

CapitaLand (CAPL SP)

Developer with a Solid Yield

Maintain BUY; Results in line

1H18 EBIT of SGD1.1b was in line at 47% of our full-year forecast. Trading at 0.7x P/BV, 40% RNAV discount and offering a solid 4% yield, we continue to see good value in the stock. Maintain BUY with SGD3.80 TP, based on 30% discount to RNAV of SGD5.45. In 2Q18, CAPL spent SGD191m buying back shares at prices mostly above SGD3.50. With the results blackout now over, the company could resume its share buyback programme and we expect this to support the share price.

Delivering on portfolio reconstitution strategy

1H18 PATMI was boosted by portfolio gains of SGD82m (sale of Sembawang Shopping Centre), SGD360m of revaluation gains and SGD58m of realised gains (20 China Malls, Twenty Anson and Bugis Village). In 1H18, it divested SGD3.1b of properties and redeployed SGD1.8b into new acquisitions, which generated about SGD140m of gains. This is in line with its target to recycle SGD3b worth of assets annually for about SGD200m of gains. 1H18 ROE of 4.9% implies an annualised rate of 9.9%, which is on track for its target returns of >8%.

Small exposure to residential headwinds in SG

With just 33 units remaining unsold from previously launched projects and another 800 units from the redevelopment of Pearl Bank Apartments, this market segment accounts for less than 2% of its valuation. Unlike other developers that were more aggressive in restocking over the past two years, it has been disciplined in its land acquisition and is now one of the least exposed to the residential headwinds in the local market.

Shifting to its target asset mix could raise returns

CAPL seeks to achieve an equal split between assets in the emerging and developed markets, from 57% in developed markets today. In terms of asset class, it aims to increase its share of trading properties to 20% from 13% today. We believe these targets imply CAPL's capital allocation will see a shift up the risk curve for higher returns. This should eventually lead to stronger ROEs over time as it puts capital to work.

FYE Dec (SGD m)	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue	5,252	4,610	5,709	6,604	6,314
EBITDA	1,375	2,027	2,501	2,735	2,683
Core net profit	1,190	1,551	1,467	1,147	1,188
Core EPS (cts)	25.0	32.7	30.9	24.2	25.0
Core EPS growth (%)	11.8	31.0	(5.4)	(21.8)	3.6
Net DPS (cts)	10.0	12.0	13.0	14.0	15.0
Core P/E (x)	12.3	11.0	10.7	13.7	13.2
P/BV (x)	0.7	0.8	0.7	0.7	0.7
Net dividend yield (%)	3.3	3.4	3.9	4.2	4.5
ROAE (%)	6.7	8.6	7.8	5.8	5.9
ROAA (%)	2.6	2.9	2.4	1.9	2.0
EV/EBITDA (x)	21.5	21.8	18.1	15.8	15.3
Net gearing (%) (incl perps)	41.4	48.6	52.8	45.3	37.4
Consensus net profit	-	-	983	999	1,175
MKE vs. Consensus (%)	-	-	49.2	14.8	1.2

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BUY

Share Price	SGD 3.30
12m Price Target	SGD 3.80 (+15%)
Previous Price Target	SGD 3.80

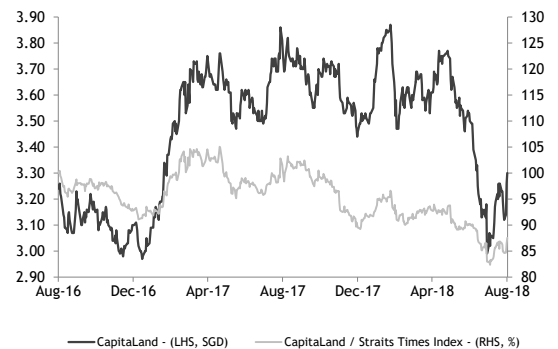
Statistics

52w high/low (SGD)	3.87/2.99
3m avg turnover (USDm)	26.1
Free float (%)	59.7
Issued shares (m)	4,274
Market capitalisation	SGD14.1B
	USD10.3B

