

# CapitaLand Limited

Hyperdrive – the new normal



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## SINGAPORE | REAL ESTATE | FY19 RESULTS

4 March 2020

- FY19 revenue came in broadly in line at 105.6% of our estimates while DPS came in flat, meeting our 12cents forecast
- A strong set of results - achieved ROE of 10% after 10 years, due to higher PATMI across all segments - operating PATMI (+21%), portfolio gains (+25%) and revaluation gains (19%)
- Deleveraging achieved ahead of target, S\$13bn headroom from cash and undrawn debt facilities to be deployed opportunistically.
- Maintain BUY with higher TP of S\$4.20.

### Results at a glance

(SGD mn)	4Q19	4Q18	YoY	FY19	FY18	YoY	Comments
<b>Gross Revenue</b>	2,376	1,624	46.3%	6,235	5,602	11.3%	Mainly due to consolidation of ABS and RCCQ
<b>EBIT</b>	2,376	1,625	46.3%	6,235	5,602	11.3%	
<b>Finance costs</b>	(233)	(168)	38.6%	839	637	31.8%	Higher mainly due to increase in the Group's borrowings, resulting from the consolidation of ASB
<b>Total PATMI, Comprising:</b>	927	476	94.8%	2,137	1,763	21.2%	Excluding ASB contribution, PATMI would have increased 18%
<b>Operating PATMI</b>	418	214	95.7%	1,057	872	21.2%	Excluding ASB's S\$133mn contribution in 4Q19, operating PATMI would have increased 33%
<b>Portfolio gains</b>	249	60	314.0%	436	349	24.9%	Due to S\$5.9bn of gross divestments (+48% higher than in FY18)
<b>Revaluation gains and impairments</b>	260	202	28.6%	643	542	18.8%	Higher revaluation mainly from revaluations of properties in Singapore, China, Vietnam and India, largely driven by higher NPI

Source: Company, PSR

### The Positives

**+ Surpassed gearing target of 0.64x ahead end-2020 timeline.** CAPL divested S\$5.9bn worth of assets (double the S\$3bn FY19 target), achieving net debt/equity of 0.63x as at end-2019. This affords the group a debt headroom of S\$13.1bn (in cash and undrawn debt facilities) to redeploy capital. 64% of divestments were injected into listed REITs/BTs, which will grow AUM in the fund platform. CAPL maintains a divestment target of S\$3bn for FY20.

**+ Sold 5,268 units with sales value worth RMB13.2bn in FY19.** This compares to the 4,938 units worth RMB12.5bn sold in FY18. The group estimates c.RMB10.1bn worth of units will be handed over and 7,000 units will be released for sale in 2020.

### The Negatives

**- Vietnam residential inventory running low, hampered by longer approvals process.** While the group remains positive on Vietnam's outlook, stricter approval process is an impediment to replenishing land bank and getting project approvals.

### Outlook

We expect FY20e to be another active year for CAPL. With a stronger balance sheet and weaker economic environment, we think CAPL will use the opportunity to pick up assets at better valuations and at the same time shed non-core assets. With the group's 160K keys under management target, S\$100bn AUM ambitions for the fund management platform, redevelopment opportunities in SG and plans to deepen its presence in India and Vietnam, we see sustainable growth for CAPL.

The group will be shifting to half-yearly reporting and conducting valuations on an annual basis instead of semi-annually.

### BUY (Maintained)

LAST DONE PRICE	SGD 3.54
FORECAST DIV	SGD 0.12
TARGET PRICE	SGD 4.20
<b>TOTAL RETURN</b>	<b>22.1%</b>

### COMPANY DATA

BLOOMBERG CODE:	CAPL SP Equity
O/S SHARES (MN) :	5,043
MARKET CAP (USD mn / SGD mn) :	12849 / 17850
52 - WK HI/LO (SGD) :	3.97 / 3.17
3M Average Daily T/O (mn) :	8.49

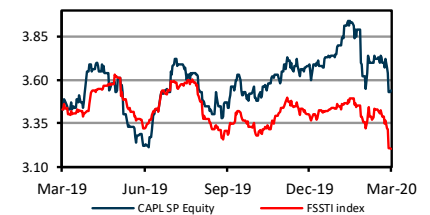
### MAJOR SHAREHOLDERS (%)

TEMASEK HOLDINGS	51.0%
BLACKROCK INC	5.0%
VANGUARD GROUP	1.0%
NORGES BANK	0.8%

### PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	(2.5)	(4.1)	6.7
STI RETURN	(4.4)	(5.4)	(2.3)

### PRICE VS. STI



Source: Bloomberg, PSR

### KEY FINANCIALS

Y/E Dec, SGD mn	FY18	FY19	FY20e	FY21e
Revenue	5,602	6,235	6,855	6,502
Gross Profit	2,689	3,000	3,291	3,121
EBIT	3,186	4,079	3,844	3,644
EPS (SGD)	0.42	0.46	0.45	0.43
P/E (x)	8.4	7.6	7.9	8.2
P/BV (x)	0.81	0.78	0.74	0.72
DPS (SGD)	0.12	0.12	0.12	0.12
Div Yield, %	3.4%	3.4%	3.4%	3.4%
ROE, %	9.3%	9.1%	9.5%	9.0%

