

25 January 2018 | 4QFY17 Results Review

CapitaLand Malaysia Mall Trust

Mall revamps may dampen near-term growth

INVESTMENT HIGHLIGHTS

- **FY17 earnings largely within estimates**
- **Core net income slid 4% on revenue that dipped 1%**
- **FY18 will see asset enhancement initiatives for a few malls**
- **Maintain NEUTRAL with a lower TP of RM1.49 (previously RM1.65)**

FY17 earnings largely within estimates. CapitaLand Malaysia Mall Trust's (CMMT) FY17 core net income (CNI) of RM157.9m came in broadly within our expectation, making up 96% of our forecast. It, however, made up only 93% of consensus' estimates. A final DPU of 4.08 was announced, bringing total DPU to 8.22, which is within expectation.

Core net income slid 4% on revenue that dipped 1%. Lower NPI from CMMT's Klang Valley assets continues to be a drag for its full year CNI. Negative rental reversion was seen for The Mines (-7.2%) and Sungei Wang Plaza (SWP) (-16.9%). Excluding SWP, CMMT's rental reversion for the retail segment registered a 0.6% improvement while there is no change to the rental rate for Tropicana City Office Tower.

4QFY17 CNI of RM37.6m was 8% lower yoy due to net property income, which fell by 4.7%yoy, and higher property and non-property expenses. Meanwhile, gross revenue slipped by 2% to RM92.0m. Compared to the previous quarter, rental reversion narrowed to -1.3% from -1.8% in 3QFY17.

FY18 will see asset enhancement initiatives for a few malls. Management has earmarked to embark AEI amounting to RM80m for SWP, The Mines and East Coast Mall. SWP will see the biggest facelift among the malls as a substantial area that was occupied by one of its anchor tenant will be utilised for the AEI. About a-third of SWP's NLA is expected to be revamped in phases. The AEI carried out at SWP will last through until 1HFY19 while the AEI at The Mines and East Coast Mall is expected to be completed in FY18. There will also be a rebranding exercise for Tropicana City Mall to position itself as a preferred dining and shopping destination in FY18.

Maintain NEUTRAL


Revised Target Price (TP): RM1.49
(previously RM1.65)

RETURN STATS	
Price (24 January 2018)	RM1.39
Target Price	RM1.49
Expected Share Price Return	7.2%
Expected Dividend Yield	5.4%
Expected Total Return	12.6%

STOCK INFO	
KLCI	1,837.04
Bursa / Bloomberg	5180/CMMT MK
Board / Sector	Main / REIT
Syariah Compliant	No
Issued shares (mil)	2,037.75
Market cap. (RM'm)	2,832.48
Price over NA	1.08
52-wk price Range	RM1.39 – RM1.83
Beta (against KLCI)	0.71
3-mth Avg Daily Vol	0.49m
3-mth Avg Daily Value	RM0.72m
Major Shareholders (%)	
CapitaMalls Asia Ltd	34.89
Skim ASB	12.00
EPF	9.86
KWAP	8.66

Short term pain for long term gain. We applaud CMMT's efforts to enhance its assets to stay competitive and relevant. That said, we also take into consideration of potentially flattish NPI growth outlook as a result of tenants rejig and lower occupancy rate due to the closure of certain areas in the malls for upgrading works. We also anticipate higher expenses from the rebranding exercise of Tropicana City Mall, which is slated to be unveiled by 1HFY18.

Lower earnings estimates to reflect flattish growth and higher expenses. We cut our FY18F revenue by 6% to RM371.2m (previously RM394.5m) as we anticipate NPI growth to take a breather due to the reasons stated above. We have also increased our expenses assumption, which leads to a cut in CNI by 6.8% to RM160.0m (previously RM171.7m). The decline is also in tandem with lower revenue growth estimates.

Maintain NEUTRAL with revised TP of RM1.49 (previously RM1.65). We reduce our TP for CMMT to RM1.49 (from RM1.65 previously) as we anticipate lower growth ahead. The TP is based on DDM valuation (required rate of return: 7.7%, perpetual growth rate: 1.9%). We have also introduced our FY19F estimates. We maintain our Neutral stance on CMMT due to the unexciting earnings in the near-term. 

