

CapitaLand sells 70% stake in Westgate to CMT for S\$789.6m

Mall sold at 4.3% property yield, which manager says is undemanding and relatively fair

By Lee Meixian, The Business Times TUE, AUG 28, 2018

AS PART of its capital recycling exercise, property developer CapitaLand on Monday said that it has agreed to sell to CapitaLand Mall Trust (CMT) its 70 per cent stake in Westgate - the retail component of an integrated retail and office development in Jurong - for S\$789.6 million.

This values a full 100-per-cent stake in the development at S\$1.128 billion, and translates to S\$2,746 per square foot (psf).

The sale will generate for CapitaLand proceeds of about S\$397.6 million in cash -- comprising S\$17.9 million in purchase consideration, and S\$379.7 million as repayment of unitholders' loans owed by the trust holding the mall to the trustee and the vendors.

The remaining portion of S\$392 million makes up 70 per cent of the bank loans owed to financial institutions by the trust.

At a passing property yield of 4.3 per cent, Tony Tan, CEO of CMT's Reit manager, said at a briefing that it was "undemanding" and "relatively fair", especially when compared to the recent transaction of Jurong Point, which was sold for S\$3,343 psf at an estimated net yield of 4.2 per cent.

Asked what accretion to distributions the Reit manager is underwriting for the first year, he replied that details will be out in a circular that will be issued in due course.

He added: "(The proposed acquisition) enables us to recycle the capital from the sale of Sembawang Shopping Centre (which was sold for S\$248 million in June this year) into a newer asset with stronger growth potential at an entry yield of 4.3 per cent, which is in line with recent market transactions."

CapitaLand said it will net a gain of about S\$99.2 million from the sale. The transaction, which is conditional on CMT unitholders' approval, is expected to be completed in the fourth quarter of this year.

CMT currently holds the balance 30 per cent, so the transaction will increase its interest in Westgate to 100 per cent.

Lim Ming Yan, president & group CEO of CapitaLand, said: "The divestment of Westgate to CMT allows us to realise the property's investment value, thus enhancing our financial flexibility as we redeploy our capital into higher yielding investments. Having achieved our annual capital recycling goal of S\$3 billion in H1 2018, we continue to actively seek opportunities to reconstitute our portfolio."

Within the last three months, the developer had announced acquisition of three sites - a site in Sengkang Central together with City Developments in Singapore, and two sites in China, in Guangzhou and Chongqing respectively - valued at a total of S\$1.65 billion.

The manager of CMT said the total acquisition outlay may be financed through debt or a combination of debt and equity, depending on market conditions. Mr Tan said the Reit's gearing will rise to about 36 per cent should the manager pay for the acquisition fully with debt alone.

An acquisition fee of S\$7.9 million will also be paid in units to the manager.

As at end-July 2018, Westgate has a committed occupancy of 98 per cent. Opened in December 2013, the mall's annual shopper traffic hit a record 49.4 million in 2017.

Post-divestment, CapitaLand will continue to benefit from Westgate's stable yield through CapitaLand's stake in CMT. The mall will also continue to be managed by CapitaLand Retail, the group's wholly-owned retail operating platform.

Asked by an analyst whether it will begin to look overseas now that the "low hanging fruit" of Westgate has been acquired, Mr Tan replied that it is "a bit too early".

An analyst that asked not to be named told The Business Times that other Singapore malls that CapitaLand still owns include The Star Vista and Ion Orchard, but the latter is unlikely, given its sheer size. Ion is owned by a joint venture (JV) between CapitaLand and Hong Kong listed Sun Hung Kai Properties.

Also asked at the briefing if there was anything about the ownership structure of the JV that prevents CapitaLand from divesting Ion to the Reit, Mr Tan declined to comment.

Shares of CapitaLand and CMT added four cents to S\$3.40 and added one cent to S\$2.17 respectively.