1 June 2010

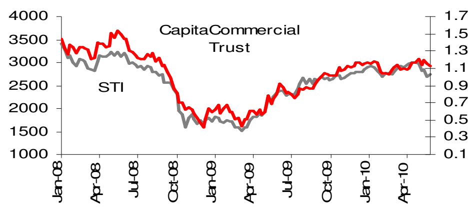
Maintain

BUY

Previous Rating: BUY

Current Price: S$1.14

Fair Value: S$1.26



Reuters Code	CACT.SI
ISIN Code	C61U
Bloomberg Code	CCT SP
Issued Capital (m)	2,819
Mkt Cap (Sm / USm)	3,214 / 2,297
Major Shareholders	
CapitaLand	31.4%
Free Float (%)	57.0%
Daily Vol 3-mth ('000)	9,565
52 Wk Range	0.780 - 1.230

(S$ m)	FY08	FY09	FY10F	FY11F
Revenue	335.3	403.3	395.8	397.7
NPI	233.5	300.2	296.0	297.4
Distributions	153.0	198.5	202.9	204.2
DPU yield (%)	6.5	6.2	6.3	6.4
P/NAV (x)	0.6	0.8	0.8	0.8

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CapitaCommercial Trust

Asset enhancement at 6 Battery Road

Asset enhancement at 6 Battery Road. Last week, CapitaCommercial Trust (CCT) unveiled its asset enhancement initiative (AEI) at 6 Battery Road (6BR). The upgrade will focus on improving the building's energy efficiency, environmental sustainability, as well as the facilities in the building. The AEI will commence in Oct 2010 and carried out in phases until 2013 in order to minimize the inconvenience to its tenants. Upgrading of common facilities ground floor lift lobby, turnstiles and reception area will start first while the enhancement of office space will be carried out upon the lease expiry of tenants. The building will remain tenanted during the upgrading period. Estimated capex for the AEI is ~S$92m and the cost is equivalent to 8% of the building's valuation at the end of Dec 2009.

Positioning for long term growth. With Nomura likely to move out of 6BR to Marina Bay Financial Centre and Standard Chartered downsizing its office space in 6BR by 70,000 sq ft when their leases expire, near term outlook for CCT remains challenging. Nevertheless, we view this AEI positively. We believe that the completion of the upgrading works will place 6BR in a better position to compete with the newer office buildings and thus leading to higher rental rates. The AEI is expected to complete in 2013 and with no new supply of new office space in that year, we believe that CCT will have better bargaining power to negotiate for higher rental rates from its tenants.

Maintain BUY. According to CCT, the AEI is expected to generate incremental gross revenue of S$9.2m pa and incremental net property income (NPI) of S$7.4m pa. Management estimates that 20% of the incremental NPI (~S$1.5m) will come from cost savings due to reduction in energy consumption. The other 80% of the increment NPI (S$5.9m) will come from higher rental rate that the building is expected to achieve post-AEI. However, we think that it is too early to make any adjustments to our rental assumptions from 2013 onwards as there is still a lack of clarity on the recovery in office rents, which will depend on the take-up rate of the upcoming supply of office spaces in 2010-2012 and the sustainability of the economic growth. As such, we leave our estimates unchanged. Our fair value also remains at S$1.26. With a total return of 16.4%, we reiterate our **BUY** rating on CCT.

Exhibit 1: Schedule of AEI

Date	Milestone
Oct 2010 - Jan 2011	Ground floor lift lobby, turnstiles and reception area
Oct 2010 - Jun 2013	• Upgrading of Mechanical & Electrical works (For e.g. upgrade of electrical power supply) • Construction / installation of "green" features
Feb 2011 till Dec 2013	Progressively enhance office space (upon lease expiry): • to increase ceiling height to 2.8 m • to upgrade air-con and sprinkler system • to install variable air volume box • to renew finishes at upper floor lift lobbies and restrooms

Source: Company

Exhibit 2: Breakdown of projected AEI payment

Year	Amount	% of total	Remarks
2010	S$9 mil	10%	AEI in progress
2011	S$15 mil	16%	AEI in progress
2012	S$30 mil	33%	AEI in progress
2013	S$28 mil	30%	Completion of AEI
2014	S$7 mil	8%	For defects rectification
2015	S$3 mil	3%	For defects rectification
Total	**S$92.0 mil**		

