

CapitaLand Retail China Trust

Bloomberg: CRCT SP | Reuters: CRCT.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

12 Jan 2021

BUY

Last Traded Price (11 Jan 2021): S\$1.43 (STI : 2,983.90)

Price Target 12-mth: S\$1.70 (19% upside)

Analyst

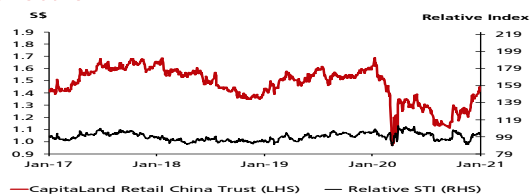
Geraldine WONG +65 6682 3719 geraldinew@dbs.com

Derek TAN +65 6682 3716 derektan@dbs.com

What's New

- Divestment of underperforming mall MZLY above book value is a positive signal
- Divestment proceeds of c.S\$47m can be used to pare down debt and optimise balance sheet
- The divestment of MZLY is relatively immaterial but a sharper positioning, divestment of other 'non-core' assets could further boost share price
- Maintain BUY; TP S\$1.70

Price Relative



Forecasts and Valuation

FY Dec (S\$m)	2018A	2019A	2020F	2021F
Gross Revenue	223	238	260	420
Net Property Inc	147	165	171	288
Total Return	129	165	91.0	152
Distribution Inc	99.7	111	106	165
EPU (S cts)	6.22	6.01	7.53	9.82
EPU Gth (%)	(45)	(3)	25	30
DPU (S cts)	10.2	9.90	8.76	10.6
DPU Gth (%)	1	(3)	(12)	21
NAV per shr (S cts)	161	155	146	146
PE (X)	23.0	23.8	19.0	14.6
Distribution Yield (%)	7.1	6.9	6.1	7.4
P/NAV (x)	0.9	0.9	1.0	1.0
Aggregate Leverage (%)	34.8	36.3	38.6	38.4
ROAE (%)	3.9	3.8	4.4	6.7

Distn. Inc Chng (%):			0	0
Consensus DPU (S cts):			7.60	9.80
Other Broker Recs:	B: 6	S: 0	H: 0	

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



Brain Box

(Our NEW Pilot Research Platform) is available to Institutional Investors on Demand. Please contact your DBSV Institutional Sales contact for a demonstration.

Divestment of underperforming mall is a positive surprise

Investment Thesis

Compelling value for a morphing China behemoth. We maintain our BUY recommendation on CRCT with a 1-year target price of S\$1.70. The yield accretion to our revised FY21 forecasts is attractive at 5.0% post acquisition of sponsor's business park portfolio, while forward yields are at a compelling 7.4% on current price levels.

China is leading the recovery post COVID-19. Green shoots emerged within China's retail sector in August as retail sales turned positive for the first time in 2020. This should have translated to improvements in shopper footfall and tenant sales for CRCT. September retail sales growth was even stronger at 3.3% y-o-y, indicating that retail spending may have returned with a vengeance in recent months.

Inorganic growth to supplement 5.0% yield accretion. We remain excited that CRCT will emerge as the Sponsor's pure play into China with an addressable asset pipeline of more than S\$33bn. Its recent acquisition is likely one of many to come as CRCT steers towards an asset class mix comprised of mixed development/business parks/retail at 40%/30%/30% respectively. The transformation will bring about new horizons for the REIT beyond scale, with greater income visibility and "future-proofing" earnings.

Valuation:

Maintain BUY and with TP at S\$1.70. The recent acquisition of a business park portfolio has been priced into our estimates and as we roll forward valuations into FY21.

Where we differ:

Upward trajectory in China sales not priced in. We think that there may be room for retail sales to trend past a normalised level in 2021.

Key Risks to Our View:

Tightening pandemic measures following respikes of COVID-19 pertaining to imported cases or a return of COVID clusters.

At A Glance

Issued Capital (m shrs)	1,506
Mkt. Cap (S\$m/US\$m)	2,154 / 1,625
Major Shareholders (%)	
CapitaLand Ltd	21.5
CapitaLand Integrated Commercial Trust	8.9
CL Retail China Trust Mgmt	5.5
Free Float (%)	64.1
3m Avg. Daily Val (US\$m)	6.7
GIC Industry : Real Estate / Equity Real Estate Investment (REITs)	



Live more, Bank less

CapitaLand Retail China Trust

WHAT'S NEW

Divestment of MingZhongLeYuan (MZLY)

- CRCT announced the divestment of Mingzhongleyuan Mall (MZLY) yesterday at an agreed price of RMB 458m (c.S\$93.4m) which is c.3.9% above latest asset valuation of RMB 440m (c.S\$89.8m) and above its original cost of RMB 395m (S\$76m) back in 2011.
- In SGD terms, the proposed sale is expected to free up approximately S\$46.8m in net divestment proceeds for the REIT post loan settlements and fees.
- Divestment proceeds will be recycled to pare down debt, finance capex and for internal working capital purposes.
- The divestment is expected to be completed by 2Q this year.

