PhillipCapital

CapitaLand Limited

Period of reckoning when efforts bear fruits

SINGAPORE | REAL ESTATE | INITIATION

3 April 2017

Investment Merits

- **Period of reckoning when efforts start to bear fruit**
  In 2017, a record one million square metres of retail GFA is set to be opened, which will be CapitaLand (CAPL)'s largest ever retail GFA offering in a single year. Close to 90% of this record offering in 2017 will be in China. The new total retail GFA due to open in 2017 represents c.10% of CAPL's total global retail exposure (including Integrated developments, IDs). In particular, the total new retail GFA in China represents a significant c.13% of the total retail GFA (including IDs) CAPL has built up in China over two decades since its entry in 1994.

- **Majority of launches in CY17 are in Chinese cities currently facing undersupply; Recent tightening of capital controls could lead Chinese homebuyers to turn inwards despite cooling measures**
  CAPL China plans to launch 8,430 units for sale in CY17 across 11 cities in China (Refer to Figure 18). Out of these 11 cities, eight of them have been facing at least a mild undersupply condition in the past six months since September 2016. The recent tightening of capital controls which surmounted the difficulties of Mainland Chinese to purchase overseas properties could lead them to turn towards domestic markets despite the recent implementation of cooling measures across Chinese cities.

- **Tapping on key competitive advantage to evolve into Asset Light Model for more sustainable future growth**
  CAPL's new asset light management contract model for retail acts as a kicker for ROE, allows CAPL to expand network and brand visibility without huge capital expenditure, and paves the way for future acquisition as they take on management contract roles for third party malls with a right of first refusal. A similar contract management model adopted by Ascott also allows it to scale up rapidly, and achieve its target of managing 80,000 units by 2020, a CAGR of 16% from 2017-2020. We are optimistic that the Group is able to accelerate management contract wins given its ongoing success on shopping mall management.

Initiating coverage with "ACCUMULATE" rating and target price of S$4.19

We initiate coverage on CAPL with an ACCUMULATE rating as the Group's expansion into China progressively start to bear fruits. Applying a 20% discount to our FY17 full-year RNAV estimates, which is consistent with the 7-year average post GFC discount to book, and a discount our house views as appropriate for big cap developers, we arrive at a target price of S$4.19.

ACCUMULATE (Initiation)

LAST DONE PRICE	SGD 3.63
FORECAST DIV	SGD 0.10
TARGET PRICE	SGD 4.19
TOTAL RETURN	18.2%

COMPANY DATA

O/S SHARES (MN) :	4,247
MARKET CAP (USD mn / SGD mn) :	11033 / 15417
52 - WK HI/LO (SGD) :	3.79 / 2.85
3M Average Daily T/O (mn) :	13.02

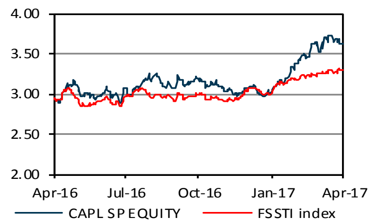
MAJOR SHAREHOLDERS (%)

TEMASEK HOLDINGS	410%
BLACKROCK	6.0%
BLACKROCK ADVISORS	12%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	(0.3)	20.2	217
STI RETURN	2.74	10.71	16.32

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

SGD MN	FY15	FY16	FY17e	FY18e
Revenue	4762	5252	5307	4245
Gross Profit	1475	1598	1698	1401
EBIT	1590	1652	1797	1476
EPS (SGD)	0.25	0.28	0.30	0.25
PER, x (adj.)	13.4	10.8	12.0	14.7
P/BV, x	0.9	0.7	0.9	0.8
DPS (SGD)	0.09	0.10	0.10	0.10
Div Yield, %	2.7%	3.3%	2.8%	2.8%
ROE, %	6.0%	6.8%	6.8%	5.3%

Source: Company Data, PSR est.

Valuation Method

RNAV

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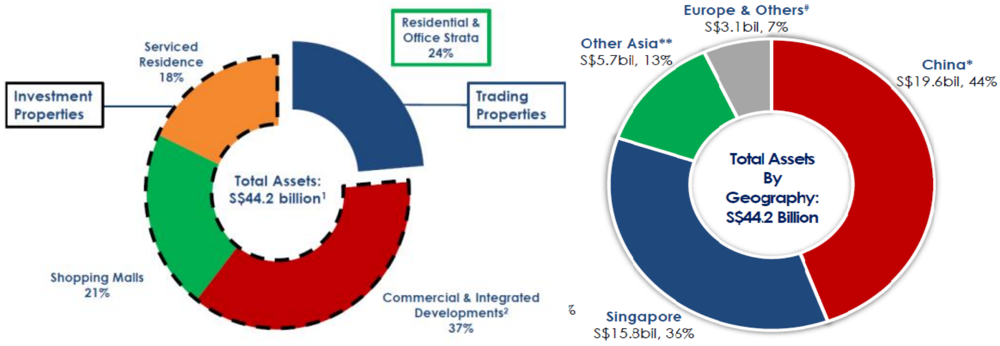
MCI (P) 118/10/2015
Ref. No.: SG2017_0067

Company Background

Move towards recurring income and expanding presence in China

Singapore and China account for 80% of CAPL's total assets. As a result of a strategic shift towards recurring income, 76% of total assets now belong to the investment properties category, contributing to recurring income and smoothing out the lumpiness in earnings from the trading properties segment (24%). Singapore and China now make up two of the largest markets for the Group.

Figure 1: Group Total Assets by asset type and geography

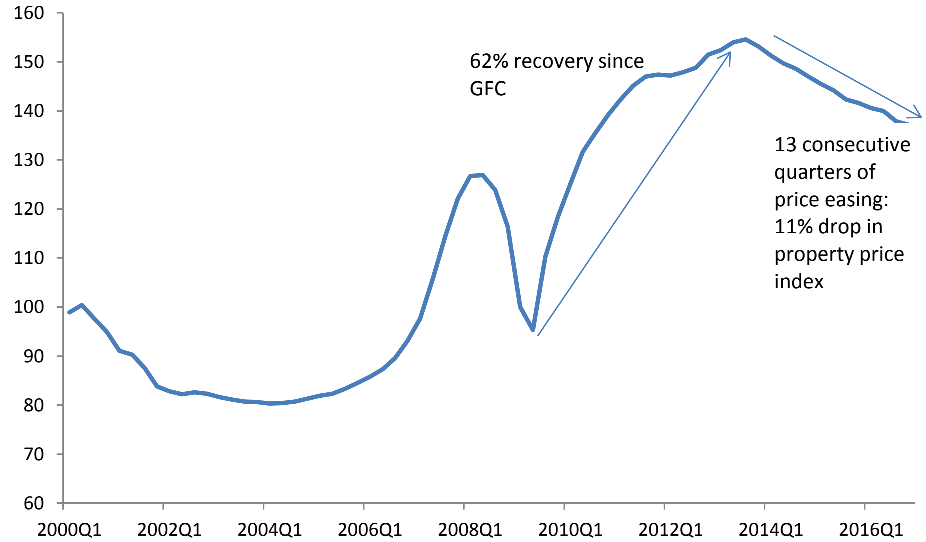


Source: Company

Singapore Residential: Well executed with minimal ABSD/QC extension charges risk except for Victoria Park Villas (ABSD)

Structural and regulatory challenges in the Singapore market have led to CAPL adopting a cautious approach to Singapore residential development projects. Restrictive property cooling measures since 2010, together with the government adopting a more cautious approach to population growth since the 2010s which curtailed demand, resulted in Singapore's property price index dropping c.11% from its peak in 3Q2013 to 4Q2016.

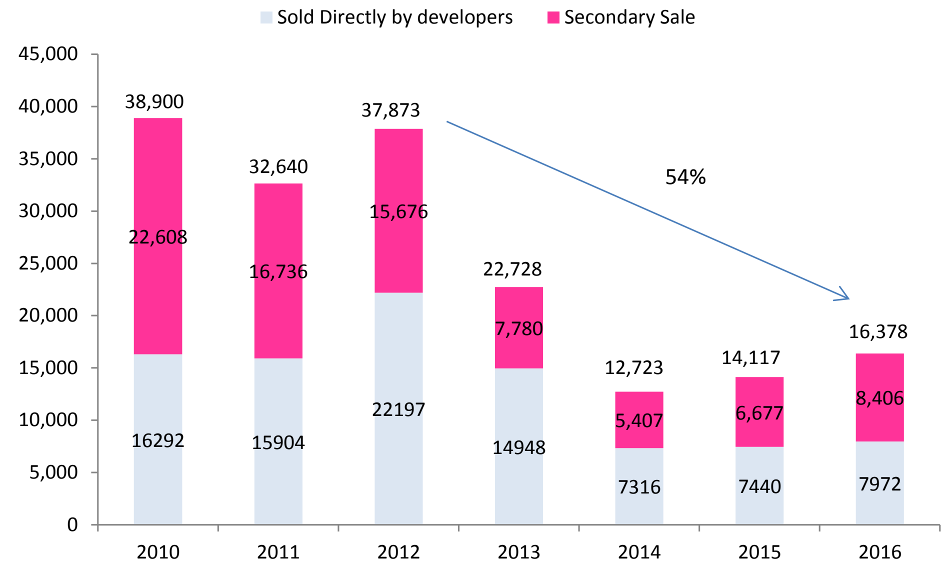
Figure 2: Singapore Private Property Price Index dropped 11% from peak in 3Q13 with 13 consecutive quarters of price easing



Source: CEIC, Phillip Securities Research (Singapore)

