

# CapitaLand (CAPL SP)

Share Price: SGD3.07

Target Price: SGD3.88 (+26%)

MCap (USD): 9.2B

ADTV (USD): 29M

Singapore

Real Estate

**BUY**

(Unchanged)

## East China on the Ground

- Visited six projects in Shanghai, Hangzhou and Suzhou.
- Expect a record year of sales with 8,000 homes at CNY14b in value. New financing options could lower costs in China.
- Maintain BUY and SGD3.88 TP, based on 15% RNAV discount.

### Visited Shanghai, Hangzhou and Suzhou

We visited six CapitaLand projects in Shanghai, Hangzhou and Suzhou (1 residential, 1 serviced apartment and 4 mixed developments) recently. These projects demonstrate the company's ability to develop projects across a range of sub-asset classes. We remain positive post-visit and maintain our BUY rating and SGD3.88 TP on the stock.

### Geographical focus, expect record year of home sales

China accounts for 46% of total assets for CapitaLand and is a key market for the group. The company will stay within its area of competency and continue to focus on projects in Tier 1 and upper Tier 2 cities. Home sales in the country have benefited from a series of policy easing and management now expects a record year of sales with around 8,000 units worth CNY14b in value.

### New funding sources, land banking strategy

The company is exploring options to tap new sources of funding that could lower its financing costs in the country. It prefers to replenish its land bank via M&A or JVs instead of land auctions as land prices have appreciated at a faster pace than home prices. It would also look to acquire land as a group which would harness its strength as a developer of integrated projects and provide opportunities across sub asset classes.

### Competitive advantages, reiterates ROE target

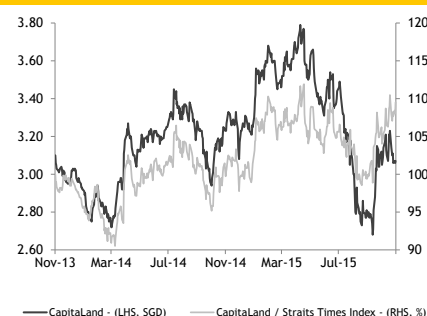
Management sees its relationships with tenants and customers as a competitive advantage that is hard to replicate. It reiterated its ROE target of 8-12% and sees double digit returns for its projects in China as a key driver of this target.

FYE Dec (SGD m)	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue	3,511.0	3,924.6	4,272.9	4,794.8	4,949.0
EBITDA	948.1	1,052.4	1,228.5	1,565.2	1,668.0
Core net profit	840.2	1,160.8	993.3	774.4	838.4
Core EPS (cts)	18.2	24.4	20.9	16.4	17.7
Core EPS growth (%)	36.6	34.0	(14.3)	(21.9)	8.3
Net DPS (cts)	8.0	9.0	9.0	9.0	9.0
Core P/E (x)	16.8	12.6	14.7	18.8	17.3
P/BV (x)	0.8	0.8	0.8	0.8	0.7
Net dividend yield (%)	2.6	2.9	2.9	2.9	2.9
ROAE (%)	5.4	7.1	5.9	4.5	4.8
ROAA (%)	2.0	2.6	2.2	1.7	1.8
EV/EBITDA (x)	32.6	32.1	26.8	20.5	18.6
Net debt/equity (%)	59.8	79.0	78.7	71.6	63.2

### Key Data

52w high/low (SGD)	3.79/2.68
3m avg turnover (USDm)	28.8
Free float (%)	60.0
Issued shares (m)	4,274
Market capitalization	SGD13.1B
Major shareholders:	
-Temasek Holdings Pte Ltd. (Investment C)	39.3%
-BlackRock Investment Management LLC	6.0%
-CBRE Clarion Securities LLC	1.1%

### Share Price Performance



	1 Mth	3 Mth	12 Mth
Absolute (%)	(1.0)	0.7	(5.0)
Relative to index (%)	4.0	6.4	9.1

### Maybank vs Market

	Positive	Neutral	Negative
Market Recs	16	2	0
	Maybank Consensus		% +/-
Target Price (SGD)	3.88	3.98	(2.5)
'15 PATMI (SGDm)	993	748	32.8
'16 PATMI (SGDm)	774	846	(8.5)

