

27 February 2020

Property | Real Estate

## CapitaLand (CAPL SP)

**Buy** (Maintained)

### Delivering On Its Targets; BUY

Target Price (Return): SGD4.20 (14%)  
 Price: SGD3.67  
 Market Cap: USD13,224m  
 Avg Daily Turnover (SGD/USD) 28.7m/21.0m

- **Maintain BUY and TP of SGD4.20, 14% upside plus c.4% yield.** FY19 core PATMI was in line with Street but slightly ahead of ours. Despite market challenges, CapitaLand achieved overall 2019 ROE of 10%, and remains confident of hitting its 8-12% pa target. While the COVID-19 outbreak poses near-term operational challenges, we believe it is well prepared to tide through with a well-diversified income stream and proactive management team. Our TP is based on a 20% discount to RNAV.
- **COVID-19 – operations improving after initial sharp fall.** In Singapore, shopper traffic has now returned to 95% of pre-crisis levels, while in China, mall footfall has rebounded by 40-50% from the trough. About 12 retail malls in China remain closed due to government measures. Management has rolled out various measures to support tenants in its malls, including rent rebates, increased marketing efforts and shorter operating hours to buffer the impact. We estimate c.SGD20-50m capital outlay for the above, and this is unlikely to have a significant impact on its bottomline.

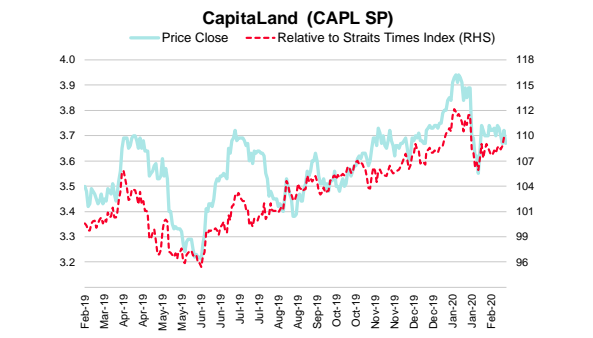
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(2.1)	(5.7)	0.5	8.6	4.9
Relative	(0.1)	(3.3)	2.1	5.6	8.1
52-wk Price low/high (SGD)				3.21	– 3.94



Source: Bloomberg

For lodging business, occupancy remains respectable at c.70% in Singapore and China Tier-1 cities as the corporate segment remains resilient. Residential sales (China) for February are expected to take a sharp hit due to the closure of show flats, but demand has since surged post recent reopening of some of its show flats.

- **Gearing lowered to 0.63x – ready to pounce on opportunities.** Aided by healthy revaluation gains and divestments, CapitaLand's gearing now stands healthy at 0.63x (0.56x excluding REITs & business trust) from 0.73x post Ascendas Singbridge acquisition. No changes in its 50:50 emerging and developed markets capital allocation strategy, with China and Singapore remaining its two large markets. In Singapore, a key area of focus is likely to be asset rejuvenation with plans underway for Liang Court, Bugis assets, and it is currently studying more such opportunities. We also expect the company to accelerate its investments in India and Vietnam.
- **Capital recycling and fund management remain key ROE drivers.** In FY19, CapitaLand divested c.SGD6bn in assets, double its annual target of SGD3bn, and recycling it into higher yielding assets. Asset recycling has also been one of the key ROE drivers lately with divestment gains/portfolio revaluation accounting for half of 2019 total PATMI. Fee income growth from fund management and lodging platform remains a key pillar with an estimated annual recurring fee income of c.SGD600m pa, and expected to account for c.30% of its core PATMI.
- **Acquisition of 100% stake in Arlington Business Park, UK** for GBP129.3m (SGD226.9m). The entry yield is in the mid 4%, with plans to improve it to 7% by increasing occupancy and rents.

