

# Singapore Company Update

# CapitaLand China Trust

Bloomberg: CLCT SP | Reuters: CAPA.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

27 Apr 2022

## BUY

Last Traded Price (26 Apr 2022): S\$1.18 (STI : 3,322.05)  
Price Target 12-mth: S\$1.55 (31% upside) (Prev S\$1.60)

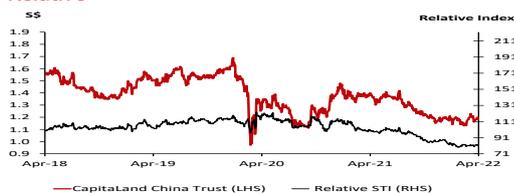
### Analyst

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### What's New

- 1Q22 NPI rose 30.4% to RMB344.5m, in line with full-year estimates
- Headwinds for retail portfolio likely as lockdown scenarios could expand in China
- However, new economy exposure, which is now 30% of current portfolio and expanding, should provide a shelter in the storm
- Maintain BUY with lower TP of S\$1.55 (previously S\$1.60); forward yield remains at a compelling 7.6%

### Price Relative



### Forecasts and Valuation

FY Dec (S\$m)	2021A	2022F	2023F	2024F
Gross Revenue	378	400	425	438
Net Property Inc	250	281	299	310
Total Return	103	137	144	151
Distribution Inc	136	150	157	164
EPU (S cts)	7.17	8.13	8.39	0.0
EPU Gth (%)	68	13	3	nm
DPU (S cts)	8.73	9.01	9.36	9.74
DPU Gth (%)	38	3	4	4
NAV per shr (S cts)	156	151	151	165
PE (X)	16.5	14.5	14.1	N/A
Distribution Yield (%)	7.4	7.6	7.9	8.3
P/NAV (x)	0.8	0.8	0.8	N/A
Aggregate Leverage (%)	35.7	36.0	36.1	36.2
ROAE (%)	4.7	5.3	5.6	5.8

Distn. Inc Chng (%):		4	7	-
Consensus DPU (S cts):		9.5	9.9	9.9
Other Broker Recs:		B: 5	S: 0	H: 0

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

## New economy exposure a shelter amidst lockdown headwinds for retail

### Investment Thesis

**Compelling value for a morphing China behemoth.** We maintain our BUY recommendation on CLCT with a revised TP of S\$1.55, implying 31% upside. We believe markets have not given CLCT the benefit of their new economy exposure, which now comprises close to one-third of their portfolio exposure and has boosted resilience in portfolio earnings in recent quarters. Forward yields are compelling at 7.6%, based on current trading levels.

**China's zero-COVID tolerance stance poses challenges.** We acknowledge that short-term weakness could sustain for the rest of the year, and potentially, the current lockdown scenario could expand to include Beijing, where a bulk of CLCT's retail exposure is. We believe that CLCT's retail portfolio was stress tested back in 1H21, coinciding with Beijing's lockdown, which showed that a retail overhang can dissipate fast with a sharp rebound in occupancy in the matter of a quarter's time. Moreover, the c.30% expansion in exposure to new economy assets – that are on c.3%-4% rental escalations and registering single digit, positive reversions – incorporate greater income visibility to offset the downside risk from retail.

**New economy exposure overlooked by the markets.** Despite the ongoing macro headwinds, which is as an overhang for China S-REITs, we continue to set our eyes on the horizon, as its asset rejuvenation continues to unfold, expanding its new economy resilience from the current c.30% portfolio exposure. The dissipation of the current macroeconomic headwinds should help re-rate CLCT's current P/NAV of 0.76x to trade closer to its historical mean of 0.98x.

### Valuation:

**Maintain BUY with slightly lower target price of S\$1.55.** Rental rebates and flat reversions across retail portfolio for half a month priced in for FY22, given prolonged lockdowns and sporadic retail mall closures.

### Where we differ:

**Inorganic growth opportunities.** More third-party assets on the table for acquisition consideration, as distressed China developers divest to improve cash position.

### Key Risks to Our View:

Expansion of lockdown clusters to include Beijing once again, as the city faces a resurgence in COVID cases.

