

16 May 2023

# CapitaLand Malaysia Trust

## Diversifying into the Logistic Segment

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CLMT has agreed to acquire a warehouse (which will be converted to a distribution centre) in Shah Alam for RM39.7m. This marks its second venture into the logistic sector as part of its diversification strategy. Nonetheless, incremental earnings contribution (estimated at 0.8% of our FY24 net profit projection) will be negligible. Maintain our MARKET PERFORM call and target price of RM0.53 based on a target yield of 7.5% (which is derived from a 3.0% yield spread above our 10-year MGS yield assumption of 4.5%).

**Warehouse acquisition.** CLMT has entered into an unconditional sale and purchase agreement with Cynnyx Sdn Bhd to acquire a freehold logistic warehouse for RM39.7m cash. It is a single-storey detached warehouse with an annexed 3-storey office building located in Hicom-Glenmarie Industrial Park, Seksyen U1, Shah Alam, Selangor. The total built-up area of the warehouse is approximately 84,755 sq ft.

**To be converted to a distribution centre.** CLMT plans to undertake a convert-to-suit exercise to transform the property to a temperature-controlled distribution centre following the execution of a letter of offer with a reputable international luxury fashion retailer (the prospective tenant) to fully lease the building for ten years. The retrofitting period is estimated to take approximately 5 months.

**Rationale for acquisition.** The acquired asset – which will add 1.0% to its overall portfolio property valuation (of RM3.89b as of end-December 2022) – marks its second venture into the logistic sector as part of its asset diversification strategy. The acquisition will be funded by bank borrowing (which is expected to increase its gearing marginally from 44.3% as at end-March 2023 to 44.8%) and is scheduled to be completed in 3QFY23.

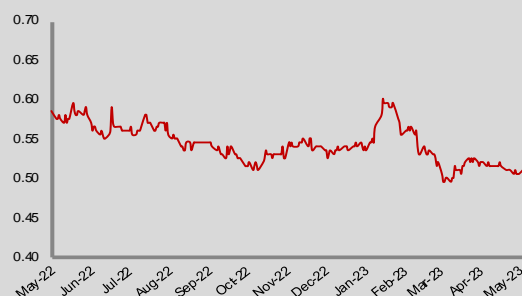
**Negligible earnings impact.** A long-term lease agreement – which is in the midst of negotiation with the prospective tenant – is expected to commence in early 2024. According to CLMT, the gross annual rental revenue is estimated to be RM3.5m, which works out to be 0.8% of our FY24F gross revenue. Assuming an initial net property income contribution of RM2.6m and after factoring in interest cost, the earnings impact is negligible with an incremental contribution of RM0.8m (or just 0.8% of our FY24 net profit forecast). Maintain our MARKET PERFORM call with an unchanged target price of RM0.53 based on a target yield of 7.5% on FY24F GDPU (which is derived from a 3.0% yield spread above our 10-year MGS yield assumption of 4.5%). This is to reflect CLMT's challenging prospects, given its less prime asset profile amid the uncertain economic outlook and elevated inflationary environment. There is no adjustment to our TP based on ESG which is given a 3-star rating as appraised by us.

**Risks to our call include:** (i) bond yield contraction/expansion, (ii) higher/lower-than-expected rental reversions, and (iii) higher/lower-than-expected occupancy rates.

## MARKET PERFORM ↔

Price : RM0.51  
Target Price : RM0.53 ↔

### Share Price Performance



KLCI 1,417.37  
YTD KLCI chg -5.2%  
YTD stock price chg -4.7%

### Stock Information

Shariah Compliant	No
Bloomberg Ticker	CLMT MK Equity
Market Cap (RM m)	1,376.0
Shares Outstanding	2,698.1
52-week range (H)	0.61
52-week range (L)	0.49
3-mth avg daily vol:	1,348,368
Free Float	39%
Beta	0.5

