Singapore Industry Focus

CapitaLand Group

Refer to important disclosures at the end of this report

DBS Group Research . Equity

4 Jul 2019

Game changing moves

- Liang Court investment could prove to be a S$3.0bn opportunity
- Funan – engaging shoppers enabled by technology
- Merger of ART and AHT to herald a new dawn for the group
- REITs to see further rise on acquisitions and low interest rates

Capitaland accelerating momentum in achieving targets. Post our recent update on CAPL report in May'19, we see rapid game-changing moves by the Group that will enable it to achieve its targeted ROE of c.10%. Beyond its current operations, several initiatives are being placed nicely, as can be seen in recent developments, which we believe will serve as catalyst for the share price and narrow the discount to its NAV. We are excited on this and reiterate our **BUY on CAPL** with TP of S$4.00. Amongst its REITs, we would pick **A-REIT** given expectations of accretion from acquisitions.

Liang Court a potential S$3.0bn gem. We believe that co-investment in Liang Court Mall by CapitaLand (CAPL) with its partner will start to look like a gem over time. This unique opportunity to kick-start the redevelopment of the ageing property could materialise after seeing the reduction in the ownership of the integrated development to entities of two like-minded groups. Assuming approvals for the redevelopment are obtained, we believe that a new mixed-use development could command a gross development value (GDV) of S$3.0bn, implying an attractive return of 29% above our projected costs. This not only drives healthy returns for the consortium and to current owners, CDL HT and ART, which may cash in at good value.

Funan Mall – back with a vengeance. The group unveiled Funan Mall with great fanfare and offered retailers and investors insights into how the group is pushing the boundaries of traditional retail business, enabled by technology. We expect CapitaLand Mall Trust (CMT), its largest retail REIT, to benefit the most with a CAGR of 3.0% in DPU.

Marriage of Ascott REIT and Ascendas Hospitality Trust to drive synergistic benefits. We are positive on the merger and see near-term and medium-term benefits for both unitholders. In line with our theme of the REITs' leap frogging each other to bulk up, the enlarged entity will be the seventh largest REIT/Business Trust in Singapore. A combined larger entity is a win-win for asset manager and investors in our view.

Upping our REIT target prices as beneficiaries while interest rates stay low. We believe that valuations could remain elevated in the medium term. Therefore, we have reduced the discount rate assumptions in our models (risk-free rate from 3.0% to 2.5%) and cost of debt assumptions down by 25bps, resulting in a 23% rise in target prices.

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STOCKS

	Price S$	Mkt Cap US$m	12-mth Target Price S$	Performance (%) 3 mth	12 mth	Rating
CapitaLand	3.69	11,361	4.00	(0.3)	17.2	BUY
Ascendas Hospitality Trust	1.04	872	1.21	18.2	32.5	BUY
Ascendas India Trust	1.38	1,061	1.55	18.8	39.0	BUY
Ascendas REIT	3.15	7,230	3.40	7.5	20.7	BUY
Ascott Residence Trust	1.31	2,101	1.45	8.5	21.9	BUY
CapitaLand Commercial Trust	2.26	6,249	2.40	14.4	36.8	BUY
CapitaLand Mall Trust	2.72	7,398	2.95	12.5	34.2	BUY
CapitaLand Retail China Trust	1.58	1,163	1.80	1.3	4.6	BUY

Source: DBS Bank, Bloomberg Finance L.P.
Closing price as of 4 Jul 2019

ed: TH/ sa: AS, PY, CS

1. Liang Court Redevelopment – a S$3.0bn opportunity?

Liang Court likely to be redeveloped by consortium. CapitaLand and CDL Hospitality Trusts' Sponsor jointly acquired Liang Court shopping mall from PGIM Real Estate Asia Retail Fund recently. The completion of the S$400m purchase will reduce the ownership of the Liang Court mixed development from three independent parties to entities of two groups, which in our view will facilitate the future redevelopment of the property.

Components of the development. The Liang Court integrated development consists of Somerset Lian Court Singapore serviced residence, which is currently owned by Ascott Residence Trust, which is majority owned by CapitaLand and the Novotel Clarke Quay hotel, which is currently owned by CDL Hospitality Trusts (CDL HT).

Sitting on a gold mine. Based on the data extracted from past media reports and from CDL HT and ART's annual reports, we estimate that the integrated development (retail, hotel and serviced residences) offer a decent 4.5-4.7% yield or an implied land rate of S$939 psf, which is attractive in our view.

However, given its prime location within the Central region, a better use could be to redevelop the property, given that it is on a land that is currently zoned for residential and commercial uses.

Summary of key metrics of Liang Court integrated development

	Liang court Integrated Devt	Type	Owner	Rooms	GFA (sqm)	Price paid / Valuation (S$'m)	Price (S$psf)	Est EBITDA (S$'m)	Yield
1	Liang Court	Mall	CDL - CAPL	n.a.	46,000	400.0	807.8	13.55	3.4%
2	Novotel Singapore Clarke Quay Hotel	Hotel	CDL HT	409	40,508	330.0*	756.8	21.00	6.4%
3	Somerset Liang Court Singapore	Serviced Residences	ART	197	27,155	209.6*	716.9	9.72	4.6%
	Total GFA			**606**	**113,663**	**939.6**	**767.9**	**44.27**	**4.7%**
	Land Plot				12,925				
	Current Built-up				8.8				

**Based on last valuation as of 31st Dec'18*

Liang Court Mall

Ownership Timeline

- Early 1980s – Wuthelam Group developed Liang Court Complex
- 1992 – Wuthelam Group floated Liang Court Holdings, owning 2 out of 3 components
- 1999 – Wuthelam Group sold a 58.9% stake in Liang Court Holdings to Pidemco Land
- 2006 – The Ascott Group (merger between Pidemco's Somerset Holdings and DBS Land's Ascott) sold Liang Court Shopping Centre to Asian Retail Mall Fund II for S$175m. The ARMF II is part of PGIM Real Estate Asia Retail Fund, an open-ended private investment vehicle managed by PGIM Real Estate. Under ARMF II, Liang Court Shopping Centre was managed by AsiaMalls Management Pte. Ltd.
- 2019: Liang Court Shopping Centre acquired by CapitaLand and CDL Hospitality Trusts' Sponsor for S$400m, and control of the overall Liang Court complex has narrowed from 3 parties previously to 2.

Source: DBS Bank, Google Earth, various media articles.

Liang Court reimaged – A scenario analysis

Given the short land lease tenure of c.59 years, we believe that an "en bloc" of the site by the consortium, which may involve the owners of the hotel and serviced residence block (CDL HT and ART respectively) to be the most likely step to kick-start the redevelopment of the site.

Assuming that an extension of the land lease to 99 years and a target mixed-used development - 60% of GFA as residential and 40% of the GFA as commercial, we estimate that the gross development value of the property could be close to S$3.0bn, representing a prospective return of 29%.

Our assumptions on the proposed new development are as follows:

- The consortium acquires both hotel and serviced residence blocks at 20% above valuation.
- Top-up of land lease premium of S$396m.
- Construction cost of S$700psf and S$550psf for the commercial and residential component respectively.

The New Liang Court	GFA (sqm)	GFA (sqft)	DBS Assumptions
Residential	68,198	489,387	60% of GFA
Commercial	45,465	734,081	40% of GFA
Total	**113,663**	**1,223,469**	

Estimated development costs:	S$'m	S$ psf	DBS Assumptions
Mall Component	400		Acquisition price for Liang Court Mall
Novotel Singapore Clarke Quay	396		20% above 2018 valuation for CDL HT
Somerset Liang Court	251		20% above 2018 valuation for ART
Implied land cost (ppr):	**1,047**	**856**	
Assumed Top up premium:	390	319	
Implied total land cost + premium:	**1,437**	**1,175**	
Total Project breakeven cost	**2,327**	**1,902**	Assumed construction costs for commercial (S$700psf), residential (S$550psf).
Estimated Market Value			
Residential	2,055	2,800	Pegged to selling prices for new launches in River Valley area.
Commercial	940	2,400	Assumed at 4% cap at S$11 psf rent
Total Market Value	**2,995**	**2,448**	
Return	**29%**		

Source: DBS Bank

2. Funan – back with a vengeance!

A new lease of life. Two months following the launch of the iconic Jewel at Changi Airport, the CapitaLand Group (CMT) returns with a revitalised Funan. Apart from the façade upgrade, the core of the revamped Funan – infused with digital elements, bears the hallmarks of a future-ready mall. The integrated development also comprises two office towers and Ascott's first co-living property, lyf Funan, which are self-sustaining demand generators for the retail podium. The merits of CapitaLand group's integrated approach should start to unfold in the subsequent quarters when the office and co-living blocks are fully operational.

Post revamp, Funan now houses a rich variety of over 190 brands that pay homage to both its IT roots and sociocultural heritage in the Civic District, where the mall is strategically located. Similar to Jewel, its unique showcase of local brands (60% originate from Singapore) allows the new Funan to gain better traction among leisure travellers, in our opinion. The introduction of more than 30% of new-to-market concepts also injects vibrancy into the local retail scene.

Our observation - "There's something for everyone". Positioned as a social retail hub, Funan also features a rooftop urban farm that is open to the public and can be complemented with adjacent Japanese restaurant Noka's farm-to-table dining experience. Next door, The Ark runs Singapore's first fully unmanned futsal facility. Indoors, at the heart of Funan lies the 25-metre tall Tree of Life, an incubator housing 20 retail pods that can be used by up-and-coming brands to showcase their crafts or conduct workshops. The Tree of Life sits atop an indoor rock climbing gym operated by Climb Central. In addition to a Golden Village cineplex, which offers Virtual Reality pods, the mall will also soon be home to local performing arts group W!ld Rice's first in-mall theatre. Meanwhile, bike enthusiasts can also enjoy an extension of the shared cycling track that goes through the mall, a dedicated Bicycle Hub and end-of-trip amenities located on the ground floor of the building.

Embracing the future of retail. Funan has come a long way from a retailer of IT products before successfully repositioning itself as a true "IT mall" today. Its multi-pronged yet tech-centric approach is aimed at optimising operational efficiency, maximising the impact of tenants' shopper engagement efforts and ultimately, enhance shopper experiences. Patrons at the food court, KOPItech can place orders via Facebook Messenger or through self-service ordering kiosks. Electronic queuing systems also eliminates the need for physical queues at the respective food stalls. Sensor-enabled directories, which can be easily found across the mall, are another initiative. While typically used for wayfinding, these smart directories are also able to make targeted product/dining recommendations according to shoppers' demographic profile. Analytics programmes running in the background also allow tenants to better analyse footfall and refine their offerings. According to CMT, shoppers can also expect a robot-enabled hands-free shopping experience and 24/7 click-and-collect drive-through service by year-end – a first for retail malls in Singapore.

Key features of Funan Mall

Source: CMT, DBS Bank

3. Merger of Ascott REIT and Ascendas Hospitality Trust to bring about synergies

ART to acquire ASCHT for S$1.0868 per unit. ART and ASCHT have announced a merger between the two trusts to create the largest hospitality trust in Asia Pacific and eighth largest globally. ART will also become the tenth largest S-REIT. Total assets under management for ART will increase by a third to S$7.6bn from S$5.7bn. By way of a trust scheme of arrangement, ART will acquire of ASCHT's units for S$1.0868 per unit comprising S$0.0543 in cash and 0.7942 ART units at a price of S$1.30. This compares against ASCHT's last closing price (on 2 July 2019, prior to the announcement) of S$0.975 and NAV per unit of S$1.02, as well as ART's last closing price of S$1.31.

The consideration is based on a gross exchange ratio of 0.836x, based on ASCHT and ART's audited NAV per unit which stood at S$1.02 and S$1.22 respectively as at 31 March 2019. Based on ART's calculations, they estimate 2.5% accretion to ART's proforma DPU with a neutral impact on its NAV per unit.

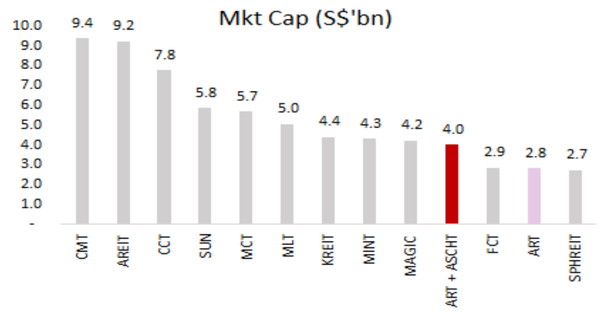
Achieving scale with visible benefits – higher free float, potential index inclusion, higher debt headroom. Post-merger, earnings from developed markets are expected to increase to c.82% which will facilitate a potential inclusion of ART into the FSTE EPRA NAREIT Developed Index. This may result in greater investor interest, higher trading liquidity and compression in trading yields. Currently, 75% and 100% of ART's and ASCHT's EBITDA are from developed markets. In addition, ART's free float is expected to increase by c.50%, from c.S$1.6bn to S$2.4bn, which is above the S$1.7bn threshold for index inclusion. Proforma gearing is expected to settle at around 36.9%, which provides c.S$1bn of debt headroom assuming a 45% gearing. As at 31 March 2019, ART and ASCHT's gearing stood at 35.7% and 33.2% respectively.

The proposed merger is expected to be completed in December 2019, with ART and ASCHT's EGM's to be held in October 2019.

Our thoughts

- Given the overlap in investment mandates post the merger of ART and ASCHT's Sponsor CapitaLand and Ascendas-Singbridge, a merger between the two trusts has long been speculated by various market participants. Thus, this announcement is not a surprise to us.
- Generally we are positive on the merger between the two entities to build scale and gain greater investor interest via inclusion into the FSTE EPRA NAREIT Developed Index. In our recent S-REIT report, we had highlighted that ART was one of the S-REITs on the cusp of index inclusion. ART has to increase its free float market cap by another S$130-150m to gain index inclusion.
- However, with close to 50% of ASCHT's earnings being derived from Sydney and Melbourne which are facing supply pressures over the next few years and ART's increasing exposure to a weak AUD (exposure to Australia increases to 18% from 9%), there may be some pushback from some investors on ART's acquisition of ASCHT at this point in time.
- Mitigating this risk is increased exposure to Japan (18% versus 13% previously) which is expected to benefit from a structural growth in tourism arrivals. Near term, the Japanese portfolio should benefit from the Rugby World Cup this year and the 2020 Tokyo Olympics.
- Furthermore, ASCHT's earnings are currently understated as it is yet to complete to the acquisition of Aurora Melbourne Central. ASCHT had entered into a forward purchase agreement in 2015 to acquire the 252-unit serviced apartment at the end of 2019 for A$120m.

Market Cap of ART + ASCHT



Source: CapitaLand, DBS Estimates

Criteria for index inclusion

Key Index Eligibility and Qualification Criteria	(1)Classified under ICB Supersector Real Estate (8600)	(2) Derive at Least 75% of EBITDA from Relevant Real Esate Activities	(3) Minimum Investable Mkt Cap at Least 0.3% of Respective Index	(4) Median Monthly Turnover > 0.05% of OutShares for at Least 10 of Last 12 Months	(5) Minimum Free Float of 5%	(6) Derive at Least 75% of Annual EBITDA from Developed Markets Over Each of Previous Two Years
ART	✓	✓	△ (~S$130m - S$150m away)	△ (10, including MTD Jun 2019)	✓	✓

Source: DBS Estimates

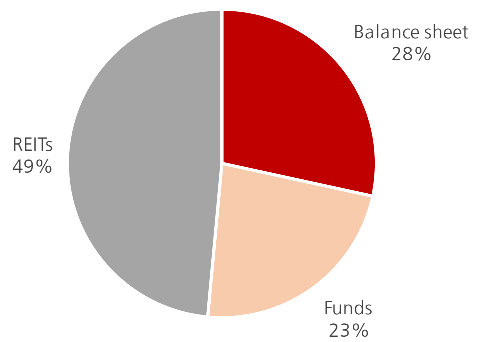
4. Asset recycling momentum to accelerate

A win-win scenario. With the merger of the two companies completed, all eyes will turn now to how the combined entity deleverages its pro-forma gearing of 0.72xto 0.64x by the end of 2020.

Asset recycling and yield optimisation have been a consistent strategy for the group, CAPL, together with its REITs have been actively looking to reconstitute their portfolios. As of end-June 2019, we estimate that total planned divestments is c.S$1.8bn. In order to meet its target divestment of S$3.0bn AUM annual target, we believe that the momentum will pick up post completion of the proposed merger with ASB.

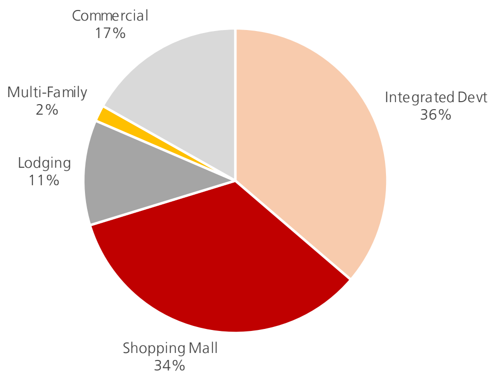
Based on our estimates, in terms of recycling opportunities, on a 100% basis, we estimate that CAPL had close to S$64.1bn of investment property assets as of 31 December 2018 which are held through its REITs, private equity funds or on the balance sheet. After adjusting for the group's effective stakes in the individual properties and stripping out properties held through their managed REITs, we estimate that close to S$33bn (or S$18.5bn on an effective basis) may be realised over the next few years through asset recycling into its listed REITs or as seed assets for new private equity funds. In addition, we estimate that ASB has close to S$1.5-2.0bn of stabilised properties which might be ready to be injected into their listed platforms over the coming years.

CAPL AUM of income-producing properties (100% basis)



Source: CapitaLand, DBS Estimates

Enlarged Group AUM (CAPL as of 31st Dec'18 and 30th Sept'18 for ASB)



Source: Capitaland, DBS Estimates

Assets/businesses that have been sold YTD

Divestment	Entities	Buyer	Consideration (S$'m)	Est Book Value (S$'m)	Est. Gain (before tax)
Ascott Raffles Place	ART	3rd party	353.3	215	138.3
CapitaMall Saihan	CRCT	3rd party	90.8	71	19.8
CapitaMall Wuhu	CRCT	3rd party	41.4	30	11.4
Storhub Business	CAPL	3rd party	183.0	183.0	0
Innov Tower	CAPL	CapitaLand Asia Partners 1	621.0	420.0	201
CapitaLand Xuefu, Aidemendun and Yuhuating	CAPL	CRCT	589.2	523.0	66.2
Stake in Central China Real Estate	CAPL	3rd party	490	460	30
Total			**1,878.7**	**1,442.0**	**436.7**

Source: various REITs, DBS Estimates

A conducive time to acquire; fund-raisings anticipated as REITs look to bulk up. Looking at the balance sheets of CAPL-ASB managed REITs, with average gearing at c.35.2%, there is ample capacity for the REITs to take on more acquisitions. We estimate that there is a debt-funded capacity of between S$3.6-7.7bn, assuming a target gearing of between 40% and 45%, still within S-REIT regulatory limits. This headroom can be used opportunistically for any planned acquisition activities.

We believe that any potential asset injections for S-REITs will be seen to be win-win from both Sponsor and the REITs and are positive when it happens. While the Sponsor will gain from a more flexible balance sheet coupled with realisation of asset values, the REITs enjoy from a growth in distributions. Based on our estimates, the positive yield spread between the market transaction yields against the REITs' implied yields (net property income / enterprise value) means that acquisitions will likely be accretive to unitholders' distributions.

Potential transactions to watch in the medium term. Assets that we believe that the group may potentially injected into its managed REITs include completed business parks/science parks in Singapore (to A-REIT), completed commercial and hospitality properties in China (to CRCT/funds) and Europe (to CCT) or retail malls in Signapore (CMT). These transactions, when it materialize will be widely watched by investors.

Potential assets that could be injected into REITs/funds that are on balance sheet in the medium term

Key Assets	Asset Class	Country	Sits in	Potential Entity	CUR	Stake	LC$'m	S$'m	Est Yield (%)
U.S. Multi-Family Portfolio	Lodging	U.S.	CAPL	IPO / ART	US$	100%	845	1,141	6.3%
Raffles City Beijing	Retail	China	CAPL	CRCT	RMB	55%	3,263	544	5.0%
Raffles City Shanghai	Retail	China	CAPL	CRCT	RMB	30%	3,986	664	5.0%
Star Vista	Retail	Singapore	CAPL	CMT	S$	100%	262	262	4.0%
The Cavendish London	Lodging	U.K.	CAPL	ART	GBP	100%	158	269	5.0%
Main Airport Center	Commercial	Germany	CAPL	CCT	EUR	100%	248	379	4.5%
Commercial Portfolio	Commercial	Japan	CAPL	CCT	JPY	100%	138,160	1,625	4.5%
Nucleos	Business Park	Singapore	ASB	A-REIT	S$	100%	290	290	5.5%
Infinite Studios	Business Park	Singapore	ASB	A-REIT	S$	100%	140	140	5.5%
ICON@IBP	Business Park	Singapore	ASB	A-REIT	S$	100%	205	205	5.5%
Ascent	Business Park	Singapore	ASB	A-REIT	S$	100%	340	340	5.2%
Galaxis	Business Park	Singapore	ASB	A-REIT	S$	100%	450	450	5.2%

Total potential by REIT	Code	S$'m
Ascott Residence Trust	(ART)	269
CapitaLand Mall Trust	(CT)	262
CapitaLand Commercial Trust	(CCT)	2,004
Ascendas REIT	A-REIT	1,425
CapitaLand Retail China Trust	CRCT	1,208
Others	Others	2,424

Source: various REITs, DBS Estimates

Potential debt-funded headroom and geographical focus for CAPL-ASB managed REITs

REITs	Total Assets (S$'bn)	Total Debt (S$'bn)	Gearing (%)	Headroom @ 40% (S$'bn)	Headroom @ 45% (S$'bn)	SG (% of assets)	Overseas (% of assets)
Ascendas Hospitality Trust	1.7	0.6	33.1%	0.2	0.4	7%	93%
Ascendas India Trust	2.3	0.7	31.0%	0.4	0.6	0%	100%
Ascendas REIT	11.4	4.1	36.3%	0.8	1.7	84%	16%
CapitaLand Mall Trust	11.2	3.9	35.0%	0.9	2.0	100%	0%
Ascott Residence Trust	5.3	1.9	36.7%	0.3	0.8	9%	91%
CapitaLand Commercial Trust	9.7	3.4	35.2%	0.8	1.7	93%	7%
CapitaLand Retail China Trust	3.0	1.0	34.0%	0.3	0.6	0%	100%
Total / Average	44.7	15.7	35.2%	3.6	7.7		

Source: various REITs, DBS Estimates

S-REITs' implied yields are trading below the returns that most can obtain from the market

REITs	Mkt Cap (S$'bn)	Total Debt (S$'bn)	Enterprise Value (S$'bn)	NPI (S$'bn)	Implied yield (%)	Target acquisitions returns (%)	Target yield > Implied
Ascendas Hospitality Trust	1.1	0.6	1.6	0.1	5.8%	5%-6%	Accretion expected for most as the listed REITs are trading at implied yields < target acquisition yields
Ascendas India Trust	1.3	0.7	2.1	0.2	7.0%	9%-12%	
Ascendas REIT	9.0	4.1	13.2	0.7	5.1%	5.5%-7.0%	
CapitaLand Mall Trust	9.0	3.9	13.0	0.5	4.0%	4.5%-5.0%	
Ascott Residence Trust	2.6	1.9	4.5	0.3	5.5%	5.0% - 7.0%	
CapitaLand Commercial Trust	7.1	3.4	10.5	0.4	3.8%	3.5%-5.0%	
CapitaLand Retail China Trust	1.4	1.0	2.4	0.2	6.0%	4.5%-6.0%	
Total / Average	31.5	15.7	47.3	2.3	4.9%	5.0%-7.0%	

Source: various REITs, DBS Estimates

Adjusting our Target prices

Adjusting our risk-free rate assumptions. The dovish Fed has resulted in a yield compression among S-REITs and we believe this should continue in the medium term. Specifically, for the CAPL-managed REITs, we believe that the potential asset injections could be the catalyst for share price acquisitions, when executed upon.

While we acknowledge that share prices are trading at/near the + 1 standard deviation (SD) levels compared to their close to 10-year average, we believe that expectations of "insurance cuts" by the Fed to promote economic growth and keep valuations high with potential acquisitions as a catalyst to drive share prices higher.

In the following table, we have raised our target prices by 10-23% to account for our revised WACC assumptions and acquisition injections in our models.

Assumptions and changes to Target prices (TP)

	PREVIOUS FORECASTS						NEW FORECASTS					
REITS	Risk Free	COD*	WACC	12-mthTP	Acquisitions	Gearing	Risk Free	COD*	WACC	TP	Acquisitions	Gearing
AHT	3.0%	3.8%	6.9%	0.98	Nil	35%	Pegged to ART TP			1.21	Nil	35.0%
AIT	8.0%	n.a.	Ke:12%	1.40	Nil	33%	2.5%	n.a.	ke=9.1%	1.55	Nil	33.0%
A-REIT	3.0%	3.3%	8.1%	3.21	Nil	36%	2.5%	3.0%	8.0%	3.40	500	37.0%
ART	3.0%	3.0%	6.4%	1.35	Nil		2.5%	2.8%	6.3%	1.45	Nil	38.0%
CCT	3.0%	3.3%	5.9%	2.10	Nil		2.5%	3.0%	5.7%	2.40	500	38.0%
CMT	3.0%	3.2%	6.4%	2.55	Nil		2.5%	3.2%	6.2%	2.95	Nil	38.0%
CRCT	3.0%	3.3%	7.2%	1.65	Nil		2.5%	3.0%	6.9%	1.80	Nil	35.0%

**COD: assumed cost of debt*
***Assumed funding to be on a 60% equity /40% debt for A-REIT,*
Source: various REITs, DBS Estimates

Changes to DPU

REITs	Last close (S$)	New 12-mth TP (S$)	Previous DPU FY19/20 (Scts)	Previous DPU FY20/21 (Scts)	Updated DPU FY19/20 (Scts)	Updated DPU FY20/21 (Scts)	Chg (%)	Chg (%)	Current Yield FY19/20 (%)	Current Yield FY20/21 (%)	Target Yield FY19/20 (%)	Target Yield FY20/21 (%)
AHT	1.04	1.21	5.9	6.0	5.8	5.8	-1.8%	-2.9%	5.6%	5.6%	4.8%	4.8%
AIT	1.38	1.55	8.1	9.1	8.2	9.6	0.0%	0.5%	5.9%	7.0%	5.2%	5.9%
A-REIT	3.15	3.40	16.1	16.2	16.1	16.4	0.0%	1.2%	5.1%	5.2%	4.7%	4.8%
ART	1.31	1.45	7.2	7.3	7.3	7.5	1.0%	2.8%	5.6%	5.7%	5.0%	5.2%
CCT	2.26	2.40	8.9	9.3	8.9	9.5	0.0%	2.7%	3.9%	4.2%	3.8%	4.1%
CMT	2.72	2.95	11.7	12.2	11.7	12.2	-	-	4.3%	4.5%	4.0%	4.1%
CRCT	1.58	1.80	10.4	10.8	10.4	10.8	-	-	6.6%	6.8%	5.8%	6.0%

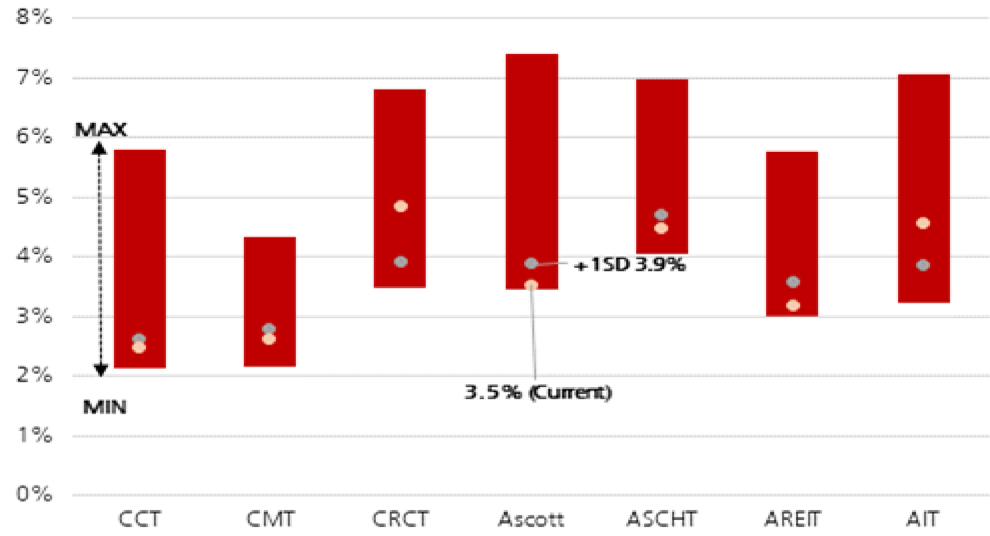
Source: various REITs, DBS Estimates

CL managed REITs yield spread analysis

CAPL REITs	Current		---	---	Since 2010	---	---	Hist. Low Since Listing	
		Mean	+1SD	Min		Max			
CCT	2.5%	3.5%	2.6%	2.1%	Dec-17	5.8%	Feb-12	-0.9%	Jan-07
CMT	2.6%	3.3%	2.8%	2.2%	Jan-11	4.3%	Feb-12	0.4%	Jun-07
CRCT	4.8%	4.6%	3.9%	3.5%	Aug-14	6.8%	Jan-12	-0.4%	Feb-07
Ascott	3.5%	4.8%	3.9%	3.4%	Jan-10	7.4%	Feb-12	0.3%	Jan-07
ASCHT	4.5%	5.4%	4.7%	4.0%	Apr-13	7.0%	Jul-16	4.0%	Apr-13
AREIT	3.2%	4.1%	3.6%	3.0%	Jan-10	5.8%	Jan-12	0.1%	Nov-02
AIT	4.6%	4.6%	3.9%	3.2%	Mar-17	7.1%	Jan-12	3.2%	Mar-17

Source: various REITs, Bloomberg Finance L.P., DBS Estimates

S-REITs trading close to historical low yield spreads (ex GFC)



Source: various REITs, Bloomberg Finance L.P., DBS Estimates

Singapore Company Guide

Ascendas REIT

Version 15 | Bloomberg: AREIT SP | Reuters: AEMN.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

4 Jul 2019

BUY

Last Traded Price (4 Jul 2019): S$3.15 (**STI :** 3,372.25)
Price Target 12-mth: S$3.40 (8% upside) (Prev S$3.21)

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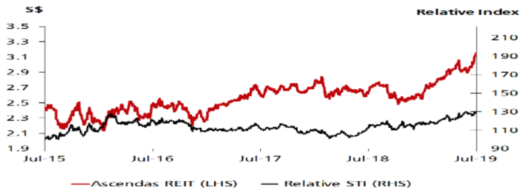
What's New

- Lower-for-longer expectations on interest rates to drive A-REIT's valuations up
- Pricing in accretive acquisitions in our estimates
- TP raised to S$3.40

Price Relative



Forecasts and Valuation

FY Mar (S$m)	2018A	2019A	2020F	2021F
Gross Revenue	862	886	930	975
Net Property Inc	629	650	685	726
Total Return	480	489	485	514
Distribution Inc	468	486	502	532
EPU (S cts)	16.3	15.2	15.6	16.2
EPU Gth (%)	5	(6)	2	4
DPU (S cts)	16.0	16.1	16.1	16.5
DPU Gth (%)	1	0	0	2
NAV per shr (S cts)	211	213	213	214
PE (X)	19.4	20.7	20.2	19.4
Distribution Yield (%)	5.1	5.1	5.1	5.2
P/NAV (x)	1.5	1.5	1.5	1.5
Aggregate Leverage (%)	34.0	35.9	35.9	36.6
ROAE (%)	7.8	7.2	7.3	7.6
Distn. Inc Chng (%):			0	5
Consensus DPU (S cts):			16.4	16.9
Other Broker Recs:		B: 10	S: 4	H: 9

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

Higher for longer

Maintain BUY, TP revised to S$3.40. While we acknowledge that A-REIT's share price has done well, we continue to see increased allocations into S-REITs which would benefit A-REIT. Furthermore, boosted by improving property fundamentals and expectations that interest rates will remain low for longer, we believe that valuations will remain elevated in the medium term. Therefore, we have reduced our discount rate assumptions in our models (risk-free rate from 3.0% to 2.5%) and cost of debt assumptions down by 25bps, factoring acquisitions into our estimates, resulting in a revised TP of S$3.40.

Where we differ: Conservative estimates with upside bias if acquisitions materialise. A-REIT's share price is trading within a virtuous cycle at an implied cost of capital that is conducive for accretive acquisitions. We believe that A-REIT is likely to execute on growth plans to deepen the REIT's exposure in its key markets of Singapore, UK, and Australia with potential equity fund raising to support these initiatives. In addition, we see ample opportunities for the Manager to deliver earnings surprises which include (i) the REIT's ability to re-let close to 12% of vacant space in its portfolio, and (ii) acquisitions.

Pricing in S$500m of acquisitions. We see acquisitions as the next driver for A-REIT's share price and project S$500m of deals to be concluded by the end of FY20F, funded by a 60%/40% equity/debt mix, keeping gearing stable at c.37%.

