

CapitaLand (CAPL SP)

Capital Recycling On Track

Maintain BUY and SGD4.10 TP

1Q18 net profit, though lower YoY, was in-line with our and consensus estimates. The company is on track to meet its capital-recycling target this year. Following the portfolio sale of 20 China malls in 1Q18, we expect more gains to be booked in 2Q18 after the sale of Sembawang Shopping Centre by CMT. Our RNAV is lowered marginally to SGD5.46 (from SGD5.49) after incorporating the latest TP's and market prices of its REITs. Maintain BUY and SGD4.10 TP based on an unchanged RNAV discount of 25%. Trading at 31% RNAV discount and 3.5% yield, CAPL offers the most attractive valuation amongst the large caps.

Lower profit due 1Q17 asset sale

1Q18 net profit fell 18.8% YoY to SGD319m due to the high year ago base from the bulk sale of The Nassim in 1Q17, which accounted for SGD160.9m of the bottom line. Overall, 1Q18 made up 22% of our full-year estimate and 33% of consensus. With Victoria Park Villa and Bedok Residences now fully sold, CAPL reversed SGD17m of provisions previously made. It reported weaker sales in China with 998 units worth CNY1.7b sold as fewer projects were launched (1Q17: 2,149 units worth CNY3.9b). Nonetheless, unbilled sales held steady with 8,000 units worth CNY15.1b to be recognised from 2Q18.

Portfolio reconstitution in progress

CAPL is on track to meet its capital-recycling target this year. Recall that management set a target to recycle SGD3b of investment properties annually, which could realize portfolio gains of c.SGD200m a year. In 1Q18, it realised SGD35.4m of gains at the PATMI level from the divestment of 20 malls in China. The impending divestment of Sembawang Shopping Centre by CMT (CT SP, HOLD, TP SGD2.15) for SGD248m (vs carrying value of SGD126.9m) should lead to another SGD36m of gains for its 30% stake in the REIT in 2Q18.

Share price support from share buybacks

We see strong share price support with the company embarking on one of the largest shares buyback programmes in recent history. During the quarter it purchased SGD208.8m worth of shares at an average price of SGD3.62. The 57.6m shares purchased represented a sizeable 1.4% of its share base. This is significantly larger than the SGD55.3m and SGD56.8m spent in 2015 and 2016, respectively.

FYE Dec (SGD m)	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue	5,252	4,610	5,709	6,632	6,350
EBITDA	1,375	2,027	2,501	2,762	2,717
Core net profit	1,190	1,551	1,467	1,167	1,214
Core EPS (cts)	25.0	32.7	30.9	24.6	25.6
Core EPS growth (%)	11.8	31.0	(5.4)	(20.5)	4.1
Net DPS (cts)	10.0	12.0	13.0	14.0	15.0
Core P/E (x)	15.1	11.5	12.2	15.3	14.7
P/BV (x)	0.9	0.9	0.8	0.8	0.8
Net dividend yield (%)	2.7	3.2	3.5	3.7	4.0
ROAE (%)	6.7	8.6	7.8	5.9	6.0
ROAA (%)	2.6	2.9	2.4	1.9	2.0
EV/EBITDA (x)	21.5	21.8	18.9	16.4	15.8
Net gearing (%) (incl perps)	41.4	48.6	52.8	45.2	37.2
Consensus net profit	-	-	969	1,050	1,098
MKE vs. Consensus (%)	-	-	51.5	11.2	10.6

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BUY

Share Price	SGD 3.76
12m Price Target	SGD 4.10 (+9%)
Previous Price Target	SGD 4.10

Statistics

52w high/low (SGD)	3.87/3.44
3m avg turnover (USDm)	28.4
Free float (%)	59.7
Issued shares (m)	4,274
Market capitalisation	SGD16.1B
	USD12.0B

Major shareholders:

