

Mapletree Commercial Trust (MCT SP)

Mall Moderation Not Priced In

SELL

Share Price SGD 1.66
 12m Price Target SGD 1.45 (-12%)
 Previous Price Target SGD 1.45

Results in line, maintain forecasts, TP

MCT's 3Q18 results were in line with MKE and the street, with DPU at S2.90cts, up 0.9% YoY and 2.7% QoQ. We have kept estimates and DDM-based SGD1.45 TP (WACC: 7.1%, LTG: 1.2%) intact. We are negative on retail S-REITs, given structural challenges from e-commerce disruption and sales leakage. We see downside risk to market expectations of rental reversion prospects at VivoCity. MCT remains our key SELL given a more-exposed tenant portfolio, moderating rental profile, and lofty valuations.

VivoCity, MBC I were key drivers

3Q18 revenue/ NPI rose 0.8% YoY/ 1.9% YoY, from stronger contribution at VivoCity and MBC I. DPU rose 0.9% YoY to S2.90cts, with YTD DPU of S6.77ct, up 6.4% YoY achieving 76% of our full-year. Portfolio occupancy fell QoQ from 97.6% to 94.6% due to transitional vacancies at VivoCity and MBC I. VivoCity's +2.3% rental reversion helped support overall portfolio rental reversion of +1.2%. AEI works at VivoCity - to add a public library at Level 3 and extend Basement 1 - remain underway. VivoCity saw 1.2% YoY growth in tenant sales YTD, even as shopper traffic fell 1.2% YoY.

Portfolio more exposed to e-commerce competition

VivoCity's positioning as a destination mall is likely to be sustained given its size and location (Harbourfront's interchange, and gateway to Sentosa Island). However, we see some extent of retention risk, as a relatively higher share (35-42%) of its leases are exposed to e-commerce competition, of which 16.7% and 14.7% are to be renewed in FY19 and FY20. We see a stronger proxy to Singapore's tourism rebound at Orchard Road malls.

Slower growth profile not priced into valuations

MCT has had the longest period of outperformance, which was achieved on the back of strong double-digit rental reversions at its key VivoCity retail asset. But with growth tapering from structural concerns, we see downside risk to DPU estimates.

FYE Mar (SGD m)	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue	288	378	427	435	444
Net property income	221	292	334	340	347
Core net profit	173	224	255	260	262
Core EPU (cts)	14.0	13.3	14.9	10.2	9.6
Core EPU growth (%)	(5.7)	(5.0)	11.6	(31.3)	(6.1)
DPU (cts)	8.1	8.8	8.9	9.0	9.0
DPU growth (%)	1.6	7.6	1.1	2.0	0.2
P/NTA (x)	1.3	1.2	1.2	1.1	1.1
DPU yield (%)	4.9	5.3	5.3	5.4	5.4
ROAE (%)	11.1	10.3	10.6	7.1	6.6
ROAA (%)	4.0	4.1	3.9	3.9	3.9
Debt/Assets (x)	0.35	0.36	0.35	0.35	0.35
Consensus DPU	-	-	9.0	9.0	9.0
MKE vs. Consensus (%)	-	-	(1.7)	0.3	0.4

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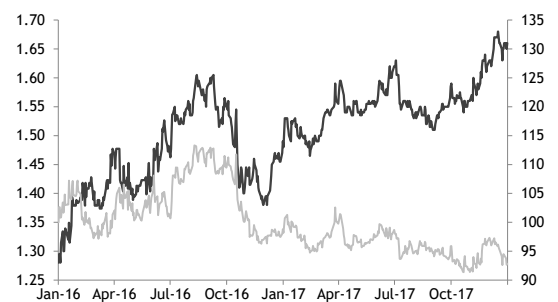
Statistics

52w high/low (SGD) 1.68/1.47
 3m avg turnover (USDm) 5.1
 Free float (%) 61.8
 Issued shares (m) 2,879
 Market capitalisation SGD4.8B
 USD3.7B

Major shareholders:

Temasek 33.9%
 Schroders 8.0%
 AIA 3.6%

Price Performance



	-1M	-3M	-12M
Absolute (%)	2	5	11
Relative to index (%)	(3)	(3)	(6)

