

MITA No. 010/06/2008

4 May 2009

CapitaCommercial Trust

Maintain

BUY

Previous Rating: BUY

\$S0.855

Fair Value: \$S1.33

Stock Code: CACT.SI
 Reuters: C61U
 ISIN Code: CCTSP
 Bloomberg: Results

General Data	
Issued Capital (m)	1,400
Mkt Cap (\$m/US\$m)	1,197/808
Major Shareholder	CapitaLand (31.3%)
Free Float (%)	57.0
NTA per share (\$)	2.97
Daily Vol 3-mth ('000)	4,746
52Wk High (\$)	2.420
52Wk Low (\$)	0.595

Results above expectations

Results exceeded our expectations. CapitaCommercial Trust (CCT) delivered a strong set of 1Q09 results that exceeded our expectations. Gross revenue increased 34.5% YoY to S\$97.5m but on a QoQ comparison, the increase was a marginal 0.3% as higher contributions from the positive rental reversions of the office buildings were offset by the weaker contribution from Raffles City's hotel revenue. Property operating expenses increased 27.9% YoY due to its acquisitions but fell 12.6% QoQ as cost savings measures took effect. As such, net property income for 1Q09 increased 40.8% YoY and 6.5% QoQ to S\$69.9m. DPU for 1Q09 has also increased 25.1% YoY and 19.6% QoQ to 3.24 S-cents, translating to an annualized yield of 15.2%.

89% of FY09 forecast GRI locked in. During the first 4 months of 2009, CCT secured new leases and renewals for 335,800 sq ft of spaces. Positive rental reversion on a weighted average basis was ~49% higher than previously signed rents. This was also better than our expectations as we had expected weaker reversionary growth from CCT due to the declining office rental market. With that, CCT has now locked in 89% of our forecast gross rental income (GRI) for FY09, which amounts to S\$318.1m. An additional GRI of S\$35.8m had been locked in since CCT announced its FY08 results, which further enhanced DPU visibility for FY09.

Completed refinancing for FY09. CCT also announced that it had secured commitment for a 3-year secured term loan of up to S\$160m. The loan is secured against HSBC Building and the all-in margin for the term loan is 3% per annum, which is lower than what we have expected in the current tight credit market. As at end-1Q09, CCT had a gearing level of 38.3% which we think, is unsustainable in light of the falling rents and capital values of office buildings in Singapore. With another S\$885m and S\$1,012m (assuming early redemption by bond holders) of borrowings due for refinancing in FY10 and FY11, we continue to believe that an equity fund raising will be inevitable over the mid-term.

Fair value raised to S\$1.33; Maintain BUY. After a better-than-expected positive rental reversions in 1Q09, we are now raising our FY09 and FY10 DPU forecasts to 11.2 S-cents (previously 10.2 S-cents) and 9.9 S-cents (previously 8.7 S-cents) respectively, which translate to attractive FY09 and FY10 DPU yields of 13.1% and 11.6%. Our fair value has now been raised to S\$1.33 (previously S\$1.06). We maintain our **BUY** recommendation for CCT

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Year to 31-Dec	Gross Revenue (\$m)	Net Prop Income (\$m)	Distributable Income (\$m)	DPU (cents)	Price/NAV (x)	Distribution Yield (%)
FY 07	240.1	174.0	120.4	8.7	0.3	10.2
FY 08	335.3	233.5	153.0	11.0	0.3	12.9
FY 09F	400.1	284.0	156.7	11.2	0.3	13.1
FY 10F	377.1	275.2	139.0	9.9	0.3	11.6

Please refer to the important disclosures at the back of this document.

