General Announcement::CCT downgraded to 'BBB+' on increasing leverage following portfolio enhancement; Outlook Stable

Issuer & Securities

Issuer/ Manager	CAPITALAND COMMERCIAL TRUST MANAGEMENT LIMITED
Securities	CAPITALAND COMMERCIAL TRUST - SG1P32918333 - C61U
Stapled Security	No

Announcement Details

Announcement Title	General Announcement
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Announcement Reference	SG170922OTHRIWW5
Submitted By (Co./ Ind. Name)	Toh Su Jin Jason
Designation	Company Secretary, CapitaLand Commercial Trust Management Limited
Description (Please provide a detailed description of the event in the box below)	S&P Global Ratings has lowered its long-term corporate credit rating on CapitaLand Commercial Trust to 'BBB+' from 'A-' with a Stable Outlook. Please see attached press release by S&P Global Ratings.

Attachments	CCT_RatingsDirect_Sep2017.pdf Total size =278K

S&P Global Ratings

RatingsDirect®

Research Update:

CapitaLand Commercial Trust Downgraded To 'BBB+' On Increasing Leverage Following Portfolio Enhancement; Outlook Stable

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Table Of Contents

Research Update:

CapitaLand Commercial Trust Downgraded To 'BBB+' On Increasing Leverage Following Portfolio Enhancement; Outlook Stable

Overview

- CCT's leverage is likely to increase over the next 24 months, primarily due to the REIT's proposed debt-funded acquisition of AST2 as it enhances its portfolio.
- We are lowering our long-term corporate rating on CCT and the issue rating on the Singapore-based REIT's outstanding guaranteed notes to 'BBB+' from 'A-'.
- The stable outlook reflects our expectation that CCT will maintain profitability and solid asset quality and not make any further sizable debt-funded acquisitions over the next 24 months.

Rating Action

On Sept. 21, 2017, S&P Global Ratings lowered its long-term corporate credit rating on CapitaLand Commercial Trust (CCT), a Singapore-based REIT, to 'BBB+' from 'A-'. The outlook is stable. At the same time, we also lowered our long-term issue rating on the REIT's existing guaranteed notes to 'BBB+' from 'A-'.

Rationale

The downgrade reflects our expectation that CCT's leverage is likely to increase over the next 24 months, primarily due to the REIT's proposed debt-funded acquisition of Asia Square Tower 2 (AST2).

We anticipate that CCT's ratio of funds from operations (FFO) to debt will remain below 9% in 2017-2019 after accounting for the acquisition. We had earlier expected the ratio to exceed 9% during the period. We also estimate that the REIT's ratio of debt to total assets will be about 37% over the next two to three years, compared with our previous expectation of 35%.

We believe the acquisition will improve CCT's portfolio quality over the next three to four years. AST2 is a Grade A office building in the downtown core of Singapore's commercial district. As of June 30, 2017, the property has a committed occupancy of 88.7% and net property income (NPI) yield of 3.6%. Following the acquisition, CCT's asset portfolio valuation will increase to about Singapore dollar (S$) 10.9 billion from S$9.0 billion as of June 30, 2017, making it the largest commercial landlord in Singapore. The REIT has demonstrated a consistent record of high occupancies and stable rentals throughout the property cycle.

We estimate the total acquisition consideration at S$2.1 billion-S$2.2 billion. CCT will fund the acquisition using the proceeds of a proposed S$700 million fully underwritten rights issuance, about S$340 million from the divestment of its One George Street property in June 2017, as well as a S$1.12 billion new bank loan. We expect CCT's funding needs to remain elevated owing to its recent redevelopment proposal of the Golden Shoe Car Park.

We expect CCT's financial strength to weaken considerably in 2017 because AST2 would have minimal income contribution, but the additional debt would be fully consolidated. However, CCT's credit ratios should progressively improve from 2018, when AST2 contributes full year NPI. The REIT's FFO-to-debt ratio will then recover to 7.2%-7.5%, from a low of 6.3% in 2017.

