

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

28 Jul 2023

BUY

Last Traded Price (27 Jul 2023): S\$1.04 (STI : 3,337.42)

Price Target 12-mth: S\$1.40 (35% upside) (Prev S\$1.45)

Analysts

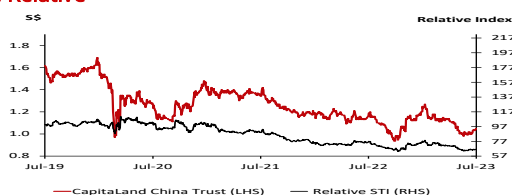
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What's New

- 1H23 gross revenue and NPI up 0.8% y-o-y to RMB947.8m/663.7m; DPU at 3.74%, behind our full-year estimates due to forex losses
- Reversions back to +4.0%, led by AEI completion within the retail segment; dominant malls exceeded 2019 tenant sales in the quarter
- Business park segment sees double lease renewal momentum q-o-q; headwinds to persist within Hang Zhou submarket on supply risk and slower renewals from new economy tenants
- Maintain BUY with lower TP of S\$1.40, as we priced in higher forex risks on DPU; forward yield of 7.2% on new estimates

Price Relative



Forecasts and Valuation

FY Dec (\$m)	2022A	2023F	2024F	2025F
Gross Revenue	383	401	416	429
Net Property Inc	254	275	294	309
Total Return	120	114	123	133
Distribution Inc	126	126	136	146
EPU (S cts)	3.11	6.84	7.33	7.88
EPU Gth (%)	(57)	120	7	8
DPU (S cts)	7.50	7.54	8.07	8.65
DPU Gth (%)	(14)	1	7	7
NAV per shr (S cts)	138	138	137	136
PE (X)	33.4	15.2	14.2	13.2
Distribution Yield (%)	7.2	7.2	7.8	8.3
P/NAV (x)	0.8	0.8	0.8	0.8
Aggregate Leverage (%)	37.2	37.4	37.5	37.6
ROAE (%)	2.1	5.0	5.3	5.8
Distn. Inc Chng (%):		(8)	(8)	(8)
Consensus DPU (S cts):		8.10	8.60	8.80
Other Broker Recs:		B: 5	S: 0	H: 0

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

Depreciating RMB throws salt on recovering wounds

Investment Thesis:

CLCT is a proxy for China's reopening. China exited its last lockdown in 4Q22, with the domestic easing of measures in Dec 22 and borders reopening in Jan 23. CapitaLand China Trust, with its pure-play China exposure diversified across retail (70%) and new economy – business parks, logistics (30%) – would be a key proxy for China's reopening.

Dominant malls see quarterly tenant sales surpass 2019 levels.

CLCT's retail segment continues to lead recovery, as per our expectations, with a sharp 32% y-o-y increase in both shopper traffic and tenant sales in 2Q23, with dominant malls surpassing 2019 levels. Asset enhancement initiatives (AEIs) at two malls (Grand Canyon and Rock Square) are to see completion in 3Q23 and garner >20% in reversionary rents to boost retail reversionary rents come 2H23.

Opportunities to acquire as cost of capital improves. Portfolio rejuvenation continues to be underway as CLCT's looks to achieve its mid-to-long-term target of 40:30:30 asset exposure for the mixed development: retail: new economy segments. Divestment will continue to feature strongly within the retail segment amongst older non-core retail assets. As CLCT is currently at an optimal debt ratio of c.40%, equity fundraising can be reconsidered selectively, as share price recovers and trades closer to 1.0x price-to-book (currently 0.76x price-to-book).

Maintain BUY with lower TP of S\$1.40 (previously S\$1.45). The recovery in operations is modest, as consumer sentiment improves from a low. DPU is mostly impacted by foreign exchange due to a depreciating RMB. We have priced in higher forex risks for FY23/24 into our DPU forecasts..

Key Risks

Foreign exchange risks may exacerbate further as RMB depreciates to a five-year high against the SGD.

