

CapitaLand Limited

Another behemoth step

SINGAPORE | REAL ESTATE | UPDATE

- CapitaLand announced the proposed S\$11bn acquisition of Ascendas-Singbridge (ASB).
- The transaction will increase CapitaLand exposure to Industrial and Logistics assets and emerging markets such as India. It will also further boost CapitaLand recurring income.
- Immediately accretive to EPS (+4%) and ROE (+9%), but slightly dilutive to NAV (-4%).
- Maintain ACCUMULATE with TP of S\$4.00.

What is the news?

- CapitaLand is acquiring entire shareholding of Ascendas Pte Ltd and Singbridge Pte Ltd, together known as Ascendas-Singbridge (ASB).
- Total transaction value of S\$11bn – S\$6.0bn equity value, S\$4.9bn net debt & minority interest. Funded by 50% CapitaLand shares (S\$3.50 per share), and 50% in cash.
- Combined AUM of S\$116bn, with a total of 8 REITs and 23 private funds.
- Target EGM: 1H2019, target completion: 3Q2019.

The Positives

+ **New pillar of growth via new asset classes and new geographies.** CAPL will have new business vertical of Industrial and Logistics. This will diversify its revenue streams and bolster its recurring income. In addition, CAPL will raise its exposure to emerging markets, such as India – which it previously did not have an investment management platform.

+ **Higher recurring income.** We have always favoured CAPL as it builds up its recurrent earnings (comprising close to 90% of its EBIT, for 9M18), which will be further boosted from this transaction, where operating PATMI from ASB will amount to c.S\$300mn.

The Negatives

- **Dilutive to NAV.** While the transaction is immediately accretive to EPS and ROE, the sticking point is the 4% dilution of NAV. CAPL's management had expressed confidence in boosting its NAV, mainly via the combined fund management platform and development pipeline.

Outlook

Hitting its 2020 S\$100bn AUM target ahead of time, we see this transaction as a positive in the long term, as we witness this real estate player developing critical mass and generating increasingly resilient and recurrent earnings. Deleveraging of S\$3bn will be the next step to whip CAPL's balance sheet back to a 0.64x leverage ratio (pro-forma: 0.72x) by the Group's targeted Dec 2020 – this is where we could see more asset recycling.

Maintain ACCUMULATE with a target price of S\$4.00.

We maintain our ACCUMULATE rating with a target price of S\$4.00. Our target price translates to a FY18e P/NAV ratio of 0.75x. No change in our target price as the transaction is still pending shareholder approval.



StocksBnB.com

15 January 2019

ACCUMULATE (Maintained)

LAST DONE PRICE	SGD 3.27
FORECAST DIV	SGD 0.12
TARGET PRICE	SGD 4.00
TOTAL RETURN	26.0%

COMPANY DATA

BLOOMBERG CODE:	CAPL SP Equity
O/S SHARES (MN):	4.163
MARKET CAP (USD mn / SGD mn):	9420 / 12863
52 - WK HI/LO (SGD):	3.88 / 2.98
3M Average Daily T/O (mn):	6.25

MAJOR SHAREHOLDERS (%)

TEMASEK HOLDINGS	40.4%
BLACKROCK INC	7.0%
VANGUARD GROUP	2.0%
NORGES BANK	0.9%
STATE STREET CORP	0.9%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	-0.3	(7.7)	(9.0)
STI RETURN	(14)	(5.5)	(6.5)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E	Dec, SGD mn	FY16	FY17	FY18e	FY19e
Revenue	5,252	4,610	5,205	4,954	
Gross Profit	1,598	1,838	1,718	1,684	
EBIT	1,652	2,234	1,926	1,909	
EPS (SGD)	0.28	0.37	0.25	0.24	
P/E (x)	117	8.9	13.0	13.8	
P/BV (x)	0.8	0.8	0.8	0.7	
DPS (SGD)	0.10	0.12	0.12	0.12	
Div Yield, %	3.1%	3.7%	3.7%	3.7%	
ROE, %	6.8%	8.4%	5.6%	5.1%	

