

CapitaLand (CAPL SP)

Property - Real Estate

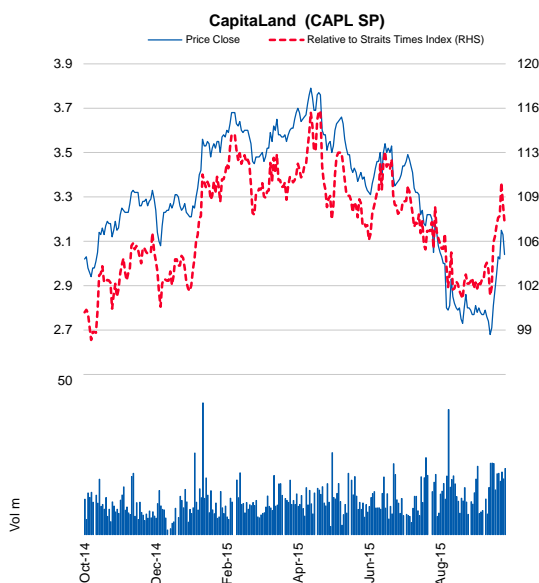
Market Cap: USD9,222m

Buy (Maintained)

 Target Price: **SGD4.22**

 Price: **SGD3.04**

Preferred Bidder For Asia Square Tower One

 Macro
 Risks
 Growth
 Value


Source: Bloomberg

Avg Turnover (SGD/USD)	38.4m/27.4m				
Cons. Upside (%)	31.3				
Upside (%)	38.8				
52-wk Price low/high (SGD)	2.68 - 3.79				
Free float (%)	60				
Share outstanding (m)	4,248				
Shareholders (%)					
Temasek Holdings Pte Ltd	39.5				
Blackrock	6.0				
Vanguard PLC	1.0				
Share Performance (%)					
	YTD	1m	3m	6m	12m
Absolute	(8.2)	8.6	(9.8)	(15.8)	0.3
Relative	3.1	5.2	0.1	(1.5)	7.1

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In this report we conducted a sensitivity analysis on CapitaLand's TP to the purchase price of its impending Asia Square Tower One acquisition. **Maintain BUY and SGD4.22 TP (39% upside). We think at the purported price of SGD3.5bn-4.2bn, valuations appear tight and this could impact our TP in the -0.9% to 0.7% range. This is predicated on a 50% stake in the building and a fully debt-funded acquisition.**

- ◆ **Largest Singapore office transaction.** A consortium of Norway's sovereign wealth fund (Norges Bank Investment Management) and CapitaLand was chosen as the preferred bidder for Asia Square Tower One. It is being sold by BlackRock Inc in what could become the biggest office deal in the city state. It beats ARA Asset Management (ARA SP, NR), which also submitted a final bid for the building. The previous weighty office transaction was Keppel Land's 2011 sale of a 99.9% stake in Ocean Financial Centre at SGD2.3bn to Keppel REIT (KREIT SP, SELL, TP: SGD0.86). The bidding group is to start exclusive talks with BlackRock and could reach an agreement next month.
- ◆ **Tight valuations.** Market talk has tagged the building at SGD3.5bn-4.2bn, which translates to ~SGD2,800-3,400 psf. The 43-storey tower has 1.2m sq ft of offices and about 40,000 sq ft of retail space. In our sensitivity analysis, we expect the sale to be concluded by year-end and have assumed a 50-50% joint-venture (JV) stake on the asset with a terminal cap rate of 4%. We expect the acquisition to be fully debt-funded. Our conservative fair value on the asset stands at SGD3.7bn, with an average passing rent of SGD14 psf/month in 2015.
- ◆ **Financial impact.** We think valuations are tight at the SGD3.5bn-4.2bn asking price range. Our sensitivity analysis indicated a modest TP impact of 0.7% to -0.9% (see Figure 1) and net gearing to increase to 60-61% from 53% in 2Q15. We have not factored this into our model, pending the final purchase announcement and the possibility of equity fund-raising. We think CapitaLand can potentially inject this asset into CapitaLand Commercial Trust (CCT SP, SELL, TP: SGD1.15) further downstream. CapitaLand Commercial Trust had a SGD2.2bn debt headroom as of 2Q15 before it hits the 45% gearing threshold. However, it still needs an estimated additional SGD940m-1,009m to acquire the remaining 60% stake in CapitaGreen from CapitaLand and Mitsubishi Estate Co Ltd (8802 JP, NR) before its call option expires by 2017. Reiterate BUY on CapitaLand with an unchanged SGD4.22 TP for now.

