

28 June 2018

Property | Real Estate

CapitaLand

Buy (Maintained)

Replenishing Its China Land Bank

Target Price: SGD4.25
Price: SGD3.13
Market Cap: USD9,592m
Bloomberg Ticker: CAPL SP

Maintain BUY with a higher TP of SGD4.25, from SGD4.20, 36% upside and a 4% dividend yield. CapitaLand remains our Top large-cap Pick. This latest acquisition of a Chongqing site is a timely move to replenish its land bank. We believe the recent share price weakness stems from macro concerns on an escalation in global trade tensions which resulted in fund outflows from equities. Fundamentally, we expect sales and prices across its residential project in China to remain steady. We also expect it to benefit from a continuous build up in its recurring income base, with eight malls opening last year and a higher fee income.

Buying Chongqing mixed-development site for CNY5.7bn (SGD1.2bn). The 32 hectare prime site is located in Xinpaifang, and is part of Chongqing's Free Trade Zone. The land parcel comprises of two greenfield sites that would yield 1,900 residential units and a shopping mall, as well as brownfield sites with an inventory of 223 residential units, along with office and retail space (Figures 2 and 3). The project is expected to be completed by 2022.

China residential sales to stay resilient. In a recent report, our HK-based research team ([link here](#)) noted that with no new significant policy tightening, property sales in China and prices are expected to remain resilient in the near-term. While there are concerns on the liquidity and rising funding costs, we believe this should not impact those developers with healthy balance sheets but instead it provides these with opportunities to do distress acquisitions.

RNAV accretion of 1%. We expect the total gross development value (GDV) for the site at c.CNY7.0-7.5bn. Management noted the ranges of residential prices around the area at CNY18,000-20,000psm and retail transactions at CNY25,000 – 28,000psm. CapitaLand intends to do a strata sale of retail and also the office units over a period of time. Based on a blended average selling price assumption of CNY20,000psm, we expect a margin for the project at c.20% with a c.1% accretion to our RNAV.

A timely move to replenish its land bank in China. With the expected progressive handover of 8,000 units sold in China this year and the next, we see the move as a timely replenishment of its residential portfolio. The handover of units will result in a revenue recognition of c.CNY15.1bn, of which c.CNY10bn (or 70%) due to be recognised this year. The acquisition would be funded by cash (39%) and the rest via local debt. Gearing is expected to increase marginally to 0.5x.

Our Top large-cap Pick; BUY with a higher TP of SGD4.25, from SGD4.20, pegged at a 15% discount to our revised RNAV estimate of SGD5.00/share. No changes to our earnings estimates as the overseas income can only be recognised upon completion, which we expect post 2020.

Share Data

Avg Daily Turnover (SGD/USD) 31.7m/23.8m
52-wk Price low/high (SGD) 3.13 - 3.87
Free Float (%) 60
Shares outstanding (m) 4,246
Estimated Return 36%

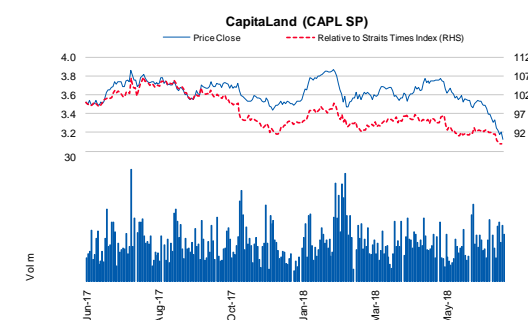
Shareholders (%)

Temasek Holdings Pte Ltd 40.07
Blackrock 6.0
Vanguard Group 1.80

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(11.3)	(11.8)	(12.3)	(10.8)	(11.1)
Relative	(7.7)	(5.2)	(7.7)	(7.5)	(13.0)

Source: Bloomberg



Source: Bloomberg

Forecasts and Valuations	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Total turnover (SGDm)	5,252	4,610	4,812	4,964	5,052
Reported net profit (SGDm)	1,190	1,551	1,133	1,237	1,283
Recurring net profit (SGDm)	865	908	1,041	1,145	1,190
Recurring net profit growth (%)	(6.6)	4.9	14.7	10.0	3.9
Recurring EPS (SGD)	0.20	0.21	0.25	0.27	0.28
DPS (SGD)	0.10	0.12	0.13	0.13	0.14
Recurring P/E (x)	15.4	14.6	12.8	11.6	11.2
P/B (x)	0.75	0.72	0.69	0.66	0.64
Dividend Yield (%)	3.2	3.8	4.2	4.2	4.5
Return on average equity (%)	6.7	8.6	6.0	6.3	6.3
Return on average assets (%)	2.6	2.9	1.8	2.0	2.0
Net debt to equity (%)	41.4	48.6	51.1	50.5	47.1
Our vs consensus EPS (adjusted)					

Source: Company data, RHB

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Financial Exhibits

Financial model updated on : 2018-06-27.

