CapitaLand M'sia Mall Trust

9MFY19 Within Expectations

By Marie Vaz I msvaz@kenanga.com.my

OUTPERFORM ↔

Price : **RM1.04**

Target Price : **RM1.15 ↔**

9MFY19 realised distributable income (RDI) of RM96.8m came in within expectations, at 72% and 78% of our and consensus' estimates, respectively. No dividends, as expected. Maintain FY19-20E CNP of RM135-140m. Maintain OUTPERFORM and TP of RM1.15.

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Results' highlight. YoY-Ytd, top-line was down by 2.6% due to weakness at Sungei Wang Plaza (SWP), The Mines (TM) and 3 Damansara on weak reversions but amidst improving occupancy for SWP and TM. Gurney Plaza (GP) and East Coast Mall (ECM) continued to see improved rentals. This, coupled with (i) higher operating cost (+3.1%) from higher utilities consumption and (ii) higher financing cost (+1.5%), caused RDI to decline by 19.9%. **QoQ,** top-line was down marginally by 1.3%**.** However, flattish operating cost on the back of lower expenditure (-1.2%) resulted in RDI improving slightly to 0.4%.

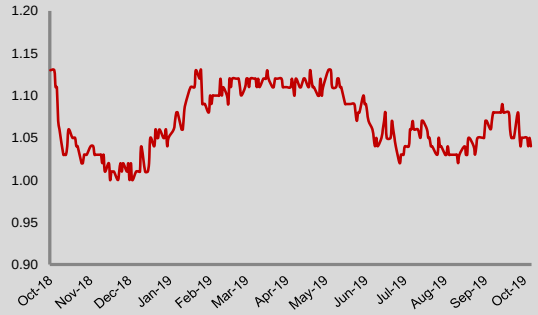
Outlook. We expect capex of RM30-20m in line with management's target, mainly for the refurbishment of Sungei Wang Plaza and regular maintenance in FY19 and for AEI works at Gurney Plaza in FY20. FY19 will see 39% of NLA up for expiry (as at end March 2019) while we expect c.30% of NLA expiring in FY20. Note that CMMT's lease expiries are on a staggered basis of c.30% per annum. SWP may see weak rental reversions in the near term but we expect improvements in 2H19 on: (i) completion of SWP AEIs by 4Q19 (delayed from 3QFY19 previously), and (ii) improved reversions in 2HFY19 post AEIs and introduction of new and smaller tenants.

Maintain FY19-20E CNP of RM135-140m. We are assuming portfolio reversions of -4% to 1% in FY19-20**.** Our FY19E/FY20E GDPU/NDPU of 6.6-6.8/5.9-6.2 sen implies gross yield of 6.4/6.6% (net yield of 5.7/5.9%).

Maintain OP and Target Price of RM1.15. Our TP is based on a +2.60ppt spread to the 10-year MGS target of 3.40% to FY20E GDPS of 6.8/6.2 sen GDPU/NDPU. Note that our applied spread is the highest among retail MREITs under our coverage (+1.3ppt to +1.7ppt) to serve as a buffer for CMMT's marginally weaker asset profile from negative reversions, and concerns of oversupply of retail space given that CMMT does not own any prime assets. However, post pricing in conservative earnings and valuations, we believe CMMT warrants an OP call at current levels given its attractive gross yield of 6.5% which is significantly higher than retail MREIT peers' average of 5.4%.

Risks to our call include: (I) bond yield expansions, (ii) lower-than-expected rental reversions, and (iii) lower-than-expected occupancy rates.

Share Price Performance



KLCI	1,571.11
YTD KLCI chg	-7.1%
YTD stock price chg	3.0%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	CMMT MK EQUITY
Market Cap (RM m)	2,133.8
Shares Outstanding	2,051.8
52-week range (H)	1.14
52-week range (L)	0.99
3-mth avg daily vol:	889,305
Free Float	35%
Beta	0.5

Major Shareholders

CapitaLand Limited	34.7%
Skim Amanah Saham Bumiputera	11.9%
Kumpulan Wang Persaraan Diperbadankan	11.5%

Summary Earnings Table

FY Dec (RM m)	2018A	2019E	2020E
Turnover	350	342	357
EBIT	215	196	203
PBT	136	135	140
Net Profit (NP)	**136**	**135**	**140**
Core NP (RDI)	**161**	**135**	**140**
Consensus (NP)	N.A.	125	136
Earnings Revision	N.A.	0%	0%
Core EPS (sen)	7.9	6.6	6.9
Core EPS growth (%)	1	-16	4
NDPS (sen)	7.1	5.9	6.2
NAV/Share (RM)	1.3	1.3	1.3
Core PER (x)	13.2	15.7	15.2
Price/NAV (x)	0.8	0.8	0.8
Gearing (x)	0.3	0.3	0.3
Net. Div Yield (%)	6.8	5.7	5.9