Valuation:

Our DCF-based TP is raised to S$3.40 to account for lower discount rates and acquisitions. Maintain BUY on the back of total potential returns of c.13%.

Key Risks to Our View:

Interest-rate risk. An increase in lending rates will negatively impact dividend distributions.

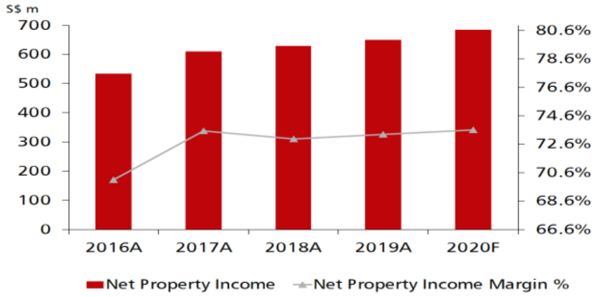
At A Glance

Issued Capital (m shrs)	3,113
Mkt. Cap (Sm/USm)	9,805 / 7,230
Major Shareholders (%)	
TJ Holdings	20.2
Blackrock	7.0
Mondrian Investment	7.0
Free Float (%)	65.8
3m Avg. Daily Val (US$m)	27.5
ICB Industry : Financials / Real Estate Investment Trust	

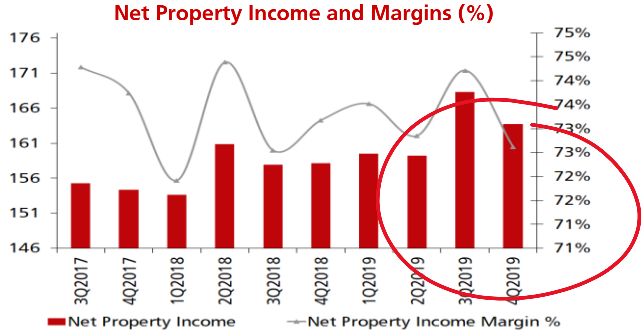
Live more, Bank less

ed: TH/ sa: AS, PY, CS

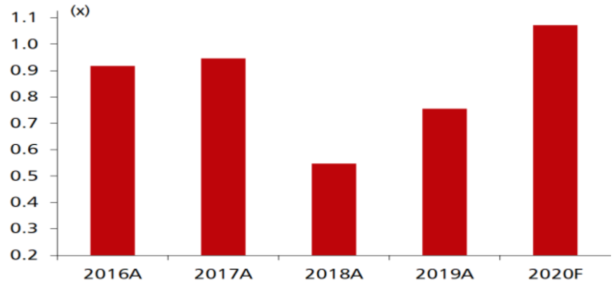
Net Property Income and Margins (%)



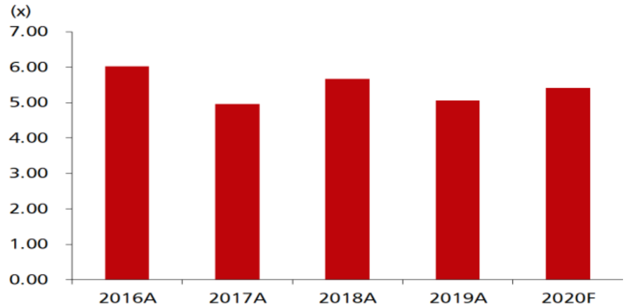
Net Property Income and Margins (%)



Distribution Paid / Net Operating CF



Interest Cover (x)



Source: Company, DBS Bank

CRITICAL DATA POINTS TO WATCH

Critical Factors

Rebound in occupancy rates to provide upside to earnings. A-REIT's Singapore portfolio's occupancy rate is projected to remain stable in the medium term and hover around the c.85% level as the Manager looks to actively engage tenants and new prospects. Given A-REIT's scale in Singapore, the Manager continues to attract a diverse tenant base to its properties, despite the competitive operating environment. The key reasons are the variety of asset types and its focus on business parks and hi-tech properties, which continue to see good demand.

Looking ahead, with close to c.10% of the portfolio still vacant, the ability to backfill the unoccupied space provides potential upside to our earnings estimates. A long portfolio-weighted average lease expiry (WALE) profile of 4.2 years means good earnings visibility for the REIT.

Potential upside to DPUs as Business Park segment outlook remains bright; Australia exposure offers upside to earnings. Rental reversionary trends are moderating but are expected to remain in the low- to mid-single-digit range in the coming year which is commendable. Given the narrowing spread between passing and market rents, we expect rental reversionary trends to remain flattish or even turn negative for selected sectors. We are positive on A-REIT's business and science park exposure which accounts for close to 37% of portfolio value. We project its Australian portfolio to deliver resilient earnings, backed by a weighted average lease expiry (WALE) of 4.5 years.

Overseas acquisitions to infuse diversity and stability to the REIT. A-REIT has regularly embarked on acquisitions and development projects, which have helped the REIT deliver sustained growth in distributions over time. The Manager has, over time, built up a substantial presence in Australia and the UK, which as of 4Q19, formed c.22% of assets (Australia 14% and UK 8%). The Manager remains focused on deepening its presence in its core markets of Singapore, Australia and the UK to add diversity to the REIT's exposure and build resilience across business cycles.

Balance Sheet:

Optimal gearing level of c.34%. A-REIT's gearing is stable at close to the lower end of management's comfortable 35-40% range. We believe that there is still capacity for management to utilise its debt headroom for further acquisitions but any significant deals could mean potential issuance of new equity.

Well-staggered debt maturity profile. The Manager adopts a prudent interest-rate risk management strategy with a weighted average cost of debt of 3.0% with c.80% hedged to fixed rates. The debt tenure is long at c.3.7 years, with a well spread-out refinancing profile ensuring no concentration risk.

Share Price Drivers:

Direction of 10-year long bonds impacts share price. Seen by investors as a key S-REIT proxy, A-REIT's share price has typically been closely linked to investors' perception on the direction of the US benchmark 10-year bond yields. A fall in 10-year bond yields on the back of a delay in Fed hikes is likely to mean a higher share price.

Capital recycling strategy. With limited third-party acquisition opportunities in Singapore, A-REIT regularly looks to divest older, lower-yielding properties and re-cycle the capital into asset-enhancement exercises (AEI), development projects or acquisitions. The aim is to optimise the portfolio returns and distributions which have a positive impact on its share price.

Key Risks:

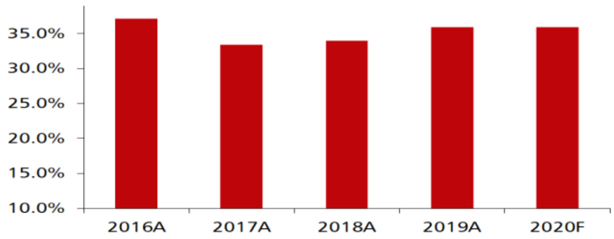
Interest rate risk. Any increase in interest rates will result in higher interest payments, which will reduce income available for distribution and result in lower distribution per unit (DPU) to unitholders.

Economic risk. A deterioration in the economic outlook could have a negative impact on industrial rents and occupancies as companies cut back production and require less space, given that industrial rents have a strong correlation with GDP growth.

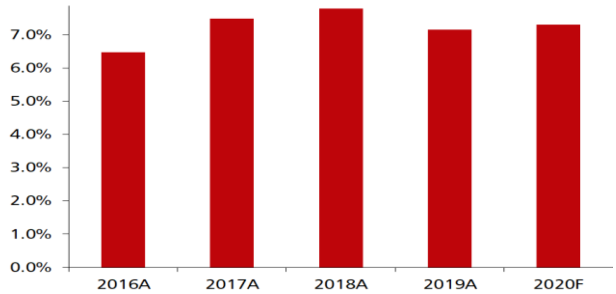
Company Background

A-REIT is Singapore's first and largest listed business space and industrial real estate investment trust. It has a diversified portfolio comprising assets in Singapore, UK and Australia. A-REIT is managed by Ascendas Funds Management (S) Limited, a wholly owned subsidiary of the Singapore-based Ascendas-Singbridge.

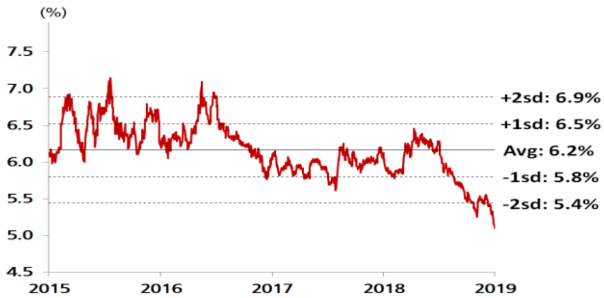
Aggregate Leverage (%)



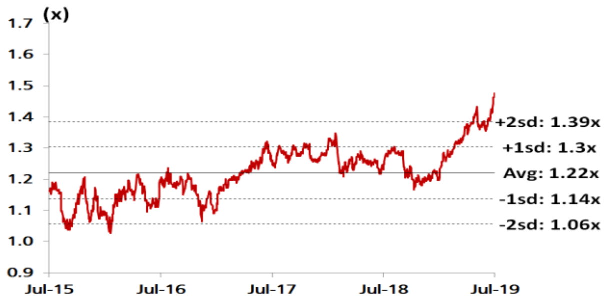
ROE (%)



Distribution Yield (%)



PB Band (x)



Source: Company, DBS Bank

DBS

Live more, Bank less

Income Statement (S$m)

FY Mar	2017A	2018A	2019A	2020F	2021F
Gross revenue	831	862	886	930	975
Property expenses	(220)	(233)	(237)	(245)	(249)
Net Property Income	**611**	**629**	**650**	**685**	**726**
Other Operating expenses	(60.7)	(58.4)	(62.1)	(61.4)	(63.1)
Other Non Opg (Exp)/Inc	(13.0)	17.1	11.1	0.0	0.0
Net Interest (Exp)/Inc	(111)	(101)	(116)	(115)	(125)
Exceptional Gain/(Loss)	0.0	5.31	5.09	0.0	0.0
Net Income	**427**	**493**	**488**	**508**	**538**
Tax	19.0	(2.8)	(14.4)	(9.2)	(9.6)
Minority Interest	0.0	0.02	0.0	0.0	0.0
Preference Dividend	(14.3)	(14.3)	(14.3)	(14.3)	(14.3)
Net Income After Tax	**432**	**476**	**460**	**485**	**514**
Total Return	413	480	489	485	514
Non-tax deductible Items	33.1	(26.1)	(17.4)	17.3	17.6
Net Inc available for Dist.	446	468	486	502	532
Growth & Ratio					
Revenue Gth (%)	9.1	3.8	2.8	4.9	4.9
N Property Inc Gth (%)	14.5	3.0	3.2	5.4	6.1
Net Inc Gth (%)	27.0	10.3	(3.5)	5.4	6.1
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0
Net Prop Inc Margins (%)	73.6	73.0	73.3	73.6	74.4
Net Income Margins (%)	52.0	55.2	51.9	52.1	52.7
Dist to revenue (%)	53.7	54.3	54.8	54.0	54.5
Managers & Trustee's fees	7.3	6.8	7.0	6.6	6.5
ROAE (%)	7.5	7.8	7.2	7.3	7.6
ROA (%)	4.3	4.6	4.2	4.2	4.3
ROCE (%)	5.6	5.7	5.3	5.5	5.6
Int. Cover (x)	5.0	5.7	5.1	5.4	5.3

Source: Company, DBS Bank

Pricing in acquisitions in our estimates

Quarterly / Interim Income Statement (S$m)

FY Mar	4Q2018	1Q2019	2Q2019	3Q2019	4Q2019
Gross revenue	216	217	218	226	225
Property expenses	(57.9)	(57.4)	(59.2)	(58.4)	(61.6)
Net Property Income	158	159	159	168	163
Other Operating expenses	(14.4)	(14.8)	(15.7)	(16.3)	(15.2)
Other Non Opg (Exp)/Inc	17.3	(5.9)	3.84	9.93	3.27
Net Interest (Exp)/Inc	(25.9)	(26.8)	(29.0)	(30.0)	(30.2)
Exceptional Gain/(Loss)	0.72	3.36	1.73	0.0	0.0
Net Income	**136**	**115**	**120**	**132**	**121**
Tax	(1.1)	(2.4)	(2.4)	(3.0)	(6.6)
Minority Interest	0.02	0.0	0.02	0.0	0.0
Net Income after Tax	**135**	**113**	**118**	**129**	**115**
Total Return	139	113	118	129	144
Non-tax deductible Items	(33.4)	(5.2)	(13.6)	(21.3)	(31.0)
Net Inc available for Dist.	105	108	104	108	113
Growth & Ratio					
Revenue Gth (%)	(1)	0	1	4	(1)
N Property Inc Gth (%)	0	1	0	6	(3)
Net Inc Gth (%)	24	(16)	4	10	(11)
Net Prop Inc Margin (%)	73.2	73.5	72.8	74.2	72.6
Dist. Payout Ratio (%)	108.9	109.0	110.7	115.7	114.2

Balance Sheet (S$m)

FY Mar	2017A	2018A	2019A	2020F	2021F
Investment Properties	9,999	10,214	11,236	11,316	11,926
Other LT Assets	71.8	62.5	82.2	82.2	82.2
Cash & ST Invts	22.0	25.0	52.3	3.15	15.3
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	63.5	28.3	39.6	109	114
Other Current Assets	14.3	23.5	4.11	4.11	4.11
Total Assets	**10,171**	**10,354**	**11,414**	**11,514**	**12,142**
ST Debt	824	910	612	652	762
Creditor	193	144	158	210	220
Other Current Liab	105	49.7	54.8	56.1	56.5
LT Debt	2,576	2,609	3,486	3,486	3,686
Other LT Liabilities	138	142	157	181	206
Unit holders' funds	6,335	6,499	6,946	6,929	7,211
Minority Interests	0.03	0.0	0.0	0.0	0.0
Total Funds & Liabilities	**10,171**	**10,354**	**11,414**	**11,514**	**12,142**
Non-Cash Wkg. Capital	(220)	(142)	(169)	(153)	(158)
Net Cash/(Debt)	(3,378)	(3,494)	(4,045)	(4,135)	(4,433)
Ratio					
Current Ratio (x)	0.1	0.1	0.1	0.1	0.1
Quick Ratio (x)	0.1	0.0	0.1	0.1	0.1
Aggregate Leverage (%)	33.4	34.0	35.9	35.9	36.6

Source: Company, DBS Bank

Gearing to remain stable

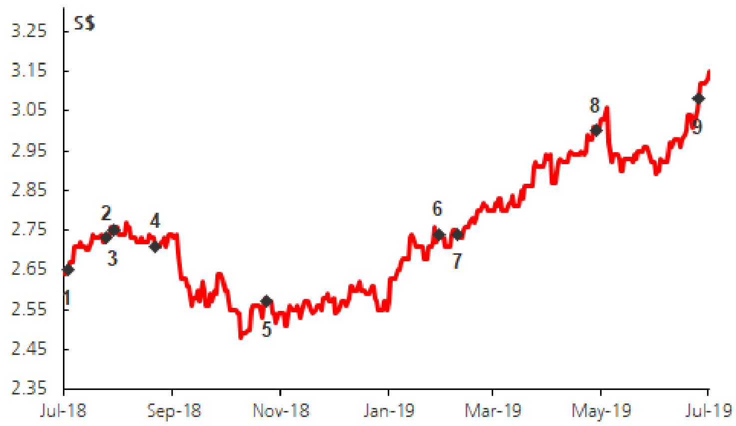
Live more, Bank less

Cash Flow Statement (S$m)

FY Mar	2017A	2018A	2019A	2020F	2021F
Pre-Tax Income	427	493	488	508	538
Dep. & Amort.	0.0	0.0	0.0	0.0	0.0
Tax Paid	(7.9)	(24.7)	(5.7)	(7.9)	(9.2)
Associates &JV Inc/(Loss)	(0.5)	(0.5)	(0.5)	0.0	0.0
Chg in Wkg.Cap.	(24.0)	(17.6)	19.7	(17.6)	4.97
Other Operating CF	135	88.5	111	(14.3)	(14.3)
Net Operating CF	529	539	612	468	520
Net Invt in Properties	0.0	0.0	0.0	0.0	0.0
Other Invts (net)	(138)	(299)	(1,053)	(80.0)	(610)
Invts in Assoc. & JV	0.0	0.52	0.0	0.0	0.0
Div from Assoc. & JVs	0.0	0.0	0.51	0.0	0.0
Other Investing CF	0.0	23.0	24.4	24.4	24.4
Net Investing CF	(138)	(275)	(1,028)	(55.6)	(586)
Distribution Paid	(501)	(295)	(463)	(502)	(532)
Chg in Gross Debt	50.4	121	610	40.0	310
New units issued	155	0.0	448	0.0	300
Other Financing CF	(130)	(134)	(150)	0.0	0.0
Net Financing CF	(426)	(308)	444	(462)	78.2
Currency Adjustments	0.27	47.3	(1.2)	0.0	0.0
Chg in Cash	(34.2)	3.02	27.9	(49.2)	12.1
Operating CFPS (S cts)	19.8	19.0	19.6	15.6	16.2
Free CFPS (S cts)	19.0	18.4	20.3	15.0	16.4

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	05 Jul 18	2.65	3.00	BUY
2:	27 Jul 18	2.73	3.00	BUY
3:	31 Jul 18	2.75	3.00	BUY
4:	24 Aug 18	2.71	3.00	BUY
5:	26 Oct 18	2.57	2.95	BUY
6:	31 Jan 19	2.74	2.95	BUY
7:	11 Feb 19	2.74	2.95	BUY
8:	30 Apr 19	3.00	3.20	BUY
9:	27 Jun 19	3.08	3.21	BUY

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

Source: DBS Bank

Analyst: Derek TAN
Carmen Tay
Mervin SONG, CFA

Singapore Company Guide
Ascendas Hospitality Trust

Version 12 | Bloomberg: ASCHT SP | Reuters: ASHP.SI **Refer to important disclosures at the end of this report**

DBS Group Research . Equity 4 Jul 2019

BUY

Last Traded Price (4 Jul 2019): S$1.04 (**STI :** 3,372.25)
Price Target 12-mth: S$1.21 (16% upside and 5.6% yield) (Prev S$0.98)

Analyst
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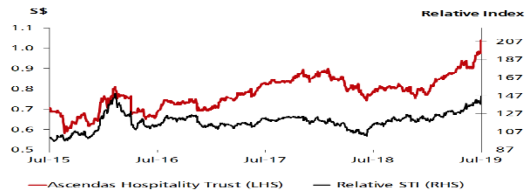
Derek TAN +65 6682 3716 derektan@dbs.com

What's New

- Proposed merger with ART to allow ASCHT unitholders the opportunity to swap interest in a mid-cap trust for an enlarged hospitality trust with greater scale
- Clear benefits from merger should compel ASCHT unitholders to accept offer
- ASCHT to track ART's share price from here, thus our revised TP of S$1.21 is pegged to our ART TP of S$1.45

Price Relative



Forecasts and Valuation

FY Mar (S$m)	2019A	2020F	2021F	2022F
Gross Revenue	194	200	199	207
Net Property Inc	86.7	95.9	96.8	99.8
Total Return	234	31.0	30.5	32.3
Distribution Inc	73.6	70.2	70.2	72.0
EPU (S cts)	1.73	2.72	2.66	2.80
EPU Gth (%)	nm	57	(2)	5
DPU (S cts)	6.03	5.83	5.80	5.92
DPU Gth (%)	3	(3)	(1)	2
NAV per shr (S cts)	102	101	100	99.5
PE (X)	60.1	38.2	39.1	37.2
Distribution Yield (%)	5.8	5.6	5.6	5.7
P/NAV (x)	1.0	1.0	1.0	1.0
Aggregate Leverage (%)	33.2	33.3	33.3	33.3
ROAE (%)	1.8	2.7	2.6	2.8
Distn. Inc Chng (%):		(2)	(3)	(3)
Consensus DPU (S cts):		5.90	6.00	N/A
Other Broker Recs:		B: 1	S: 0	H: 0

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

A bigger new home

Accept merger offer to gain exposure to largest Asia Pacific hospitality trust. We recommend Ascendas Hospitality Trust (ASCHT) unitholders accept the offer by Ascott Residence Trust (ART) to merge the two hospitality trusts. The merger enables ASCHT's unitholders to swap their interest in a mid-cap trust for an enlarged ART which will be the largest hospitality trust in Asia Pacific and the 10th largest S-REIT (by market capitalization) and associated benefits from a larger platform with scale. Our revised TP of S$1.21 is now pegged to our ART TP of S$1.45 and the merger terms (each ASCHT unit will receive S$0.0543 in cash and 0.7942 ART units), as we believe ASCHT will largely track ART's share price going forward.

Benefits to be unlocked with merger. We believe the merger of ASCHT and ART will enable ASCHT unitholders to benefit from a higher DPU. Based on ASCHT's estimates, proforma DPU is expected to increase by 1.8%. Furthermore, unitholders will hold a stake in a trust with a significantly larger free float (S$2.4bn versus S$0.7bn previously). This greater free float should enable the enlarged ART to be included in major property indexes, which could result in greater investor interest, fund flows and tighter yields. Finally, unitholders will gain exposure to a globally diversified portfolio which should provide a more stable DPU profile.

Gaining scale for acquisitions. By being part of an enlarged trust and Ascott's global hospitality platform, ASCHT in effect is gaining the necessary scale to pursue acquisitions. Previously, ASCHT's ability to grow its DPU via an inorganic strategy was hampered by its high trading yield and mid-cap status.

Valuation:

We have lifted our TP for ASCHT to S$1.21 pegged to our ART TP of S$1.45.

Key Risks to Our View:

Key risks to our positive view is the merger between ASCHT and ART failing.

At A Glance

Issued Capital (m shrs)	1,137
Mkt. Cap (Sm/USm)	1,182 / 872
Major Shareholders (%)	
Ascendas Pte Ltd	27.8
Tang Yigang	7.7
Jinquan Tong	4.9
Free Float (%)	64.5
3m Avg. Daily Val (US$m)	0.87

ICB Industry : Financials / Real Estate Investment Trust

Live more, Bank less

ed: TH/ sa: JC, PY, CS

WHAT'S NEW

Merger with Ascott Residence Trust a positive development

ART to acquire ASCHT for S$1.0868 per unit

- ART and ASCHT have announced a merger between the two trusts to create the largest hospitality trust in the Asia Pacific and eighth largest globally. ART will also become the tenth largest S-REIT. Total assets under management (AUM) for ART will increase by a third to S$7.6bn from S$5.7bn.
- By way of a trust scheme of arrangement, ART will acquire ASCHT's units for S$1.0868 per unit comprising S$0.0543 in cash and 0.7942 ART units at a price of S$1.30. This compares against ASCHT's closing price of S$0.975 before the announcement and NAV per unit of S$1.02. ART's pre-announcement price was S$1.31.
- The consideration is based on a gross exchange ratio of 0.836x, based on ASCHT and ART's audited NAV per unit which stood at S$1.02 and S$1.22 respectively as at 31 March 2019.
- Based on ART's calculations, they estimate a 2.5% accretion to ART's proforma DPU with a neutral impact on its NAV per unit. For ASCHT, the transaction is expected to be 1.8% accretive to its proforma DPU.
- Post merger, earnings from developed markets are expected to increase to c.82% which will facilitate a potential inclusion of ART into the FSTE EPRA NAREIT Developed Index. This may result in greater investor interest, higher trading liquidity and compression in trading yields. Currently, 75% and 100% of ART's and ASCHT's EBITDA are from developed markets. In addition, ART's free float is expected to increase from c.S$1.6bn to S$2.4bn which is above the S$1.7bn threshold for index inclusion.
- Proforma gearing is expected to settle at around 36.9%, which provides c.S$1bn of debt headroom assuming a 45% gearing. As at 31 March 2019, ART and ASCHT's gearing stood at 35.7% and 33.2% respectively.
- The proposed merger is expected to be completed in December 2019, with ART and ASCHT's EGM's to be held in October 2019.

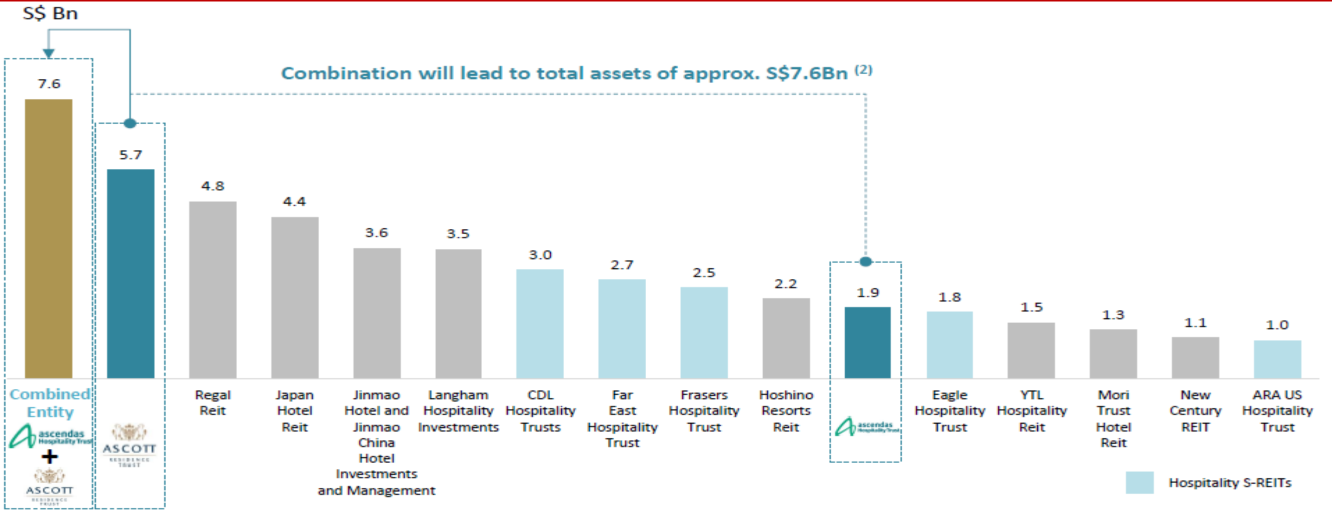
Positive development for ASCHT unitholders

- For ASCHT's unitholders, we believe the proposed merger is a positive development as they stand to gain a stake in an enlarged platform by swapping a stake in a mid-cap trust. ASCHT had struggled to gain investor interest given its relatively small market cap and exposure to Australia and Japan which some investors had difficulty understanding. These past challenges have also resulted in ASCHT having a high cost of capital, making it difficult for it to raise equity and pursue DPU-accretive acquisitions. The merged ART/ASCHT may be relieved of its high cost of capital especially with the positive impact from index inclusion.
- Furthermore, based on ASCHT's estimates, the transaction is expected to result in a 1.8% higher proforma DPU. This is likely to be warmly received by unitholders.
- Near term, with supply pressures in Sydney, Melbourne and Osaka, which form the bulk of ASCHT's portfolio, any potential volatility in DPU would be mitigated by taking a stake in the enlarged ART. The merged entity will have a globally diversified portfolio with no single market representing more than 20% of the total. ASCHT unitholders will move from having 14 hotels in four countries to a trust with 88 properties in 15 countries covering more than 15 brands.

Accept merger offer from ART

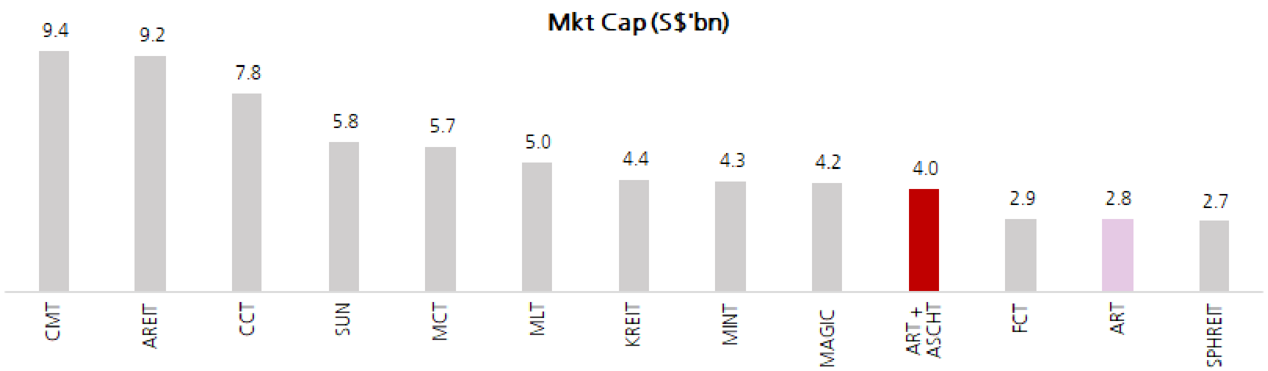
- Given the clear benefits from the proposed merger with ART, we recommend ASCHT unitholders accept the offer from ART.
- Thus, we now peg our ASCHT TP to the merger terms and our ART TP of S$1.45. Our revised TP now stands at S$1.21 versus S$0.98 previously and we maintain our BUY call.
- FY19 DPU excluding capital distributions was below expectations due to the weaker-than-expected performance from Australia and Japan. This resulted in our FY19-21F DPU being cut by 2-3%. However, we believe the market will largely ignore this weak operating performance but instead see ASCHT tracking ART's share price.
- For new investors looking at ASCHT, we believe at current levels, ASCHT provides an attractive entry point into an enlarged ART.

Enlarged ART and ASCHT trust will be the largest hospitality trust in Asia Pacific by total assets



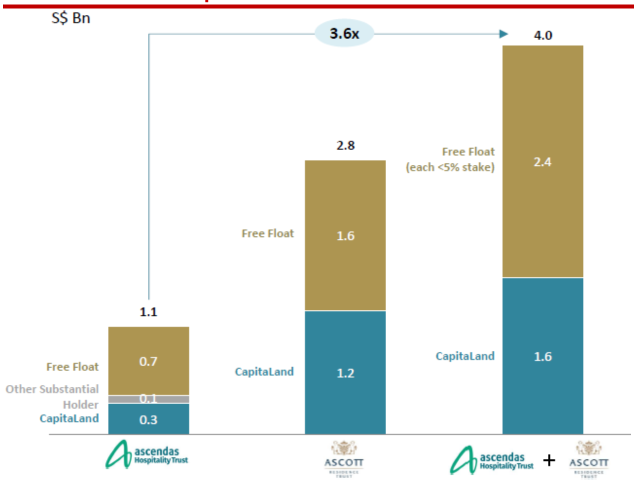
Source: ART, ASCHT, DBS Bank

Enlarged ART and ASCHT trust to be a top ten S-REIT



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

ASCHT units to swap interest in trust with 3.6x free float via a merger with ART



Source: ART, ASCHT, DBS Bank

CRITICAL DATA POINTS TO WATCH

Critical Factors

Australia – largest contributor. ASCHT's Australian portfolio contributed close to half of its FY18 NPI. With continued growth in tourist arrivals, we expect ASCHT's properties in Sydney and Melbourne to drive the REIT's performance going forward. However, contribution from the Australian operations is tempered by near-term supply pressures in the Brisbane and suburban Sydney markets as well as a drag from fewer conference activities in Melbourne. Moving into 2019, the Australian portfolio should also receive a boost as ASCHT has inked an agreement to acquire the serviced apartment component at Aurora Melbourne Central for A$120m, on an NPI yield of 7.6%. Construction of Aurora Melbourne Central is due to be completed in 2H19. Due to uncertainties over how ASCHT will fund the acquisition of Aurora Melbourne and RevPAR in 2019, we have yet to include this investment in our estimates. The potential boost from Aurora should temper any pressure on earnings from increased supply in Sydney and Melbourne.

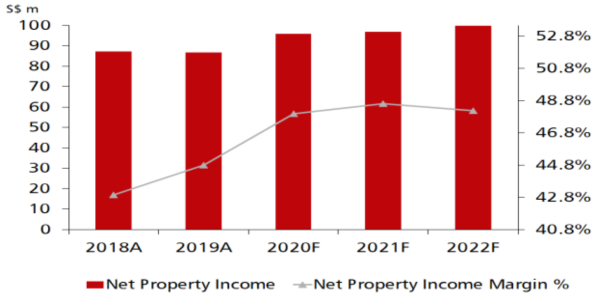
Japan – medium-term growth driver. Despite the potential softening in ASCHT's Japanese operations due to potential supply pressures, we remain positive on the outlook for ASCHT's Japanese properties (c.26% of FY18 NPI) in the medium term. While the pace of inbound tourists may slow down, it should remain on an uptrend as the Japanese government continues to support the tourism sector through the relaxation of visa requirements.

New operator for Osaka Namba hotel. Another boost for ASCHT is the 13% uplift in annual fixed rents for its Osaka Namba Washington Hotel, as ASCHT has appointed a new operator, Sunroute Co Ltd. As part of the new 10-year agreement, the hotel will undergo a refurbishment and be rebranded under the "Sunroute" name.