Source: FactSet

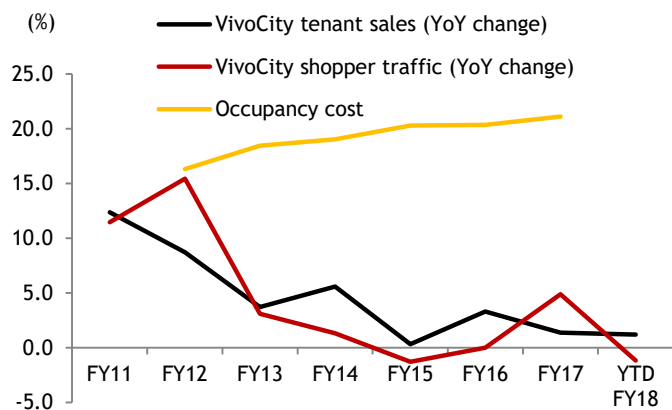
Fig 1: Summary financials 1Q18A comparison

FYE 31 Mar	3Q17 (SGD m)	2Q18 (SGD m)	3Q18 (SGD m)	Change (% YoY)	Change (% QoQ)	YTD18 (SGD m)	% of FYE	FY18E (SGD m)
Gross revenue	108.8	107.2	109.7	0.8	2.3	324.6	76.0	427.1
Property expenses	(24.4)	(22.8)	(23.7)	(2.8)	4.1	(70.1)	75.1	(93.3)
Net property income	84.4	84.4	86.0	1.9	1.8	254.6	76.3	333.8
Borrowing costs	(15.6)	(15.9)	(16.3)	4.4	2.5	(47.7)	76.5	(62.3)
Distributable income to unitholders	65.6	64.7	66.5	1.3	2.7	195.5	76.8	254.6
Distribution per unit (SGD cts)	2.28	2.24	2.30	0.9	2.7	6.8	76.5	8.85
NAV per unit (SGD)	1.34	1.37	1.37					
Aggregate leverage (%)^	37.0	36.4	36.3	(70)	(10)			
All-in financing cost (%)^	2.64	2.70	2.73	9	3			
Occupancy (%)^	99.0	97.6	94.6	(440)	(300)			
Rental reversion (%)^		1.2	1.2	120	0			
NPI margin (%)^	77.6	78.7	78.4	81	(37)			

^Change in basis points

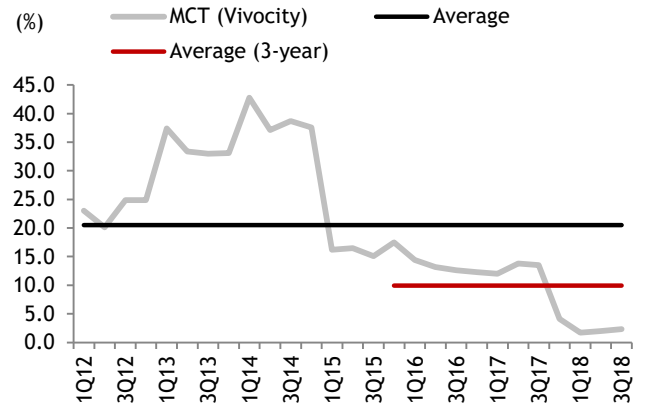
Source: Company data, Maybank Kim Eng

Fig 2: VivoCity tenant sales, shopper traffic, occupancy cost



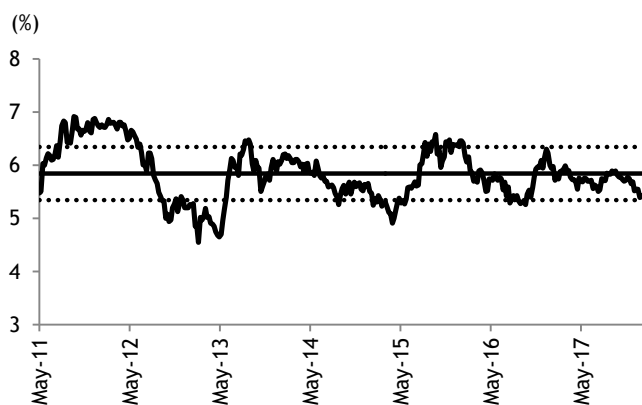
Source: Company data

Fig 3: Rental reversion (1Q12 to 3Q18)



