

Company Initiation

CapitaLand Mall Trust

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Company Initiation

CapitaLand Mall Trust

Strong operator in a challenging environment



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Phillip Securities Research Pte Ltd
12 June 2017

Investment Thesis

- 1.Expect retail sales to bottom in 2H17 as the economy continues to recover. Sentiment could receive further boost with improving home prices.
- 2.Largest mall owner in Singapore with a focus on suburban malls that are well integrated into major transport hubs and with near monopolistic locations.

Structural Challenges

- 1.Increasing number of ecommerce sites, more aggressive promotions and increasing ease of shopping online.
- 2.Declining population growth and aging population in Singapore.

Largest mall owner in SG with well integrated malls

- 14% market share in Singapore (16 malls). Close to 75% of malls directly integrated with MRT stations
- Average occupancy of 98.8% since listing in 2002 (GFC 2008: 99.7%, 2009: 99.8%)

CMT's well located malls at important transport nodes

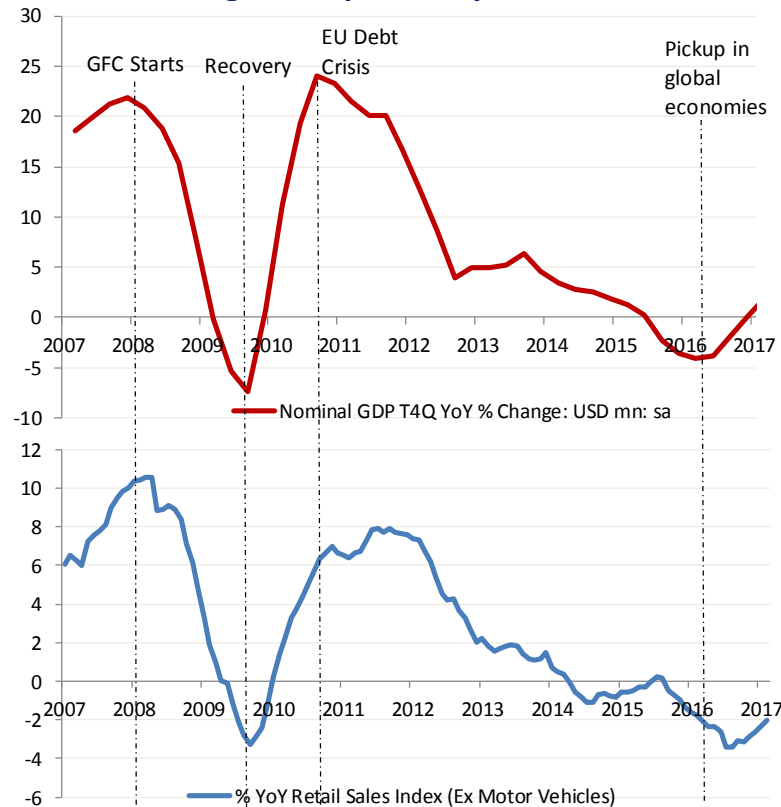


Source: Company/PSR

Expect retail sales to bottom in 2H17 as economy continues to recover. 2016 was worst year for retail since 2009.

- Retail sales dropped 2.6% in 2016
- 1Q17 similar trend, March numbers stronger than Jan-Feb
- GDP inflexion point in 3Q16, driven by electronics, precision engineering clusters

GDP growth picked up since 3Q16 after Singapore narrowly missed a technical recession



Source: CEIC, PSR

MTI forecasts Singapore's economic growth to come in above 2% in 2017 on the back of an improving global outlook.

Driven by manufacturing and exports, particularly in electronics and precision engineering sectors

- Expect strength in these sectors to continue on the back of recovery of global demand in these sectors

GDP growth picked up since 3Q16 after Singapore narrowly missed a technical recession

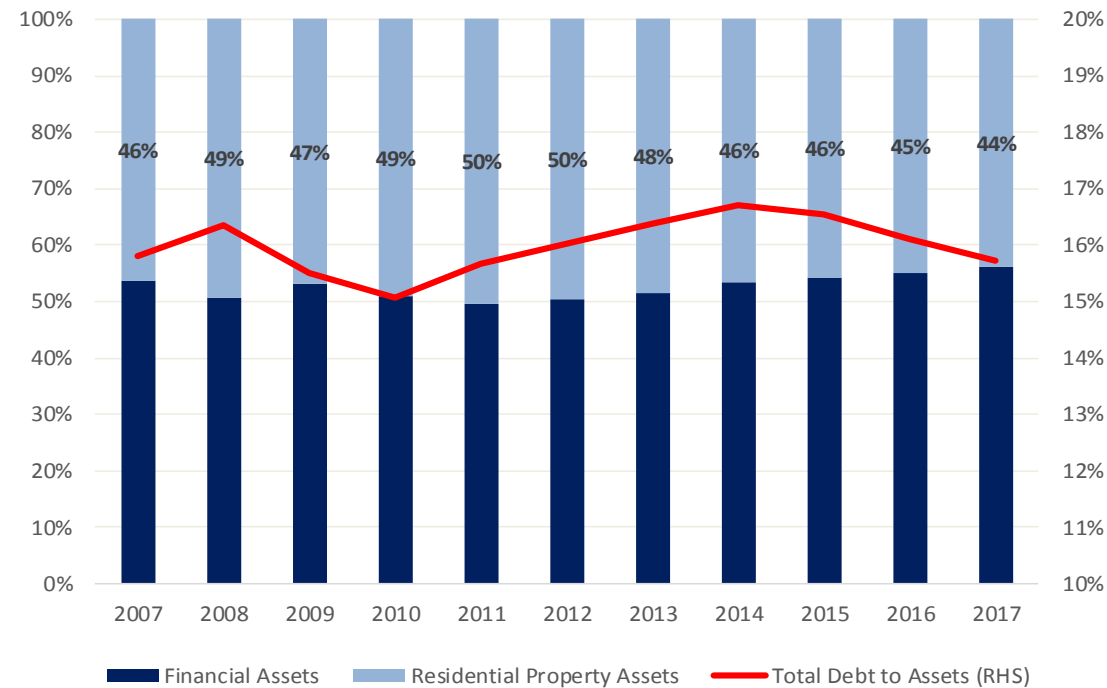
	YoY Growth				
	1Q16	2Q16	3Q16	4Q16	1Q17
Manufacturing	-0.4%	1.5%	1.8%	11.5%	8.0%
Services	-4.2%	-0.7%	1.1%	8.4%	-2.1%
Exports (non-oil)	-9.6%	1.2%	-5.2%	2.7%	15.2%

