

# CapitaLand Limited

Recovery in Office and Hospitality segments



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## SINGAPORE | REAL ESTATE | 3Q17 RESULTS

- Continued sales momentum for residential properties at the Group's key markets Singapore, Vietnam. China launches to remain slow.
- Office markets in Singapore and China show signs of improvement.
- RevPAUs for serviced residences seeing recovery in key markets.
- Tenant sales growth for Singapore malls (40% of total mall portfolio) remains muted.
- Maintain Accumulate with unchanged TP of S\$4.19.

### Results at a glance

(SGD mn)/Dec Yr Dec	3Q17	3Q16	YoY (%)	Comments
Gross Revenue	1,507.2	1,373.7	9.7	Higher contribution from development projects in Singapore, new malls and serviced residences and consolidation of revenue from CMT, CRCT, RCST
Gross Profit	506.8	423.3	19.7	Higher gross margins from rental revenue
EBIT	793.5	494.4	60.5	Higher re-measurement gains of S\$132.6mn (3Q16: -4.3mn) from consolidation of CMT and CRCT, and divestments in Singapore/China
Total PATMI	317.0	247.5	28.1	
Operating PATMI	204.50	251.80	(18.8)	Lower handover of residential projects in China

Source: Company, PSR

### The Positives

**+ Continued sales momentum for residential properties at the Group's key markets Singapore and Vietnam. China launches to remain slow.** S\$373mn worth of SG residential units was sold in the quarter, down 29% YoY. But this is mainly due to limited remaining inventory available for sale (Remaining as at 9M17: c.S\$627mn). Nonetheless expect growth from Singapore segment to taper with dwindling inventory. Vietnam sales remain buoyant and 90% of launched units in China have been sold as at 30 Sept 2017. China launches (3Q17 down 21% YoY) could remain muted with cooling measures ongoing.

**+ Office markets in Singapore and China show signs of improvement.** With the exception of the 2 Raffles City office components which started operations last year (Shenzhen and Hangzhou), average occupancy for CAPL's entire office portfolio stand at c.98%, a marked improvement especially in China where occupancy averaged c.90% as at FY16.

**+ RevPAUs for serviced residences seeing recovery in key markets.** Three largest markets for Ascott (by total units) - Southeast Asia/Australia (ex-Singapore), China, Europe showed strong YoY RevPAU growth of 1-12% in 3Q17 in local currency terms. China and Europe in particular are showing strong rebounds in RevPAUs after YoY declines for FY16. Declines in RevPAUs YoY were mainly in Singapore and Gulf Region but these are considerably smaller markets for Ascott and CAPL (<8% of total units).

### The Negatives

**- Tenant sales growth for Singapore malls (40% of total shopping mall portfolio) remains muted.** Same mall tenant sales grew 0.8% YTD. We have yet to witness a meaningful recovery in tenant sales despite a strengthening economy and consumer sentiment. While same-mall NPI continues to grow across most major markets, Singapore's same-mall NPI was flat YoY at S\$683mn. China tenant sales growth look to be stabilising in mid-single digits.

13 November 2017

### ACCUMULATE (Maintained)

LAST CLOSE PRICE	SGD 3.58
FORECAST DIV	SGD 0.10
TARGET PRICE	SGD 4.19
TOTAL RETURN	19.8%

### COMPANY DATA

BLOOMBERG CODE	CAPL SG
O/S SHARES (MN) :	4,247
MARKET CAP (USD mn / SGD mn) :	1175 / 15205
52 - WK HI/LO (SGD) :	3.88 / 2.96
3M Average Daily T/O (mn) :	9.68

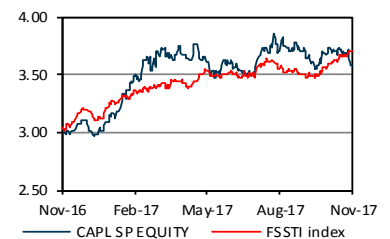
### MAJOR SHAREHOLDERS (%)

TEMA SEK HOLDINGS	40.0%
BLACKROCK	6.0%
VANGUARD GRP	2.10%

### PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	(2.5)	(3.0)	19.4
STIRETURN	4.1	3.6	24.8

### PRICE VS. STI



Source: Bloomberg, PSR

### KEY FINANCIALS

SGD M N	FY 15	FY 16	FY 17e	FY 18e
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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## Outlook

With 85% of CAPL's assets being investment properties (predominantly in Singapore and China) contributing to recurring income, CAPL's earnings outlook remain stable. RMB13.8bn worth of China residential sales are expected to be handed over and recognised mostly from 4Q17 to FY18 (FY17YTD: RMB9.3bn), which will provide further support to earnings over the next FY. We expect the 3 new Raffles City integrated developments in China which opened in 2Q17 to boost recurring income growth in FY18 as occupancy improves.