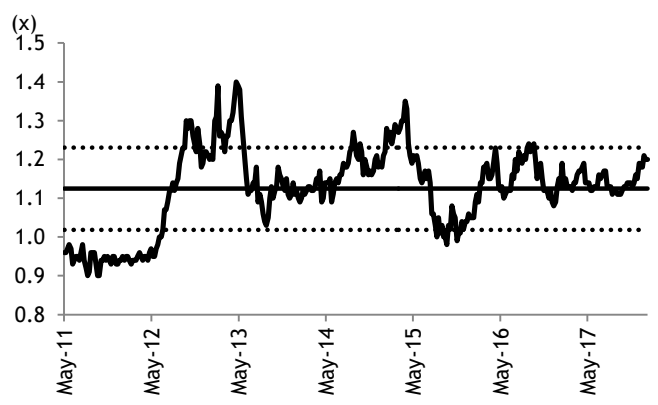
Source: Company data

Fig 4: MCT's DPU yield back to its IPO levels



Source: Company data, Bloomberg, Maybank Kim Eng

Fig 5: P/B is close to +1 SD above its historical mean



Source: Company data, Bloomberg, Maybank Kim Eng

Fig 6: S-REIT valuation comparison

Company	Rating	Price	TP	Upside	Yield	Total	MC	ADTV	Free	BVPS	P/BV	Dividend yield (%)				Gearing
		(SGD)	(SGD)	(%)	(%)	return	(SGD b)	(SGD m)	Float	(SGD)	(x)	16	17E	18E	19E	(D/A)
Retail							13.9	29.5			1.04	5.6	5.5	5.6	5.8	31
CapitaLand Mall (CMT)	Hold	2.08	2.15	3.4	5.3	8.7	7.4	22.8	63	1.95	1.06	5.3	5.3	5.3	5.4	35
Frasers Ctr Trust (FCT)	Buy	2.31	2.55	10.4	5.5	15.9	2.1	2.2	58	2.02	1.14	5.1	5.2	5.5	5.7	30
Starhill Global REIT	Sell	0.77	0.70	(9.1)	6.4	(2.7)	1.7	2.3	63	0.92	0.83	6.8	6.4	6.4	6.5	35
SPH REIT	Hold	1.06	1.00	(5.7)	5.3	(0.4)	2.7	2.1	25	0.94	1.12	5.2	5.2	5.3	5.4	26
Retail & Office							10.5	19.5			1.11	4.9	5.0	5.0	5.0	36
Suntec REIT	Hold	2.15	1.89	(12.1)	4.5	(7.6)	5.7	12.4	79	2.13	1.01	4.7	4.7	4.5	4.5	36
Mapletree Comm. (MCT)	Sell	1.66	1.45	(12.7)	5.4	(7.2)	4.8	7.1	66	1.37	1.21	5.2	5.4	5.4	5.6	36
Office							13.7	29.9			0.95	5.7	5.5	5.4	5.4	37
CapitaLand Comm. (CCT)	Hold	1.91	1.80	(5.8)	4.6	(1.2)	6.9	21.9	73	1.84	1.04	4.6	4.8	4.6	4.7	36
Keppel REIT	Hold	1.30	1.19	(8.5)	4.7	(3.8)	4.4	5.8	56	1.41	0.92	4.9	4.6	4.7	4.7	39
Frasers Comm. (FCOT)	NR	1.51					1.2	2.1	73	1.58	0.96	6.5	6.5	6.3	6.3	36
OUE Comm. (OUECT)	NR	0.75					1.2	0.2	17	0.85	0.88	6.9	6.2	6.1	5.9	36
Industrial							22.5	45.7			1.16	7.1	6.7	6.7	6.8	36
Ascendas REIT	Buy	2.77	3.00	8.3	6.2	14.5	8.0	21.7	80	2.12	1.30	5.7	5.9	6.2	6.4	34
Mapletree Ind. (MIT)	Buy	2.12	2.20	3.8	6.0	9.8	4.0	7.0	68	1.42	1.50	5.4	5.4	6.0	6.1	30
Mapletree Log. (MLT)	Hold	1.36	1.25	(8.1)	5.9	(2.2)	4.2	8.4	64	1.05	1.30	5.4	5.7	5.9	6.0	39
Cache Logistics Trust	Hold	0.87	0.90	4.0	7.1	11.2	0.9	1.5	100	0.72	1.21	8.6	7.6	7.1	7.3	36
Viva Industrial Trust	Buy	0.94	1.00	6.4	7.2	13.6	0.9	1.1	43	0.79	1.19	7.4	7.2	7.2	7.4	39