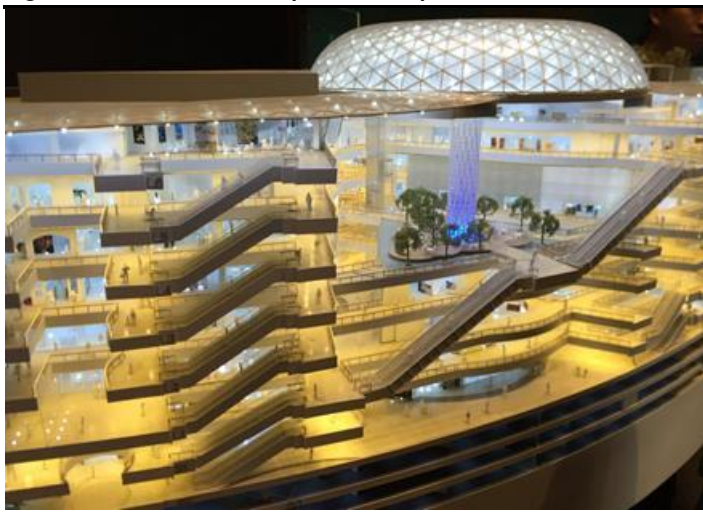
Source: FactSet; Maybank

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**LuOne, Shanghai (Retail, Office)**

LuOne is a mixed development project with retail (GFA: 90,000sm) and office (GFA: 49,000 sm) components. The project is well-located in the Huangpu District with 1.2m residents within 3km and 3.2m within 5km. Connectivity is strong as it is directly linked to two metro lines and located next to the North-South highway.

Figure 1: Retail mall is expected to open in 1Q17



Source: Maybank KE

Figure 2: LuOne in Huangpu District, Shanghai



Source: Maybank KE

**Raffles City Changning, Shanghai (Retail, Office)**

Raffles City Changning is its second Raffles City project in Shanghai. The first was Raffles City Shanghai that is located in the Huangpu District. The three office towers and two retail podiums in this project are expected to open in phases. At the time of the visit, Office Tower 3 is completed with 80% of its space leased. Pre-leasing for the retail mall has begun with management targeting for 20% by end of the year.

Figure 3: Raffles City Changning



Source: Maybank KE

Figure 4: View of construction from Office Tower 3



Source: Maybank KE

**Ascott Hengshan, Shanghai (Serviced residence)**

Ascott Hengshan is a 90 unit (19 1-BR, 50 2-BR and 21 3-BR units) serviced residence that was opened six months ago. The local manager guided that 70 units are currently leased out to long stay guests (1month to 1 year) with average occupancy at around 85%. The strong occupancy was achieved despite fairly high room rates of CNY2,400 per day or CNY30-35,000 per month for a 1-BR unit. We understand that the project is popular with business travellers and workers at the nearby foreign consulates.

Figure 5: Ascott Hengshan



Source: Maybank KE

Figure 6: Master bedroom



Source: Maybank KE

**Riverfront Mansion, Hangzhou (Residential)**

Riverfront Mansion is CapitaLand’s third residential project in Hangzhou, after I-World and Imperial Bay, with a total of 686 units. The project is located 4km from downtown Hangzhou and offers excellent views of the river nearby. 344 units of the 518 launched units were sold at an average of CNY27,759 psm. The local manager highlighted that majority of the buyers are first time home buyers or upgraders.

Figure 7: Riverfront Mansion, Hangzhou



Source: Maybank KE

Figure 8: 66% of the 518 launched units were sold



Source: Maybank KE

### Raffles City Hangzhou (Hotel, Serviced Residence, Office, Retail, Residential)

Raffles City Hangzhou is an integrated development with hotel, serviced residence, office, retail and residential components. It is located in the new CBD of the city and is set to be the tallest building in Hangzhou at 59 storeys high. Part of the office project and its residential and SOHO components will be sold on a strata-basis, which helps generate cashflow for the project. Upon completion, Ascott will be operating the serviced residence and Conrad will manage the hotel.

