MOODY'S
INVESTORS SERVICE

Rating Action: Moody's upgrades CapitaCommercial Trust to A3; outlook stable

Global Credit Research - 12 Feb 2015

Singapore, February 12, 2015 -- Moody's Investors Service has upgraded CapitaCommercial Trust's (CCT) issuer rating to A3 from Baa1.

Moody's has also upgraded the senior unsecured debt ratings under CCT MTN Pte. Ltd. to A3 from Baa1, and the program rating to (P)A3 from (P)Baa1.

The outlook on the ratings is stable.

RATINGS RATIONALE

The upgrade reflects CCT's: (1) strong market position, reinforced by its enlarged property portfolio of improved quality following recent successful asset enhancement initiatives; (2) successful completion and leasing trends for CapitaGreen, a new office building developed in conjunction with its sponsor, CapitaLand Limited (unrated); (3) healthy operating performance, supported by its track record of active lease management; and (4) strong financial profile with headroom to make debt-funded acquisitions for future growth.

"CCT is a major office landlord that has successfully enhanced the value and competitiveness of its older properties, Raffles City Singapore, Six Battery Road and Capital Tower through asset enhancement initiatives, and also redeveloped its former Market Street Car Park into CapitaGreen," says Jacintha Poh, a Moody's Assistant Vice President and Analyst.

CapitaGreen is a Grade A office building that obtained its temporary occupation permit on 18 December 2014. As of 31 December 2014, the office building had a committed occupancy rate of 69.3%, with over 90% of its lease expiring in 2019 and beyond. CCT, which owns a 40% interest in CapitaGreen, developed the office building with its joint venture partners CapitaLand Limited, with a 50%-interest, and Mitsubishi Estate Asia (unrated), with a 10%-interest.

"CCT has also demonstrated a good track record of active lease management, renewing its leases ahead of expiry and maintaining a well-spread lease expiry profile. This strategy has supported a committed portfolio occupancy rate of consistently above 90% since listing in 2004, in turn providing for greater income stability and visibility," adds Poh, who is also the Lead Analyst for CCT.

As of 31 December 2014, including CapitaGreen, CCT had a committed portfolio occupancy rate of 96.8%. More importantly, the trust managed its office lease expiry profile so that only a small proportion of its leases will expire in 2016 and 2017, at a time where supply of new office space in Singapore is expected to increase significantly.

According to CBRE, approximately 3.7 million square feet of new office space will become available in 2016, and another 1 million square feet in 2017.

In 2015, Moody's expects CCT's EBITDA to grow by 2%, largely driven by increased contributions from its existing office properties. We expect the growth to be more significant in the following year as CapitaGreen becomes fully operational. The improvement in EBITDA will further strengthen the trust's financial metrics, with an adjusted debt/EBITDA ratio of 7.6x-7.8x and adjusted EBITDA interest coverage ratio of 9.0x-9.3x.

Moody's also expects its adjusted debt/total deposited asset ratio to remain below 35% and adjusted secured debt/total deposited assets below 15%, positioning the trust well within the A3 rating level.

CCT's strong financial profile provides the trust with headroom to make debt-funded acquisitions for future growth, yet remain within its current rating level. Although Moody's estimates the trust to have sufficient capacity to acquire the remaining 60%-interest in CapitaGreen on a fully debt-funded basis, we expect the trust to adopt a prudent funding approach.

As of 31 December 2014, CCT had an adjusted debt/total deposited assets of 29.0%, adjusted EBITDA interest coverage of 9.5x, adjusted debt/EBITDA ratio of 7.8x, and adjusted secured debt/total deposited assets of 12.5%.

The rating outlook is stable, reflecting Moody's expectation of predictable cash generation from CCT's current portfolio, driven by steady occupancy and low lease expiry. Moody's also expects the trust to maintain financial discipline while pursuing growth, and to keep its financial metrics within targeted parameters.

Upward ratings movement is unlikely, given CCT's asset size relative to its global peers and the concentration of its portfolio in Singapore.

CCT's ratings could be downgraded if: (1) the operating environment deteriorates, leading to higher vacancy levels and declining operating cash flows, and/or (2) the trust's financial metrics weaken, with adjusted debt/total deposited assets exceeding 35%-40%, adjusted EBITDA interest coverage falling below 3x, and adjusted secured debt/total deposited assets exceeding 15% on a consistent basis.

The principal methodology used in these ratings was Global Rating Methodology for REITs and Other Commercial Property Firms published in July 2010. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

CapitaCommercial Trust is a Singapore-focused REIT, with a portfolio of 10 commercial properties, including a 40% interest in CapitaGreen. As of 31 December 2014, the properties had a total appraised value of SGD7.4 billion. The trust also holds a 30% stake in Quill Capita Trust (unrated), a commercial REIT listed on the Bursa Malaysia Securities Berhad. CCT's sponsor, CapitaLand Limited (unrated), is one of the largest property developers in Asia, and held a 32% interest in CCT as of 31 December 2014.

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