**Core NP refers to RDI*

Results Highlights

FYE 31 Dec (RM m)	3Q19	2Q19	QoQ	3Q18	YoY	9MFY18	9MFY19	YY-Ytd %
Gross Rental Income	83.7	84.8	-1.3%	86.2	-2.8%	263.2	256.5	-2.6%
Operating Costs	(34.5)	(34.5)	0.0%	(34.4)	0.3%	(101.1)	(104.2)	3.1%
Net Rental Income	**49.2**	**50.3**	**-2.3%**	**51.7**	**-4.9%**	**162.1**	**152.3**	**-6.1%**
Interest Income	0.7	0.7	-11.2%	1.2	-45.5%	3.8	2.3	-39.5%
Total Trust Income	**49.9**	**51.1**	**-2.4%**	**53.0**	**-5.8%**	**166.0**	**154.6**	**-6.9%**
Expenditure	(5.8)	(5.9)	-1.2%	(6.0)	-2.4%	(18.1)	(17.7)	-2.0%
Financing Costs	(15.6)	(15.5)	0.5%	(15.4)	1.3%	(45.6)	(46.3)	1.5%
Fair Value Adjustments	0.0	(30.0)	n.m.	0.0	n.a.	(1.2)	(30.0)	2313.0%
Pretax Income	**28.4**	**(0.4)**	**n.m.**	**31.6**	**-10.0%**	**101.0**	**60.5**	**-40.1%**
Taxation	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
Income after Tax	**28.4**	**(0.4)**	**n.m.**	**31.6**	**-10.0%**	**101.0**	**60.5**	**-40.1%**
Distribution Income	**31.0**	**30.9**	**0.4%**	**38.8**	**-20.2%**	**120.9**	**96.8**	**-19.9%**
Realized Net Income	**28.4**	**29.6**	-4.2%	**31.6**	-10.0%	**102.2**	**90.5**	-11.5%
EPU (sen)	1.65	-0.23	-817.4%	1.81	-8.8%	5.77	3.28	-43.2%
GDPU (sen)	1.51	1.51	0.0%	1.90	-20.5%	5.92	4.73	-0.20
NAV/unit (RM)	1.26	1.28		1.29		1.29	1.26	
Gearing (x)	0.34	0.33		0.33		0.33	0.34	
Net Rental Margins	58.8%	59.3%		60.1%		61.6%	59.4%	
RDI Margins	37.0%	36.4%		45.1%		45.9%	37.7%	

Source: Company, Kenanga Research

Segmental Breakdown

FY Dec (RM m)	3Q FY19	2Q FY19	QoQ Chg	3Q FY18	YoY Chg	9M FY18	9M FY19	YoY Chg
Revenue								
Gurney Plaza (including extension)	37.5	38.0	-1.4%	36.8	1.7%	110.0	114.5	4.1%
Sungei Wang	6.1	6.0	0.8%	6.6	-7.4%	22.2	18.5	-16.4%
The Mines	13.8	13.9	-0.8%	16.3	-15.2%	51.5	43.3	-16.0%
East Coast Mall	15.8	16.2	-2.0%	15.2	3.9%	45.2	47.6	5.4%
3 Damansara Property	10.5	10.7	-1.9%	11.2	-6.3%	34.4	32.5	-5.5%
Group revenue	**83.7**	**84.8**	**-1.3%**	**86.2**	**-2.8%**	**263.2**	**256.5**	**-2.6%**
NPI								
Gurney Plaza (including enlargement)	26.7	27.3	-1.9%	26.7	0.3%	77.9	81.7	4.8%
Sungei Wang	-0.6	-0.1	580.0%	0.8	-169.1%	6.9	0.1	-98.4%
The Mines	7.8	7.0	11.3%	9.2	-15.5%	30.6	23.3	-23.9%
East Coast Mall	10.6	10.7	-0.6%	10.3	3.1%	30.2	31.7	4.7%
3 Damansara Property	4.7	5.5	-15.1%	4.8	-1.8%	16.5	15.6	-5.8%
Group NPI	**49.2**	**50.3**	**-2.3%**	**51.7**	**-4.9%**	**162.1**	**152.3**	**-6.1%**

Source: Company, Kenanga Research

Occupancy Rates

Assets	1Q 2019 31/3/2019[1]	2Q 2019 30/06/2019[1]	3Q 2019 30/09/2019[1]
Gurney Plaza	98.5%	98.7%	99.1%
Sungei Wang Plaza	76.0%	75.0%	80.8%
The Mines	88.2%	80.1%	84.0%
East Coast Mall	99.0%	99.1%	99.5%
3 Damansara[2]	90.0%	92.6%	93.9%
CMMT (Retail)	**92.2%**	**90.6%**	**92.1%**
Tropicana City Office Tower[2]	100.0%	100.0%	100.0%
CMMT Portfolio (Retail & Office)	**92.5%**	**90.9%**	**92.4%**

1.Based on committed leases

2. The occupancy of 3 Damansara Property is 95.0% as at 30 September 2019.

Source: Company, Kenanga Research

Rental Reversions

	From 1 January 2019 to 30 September 2019 (Excluding newly created and reconfigured units)	
	No. of new leases/renewals	**Variance over preceding rental[2,3,4] (%)**
Gurney Plaza	81	1.60
East Coast Mall	28	-0.3
The Mines	74	-16.2
3 Damansara	40	-4.5
Sungei Wang Plaza (SWP)	41	-14.4
CMMT Portfolio (Retail)	**264**	**-6.0**
Tropicana City Office Tower	2	-1.7
CMMT Portfolio	**266**	**-5.8**

1.Excluding newly created and reconfigured units

2.Excluding gross turnover rent component

3.Majority of leases have rental escalation clause

4.The % is computed based on the increase in the 1st year rental of the renewed term over last year rental of the preceding term.