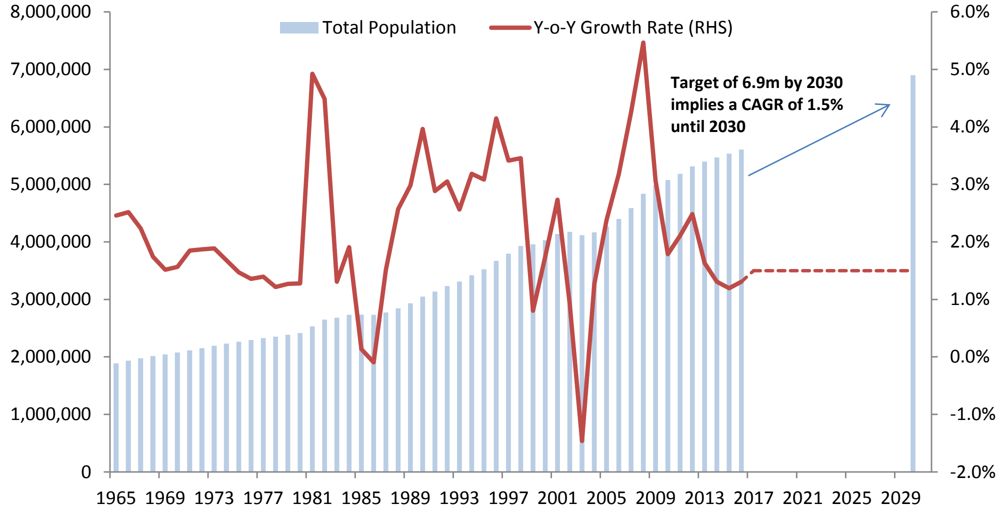
The 2013 Population White Paper has projected for workforce growth rates at 1-2% per annum for the rest of this decade and about 1% p.a. until 2030 (Fig 4). This contrast starkly with the average of 2.8% in the 1990s and 2.5% in the 2000s. As a result of the slowing population growth, we do not expect the record home sales volume witnessed in the 3 years post GFC from 2010-2012 (Fig 3) to be sustainable or repeated. We expect earnings for CAPL in the next 5 years to be driven heavily by investments in China, with Vietnam also playing an increasingly important role in the portfolio.

Figure 3: Total Singapore residential sales volume dropped 54% from 2012



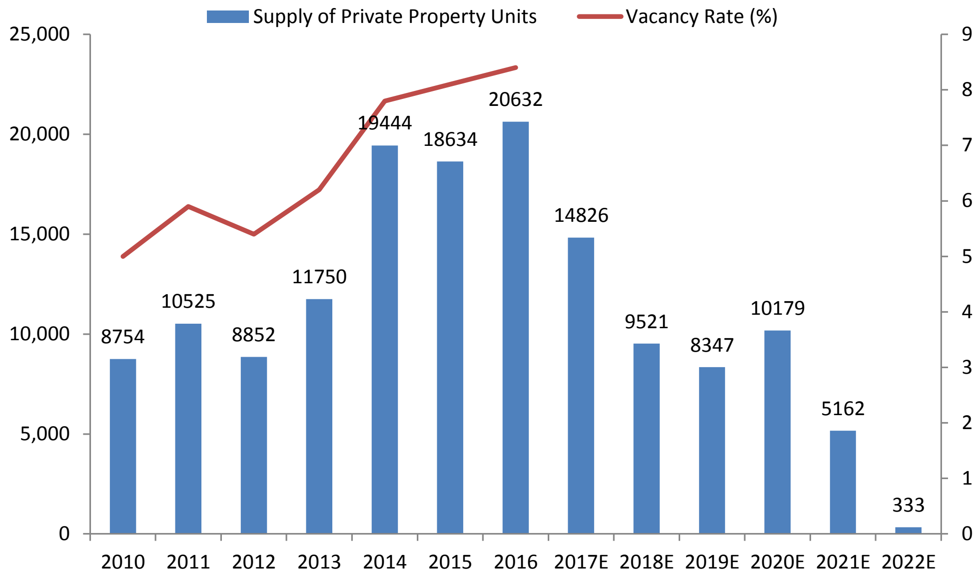
Source: CEIC, Phillip Securities Research (Singapore)

Figure 4: Total Singapore Population Growth will slow from the average of 3.1% in the 1990s to 2.4% in 2000s



Source: Singstats, Phillip Securities Research (Singapore)

Figure 5: Supply of Singapore private residential units peaking in 2016: To gradually taper off from 2017



Source: URA, Phillip Securities Research (Singapore)

CAPL's Singapore inventory stock at S$1.7bn is c.4% of total assets. In 2016, CAPL sold 571 residential units with a total sale value of S$1.42bn. With dwindling inventory and a thinning land bank (which includes only a 19,330sqm site at Yio Chu Kang acquired in 1999), we expect CAPL's sales value for Singapore residential properties to taper off in the next two years. Government residential land sales has also been moderating since 2012 to reach c.4.4mn square feet in 2016, a 75% decrease from the peak in 2012. We do not expect government land sales to rebound strongly over the next few years so as to allow the market to absorb the increased supply these few years which has resulted in rising vacancy rates. 2Q2016 vacancy rate of 8.9% is the highest since 2000.

Hence, CAPL is likely to reduce exposure to Singapore residential sector as a proportion of total portfolio as the Group continues to deploy funds into higher growth markets like China, and Vietnam. We note however, that the recently announced plans by the government to adopt the Master Developer approach to revamp Kampong Bugis, could present opportunities for CAPL given the scale of the project and the track record CAPL has in developing big scale projects such as integrated developments and townships.

Catalyst: Not much catalyst to come from Singapore Residential but downside risks minimal. Possible catalyst could also come from involvement in the redevelopment of Kampong Bugis site announced by the government on 8 March 2017

Figure 6: List of existing projects with deadline for QC/ABSD charges

Project	Total Units	Units Sold	% of launched units sold	**% of total units sold**	% completed	ABSD/QC due	Total Land Cost (S$mn)	Land Cost/S$ psf	Est Year 1 QC Extension/ ABSD Charge (S$mn)	Average Selling Price so far (S$)	Year 1 Extension Charge on psf basis (over remaining units)	Extension charge as a % of average selling price
Cairnhill Nine	268	237	88%	**88%**	100%	Sep-17	336	1200	43 (ABSD)	2449	Low Risk	Low Risk
Victoria Park Villas	109	20	63%	**18%**	63%	Jun-18	366	908	46 (ABSD)	1990	130.65	6.6%
Marine Blue	124	46	74%	**37%**	100%	Oct-18	101	1056	6	1736	Low Risk	Low Risk
Sky Habitat	509	381	75%	**75%**	100%	-	550	869	NA	NA	NA	NA
Bedok Residences	583	573	98%	98%	100%	Substantially sold, little risk of extension penalties						
d'Leedon	1715	1649	96%	96%	100%							
Sky Vue	694	685	99%	99%	100%							
The Interlace	1040	1004	97%	97%	100%							
The Nassim	55	10	50%[1]	100%	100%							
The Orchard Residences	175	170	97%	97%	100%							

Source: Company (Dec FY16 Company Results Slides), URA

[1]Remaining 45 units sold to Kheng Leong Company in bulk in Jan 2017

Excluding the projects which are substantially sold (>95%), CAPL face ABSD/QC extension charges for Cairnhill Nine, Victoria Park Villas and Marine Blue. Given the positive sales momentum for Cairnhill Nine and Marine Blue, we expect CAPL to be able to clear unsold inventory by September 2017 and October 2018 respectively before the ABSD/QC charges set in.

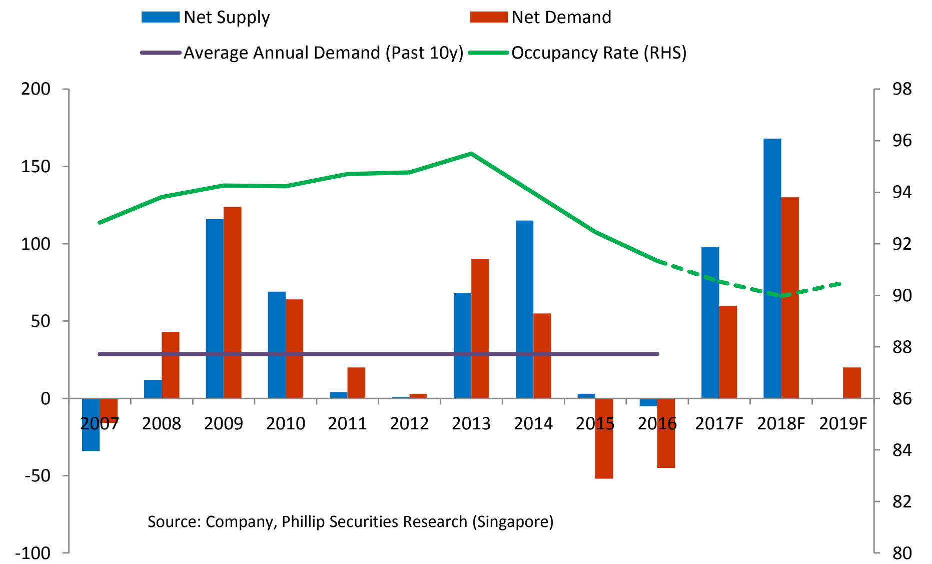
However, we expect sales for Victoria Park Villas though to remain slow given the large selling price quantum of each semi-detached house (>S$4mn) and the restrictions against foreigners from buying landed property in mainland Singapore. CAPL has sold 20 out of 109 units since July 2016. ABSD charges of c.S$46mn for Victoria Park Villas, due June 2018, would constitute 5.5% of FY16 operating PATMI. Although we are of the view that the latest capital control measures by the Chinese government may dampen Chinese appetite for overseas property investments, this dampening of Chinese appetite for overseas property would not affect Victoria Park Villas as foreigners would not have been allowed to buy in the first place. The ABSD charges for Victoria Park Villas work out to be about S$131/psf of the remaining unsold units, or 6% of the average selling price so far. We would not be surprised if CAPL decides to drop the price by this amount or more going forward in view of the slow sales momentum.

On current inventory, we expect local demand to sustain for smaller quantum units (Low S$1m range) on back of affordability and still low interest rates. Our channel check suggests foreigner enquiries are rising for higher end properties. This would likely benefit sales for the remaining units of Marine Blue.

Singapore Malls: Operating performance has stayed weak due to negative retail sales since 2012

General retail malls have endured a difficult environment of late. Net absorption of shop space in 2016 hit -45,000sqm, the second consecutive year of a negative net absorption of shop space. General island wide occupancy has also been trending down since hitting 96% in 2013 to 91% in 2016. The lacklustre performance of retail malls can be attributed primarily to the flat to negative retail sales since 2012.