Figure 9: To be opened in phases from end-2016



Source: Maybank KE

Figure 10: Raffles City Hangzhou



Source: Maybank KE

### Suzhou Center Mall (Retail, Office)

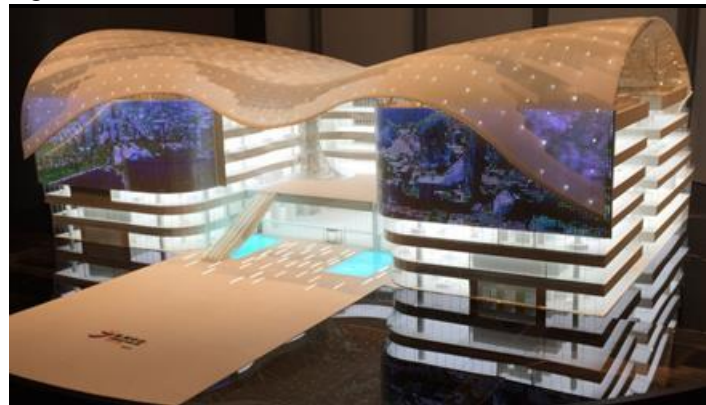
Suzhou Center Mall is located to the West of Jinji Lake within the Suzhou Industrial Park. It comprises a six-storey shopping mall and two Grade A office towers. Apart from this JV project undertaken by CapitaLand and the local state-owned enterprise, there are several other developments in the vicinity, which will provide retail traffic to the mall when completed.

Figure 11: Major developments in the vicinity



Source: Maybank KE

Figure 12: Suzhou Center Mall



Source: Maybank KE

## Management presentation

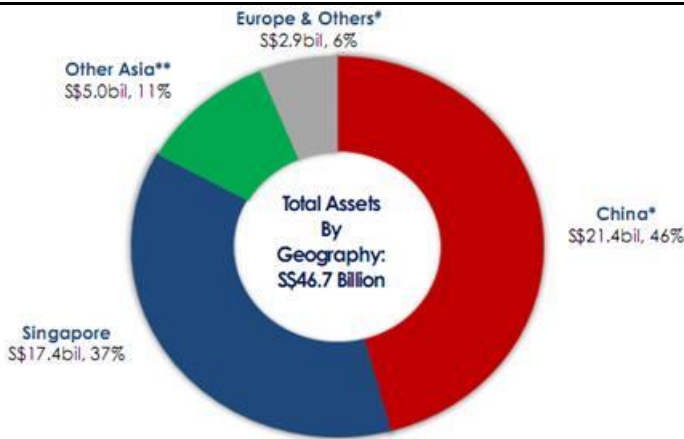
CapitaLand's management team presented during the trip. Key highlights:

- **Staying within its area of competency.** Management reiterated its focus in the core Tier 1 and upper Tier 2 cities in China (82% of China assets) and will continue to reinvest in these areas of competency.
- **Home sales in China benefit from policy easing.** The Chinese government announced a series of supportive policy measures including lower mortgage down payment, lower interest rates, and flexibility in the use of housing fund loan and reduction in administrative charge on transfer of properties. These measures led to a pick-up in its home sales and management now expects a record year of sales with around 8,000 units worth CNY14b in value.
- **Exploring new financing options in China.** The company is currently exploring the use of onshore bonds as an alternative source of funding that could lower its cost of funds.
- **Land banking.** Management highlighted that land prices at auctions had increased at a faster pace than home prices and sees margin erosion in acquiring land at current levels. Hence, it prefers to replenish its land bank via M&A or JVs instead of auctions. It would also look to acquire land as a group which would harness its strength as a developer of integrated projects and provide opportunities across sub asset classes.
- **Network of tenants and customer base a key competitive advantage for malls.** The company sees its relationship with 15,000 retail tenants and 2.2m CapitaStar members globally as a key competitive advantage. Its long standing tenant relationships will ensure optimal operating performance at its malls. Data collected from its network of CapitaStar members allows it to better understand the customers and execute

targeted marketing campaigns. This has allowed the company to generate strong tenant sales growth of around 9% in China currently.