Our thoughts:

(+) Divestment will sharpen CRCT's portfolio exposure

MZLY had long been a low hanging fruit for the REIT to recapitalise its balance sheet with a view to steering towards the new economy clusters or malls with more dominant positioning. Since the mall was acquired in 2011, its positioning within the submarket has weakened over time due to increased supply and in most recent times, due to the government's resettlement initiatives in the area.

This has resulted in occupancy deteriorating over time from 63% in 1Q19 to 49% in 1H20. The asset is also non-core (in our view) to CRCT's portfolio, contributing less than 0.1% to revenues based on our 2021 estimates and operating below breaking even level since 2015. We thus view the divestment as positive. We understand the buyer is a SOE with plans to turn the asset into a themed entertainment centre.

(+) Other non-core assets may be next on the radar

Other non-core assets such as CRCT's last standing master-leased mall – CapitaMall Shuang Jing - may be next on the divestment radar following an earlier divestment of another master-leased mall, Erqi. While CRCT had been delivering strong rental reversions on its multi-tenanted malls, room for further growth at these master-leased malls is limited in comparison due to the longer nature of these leases. CRCT had proven to be able to divest assets above book, which should help the REIT to extract value from the sale of these non-core assets.

(+) Capital recycling to higher yielding assets

While gains are minimal, we like the strategy of recycling its capital that otherwise may be "stuck" in a property that could require more attention and work in the future. Capital recycled from the divestment can be rechanneled towards high yielding sponsor assets such as business parks, resulting in accretion to unitholders. The other alternative would be to potentially rejuvenate the portfolio and acquire sponsor-owned retail assets that is more "dominant" in nature. We continue to see the REIT further expanding into business parks in China, which generate yields above 6.0%-6.5%. This represents a good premium to assets within the retail sector (c.4% - 4.5%) and would be a positive strategic move for the REIT when this happens.

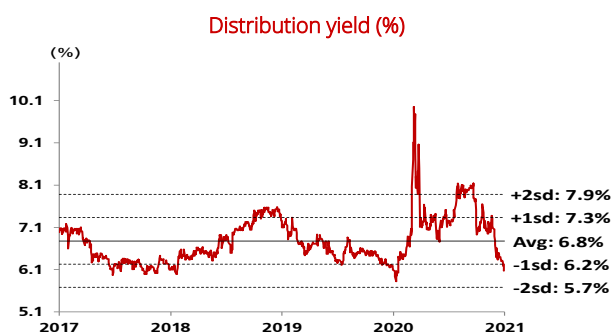
We currently have a BUY call on CRCT with a target price of S\$1.70.

Company Background

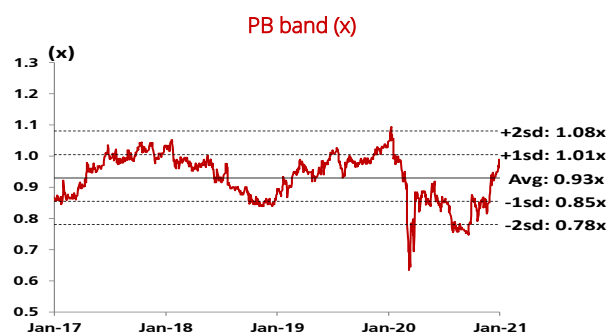
CapitaLand Retail China Trust (CRCT) is a real estate investment trust which invests in income-producing real estate assets in China, Hong Kong and Macau that are used primarily for retail, office and industrial purposes.

