

11 August 2020

Property | Real Estate

CapitaLand (CAPL SP)

Buy (Maintained)

Resilience From Well-Diversified Portfolio; BUY

Target Price (Return): SGD3.75 (36.9%)
 Price: SGD2.74
 Market Cap: USD10,097m
 Avg Daily Turnover (SGD/USD) 31.4m/22.5m

- **BUY, with new SGD3.75 TP from SGD 4.00, 37% upside.** 1H PATMI was in line with CapitaLand's earlier market guidance. The retail and lodging segments remain badly hit by COVID-19, but the impact was cushioned by stable recurring income from its fund management and industrial portfolios. CAPL now trades at a 10-year low (-2SD) P/BV of -0.58x (Figure 2), which we believe underestimates its well-diversified portfolio's strengths.
- **1H headline PATMI fell 89% YoY** on revaluation losses of SGD173m and lower portfolio gains, excluding which core operating PATMI dropped a modest 28% YoY to SGD261m. The results also include SGD159m in rental rebates. Looking ahead, we expect a much stronger 2H (a +80% HoH core PATMI rise), as operating conditions in most markets slowly normalise.
- **China residential sales surge post opening.** 2Q residential sales stood at >3x at 1,361 units (1Q: 408 units), with fivefold increases in sales value to CNY4.7bn, indicating strong pent-up demand. Gross margins remain healthy (>15%), as residential prices have been inching higher. CAPL has unbilled sales of CNY18.2bn, which should be progressively booked from 3Q (c.70% set to be recognised in 2H). In Singapore, CAPL sold 35 units (SGD60m in value) in 1H, and has c.1,800 units in the pipeline which we expect to last for the next two years. In Vietnam, delays in securing permits resulted in 120 sold units being returned by buyers in 1H. While this trend is expected to persist in the short term, leading up to elections next year, management is still confident of the long-term outlook.
- **Divestments to accelerate in 2H.** CAPL said its annual SGD3bn divestment target remains unchanged for this year despite COVID-19. In 1H, the group's gross divestment value stood at SGD702.3m (effective stake: SGD301.6m), implying a likely >3x increase in divestments in 2H. Key divestment opportunities in our view: Galaxis (75% stake) and some of its China Raffles City mall's portfolio to REITs or private funds. Acquisitions should be selective, mainly on new economic assets (eg business parks, logistics, and data centres) and possibly new businesses too, if good opportunities arise. Gearing stands modest at 0.64x (0.56x ex-REITs), with SGD14bn in cash and undrawn facilities.
- **Retail and lodging – keeping in pace with changing times.** Management highlighted various steps to embrace digitalisation trends, which are starting to bear fruit and increase tenant sales. Early recovery signs are seen across CAPL's lodging portfolio, with 90% of properties now operational and increased demand from domestic tourism and the extended stay segment.
- **Earnings, TP changes.** Our FY20F-F21F net profit is lowered 21% and 4%, factoring in higher rental rebates and lower contributions from lodging and retail while raising the RNAV discount 5ppts to 30%. We also lower FY20F dividends to 8 cents from 12 cents to reflect less income.

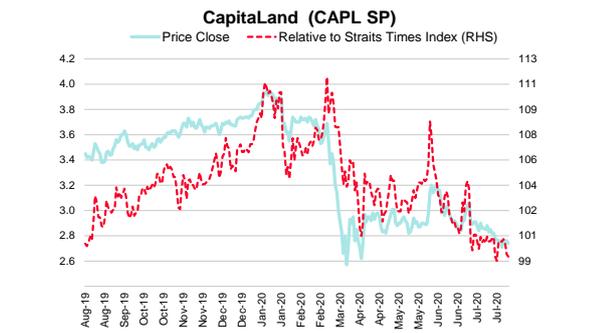
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(26.9)	(5.5)	(5.5)	(26.0)	(21.0)
Relative	(5.9)	(1.1)	(3.7)	(6.0)	(0.9)
52-wk Price low/high (SGD)				2.57	3.94



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (SGDm)	5,602	6,235	6,049	6,659	6,810
Recurring net profit (SGDm)	957	1,057	731	967	995
Recurring net profit growth (%)	3.2	10.5	(30.9)	32.3	2.9
Recurring EPS (SGD)	0.23	0.21	0.15	0.19	0.20
DPS (SGD)	0.12	0.12	0.08	0.12	0.12
Recurring P/E (x)	12.00	13.06	18.88	14.28	13.88
P/B (x)	0.61	0.59	0.59	0.60	0.62
Dividend Yield (%)	4.4	4.4	2.9	4.4	4.4
Return on average equity (%)	9.9	10.1	2.5	5.2	5.5
Net debt to equity (%)	58.5	66.4	65.2	68.7	70.2

