.7	238.2	263.3	269.5	274.0
Property expenses	(75.3)	(72.8)	(81.6)	(83.6)	(84.9)
Net property income	147.4	165.4	181.7	186.0	189.0
REIT Manager's fees	(14.1)	(15.5)	(16.4)	(16.4)	(16.4)
REIT Trustee's fees	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
Net interest expense	(20.4)	(29.4)	(29.4)	(29.4)	(29.4)
Other expenses	(1.7)	10.3	2.3	5.1	5.2
Net profit/(loss)	110.8	130.2	137.6	144.7	147.9
Change in fair value - investment ppty	68.4	100.1	0.0	0.0	0.0
Total return before tax	184.0	241.2	146.4	153.7	157.0
Income tax	(56.5)	(74.6)	(29.3)	(30.7)	(31.4)
Total return after tax	127.5	166.7	117.1	122.9	125.6
Distributable income	99.7	110.8	123.0	128.7	131.4
BALANCE SHEET (SGD mn)	2018A	2019F	2020F	2021F	2022F
Cash and cash equivalents	173.9	139.9	188.9	246.1	289.6
Trade and other receivables	108.5	124.4	137.5	140.7	143.1
Other current assets	0.0	108.9	108.9	108.9	108.9
Total current assets	282.4	373.2	435.3	495.7	541.5
Investment properties	2,439.1	3,166.0	3,186.0	3,186.0	3,186.0
Intangibles, others	261.2	266.1	264.9	264.9	264.9
Total assets	2,982.7	3,805.3	3,886.2	3,946.6	3,992.4
Trade and other payables	61.0	151.0	169.3	173.2	176.1
Other current liabilities	69.0	46.5	46.5	46.5	32.0
Total current liabilities	130.0	197.4	215.7	219.7	208.1
LT Borrowings	1,038.0	1,379.9	1,379.9	1,379.9	1,379.9
Other non-current liabilities	257.5	341.3	341.3	341.3	341.3
Total liabilities	1,425.6	1,918.7	1,936.9	1,940.9	1,929.3
Unitholders' funds and reserves	1,557.1	1,886.6	1,949.3	2,005.7	2,063.1
Total liabilities and equity	2,982.7	3,805.3	3,886.2	3,946.6	3,992.4
CASH FLOW STATEMENT (SGD mn)	2018A	2019F	2020F	2021F	2022F
Total return before tax	127.5	166.7	117.1	122.9	125.6
Depreciation & Amortisation	1.3	1.3	1.3	1.3	1.3
Other non-cash adjustments	9.4	5.3	86.9	86.7	86.5
Changes in working capital	3.8	(18.4)	5.2	0.7	0.5
Taxes paid	(24.1)	(27.5)	(27.5)	(27.5)	(27.5)
Cash flows from operations	117.8	127.3	182.9	184.1	186.4
Capital expenditure	(11.4)	(21.3)	(21.3)	(11.1)	(21.3)
Cash flows from investing	(336.4)	(546.0)	(14.2)	(4.0)	(14.2)
Borrowings raised / (repaid)	289.4	238.6	0.0	0.0	0.0
Equity raised / (bought back)	(0.1)	275.6	0.0	0.0	0.0
Dividends paid	(44.3)	(68.3)	(119.7)	(123.0)	(128.7)
Other financing cashflow	(33.3)	(33.8)	0.0	0.0	0.0
Cash flows from financing	211.7	412.0	(119.7)	(123.0)	(128.7)
FX Effects, Others	(5.6)	(2.9)	0.0	0.0	0.0
Net increase in cash	(12.6)	(9.5)	49.0	57.1	43.5
Beginning Cash	186.5	173.9	139.9	188.9	246.1
Ending cash	173.9	164.4	188.9	246.1	289.6
KEY RATIOS	2018A	2019F	2020F	2021F	2022F
DPU (SGD cents)	10.2	9.9	10.1	10.5	10.7
Dividend yield (%)	7.5	6.5	6.6	6.9	7.0
NAV per share (SGD cents)	1.6	1.5	1.6	1.6	1.7
Price/NAV (x)	0.9	1.0	1.0	0.9	0.9
Profitability					
NPI Margin (%)	66.2	69.4	69.0	69.0	69.0
Net Margin (%)	57.2	70.0	44.5	45.6	45.8
ROE (ex. Property FV gain) (%)	3.8	3.6	6.0	6.1	6.1
ROA (ex. Property FV gain) (%)	2.0	1.7	3.0	3.1	3.1
Financial Structure					
Interest Coverage Ratio (x)	5.3	4.7	5.0	5.2	5.3
Gearing Ratio (%)	34.8	36.3	35.5	35.0	34.6