### At A Glance

Issued Capital (m shrs)	1,672
Mkt. Cap (S\$m/US\$m)	1,973 / 1,435
Major Shareholders (%)	
CapitaLand Ltd	21.9
CapitaLand Integrated Commercial Trust	8.0
Temasek Holdings Pte Ltd	6.0
Free Float (%)	64.1
3m Avg. Daily Val (US\$m)	4.9
GIC Industry : Real Estate / Equity Real Estate Investment (REITs)	



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## WHAT'S NEW

### Waiting for the dust to settle

#### Key observations in 1Q22

- Gross revenue rose 24.0% y-o-y to RMB489.9m, while NPI rose 30.4% y-o-y to RMB344.5m, in line with full-year estimates.
- Overall portfolio occupancy felt the impact of lockdowns that ensued because the government's zero-COVID tolerance policy.
- Exposure to the Shanghai lockdown is maintained at just one portfolio mall (CapitaMall Qibao, 0.2% of AUM) and two newly acquired logistics park assets (Shanghai Fengxian and Kunshan Bacheng logistics parks, 2.5% and 1.4% of AUM, respectively) or 4.1% portfolio exposure by AUM.
- Rental reversions for the period were flat for retail leases and +6.5% for business park leases.

#### Lockdown sentiments hit retail with sporadic mall closures returning

- The retail portfolio saw a 0.9ppt decline q-o-q to 95.4%, with a c.6.2ppt decline concentrated in CapitalMall Xinnan (to 88.8%) due to the exit of fast fashion brand Zara.
- Impact continues to be felt through regional or asset-level closures due to COVID case exposure, which resulted in the closure of three malls (Aidemengdun, Qibao, and Xuefu) for a period of 4-18 days in 1Q22.
- Regulations continue to be heavily felt by tenants within the education and leisure spaces.
- For the quarter, rental rebates for 0.2 months were provided to affected tenants.
- This could be potentially offset by the outcome of insurance claims for the mall closures, which could partially cover rental income lost for the closure period and rebates to tenants.
- Shopper sentiment continues to be cautious, as witnessed by the 7% y-o-y decline in shopper traffic in 1Q22, but tenant sales were flat (+0.3% y-o-y) due to CLCT's retail exposure to the essential trade sectors.
- CLCT continues to frontload retail lease renewals with 38% of leases due for renewal in FY22 (by NLA) completed amidst the current cautious leasing environment.

#### New economy continues to be the shelter amidst the storm

- Business park segment continues to register positive reversions of 6.5% for the quarter despite a 1.5ppt decline in occupancy (to 94.7%).

- This was due to the exit of a tenant at Ascendas Innovation Hub, which saw a decline in occupancy from 98.1% to 93.6% q-o-q.
- Leasing demand continues to be strong within the business park segment with modest tenant demand. Only one non-core business park tenant was provided with rental rebates during the period.
- The logistics park segment saw a 0.2ppt increase in occupancy for the quarter to 97.6%, and continues to see income visibility from annual rental escalations in the range of 3% to 5%.
- Activities at two of CLCT's four business parks that are situated in Shanghai have paused operations due to the lockdown but continue to operate free of rebates.

#### Revision in FY22 estimates as we price in current macro headwinds.

Given prolonged uncertainty on China operations with the government's zero-COVID tolerance policy, we see more weakness in the coming quarters, concentrated in CLCT's retail portfolio. CLCT's strategic pivot toward the new economy, which now accounts for more than 30% of portfolio exposure, has played out well in recent quarters, as sporadic mall lockdowns and retail rental rebates return.

We reduce our FY22 DPU estimates from 9.49 Scts to 9.01 Scts, as we priced in (i) rental rebates for half a month (out of pocket and post insurance claims) across the retail portfolio and (iii) flat retail reversions for FY22.

In our opinion, markets continue to overlook CLCT's pivot toward the new economy given ongoing macro headwinds which posed an overhang for China S-REITs. While we acknowledge that the short-term weakness could sustain for the rest of the year, we continue to set our eyes on the horizon for CLCT, as asset rejuvenation continues to unfold in the coming years to increase resilience through new economy exposure, which should help re-rate P/NAV to trade closer to its industrial peers over the medium term.