Source: Company Data, Bloomberg

### Valuation Method

RNAV

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#### Impact of Covid19

Currently, 12 out of 48 malls in China are still closed. Residential sales were affected due to government mandated closure of showrooms due to the Covid19 situation. Showrooms have since reopened and sales momentum is picking up.

CAPL's lodging platform of predominantly serviced residence assets and are less affected by the Covid19 than full-service hotels, due to the 70-80% corporate-driven, longer-staying clientele. Average occupancy in Singapore is c.70% while occupancy in China ranges 50%-70%. This compares to the occupancy of 10%-50% for hotels.

Footfall at SG malls fell by 50% after the DOSCON was upgraded to orange. It has since improved to -5% pre-Covid19 levels. Despite this, gross turnover for Jan20 was in line with FY19, with suburban malls experiencing better footfall and sales.

#### **Maintain BUY with unchanged TP of S\$4.20.**

We remain positive on CAPL and maintain our BUY with an unchanged target price of S\$4.20. Our target price translates to a FY20e P/NAV ratio of 0.75x and an total return of 22.1%.

Figure 1: RNAV table

RNAV Table		
	(S\$mn)	(S\$)
<b>Development properties</b>		
Singapore residential surplus	357	0.07
China residential surplus	3,625	0.72
Other Overseas residential surplus	213	0.04
Development properties	7,725	1.53
	<b>11,921</b>	<b>2.37</b>
<b>Investment properties</b>		
<b>Singapore</b>	6,081	1.21
<b>China (Includes HK)</b>	10,980	2.18
<b>Japan</b>	1,741	0.35
<b>Other Asia</b>	1,429	0.28
<b>Europe, U.S. and Australia</b>	1,960	0.39
	<b>22,192</b>	<b>4.41</b>
<b>Listed / unlisted entities</b>		
CMT	2,835	0.56
CCT	2,475	0.49
AREIT	2,155	0.10
ART	822	0.16
Others	4,120	1.15
	<b>12,406</b>	<b>2.46</b>
<b>Fund Management Platform</b>		
PER: 12	<b>5,576</b>	<b>1.11</b>
<b>GAV</b>	<b>52,095</b>	<b>10.34</b>
Less: FY20E cash (net debt and committed CAPEX)	-25,637	(5.09)
RNAV	26,458	
<b>RNAV/share (S\$)</b>	<b>5.25</b>	
<b>Premium/(discount) to RNAV</b>	<b>-20%</b>	
<b>Fair value (S\$)</b>	<b>4.20</b>	

Source: PSR

## Income Statement

Y/E Dec, SGD mn	FY17	FY18	FY19e	FY20e	FY21e
<b>Revenue</b>	<b>4,618</b>	<b>5,602</b>	<b>6,235</b>	<b>6,855</b>	<b>6,502</b>
Gross Profit	2,024	2,689	3,000	3,291	3,121
Depreciation & Amortisation	(69)	(63)	(118)	(113)	(131)
<b>EBIT</b>	<b>2,420</b>	<b>3,186</b>	<b>4,079</b>	<b>3,844</b>	<b>3,644</b>
Net Finance (Expense)/Inc	(487)	(636)	(839)	(840)	(832)
Associates & JVs	882	959	989	1,242	1,284
<b>Profit Before Tax</b>	<b>2,816</b>	<b>3,509</b>	<b>4,228</b>	<b>4,246</b>	<b>4,096</b>
Taxation	(469)	(659)	(815)	(764)	(737)
<b>Profit After Tax</b>	<b>2,347</b>	<b>2,850</b>	<b>3,414</b>	<b>3,481</b>	<b>3,359</b>
Non-Controlling Interest	777	1,087	1,278	1,218	1,176
<b>Net Income, reported</b>	<b>1,570</b>	<b>1,762</b>	<b>2,136</b>	<b>2,263</b>	<b>2,183</b>

## Per share data (SGD)

Y/E Dec, SGD	FY17	FY18	FY19e	FY20e	FY21e
EPS, reported	0.37	0.42	0.46	0.45	0.43
DPS	0.12	0.12	0.12	0.12	0.12
BVPS	4.33	4.35	4.55	4.82	4.90