Source: Company Data, Bloomberg

Valuation Method

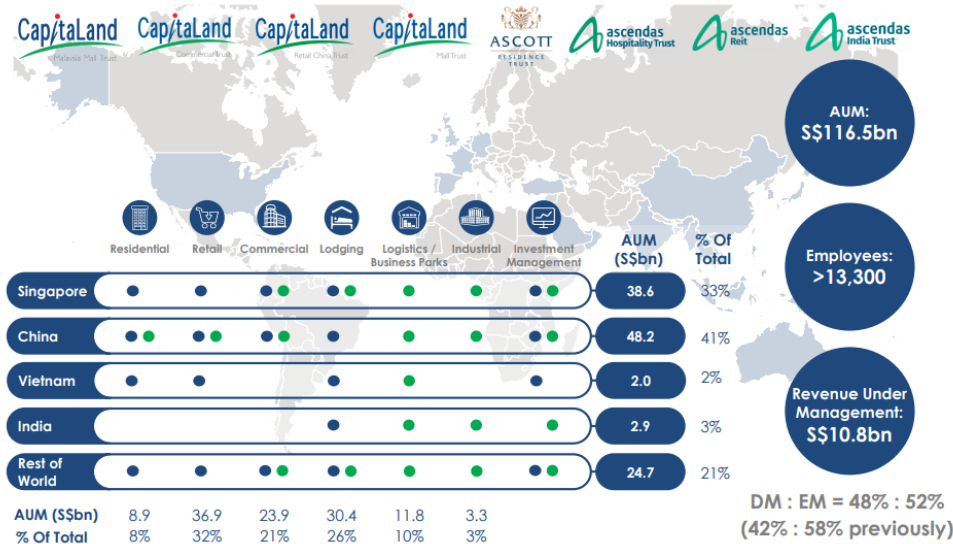
RNAV

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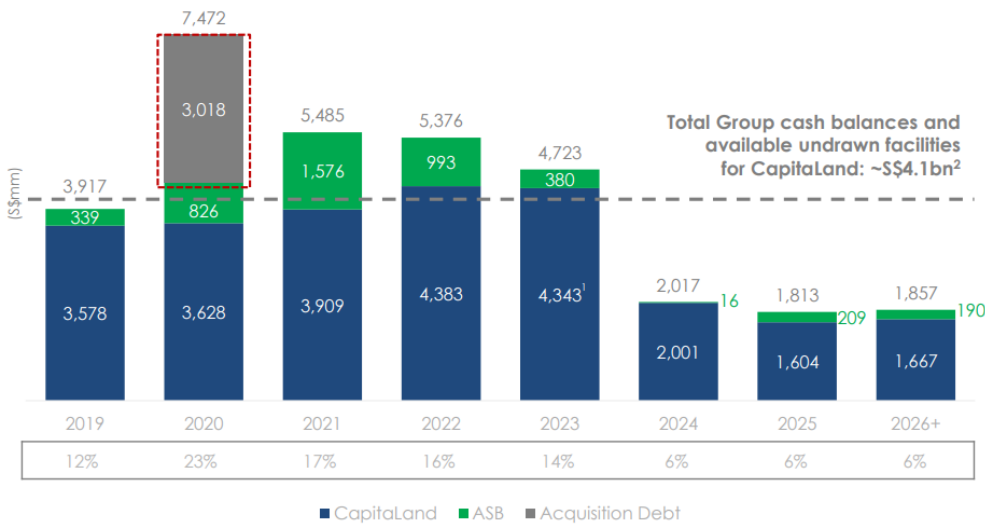
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Figure 1: CapitalLand will have added new business verticals in the Industrial and Logistics/Business Parks spaces, following the transaction.



