



Securities Investors Association (Singapore)

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UEN No: S99SS0111B

GST Reg No: M90367530Y

Issuer: CapitaLand Commercial Trust Management Limited

Security: CapitaLand Commercial Trust

Meeting details:

Date: 10 April 2019

Time: 10.00 a.m.

Venue: The Star Gallery, Level 3, The Star Performing Arts Centre, 1 Vista Exchange Green, Singapore 138617

Company Description

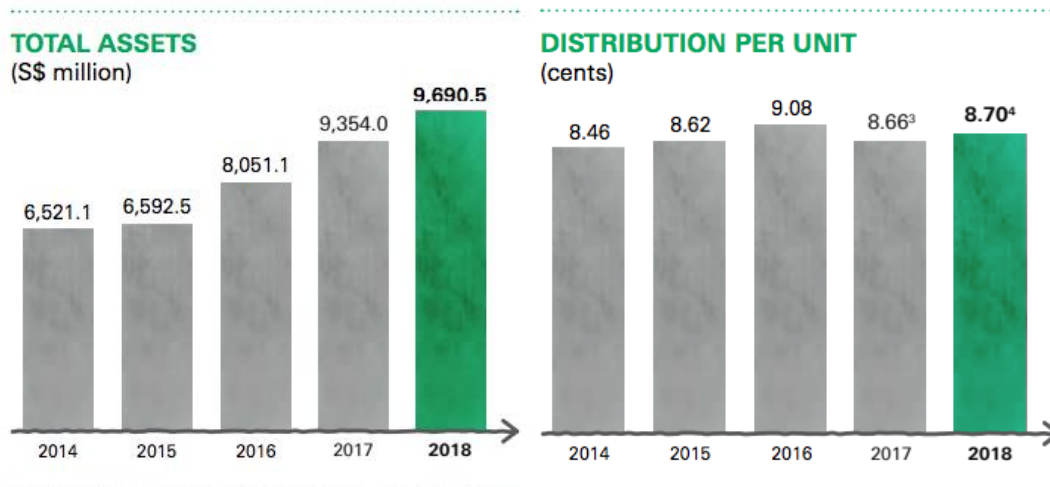
CapitaLand Commercial Trust is Singapore's first and largest commercial REIT with a market capitalisation of approximately S\$6.9 billion. CCT aims to own and invest in real estate and real estate-related assets which are income producing and predominantly used, for commercial purposes. CCT's deposited property is approximately S\$11.2 billion as at 31 December 2018 comprising a portfolio of nine prime commercial properties in Singapore and one property in Frankfurt, Germany acquired on 18 June 2018. 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), 21 Collyer Quay (HSBC Building), Bugis Village and CapitaSpring (45% interest through Glory Office Trust and Glory SR Trust), an upcoming 51-storey integrated development in Raffles Place. The property in the Banking District of Frankfurt, Germany is Gallileo (94.9% interest). 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 recognised benchmark indices such as MSCI, MSCI World ESG Leaders Index, 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. On 19 March 2019, the local media reported that the REIT, already Singapore's biggest office landlord, is one of the potential suitors interested in the acquisition of the Duo office and retail development in a deal that could be worth more than \$1.5 billion.

In the past 18 months, the REIT acquired Asia Square Tower 2, started the redevelopment of CapitaSpring and acquired Galileo, a freehold Grade A office building in the Banking District of Frankfurt, Germany.

The REIT showed a 5-year financial highlight on pages 4 and 5 of the annual report. Some of the highlights include:



KEY FINANCIAL INDICATORS

As at 31 December	2014	2015	2016	2017	2018
Distribution Per Unit (cents)	8.46	8.62	9.08	8.66	8.70
Earnings Per Unit (cents)	15.41	10.42	8.81	18.53	14.15
Aggregate Leverage (%)	29.3	29.5	37.8	37.3	34.9

SELECTED BALANCE SHEET DATA (S\$ million)

As at 31 December	2014	2015	2016	2017	2018
Portfolio Property Value ¹	7,358.5	7,478.1	8,491.9	10,394.6	10,620.1
Unitholders' Funds	5,153.5	5,234.1	5,278.5	6,416.9	6,892.0
Interest Cover (times)	7.2	7.4	5.8	4.9	5.4
Management Expense Ratio (%)	0.33	0.34	0.34	0.33	0.37

(Source: Adapted from 2018 Annual report)

As can be seen from above, the REIT's total assets have grown by nearly half while the distribution per unit has remained flat in the past 5 years. The leverage has increased from 29.3% to 34.9% and the REIT's interest cover is lower (7.2x to 5.4x) while the management expense ratio has crept up from 0.33% in FY2014 to 0.37% in FY2018 despite a larger asset base.

