

Capitaland China Trust

2022

Research Reports



Singapore Company Update

CapitaLand China Trust

Bloomberg: CLCT SP | Reuters: CAPA.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

8 Oct 2021

BUY

Last Traded Price (7 Oct 2021): S\$1.24 (STI : 3,101.15)
Price Target 12-mth: S\$1.60 (29% upside) (Prev S\$1.55)

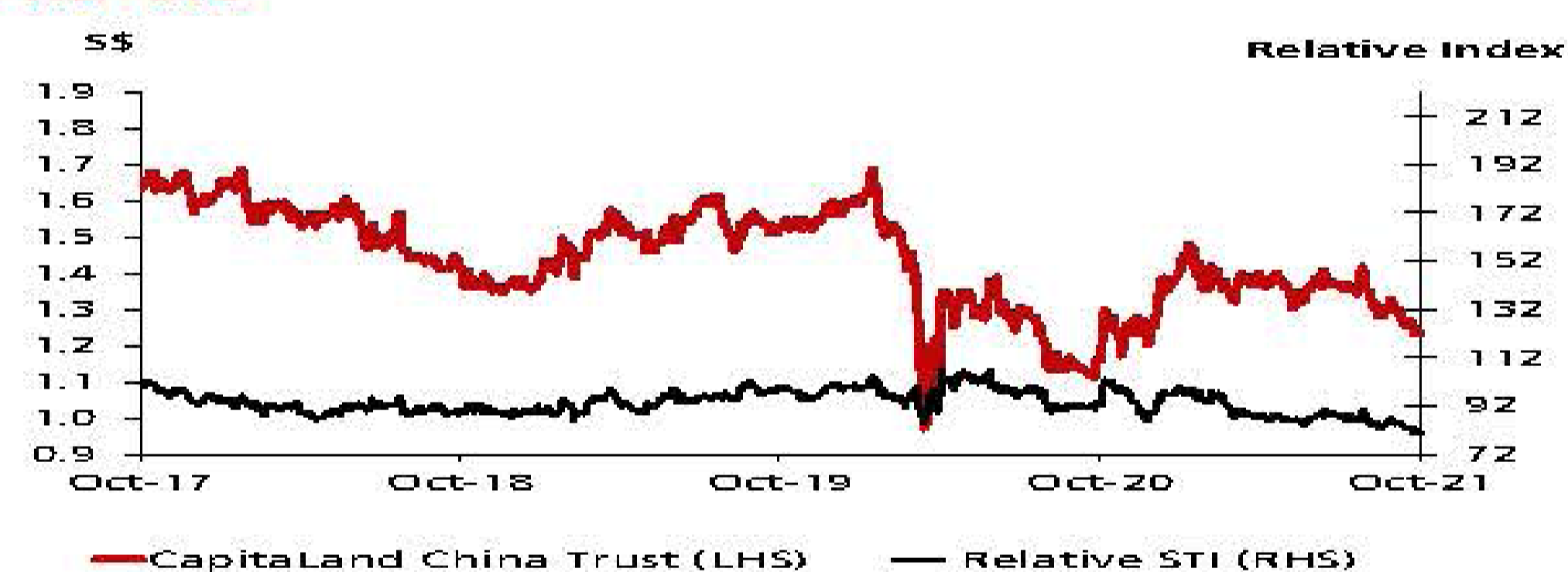
Analyst

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What's New

- Rising risk premia for "pure-play" China REITs brings valuations to an attractive -1 SD level
- Solid financial metrics with continued access to capital markets enables CLCT to pounce on opportunities when they arise.
- Operational metrics strengthening, pivot to new economy assets is not priced in
- Reiterate BUY with higher target price of S\$1.60

Price Relative



Forecasts and Valuation

FY Dec (\$m)	2019A	2020A	2021F	2022F
Gross Revenue	238	211	355	388
Net Property Inc	165	135	245	271
Total Return	165	(12.6)	118	132
Distribution Inc	111	79.7	129	144
EPU (S cts)	6.01	4.28	7.81	8.62
EPU Gth (%)	(3)	(29)	83	10
DPU (S cts)	9.90	6.33	8.51	9.49
DPU Gth (%)	(3)	(36)	34	12
NAV per shr (S cts)	155	149	160	155
PE (X)	20.6	29.0	15.9	14.4
Distribution Yield (%)	8.0	5.1	6.9	7.7
P/NAV (x)	0.8	0.8	0.8	0.8
Aggregate Leverage (%)	36.3	31.5	33.8	33.9
ROAE (%)	3.8	2.5	5.1	5.5

Distn. Inc Chng (%): (1) (6)
Consensus DPU (S cts): 8.80 9.80
Other Broker Recs: B: 5 S: 0 H: 0

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

Opportunity to buy the dip

Investment Thesis

Compelling value for a morphing China behemoth. We maintain our BUY recommendation on CLCT with a revised TP of S\$1.60, implying 30% upside. Given recent market correction, CLCT now trades at -1 S.D. P/B levels while offering compelling forward yields of 6.9% / 7.7% for FY21F / FY22F, one of the highest among the larger cap peers.

