

Singapore Company Guide

CapitaLand

Edition 1 Version 1 | Bloomberg: CAPL SP | Reuters: CATL.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

5 Nov 2015

BUY

Last Traded Price: S\$3.21 (STI : 3,040.48)

Price Target : S\$3.73 (16% upside)

Potential Catalyst: Asset Recycling, strong operating results

Where we differ: Different estimates of % completion

Analyst

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Price Relative



Forecasts and Valuation

FY Dec (S\$m)	2014A	2015F	2016F	2017F
Revenue	3,925	3,728	4,187	5,363
EBITDA	2,444	1,662	1,763	2,044
Pre-tax Profit	1,997	1,161	1,238	1,498
Net Profit	1,161	714	762	921
Net Pft (Pre Ex.)	1,161	714	762	921
EPS (S cts)	27.3	16.8	17.9	21.6
EPS Pre Ex. (S cts)	27.3	16.8	17.9	21.6
EPS Gth (%)	33	(38)	7	21
EPS Gth Pre Ex (%)	33	(38)	7	21
Diluted EPS (S cts)	36.9	16.8	17.9	21.6
Net DPS (S cts)	9.00	8.00	8.00	8.00
BV Per Share (S cts)	394	401	411	425
PE (X)	11.8	19.1	17.9	14.8
PE Pre Ex. (X)	11.8	19.1	17.9	14.8
P/Cash Flow (X)	13.7	28.1	32.0	8.9
EV/EBITDA (X)	13.6	20.5	19.8	17.0
Net Div Yield (%)	2.8	2.5	2.5	2.5
P/Book Value (X)	0.8	0.8	0.8	0.8
Net Debt/Equity (X)	0.6	0.6	0.6	0.6
ROAE (%)	7.1	4.2	4.4	5.2

Earnings Rev (%) :	-	-	-
Consensus EPS (S cts) :	15.6	17.7	19.5
Other Broker Recs:	B: 19	S: 0	H: 3

Source of all data: Company, DBS Bank, Bloomberg Finance L.P

Towards An Optimal Mix

Driven by an improved outlook in China. We maintain our BUY call with a target price of S\$3.73 based on a 25% discount to our RNAV. We believe that CAPL offers value, trading at an attractive 0.8x P/Bk and 0.6x P/RNAV. We expect the group's strategy to focus on growing its commercial portfolio, and coupled with opportunistic asset recycling of mature assets into its listed REITs/funds will present upside to our earnings.

Growing recurring revenues from its retail malls portfolio and Ascott.

Its current property portfolio has up to 75% of its assets in retail malls, and commercial integrated developments, including Ascott Group, which offer strong income visibility in the medium term. We see improved operating performance for its malls, as the properties reach maturity, boosted by the completion of four Raffles City mega developments in China in the medium term.

Launch of new PE funds to boost returns.

Leveraging on its fund management expertise, CAPL aims to launch 5-6 private equity funds with funds under management of S\$8bn-10bn by 2020. We think that by tapping on third party capital, CAPL would be able to leverage on its larger scale to achieve better economies of scale, capitalise on market opportunities and at the same time de-risk its property level exposure.

Valuation:

Our target price of S\$3.73 is based on a 25% discount to our RNAV of S\$4.97/share. Our RNAV is based on our estimates of the market valuation of its various property developments and investment property assets across its various divisions.

Key Risks to Our View:

Slowdown in Asian economies. The risk to our view is if there is a slowdown in Asian economies, especially China, which could dampen demand for housing and private consumption expenditure and retail sales.

At A Glance

Issued Capital (m shrs)	4,248
Mkt. Cap (S\$m/US\$m)	13,636 / 9,719
Major Shareholders	
Temasek Holdings Pte Ltd (%)	39.6
Blackrock (%)	6.0
Free Float (%)	54.4
3m Avg. Daily Val (US\$m)	30.1
ICB Industry : Real Estate / Real Estate	

3Q15 results review.

- Capitaland (CAPL)'s 3Q15 PATMI of S\$192.7m (+48% y-o-y) was in line with expectations. This was on the back of a 17% y-o-y rise in revenues mainly from CapitaLand China (CLC), which was attributable to (i) higher number of units handed over to buyers in 3Q15 as well as consolidation of CapitaLand township as it ceased being an associate, and (ii) higher revenues from its rental malls and Ascott Limited. This more than offset lower revenues from Singapore and Vietnam as sales slowed.
- Operating PATMI rose 26% y-o-y to S\$163.0m; 9M15 operating PATMI was up 36% to S\$ 574.3m. This was driven mainly by gains from The Paragon (Tower 5 and 6) and Raffles City Changning (Tower 3) due to a change in accounting treatment for investment properties.