AIMS AMP	Buy	1.37	1.60	16.8	8.2	25.0	0.9	1.0	81	1.37	1.00	8.1	8.2	8.2	8.2	36
Keppel DC REIT	NR	1.46					1.6	2.7	65	0.97	1.51	4.2	5.0	5.3	5.5	28
ESR REIT	NR	0.57					0.7	0.7	69	0.71	0.80	7.4	6.9	7.3	7.4	38
Soilbuild BS REIT	NR	0.71					0.7	1.4	65	0.64	1.11	8.6	7.9	6.8	6.6	38
Sabana SC Ind. REIT	NR	0.42					0.4	0.5	78	0.57	0.73	10.0	n.a.	n.a.	n.a.	37
Hospitality & Residential							10.4	9.8			1.04	5.9	5.5	5.7	5.8	35
Ascott Residence Trust	NR	1.25					2.7	2.7	59	1.24	1.01	6.4	5.5	5.8	5.9	32
CDL HT (CDLHT)	NR	1.82					2.2	2.8	63	1.47	1.23	5.3	5.1	5.5	5.6	39
OUE HT (OUEHT)	NR	0.90					1.6	1.6	52	0.76	1.18	5.2	5.6	5.6	5.8	38
Far East HT (FEHT)	NR	0.76					1.4	1.1	41	0.89	0.85	5.7	5.2	5.4	5.7	33
Frasers HT	NR	0.83					1.5	0.9	39	0.82	1.01	6.8	6.1	6.1	6.1	34
Ascendas HT	NR	0.88					1.0	0.7	65	0.89	0.99	6.3	n.a.	n.a.	n.a.	33
Offshore REITs							14.8	18.0			1.03	6.9	6.9	6.7	6.9	33
Mapletree Greater China	NR	1.27					3.6	4.5	66	1.25	1.02	5.8	5.8	5.9	6.0	39
CapitaLand Retail China	NR	1.64					1.6	2.1	63	1.63	1.01	6.1	6.2	6.5	7.0	35
Fortune REIT (HKD)	NR	9.84					3.2	0.5	72	14.05	0.70	5.0	n.a.	n.a.	n.a.	28
Lippo Malls Ind. RT	NR	0.41					1.1	2.1	64	0.35	1.14	8.4	8.8	8.5	8.6	31
Manulife REIT (USD)	NR	0.95					1.3	2.8	95	0.84	1.13	6.1	6.0	6.5	6.6	30
Keppel_KBS US REIT	NR	0.92					0.8	n.a.	47	0.84	1.09	n.a.	n.a.	6.5	6.9	36
IREIT Global	NR	0.81					0.5	0.4	33	0.67	1.20	11.8	n.a.	n.a.	n.a.	41
BHG Retail REIT	NR	0.80					0.4	0.0	34	0.83	0.96	6.9	n.a.	n.a.	n.a.	32
Frasers Log. & Ind. (FLT)	NR	1.16					1.8	5.4	74	0.94	1.24	5.3	6.7	6.1	6.2	29
EC World REIT	NR	0.78					0.6	0.2	51	0.93	0.83	n.a.	7.7	n.a.	n.a.	29
Healthcare							2.9	3.1			1.57	5.0	5.3	5.2	5.3	34
Parkway Life REIT	NR	3.00					1.8	1.7	54	1.72	1.75	4.0	4.5	4.2	4.3	37
First REIT	NR	1.41					1.1	1.4	67	1.01	1.39	6.0	6.1	6.2	6.3	31
Total REITs							89	156			1.09	6.3	6.0	6.0	6.2	34
S-REIT yield spread																
FSTREI Index																3.0
SGS 10Y bond yield																5.2
																2.1