Asia Singapore Property CapitaLand Bloomberg CAPL SP Buy	Financial summary	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
	Recurring EPS (SGD)	0.20	0.21	0.25	0.27	0.28
	EPS (SGD)	0.28	0.37	0.27	0.29	0.30
	DPS (SGD)	0.10	0.12	0.13	0.13	0.14
	BVPS (SGD)	4.15	4.33	4.52	4.72	4.93
	Weighted avg adjusted shares (m)	4,246	4,246	4,246	4,246	4,246
Valuation basis	Valuation metrics	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
RNAV methodology	Recurring P/E (x)	15.4	14.6	12.8	11.6	11.2
	P/E (x)	11.2	8.6	11.7	10.7	10.4
	P/B (x)	0.75	0.72	0.69	0.66	0.64
Key drivers	FCF Yield (%)	20.1	13.3	(1.3)	6.1	14.1
Removal of cooling measures in its core markets and Pick up in global macro-economic conditions.	Dividend Yield (%)	3.2	3.8	4.2	4.2	4.5
	EV/EBITDA (x)	(0.91)	(1.78)	(1.27)	(1.07)	(1.35)
Key risks	EV/EBIT (x)	(0.95)	(1.83)	(1.31)	(1.10)	(1.39)
Prolonged real-estate downturn in core markets						
Company Profile	Income statement (SGDm)	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
CapitaLand limited and its subsidiaries operate in residential and commercial properties, property fund management, and serviced residences. The company also manages other properties	Total turnover	5,252	4,610	4,812	4,964	5,052
	Gross profit	1,598	1,838	1,695	1,749	1,780
	EBITDA	1,718	2,303	2,294	2,435	2,479
	Depreciation and amortisation	(66)	(69)	(70)	(71)	(71)
	Operating profit	1,652	2,234	2,224	2,364	2,407
	Net interest	(453)	(487)	(499)	(520)	(500)
	Income from associates & JVs	708	877	243	201	210
	Exceptional income - net	325	643	91	92	93
	Pre-tax profit	1,907	2,624	1,969	2,044	2,117
	Taxation	(403)	(298)	(390)	(341)	(375)
	Minority interests	(314)	(775)	(446)	(466)	(460)
	Recurring net profit	865	908	1,041	1,145	1,190
	Cash flow (SGDm)	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
	Change in working capital	2,250	961	(1,960)	(1,168)	(125)
	Cash flow from operations	3,305	2,166	37	1,025	2,087
	Capex	(639)	(401)	(208)	(208)	(209)
	Cash flow from investing activities	(71)	(1,770)	(94)	(98)	(96)
	Dividends paid	(752)	(1,022)	(769)	(738)	(779)
	Cash flow from financing activities	(2,462)	979	(965)	(1,033)	(2,058)
	Cash at beginning of period	4,173	4,793	6,105	5,084	4,978
	Net change in cash	772	1,376	(1,021)	(106)	(68)
	Ending balance cash	4,793	6,105	5,084	4,978	4,911
	Balance sheet (SGDm)	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
	Total cash and equivalents	4,793	6,105	5,084	4,978	4,911
	Tangible fixed assets	781	840	848	857	865
	Total investments	31,616	46,677	47,049	47,424	47,799
	Total other assets	1,578	1,702	1,719	1,736	1,754
	Total assets	45,741	61,446	62,542	63,980	64,158
	Short-term debt	2,373	2,739	2,739	2,739	2,739
	Total long-term debt	12,479	18,956	19,256	19,556	18,856
	Other liabilities	1,233	1,604	1,620	1,636	1,653
	Total liabilities	21,440	29,363	29,432	29,719	28,748
	Shareholders' equity	17,605	18,382	19,180	20,052	20,924
	Minority interests	6,696	13,701	13,929	14,209	14,485
	Total equity	24,300	32,083	33,110	34,261	35,409
	Net debt	10,060	15,590	16,911	17,317	16,684
	Total liabilities & equity	45,741	61,446	62,542	63,980	64,158
	Key metrics	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
	Revenue growth (%)	10.3	(12.2)	4.4	3.2	1.8
	Recurrent EPS growth (%)	(6.6)	4.9	14.7	10.0	3.9
	Gross margin (%)	30.4	39.9	35.2	35.2	35.2
	Operating EBITDA margin (%)	32.7	50.0	47.7	49.0	49.1
	Net profit margin (%)	22.7	33.6	23.5	24.9	25.4
	Dividend payout ratio (%)	35.6	32.9	48.7	44.6	46.3
	Capex/sales (%)	12.2	8.7	4.3	4.2	4.1
	Interest cover (x)	3.65	4.59	4.11	4.14	4.38

Source: Company data, RHB

Figure 1: CapitaLand's RNAV breakdown

Properties		RNAV (SGDm)
Market value of Singapore investment properties		1,206.5
Market value of China/HK investment properties		1,929.0
GDV of CMA (incl. all retail component)		13,312.4
GDV of The Ascott Limited		6,076.2
NPV of development profits		
Singapore		1,379.7
China		2,867.4
Others		432.9
	Stake	
CCT	31.0%	1,824.9
ART	41.3%	1,023.6
Lai Fung	20.0%	138.3
Fund management business (15x FY17F P/E)		1,077.9
Other net assets (incl. net equity of devt properties and net debt)		(10,039.6)
RNAV (SGDm)		21,229.2
No. of shares outstanding (m)		4,245.6
RNAV per share		\$5.00
Premium/(Discount)		-15%
Target Price		\$4.25
Last Price:		\$3.13
Upside:		35.8%

