

25 October 2018 | 3QFY18 Results Review

CapitaLand Malaysia Mall Trust

An underwhelming quarter

INVESTMENT HIGHLIGHTS

- **9MFY18 earnings missed expectations**
- **3QFY18 CNI drop 21%yoy as revenue dipped 7%yoy**
- **Headwinds may persist in the near term**
- **Maintain NEUTRAL with lower TP of RM1.02 (previously RM1.11)**

9MFY18 earnings missed expectations. CapitaLand Malaysia Mall Trust's (CMMT) 9MFY18 core net income (CNI) of RM102.2m fell short of our full year expectation, making up 64.1% of our full year forecast and 66.2% of consensus'. The negative deviation is due to weaker than expected recovery in occupancy rate and rental reversion. A DPU of 1.90 was announced for the quarter, bringing ytd DPU to 5.92 sen.

3QFY18 CNI dropped 21%yoy as revenue dipped 7%yoy. Core net income (CNI) for the quarter slid to RM31.6m from a year ago due to higher operating expenses (+5.6%yoy) while revenue declined to RM86.2m mainly due to lower rental income. Lower gross revenue was registered for the 3 Damansara property (previously Tropicana City) (-9.5%), Sungei Wang Plaza (SWP) (-30.3%) and The Mines (-13.8%) compared with the previous corresponding year. The lower revenue for the quarter is largely attributed to the negative rental reversion of 1.3% versus +0.3% in 2QFY17. Its portfolio occupancy rate for the quarter stood at 91.9% compared to 91.7% in 2QFY18. Qoq, CNI dipped by 6% while revenue decreased marginally by 1%.

Portfolio rental reversion was under pressure. For 9MFY18, rental reversion was positive for Gurney Plaza (+4.3%) and East Coast Mall (+1.4%) but were offset by its Klang Valley assets. Negative rental reversion of SWP (-13.8%), The Mines (-12.8%), 3 Damansara mall (-5.8%) and the Tropicana office tower (-5.1%). That said, occupancy rates for The Mines and Tropicana Office tower are expected to improve by the next quarter.


Headwinds may persist in the near term. Previously we had anticipated for a better second half as some the CMMT's asset enhancement initiatives come to a tail end. Contrary to that, recovery in occupancy rates and rental reversions are yet to be seen. Hence, we take a more conservative approach and reduce our rental reversion and occupancy rate while we increase our expenses assumption. Subsequently, we trim our FY18F/FY19F CNI by -13.2%/-7.6% to RM137.9m/RM149.5m following the reduction of revenue forecast by -4.5% and -2.2% respectively. We expect outlook to be challenging due to the new supply of neighbourhood malls especially in the Klang Valley.

Maintain NEUTRAL

Adjusted Target Price (TP): RM1.02
(previously RM1.11)

RETURN STATS	
Price (24 th October 2018)	RM1.11
Target Price	RM1.02
Expected Share Price Return	-8.1%
Expected Dividend Yield	+6.3%
Expected Total Return	-1.8%

STOCK INFO	
KLCI	1,690.04
Bursa / Bloomberg	5180/CMMT MK
Board / Sector	Main / REIT
Syariah Compliant	No
Issued shares (mil)	2,044.18
Market cap. (RM'm)	2,269.04
Price over NA	0.85
52-wk price Range	RM0.98 – RM1.83
Beta (against KLCI)	0.45
3-mth Avg Daily Vol	0.33m
3-mth Avg Daily Value	RM0.39m
Major Shareholders (%)	
CapitaMalls Asia Ltd	34.78
Skim ASB	11.96
EPF	11.06
KWAP	8.38

Maintain NEUTRAL with an adjusted TP of RM1.02 (previously RM1.11). The lower TP is a result of the adjustment in our earnings forecast as we lower our rental reversion and occupancy rate assumption. We have also factored in higher operating costs. The TP that is based on DDM valuation (required rate of return: 8.8%, perpetual growth rate: 1.2%), is unchanged. We maintain our Neutral stance on CMMT as its near term earnings may not be exciting but that is cushioned by its net asset per share of above RM1.25. Dividend yield is estimated at 6.3%. 

