

23 January 2020

Property | REITs

Capitaland Malaysia Mall Trust (CMMT MK)

Sell (Maintained)

Sharp Devaluation a Drag; Reiterate SELL

Target Price (Return)	MYR0.91 (-10%)
Price:	MYR1.01
Market Cap:	USD510m
Avg Daily Turnover (MYR/USD)	0.47m/0.11m

- **Reiterate SELL call with a new MYR0.91 TP from MYR0.89, 10% downside**, plus 7% 2020F yield (-3% total return). Capitaland Malaysia Mall Trust continues to register yet another lacklustre quarter, with earnings having missed expectations – ultimately leading the REIT to display negative growth in its full-year performance. Weak reversions, coupled with a dire outlook on its Klang Valley assets, suggest that occupancy rates should remain under pressure moving forward. Jumpa, in our view, will not mitigate the REIT's overall poor performance in the near future.
- **Earnings missed again.** CMMT reported an FY19 core net profit of MYR103.3m (having excluded MYR30.7m worth of devaluation) – below our and market expectations. Topline saw a 2.2% decline YoY from lower occupancy rates demonstrated by its Klang Valley assets. Meanwhile, core net profit declined 23% YoY, stemming from higher operating expenses arising from electricity surcharge at Gurney Plaza, East Coast Mall, and 3 Damansara. CMMT declared a DPU of 1.52 sen for 4Q19, amounting to a DPU of 6.25 sen for FY19 vs 7.90 sen in FY18 – translating into a c.6% yield.
- **Net property income (NPI) dropped 6% YoY.** Sungei Wang Plaza saw a turnaround in 4Q19, in which an NPI of MYR0.79m was registered vs a loss of MYR0.58m in 3Q19. This was likely due to the downtime at the mall having come to an end. Nevertheless, CMMT's Klang Valley assets continue to display negative growth in 4Q19, with NPI dropping 6% YoY. On a YoY basis, only East Coast Mall saw positive growth in NPI: +8%.
- **Slight improvement in occupancy rates.** Blended occupancy showed a marginal improvement: Increasing to 93.6% in 4Q19 from 92.1% in 3Q19. This was mainly due to an improvement in occupancy for The Mines and Sungei Wang Plaza post Jumpa's soft launch. Despite the improvement in occupancy, we believe occupancy rates will remain under pressure moving forward, amidst the oversupply threat. As of 3Q19, 22.2% of the REIT's total NLA was up for renewal, with 56% up for renewal in FY20, of which 10% have renewed to date.
- **Rental reversion remains weak.** Despite a slight improvement, CMMT's rental reversion for all its Klang Valley retail assets generally remained weak, demonstrated by the fact that only Gurney Plaza and East Coast Mall in Penang and Pahang are in positive territory: +1% and +0.9%. The Mines – the REIT's main concern – demonstrated a further decline in rental reversion to -17.2% from -16.2% in 3Q19. Sungei Wang Plaza's rental reversion continued its negative streak (-12.4%, a mild improvement from 3Q19's -14.4%). Jumpa's growth potential will be slow *in our view*, and we are only mildly positive that its opening will benefit the rest of the main block in a material way.
- **We keep our call.** We introduce our FY22F earnings of MYR124m, making no changes to our earnings forecast, seeing that the results missed due to revaluations. Post housekeeping, TP is marginally raised to MYR0.91.

Analyst

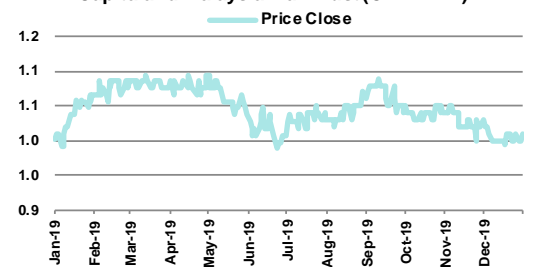
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	1.0	(1.0)	(2.9)	(2.9)	(4.7)
Relative	1.7	1.0	(3.1)	1.8	2.6
52-wk Price low/high (MYR)	0.99 - 1.14				

Capitaland Malaysia Mall Trust (CMMT MK)



Source: Bloomberg

Forecasts and Valuations	Dec-18	Dec-19F	Dec-20F	Dec-21F	Dec-21F
Total turnover (MYRm)	350	342	330	329	328
Net property income (MYRm)	215	202	197	194	193
Reported net profit (MYRm)	135	123	123	122	124
Total distributable income (MYRm)	161	128	130	130	131
DPS (MYR)	0.08	0.06	0.06	0.06	0.06
DPS growth (%)	(3.9)	(23.7)	0.3	(0.0)	1.3
P/BV (x)	0.77	0.79	0.79	0.79	0.79
Dividend Yield (%)	7.8	6.0	6.0	6.0	6.1
Return on average equity (%)	5.0	4.7	4.7	4.7	4.8
Return on average assets (%)	14.2	9.9	9.9	9.7	9.7
Gross gearing (%)	31.8	33.2	33.2	33.3	33.4