CCT's AST2 acquisition is in line with the company's operating strategy that emphasizes the recycling of its portfolio, replacing non-core assets with higher quality properties. Although the commercial office market is currently quite subdued, we believe the market has bottomed and will progressively improve from 2018 onward, given the absence of new supply until 2020. As such, we believe that AST2 as well as CCT's other high quality and well-located assets are well positioned to benefit from improving market fundamentals. Consequently, we project steady occupancies and modest rental reversions across CCT's portfolio in the next 24 months.

We believe that CCT has limited headroom to acquire more assets or develop other projects using debt without putting further pressure on its financial strength.

Our base-case scenario assumptions include:
- Singapore's economy will grow 2.4% in 2017 and 2.5% in 2018. This translates into broadly stable operating conditions for Singapore REITs.
- Rental reversions will be fairly flat in 2017; an influx of office space in 2017 leaves marginal room for rental growth in the next two years.
- CCT's revenue growth will outpace Singapore's GDP, backed by full-year contribution from the CapitaGreen property in 2017 and full-year contribution from AST2 in 2018.
- The REIT's portfolio occupancy is likely to remain above 90% due to the high quality and favorable location of its properties.
- Stable EBITDA margin of 72%-73%, in line with the historical trend.
- CCT's capital expenditure will be higher in 2017 given the development premium for Golden Shoe Car Park that was paid in August 2017.
- Adjusted credit metrics include consolidation of CCT's 60% ownership of Raffles City property, which we believe is an important asset in the portfolio. We consolidate both revenue and debt.

Based on these assumptions, we arrive at the following credit measures:
- CCT's ratio of FFO to debt to be 6.2%-6.5% in 2017, and 7.2%-7.5% in 2018 and 2019.

- Its ratio of debt to total assets to be about 37% over the next two to three years.

Liquidity

We assess CCT's liquidity as adequate because the REIT's consolidated sources of liquidity, including cash and internal cash flows, are more than 1.2x its liquidity uses over the next 12 months. CCT does not have material debt refinancing needs in 2017 because the S$175 million convertible bond was fully converted into CCT units on Sept. 12, 2017.

Principal liquidity sources include:

- Cash and cash equivalents of S$697 million as of June 30, 2017, due to receipt of proceeds from divestment of One George Street.
- Consolidated FFO of about S$290 million.
- Cash proceeds of about S$441 million from asset disposals.
- S$700 million from the fully underwritten right issuance.
- A S$1,425 million bank loan.

Principal liquidity uses include:

- Maturing debt of S$$90 million in the 12 months from June 30, 2017.
- Capital expenditure in a stress scenario of S$441 million.
- Estimated dividend payments of about S$265 million.
- Consideration of S$2,150 million for the AST2 acquisition.

Outlook

The stable outlook reflects our expectation the CCT will maintain its profitability and solid asset quality amid stable market conditions over the next 24 months. We expect the REIT's FFO-to-debt ratio to stay above 7% over the period. We believe CCT has limited buffer for further increases in debt, given the AST2 acquisition and the commitment for the Golden Shoe Car Park.

Downside scenario

We may downgrade CCT if the REIT embarks on an aggressive debt-funded growth strategy. We may also lower the rating if lower occupancy and declining rentals weaken the company's cash flows, leading the FFO-to-debt ratio declining below 7% on a sustained basis.

Upside scenario

We may raise our rating on CCT if the REIT generates above-average returns from its asset portfolio, expands and diversifies its asset base, or adopts a more conservative financial policy. An indication of this improvement will be a ratio of FFO to debt increasing to about 9% on a sustained basis.

Ratings Score Snapshot

Corporate Credit Rating: BBB+/Stable/--

Business risk: Strong
- Country risk: Very Low risk
- Industry risk: Low risk
- Competitive position: Strong

Financial risk: Significant
- Cash flow/Leverage: Significant

Anchor: bbb

Modifiers
- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Financial policy: Neutral (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Positive (+1)

Related Criteria

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - Industrials: Key Credit Factors For The Real Estate Industry, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Methodology: Timeliness Of Payments: Grace Periods, Guarantees, And Use Of 'D' And 'SD' Ratings, Oct. 24, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Corporates - General: 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Ratings List

Downgraded

	To	From
CapitaLand Commercial Trust		
Corporate Credit Rating	BBB+/Stable/--	A-/Stable/--
CCT MTN Pte Ltd.		
Senior Unsecured	BBB+	A-

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.