Exhibit 1: Revenue breakdown by properties

Gross Revenue (in S\$m)	1Q08	1Q09	YoY % change	4Q08	QoQ % change
Capital Tower	12.2	13.6	11.7	12.3	11.0
6 Battery Road	16.5	20.5	24.5	20.4	0.5
Starhub Centre	3.3	5.3	57.7	4.9	7.0
Robinson Point	2.0	3.3	64.9	3.4	-1.9
Bugis Village	2.5	2.6	4.5	2.5	2.3
Golden Shoe Car Park	2.7	2.8	1.8	2.8	-2.4
Market Street Car Park	1.3	1.1	-17.7	1.1	-3.0
HSBC Building	2.2	2.3	3.2	2.3	0.0
Wilkie Edge	-	1.4	NM	0.0	NM
1 George Street	-	15.9	NM	16.2	-1.6
Raffles City (60% interest)	28.5	28.7	0.9	31.1	-7.6
	<u>71.2</u>	<u>97.5</u>	36.9	<u>97.0</u>	0.5

Source: Company

Exhibit 2: Net Property Income breakdown by properties

Net Property Income (in S\$m)	1Q08	1Q09	YoY % change	4Q08	QoQ % change
Capital Tower	7.1	8.0	12.1	6.7	18.6
6 Battery Road	11.8	16.3	37.9	15.8	3.1
Starhub Centre	2.1	3.8	84.1	3.5	7.8
Robinson Point	1.2	2.5	104.1	2.4	6.8
Bugis Village	1.9	2.0	5.0	1.9	6.6
Golden Shoe Car Park	2.0	2.0	-0.8	1.9	1.4
Market Street Car Park	0.8	0.6	-17.5	0.5	37.4
HSBC Building	2.1	2.2	4.0	2.2	0.0
Wilkie Edge	-	0.3	NM	-1.6	NM
1 George Street	-	12.2	NM	12.4	-1.9
Raffles City (60% interest)	20.5	19.9	-3.1	19.8	0.4
	<u>49.6</u>	<u>69.9</u>	40.8	<u>65.6</u>	6.5

Source: Company

Exhibit 3: RNAV Table

	in S\$m
Valuation of investment properties	4,448.1
Book value of investment properties	6,710.6
Surplus from investment properties	-2,262.5
Surplus/(Deficit) from Quill Capita Trust stake	-22.9
Book value (as at end of FY08)	4,154.9
FY09 RNAV	1,869.5
Shares outstanding (m)	1,400.4
RNAV per share (S\$)	1.33
Discount to RNAV	0.0%
Fair Value (S\$)	\$1.33

Source: OIR estimates

CCT's Key Financial Data

CCT Results Year Ended 31 Dec (S\$ m)	1Q08 (S\$m)	1Q09 (S\$m)	% Chg (YoY)	4Q08 (S\$m)	% Chg (QoQ)
Gross rental income	65.0	87.4	34.5	83.8	4.3
Car park income	4.0	4.1	2.8	4.2	-3.5
Other income	2.3	6.0	163.9	9.2	-34.6
Gross revenue	71.2	97.5	36.9	97.2	0.3
Property management fees	-2.0	-2.6	32.8	-2.6	-0.2
Property tax	-9.1	-11.4	24.4	-11.8	-3.9
Other property operating expenses	-10.5	-13.6	30.1	-17.1	-20.4
Property operating expenses	-21.6	-27.6	27.9	-31.6	-12.6
Net property income	49.6	69.9	40.8	65.6	6.5
Interest income	0.2	0.0	-88.7	0.1	-63.6
Investment income	0.0	0.0	NM	0.0	NM
Other income	0.0	0.0	NM	0.0	NM
Loss from re-measurement of derivatives	-7.9	5.1	NM	-12.5	NM
Manager's management fees	-3.9	-4.8	21.9	-3.8	27.3
Trust expenses	-0.3	-1.4	379.9	-11.8	-88.4
Gain on sale of investment property	0.0	0.0	NM	0.0	NM
Loss on disposal of subsidiary	0.0	0.0	NM	0.0	NM
Borrowing costs	-13.3	-24.1	80.6	-28.9	-16.8
Net income before share of profit of associate & fair value changes	24.4	44.8	84.0	8.7	413.9
Net change in fair value of investment properties	0.0	0.0	NM	-241.8	NM
Share of profit of associate (net of tax)	0.9	1.1	19.3	1.2	-9.8
Total return for the period before tax	25.3	45.9	81.6	-231.9	NM
Income available for distribution to unitholders	35.9	45.4	26.6	38.0	42.6
Distributable income to unitholders	35.9	45.4	26.6	38.0	42.6