Figure 7: Singapore shop space demand and supply



In terms of supply, the main upcoming retail supply for 2017 includes the Singapore Post Centre and retail component of Marina One (The Heart). The rest of the supply consists of a mixed-use developments and projects such as Vision Exchange, Royal Square at Novena, DUO Galleria, and Farrer Square. Although we expect retail sales this year to clock an improvement over last year, we expect rental reversions to continue to face pressure due to peak rents signed in the 2004/2005 period due for renewal.

Figures 8 and 9: Left: Singapore malls (under CapitaLand Mall Trust) Operating statistics. Right: Singapore annual retail sales y-o-y growth

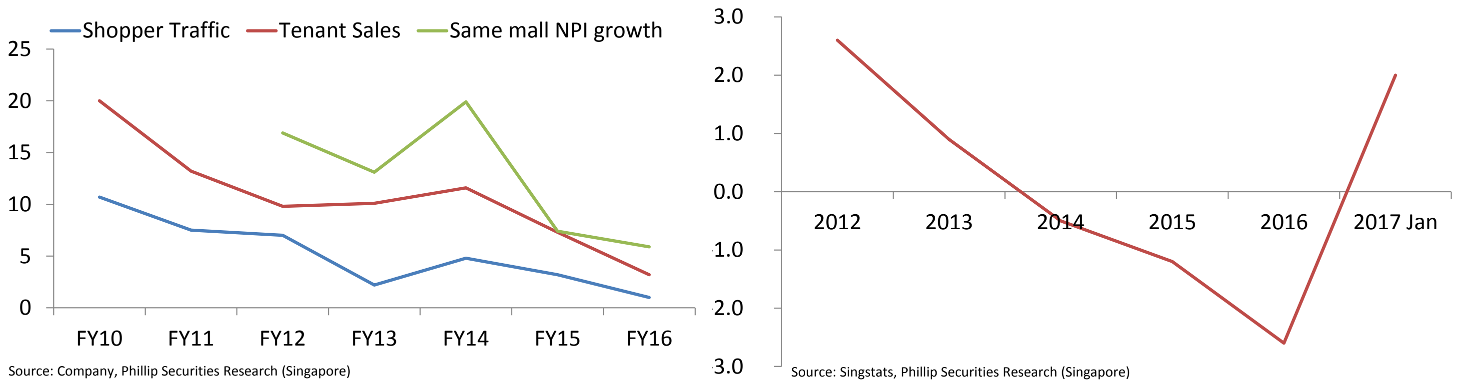


Figure 10: Major mall openings over next 3 years

Mall	Location	Region	Expected year of opening	Size of retail space ('000 sq ft)
Marina One (The Heart)	Marina Way	Central Area	2017	198
Singapore Post Centre AEI	Eunos Road 8	Outside Central Area	2017	269
Tripleone Somerset AEI	Somerset Road	Central Area	2018	122
City Gate	Beach Road	Central Area	2018	102
Changi Jewel	Airport Boulevard	Outside Central Area	2018	968
Northpoint City	Yishun Central	Outside Central Area	2018	420
Paya Lebar Quarter	Paya Lebar Road	Outside Central Area	2018	475
Funan (AEI)	North Bridge Road	Central Area	2019	537

Source: URA, Phillip Securities Research (Singapore)

Figure 11: Pipeline of malls opening for CAPL by country

Country	Opened	Target to open 2017	Target to open 2018/beyond	Total
Singapore	17	-	2	19
China	56	6	4	66
Malaysia	6	1	-	7
Japan	4	-	-	4
India	4	1	3	8
Total	87	8	9	104

Source: Company

Despite short term challenges in the retail scene, CAPL has a good network of malls which are strategically located at important transportation hubs across the island. Last week, CAPL signed its first third party mall management contract in Singapore for the retail mall at the new SingPost Centre, which will open 2H17. Apart from capitalising from the central locations of the malls, CAPL has also been quick to embrace digital strategies to improve the experience for tenants and shoppers as new shoppers look for fresher shopping experiences in the wake of the numerous options provided through e-commerce.

Catalyst: Digital strategies in malls, Opening of Jewel, Changi Airport and Funan in 2019

Faced with the challenges of e-commerce, CAPL has embarked on a series of digital strategies to reinvent itself and appeal to retailers and shoppers alike. Firstly, operational efficiency is being enhanced through the harnessing of technology to streamline processes such as the In-Mall Distribution pilot at Tampines Mall and Bedok which reduced queueing times for delivery trucks by close to 70% to an average seven minutes. Apart from benefitting retailers, this also eases road congestion around the malls resulting in a better experience for shoppers who drive into the malls.

In 2015 and 2016, CAPL also piloted an “Order online and Pick up later” service called “Food to Go”, for F&B outlets in Raffles City and Star Vista, helping retailers bridge the online-to-offline (O2O) gap, especially in challenging times as such where retailers are facing increasing costs and lacklustre retail sales.

As the biggest scale mall owner/operator in Singapore, this also gives CAPL sufficient leverage and scope to carry out projects with economies of scale. Singapore’s first onsite centralised dishwashing facility opened in IMM (owned by CapitaLand) in 2015. Built as part of a collaboration between CapitaLand and various government agencies including SPRING Singapore which provided 70% of funding, such facilities allow F&B outlets to enhance productivity of labour and shop space.
These initiatives combined allow CAPL to build on their scale of malls to roll out measures to improve the overall experience of tenants and shoppers in the new age technology-driven shopping scene.

The opening of Jewel Changi Airport and Funan in 2019 provides a catalyst for CAPL not only in earnings but also a platform for CAPL to showcase the reinvention and creative concepts the developer could possible bring to future projects. Incorporating a high level of technological sophistication, the redeveloped Funan will integrate lifestyle and technology into the everyday shopping experience. Innovative features such as hands free shopping service, a drive-through click–and-collect, high tech food court with tray return robots and food collection conveyor belts, smart car parking are all part of the “futuristic” mall. Jewel at Changi Airport which is slated to open by 2019, will boast a gross floor area of about 134,000 sqm, making it one of the largest shopping mall in Singapore after

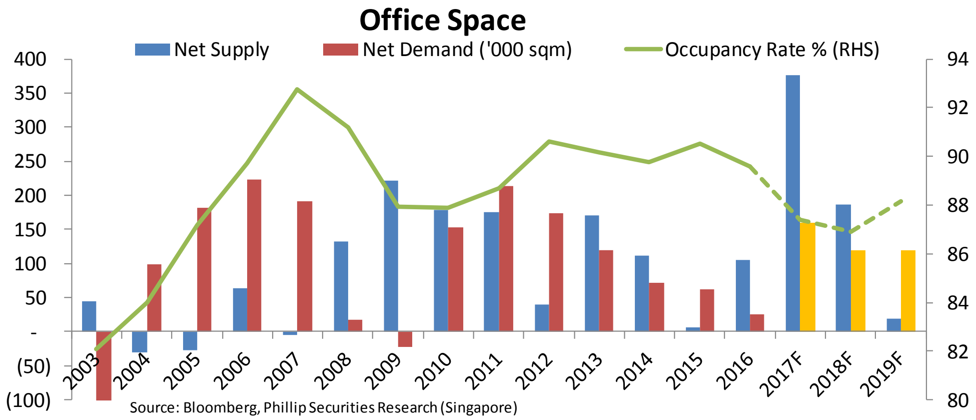
Vivocity. Jewel is poised to benefit from the increase in passenger capacity and traffic at Changi with the opening of Terminal 4 in 2017 and Terminal 5 by c.2025. Terminal 5 in particular will increase passenger capacity of the airport by c.60% to c.140mn passengers.

Singapore Office Sector: Demand in improve in 2017 but Rents to bottom only in 2018

Net office demand saw its fifth consecutive year of contraction in 2016, culminating in net office demand of 26,000 sqm. in 2016. Nonetheless, the limited supply over these few years meant that occupancy stayed relative flat at 90%. Downsizing and relocation of operations overseas by banks, the traditional major occupiers of CBD space, contributed to the declining net demand, notwithstanding increased demand by sectors such as Technology.

Broad structural developments in recent years could also affect the potential demand of office space in Singapore. Singapore's shift away from a liberal immigration policy which will inevitably lead to slower workforce population growth, increasing trends of decentralization away from city centre to ease the city congestion through setting up of suburban commercial hubs, technological advancements allowing people to work from home, and broader government calls encouraging employers to allow flexible work arrangement schemes, such as allowing employees to work from home initiative to encourage increased participation for labour force all serve to slow down the demand growth for city centre office space.

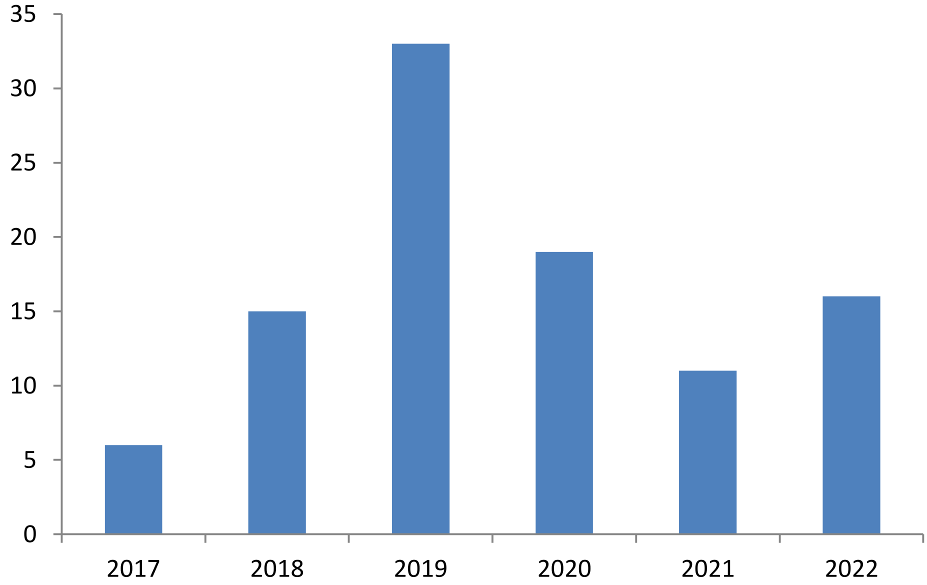
Figure 12: Singapore office demand and supply. We expect office rents and occupancy to bottom in 2018.