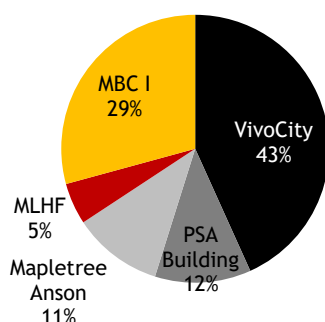
Prices as of 24 Jan 2018. NR = Not Rated.

Source: Bloomberg, FactSet, Companies, Maybank Kim Eng

Value Proposition

- MCT owns VivoCity, which is S'pore's largest mall at 1.05b sqft NLA, and achieved 55.8m (+4.8% YoY) and 27.0m (+1.1% YoY) shopper traffic in FY17 and 1H18, respectively.
- It is one of four S-REITs sponsored by Mapletree Investments, wholly-owned by Temasek Holdings.
- Its SGD1.86b acquisition of Mapletree Business City 1 from its sponsor in Jul 2016 has enabled an exposure to business parks (21% of AUM, 13% of NPI), with favourable demand-supply dynamics.
- Strong balance sheet with estimated SGD400m debt headroom, at 40% gearing, to pursue inorganic growth opportunities.

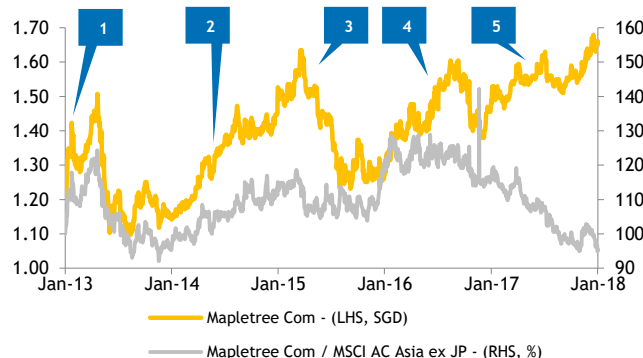
AUM breakdown (as of end-Sep 2017)



Source: Company

Price Drivers

Historical share price trend



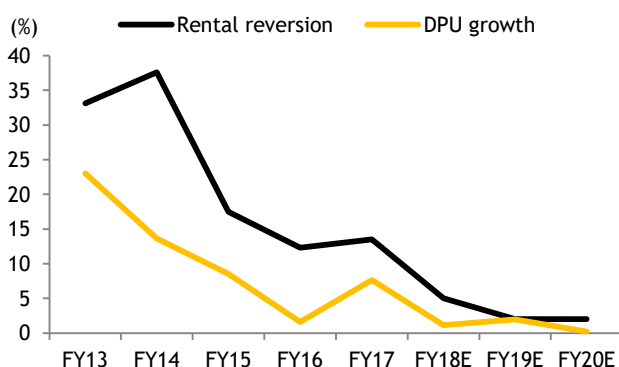
Source: Company, Maybank Kim Eng

1. Jan-13: Announces first acquisition post-IPO of Mapletree Anson, a premium office building at a 2-min walk from Tanjong Pagar MRT for SGD690m at 3.6% NPI yield.
2. Apr-14: Reports FYMar-14 results with revenue/NPI up 21.7% YoY/25.2% YoY, exceeding forecasts by 3.8-8.8% and due to VivoCity and PSAB.
3. Apr-15: Opens new 15k sqft retail pockets at VivoCity Basement 1 to exploit commuter flows arising from its connectivity to HarbourFront MRT and Sentosa Express.
4. Jul-16: Acquires Mapletree Business City (P1) comprising an office tower and 3 business park blocks for SGD1.78b, at 5.6% NPI yield, above existing portfolio yield of 5.1%.
5. Apr-17: Reports FYMar-17 results with revenue/NPI up 31.3% YoY/32.4% YoY, with 1.3% YoY rise in tenant sales at VivoCity.