Temasek Holdings	39.3%
BlackRock	6.0%
The Vanguard Group, Inc.	1.3%

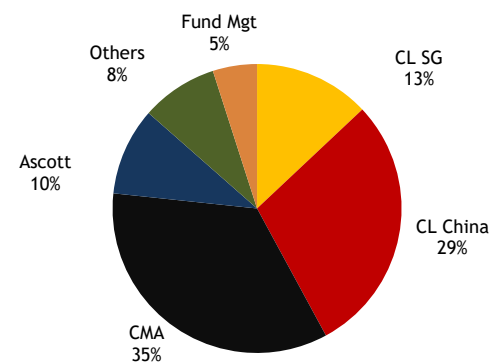
Price Performance



	-1M	-3M	-12M
Absolute (%)	5	(1)	0
Relative to index (%)	(0)	(3)	(12)

Source: FactSet

Exposure summary (% of valuation)



Source: Company, Maybank Kim Eng

Fig 1: Quarterly profit and loss

CMT, CRCT and RCS Trust consolidated from Aug 2017

FYE 31 Dec	1Q17 (SGD m)	4Q17 (SGD m)	1Q18 (SGD m)	(QoQ %)	Change (YoY %)	YTD18 (SGD m)	% of FY	FY18E (SGD m)
Revenue	898	1,213	1,376	13.4	53.3	1,376	24.1	5,709
EBITDA	428	585	539	(8.0)	25.8	539	21.5	2,501
D&A	(17)	(19)	(15)	(19.1)	(11.4)	(15)	23.8	(64)
EBIT	411	567	523	(7.6)	27.4	523	21.5	2,437
Net interest income/(expense)	(94)	(126)	(131)	3.9	39.3	(131)	25.9	(507)
Other items (recurring)	33	(111)	0	n.m.	n.m.	0	0.0	840
Associates & JVs	172	232	179	(22.8)	4.0	179	59.8	300
PBT	521	561	571	1.8	9.6	571	18.6	3,070
Taxation	(56)	(82)	(76)	(7.5)	37.0	(76)	11.0	(693)
MI	(73)	(211)	(176)	(16.7)	141.0	(176)	19.3	(911)
Net Income	393	268	319	19.2	(18.8)	319	21.8	1,467

Source: Company, Maybank Kim Eng

Fig 2: RNAV and TP

Valuation	2018E (SGD m)	% of total (%)	per share (SGD)	Remarks
CapitaLand Singapore	5,606	13.0	1.32	
CapitaLand Commercial Trust	2,085	4.8	0.49	Value of stake at Maybank KE's TP of SGD1.80.
Others	3,522	8.2	0.83	
CapitaLand China	12,595	29.3	2.97	
CapitaLand Mall Asia	14,790	34.3	3.48	
CapitaLand Mall Trust	2,287	5.3	0.54	Value of stake at Maybank KE's TP of SGD2.15.
CapitaLand Malaysia Mall Trust	274	0.6	0.06	Value of stake at Maybank KE's TP of MYR1.15.
CapitaLand Retail China Trust	361	0.8	0.08	Market value of stake in CRCT at SGD1.55.
Others	11,868	27.6	2.79	
Ascott	4,233	9.8	1.00	
Ascott Residence Trust	1,092	2.5	0.26	Market value of stake in ART at SGD1.15.
Others	3,141	7.3	0.74	
Other assets	3,698	8.6	0.87	
Fund management business	2,136	5.0	0.50	Fund-management business at 20x P/E.
Gross asset value (GAV)	43,059	100.0	10.14	
Less: adjusted net liabilities	(19,859)			
RNAV	23,200			
Outstanding no. of shares (m)	4,247			Outstanding share base, excluding treasury shares
RNAV per share	5.46			
TP	4.10			Rounded.
RNAV discount (%)	(25)			

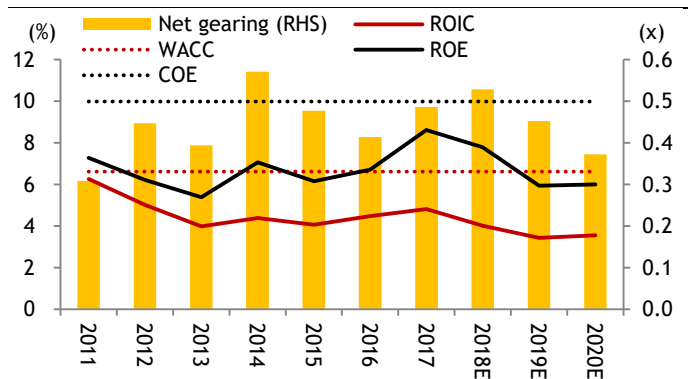
No material impact on RNAV if we use market values for its REITs instead of our TPs.