Flight to safety trend should benefit CLCT. Ongoing debt worries from Evergrande will likely tighten the liquidity tap for real estate companies, in our view, and will benefit companies with strong cashflows and balance sheets. We believe CLCT meets these criteria, supported by resilient cashflows from a diversified portfolio of retail and "new-economy assets". Its financial metrics are strong with minimal debt renewals in the interim. In fact, we see CLCT being able to tap on its debt capacity to pursue strategic acquisitions, if asset owners look to divest given the tight liquidity situation.

Bright sparks within existing portfolio. We think that CLCT's retail portfolio will see improvement from Beijing mall's performance in 2H21, as well as maintain pace of portfolio rejuvenation, with Qibao mall potentially on the divestment radar. Business parks will also add to stability and growth of the portfolio and contribute c.19% to the NPI on a stabilised basis next year.

Valuation:

Reiterate BUY with higher target price of S\$1.60. We roll forward valuations into FY22. Organic growth drivers remain intact with the full-year contribution from the business park (BP) portfolio a natural growth driver for FY22F DPUs.

Where we differ:

Inorganic growth opportunities to fuel acquisition of third-party assets. More third-party assets on the table for acquisition consideration as distressed China developers divest to improve cash position.

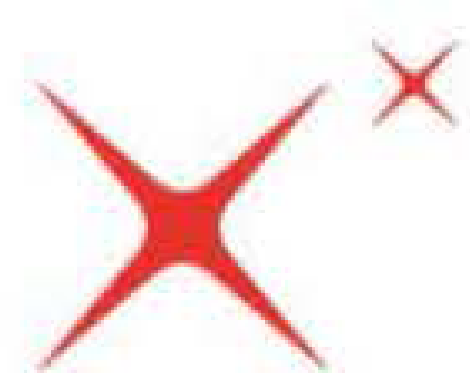
Key Risks to Our View:

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

At A Glance

Issued Capital (m shrs)	1,519
Mkt. Cap (S\$m/US\$m)	1,884 / 1,386
Major Shareholders (%)	
CapitaLand Ltd	22.6
CapitaLand Integrated Commercial Trust	8.7
Free Float (%)	68.7
3m Avg. Daily Val (US\$m)	3.9

GIC Industry : Real Estate / Equity Real Estate Investment (REITs)



WHAT'S NEW

Evergrande crisis an opportunity to buy the dip

The Evergrande crisis sent ripples throughout the China and Hong Kong stock markets. Evergrande, one of China's largest real estate developers shone the spotlight on China's real estate sector, where heavy use of leverage has been regarded as the norm for years. The developer missed two interest payments in the second half of September, in the same month that two rating agencies had consequently cut debt ratings on the counter as much as four tiers below investment grade.

Stocks broadly related to China and/or real estate naturally dragged into muddy waters. The Hang Seng Index fell c.12.2% to 24,576 from mid-July to end-September with stocks related to the broad categories of real estate or China seeing a matching decline. Within the local S-REIT space, CapitaLand China Trust (CLCT) and Sasseur REIT, both of which have full exposure to the China real estate sector, saw declines of c.9.5% and c.11.3% respectively.

CLCT trades near one-year low although fundamentals remain intact and promising. CLCT has suffered a double-whammy in our view, both from a sector sell-off post the announcement of Singapore's return to one-month lock down as the nation ramps up 'endemic' healthcare capacity as well as the looming shadows of the Evergrande crisis. The stock now trades at a -1 standard deviation P/Bk on a compelling forward yield of 6.9%. 1H21 results came in in line with expectations seeing maiden contributions from the recently acquired business park portfolio, which we see as a more stable income stream to complement the existing retail portfolio. Moreover, the balance sheet remains in the pink of health, which investors have come to better cherish post the Evergrande crisis.

Potential beneficiary of a 'flight to quality' trend in the market. We believe that the liquidity tap will be tightened with greater scrutiny on balance sheets for China real estate companies. With greater due diligence in gearing and debt covenants, CLCT and the broader CapitaLand's operations in China will stand to benefit from a flight to quality trend. We understand that borrowing continues to be unscathed by the stricter borrowing landscape with little to no impact to the current existing cost of debt at 2.57% (as at 30th June 2021).