*The negative rental reversion was largely due to amalgamation of 2 units for a tenant

Source: Company, Kenanga Research

Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div.Yld. (%)	Target	Rating
	(RM)	Cap (RM'm)	Compliant	FYE	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	Price (RM)	
STOCKS UNDER COVERAGE																	
AXIS REIT	1.80	2,227.1	Y	12/2019	3.3%	7.8%	1.3%	3.7%	19.6	19.4	18.6	1.3	1.3	6.9%	4.7%	2.00	OP
CAPITALAND MALAYSIA MALL TRUST	1.04	2,133.8	N	12/2019	-2.3%	4.3%	-16.0%	3.8%	13.2	15.7	15.2	0.8	0.8	5.0%	5.7%	1.15	OP
IGB REIT	1.97	6,985.3	N	12/2019	3.9%	1.7%	2.8%	1.6%	22.9	22.4	22.1	1.8	1.9	8.3%	4.4%	2.05	MP
KLCCP STAPLED GROUP	8.00	14,442.7	Y	12/2019	5.5%	0.7%	4.9%	1.2%	19.9	19.8	19.5	1.1	1.1	6.0%	4.5%	8.25	MP
MRCB-QUILL REIT	1.00	1,071.8	N	12/2019	-2.2%	0.7%	-8.4%	1.2%	13.0	14.2	14.1	0.8	0.8	5.4%	6.3%	1.05	MP
PAVILION REIT	1.79	5,439.8	N	12/2019	10.8%	2.0%	4.5%	2.6%	21.3	20.4	19.9	1.3	1.3	6.8%	4.6%	1.90	MP
SUNWAY REIT	1.85	5,448.4	N	06/2020	8.1%	2.6%	2.5%	2.4%	19.3	18.9	18.3	1.2	1.3	6.6%	4.8%	1.90	MP
Simple Average					**3.9%**	**2.8%**	**-1.2%**	**2.4%**	**18.5**	**18.7**	**18.2**	**1.2**	**1.2**	**6.4%**	**5.0%**		
** Core NP and Core PER*																	
CONSENSUS NUMBERS																	
YTL HOSPITALITY REIT	1.33	2,266.8	N	06/2020	7.4%	3.4%	44.3%	4.6%	21.7	15.0	14.3	0.8	0.8	0.0	6.2%	1.53	BUY
AL-'AQAR HEALTHCARE REIT	1.46	1,074.5	Y	12/2019	-2.1%	1.9%	-32.9%	2.9%	11.8	17.5	17.0	1.1	N.A.	0.1	5.4%	1.50	N.A.
AMANAHRAYA REIT	0.755	432.8	N	12/2019	25.3%	0.8%	-52.2%	2.1%	5.3	11.2	10.9	0.6	N.A.	0.1	7.8%	0.910	BUY
AMFIRST REIT	0.485	332.9	N	03/2020	N.A.	N.A.	N.A.	N.A.	14.9	N.A.	N.A.	0.4	N.A.	N.A.	N.A.	N.A.	N.A.
HEKTAR REIT	0.985	455.0	N	12/2019	N.A.	N.A.	N.A.	N.A.	13.7	N.A.	N.A.	0.7	N.A.	N.A.	N.A.	N.A.	N.A.
TOWER REIT	0.865	242.6	N	06/2020	N.A.	N.A.	N.A.	N.A.	33.8	N.A.	N.A.	0.5	N.A.	N.A.	N.A.	N.A.	N.A.
UOA REIT	1.22	515.9	N	12/2019	N.A.	N.A.	N.A.	N.A.	9.0	N.A.	N.A.	0.7	N.A.	N.A.	N.A.	N.A.	N.A.
ATRIUM REIT	1.05	215.7	N	12/2019	N.A.	N.A.	N.A.	N.A.	18.6	N.A.	N.A.	0.8	N.A.	N.A.	N.A.	N.A.	N.A.
AL-SALAM REIT	0.900	522.0	Y	12/2019	7.0%	5.1%	-26.7%	4.2%	13.0	17.7	16.9	0.8	0.8	0.0	5.2%	0.865	N.A.
KIP REIT	0.860	434.6	N	06/2020	N.A.	N.A.	N.A.	N.A.	12.8	N.A.	N.A.	0.8	N.A.	N.A.	N.A.	N.A.	N.A.

Source: Bloomberg, Kenanga Research

Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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KENANGA INVESTMENT BANK BERHAD (15678-H)
Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my