Operating segments Review**CL Singapore: Continues to de-risk**

- 3Q15 CL Singapore sold 45 residential units (9M15 sales amounted to 151 units, valued at S\$412m (YTD Sept'15>, 237 units at S\$444m).
- 3Q15 revenues was lower due to contributions from Sky Habitat and Bedok Residences tapering off after the projects achieved TOP.

CL China – strong sales momentum

- CL China sold 2,422 units with sales value of Rmb 3.8bn in 3Q15 (3Q14: 1,057 units, Rmb 1.6bn). In 9M15, CAPL sold 6,492 units with a value of Rmb11.6bn (9M14: 3,288 units, Rmb4.3bn).
- Better operating results across all regions with significant contributors being The Paragon, Lotus Mansion in Shanghai, Dolce Vita in Guangzhou, Riverfront in

Hangzhou, The Metropolis in Kunshan, La Botanica In Xian and ONE iPARK in Shenzhen.

- The group handed over 1,596 units to home buyers (3Q14: 951 units), mainly for phases at Dolce Vita and Vista garden.
- CAPL acquired its first land plot with a potential GFA of 97,649sqm in Guangzhou (waterfront site located in Liwan district) and is expected to start construction by the end of the year. The first phase of the project consisting of 922 units is expected to be launch ready in 4Q16. The first plot is part of an enlarged plot of sites totaling 115,095 sqm, for which a price of Rmb2,040m has been agreed.

Shopping Malls – stable returns

- For 9M15, same-mall NPI growth in Singapore and China remain healthy a 1.8% and 8.8% respectively. This is on the back of a 1.1% and 9.5% y-o-y growth in tenant sales.
- In China, tenant sales growth was at a healthy range of 7.4%-9.3% portfolio wide, with malls in Tier 1 cities enjoying higher growth rates. 9M15 yield on cost for its China portfolio was 7.5%.
- Two malls in 2015 - CapitaMall 1818 opened with occupancy rate of 81%, while CapitaMall SKY+ is expected to open in Dec-15, and has achieved occupancy rate of c.83%.

Ascott Group – Medium term target intact

- In 3Q15, Ascott secured contracts to manage four properties in Vietnam, Malaysia, Indonesia and South Korea. This increased Ascott's portfolio to more than 41,000 units.
- Portfolio RevPAR rose 4% y-o-y mainly driven by a portfolio wide improvement in operational performance.

Segment breakdown (Revenues)

Segments	3QFY15 S\$m	3QFY14 S\$m	% Chg	Remarks
CL Singapore	261.3	358.8	-27.2%	Lack of contributions from Sky Habitat and Bedok residences, which had achieved TOP in 2Q15
CL China	437.3	170.0	>100%	Higher number of residential developments handed over to buyers
CMA	155.1	173.6	-10.7%	Drop mainly due to lower revenues from Bedok Residences
Ascott	196.3	179	9.6%	Contributed by an enlarged portfolio
Others	26.0	37.5	-30.7%	-
Revenue	1075.9	918.9	17.1%	

CRITICAL DATA POINTS TO WATCH5

Earnings Drivers:

Growing recurring revenues from its retail malls

portfolio and Ascott. While trading properties (residential development and strata offices) comprise 25% of assets, we see continued strength from CAPL's retail malls division (CapitaMalls Asia) and commercial integrated developments, including Ascott Group and its successful serviced residence brand, which forms a significant 75% of total assets and is expected to contribute to growing recurring income for the group.

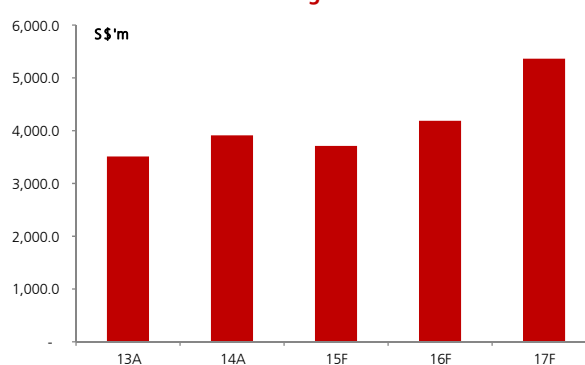
Looking ahead, **CapitaMalls Asia** continues to perform steadily. There are 88 operating properties across Asia (54 of it in China). As of Sep-15, the group's shopping malls continue to see healthy sales and occupancy. Shopper traffic at its malls in Singapore and China rose 4.1% and 9.2% y-o-y in 9M15 respectively. Looking ahead, CAPL is expected to open another 17 properties (10 in China) in the coming years.