CapitaLand China Trust's share price performance YTD (\$\$/unit)



Source: Bloomberg Finance L.P., DBS Bank

Expansion plans could accelerate with more distressed asset sales in the market

Distressed assets could come in at a steal for CLCT. The contagion effect spilled over to developer peers Fantasia Holdings and Sinic Holdings, which saw a similar downgrade in credit rating, pointing to strained cash flows. Distressed developers can improve their cash and leverage position to better refinance existing loans through asset divestments, as what we have seen from Evergrande offering a steep 30% discount on residential real estate in September last year.

Haircut at the current single digit level could go towards double-digit levels. CLCT could potentially look at third-party assets at distressed valuations to accelerate the growth path. We understand that the cap rate has generally been 4.5-5.5% for logistics assets and 5.0-6.0% for business park assets for Tier-1 to -1.5 Chinese cities. While discount to valuations has generally kept to within the single-digit range on asset fire-sales, this could move into the double-digit range soon as more developers join the pressure bandwagon with more distressed assets on the market.

Long-term target means quadrupling of existing business park exposure. The long-term position on growth has been well communicated by CLCT with the acquisition of the business park portfolio and remaining stakes in Rock Square, the first sizeable deal of many more to come. CLCT is steering the ship towards a target asset exposure of 40% - 30% - 30% AUM in the mixed development - business park - retail sectors respectively. This will translate to the more than quadrupling of CLCT's AUM within the business park and new economy asset space from the current c.RMB3.3bn (CLCT's stake) to c.RMB14.3bn. The current landscape could also support CLCT's first transaction within the mixed development asset exposure, which typically comes at a narrower cap rate as compared to the other two asset classes.

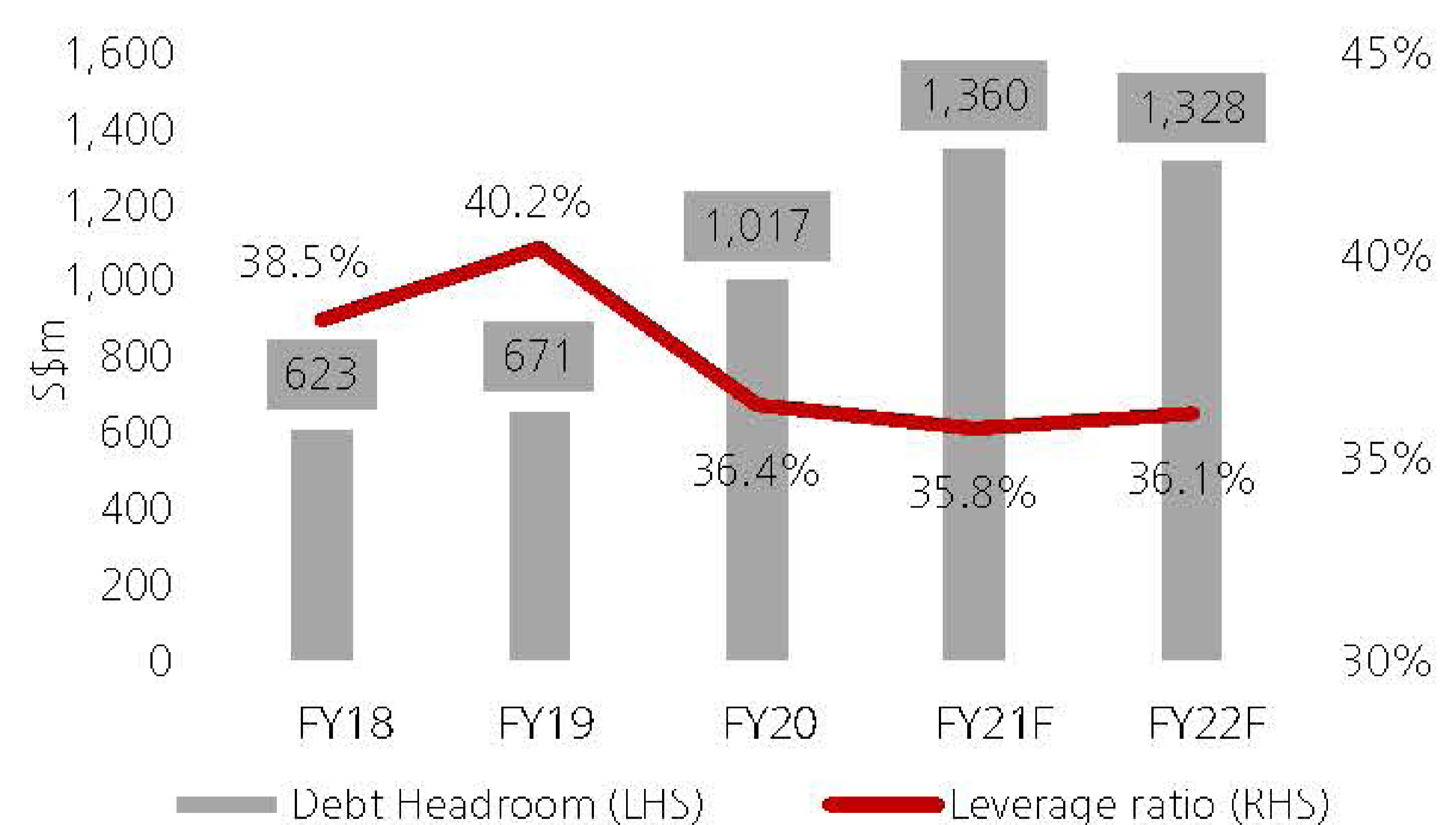
Balance sheet robust and well-staggered to support growth. Gearing remains at a robust 35.9% as at 30th June 2021, with marginally lower debt cost at 2.51%. Debt due in 2021 has been successfully refinanced with the WADE lengthened to 3.8 years. Based on the 30th June 2021 balance sheet, CLCT has an existing debt headroom in the range of S\$780m to S\$1,300m with a target gearing range of 45% to 50%. For upcoming acquisitions, management could place a heavily reliance on debt financing to yield higher accretion for unitholders.

