

CapitaLand (CAPL SP)

Venturing Into New Asset Class

Maintain BUY; TP SGD3.80

CapitaLand is acquiring 16 multi-family properties in the US. This is a new asset class for the group and is part of its pursuit of new businesses and income streams. We see the acquisition as a relatively low-risk proposition with stable income that could be enhanced with active management. We keep forecasts unchanged pending deal completion. Maintain BUY and SGD3.80 TP, at a 30% discount to RNAV.

Putting a billion dollars to work

Acquired for USD835m or SGD1.14b, these suburban Class B properties are located in Seattle, Portland, Greater Los Angeles and Denver. The acquisition price is in line with CBRE's valuation of SGD845m. They have a total of 3,787 units with average occupancy of over 90%. Leases are typically signed for one year with 50-60% retention rates. Average length of stay is two years. It expects to continue investing in the deep multi-family market in the US worth over USD3.3t and sees potential for a separate spinoff in the future.

Accretion from positive carry & enhancements

Management guides that the portfolio has cap rates that are close to market levels of 5.0-5.5%. The purchase will be fully funded by USD debt to hedge FX risks. While property yields have a small spread over its 4% funding cost, management sees the potential for rental uplifts with asset enhancement. It expects to spend about USD50m over the next 2-3 years on enhancement. Overall, it sees 1.4% EPS accretion, based on 2017 pro-forma earnings. Prospective returns are expected to track historical levels of close to 10% pa.

Initial remarks from new CEO

Separately, newly-appointed CEO Mr Lee Chee Koon addressed the sell-side community for the first time. He flagged three focuses for the group. Firstly, he aims to step up capital recycling to enhance returns. Various recently completed projects are potential candidates. Secondly, he wants to increase its development pipeline and work towards a 20:80 split between trading and investment properties. Lastly, he aims to lift fee income.

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)	12.1	10.8	10.6	13.6	13.1
P/BV (x)	0.7	0.8	0.7	0.7	0.7
Net dividend yield (%)	3.3	3.4	4.0	4.3	4.6
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	-	-	1,131	1,126	1,177
MKE vs. Consensus (%)	-	-	29.7	1.9	1.0

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BUY

Share Price	SGD 3.28
12m Price Target	SGD 3.80 (+16%)
Previous Price Target	SGD 3.80

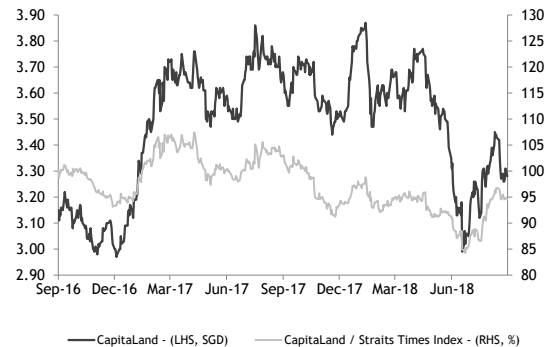
Statistics

52w high/low (SGD)	3.87/2.99
3m avg turnover (USDm)	25.9
Free float (%)	59.7
Issued shares (m)	4,274
Market capitalisation	SGD14.0B
	USD10.2B

Major shareholders:

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

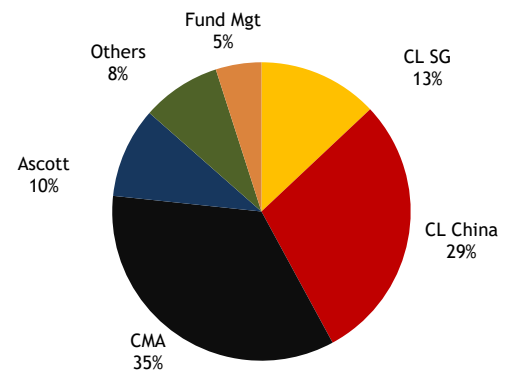
Price Performance



	-1M	-3M	-12M
Absolute (%)	(0)	(3)	(10)
Relative to index (%)	1	3	(9)

Source: FactSet

Exposure summary (% of valuation)



Source: Company, Maybank Kim Eng

Fig 1: 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)			

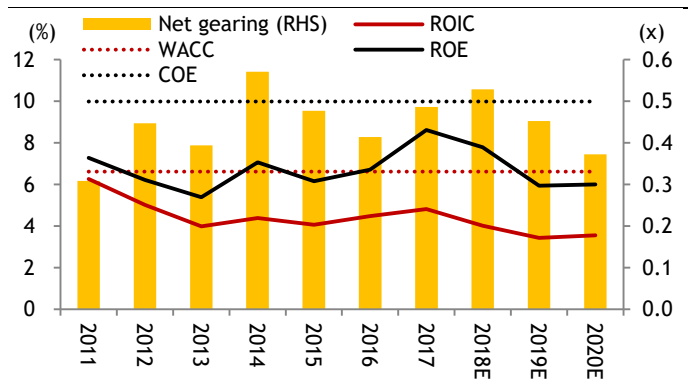
No material impact on RNAV if we use market values for its REITs instead of our TPs.