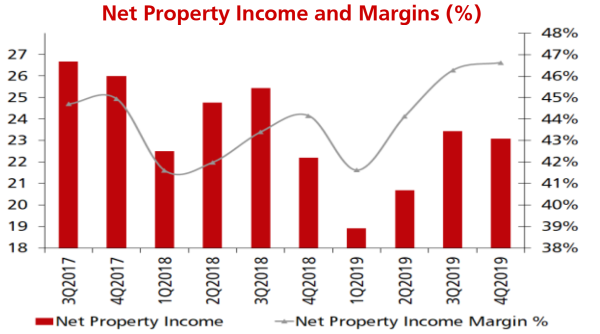
Modest contribution from Singapore. We forecast a modest contribution from ASCHT's Singapore operations (14% of FY18 NPI) given the near-term oversupply situation, limiting the variable rent that Park Hotel Clarke Quay will generate. Nevertheless, downside from Singapore is limited given an annual fixed rent of c.S$12m with a 3% annual escalation.

Boost from recent acquisitions. Following the sale of its Beijing hotels in May 2018 at double the prior book value, ASCHT has reinvested the proceeds in two hotels in Seoul, Korea and a portfolio of three hotels in Osaka, Japan at a higher entry yield than the exit yield for the Beijing properties. Hence, we expect ASCHT's near-term DPU to be boosted.

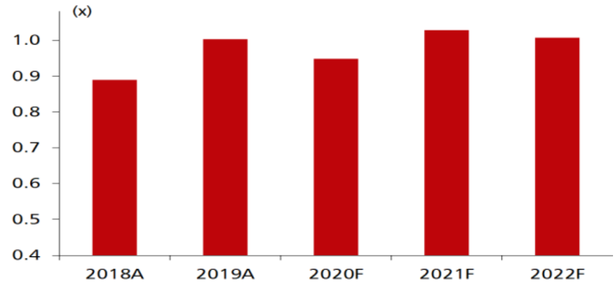
Net Property Income and Margins (%)



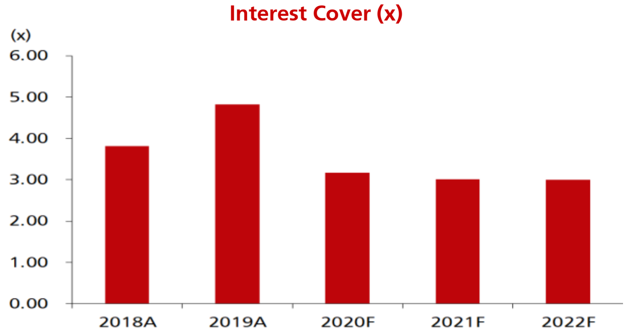
Net Property Income and Margins (%)



Distribution Paid / Net Operating CF



Interest Cover (x)



Source: Company, DBS Bank

Balance Sheet:

Strong balance sheet. As at 31 March 2019, ASCHT gearing stood at 33.2%. We expect ASCHT's gearing to remain at this level going forward subject to the funding structure for the expected acquisition of Aurora Melbourne Central in 2HCY19.

Moderate exposure to rising interest rates. After refinancing, ASCHT now has an average debt maturity of 3.8 years with c.82% of its borrowings on fixed rates. This translates into moderate exposure to rising interest rates.

Share Price Drivers:

Tied to ART performance. With merger with ART, we believe ASCHT's share price will be tied to the performance of ART's shares until the expected completion of the merger in December 2019.

Key Risks:

Interest rate risk. As the US Federal Reserve continues raising interest rates, ASCHT faces the challenge of higher interest costs. Nevertheless, with c.82% of the group's debt on fixed rates, ASCHT is partially insulated in the near term.

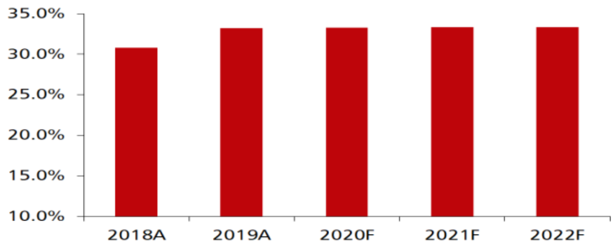
FX risks. Significant volatility in AUD and JPY would negatively impact our DPU estimates. However, this risk is tempered by ASCHT entering into 15-month rolling hedges.

Supply risk. Any significant increase in the number of hotel rooms without commensurate growth in demand could limit income growth for the REIT, as hotels may have to lower their room rates to remain competitive and maintain high occupancies.

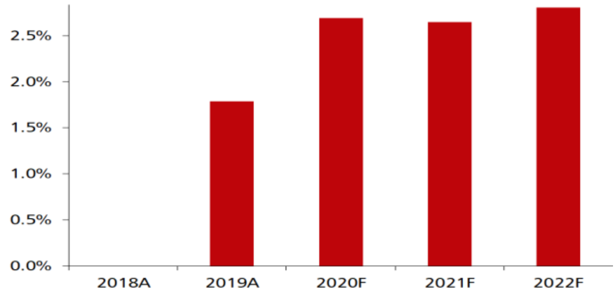
Company Background

Ascendas Hospitality Trust (ASCHT) is a stapled group comprising Ascendas Hospitality Business Trust (A-HBT) and Ascendas Hospitality REIT (A-HREIT), established to invest in a diversified portfolio of hotel assets in Asia, Australia, and New Zealand.

Aggregate Leverage (%)

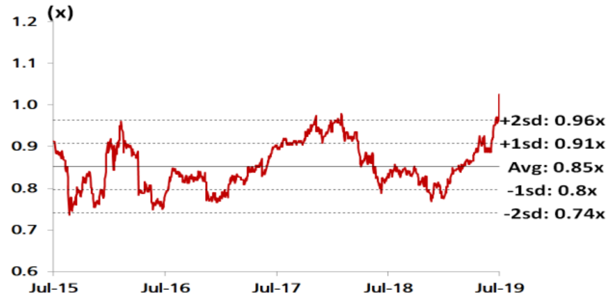


ROE (%)



Distribution Yield (%)

PB Band (x)



Source: Company, DBS Bank

Income Statement (S$m)

FY Mar	2018A	2019A	2020F	2021F	2022F
Gross revenue	203	194	200	199	207
Property expenses	(116)	(107)	(104)	(102)	(108)
Net Property Income	**87.2**	**86.7**	**95.9**	**96.8**	**99.8**
Other Operating expenses	(31.2)	(34.6)	(35.8)	(35.9)	(36.1)
Other Non Opg (Exp)/Inc	(32.2)	(6.8)	0.0	0.0	0.0
Net Interest (Exp)/Inc	(14.7)	(10.8)	(19.0)	(20.2)	(21.3)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Net Income	**9.15**	**34.6**	**41.2**	**40.6**	**42.4**
Tax	(9.8)	(14.8)	(10.2)	(10.1)	(10.1)
Minority Interest	0.0	(0.1)	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Income After Tax	**(0.7)**	**19.6**	**31.0**	**30.5**	**32.3**
Total Return	21.3	234	31.0	30.5	32.3
Non-tax deductible Items	50.0	(169)	34.2	34.7	34.8
Net Inc available for Dist.	71.3	73.6	70.2	70.2	72.0
Growth & Ratio					
Revenue Gth (%)	(9.4)	(4.7)	3.2	(0.4)	4.1
N Property Inc Gth (%)	(12.0)	(0.6)	10.6	0.9	3.1
Net Inc Gth (%)	nm	nm	58.3	(1.7)	5.8
Dist. Payout Ratio (%)	92.9	93.0	95.0	95.0	95.0
Net Prop Inc Margins (%)	42.9	44.8	47.9	48.6	48.1
Net Income Margins (%)	(0.3)	10.1	15.5	15.3	15.6
Dist to revenue (%)	35.1	38.0	35.1	35.2	34.7
Managers & Trustee's fees	15.3	17.8	17.9	18.0	17.4
ROAE (%)	(0.1)	1.8	2.7	2.6	2.8
ROA (%)	0.0	1.1	1.6	1.6	1.7
ROCE (%)	(0.3)	1.8	2.6	2.6	2.8
Int. Cover (x)	3.8	4.8	3.2	3.0	3.0

Source: Company, DBS Bank

Boost from acquisitions

Quarterly / Interim Income Statement (S$m)

FY Mar	4Q2018	1Q2019	2Q2019	3Q2019	4Q2019
Gross revenue	49.7	44.9	46.4	50.1	49.0
Property expenses	(27.8)	(26.2)	(25.9)	(26.9)	(26.2)
Net Property Income	22.0	18.7	20.5	23.2	22.9
Other Operating expenses	(3.5)	(8.5)	(8.5)	(12.8)	(9.0)
Other Non Opg (Exp)/Inc	0.93	150	(2.0)	0.0	(0.2)
Net Interest (Exp)/Inc	(2.2)	(3.2)	(2.0)	(2.6)	(3.0)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Net Income	**13.9**	**157**	**7.94**	**7.78**	**10.7**
Tax	(5.7)	(1.3)	(0.9)	(1.5)	(10.9)
Minority Interest	0.0	0.0	0.0	0.0	(0.1)
Net Income after Tax	**8.23**	**155**	**7.05**	**6.33**	**(0.4)**
Total Return	30.2	155	7.05	6.33	65.3
Non-tax deductible Items	(9.1)	(141)	8.99	11.4	(48.3)
Net Inc available for Dist.	21.1	16.4	17.8	17.7	21.6
Growth & Ratio					
Revenue Gth (%)	(14)	(10)	3	8	(2)
N Property Inc Gth (%)	(13)	(15)	9	13	(1)
Net Inc Gth (%)	(131)	1,788	(95)	(10)	(106)
Net Prop Inc Margin (%)	44.2	41.6	44.1	46.3	46.6
Dist. Payout Ratio (%)	92.1	93.0	93.0	92.8	93.2

Balance Sheet (S$m)

FY Mar	2018A	2019A	2020F	2021F	2022F
Investment Properties	843	1,213	1,219	1,225	1,231
Other LT Assets	689	630	630	630	630
Cash & ST Invts	67.4	72.0	69.6	61.8	55.0
Inventory	0.36	0.33	0.33	0.33	0.33
Debtors	12.7	17.6	8.52	8.48	8.83
Other Current Assets	127	5.30	5.30	5.30	5.30
Total Assets	**1,739**	**1,938**	**1,933**	**1,931**	**1,931**
ST Debt	156	5.00	5.00	5.00	5.00
Creditor	55.9	36.8	24.6	24.1	25.4
Other Current Liab	15.7	3.38	11.6	11.6	11.6
LT Debt	379	639	639	639	639
Other LT Liabilities	93.1	98.9	98.9	98.9	98.9
Unit holders' funds	1,039	1,154	1,152	1,151	1,149
Minority Interests	0.0	2.02	2.02	2.02	2.02
Total Funds & Liabilities	**1,739**	**1,938**	**1,933**	**1,931**	**1,931**
Non-Cash Wkg. Capital	68.3	(16.9)	(22.0)	(21.6)	(22.5)
Net Cash/(Debt)	(468)	(572)	(574)	(582)	(589)
Ratio					
Current Ratio (x)	0.9	2.1	2.0	1.9	1.7
Quick Ratio (x)	0.9	2.1	2.0	1.9	1.6
Aggregate Leverage (%)	30.8	33.2	33.3	33.3	33.3
Z-Score (X)	0.8	0.8	0.8	0.8	0.8

Source: Company, DBS Bank

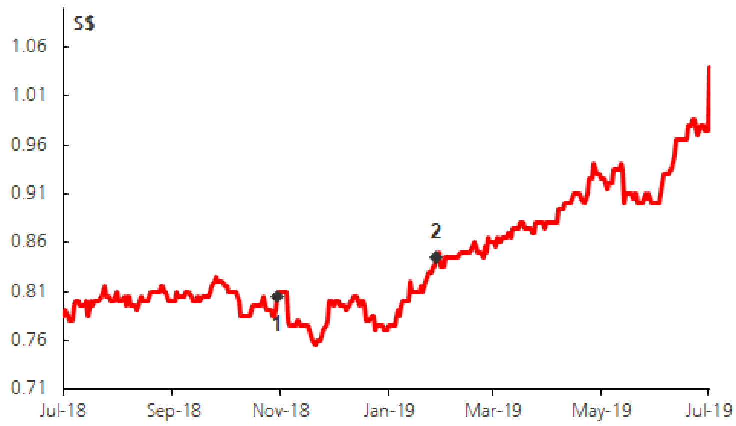
Cash Flow Statement (S$m)

FY Mar	2018A	2019A	2020F	2021F	2022F
Pre-Tax Income	9.15	34.6	41.2	40.6	42.4
Dep. & Amort.	28.5	29.0	29.5	30.0	30.0
Tax Paid	(6.2)	(5.4)	(1.9)	(10.2)	(10.1)
Associates &JV Inc/(Loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(3.4)	3.44	(3.1)	(0.4)	0.86
Other Operating CF	44.7	5.45	4.66	4.69	4.76
Net Operating CF	**72.7**	**67.1**	**70.3**	**64.8**	**67.9**
Net Invt in Properties	(13.0)	(139)	(6.0)	(6.0)	(6.2)
Other Invts (net)	0.0	0.0	0.0	0.0	0.0
Invts 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	18.7	(3.6)	0.0	0.0	0.0
Net Investing CF	**5.71**	**(142)**	**(6.0)**	**(6.0)**	**(6.2)**
Distribution Paid	(64.7)	(67.3)	(66.7)	(66.7)	(68.4)
Chg in Gross Debt	(5.9)	117	0.0	0.0	0.0
New units issued	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(25.9)	1.96	0.0	0.0	0.0
Net Financing CF	**(96.5)**	**52.0**	**(66.7)**	**(66.7)**	**(68.4)**
Currency Adjustments	(0.7)	(1.5)	0.0	0.0	0.0
Chg in Cash	(18.8)	(24.9)	(2.4)	(7.9)	(6.7)
Operating CFPS (S cts)	6.75	5.62	6.45	5.69	5.82
Free CFPS (S cts)	5.29	(6.3)	5.64	5.13	5.35

Acquisition of hotels in Seoul and Japan

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	01 Nov 18	0.81	0.98	BUY
2:	30 Jan 19	0.85	0.98	BUY

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

Source: DBS Bank

Analyst: Mervin SONG, CFA
Derek TAN

Singapore Company Guide

Ascendas India Trust

Version 17 | Bloomberg: AIT SP | Reuters: AINT.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

4 Jul 2019

BUY

Last Traded Price (4 Jul 2019): S$1.38 (**STI :** 3,372.25)
Price Target 12-mth: S$1.55 (12% upside and 5.9 yield)
(Prev S$1.40)

Analyst
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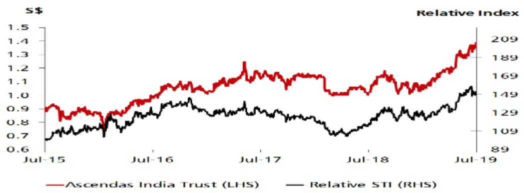
Derek TAN +65 6682 3716 derektan@dbs.com

What's New

- Enters into forward purchase agreement and provides construction funding for Blueridge Phase III
- Deepens presence in Pune which is seeing rising rents
- Uplift in DPU from expected decline in Fed funds rate and interest income from construction funding

Price Relative



Forecasts and Valuation

FY Mar (S$m)	2019A	2020F	2021F	2022F
Gross Revenue	182	199	252	266
Net Property Inc	136	153	196	208
Total Return	204	84.5	111	115
Distribution Inc	84.5	94.7	122	127
EPU (S cts)	1.87	8.11	9.70	9.73
EPU Gth (%)	nm	333	20	0
DPU (S cts)	7.33	8.18	9.62	9.65
DPU Gth (%)	20	12	18	0
NAV per shr (S cts)	100	101	103	103
PE (X)	73.6	17.0	14.2	14.2
Distribution Yield (%)	5.3	5.9	7.0	7.0
P/NAV (x)	1.4	1.4	1.3	1.3
Aggregate Leverage (%)	31.2	34.3	33.7	33.9
ROAE (%)	2.0	8.0	9.7	9.3
DPU Chng (%):		1	5	5
Consensus DPU (S cts):		8.00	8.70	N/A
Other Broker Recs:		B: 4	S: 0	H: 0

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

On a growth spurt

One of the fastest-growing S-REITs. We maintain our BUY call on Ascendas India Trust (a-iTrust) with a higher TP of S$1.55. We believe its expansion into modern warehouses since last year heralds a new leg of growth for the Trust. This will provide an additional kicker to its already fast-growing business space sector. This acquisition, combined with recently announced redevelopments/acquisitions, should translate into a 61% increase in floor area and underpins 3-year DPU CAGR of c.10%, 3-4 times faster than the average for the S-REIT sector.

Where we differ: Above-consensus target price. Compared to consensus, we have a higher TP of S$1.55m, pegged at a c.20% premium to a-iTrust's adjusted NAV per unit of S$1.31. We believe the expansion into the modern Indian warehouse sector warrants a premium not only from the boost to a-iTrust's near-term DPU outlook but more importantly, the ability to accelerate medium-term earnings growth. Our confidence in a-iTrust's ability to execute on its warehouse expansion is due to its Sponsor's strong track record in the Asian warehouse space.

Untapped land bank. Through its untapped land bank and sponsor pipeline, a-iTrust has access to over 5m sqft of floor area. Combined with the recent expansion into the Indian warehouse space which provides for a potential acquisition pipeline of 2.8m sqft, a-iTrust has a visible source of growth over the long term. The ability to execute on these growth opportunities is also supported by its strong balance sheet.

Valuation:

After lowering our cost of equity assumptions and incorporating Blueridge Phase III, we raised our DDM-based TP to S$1.55 from S$1.40.

Key Risks to Our View:

The key risk to our bullish stance on a-iTrust is a significant depreciation of the INR, and a downturn in the Indian economy which will depress rents or delay the completion of announced acquisitions and development projects.

At A Glance

Issued Capital (m shrs)	1,042
Mkt. Cap (Sm/USm)	1,438 / 1,061
Major Shareholders (%)	
Ascendas Pte Ltd	22.4
Kabouter Management LLC	10.8
JPMorgan Chase & Co	9.0
Free Float (%)	45.4
3m Avg. Daily Val (US$m)	1.1

ICB Industry : Financials / Real Estate Investment Trust

Live more, Bank less

ed: TH/ sa: SM, PY, CS

WHAT'S NEW

Accelerating growth plans

Forward purchase of BlueRidge 3

- iTrust recently announced that it had entered into a master agreement with Nalanda Shelter Private (NSPL) and Brickmix Developers Private Limited (BDPL) to acquire BlueRidge 3, an IT/ITES special economic zone development located in Hinjewadi, Pune.
- BlueRidge 3 will be developed over two phases comprising two IT office buildings and a cafeteria with a total net leasable area (NLA) of up to 1.8m sqft.
- The development is situated in Hinjewadi Phase 1, an established IT cluster and near a-iTrust's existing BlueRidge 2 property.
- Phase 1 will have an NLA of c.1.4m sqft with Phase 2 at c.0.4m sqft.
- Construction for Phase 1 is expected to be completed in 1H21 and Phase 2 in 2H23.
- We understand Hinjewadi is one of the prominent micro-markets in Pune, that has c.20% (10m sqft) of total office stock with IT/ITes comprising up to 86% of the office inventory. It is also strategically located near the Mumbai to Pune Highway and has a well-developed social infrastructure and is in close proximity to residential areas. Furthermore, the market is seeing limited new supply with resultant decline in vacancy and rising rents.

Terms of forward agreement

- As part of the agreement for Phase 1 of the project, a-iTrust will:
  1. Provide INR612m (c.S$12.1m) worth of inter-corporate deposits (ICDs) to NPSL which will be used to part repay an existing loan and for outstanding land payments. The ICDs have a tenure of five years with interest to be serviced on a quarterly basis. ICDs are secured through first charge over the land and buildings of the project. The ICDs shall be repaid upon termination of the ICD agreement.
  2. Provide construction funding for Phase 1 of the project by subscribing for Rupee Denominated Off-shore bonds (RDBs) issued in Singapore by NSPL equivalent to INR4,315m (c.S$85.5m). The RDBs have a tenure of 30 years with interest to be serviced on a quarterly basis. RDBs are secured through first charge over the land and buildings of the project. The RDBs will be repaid upon termination of the RDB Agreements, subject to a minimum average maturity period of three years.
  3. Upon obtaining occupancy certificate and post completion of a stabilisation period of 21 months, a-iTrust shall acquire Phase 1 of the project by paying the vendor a top-up consideration of c.INR2,464m (c.S$48.8m) at around 1H23. The total estimated purchase price (including the top-up consideration) is INR7,390m (c.S$146.4m).
- For Phase 2 of the project, a-iTrust will:
  1. Provide construction funding to BDPL amounting to INR1,250m (c.S$24.76m).
  2. Upon obtaining occupancy certificate and post completion of a stabilisation period of 15 months, acquire Phase 2 of the project by paying the vendor a top-up consideration of c.INR1,170m (c.S$23.18m) at around 1H25. The total estimated purchase price (including the top-up consideration) is INR2,420m (c.S$47.94m).

Financial impact

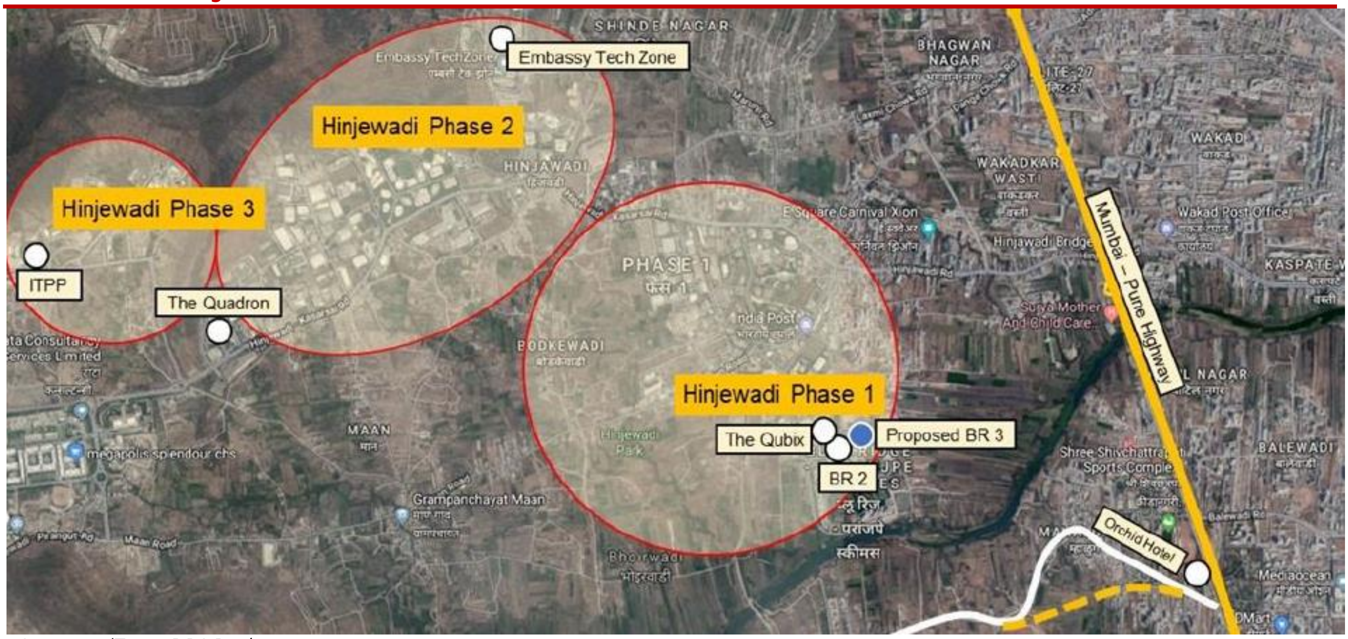
- We expect funding for the acquisition and constructions loans to be sourced through a mix of internal cash, operating cashflow (a-iTrust retains 10% of distributable income for its growth plans) and debt.
- After assuming slightly lower borrowing costs (6.0% versus 6.3-6.4% as we incorporate the impact expected from Fed Funds rate) and on the back of interest income from the construction funding loans, we raised our FY20-22F DPU by 1-5%.
- We have also lifted our DDM-based TP to S$1.55 from S$1.40 as we lower our cost of equity assumption to 9.1% from 12.1% previously. We now peg our cost of equity to Singapore risk-free rate of 2.5% with a beta of 0.95x and market return of 9.4%, given the long history of a-iTrust being listed in Singapore. We had previously based our cost of equity estimates based on Indian macro statistics.

Our thoughts

- The forward agreement to acquire BlueRidge 3 is consistent with a-iTrust's successful strategy of providing construction funding to various developers and subsequent acquisition of buildings upon hitting certain occupancy and rental milestones.

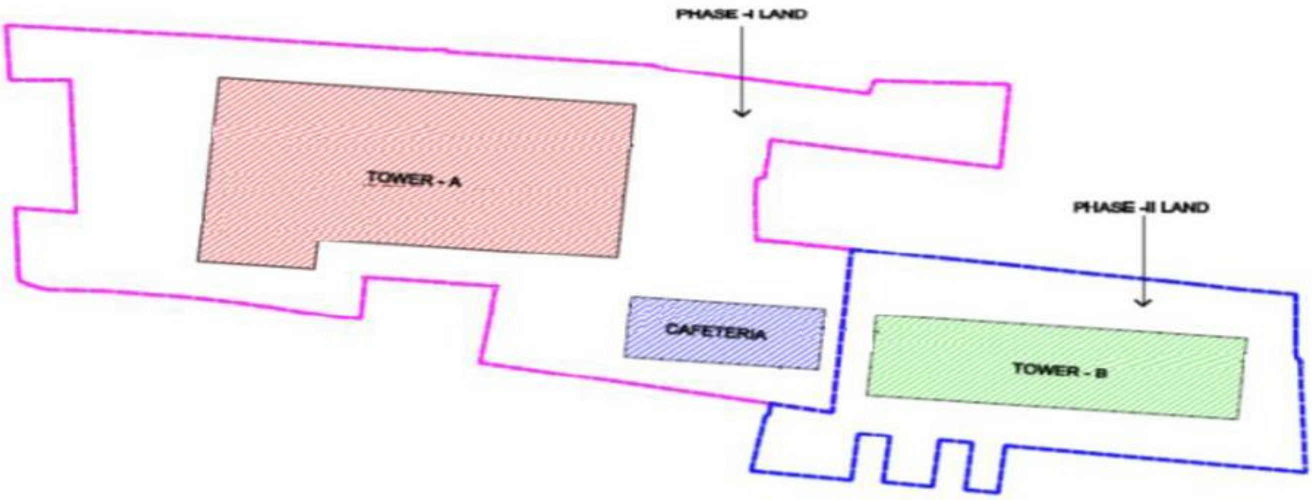
- While this strategy exposes a-iTrust to non-performance by developers, it is mitigated by a-iTrust's strong track record of leasing and development. If the developer is unable to complete the construction or achieve particular leasing outcomes, a-iTrust has the capability to step in and complete the project and lease the building.
- Therefore, beyond the expected DPU accretion and diversification benefits, we are positive on exposure to the growing Pune market and the further boost to a-iTrust's medium-term growth profile. Assuming the acquisition of BlueRidge 3, a-iTrust's portfolio size (including announced acquisitions and developments, forward purchase agreements) will increase by 7% from c.20.2m sqft to 22.0m sqft.
- We continue to like a-iTrust for its robust 10%, 3-year DPU CAGR and decent 6.0% yield. Thus, we maintain our BUY call with a revised TP of S$1.55.

Location for BlueRidge 3



Source: a-iTrust, DBS Bank

Master plan for BlueRidge 3



Source: a-iTrust, DBS Bank

DBS
Live more, Bank less

CRITICAL DATA POINTS TO WATCH

Critical Factors

Leveraged on offshoring trends. a-iTrust provides exposure to India, which remains a leading global IT and offshoring hub which is underpinned by the country's low-cost environment. According to PayScale, the average salary for IT/software developers or programmers in India stands at US$6,000 p.a. which is below that of other competing and/or developed countries such as the US (c.US$74,000), Hong Kong (c.US$28,000), and Malaysia (US$11,000).

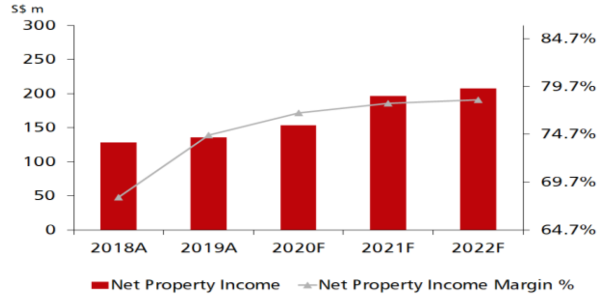
Balanced lease expiry to capture upside in rents. a-iTrust's weighted average lease expiry (WALE) stands at 4.2 years, with 9% and 18% of leases up for renewal in FY20 and FY21 respectively. Given the favourable demand backdrop and modest supply, we believe a-iTrust's lease expiry profile provides ample opportunities to capture the upside in rents.

Expansion into the warehouse sector. The acquisition of six warehouses in February 2018 provides a-iTrust with its maiden exposure to the modern warehouse space. Demand for modern warehouses is increasing on the back of growth in the e-commerce sector. The introduction of GST in India should also drive this demand, as there will likely be consolidation of older warehouses into regional warehouses as well as companies opting for a "hub and spoke" distribution model for operational efficiency. Demand for modern warehouses according to KPMG is expected to grow by 20-25% p.a. over the next five years.

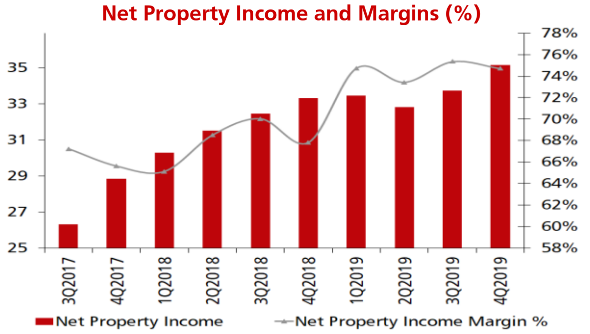
Boost from recent acquisitions and developments. Over the past two years, a-iTrust has announced the construction of The V (a new 408,000-sqft IT building), as well as the acquisitions of CyberVale, aVance 3 & 4, BlueRidge Phase II & III and six warehouses. Added to this, the forward purchase of several buildings with associated construction funding together with healthy rental reversions should result in a 10% DPU CAGR over the next three years.

Increase in floor area. a-iTrust currently has a portfolio of properties with 12.6m sqft of space with announced plans to take this to c.22.0m sqft. Beyond this, through its sponsors and assuming a-iTrust exercises its right of first refusal (ROFR), it could access a further c.2.3m sqft worth of properties. In addition, we understand the Trust is also open to the acquisition of third-party properties. Currently, it is exploring acquisition opportunities in Mumbai, Delhi, and Gurgaon, thereby expanding its presence beyond its current core markets of Bangalore, Chennai, Hyderabad, and Pune. Furthermore, the recent acquisition of a portfolio of warehouses also further boosts its acquisition pipeline with access to approximately 2.8m sqft of warehouse space.

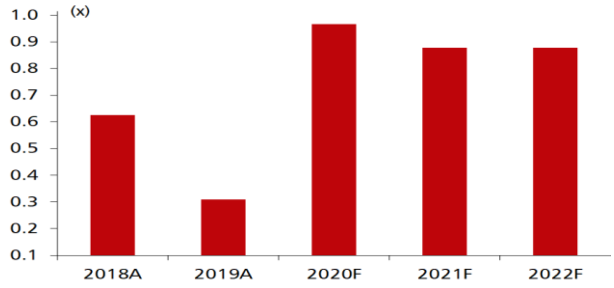
Net Property Income and Margins (%)



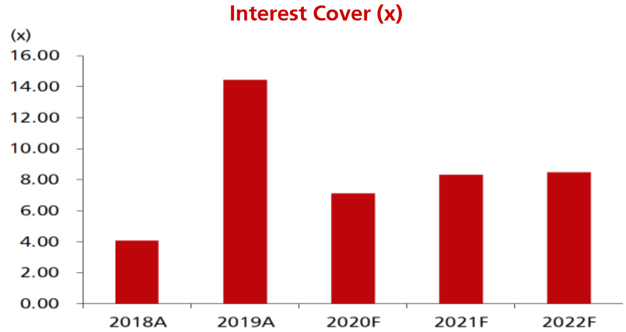
Net Property Income and Margins (%)



Distribution Paid / Net Operating CF



Interest Cover (x)



Source: Company, DBS Bank

Balance Sheet:

Gearing stable at 35-36% in the medium term. a-iTrust's gearing stood at c.31% as at 31 March 2019. We expect gearing to stabilise at around 35-36% by end-FY21 after including the Trust's existing development projects and announced acquisitions and assuming S$150m equity-raising at S$1.20 per unit in FY21.

Share Price Drivers:

Crystallisation of development and sponsor pipeline. The Trust has a development and sponsor pipeline of c.6.1m sqft and 2.3m sqft respectively. The delivery of the development pipeline and acquisition of its sponsor's properties with a resultant increase in earnings/DPU should drive the stock price higher over the medium term.

Key Risks:

Currency risk. a-iTrust's distributions are generated in INR but paid in SGD. While the trust hedges each half-yearly distribution, DPU from the trust will be negatively impacted on a lagged basis if the INR depreciates. In addition, as around 62% and 38% of the trust's borrowings are in INR and SGD respectively, while all its assets are in India, a depreciation of the INR would also be negative for its NAV per share.