CapitaLand Retail China Trust

Historical Dividend yield and PB band



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



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

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Income Statement (\$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Gross revenue	229	223	238	260	420
Property expenses	(80.0)	(75.3)	(72.8)	(88.5)	(133)
Net Property Income	149	147	165	171	288
Other Operating expenses	(14.5)	(16.2)	(5.7)	(20.8)	(25.5)
Other Non Opg (Exp)/Inc	(0.1)	(2.4)	0.0	0.0	0.0
Associates & JV Inc	0.0	7.25	8.57	5.31	0.0
Net Interest (Exp)/Inc	(21.0)	(20.4)	(29.4)	(36.2)	(47.8)
Exceptional Gain/(Loss)	52.2	0.0	2.37	0.0	0.0
Net Income	166	116	141	120	214
Tax	(64.2)	(56.5)	(74.6)	(28.6)	(53.6)
Minority Interest	1.65	1.09	(1.2)	0.0	(4.9)
Preference Dividend	0.0	0.0	0.0	0.0	(3.4)
Net Income After Tax	103	60.1	65.3	91.0	152
Total Return	145	129	165	91.0	152
Non-tax deductible Items	(57.3)	(34.8)	(54.6)	7.85	12.5
Net Inc available for Dist.	91.1	99.7	111	106	165
Growth & Ratio					
Revenue Gth (%)	7.0	(2.8)	6.9	9.0	61.9
N Property Inc Gth (%)	6.8	(1.2)	12.2	3.5	67.9
Net Inc Gth (%)	57.7	(41.7)	8.7	39.3	67.5
Dist. Payout Ratio (%)	100.0	100.0	96.2	100.0	100.0
Net Prop Inc Margins (%)	65.1	66.2	69.4	65.9	68.4
Net Income Margins (%)	45.0	27.0	27.4	35.0	36.3
Dist to revenue (%)	39.8	44.8	46.5	40.8	39.2
Managers & Trustee's fees	6.3	7.3	2.4	8.0	6.1
ROAE (%)	6.9	3.9	3.8	4.4	6.7
ROA (%)	3.8	2.1	1.9	2.2	3.3
ROCE (%)	3.7	2.9	2.7	3.2	4.8
Int. Cover (x)	6.4	6.4	5.4	4.2	5.5

Source: Company, DBS Bank

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Quarterly Income Statement (\$m)

FY Dec	4Q2018	1Q2019	2Q2019	3Q2019	4Q2019
Gross revenue	55.7	56.0	55.2	59.5	67.6
Property expenses	(19.9)	(16.2)	(14.8)	(18.4)	(23.5)
Net Property Income	35.9	39.8	40.4	41.1	44.1
Other Operating	(3.7)	(3.3)	(3.1)	(5.0)	(4.2)
Other Non Opg (Exp)/Inc	(1.8)	1.73	0.01	3.58	9.85
Associates & JV Inc	1.68	1.84	1.84	2.20	2.69
Net Interest (Exp)/Inc	(5.4)	(6.7)	(7.0)	(7.2)	(8.5)
Exceptional Gain/(Loss)	0.0	0.0	0.0	(4.8)	1.74
Net Income	26.7	33.4	32.1	30.0	45.6
Tax	(22.5)	(9.7)	(28.0)	(11.8)	(25.1)
Minority Interest	(0.1)	(1.7)	0.53	0.0	0.0
Net Income after Tax	4.08	22.0	4.65	18.2	20.5
Total Return	48.9	25.2	68.1	18.2	54.0
Non-tax deductible Items	(25.9)	(0.3)	(42.7)	8.77	(20.3)
Net Inc available for Dist.	23.7	25.9	25.4	26.9	33.6
Growth & Ratio					
Revenue Gth (%)	1	0	(1)	8	14
N Property Inc Gth (%)	(2)	11	1	2	7
Net Inc Gth (%)	(79)	439	(79)	290	13
Net Prop Inc Margin (%)	64.4	71.1	73.1	69.1	65.3
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0

Balance Sheet (\$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Investment Properties	2,441	2,441	3,168	4,400	4,413
Other LT Assets	2.99	260	264	1.26	1.26
Cash & ST Invts	187	174	140	85.6	123
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	37.1	107	124	42.1	68.1
Other Current Assets	0.44	0.12	109	109	109
Total Assets	2,668	2,983	3,806	4,638	4,714
ST Debt	0.0	161	207	207	207
Creditor	59.6	60.7	151	78.7	127
Other Current Liab	242	29.2	59.5	59.5	59.5
LT Debt	748	877	1,173	1,583	1,605
Other LT Liabilities	50.8	283	342	342	342
Unit holders' funds	1,549	1,553	1,874	2,369	2,369
Minority Interests	19.3	18.3	0.0	0.0	4.92
Total Funds & Liabilities	2,668	2,983	3,806	4,638	4,714
Non-Cash Wkg. Capital	(264)	17.3	23.2	13.1	(9.5)
Net Cash/(Debt)	(561)	(864)	(1,240)	(1,704)	(1,689)
Ratio					
Current Ratio (x)	0.7	1.1	0.9	0.7	0.8
Quick Ratio (x)	0.7	1.1	0.9	0.7	0.8
Aggregate Leverage (%)	28.0	34.8	36.3	38.6	38.4
Z-Score (X)	1.0	0.9	0.7	0.8	0.8

