

Research Update:

# CapitaLand Commercial Trust Upgraded To 'A-', RCS Trust 'A-' Ratings Affirmed; Both Off CreditWatch; Outlook Stable

September 30, 2020

## Rating Action Overview

- We expect a successful merger between CapitaLand Mall Trust (CMT) and CapitaLand Commercial Trust (CCT), given the extraordinary general meeting and CCT Trust Scheme Meeting approval on Sept. 29, 2020. After the merger, CMT will fully own CCT and RCS Trust.
- CCT and RCS will be core private sub-trusts to CMT, and we believe CMT will provide extraordinary financial support to both, if required. As a result, we equalize our ratings on CCT and RCS with the rating on CMT.
- On Sept. 30, 2020, S&P Global Ratings raised its long-term issuer credit rating on CCT and the issue rating on the company's guaranteed senior unsecured notes to 'A-'. At the same time, we affirmed our long-term issuer credit rating on RCS and the issue rating on the company's senior unsecured notes at 'A-'.  
- The stable outlook on CCT and RCS reflects our view that the credit profiles of both trusts will be highly linked to CMT's, given their importance to CMT's operations and strategy. It also reflects our expectation that CMT will maintain its stable operating performance over the next 24 months.

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## Rating Action Rationale

**Ratings on CCT are equalized with those on CMT.** We believe CCT will become an integral part of CMT's longer-term strategy of better resilience through economic cycles with a larger portfolio and more diversified exposure across retail, office, and integrated developments. CCT will become a wholly owned sub-trust of CMT, which will exert full control over its strategy and financial policies. After the merger, CCT will contribute 30%-35% of the combined group's asset base and 25%-30% of the group's NPI. We believe the merged group will have very strong strategic incentives to provide extraordinary financial support to CCT, if required. We expect CCT to gradually reduce its debt to improve its credit metrics, since the refinancing requirement will be

slowly moved to CMT. We therefore equalize the rating on CCT with CMT's credit profile.

**We consider RCS to be a core subsidiary of the group status after the merger.** In our view, RCS' integrated development, Raffles City Singapore, is CMT's trophy asset. It is the largest and most valuable single asset after the merger. CMT owns 40% of Raffles City Singapore, but will fully own the integrated development following the proposed acquisition of all CCT units. We believe this will further solidify RCS' close reputational association and integration with CMT. In our view, CMT's full ownership of Raffles City Singapore is in line with the group's strategy to gradually increase exposure to integrated developments. In addition, they operate in a similar business lines and RCS has a sound record of operating performance. We forecast RCS will contribute about 15% of the combined group's asset base and about 16% of the group's net property income (NPI). We believe the merged group will have very strong incentives to provide extraordinary financial support to RCS, if required.

**CMT's credit profile is underpinned by its excellent asset quality but higher leverage due to debt-funded merger.** The rating on CMT reflects our view of the REIT's leading market position (post-merger with CCT) as a landlord of retail and commercial space in Singapore. CMT's large asset portfolio with high quality assets, diverse rental income and tenant base, and above-average operating metrics support its credit profile. The REIT's high initial leverage due to the consolidation of the more leveraged CCT temper these strengths. The merger of CCT will be partially debt-funded.

CMT will raise Singapore dollar (S\$) 1 billion in debt to acquire CCT. In addition, it will consolidate a more highly leveraged CCT. CMT's credit ratios are already affected by rental waiver and reduced rental income in 2020, stemming from the COVID-19 fallout. Post-transaction, we estimate the merged entity's pro forma ratio of funds from operations (FFO) to debt ratio will materially weaken to 7.5%-8.5% for the next two years, from 10%-11% previously.

## Outlook

The stable outlook on CCT and RCS reflects our view that both trusts will remain integral to CMT after the merger. The outlook also reflects our expectation that CMT will maintain its solid asset quality, stable profitability, and a leverage ratio below 40% over the next 24 months.