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

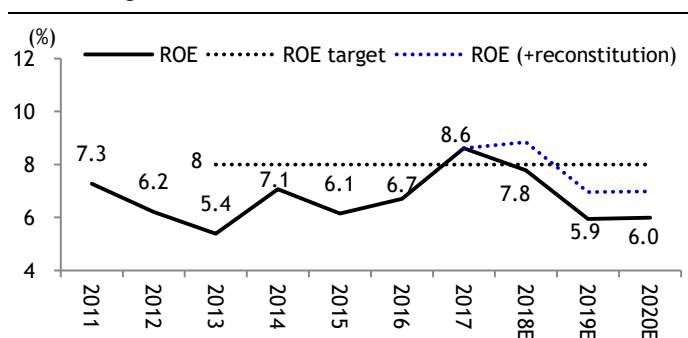


Source: Company, Maybank Kim Eng

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 2Q18, management guided that over 8,000 homes worth CNY16.2b in China are expected to be handed over from 3Q18 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.

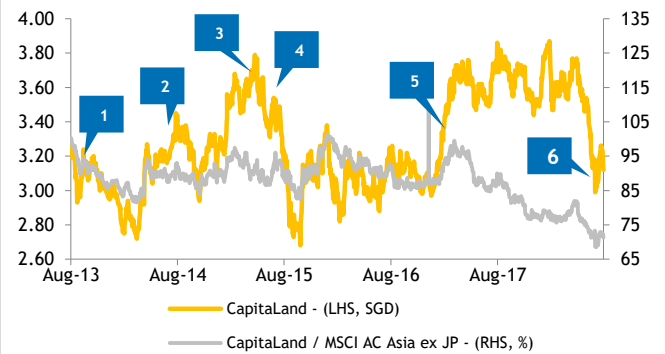
ROE vs target ROE of >8%



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	9.5	12.1	11.7
Core P/E (x)	12.1	10.8	10.6	13.6	13.1
P/BV (x)	0.7	0.8	0.7	0.7	0.7
P/NTA (x)	0.7	0.8	0.7	0.7	0.7
Net dividend yield (%)	3.3	3.4	4.0	4.3	4.6
FCF yield (%)	29.2	15.6	20.8	25.5	26.9
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
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
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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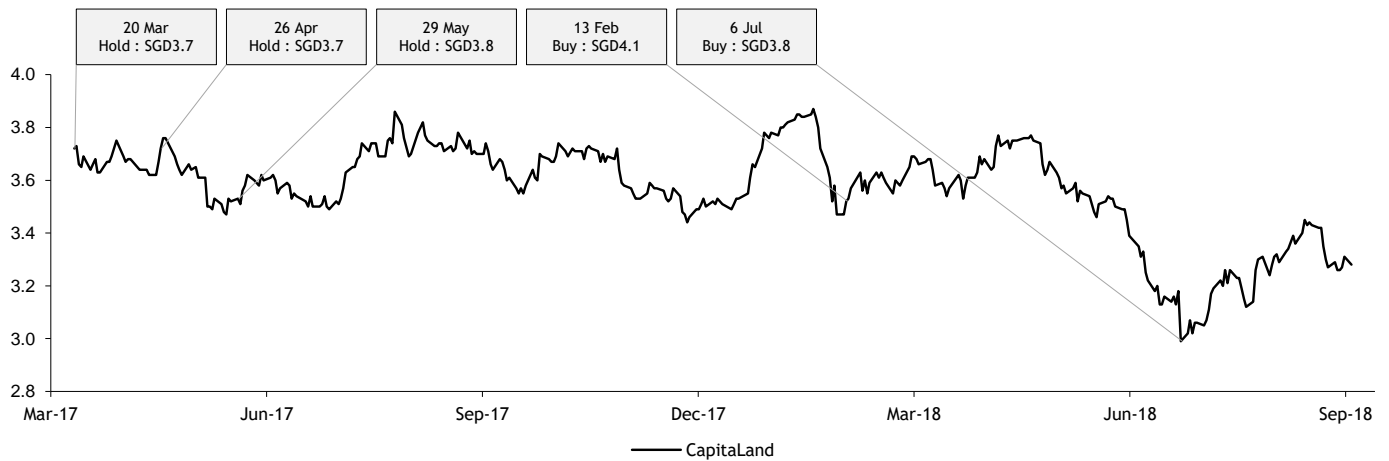
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