### Major Shareholders

CMMT Investment	35.8%
Amanah Saham Nasional	13.6%
Employees Provident Fund	13.2%

### Summary Earnings Table

FY Dec (RM m)	2022A	2023F	2024F
Turnover	275.8	370.6	410.1
EBIT	134.4	173.8	188.1
PBT	48.7	92.1	105.7
<b>Net Profit (NP)</b>	<b>50.4</b>	<b>92.1</b>	<b>105.7</b>
<b>Core Net Profit</b>	<b>89.8</b>	<b>100.1</b>	<b>105.7</b>
Consensus (NP)	-	133.0	125.7
Earnings Revision	-	-	-
Core EPS (sen)	4.1	3.9	4.0
Core EPS growth (%)	115.8	-4.9	2.6
GDPU (sen)	4.0	3.9	4.0
NAV/Share (RM)	1.1	1.0	1.0
Core PER (x)	12.4	13.1	12.8
Price/NAV (x)	0.5	0.5	0.5
Gearing (x)	0.4	0.4	0.4
Net. Div Yield (%)	7.8	7.6	7.8

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### Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.				
<b>Stocks Under Coverage</b>																	
AXIS REIT	MP	1.84	1.84	0.00%	3,203.5	Y	12/2023	9.3	10.2	-3.1%	9.7%	19.8	18.0	1.2	6.4%	9.3	5.1%
CAPITALAND MALAYSIA MALL TRUST	MP	0.510	0.530	3.92%	1,376.0	N	12/2023	3.9	4.0	-4.9%	2.6%	13.1	12.8	0.5	4.5%	3.9	7.6%
IGB REIT	MP	1.70	1.80	5.88%	6,110.2	N	12/2023	10.1	10.4	7.4%	3.0%	16.8	16.3	1.2	9.5%	10.5	6.2%
KLCCP STAPLED GROUP	MP	7.12	6.60	-7.30%	12,854.0	Y	12/2023	40.2	41.6	5.0%	3.5%	17.7	17.1	1.0	5.2%	36.3	5.1%
PAVILION REIT	OP	1.30	1.47	13.08%	3,976.4	N	12/2023	8.0	8.5	1.2%	6.2%	16.3	15.3	1.0	6.1%	8.2	6.3%
<b>Sector Aggregate</b>					<b>33,910.9</b>					<b>10.5%</b>	<b>5.5%</b>	<b>16.5</b>	<b>15.7</b>	<b>0.9</b>	<b>6.2%</b>		<b>6.1%</b>

Source: Kenanga Research

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**Stock ESG Ratings:**

	Criterion	Rating		
<b>GENERAL</b>	Earnings Sustainability & Quality	★	★	★
	Community Investment	★	★	★
	Workers Safety & Wellbeing	★	★	★
	Corporate Governance	★	★	★
	Anti-Corruption Policy	★	★	★
	Emissions Management	★	★	☆
<b>SPECIFIC</b>	Effluent/Waste Management	★	★	☆
	Water Management	★	★	★
	Energy Efficiency	★	★	★
	Green Buildings	★	★	★
	Tenant Management	★	★	★
	Supply Chain Management	★	★	★
	<b>OVERALL</b>	★	★	★

☆ denotes half-star  
 ★ -10% discount to TP  
 ★★ -5% discount to TP  
 ★★★ TP unchanged  
 ★★★★ +5% premium to TP  
 ★★★★★ +10% premium to TP

**Stock Ratings are defined as follows:**

**Stock Recommendations**

OUTPERFORM : A particular stock’s Expected Total Return is MORE than 10%  
 MARKET PERFORM : A particular stock’s Expected Total Return is WITHIN the range of -5% to 10%  
 UNDERPERFORM : A particular stock’s Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT : A particular sector’s Expected Total Return is MORE than 10%  
 NEUTRAL : A particular sector’s Expected Total Return is WITHIN the range of -5% to 10%  
 UNDERWEIGHT : A particular sector’s Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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