EARNINGS FORECAST

Year Ended 31 Dec (S\$ m)	FY07	FY08	FY09F	FY10F
Gross revenue	240.1	335.3	400.1	377.1
Property management fees	-7.0	-9.1	-12.0	-11.3
Property tax	-21.1	-42.4	-44.0	-33.9
Other property operating expenses	-38.1	-50.4	-60.1	-56.6
Property operating expenses	-66.1	-101.8	-116.1	-101.9
Net property income	174.0	233.5	284.0	275.2
Other income (Loss)	-4.5	6.1	0.0	0.0
Manager's management fees	-13.6	-16.3	-20.0	-18.9
Trust expenses	-5.8	-15.2	-12.0	-11.3
Gain on sale of investment property	0.6	0.0	0.0	0.0
Loss on disposal of subsidiary	-0.2	0.0	0.0	0.0
Borrowing costs	-49.3	-84.1	-111.8	-117.8
Net income before share of profit of associate & fair value c	101.1	124.0	140.1	127.2
Net change in fair value of investment properties	1,305.8	203.8	0.0	0.0
Share of profit of associate (net of tax)	9.0	3.9	4.0	4.0
Total return for the period before tax	1,416.0	331.7	144.1	131.2
Income tax	-0.1	0.0	0.0	0.0
Total return for the period after tax	1,415.9	331.7	144.1	131.2
Net income before share of profit of associate & fair value c	101.1	124.0	140.1	127.2
Adjustments	19.3	29.0	16.5	11.8
Distributable income to unitholders	120.4	153.0	156.7	139.0
DPU (S-cents)	8.7	11.0	11.2	9.9

BALANCE SHEET

As at 31 Dec (S\$ m)	FY07	FY08	FY09F	FY10F
Plant and equipment	1.1	1.3	1.3	1.3
Investment properties	5,110.0	6,710.6	6,730.6	6,750.6
Investment in associate	64.6	63.9	65.2	66.5
Other investment	7.8	10.2	10.2	10.2
Trade and other receivables	4.9	18.7	22.4	21.1
Cash	35.5	66.7	32.3	27.5
Total assets	5,278.7	6,871.4	6,861.9	6,877.2
Long-term borrowings	1,097.5	1,514.8	1,305.9	1,590.9
Debt securities	0.0	350.7	350.7	350.7
Other non-current liabilities	22.9	31.3	32.8	34.5
Trade and other payables	47.5	96.8	115.5	108.9
Derivative liability	10.5	26.1	21.0	21.0
Short-term borrowings	162.1	696.0	885.0	620.0
Provision for taxation	0.7	0.7	0.7	0.8
Total current liabilities	220.7	819.7	1,001.3	729.7
Total liabilities	1,341.1	2,716.5	2,711.7	2,726.7
Unitholders' funds	3,937.6	4,154.9	4,150.3	4,150.5
Total liabilities and unitholders' funds	5,278.7	6,871.4	6,861.9	6,877.2

CASH FLOW				
Year Ended 31 Dec (\$\$ m)	FY07	FY08	FY09F	FY10F
Total return before tax	1,416.0	331.7	144.1	131.2
Adjustments	-1,254.0	-118.2	108.9	114.8
Operating income before working cap change	162.0	213.5	253.0	246.0
Change in working capital	15.7	32.5	15.1	-5.4
Cash generated from operations	177.6	246.0	268.0	240.6
Tax paid	0.0	0.0	0.0	0.0
Cash generated from operating activities	177.6	246.0	268.0	240.6
Cashflow from investing activities	-82.1	-1,328.7	-20.8	-20.8
Cashflow from financing activities	-102.0	1,113.9	-281.6	-224.6
Change in cash	-6.4	31.2	-34.3	-4.8
Cash at beginning of period	41.9	35.5	66.7	32.3
Cash at end of period	35.5	66.7	32.3	27.5
Key Ratios				
PER (x)	0.8	3.6	8.3	9.1
P/NAV (x)	0.3	0.3	0.3	0.3
NPI margin (%)	72.5	69.6	71.0	73.0
Net income margin (%)	589.8	98.9	36.0	34.8
Gearing (%)	23.9	37.3	37.0	37.2
DPU yield (%)	10.2	12.9	13.1	11.6
ROE (%)	36.0	8.0	3.5	3.2
ROA (%)	26.8	4.8	2.1	1.9

Source: Company data, OIR estimates

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