On more conservative assumptions, CLCT will grow DPUs by a 4.3% CAGR between FY22-23 and continue to deliver an attractive forward FY22 yield of 7.6% at the current trading level.

## CapitaLand China Trust

### Company Background

CapitaLand Retail China Trust (CRCT) is a real estate investment trust that invests in income-producing real estate assets in China, Hong Kong, and Macau that are used primarily for retail, office, and industrial purposes.

### Interim Income Statement (\$m)

FY Dec	2H2020	1H2021	2H2021	% chg y-o-y	% chg h-o-h
Gross revenue	109	177	201	84.5	13.7
Property expenses	(39.1)	(56.6)	(71.0)	81.6	25.5
Net Property Income	69.9	120	130	86.1	8.1
Other Operating expenses	(8.7)	(11.5)	(10.7)	22.1	(7.5)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	-	-
Associates & JV Inc	0.33	0.0	0.0	nm	-
Net Interest (Exp)/Inc	(13.6)	(20.9)	(23.3)	(70.9)	(11.5)
Exceptional Gain/(Loss)	(0.5)	14.6	(10.2)	nm	nm
<b>Net Income</b>	<b>47.4</b>	<b>102</b>	<b>85.9</b>	<b>81.3</b>	<b>(16.2)</b>
Tax	(11.6)	(34.0)	(32.8)	182.9	(3.6)
Minority Interest	0.0	(6.6)	(9.5)	nm	42.5
<b>Net Income after Tax</b>	<b>35.8</b>	<b>60.2</b>	<b>42.0</b>	<b>17.2</b>	<b>(30.3)</b>
Total Return	(61.8)	61.3	42.0	nm	(31.6)
Non-tax deductible Items	101	2.73	29.5	(70.8)	980.4
Net Inc available for Dist.	76.9	73.7	136	77.3	85.1
<b>Ratio (%)</b>					
Net Prop Inc Margin	64.1	68.0	64.7		
Dist. Payout Ratio	100.0	100.0	100.0		

Source of all data: Company, DBS Bank

### Historical Dividend yield and PB band



Source: Bloomberg Finance L.P., DBS Bank estimates



Source: Bloomberg Finance L.P., DBS Bank estimates

**Income Statement (\$m)**

FY Dec	2020A	2021A	2022F	2023F	2024F
Gross revenue	211	378	400	425	438
Property expenses	(75.3)	(128)	(119)	(126)	(128)
<b>Net Property Income</b>	<b>135</b>	<b>250</b>	<b>281</b>	<b>299</b>	<b>310</b>
Other Operating expenses	(17.5)	(22.3)	(26.6)	(27.3)	(27.8)
Other Non Opg (Exp)/Inc	0.0	0.81	0.0	0.0	0.0
Associates & JV Inc	3.70	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(30.4)	(44.2)	(45.2)	(50.5)	(50.7)
Exceptional Gain/(Loss)	1.66	15.1	0.0	0.0	0.0
<b>Net Income</b>	<b>92.7</b>	<b>200</b>	<b>209</b>	<b>222</b>	<b>232</b>
Tax	(40.4)	(66.8)	(50.2)	(55.4)	(57.9)
Minority Interest	0.0	(16.1)	(18.7)	(19.1)	(19.8)
Preference Dividend	(0.6)	(3.4)	(3.4)	(3.4)	(3.4)
<b>Net Income After Tax</b>	<b>51.7</b>	<b>114</b>	<b>137</b>	<b>144</b>	<b>151</b>
Total Return	(12.6)	103	137	144	151
Non-tax deductible Items	87.1	32.2	13.2	13.0	13.4
Net Inc available for Dist.	79.7	136	150	157	164
<b>Growth &amp; Ratio</b>					
Revenue Gth (%)	(11.6)	79.5	5.9	6.2	3.2
N Property Inc Gth (%)	(18.2)	85.2	12.2	6.6	3.6
Net Inc Gth (%)	(20.8)	119.5	20.6	5.0	4.7
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0
Net Prop Inc Margins (%)	64.2	66.3	70.2	70.5	70.8
Net Income Margins (%)	24.6	30.0	34.2	33.8	34.3
Dist to revenue (%)	37.9	35.9	37.5	36.9	37.4
Managers & Trustee's fees	8.3	5.9	6.6	6.4	6.3
ROAE (%)	2.5	4.7	5.3	5.6	5.8
ROA (%)	1.3	2.3	2.5	2.6	2.7
ROCE (%)	2.0	3.7	4.1	4.3	4.5
Int. Cover (x)	3.9	5.2	5.6	5.4	5.6