We think net office demand could have seen a bottom in 2016 and would likely pick up in 2017 on the back of stabilising and gradually improving economic conditions especially in US and Europe. The huge supply in 2017 though could force rents to see a bottom only in 2018. We therefore expect occupancy and office rents to bottom only in 2018.

CAPL's exposure to office space in Singapore, held under its 32% owned REIT CapitaLand Commercial Trust (CCT), will see 6% and 15% of leases expiring (by monthly gross rental income) in 2017 and 2018 respectively. We therefore expect to see negative reversions especially in 2018 for Six Battery Road and One George Street, though the impact will be negligible on the CAPL portfolio level.

Figure 13: Percentage of leases expiring (by gross monthly rental income) for CAPL's SG office exposure. We expect pressure on rental reversions in 2017 and 2018.



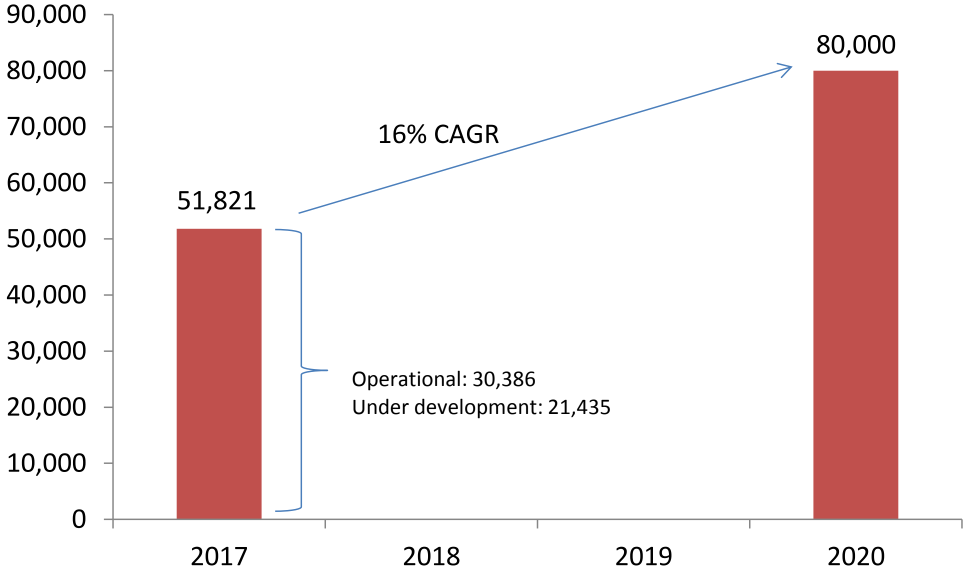
Source: Company, Phillip Securities Research (Singapore)

Catalyst: The redevelopment of Golden Shoe Car Park which is expected to yield 1mn sq ft of office space upon completion in 2021.This represents c.25% of the 4mn sq ft of Singapore office space that CAPL holds under CCT.

Ascott: Scaling up with an asset light model

In 2016, Ascott secured c.10,500 units in 49 properties, the highest increase in inventory count in a single year. These additions are expected to contribute S$25-S$30mn of fee income annually once stabilised, a c.20% to the S$149.3mn fee income generated by operational units in FY16.

Figure 14: Total number of serviced residences units under Ascott. Company targets a 16% CAGR to 80,000 by 2020.



Source: Company, Phillip Securities Research (Singapore)

New Management Contract model for retail malls a "Triple-Win". Ascott also adopting similar strategy

In August 2016, CAPL signed their first management contract to manage the retail component of Fortune Finance Center in Changsha, Hunan, China. This marks the beginning of CAPL's enhanced asset-light strategy for its mall business, to complement its core strategy of developing, owning and managing malls. In January and March this year, CAPL signed on a few two mall management contracts in Xi'an and for the new SingPost Centre mall in Paya Lebar. We are optimistic on the new asset-light strategy and thinks it achieves a "Triple-Win" for CAPL.

Asset light model that improves ROE

The typical property development business is a capital intensive model which by nature of the capital intensive nature and long duration of projects is a drag on the ROE of the business. By slowly evolving into an asset-light model through asset management contracts for retail malls and hotels, this provides a strong kicker to ROE due to efficient flow through of fees with minimum capital outlay.

Allows CAPL to expand Network and brand visibility without huge capital expenditure

Expanded scale and network of malls allows for economies of scale. With an enlarged number of malls that will now grow even faster with a management contract model, CAPL can benefit from the scale and network effect to boost their leasing efforts with an expanded mall and retailer network and enhance the effectiveness of the shopper loyalty programme across different CAPL malls.

Managing quality third party malls where CAPL has a right of first refusal to acquire paves way for future acquisition

This allows CAPL to tap on its core expertise in mall management in maximizing the value of the mall. For desirable malls in strategic locations, CAPL will also have the option to acquire with the right of first refusal.

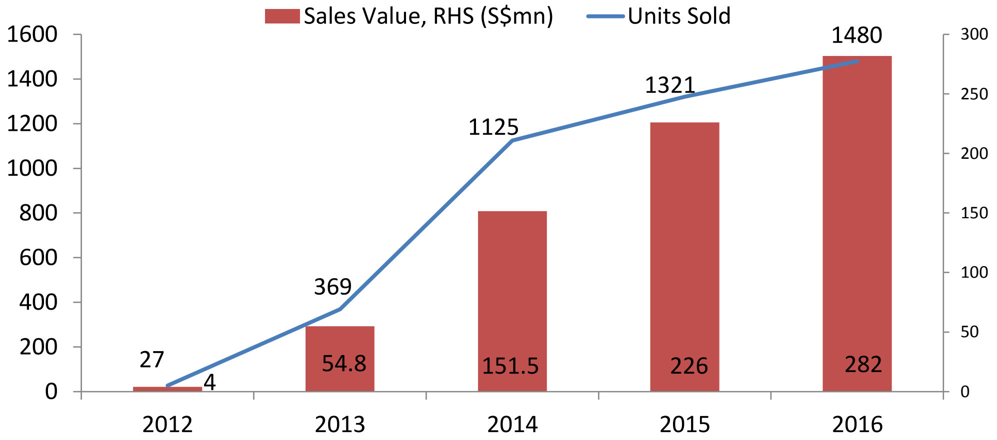
Vietnam Residential

Vietnam: The new factory of the East

Vietnam clocked an average GDP growth of 6% per annum over the last decade. GDP growth in 2016 was 6.2% which ranks amongst one of the fastest growing economies in the world. According to Prime Minister Nguyen Xuan Phuc, the government targets a 6.5-7% growth from now until 2020. Driven by an export market which remained resilient to a global trade slowdown, manufacturing activities in Vietnam remained strong as foreign investments continued to stream in attracted by the country's young population and lower wages than those in China.

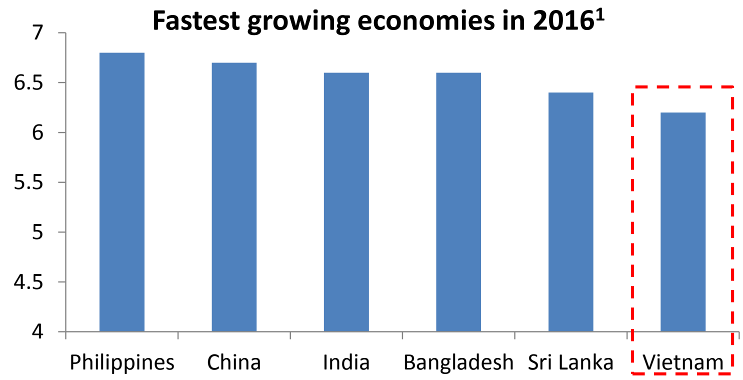
CAPL sold a total 1,480 units in FY16 with a total sales value of S$282mn, 19% that of Singapore ($1.4bn) and c.8% that of China's (S$3.62bn). In January this year, CAPL acquired a prime commercial site in the Central Business District of Ho Chi Minh to develop the Group's first Grade A office tower in Vietnam. We expect CAPL to continue its deployment of capital into the country due to its rapid economic expansion.

Figure 15: Number and sales value of residential units sold in Vietnam

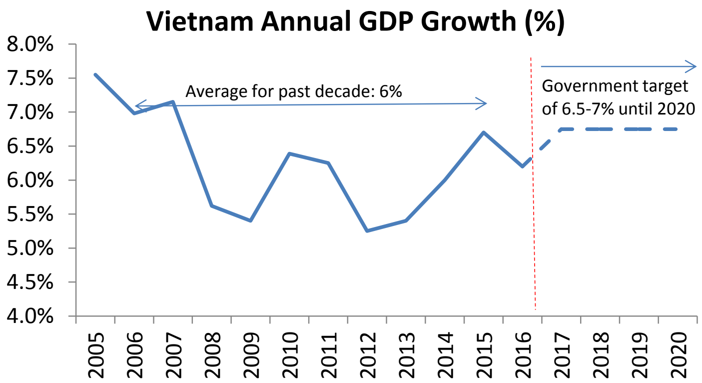


Source: Company, Phillip Securities Research (Singapore)

Figures 16 and 17: Left – Vietnam was one of the fastest growing economies in 2016. Right – Vietnamese government has targeted 6.5-7% growth p.a. until 2020.



Source: Bloomberg, CNN, IMF, Phillip Securities Research (Singapore)



Source: Bloomberg, Phillip Securities Research (Singapore)

[1]Excluding some of the small economies

China Property Development

Rich pipeline of China residential units able to last till FY20; 8,430 units expected to be ready for launch in CY17

CapitaLand China plans to launch 8,430 China residential units (20% of total pipeline) in CY17 out of a total pipeline of 40,180 units in China. Out of these new units to be launched, 87% of them are from Tier one and two cities where these cities have registered solid growth in the past few years due to a declining supply and resilient demand. Despite solid absorption of units under the Group’s portfolio, we are expecting the Group to adopt a cautious stance towards future land acquisitions in China amid near term uncertainties in the current market as the Chinese government signals their intentions to cool the property market. Even if no new land acquisitions are made, we estimate that the existing pipeline of new units in China to last till FY20 with an average launch of 10,000 units annually.