Forecasts and Valuations	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover (SGDm)	3,511	3,925	3,879	4,098	4,024
Reported net profit (SGDm)	806	1,132	810	955	1,108
Recurring net profit (SGDm)	806	1,132	810	955	1,108
Recurring net profit growth (%)	(13.3)	40.3	(28.4)	17.9	16.0
Recurring EPS (SGD)	0.19	0.27	0.19	0.22	0.26
Recurring P/E (x)	16.1	11.4	16.0	13.6	11.7
P/B (x)	0.80	0.77	0.75	0.72	0.68
Return on average equity (%)	5.2	6.9	4.8	5.4	6.0
Return on average assets (%)	1.9	2.5	1.9	2.3	2.7
Net debt to equity (%)	39.4	57.0	41.6	27.0	25.9

Asia Square Tower One has offices on levels 6-43 and retail space on levels 1-2. Car parking lots are on levels 3-5. Citigroup (C US, NR), Julius Baer (BAER VX, NR), Google (GOOG US, NR) and Marsh Singapore Pte Ltd were among the initial tenants in Tower One. Market watchers suggest that, while the initial mandate given by BlackRock is for the sale of Tower One, the group is also open to divesting the rest of the space it owns in the Asia Square development. This is about 750,000 sq ft of offices and 30,000 sq ft of retail space in Tower Two. Based on the same SGD2,800-3,400 psf pricing, BlackRock's Tower Two space would be worth SGD2.2bn-2.6bn. Asia Square Tower Two also houses The Westin Singapore, which sits on levels 32 and upwards of the 46-storey building. In late 2013, BlackRock sold the hotel to Japan's Daisho Group for SGD468m or SGD1.5m per room. Offices fill levels 6-31 of Asia Square Tower Two, while the first two levels have retail spaces.

In Tower One, Google is expected to give up the 130,000 sq ft it occupies under a lease that expires in late 2016. The tech giant is heading to Mapletree Business City II in the Pasir Panjang/Alexandra Terrace area. Another tenant, Lloyd's Asia, is vacating about 65,000 sq ft at Asia Square Tower One to move to CapitaGreen.

MGPA, which was acquired by BlackRock in 2013, developed Asia Square on two 99-year leasehold sites that it clinched at separate Urban Redevelopment Authority tenders in 2007.

Figure 1: Sensitivity analysis on Asia Square Tower One acquisition price to CapitaLand's TP

Asia Sq. Twr 1 Acquisition Price (SGDbn):	3.50	3.60	3.70	3.80	3.90	4.00	4.10	4.20
Target Price: (Base Price: SGD4.22)	4.25	4.24	4.23	4.22	4.21	4.20	4.19	4.18
% CHG:	0.7	0.5	0.2	0.0	(0.2)	(0.5)	(0.7)	(0.9)

Source: RHB

Figure 2: Debt headroom sensitivity for CapitaLand Commercial Trust

Agg. Lev Ratio:	29.5%	35.0%	45.0%
Debt Headroom:	0.0 m	648.2 m	2,161.8 m

Source: RHB

Figure 3: CapitaLand's RNAV breakdown

Properties	RNAV (SGDm)
Market value of Singapore investment properties	1,187.7
Market value of China/HK investment properties	1,638.6
GDV of CMA	17,184.8
GDV of TAL	3,914.4
NPV of development profits	
Singapore	2,900.2
China	3,079.2
Others	187.6
	Stake
CCT	31.6%
ART	45.6%
Lai Fung	20.0%
Fund management business (15x FY15F P/E)	641.0
Other net assets (incl. net equity of devt properties and net debt)	(9,435.6)
RNAV (SGDm)	24,033.8
No. of shares outstanding (m)	4,258.5
RNAV per share	\$5.64
Premium/(Discount)	-25%
Fair Value	\$4.22
Last Price:	\$3.04
Upside:	38.8%

Note: We have not factored the Asia Square Tower One acquisition into our model, pending the final purchase announcement and the possibility of equity fund-raising (EFR).