At A Glance

Issued Capital (m shrs)	1,675
Mkt. Cap (S\$m/US\$m)	1,742 / 1,315
Major Shareholders (%)	
Temasek Holdings Pte Ltd	28.3
CapitaLand Integrated Commercial Tr..	7.9
Free Float (%)	63.8
3m Avg. Daily Val (US\$m)	2.2
GIC Industry : Real Estate / Equity Real Estate Investment (REITs)	

WHAT'S NEW

1H23 Results

Top-line gross revenue up 0.8% y-o-y to RMB947.8m, while NPI up 0.8% y-o-y to RMB663.7m

- DPU of 3.74 Scts represents a -8.8% y-o-y decline, primarily from foreign exchange losses and higher cost of debt
- **Retail** – reversions are positive at 4.1%, and occupancy is at 96.8% (up 0.4ppt q-o-q and 1.4ppt since Dec 22 lows)
- AEI work at Grand Canyon to convert an anchor supermarket space into specialty stores is completed in July 2023, while Rock Square AEI is expected to be completed in 3Q23
- **Business Park** – reversions are positive at 3.9% while leasing momentum more than doubled from 1Q23. Occupancy improved to 91.5% (from a low of 89.8% in 1Q23)
- New leases were in the electronics and professional services space (making up approximately half of all new leases signed, NLA), as opposed to info (10%) and e-commerce (6%) tenants

Has sentiment turned? Consumer sentiment looks to be ahead of business sentiment. 1H23 shopper traffic and tenant sales rose c.32% y-o-y, with approximately half of portfolio malls seeing 2Q23 tenant sales exceeding 2Q19 levels. We suspect that 1H23 reversions of 4.1% is partially boosted by AEI completions (at Yuhuating mall) and we continue to expect AEI completions in 2H23 at both Grand Canyon and Rock Square, in the curation of higher-yielding specialty spaces, to boost retail reversions towards the year end. For the business park segment, supply within the Hang Zhou submarket continues to be an ongoing headwind as opposed to the Suzhou submarket, in lieu of slower new leases within both the info comm and e-commerce segments, as these were the same trade sectors that saw comparably larger business continuity risk amongst smaller players across the lockdown. Leasing momentum sees a significant pick up in 2Q23 as opposed to 1Q23 in terms of lease finalisation, with a decent pick up in occupancy for the quarter.

Foreign exchange a bigger concern to us as opposed to capital management. In our view, forex exchange has poured salt on CLCT's recovering wounds this year. In the past year, the SGD has strengthened c.11% against the RMB, which has reflected strongly on DPU, albeit with flat revenue and top-line recovery in RMB terms. Forex will continue to hurt DPUs going forward, which will tip the playing field for DPU recovery in 2H23 on a y-o-y basis. On the capital management front, CLCT's high offshore funding sources (c.80%), albeit at a high fixed-cost ratio of 74%, will still see moderate exposure to hawkish offshore rates. Average cost of debt lands at 3.54% (up 6bps q-o-q and 90bps y-o-y). All refinancing requirements for FY23 have been secured, and CLCT is in early negotiations for FY24 expiries, which stand at c.15% for FY24, respectively; the floating portion of loans, primarily within offshore fundings, will continue to see escalations in FY24.

Maintain BUY with lower TP of S\$1.40 (previously S\$1.45). The onset of a sharper depreciation in the RMB against the SGD has neutralised the q-o-q recovery that we have seen in CLCT's operational numbers that was led by its retail segment. As the SGD reaches a five-year high against the RMB, we have adjusted our currency conversion assumptions for FY23/FY24 to 1 SGD: 5.25 RMB (previously 1 SGD: 5.00 RMB) to reflect the heightened forex risk on DPU in the near term, while normalising back to the five-year mean exchange rate after FY24. Our interest cost assumptions are reflective of the latest rates, at 3.54% as at end-1H23, with a 25bps y-o-y increase factored into our FY24 numbers.

Our adjusted DPU for FY23/24 is at 7.54 Scts/8.07 Scts (previously 8.16 Scts/8.73 Scts), implying a forward yield of 7.2%/7.7%, respectively on CLCT's last close share price of S\$1.05.

Company Background

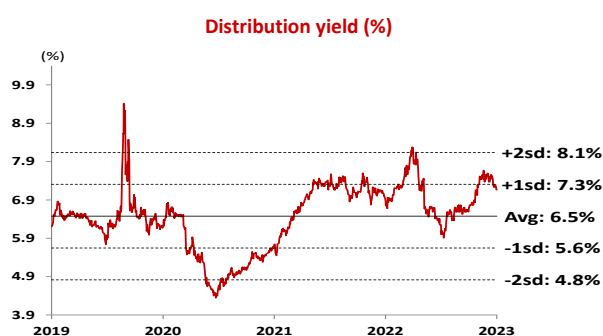
CapitalLand Retail China Trust (CRCT) is a real estate investment trust that invests in income-producing real estate assets in China, Hong Kong, and Macau that are used primarily for retail, office, and industrial purposes.