Figure 18: New China residential units to be launched in CY17

Project Name	Stake	City	Sales Start	Units to be launched in CY17	Units to be launched at a future date	Launched but unsold	Sold units	Total units
				Tier 1				
Vermont Hills	100%	Beijing	2015	87	675	42	132	936
New Horizon (Phase 2)	95%	Shanghai	2016	485	1	5	275	766
Citta di Mare	45%	Guangzhou	2017	577	3,685	-	-	4,262
Datansha	80%	Guangzhou	2017	609	313	-	-	922
				1758				
				Tier 2				
La Botanica	38%	Xi'an	2008	2434	12,496	190	13,289	28,409
Lake Botanica	60%	Shenyang	2009	398	4,427	434	3,821	9,080
The Lakeside	100%	Wuhan	2012	354	968	7	939	2,268
Parc Botanica	56%	Chengdu	2013	1033	1,097	-	1,700	3,830
Century Park (East)	60%	Chengdu	2016	648	1,012	110	111	1,881
Summit Era	100%	Ningbo	2015	363	-	103	619	1,085
Raffles City Residences	63%	Chongqing	2016	286	818	170	45	1,319
Skyview (Raffles City Hangzhou - Tower 2)	55%	Hangzhou	2017	45	-	-	-	45
				5561				
				Tier 3				
The Metropolis	100%	Kunshan	2010	1111	461	9	4,164	5,745
Total				**8,430**	**25,953**	**1,070**	**25,095**	**60,548**

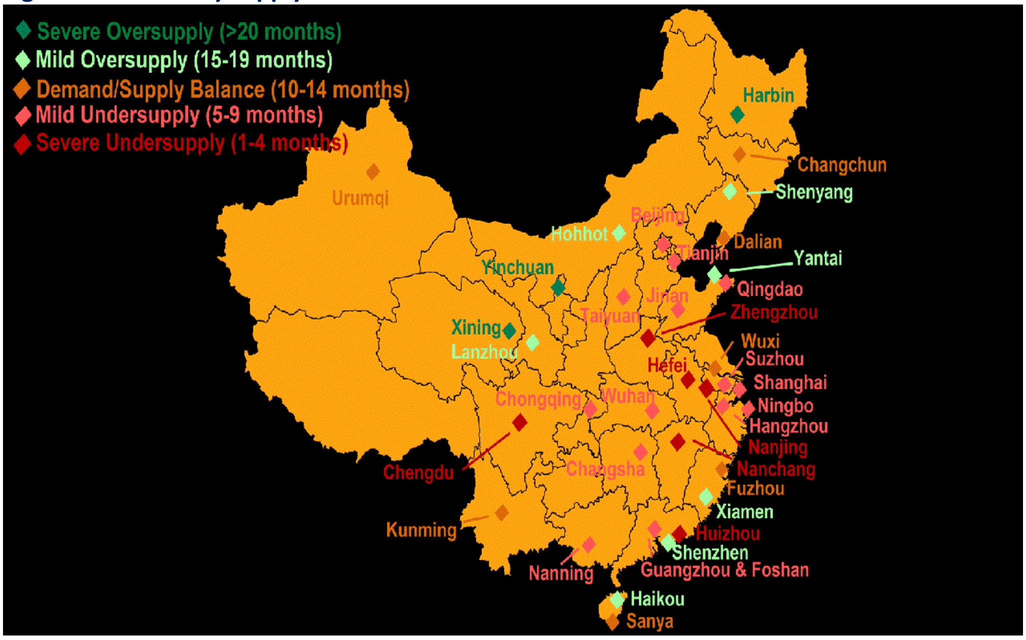
Source: Company, Phillip Securities Research (Singapore)

8 out of 11 launches in CY17 are in Chinese cities currently facing undersupply; Expect near term demand to stay healthy despite cooling measures

CapitaLand China plans to launch 8,430 units for sale in CY17 across 11 cities in China (Refer to Figure 18). Out of these 11 cities, eight of them have been facing at least a mild undersupply condition in the past six months since September 2016. While the other three cities such as Shenyang could face near term pressures as a result of a near term oversupply, we view that impact is material but not significant considering the launches in these three cities represent c.20% of FY17's gross development value (GDV) of RMB12.9 billion.

The implementation of property cooling measures in certain cities in China has led homebuyers to turn towards other cities that were not affected by these cooling measures. Consequently, Chongqing, Ningbo and Nanning are amongst other cities that have been registering rising demand, as inventory turnover of residential units have been gaining pace and leading to an undersupply in these cities. We expect demand for the Group's new unit launches in CY17 to stay healthy in the near term amid the undersupply conditions in the respective markets.

Figure 19: Inventory supply in different cities in China



**Inventory supply measured by inventory absorption rate in months*
Source: Bloomberg, Phillip Securities Research (Singapore)

Figure 20: Breakdown of China developments to be launched in FY17

Project Name	City	Units to be launched in CY17	Est. ASP (PSQM)	Saleable GFA (SQM)	GDV (RMB'Mn)
Tier 1					
Vermont Hills	Beijing	87	23,100	34,884	806
New Horizon (Phase 2)	Shanghai	485	18,400	42,479	782
Citta di Mare	Guangzhou	577	14,000	83,356	1,167
Datansha	Guangzhou	609	36,000	63,038	2,269
Tier 2					
La Botanica*	Xi'an	2,434	3,700	232,594	861
Lake Botanica*	Shenyang	398	6,500	33,786	220
The Lakeside	Wuhan	354	5,000	33,658	168
Parc Botanica*	Chengdu	1,033	6,800	94,343	642
Century Park (East)	Chengdu	648	20,000	76,866	1,537
Summit Era	Ningbo	363	17,700	39,153	693
Raffles City Residences	Chongqing	286	25,600	70,655	1,809
Skyview (Raffles City Hangzhou - Tower 2)	Hangzhou	45	40,000	10,374	415
Tier 3					
The Metropolis	Kunshan	1,111	13,700	111,479	1,527
Total		**8,430**			**12,895**

Source: Company, Phillip Securities Research (Singapore)

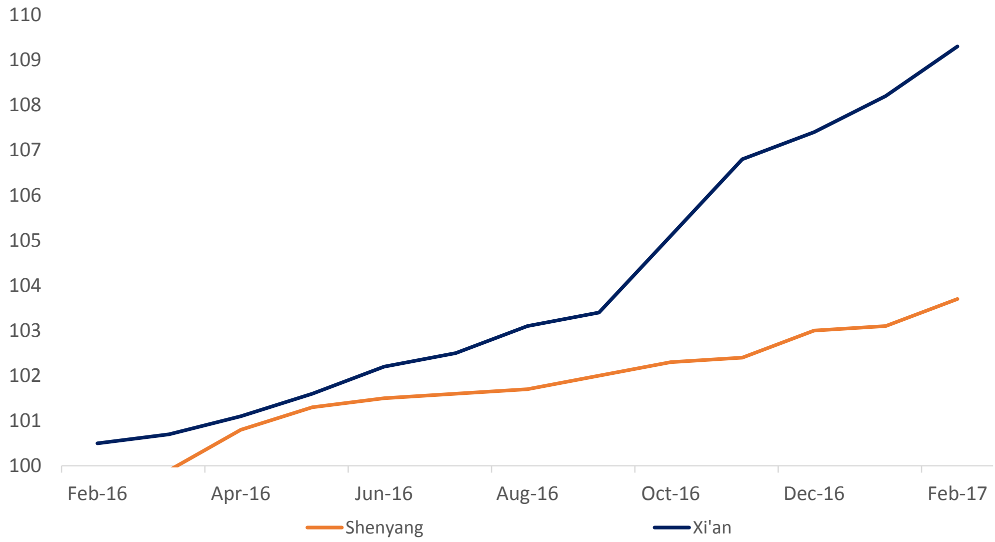
**La Botanica, Lake Botanica and Parc Botanica are township units*

Recent tightening of capital controls could lead Chinese homebuyers to turn inwards to domestic markets; cities that are not affected by recent property cooling measures

China has been boosting efforts towards decelerating the RMB outflow which has led the country's foreign reserves to hit a six-year low of US$3 trillion in March 2017. As part of its efforts to tighten capital controls, the Chinese Government has re-iterated its commitment to restrict individuals to make overseas property purchases. Between December 2016 and March 2017, the Chinese Government has stopped allowing foreign currency purchases at domestic banks to fund overseas property purchases, and Union Pay has intensified scrutiny by blocking payment of overseas property purchases. While we cannot rule out the possibilities of Mainland Chinese buyers to purchase an overseas property through other means, we anticipate more potential buyers to look inward and consider domestic property purchases thereby boosting demand for domestic properties.

We are expecting sales volume of developments in cities that are currently not affected by the recent property cooling measures to gain the most traction compared to other cities. We also observed that markets with an oversupply condition such as Xi'an and Shenyang have continued to register increasing demand despite a mild oversupply condition. CapitaLand plans to launch a development each in these two cities with a combined GDV of RMB1.1 billion in CY17.

