Moody's
INVESTORS SERVICE

Rating Action: Moody's upgrades CapitaCommercial Trust's ratings to Baa1; outlook stable

Global Credit Research - 07 Dec 2010

Approximately US$169 million of debts affected

Singapore, December 07, 2010 -- Moody's Investors Service has today upgraded CapitaCommercial Trust's ("CCT") corporate family rating to Baa1 from Baa2 and the senior unsecured ratings to Baa2 from Baa3. The outlook for both ratings is stable.

Separately, Moody's has withdrawn its ratings for the MTN programme issued by CCT MTN Pte Ltd ("CCTN"). CCTN is a wholly-owned subsidiary of HSBC Institutional Trust Services (Singapore) Ltd, in its capacity as trustee of CCT (the CCT Trustee). The programme is unconditionally and irrevocably guaranteed by the CCT Trustee.

RATINGS RATIONALE

"The upgrade reflects CCT's operating and financial strength, as evidenced by its strong, predictable cash flows and high occupancy rates over the 2008/09 economic downturn," says Philipp Lotter, a Moody's Senior Vice President, "CCT's track record and prudent approach towards managing its capital structure and pursuing its acquisitions also help maintain a strong and stable financial profile."

Moody's Investors Service has withdrawn the credit rating for the MTN Programme issued by CCTN for its own business reasons. Please refer to Moody's Investors Service's Withdrawal Policy, which can be found on our website, www.moodys.com.

In 2010, CCT adopted a portfolio "reconstitution" strategy, which sees it divesting properties that have reached the optimal stage of their life cycle and potential reinvestment of the sale proceeds in other assets which have potential for value enhancement. During the financial year, CCT sold Robinson Point for SGD203 million and Starhub Centre for SGD380 million. At the same time, CCT also embarked on an asset enhancement initiative, to enhance the competitiveness of Six Battery Road for SGD92 million over 4 years.

"While CCT's current strong financial profile could weaken as it seeks to replace the divested assets, the upgrade factors in the cushion available for further acquisition, as well as CCT's plan to maintain its gearing below the targeted 40% level"," says Lotter.

As of end-September 2010, CCT's gearing of 31%, Debt/EBITDA of 6.4x and EBITDA/Interest of 3.3x positions it well within the Baa1 rating. At the same time, CCT's cash balance of SGD731 million provides it with ample financial flexibility for future acquisitions, as well as to meet its debt obligations over the next four quarters.

Moody's also recognizes the potential negative rental reversion for CCT's properties over the next financial year, as leases with higher rental rates signed before the economic downturn three years ago, start to expire in 2011. However, this should be partially mitigated by CCT's (a) prudent cost management; (b) strong financial position; and (c) the high quality tenants, with well-spread lease expiry profile. The improving rental rates, driven by economic growth in the region, should also narrow the difference in rental rates.

The stable outlook reflects Moody's expectation that CCT will maintain its prudent operating and financial policy as it expands its portfolio, and thus maintains a credit profile within its targeted parameters, such as gearing below 40%.

The rating could be upgraded if CCT shows improvement in its liquidity profile and credit metrics, including Debt/EBITDA at around 6x, Debt/Total Assets below 30-35% and EBITDA/Interest coverage above 4x, on a consistent basis.

On the other hand, downward pressure could emerge if (1) the operating environment deteriorates, such that it suffers high vacancy rates and a decline in rentals operating cash flows, and/or financial metrics with Debt/EBITDA exceeding 8x, Debt/Total Assets rises above 40%, and EBITDA/Interest coverage drops below 3x on a consistent basis, (2) further acquisitions are made without long-term committed funding in place; and (3) a more aggressive growth policy is undertaken to fund new investments.

The last rating action with respect to CCT was taken on June 28, 2010, when the ratings outlook for its Baa2 corporate family and Baa3 unsecured ratings were changed to positive from stable.

The principal methodology used in this rating was Global Rating Methodology for REITs and Other Commercial Property Firms published in July 2010.

CapitaCommercial Trust is a Singapore-listed REIT that invests in commercial properties. It owns a portfolio of 9 prime properties, mainly in Singapore's central business district, with total assets of about S$6.0 billion.

REGULATORY DISCLOSURES

Information sources used to prepare the credit rating are the following: parties involved in the ratings, public information, and confidential and proprietary Moody's Investors Service information.

Moody's Investors Service considers the quality of information available on the issuer or obligation satisfactory for the purposes of assigning a credit rating.

Moody's adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources Moody's considers to be reliable including, when appropriate, independent third-party sources. However, Moody's is not an auditor and cannot in every instance independently verify or validate information received in the rating process.

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Please see the Credit Policy page on Moodys.com for the methodologies used in determining ratings, further information on the meaning of each rating category and the definition of default and recovery.

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