Interim Income Statement (\$m)

FY Dec	1H2022	2H2022	1H2023	% chg yoy	% chg hoh
Gross revenue	199	184	185	(7.4)	0.4
Property expenses	(59.8)	(69.2)	(55.3)	(7.4)	(20.1)
Net Property Income	140	115	129	(7.4)	12.7
Other Operating expenses	(12.7)	(11.1)	(10.3)	(19.2)	(7.2)
Other Non Opg (Exp)/Inc	0.0	0.64	0.0	Nm	-
Associates & JV Inc	0.0	0.0	0.0	-	-
Net Interest (Exp)/Inc	(26.4)	(29.8)	(33.4)	(26.2)	(12.0)
Exceptional Gain/(Loss)	(0.1)	0.24	2.09	nm	nm
Net Income	100	74.7	86.8	(13.5)	16.1
Tax	(30.9)	(56.9)	(33.9)	9.6	(40.5)
Minority Interest	(8.0)	(24.1)	(7.4)	8.1	(69.5)
Net Income after Tax	59.8	(8.0)	43.9	(26.6)	(648.6)
Total Return	59.8	59.8	33.2	(44.5)	(44.5)
Non-tax deductible Items	12.2	(7.5)	29.9	145.3	(499.3)
Net Inc available for Dist.	103	53.3	63.1	(38.8)	18.4
Ratio (%)					
Net Prop Inc Margin	70.0	62.4	70.0		
Dist. Payout Ratio	100.0	100.0	100.0		

Source of all data: Company, DBS Bank

Historical Distribution yield and PB band



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



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

CapitalLand China Trust

Income Statement (S\$m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Gross revenue	378	383	401	416	429
Property expenses	(128)	(129)	(126)	(122)	(120)
Net Property Income	250	254	275	294	309
Other Operating expenses	(22.3)	(23.3)	(25.4)	(26.2)	(26.8)
Other Non Opg (Exp)/Inc	0.81	0.19	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(44.2)	(56.2)	(67.5)	(73.1)	(73.9)
Exceptional Gain/(Loss)	15.1	0.19	0.0	0.0	0.0
Net Income	200	175	182	195	209
Tax	(66.8)	(87.8)	(45.5)	(48.7)	(52.1)
Minority Interest	(16.1)	(32.1)	(19.1)	(19.8)	(20.2)
Preference Dividend	(3.4)	(3.4)	(3.4)	(3.4)	(3.4)
Net Income After Tax	114	51.8	114	123	133
Total Return	103	120	114	123	133
Non-tax deductible Items	32.2	4.71	12.0	12.8	13.4
Net Inc available for Dist.	136	126	126	136	146
Growth & Ratio					
Revenue Gth (%)	79.5	1.4	4.5	3.8	3.3
N Property Inc Gth (%)	85.2	1.5	8.2	7.0	5.1
Net Inc Gth (%)	119.5	(54.4)	120.5	7.7	8.1
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0
Net Prop Inc Margins (%)	66.3	66.3	68.7	70.7	72.0
Net Income Margins (%)	30.0	13.5	28.5	29.6	30.9
Dist to revenue (%)	35.9	32.8	31.5	32.6	34.0
Managers & Trustee's fees	5.9	6.1	6.3	6.3	6.2
ROAE (%)	4.7	2.1	5.0	5.3	5.8
ROA (%)	2.3	1.0	2.2	2.3	2.5
ROCE (%)	3.7	2.5	4.2	4.5	4.7
Int. Cover (x)	5.2	4.1	3.7	3.7	3.8

Effect of RMB depreciation reflected in FY23/FY24

Source: Company, DBS Bank

Interim Income Statement (\$m)