Source: Company

Figure 2: Acquisition debt of c.S\$3bn is intended to be termed out and progressively deleveraged to pare its leverage ratio back down to 0.64x



Source: Company

Figure 1: RNAV table

RNAV Table		(S\$mn)
Development properties		
Singapore residential surplus		61
China residential surplus		3,462
Other Overseas residential surplus		51
Development properties		4,074
		7,647
Investment properties		
Singapore		2,608
China (Includes HK)		14,189
Japan		1,561
Other Asia		694
Europe, U.S. and Australia		1,828
		20,880
Listed / unlisted entities		
CMT		2,206
CCT		1,887
CRCT		409
ART		1,008
Others		238
		5,748
Fund Management Platform		
PER: 12		2,658
GAV		
		36,933
Less: FY18E cash (net debt and committed CAPEX)		(15,568)
RNAV		21,365
RNAV/share (S\$)		5.00
Premium/(discount) to RNAV		-20%
Fair value (S\$)		4.00

Source: PSR

Financials

Income Statement

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
Revenue	4,762	5,252	4,610	5,205	4,954
Gross Profit	1,475	1,598	1,838	1,718	1,684
Depreciation & Amortisation	3	3	7	4	5
EBIT	1,590	1,652	2,234	1,926	1,909
Net Finance (Expense)/Inc	(477)	(453)	(487)	(766)	(876)
Associates & JVs	726	708	877	616	629
Profit Before Tax	1,839	1,907	2,624	1,776	1,662
Taxation	(344)	(403)	(298)	(302)	(283)
Profit After Tax	1,495	1,504	2,326	1,474	1,380
Non-Controlling Interest	430	314	775	408	376
Net Income, reported	1,066	1,190	1,551	1,067	1,003

Per share data (SGD)

Y/E Dec, SGD	FY15	FY16	FY17	FY18e	FY19e
EPS, reported	0.25	0.28	0.37	0.25	0.24
DPS	0.09	0.10	0.12	0.12	0.12
BVPS	3.94	4.22	4.33	4.34	4.50

Cash Flows

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
CFO					
Profit for the year	1,495	1,504	2,326	1,474	1,380
Adjustments	(1,081)	(902)	(1,499)	(968)	(1,013)
WC changes	1,548	2,250	961	703	1,023
Cash generated from ops	2,727	3,655	2,510	2,199	2,460
Taxes paid, others	(261)	(350)	(344)	(302)	(283)
Cashflow from ops	2,467	3,305	2,166	1,897	2,178
CFI					
CAPEX, net	(62)	(75)	(142)	(93)	(104)
Cashflow from investments	154	(71)	(1,770)	575	14
CFF					
Dividends paid	(384)	(383)	(425)	(510)	(510)
Cashflow from financing	(1,213)	(2,462)	979	(1,770)	(2,040)
Net change in cash	1,408	772	1,376	702	151
Effects of exchange rates	40	(129)	(47)	-	-
CCE, end	4,153	4,778	6,080	6,782	6,933