Source: Company, DBS Bank

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Cash Flow Statement (S\$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Pre-Tax Income	166	116	167	120	214
Dep. & Amort.	1.73	1.73	1.73	1.73	1.73
Tax Paid	(64.2)	(56.5)	(74.6)	(28.6)	(53.6)
Associates & JV Inc/(Loss)	0.0	(7.2)	(8.6)	(5.3)	0.0
Chg in Wkg.Cap.	(17.5)	(57.5)	(18.4)	10.0	22.7
Other Operating CF	30.5	122	60.6	6.12	10.8
Net Operating CF	116	118	127	104	196
Net Invnt in Properties	199	(11.4)	(155)	(1,232)	(12.6)
Other Invnts (net)	0.0	0.0	0.0	0.0	0.0
Invnts in Assoc. & JV	(25.5)	(327)	(393)	268	0.0
Div from Assoc. & JVs	0.0	0.0	0.0	0.0	0.0
Other Investing CF	1.42	2.43	2.55	0.0	0.0
Net Investing CF	175	(336)	(546)	(964)	(12.6)
Distribution Paid	(82.6)	(44.3)	(68.3)	(106)	(165)
Chg in Gross Debt	(228)	291	205	409	22.6
New units issued	102	(0.1)	276	402	0.0
Other Financing CF	(30.4)	(35.2)	(5.6)	100	(3.4)
Net Financing CF	(239)	212	407	806	(146)
Currency Adjustments	(2.1)	(5.6)	(22.1)	0.0	0.0
Chg in Cash	50.4	(12.6)	(34.0)	(54.3)	37.6
Operating CFPS (S cts)	14.6	18.1	13.4	7.74	11.2
Free CFPS (S cts)	34.4	11.0	(2.6)	(93.3)	11.8

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	10 Feb 20	1.51	1.75	BUY
2:	13 Apr 20	1.32	1.55	BUY
3:	08 Oct 20	1.20	1.55	BUY
4:	06 Nov 20	1.23	1.55	BUY
5:	09 Dec 20	1.28	1.70	BUY

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

Source: DBS Bank

Analyst: Geraldine WONG

Derek TAN

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STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

Completed Date: 12 Jan 2021 15:53:09 (SGT)

Dissemination Date: 12 Jan 2021 16:09:48 (SGT)

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DBS Regional Research Offices

HONG KONG

DBS (Hong Kong) Ltd

Contact: Carol Wu
13th Floor One Island East,
18 Westlands Road,
Quarry Bay, Hong Kong
Tel: 852 3668 4181
Fax: 852 2521 1812
e-mail: dbsvhk@dbs.com

MALAYSIA

AllianceDBS Research Sdn Bhd

Contact: Wong Ming Tek
19th Floor, Menara Multi-Purpose,
Capital Square,
8 Jalan Munshi Abdullah 50100
Kuala Lumpur, Malaysia.
Tel.: 603 2604 3333
Fax: 603 2604 3921
e-mail: general@alliancedbs.com
Co. Regn No. 198401015984 (128540-U)

SINGAPORE

DBS Bank Ltd

Contact: Janice Chua
12 Marina Boulevard,
Marina Bay Financial Centre Tower 3
Singapore 018982
Tel: 65 6878 8888
e-mail: groupresearch@dbs.com
Company Regn. No. 196800306E

THAILAND

DBS Vickers Securities (Thailand) Co Ltd

Contact: Chanpen Sirithanarattanukul
989 Siam Piwat Tower Building,
9th, 14th-15th Floor
Rama 1 Road, Pathumwan,
Bangkok Thailand 10330
Tel. 66 2 857 7831
Fax: 66 2 658 1269
e-mail: research@th.dbs.com
Company Regn. No 0105539127012
Securities and Exchange Commission, Thailand

INDONESIA

PT DBS Vickers Sekuritas (Indonesia)

Contact: Maynard Priajaya Arif
DBS Bank Tower
Ciputra World 1, 32/F
Jl. Prof. Dr. Satrio Kav. 3-5
Jakarta 12940, Indonesia
Tel: 62 21 3003 4900
Fax: 6221 3003 4943
e-mail: indonesia@research@dbs.com