Existing and Target AUM in asset exposure (RMB'bn)



Source: Company, DBS Bank

Leverage and Debt Headroom (based on full-year estimates)



Operations continue to show green shoots in retail with maiden business park rents partially baked into the numbers

Results in line with estimates; BP portfolio not fully baked into 1H21 numbers. CLCT reported 1H21 NPI of S\$120.3m (+84.4% y-o-y) and DPU of 4.23 Scts (+40.1% y-o-y), which was in line with our full-year estimates. This included maiden contributions from the BP portfolio, which was completed towards the end of 1H21 in June.

Overhanging risk for the retail dissipating fast. Retail occupancy improved 1.3 ppt h-o-h to 95.4%, with improvement generally seen across the retail malls. Waivers granted for 1H21 were estimated at about 0.2 months' worth of rental rebates of one-fifth of quantum provided last year. Reversions was negative at -2%, which has narrowed over the past results and could be signs of retail rents bottoming.

While periodic mall closure continues to be the case for malls that are situated in cities with lockdown, CLCT has managed to claim insurance to offset revenue lost from temporary closures. This includes c.0.6 months' worth of revenue at Grand Canyon, which was closed for 19 days.

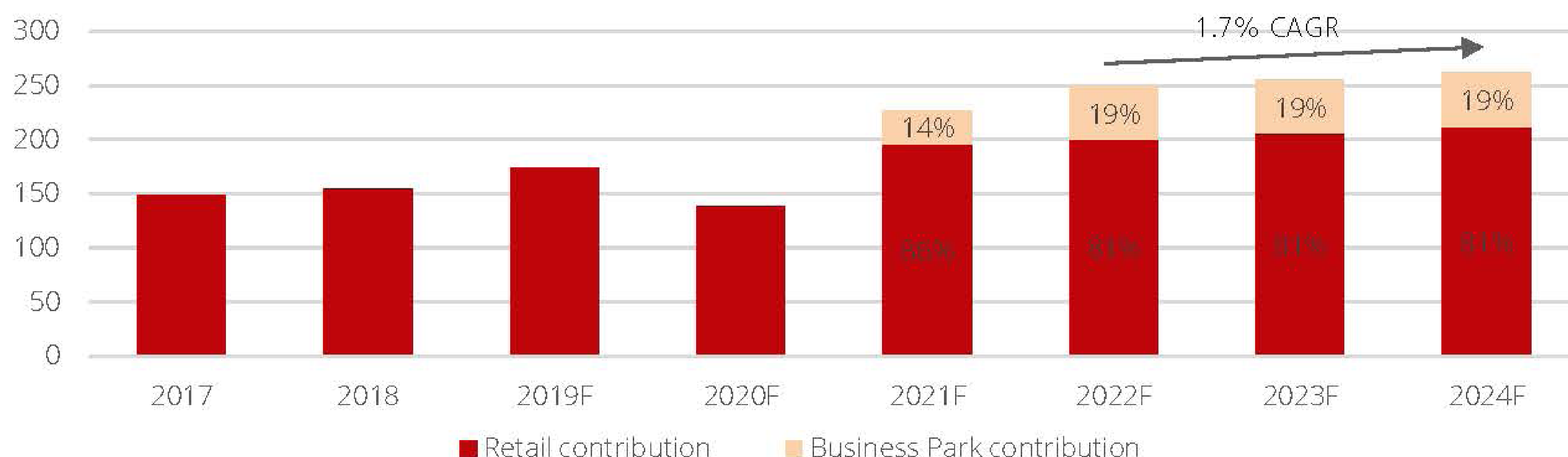
Portfolio traffic and sales still below pre-COVID levels, impacted by Beijing lockdown. Portfolio shopper traffic and tenant sales have eased to 75% and 85% of normalised basis respectively. Traffic and sales were impacted by tightening in Beijing (1Q21) with 1H traffic and sales at c.70%, 80% normalised basis, whereas non-Beijing malls generally did better at a c.80%, 85-90% normalised basis.

