OCBC Investment Research

MITA No. 010/06/2008

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CapitaMall Trust

Less attractive risk-reward proposition

Downgrade to
HOLD
Previous Rating: BUY

S$1.29

Fair Value: S$1.21

Stock Code:	
Reuters:	CMLT.SI
ISIN Code	C38U
Bloomberg:	CT SP
Event:	Results

General Data	
Issued Capital (m)	3,172
Mkt Cap (Sm/USm)	4,091/2,732
Major Shareholder	CapitaLand (30%)
Free Float (%)	40
NTA per share (S$)	2.08
Daily Vol 3-mth ('000)	12,570
52Wk High (S$)	3.061
52Wk Low (S$)	0.935

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Flat QoQ revenue growth in 1Q09. For 1Q09, CapitaMall Trust (CMT) reported gross revenue growth of 11.1% YoY or flat QoQ to S$134.5m. Net property income increased by a smaller 9.1% YoY and 7.5% QoQ to S$92.4m due to higher operating expenses from the acquisition of The Atrium and the opening of the Sembawang Shopping Centre. Unrealised forex loss of S$11.4m was recognized on the translation difference of syndicated loan but had no impact on cashflow. Reported balance sheet had not taken into account the Rights issue and the post-Rights issue balance sheet is likely to have a net gearing ratio of 29.2%.

Expecting further downside in retail rents. Conditions in the retail scene deteriorated further in 1Q09. Within CMT's portfolio, only tenants in trade sectors such as supermarket, books & stationery, department stores and beauty and health related sectors experienced increase in consumer spending. Some of the trade sectors that have been perceived defensive and performed well in 4Q08, such as food & beverages sectors experienced turnover decline in 1Q09. With the recent downgrade of Singapore 2009 GDP growth to -6% to -9%, we are seeing increasing risk of further deterioration in consumer spending in the coming quarters. Declining turnover would translate to higher occupancy costs for tenants and this raises more doubt over the sustainability of high rental rates going forward. As such, we are now forecasting rent decline of -10% (from -5%) for CMT's retail portfolio.

Downgrade to HOLD. Our revised DPU estimates have been lowered to 9 S-cents for FY09 (previously 9.1 S-cents) and 9.3 S-cents for FY10 (previously 9.4 S-cents). Risk-reward proposition may not look as attractive as before, with the worsening outlook and the recent increase in share price. Nevertheless, CMT has already locked in 90% of FY08 gross revenue (~S$460m) for FY09 and this will provide strong DPU visibility for FY09. Our fair value estimate has now been lowered to S$1.21 (previously S$1.26). CMT is now trading at our estimated FY09 DPU yield of 7% and for 1Q09, it will be distributing 1.97 S-cents to unitholders (annualized yield: 6.2%). While CMT has retained S$3.3m of taxable income (exclude CRCT distribution) in 1Q09, it is still committed to pay out 100% of its taxable income to unitholders for FY09. For now, we see limited share price upside and with no near term catalyst in sight, we are downgrading CMT to **HOLD.**

Year to 31-Dec	Gross Revenue (S$m)	Net Prop Income (S$m)	Distributable Income (S$m)	EPS (cents)	EPS Growth (%)	PER (x)	Price/ NAV (x)	Distribution Yield (%)
FY 07	431.9	287.8	211.2	38.5	40.4	3.3	0.8	7.7
FY 08	510.9	341.1	238.4	33.7	-12.6	3.8	0.7	8.3
FY 09F	547.8	376.1	285.6	7.7	-77.1	16.7	0.8	7.0
FY 10F	557.4	384.4	293.8	8.2	6.0	15.7	0.8	7.2

Exhibit 1: RNAV Table

	in S$m
Valuation of investment properties (include Atrium)	6,278.9
Book value of investment properties (include Atrium)	7,174.0
Surplus from investment properties	-895.1
Surplus/(Deficit) from CRCT stake	-17.7
Book value (as at end of FY08)	4,079.6
RNAV	3,166.7
Gross proceeds from rights issue	1,230.1
Diluted shares outstanding (Ex-rights) (m)	3,241.5
RNAV per share (S$)	**1.36**
Discount to RNAV	15.0%
Fair Value (S$)	**$1.21**

Source: OIR estimates

CMT's Key Financial Data

CMT Results Year Ended 31 Dec (S$ m)	1Q08 (S$m)	1Q09 (S$m)	% Chg (YoY)	4Q08 (S$m)	% Chg (QoQ)
Gross revenue	121.1	134.5	11.1%	129.7	3.7%
Property operating expenses	-36.4	-42.1	15.8%	-42.8	-1.6%
Net property income	84.7	92.4	9.1%	86.9	6.3%
Interest income	0.2	0.1	-55.1%	0.9	-90.4%
Asset management fees	-7.0	-8.3	19.8%	-8.2	1.0%
Trust expenses	-1.0	-0.8	-17.0%	-0.7	20.0%
Finance costs	-19.7	-29.3	48.6%	-30.6	-4.2%
Net income before share of profit of	57.2	42.6	-25.5%	48.2	-11.6%
Share of profit of associate	1.3	-0.5	-141.2%	4.1	NM
Net income	58.5	42.1	-28.1%	52.4	-19.6%
Net change in fair value of investment properties	0.0	0.0	NM	0.0	NM
Change in fair value of financial derivatives	0.0	2.0	NM	24.6	-92.1%
Total return for the period before tax	58.5	44.0	-24.7%	77.0	-42.8%
Taxation	0.0	-0.1	NM	-1.3	-92.5%
Total return for the period after tax	58.5	43.9	-24.9%	75.7	-42.0%

