



輝立証券集團

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CapitaLand Commercial Trust

Portfolio reconstitution continues with Twenty Anson sale

SINGAPORE | REAL ESTATE (REIT) | UPDATE

- CCT to sell Twenty Anson for S\$516mn, 19% above last valuation as at 31 Dec 2017.
- Favourable exit yield of 2.7%, vs 3.2%-3.4% for previous divestments in 2017.
- Decent IRR of c.7% achieved over 6-year ownership period of Twenty Anson.
- Expect loss of rental income to be topped up with divestment proceeds.
- Maintain Accumulate with unchanged TP of S\$1.88.

What is the news?

CapitaLand Commercial Trust (CCT) has agreed to sell Twenty Anson, a twenty-storey prime office building in Tanjong Pagar to an unrelated third party for S\$516mn. The sale consideration is 19% above the S\$433mn valuation as at 31 December 2017. Twenty Anson accounted for about 5.5% of CCT's FY17 net property income (NPI). Completion of sale is expected in 3Q18.

The Positives

+ **Favourable exit yield of 2.7%.** This exit yield based on Twenty Anson's NPI of S\$13.8mn for the 12 months preceding 31 March 2018, is even more attractive than the 3.4% and 3.2% exit yields for Wilkie Edge (WE) and One George Street (OGS) sold by CCT last year.

+ **Further showcasing ability to rejuvenate portfolio and effectively recycle capital.** Through the 3 local divestments (WE, OGS, TE) and 1 acquisition (Asia Square Tower 2, AST2) since 2017, Management has repeatedly demonstrated the ability to effectively recycle capital and rejuvenate the portfolio for enhanced returns. Using the latest local acquisition as example, AST2 had a yield on cost of 3.6%, based on committed occupancy of 88.7%. The 3 divestments were at lower exit yields, despite having shorter (or similar) land leases remaining. This effectively means capital has been effectively recycled into a higher yielding asset, with comparable or better potential for growth in the vibrant Marina Bay district.

+ **Decent IRR achieved over 6-year ownership period of Twenty Anson.** Recall CCT purchased Twenty Anson for S\$430mn in 2012 with a yield on cost of c.4%. Throughout the 6-year holding period, CCT would have achieved unlevered IRR of c.7%, vs the average cost of capital of c.4.6%, by our estimates.

+ **Reduced gearing provides ample firepower to fund future growth.** Assuming divestment proceeds are used to pare down debt, aggregate leverage would drop from 37.9% in 1Q18 to 34.5%.

Outlook

Twenty Anson contributed only c.5.5% of CCT's FY17 NPI. We expect any loss of rental income from 3Q18 to be topped up with divestment proceeds. With only 8% of debt next due for refinancing in FY19 and 90% of debt on fixed rates, interest rate risks are mitigated. CCT will benefit from expected rising office rents due to tapering supply. We expect office rents to grow 5-10% in 2018.

Maintain Accumulate with unchanged target price of S\$1.88

We adjust our forecasts to factor in the divestment. Our forecasted CAGR growth for DPU from FY17-FY19 is at 3.4%. Our target price translates to an FY18e yield of 4.7% and P/NAV of 0.97x.



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2 July 2018

Accumulate (Maintained)

LAST DONE PRICE	SGD 1.66
FORECAST DIV	SGD 0.09
TARGET PRICE	SGD 1.88
TOTAL RETURN	18.5%

COMPANY DATA

BLOOMBERG CODE	CCT SP
O/S SHARES (MN):	3,743
MARKET CAP (USD mn / SGD mn):	4554 / 6213
52 - WK HI/LO (SGD):	2.05 / 1.6
3M Average Daily T/O (mn):	1101

MAJOR SHAREHOLDERS (%)

CAPITALAND SINGAPORE	30.0%
BLACKROCK INC	7.4%
SCHRODERS PLC	2.7%
VANGUARD GROUP	2.2%
SUMITOMO MITSUI ASSET MGMT	2.1%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	(2.9)	(7.4)	10.3
STIRETURN	(4.65)	(3.32)	4.80

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

SGD mn	FY 16	FY 17	FY 18 e	FY 19 e
Gross Revenue	298.6	337.5	398.5	411.3
NPI	210.3	265.5	310.9	329.0
Dist Inc.	269.0	288.9	324.4	354.1
P/NAV (x)	0.93	0.93	0.91	0.91
DPU (Cents)	9.1	8.7	8.8	9.4
Dist yield %	5.50%	5.20%	5.30%	5.70%

Source: Company Data, PSR est.

