

Analyse This...

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Treasury China Trust

Upgrade on Qingdao mega project

TCT SP

BUY; TP :S\$3.38

Price @31/5/11: S\$2.05

52-week range (SGD): 1.42 – 2.01

Market cap: S\$525m

Sites visit takeaways

- **What happen?** We spent a couple of days visiting the portfolio of properties owned by TCT in Shanghai and Qingdao last week.
- **What we think.** We believe TCT's strategic approach to portfolio growth delivers geographic diversification and increased exposure to China's attractive retail sector. Essentially, we feel that TCT's 55% owned flagship Central Avenue in Qingdao could be a huge game changer for the group.
- **What you should do.** Stay invested. The introduction of the unit buy-back program will further add to TCT's capacity to provide proactive, responsible capital management with the aim of securing long term value for its unitholders.
- **Upgrade to BUY** (from Hold), with revised higher RNAV-derived target price of S\$3.38 (from S\$1.83), capturing new Qingdao mega portfolio. We ascribe a 30% discount to our RNAV valuation of S\$4.83, a discount that is about 10% more than that what we use for more established Singapore peers.

Game changer in Qingdao

- **Central Avenue in Qingdao could be a huge game changer.** Recently, TCT successfully completed the acquisition of Central Avenue Mall in Qingdao, China, delivering to TCT: a 55% interest in an existing 43,643sqm shopping mall, which is currently 98% leased. This 335,000sqm development is represented by 3 separate, but contiguous sites that are zoned for retail development.
- This development has a value premium of RMB568m over acquisition price of RMB477m (DTZ valuation in Sept 2010 was RMB1,045m for TCT's 55% share). The existing mall has been acquired on the basis of a 10% gross revenue yield and includes a RMB36m convertible bond in favour of the vendor as part payment of the purchase price with a conversion price of S\$2.80 per unit over its 5 year term.
- The property is located in the newly designated Laoshan CBD, south of the Laoshan Government Building and just north of Shilaoren Beach. On full completion, Central Avenue will have over 238,000 sqm of prime retail space. Once completed, Central Avenue will become one of the largest retail developments in the Laoshan District.

TCT's Central Avenue in Qingdao



Source: Company, CIMB Research

Merits speak for themselves

- **USD loan provides operating leverage on RMB income.** TCT's income streams are 100% China based and RMB denominated, further advantaged by the appreciating RMB. TCT's entire loan portfolio refinanced during FY10 has no further funding requirements until Dec FY12. Investors would appreciate such loan portfolio in the balance sheet that holds largely US\$ denominated borrowings, more than service by the RMB appreciation.
- **Under the radar, but not for long.** Since its listing, TCT has made significant progress to position itself as a leading owner, developer and manager of commercial real estate in China. Encompassing many facets of its operational structure, TCT has delivered on its commitment to higher earnings, a defined distribution program, lower cost base and transparency on future earnings and balance sheet growth.
- **Capital management angle in play.** However these successes are yet to be recognized in terms of narrowing the discount applied to its quoted unit price relative to TCT's net asset value per unit and the introduction of the unit buy-back program will further add to TCT's capacity to provide proactive, responsible capital management with the aim of securing long term value for its unitholders. This is no wonder that it recently won the best Alternative Fund House award in the category of Real Estate for the AsianInvestor 2011.
- Its 33 new lettings/renewals executed in 1Q11 equates to 17,000sqm achieving with an average rental uplift of 12.8% on this space.
- It has received all necessary regulatory approvals to proceed with the acquisition of Huai Hai Mall in Shanghai, a 7,620sqm retail mall in Shanghai, including the conversion of the domestic ownership company to a wholly foreign owned enterprise and is expected to settle in May 2011
- Separately, Citic International Bank has approved a multi-currency loan facility equivalent to approx US\$50m to assist with the acquisition of Huai Hai Mall in Shanghai.
- TCT's Treasury Building has also achieved 100% occupancy through securing Eastern Life Insurance for 1,636 sqm of office space designated as their Shanghai headquarter office. We understand that TCT also secured pre-commitment by Marks & Spencer for a flagship store at its City Center Extension.

Financial analysis

FYE Dec	2009	2010	2011F	2012F	2013F
Revenue (S\$ m)	77.8	39.6	78.5	92.8	109.2
Net property income (S\$ m)	42.0	22.6	45.6	53.9	63.3
Net property income margins (%)	54.0	57.0	58.1	58.0	58.0
EBITDA	30.7	90.7	87.7	105.1	130.2
Pretax profit (S\$ m)	(11.5)	52.6	63.7	82.1	102.6
Net profit (S\$ m)	(14.4)	39.6	47.9	61.9	77.3
Distributable profit (S\$ m)	-	-	24.0	16.7	13.1
EPU (S cts)	(6.0)	16.5	20.0	25.8	32.2
EPU growth (%)	(3.6)	374.2	(21.1)	(29.0)	(24.9)
P/E (x)	neg.	12.4	10.3	8.0	6.4
Gross DPU (S cts)	-	5.00	10.00	6.93	5.46
Dividend yield (%)	-	2.4%	4.9%	3.4%	2.7%
P/BV (x)	0.5	0.5	0.5	0.5	0.5
ROE (%)	(1.5)	4.1	5.0	6.5	8.1
Asset leverage (%)	33.7	32.8	37.2	37.7	38.4
EV/EBITDA (x)	34.7	11.7	12.2	10.1	8.2

Source: Bloomberg, Company, CIMB Research

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