

EQUITY RESEARCH REPORT



CROESUS RETAIL TRUST (BUY)
CRT SP EQUITY
12M TP: 1.1
Upside/Downside Potential 16.40%
Last Closed Price 0.945

COMPANY DESCRIPTION

Croesus Retail Trust invests in a diversified portfolio of predominantly retail real estate assets located in the Asia-Pacific region.

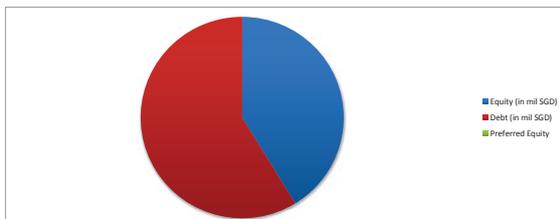
KEY FIGURES (CURRENCY: SGD)

Issued Capital (mil)	510.34
Last (delayed quote)	0.95
Volume (Mil)	0.41
Average Daily Volume	1.27
Market Capitalization (mil)	482.27
Shares Outstanding (mil)	510.34
Free Float %	92.62
Shares sold short (mil)	--
Dividend Yield %	11.26
Diluted EPS Excl. XO	--
P / Diluted EPS Before XO	--
Beta	--
ROE	-

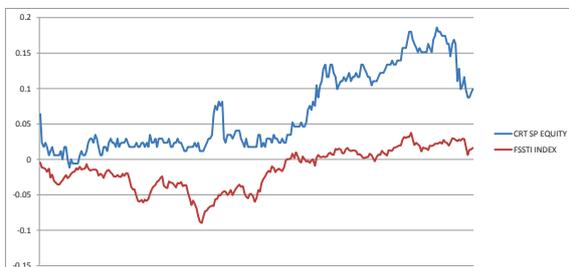
	2011	2012	2013	2014
Turnover (M)	-	-	-	72.75
EBITDA (M)	-	-	-	46.78
EPS	-	-	-	0.13
P/E	-	-	-	7.17
P/B	-	-	-	1.07
12M Gross Dividend	-	-	-	8.98
Dividend Yield (%)	-	-	-	9.55
ROE	-	-	-	22.61
D/E	-	-	-	125.34
ANR Consensus (5 is strong Buy)	-	-	-	4.75
Total analyst recommendations	-	-	-	4.00

CAPITAL STRUCTURE

Equity (in mil SGD)	376.36
Debt (in mil SGD)	536.28
Preferred Equity	-
Total (in mil SGD)	912.64



YTD PERFORMANCE VS BENCHMARK



CONCLUSION

We like Croesus RT's exposure to the Japanese retail market. Japan's inflating property market, CRT's growth prospects through acquisitions of properties, potential income growth and its relatively high dividend yield makes CRT an attractive buy. Maintain buy with TP \$1.10.



Research Analysts: Jeffrey, Gau Wei, Raffles

Japan's Promising Macro-Environment

Croesus Retail Trust offers investors exposure to Japan's inflating property market. Just last year, Moody's Japan K.K. has revised the outlook on Japan's real estate industry from negative to stable. The change in the sector outlook is reflects the value appreciation of Japan's commercial properties, as well as increasing rents throughout the REIT sector which is shown in Croesus RT's increasing property valuations. The weak yen coupled with the 10 year Japanese government bond yield of around 0.6% will push investors towards the attractive REIT market which has a relatively high dividend payout.

Given the stable outlook, volatility in long-term interest rates and the proposed increased tax hike in 2015 could pressure the outlook in the next two to five years.

However, CRT's debt profile is fully hedged from any possible interest rate hikes, effectively shielding the trust from adverse financing costs in the near future

Sustainable High Dividend Yield

Croesus Retail Trust is committed to distribute 100% of its net income as dividends from the date of listing 1 July 2014 to 30 June 2015, and subsequently, at least 90%. Given that CRT hedged 80% of its distribution income for two projected periods, Future dividend payout is expected to not deviate too much from its current value.