In addition, **Raffles City integrated developments** in China will continue to offer stable returns (7-8% for stabilised properties in Shanghai and Beijing, c.3% for stabilising properties in Chengdu and Ningbo). Looking ahead, the group will be opening 4 more Raffles City developments in 2015-2018, which will boost the group's returns and profitability when completed.

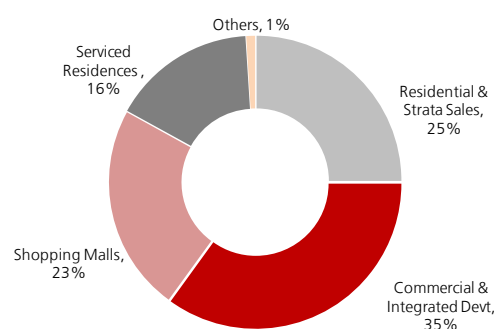
The Ascott Limited remains on the fast track to achieve its 80,000 units target by year 2020. Ascott recently invested over S\$120m in China's largest and fastest growing online apartment sharing platform, Tujia which we believe enables the group to extract synergies and leverage on Tujia's platform to reach out to a wider addressable market. The group also recently launched a US\$600m joint venture fund with Qatar Investment Authority to invest in value-added opportunities globally. This fund, when fully vested, will offer its REIT, Ascott Residence Trust (ART) a viable acquisition pipeline in the medium term.

Launch of new PE funds. Leveraging on its fund management expertise, CAPL aims to launch 5-6 private equity funds with funds under management of S\$8-10bn by 2020. We think that by tapping on third party capital, CAPL would be able to leverage on larger economies of scale, better capitalise on market opportunities and at the same time de-risk its property level exposure. This strategy will be able to deliver medium term shareholder ROE of 8-12%.

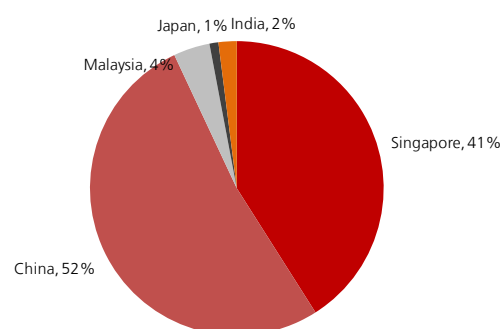
Revenue growth



% Breakdown of assets by segments



Breakdown of Mall portfolio (% by country)



RNAV breakdown

Segments	S\$m
Value of CapitaLand Singapore	7,141.1
Value of CapitaLand China	10,871.3
CapitaMalls Asia	17,303.4
Ascott	4,222.9
Others	846.8
GDV of CAPL Group	40,385.5
Less: Net Debt	(11,552.3)
Less: devt capex	(7,775.8)
RNAV of CAPL	21,177.5
Total Shares	4,247.6
RNAV per share	4.97
Discount to RNAV	25%
Target price	3.73

Source: Company, DBS Bank

CapitaLand

Balance Sheet:

Balance sheet remains strong. We forecast debt/equity ratio to remain stable at c.0.7x over the coming years (0.51x as of end-3Q15). Debt maturity profile remains long at 3.3 years (as of 3Q15) with an average cost of 3.5%. Close to 75% of the interest cost is hedged into fixed rate debt.

Share Price Drivers:

De-risking its Singapore residential exposure/ replenishing landbank. CAPL has been actively de-risking its Singapore residential exposure through active marketing of its unsold units, which as of 3Q15, stands at S\$2.7bn in value. This is only c. 3% of its total asset value, and is not likely to have a major impact on earnings. Looking ahead, while the group has not been an active investor in Singapore’s residential market, winning any new land tenders will imply improved confidence in the outlook for Singapore’s residential market in the medium term.