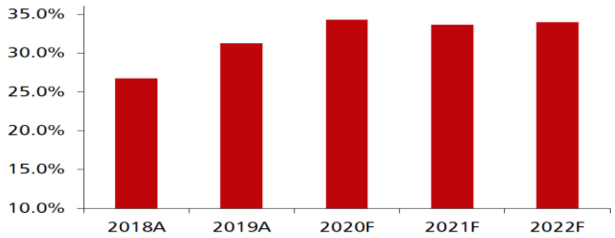
Economic risk. Deterioration in the Indian economic outlook and/or companies outsourcing their operations to India may negatively impact demand for space and rents at a-iTrust's properties.

Interest rate risk. Interest rate hikes will result in higher interest payments which would reduce income available for distribution. This risk is partially mitigated by the fact that c.77% of the trust's debt is fixed.

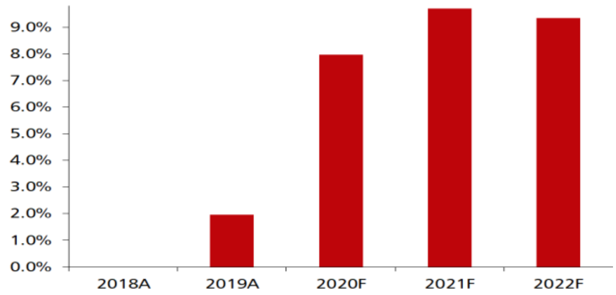
Company Background

Ascendas India Trust ("a-iTrust") was listed in August 2007 as the first Indian property trust in Asia. Its principal objective is to own income-producing real estate used primarily as business space in India. a-iTrust may also develop and acquire land or uncompleted developments to be used primarily as business space, with the objective of holding the properties upon completion. a-iTrust is managed by Ascendas Property Fund Trustee Pte Ltd, a subsidiary of the Ascendas Group.

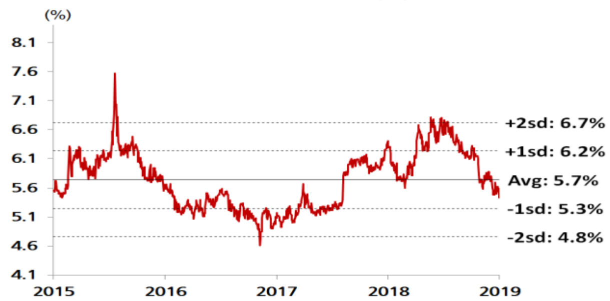
Aggregate Leverage (%)



ROE (%)



Distribution Yield (%)



PB Band (x)

Source: Company, DBS Bank

Income Statement (S$m)

FY Mar	2018A	2019A	2020F	2021F	2022F
Gross revenue	188	182	199	252	266
Property expenses	(60.1)	(46.3)	(46.0)	(55.6)	(57.7)
Net Property Income	128	136	153	196	208
Other Operating expenses	(14.9)	(14.6)	(17.8)	(18.4)	(20.9)
Other Non Opg (Exp)/Inc	(8.4)	3.36	0.0	0.0	0.0
Net Interest (Exp)/Inc	(27.8)	(8.4)	(19.0)	(21.4)	(22.1)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Net Income	77.0	116	116	157	165
Tax	(87.5)	(84.2)	(28.8)	(42.3)	(46.5)
Minority Interest	(10.0)	(12.4)	(3.0)	(3.1)	(3.3)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Income After Tax	(20.5)	19.5	84.5	111	115
Total Return	191	204	84.5	111	115
Non-tax deductible Items	(127)	9.43	10.2	11.3	11.7
Net Inc available for Dist.	64.2	84.5	94.7	122	127
Growth & Ratio					
Revenue Gth (%)	20.1	(3.3)	9.4	26.5	5.4
N Property Inc Gth (%)	22.9	5.9	12.9	28.2	5.8
Net Inc Gth (%)	nm	nm	334.1	31.5	3.5
Dist. Payout Ratio (%)	90.0	90.0	90.0	90.0	90.0
Net Prop Inc Margins (%)	68.1	74.6	76.9	77.9	78.3
Net Income Margins (%)	(10.9)	10.7	42.4	44.1	43.3
Dist to revenue (%)	34.1	46.5	47.6	48.6	47.7
Managers & Trustee's fees	7.9	8.0	9.0	7.3	7.9
ROAE (%)	(2.4)	2.0	8.0	9.7	9.3
ROA (%)	(1.2)	0.9	3.6	4.4	4.3
ROCE (%)	(0.9)	1.6	4.5	5.3	5.2
Int. Cover (x)	4.1	14.4	7.1	8.3	8.5

Source: Company, DBS Bank

Improvement in earnings on the back of positive rental reversions and contributions from new properties and acquisitions

Quarterly / Interim Income Statement (S$m)

FY Mar	4Q2018	1Q2019	2Q2019	3Q2019	4Q2019
Gross revenue	49.3	44.9	44.9	45.0	47.2
Property expenses	(15.9)	(11.4)	(11.9)	(11.1)	(12.0)
Net Property Income	33.5	33.6	32.9	33.9	35.3
Other Operating expenses	(4.0)	(3.9)	(4.3)	(3.9)	(6.0)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(6.6)	(5.0)	(0.3)	(1.5)	(1.6)
Exceptional Gain/(Loss)	(6.4)	(0.2)	(15.8)	10.3	0.24
Net Income	**16.5**	**24.5**	**12.6**	**38.8**	**27.9**
Tax	(72.2)	(6.4)	(4.0)	(10.0)	(63.8)
Minority Interest	(5.9)	(1.3)	(1.4)	(1.4)	(8.3)
Net Income after Tax	**(61.6)**	**16.8**	**7.14**	**27.4**	**(44.2)**
Total Return	146	16.8	7.14	27.5	141
Non-tax deductible Items	128	(1.7)	(15.7)	3.91	121
Net Inc available for Dist.	18.1	18.5	22.9	23.6	19.6
Growth & Ratio					
Revenue Gth (%)	6	(9)	0	0	5
N Property Inc Gth (%)	3	0	(2)	3	4
Net Inc Gth (%)	(481)	(127)	(58)	284	(261)
Net Prop Inc Margin (%)	67.8	74.7	73.4	75.4	74.7
Dist. Payout Ratio (%)	90.0	90.0	90.0	90.0	90.0

Balance Sheet (S$m)

FY Mar	2018A	2019A	2020F	2021F	2022F
Investment Properties	5.51	5.50	5.34	5.19	5.04
Other LT Assets	1,766	2,166	2,319	2,572	2,610
Cash & ST Invts	110	108	66.9	35.5	32.4
Inventory	0.48	0.41	0.41	0.41	0.41
Debtors	16.9	28.7	24.9	24.9	24.9
Other Current Assets	18.9	9.51	9.51	9.51	9.51
Total Assets	**1,918**	**2,319**	**2,426**	**2,647**	**2,682**
ST Debt	136	223	223	223	223
Creditor	85.0	95.5	82.3	82.3	82.3
Other Current Liab	0.0	0.43	0.43	0.43	0.43
LT Debt	377	501	609	668	687
Other LT Liabilities	317	362	362	362	362
Unit holders' funds	934	1,057	1,066	1,225	1,238
Minority Interests	69.3	79.7	82.8	85.9	89.2
Total Funds & Liabilities	**1,918**	**2,319**	**2,426**	**2,647**	**2,682**
Non-Cash Wkg. Capital	(48.7)	(57.4)	(47.9)	(47.9)	(47.9)
Net Cash/(Debt)	(403)	(616)	(765)	(856)	(878)
Ratio					
Current Ratio (x)	0.7	0.5	0.3	0.2	0.2
Quick Ratio (x)	0.6	0.4	0.3	0.2	0.2
Aggregate Leverage (%)	26.7	31.2	34.3	33.7	33.9
Z-Score (X)	0.7	0.8	0.8	NA	NA

Source: Company, DBS Bank

Increase in gearing due to debt-funded acquisitions and developments

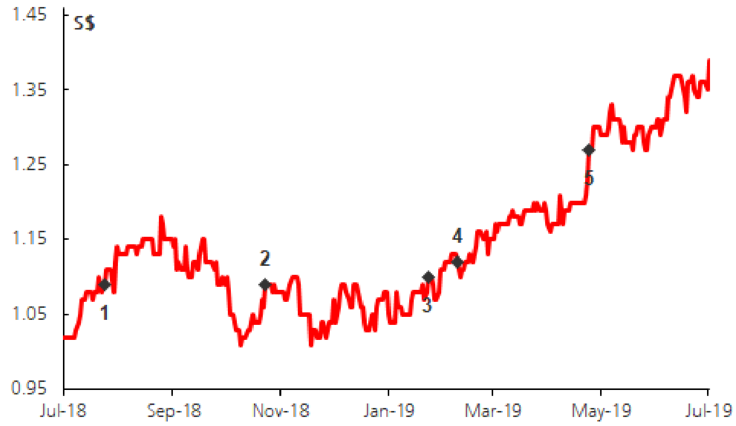
Cash Flow Statement (S$m)

FY Mar	2018A	2019A	2020F	2021F	2022F
Pre-Tax Income	77.0	116	116	157	165
Dep. & Amort.	0.09	0.15	0.15	0.15	0.15
Tax Paid	(21.6)	(84.2)	(28.8)	(42.3)	(46.5)
Associates &JV Inc/(Loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	20.6	23.4	(9.5)	0.0	0.0
Other Operating CF	46.5	93.1	10.1	11.1	11.6
Net Operating CF	**123**	**149**	**88.3**	**126**	**130**
Net Invt in Properties	(131)	(57.5)	(74.4)	(98.3)	(38.0)
Other Invts (net)	0.0	(224)	(78.2)	(155)	0.0
Invts 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	(0.3)	5.45	0.0	0.0	0.0
Net Investing CF	**(131)**	**(276)**	**(153)**	**(253)**	**(38.0)**
Distribution Paid	(76.7)	(46.0)	(85.3)	(110)	(114)
Chg in Gross Debt	58.5	213	108	59.0	19.0
New units issued	98.7	0.0	0.0	147	0.0
Other Financing CF	(32.7)	(36.9)	0.0	0.0	0.0
Net Financing CF	**47.9**	**130**	**22.7**	**95.9**	**(95.1)**
Currency Adjustments	(4.2)	0.0	0.0	0.0	0.0
Chg in Cash	34.8	1.94	(41.6)	(31.5)	(3.0)
Operating CFPS (S cts)	10.4	12.0	9.38	11.0	11.0
Free CFPS (S cts)	(0.9)	8.77	1.34	2.38	7.79

Assuming S$150m equity-raising at S$1.20

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	26 Jul 18	1.09	1.25	BUY
2:	25 Oct 18	1.09	1.25	BUY
3:	25 Jan 19	1.10	1.25	BUY
4:	11 Feb 19	1.12	1.25	BUY
5:	26 Apr 19	1.27	1.40	BUY

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

Source: DBS Bank

Analyst: Mervin SONG, CFA
Derek TAN

Singapore Company Guide

Ascott Residence Trust

Version 15 | Bloomberg: ART SP | Reuters: ASRT.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

4 Jul 2019

BUY

Last Traded Price (4 Jul 2019): S$1.31 (**STI :** 3,372.25)
Price Target 12-mth: S$1.45 (11% upside and 5.7% yield) (Prev S$1.35)

Analyst
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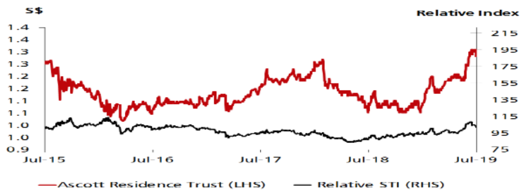
Derek TAN +65 6682 3716 derektan@dbs.com

What's New

- Merger of ART and ASCHT via ART offering S$1.0868 for each ASCHT unit
- DPU accretive transaction with greater scale and diversification; benefits to accrue to both sets of unitholders
- Potential index inclusion post-merger may trigger further re-rating
- BUY; TP lifted to S$1.45 after pricing in recent Sydney hotel acquisition and lower interest rates

Price Relative



Forecasts and Valuation

FY Dec (S$m)	2018A	2019F	2020F	2021F
Gross Revenue	514	541	559	588
Net Property Inc	239	255	263	278
Total Return	128	123	131	140
Distribution Inc	155	158	163	172
EPU (S cts)	4.32	5.67	6.02	6.43
EPU Gth (%)	(16)	31	6	7
DPU (S cts)	7.16	7.29	7.50	7.87
DPU Gth (%)	1	2	3	5
NAV per shr (S cts)	122	127	126	125
PE (X)	30.3	23.1	21.8	20.4
Distribution Yield (%)	5.5	5.6	5.7	6.0
P/NAV (x)	1.1	1.0	1.0	1.0
Aggregate Leverage (%)	36.7	32.0	32.6	32.9
ROAE (%)	3.5	4.5	4.8	5.1

DPU Chng (%):	1	3	5
Consensus DPU (S cts):	7.20	7.30	7.70
Other Broker Recs:	B: 5	S: 2	H: 3

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

A whole new world

Just the beginning. We maintain our BUY call on Ascott Residence Trust (ART) with a revised TP of S$1.45. In our previous reports, we expressed that as management enacts value maximising initiatives, investors will begin to recognise the conservative valuation of ART's portfolio, which would lead to a re-rating of the share price and the stock trading closer to book value. While this has played out, we believe ART has yet to fully maximise the value of its portfolio, thus there is still potential for ART's share price to rally further.

Where we differ – Ability to crystallise book value. Consensus has a TP of S$1.29 which implies a HOLD call. This is largely due to its disappointing historical DPU performance. However, we believe the critical factor that would drive ART's share price is the trust's more aggressive execution in the past year of selling properties with limited growth potential and recycling the proceeds into better-yielding assets. This strategy of "love your assets but loving profits more" has seen ART selling its properties above book value, and at the same time reduced its reliance on equity raising to drive growth. This warrants ART to trade above its book value as implied in our S$1.45 TP.

Transformative merger with Ascendas Hospitality Trust (ASCHT). We believe the proposed merger with ASCHT creating a top ten S-REIT should result in ART being added to major property indexes, triggering a re-rating. The merger will also form a stronger platform to pursue DPU accretive acquisitions which should attract greater investor interest.

Valuation:
After incorporating lower risk-free rate and cost of debt and recent acquisition of a Sydney hotel, we raised our DCF-based TP to S$1.45 from S$1.35.

Key Risks to Our View:
The key risk to our call is potential oversupply in ART's key markets and impact from forex volatility. These risks are mitigated by ART's diversified portfolio, with no single country contributing more than 20% of its net property income.

At A Glance

Issued Capital (m shrs)	2,175
Mkt. Cap (Sm/USm)	2,849 / 2,101
Major Shareholders (%)	
CapitaLand Ltd	44.7
AIA	5.0
Free Float (%)	55.3
3m Avg. Daily Val (US$m)	3.1

ICB Industry : Financials / Real Estate Investment Trust

DBS
Live more, Bank less

ed: JS/ sa: PY, CS

WHAT'S NEW

Transformative merger

ART to acquire ASCHT for S$1.0868 per unit

- ART and ASCHT announced a merger between the two trusts to create the largest hospitality trust in the Asia Pacific and eighth largest globally. The enlarged ART will also become the tenth largest S-REIT. Total assets under management for ART will increase by a third to S$7.6bn from S$5.7bn.
- By way of a trust scheme of arrangement, ART will acquire ASCHT's units for S$1.0868 per unit comprising S$0.0543 in cash and 0.7942 ART units at a price of S$1.30. This compares against ASCHT's closing price of S$0.975 before the announcement and NAV per unit of S$1.02. ART's pre-announcement price was S$1.31.
- The consideration is based on a gross exchange ratio of 0.836, based on ASCHT and ART's audited NAV per unit which stood at S$1.02 and S$1.22 respectively as at 31 March 2019.
- Based on ART's calculations, they estimate a 2.5% accretion to ART's proforma DPU with a neutral impact on its NAV per unit. For ASCHT, the transaction is expected to be 1.8% accretive to its proforma DPU.
- Post-merger, earnings from developed markets is expected to increase to c.82% which should facilitate a potential inclusion of ART into the FSTE EPRA NAREIT Developed Index. This may result in greater investor interest, higher trading liquidity and compression in trading yields. Currently, 75% and 100% of ART's and ASCHT's EBITDA are from developed markets. In addition, ART's free float is expected to increase from c.S$1.6bn to S$2.4bn which is above the S$1.7bn threshold for index inclusion.
- Proforma gearing is expected to settle around 36.9%, which provides c.S$1bn of debt headroom assuming 45% gearing. As at 31 March 2019, ART's and ASCHT's gearing stood at 35.7% and 33.2% respectively.
- In terms of timeline, the proposed merger is expected to be completed in December 2019, with ART and ASCHT's EGM's to be held in October 2019.

Our thoughts

- Given the overlap in investment mandates post the merger of ART and ASCHT's Sponsor CapitaLand and Ascendas-Singbridge, a merger between the two trusts has long been speculated by various market participants and we have previously written about this potential merger. Thus, this announcement is not a surprise, although the timing was earlier than expected.
- Generally, we are positive on the merger between the two entities to build scale and gain greater investor interest via inclusion into the FSTE EPRA NAREIT Developed Index. In our recent S-REIT report, we had highlighted that ART was one of the S-REITs on the cusp of index inclusion. ART had to potentially increase its free float market cap by another S$130-150m to gain index inclusion.
- However, with close to 50% of ASCHT's earnings derived from Sydney and Melbourne, both of which are facing supply pressures over the next few years, and ART increasing exposure to a weak AUD (exposure to Australia increases to 18% from 9%), there may be some push back from some investors on ART's acquisition of ASCHT at this point in time.
- Mitigating this risk is increased exposure to Japan (18% versus 13% previously) which is expected to benefit from a structural growth in tourism arrivals. Near term, the Japanese portfolio should benefit from the Rugby World cup this year and the 2020 Tokyo Olympics. Furthermore, for Australian portfolio, there is structural growth in demand from a potential uplift in Chinese visitors. In 2018, Australia only received 1.4m Chinese tourists which is significantly lower than 3.4m, 4.8m and 8.4m Chinese visitors that Singapore, South Korea and Japan receive currently.
- Furthermore, ASCHT's earnings are currently understated as it is yet to complete the acquisition of Aurora Melbourne Central. ASCHT had entered into a forward purchase agreement in 2015 to acquire the 252-unit service apartment at the end of 2019 for A$120m.
- Moreover, in the medium term with the majority of hotel management contracts for ASCHT's Australian hotels set to be renewed in 2022, there may be potential for ART to renegotiate better terms or initiate AEIs to drive earnings higher.

Raising FY19-20F after incorporating recent acquisition of Sydney hotel, and lower borrowing costs

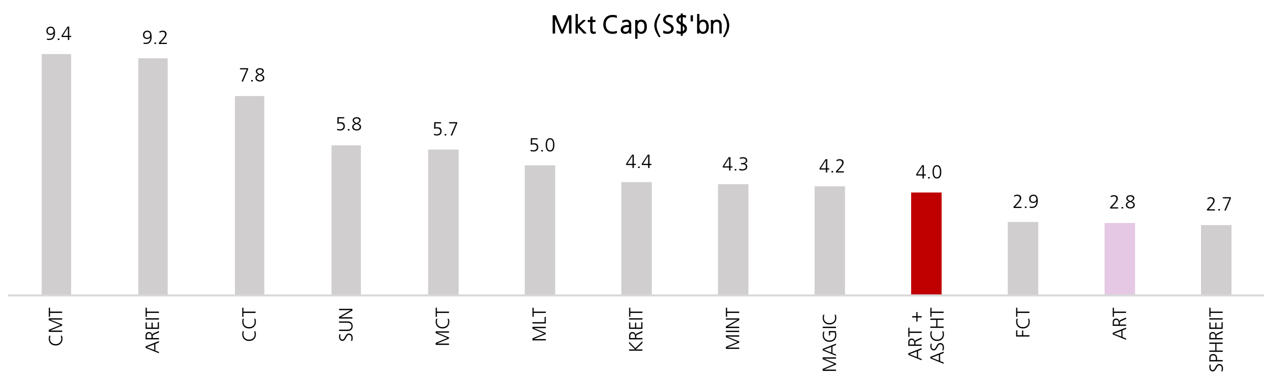
- In April, ART announced the acquisition of Felix Hotel, a prime freehold limited-service business hotel located near Sydney Airport for A$60.6m (S$58.8m). This implies an EBITDA yield of over 6% and A$404,000 per key. The 150-room property is expected to be rebranded into a Citadines Connect Sydney Airport property.

- After incorporating this acquisition and lowering our borrowing costs to better reflect expectations of rate cuts by the US Federal Reserve, we raised our FY19-21F DPU by 1-5%.
- Furthermore, in an environment of lower interest rates for longer, we now assume 2.5% risk free rate versus 3.0% previously. We also lowered our cost of debt to 2.75%, down from 3.0%. This leads us to raise our DCF-based TP to S$1.45 from S$1.35.

Maintain BUY with revised TP of S$1.45

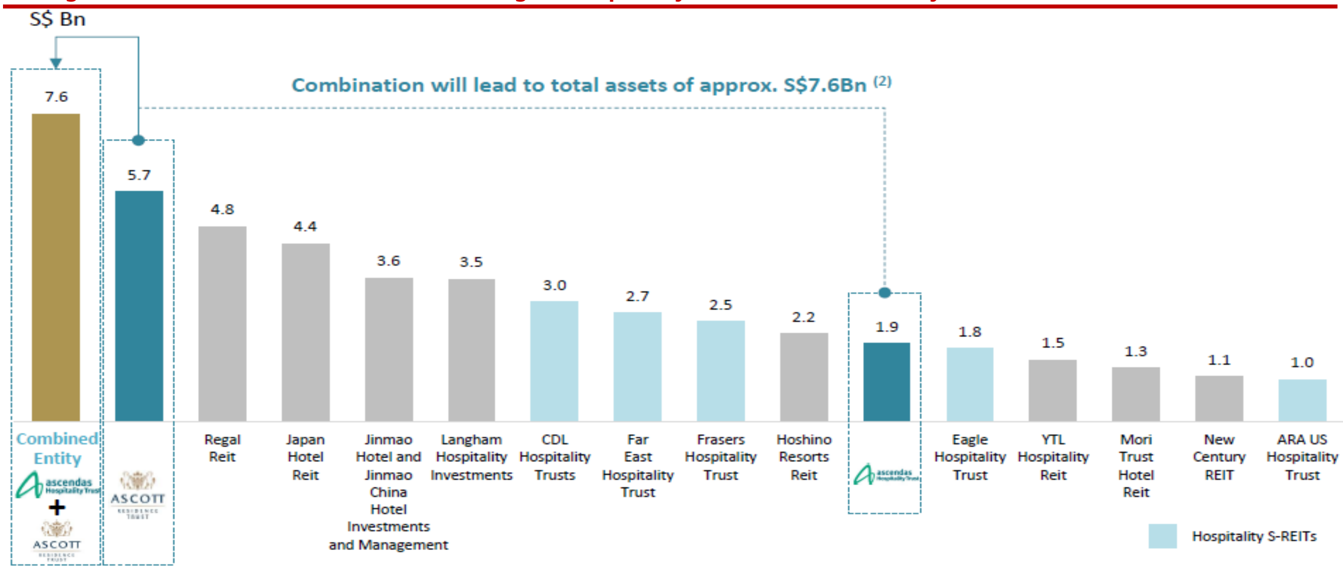
- With 13% capital upside and upcoming catalyst of index inclusion post the merger of ART and ASCHT, we maintain our BUY call on ART with a revised TP of S$1.45.
- We believe ART deserves to trade a premium to book as implied by our TP as ART enacts its asset recycling strategy of selling lower yielding assets or properties with limited growth prospects above book value and redeploying its proceeds into higher yielding or growth assets. An example of this could be the potential sale of ART's Somerset Liang Court as part of the overall redevelopment of the Liang Court mixed development site.

Ranking of S-REITs by market cap



Source: Bloomberg Finance L.P., DBS Bank

Enlarged ART and ASCHT trust will be the largest hospitality trust in Asia Pacific by total assets



Source: ART, ASCHT, DBS Bank

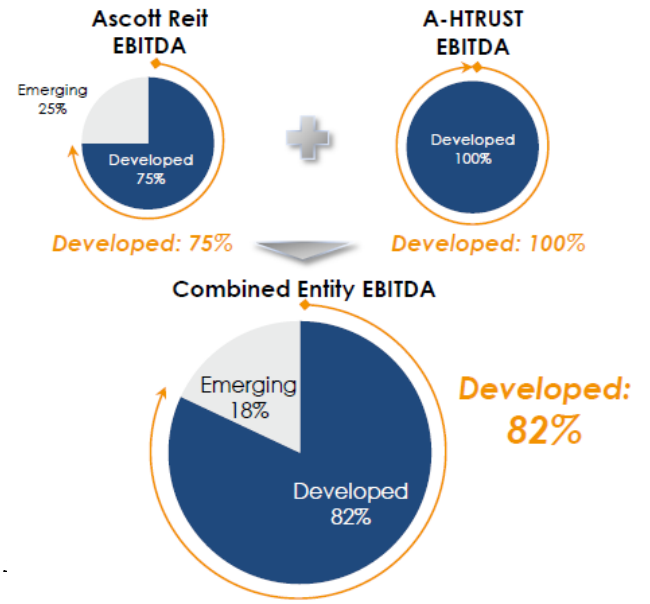
Criteria for index inclusion indicates a high likelihood of ART being added to the FSTE EPRA NAREIT Developed Index

Key Index Eligibility and Qualification Criteria	(1)Classified under ICB Supersector Real Estate (8600)	(2) Derive at Least 75% of EBITDA from Relevant Real Esate Activities	(3) Minimum Investable Mkt Cap at Least 0.3% of Respective Index	(4) Median Monthly Turnover > 0.05% of OutShares for at Least 10 of Last 12 Months	(5) Minimum Free Float of 5%	(6) Derive at Least 75% of Annual EBITDA from Developed Markets Over Each of Previous Two Years
ART	✓	✓	✓ (after ART and ASCHT merger)	△ (10, including MTD Jun 2019)	✓	✓

Legend
✓ Criteria Fulfilled
△ Criteria Near Fulfilment

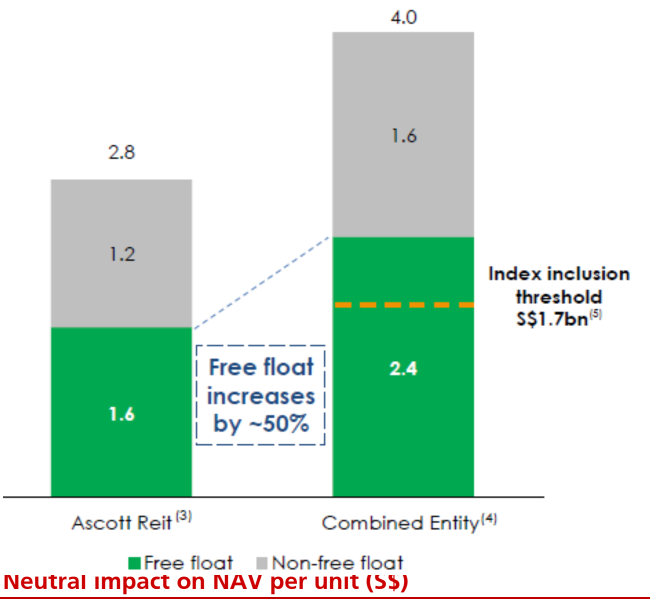
Source: EPRA, DBS Bank

EBITDA breakdown by market classification

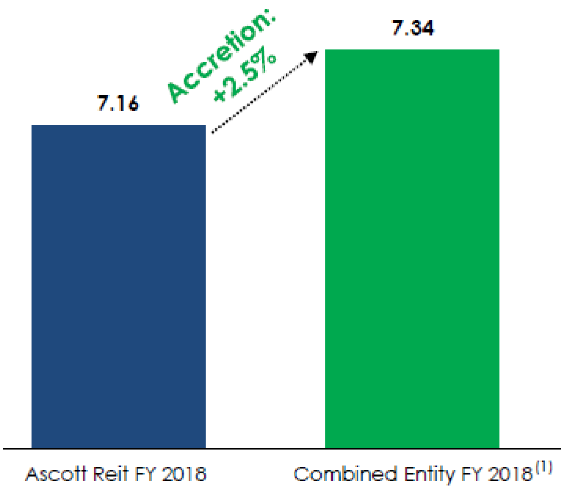


Free float and market capitalisation

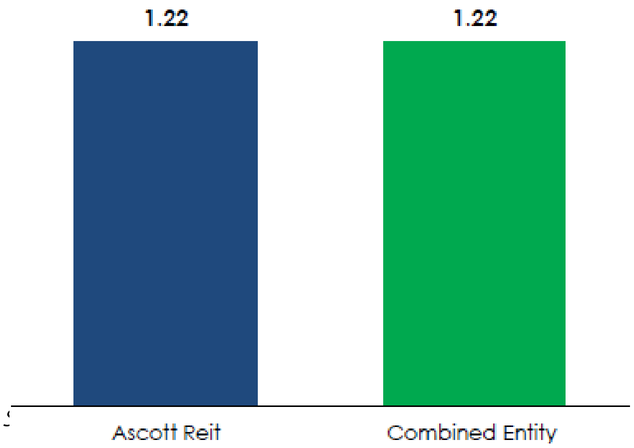
(S$ bn)



2.5% uplift to proforma DPU



Neutral impact on NAV per unit (S$)



CRITICAL DATA POINTS TO WATCH

Critical Factors

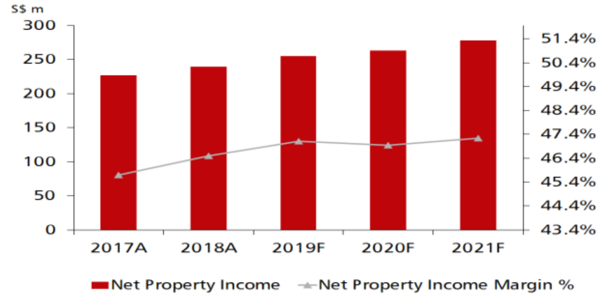
Asset reconstitution. ART has engaged in a more active asset reconstitution strategy whereby it sells properties which are low yielding or have limited growth potential and recycles the proceeds into assets which are better yielding and/or provide a longer sustainable growth profile. Beyond increasing its overall portfolio earnings power and a resultant higher DPU, the strategy has allowed the trust to crystallise the value of its book. In addition, the ability to recycle capital reduces the reliance on equity raising to fund its expansion plans. These two factors should help reduce doubts that investors may have on the true value of ART's NAV per share and eliminate the discount to book that the market has placed on ART.

Boost from merger with ASCHT and acquisitions. We expect the merger with ASCHT to enhance ART's medium term earnings profile. ART has also completed several acquisitions over the past 1-2 years including Ascott Orchard Singapore, Citadines Michel Hamburg, Citadines City Centre Frankfurt, and DoubleTree by Hilton New York, Times Square South. These acquisitions should help to underscore DPU growth ahead.

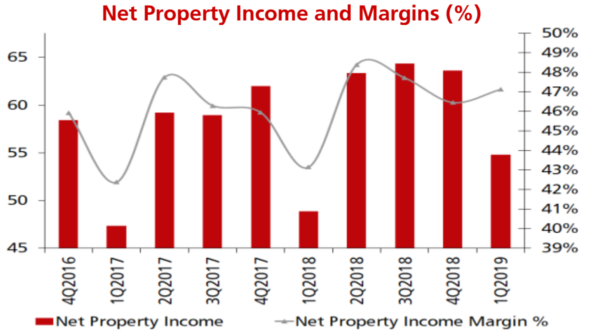
Steady income base. Around 28% of ART's NPI comes from properties under master leases in France, Germany, Singapore, and Australia. With the prudent use of forex hedges and having properties under management contracts with minimum guaranteed income (13% of group NPI) in Belgium, Spain and UK, ART provides investors with a solid income base.

Key markets stable if not up. We expect the recovery in the Singapore hospitality market to help drive ART's earnings higher going forward. Furthermore, the changes in regulations for share accommodation in Japan should also moderate the level competition which had been a headwind in the last few quarters, resulting in a more stable earnings profile going forward. In the medium term, we remain bullish on the prospects for the Japanese operations given the growing amount of inbound international tourists into the country. For the US operations, as we approach the peak in supply, expected strong demand should result in an improving RevPAU performance. Meanwhile, Brexit remains a risk for ART's UK properties, however in our view the impact of recent renovations and continued growth in leisure demand, should provide a steady if not increasing contribution over the next two years. Furthermore, with the sale of some of the lower-yielding properties in China, the stronger performance of ART's assets in Tier 1/1.5 cities should shine through. Combined with the boost from acquisitions, we project ART to deliver a steady three-year DPU CAGR of 3% over 2018-2021.