INVESTMENT STATISTICS

FYE Dec (RM m)	FY15	FY16	FY17	FY18F	FY19F
Gross Revenue	344.8	372.6	368.9	354.3	366.8
Net Rental Income	226.4	242.5	237.1	216.7	229.2
Net Investment Income	302.0	252.3	246.8	223.4	235.9
Net Income	226.0	167.8	162.1	137.9	149.5
Core Net Income	155.1	163.7	157.9	137.9	149.5
Realised EPU (sen)	12.00	8.26	7.98	6.79	7.36
Core EPU (sen)	7.66	8.06	7.77	6.79	7.36
Gross DPU (sen)	8.60	8.43	8.24	7.73	7.87
Net DPU (sen)	7.74	7.59	7.41	6.96	7.09
Net Distribution Yield	7.0%	6.8%	6.7%	6.3%	6.4%
Core PER	14.5	13.8	14.3	16.3	15.1
NAV per unit	1.32	1.32	1.32	1.32	1.32
P/NAV	0.84	0.84	0.84	0.84	0.84
Core ROE	6.3%	6.1%	5.9%	5.2%	5.6%
Core ROA	4.1%	4.0%	3.8%	3.4%	3.6%

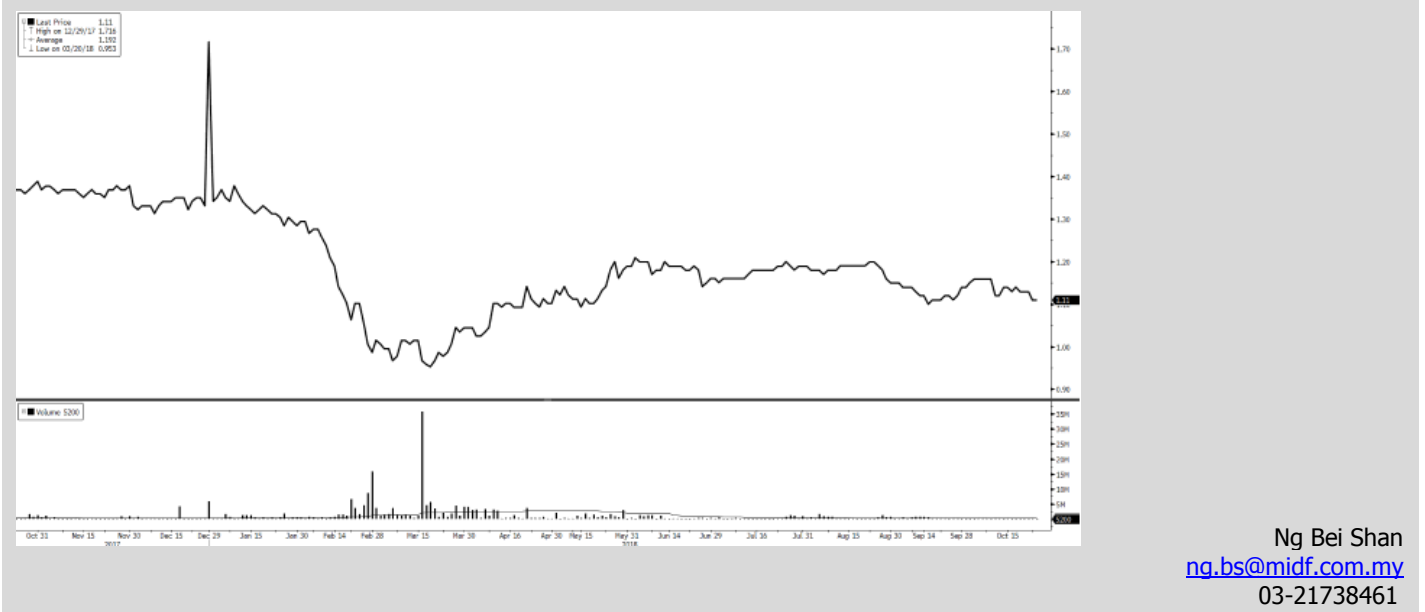
Source: Company, MIDF Research

CMMT: 3QFY18 RESULTS SUMMARY

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative	
	3QFY18	%YoY	%QoQ	9MFY18	%YoY
Gross Revenue	86.15	-7%	-1%	263.2	-5%
Net Rental Income	51.74	-14%	-3%	162.2	-10%
Net Investment Income	52.95	-14%	-1%	164.7	-4%
Net Income	31.55	-21%	-2%	101.0	-7%
Core Net Income	31.55	-21%	-6%	102.2	-15%
Realised EPU (sen)	1.55	-22%	-2%	4.9	-7%
Core EPU (sen)	1.55	-22%	-6%	5.0	-15%
Gross DPU (sen)	1.90	-9%	-5%	5.9	-5%

Source: Company, MIDF Research

DAILY PRICE CHART



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Malaysian Industrial Development Finance Bhd (MIDF) has an interest in CapitaLand Malaysia Malls REIT Management Sdn Bhd, the manager of CMMT.

MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.