Relaxation of government policies. Expectations of policy relaxation (especially cyclical measures like the Buyers’ and Sellers’ stamp duties) may improve buyers’ market sentiment and spark a revival in transactional volumes in the Singapore residential market. This is also expected to lift sentiment on property stocks, which we believe will enable CAPL to close the gap between stock price and its NAV.

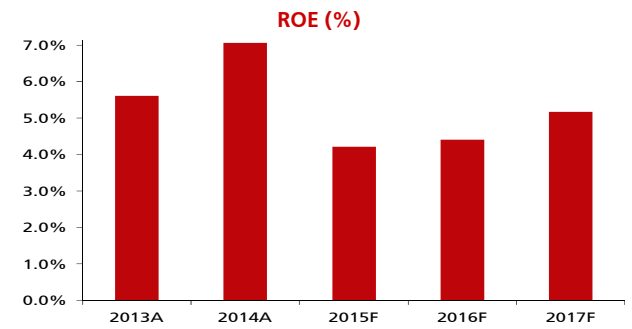
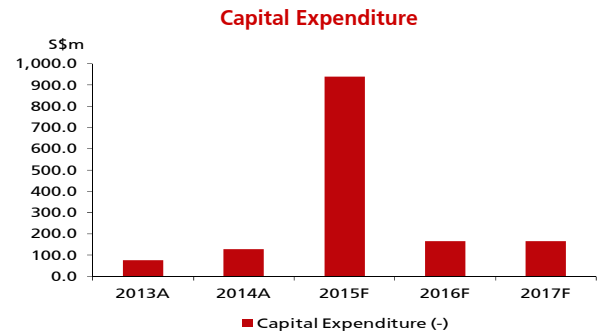
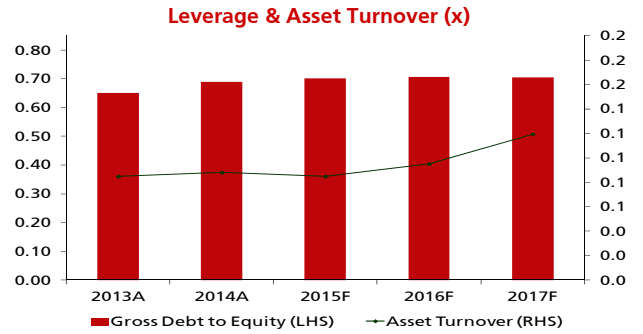
Asset recycling into listed S-REITs CAPL will continue to demonstrate its ability to crystallise value through strategic divestments of mature assets to its listed REITs, which are market leaders in their respective subsectors of retail, office and hospitality. The ability to recycle capital efficiently will enable the group to free up capital, improve its balance sheet position and deploy capital to projects with higher returns.

Key Risks:

Slowdown in Asian economies. The risk to our view is a slowdown in Asian economies which could dampen demand for housing and private consumption expenditure and retail sales. This in turn could result in slower-than-expected projections.

Company Background

CapitaLand is one of Asia’s largest real estate companies headquartered and listed in Singapore. Its two core markets are Singapore and China, while Indonesia, Malaysia and Vietnam have been identified as new growth markets.



Source: Company, DBS Bank

Segmental Breakdown

FY Dec	2013A	2014A	2015F	2016F	2017F
Revenues (S\$m)					
CapitaLand Singapore	1,237	1,242	1,002	1,021	1,213
CapitaLand China	899	638	1,140	1,452	2,227
CMA	641	1,178	761	842	999
Ascott	635	683	681	725	775
Others	99.0	185	144	147	149
Total	3,511	3,925	3,728	4,187	5,363

Driven by locked-in sales from China and

Retail Malls, Ascott to deliver consistent returns

Income Statement (S\$m)