Source: Company, Phillip Securities Research (Singapore) Estimates

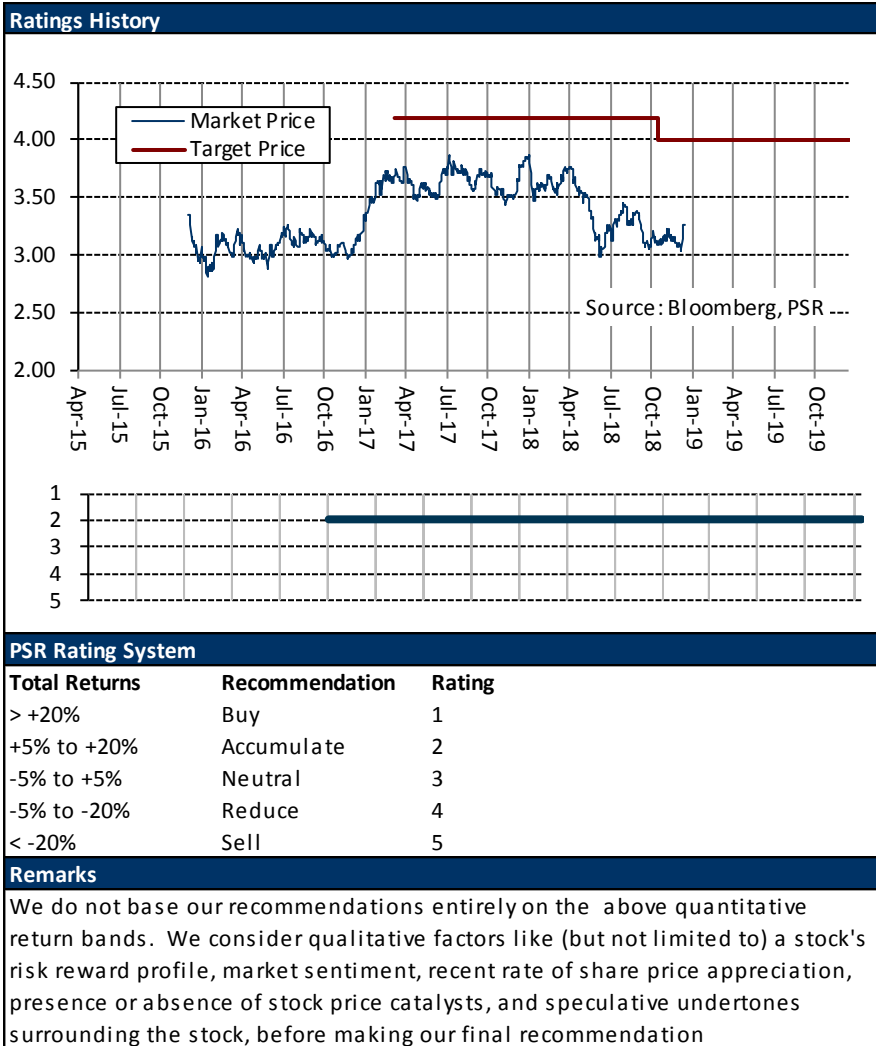
*Forward multiples and yields are based on current market price; historical multiples and yields are based on historical market price.

Balance Sheet

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
ASSETS					
PPE	808	781	840	671	503
Associates & JVs	12,858	12,617	10,197	10,200	10,316
Investment Properties	19,428	18,998	36,479	36,620	37,237
Others	1,332	1,578	1,702	1,608	1,662
Total non-current assets	34,426	33,976	49,219	49,098	49,718
Development properties	6,936	4,837	4,074	2,789	1,763
Accounts Receivables	1,424	1,859	1,471	1,686	1,646
Cash balance	4,173	4,793	6,105	6,782	6,933
Others	92	277	577	579	580
Total current assets	12,627	11,765	12,227	11,836	10,922
Total Assets	47,053	45,741	61,446	60,934	60,640
LIABILITIES					
Short term loans	2,246	2,373	2,739	3,271	3,271
Accounts Payables	4,063	4,685	5,442	5,076	5,033
Others	620	670	622	527	527
Total current liabilities	6,930	7,728	8,803	8,874	8,831
Long term loans	13,812	12,479	18,956	18,625	18,625
Others	1,373	1,233	1,604	1,403	1,413
Total non-current liabilities	15,185	13,712	20,560	20,028	20,039
Total Liabilities	22,115	21,440	29,363	28,903	28,870
EQUITY					
Shareholder Equity	17,905	17,605	18,382	19,057	19,484
Non-controlling interest	7,032	6,696	13,701	12,975	12,287
Total Equity	24,938	24,300	32,083	32,031	31,771

Valuation Ratios

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
P/E (X), adj.	13.1	11.7	8.9	13.0	13.8
P/B (X)	0.83	0.78	0.76	0.75	0.73
Dividend Yield (%)	2.8%	3.1%	3.7%	3.7%	3.7%
Growth & Margins (%)					
Growth					
Revenue	21.3%	10.3%	-12.2%	12.9%	-4.8%
EBIT	8.4%	3.9%	35.2%	-13.8%	-0.9%
Net Income, adj.	-15.0%	0.6%	54.6%	-36.6%	-6.4%
Margins					
EBIT margin	33.4%	31.4%	48.5%	37.0%	38.5%
Net Profit Margin	31.4%	28.6%	50.5%	28.3%	27.9%
Key Ratios					
ROE (%)	6.0%	6.8%	8.4%	5.6%	5.1%
ROA (%)	2.3%	2.6%	2.5%	1.8%	1.7%
Gearing (X)	0.34	0.32	0.35	0.36	0.36



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