## Downside scenario

We could downgrade CCT and RCS if: (1) we lower the rating on CMT; (2) we believe support from sponsors has waned; or (3) the trust's shareholding structure changes materially.

Rating pressure could increase if CMT's ratio of FFO to debt weakens below 7% on a sustained basis. The most likely cause for this deterioration could be CMT embarking on an aggressive debt-funded growth strategy that results in a leverage ratio above 40%. A prolonged economic downturn that results in lower occupancy, declining rentals, and weakened operating efficiency could also weaken CMT's credit profile.

## Upside scenario

We could upgrade CCT and RCS if we raise our rating on CMT. This could happen if CMT adopts a more conservative financial stance that results in its FFO-to-debt ratio increasing above 9% on a

sustained basis.

## **Company Description**

CCT is one of Singapore's largest commercial REITs. It principally engages in investment and management of office and commercial properties. It owns 10 properties, with a portfolio value of S\$10.9 billion as of June 30, 2020. It has a portfolio of eight commercial properties in Singapore and two properties in Frankfurt, Germany.

After the merger between CCT and CMT, CCT will be fully owned by CapitaLand Integrated Commercial Trust (CICT; the merged entity).

RCS is a Singapore-based REIT that holds Raffles City Singapore, one of Singapore's largest integrated developments. As of June 30, 2020, the property was valued at S\$3.26 billion.

After the merger between CCT and CMT, RCS will be fully owned by CICT.

## **Issue Ratings - Subordination Risk Analysis**

CapitaLand Commercial Trust

### **Capital structure**

As of June 30, 2020, CCT's capital structure consisted of about S\$4.3 billion of debt on a look-through basis, about 25.6% of which is secured debt.

### **Analytical conclusions**

Our rating on CCT's S\$2 billion medium-term note (MTN) program to 'A-' is the same as the issuer credit rating. We do not view CCT's capital structure as having any material structural or contractual subordination risks. As of June 30, 2020, CCT's ratio of secured debt to total deposited property value is less than 10% on a look-through basis.

RCS Trust

### **Capital structure**

As of June 30, 2020, RCS' capital structure consists of S\$725 million unsecured notes under its US\$2 billion euro medium-term note (EMTN) program, as well as S\$484 million unsecured bank loans.

### **Analytical conclusions**

Our 'A-' rating on RCS' US\$2 billion EMTN program and subsequent drawdowns is the same as the issuer credit rating. We do not view RCS' capital structure as having any material structural or contractual subordination risks.

## Ratings Score Snapshot

CapitaLand Commercial Trust

Issuer Credit Rating: A-/Stable/--

Business risk: Strong

- Country risk: Very low
- Industry risk: Low
- 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 notch)

Stand-alone credit profile: bbb+

- Group credit profile: a-
- Entity status within group: Core (+1 notches from SACP)

RCS Trust

Issuer Credit Rating: A-/Stable/--

Business risk: Satisfactory

- Country risk: Very low
- Industry risk: Low
- Competitive position: Satisfactory

Financial risk: Intermediate

- Cash flow/Leverage: Intermediate

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: Neutral (no impact)

Stand-alone credit profile: bbb

- Group credit profile: a-
- Entity status within group: Core (+2 notches from SACP)

## Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | Industrials: Key Credit Factors For The Real Estate Industry, Feb. 26, 2018
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- 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: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## Ratings List

### Upgraded; CreditWatch/Outlook Action

	To	From
<b>CapitaLand Commercial Trust</b>		
Issuer Credit Rating	A-/Stable/--	BBB+/Watch Pos/--

### CCT MTN Pte Ltd.

Senior Unsecured	A-	BBB+/Watch Pos
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### Ratings Affirmed; CreditWatch/Outlook Action

	To	From
<b>RCS Trust</b>		
Issuer Credit Rating	A-/Stable/--	A-/Watch Neg/--
Senior Unsecured	A-	A-/Watch Neg

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](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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