INVESTMENT STATISTICS

FYE Dec (RM m)	FY15	FY16	FY17	FY18F	FY19F
Gross Revenue	344.8	372.6	368.9	371.2	374.9
Net Rental Income	226.4	242.5	237.1	239.3	242.3
Net Investment Income	302.0	252.3	246.8	246.0	249.0
Net Income	226.0	167.8	162.1	160.0	162.4
Core Net Income	155.1	163.7	157.9	160.0	162.4
Realised EPU (sen)	12.00	8.26	7.98	7.88	7.99
Core EPU (sen)	7.66	8.06	7.77	7.88	7.99
Gross DPU (sen)	8.60	8.43	8.24	8.39	8.52
Net DPU (sen)	7.74	7.59	7.41	7.55	7.67
Net Distribution Yield	5.3%	5.2%	5.3%	5.4%	5.5%
Core PER	19.1	18.1	17.9	17.6	17.4
NAV per unit	1.32	1.32	1.32	1.32	1.32
P/NAV	1.11	1.10	1.06	1.06	1.06
Core ROE	6.3%	6.1%	5.9%	6.0%	6.1%
Core ROA	4.1%	4.0%	3.8%	3.9%	3.9%

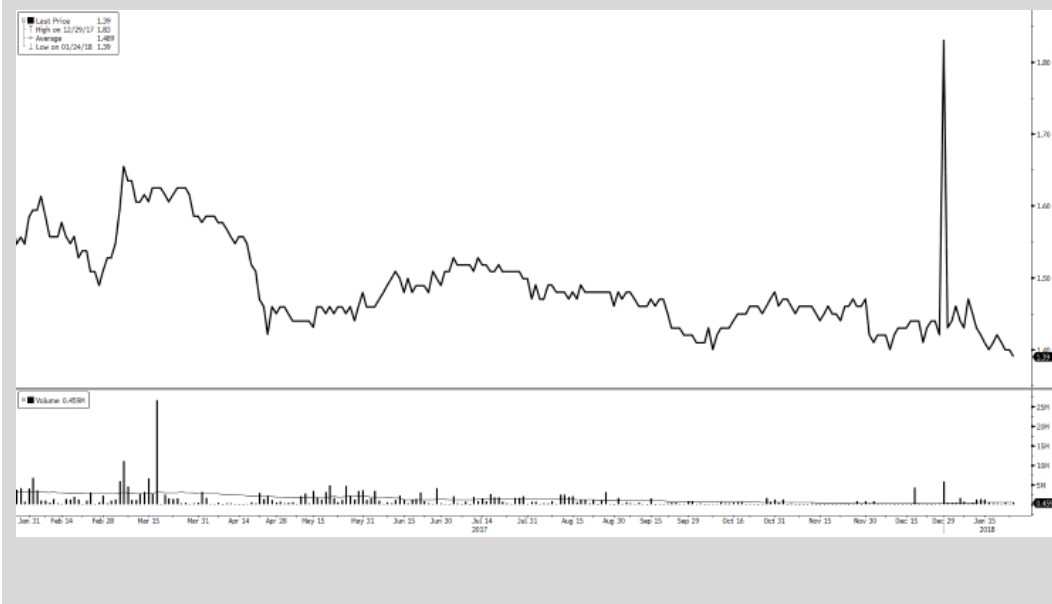
Source: Company, MIDF Research

CMMT: 4QFY17 RESULTS SUMMARY

FYE Dec (RM'm, unless otherwise stated)	Quarterly Results			Cumulative	
	4QFY17	%YoY	%QoQ	FY17	%YoY
Gross Revenue	92.00	-2%	-1%	368.9	-1%
Net Rental Income	57.57	-5%	-4%	237.1	-2%
Net Investment Income	74.88	18%	22%	246.8	-2%
Net Income	53.65	27%	34%	162.1	-3%
Core Net Income	37.63	-8%	-6%	157.9	-4%
Realised EPU (sen)	2.63	26%	34%	8.0	-4%
Core EPU (sen)	1.85	-8%	-6%	7.8	-4%
Gross DPU (sen)	2.00	-5%	-4%	8.2	-2%

Source: Company, MIDF Research

DAILY PRICE CHART



Source: Bloomberg

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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.