Source: MTI, PSR

Consumer sentiment could receive further boost with improving home prices

- Household balance sheets improving with total gearing dropping over last two years
- Residential property make up 44% of total household assets
- 14 consecutive quarters of home price decline since 4Q13. Expect bottom in 2H17

Residential Property make up 44% of total household assets



Source: Singstats

Govt's first "easing" of property cooling measures in 1Q17 to improve sentiment

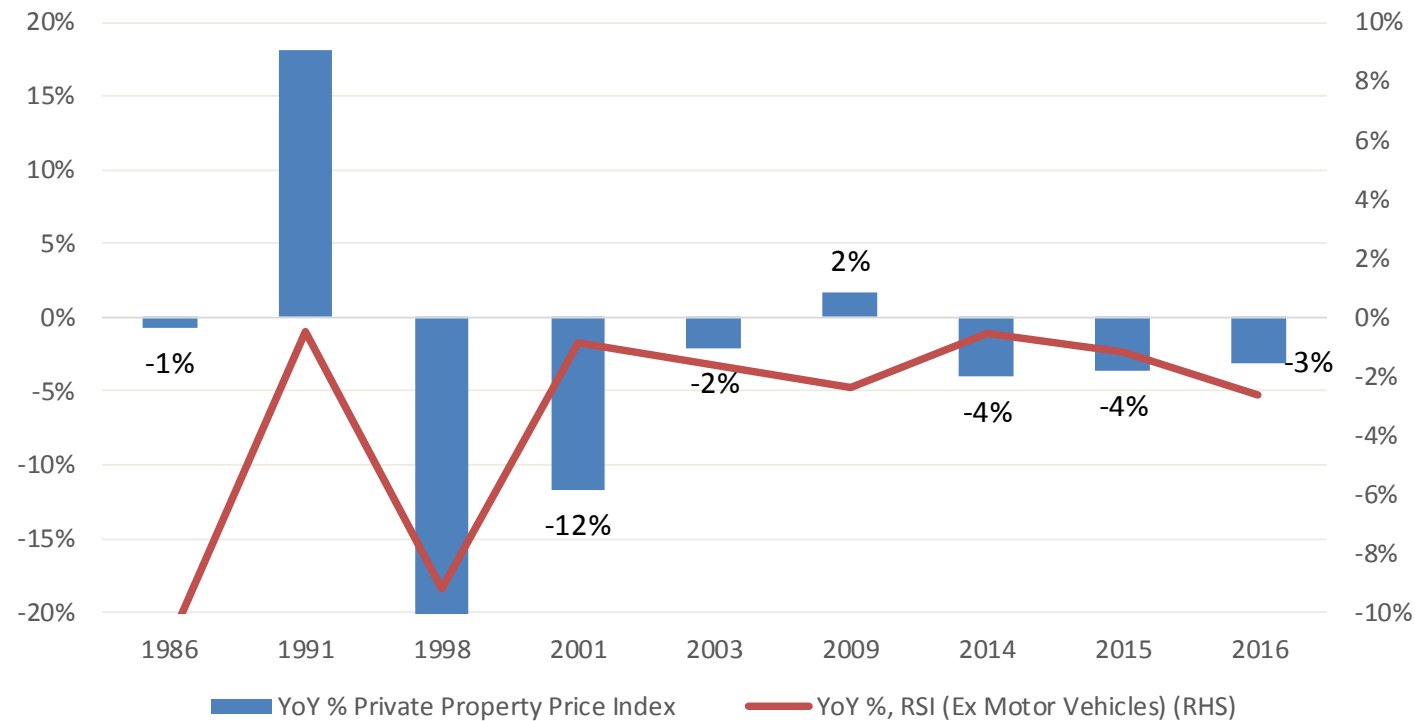
Our rationale for expecting a bottoming and improvement in home prices stems from:

1. 14 consecutive quarters of home price fall increasing affordability. Buying sentiment likely improved after government's first easing of cooling measures in 1Q17.
2. Dwindling unsold inventory as a result of tapering government land sales since 2011. Demand supported by improving sentiment.
3. Transaction volumes in 1Q17 have increased 70% YoY. Our talks and channel checks with developers seem to point to a greater hunger for land. They have demonstrated this with four en-bloc sales in the last month. Developers seem to share the same optimism on home prices.