Source: Company, DBS Bank

## CapitaLand China Trust

### Quarterly Income Statement (\$m)

FY Dec	4Q2018	1Q2019	2Q2019	3Q2019	4Q2019
Gross revenue	55.7	56.0	55.2	59.5	67.6
Property expenses	(19.9)	(16.2)	(14.8)	(18.4)	(23.5)
Net Property Income	35.9	39.8	40.4	41.1	44.1
Other Operating	(3.7)	(3.3)	(3.1)	(5.0)	(4.2)
Other Non Opg (Exp)/Inc	(1.8)	1.73	0.01	3.58	9.85
Associates & JV Inc	1.68	1.84	1.84	2.20	2.69
Net Interest (Exp)/Inc	(5.4)	(6.7)	(7.0)	(7.2)	(8.5)
Exceptional Gain/(Loss)	0.0	0.0	0.0	(4.8)	1.74
<b>Net Income</b>	<b>26.7</b>	<b>33.4</b>	<b>32.1</b>	<b>30.0</b>	<b>45.6</b>
Tax	(22.5)	(9.7)	(28.0)	(11.8)	(25.1)
Minority Interest	(0.1)	(1.7)	0.53	0.0	0.0
<b>Net Income after Tax</b>	<b>4.08</b>	<b>22.0</b>	<b>4.65</b>	<b>18.2</b>	<b>20.5</b>
Total Return	48.9	25.2	68.1	18.2	54.0
Non-tax deductible Items	(25.9)	(0.3)	(42.7)	8.77	(20.3)
Net Inc available for Dist.	23.7	25.9	25.4	26.9	33.6
<b>Growth &amp; Ratio</b>					
Revenue Gth (%)	1	0	(1)	8	14
N Property Inc Gth (%)	(2)	11	1	2	7
Net Inc Gth (%)	(79)	439	(79)	290	13
Net Prop Inc Margin (%)	64.4	71.1	73.1	69.1	65.3
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0

### Interim Income Statement (\$m)

FY Dec	1H2020	2H2020	1H2021	2H2021
Gross revenue	102	109	177	201
Property expenses	(36.2)	(39.1)	(56.6)	(71.0)
Net Property Income	65.3	69.9	120	130
Other Operating	(8.4)	(8.7)	(11.5)	(10.7)
Other Non Opg (Exp)/Inc	(0.4)	0.0	0.0	0.0
Associates & JV Inc	3.36	0.33	0.0	0.0
Net Interest (Exp)/Inc	(16.7)	(13.6)	(20.9)	(23.3)
Exceptional Gain/(Loss)	35.5	(0.5)	14.6	(10.2)
<b>Net Income</b>	<b>78.7</b>	<b>47.4</b>	<b>102</b>	<b>85.9</b>
Tax	(28.8)	(11.6)	(34.0)	(32.8)
Minority Interest	0.0	0.0	(6.6)	(9.5)
<b>Net Income after Tax</b>	<b>22.0</b>	<b>35.8</b>	<b>60.2</b>	<b>42.0</b>
Total Return	49.8	(61.8)	61.3	42.0
Non-tax deductible Items	(12.8)	101	2.73	29.5
Net Inc available for Dist.	81.4	76.9	73.7	136
<b>Growth &amp; Ratio</b>				
Revenue Gth (%)	N/A	7	62	14
N Property Inc Gth (%)	nm	7	72	8
Net Inc Gth (%)	nm	(28)	68	(30)
Net Prop Inc Margin (%)	64.3	64.1	68.0	64.7
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0