In addition, the net asset value has increased from \$1.71 in FY2014 to \$1.80 in FY2018, or a compound annual growth rate of 1.29%.

The base and performance asset management fees amounted to \$13.57 million in FY2014 and this has increased to \$20.25 million in FY2018, a compound annual growth rate of 10.53%.

- (i) Would the board help unitholders understand how the acquisitions have benefitted the minority unitholders?**
- (ii) The DPU has increased at a compound annual growth rate of 0.7% in the past 5 years. Has the board evaluated if the acquisitions are indeed accretive to unitholders?**
- (iii) Can the board elaborate further and quantify the value-creation by the REIT manager? How does the created value manifest itself as the DPU and the NAV have essentially remained flat?**
- (iv) Would the board consider if there is a need to review the incentive system as the REIT manager currently receives a “performance” component of 5.25% per annum of the net investment income of the trust? Would using a performance component that is linked to DPU or net-asset-value per unit better align the interests of the REIT manager with that of the unitholders?**

2. On 17 May 2018, the REIT announced the proposed acquisition of 94.9% interest in Gallileo, a freehold, 38-storey Grade A commercial building and a four-storey heritage building in Frankfurt.

- (i) Can the board help unitholders understand if an overseas diversification was ever mentioned to unitholders and if the REIT has obtained such a mandate? In the last annual report, there was no mention of any intention to diversify outside of Singapore.**
- (ii) For the benefit of unitholders, can the REIT manager restate the REIT’s investment mandate?**
- (iii) Can the board articulate the investment strategy of the REIT outside of Singapore? What key cities have been targeted and what would be the REIT’s long term capital allocation target for foreign investments?**
- (iv) Specifically for the Gallileo acquisition, can the REIT disclose the identity of the vendor? While the lease expires in 2029, there is a break-clause in 2024. Can the manager help unitholders understand if it is prepared for the worst-case, i.e the anchor tenant vacating the premises early? What is the experience and track record of the REIT manager in managing foreign assets, and in this case, an asset in Frankfurt?**

3. On 17 May 2018, the REIT manager announced the launch of a private placement of 130,000,000 new units in the REIT at an issue price between \$1.631 and \$1.676 per new unit.

The final issue price was \$1.676 per new unit, which was a discount of approximately 3.2% to the volume weighted average price for trades done on the SGX-ST on 16 May 2018.

More importantly, as at 31 March 2018, the net asset value per unit was \$1.76 as announced by the REIT in its First Quarter 2018 Financial Results.

- (i) Would the manager/board elaborate further why it had carried out a private placement at a discount of approximately 4.8% to the net asset value?**
- (ii) Did the manager consider the dilutive impact to the unitholders?**
- (iii) As the proceeds from the private placement was used to part-finance the acquisition of Gallileo, did the board consider the real cost of the acquisition of Gallileo given that new units were sold at below the net asset value per unit? The placement of the 130,000,000 new units at below the net asset value per unit led to a shortfall of an estimated \$11 million. This could be viewed as a cost in the acquisition of Gallileo.**
- (iv) Did the REIT monitor if the placees hold on to the units as long term investments instead of flipping it in the market for a quick profit? Should the REIT consider a private placement again, would it be requiring a moratorium on the placement shares to prevent any undue short term speculation?**
- (v) Instead of a private placement at a price below the net asset value, would the board consider carrying out a renounceable rights issue so that unitholders who have supported the REIT are given the opportunity to further participate in the REIT's growth?**

A copy of the questions for the Annual Report for the financial year ended 31 December 2017 could be found here:

<https://sias.org.sg/qa-on-annual-reports/?company=CapitalLand%20Commercial%20Trust&cid=6280,4529>

The company's response could be found here: -----



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