Financial Metrics

- We expect DPU growth to slow sharply from double-digit since IPO to 1-2% in FY18-19E and lower in FY20E.
- Rental reversion should decelerate from strong double-digit to 3-5% in FY18-20E, as VivoCity rents catch up with the market.

Rental reversion and DPU growth



Source: Company, Maybank Kim Eng estimates

Swing Factors

Upside

- Earlier-than-expected pick-up in leasing demand for retail, office and business park space driving improvement in occupancy.
- Better-than-anticipated rental reversions.
- Accretive acquisitions or redevelopment projects.

Downside

- Prolonged slowdown in economic activity could reduce demand for retail, office, and business park space resulting in lower occupancy and rental rates.
- Termination of long-term leases contributing to weaker portfolio tenant retention rate.
- Sharper-than-expected rise in interest rates could increase cost of debt and negatively impact earnings, with higher cost of capital lowering valuations.

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FYE 31 Mar	FY16A	FY17A	FY18E	FY19E	FY20E
Key Metrics					
Price/DPU(x)	20.4	19.0	18.8	18.4	18.4
P/BV (x)	1.3	1.2	1.2	1.1	1.1
P/NTA (x)	1.3	1.2	1.2	1.1	1.1
DPU yield (%)	4.9	5.3	5.3	5.4	5.4
FCF yield (%)	5.8	6.2	6.7	6.7	6.8
INCOME STATEMENT (SGD m)					
Revenue	287.8	377.7	427.1	435.3	443.9
Net property income	220.7	292.3	333.8	340.1	346.7
Management and trustee fees	(20.2)	(26.3)	(30.5)	(30.9)	(31.3)
Net financing costs	(39.7)	(54.2)	(62.3)	(62.5)	(67.4)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	139.9	135.3	188.0	49.3	30.9
Other pretax income/expenses	0.5	0.5	0.5	0.5	0.5
Pretax profit	299.7	346.2	427.7	294.8	277.7
Income tax	0.0	0.0	0.0	0.0	0.0
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Total return avail to unitholders	299.7	346.2	427.7	294.8	277.7
Preferred Dividends	0.0	0.0	0.0	0.0	0.0
Distributable inc to unitholders	172.5	227.2	254.6	260.5	262.0
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	63.6	53.9	67.4	67.4	67.4
Accounts receivable	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	0.2	0.2	0.2	0.2	0.2
Investment properties	4,341.8	6,337.0	6,525.0	6,574.3	6,605.2
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	9.6	14.6	14.6	14.6	14.6
Total assets	4,415.2	6,405.7	6,607.1	6,656.4	6,687.3
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	51.8	71.5	71.5	71.5	71.5
LT interest bearing debt	1,551.5	2,329.8	2,339.4	2,339.4	2,339.4
Other liabilities	47.9	47.0	47.0	47.0	47.0
Total Liabilities	1,651.2	2,448.2	2,457.8	2,457.8	2,457.8
Shareholders Equity	2,764.0	3,957.5	4,149.3	4,198.6	4,229.4
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	2,764.0	3,957.5	4,149.3	4,198.6	4,229.4
Total liabilities and equity	4,415.2	6,405.7	6,607.1	6,656.4	6,687.3
CASH FLOW (SGD m)					
Cash flow from operations	212.7	287.6	320.3	322.5	328.9
Capex	(7.4)	(18.6)	(0.0)	(0.0)	(0.0)
Acquisitions & investments	0.0	(1,834.6)	0.0	0.0	0.0
Disposal of FA & investments	0.0	0.0	0.0	0.0	0.0
Dividend income from associates	0.0	0.0	0.0	0.0	0.0
Other investing cash flow	0.5	0.5	0.5	0.5	0.5
CF from investing activities	(6.9)	(1,852.8)	0.5	0.5	0.5
Dividends paid	(156.8)	(201.5)	(254.6)	(260.5)	(262.0)
Interest expense	(38.1)	(49.3)	(62.3)	(62.5)	(67.4)
Change in debt	(2.1)	772.7	9.6	0.0	0.0
Equity raised / (purchased)	0.0	1,033.6	0.0	0.0	0.0
Other financial activities	0.0	0.0	0.0	0.0	0.0
CF from financing activities	(197.1)	1,555.5	(307.3)	(323.0)	(329.4)
Effect of exchange rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	8.7	(9.7)	13.4	0.0	0.0