Consumer sentiment could receive further boost with improving home prices

- 9 years of Retail Sales decline since 1985
- Most occurred in periods of home price weakness – Home prices are important for sentiment and consumption

Most retail sales weakness occur in periods where home prices are weakening

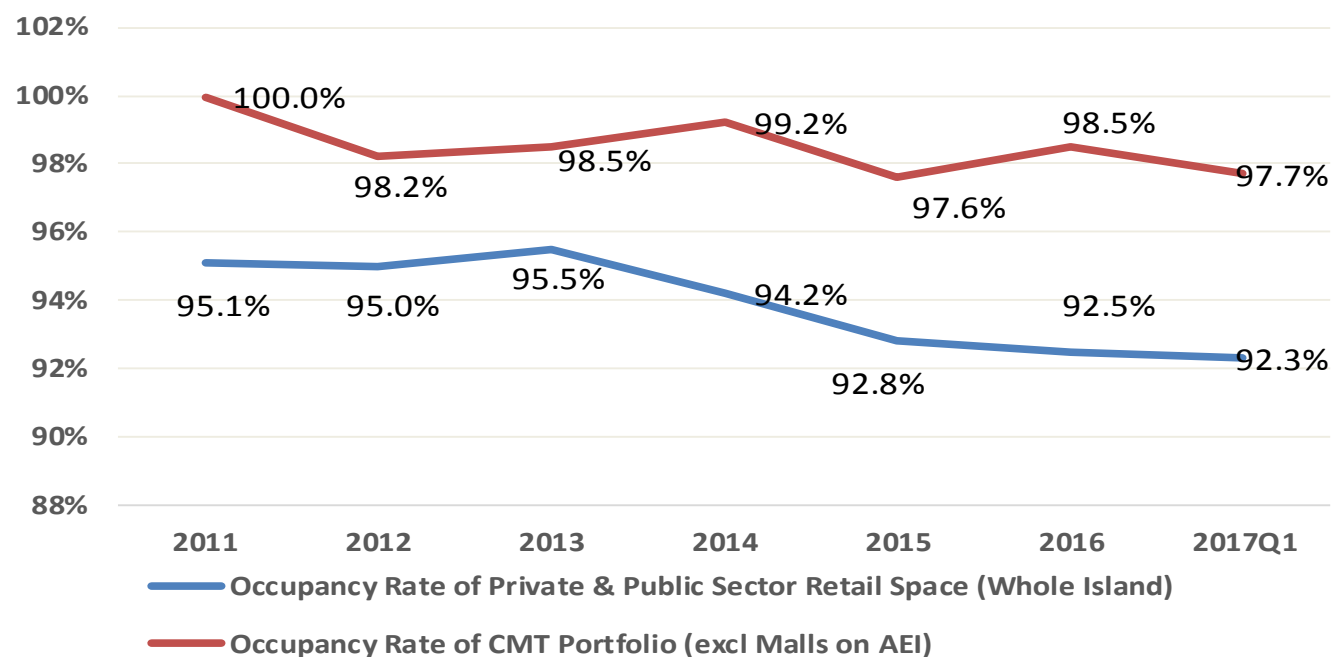


Source: CEIC, Singstat, PSR

- Proactive approach in improving shopper experience and strategically located malls have led to it consistently maintain a near full portfolio occupancy
- Embracing technology and innovative solutions for improved shopper experience and better operational efficiency. Measures include:
 - i. Harnessing visible light communication (VLC) technology in the malls' Philips lighting fixtures which are able to detect shoppers' indoor positioning, This allows for more targeted and personalised marketing messages to be broadcast to shoppers.
 - ii. Introduction of a fully automated artificial intelligence chatbot in the CapitaStar App which is able to dish out a slew of concierge services such as restaurant booking and ride hailing.
 - iii. Streamlining goods delivery process by harnessing technology through the In-Mall distribution pilot which shrank delivery time by more than 70%.

Quality of malls reflected in near full occupancy throughout

Proactive strategies and strategically located malls enabling CMT to consistently maintain a near full portfolio occupancy