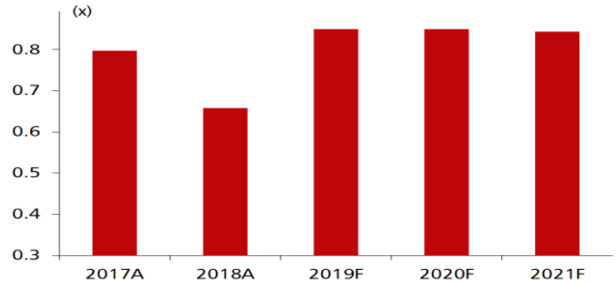
Net Property Income and Margins (%)



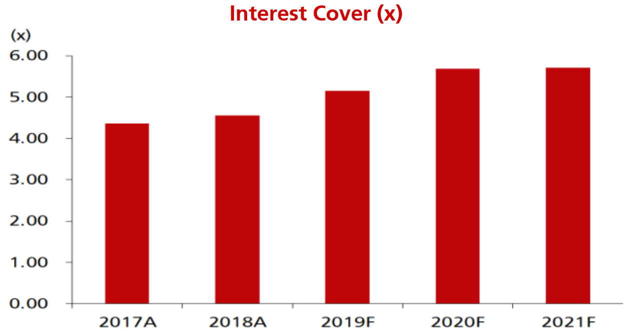
Net Property Income and Margins (%)



Distribution Paid / Net Operating CF



Interest Cover (x)



Source: Company, DBS Bank

Balance Sheet:

Gearing to settle around 37%. Following the sale of Ascott Raffles Place and acquisition of the Sydney airport hotel, and post the merger with ASCHT, we expect ART's gearing to settle at around 37%.

Share Price Drivers:

Crystallisation of book value. Going forward, we believe as ART continues to demonstrate its ability to sell its assets at or above the latest valuations as it executes its portfolio reconstitution strategy, we believe ART's share price will head higher to trade at a premium to book. Thus far, ART'S share price has rallied towards its book value as discussed in our previous reports, as investors recognise the hidden value in ART as its properties are conservatively valued. The conservative valuation can be demonstrated by several properties being sold at 16-69% premium to book in the past year.

Index inclusion post merger. We believe post the merger of ART and ASCHT, the enlarged ART should meet the criteria to be added to various property indexes. This should translate to greater investor interest and potentially additional fund flows which in turn may trigger a further re-rating of ART's share price and ART trading a structurally lower yield

Key Risks:

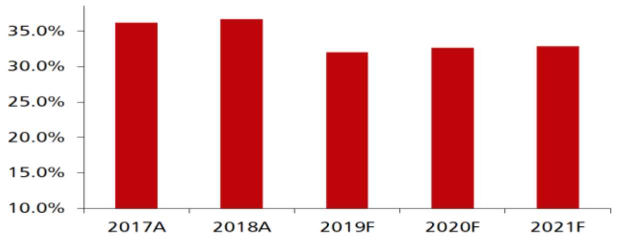
Interest-rate risks. Any increase in interest rates will result in higher interest payments and reduce the income available for distribution, which will result in lower distribution per unit (DPU) for unitholders. As at 31 March 2019, 80% of ART's debts are on fixed rates.

Currency risk. As ART earns rental income in various currencies, a depreciation of any foreign currency against the SGD could negatively impact DPU. Nevertheless, through the use of currency hedges for EUR- and JPY-sourced income, as well as the benefits from having a diversified portfolio, FX volatility has had a minimal impact on ART's earnings historically. In FY13-FY18, changes in ART's basket of currencies had only a net 0.8-1.5% negative impact on earnings.

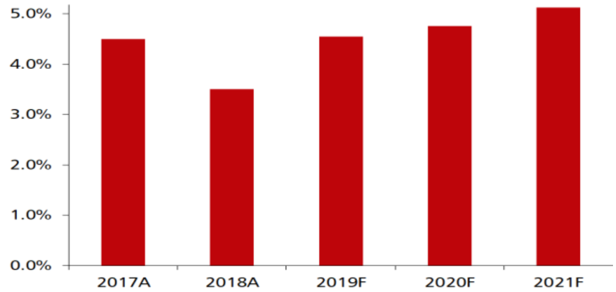
Company Background

Ascott REIT's (ART's) investment portfolio primarily comprises real estate used mainly as serviced residences or rental housing properties (including investments in real estate-related assets and/or other related value-enhancing assets or instruments). It currently has 73 properties located in 37 cities in 14 countries worth c.S$5.3bn.

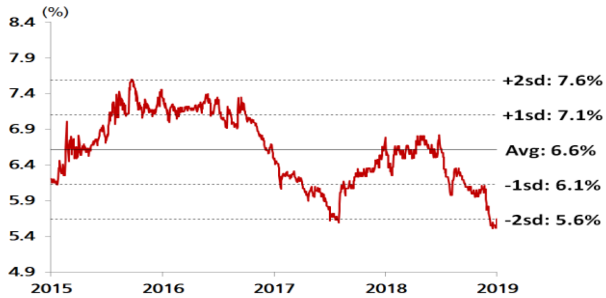
Aggregate Leverage (%)



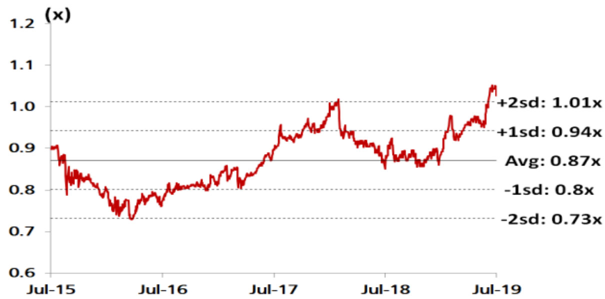
ROE (%)



Distribution Yield (%)



PB Band (x)



Source: Company, DBS Bank

Income Statement (S$m)

FY Dec	2017A	2018A	2019F	2020F	2021F
Gross revenue	496	514	541	559	588
Property expenses	(269)	(275)	(286)	(296)	(310)
Net Property Income	**227**	**239**	**255**	**263**	**278**
Other Operating expenses	(30.6)	(30.3)	(28.4)	(28.7)	(29.4)
Other Non Opg (Exp)/Inc	38.2	(2.9)	0.0	0.0	0.0
Net Interest (Exp)/Inc	(45.1)	(45.9)	(44.0)	(41.1)	(43.6)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Net Income	**189**	**160**	**183**	**193**	**205**
Tax	(51.9)	(43.5)	(32.0)	(33.8)	(35.9)
Minority Interest	(8.3)	(4.2)	(8.7)	(9.2)	(9.7)
Preference Dividend	(19.2)	(19.2)	(19.2)	(19.2)	(19.2)
Net Income After Tax	**110**	**93.3**	**123**	**131**	**140**
Total Return	195	128	123	131	140
Non-tax deductible Items	(49.4)	19.9	31.0	31.2	31.5
Net Inc available for Dist.	152	155	158	163	172
Growth & Ratio					
Revenue Gth (%)	4.4	3.6	5.2	3.4	5.2
N Property Inc Gth (%)	2.0	5.5	6.5	3.0	5.9
Net Inc Gth (%)	16.3	(15.2)	31.8	6.5	7.3
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0
Net Prop Inc Margins (%)	45.7	46.5	47.1	47.0	47.3
Net Income Margins (%)	22.2	18.1	22.7	23.4	23.9
Dist to revenue (%)	30.7	30.1	29.2	29.2	29.2
Managers & Trustee's fees	6.2	5.9	5.2	5.1	5.0
ROAE (%)	4.5	3.5	4.5	4.8	5.1
ROA (%)	2.1	1.7	2.4	2.5	2.7
ROCE (%)	2.9	2.9	3.7	3.9	4.1
Int. Cover (x)	4.4	4.6	5.1	5.7	5.7

Source: Company, DBS Bank

Boost from acquisitions and upturn in key markets

Quarterly / Interim Income Statement (S$m)

FY Dec	1Q2018	2Q2018	3Q2018	4Q2018	1Q2019
Gross revenue	113	130	134	137	116
Property expenses	(64.1)	(67.4)	(70.3)	(73.1)	(61.3)
Net Property Income	48.7	63.1	64.2	63.4	54.6
Other Operating expenses	(7.3)	(18.5)	0.0	(7.5)	(7.0)
Other Non Opg (Exp)/Inc	2.60	(6.1)	0.66	(4.0)	0.20
Net Interest (Exp)/Inc	(11.2)	(11.4)	(11.8)	(11.5)	(13.0)
Exceptional Gain/(Loss)	0.0	0.0	0.0	3.70	0.0
Net Income	**32.7**	**27.1**	**53.0**	**44.1**	**34.8**
Tax	(3.2)	(14.1)	(7.3)	(19.0)	(4.3)
Minority Interest	(1.4)	(3.5)	(2.0)	2.71	(1.6)
Net Income after Tax	**28.1**	**9.48**	**43.7**	**27.9**	**28.9**
Total Return	28.1	46.5	43.7	36.4	164
Non-tax deductible Items	5.77	(11.5)	(9.1)	14.9	(128)
Net Inc available for Dist.	29.2	39.8	39.4	46.5	31.5
Growth & Ratio					
Revenue Gth (%)	(16)	16	3	2	(15)
N Property Inc Gth (%)	(21)	30	2	(1)	(14)
Net Inc Gth (%)	6	(66)	361	(36)	4
Net Prop Inc Margin (%)	43.2	48.4	47.7	46.4	47.1
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0

Balance Sheet (S$m)

FY Dec	2017A	2018A	2019F	2020F	2021F
Investment Properties	4,908	4,745	4,529	4,529	4,529
Other LT Assets	65.7	64.2	185	247	251
Cash & ST Invts	257	228	149	130	143
Inventory	0.21	0.33	0.33	0.33	0.33
Debtors	66.6	56.9	60.1	61.4	63.9
Other Current Assets	195	215	215	215	215
Total Assets	**5,493**	**5,309**	**5,138**	**5,183**	**5,203**
ST Debt	264	70.1	70.1	70.1	70.1
Creditor	237	141	149	151	157
Other Current Liab	3.76	6.80	6.80	6.80	6.80
LT Debt	1,681	1,835	1,532	1,578	1,596
Other LT Liabilities	135	125	125	125	125
Unit holders' funds	3,082	3,041	3,158	3,144	3,130
Minority Interests	89.4	89.7	98.4	108	117
Total Funds & Liabilities	**5,493**	**5,309**	**5,138**	**5,183**	**5,203**
Non-Cash Wkg. Capital	20.8	124	120	118	115
Net Cash/(Debt)	(1,688)	(1,678)	(1,453)	(1,518)	(1,523)
Ratio					
Current Ratio (x)	1.0	2.3	1.9	1.8	1.8
Quick Ratio (x)	0.6	1.3	0.9	0.8	0.9
Aggregate Leverage (%)	36.2	36.7	32.0	32.6	32.9
Z-Score (X)	1.1	1.1	1.1	1.1	1.1

Source: Company, DBS Bank

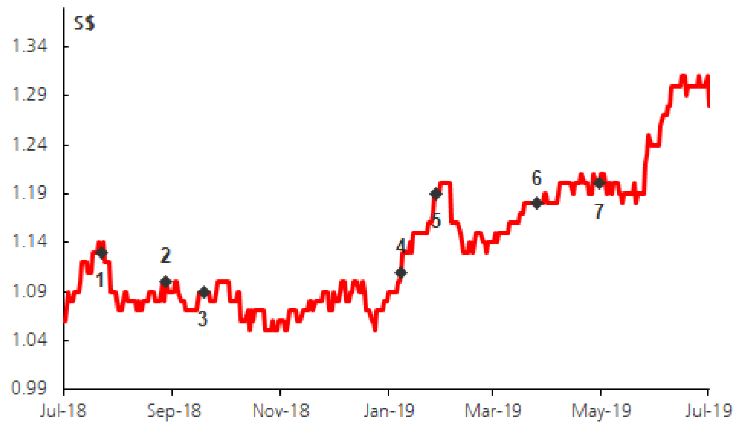
Cash Flow Statement (S$m)

FY Dec	2017A	2018A	2019F	2020F	2021F
Pre-Tax Income	189	160	183	193	205
Dep. & Amort.	13.3	13.3	13.3	13.3	13.3
Tax Paid	(20.2)	(19.8)	(32.0)	(33.8)	(35.9)
Associates &JV Inc/(Loss)	0.04	0.02	(0.2)	(0.2)	(0.2)
Chg in Wkg.Cap.	(42.2)	0.92	4.13	1.59	3.24
Other Operating CF	41.0	72.0	17.8	17.9	18.2
Net Operating CF	**181**	**227**	**186**	**192**	**204**
Net Invt in Properties	(26.2)	(27.6)	(134)	(75.3)	(17.6)
Other Invts (net)	(366)	25.1	350	0.0	0.0
Invts 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	1.64	1.78	0.0	0.0	0.0
Net Investing CF	**(390)**	**(0.7)**	**216**	**(75.3)**	**(17.6)**
Distribution Paid	(145)	(149)	(158)	(163)	(172)
Chg in Gross Debt	106	(35.0)	(304)	46.9	17.6
New units issued	438	0.0	0.0	0.0	0.0
Other Financing CF	(72.1)	(69.7)	(19.2)	(19.2)	(19.2)
Net Financing CF	**328**	**(254)**	**(481)**	**(135)**	**(173)**
Currency Adjustments	(2.2)	(1.9)	0.0	0.0	0.0
Chg in Cash	117	(29.7)	(78.9)	(18.8)	12.8
Operating CFPS (S cts)	10.4	10.5	8.38	8.75	9.19
Free CFPS (S cts)	7.21	9.23	2.41	5.36	8.53

Includes disposal of Ascott Raffles Place

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	24 Jul 18	1.13	1.30	BUY
2:	30 Aug 18	1.10	1.25	BUY
3:	20 Sep 18	1.09	1.25	BUY
4:	10 Jan 19	1.11	1.25	BUY
5:	30 Jan 19	1.19	1.35	BUY
6:	28 Mar 19	1.18	1.35	BUY
7:	02 May 19	1.20	1.35	BUY

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

Source: DBS Bank

Analyst: Mervin SONG, CFA

Derek TAN

CapitaLand Commercial Trust

Version 19 | Bloomberg: CCT SP | Reuters: CACT.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

4 Jul 2019

BUY

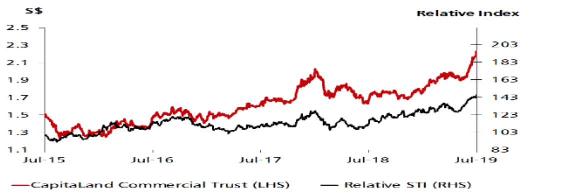
Last Traded Price (4 Jul 2019): S$2.26 **(STI :** 3,372.25)
Price Target 12-mth: S$2.40 (6% upside and 3.9% yield) (Prev S$2.10)

Analyst
Mervin SONG, CFA +65 6682 3715 mervinsong@dbs.com
Derek TAN +65 6682 3716 derektan@dbs.com

What's New

- 1-3% upside to FY20-21F DPU on the back of an assumed $500m European acquisition on 4.5% NPI yield and S$200m equity raising
- BUY; TP lifted to S$2.40 on the back of higher earnings and lower risk-free rate and cost of debt
- Lower interest rates for longer and strong DPU growth to underpin tighter yields and CCT's share price

Price Relative



Forecasts and Valuation

FY Dec (S$m)	2018A	2019F	2020F	2021F
Gross Revenue	394	398	445	465
Net Property Inc	315	320	361	377
Total Return	442	269	345	372
Distribution Inc	322	334	368	395
EPU (S cts)	8.73	8.26	8.99	9.61
EPU Gth (%)	15	(5)	9	7
DPU (S cts)	8.70	8.89	9.53	10.2
DPU Gth (%)	0	2	7	7
NAV per shr (S cts)	184	185	185	184
PE (X)	25.9	27.4	25.1	23.5
Distribution Yield (%)	3.8	3.9	4.2	4.5
P/NAV (x)	1.2	1.2	1.2	1.2
Aggregate Leverage (%)	34.9	35.1	36.4	36.5
ROAE (%)	4.9	4.5	4.9	5.2
DPU Chng (%):		0	3	1
Consensus DPU (S cts):		9.00	9.00	9.50
Other Broker Recs:		B: 13	S: 3	H: 6

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

Premium justified

Rally to continue. We keep our BUY call on CapitaLand Commercial Trust (CCT) with a revised TP of S$2.40. We believe CCT is poised to benefit from an expected multi-year upturn in office rents in Singapore on limited supply. The company's expansion into Europe also provides another growth avenue which we believe the market has not fully appreciated. These factors in our view should sustain the continued rally in CCT.

Where we differ: Deserves to trade up to 1.3x P/Bk. We believe CCT should trade up to 1.3x P/Bk, on the back of (i) a multi-year upcycle in office rents, and (ii) CCT showing the conservative valuation of its properties via the sale of three office buildings at 14-39% premiums to book over the past two years. Its book value remains understated with buildings such as Capital Tower and 999-year leasehold 21 Collyer Quay priced at S$1,847 psf and S$2,275 psf respectively, a discount to the S$2,400-2,700 psf for comparable buildings sold recently. Furthermore, with interest rates expected to stay lower for longer, CCT's premium to book is justified as investors hunt for yield instruments with growth. CCT has a projected 3-year DPU CAGR of 6%.

A myriad of growth opportunities. While Singapore office rents are up c.25% from the lows in 1H17, we believe recovery remains on track given the current supply squeeze. With c.30% of leases up for renewal in 2020-2021, CCT is leveraged to higher rents ahead. Deploying its lowly geared balance sheet of c.35% would also act as a catalyst for the stock. To that end, we have penciled in a S$500m acquisition in Europe in FY20.

Valuation:

After incorporating our assumption of S$500m acquisition and imputing a lower risk-free rate and cost of debt, we raised our DCF-based TP to S$2.40 from S$2.10 previously.

Key Risks to Our View:

Key risks to our positive view are weaker-than-expected rents, non-occurrence of Fed rate cuts.

At A Glance

Issued Capital (m shrs)	3,750
Mkt. Cap (Sm/USm)	8,474 / 6,249
Major Shareholders (%)	
CapitaLand Ltd	30.1
BlackRock Inc	7.9
CBRE Group Inc	4.9
Free Float (%)	62.0
3m Avg. Daily Val (US$m)	20.3
ICB Industry : Financials / Real Estate Investment Trust	
Bloomberg ESG disclosure score (2017)^	36.0
- Environmental / Social / Governance	29.5 / 38.6 / 48.2

^ refer to page 80 for more information

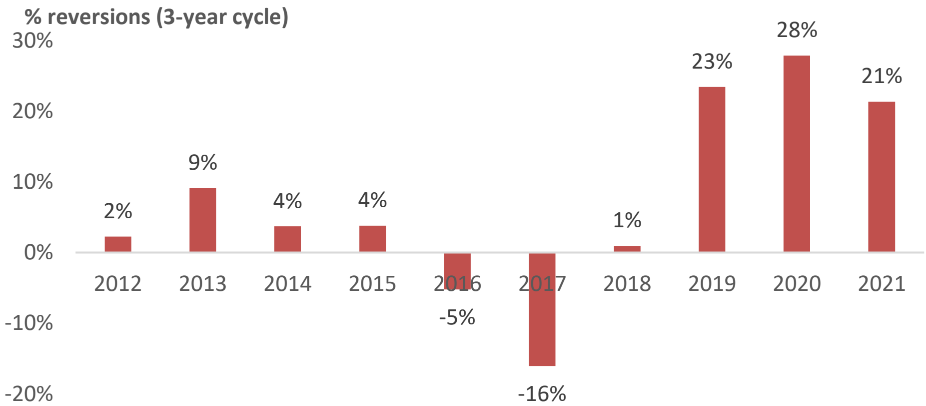
WHAT'S NEW

Underpinned by lower interest rates for longer

Pricing in lower interest rates for longer, and utilising its strong balance sheet

- The market is expecting 2-3 rate cuts by the US Federal Reserve in 2H19 which our DBS economist views as an insurance policy against potential slowing economic growth due to the recent trade tensions.
- To better reflect an environment where interest rates should stay lower for longer, we have cut our risk-free rate assumption to 2.5% from 3.0% and target cost of debt to 3.0% from 3.25% previously. We do not believe CCT's borrowing costs will fall by 50-75bps as per the cut in the Fed Funds rate as we anticipate CCT may decide to use a lower yield curve to extend its debt maturity from 3.6 years as at 31 March 2019.
- Furthermore, given CCT's strong balance sheet, lower cost of debt in Europe, tight yields for Singapore office assets and wide asset yield spreads (difference between asset yield and borrowing costs), we anticipate CCT will look to grow its European portfolio in FY20. Thus, we have penciled in a S$500m acquisition on an 4.5% NPI yield, partially funded with a S$200m equity raising at S$2.00 per share.
- This, combined with lower borrowing costs, results in 1-3% increase in our FY20-21F DPU.
- Likewise, we have raised our DCF-TP to S$2.40 from S$2.10.
- We believe given the strong outlook for Singapore rents, healthy 3-year DPU CAGR of 6% and more importantly cap rates likely to stay tight for longer in Singapore, CCT deserves to trade at a premium valuation, up to 1.3x P/Bk versus our previous expectations of 1.15x P/Bk.
- With expectations that news flow should remain positive as CCT reports stronger rental reversions over the next few quarters, we reiterate our BUY call with a revised TP of S$2.40.

Rental reversion potential (URA)



Source: Company, DBS Bank

DBS Bank Remarks

Rental reversion potential remains positive.

CRITICAL DATA POINTS TO WATCH

Critical Factors

Recovery in spot office rents. Thus far, we have seen seven consecutive quarterly increases in rents. Spot office rents have increased c.25% from the lows in 1H17, reaching S$11.15 psf/mth at the end of 1Q19, according to CBRE estimates. Given that CCT's share price has historically led a recovery in spot rents by 6-12 months, with a potential multi-year upturn in rents due to limited new supply over the next 3-4 years, this should result in a rally in CCT's share price.

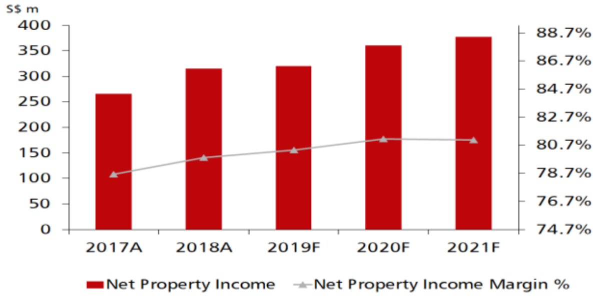
Favourable lease expiry profile. Approximately 11% and 28% of office leases are up for renewal (by gross rental income [GRI]) for FY19 and FY20 respectively. With c.43% of leases up for renewal over the next two years, CCT is well placed to capture the upturn in overall office rents. Beyond this, a weighted average lease expiry (WALE) of c.5.8 years by net lettable area (NLA) provides the REIT with some measure of earnings stability.

Medium-term upside from redevelopment of Golden Shoe Car Park. CCT has a joint venture (JV) with its sponsor, CapitaLand Limited (CAPL) and Mitsubishi Estate Co., Ltd (MEC), to redevelop its Golden Shoe Car Park property into a 635,000-sqft office tower with a 299-room serviced apartment block. CCT and CAPL will hold 45% interest each, with MEC owning 10%. Costing S$1.82bn with a targeted yield on cost of 5% and scheduled to be completed in 1H21, the property will provide a medium-term uplift to CCT's earnings and its current NAV per unit (excluding distributions) of S$1.79. To date, CCT has secured JP Morgan as an anchor tenant, which will take 24% of the office space in the building.

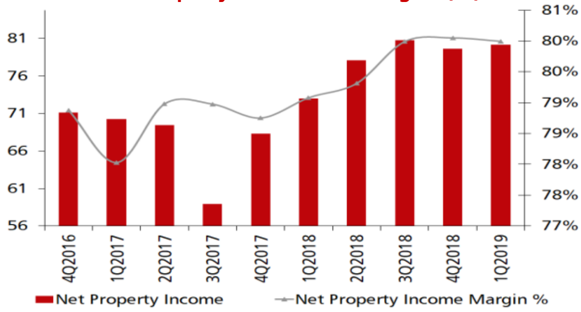
Acquisition of Asia Square Tower 2 to provide additional leverage to office upturn. We believe the acquisition of Asia Square Tower 2 in late 2017 is a medium-term boost to CCT. Specifically, it improves the quality and resilience of CCT's portfolio, as it provides CCT the option to offer a property in the Marina Bay area should tenants decide to move from Shenton Way or Raffles Place. The expansion of CCT's portfolio also provides additional leverage to the recovering Singapore office market over the coming 3-4 years.

Overseas expansion. CCT recently expanded overseas with its maiden acquisition of an office building, Galileo in Frankfurt, Germany on a 4% NPI yield. We expect this to provide another leg of growth for the trust, but more importantly limit downside risk to CCT's book value given Galileo's freehold status. With the recent sale of Twenty Anson, we believe further expansion into Europe would provide additional earnings upside. To that end we have priced in a S$500m acquisition in FY20.

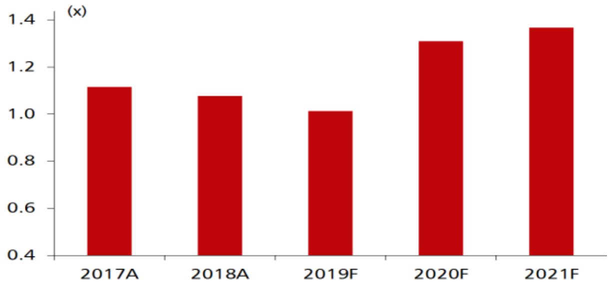
Net Property Income and Margins (%)



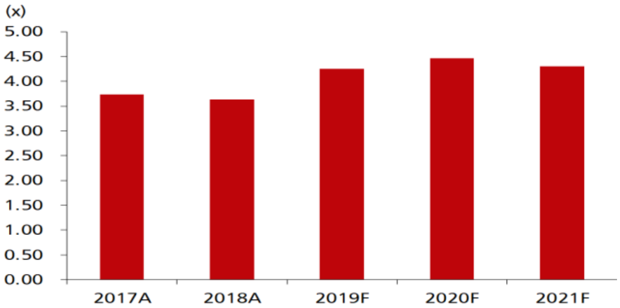
Net Property Income and Margins (%)



Distribution Paid / Net Operating CF



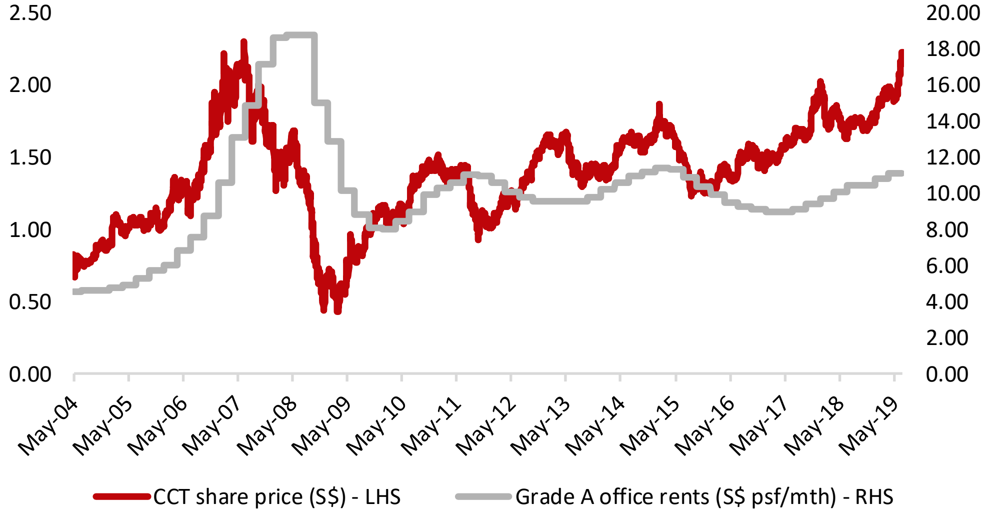
Interest Cover (x)



Source: Company, DBS Bank

Appendix 1: A look at Company's listed history – what drives its share price?

CCT's share price versus Singapore office rents



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

Remarks

CCT's share price has historically led the upturn and downturn in spot office rents by 6-12 months.

Over the 12-18 months, CCT's share price has rebounded in anticipation of a recovery in the office market, which we believe has been validated by consecutive quarterly increases in spot rents since 2Q17.

Balance Sheet:

Gearing to settle at around 36-37%. Going forward, we expect CCT's gearing to be between 36-37% after pricing in S$500m acquisition and S$200m equity raising.

High proportion of fixed rate debt. As at 31 March 2019, around 92% of CCT's borrowings were on fixed rates.

Share Price Drivers:

Recovery in the office market. With CCT's share price historically tracking the office market by 6-12 months, we believe a recovery in office rents next year will lead to a further re-rating in CCT's share price. In our view, further market transactions, which are above the implied psf price of CCT's Singapore office portfolio, should also drive CCT's share price higher.

Acquisitions. Should CCT identify more DPU-accretive acquisitions in Europe or even in Singapore, we believe they would act as a re-rating catalyst by accelerating CCT's medium-term growth profile.

Key Risks:

Competition from other landlords. While pre-commitment levels of recently completed office buildings in Singapore are high, CCT could face more competition from buildings which have lost tenants to the new office buildings.

Pressure on rents from shadow space. We see some downsizing activity from banks and financial institutions. Shadow space (particularly in the Marina Bay area) could put some pressure on rents for CCT's portfolio, whose properties are located primarily in the Raffles Place/Tanjong Pagar areas.

Interest rate risk. Any increase in interest rates will result in higher interest payments. Nevertheless, the risk is partially mitigated as c.92% of CCT's debts are on fixed rates.

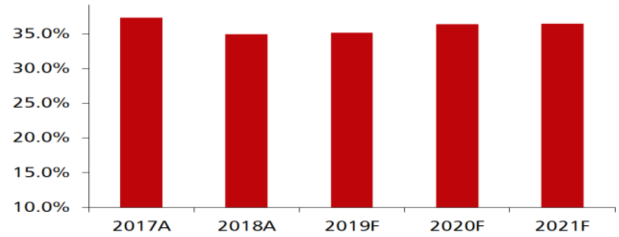
Environment, Social, Governance:

CCT remains committed to deliver sustainable returns to unitholders. The Manager embraces ESG best practices with an aim to achieve a desired outcome that will benefit unitholders and future generations. These are achieved through a combination of energy-efficient practices and use of innovative technologies across the portfolio.

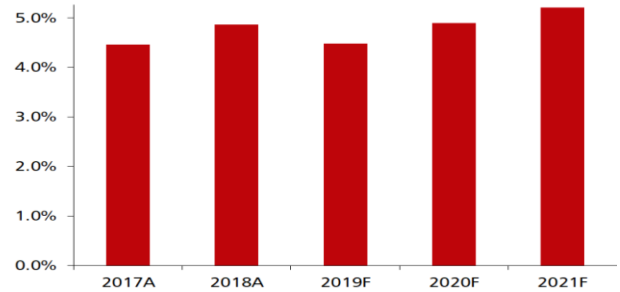
Company Background

CapitaLand Commercial Trust (CCT) is the first and largest commercial REIT listed in Singapore. It owns nine properties located in Singapore's CBD worth c. S$11bn and expanded into Europe with an office building in Frankfurt in 2018.