Source: Company

Exhibit 3: RNAV Table

	in S$m
Valuation of investment properties	5,292.4
Book value of investment properties	5,702.0
Surplus from investment properties	-409.6
Surplus/(Deficit) from Quill Capita Trust stake	-14.6
Book value (as at end of FY09)	3,956.4
FY10 RNAV	3,532.2
Share base (m)	2,813.9
RNAV per share (S$)	**1.26**
Premium/Discount to RNAV	0.0%
Fair Value (S$)	**$1.26**

Source: OIR estimate

CCT's Key Financial Data

EARNINGS FORECAST Year Ended 31 Dec (S$m)	FY08	FY09	FY10F	FY11F
Gross revenue	335.3	403.3	395.8	397.7
Total property expenses	-101.8	-103.1	-99.8	-100.3
Net property income	233.5	300.2	296.0	297.4
Borrowing costs	-84.1	-93.2	-80.2	-80.2
Manager's management fees	-16.3	-19.8	-19.8	-19.9
Net income (b/f assoc and reval)	124.0	191.7	190.1	191.4
Share of profit of associate	3.9	4.0	4.1	4.2
Revaluation of invt ppty	203.8	-1034.9	0.0	0.0
Total return for the period	331.7	-839.2	194.3	195.6
Income available for distribution	153.0	198.5	202.9	204.2

BALANCE SHEET As at 31 Dec (S$m)	FY08	FY09	FY10F	FY11F
Investment properties	6710.6	5519.5	5549.5	5579.5
Investment in associate	63.9	62.6	63.9	65.2
Cash	66.7	312.5	445.2	397.2
Total current assets	85.4	321.9	454.4	406.5
Total assets	6871.4	6100.0	6081.1	6064.6
Current liabilities ex debt	123.7	90.9	89.2	89.7
Debt	2210.9	1640.6	1640.6	1640.6
Total liabilities	2716.5	2143.6	2143.3	2145.3
Unitholders' funds	4154.9	3956.4	3937.8	3919.3
Total equity and liabilities	6871.4	6100.0	6081.1	6064.6

CASH FLOW Year Ended 31 Dec (S$m)	FY08	FY09	FY10F	FY11F
Operating income before working cap change	213.5	292.6	283.5	283.9
Change in working capital	32.5	3.9	-1.5	0.4
Cash generated from operations	246.0	296.5	281.9	284.2
Tax paid	0.0	-0.4	0.0	0.0
Cashflow from operating activities	246.0	296.1	281.9	284.2
Cashflow from investing activities	-1328.7	-25.4	171.7	-30.8
Cashflow from financing activities	1113.9	-24.9	-320.9	-301.4
Change in cash	31.2	245.8	132.7	-47.9
Cash at beginning of period	35.5	66.7	312.5	445.2
Cash at end of period	66.7	312.5	445.2	397.2

KEY RATES & RATIOS	FY08	FY09	FY10F	FY11F
DPU per share (S-cents)	11.0	7.1	7.2	7.3
NAV per share (S-cents)	297.4	140.6	139.9	139.3
PER (x)	4.8	NA	16.5	16.4
P/NAV (x)	0.6	0.8	0.8	0.8
NPI margin (%)	69.6	74.4	74.8	74.8
Net income margin (%)	98.9	-208.1	49.1	49.2
Gearing (%)	37.3	32.9	33.0	33.0
DPU yield (%)	6.5	6.2	6.3	6.4
ROE (%)	8.0	-21.2	4.9	5.0
ROA (%)	4.8	-13.8	3.2	3.2

Source: Company data, OIR estimates

SHAREHOLDING DECLARATION:
The analyst/analysts who wrote this report holds NIL shares in the above security.

RATINGS AND RECOMMENDATIONS:
OCBC Investment Research's (OIR) technical comments and recommendations are short-term and trading oriented.
- However, OIR's fundamental views and ratings (Buy, Hold, Sell) are medium-term calls within a 12-month investment horizon. OIR's Buy = More than 10% upside from the current price; Hold = Trade within +/-10% from the current price; Sell = More than 10% downside from the current price.
- For companies with less than S$150m market capitalization, OIR's Buy = More than 30% upside from the current price; Hold = Trade within +/- 30% from the current price; Sell = More than 30% downside from the current price.

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