

Company update

CapitaLand China Trust

Singapore | Real Estate

 Rating BUY (as at 27 April 2022)
 Last Close SGD 1.18
 Fair Value SGD 1.40

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 Equity Research

Diversification pays off

- **Plans to provide 0.2 months of rental relief**
- **4.1% exposure to Greater Shanghai by AUM**
- **Flat/+6.5% rental reversion for Retail/New economy portfolio**

Investment thesis

CapitaLand China Trust (CLCT) announced its 1Q22 business update. Shopper traffic declined 7.1% YoY while tenants' sales grew marginally by 0.3% YoY in 1Q22. In light of the Covid-19 situation in China, three retail malls were closed in 1Q22 and will reopen when local conditions permit. CLCT plans to provide rental relief of 0.2 months equivalent of gross rental income to its affected retail tenants and also seek to file insurance claims to partially offset the cost of closure. For CLCT's New Economy portfolio, all business parks remained open with no impact on the operations. Activities at two of CLCT's logistics were paused, in line with the lockdown in Shanghai, but CLCT continues to receive full rental payments from them. Overall, performance of the New Economy portfolio remained resilient, benefiting from policy support, growth in local consumption and demand for logistics. After adjustments and increasing our risk-free rate from 1.9% to 2.5%, our fair value decreases from SGD1.50 to SGD1.40.

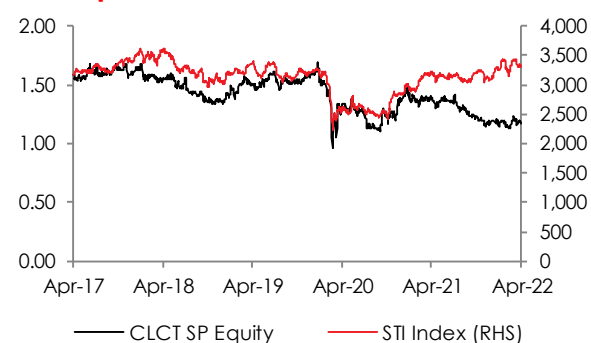
Investment summary

- **Shopper traffic fell 7.1% YoY while tenants' sales grew by 0.3% YoY** – CapitaLand China Trust (CLCT) announced its 1Q22 business update. Shopper traffic improved 6% year-over-year (YoY) in Jan and Feb 2022 but was impacted by the resurgence of Covid-19 cases in Mar 2022. Consequently, shopper traffic declined 7.1% YoY while tenants' sales grew marginally by 0.3% YoY in 1Q22. In light of the Covid-19 situation in China, CapitaMall Aidemengdun, Qibao and Xuefu, totalling ~9% of asset under management (AUM) were closed in 1Q22 and will reopen when local conditions permit. CLCT plans to provide rental relief of 0.2 months equivalent of gross rental income to its affected retail tenants (~0.3

Security information

Ticker	CLCT SP
Market Cap (SGD b)	2.0
Daily turnover (SGD m)	6.0
Free Float	70%
Shares Outstanding (m)	1,660
Top Shareholder	CAPITALAND LIMITED 21.9%

Price performance chart



Financial summary

SGD m	FY21	FY22E	FY23E
Gross revenue	378.0	407.6	429.9
Property operating expenses	-127.5	-140.6	-155.1
Net property income	250.4	267.0	274.8
Distributable income	135.5	135.8	140.1
Distribution per unit (\$ cents)	8.7	8.8	9.0

Key ratios

	FY21	FY22E	FY23E
DPU yield (%)	4.6	6.2	7.0
P/NAV (x)	0.7	0.7	0.7
ROE (%)	3.9	3.9	4.0
Gearing (%)	35.7	36.1	36.1

Source: Bloomberg, REIT Manager, Internal estimates

months provided in FY21) and also seek to file insurance claims to partially offset the cost of closure.