Source: RHB, Company data

Financial Exhibits

Profit & Loss (SGDm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover	3,511	3,925	3,879	4,098	4,024
Cost of sales	(2,274)	(2,543)	(2,512)	(2,654)	(2,606)
Gross profit	1,237	1,382	1,367	1,444	1,418
Other operating costs	119	85	129	259	538
Operating profit	1,356	1,467	1,496	1,703	1,956
Operating EBITDA	1,419	1,532	1,597	1,806	2,060
Depreciation of fixed assets	(63)	(65)	(102)	(103)	(104)
Operating EBIT	1,356	1,467	1,496	1,703	1,956
Net income from investments	903	970	284	302	258
Interest income	-	-	50	46	42
Interest expense	(482)	(439)	(450)	(403)	(341)
Pre-tax profit	1,777	1,997	1,381	1,649	1,916
Taxation	(205)	(267)	(242)	(215)	(253)
Minority interests	(765)	(599)	(329)	(479)	(555)
Profit after tax & minorities	806	1,132	810	955	1,108
Reported net profit	806	1,132	810	955	1,108
Recurring net profit	806	1,132	810	955	1,108

Source: Company data, RHB

Cash flow (SGDm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Operating profit	1,356	1,467	1,496	1,703	1,956
Depreciation & amortisation	63	65	102	103	104
Change in working capital	(54)	52	3	2,443	(1,058)
Other operating cash flow	(409)	(585)	(228)	(193)	(227)
Operating cash flow	956	999	1,373	4,056	774
Cash flow from operations	956	999	1,373	4,056	774
Capex	(475)	(1,046)	483	(11)	(11)
Other new investments	423	1,072	-	-	-
Other investing cash flow	422	(366)	564	593	509
Cash flow from investing activities	370	(339)	1,047	582	498
Dividends paid	(688)	(705)	(539)	(575)	(575)
Proceeds from issue of shares	2	1	-	-	-
Increase in debt	(183)	(3,568)	(3,906)	(2,851)	(2,760)
Other financing cash flow	(0)	0	-	-	-
Cash flow from financing activities	(869)	(4,272)	(4,445)	(3,426)	(3,335)
Cash at beginning of period	5,498	6,306	2,749	4,025	5,237
Total cash generated	457	(3,612)	(2,025)	1,212	(2,063)
Forex effects	352	55	3,300	-	(3,174)
Implied cash at end of period	6,306	2,749	4,025	5,237	-

Source: Company data, RHB

Financial Exhibits

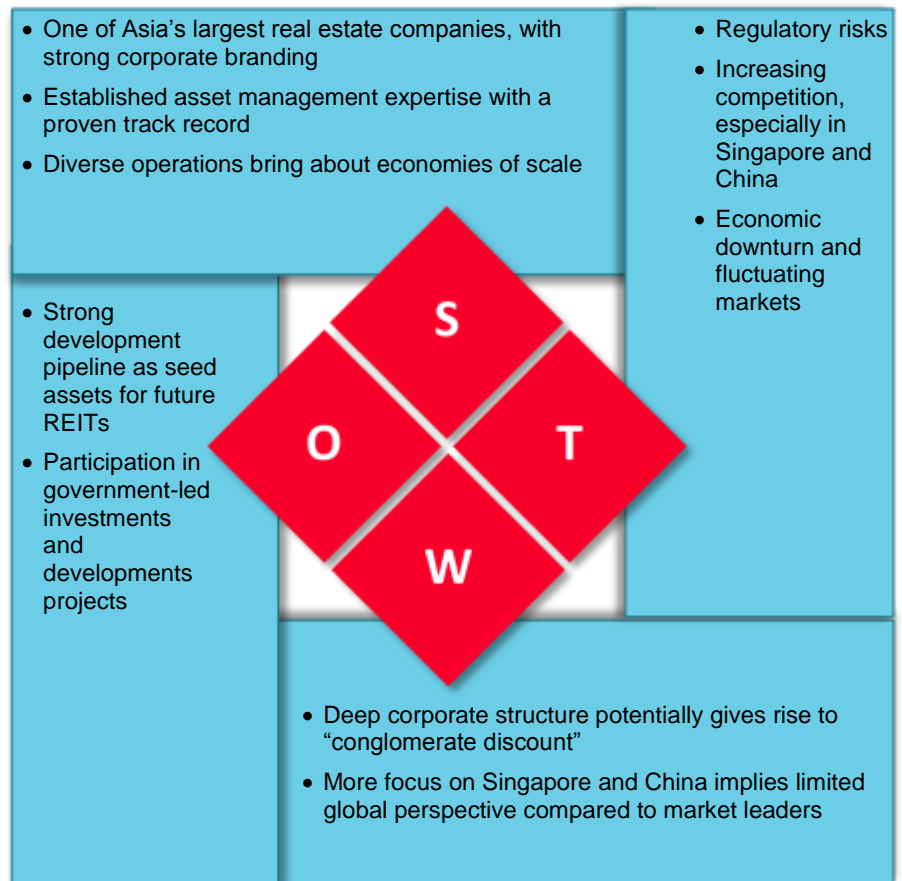
Balance Sheet (SGDm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total cash and equivalents	6,306	2,749	4,025	5,237	3,174
Inventories	1,451	1,157	2,162	1,327	2,110
Other current assets	7,382	7,674	4,390	3,453	2,950
Total current assets	15,140	11,580	10,576	10,016	8,234
Total investments	28,169	29,930	29,336	29,603	29,873
Tangible fixed assets	666	1,047	1,058	1,068	1,079
Total other assets	1,088	1,556	1,571	1,587	1,603
Total non-current assets	29,923	32,533	31,965	32,259	32,556
Total assets	45,063	44,113	42,542	42,275	40,790
Short-term debt	1,280	3,469	3,469	3,469	3,469
Accounts payable	2,889	3,070	2,729	3,397	2,619
Other current liabilities	478	463	463	463	463
Total current liabilities	4,647	7,002	6,661	7,330	6,551
Total long-term debt	14,656	12,517	10,517	8,517	6,517
Other liabilities	1,305	1,386	1,400	1,414	1,428
Total non-current liabilities	15,961	13,903	11,917	9,931	7,945
Total liabilities	20,608	20,905	18,578	17,260	14,496
Share capital	16,109	16,758	17,340	18,104	19,021
Shareholders' equity	16,109	16,758	17,340	18,104	19,021
Minority interests	8,346	6,451	6,624	6,910	7,273
Total equity	24,455	23,209	23,964	25,015	26,294
Total liabilities & equity	45,063	44,113	42,542	42,275	40,790