Figure 21: Property price index of Shenyang and Xi'an

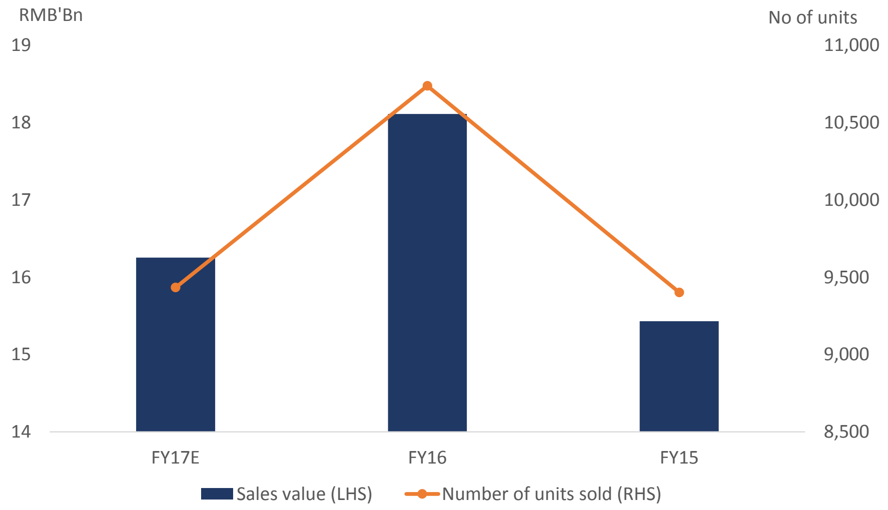


Source: CEIC, Phillip Securities Research (Singapore)

Sales value expected to decline 9% YoY to RMB16.5 billion as more township units are launched for sale; Expect more units to be released as markets continue to improve

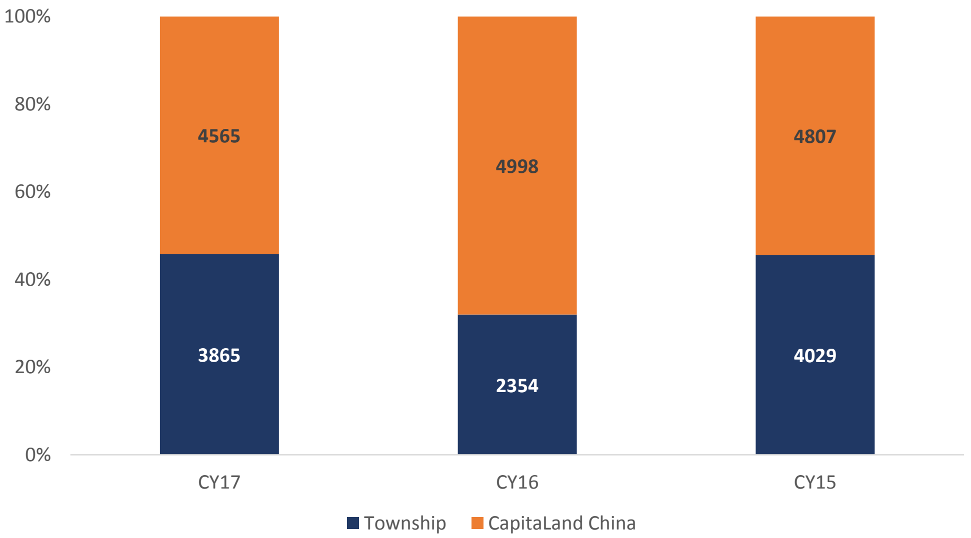
We estimate that CapitaLand will sell c.9,433 units (assuming a 90% absorption rate on 8,730 units to be launched in CY17 with an estimated GDV of RMB12.9 billion, and a 50% absorption rate of 1,752 unsold units with a projected GDV of RMB8.2 billion), translating to a sales value of RMB16.5 billion in FY17. This sales value in FY17 represents a 10% YoY decline compared to FY16 of RMB18.1 billion and is primarily attributed to more township units (13.8 ppts more compared to FY16) which will be launched for sale in CY17. Township units command a lower average selling price as they are classified as affordable housing (Refer to Figure 20). We view that the Group could release more units for sale in CY17 should the markets continue to improve.

Figure 22: Historical sales value and volume of China residential properties



Source: Company, Phillip Securities Research (Singapore)

Figure 23: Breakdown of new launches according to Capitaland China and township units



Source: Company, Phillip Securities Research (Singapore)

China Shopping Malls

Portfolio of China shopping malls continue to deliver consistent performance in the past three years; Expect performance to continue

The Group's China portfolio of shopping malls has been consistently delivering a solid set of performances in the past three years despite volatility in the Chinese economy as well as an ongoing restructuring of shopping malls in China. Same-mall shopper traffic and tenant sales has grown at an average of 3.7% and 9.8% in the past three years between FY14 and FY16. We believe that the CapitaLand's competitive strengths in being a strong mall operator has enabled its portfolio of shopping malls in China to deliver a strong set of performance year after year and we are expecting this trend to continue. Consequently, its portfolio of shopping malls in china has translated into a consistent occupancy rate in the 94% region, as well as an average same-mall NPI growth of 11.1% in the past three years. We are of the view that the Group's well-executed strategy by continuously rejuvenating its shopping malls to create a unique shopping experience are amongst reasons which explained the robust growth in shopper traffic. This came at a time where shopping malls are facing challenges such as an ongoing trend of falling shopper traffic and occupancy rates.

Figure 24: Operating statistics of shopping malls in China portfolio (same-mall basis)

Year	Same-mall NPI growth	Occupancy rate	Shopper traffic growth	Tenant sales growth
FY14	19.9%	94.8%	4.8%	11.6%
FY15	7.4%	94.2%	3.2%	7.3%
FY16	5.9%	94.5%	3.2%	10.6%

Source: Company, Phillip Securities Research (Singapore)

Eight new shopping malls to be opened in three countries which will add 10% to total retail GFA in CY17; With another nine to be completed progressively in 2018 and beyond

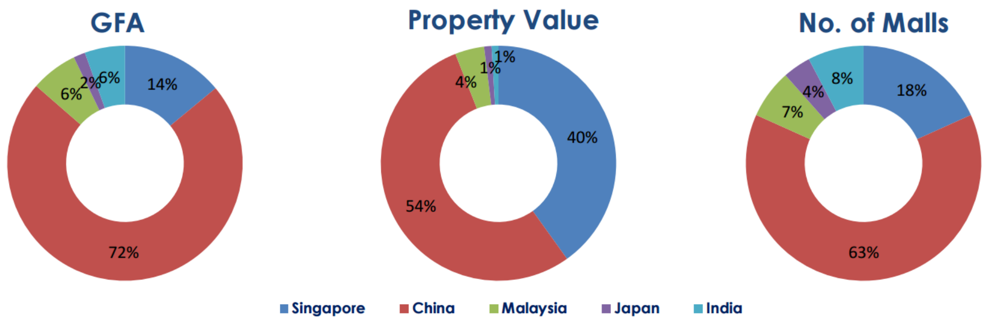
The Group intends to open a total of eight new shopping malls (three of which are retail components of the Raffles City integrated developments) in China, India and Malaysia in CY17. The move will add one million sqm (10%) to the Group's total retail GFA (including properties under construction). The Group maintains an objective to open shopping malls with a pre-committed leasing rate of 80%. We are expecting the performance of the new shopping malls in China to deliver strongly as pre-leasing in some of these properties came in as high as 90%. The six new shopping malls in China account for c.90% of the total retail GFA from shopping malls slated to be opened in CY17, and bring the Group's portfolio of operating shopping malls to 95 from 87. The Group plans to open another nine shopping malls in CY18 and beyond, with a grand total of 104 shopping malls in its portfolio eventually.

China and Singapore will continue to be key markets accounting for more than 85% of total retail GFA under shopping mall portfolio

Including the 17 new shopping mall assets which will be added across the five geographical markets (Refer to Figure 25) and progressively be operational beginning in CY17, Singapore and China will continue to be the key markets for CapitaLand. Singapore and China shopping mall assets will yield a total of eight million retail GFA, representing more than 85% of the Group's portfolio of shopping mall assets.

Figure 25: Breakdown of shopping mall assets

	Singapore	China	Malaysia	Japan	India	Total
GFA (mil. sq ft)	13.9	72.0	6.4	1.6	5.5	**99.4**
Property Value (S$ bil.)	17.0	22.6	1.7	0.6	0.4	**42.3**
Number of Malls	19	66	7	4	8	**104**



Source: Company , Phillip Securities Research (Singapore)

Shopping mall portfolio's NPI yield on cost in China stayed at 7.2% in the past three years; Expect yield on cost to decline and return in the range of 6.7% to 6.9% as new malls take time to stabilise

In the past three years between FY14 and FY16, the Group's NPI yield on cost of China shopping malls has stayed at 7.2% versus an average NPI yield on valuation of 5.5%, on a same-mall basis. The gap in the two yields are mainly driven by cap rate compressions, as valuations continue to grow. In FY17, we are expecting a temporarily decline in NPI yield on cost as the six new shopping malls that are scheduled to be opened in CY17 will put a drag on yield on cost. We are attributing costs related to the opening of these new malls to be flushed into the operating costs of the shopping malls, resulting in both lower NPI and NPI margins. We are estimating the six new shopping malls in China to return a NPI yield on cost of 2% to 3% for the next two years as these assets require time to stabilise in both occupancy rates and NPI margins. Additionally, we are estimating a NPI yield on cost on China shopping malls to return in the range of 6.7% to 6.9% in the next two years after including the six new shopping malls to be opened in China in CY17, and subsequently improve in FY19 after opening costs are totally flushed out.

Adopting an asset light strategy by expanding shopping mall network with two management contracts; Expect more management contracts to be secured

CapitaLand has signed two management contracts involving the planning, pre-opening and management of two shopping mall assets, namely Fortune Finance Centre in Changsha and a shopping mall in La Botanica, a township project in Xi'an, which are slated to be opened in 2018 and 2019 respectively. The two shopping mall assets will yield about 50,000 sqm of retail GFA when completed, which is insignificant when compared to a portfolio size of 6.7 million sqm of retail GFA, when all 66 shopping malls in the Group's China portfolio are fully operational. We are of the view that the incorporation of management contracts will boost the Group's overall mall positioning, and is a testament of its competitive strength in mall management. Additionally, the adoption of management contracts will boost the Group's expansion strategy in the number of malls under management while adopting an asset lighter strategy. Consequently, we are confident that the Group will be able to secure more management contracts moving forward.

China Integrated Developments

Pipeline of Raffles City integrated developments provides capital recycling opportunities in the longer term which unlocks value for shareholders

CapitaLand China currently has four fully operating Raffles City integrated developments as at 4Q16. The Raffles City properties including those under construction consist of a mix of lettable space for retail, office, serviced residence use or strata-titled residential or office units. With four more Raffles City integrated developments which are slated to be completed progressively and fully operational from CY17 to CY19, total lettable GFA will be boosted significantly to more than two million sqm from 0.6 million sqm. Additionally, the four completed Raffles City integrated developments will boost the value of CapitaLand China's Raffles City portfolio to RMB42.1 billion from RMB18.9 billion. The eventual result is a sizeable portfolio for potential capital recycling opportunities such as the listing of a new real estate investment trust (REIT), unlocking value for shareholders.