- **Positive rental reversions of 6.5% for New Economy portfolio** – For CLCT's New Economy portfolio, all business parks remained open with no impact on the operations. Activities at two of CLCT's logistics were paused, in line with the lockdown in Shanghai, but CLCT continues to receive full rental payments. As of 31 Mar 2022, occupancy rate of business parks dipped slightly by 1.5 percentage points (ppt) quarter-over-quarter (QoQ) to 94.7%. On the other hand, logistics park occupancy grew marginally by 0.2 ppt QoQ to 97.6%.
- **New Economy portfolio remained resilient** – Overall, performance of the New Economy portfolio (20% by AUM) remained resilient with positive rental reversions of 6.5% in 1Q22. Management expects healthy leasing demand to continue for business parks and logistics, benefiting from policy support, growth in local consumption and demand for logistics. Rental reversions of the retail portfolio improved from -3.4% in FY21 to flat. Leasing environment is likely to remain cautious. CLCT will continue to adopt an active and flexible approach, while optimising tenant mix to attract shoppers. After adjustments and increasing our risk-free rate from 1.9% to 2.5%, our fair value decreases from SGD1.50 to SGD1.40.

ESG Updates

- CLCT's is on par with global peers on corporate governance practices. As a CapitaLand-sponsored REIT, CLCT aligns its sustainability management approach with that of CapitaLand Limited. While CLCT benefits from CapitaLand's 2030 Sustainability Master Plan, it continues to lag peers in reinforcing its own environmental performance. As of 2020, only 5.9% of its portfolio was certified to meet green building standards (the Retail REITs sub-industry average was 45.1%). Moreover, CLCT shows lagging efforts to attract and retain talent relative to peers.

Potential catalysts

- Higher-than-expected rental reversions.
- DPU accretive acquisitions.

Investment risks

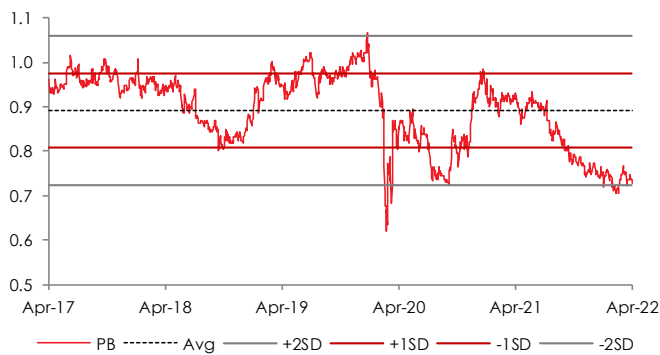
- Sharp slowdown in retail sales in China.
- A slowdown in macroeconomic conditions may dampen consumer and business sentiment.

Valuation analysis

	Price/Earnings		Price/Book		EV/EBITDA		Dividend Yield (%)		ROE (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
CAPITALAND CHINA TRUST (CLCT SP)	14.1	13.8	0.7	0.7	15.7	15.1	8.1	8.5	5.3	5.5
MAPLETREE NORTH ASIA COMMERCIA (MAGIC SP)	18.8	18.5	1.0	1.0	23.6	22.8	5.8	6.0	5.2	5.3
LIPPO MALLS INDONESIA RETAIL T (LMRT SP)	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
STARHILL GLOBAL REIT (SGREIT SP)	14.6	14.3	0.7	0.7	18.1	17.4	6.5	7.0	5.3	5.1

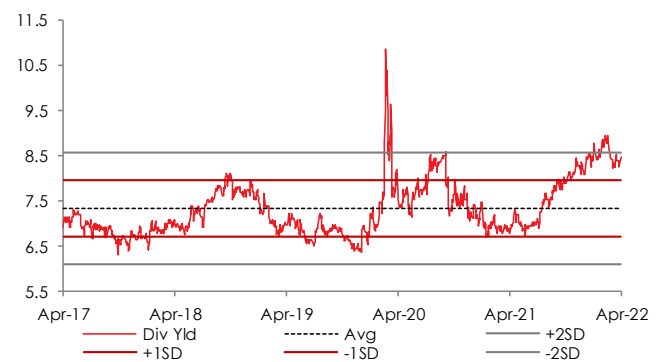
Source: Bloomberg

Price/Book chart



Source: Bloomberg

Dividend Yield chart



Source: Bloomberg

Company overview (as of 31 December 2021)