Decent demand for business park portfolio. Occupancy rose 1.9 ppt q-o-q to 94%. Demand came from new leases (41%) with tenants within the Information - communication and E-commerce tenants and existing tenant expansion (59%). The office community has fully returned to office with physical office occupancy back to 100%. Complementary effects from the BP portfolio help to alleviate portfolio reversions with the BP assets clocking in a blended reversion of +6.7%. Full-year contributions from the BP portfolio will only be factored in in FY22F, which will increase NPI contribution from the BP asset class from c.11% this year to 19% on a stabilised basis.

Asset rejuvenation strategy still in the mix. Two malls, Minzhongleyuan (1Q21) and CapitaMall Saihan (2Q21), were divested as part of ongoing efforts to tweak the retail portfolio. CLCT will continue to see stand-alone, non-core assets as divestment potential – possibly CapitaMall Qibao in our view, which is a single asset in Shanghai contributing 0.5% to CLCT's retail portfolio by valuation.

Pockets of opportunities for organic growth in the portfolio. We continue to see normalisation in rental waivers and lease restructuring implications, both of which are lagged indicators of a turn-around in China's retail scene. CapitaMall Nuohemule has proven to be a star in the making, despite starting its first leasing cycle during a pandemic year, and potentially a key rental driver alongside Rock Square. We see upside from the retail portfolio, driven by i) better operating metrics from CLCT's Beijing malls, where c.50% of retail portfolio exposure is concentrated and ii) positive reversionary expected for business park portfolio.

Business Park to contribute a bigger c.20% to portfolio NPI from FY22F



Source: Company, DBS Bank

Turn around in share price eminent; a buy in opportunity at -1 standard deviation P/Bk levels

A laggard to China real estate peers. We see a turnaround in CLCT's share price performance an eminent trend given the current divergence against both listed peers within the HK retail space and Sasseur REIT. CLCT's share price performance took a first dip back in January when Beijing's lockdown was announced, over fears within its Beijing retail malls, which make up approximately half of retail portfolio contribution, which has since been alleviated with 1H21 performance tracking in line and insurance coverage for Beijing mall closures.

Compelling forward yields of 6.9%/7.7% for FY21F / FY22F. CLCT's current trading levels at -1 standard deviation P/Bk are at compelling levels for entry and supported by promising fundamental prospects. Moreover, yields are

compelling at 6.9% and 7.7% for FY21F and FY22F respectively, with further capital gains upside for patient investors.