Source: Company data, RHB

Financial Exhibits

Asia		Financial summary	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22
Malaysia		Core EPS (MYR)	0.07	0.06	0.06	0.06	0.06
Property		EPS (MYR)	0.07	0.06	0.06	0.06	0.06
CMMT		DPS (MYR)	0.08	0.06	0.06	0.06	0.06
CMMT MK		BVPS (MYR)	1.31	1.28	1.28	1.28	1.28
		Weighted avg adjusted shares (m)	2,034.64	2,034.64	2,034.64	2,034.64	2,034.64
Shareholding (%)		Valuation metrics	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22
CapitaLand Ltd	34.7	Recurring P/E (x)	15.3	16.7	16.7	16.8	16.6
Skim Amanah Saham Bumiputra	11.9	P/E (x)	15.0	16.2	16.7	16.8	16.6
Employees Provident Fund	11.9	P/B (x)	0.77	0.79	0.79	0.79	0.79
		FCF Yield (%)	10.0	9.2	9.6	9.6	9.7
		Dividend yield (%)	7.8	6.0	6.0	6.0	6.1
Valuation basis		EV/EBITDA (x)	17.1	18.7	18.0	18.1	18.0
Dividend discount model		EV/EBIT (x)	17.1	18.7	18.0	18.1	18.0
Key drivers							
Improvement in domestic consumer sentiment.							
Key risks		Income statement (MYRm)	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22
Upside risk includes recovery of Klang Valley malls and improvement in consumer sentiment.		Total turnover	350	342	330	329	328
		Gross profit	215	202	197	194	193
		EBITDA	191	179	174	171	170
		Depreciation and amortisation	-	-	-	-	-
		Operating profit	191	179	174	171	170
		Net interest	(54)	(52)	(51)	(49)	(46)
		Income from associates & JVs	-	-	-	-	-
		Exceptional income - net	-	-	-	-	-
		Pre-tax profit	137	127	123	122	124
		Taxation	-	-	-	-	-
		Minority interests	-	-	-	-	-
		Recurring net profit(adj)	137	127	123	122	124
Company Profile		Cash flow (MYRm)	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22
CMMT specialises in retail assets that include Sungei Wang Plaza and Gurney Plaza. It is part of the renowned Singapore-based CapitaLand Group through its sponsor, CapitaMalls Asia		Change in working capital	3	(3)	9	9	10
		Cash flow from operations	207	190	198	197	198
		Capex	-	-	-	-	-
		Cash flow from investing activities	(46)	(7)	11	13	16
		Dividends paid	(135)	(123)	(123)	(122)	(124)
		Cash flow from financing activities	(203)	(108)	(173)	(172)	(174)
		Cash at beginning of period	186	101	85	317	359
		Net change in cash	(85)	(17)	233	42	44
		Ending balance cash	101	85	317	359	403
		Balance sheet (MYRm)	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22
		Total cash and equivalents	101	85	317	359	403
		Tangible fixed assets	4,020	4,038	4,038	4,038	4,038
		Intangible assets	-	-	-	-	-
		Total investments	-	-	-	-	-
		Total other assets	-	-	(211)	(231)	(252)
		Total assets	4,143	4,144	4,165	4,187	4,210
		Short-term debt	370	132	132	132	132
		Total long-term debt	949	1,243	1,253	1,263	1,273
		Other liabilities	89	109	117	126	135
		Total liabilities	1,476	1,542	1,563	1,585	1,608
		Shareholders' equity	2,667	2,602	2,602	2,602	2,602
		Minority interests	-	-	-	-	-
		Total equity	2,667	2,602	2,602	2,602	2,602
		Net debt	1,218	1,290	1,067	1,035	1,001
		Total liabilities & equity	4,143	4,144	4,165	4,187	4,210
		Key metrics	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22
		Revenue growth (%)	(5.1)	(2.2)	(3.5)	(0.5)	(0.3)
		Recurrent EPS growth (%)	(14.8)	(8.7)	0.5	(1.0)	1.3
		Gross margin (%)	61.4	59.1	59.7	59.0	59.0
		Operating EBITDA margin (%)	54.6	52.2	52.6	52.0	51.9
		Net profit margin (%)	39.1	37.0	37.3	37.2	37.8
		Dividend payout ratio (%)	1.2	1.0	1.0	1.0	1.0
		Capex/sales (%)	-	-	-	-	-

Source: Company data, RHB

23 January 2020

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Results at a Glance

Figure 1: CMMT's 4Q19 results summary

FYE Dec (MYRm)	4Q18	3Q19	4Q19	QoQ (%)	YoY (%)	FY18	FY19	YoY (%)	Comments
Revenue	86.9	83.7	85.8	2.5	(1.3)	350.1	342.3	(2.2)	YoY earnings dropped mainly on lower contributions from Klang Valley shopping malls.
NPI	52.8	49.2	49.8	1.3	(5.6)	215.0	202.1	(6.0)	
Interest expense	(15.5)	(15.6)	(15.7)	0.3	1.1	(61.1)	(62.0)	1.4	Lower NPI in tandem with decreased revenue.
Interest income	0.9	0.7	0.6	(7.1)	(34.4)	4.8	2.9	(38.5)	
EI	2.4	0.0	(0.7)	(100.0)	(128.0)	1.1	(30.7)	(2,868.3)	
Others	(14.6)	(15.0)	(15.0)	0.6	3.4	(56.3)	(59.1)	4.8	
Pretax profit	34.6	28.4	31.6	11.3	(8.7)	135.6	92.1	(32.1)	
Tax	0.0	0.0	(9.7)	nm	nm	0.0	(19.5)	nm	
Minority interest	0.0	0.0	(9.7)	nm	nm	0.0	(19.5)	nm	
Net profit	34.6	28.4	21.9	(23.0)	(36.9)	135.6	72.6	(46.5)	
Core profit	32.3	28.4	22.5	(20.7)	(30.2)	134.5	103.3	(23.2)	Below expectations.
Earnings per unit (sen)	1.96	1.38	1.33	(3.9)	(32.1)	7.73	7.73	0.0	
Dividends per unit (sen)	1.98	1.51	1.52	0.7	(23.2)	7.90	6.25	(20.9)	
NPI margin (%)	60.8	58.8	58.1			61.4	59.1		
Pretax margin (%)	39.8	33.9	36.8			38.7	26.9		
Net margin (%)	37.1	33.9	26.2			38.4	30.2		

Source: Company data, RHB

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