General Announcement::CapitaCommercial Trust Upgraded To 'A-' On Improving Financial Strength; Outlook Stable

Issuer & Securities

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

Announcement Details

Announcement Title	General Announcement
Date & Time of Broadcast	25-Aug-2014 19:11:51
Status	New
Announcement Sub Title	CapitaCommercial Trust Upgraded To 'A-' On Improving Financial Strength; Outlook Stable
Announcement Reference	SG140825OTHRC2A7
Submitted By (Co./ Ind. Name)	Doris Lai
Designation	Company Secretary, CapitaCommercial Trust Management Limited as manager of CapitaCommercial Trust
Description (Please provide a detailed description of the event in the box below)	Standard & Poor's Ratings Service has today upgraded CapitaCommercial Trust's long-term corporate credit rating to 'A-' from 'BBB+'. They are also raising the long-term ASEAN regional scale rating to 'axAA' from 'axA+'. The outlook for the rating is stable. Please see attached press release by Standard & Poor's.

Attachments	CCT_SP_RatingsDirect_Research_Update_08_25_2014.pdf Total size =260K

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Research Update:

CapitaCommercial Trust Upgraded To 'A-' On Improving Financial Strength; Outlook Stable

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Research Update:

CapitaCommercial Trust Upgraded To 'A-' On Improving Financial Strength; Outlook Stable

Overview

- We have reassessed CCT's expansion appetite and expect the company to remain disciplined in using debt to fund new investments. We believe the company's financial risk profile will remain "intermediate" even if the debt-funded investments are higher than our base case.
- CCT's stable business performance, underpinned by consistent cash flows, high occupancies, and an expanded asset portfolio by end-2014, has reinforced its business risk profile.
- We are raising our long-term corporate credit rating on CCT to 'A-' from 'BBB+'. We are also raising our long-term ASEAN regional scale rating on the company to 'axAA' from 'axA+'.
- The stable outlook reflects our expectation that CCT will maintain a strong, recurring income, stable profitability, and a high-quality portfolio.

Rating Action

On Aug. 25, 2014, Standard & Poor's Ratings Service raised its long-term corporate credit rating on Singapore-based CapitaCommercial Trust (CCT) to 'A-' from 'BBB+'. The outlook is stable. At the same time, we raised our ASEAN regional scale rating on the REIT to 'axAA' from 'axA+'.

Rationale

Our upgrade of CCT reflects the continued stable performance of the company's underlying portfolio and the impending completion of CapitaGreen development by the end of 2014. We have reassessed the company's expansion appetite and expect it to remain disciplined in using debt to fund new investments.

CCT has a high-quality portfolio of commercial assets in prime locations in Singapore's central business district. The properties have stable rental rates and occupancies have consistently been above 90% since CCT's listing on the Singapore Exchange. CCT's project execution has been good, as demonstrated in the completion of several substantial refurbishment and upgrading projects. It is also the only REIT in Singapore currently building a sizable commercial property. We believe these factors support CCT's "strong" business risk profile. The company has a growing exposure to the Singapore office market via an expanded asset portfolio and a larger tenant base.

The company's operating cash flow is strong, supported by stable rental income and prudent financial management. Although CCT articulates a leverage (ratio of total assets to total debt) policy of up to 45%, we believe CCT will manage that within 30%-35%. The company's leverage has been low at approximately 30% in the past four years, with debt maturities refinanced ahead of schedule. We believe CCT will stay prudent in its financial management when making investments or embarking on developments. In our view, the company has established a track record in property development, refurbishing, and upgrading. It has also managed cash flows to mitigate development risk and reduce pressure on leverage. We therefore assess CCT's financial risk profile as "intermediate."

We forecast CCT's cash flow and leverage to be comfortably within the range that we expect for an 'A-' rating. We also do not expect CCT to embark on a substantial debt-funded acquisition in the next 24 months, given the uncertain acquisition pipeline. We believe the company's next large initiative will be to acquire the balance 60% in CapitaGreen, when the property's first rental cycle has stabilized. In addition, we expect CCT's leverage will not rise above 35% because we believe the acquisition will be funded by debt and equity. As a result, we have changed our assessment of its financial policy modifier to "neutral" from "negative."