## Maintain Accumulate with an unchanged TP of S\$4.19.

There are signs of recovery for CAPL's main markets for office and serviced apartment segments. We expect this recovery to sustain as global economies recover. With a strong base of stable recurring income, CAPL's asset light management contract strategies for its retail and serviced residence segments also enables it to accelerate network and fee revenue growth. We like CAPL's quality of earnings which have become more recurrent in nature.

Figure 1. RNAV table

RNAV Table	(S\$mn)	(S\$)
<b>Development properties</b>		
Singapore residential surplus	464	0.11
China residential surplus	263	0.06
Overseas residential surplus	94	0.02
Development properties	4,837	1.14
	<b>5,658</b>	<b>1.34</b>
<b>Investment properties</b>		
Singapore	2,319	0.55
China (Includes HK)	11,750	2.77
Japan	906	0.21
Other Asia (Exclude CN and SG)	722	0.17
Europe and Australia	622	0.15
	<b>16,319</b>	<b>3.85</b>
<b>Listed / unlisted entities</b>		
CMT	1,950	0.46
CCT	1,800	0.42
CRCT	319	0.08
ART	966	0.23
CMMT	336	0.08
	<b>5,370</b>	<b>1.27</b>
<b>Fund Management Platform</b>		
PER: 12, NPAT: S\$172.8m	<b>1,453</b>	<b>0.34</b>
<b>GAV</b>	<b>28,800</b>	<b>6.80</b>
Less: FY16 net debt (cash) and committed CAPEX	(6,596)	(1.56)
RNAV		22,204
<b>RNAV/share (S\$)</b>		<b>5.24</b>
<b>Premium/(discount) to RNAV</b>		<b>-20%</b>
<b>Fair value (S\$)</b>		<b>4.19</b>

Source: PSR

Figure 2. CAPL trades at lower than post GFC average Price/NAV of 0.89



Figure 3: Property Developers Peer Comparison table and PSR Coverage

Name	Mkt Cap (SGD mn)	Last Px (SGD)	PSR RATING	PSR TARGET PRICE	P/E	ROE (%)	ROA (%)	Dividend Yield (%)	P/B	Total Debt to Assets
CAPITALAND LTD	15,205	3.58	ACCUMULATE	4.19	8.9	5.26	1.78	2.79	0.84	32.47
CITY DEVELOPMENTS LTD	11,093	12.20	ACCUMULATE	12.10	19.0	6.08	2.82	1.31	1.18	28.98
UOL GROUP LTD	7,363	8.75	ACCUMULATE	8.93	8.2	4.67	2.57	1.71	0.80	20.85
WHEELOK PROPERTIES (S) LTD	2,309	1.93	TRADING BUY	2.28	39.5	3.46	2.99	3.11	0.76	0.00
HO BEE LAND LTD	1,738	2.61	ACCUMULATE	2.98	6.3	6.36	4.17	2.30	0.57	30.62
FRASERS CENTREPOINT LTD	6,045	2.08			9.2	9.16	2.52	4.13	0.88	40.47
UNITED INDUSTRIAL CORP LTD	4,740	3.31			16.8	4.46	3.22	0.91	0.75	14.40
YANLORD LAND GROUP LTD	3,322	1.72			4.6	15.71	3.40	2.53	0.79	24.26
GUOCOLAND LTD	2,686	2.27			5.1	8.15	3.36	3.08	0.68	48.51
WING TAI HOLDINGS LTD	1,735	2.24			67.7	0.59	0.41	2.68	0.53	20.14
BUKIT SEMBAWANG ESTATES LTD	1,608	6.21			52.3	3.92	3.52	5.31	1.25	0.00
FRAGRANCE GROUP LTD	1,134	0.17			127.6	0.90	0.46	0.59	1.07	43.59
<i>Large cap average (&gt;\$1bn)</i>										
CHIP ENG SENG	599	0.97	BUY	0.90	16.7	3.51	1.18	4.15	0.79	52.45
BANYAN TREE	485	0.61	ACCUMULATE	0.71	26.4	-6.12	-2.09	NA	0.84	38.34
CENTURION CORP LTD	431	0.54	ACCUMULATE	0.59	13.8	7.48	2.64	3.74	0.98	58.98
HONG FOK CORP LTD	770	0.89			9.0	-0.97	-0.51	1.13	0.50	25.34
ROXY-PACIFIC HLDGS LTD	650	0.55			19.0	6.66	2.24	2.53	1.29	56.97
BONVESTS HOLDINGS LTD	563	1.40			22.4	3.39	2.51	1.86	0.63	18.19
TUAN SING HOLDINGS LTD	516	0.44			20.7	2.66	1.03	1.38	0.56	48.08
HIAP HOE LTD	416	0.88			10.2	1.39	0.73	1.70	0.57	31.56
YING LI INTERNATIONAL	366	0.14			21.8	1.14	0.39	NA	0.44	40.53
HOTEL ROYAL LTD	339	4.03			33.1	1.56	1.16	1.24	0.62	20.90
SING HOLDINGS LIMITED	198	0.50			36.1	-12.16	-6.85	2.78	0.78	44.14
HEETON HOLDINGS LTD	182	0.56			3.3	6.29	2.95	1.07	0.47	40.55
<i>Small-Mid cap average</i>										
						1.2	0.4	2.2	0.7	39.7