Aggregate Leverage (%)

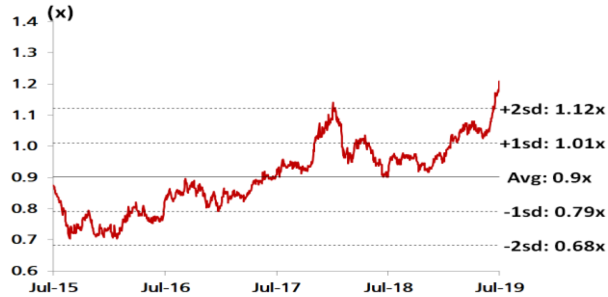


ROE (%)

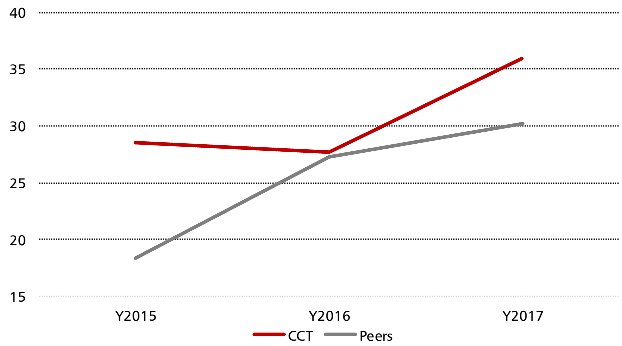


Distribution Yield (%)

PB Band (x)



Environment, Social, Governance



Source: Company, DBS Bank, Bloomberg

Income Statement (S$m)

FY Dec	2017A	2018A	2019F	2020F	2021F
Gross revenue	337	394	398	445	465
Property expenses	(72.0)	(79.4)	(78.1)	(83.7)	(87.8)
Net Property Income	**265**	**315**	**320**	**361**	**377**
Other Operating expenses	(19.0)	(24.9)	(26.6)	(29.5)	(30.4)
Other Non Opg (Exp)/Inc	(0.5)	3.29	3.06	3.06	3.06
Net Interest (Exp)/Inc	(66.0)	(79.7)	(69.1)	(74.2)	(80.6)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Net Income	**265**	**331**	**318**	**353**	**380**
Tax	(3.7)	(6.3)	(7.1)	(7.4)	(7.5)
Minority Interest	0.0	(0.8)	(0.7)	(0.8)	(0.8)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Income After Tax	**261**	**324**	**310**	**345**	**372**
Total Return	579	442	269	345	372
Non-tax deductible Items	(294)	(121)	64.6	23.4	23.6
Net Inc available for Dist.	289	322	334	368	395
Growth & Ratio					
Revenue Gth (%)	13.0	16.7	1.1	11.6	4.5
N Property Inc Gth (%)	14.8	18.5	1.8	12.7	4.4
Net Inc Gth (%)	11.8	24.1	(4.4)	11.3	7.8
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0
Net Prop Inc Margins (%)	78.7	79.9	80.4	81.2	81.1
Net Income Margins (%)	77.4	82.3	77.8	77.6	80.0
Dist to revenue (%)	85.6	81.7	83.8	82.8	85.1
Managers & Trustee's fees	5.6	6.3	6.7	6.6	6.5
ROAE (%)	4.5	4.9	4.5	4.9	5.2
ROA (%)	3.0	3.4	3.2	3.4	3.6
ROCE (%)	2.8	3.0	3.0	3.3	3.3
Int. Cover (x)	3.7	3.6	4.3	4.5	4.3

Source: Company, DBS Bank

Driven by rental reversions and potential S$500m acquisition in FY20

Quarterly / Interim Income Statement (S$m)

FY Dec	1Q2018	2Q2018	3Q2018	4Q2018	1Q2019
Gross revenue	91.8	98.0	101	99.0	99.8
Property expenses	(19.2)	(20.3)	(20.1)	(19.8)	(20.0)
Net Property Income	72.6	77.7	80.4	79.3	79.8
Other Operating expenses	(5.6)	(5.8)	(5.2)	(6.7)	(6.3)
Other Non Opg (Exp)/Inc	1.65	0.0	0.0	0.0	1.50
Net Interest (Exp)/Inc	(18.1)	(21.2)	(24.4)	(16.1)	(15.7)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Net Income	**73.5**	**98.7**	**72.0**	**82.5**	**81.4**
Tax	(1.1)	(2.2)	(1.5)	(1.5)	(1.5)
Minority Interest	0.0	(0.4)	(0.2)	(0.2)	(0.2)
Net Income after Tax	**72.4**	**96.1**	**70.3**	**80.9**	**79.7**
Total Return	0.0	0.0	0.0	0.0	0.0
Non-tax deductible Items	0.0	0.0	0.0	0.0	0.0
Net Inc available for Dist.	76.6	79.4	82.7	83.1	82.7
Growth & Ratio					
Revenue Gth (%)	6	7	3	(1)	1
N Property Inc Gth (%)	7	7	3	(1)	1
Net Inc Gth (%)	24	33	(27)	15	(1)
Net Prop Inc Margin (%)	79.1	79.3	80.0	80.0	80.0
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0

Balance Sheet (S$m)

FY Dec	2017A	2018A	2019F	2020F	2021F
Investment Properties	7,408	7,614	7,618	8,123	8,129
Other LT Assets	1,781	1,812	1,843	1,875	1,875
Cash & ST Invts	123	175	268	270	275
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	42.7	49.4	49.9	55.7	58.2
Other Current Assets	0.0	40.7	0.0	0.0	0.0
Total Assets	**9,354**	**9,691**	**9,779**	**10,324**	**10,337**
ST Debt	0.0	121	121	121	121
Creditor	90.3	63.7	64.4	71.8	75.1
Other Current Liab	7.27	40.3	40.3	40.3	40.3
LT Debt	2,720	2,493	2,533	2,873	2,882
Other LT Liabilities	119	63.4	63.4	63.4	63.4
Unit holders' funds	6,417	6,892	6,940	7,136	7,136
Minority Interests	0.0	17.1	17.9	18.6	19.4
Total Funds & Liabilities	**9,354**	**9,691**	**9,779**	**10,324**	**10,337**
Non-Cash Wkg. Capital	(54.8)	(13.9)	(54.8)	(56.5)	(57.2)
Net Cash/(Debt)	(2,598)	(2,439)	(2,386)	(2,724)	(2,728)
Ratio					
Current Ratio (x)	1.7	1.2	1.4	1.4	1.4
Quick Ratio (x)	1.7	1.0	1.4	1.4	1.4
Aggregate Leverage (%)	37.3	34.9	35.1	36.4	36.5
Z-Score (X)	1.8	1.7	1.7	1.7	1.7

Source: Company, DBS Bank

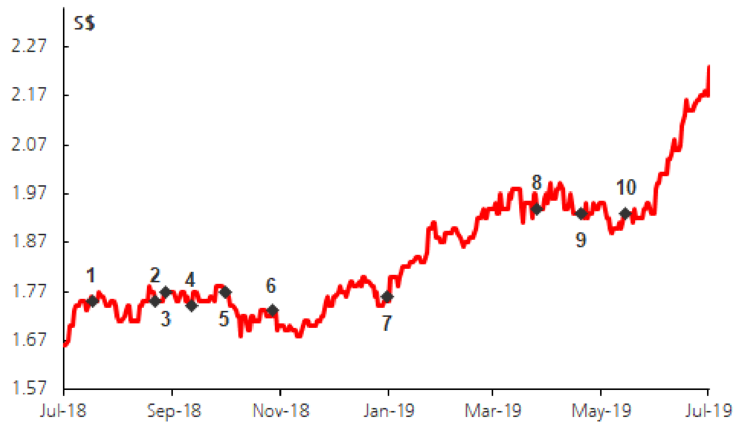
Slight uptick in gearing on the back of an acquisition

Cash Flow Statement (S$m)

FY Dec	2017A	2018A	2019F	2020F	2021F
Pre-Tax Income	265	331	318	353	380
Dep. & Amort.	3.51	3.51	3.51	3.51	3.51
Tax Paid	(3.7)	(6.3)	(7.1)	(7.4)	(7.5)
Associates &JV Inc/(Loss)	(84.9)	(118)	(90.1)	(92.8)	(111)
Chg in Wkg.Cap.	(2.5)	(16.5)	40.9	1.68	0.73
Other Operating CF	73.5	88.1	64.6	23.4	23.6
Net Operating CF	**251**	**282**	**330**	**281**	**289**
Net Invt in Properties	(837)	(37.6)	(8.0)	(509)	(9.3)
Other Invts (net)	0.0	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	(159)	0.0	(31.6)	(31.6)	0.0
Div from Assoc. & JVs	98.9	106	90.1	92.8	111
Other Investing CF	(5.3)	0.0	7.00	0.0	0.0
Net Investing CF	**(902)**	**68.4**	**57.5**	**(448)**	**102**
Distribution Paid	(280)	(304)	(334)	(368)	(395)
Chg in Gross Debt	271	(104)	39.5	340	9.29
New units issued	689	214	0.0	196	0.0
Other Financing CF	(66.9)	(95.3)	0.0	0.0	0.0
Net Financing CF	**614**	**(288)**	**(294)**	**168**	**(386)**
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(37.4)	62.1	92.9	1.95	5.00
Operating CFPS (S cts)	7.35	8.04	7.69	7.29	7.46
Free CFPS (S cts)	(17.0)	6.58	8.57	(5.9)	7.24

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	19 Jul 18	1.75	2.12	BUY
2:	24 Aug 18	1.75	2.12	BUY
3:	30 Aug 18	1.77	2.12	BUY
4:	13 Sep 18	1.74	2.12	BUY
5:	02 Oct 18	1.77	2.12	BUY
6:	29 Oct 18	1.73	2.12	BUY
7:	02 Jan 19	1.76	2.00	BUY
8:	28 Mar 19	1.94	2.00	BUY
9:	22 Apr 19	1.93	2.10	BUY
10:	17 May 19	1.93	2.10	BUY

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

Source: DBS Bank

Analyst: Mervin SONG, CFA
Derek TAN

Singapore Company Guide
CapitaLand

Version 18 | Bloomberg: CAPL SP | Reuters: CATL.SI

DBS Group Research . Equity

27 May 2019

BUY

Last Traded Price (24 May 2019): S$3.28 (**STI :** 3,169.89)
Price Target 12-mth: S$4.00 (22% upside) (Prev S$3.62)

Analyst
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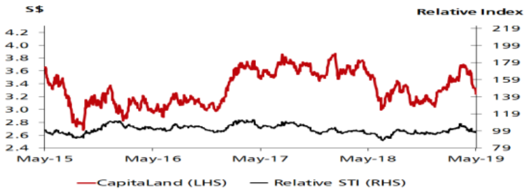
What's New

- Merger with Ascendas-Singbridge to herald a new era of growth
- Group to benefit from a highly recurring earnings stream that is less susceptible to macro shocks
- ROE to remain at a high of >9.0%; managed REITs remain at the forefront to acquire and grow
- TP raised to S$4.00 based on 25% discount to RNAV

Price Relative



Forecasts and Valuation

FY Dec (S$m)	2018A	2019F	2020F	2021F
Revenue	5,602	5,760	6,561	7,510
EBITDA	4,132	3,333	3,960	4,283
Pre-tax Profit	3,509	2,967	3,403	3,812
Net Profit	1,762	1,879	2,233	2,430
Net Pft (Pre Ex.)	1,762	1,479	1,833	2,030
Net Pft Gth (Pre-ex) (%)	12.3	(16.1)	23.9	10.8
EPS (S cts)	41.5	40.2	43.8	47.7
EPS Pre Ex. (S cts)	41.5	31.7	36.0	39.8
EPS Gth Pre Ex (%)	12	(24)	14	11
Diluted EPS (S cts)	41.4	40.2	43.8	47.7
Net DPS (S cts)	12.0	12.0	12.0	12.0
BV Per Share (S cts)	446	458	490	525
PE (X)	7.9	8.2	7.5	6.9
PE Pre Ex. (X)	7.9	10.4	9.1	8.2
P/Cash Flow (X)	25.2	10.2	7.8	3.9
EV/EBITDA (X)	11.3	16.7	13.6	11.4
Net Div Yield (%)	3.7	3.7	3.7	3.7
P/Book Value (X)	0.7	0.7	0.7	0.6
Net Debt/Equity (X)	0.5	0.7	0.6	0.4
ROAE (%)	9.4	8.9	9.3	9.4
Earnings Rev (%):		-	-	new
Consensus EPS (S cts):		22.3	24.5	25.3
Other Broker Recs:		B: 17	S: 0	H: 2

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

Ain't no mountain high enough

Maintain BUY, TP raised to S$4.00. The merger of CapitaLand Limited (CAPL) and Ascendas-Singbridge (ASB) heralds a new era of growth for the group. We see a myriad of positives and see the combined entity emerging stronger financially and with an operational scale that puts it among the largest real estate managers globally. Our RNAV is revised upwards to S$5.42, accounting for ASB numbers and our TP is raised to S$4.00 on the back of a similar 25% discount to RNAV. BUY!

Where we differ: Ability to drive sustainable ROE. We forecast CAPL-ASB to be able to deliver a return on equity (ROE) of between 8.9% and 9.4% over FY19-FY21F, driven by an efficient mix of (i) higher proportion of recurring income derived from ASB's higher-yielding properties, (ii) projected continued asset revaluations on the back of higher operating incomes, and (iii) projected gains on S$3bn of planned asset divestments annually. The group has been active in achieving those targets with S$1.3bn worth of assets divested to date, with the momentum expected to continue in 2H19 and in the following years.

Rebalancing its portfolio. Management has articulated a strategy to divest c. S$3.0bn worth of properties annually and we believe that its managed REITs, which are trading at an average implied yield of 4.9%, are poised to deliver accretive acquisitions. With ample debt-funded capacity and conducive capital markets, we believe that re-cycling properties into their REITs will be a win-win strategy. We believe that properties in the business parks, commercial properties (UK/Japan) coupled with potential listings of their US office and multi-family portfolios will be strategic moves that enhance ROE in the coming years.

Valuation:

Our target price of S$4.00 is based on a 25% discount to our adjusted RNAV of S$5.42/share.

Key Risks to Our View:

Slowdown in Asian economies. The risk to our view is if there is a slowdown in Asian economies, especially China, which could dampen demand for housing and private consumption.

At A Glance

Issued Capital (m shrs)	4,175
Mkt. Cap (Sm/USm)	13,695 / 9,957
Major Shareholders (%)	
Temasek Holdings Private Ltd	40.3
Blackrock	7.0
Free Float (%)	52.7
3m Avg. Daily Val (US$m)	21.6
ICB Industry : Financials / Real Estate	

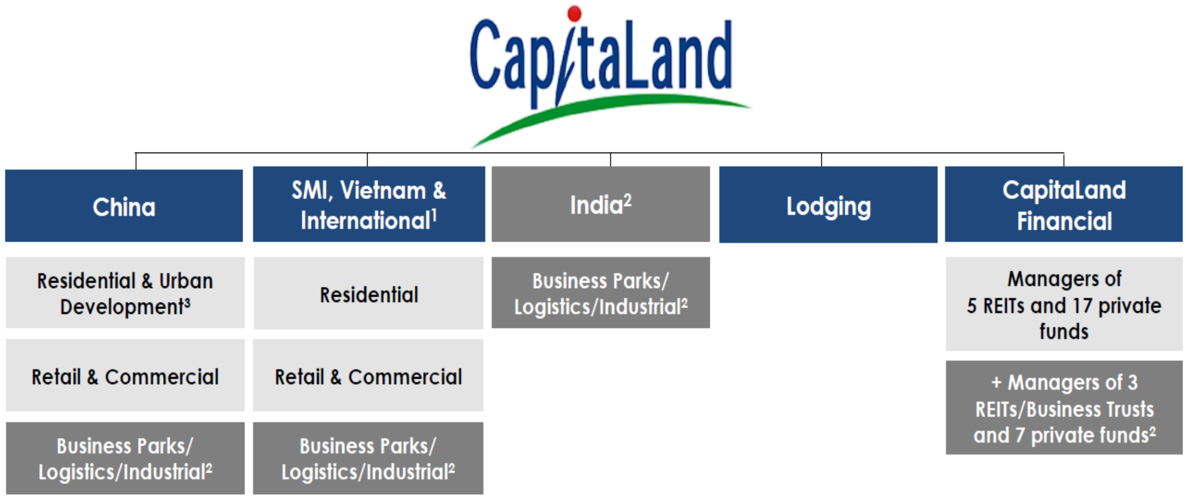
Live more, Bank less

ed: TH/ sa: AS, PY, CS

WHAT'S NEW

What is next for CapitaLand?

Organisation structure



1. *Includes Europe, URA and Japan*
2. *To be reported after consolidation of ASB*

Source: Company, DBS Bank

Strong mandate to undertake Ascendas-Singbridge merger: With a resounding mandate from shareholders to undertake the Ascendas-Singbridge merger, this will herald a new era for the group when completed sometime in 2Q-3Q19.Together with Ascendas-Singbridge, the enlarged group (CAPL-ASB) will emerge with a S$123bn platform that will rival that of global asset managers.

With Ascendas-Singbridge, the group will deepen its footprint in its core markets of China and Singapore with an expansion of assets under management (AUM) by 41% and 6% to S$42bn and S$51bn respectively. Most importantly, the enlarged group will gain access into real estate sectors with exposure to mainly business parks, industrial and warehouses. In our view, these real estate sectors cater to firms in the new economy sectors of e-commerce, urbanisation and knowledge economies where firms are expanding steadily.

Cross pollination of expertise. We look forward to potential revenue and cost synergies that the group will be looking to extract over time as an enlarged combined entity. An insight that we gather will be from the most recent organisation structure unveiled by the group which showed that the key businesses in ASB have been integrated into the businesses within CAPL (i.e. the development businesses in Singapore, India and China and also the fund management division), which we see as a focus on integrating and in minimising the overlap of expertise and by grouping together, will drive efficiencies and tap experience and expertise across functions. We understand the key divisional heads are selected from key leaders from both CAPL and ASB which, in our view, provides investors with more confidence that the integration between the two groups will be smooth and not result in a "brain drain" especially from the target company, ASB. In our view, the ability to retain talent in the enlarged group from the leadership down to the operational staff will be key in preventing any disruption to the portfolio.

Potential value-enhancement opportunities? We also note that CAPL-ASB has placed the Lodging and Fund Management business as a separate standalone platform, which potentially highlight the significance of the value that business units bring to the overall group. Over the longer term, we do not rule out that CAPL-ASB might consider realising value from these platforms once they have achieved operational scale.

- Lodging division. The lodging division comprises mainly The Ascott Limited, the serviced residences and hospitality arm of CAPL-ASB. This is the global standalone platform which is present in more than 30 countries. While we note returns as of FY18 had been the weakest across business units (EBIT margin of c.2.3% vs average of 8.7%), Ascott harbours ambitions to grow through management contracts, which will enhance its returns on equity (ROE), in our view. As of FY18, the operational units contribute c.S$186.9m in fee income and with a pipeline of 42,800 units under development, we see fee income growing strongly in the medium term. The Ascott Limited has also targeted to grow its units under management from 100,000 units to 160,000 units in the medium term. Once that target is achieved, we estimate fee income to rise as high as S$430m in the medium term.

- **Fund management division.** The combined entity CAPL-ASB entity will be the leading REIT and real estate manager in Singapore, expanding its number of REITs and private equity funds to 31 (eight REITs/Business Trusts and 23 private funds). Most importantly, ASB will allow the group to expand its exposure and capabilities in fund management to new asset classes and geographies. Over time, we see more opportunities for differentiated products and mandates to be launched to attract new capital partners. Both ASB and CAPL have also over time established track records in cultivating relationships with capital partners who could be tapped on to further invest in other funds or upcoming platforms that the combined entity will look to create in the future. According to CAPL, the combined fees generated is expected to rise to S$337m, a c.40% increase.

In the stable of seven REITs that are managed by CAPL-ASB, we estimate that the REIT generates close to S$191-197m in annual management fees (REIT manager and property management)

Projected fees from REITs

REIT	Code	Base Fees*	Performance Fees**	Property Mgmt Fees	Total Fees FY20F S$'m	Total Fees FY21F S$'m
Ascendas Hospitality Trust	ASHT	0.30%	4.00%	Est. 2%-3% of revenues for all REITs.	11.5	12.0
Ascendas India Trust	AIT	0.50%	4.00%		15.7	17.8
Ascendas REIT	AREIT	0.50%	0.1% if DPU >2.5%, 0.2% if DPU >5%		56.4	56.9
Ascott Residence Trust	ART	0.30%	4.00%		21.4	21.7
CapitaLand Commercial Trust	CCT	0.10%	5.25%		22.0	23.0
CapitaLand Retail China Trust	CRCT	0.25%	4.00%		12.9	13.5
CapitaLand Mall Trust	CT	0.25%	4.25%		51.2	52.3
Total					191.2	197.1

**Base fees are calculated as a percentage of deposited properties.*
*** Performance fees for A-REIT are pegged to deposited properties, Ascott Residence Trust is pegged to gross profit (similar to net property income.*
Source: Various REITs, DBS Bank

Development GFA in China to be extracted

One of the potential synergies that could be extracted will come from the "in-housing" of residential development capabilities for the master-plan development sites that are currently in the books of ASB. Noteworthy is the China-Singapore Guangzhou Knowledge City (CSGKC). We understand that phase 1 has a developable GFA of c.434,000 sqm, currently in different phases of development and contributed c.S$109m to PATMI in FY18. The group has signed the memorandum of understanding (MOU) for phase 2 of this master-planned project which will be acquired in phases over the next few years. The development of these land plots will take time to materialise. Apart from CSGKC, the group is also developing the Raffles City Chongqing, which is co-invested with CAPL.

According to CAPL, Raffles City Chongqing has done well with the residential towers 1, 2 and 6 achieving Rmb4.2bn in sales, implying a 75% sell-through rate for launched units. In addition, the retail mall with GFA of 235,000 sqm is projected to open in 2H19 and is also seeing favourable take-up from prospective clients.

China-Singapore Guangzhou Knowledge City

Source: AIT slides, DBS Bank

Raffles City Chonging successfully topped out

Source: AIT slides, DBS Bank

Revisiting the India strategy; refuelling Ascendas India Trust to greater heights

Revisiting India. In recent meetings, we are heartened that the management of CAPL-ASB has been re-looking to reinvest in India once again. While CAPL's experience in India has been "bitter-sweet" over time, the group will inherit a fairly successful India franchise in ASB and Ascendas India Trust (AIT) which was the first mover in the IT Parks and most recently, in the Indian warehouse space.

In fact, AIT is one of the fastest-growing REITs with an in-built growth pipeline of developments and acquisitions that is projected to drive distributions by c.14% CAGR over FY20-21F on the back of an estimated planned 61% growth in GFA. In fact, we believe that AIT can grow even faster if not constrained by capital. With a bigger entity, we hope to see more capital allocations into India over time.

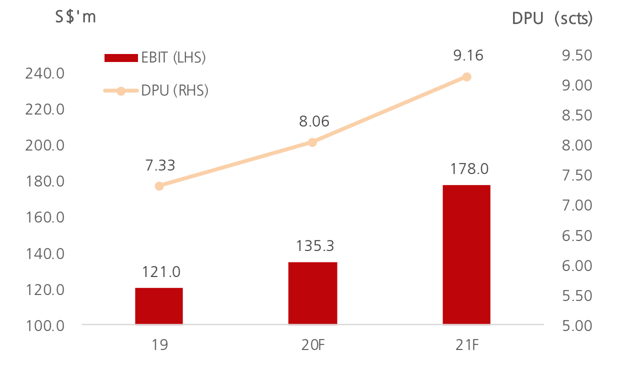
In the medium term, we see monetisation opportunities from ASB, which has been building up a pipeline of business parks. Noteworthy will come from developmental GFA in International Tech Park Park Gurgaon (ITPG) Special economic zone 1 (SEZ1) of c.210,000 sqm (phase 2) expected to complete in 2021 and a further c.96,200 sqm of GFA from ITPG SEZ 2. The group has also 19,000 sqm of development GFA in International Tech Park Pune which is expected to be completed in 2H20.

In addition, we remain excited about the potential from the recently launched Ascendas India Logistics Programme. This programme will be executed by ASB and Firstspace Realty (Firstspace) and aims to deliver modern logistics and industrial facilities across major warehousing and manufacturing hubs in India. Temasek and Ascendas-Singbridge have jointly committed INR20bn (c. S$400m) to the programme. The programme is expected to invest in projects in key warehousing and manufacturing hubs in Mumbai, National Capital Region, Pune, Chennai, Bangalore and Ahmadabad, among others. Over time, it targets to develop a portfolio of 13-15m sqft of space with two seed assets identified offering

1.25m sqft of operational space and over 4m sqft in development potential.

Over time, once these assets are completed and stabilised, they will form a natural pipeline for AIT to acquire and bulk up.

AIT is projected to deliver a 10% CAGR in DPU



Source: AIT slides, DBS Bank Estimates

ASB India strategy continues to bear fruit

Source: AIT slides, DBS Bank

Asset recycling to drive deleveraging target

Managed CAPL-ASB REITs to bulk up and scale up over the next two years. Post acquisition, CAPL-ASB's pro-forma gearing of 0.72x, while at the higher end of the group's historical range, remains at a comfortable level, in our view. The group has also unveiled a **plan to deleverage to 0.64x** by end-2020 which could be achieved through asset recycling (annual target of S$3.0bn) and higher cash on operations.

Asset recycling and yield optimisation have been a consistent strategy for the group. CAPL, together with its REITs, had divested close to cS$485.6m worth of properties as of 1Q19 and have continued divesting properties since with the injection of Innov Center to CapitaLand Asia Capital Partners 1 for S$621m and the non-core Storhub business for S$185m year-to-date. As of end-May, we estimate that total divestments was close to S$1.3bn. While this is still some way off the group's S$3.0bn AUM annual target, we believe that the momentum will pick up post completion of the proposed merger with ASB.

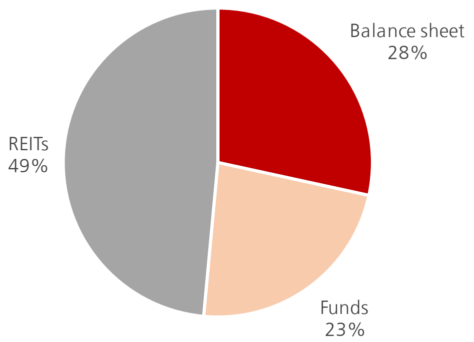
Based on our estimates, in terms of recycling opportunities, on a 100% basis, we estimate that CAPL has close to S$64.1bn of investment property assets as of 31 December 2018 which are held through its REITs, private equity funds or on the balance sheet. After adjusting for the group's effective stakes in the individual properties and stripping out properties held through their managed REITs, we estimate that close to S$33bn (or S$18.5bn on an effective basis) may be realised over the next few years through asset recycling into its listed REITs or as seed assets for new private equity funds. In addition, we estimate that ASB has close to S$1.5-2.0bn of stabilised properties which might be ready to be injected into their listed platforms over the coming years.

Near-term assets of the group that we believe may be available for sale include completed business parks/science parks in Singapore, completed commercial and hospitality properties in China and Europe that may be properties that its managed REITs can consider acquiring.

Ample capacity to acquire; implied yields of REITs are conducive for acquisitions. Looking at the balance sheets of CAPL-ASB's managed REITs, with average gearing at c.35.2%, there is ample capacity for the REITs to take on more acquisitions. We estimate that there is a debt-funded capacity of between S$3.6bn and S$7.7bn, assuming a target gearing of 40-45%, still within S-REIT regulatory limits. This headroom can be used opportunistically for any planned acquisition activities.

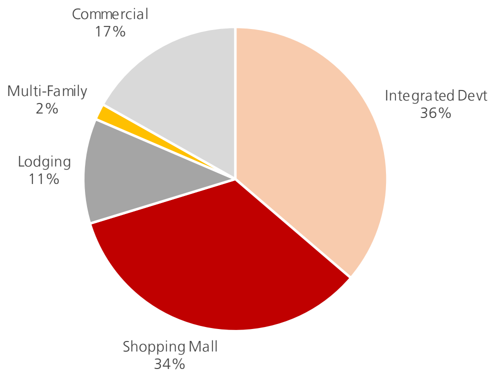
We believe that any potential asset injections for S-REITs will be seen to be win-win from both Sponsor and the REITs and would be a positive move. While the Sponsor will gain from a more flexible balance sheet coupled with realisation of asset values, the REITs should benefit from a growth in distributions. Based on our estimates, the positive yield spread between the market transaction yields against the REITs' implied yields (net property income/enterprise value) means that acquisitions will likely be accretive to unitholders' distributions.

CAPL AUM of income-producing properties (100% basis)



Source: CapitaLand, DBS Bank Estimates

Enlarged Group AUM (CAPL as of 31st Dec'18 and 30th Sept'18 for ASB)



Source: CapitaLand, DBS Bank Estimates

Assets/businesses that have been sold YTD

Divestment	Entities	Buyer	Consideration (S$'m)	Est Book Value (S$'m)	Gain (before tax)
Ascott Raffles Place	ART	3rd party	353.3	215	138.3
CapitaMall Saihan	CRCT	3rd party	90.8	71	19.8
CapitaMall Wuhu	CRCT	3rd party	41.4	30	11.4
Storhub Business	CAPL	3rd party	183.0	183.0	0
Innov Tower	CAPL	CapitaLand Asia Partners 1	621.0	420.0	201
Total			1,289.5	919.0	370.5

Source: Various REITs, DBS Bank Estimates

Potential assets that could be injected into REITs

Key Assets	Asset Class	Country	Sits in	Potential Entity	CUR	Stake	LC$'m	S$'m	Est Yield
U.S. Office Portfolio	Commercial	U.S.	ASB	IPO / AREIT	US$	100%	950	1,283	6.00%
U.S. Multi-Family Portfolio	Lodging	U.S.	CAPL	IPO / ART	US$	100%	845	1,141	6.30%
Raffles City Beijing	Retail	China	CAPL	CRCT	RMB	55%	3,263	544	5.00%
Raffles City Shanghai	Retail	China	CAPL	CRCT	RMB	30%	3,986	664	5.00%
Star Vista	Retail	Singapore	CAPL	CMT	S$	100%	262	262	4.00%
The Cavendish London	Lodging	U.K.	CAPL	ART	GBP	100%	158	269	5.00%
Main Airport Center	Commercial	Germany	CAPL	CCT	EUR	100%	248	379	4.50%
Commercial Portfolio	Commercial	Japan	CAPL	CCT	JPY	100%	138,160	1,625	4.50%
Ascendas Business Parks	Business Parks	Singapore	ASB	A-REIT	S$	100%	1,000	1,000	5.5%-6.0%

Source: Various REITs, DBS Bank Estimates

Potential debt-funded headroom and geographical focus for CAPL-ASB's managed REITs

REITs	Total Assets (S$'bn)	Total Debt (S$'bn)	Gearing (%)	Headroom @ 40% (S$'bn)	Headroom @ 45% (S$'bn)	SG (% of assets)	Overseas (% of assets)
Ascendas Hospitality Trust	1.7	0.6	33.1%	0.2	0.4	7%	93%
Ascendas India Trust	2.3	0.7	31.0%	0.4	0.6	0%	100%
Ascendas REIT	11.4	4.1	36.3%	0.8	1.7	84%	16%
Ascott Residence Trust	5.3	1.9	36.7%	0.3	0.8	9%	91%
CapitaLand Commercial Trust	9.7	3.4	35.2%	0.8	1.7	93%	7%
CapitaLand Retail China Trust	3.0	1.0	34.0%	0.3	0.6	0%	100%
CapitaLand Mall Trust	11.2	3.9	35.0%	0.9	2.0	100%	0%
Total / Average	**44.7**	**15.7**	**35.2%**	**3.6**	**7.7**		

Source: Various REITs, DBS Bank Estimates

S-REITs' implied yields are below the returns that most can obtain from the market

REITs	Mkt Cap (S$'bn)	Total Debt (S$'bn)	Enterprise Value (S$'bn)	NPI (S$'bn)	Implied yield (%)	Target acquisitions returns (%)	Target yield > Implied
Ascendas Hospitality Trust	1.1	0.6	1.6	0.1	6.2%	5%-6%	Accretion expected for most as the listed REITs are trading at implied yields < target acquisition yields
Ascendas India Trust	1.3	0.7	2.1	0.2	7.4%	9%-12%	
Ascendas REIT	9.0	4.1	13.2	0.7	5.2%	5.5%-7.0%	
Ascott Residence Trust	2.6	1.9	4.5	0.3	5.7%	5.0% - 7.0%	
CapitaLand Commercial Trust	7.1	3.4	10.5	0.4	4.1%	3.5%-5.0%	
CapitaLand Retail China Trust	1.4	1.0	2.4	0.2	6.4%	4.5%-6.0%	
CapitaLand Mall Trust	9.0	3.9	13.0	0.5	4.2%	4.5%-5.0%	
Total / Average	**31.5**	**15.7**	**47.3**	**2.3**	**4.9%**	**5.0%-7.0%**	

Source: Various REITs, DBS Bank Estimates

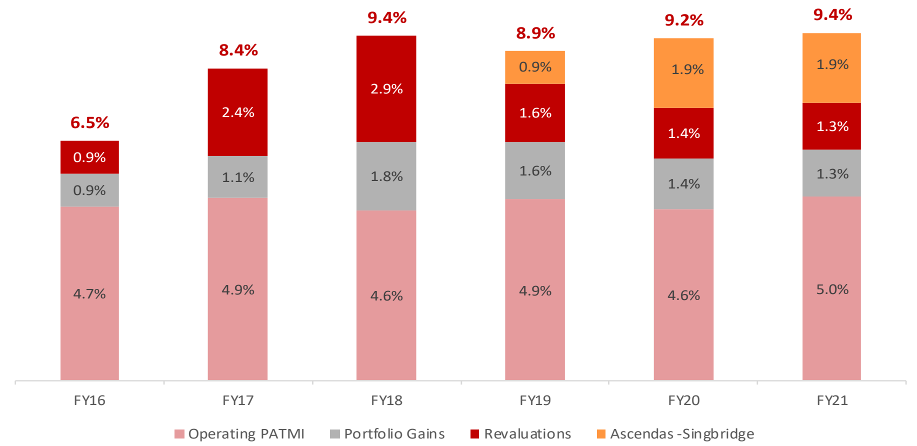
Returns of Equity (ROE) to hit >9.0% over FY20-21F

With the merger expected to be completed by 3Q19, we input ASB into our estimates. We forecast the group to be able to deliver a return on equity (ROE) of between 8.9% and 9.4% over FY19-FY21F. Given the highly recurring nature of ASB's revenues, we believe that 75-76% of our ROE of c.9.0% is backed by rental income from its stable of commercial and industrial properties which is highly recurring and sustainable, which means that the group should be able to achieve an ROE of between 6.5% and c.7.0% annually.

The remaining 2.6-2.8% is split equally between (i) revaluation gains which we believe can be achieved supported by projected higher net operating income (NOIs) for the group's investment properties. This is supported by higher rents driven by the supply squeeze especially for the group's Singapore portfolio, and (ii) forecasted gain of c.10% on divestments, while subjective is dependent on the pace of asset-recycling activities that the group undertakes over the next couple of years.

The group's balance sheet position will also decline towards 0.6x by end-FY20F if no major re-investment is assumed. That said, we believe that reinvestment of the proceeds will be positive as it forms the foundation for higher returns in the medium term.

