

CapitaLand Commercial Trust (CCT SP) : BUY

Mkt. Cap: US\$4,748m | **3m Avg. Daily Val:** US\$14.5m

Last Traded Price (12 Sep 2018): S\$1.74

Price Target 12-mth: S\$2.12 (22% upside)

Analyst

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HSBC extends lease for only one year

- HSBC has signed a one-year extension at 21 Collyer Quay
- Renewal rents are 36% higher; one-year extension indicates HSBC's intention to vacate in 2020
- But ample time for CCT to backfill the space or maximise value through redevelopment or disposal of the property
- Maintain BUY, TP of S\$2.12

Forecasts and Valuation

FY Dec (\$m)	2017A	2018F	2019F	2020F
Gross Revenue	337	394	409	430
Net Property Inc	265	313	327	345
Total Return	579	302	267	326
Distribution Inc	289	322	331	347
EPU (\$ cts)	7.57	8.13	8.30	8.70
EPU Gth (%)	(4)	7	2	5
DPU (\$ cts)	8.66	8.69	8.85	9.26
DPU Gth (%)	(2)	0	2	5
NAV per shr (\$ cts)	178	177	177	177
PE (X)	23.0	21.4	21.0	20.0
Distribution Yield (%)	5.0	5.0	5.1	5.3
P/NAV (x)	1.0	1.0	1.0	1.0
Aggregate Leverage (%)	37.3	38.7	38.9	39.2
ROAE (%)	4.5	4.6	4.7	4.9

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

Company Guide



Summary of our point of view, and highlights the relevant data points, which are actively tracked

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What's New

- CCT announced that it has signed a one-year lease extension with HSBC for the whole of 21 Collyer Quay. The original lease with HSBC was scheduled to expire in April next year.
- Under the one-year extension agreement, HSBC will pay a rent of S\$27.7m or equivalent to S\$11.54 psf/mth (triple net basis) commencing from 30 April 2019. This is 36% higher than the original rent of S\$20.4m per annum or S\$8.50 psf/mth (triple net basis).
- 21 Collyer Quay is a 200,000-sqft office building with a land tenure of 999 years, expiring on 18 December 2849 and contributed c.4% of CCT's monthly gross rental income as at 30 June 2018. The last valuation as at 30 June 2018 was S\$461.0m, equivalent to trailing NPI yield of 4.4%, cap rate of 3.5% or S\$2,305 psf.
- CCT also stated that in line with its proactive asset management strategy, it is evaluating options for the property after April 2020 which include refurbishment and re-letting, redevelopment and divestment.

Our thoughts

- As HSBC is extending the lease for only one year, this indicates a high likelihood that the company will be vacating 21 Collyer Quay in 2020. The potential buildings that HSBC could move into are the redeveloped CPF building (Ascendas-Singbridge), 8 Penang Road (Suntec and Singhaiyi JV) and Funan (CMT), all of which could accommodate its space requirements and are scheduled to be completed over 2019/2020.
- This news is a disappointment as we had originally assumed that HSBC would extend its lease for a longer period although the rent for the one-year extension is higher than the S\$10 psf/mth rent we had projected upon renewal by HSBC.

Flash Note

- Nevertheless, should CCT decide to continue owning the building, it has another two years to find a replacement tenant, which is ample time.
- Alternatively, given the higher demand for office buildings in Singapore with recent transactions at “tight” yields, there is potential for CCT to sell the building above book value to demonstrate the conservative valuation of its buildings and why it

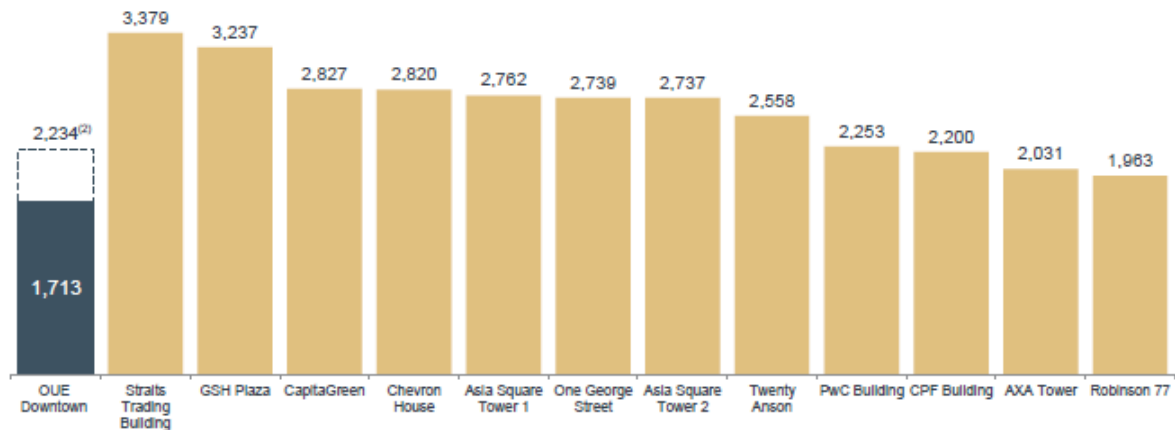
deserves to trade at a premium to book as implied by our TP.

- For now, we maintain our BUY call and TP of S\$2.12, pending finalisation of CCT’s plans for 21 Collyer Quay.

Recent office transactions

Adjusted price assuming fresh 99 years lease⁽¹⁾

(S\$ psf)



Remaining Land Lease Tenure (years)	48	999	70	55	70	88	85	89	88	77	49	63	75
Price on NLA (S\$ psf)	1,713	3,520	2,900	2,276	2,526	2,704	2,650	2,689	2,505	2,100	1,698	1,731	1,810
Transaction Date	In progress	Jun-16	Feb-17	May-16	Dec-17	Jun-16	May-17	Sep-17	Jun-18	Feb-17	Nov-15	Jan-15	Nov-16

Source: OUECT, DBS Bank

Target Price & Ratings History



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

Source: DBS Bank

Analyst: Mervin SONG, CFA

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 catalysts within this time frame)

Share price appreciation + dividends

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