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (SGDm)	5,602	6,235	6,649	6,959	7,110
Recurring net profit (SGDm)	957	1,057	1,082	1,139	1,203
Recurring net profit growth (%)	3.2	10.5	2.3	5.3	5.6
Recurring EPS (SGD)	0.23	0.21	0.21	0.23	0.24
DPS (SGD)	0.12	0.12	0.13	0.13	0.13
Recurring P/E (x)	16.08	17.49	17.09	16.24	15.37
P/B (x)	0.81	0.79	0.78	0.78	0.79
Dividend Yield (%)	3.3	3.3	3.5	3.5	3.5
Net debt to equity (%)	58.5	66.4	61.2	61.5	63.2

Source: Company data, RHB

## Financial Exhibits

Asia	Financial summary (SGD)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Singapore	Recurring EPS	0.23	0.21	0.21	0.23	0.24
Property	EPS	0.44	0.42	0.33	0.35	0.35
CapitaLand	DPS	0.12	0.12	0.13	0.13	0.13
CAPL SP	BVPS	4.52	4.64	4.72	4.73	4.67
Buy						
Valuation basis	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
RNAV methodology	Recurring P/E (x)	16.08	17.49	17.09	16.24	15.37
	P/B (x)	0.8	0.8	0.8	0.8	0.8
	Dividend Yield (%)	3.3	3.3	3.5	3.5	3.5
	EV/EBITDA (x)	-	0.13	0.10	0.36	0.29
Key drivers	Income statement (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
i. Synergies and contributions from ASB;	Total turnover	5,602	6,235	6,649	6,959	7,110
ii. Growing recurring income from fund management segment;	Gross profit	2,690	3,000	3,192	3,340	3,413
iii. Divestments and M&A.	EBITDA	3,250	4,197	3,557	3,516	3,535
	Depreciation and amortisation	(63)	(118)	(121)	(124)	(129)
	Operating profit	3,186	4,079	3,436	3,392	3,407
	Net interest	(553)	(839)	(913)	(929)	(971)
	Pre-tax profit	3,593	4,228	3,557	3,539	3,555
	Taxation	(659)	(815)	(973)	(887)	(887)
	Reported net profit	1,847	2,136	1,667	1,740	1,769
	Recurring net profit	957	1,057	1,082	1,139	1,203
Key risks	Cash flow (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
i. Global markets entering recession;	Change in working capital	(1,414)	11	(30)	(20)	106
ii. Investors ascribing higher holding company discount;	Cash flow from operations	553	2,246	2,398	2,399	2,580
iii. Rising interest rates impacting real estate segment.	Capex	(729)	85	(830)	(830)	(850)
	Cash flow from investing activities	(1,356)	(359)	(548)	(534)	(537)
	Dividends paid	(1,248)	(1,345)	(930)	(928)	(924)
	Cash flow from financing activities	(217)	(766)	(1,685)	(1,518)	(2,060)
	Cash at beginning of period	6,105	5,060	6,168	6,331	6,677
	Net change in cash	(1,019)	1,121	164	348	(16)
	Ending balance cash	5,060	6,168	6,331	6,677	6,661
Company Profile	Balance sheet (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
CapitaLand and its subsidiaries operate in residential and commercial properties, property fund management, and serviced residences. The company also manages other properties	Total cash and equivalents	5,060	6,168	6,331	6,677	6,661
	Tangible fixed assets	753	1,269	1,299	1,329	1,379
	Total investments	49,626	61,728	62,628	63,528	64,428
	Total other assets	1,823	2,724	2,776	2,830	2,885
	Total assets	64,648	82,346	82,444	84,122	85,518
	Short-term debt	4,102	5,451	3,950	3,950	3,950
	Total long-term debt	20,440	27,461	27,661	28,561	29,461
	Total liabilities	31,341	42,063	41,102	42,095	43,176
	Shareholders' equity	18,953	23,359	23,776	23,823	23,509
	Minority interests	14,354	16,923	17,565	18,204	18,833
	Total equity	33,307	40,283	41,342	42,027	42,341
	Total liabilities & equity	64,648	82,346	82,444	84,122	85,518
Key metrics	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	21.3	11.3	6.7	4.7	2.2
	Recurring net profit growth (%)	3.2	10.5	2.3	5.3	5.6
	Recurrent EPS growth (%)	4.5	(8.1)	2.3	5.3	5.6
	Gross margin (%)	48.0	48.1	48.0	48.0	48.0
	Recurring net profit margin (%)	17.1	17.0	16.3	16.4	16.9
	Dividend payout ratio (%)	27.2	28.3	39.3	37.6	37.0