Source: Bloomberg, PSR

## Financials

### Income Statement

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

### 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
<b>CFO</b>					
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)
<b>Cashflow from ops</b>	<b>2,467</b>	<b>3,305</b>	<b>2,000</b>	<b>1,467</b>	<b>1,563</b>
<b>CFI</b>					
CAPEX, net	(62)	(75)	(88)	(75)	(79)
<b>Cashflow from investments</b>	<b>154</b>	<b>(71)</b>	<b>0</b>	<b>(115)</b>	<b>(41)</b>
<b>CFF</b>					
Dividends paid	247	-	-	-	-
<b>Cashflow from financing</b>	<b>(1,213)</b>	<b>(2,462)</b>	<b>(1,267)</b>	<b>(1,279)</b>	<b>(1,255)</b>
<b>Net change in cash</b>	<b>1,408</b>	<b>772</b>	<b>733</b>	<b>73</b>	<b>266</b>
Effects of exchange rates	40	(129)	-	-	-
<b>CCE, end</b>	<b>4,153</b>	<b>4,778</b>	<b>5,511</b>	<b>5,584</b>	<b>5,850</b>

Source: Company, Phillip Securities Research (Singapore) Estimates

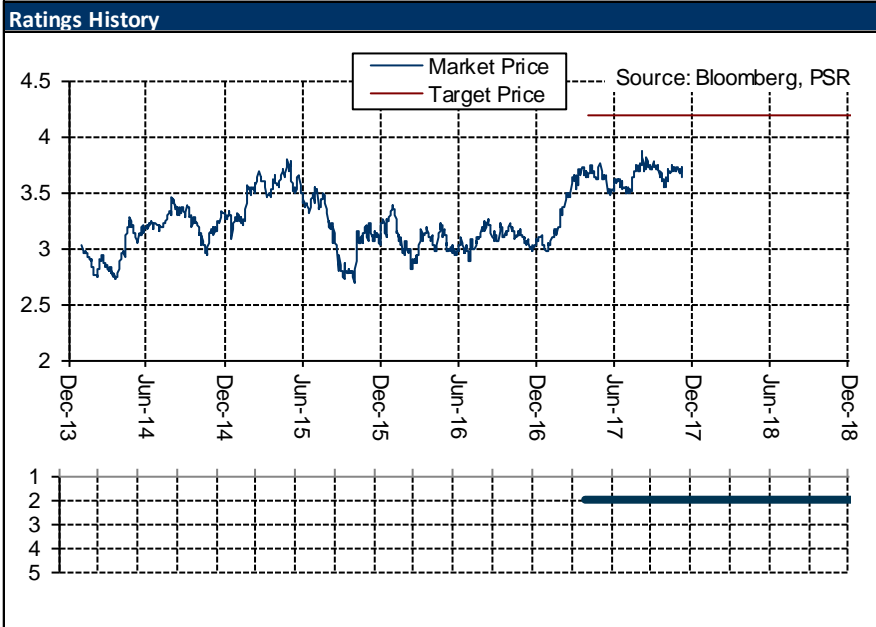
\*Forward multiples and yields are based on current market price; historical multiples and yields are based on historical market price.

### Balance Sheet

Y/E Dec, SGD mn	FY15	FY16	FY17e	FY18e	FY19e
<b>ASSETS</b>					
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
<b>Total non-current assets</b>	<b>34,426</b>	<b>33,976</b>	<b>35,075</b>	<b>36,151</b>	<b>37,265</b>
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
<b>Total current assets</b>	<b>12,627</b>	<b>11,765</b>	<b>11,348</b>	<b>9,973</b>	<b>8,751</b>
<b>Total Assets</b>	<b>47,053</b>	<b>45,741</b>	<b>46,423</b>	<b>46,124</b>	<b>46,016</b>
<b>LIABILITIES</b>					
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
<b>Total current liabilities</b>	<b>6,930</b>	<b>7,728</b>	<b>7,495</b>	<b>6,685</b>	<b>6,101</b>
Long term loans	13,812	12,479	12,479	12,479	12,479
Others	1,373	1,233	1,331	1,312	1,292
<b>Total non-current liabilities</b>	<b>15,185</b>	<b>13,712</b>	<b>13,810</b>	<b>13,791</b>	<b>13,771</b>
<b>Total Liabilities</b>	<b>22,115</b>	<b>21,440</b>	<b>21,305</b>	<b>20,476</b>	<b>19,872</b>
<b>EQUITY</b>					
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
<b>Total Equity</b>	<b>24,938</b>	<b>24,300</b>	<b>25,118</b>	<b>25,647</b>	<b>26,145</b>

### 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%
<b>Growth &amp; Margins (%)</b>					
<b>Growth</b>					
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%
<b>Margins</b>					
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%
<b>Key Ratios</b>					
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



**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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