

CapitaLand Commercial Trust (CCT SP) : BUY

Mkt. Cap: US\$4,858m | **3m Avg. Daily Val:** US\$13.0m

Last Traded Price (1 Oct 2018): S\$1.78

Price Target 12-mth: S\$2.12 (19% upside)

Analyst

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Company Guide



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

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Committed occupancy at Asia Square Tower 2 hits 97%

- The Work Project, a co-working operator, is taking up c.72,000 sqft of space at Asia Square Tower 2 and Capital Tower
- Committed occupancy at Asia Square Tower 2 now at 97% which is above expectations
- 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)	23.5	21.9	21.4	20.5
Distribution Yield (%)	4.9	4.9	5.0	5.2
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

What's New

Signs The Work Project, co-working operator, as a tenant

- CapitaLand Commercial Trust (CCT) has secured The Work Project as a tenant across the following buildings:
 - Asia Square Tower 2 (AST2) – c.41,000 sqft on level 10 and 11 for 5 years (from 1 January 2019 to 31 December 2023) with an option to renew for a further five years. This increases the committed occupancy at AST2 from c.92% as at 30 June 2018 to c.97%.
 - Capital Tower (CT) – (i) c.22,000 sqft on level 20 for c.5 years (from 1 January 2019 to 15 January 2024) with an option to renew for a further five years and (ii) c.9,000 sqft on level 24 for c.5 years (from 1 January 2019 to 15 January 2024) with an option to renew for a further five years. The 31,000 sqft of space represents c.4% of space at CT. CT has c.27% of leases by gross rental income expiring in FY19.
- Total aggregate rent payable under the leases at AST2 and CT is c.S\$43.4m which works out to be c.S\$10 psf/mth, close to current market rents. Assuming that the rent achieved at AST2 is c.S\$11 psf/mth, in line with signing rents of S\$11-12 psf/mth achieved in 2Q18, this translates to rent of c.S\$9 psf/mth at CT.
- In addition, the JV which is developing CapitaSpring and in which CCT has a 45% interest will also sublease c.2,500 sqft of space at CT on level 20 from 1 January 2019 to 31 December 2020, with an option to extend on the same terms for a maximum period of 12 months. The estimated rent is c.S\$0.8m including the option to

Flash Note

extend. The space taken up at CT will be used as a show suite for the CapitaSpring project.

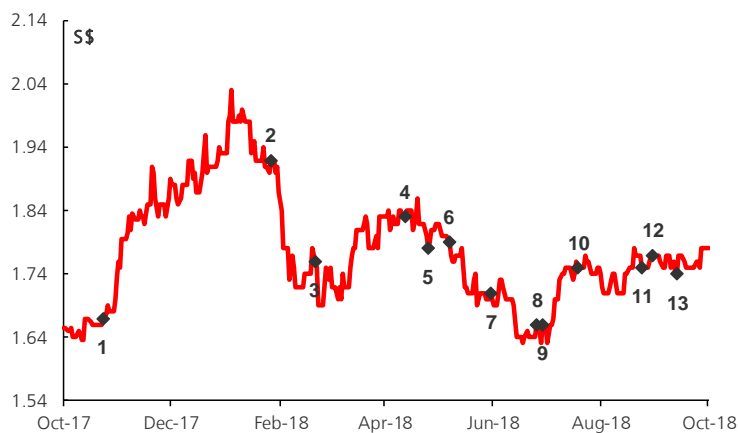
- The Work Project is a co-working operator in which CCT's sponsor, CapitaLand, has taken a 50% stake for S\$27m. The Work Project currently occupies c.177,000 sqft of flexible space in Singapore and Hong Kong.

Our thoughts

- The announcement that committed occupancy at AST2 has reached c.97% is above expectations as we had previously assumed 95% occupancy in FY19, with signing rents within our expectations. Conversely, the potential signing rents of c.S\$9 psf at CT is a touch lower than the c.S\$10 psf/mth we had assumed in FY19.

- Nevertheless, we believe investors will react positively to AST2 now close to fully leased, in line with management's target to improve occupancy from the 88.7% when it first announced its plans to acquire AST2 in 2017.
- For now, we maintain our earnings estimates pending CCT's 3Q18 results release and reiterate our BUY call with of TP of S\$2.12. CCT remains one of our top S-REIT picks given its exposure to the expected multi-year recovery in office rents in Singapore and upside risk to our earnings estimates from the development of proceeds from the recent sale of Twenty Anson.

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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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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