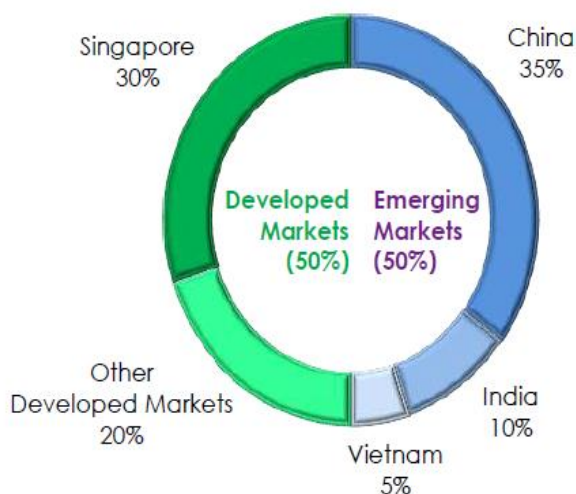
Source: Company data, RHB

Figure 1: CapitaLand's RNAV valuation

Properties		RNAV (SGDm)
Market value of Singapore investment properties		639.3
Market value of China/HK investment properties		1,802.8
Market value of US multifamily assets		1,368.0
GDV of CMA (incl. all retail component)		12,096.2
ASB (based on acquisition value)		10,907.1
GDV of The Ascott Limited		6,913.3
NPV of development profits		
Singapore		1,055.9
China		3,180.7
Others		523.9
	<u>Stake</u>	
CCT	31.0%	2,205.8
ART	45.0%	1,342.3
Lai Fung	20.0%	111.0
Fund management business (15x P/E)		3,499.2
Other net assets (incl. net equity of devt properties and net debt)		(19,193.5)
RNAV (SGDm)		26,452.0
No. of shares outstanding (m)		5,037.5
<b>RNAV per share</b>		<b>\$5.25</b>
Premium/(Discount)		-20%
<b>Target Price</b>		<b>\$4.20</b>
Last Price:		\$3.67
<b>Upside:</b>		<b>14.5%</b>

Source: RHB

Figure 2: Capital allocation priority



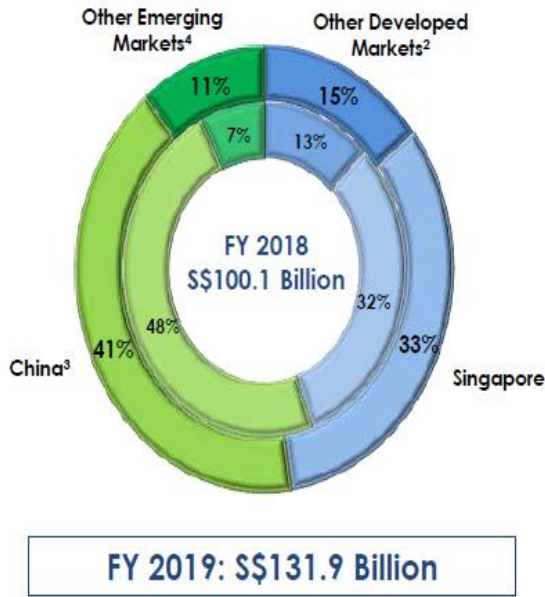
Source: Company data

Figure 3: Capital employed (FY2019)