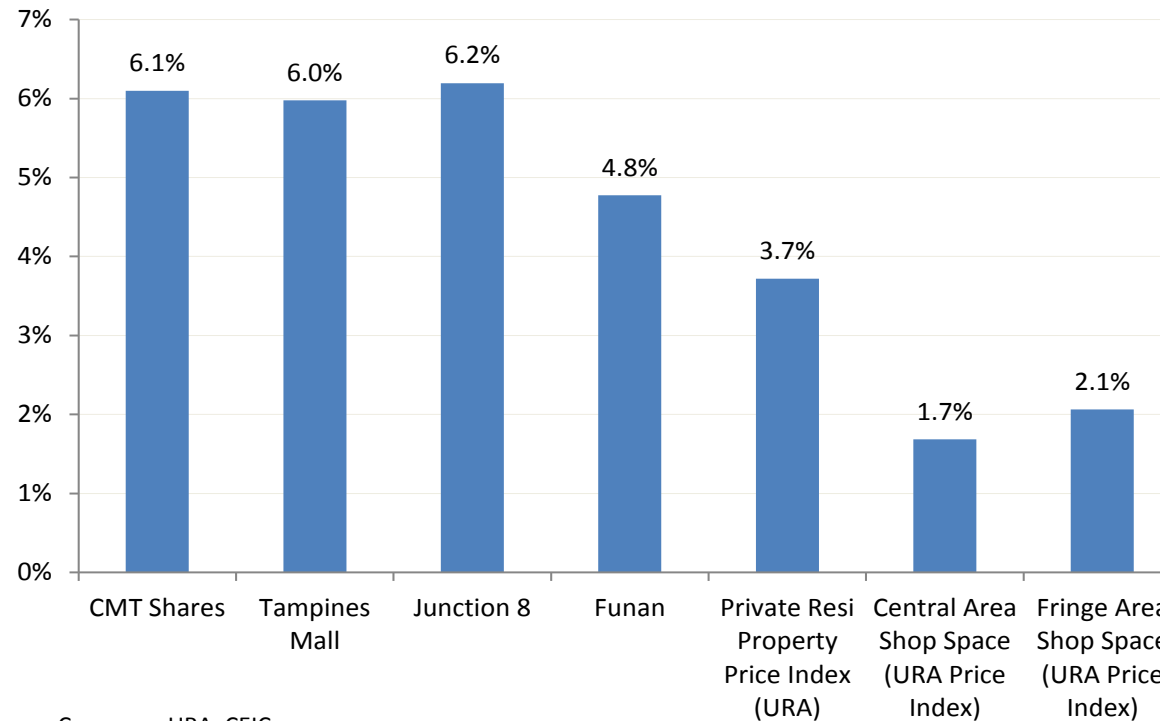


Source: Company, URA, CEIC

Outperformed since IPO, but difficult to replicate past performance

- CMT shares and its portfolio malls' valuations outperformed comparable asset classes since 2002 IPO
- Difficult to replicate past performance due to structural challenges

CAGR rates comparison since CMT's IPO in 2002. CMT shares and its portfolio malls' valuations outperformed comparable asset classes

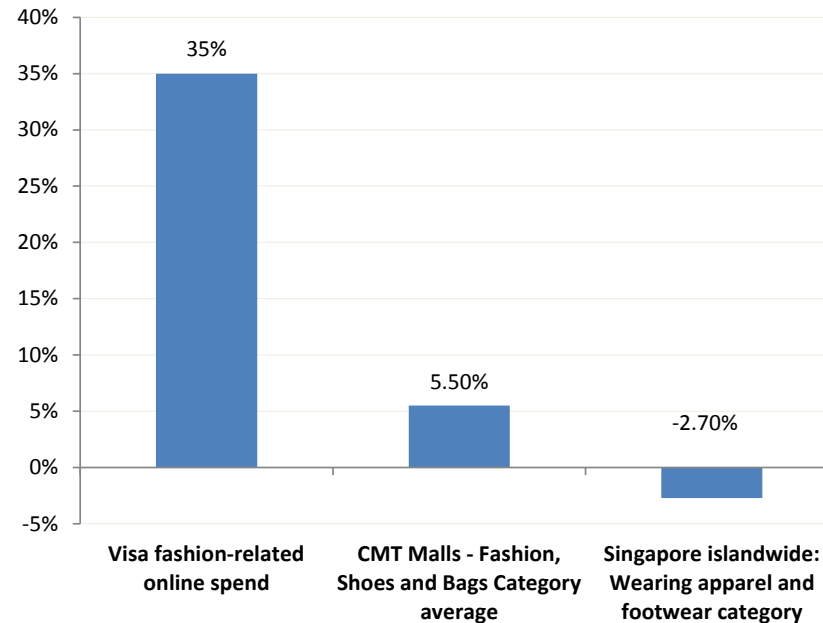


Source: Company, URA, CEIC

Structural Challenges – E-commerce

- 2015 Visa statistics – retail expenditure channelled to online sources
- Temasek/Google study: E-commerce market in SG to be worth US\$5.4bn by 2025 (2015: US\$1bn)
- CAGR of 18.4% over next 10y. 10y historical CAGR for overall retail spending 2.7%

2015 YoY % growth - Visa online spending trumped brick-and-mortar and island wide sales in the fashion category



Source: Company, Visa, Singstat, PSR

More room for online shopping to grow

- Online shopping currently 2.1% of total retail sales
- Mature countries like UK/US >10%
- Amazon's entry into Singapore 2H17. More aggressive promotions by e-commerce players to attract shoppers

Aggressive marketing by e-commerce players as they vie for market share will make online shopping even more attractive to consumers

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Source: Lazada, Redmart

Improvements in Logistics and last mile deliveries

- Variety of collection points/SingPost POP Stations
- Mckinsey Study 2016: Future of e-commerce dominated by autonomous vehicles delivering 80% of parcels, this could happen within next 10y