Return on Equity Trend for CAPL



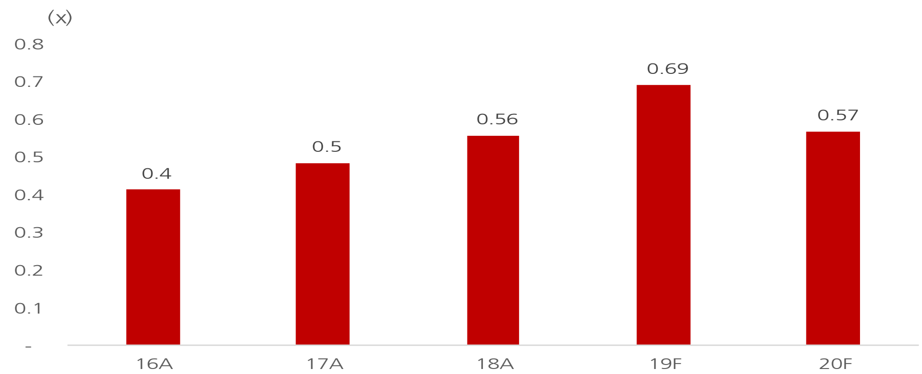
Source: Company, DBS Bank Estimates

Remarks

We estimate that CAPL will be able to achieve least 6.5-7.0% return on equity upon consolidation with ASB.

The remainder will depend on the revaluations of its current investment property book and gains, dependent on divestment opportunities.

Net debt-to-equity to decline towards 0.6x by end of FY20F



Source: Company, DBS Bank Estimates

Remarks

Assuming no major reinvestment opportunities, the group's net debt-to-equity is likely to decline towards 0.6x by end of FY20F.

CRITICAL DATA POINTS TO WATCH

Critical Factors

Gaining from an earnings stream that is less susceptible to macro shocks: The Ascendas-Singbridge merger will herald a new era for the group. Together with Ascendas-Singbridge, the enlarged group (CAPL-ASB) will emerge with a S$123bn platform that will rival that of global asset managers.

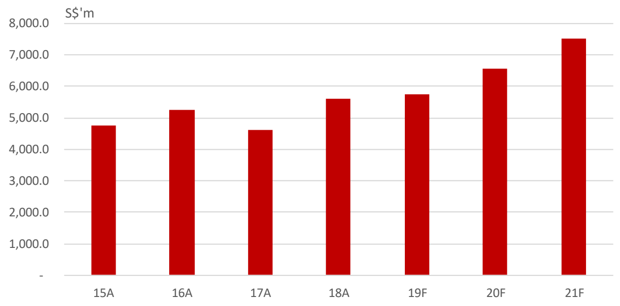
With Ascendas-Singbridge, the group will deepen its footprint in its core markets of China and Singapore with an expansion of assets under management (AUM) by 41% and 6% to S$42bn and S$51bn respectively. Most importantly, the enlarged group will gain access into real estate sectors with exposure mainly to business parks, industrial lots and warehouses. In our view, these real estate sectors cater to firms in the new economy sectors of e-commerce, urbanisation and knowledge economies where firms are expanding steadily.

Ample capacity to acquire; implied yields of REITs are conducive for acquisitions with CAPL's target to sell S$3.0bn in assets annually. Looking at the balance sheets of CAPL-ASB's managed REITs, with average gearing at c.35.2%, there is ample capacity for the REITs to take on more acquisitions. We estimate that there is a debt-funded capacity of between S$3.6bn and S$7.7bn, assuming a target gearing of 40-45%, still within S-REIT regulatory limits. This headroom can be used opportunistically for any planned acquisition activities.

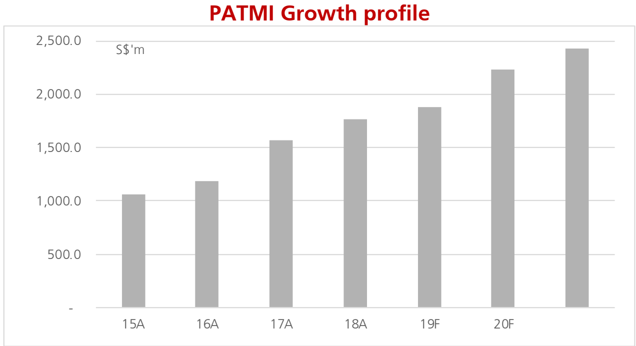
Riding on the robust India growth strategy. The group will inherit a fairly successful India franchise in ASB and Ascendas India Trust (AIT) which has been the first mover in IT Parks and most recently, in the Indian warehouse space. In the medium term, we see monetisation opportunities from ASB, which has been building up a pipeline of business parks. In addition, we remain excited about the potential from the recently launched Ascendas India Logistics Programme which aims to deliver modern logistics and industrial facilities across major warehousing and manufacturing hubs in India.

Hitting a high of 9.0% ROE on a recurring basis. With the completion of the merger, we forecast the group to be able to deliver a return on equity (ROE) of between 8.9% and 9.4% over FY19-FY21F. Given the highly recurring nature of ASB's revenues, we believe that 75-76% of our ROE of c.9.0% is backed by rental income from its stable of commercial and industrial properties which is highly recurring and sustainable. This means that the group should be able to achieve an ROE of between 6.5% and c.7.0% annually.

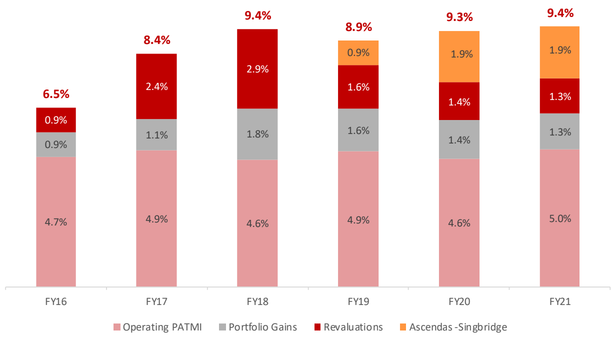
Revenue Growth profile



PATMI Growth profile



ROE contribution



RNAV

RNAV of CapitaLand	S$'bn
Value of CapitaLand Singapore	7,971.2
Value of CapitaLand China	11,632.7
CapitaMalls Asia	17,783.6
Ascott	4,166.3
Others	935.0
Ascendas	17,735.2
GDV of CAPL Group	60,224.0
Less: Net Debt	(24,467.3)
Less: devt capex	(8,118.8)
RNAV of CAPL	27,637.9
Total Shares	5,095.1
RNAV per share	5.42
Discount to RNAV	25%
Target price	**4.00**

Source: Company, DBS Bank

Balance Sheet:

Balance sheet remains strong. We forecast debt/equity ratio to rise to a high of 0.7x in FY19 but fall towards 0.6x in the coming years. CAPL's debt maturity profile remains long at 3.0 years with an average cost of 3.4%. The group aims to maintain a higher level of interest cost hedged.

Share Price Drivers:

Strong residential sales to translate into higher prices. CAPL has taken advantage of the improved property sentiment in Singapore to sell most of its existing inventory. The key will be potential land-banking opportunities to replenish its balance sheet. In addition, strong sales in China, we believe, will result in higher prices.

M&A and acquisitions. CAPL is looking at opportunities across the region and with the strong residential sales recorded in recent years across Singapore, China and Vietnam, it makes sense to be replenishing land banks in these countries. Acknowledging strong competition for land, the management is looking at opportunities to acquire land through JVs or mergers & acquisitions (M&A) which will offer the group an alternative and lower entry price. The group remains keen to build on its recurring income base and we could see acquisitions in that space.

Asset recycling into listed S-REITs/funds. CAPL will continue to demonstrate its ability to crystallise value through strategic divestments of mature assets to its listed REITs, which are market leaders in their respective subsectors of retail, office and hospitality. The ability to recycle capital efficiently will enable the group to free up capital, improve its balance sheet position and deploy capital to projects with higher returns.

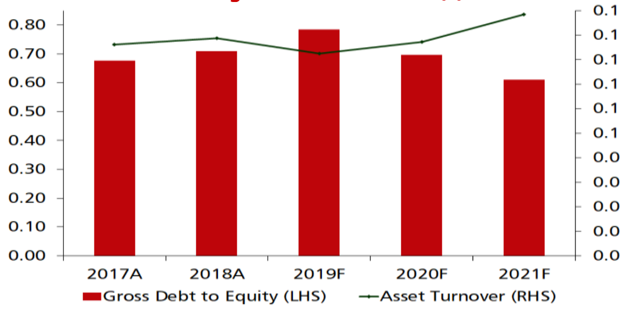
Key Risks:

Slowdown in Asian economies. The risk to our view is a further slowdown in Asian economies which could dampen demand for housing and private consumption expenditure and retail sales. This could, in turn, result in slower-than-expected projections.

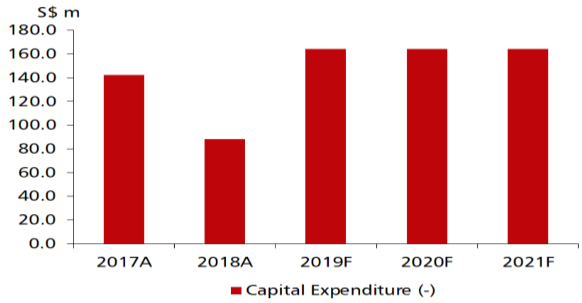
Company Background

CapitaLand (CAPL) is one of Asia's largest real estate companies headquartered and listed in Singapore. Its two core markets are Singapore and China; while Indonesia, Malaysia and Vietnam have been identified as its new growth markets.

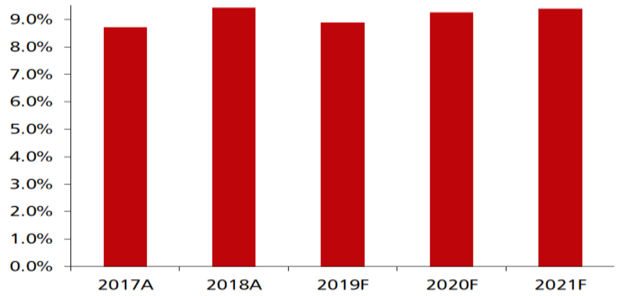
Leverage & Asset Turnover (x)



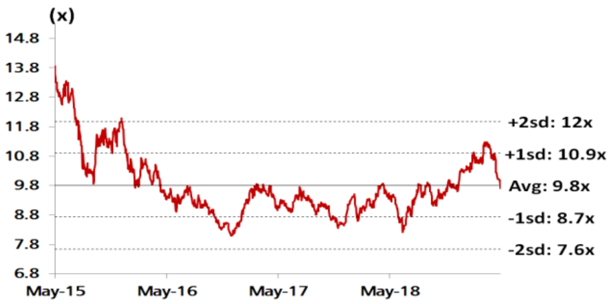
Capital Expenditure



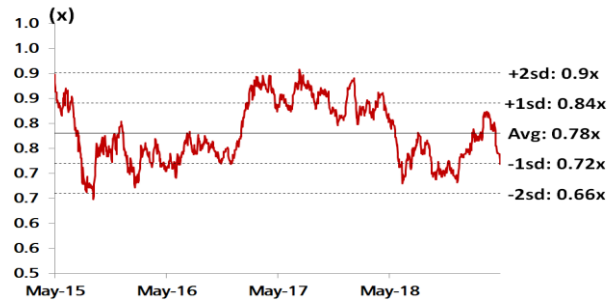
ROE (%)



Forward PE Band (x)



PB Band (x)



Source: Company, DBS Bank

Income Statement (S$m)

FY Dec	2017A	2018A	2019F	2020F	2021F
Revenue	4,618	5,602	5,760	6,561	7,510
Cost of Goods Sold	(2,594)	(2,913)	(2,698)	(2,911)	(3,515)
Gross Profit	**2,024**	**2,689**	**3,062**	**3,650**	**3,995**
Other Opng (Exp)/Inc	(455)	(494)	(519)	(545)	(572)
Operating Profit	**1,569**	**2,196**	**2,543**	**3,106**	**3,423**
Other Non Opg (Exp)/Inc	789	902	398	398	398
Associates & JV Inc	882	959	318	382	388
Net Interest (Exp)/Inc	(425)	(548)	(691)	(882)	(797)
Exceptional Gain/(Loss)	0.0	0.0	400	400	400
Pre-tax Profit	**2,816**	**3,509**	**2,967**	**3,403**	**3,812**
Tax	(469)	(659)	(462)	(541)	(614)
Minority Interest	(777)	(1,087)	(626)	(630)	(767)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	**1,570**	**1,762**	**1,879**	**2,233**	**2,430**
Net Profit before Except.	1,570	1,762	1,479	1,833	2,030
EBITDA	3,316	4,132	3,333	3,960	4,283
Growth					
Revenue Gth (%)	(12.1)	21.3	2.8	13.9	14.5
EBITDA Gth (%)	39.7	24.6	(19.3)	18.8	8.2
Opg Profit Gth (%)	35.0	39.9	15.8	22.1	10.2
Net Profit Gth (Pre-ex) (%)	31.9	12.3	(16.1)	23.9	10.8
Margins & Ratio					
Gross Margins (%)	43.8	48.0	53.2	55.6	53.2
Opg Profit Margin (%)	34.0	39.2	44.2	47.3	45.6
Net Profit Margin (%)	34.0	31.5	32.6	34.0	32.4
ROAE (%)	8.7	9.4	8.9	9.3	9.4
ROA (%)	2.9	2.8	2.7	3.0	3.2
ROCE (%)	2.7	3.1	3.4	3.8	4.2
Div Payout Ratio (%)	32.5	28.9	32.5	27.4	25.2
Net Interest Cover (x)	3.7	4.0	3.7	3.5	4.3

Source: Company, DBS Bank

Quarterly / Interim Income Statement (S$m)

FY Dec	4Q2017	1Q2018	2Q2018	3Q2018	4Q2018
Revenue	1,213	1,376	1,342	1,260	1,624
Cost of Goods Sold	(592)	(773)	(771)	(676)	(838)
Gross Profit	**621**	**603**	**572**	**584**	**786**
Other Oper. (Exp)/Inc	(202)	(101)	(93.0)	(111)	(203)
Operating Profit	**418**	**502**	**479**	**472**	**583**
Other Non Opg (Exp)/Inc	37.2	21.2	519	169	207
Associates & JV Inc	232	179	330	135	315
Net Interest (Exp)/Inc	(126)	(131)	(133)	(144)	(140)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	**561**	**571**	**1,195**	**633**	**964**
Tax	(82.4)	(76.2)	(116)	(66.5)	(256)
Minority Interest	(211)	(176)	(474)	(204)	(233)
Net Profit	**268**	**319**	**606**	**362**	**476**
Net profit bef Except.	268	319	606	362	476
EBITDA	705	720	1,346	795	1,124
Growth					
Revenue Gth (%)	(19.5)	13.4	(2.4)	(6.1)	28.9
EBITDA Gth (%)	(13.0)	2.1	86.9	(40.9)	41.3
Opg Profit Gth (%)	6.5	20.0	(4.7)	(1.3)	23.4
Net Profit Gth (Pre-ex) (%)	(15.5)	19.2	89.8	(40.2)	31.3
Margins					
Gross Margins (%)	51.2	43.8	42.6	46.3	48.4
Opg Profit Margins (%)	34.5	36.5	35.6	37.5	35.9
Net Profit Margins (%)	22.1	23.2	45.1	28.7	29.3

Balance Sheet (S$m)

FY Dec	2017A	2018A	2019F	2020F	2021F
Net Fixed Assets	840	753	843	932	1,022
Invts in Associates & JVs	10,205	10,180	10,586	11,035	11,487
Other LT Assets	38,182	41,269	52,447	50,344	48,242
Cash & ST Invts	6,648	5,320	3,743	5,243	8,903
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	1,462	1,944	1,986	2,853	3,265
Other Current Assets	4,202	5,182	5,404	5,134	4,214
Total Assets	**61,539**	**64,648**	**75,008**	**75,541**	**77,133**
ST Debt	2,739	3,193	3,193	3,193	3,193
Creditor	4,748	4,750	4,497	4,851	5,858
Other Current Liab	1,375	1,451	1,614	1,854	2,168
LT Debt	18,956	20,440	26,440	24,440	22,440
Other LT Liabilities	1,604	1,505	1,505	1,505	1,505
Shareholder's Equity	18,413	18,953	23,322	24,943	26,762
Minority Interests	13,705	14,354	14,437	14,754	15,206
Total Cap. & Liab.	**61,539**	**64,648**	**75,008**	**75,541**	**77,133**
Non-Cash Wkg. Capital	(458)	924	1,279	1,281	(547)
Net Cash/(Debt)	(15,047)	(18,314)	(25,891)	(22,391)	(16,731)
Debtors Turn (avg days)	131.2	110.9	124.5	134.6	148.7
Creditors Turn (avg days)	683.7	610.7	643.2	601.5	568.1
Inventory Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Asset Turnover (x)	0.1	0.1	0.1	0.1	0.1
Current Ratio (x)	1.4	1.3	1.2	1.3	1.5
Quick Ratio (x)	0.9	0.8	0.6	0.8	1.1
Net Debt/Equity (X)	0.5	0.5	0.7	0.6	0.4
Net Debt/Equity ex MI (X)	0.8	1.0	1.1	0.9	0.6
Capex to Debt (%)	0.7	0.4	0.6	0.6	0.6
Z-Score (X)	0.8	0.8	0.8	0.8	NA

Leverage to head down

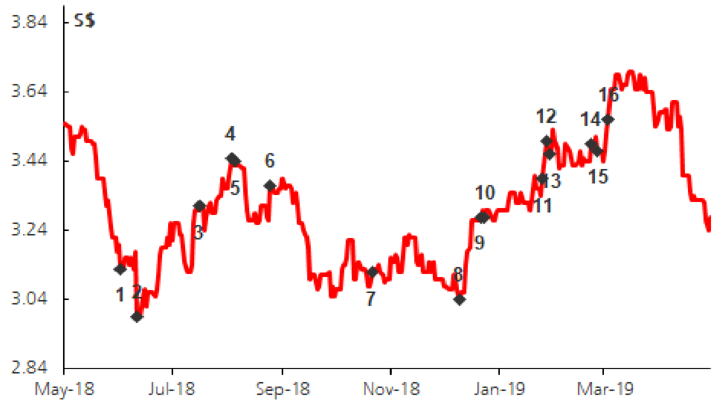
Source: Company, DBS Bank

Cash Flow Statement (S$m)

FY Dec	2017A	2018A	2019F	2020F	2021F
Pre-Tax Profit	2,347	2,850	2,967	3,403	3,812
Dep. & Amort.	76.3	74.5	74.5	74.5	74.5
Tax Paid	(379)	(390)	(300)	(300)	(300)
Assoc. & JV Inc/(loss)	(882)	(959)	(318)	(382)	(388)
Chg in Wkg.Cap.	809	(1,414)	(517)	(243)	1,514
Other Operating CF	195	392	(398)	(398)	(398)
Net Operating CF	2,166	553	1,509	2,155	4,315
Capital Exp.(net)	(142)	(88.3)	(164)	(164)	(164)
Other Invts.(net)	(386)	(701)	(10,780)	2,500	2,500
Invts in Assoc. & JV	(1,559)	(1,126)	(200)	(200)	(200)
Div from Assoc & JV	262	541	111	134	136
Other Investing CF	54.5	19.4	0.0	0.0	0.0
Net Investing CF	(1,770)	(1,356)	(11,033)	2,269	2,271
Div Paid	(1,022)	(1,248)	(1,054)	(925)	(926)
Chg in Gross Debt	1,708	1,657	6,000	(2,000)	(2,000)
Capital Issues	0.0	0.0	3,000	0.0	0.0
Other Financing CF	294	(626)	0.0	0.0	0.0
Net Financing CF	979	(217)	7,946	(2,925)	(2,926)
Currency Adjustments	(62.9)	(26.2)	0.0	0.0	0.0
Chg in Cash	1,313	(1,045)	(1,577)	1,500	3,660
Opg CFPS (S cts)	31.9	46.3	43.4	47.1	55.0
Free CFPS (S cts)	47.6	10.9	28.8	39.1	81.5

Source: Company, DBS Bank

Target Price & Ratings History



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

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	27 Jun 18	3.13	4.35	BUY
2:	06 Jul 18	2.99	3.62	BUY
3:	10 Aug 18	3.31	3.62	BUY
4:	28 Aug 18	3.45	3.62	BUY
5:	30 Aug 18	3.44	3.62	BUY
6:	19 Sep 18	3.37	3.62	BUY
7:	15 Nov 18	3.12	3.62	BUY
8:	03 Jan 19	3.04	3.62	BUY
9:	15 Jan 19	3.28	3.62	BUY
10:	17 Jan 19	3.28	3.62	BUY
11:	19 Feb 19	3.39	3.62	BUY
12:	21 Feb 19	3.50	3.62	BUY
13:	23 Feb 19	3.46	3.62	BUY
14:	18 Mar 19	3.49	3.62	BUY
15:	22 Mar 19	3.47	3.62	BUY
16:	28 Mar 19	3.56	3.62	BUY

Source: DBS Bank
Analyst: Derek TAN
Rachel TAN

DBS Bank recommendations are based on an Absolute Total Return* Rating system, defined as follows:
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*

Completed Date: 27 May 2019 08:00:34 (SGT)
Dissemination Date: 27 May 2019 09:04:20 (SGT)

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Singapore Company Guide

CapitaLand Mall Trust

Version 14 | Bloomberg: CT SP | Reuters: CMLT.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

4 Jul 2019

BUY

Last Traded Price (4 Jul 2019): S$2.72 (STI : 3,372.25)
Price Target 12-mth: S$2.95 (8% upside) (Prev S$2.55)

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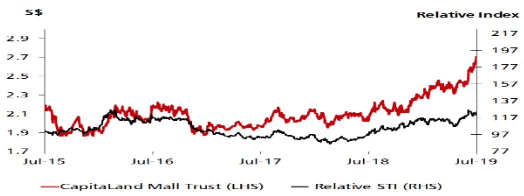
What's New

- Funan reopened its doors last weekend after a three-year transformation, drawing a strong crowd
- Contributions from the revitalised mall a key growth driver over FY18-20F
- Lower interest rate environment is conducive for growth, as further upside could come from acquisitions
- Maintain BUY; DCF-based TP raised to S$2.95 after reducing our risk-free rate assumption by 50bps

Price Relative



Forecasts and Valuation

FY Dec (S$m)	2017A	2018A	2019F	2020F
Gross Revenue	682	698	777	816
Net Property Inc	478	494	541	566
Total Return	658	677	447	467
Distribution Inc	413	429	451	471
EPU (S cts)	11.4	13.2	12.1	12.6
EPU Gth (%)	1	16	(8)	4
DPU (S cts)	11.2	11.5	11.7	12.2
DPU Gth (%)	0	3	2	4
NAV per shr (S cts)	195	202	202	202
PE (X)	23.8	20.6	22.5	21.5
Distribution Yield (%)	4.1	4.2	4.3	4.5
P/NAV (x)	1.4	1.3	1.3	1.3
Aggregate Leverage (%)	31.2	32.6	32.1	32.0
ROAE (%)	5.9	6.7	6.0	6.3
Distn. Inc Chng (%):			0	0
Consensus DPU (S cts):			12.0	12.4
Other Broker Recs:		B: 6	S: 2	H: 14

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

A future with Funan

BUY; TP raised to S$2.95 as CMT could benefit from lower interest rates. Share price has done well as attention has turned to CapitaLand Mall Trust (CMT) as one of the faster-growing large-cap S-REITs with a 2-year CAGR of over 3.0%. Given improved property fundamentals and expectations that interest rates will remain lower for longer, these could continue to boost valuations over the medium term. After cutting interest cost assumptions, our DCF-based TP is raised to S$2.95. Maintain BUY!

Where we differ: Deep dive into micro-markets gives us confidence that CMT can surprise on the upside, even as the street remains divided on the stock given the uncertainties over the impact of the surge in new retail supply in 2019, especially Jewel in 2Q19. While we expect some volatility in the east-side malls, we believe that higher contributions from Westgate and Funan will more than compensate for the expected near-term hurdles that Tampines Mall and Bedok Mall, located in the East, may face now. That said, it should normalise in the medium term.

Potential catalyst: Improving rental reversions or acquisitions. We believe CMT delivered operationally and the past tenant remixing efforts are bearing fruit as portfolio rental reversions came in at +1.2%, which is an improvement across most of its malls. The utilisation of its balance sheet to fund further acquisitions also offers an upside surprise to our estimates.

Valuation:

Reiterate BUY; TP lifted to S$2.95 as we revise discount rate assumptions in our models (risk-free rate reduced from 3% to 2.5%). The stock currently offers FY20F DPU yield of c.4.6%.

Key Risks to Our View:

More aggressive rate hikes than consensus expectations may cause ripples in the market. Being a proxy for interest-rate investment, CMT may then suffer from selling pressure.

At A Glance

Issued Capital (m shrs)	3,688
Mkt. Cap (Sm/USm)	10,033 / 7,398
Major Shareholders (%)	
Capitaland Limited	28.2
Blackrock Inc	7.1
National Trades Union	5.0
Free Float (%)	59.7
3m Avg. Daily Val (US$m)	19.0
ICB Industry : Financials / Real Estate Investment Trust	
Bloomberg ESG disclosure score (2017)^	39.3
- Environmental / Social / Governance	30.2 / 47.4 / 51.8

^ refer to page 80 for more information

WHAT'S NEW

Funan welcomes the future of retail

Funan reopened its doors after a three-year transformation, drawing a strong crowd over its opening weekend. Two months following the launch of the iconic Jewel at Changi Airport, the CapitaLand Group (CMT) returns with a revitalised Funan. Apart from the façade upgrade, the core of the revamped Funan – infused with digital elements, bears the hallmarks of a future-ready mall.

The integrated development also comprises two office towers and Ascott's first co-living property, lyf Funan, which are self-sustaining demand generators for the retail podium. The merits of CapitaLand group's integrated approach should start to unfold in the subsequent quarters when the office and co-living blocks are fully operational.

Funan Mall: Before & After

Source: Straits Times, DBS Bank

Post revamp, Funan now houses a rich variety of over 190 brands that pay homage to both its IT roots and sociocultural heritage in the Civic District, where the mall is strategically located. Similar to Jewel, its unique showcase of local brands (60% originate from Singapore) allows the new Funan to gain better traction with leisure travellers, in our opinion. The introduction of more than 30% of new-to-market concepts also injects vibrancy into the local retail scene.

"There's something for everyone". Positioned as a social retail hub, Funan also features a **rooftop urban farm** that is open to the public and can be complemented with adjacent Japanese restaurant Noka's farm-to-table dining experience. Next door, The Ark runs Singapore's first fully **unmanned futsal facility**. Indoors, at the heart of Funan lies the 25-metre tall Tree of Life, an **incubator housing 20 retail pods** that can be used by up-and-coming brands to showcase their crafts or conduct workshops. The Tree of Life sits atop an indoor rock-climbing gym operated by Climb Central.

In addition to a Golden Village cineplex, which offers Virtual Reality pods, the mall will also soon be home to local performing arts group W!ld Rice's first in-mall theatre. Meanwhile, bike enthusiasts can also enjoy an extension of the **shared cycling track** that goes through the mall, a dedicated Bicycle Hub and end-of-trip amenities located on the ground floor of the building.

Wide Array of Amenities and Shopper Experiences

Source: DBS Bank

Embracing the future of retail. Funan has come a long way from a retailer of IT products to successfully repositioning itself as a true "IT mall" today. Its overarching digital strategy aims to optimise operational efficiency, maximise impact of tenants' shopper engagement efforts and ultimately, enhance shopper experiences. Patrons at the food court, KOPItech can place orders via Facebook Messenger or through self-service ordering kiosks. Electronic queuing systems also eliminate the need for physical queues at the respective food stalls.

Self-Service Kiosks Eliminates Need for Physical Queues

Source: DBS Bank

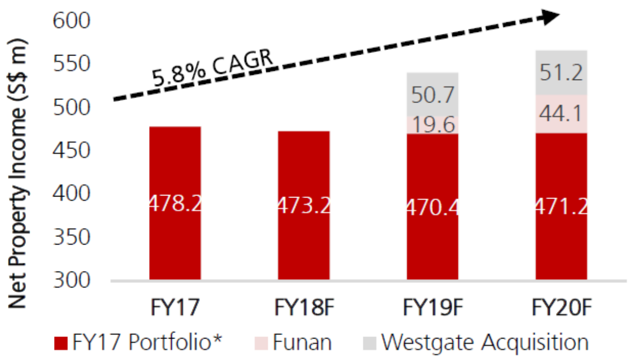
Sensor-enabled directories, which can be easily found across the mall, are another initiative. While typically used for wayfinding, these smart directories are also able to make targeted product/dining recommendations according to the shoppers' demographic profile. Analytics programmes running in the background also allow tenants to better analyse footfall and refine their offerings. According to CMT, shoppers can also expect a robot-enabled hands-free shopping experience and **24/7 click-and-collect drive-through service** by year-end – a first for retail malls in Singapore.

Upcoming Hands-free Shopping at Funan a Key Differentiator

Source: Mediacorp, Channel News Asia

Return of Funan to drive earnings growth. While it may take time before the viability of Funan's unique retailing approach can be ascertained, it is a big leap forward for CMT as it demonstrates the REIT's thought leadership in embracing and integrating technology with traditional retail. This bodes well for future AEI and redevelopment opportunities in CMT's portfolio and if successful, could pave the way for a significant share price re-rating in future.
The relaunch of Funan after a three-year hiatus is also set to talyse earnings growth from 2H19, which we discussed in an earlier report (found here).

Relaunch of Funan, Westgate Acquisition to Spur Growth



**including Sembawang Shopping Centre*
Source: CMT, DBS Bank

We estimate that Funan alone could add an additional 0.3 Scts and 0.7 Scts to FY19F and FY20F DPU respectively, anchoring robust DPU growth of c.3.2% over FY18-20F.

CRITICAL DATA POINTS TO WATCH

Critical Factors

A bellwether for REITs. CMT, being the first and longest-running REIT in Singapore which has gone through different growth phases at a market cap of close to S$7.0bn and an asset base of over S$10bn, remains a bellwether for the REIT industry. While CMT had seen better growth days back in 2003-2009 and saw increased challenges disrupting the retail sector over the past few years, we believe that the worst could be over, given the REIT's improving rental reversionary prospects in recent times. Most importantly, we believe that given the REIT's track record and having positioned its exposure towards more non-discretionary spending, we remain confident on the REIT's ability to continue paying steady distributions across market cycles.

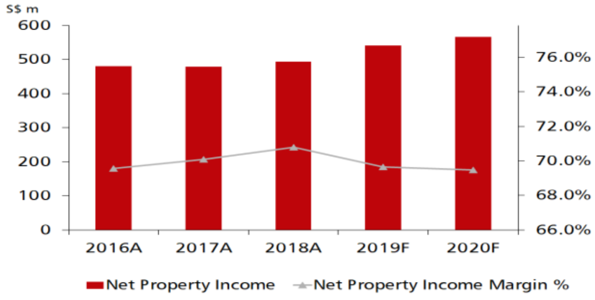
Supply risk dissipating, rental reversions a key driver for further outperformance. While supply in retail remains high in 2018-2019, we note that pre-commitment rates for upcoming malls have been strong (Paya Lebar Quarter has pre-leased c.90% of its retail mall) with strong anchors. Apart from Paya Lebar Quarter Mall, we believe most of the other major retail assets coming on stream do not pose a direct competition to the catchment areas of CMT's malls. We expect consensus to gradually converge to our view over time.

As such, with supply risk dissipating and ongoing tenant remixing, we believe that CMT's mall will continue to achieve stable rental reversions with the possibility of seeing a sustained improvement from 2019 onwards.

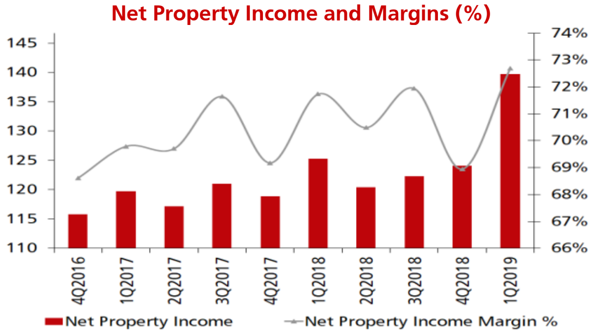
Reintroducing inorganic growth; Westgate stake from sponsor could be an opportunity. In the medium term, we believe CMT will look to reintroduce growth engines to stimulate its portfolio earnings growth in order to drive share price performance. The proposed acquisition of the remaining 70% stake in Westgate mall from the sponsor and redevelopment of Funan are prime examples, which are projected to start contributing from 1H19 and 2H19 onwards respectively.

Supported by a low gearing of <35% (assuming the Westgate acquisition is 20% debt funded), the manager remains on the lookout for inorganic opportunities across the region.