Source: Company data, RHB

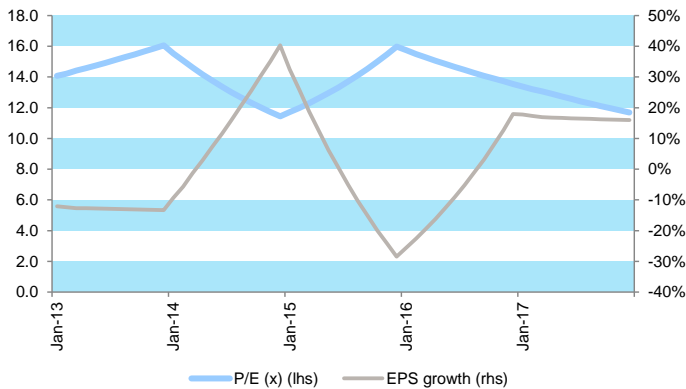
Key Ratios (SGD)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Revenue growth (%)	6.4	11.8	(1.2)	5.6	(1.8)
Operating profit growth (%)	14.7	8.2	2.0	13.9	14.9
Net profit growth (%)	(13.3)	40.3	(28.4)	17.9	16.0
EPS growth (%)	(13.3)	40.3	(28.4)	17.9	16.0
BVPS growth (%)	6.8	4.0	3.5	4.4	5.1
Operating margin (%)	38.6	37.4	38.6	41.6	48.6
Net profit margin (%)	23.0	28.8	20.9	23.3	27.5
Return on average assets (%)	1.9	2.5	1.9	2.3	2.7
Return on average equity (%)	5.2	6.9	4.8	5.4	6.0
Net debt to equity (%)	39.4	57.0	41.6	27.0	25.9
Recurrent cash flow per share	0.22	0.23	0.32	0.95	0.18

Source: Company data, RHB

SWOT Analysis

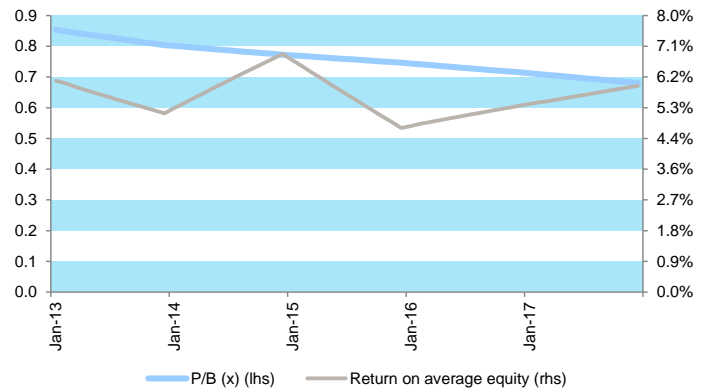


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE



Source: Company data, RHB

Company Profile

CapitaLand Ltd and its subsidiaries operate in residential and commercial properties, property fund management, and serviced residences. The company also manages other properties.

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2015-07-15	Buy	4.22	3.40
2015-05-04	Buy	4.20	3.76
2015-02-17	Buy	3.96	3.63
2014-11-10	Buy	3.54	3.19

Source: RHB, Bloomberg

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Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

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