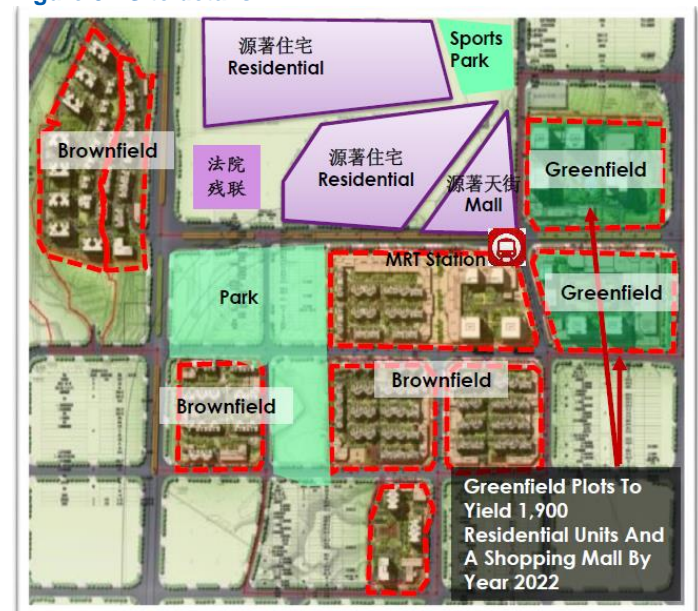
Source: RHB, Company

Figure 2: Site location



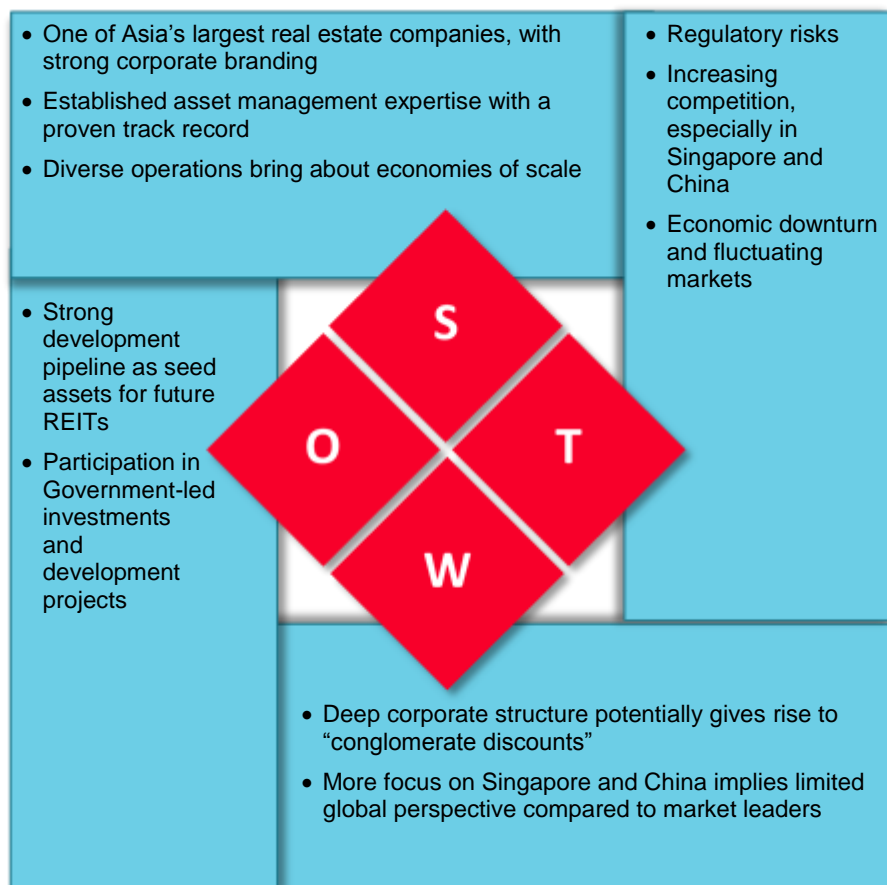
Source: Company

Figure 3: Site details



Source: Company

SWOT Analysis



Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2018-02-14	Buy	4.20	3.53
2018-01-07	Buy	4.20	3.65
2017-08-03	Neutral	3.90	3.74
2017-03-27	Neutral	3.84	3.64
2017-03-01	Neutral	3.60	3.60
2016-08-04	Neutral	3.15	3.18
2016-02-18	Neutral	3.15	2.91
2015-07-15	Buy	4.22	3.40
2015-05-04	Buy	4.20	3.76
2015-02-17	Buy	3.96	3.63

Source: RHB, Bloomberg

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

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a) -

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a) -

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