Valuation Method

DDM (Cost of equity 6.76%, Terminal Growth 1.85%)

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Financials

Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
Gross Revenue	273.2	298.6	337.5	398.5	411.3
Total Property expenses	(70.9)	(79.2)	(72.0)	(87.6)	(82.3)
Net Property Income	212.8	219.3	265.5	310.9	329.0
Finance costs	(36.0)	(50.1)	(69.0)	(82.7)	(82.7)
Base Asset management Fees	(5.1)	(5.9)	(6.9)	(7.5)	(7.5)
Performance Asset management fees	(9.3)	(9.3)	(9.5)	(11.9)	(12.8)
Net income before JV and associates	162.6	160.4	180.0	210.2	227.3
Net tax and other adjustments	6.8	15.1	(1.2)	1.8	13.1
Distribution from JVs	84.8	93.5	97.8	87.3	88.7
Total distributions for the year	254.5	269.0	288.9	324.4	354.1

Per share data (SGD)

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
Net asset value per unit	1.77	1.78	1.78	1.82	1.83
DPU (\$\$)	0.086	0.091	0.087	0.088	0.094

Cash Flow

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
CFO					
Total return for the year before tax	307.4	261.8	582.5	297.5	316.0
Adjustments	(106.6)	(42.5)	-	(2.1)	(3.2)
WC changes	(4.0)	(15.9)	(2.5)	-	-
Net cash from operating activities	196.8	203.1	250.8	295.4	312.7
CFI					
Net cash from investing activities	63.7	(259.4)	(902.0)	(68.2)	16.0
CFF					
Interest Paid	(33.4)	(71.5)	(64.8)	(82.7)	(82.7)
Distributions to Unitholders	(251.9)	(257.1)	(279.7)	(324.4)	(354.1)
Net cash used in financing activities	(280.4)	135.1	613.8	(232.6)	(361.1)
Net (decrease)/increase in cash/equiv	(19.9)	78.8	(37.4)	(5.4)	(32.4)
Cash and cash equivalents at 31 Dec	81.2	160.0	122.6	117.2	84.8

Source: Company, Phillip Securities Research (Singapore) Estimates

*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

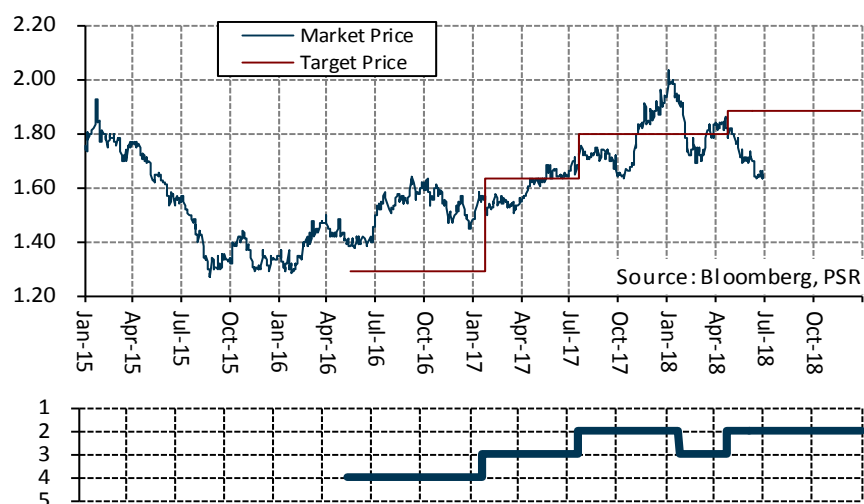
Balance Sheet

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
ASSETS					
Investment properties	4,962	6,591	7,408	7,523	7,523
Trade and other receivables	44	42	43	43	43
Cash and cash equivalents	81	160	123	117	85
JVs	1,452	1,190	1,732	1,858	1,934
Total Assets	6,593	8,051	9,354	9,590	9,633
LIABILITIES					
Trade and other payables	37	53	90	90	90
Interest bearing liabilities (Current)	-	-	-	298	248
Interest bearing liabilities (Non-current)	1,084	2,457	2,720	2,262	2,312
Convertible bonds	171	173	-	-	-
Total Liabilities	1,358	2,773	2,937	2,773	2,773
EQUITY					
Shareholder Equity	5,234	5,279	6,417	6,817	6,860

Valuation Ratios

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
P/NAV	0.94	0.93	0.93	0.91	0.91
Distribution yield (%)	5.2%	5.5%	5.2%	5.3%	5.7%
NPI yield (%)	4.3%	3.5%	3.6%	4.1%	4.4%
Growth & Margins (%)	FY15	FY16	FY17	FY18e	FY19e
Growth					
Revenue	4.0%	9.3%	13.0%	18.1%	3.2%
Net property income (NPI)	3.7%	8.7%	14.8%	17.1%	5.8%
DPU	1.9%	5.3%	-4.6%	1.7%	7.0%
Margins					
NPI margin	77.9%	77.5%	78.7%	78.0%	80.0%
Operating Income Margin	59.5%	53.7%	53.3%	52.8%	55.3%
Key Ratios					
Net Gearing	29.5%	37.7%	37.3%	34.0%	34.0%

Ratings History



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
> +20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within +/- 5% from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
< -20%	Sell	5	-20% downside from the current price

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