Major shareholders:

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

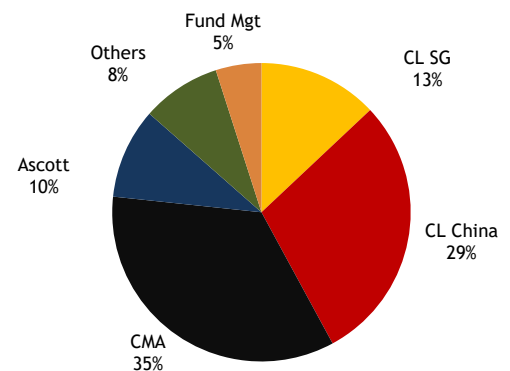
Price Performance



	-1M	-3M	-12M
Absolute (%)	10	(10)	(12)
Relative to index (%)	5	(4)	(13)

Source: FactSet

Exposure summary (% of valuation)



Source: Company, Maybank Kim Eng

Fig 1: Quarterly profit and loss

FYE 31 Dec	2Q17	1Q18	2Q18	Change		YTD18 (SGD m)	% of FY18E	FY18E (SGD m)
	(SGD m)	(SGD m)	(SGD m)	(QoQ %)	(YoY %)			
Revenue	992	1,376	1,342	(2.4)	35.3	2,718	47.6	5,709
EBITDA	475	539	631	17.1	32.8	1,169	46.7	2,501
D&A	(16)	(15)	(16)	7.4	(0.9)	(32)	49.3	(64)
EBIT	458	523	614	17.4	34.0	1,138	46.7	2,437
Net interest income/(expense)	(91)	(131)	(133)	1.4	46.3	(265)	52.2	(507)
Other items (recurring)	176	0	384	n.m.	>100	384	45.7	840
Other items (exceptionals)	0	0	0	n.m.	n.m.	0	n.m.	0
Associates & JVs	340	179	330	84.4	(2.7)	510	170.2	300
PBT	883	571	1,195	109.2	35.3	1,766	57.5	3,070
Taxation	(73)	(76)	(116)	51.5	59.2	(192)	27.7	(693)
MI	(231)	(176)	(474)	169.5	104.8	(650)	71.4	(911)
Net income	579	319	606	89.8	4.5	925	63.0	1,467

Source: Company, Maybank Kim Eng

Fig 2: RNAV and TP

Valuation	2018E (SGD m)	% of total (%)	per share (SGD)	Remarks
CapitaLand Singapore	5,544	12.9	1.31	
CapitaLand Commercial Trust	2,085	4.8	0.49	Value of stake at Maybank KE's TP of SGD1.80.
Others	3,459	8.0	0.81	
CapitaLand China	12,595	29.3	2.97	
CapitaLand Mall Asia	14,790	34.4	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)	42,997	100.0	10.12	
Less: adjusted net liabilities	(19,854)			
RNAV	23,143			
Outstanding no. of shares (m)	4,247			Outstanding share base, excluding treasury shares
RNAV per share	5.45			
TP	3.80			Rounded.
RNAV discount (%)	(30)			

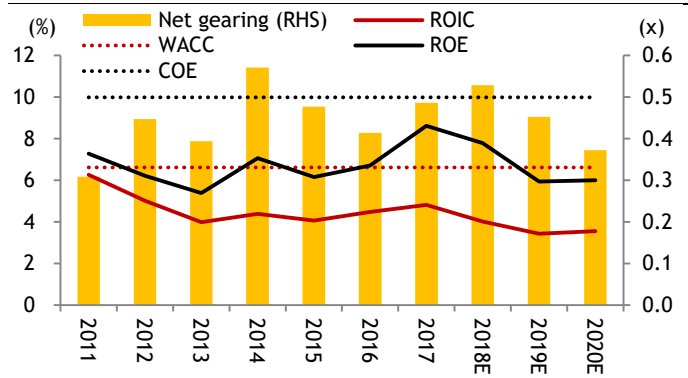
No material impact on RNAV if we use market values for its REITs instead of our TPs.