FY Dec	1H2021	2H2021	1H2022	2H2022	1H2023
Gross revenue	177	201	199	184	185
Property expenses	(56.6)	(71.0)	(59.8)	(69.2)	(55.3)
Net Property Income	120	130	140	115	129
Other Operating	(11.5)	(10.7)	(12.7)	(11.1)	(10.3)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.64	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(20.9)	(23.3)	(26.4)	(29.8)	(33.4)
Exceptional Gain/(Loss)	14.6	(10.2)	(0.1)	0.24	2.09
Net Income	102	85.9	100	74.7	86.8
Tax	(34.0)	(32.8)	(30.9)	(56.9)	(33.9)
Minority Interest	(6.6)	(9.5)	(8.0)	(24.1)	(7.4)
Net Income after Tax	60.2	42.0	59.8	(8.0)	43.9
Total Return	61.3	42.0	59.8	59.8	33.2
Non-tax deductible Items	2.73	29.5	12.2	(7.5)	29.9
Net Inc available for Dist.	73.7	136	103	53.3	63.1
Growth & Ratio					
Revenue Gth (%)	62	14	(1)	(8)	0
N Property Inc Gth (%)	72	8	7	(18)	13
Net Inc Gth (%)	68	(30)	42	(113)	(649)
Net Prop Inc Margin (%)	68.0	64.7	70.0	62.4	70.0
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0

Balance Sheet (\$m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Investment Properties	5,250	4,909	4,921	4,934	4,947
Other LT Assets	10.8	45.7	45.7	45.7	45.7
Cash & ST Invt	289	231	223	255	287
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	26.6	37.1	64.9	67.4	69.6
Other Current Assets	0.01	2.81	2.81	2.81	2.81
Total Assets	5,576	5,226	5,258	5,305	5,352
ST Debt	215	326	326	326	326
Creditor	150	131	121	126	130
Other Current Liab	65.0	60.6	60.6	60.6	60.6
LT Debt	1,775	1,620	1,642	1,664	1,687
Other LT Liabilities	417	406	406	406	406
Unit holders' funds	2,688	2,406	2,406	2,406	2,406
Minority Interests	267	277	296	316	336
Total Funds & Liabilities	5,576	5,226	5,258	5,305	5,352
Non-Cash Wkg. Capital	(188)	(151)	(114)	(116)	(118)
Net Cash/(Debt)	(1,701)	(1,715)	(1,745)	(1,735)	(1,726)
Ratio					
Current Ratio (x)	0.7	0.5	0.6	0.6	0.7
Quick Ratio (x)	0.7	0.5	0.6	0.6	0.7
Aggregate Leverage (%)	35.7	37.2	37.4	37.5	37.6
Z-Score (X)	0.8	0.8	0.8	0.8	0.8

Source: Company, DBS Bank

CapitalLand China Trust

Cash Flow Statement (\$m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Pre-Tax Income	123	155	182	195	209
Dep. & Amort.	1.73	1.73	1.73	1.73	1.73
Tax Paid	(44.9)	(32.1)	(45.5)	(48.7)	(52.1)
Associates & JV Inc/(Loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	13.5	(32.5)	(37.1)	2.15	1.93
Other Operating CF	121	89.8	10.3	11.0	11.6
Net Operating CF	214	182	112	161	172
Net Invnt in Properties	(536)	(47.4)	(12.0)	(12.5)	(12.9)
Other Invnts (net)	0.0	0.0	0.0	0.0	0.0
Invnts in Assoc. & JV	0.0	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	2.75	3.39	0.0	0.0	0.0
Net Investing CF	(533)	(44.0)	(12.0)	(12.5)	(12.9)
Distribution Paid	(98.4)	(95.8)	(126)	(136)	(146)
Chg in Gross Debt	326	(12.7)	22.0	22.5	22.9
New units issued	150	0.0	0.0	0.0	0.0
Other Financing CF	(11.2)	(65.0)	(3.4)	(3.4)	(3.4)
Net Financing CF	366	(174)	(108)	(117)	(127)
Currency Adjustments	33.6	(22.4)	0.0	0.0	0.0
Chg in Cash	80.4	(57.8)	(8.0)	32.0	32.1
Operating CFPS (S cts)	12.7	12.9	8.90	9.47	10.22
Free CFPS (S cts)	(20.3)	8.10	5.96	8.86	9.42

Source: Company, DBS Bank

Target Price & Ratings 12-mth History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1.	27 Jul 2022	1.19	1.56	BUY
2.	01 Nov 22	0.98	1.45	BUY
3.	06 Feb 23	1.22	1.45	BUY

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

Source: DBS Bank

Analyst: Geraldine WONG

Derek TAN

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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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