Croesus Growth Prospects

Since its IPO, Croesus Retail Trust has acquired additional 2 properties, Croesus Shinsaibashi and NIS wave I. All of Croesus RT's properties are located near major roads and train networks which makes it relatively accessible. Croesus's portfolio of properties has a Weight Average Lease Expiry of 10 years (by Net Lettable Area) and approximately full occupancy rate. Contracts for an estimated 60% of its NLA will expire beyond 2018. This goes to show that its property rental income is unlikely to face a significant decline in the foreseeable future. The trust also has a Right of First Refusal for another two assets – Mallage Saga and Kyoto Forecast Kawaramachi. This gives the trust a significant room for expansion.

Executing its Growth Strategy in upcoming period

CRT announced the acquisition of ONE's mall for JPY11bn (\$132.5m) which is at a 5.2% discount to the JPY11.6bn (\$139.8m) independent valuation with an initial NPI yield of 5.8%. One Mall is freehold, large scale retail complex (NLA of 52,844 sqm) located in Inage World within Chiba City, which is 40km Southwest of Tokyo. As of end -Jun 14, occupancy and WALE stood as 99.4% and 5.8 years respectively. The mall is home to 52 diversified tenants and located next to a major road and in an area served by three major lines.

Dividend Comparison

Singapore REIT index maintained a dividend yield of 5.13%. In comparison, the FTSE EPRA/NAREIT series also showed dividend yields of around 3% for Japan. CRT's current dividend yield of 9.55% seems to be relatively attractive, compared to both Singapore and Japanese REIT Index.

LISTED REIT	Sector	Dividend Yield (%)
CROESUS RETAIL TRUST	RETAIL REIT	9.55
CAPITALMALL TRUST	RETAIL REIT	1.49
ASCENDAS REAL ESTATE	INDUSTRIAL/OFFICE	3.97
CAPITALCOMMERICAL	INDUSTRIAL/OFFICE	4.99
SUNTEC REIT	INDUSTRIAL/OFFICE	5.03
KEPPEL REIT	INDUSTRIAL/OFFICE	3.93
MAPLETREE LOGISTIC	INDUSTRIAL/OFFICE	5.55
MAPLETREE COMMERCIAL	DIVERSIFIED REIT	4.83
MAPLETREE INDUSTRIAL	INDUSTRIAL/OFFICE	6.31
FRASERS CENTREPOINT	RETAIL REIT	4.51
STARHILL GLOBAL	RETAIL REIT	5.08
PARKWAY LIFE REIT	SPECIALTY REIT	4.32
LIPPOMALLS	RETAIL REIT	5.69
SAIZEN REIT	RESIDENTIAL REIT	6.63
FAR EAST HOSPITALITY TRUST	HOTEL/LODGING	7.27

CRT's distribution policy is to distribute 100% of its distributable income for the period from IPO date, to 30 June 2015 and at least 90% of its distributable income thereafter. CRT will make distribution to unitholders on a semi-annual basis. We will expect to see no significant decrease in its dividend payout in the upcoming year.

Performance of Properties

Croesus Retail Trust has an average of approximately 99% occupancy rates on its portfolio of properties. Weighted Average Lease Expiry on its property portfolio is 10 years which is relatively long. There is no significant lease expiry on its overall property portfolio for FY2015 & FY2016, which indicates stable income for the upcoming two years. Positive rental reversions are expected when the 20% lease expiry for upcoming FY2015 is renewed.

Just last year, Japan showed a CPI of 0.36%, the first time a positive (inflationary) annual increase in the past five years. We expect majority of its leases renewed with no significant decline in occupancy rates. CRT's portfolio of malls is also highly accessible, connected through major Arterial roads and train networks, an important factor given Japan's huge land area.

CROESUS RETAIL TRUST'S PORTFOLIO OF PROPERTIES							
PROPERTIES	FY2014 %NPI	OCCUPANCY RATES	WALE BY NLA	LEASE EXPIRY PROFILE		CONNECTIVITY	
			(YEARS)	FY2015	FY2016	ROADS	TRAINS
AEON TOWN MORIYA	20%	100.00%	13				
AEON TOWN SUZUKA	14%	100.00%	13			YES	YES
CROESUS SHISAIBASHI	11%	100.00%	7.7			YES	YES
MALLAGE SHOBU	34%	98.80%	4.8	20%	2.80%	YES	YES
LUZ OMORI	5%	96.80%	16.3		1.00%	YES	YES
NIS WAVE 1	16%	100.00%	4.3	0.40%	4.90%	YES	YES
			Average Wale(NLA)				
			10 years				

CRT recently acquired ONE's mall in near Tokyo as part of its growth strategy at a 5.2% discounted rate and NPI yield of 5.8%.