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

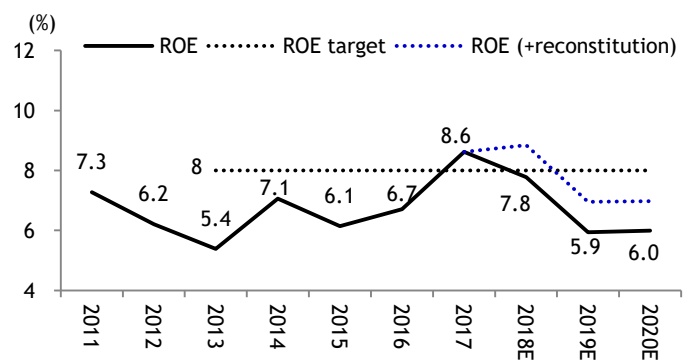


Source: Company, Maybank Kim Eng

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.

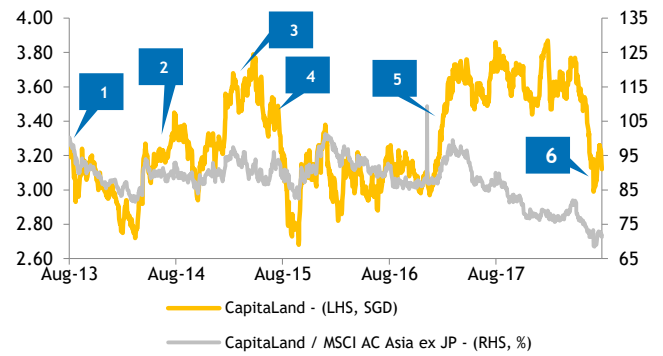
ROE vs target ROE of >8%



Source: Company, Maybank Kim Eng

Price Drivers

Historical share price trend



Source: Factset, 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.
6. Surprise policy tightening

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	9.6	12.2	11.8
Core P/E (x)	12.3	11.0	10.7	13.7	13.2
P/BV (x)	0.7	0.8	0.7	0.7	0.7
P/NTA (x)	0.8	0.9	0.7	0.7	0.7
Net dividend yield (%)	3.3	3.4	3.9	4.2	4.5
FCF yield (%)	28.7	15.4	20.6	25.4	26.7
EV/EBITDA (x)	21.5	21.8	18.1	15.8	15.3
EV/EBIT (x)	22.6	22.6	18.6	16.2	15.7

INCOME STATEMENT (SGD m)

Revenue	5,252.3	4,609.8	5,709.0	6,604.1	6,314.2
EBITDA	1,375.2	2,027.1	2,501.2	2,735.3	2,683.1
Depreciation	(66.0)	(69.3)	(63.8)	(64.7)	(65.5)
EBIT	1,309.2	1,957.8	2,437.4	2,670.6	2,617.6
Net interest income / (exp)	(400.8)	(424.6)	(506.7)	(542.9)	(503.7)
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	2,587.6	2,540.5
Income tax	(402.6)	(297.8)	(692.7)	(539.0)	(537.4)
Minorities	(313.9)	(775.3)	(910.6)	(901.8)	(814.8)
Reported net profit	1,190.3	1,550.8	1,467.0	1,146.8	1,188.3
Core net profit	1,190.3	1,550.8	1,467.0	1,146.8	1,188.3
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	3,636.9	4,544.6
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	2,589.2
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	61,041.6	60,501.5
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	19,934.4	20,528.0
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	33,906.9	34,622.8
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	61,041.6	60,501.5

CASH FLOW (SGD m)

Pretax profit	1,906.9	2,623.8	3,070.3	2,587.6	2,540.5
Adj net interest (income)/exp	400.8	424.6	506.7	542.9	503.7
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)	(539.0)	(537.4)
Other operating cash flow	(215.9)	(926.1)	393.2	107.4	146.4
Cash flow from operations	3,305.2	2,166.3	2,723.8	3,338.0	3,486.0
Capex	(75.2)	(142.4)	(75.0)	(75.0)	(75.0)
Free cash flow	3,731.9	2,336.2	2,891.6	3,559.1	3,743.3
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)	(1,196.3)
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)	166.2	907.7

FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
Key Ratios					
Growth ratios (%)					
Revenue growth	10.3	(12.2)	23.8	15.7	(4.4)
EBITDA growth	14.2	47.4	23.4	9.4	(1.9)
EBIT growth	15.8	49.5	24.5	9.6	(2.0)
Pretax growth	3.7	37.6	17.0	(15.7)	(1.8)
Reported net profit growth	11.7	30.3	(5.4)	(21.8)	3.6
Core net profit growth	11.7	30.3	(5.4)	(21.8)	3.6
Profitability ratios (%)					
EBITDA margin	26.2	44.0	43.8	41.4	42.5
EBIT margin	24.9	42.5	42.7	40.4	41.5
Pretax profit margin	36.3	56.9	53.8	39.2	40.2
Payout ratio	35.7	32.9	37.6	51.9	53.6
DuPont analysis					
Net profit margin (%)	22.7	33.6	25.7	17.4	18.8
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	5.8	5.9
ROAA (%)	2.6	2.9	2.4	1.9	2.0
Leverage & Expense Analysis					
Asset/Liability (x)	2.1	2.1	2.1	2.2	2.3
Net gearing (%) (incl perps)	41.4	48.6	52.8	45.3	37.4
Net gearing (%) (excl. perps)	41.4	48.6	52.8	45.3	37.4
Net interest cover (x)	3.3	4.6	4.8	4.9	5.2
Debt/EBITDA (x)	10.8	10.7	8.4	6.9	6.5
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	15,363.1	12,955.4

Source: Company; Maybank

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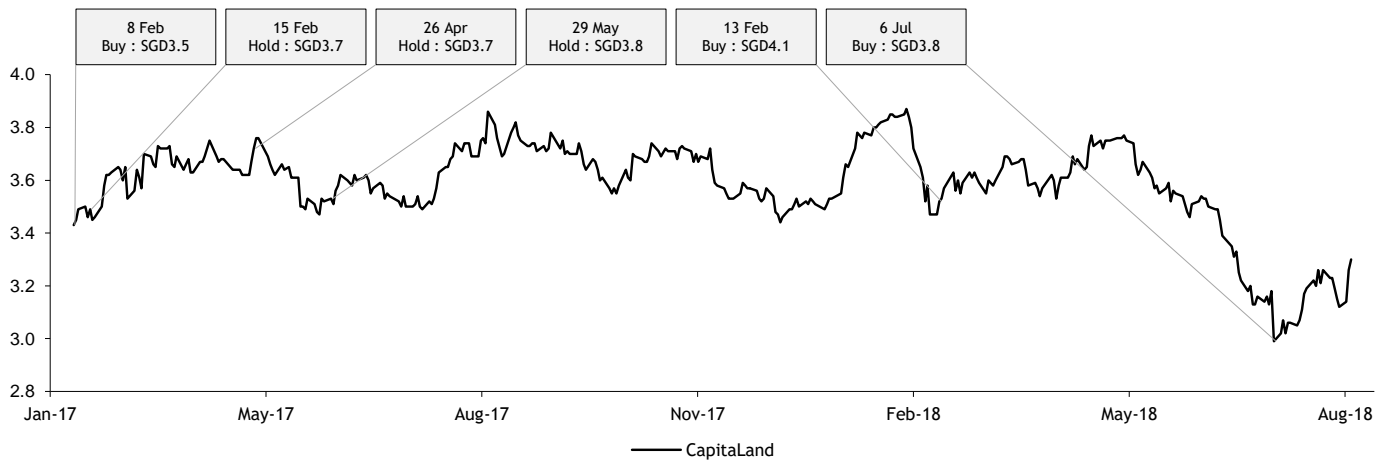
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