Company description

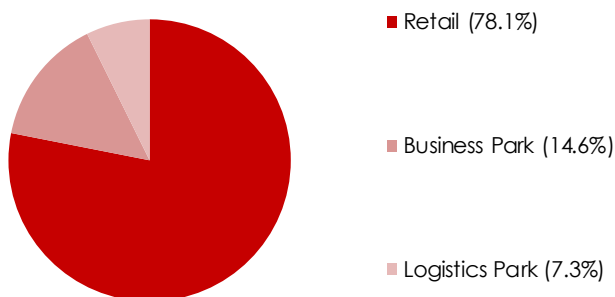
CapitaLand China Trust ("CLCT") was constituted as a private trust on 23 October 2006 under a trust deed entered into between CapitaLand Retail China Trust Management Limited (as manager of CLCT) (the "Manager") and HSBC Institutional Trust Services (Singapore) Limited (as trustee of CLCT) (the "Trustee"), and listed on the Singapore Exchange Securities Trading Limited ("SGX-ST") on 8 December 2006.

CLCT is a Singapore-based real estate investment trust ("REIT") constituted with the investment objective of investing on a long-term basis in a diversified portfolio of income-producing real estate and real estate-related assets in China, Hong Kong and Macau that are used primarily for retail, office and industrial purposes (including business parks, logistics facilities, data centres and integrated developments).

CLCT's portfolio constitutes 11 shopping malls, five business park properties and four logistics park properties. The geographically diversified portfolio has a total gross floor area (GFA) of approximately 2.0 million square metres (sq m), located across 12 leading Chinese cities.

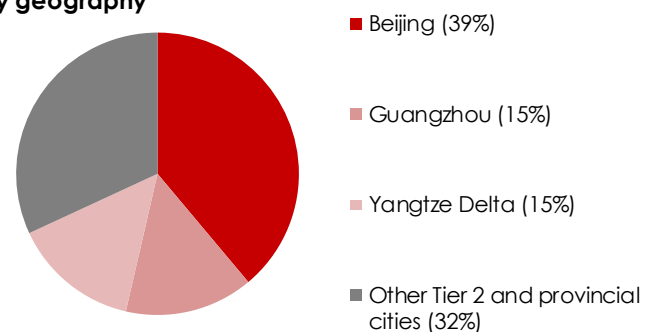
FY21 Asset class

By asset type



Source: REIT Manager

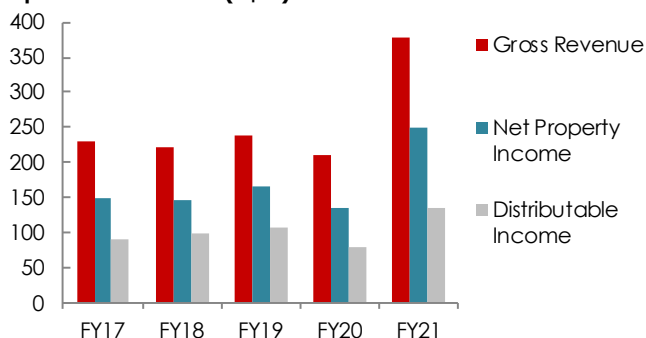
By geography



Source: REIT Manager

Operational results over the years

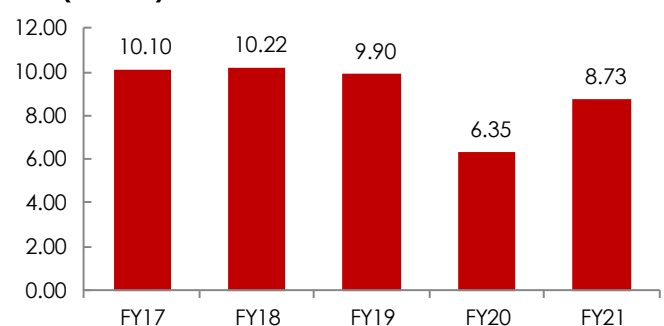
Operational results (\$m)



Source: REIT Manager

Dividends per Share

DPS (\$-cents)