FY Dec	2013A	2014A	2015F	2016F	2017F
Revenue	3,511	3,925	3,728	4,187	5,363
Cost of Goods Sold	(2,274)	(2,543)	(1,761)	(2,093)	(2,962)
Gross Profit	1,237	1,382	1,967	2,095	2,401
Other Opng (Exp)/Inc	72.5	27.7	(539)	(566)	(594)
Operating Profit	1,310	1,410	1,428	1,529	1,807
Other Non Opg (Exp)/Inc	0.0	0.0	0.48	0.48	0.48
Associates & JV Inc	903	970	168	169	171
Net Interest (Exp)/Inc	(402)	(382)	(436)	(460)	(481)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	1,811	1,997	1,161	1,238	1,498
Tax	(205)	(238)	(209)	(223)	(270)
Minority Interest	(731)	(599)	(238)	(254)	(307)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	875	1,161	714	762	921
Net Profit before Except.	875	1,161	714	762	921
EBITDA	2,275	2,444	1,662	1,763	2,044
Growth					
Revenue Gth (%)	6.4	11.8	(5.0)	12.3	28.1
EBITDA Gth (%)	25.3	7.4	(32.0)	6.1	15.9
Opg Profit Gth (%)	40.3	7.6	1.3	7.0	18.2
Net Profit Gth (Pre-ex) (%)	12.8	32.7	(38.5)	6.6	21.0
Margins & Ratio					
Gross Margins (%)	35.2	35.2	52.8	50.0	44.8
Opg Profit Margin (%)	37.3	35.9	38.3	36.5	33.7
Net Profit Margin (%)	24.9	29.6	19.2	18.2	17.2
ROAE (%)	5.6	7.1	4.2	4.4	5.2
ROA (%)	2.1	2.6	1.6	1.7	2.1
ROCE (%)	3.0	3.0	2.9	3.0	3.4
Div Payout Ratio (%)	39.0	33.0	47.7	44.7	37.0
Net Interest Cover (x)	3.3	3.7	3.3	3.3	3.8

Source: Company, DBS Bank

Quarterly / Interim Income Statement (\$\$m)

FY Dec	2Q2014	3Q2014	4Q2014	1Q2015	2Q2015
Revenue	875	919	1,518	915	1,031
Cost of Goods Sold	(574)	(610)	(1,080)	(553)	(637)
Gross Profit	301	309	438	362	394
Other Oper. (Exp)/Inc	(98.7)	(91.6)	(173)	(116)	(88.0)
Operating Profit	202	218	265	245	306
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	375	124	331	126	236
Net Interest (Exp)/Inc	(93.7)	(96.5)	(97.6)	(107)	(112)
Exceptional Gain/(Loss)	208	0.0	248	0.0	322
Pre-tax Profit	692	245	747	263	753
Tax	(62.9)	(47.5)	(104)	(50.6)	(144)
Minority Interest	(190)	(67.6)	(227)	(51.6)	(146)
Net Profit	439	130	416	161	464
Net profit bef Except.	230	130	168	161	142
EBITDA	577	342	596	371	543

Growth

Revenue Gth (%)	42.9	5.0	65.2	(39.7)	12.7
EBITDA Gth (%)	38.2	(40.8)	74.6	(37.8)	46.3
Opg Profit Gth (%)	(22.7)	7.5	21.9	(7.6)	24.9
Net Profit Gth (Pre-ex) (%)	105.7	(43.6)	29.1	(3.9)	(12.2)

Margins

Gross Margins (%)	34.4	33.7	28.9	39.5	38.2
Opg Profit Margins (%)	23.1	23.7	17.5	26.8	29.7
Net Profit Margins (%)	50.1	14.1	27.4	17.6	45.0

Balance Sheet (\$\$m)

FY Dec	2013A	2014A	2015F	2016F	2017F
Net Fixed Assets	666	1,047	1,922	2,021	2,121
Invt in Associates & JVs	12,673	12,781	13,040	13,300	13,561
Other LT Assets	16,583	18,705	18,430	18,930	19,430
Cash & ST Invt	6,393	2,941	2,489	2,201	3,017
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	1,167	963	909	1,021	1,308
Other Current Assets	7,579	7,676	7,043	6,830	6,093
Total Assets	45,063	44,113	43,833	44,304	45,529
ST Debt	1,280	3,469	3,469	3,469	3,469
Creditor	2,889	3,070	1,956	1,292	1,130
Other Current Liab	478	463	527	606	733
LT Debt	14,656	12,517	13,017	13,517	14,017
Other LT Liabilities	1,305	1,386	1,386	1,386	1,386
Shareholder's Equity	16,109	16,758	17,089	17,510	18,090
Minority Interests	8,346	6,451	6,389	6,524	6,704
Total Cap. & Liab.	45,063	44,113	43,833	44,304	45,529
Non-Cash Wkg. Capital	5,379	5,107	5,469	5,954	5,538
Net Cash/(Debt)	(9,543)	(13,045)	(13,997)	(14,785)	(14,469)
Debtors Turn (avg days)	137.9	99.1	91.7	84.1	79.3
Creditors Turn (avg days)	433.2	438.9	541.0	292.3	152.6
Inventory Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Asset Turnover (x)	0.1	0.1	0.1	0.1	0.1
Current Ratio (x)	3.3	1.7	1.8	1.9	2.0
Quick Ratio (x)	1.6	0.6	0.6	0.6	0.8
Net Debt/Equity (X)	0.4	0.6	0.6	0.6	0.6
Net Debt/Equity ex MI (X)	0.6	0.8	0.8	0.8	0.8
Capex to Debt (%)	0.5	0.8	5.7	1.0	0.9
Z-Score (X)	1.2	1.1	1.0	1.1	1.1