Source: Company, DBS Bank

**Balance Sheet (\$m)**

<b>FY Dec</b>	<b>2020A</b>	<b>2021A</b>	<b>2022F</b>	<b>2023F</b>	<b>2024F</b>
Investment Properties	3,729	5,250	5,262	5,274	5,288
Other LT Assets	1.27	10.8	10.8	10.8	10.8
Cash & ST Invt	208	289	251	283	315
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	148	26.6	64.9	68.8	71.0
Other Current Assets	223	0.01	0.01	0.01	0.01
<b>Total Assets</b>	<b>4,310</b>	<b>5,576</b>	<b>5,588</b>	<b>5,637</b>	<b>5,684</b>
ST Debt	156	215	215	215	215
Creditor	178	150	121	129	133
Other Current Liab	82.4	65.0	65.0	65.0	65.0
LT Debt	1,200	1,775	1,797	1,819	1,842
Other LT Liabilities	349	417	417	417	417
Unit holders' funds	2,345	2,688	2,688	2,688	2,688
Minority Interests	0.0	267	285	304	324
<b>Total Funds &amp; Liabilities</b>	<b>4,310</b>	<b>5,576</b>	<b>5,588</b>	<b>5,637</b>	<b>5,684</b>
Non-Cash Wkg. Capital	112	(188)	(121)	(125)	(127)
Net Cash/(Debt)	(1,147)	(1,701)	(1,761)	(1,751)	(1,743)
<b>Ratio</b>					
Current Ratio (x)	1.4	0.7	0.8	0.9	0.9
Quick Ratio (x)	1.4	0.7	0.8	0.9	0.9
Aggregate Leverage (%)	31.5	35.7	36.0	36.1	36.2
Z-Score (X)	0.8	0.8	0.8	0.8	0.8

Logistics portfolio acquisition completed in FY21

Source: Company, DBS Bank

## Cash Flow Statement (\$m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Pre-Tax Income	(12.0)	123	209	222	232
Dep. & Amort.	1.73	1.73	1.73	1.73	1.73
Tax Paid	(27.2)	(44.9)	(50.2)	(55.4)	(57.9)
Associates & JV Inc/(Loss)	(3.7)	0.0	0.0	0.0	0.0
Chg in Wkg. Cap.	(24.0)	13.5	(67.0)	3.47	1.89
Other Operating CF	143	121	11.5	11.3	11.7
<b>Net Operating CF</b>	<b>77.7</b>	<b>214</b>	<b>105</b>	<b>183</b>	<b>189</b>
Net Invnt in Properties	(193)	(536)	(12.0)	(12.7)	(13.2)
Other Invts (net)	0.0	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	(3.9)	0.0	0.0	0.0	0.0
Div from Assoc. & JVs	0.0	0.0	0.0	0.0	0.0
Other Investing CF	4.19	2.75	0.0	0.0	0.0
<b>Net Investing CF</b>	<b>(192)</b>	<b>(533)</b>	<b>(12.0)</b>	<b>(12.7)</b>	<b>(13.2)</b>
Distribution Paid	(89.7)	(98.4)	(150)	(157)	(164)
Chg in Gross Debt	(116)	326	22.0	22.7	23.2
New units issued	326	150	0.0	0.0	0.0
Other Financing CF	59.2	(11.2)	(3.4)	(3.4)	(3.4)
<b>Net Financing CF</b>	<b>180</b>	<b>366</b>	<b>(131)</b>	<b>(137)</b>	<b>(144)</b>
Currency Adjustments	2.52	33.6	0.0	0.0	0.0
Chg in Cash	67.6	80.4	(38.3)	32.5	31.7
Operating CFPS (S cts)	8.41	12.7	10.2	10.5	10.9
Free CFPS (S cts)	(9.5)	(20.3)	5.54	9.92	10.2

Source: Company, DBS Bank

## Target Price &amp; Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	08 Oct 21	1.25	1.60	BUY

Source: DBS Bank

Analyst: Geraldine WONG

Derek TAN

DBS Bank recommendations are based on an Absolute Total Return\* Rating system, defined as follows:

**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return, i.e., > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

\*Share price appreciation + dividends

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Sources for all charts and tables are DBS Bank unless otherwise specified.

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