Source: Maybank Kim Eng

Value Proposition

- A diversified property developer with a niche in building integrated projects. Singapore and China are its largest markets accounting for 36% and 47% of total assets.
- Singapore's pioneer in REITs, it has the most established fund management platform among Singapore developers with AUM of SGD52b.
- Generates recurring fund management fees and provides opportunities for capital recycling.
- Over three quarters of its assets generate recurring income streams, which provide good income visibility in the lacklustre market.

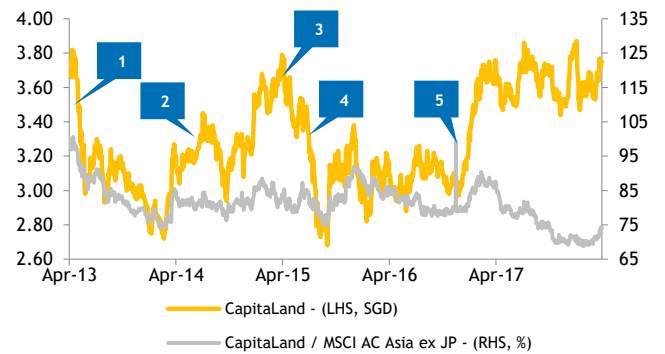
Returns vs cost of capital



Source: Company, Maybank Kim Eng

Price Drivers

Historical share price trend



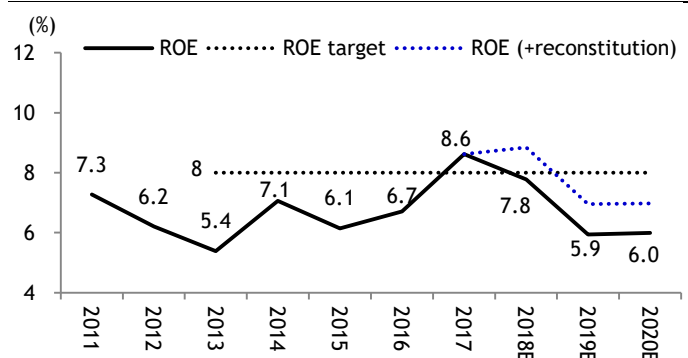
Source: Company, Maybank Kim Eng

1. Eighth round of cooling measures in Singapore in June 2013. Home sales weakened for three years before a 2017 rebound.
2. Announced privatisation offer for CapitaMalls Asia at SGD2.22 in April 2014. Offer raised to SGD2.35 in May.
3. Positive sector sentiment on privatisation of Keppel Land by Keppel Corp in early 2015.
4. Market was concerned it would overpay for Asia Square; rumoured to be in talks as early as mid-2015. Relief rally as it terminated negotiations for Asia Square in Nov 2015.
5. Bulk sale of The Nassim in Jan 2017. Relieved of potential QC penalties for the project.

Financial Metrics

- We expect recognition of its pre-sold homes and fair value gains on the completion of its three Raffles City projects in China to drive a pick-up in ROE over the next two years.
- As of 1Q18, management has guided that over 8,000 homes worth CNY15.1b in China are expected to be handed over from 2Q18 onwards.
- To sustain its ROE above 8%, we believe CAPL may need to optimise its capital structure by raising its leverage on stabilised assets and increasing its share of trading assets.
- CAPL could also raise its dividend payout to enhance ROE.
- Management's target to recycle SGD3b of investment properties annually could add another 1ppt to our ROE forecasts.

ROE vs target ROE of >8%



Source: Company, Maybank Kim Eng

Swing Factors

Upside

- Strong rebound in China and Singapore home sales.
- Monetisation of assets via a sale to its funds under management or third parties.
- Higher market value of its listed REITs.

Downside

- Overpaying for assets or land.
- Poor execution of development projects.
- Sharp increase in interest rates could hit demand for properties and drive down asset prices.

FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
Key Metrics					
P/E (reported) (x)	11.0	9.8	10.9	13.7	13.2
Core P/E (x)	15.1	11.5	12.2	15.3	14.7
P/BV (x)	0.9	0.9	0.8	0.8	0.8
P/NTA (x)	0.9	0.9	0.9	0.8	0.8
Net dividend yield (%)	2.7	3.2	3.5	3.7	4.0
FCF yield (%)	23.4	14.6	18.1	22.4	23.6
EV/EBITDA (x)	21.5	21.8	18.9	16.4	15.8
EV/EBIT (x)	22.6	22.6	19.4	16.8	16.2

INCOME STATEMENT (SGD m)

Revenue	5,252.3	4,609.8	5,709.0	6,631.7	6,349.9
EBITDA	1,375.2	2,027.1	2,501.2	2,761.9	2,717.5
Depreciation	(66.0)	(69.3)	(63.8)	(64.7)	(65.5)
EBIT	1,309.2	1,957.8	2,437.4	2,697.2	2,652.0
Net interest income / (exp)	(400.8)	(424.6)	(506.7)	(542.9)	(503.5)
Associates & JV	707.8	876.6	299.5	431.6	391.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	290.7	214.0	840.1	28.4	35.7
Pretax profit	1,906.9	2,623.8	3,070.3	2,614.3	2,575.2
Income tax	(402.6)	(297.8)	(692.7)	(545.7)	(546.1)
Minorities	(313.9)	(775.3)	(910.6)	(901.8)	(814.8)
Reported net profit	1,190.3	1,550.8	1,467.0	1,166.8	1,214.3
Core net profit	1,190.3	1,550.8	1,467.0	1,166.8	1,214.3
Preferred Dividends	0.0	0.0	0.0	0.0	0.0

BALANCE SHEET (SGD m)

Cash & Short Term Investments	4,792.6	6,105.3	3,470.6	3,656.9	4,590.6
Accounts receivable	1,858.8	1,470.6	1,514.7	1,560.1	1,606.9
Inventory	5,111.7	4,616.5	4,692.1	3,734.0	2,589.3
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	781.4	840.0	851.2	861.5	871.0
Intangible assets	441.8	563.3	563.3	563.3	563.3
Investment in Associates & JVs	12,617.3	10,197.2	10,253.9	10,389.4	10,448.0
Other assets	20,137.1	37,652.8	40,728.9	40,296.4	39,878.4
Total assets	45,740.8	61,445.7	62,074.7	61,061.5	60,547.5
ST interest bearing debt	2,373.4	2,739.0	3,000.0	3,000.0	2,500.0
Accounts payable	4,685.0	5,441.8	5,605.1	5,773.2	5,946.4
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	12,478.9	18,955.9	18,000.0	16,000.0	15,000.0
Other liabilities	1,903.0	2,226.0	2,293.0	2,361.0	2,432.0
Total Liabilities	21,440.3	29,362.6	28,897.7	27,134.6	25,878.7
Shareholders Equity	17,604.8	18,382.4	19,339.7	19,954.4	20,574.0
Minority Interest	6,695.6	13,700.7	13,837.3	13,972.6	14,094.8
Total shareholder equity	24,300.5	32,083.1	33,177.0	33,926.9	34,668.8
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Total liabilities and equity	45,740.8	61,445.7	62,074.7	61,061.5	60,547.5

CASH FLOW (SGD m)

Pretax profit	1,906.9	2,623.8	3,070.3	2,614.3	2,575.2
Adj net interest (income)/exp	400.8	424.6	506.7	542.9	503.5
Change in working capital	2,249.7	960.8	75.1	1,113.4	1,304.6
Cash taxes paid	(349.8)	(344.1)	(692.7)	(545.7)	(546.1)
Other operating cash flow	(215.9)	(926.1)	393.2	114.1	155.1
Cash flow from operations	3,305.2	2,166.3	2,723.8	3,358.0	3,511.7
Capex	(75.2)	(142.4)	(75.0)	(75.0)	(75.0)
Free cash flow	3,731.9	2,336.2	2,891.6	3,579.0	3,769.0
Dividends paid	(383.0)	(424.7)	(509.7)	(552.1)	(594.6)
Equity raised / (purchased)	(56.7)	0.0	0.0	0.0	0.0
Change in Debt	(809.0)	1,708.1	(694.9)	(2,000.0)	(1,500.0)
Other invest/financing cash flow	(666.8)	(470.2)	(1,280.7)	(1,309.5)	(1,196.1)
Effect of exch rate changes	(147.5)	(73.8)	0.0	0.0	0.0
Net cash flow	772.0	1,375.6	(2,634.7)	186.2	933.7

FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
Key Ratios					
Growth ratios (%)					
Revenue growth	10.3	(12.2)	23.8	16.2	(4.3)
EBITDA growth	14.2	47.4	23.4	10.4	(1.6)
EBIT growth	15.8	49.5	24.5	10.7	(1.7)
Pretax growth	3.7	37.6	17.0	(14.9)	(1.5)
Reported net profit growth	11.7	30.3	(5.4)	(20.5)	4.1
Core net profit growth	11.7	30.3	(5.4)	(20.5)	4.1
Profitability ratios (%)					
EBITDA margin	26.2	44.0	43.8	41.6	42.8
EBIT margin	24.9	42.5	42.7	40.7	41.8
Pretax profit margin	36.3	56.9	53.8	39.4	40.6
Payout ratio	35.7	32.9	37.6	51.0	52.5
DuPont analysis					
Net profit margin (%)	22.7	33.6	25.7	17.6	19.1
Revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	2.6	3.3	3.2	3.1	2.9
ROAE (%)	6.7	8.6	7.8	5.9	6.0
ROAA (%)	2.6	2.9	2.4	1.9	2.0
Leverage & Expense Analysis					
Asset/Liability (x)	2.1	2.1	2.1	2.3	2.3
Net gearing (%) (incl perps)	41.4	48.6	52.8	45.2	37.2
Net gearing (%) (excl. perps)	41.4	48.6	52.8	45.2	37.2
Net interest cover (x)	3.3	4.6	4.8	5.0	5.3
Debt/EBITDA (x)	10.8	10.7	8.4	6.9	6.4
Capex/revenue (%)	1.4	3.1	1.3	1.1	1.2
Net debt/ (net cash)	10,059.7	15,589.6	17,529.4	15,343.1	12,909.4

Source: Company; Maybank

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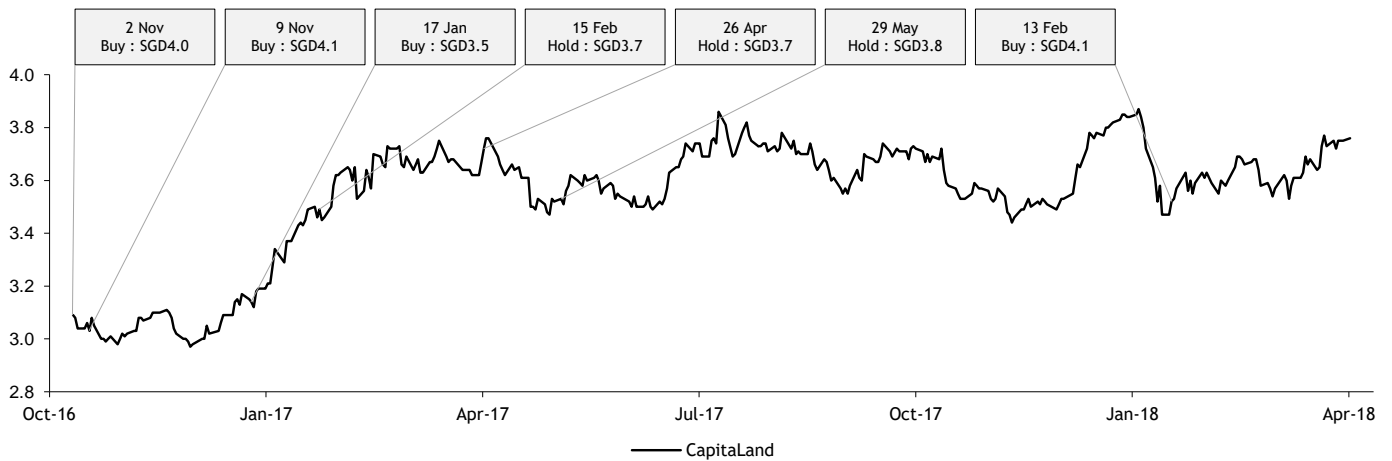
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