Gearing to remain stable

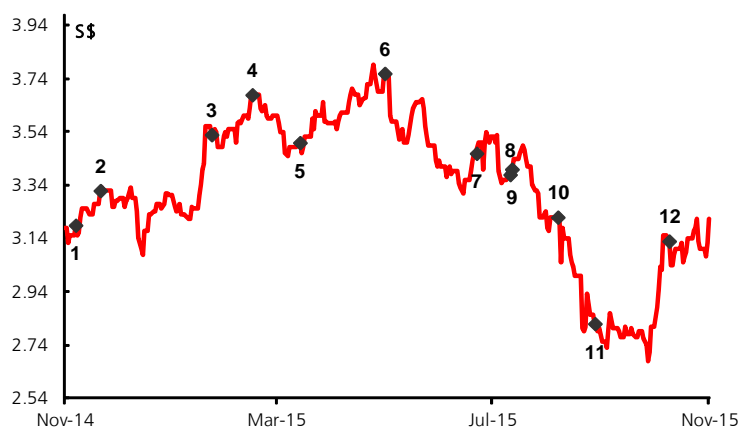
Source: Company, DBS Bank

Cash Flow Statement (\$m)

FY Dec	2013A	2014A	2015F	2016F	2017F
Pre-Tax Profit	1,811	1,997	1,161	1,238	1,498
Dep. & Amort.	62.8	64.6	65.0	65.0	65.0
Tax Paid	(223)	(256)	(145)	(144)	(143)
Assoc. & JV Inc/(loss)	(903)	(970)	(168)	(169)	(171)
Chg in Wkg.Cap.	(53.7)	51.9	(427)	(564)	289
Other Operating CF	262	111	0.0	0.0	0.0
Net Operating CF	956	999	487	427	1,538
Capital Exp.(net)	(76.6)	(127)	(939)	(164)	(164)
Other Invt.(net)	(190)	(1,357)	275	(500)	(500)
Invt in Assoc. & JV	57.0	841	(150)	(150)	(150)
Div from Assoc & JV	439	406	58.9	59.0	59.9
Other Investing CF	141	(102)	0.0	0.0	0.0
Net Investing CF	370	(339)	(756)	(755)	(755)
Div Paid	(688)	(705)	(683)	(460)	(468)
Chg in Gross Debt	280	177	500	500	500
Capital Issues	1.64	1.38	0.0	0.0	0.0
Other Financing CF	(464)	(3,746)	0.0	0.0	0.0
Net Financing CF	(869)	(4,272)	(183)	40.3	32.4
Currency Adjustments	352	55.0	0.0	0.0	0.0
Chg in Cash	809	(3,557)	(452)	(288)	816
Opg CFPS (\$ cts)	23.8	22.2	21.4	23.3	29.3
Free CFPS (\$ cts)	20.7	20.5	(10.6)	6.17	32.3

Source: Company, DBS Bank

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date	Closing Price	Target Price	Rating
1:	10 Nov 14	3.19	3.84	BUY
2:	24 Nov 14	3.32	3.84	BUY
3:	26 Jan 15	3.53	3.84	BUY
4:	18 Feb 15	3.68	3.88	BUY
5:	17 Mar 15	3.50	3.88	BUY
6:	04 May 15	3.76	4.11	BUY
7:	25 Jun 15	3.46	4.11	BUY
8:	14 Jul 15	3.38	4.11	BUY
9:	15 Jul 15	3.40	4.11	BUY
10:	10 Aug 15	3.22	4.11	BUY
11:	31 Aug 15	2.82	3.73	BUY
12:	12 Oct 15	3.13	3.73	BUY

Source: DBS Bank

DBS Bank recommendations are based on Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

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