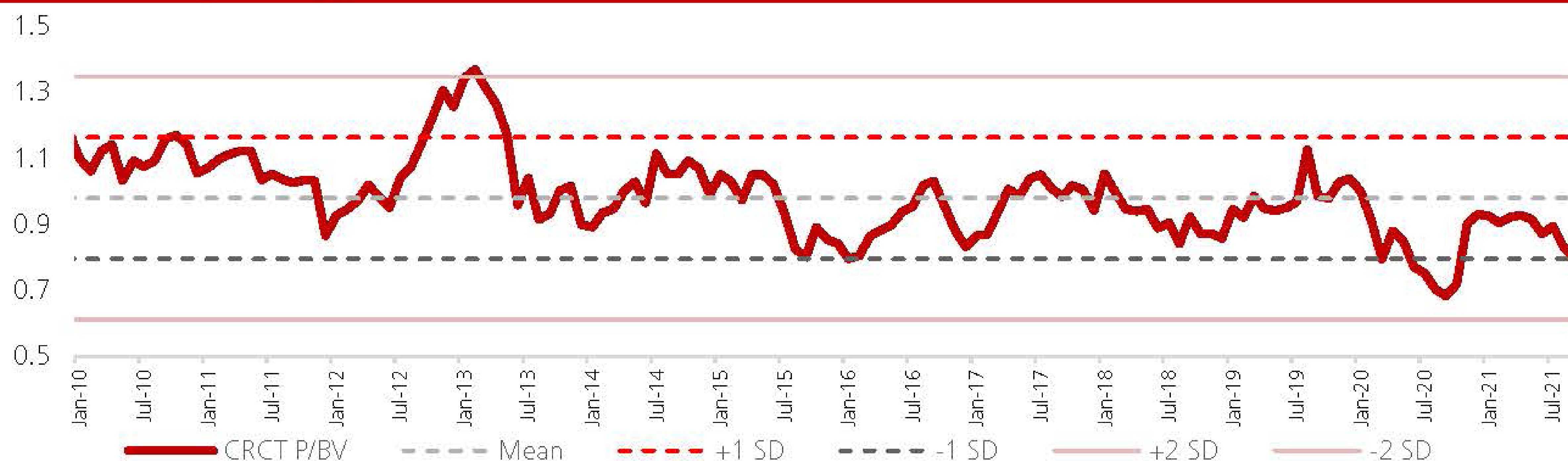
Maintain BUY with target price of S\$1.60. We re-iterate our BUY recommendation on the counter with structural organic growth drivers in place as CLCT captures incremental contribution from the BP portfolio come next year. Moreover, an opportunity to acquire may just be on the horizon given a rare opportunity to capture assets on discount with the Evergrande crisis and on the back of strong acquisition debt headroom of c.S\$1.3bn. We roll forward our valuations into the next financial year with the TP raised from S\$1.55 to S\$1.60.

Relative performance compared to peers within the HK retail space and Sasseur REIT