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	0.15	0.19	0.20
Property	EPS	0.44	0.42	0.12	0.24	0.25
CapitaLand	DPS	0.12	0.12	0.08	0.12	0.12
CAPL SP	BVPS	4.52	4.64	4.63	4.57	4.44
Buy	Return on average equity (%)	9.9	10.1	2.5	5.2	5.5
	Return on average assets (%)	2.9	2.9	0.7	1.5	1.5
Valuation basis						
RNAV methodology.						
Key drivers	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
i. Synergies and contributions from Ascendas-Singbridge;	Recurring P/E (x)	12.00	13.06	18.88	14.28	13.88
ii. Growing recurring income from the fund management segment;	P/B (x)	0.6	0.6	0.6	0.6	0.6
iii. Divestments and M&A.	Dividend Yield (%)	4.4	4.4	2.9	4.4	4.4
	EV/EBITDA (x)	- 1.32 -	- 1.01 -	- 2.33 -	- 1.59 -	- 1.49
Key risks	Income statement (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
i. Global markets entering a recession;	Total turnover	5,602	6,235	6,049	6,659	6,810
ii. Investors ascribing a higher holding company discount;	Gross profit	2,690	3,000	2,562	2,930	2,996
iii. Rising interest rates impacting the real estate segment.	EBITDA	3,250	4,197	2,253	2,555	2,641
	Depreciation and amortisation	(63)	(118)	(121)	(124)	(129)
	Operating profit	3,186	4,079	2,132	2,431	2,513
	Net interest	(553)	(839)	(913)	(943)	(997)
	Pre-tax profit	3,593	4,228	1,582	2,522	2,607
	Taxation	(659)	(815)	(654)	(554)	(641)
	Reported net profit	1,847	2,136	581	1,217	1,250
	Recurring net profit	957	1,057	731	967	995
Company Profile	Cash flow (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
CAPL and its subsidiaries operate in residential and commercial properties, property fund management, and serviced residences. The group also manages other properties.						
	Change in working capital	(1,414)	11	440	(530)	764
	Cash flow from operations	553	2,246	1,846	1,472	2,798
	Capex	(729)	85	(830)	(830)	(850)
	Cash flow from investing activities	(1,356)	(359)	(746)	(560)	(572)
	Dividends paid	(1,248)	(1,345)	(507)	(830)	(819)
	Cash flow from financing activities	(217)	(766)	(2,056)	(1,579)	(1,847)
	Cash at beginning of period	6,105	5,060	6,168	5,211	4,543
	Net change in cash	(1,019)	1,121	(956)	(667)	379
	Ending balance cash	5,060	6,168	5,211	4,543	4,922
	Balance sheet (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total cash and equivalents	5,060	6,168	5,211	4,543	4,922
	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	80,896	82,185	83,326
	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	40,389	41,465	42,761
	Shareholders' equity	18,953	23,359	23,341	23,028	22,372
	Minority interests	14,354	16,923	17,167	17,692	18,193
	Total equity	33,307	40,283	40,508	40,720	40,566
	Total liabilities & equity	64,648	82,346	80,896	82,185	83,326
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	21.3	11.3	(3.0)	10.1	2.3
	Recurring net profit growth (%)	3.2	10.5	(30.9)	32.3	2.9
	Recurrent EPS growth (%)	4.5	(8.1)	(30.9)	32.3	2.9
	Gross margin (%)	48.0	48.1	42.3	44.0	44.0
	Recurring net profit margin (%)	17.1	17.0	12.1	14.5	14.6
	Dividend payout ratio (%)	27.2	28.3	69.4	49.7	48.4

Source: Company data, RHB

Figure 1: CapitaLand RNAV Valuation

Properties		RNAV (SGDm)
Market value of Singapore investment properties		639.3
Market value of China/Hong Kong investment properties		1,802.8
Market value of US multi-family assets		1,368.0
GDV of CMA (including all retail component)		12,096.2
ASB (based on acquisition value)		10,907.1
GDV of The Ascott Ltd		6,913.3
NPV of development profits		
Singapore		1,055.9
China		3,180.7
Others		523.9
	Stake	
CCT	31.0%	1,874.9
ART	45.0%	1,004.3
Lai Fung	20.0%	111.0
Fund management business (15x FY19F P/E)		4,352.4
Other net assets (including net equity of development properties and net debt)		(18,843.5)
RNAV (SGDm)		26,986.3
Number of shares outstanding (m)		5,037.5
RNAV per share		SGD5.36
Premium/(discount)		-30%
TP		SGD3.75
Last price:		SGD2.74
Upside:		36.9%