FYE 31 Mar	FY16A	FY17A	FY18E	FY19E	FY20E
Key Ratios					
Growth ratios (%)					
Revenue growth	1.9	31.3	13.1	1.9	2.0
Net property income growth	4.3	32.4	14.2	1.9	1.9
Core net profit growth	2.5	29.7	13.8	2.3	0.6
Distributable income growth	2.5	31.7	12.0	2.3	0.6
Profitability ratios (%)					
Net property income margin	76.7	77.4	78.2	78.1	78.1
Core net profit margin	59.9	59.2	59.6	59.8	59.0
Payout ratio	57.9	65.6	59.5	88.4	94.4
DuPont analysis					
Total return margin (%)	nm	91.6	nm	67.7	62.6
Gross revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.6	1.6	1.6	1.6	1.6
ROAE (%)	11.1	10.3	10.6	7.1	6.6
ROAA (%)	4.0	4.1	3.9	3.9	3.9
Leverage & Expense Analysis					
Asset/Liability (x)	2.7	2.6	2.7	2.7	2.7
Net gearing (%) (excl. perps)	53.8	57.5	54.8	54.1	53.7
Net interest cover (x)	5.0	4.9	4.8	4.9	4.7
Debt/EBITDA (x)	7.8	8.8	7.8	7.6	7.5
Capex/revenue (%)	2.6	4.9	0.0	0.0	0.0
Net debt/ (net cash)	1,487.9	2,275.8	2,272.0	2,272.0	2,272.0
Debt/Assets (x)	0.35	0.36	0.35	0.35	0.35

Source: Company; Maybank

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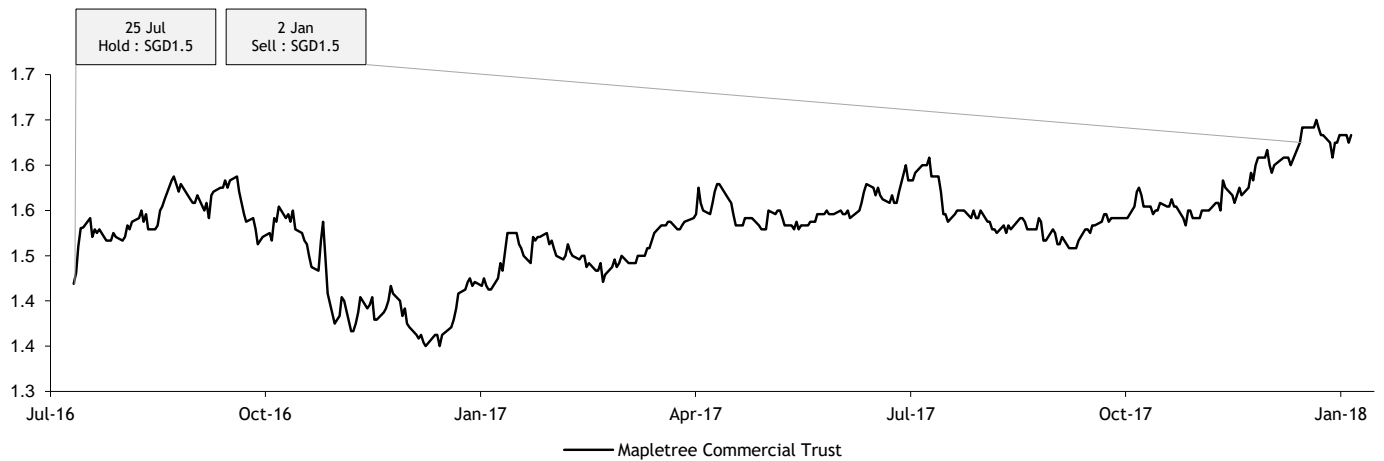
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