Source: Bloomberg Financial L.P., DBS Bank

CLCT is currently trading at -1 standard deviation P/Bk



Source: Bloomberg Financial L.P., DBS Bank

Company Update

CapitaLand China Trust



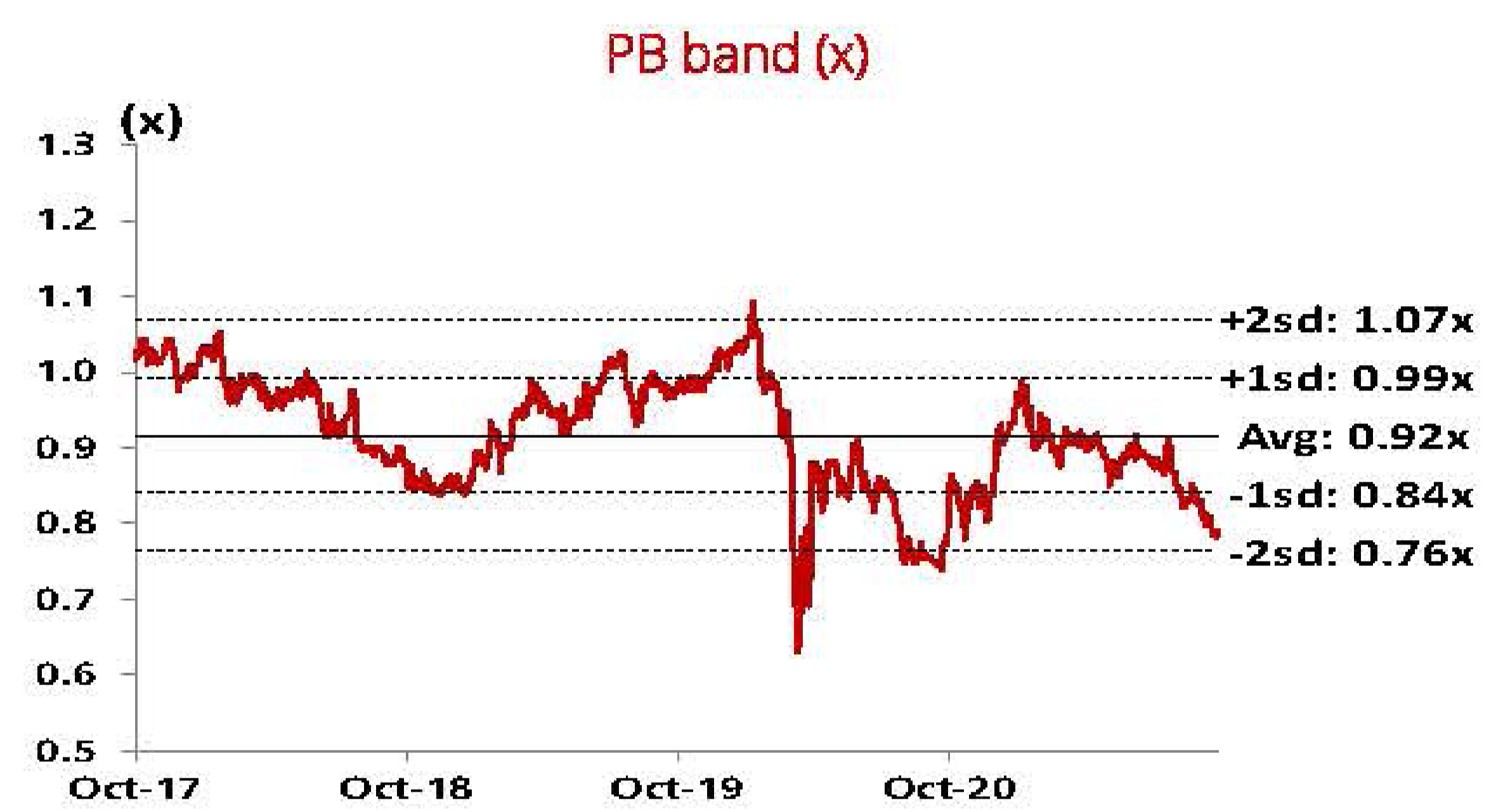
Company Background

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

Historical Dividend yield and PB band



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



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

Company Update

CapitaLand China Trust



Income Statement (\$\$m)

FY Dec	2018A	2019A	2020A	2021F	2022F
Gross revenue	223	238	211	355	388
Property expenses	(75.3)	(72.8)	(75.3)	(110)	(117)
Net Property Income	147	165	135	245	271
Other Operating expenses	(16.2)	(5.7)	(17.5)	(23.8)	(24.9)
Other Non Opg (Exp)/Inc	(2.4)	0.0	0.0	0.0	0.0
Associates & JV Inc	7.25	8.57	3.70	0.0	0.0
Net Interest (Exp)/Inc	(20.4)	(29.4)	(30.4)	(35.7)	(40.1)
Exceptional Gain/(Loss)	0.0	2.37	1.66	0.0	0.0
Net Income	116	141	92.7	186	206
Tax	(56.5)	(74.6)	(40.4)	(46.4)	(51.5)
Minority Interest	1.09	(1.2)	0.0	(17.9)	(18.7)
Preference Dividend	0.0	0.0	(0.6)	(3.4)	(3.4)
Net Income After Tax	60.1	65.3	51.7	118	132
Total Return	129	165	(12.6)	118	132
Non-tax deductible Items	(34.8)	(54.6)	87.1	10.8	11.8
Net Inc available for Dist.	99.7	111	79.7	129	144
Growth & Ratio					
Revenue Gth (%)	(2.8)	6.9	(11.6)	68.5	9.4
N Property Inc Gth (%)	(1.2)	12.2	(18.2)	81.2	10.6
Net Inc Gth (%)	(41.7)	8.7	(20.8)	128.0	12.3
Dist. Payout Ratio (%)	100.0	96.2	100.0	100.0	100.0
Net Prop Inc Margins (%)	66.2	69.4	64.2	69.1	69.9
Net Income Margins (%)	27.0	27.4	24.6	33.3	34.1
Dist to revenue (%)	44.8	46.5	37.9	36.3	37.2
Managers & Trustee's fees	7.3	2.4	8.3	6.7	6.4
ROAE (%)	3.9	3.8	2.5	5.1	5.5
ROA (%)	2.1	1.9	1.3	2.5	2.6
ROCE (%)	2.9	2.7	2.0	4.3	4.3
Int. Cover (x)	6.4	5.4	3.9	6.2	6.1

Source: Company, DBS Bank

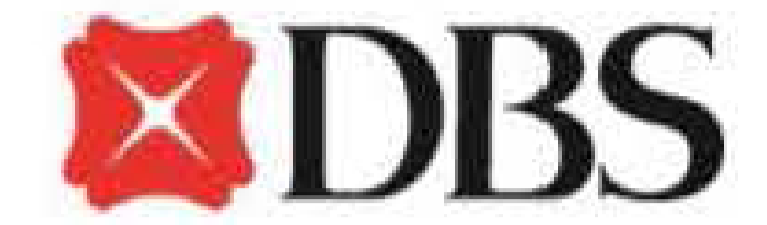
Balance Sheet (\$\$m)