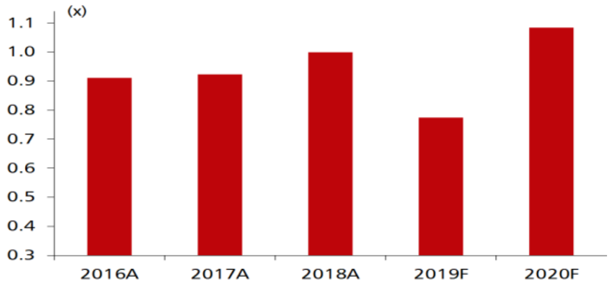
Net Property Income and Margins (%)



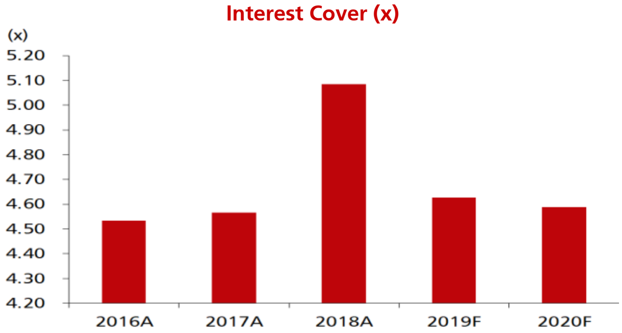
Net Property Income and Margins (%)



Distribution Paid / Net Operating CF



Interest Cover (x)



Source: Company, DBS Bank

Balance Sheet:

Gearing to remain stable. Post the sale of Sembawang Shopping Centre, CMT's gearing ratio is forecast to remain fairly stable at <40% over FY19-20F. This is after assuming 100% and 20% debt financing for the redevelopment of Funan and acquisition of Westgate respectively. Gearing level is within management's comfortable level of between 35% and 40%.

Cost of debt to remain stable. The average debt cost is 3.2%, which should remain stable in the immediate term. Given the REIT's longer term to maturity vs SREIT peers on average, we have assumed that interest costs will remain c.3.2%.

Share Price Drivers:

Acquisitions to drive earnings. CMT has the right of first refusal to acquire its sponsor's retail assets in Singapore. Beyond Westgate, we note that CapitaLand has several other retail assets in its portfolio which could be injected into the REIT, including Star Vista.

Better-than-expected operational results. We believe that CMT's portfolio will remain resilient despite headwinds. The trust's ability to maintain a steady growth in top line while holding occupancies will be a strong testament to the manager's capability to stand out among its peers.

Key Risks:

Downside risk to rental reversions. A worse-than-expected slowdown in consumer sentiment and consumption outlook may result in lower reversionary potential (vs our 1.5% estimate) for leases expiring in FY19/20.

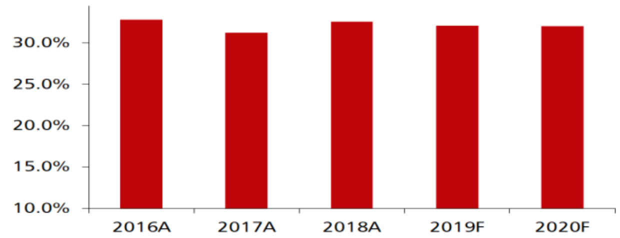
Environment, Social, Governance:

CMT has good disclosure with clarity and transparency in ESG and financial reports. CMT has more than 90% of operating properties achieving at least Green Mark Gold certification and aims to continue reducing energy and water intensity and carbon emissions going forward. CMT also aims to maintain high business ethics and compliance of laws in its business dealings and aims to provide its staff, customers' safety and health in their properties.

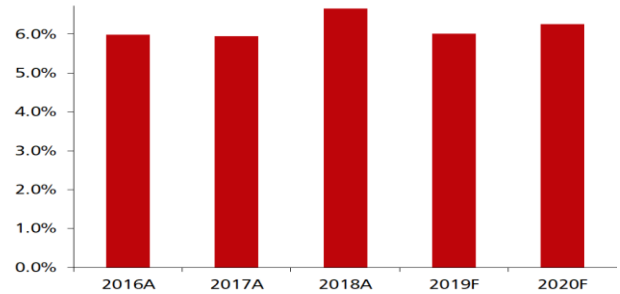
Company Background

CapitaLand Mall Trust (CMT) is a real estate investment trust which owns and invests in retail properties in the suburban areas and downtown core of Singapore.

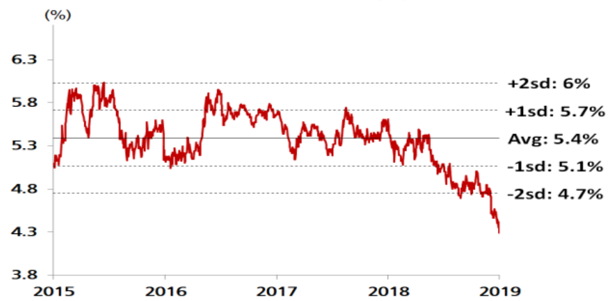
Aggregate Leverage (%)



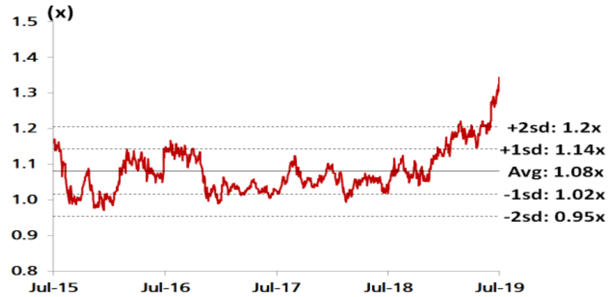
ROE (%)



Distribution Yield (%)



PB Band (x)



Source: Company, DBS Bank

Income Statement (S$m)

FY Dec	2016A	2017A	2018A	2019F	2020F
Gross revenue	690	682	698	777	816
Property expenses	(210)	(204)	(204)	(236)	(249)
Net Property Income	480	478	494	541	566
Other Operating expenses	(49.0)	(48.9)	(48.6)	(55.3)	(56.4)
Other Non Opg (Exp)/Inc	0.0	0.0	(9.0)	0.0	0.0
Net Interest (Exp)/Inc	(95.0)	(94.0)	(87.5)	(105)	(111)
Exceptional Gain/(Loss)	(0.6)	(0.6)	0.14	0.0	0.0
Net Income	402	405	478	447	467
Tax	(1.0)	(0.2)	0.39	0.0	0.0
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Income After Tax	401	405	478	447	467
Total Return	469	658	677	447	467
Non-tax deductible Items	23.5	8.05	(48.6)	3.91	3.94
Net Inc available for Dist.	424	413	429	451	471
Growth & Ratio					
Revenue Gth (%)	3.1	(1.1)	2.2	11.4	5.0
N Property Inc Gth (%)	2.9	(0.3)	3.2	9.6	4.8
Net Inc Gth (%)	(15.2)	1.0	18.0	(6.5)	4.4
Dist. Payout Ratio (%)	92.9	95.8	95.6	96.0	96.0
Net Prop Inc Margins (%)	69.5	70.1	70.8	69.6	69.5
Net Income Margins (%)	58.1	59.3	68.5	57.5	57.2
Dist to revenue (%)	61.5	60.5	61.6	58.0	57.7
Managers & Trustee's fees	7.1	7.2	7.0	7.1	6.9
ROAE (%)	6.0	5.9	6.7	6.0	6.3
ROA (%)	3.9	3.9	4.3	3.8	4.0
ROCE (%)	4.2	4.2	4.1	4.3	4.5
Int. Cover (x)	4.5	4.6	5.1	4.6	4.6

Source: Company, DBS Bank

Quarterly / Interim Income Statement (S$m)

FY Dec	1Q2018	2Q2018	3Q2018	4Q2018	1Q2019
Gross revenue	175	171	171	180	193
Property expenses	(49.5)	(50.6)	(47.9)	(56.0)	(52.6)
Net Property Income	126	121	123	124	140
Other Operating expenses	(12.0)	(11.9)	(12.0)	(12.8)	(13.3)
Other Non Opg (Exp)/Inc	0.36	120	(0.3)	(8.9)	(0.1)
Net Interest (Exp)/Inc	(22.3)	(21.8)	(20.3)	(23.2)	(26.2)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Net Income	**110**	**240**	**148**	**98.6**	**124**
Tax	0.0	0.0	0.0	0.39	0.0
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Income after Tax	**110**	**240**	**148**	**98.9**	**124**
Total Return	110	296	148	123	124
Non-tax deductible Items	1.96	3.00	(6.5)	(5.9)	1.02
Net Inc available for Dist.	109	105	106	109	121
Growth & Ratio					
Revenue Gth (%)	2	(2)	0	6	7
N Property Inc Gth (%)	5	(4)	2	1	13
Net Inc Gth (%)	9	118	(39)	(33)	26
Net Prop Inc Margin (%)	71.7	70.5	71.9	68.9	72.7
Dist. Payout Ratio (%)	90.7	95.6	97.5	98.8	87.5

Balance Sheet (S$m)

FY Dec	2016A	2017A	2018A	2019F	2020F
Investment Properties	8,509	8,770	9,411	9,421	9,431
Other LT Assets	1,301	1,149	1,715	1,715	1,715
Cash & ST Invts	483	523	349	543	577
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	33.7	32.4	27.5	36.7	38.5
Other Current Assets	0.0	29.4	0.0	0.0	0.0
Total Assets	**10,327**	**10,504**	**11,502**	**11,715**	**11,761**
ST Debt	250	535	529	529	529
Creditor	160	156	199	388	408
Other Current Liab	55.9	57.9	99.9	98.1	98.1
LT Debt	3,038	2,648	3,099	3,109	3,119
Other LT Liabilities	130	180	145	145	145
Unit holders' funds	6,692	6,928	7,429	7,445	7,462
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Funds & Liabilities	**10,327**	**10,504**	**11,502**	**11,715**	**11,761**
Non-Cash Wkg. Capital	(183)	(152)	(272)	(450)	(467)
Net Cash/(Debt)	(2,805)	(2,660)	(3,279)	(3,095)	(3,071)
Ratio					
Current Ratio (x)	1.1	0.8	0.5	0.6	0.6
Quick Ratio (x)	1.1	0.7	0.5	0.6	0.6
Aggregate Leverage (%)	32.8	31.2	32.6	32.1	32.0
Z-Score (X)	5.3	5.2	5.1	5.1	5.1

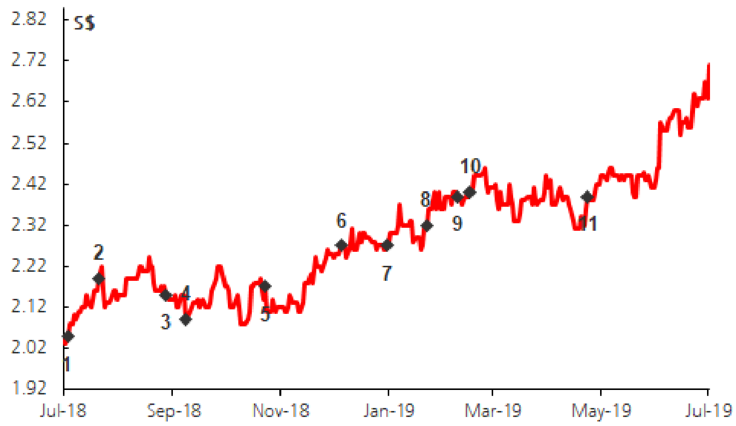
Source: Company, DBS Bank

Cash Flow Statement (S$m)

FY Dec	2016A	2017A	2018A	2019F	2020F
Pre-Tax Income	402	405	478	447	467
Dep. & Amort.	1.11	0.70	0.0	0.0	0.0
Tax Paid	(3.6)	0.0	0.0	(1.8)	0.0
Associates &JV Inc/(Loss)	(66.9)	(70.4)	(129)	(66.3)	(67.8)
Chg in Wkg.Cap.	1.01	(2.3)	19.4	180	17.6
Other Operating CF	99.2	94.6	87.9	0.0	0.0
Net Operating CF	**433**	**428**	**456**	**559**	**416**
Net Invt in Properties	(76.0)	(99.0)	(316)	(10.0)	(10.0)
Other Invts (net)	0.0	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	0.0	98.5	0.0	0.0	0.0
Div from Assoc. & JVs	92.1	80.9	81.0	66.3	67.8
Other Investing CF	11.3	8.77	0.26	0.0	0.0
Net Investing CF	**27.3**	**89.2**	**(235)**	**56.3**	**57.8**
Distribution Paid	(394)	(395)	(456)	(433)	(452)
Chg in Gross Debt	(85.6)	21.6	(114)	10.0	10.0
New units issued	3.88	6.50	272	1.86	1.88
Other Financing CF	(105)	(111)	(97.1)	0.0	0.0
Net Financing CF	**(581)**	**(478)**	**(395)**	**(421)**	**(440)**
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(121)	39.3	(174)	194	34.3
Operating CFPS (S cts)	12.2	12.1	12.1	10.3	10.8
Free CFPS (S cts)	10.1	9.27	3.86	14.9	11.0

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	05 Jul 18	2.05	2.19	BUY
2:	23 Jul 18	2.19	2.30	BUY
3:	30 Aug 18	2.15	2.30	BUY
4:	10 Sep 18	2.09	2.45	BUY
5:	25 Oct 18	2.17	2.45	BUY
6:	07 Dec 18	2.27	2.44	BUY
7:	02 Jan 19	2.27	2.44	BUY
8:	24 Jan 19	2.32	2.44	BUY
9:	11 Feb 19	2.39	2.44	BUY
10:	18 Feb 19	2.40	2.44	BUY
11:	25 Apr 19	2.39	2.55	BUY

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

Source: DBS Bank

Analyst: Carmen Tay
Derek TAN

Singapore Company Guide
CapitaLand Retail China Trust

Version 17 | Bloomberg: CRCT SP | Reuters: CRCT.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

4 Jul 2019

BUY

Last Traded Price (4 Jul 2019): S$1.58 (**STI :** 3,372.25)
Price Target 12-mth: S$1.80 (14% upside) (Prev S$1.65)

Analyst
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What's New

- CRCT's strong organic growth profile and attractive yield of c.7% should place it favourably on investors' radars
- Soon after doubling its exposure in Inner Mongolia, moves to acquire three fast-growing malls in Harbin and Changsha, which signals a new growth era
- Upside from new acquisitions yet to be priced in pending the upcoming EGM, which could boost FY20F DPU by 2-3%
- Maintain BUY; TP raised to S$1.80

Price Relative

Forecasts and Valuation

FY Dec (S$m)	2017A	2018A	2019F	2020F
Gross Revenue	229	223	236	248
Net Property Inc	149	147	154	163
Total Return	145	129	89.8	92.7
Distribution Inc	91.1	99.7	102	107
EPU (S cts)	11.2	6.16	9.10	9.35
EPU Gth (%)	47	(45)	48	3
DPU (S cts)	10.1	10.2	10.4	10.8
DPU Gth (%)	1	1	1	4
NAV per shr (S cts)	160	158	157	155
PE (X)	14.0	25.6	17.4	16.9
Distribution Yield (%)	6.4	6.5	6.6	6.8
P/NAV (x)	1.0	1.0	1.0	1.0
Aggregate Leverage (%)	28.0	34.8	39.1	40.4
ROAE (%)	6.9	3.9	5.8	6.0
Distn. Inc Chng (%):			0	0
Consensus DPU (S cts):			10.2	10.6
Other Broker Recs:		B: 5	S: 0	H: 2

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

Harbin-ger of growth

BUY; TP lifted to S$1.80 as CRCT doubles down on Inner Mongolia. CapitaLand Retail China Trust (CRCT) has done well YTD but continues to offer atwtractive yields of c.7.0% - above its historical mean of 6.6%since listing. Riding on a portfolio with clear organic growth catalysts, CRCT should continue to garner interest among investors and drive further compression in yields. A lower interest rate environment could also be conducive for CRCT as it ramps up on its acquisition-led growth strategy
Maintain BUY as lower interest cost assumptions takes our TP higher to S$1.80, implying a target yield of 6%.

Where we differ: Our TP is at the higher end of consensus estimates as we believe new acquisitions have higher growth potential. With a visible pipeline from the sponsor, we believe that it is an opportune time for CRCT to look at acquisitions. Aided by an active asset reconstitution strategy, CRCT continues to realise value for investors and proceeds can be deployed to value-accretive deals, which we believe could lead to higher earnings momentum.

Strong operational performance. CRCT delivered another robust quarter, as its multi-tenanted malls continued to shine in 1Q19. Occupancy remained healthy at 97.4% while rental reversions came in strongly at +9.5% (even after delivering average reversions of +10.9% in FY18) as its active repositioning and tenant remixing strategies, among others, bore fruit.

Valuation:

Maintain BUY; TP raised to S$1.80 after reducing interest cost assumptions, with upside from its recent acquisitions in Harbin and Changsha, which have yet to be inputted in our forecasts.

Key Risks to Our View:

A significant depreciation of the RMB versus SGD, and a downturn in Chinese consumption.

At A Glance

Issued Capital (m shrs)	999
Mkt. Cap (Sm/USm)	1,578 / 1,163
Major Shareholders (%)	
CapitaLand Limited	24.9
CapitaLand Mall Trust	12.5
Matthews Int'l Capital Management	5.6
Free Float (%)	57.0
3m Avg. Daily Val (US$m)	2.5
ICB Industry : Financials / Real Estate Investment Trust	

Live more, Bank less

DBS
Live more, Bank less

CRITICAL DATA POINTS TO WATCH

Critical Factors

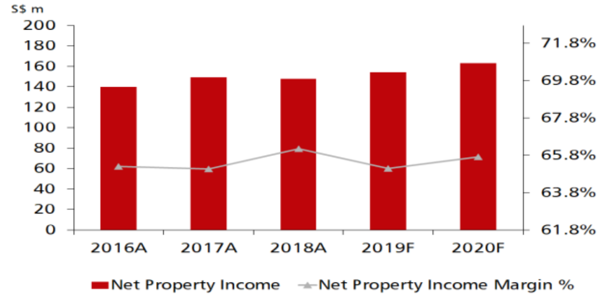
Beijing retail market a key driver to revenues. Given its operations in China, CRCT's share price is sensitive to changes in property-related policies in China. These policies differ from city to city – close attention should be paid to Beijing as c.75% of the portfolio's NPI is derived from properties in Beijing. That said, well-located assets (Wangjing, Xizhimen, Rock Square and Xinnan) that are dominant malls in their respective submarkets enable CRCT to deliver a sustained improvement in operating metrics over time. With a proactive tenant remixing strategy to constantly refresh its tenant mix, the manager had been able to maintain reversions at a high of c.11 % in 9M18, implying that CRCT's organic growth profile will likely remain steady over time.

China retail sales could point to potential upside risk to rental reversions. We note that the REIT has shown a close correlation coefficient of 0.69 with China retail sales, in view that rental growth prospects are supported somewhat by retailers achieving healthy retail sales momentum. While near-term forex fluctuations (CRCT pays distributions in SGD while reporting in RMB) overshadow China's consistently steady retail data in recent times, we believe that once the currency stabilises, investors will refocus on China retail sales as a proxy to the potential forward performance for CRCT.

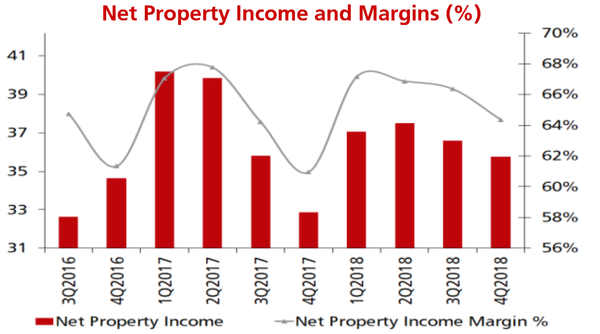
Visible pipeline and a lowly geared balance sheet infuse the REIT with ample firepower to acquire. CRCT benefits from a visible acquisition pipeline from sponsor, CapitaMalls Asia, one of Asia's largest mall operators, managers and owners. While the availability of the pipeline from the sponsor offers significant inorganic growth potential for the REIT, the ability to acquire from the sponsor has been limited, given the market's tight cap rates as compared to CRCT's high implied yields.

That said, CRCT has been able to source deals from external parties, expanding the group's real estate exposure in China, driving inorganic growth to distributions while keeping its gearing low at an optimal level to maintain its flexibility to acquire opportunistically. The high take-up rates in the REIT's dividend reinvestment programme also infuse the REIT with much-needed equity to part-fund any future growth opportunities.

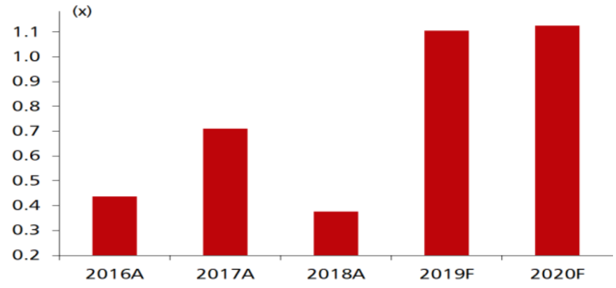
Net Property Income and Margins (%)



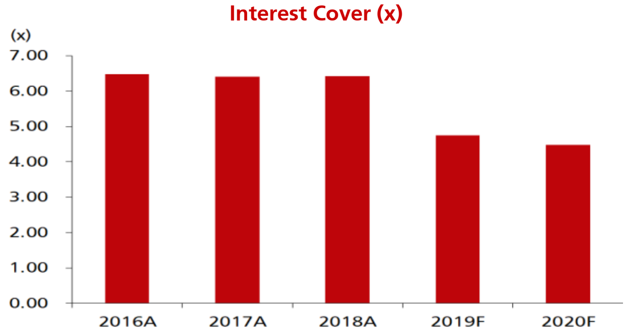
Net Property Income and Margins (%)



Distribution Paid / Net Operating CF



Interest Cover (x)



Source: Company, DBS Bank

Balance Sheet:

Aggregate leverage is at a comfortable level. Aggregate leverage after drawing on debt funding for Rock Square will be around 35% - a very comfortable level below MAS's 45% gearing limit.

Share Price Drivers:

Asset recycling. With adequate debt headroom and signal of a shift in focus to more actively managed assets – from the divestment of CapitaLand Anzhen to the acquisition of Rock Square – we believe more acquisitions are on the manager's radar in the near term. Proceeds from potential asset sales of non-core assets will also help fund these planned acquisitions.

Positive rental revisions. Despite the concerns over China's economic outlook weighing on CRCT, we believe delivery of positive rental reversions and DPU growth should allay such concerns. Furthermore, high positive rental reversions from Rock Square should reassure the market of CRCT's strategy in investing in growth-oriented assets.

Key Risks:

Currency risk. As 100% of CRCT's income is derived in RMB and it does not hedge its income, depreciation of the RMB against the SGD would result in a lower DPU to unitholders.

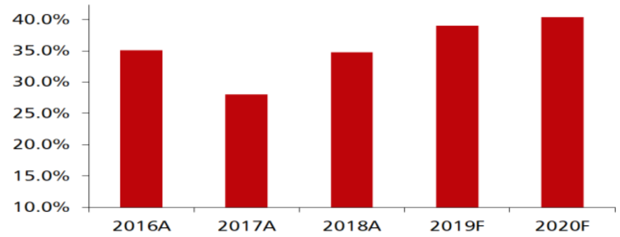
Threat from e-commerce. This threat is partially mitigated by the fact that c.48% of CRCT's Gross Rental Income (GRI) is sourced from tenants who are more resilient to competition from e-commerce, i.e. F&B (28% of GRI), supermarkets (5%), leisure & entertainment (3%), education (4%), and beauty & healthcare (8%).

New mall supply in Beijing and Shanghai. This risk is partially mitigated by the fact that c.80% of the new supply in Beijing is located outside core retail areas where CRCT's malls are situated. CapitaMall Qibao in Shanghai remains on the alert as it combats competition from nearby new supplies.

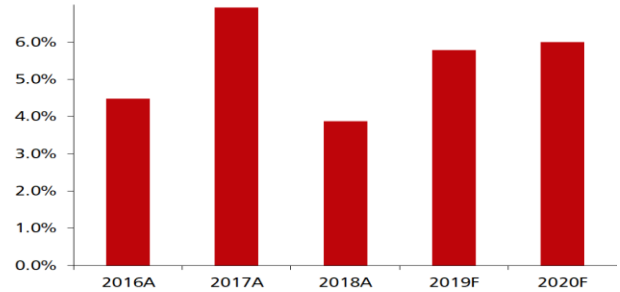
Company Background

CapitaLand Retail China Trust (CRCT) is a real estate investment trust which invests in income-producing retail properties located mainly in China, Hong Kong, and Macau.

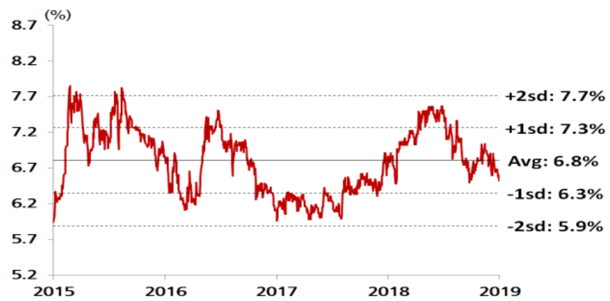
Aggregate Leverage (%)



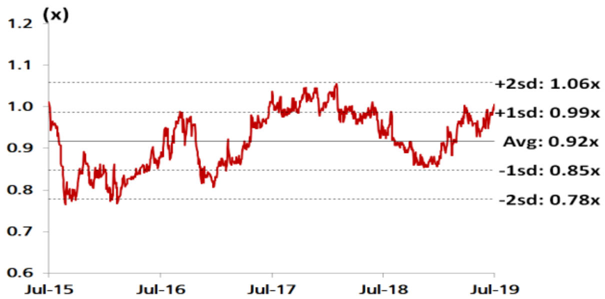
ROE (%)



Distribution Yield (%)



PB Band (x)



Environment, Social, Governance

Source: Company, DBS Bank

Income Statement (S$m)

FY Dec	2016A	2017A	2018A	2019F	2020F
Gross revenue	214	229	223	236	248
Property expenses	(74.5)	(80.0)	(75.3)	(82.4)	(84.9)
Net Property Income	140	149	147	154	163
Other Operating expenses	(13.8)	(14.5)	(16.2)	(15.3)	(16.0)
Other Non Opg (Exp)/Inc	(2.0)	(0.1)	(2.4)	0.0	0.0
Net Interest (Exp)/Inc	(19.4)	(21.0)	(20.4)	(29.2)	(32.9)
Exceptional Gain/(Loss)	0.0	52.2	0.0	0.0	0.0
Net Income	104	166	116	117	122
Tax	(41.6)	(64.2)	(56.5)	(26.3)	(28.6)
Minority Interest	2.61	1.65	1.09	(0.5)	(0.6)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Income After Tax	65.5	103	60.1	89.8	92.7
Total Return	107	145	129	89.8	92.7
Non-tax deductible Items	(19.9)	(57.3)	(34.8)	7.16	9.53
Net Inc available for Dist.	86.7	91.1	99.7	102	107
Growth & Ratio					
Revenue Gth (%)	(2.8)	7.0	(2.8)	6.2	4.9
N Property Inc Gth (%)	(1.0)	6.8	(1.2)	4.5	5.9
Net Inc Gth (%)	(5.4)	57.7	(41.7)	49.3	3.3
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0
Net Prop Inc Margins (%)	65.2	65.1	66.2	65.1	65.8
Net Income Margins (%)	30.6	45.0	27.0	38.0	37.4
Dist to revenue (%)	40.5	39.8	44.8	43.1	43.2
Managers & Trustee's fees	6.5	6.3	7.3	6.5	6.4
ROAE (%)	4.5	6.9	3.9	5.8	6.0
ROA (%)	2.4	3.8	2.1	2.9	2.9
ROCE (%)	3.5	3.7	2.9	4.2	4.1
Int. Cover (x)	6.5	6.4	6.4	4.7	4.5

Source: Company, DBS Bank

Quarterly / Interim Income Statement (S$m)

FY Dec	4Q2017	1Q2018	2Q2018	3Q2018	4Q2018
Gross revenue	54.1	55.4	56.3	55.4	55.7
Property expenses	(21.1)	(18.2)	(18.6)	(18.6)	(19.9)
Net Property Income	33.0	37.2	37.6	36.7	35.9
Other Operating expenses	(4.0)	(4.1)	(4.3)	(4.1)	(3.7)
Other Non Opg (Exp)/Inc	(1.4)	0.82	(0.1)	(1.4)	(1.8)
Net Interest (Exp)/Inc	(4.5)	(4.7)	(4.9)	(5.4)	(5.4)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Net Income	**23.1**	**29.7**	**32.0**	**27.2**	**26.7**
Tax	(15.9)	(10.2)	(15.5)	(8.4)	(22.5)
Minority Interest	0.48	0.00	0.44	0.74	(0.1)
Net Income after Tax	**7.70**	**19.5**	**17.0**	**19.6**	**4.08**
Total Return	36.1	19.5	40.6	19.6	48.9
Non-tax deductible Items	(17.8)	4.18	(16.5)	3.34	(25.9)
Net Inc available for Dist.	18.3	26.7	25.7	23.6	23.7
Growth & Ratio					
Revenue Gth (%)	(3)	2	2	(2)	1
N Property Inc Gth (%)	(8)	13	1	(2)	(2)
Net Inc Gth (%)	(86)	153	(13)	15	(79)
Net Prop Inc Margin (%)	61.0	67.2	66.9	66.4	64.4
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0

Balance Sheet (S$m)

FY Dec	2016A	2017A	2018A	2019F	2020F
Investment Properties	2,628	2,441	2,439	2,690	2,802
Other LT Assets	4.03	2.99	260	267	275
Cash & ST Invts	136	187	174	124	72.2
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	12.8	37.1	108	115	121
Other Current Assets	2.11	0.44	1.17	1.17	1.17
Total Assets	**2,783**	**2,668**	**2,983**	**3,197**	**3,271**
ST Debt	0.0	0.0	0.0	0.0	0.0
Creditor	64.5	59.6	61.0	69.5	75.2
Other Current Liab	241	242	258	258	258
LT Debt	978	748	1,038	1,249	1,321
Other LT Liabilities	48.8	50.8	54.6	54.6	54.6
Unit holders' funds	1,432	1,549	1,553	1,548	1,543
Minority Interests	19.9	19.3	18.3	18.9	19.5
Total Funds & Liabilities	**2,783**	**2,668**	**2,983**	**3,197**	**3,271**
Non-Cash Wkg. Capital	(290)	(264)	(209)	(211)	(211)
Net Cash/(Debt)	(842)	(561)	(864)	(1,124)	(1,248)
Ratio					
Current Ratio (x)	0.5	0.7	0.9	0.7	0.6
Quick Ratio (x)	0.5	0.7	0.9	0.7	0.6
Aggregate Leverage (%)	35.1	28.0	34.8	39.1	40.4
Z-Score (X)	1.0	0.9	0.9	0.9	0.9

Source: Company, DBS Bank

Cash Flow Statement (S$m)

FY Dec	2016A	2017A	2018A	2019F	2020F
Pre-Tax Income	104	166	116	117	122
Dep. & Amort.	2.40	1.73	1.73	1.73	1.73
Tax Paid	(41.6)	(64.2)	(56.5)	(26.3)	(28.6)
Associates &JV Inc/(Loss)	0.0	0.0	(7.2)	(7.1)	(7.6)
Chg in Wkg.Cap.	12.7	(17.5)	(78.2)	1.88	0.0
Other Operating CF	42.0	30.5	142	5.43	7.80
Net Operating CF	**120**	**116**	**118**	**92.3**	**95.2**
Net Invt in Properties	(313)	199	(11.4)	(251)	(112)
Other Invts (net)	0.0	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	0.0	(25.5)	(327)	0.0	0.0
Div from Assoc. & JVs	0.0	0.0	0.0	0.0	0.0
Other Investing CF	0.0	1.42	2.43	0.0	0.0
Net Investing CF	**(313)**	**175**	**(336)**	**(251)**	**(112)**
Distribution Paid	(52.5)	(82.6)	(44.3)	(102)	(107)
Chg in Gross Debt	277	(228)	291	211	71.8
New units issued	0.0	102	(0.1)	0.0	0.0
Other Financing CF	(13.5)	(30.4)	(35.2)	0.0	0.0
Net Financing CF	**211**	**(239)**	**212**	**109**	**(35.4)**
Currency Adjustments	(8.1)	(2.1)	(5.6)	0.0	0.0
Chg in Cash	9.78	50.4	(12.6)	(49.7)	(52.0)
Operating CFPS (S cts)	12.5	14.6	20.1	9.16	9.61
Free CFPS (S cts)	(22.5)	34.4	10.9	(16.0)	(1.7)

Source: Company, DBS Bank

Target Price & Ratings History

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

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	31 Jul 18	1.55	1.70	BUY
2:	30 Aug 18	1.44	1.70	BUY
3:	31 Oct 18	1.37	1.63	BUY
4:	04 Feb 19	1.46	1.65	BUY
5:	11 Feb 19	1.47	1.65	BUY
6:	18 Feb 19	1.44	1.65	BUY
7:	03 Apr 19	1.56	1.65	BUY
8:	11 Jun 19	1.53	1.65	BUY
9:	27 Jun 19	1.56	1.65	BUY

Source: DBS Bank

Analyst: Carmen Tay
Derek TAN

^ Bloomberg ESG Disclosure Scores rate companies annually based on their disclosure of quantitative and policy-related ESG data. It is based on a scoring scale of 0-100, and calculated using a subset of more than 100 raw data points it collects on ESG. It is designed to measure the robustness of companies' disclosure of ESG information in their reporting/the public domain. Based on Bloomberg disclosures, as of 25 Jan 2019, the global ESG disclosure average score is 24.92 and 22.14, 28.26, 49.97 for Environmental, Social and Governance, respectively.

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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*

Completed Date: 4 Jul 2019 20:17:24 (SGT)

Dissemination Date: 4 Jul 2019 20:25:12 (SGT)

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