Shipping time for e-commerce deliveries set to shrink with

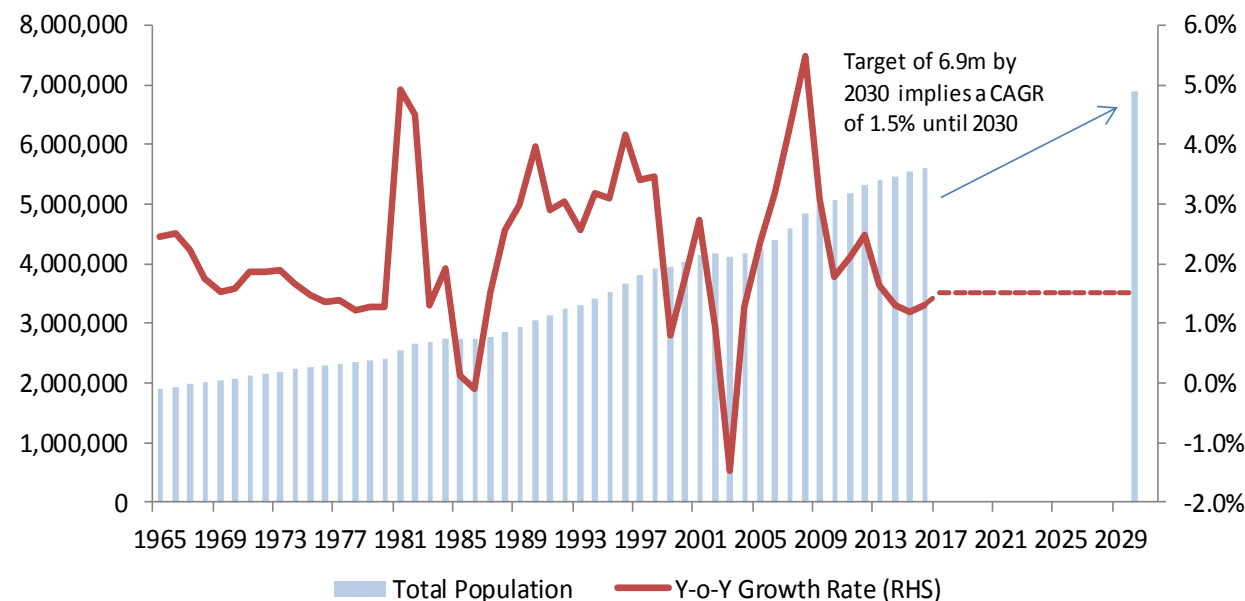
- i) increasing number of start-ups disrupting the logistics space improving efficiency
- ii) autonomous vehicles taking over deliveries in future

	Spending to qualify for free shipping	Average Shipping Time (days)	
		Express	Standard
ASOS	£9.28	2	7
Zalora	S\$40	1	1 to 14
Amazon	\$125	3 to 5	9 to 12
Lazada	Economy shipping is free for any purchase	0 to 1	1 to 3
Redmart	S\$49	1 to 2	

Source: PSR

Expect online sales to continue momentum and account for bigger portion of total retail. Brick and mortar malls will remain under pressure.

Slowing population growth to negatively impact retail spending

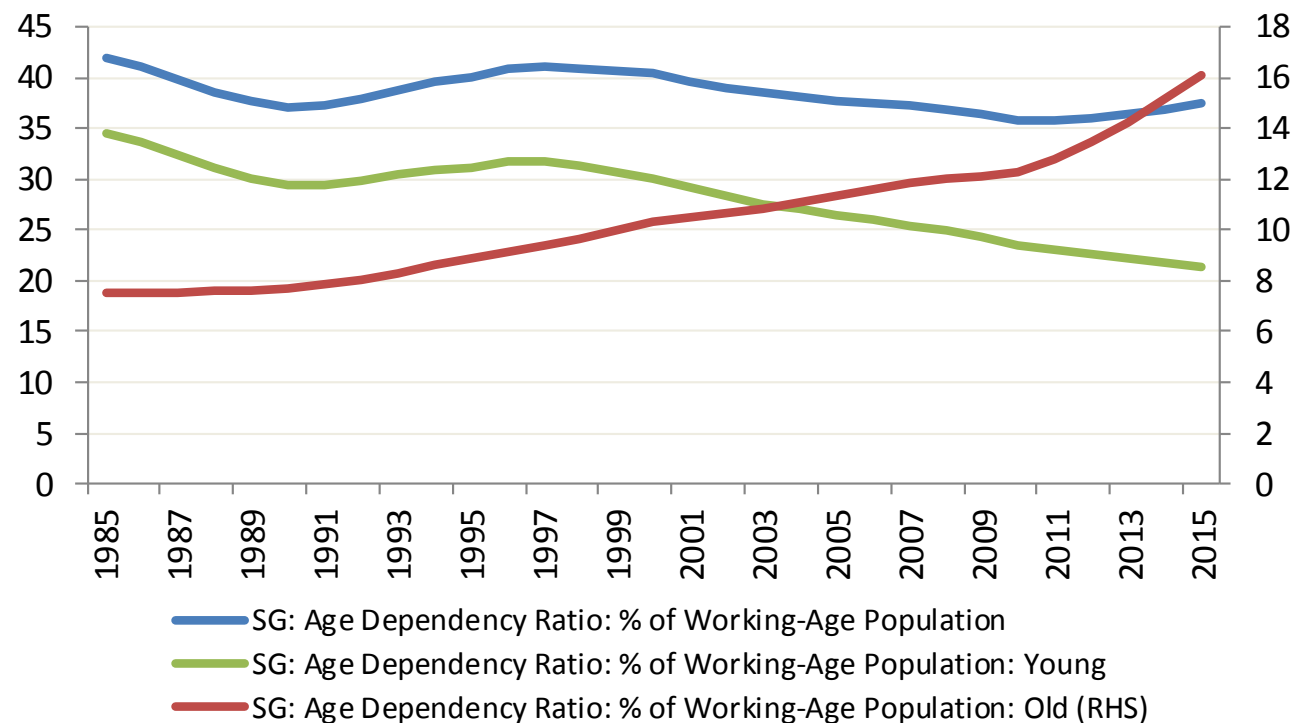


Source: Company, Phillip Securities Research (Singapore)