Figure 26: Raffles City portfolio in China

Project Name	Stake	Status	Tenure Expiry	Valuations (RMB'mn)	Attributable to CAPL (RMB'mn)	GFA (Sqm)
Raffles City Beijing	55%	Completed	2046	4,349	2,392	110,997
Raffles City Chengdu	55%	Completed	2046	4,415	2,428	237,310
Raffles City Ningbo	55%	Completed	2047	2,110	1,161	101,405
Raffles City Shanghai	31%	Completed	2045	7,993	2,454	139,593
Raffles City Changning	43%	Construction	2055	9,559	4,091	260,479
Raffles City Hangzhou	55%	Construction	2049	4,714	2,593	298,276
Raffles City Shenzhen	30%	Construction	2056	4,227	1,285	121,831
Raffles City Chongqing	63%	Construction	2052	4,739	2,962	811,349
Total				**42,106**	**19,365**	**2,081,240**

Source: Company, Phillip Securities Research (Singapore)

Two more land sites in land bank remaining for integrated development; Leveraging on own development expertise by forming strategic partnership and jointly developing sites

The Group currently has two more land sites (Liangcang Site, Ningbo and Capital Tower Shanghai) in its land bank which will be developed into integrated developments with a combined lettable GFA of 91,000 sqm. As land tender prices continue to rise across most cities in China, we opine that competition for land will intensify, resulting in higher development costs and reduces return on investments. We are of the view that the management will leverage on its development expertise on integrated developments and increasingly tap on the land bank of other entities as opposed to participating in open land tenders.

Ascott China

Potential value to be unlocked through capital recycling via China serviced residence assets with a valuation of RMB5.8 billion

Including service residence units that were disposed into Ascott Residence Trust (ART), CapitaLand owns 2,925 serviced residence units across different cities in China via 16 standalone serviced residence assets. Out of which, 1,048 of these units belong to six serviced residence assets with a combined valuation of RMB5.8 billion where they can potentially be disposed and acquired by ART, thereby unlocking value for the Group.

Figure 27: Serviced residence units in China portfolio

Country	City	Property	Holding Entity/ Fund	Effective Stake (%)	Tenure (Years)	Tenure Expiry	Valuation As At 31 Dec 2016	No. of Units
China	Beijing	Fortune Garden Apartments**	Ascott Residence Trust	43.9	70	2068	45	5
	Dalian	Somerset Grand Central Dalian	Ascott Residence Trust	43.9	50	2056	545	195
	Guangzhou	Ascott Guangzhou	Ascott Residence Trust	43.9	70	2074	515	207
	Shanghai	Citadines Biyun Shanghai	Ascott Residence Trust	43.9	70	2064	330	180
		Somerset Xu Hui Shanghai	Ascott Residence Trust	43.9	70	2066	380	168
	Shenyang	Somerset Heping Shenyang	Ascott Residence Trust	43.9	40	2046	415	270
	Suzhou	Citadines Xinghai Suzhou	Ascott Residence Trust	43.9	70	2066	150	167
	Tianjin	Somerset Olympic Tower Property Tianjin	Ascott Residence Trust	43.9	70	2062	330	185
	Wuhan	Citadines Zhuankou Wuhan	Ascott Residence Trust	43.9	40	2043	225	249
	Xi'an	Citadines Gaoxin Xi'an	Ascott Residence Trust	43.9	50	2056	250	251
	Chengdu	Somerset Riverview Chengdu		36.1	50	2049	500	200
	Chongqing	Somerset JieFangBei Chongqing		36.1	40	2037	220	157
	Xi'an	Citadines Central Xi'an			70	2066	133	148
	Tianjin	Somerset International Building Tianjin		36.1	50	2044	830	108
		Somerset Youyi Tianjin		36.1	50	2052	396	240
	Shanghai	The Paragon Towers 5 & 6		99	70	2072	2457	105
		Ascott Heng Shan Shanghai		100	50	2054	1290	90
China Total							**9011**	**2925**

Source: Company, Phillip Securities Research (Singapore)

Fund Management Platform

Fund management platform has met 28% of AUM growth target in FY16; Management remains confident to grow AUM of up to S$10 billion by 2020

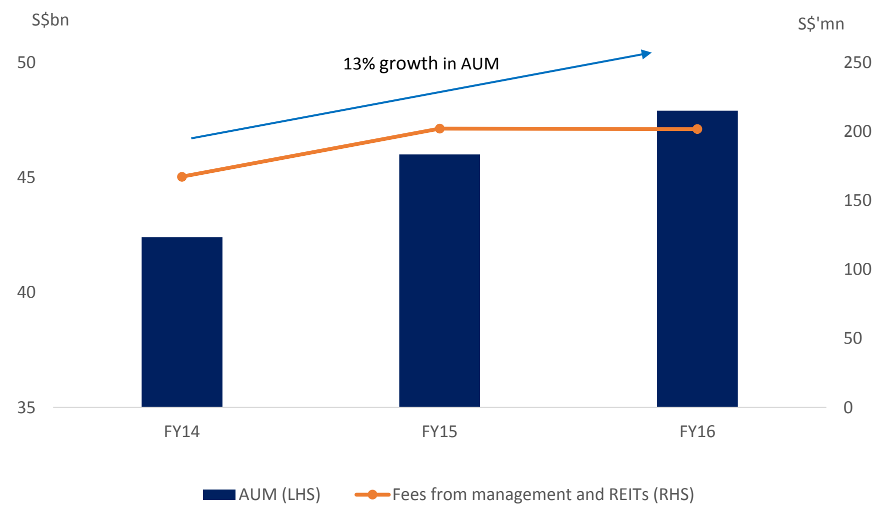
In FY15, CapitaLand has set out a growth target to grow asset under management (AUM) of up to S$10 billion by 2020. In FY16, the Group has set up Raffles City China Investment

Partners III (RCCIP III) with an AUM of US$1.5 billion (approximately S$2 billion) and a fund tenure of eight years. The fund's investment objective is to invest in prime integrated developments in China. The Group has subscribed to a 41.7% stake in RCCIP III. Including the newly set up of RCCIP III, CapitaLand has met 28% (S$2.8 billion) of its AUM target in FY16. By meeting its AUM growth target, the Group can potentially add c.$18.2 million in net profit after taxes (NPAT), representing 1.2% of S$1.5 billion NPAT in FY16.

Fund management platform continues to provide an engine for long term growth; AUM has grown 4.1% YoY to S$47.9 billion and adds S$0.37 to our RNAV estimates

As at December 2016, CapitaLand's fund management platform consists of five REITs and 15 private equity funds where AUM has grown 4.1% YoY to S$47.9 billion. Based on the fund management fees of S$201.8 million (NPAT: S$121.1 million) earned in FY16, We have assumed an average PER of 13 for the Group's fund management platform and derived a value of S$0.37 which is included into our RNAV estimates. We estimate that for every S$1 billion increase in AUM, it will add S'cents 0.8 to our RNAV estimates. We are optimistic that the Group's proven track record and core strength in the development of different property assets will continue to attract investors, providing fuel for its fund management platform.

Figure 28: AUM and fees from fund management platform



Source: Company, Phillip Securities Research (Singapore)

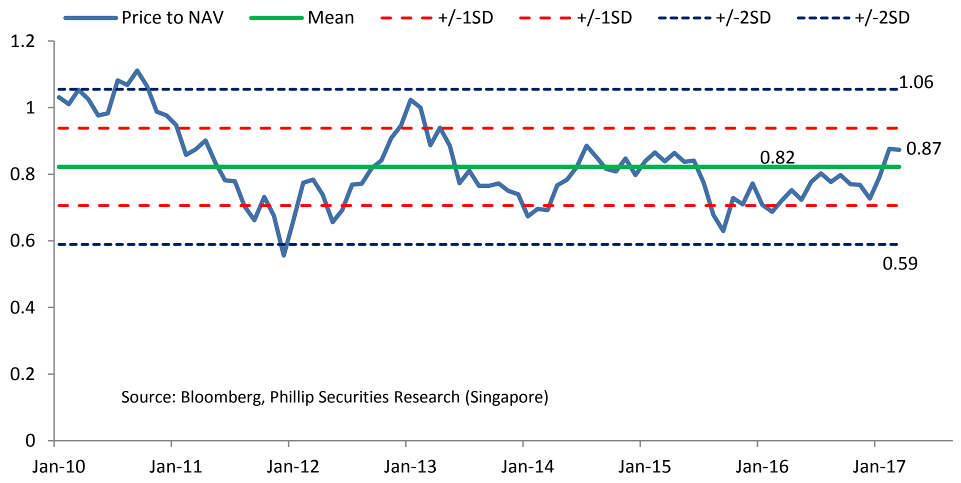
Valuation

We initiate coverage on CAPL with an ACCUMULATE rating as the Group's expansion into China progressively start to bear fruits. Applying a 20% discount to RNAV, which is consistent with the 7 year average post GFC discount to book, and a discount our house views as appropriate for big cap developers, we arrive at a target price of S$4.19. We advise investors to accumulate on weakness.