## Cash Flows

Y/E Dec, SGD mn	FY17	FY18	FY19e	FY20e	FY21e
<b>CFO</b>					
Profit for the year	2,347	2,850	3,414	3,481	3,359
Adjustments	(1,504)	(1,700)	(2,263)	(1,845)	(1,631)
WC changes	809	(1,414)	185	(15)	145
Cash generated from ops	2,545	943	2,717	3,107	3,328
Taxes paid, others	(379)	(390)	(471)	(764)	(737)
<b>Cashflow from ops</b>	<b>2,166</b>	<b>553</b>	<b>2,246</b>	<b>2,343</b>	<b>2,590</b>
<b>CFI</b>					
CAPEX, net	(142)	(88)	(75)	(102)	(88)
<b>Cashflow from investments</b>	<b>(1,770)</b>	<b>(1,356)</b>	<b>(359)</b>	<b>(347)</b>	<b>(678)</b>
<b>CFF</b>					
Dividends paid	(425)	(504)	(501)	(605)	(655)
<b>Cashflow from financing</b>	<b>979</b>	<b>(217)</b>	<b>(767)</b>	<b>(2,233)</b>	<b>(2,656)</b>
<b>Net change in cash</b>	<b>1,376</b>	<b>(1,019)</b>	<b>1,120</b>	<b>(237)</b>	<b>(744)</b>
Effects of exchange rates	(47)	(60)	(42)	-	-
<b>CCE, end</b>	<b>6,080</b>	<b>5,005</b>	<b>6,061</b>	<b>5,824</b>	<b>5,081</b>

Source: Company, Phillip Securities Research (Singapore) Estimates

## Balance Sheet

Y/E Dec, SGD mn	FY17	FY18	FY19e	FY20e	FY21e
<b>ASSETS</b>					
PPE	840	753	1,059	1,161	1,249
Associates & JVs	10,205	10,180	12,996	13,327	13,668
Investment Properties	36,479	39,446	48,732	49,927	51,093
Others	1,702	1,823	2,934	2,922	2,908
<b>Total non-current assets</b>	<b>49,227</b>	<b>52,201</b>	<b>65,721</b>	<b>67,336</b>	<b>68,918</b>
Development properties	3,977	5,129	7,725	7,508	7,231
Accounts Receivables	1,462	1,944	2,302	2,360	2,298
Cash balance	6,105	5,060	6,168	5,824	5,081
Others	768	314	431	46	46
<b>Total current assets</b>	<b>12,312</b>	<b>12,446</b>	<b>16,625</b>	<b>15,738</b>	<b>14,655</b>
<b>Total Assets</b>	<b>61,539</b>	<b>64,648</b>	<b>82,346</b>	<b>83,074</b>	<b>83,573</b>
<b>LIABILITIES</b>					
Short term loans	2,739	3,193	3,950	4,300	5,800
Accounts Payables	3,067	3,842	5,048	4,935	4,801
Others	3,055	2,360	3,430	3,402	3,402
<b>Total current liabilities</b>	<b>8,861</b>	<b>9,395</b>	<b>12,427</b>	<b>12,636</b>	<b>14,003</b>
Long term loans	18,956	20,440	27,461	27,161	25,361
Others	1,604	1,505	2,175	2,175	2,175
<b>Total non-current liabilities</b>	<b>20,560</b>	<b>21,945</b>	<b>29,636</b>	<b>29,336</b>	<b>27,536</b>
<b>Total Liabilities</b>	<b>29,421</b>	<b>31,341</b>	<b>42,063</b>	<b>41,972</b>	<b>41,539</b>
<b>EQUITY</b>					
Shareholder Equity	18,413	18,953	23,359	23,765	24,298
Non-controlling interest	13,705	14,354	16,026	16,440	16,838
<b>Total Equity</b>	<b>32,118</b>	<b>33,307</b>	<b>40,283</b>	<b>41,102</b>	<b>42,034</b>

## Valuation Ratios

Y/E Dec, SGD mn	FY17	FY18	FY19e	FY20e	FY21e
P/E	9.6	8.4	7.6	7.9	8.2
P/B	0.82	0.81	0.78	0.74	0.72
Dividend Yield	3.4%	3.4%	3.4%	3.4%	3.4%

## Growth &amp; Margins

<b>Growth</b>					
Revenue	-12.1%	21.3%	11.3%	10.0%	-5.1%
EBIT	46.5%	31.6%	28.0%	-5.8%	-5.2%
Net Income, adj.	56.0%	21.4%	19.8%	2.0%	-3.5%
<b>Margins</b>					
EBIT margin	52.4%	56.9%	65.4%	56.1%	56.0%
Net Profit Margin	50.8%	50.9%	54.8%	50.8%	51.7%
<b>Key Ratios</b>					
ROE	8.5%	9.3%	9.1%	9.5%	9.0%
ROA	2.6%	2.7%	2.6%	2.7%	2.6%
Gearing (Total Debt/Total Assets)	0.35	0.37	0.38	0.38	0.37



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