Singapore population growth rate

10y average	2.50%
30y average	2.40%
CAGR to hit 6.9mn by 2030	1.50%

Singapore's old age dependency ratio expected to rise further



Source: CEIC, PSR

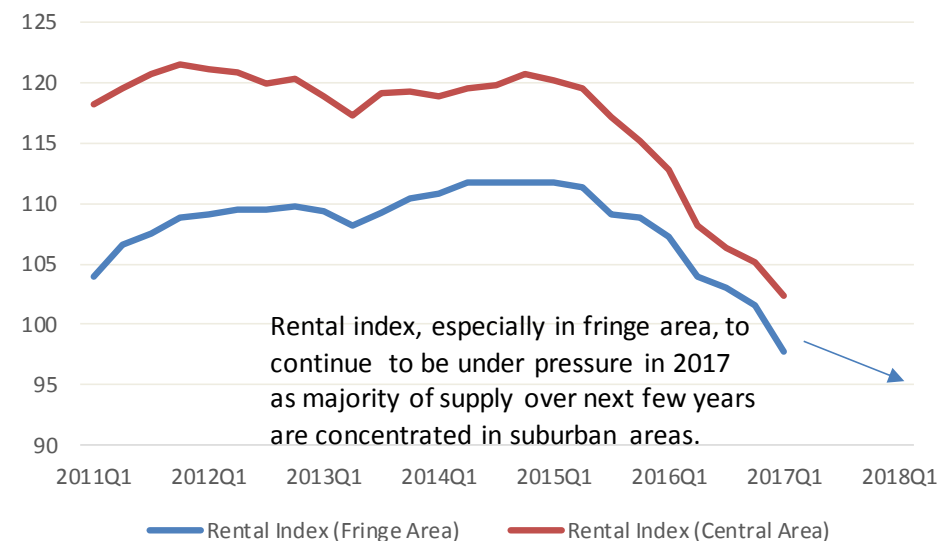
Upcoming Supply – Heavy supply in Eastern Region, expect Tampines Mall and Bedok Mall to come under pressure

Major retail projects completing 2017-2020

Project	Location	Estimated NLA (sq ft)	Estimated completion
Marina One (The Heart)	Marina Bay	140,000	2017
Singapore Post Centre	Paya Lebar	177,000	2017
Paya Lebar Quarter	Paya Lebar	340,000	2018
Northpoint City	Yishun	330,000	2018
TripleOne Somerset Podium AEI	Somerset	70,000	2018
Jewel Changi Airport	Changi Airport	576,000	2019
Funan	North Bridge Road	324,000	2019
City Gate	Beach Road	76,000	2019
Total		2,033,000	

Source: URA, PSR

Rental Index expected to be under pressure for 2017, especially for Eastern Area



Source: URA, PSR

Tenant sales continue to outperform Singapore retail sales; Expect pressures moving forward

- High base of shoppers' traffic from good locations of malls
- 80% of sales coming from necessity spending which is less susceptible to economic environment
- Tenant sales is a fuel for rental income
Higher shoppers' traffic = Higher sales conversion
- Tenant sales is facing pressure and is expected to continue facing pressure due to structural change in the retail landscape

Growth rates comparison between CMT's tenant sales and Singapore retail sales

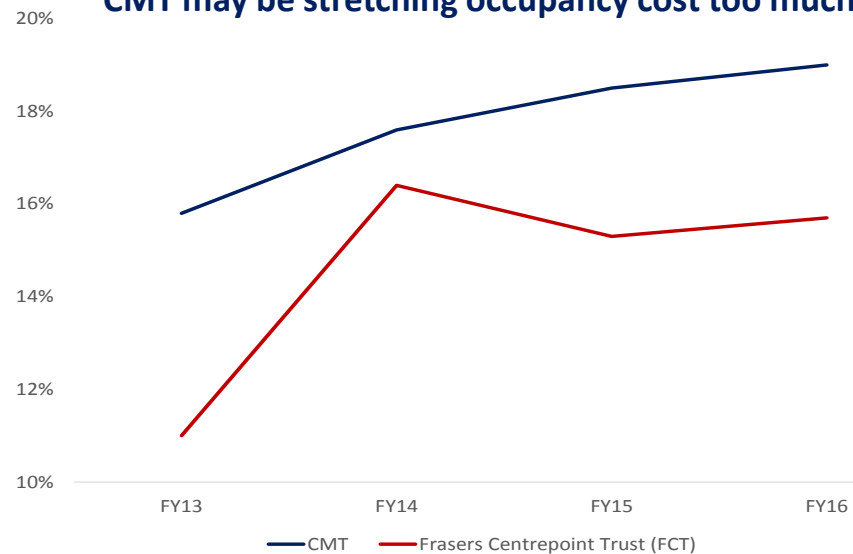


Source: Company, SingStat, PSR

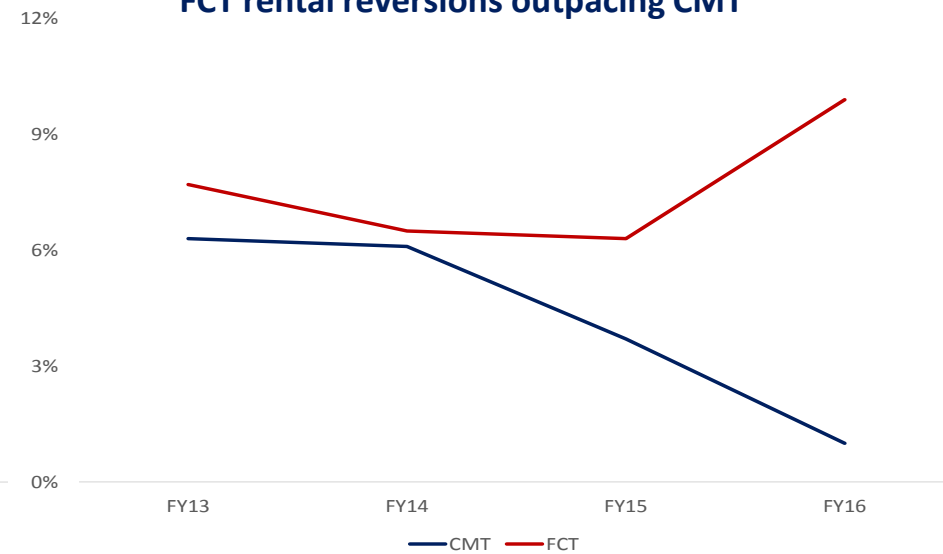
Higher occupancy costs puts pressure on growth in rental reversions