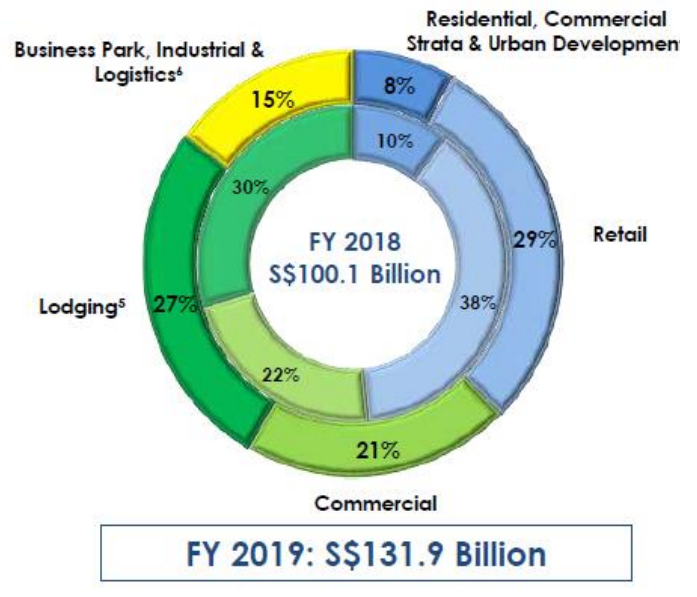
Source: Company data

Figure 4: AUM breakdown by geography



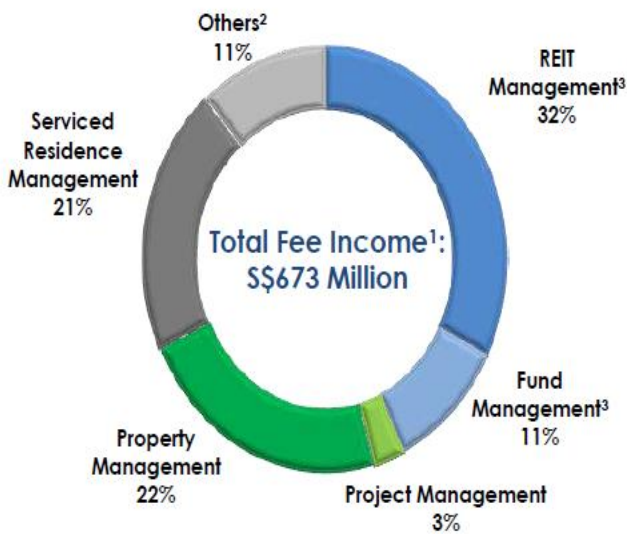
Source: Company data

Figure 5: AUM breakdown by asset class



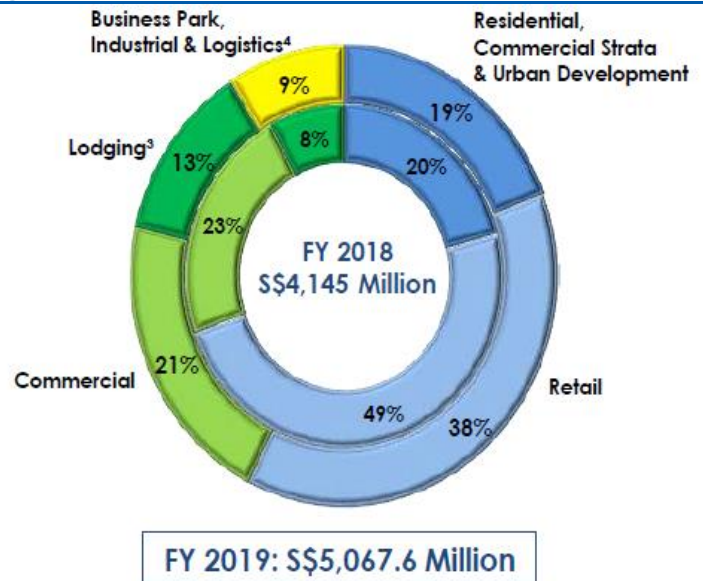
Source: Company data

Figure 6: Fee income breakdown



Source: Company data

Figure 7: EBIT breakdown



Source: Company data

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2019-12-02	Buy	4.20	3.69
2019-11-06	Buy	4.20	3.66
2018-11-15	Buy	4.00	3.12
2018-09-24	Buy	4.00	3.36
2018-08-23	Buy	na	3.39

Source: RHB, Bloomberg

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