The NPI yield of the newly acquired mall at 5.8% is slightly lower than the average yield on its property portfolio. However, the slightly lower than average NPI could be offset by its increasing property valuations and expected positive rental reversions.

	City	Number of Tenants	Age of Building (yrs) ⁽¹⁾	Leasehold / Freehold	Annualised NPI Yield ⁽⁴⁾
Aeon Town Moriya	Ibaraki	1 master lessee, 110 subtenants	7.1	Freehold	6.8%
Aeon Town Suzuka	Mie	1 master lessee, 42 subtenants	7.1	Freehold	7.0%
Croesus Shinsaibashi (6)	Osaka	4	4.8	Freehold	5.1%
Mallage Shobu	Saitama	239	5.6	Freehold	6.8%
Luz Omori	Tokyo	29	3.4	Leasehold expiring in July 2059	6.5%
NIS Wave I	Tokyo	10	7.0	Freehold / Leasehold expiring in Dec 2029 ⁽⁵⁾	6.0%
Total		434	6.4		6.4%

Debt Profile and Analysis

The earliest debt maturity date is from FY2017 onwards, the earliest refinancing of debt will only occur from FY2017 onwards, indicating that interest paid on debt will not deviate for the upcoming two financial years. There will be more certainty for income generation as well as dividend payable to shareholders for the next two years. However, CRT will still be susceptible to interest rate hikes in the long term, when it chooses to refinance its debt as debt maturity gets nearer.

	Actual as of 31 March 2014	Actual as of 30 June 2014
Gearing Ratio	53.5%	51.7%
Interest Coverage Ratio	5.2 times	4.6 times
% of Debt Hedged	100%	100%
Average All-In Cost of Debt⁽¹⁾	2.15%	2.13%
Debt Maturity	4.0 years	3.7 years
Additional Debt Headroom⁽²⁾	JPY12.3 billion	JPY16.2 billion

CRT has high levels of borrowings, which is considered the norm for Japanese REITs due to the Japanese government monetary policies. However, it pays low levels of interest as the Japanese government has kept interest rates low in order to stimulate the economy. Another point to note is that CRT has fully hedged all its debts to keep its interest expense low in the short-midterm. It has a decent interest coverage ratio of 4.6x, an indication that it earns more than sufficient income to cover its interest expense. The weakening Japanese Yen is also susceptible to FOREX risk after converting to the SGD, CRT has hedged against foreign exchange risk to ensure stable dividend yields for local investors.

Key Investment Risks

Land Lease and Building Lease Law of Japan

- Tenants are granted a statutory right to require a reduction in the rent payable if they are able to show that their rental rates are unreasonably high in comparison to other buildings in the vicinity. If the building remains fully tenanted, CRT may not be able to effectively maintain organic growth over the years because it might not be able to raise rent.

Japan fails to fire

- The growth of the middle class segments of the Japanese population will largely influence the growth of the Japanese retail sector. As Japan is experiencing one of the lowest fertility rate in the world and the bulk of its population are in the middle class demographics, it is not very clear at this current juncture how sustainable growth in the retail sector would be in the long term.

Foreign Exchange Risk

- CRT will be susceptible to the fluctuations between the Singapore dollar and the Japanese Yen. Effect of the robust property income collected in the Japanese currency could be mitigated should the Singapore dollar strengthen against the Yen and vice versa.

High Gearing

- CRT, with high levels of debt, is also susceptible to interest hikes in the future. Its high debt levels means that CRT may face refinancing risk, such as higher refinancing cost, resort to capitalization measures such as rights/bond issues, share placements OR in the worst case scenario, selling off assets if it is unable to secure refinancing.

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