FY Dec	2018A	2019A	2020A	2021F	2022F
Investment Properties	2,441	3,168	3,729	4,779	4,791
Other LT Assets	260	264	1.27	1.27	1.27
Cash & ST Invt	174	140	208	224	257
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	107	124	148	57.5	62.9
Other Current Assets	0.12	109	223	0.0	0.0
Total Assets	2,983	3,806	4,310	5,062	5,112
ST Debt	161	207	156	156	156
Creditor	60.7	151	178	107	118
Other Current Liab	29.2	59.5	82.4	82.4	82.4
LT Debt	877	1,173	1,200	1,554	1,576
Other LT Liabilities	283	342	349	349	349
Unit holders' funds	1,553	1,874	2,345	2,514	2,514
Minority Interests	18.3	0.0	0.0	299	318
Total Funds & Liabilities	2,983	3,806	4,310	5,062	5,112
Non-Cash Wkg. Capital	17.3	23.2	112	(132)	(137)
Net Cash/(Debt)	(864)	(1,240)	(1,147)	(1,486)	(1,474)
Ratio					
Current Ratio (x)	1.1	0.9	1.4	0.8	0.9
Quick Ratio (x)	1.1	0.9	1.4	0.8	0.9
Aggregate Leverage (%)	34.8	36.3	31.5	33.8	33.9
Z-Score (X)	0.9	0.7	0.8	0.8	0.8

Source: Company, DBS Bank

Company Update

CapitaLand China Trust



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Cash Flow Statement (S\$m)

FY Dec	2018A	2019A	2020A	2021F	2022F
Pre-Tax Income	116	167	(12.0)	186	206
Dep. & Amort.	1.73	1.73	1.73	1.73	1.73
Tax Paid	(56.5)	(74.6)	(27.2)	(46.4)	(51.5)
Associates & JV Inc/(Loss)	(7.2)	(8.6)	(3.7)	0.0	0.0
Chg in Wkg.Cap.	(57.5)	(18.4)	(24.0)	244	4.69
Other Operating CF	122	60.6	143	9.07	10.1
Net Operating CF	118	127	77.7	394	171
Net Invt in Properties	(11.4)	(155)	(193)	(601)	(11.6)
Other Invt (net)	0.0	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	(327)	(393)	(3.9)	0.0	0.0
Div from Assoc. & JVs	0.0	0.0	0.0	0.0	0.0
Other Investing CF	2.43	2.55	4.19	0.0	0.0
Net Investing CF	(336)	(546)	(192)	(601)	(11.6)
Distribution Paid	(44.3)	(68.3)	(89.7)	(129)	(144)
Chg in Gross Debt	291	205	(116)	354	21.6
New units issued	(0.1)	276	326	0.0	0.0
Other Financing CF	(35.2)	(5.6)	59.2	(3.4)	(3.4)
Net Financing CF	212	407	180	222	(126)
Currency Adjustments	(5.6)	(22.1)	2.52	0.0	0.0
Chg in Cash	(12.6)	(34.0)	67.6	15.3	33.4
Operating CFPS (S cts)	18.1	13.4	8.41	9.94	10.8
Free CFPS (S cts)	11.0	(2.6)	(9.5)	(13.7)	10.4

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	08 Oct 20	1.20	1.55	BUY
2:	06 Nov 20	1.23	1.55	BUY
3:	09 Dec 20	1.28	1.70	BUY
4:	12 Jan 21	1.43	1.70	BUY
5:	01 Feb 21	1.35	1.55	BUY

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

Source: DBS Bank

Analyst: Geraldine WONG

Derek TAN

Company Update

CapitaLand China Trust



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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

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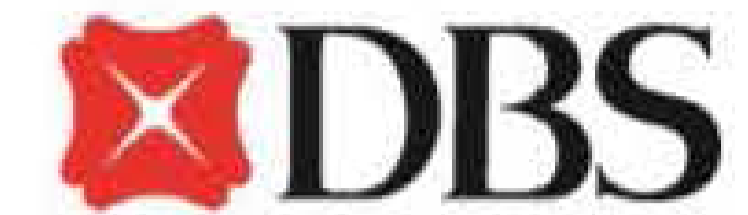
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Company Update

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Please contact the primary analyst for valuation methodologies and assumptions associated with the covered companies or price targets.

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Company Update

CapitaLand China Trust




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CapitaLand China Trust



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