Source: REIT Manager

Company financials

Income Statement

In Millions of SGD except Per Share 12 Months Ending	FY 2017 31/12/2017	FY 2018 31/12/2018	FY 2019 31/12/2019	FY 2020 31/12/2020	FY 2021 31/12/2021
Revenue	229.2	222.7	248.9	210.5	378.8
- Cost of Revenue	—	—	—	—	—
Gross Profit	—	—	—	—	—
+ Other Operating Income	—	—	27.9	15.8	30.2
- Operating Expenses	0.6	1.1	0.0	1.0	0.1
Operating Income or Losses	134.7	131.2	159.6	117.7	228.9
- Interest Expense	23.5	27.2	36.7	37.6	48.1
- Foreign Exchange Losses (Gains)	—	0.8	-5.1	-3.4	-0.7
- Net Non-Operating Losses (Gains)	-96.1	-72.7	-109.7	55.5	-8.8
Pretax Income	207.3	184.0	241.2	28.3	189.6
- Income Tax Expense (Benefit)	64.2	56.5	74.6	40.4	66.8
Income Before XO Items	143.1	127.5	166.6	-12.0	122.8
- Extraordinary Loss Net of Tax	0.0	0.0	0.0	0.0	0.0
- Minority/Non Controlling Interests (Credits)	-1.6	-1.1	1.2	0.0	16.1
Net Income/Net Profit (Losses)	144.7	128.6	165.4	-12.0	106.7
Net Inc Avail to Common Shareholders	144.7	128.6	165.4	-12.6	103.3
Abnormal Losses (Gains)	-93.6	-118.9	-195.7	66.2	-4.1
Tax Effect on Abnormal Items	0.0	0.0	0.0	99.1	10.2
Normalized Income	51.1	9.7	-30.3	152.6	109.4
Basic Earnings per Share	0.2	0.1	0.2	0.0	0.1
Basic Weighted Avg Shares	897.0	976.8	1,073.7	1,250.1	1,542.6
Diluted EPS Before Abnormal Items	0.1	0.0	0.0	0.1	0.1
Diluted EPS Before XO Items	0.2	0.1	0.2	0.0	0.1
Diluted EPS	0.2	0.1	0.2	0.0	0.1
Diluted Weighted Avg Shares	900.7	981.5	1,078.4	1,250.1	1,554.6

Profitability Ratios

12 Months Ending	FY 2017 31/12/2017	FY 2018 31/12/2018	FY 2019 31/12/2019	FY 2020 31/12/2020	FY 2021 31/12/2021
Returns					
Return on Common Equity	9.71	8.29	9.65	-0.61	4.27
Return on Assets	5.31	4.55	4.87	-0.30	2.16
Return on Capital	6.03	5.18	5.65	-0.34	2.84
Return on Invested Capital	3.56	3.56	3.50	-1.32	3.19
Margins					
Operating Margin	58.76	58.91	64.13	55.91	60.43
Incremental Operating Margin	59.19	-53.54	108.51	-109.19	66.09
Pretax Margin	—	—	—	—	—
Income before XO Margin	62.42	57.23	66.94	-5.71	32.42
Net Income Margin	63.13	57.72	66.46	-5.71	28.16
Net Income to Common Margin	63.13	57.72	66.46	-6.00	27.27
Additional					
Effective Tax Rate	30.98	30.73	30.92	142.45	35.23
Dvd Payout Ratio	62.98	77.52	72.64	—	140.24
Sustainable Growth Rate	3.59	1.86	2.64	—	-1.72

Credit Ratios

12 Months Ending	FY 2017 31/12/2017	FY 2018 31/12/2018	FY 2019 31/12/2019	FY 2020 31/12/2020	FY 2021 31/12/2021
Total Debt/EBIT	5.55	7.91	8.84	11.52	8.69
Net Debt/EBIT	4.17	6.59	7.96	9.75	7.43
EBIT to Interest Expense	5.74	4.83	4.35	3.13	4.76
Long-Term Debt/Total Assets	28.02	29.40	31.54	27.85	31.82
Net Debt/Equity	35.78	54.98	67.85	48.94	57.56

Source: Bloomberg

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