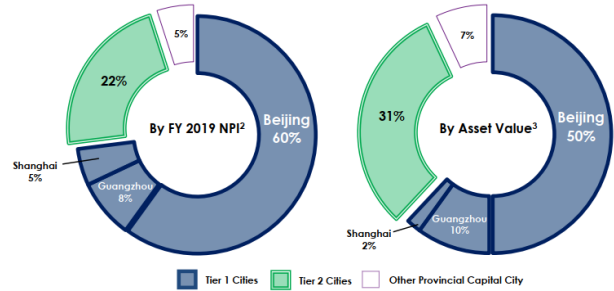
Source: Company Data, KGI Research

Figure 3: Company profile

CapitaLand Retail China Trust (CRCT) is a Singapore’s first and largest China retail S-REIT. CRCT was listed on Singapore Exchange Securities Trading Limited (the SGX-ST) since 8 Dec 2006. CRCT currently holds a portfolio of 11 income-producing shopping malls across Tier 1 to Tier 2 Chinese cities. CRCT’s properties are located in densely populated areas with high accessibility, and are positioned as a one-stop family-oriented shopping destination. The REIT is managed by the CapitaLand Retail China Trust Management Limited, wholly owned subsidiary of CRCT’s sponsor, CapitaLand limited.

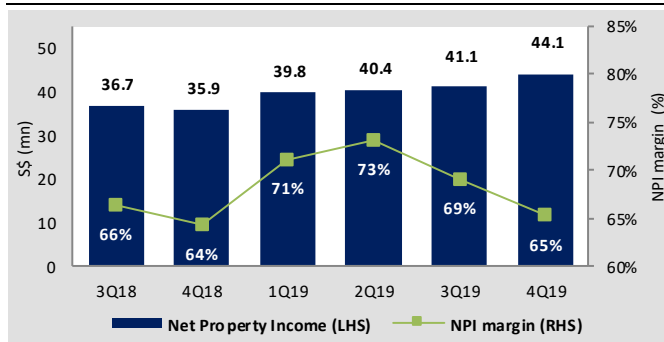
Source: Company

Figure 7: Portfolio breakdown by NPI contribution and asset value



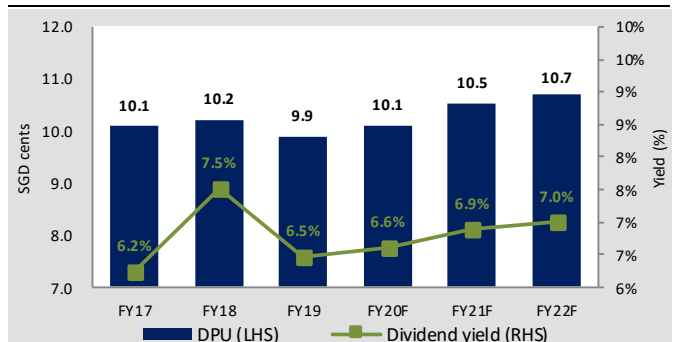
Source: Company Data, KGI Research

Figure 4: NPI vs NPI margins



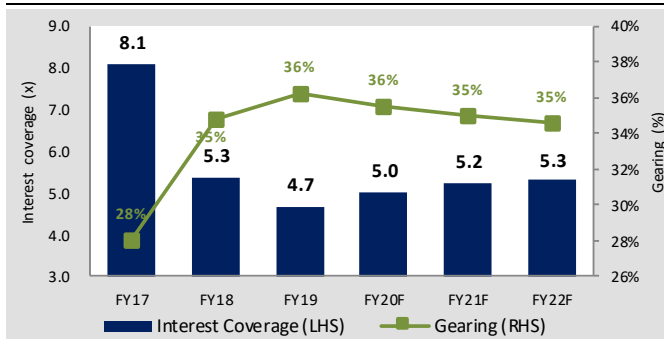
Source: Company Data, KGI Research

Figure 8: DPU and Dividend yield



Source: Company Data, KGI Research

Figure 5: Interest coverage ratio and gearing ratio



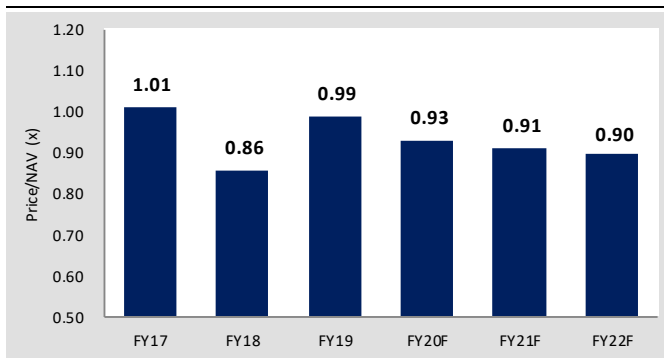
Source: Company Data, KGI Research

Figure 9: Historical P/B band



Source: Company Data, KGI Research

Figure 6: Price/NAV



Source: Company Data, KGI Research

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