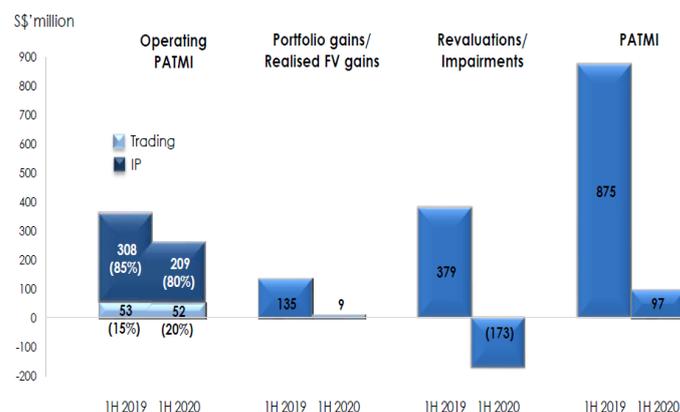
Source: RHB

Figure 2: Trading at 10-year P/BV lows



Source: Company data

Figure 3: 1H20 PATMI dragged down by revaluation losses



Source: Company data

Figure 4: Asset breakdown by geography

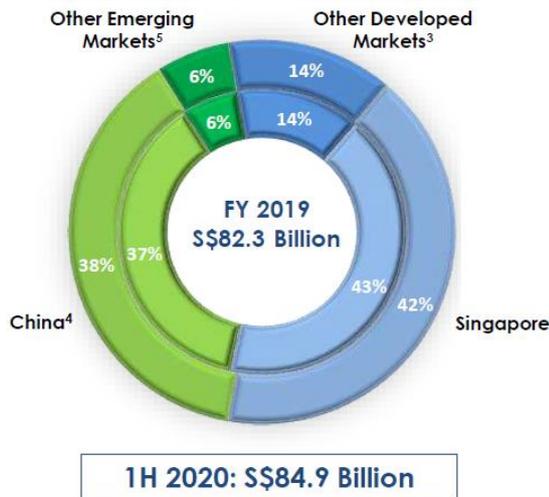
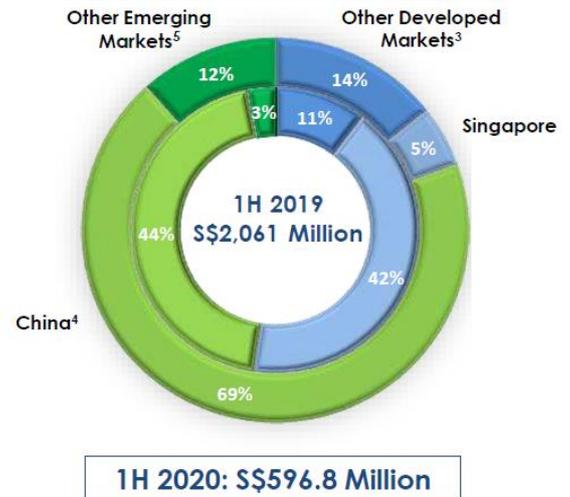


Figure 5: EBIT breakdown by geography



Source: Company data

Source: Company data

Figure 6: Asset breakdown by segments

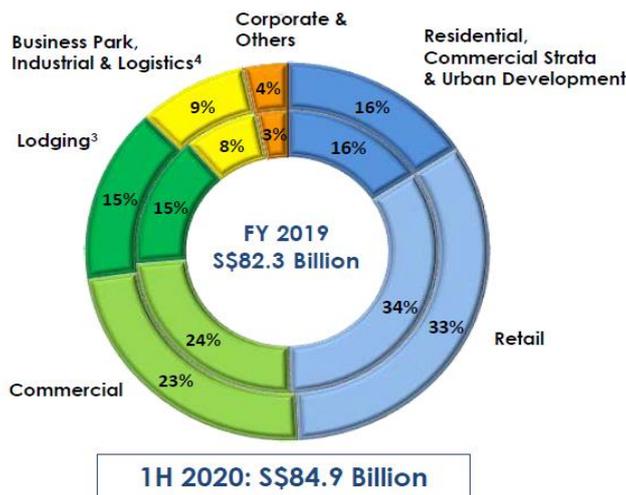
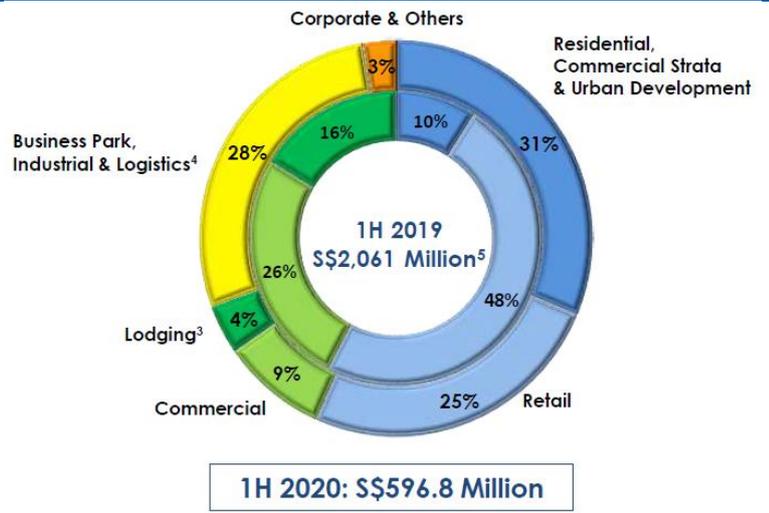


Figure 7: EBIT breakdown by segments



Source: Company data

Source: Company data

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-05-05	Buy	4.00	2.88
2020-02-27	Buy	4.20	3.64
2018-11-15	Buy	4.00	3.12
2018-08-23	Buy	na	3.39
2018-08-22	Buy	4.00	3.34

Source: RHB, Bloomberg

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