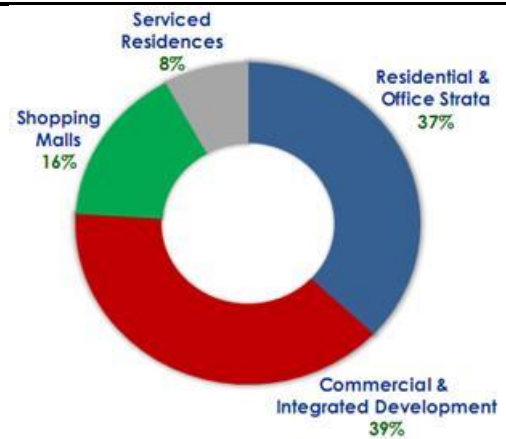
- **Composition of ROE target.** Management reiterated its ROE target of 8-12% and shed light on its composition. It believes that 8-10% is achievable for its stabilised properties through NPI growth and value creation of its assets. Residential sales in Singapore should be able to achieve high single digit returns and projects in China double digit returns.

Figure 13: China accounts for 46% of total assets



Source: Company

Figure 14: Well diversified portfolio in China



Source: Company

Figure 15: Tier 1 and Upper Tier 2 cities at 82% of assets



Upper Tier 2 - Tianjin, Hangzhou, Ningbo, Chengdu, Chongqing, Wuhan.

Source: Company

Figure 16: Pipeline of projects



Source: Company

FYE 31 Dec	FY13A	FY14A	FY15E	FY16E	FY17E
<b>Key Metrics</b>					
P/E (reported) (x)	15.6	11.2	13.1	16.8	15.5
Core P/E (x)	16.8	12.6	14.7	18.8	17.3
P/BV (x)	0.8	0.8	0.8	0.8	0.7
P/NTA (x)	0.8	0.8	0.8	0.8	0.8
Net dividend yield (%)	2.6	2.9	2.9	2.9	2.9
FCF yield (%)	10.7	10.0	18.0	16.8	18.8
EV/EBITDA (x)	32.6	32.1	26.8	20.5	18.6
EV/EBIT (x)	34.9	34.2	28.7	21.6	19.6

**INCOME STATEMENT (SGD m)**

Revenue	3,511.0	3,924.6	4,272.9	4,794.8	4,949.0
EBITDA	948.1	1,052.4	1,228.5	1,565.2	1,668.0
Depreciation	(62.8)	(64.6)	(79.6)	(81.1)	(82.6)
EBIT	885.3	987.8	1,148.9	1,484.1	1,585.4
Net interest income / (exp)	(399.7)	(382.2)	(435.0)	(470.7)	(475.1)
Associates & JV	902.6	969.9	608.9	580.0	591.6
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	422.4	451.1	399.0	0.0	0.0
Pretax profit	1,810.7	2,026.6	1,721.8	1,593.4	1,701.9
Income tax	(205.1)	(266.9)	(228.4)	(304.0)	(333.1)
Minorities	(765.3)	(598.8)	(500.0)	(515.0)	(530.5)
Reported net profit	840.2	1,160.8	993.3	774.4	838.4
Core net profit	840.2	1,160.8	993.3	774.4	838.4

**BALANCE SHEET (SGD m)**

Cash & Short Term Investments	6,306.3	2,749.4	3,140.8	4,069.5	5,244.0
Accounts receivable	1,167.4	963.4	1,330.0	1,330.0	1,330.0
Inventory	7,469.4	7,865.1	7,645.7	7,106.2	6,387.9
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	666.4	1,047.4	1,067.8	1,086.6	1,104.0
Intangible assets	467.0	463.0	463.0	463.0	463.0
Investment in Associates & JVs	12,673.2	12,780.9	12,922.3	13,009.3	13,098.0
Other assets	16,313.3	18,244.4	19,782.3	19,782.3	19,782.3
<b>Total assets</b>	<b>45,063.1</b>	<b>44,113.5</b>	<b>46,351.7</b>	<b>46,846.9</b>	<b>47,409.2</b>
ST interest bearing debt	1,279.9	3,469.2	3,000.0	3,000.0	3,000.0
Accounts payable	2,889.4	3,069.9	3,987.0	3,987.0	3,987.0
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	14,656.3	12,516.7	13,500.0	13,500.0	13,500.0
Other liabilities	1,783.0	1,849.0	2,344.0	2,344.0	2,344.0
<b>Total Liabilities</b>	<b>20,608.3</b>	<b>20,905.0</b>	<b>22,831.0</b>	<b>22,831.0</b>	<b>22,831.0</b>
Shareholders Equity	16,108.9	16,758.0	16,970.2	17,362.4	17,818.6
Minority Interest	8,345.9	6,450.5	6,550.5	6,653.5	6,759.6
<b>Total shareholder equity</b>	<b>24,454.8</b>	<b>23,208.5</b>	<b>23,520.7</b>	<b>24,015.9</b>	<b>24,578.2</b>
<b>Total liabilities and equity</b>	<b>45,063.1</b>	<b>44,113.5</b>	<b>46,351.7</b>	<b>46,846.9</b>	<b>47,409.2</b>