RNAV Table			
		(S$'mn)	(S$)
Development properties			
Singapore residential surplus		464	0.11
China residential surplus		263	0.06
Overseas residential surplus		94	0.02
Development properties		4,837	1.14
		5,658	**1.34**
Investment properties			
Singapore		2,319	0.55
China (Includes HK)		8,524	2.01
Japan		906	0.21
Other Asia (Exclude CN and SG)		722	0.17
Europe and Australia		622	0.15
Under Construction		4,518	1.07
		17,611	**4.16**
Listed / unlisted entities	Stake		
CMT	29.3%	2,045	0.48
CCT	32.0%	139	0.03
CRCT	27.7%	347	0.08
ART	43.9%	1,012	0.24
CMMT	36.5%	382	0.09
		3,925	**0.93**
Fund Management Platform			
PER: 13, NPAT: S$172.8m		**1,574**	**0.37**
GAV		**28,768**	**6.79**
Less: FY16 net debt (cash) and committed CAPEX		(6,596)	(1.56)
RNAV			22,172
RNAV/share (S$)			**5.23**
Premium/(discount) to RNAV			**-20%**
Fair value (S$)			**4.19**

Phillip Securities Research (Singapore)

Historical and Peer Comparison



Name	Mkt Cap (SGD mn)	Last Price (SGD)	P/E	ROE (%)	ROA (%)	Dividend Yield	P/B	Debt/Assets (%)
CAPITALAND LTD	**15,417**	**3.63**	**13.0**	**5.4**	**2.1**	**2.5**	**0.87**	**33.9**
GLOBAL LOGISTIC PROPERTIES L	13,030	2.78	14.3	1.2	3.4	2.2	1.12	21.8
CITY DEVELOPMENTS LTD	9,275	10.20	14.5	6.2	3.8	1.6	1.03	31.9
UOL GROUP LTD	5,609	6.97	19.4	3.8	2.7	2.2	0.69	23.5
FRASERS CENTREPOINT LTD	5,042	1.74	7.4	8.1	2.6	5.0	0.73	41.2
UNITED INDUSTRIAL CORP LTD	4,385	3.09	15.3	4.7	3.7	1.0	0.70	16.0
YANLORD LAND GROUP LTD	3,515	1.82	6.4	11.5	2.3	0.8	0.82	21.1
WHEELOCK PROPERTIES (S) LTD	2,232	1.87	38.2	3.4	1.5	3.2	0.75	12.9
GUOCOLAND LTD	2,189	1.85	15.8	3.2	7.4	4.9	0.63	48.4
HO BEE LAND LTD	1,511	2.27	7.0	4.5	6.8	3.1	0.52	33.5
WING TAI HOLDINGS LTD	1,459	1.885	204.9	0.1	0.1	3.2	0.46	27.7

Source: Bloomberg, Phillip Securities Research (Singapore)

Technical Analysis

CapitaLand Weekly chart

Red line = 20 period moving average, Blue line = 50 period moving average, Green line = 200 period moving average

Source: Bloomberg, Phillip Securities Research (Singapore)

CapitaLand was trading in a range for the whole of 2016 and price only began trending higher in 2017 after the 20 week moving average crossed above the 60 week moving average on the week ended 27 January 2017. Since then, the uptrend took off aggressively and broke multiple resistance areas without much effort, showing the strength within the uptrend.

It was only until recently when price tested the May 2015 high at 3.79 resistance area where price faced some roadblocks. The bearish rejection off the 3.79 resistance area on the week ended 10 March 2017 is currently moving price into a correction phase. Due to the lack of major correction in the uptrend since January 2017, we believe the current correction off the 3.79 resistance area will take a little longer to end and at least take price marginally lower in the immediate term to test the 3.52 – 3.48 support area.

After which, look out for bullish price action around the 3.52 – 3.48 support area to reposition back into the uptrend.
This uptrend will continue to stay intact until price breaks below the 20 week moving average (3.41) and 3.40 support area.

CapitaLand Daily chart

Red line = 20 period moving average, Blue line = 50 period moving average, Green line = 200 period moving average
Source: Bloomberg, PSR

The uptrend since January 2017 is more visible on the daily timeframe where the 20 day moving average is currently holding price up. Wait out for price to break above the pullback line to signal the end of the correction to re-enter the uptrend.

Support 1: 3.52	Resistance 1: 3.79
Support 2: 3.48	Resistance 2: 3.90

Financials

Income Statement

Y/E Dec, SGD mn	FY15	FY16	FY17e	FY18e	FY19e
Revenue	**4,762**	**5,252**	**5,307**	**4,245**	**3,554**
Gross Profit	1,475	1,598	1,698	1,401	1,208
Depreciation & Amortisation	3	3	4	3	3
EBIT	1,590	1,652	1,797	1,476	1,264
Net Finance (Expense)/Inc	(477)	(453)	(453)	(520)	(594)
Associates & JVs	726	708	792	745	756
Profit Before Tax	1,839	1,907	2,137	1,701	1,426
Taxation	(344)	(403)	(363)	(289)	(242)
Profit After Tax	1,495	1,504	1,774	1,412	1,183
Non-Controlling Interest	430	314	494	365	294
Net Income, reported	1,066	1,190	1,279	1,047	889

Per share data (SGD)

Y/E Dec, SGD	FY15	FY16	FY17e	FY18e	FY19e
EPS, reported	0.25	0.28	0.30	0.25	0.21
DPS	0.09	0.10	0.10	0.10	0.10
BVPS	3.94	4.22	4.15	4.43	4.64

Cash Flows

Y/E Dec, SGD mn	FY15	FY16	FY17e	FY18e	FY19e
CFO					
Profit for the year	1,495	1,504	1,774	1,412	1,183
Adjustments	(1,081)	(902)	(1,090)	(1,036)	(1,051)
WC changes	1,548	2,250	924	640	906
Cash generated from ops	2,727	3,655	2,364	1,756	1,805
Taxes paid, others	(261)	(350)	(363)	(289)	(242)
Cashflow from ops	2,467	3,305	2,000	1,467	1,563
CFI					
CAPEX, net	(62)	(75)	(88)	(75)	(79)
Cashflow from investments	154	(71)	0	(115)	(41)
CFF					
Dividends paid	247	-	-	-	-
Cashflow from financing	(1,213)	(2,462)	(1,267)	(1,279)	(1,255)
Net change in cash	1,408	772	733	73	266
Effects of exchange rates	40	(129)	-	-	-
CCE, end	4,153	4,778	5,511	5,584	5,850

Balance Sheet

Y/E Dec, SGD mn	FY15	FY16	FY17e	FY18e	FY19e
ASSETS					
PPE	808	781	623	494	370
Associates & JVs	12,858	12,617	12,791	12,887	12,996
Investment Properties	19,428	18,998	20,189	21,321	22,406
Others	1,332	1,578	1,472	1,449	1,493
Total non-current assets	**34,426**	**33,976**	**35,075**	**36,151**	**37,265**
Development properties	6,936	4,837	3,968	2,760	1,468
Accounts Receivables	1,424	1,859	1,589	1,348	1,150
Cash balance	4,173	4,793	5,511	5,584	5,850
Others	92	277	279	281	283
Total current assets	**12,627**	**11,765**	**11,348**	**9,973**	**8,751**
Total Assets	**47,053**	**45,741**	**46,423**	**46,124**	**46,016**
LIABILITIES					
Short term loans	2,246	2,373	2,373	2,373	2,373
Accounts Payables	4,063	4,685	4,471	3,661	3,077
Others	620	670	651	651	651
Total current liabilities	**6,930**	**7,728**	**7,495**	**6,685**	**6,101**
Long term loans	13,812	12,479	12,479	12,479	12,479
Others	1,373	1,233	1,331	1,312	1,292
Total non-current liabilities	**15,185**	**13,712**	**13,810**	**13,791**	**13,771**
Total Liabilities	**22,115**	**21,440**	**21,305**	**20,476**	**19,872**
EQUITY					
Shareholder Equity	17,905	17,605	18,778	19,643	20,458
Non-controlling interest	7,032	6,696	6,341	6,005	5,686
Total Equity	**24,938**	**24,300**	**25,118**	**25,647**	**26,145**

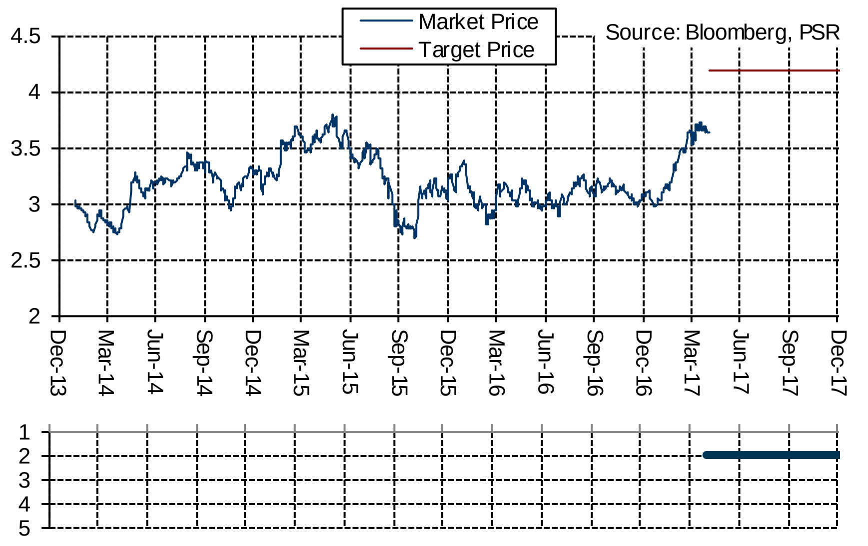
Valuation Ratios

Y/E Dec, SGD mn	FY15	FY16	FY17e	FY18e	FY19e
P/E (X), adj.	13.4	10.8	12.0	14.7	17.3
P/B (X)	0.9	0.7	0.9	0.8	0.8
Dividend Yield (%)	2.7%	3.3%	2.8%	2.8%	2.8%
Growth & Margins (%)					
Growth					
Revenue	21.3%	10.3%	1.0%	-20.0%	-16.3%
EBIT	8.4%	3.9%	8.8%	-17.9%	-14.4%
Net Income, adj.	-15.0%	0.6%	17.9%	-20.4%	-16.2%
Margins					
EBIT margin	33.4%	31.4%	33.9%	34.8%	35.6%
Net Profit Margin	31.4%	28.6%	33.4%	33.3%	33.3%
Key Ratios					
ROE (%)	6.0%	6.8%	6.8%	5.3%	4.3%
ROA (%)	2.3%	2.6%	2.8%	2.3%	1.9%
Gearing (X)	0.34	0.32	0.32	0.32	0.32

Source: Company, Phillip Securities Research (Singapore) Estimates

**Forward multiples and yields are based on current market price; historical multiples and yields are based on historical market price.*

Ratings History



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
<-20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation.

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