EARNINGS FORECAST Year Ended 31 Dec (S$ m)	FY07	FY08	FY09F	FY10F
Gross rental income	399.2	473.6	511.0	520.0
Car park income	12.0	13.7	13.9	14.0
Other income	20.7	23.6	23.0	23.4
Gross revenue	431.9	510.9	547.8	557.4
Property management fees	-15.6	-19.1	-20.5	-20.8
Property tax	-39.7	-48.5	-47.2	-51.9
Other property operating expenses	-88.8	-102.1	-104.1	-100.3
Property operating expenses	-144.1	-169.8	-171.8	-173.0
Net property income	287.8	341.1	376.1	384.4
Interest income	1.1	1.9	0.0	0.0
Investment income	0.0	0.0	0.0	0.0
Asset management fees	-25.5	-31.0	-33.3	-33.8
Trust expenses	-3.1	-4.4	-4.8	-4.8
Finance costs	-72.3	-102.5	-92.4	-95.8
Net income before share of profit of associate & fair value changes	187.9	205.0	234.2	249.9
Share of profit of associate	39.7	8.4	9.2	10.1
Net income	227.6	213.4	243.5	260.1
Net change in fair value of investment properties	381.2	323.2	0.0	0.0
Total return for the period before tax	608.7	536.6	245.4	260.1
Taxation	-0.8	-1.3	-0.6	-0.6
Total return for the period after tax	607.9	535.4	244.8	259.4
Distribution Statement				
Net income before share of profit of associate	187.9	205.0	234.2	249.9
Net effect of non-tax deductible items	18.4	29.0	30.5	32.0
Distribution income from associate	3.1	7.2	10.8	11.9
Interest income from associate	2.1	0.0	10.1	0.0
Others	0.0	0.0	0.0	0.0
Net loss/(profit) from subsidiaries	0.1	-1.0	0.0	0.0
Amount available for distribution to unitholders	211.6	240.3	285.6	293.8
Distributable income to unitholders	211.2	238.4	285.6	293.8

BALANCE SHEET As at 31 Dec (S$ m)	FY07	FY08	FY09F	FY10F
Non-current assets				
Plant and equipment	1.4	2.2	3.5	4.5
Investment properties	5,777.9	7,174.0	7,337.7	7,437.7
Investment in associate	98.1	143.9	143.9	143.9
Other asset	0.0	1.8	0.0	0.0
Total non-current assets	5,877.3	7,321.9	7,485.1	7,586.1
Current assets				
Inventories	0.2	0.2	0.2	0.2
Trade and other receivables	10.8	13.8	14.8	15.1
Cash	68.9	168.4	173.8	123.1
Total current assets	79.9	187.1	188.8	138.3
Total assets	5,957.3	7,509.0	7,673.9	7,724.4
Current liabilities				
Trade and other payables	116.8	156.8	158.7	159.8
Short-term borrowings	150.0	652.9	652.9	652.9
Provision for taxation	1.0	1.6	1.6	1.7
Total current liabilities	267.8	811.3	813.2	814.5
Non-current liabilities				
Financial derivatives	0.0	45.3	0.0	0.0
Long-term borrowings	1,892.9	2,504.0	1,547.8	1,627.8
Non-current portion of security deposits	70.7	68.8	72.2	75.8
Other payables	4.0	0.0	0.0	0.0
Total non-current liabilities	1,967.6	2,618.1	1,620.0	1,703.6
Total liabilities	2,235.5	3,429.4	2,433.2	2,518.1
Unitholders' funds	3,721.8	4,079.6	5,240.7	5,206.3
Total liabilities and unitholders' funds	5,957.3	7,509.0	7,673.9	7,724.4

CASH FLOW Year Ended 31 Dec (S$ m)	FY07	FY08	FY09F	FY10F
Net income	227.6	213.4	245.4	260.1
Adjustments	46.0	107.5	99.4	102.6
Operating income before working capital change	273.5	320.9	344.8	362.6
Change in working capital	34.6	27.8	2.3	3.8
Cash generated from operations	308.1	348.7	347.1	366.4
Tax paid	0.1	-0.9	-0.6	-0.6
Cash generated from operating activities	308.1	347.9	346.6	365.8
Cashflow from investing activities	-382.8	-1,101.7	-155.3	-90.5
Cashflow from financing activities	96.4	853.2	-185.9	-326.0
Change in cash	21.7	99.4	5.4	-50.7
Cash at beginning of period	47.2	68.9	168.4	173.8
Cash at end of period	68.9	168.4	173.8	123.1
Key Ratios				
PER (x)	3.3	3.8	16.7	15.7
P/NAV (x)	0.8	0.7	0.8	0.8
Gross profit margin (%)	66.6	66.8	68.6	69.0
Net profit margin (%)	140.8	104.8	44.7	46.5
Gearing (x)	34.3	42.0	28.7	29.5
Dividend yield (%)	7.7	8.3	7.0	7.2
ROE (%)	16.3	13.1	4.7	5.0
ROA (%)	10.2	7.1	3.2	3.4

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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