**CASH FLOW (SGD m)**

Pretax profit	1,810.7	2,026.6	1,721.8	1,593.4	1,701.9
Adj net interest (income)/exp	399.7	382.2	435.0	470.7	475.1
Change in working capital	(53.7)	51.9	975.6	539.4	718.3
Cash taxes paid	(222.6)	(256.2)	(228.4)	(304.0)	(333.1)
Other operating cash flow	(612.9)	(747.2)	(779.5)	(276.0)	(258.5)
Cash flow from operations	956.2	998.7	1,975.6	1,800.6	2,053.2
Capex	(76.6)	(126.6)	(100.0)	(100.0)	(100.0)
Free cash flow	1,402.3	1,312.7	2,343.1	2,193.6	2,456.1
Dividends paid	(298.0)	(340.6)	(382.2)	(382.2)	(382.2)
Equity raised / (purchased)	(15.0)	1.4	0.0	0.0	0.0
Change in Debt	392.3	32.4	514.2	0.0	0.0
Other invest/financing cash flow	(473.1)	(4,067.0)	(835.0)	(882.7)	(899.5)
Effect of exch rate changes	15.1	29.4	0.0	0.0	0.0
Net cash flow	456.9	(3,611.9)	391.4	928.8	1,174.5

FYE 31 Dec	FY13A	FY14A	FY15E	FY16E	FY17E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	6.4	11.8	8.9	12.2	3.2
EBITDA growth	(25.0)	11.0	16.7	27.4	6.6
EBIT growth	(27.4)	11.6	16.3	29.2	6.8
Pretax growth	19.2	11.9	(15.0)	(7.5)	6.8
Reported net profit growth	(9.7)	38.2	(14.4)	(22.0)	8.3
Core net profit growth	47.7	38.2	(14.4)	(22.0)	8.3
<b>Profitability ratios (%)</b>					
EBITDA margin	27.0	26.8	28.8	32.6	33.7
EBIT margin	25.2	25.2	26.9	31.0	32.0
Pretax profit margin	51.6	51.6	40.3	33.2	34.4
Payout ratio	40.6	33.0	38.5	49.3	45.6
<b>DuPont analysis</b>					
Net profit margin (%)	23.9	29.6	23.2	16.2	16.9
Revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	2.8	2.6	2.7	2.7	2.7
ROAE (%)	5.4	7.1	5.9	4.5	4.8
ROAA (%)	2.0	2.6	2.2	1.7	1.8
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	na	na	na	na	na
Days receivable outstanding	146.3	97.7	96.6	99.9	96.7
Days inventory outstanding	na	na	na	na	na
Days payables outstanding	na	na	na	na	na
Dividend cover (x)	2.5	3.0	2.6	2.0	2.2
Current ratio (x)	3.3	1.7	1.6	1.6	1.7
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.2	2.1	2.0	2.1	2.1
Net debt/equity (%)	59.8	79.0	78.7	71.6	63.2
Net interest cover (x)	2.2	2.6	2.6	3.2	3.3
Debt/EBITDA (x)	16.8	15.2	13.4	10.5	9.9
Capex/revenue (%)	2.2	3.2	2.3	2.1	2.0
Net debt/ (net cash)	9,629.8	13,236.4	13,359.2	12,430.5	11,256.0

Source: Company; Maybank



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