- Occupancy cost continuously expanded in the past four years to 19% in FY16 from declining tenant sales
- Trend is unlikely to buck; Potential pressures in rental reversions for CMT moving forward
- Historical occupancy cost has been higher than FCT (NEUTRAL, TP S\$2.04)
- Translates to lesser room for the trust to negotiate for higher rentals upon lease renewals
- Declining rental reversions in CMT vs more resilient rental reversions in FCT

CMT may be stretching occupancy cost too much



FCT rental reversions outpacing CMT



Sufficient debt headroom to potentially acquire another asset

Current debt headroom of S\$840 million (redevelopment costs for Funan) is sufficient to acquire another shopping mall asset in Singapore under sponsor's (CapitaMalls Asia) portfolio

Valuations of retail assets that could potentially be acquired by CMT as at FY16

Asset Name	Status	Effective Stake (%)	GFA (sqm)	Valuation (S\$'mn)
Jewel Changi Airport	Under Construction	49	134,059	746
Star Vista	Completed	100	24,000	276
ION Orchard	Completed	50	87,715	3,244
ION Orchard Link	Completed	50	450	32

Source: Company, PSR

AEI and redevelopment of existing retail assets to pursue growth

- Actively pursuing AEI with two or three works completed in the past three years
- Commenced redevelopment works for Funan and AEI works at Raffles City Singapore which are expected to be completed in 4Q19 and 1Q18 respectively

Historical AEIs that were completed in CMT's portfolio

Year	Asset Name
FY14	Bukit Panjang Plaza, Jcube, Bugis Junction, IMM Building (Phase 1)
FY15	Sembawang Plaza, IMM Building (Phase 2), Clarke Quay
FY16	Plaza Singapura, Tampines Mall

Source: Company, PSR

Contributions from the redevelopment of Funan to begin in 4Q19

- Funan's redevelopment will result in a new integrated development with retail, office and service residence components
- Improved connectivity via an underground passage connecting the development to City Hall MRT
- Funan's NLA will double to 0.6 million sqft from 0.3 million sqft
- Estimated redevelopment cost is S\$560 million with a 6.5% projected ROI
- Asset could bring in an additional S\$36.6 million in NPI per annum (8% of FY16's NPI)



Artist Impression of Funan redevelopment, Source: Company

AEI on RCS to refresh and enhance shopping experience

- Works involve refreshing the main entrance, refurbishing certain mall facilities and revamping the Central Atrium on Level 3
- Works are primarily superficial, and will not provide a direct boost to the mall's rental income
- Objective is to refresh and keep the mall relevant to the evolving trends



Artist impression of AEI at RCS, Source: Company

Risks to our thesis

Upside

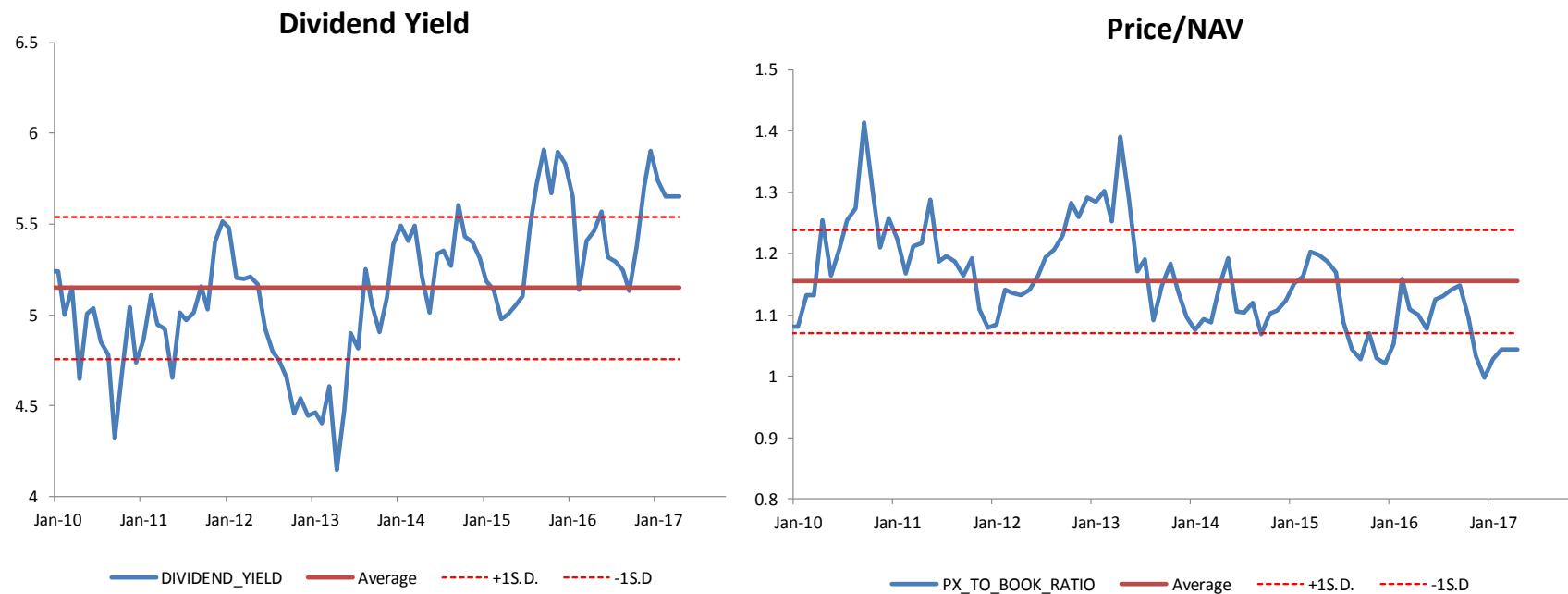
- 1.Stronger than expected economic growth and employment situation in Singapore leading to stronger pickup in retail spending
- 2.Slower than expected Fed raising of interest rates leading to longer low interest rate environment