We believe CCT has a sufficient buffer to keep its credit metrics consistent with our expectation for the rating. The company's rental income from Singapore is likely to be stable because it is able to renew leases at higher rentals upon expiry. CCT's strong market position, coupled with a limited supply of new properties in 2014 and 2015, is likely to support the company's financial stability.

Our base case assumes the following:

- Steady economic growth for Singapore translating into stable rental income from modest rental reversions supported by above 95% occupancy levels.
- Consolidation of Raffles City and CapitaGreen into our revenue assumptions.
- Stable gross margins of about 85% from 2014 to 2016, in line with historical performance.
- No material acquisitions or divestments.
- Slightly lower capital expenditure of about Singapore dollar (S$) 40 million from 2015, after the completion of CapitaGreen in late 2014, to be used mostly in renovating and refurbishing of buildings.

Based on these assumptions, we derived the following credit measures for 2014-2016:

- Ratio of funds from operations (FFO) to debt of 10%-12%.
- EBITDA interest coverage of above 4x.
- Debt-to-EBITDA ratio of 6.5x-7.5x.
- Leverage of about 30%.

Liquidity

We assess CCT's liquidity as "adequate," as defined in our criteria. We estimate that the company's liquidity sources will be more than 1.2x its uses in 2015. We based our view on the following major factors and assumptions:

- Liquidity sources include estimated cash and cash equivalents of about S$168.0 million as of Dec. 31, 2014.
- Liquidity sources also include FFO and working capital inflow of about S$250 million and available credit lines of S$312 million.
- Liquidity uses include capital expenditure of about S$40 million, dividend payment of about S$250 million, and debt maturities of S$270 million.

If CCT's EBITDA decreases by 15%, we expect net liquidity sources to remain positive and that the company would remain compliant with its covenants. In our view, CCT can absorb low-probability, high-impact shocks because of its good recurring cash flows. The company has strong banking relationships and capital-market standing, which provide strong financial flexibility and lower the company's funding costs. In our base-case scenario, we expect CCT to continue to have sufficient headroom in the financial covenants on its debts. The company's key covenants include a ratio of net cash available for debt servicing to consolidated total interest expense of more than 1.5x and a ratio of total assets to total borrowings of not greater than 0.6x. As of June 30, 2014, CCT was in compliance with all covenants.

Outlook

The stable outlook reflects our expectation that CCT will improve its profitability and maintain its solid asset quality based on stable market conditions in the next 24 months. We expect CCT to maintain an intermediate financial risk profile. That would include EBITDA interest coverage of more than 2.4x, FFO-to-debt ratio comfortably above 9%, and leverage below 35%.

Downside scenario

We may downgrade CCT if the company 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 ratios of FFO to debt to weaken below 9% and total debt to total assets to rise above 35% on a sustained basis.

Upside scenario

We may raise our rating on CCT if the company generates above-average returns from its asset portfolio, expands and diversifies its asset base in properties, and adopts more conservative financial policies, which we have currently not factored into our base case. An indication of this improvement is the FFO-to-debt ratio increasing to about 15% on a sustained basis.

Ratings Score Snapshot

Corporate Credit Rating: A-/Stable/--

Business risk: Strong

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

Financial risk: Intermediate

- Cash flow/Leverage: Intermediate

Anchor: a-

Modifiers:

- Diversification/Portfolio effect: Neutral (no impact)
- Quality of capital structure: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Financial policy: Neutral (no impact)
- Management and governance: Fair (no impact)
- Comparable rating analysis: Neutral (no impact)

Related Criteria

- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Jan. 2, 2014
- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Methodology: Industry Risk, Nov. 19, 2013
- Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Key Credit Factors for the Real Estate Industry, Nov. 19, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012

Ratings List

Upgraded

	To	From
CapitaCommercial Trust		
Corporate Credit Rating	A-/Stable/--	BBB+/Stable/--
ASEAN Regional Scale	axAA/--/--	axA+/--/--

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 Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.