Issuer: CapitaLand Commercial Trust Management Limited

Security: CapitaLand Commercial Trust

Meeting details:
Date: 19 April 2018
Time: 2.30 p.m.
Venue: The Star Gallery, Level 3, The Star Performing Arts Centre, 1 Vista Exchange Green, Singapore 138617

Company Description

CapitaLand Commercial Trust is Singapore's first and largest commercial REIT with a market capitalisation of approximately S$6.9 billion. CCT aims to own and invest in real estate and real estate-related assets which are income producing and predominantly used, for commercial purposes. The total value of CCT's deposited properties is approximately S$10.8 billion as at 31 December 2017 comprising a portfolio of 10 prime commercial properties in Singapore. The properties in Singapore are Capital Tower, CapitaGreen, Asia Square Tower 2, Six Battery Road, Raffles City (60.0% interest through RCS Trust), One George Street (50% interest through OGS LLP), HSBC Building, Twenty Anson, Bugis Village, and redevelopment of Golden Shoe Car Park (45% interest through Glory Office Trust and Glory SR Trust). CCT has been a constituent of FTSE4Good Index Series (FTSE4Good), a series of benchmark and tradable indices derived from the globally recognised FTSE Global Equity Index Series. FTSE4Good is designed to track the performance of companies meeting international corporate responsibility standards and forms the basis for over 70 different funds and investment products. CCT is also a constituent of other widely recognized benchmark indices such as MSCI, the SGX Sustainability Index and FTSE Straits Times Index. CCT is managed by an external manager, CapitaLand Commercial Trust Management Limited, which is an indirect wholly owned subsidiary of CapitaLand Limited, one of Asia's largest real estate companies headquartered and listed in Singapore.
(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=C61U)

1. In the last two years, the REIT's portfolio was significantly repositioned with the divestments of One George Street (50% interest) and Wilkie Edge while Golden Shoe Car Park was redeveloped. In addition, Asia Square Tower 2 was acquired by the REIT at the agreed property value of $2.09 billion or S$2,689 psf.

As seen from the Financial Highlights section (page 4 of the annual report), gross revenue, net property income, distributable income and total assets have all increased while distribution per unit has fallen from 9.08 cents to 8.66 cents. Total return for a unitholder for the year 2017 hit an impressive 37.4%.

Can management and/or the board provide better clarity on the following matters that relate to the operations of the REIT?

a) **Rental Reversion**: In the Message to Unitholders, it was disclosed that "there will be a flow-through of negative rent reversions into 2018 from leases signed in 2017… we can still expect some negative reversions for the limited number of leases due in 2018" (pages 8 & 9). **Can the REIT manager elaborate further on the rent reversion in 2017 and provide unitholders with a better idea of the gap between the average expiring gross rental rate and the current market rate?**

b) **Proactive portfolio management:** As seen from the Office Lease Expiry Profile (as at 31 December 2017) on page 96 of the annual report, the REIT manager has renewed about half the leases that would be expiring in 2018. The challenge for the REIT would be 2019 where 31% of the entire office portfolio will be expiring. **Can the REIT manager elaborate on its leasing strategies to maximise the value of its portfolio? With market rents rising, how does the REIT manager strike a balance between capturing higher rents and maintaining high occupancy/retention rates?**

2. The acquisition of Asia Square Tower 2 (AST2) stretched the balance sheet of the REIT. Together with the redevelopment of Golden Shoe Car Park, the REIT's total asset base jumped from $6.59 billion in FY2015 to $9.35 billion in FY2017, an increase of 42% in two years.

a) **Can the REIT clarify if the acquisition of AST2 was yield-accretive to unitholders? If not, when does the REIT expect the property to be yield-accretive?**

b) As at 31 December 2017, the occupancy of AST2 was 90.5%, up from the reported figure of 88.7% as at 30 June 2017. **What is the REIT manager's strategy to differentiate AST2 from the other Grade A offices in the Marina Bay sub-market, and especially the neighbouring property Asia Square Tower 1?**

c) It has been about 5 months since the completion of the acquisition on 1 November 2017. **Has the asset performed up to the manager's expectations? How soon can the occupancy rate be brought up to at least the market's average rate?**

3. Following the move to acquire Asia Square Tower 2, S&P Global Ratings lowered its long-term corporate credit rating on the REIT to 'BBB+' from 'A-' and Moody's Investors Service has downgraded the REIT's issuer rating to Baa2 from A3. The cost of debt to the REIT remains low at 2.6% per annum.

a) **Can the board and the manager let unitholders know, if they were aware prior to the acquisition, that the REIT's ratings would likely be downgraded if they proceeded with the acquisition of AST2?**

b) **How does a Baa2/BBB+ rating affect the REIT's cost of debt if it would to raise new notes/loans?**

On 5 March 2018, the REIT announced that it had issued S$300,000,000 3.17 per cent. notes due 2024. In addition, on 21 March 2018, the REIT announced that it had made a further issuance of S$200,000,000 3.327 per cent. notes due 2025 under the same S$2,000,000,000 Multicurrency Medium Term Note Programme (MTN Programme). These are all priced higher than the earlier MTNs issued by the REIT in the past (page 102).

c) Can the board help unitholders understand how much of the increase was due to the lower credit rating and how much of it was due to market conditions?