Downside

- 1.Weaker than expected employment and housing market in Singapore affecting sentiment and retail spending.
- 2.Faster Fed rate hikes than expected increasing costs of borrowing for CMT, and lowering the appeal of yield instruments

Valuation – Neutral, DDM-TP S\$2.01

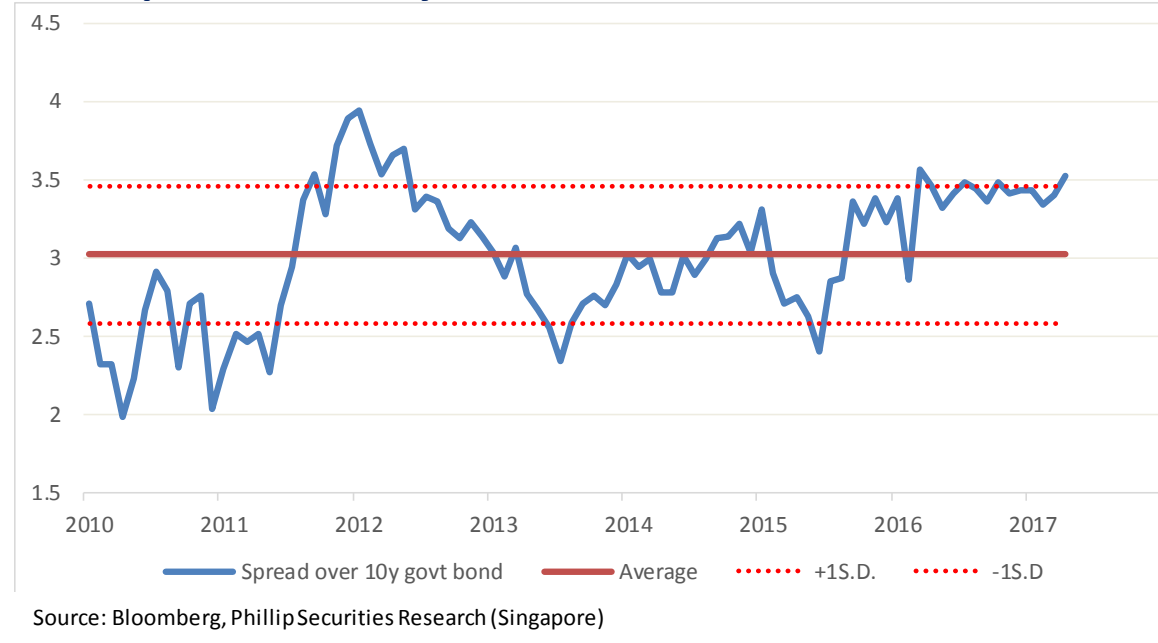
Historical Dividend Yield and Price/NAV



Source: Bloomberg, Phillip Securities Research (Singapore)

Valuation – Neutral, DDM-TP S\$2.01

CMT's spread over 10y SGS bond now at close to +1s.d. level



Name	PSR CALL	Mkt Cap (SGD mn)	Last Close (\$)	Dvd Yld:D-1	P/B	Latest Gearing (%)	Average Cost of debt
CAPITALAND MALL TRUST	NEUTRAL	6,860	1.94	5.75	1.03	35.3	3.20%
FRASERS CENTREPOINT REIT	NEUTRAL	1,936	2.10	5.61	1.09	29.4	2.20%
CAPITALAND RETAIL CHINA TRUST	NEUTRAL	1,395	1.57	6.42	1.00	35.1	2.49%
SPH REIT		2,568	1.01	5.48	1.07	25.5	2.79%
MAPLETREE COMMERCIAL TRUST		4,444	1.55	5.56	1.12	36.4	2.66%
STARHILL GLOBAL REIT		1,647	0.76	6.66	0.82	34.8	3.17%
SUNTEC REIT		4,856	1.84	5.48	0.85	36.4	2.42%

Source: Bloomberg (Updated 7 June 2017), Company 1QCY Results Slides, PSR

Investment Thesis

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- 2.Largest mall owner in Singapore with a focus on suburban malls that are well integrated into major transport hubs and with near monopolistic locations.

Structural Challenges

- 1.Increasing number of ecommerce sites, more aggressive promotions and increasing ease of shopping online
- 2.Declining population growth and aging population in Singapore.

Company Analysis

- 1.Rising occupancy costs – highest in CMT history at 19%. Expect pressures in rental reversions

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