

CapitaLand Limited

Pick-up in all businesses

SINGAPORE | REAL ESTATE | 3Q20 UPDATE

- Sustained recovery in all business segments in 3Q20.
- Remains committed to S\$3bn divestment target and digitalisation to build stickiness and future-proof its portfolio, as well as cash conservation.
- Reiterate BUY and TP of S\$3.82, at a 20% discount to RNAV. CAPL is our top pick in the sector.

The Positives

+ Strong momentum in residential sales. Residential sales in China grew 40% QoQ to c.1,900 units. Singapore's 3Q20 sales were three times the 35 units sold in 1H20. Handovers were on track in Vietnam, with their YTD value almost tripling from the same period last year.

+ Sustained recovery in Retail and Lodging. Tenant sales continued to improve, to 17% and 31% below pre-COVID levels in Singapore and China. Back in June 2020, they were 19% /42% below. Malls maintained their occupancy in the 87.9-99.8% range. Although reversions in Singapore were -4%, China's reversions were positive or flat. In the Lodging segment, occupancy increased 40-50% QoQ while RevPAU improved 22% QoQ, but still down 52% from 2019 levels. Despite a longer recovery runway for the hospitality sector, CAPL signed 3,500 keys in 3Q20. This brought its YTD signed to 6,400 keys as franchisees and asset owners validate the value proposition and resilience of the service residence asset class.

+ Digitalisation gaining traction. CAPL's digital retail ecosystem comprising CapitaStar, eCapitaMall and Capita3Eats have shown results in driving tenant sales. More than 2,000 tenants have been onboarded on the three platforms, up 25% QoQ. eCapitaVoucher sales in Singapore have increased by c.229% YTD. The 13mn CapitaStar members registered appear to underscore the success of its spend-and-be-rewarded strategy. Since the launch of Ascott Star Rewards (ASR) in April 2019, direct bookings and online revenue have grown by 35% and 20% respectively. This lifted margins as direct bookings cut out commissions payable to accommodation-listing platforms and promote brand stickiness. As CapitaStar points are fungible with ASR points, the digital ecosystem encourages cross-selling. This should further entrench CAPL's position as a diversified real-estate juggernaut.

The Negative

- Earnings and valuations hurt by COVID-19. 1H20 PATMI was down 89% YoY, arising from a subdued operating environment and lower-than-expected capital recycling. Market weakness will likely result in downward revaluations at year-end and impairment assessment for equity investments. CAPL's FY20 financial performance could be materially affected. However, operations in 1H20 yielded positive cash flows and the impairments to come will have a bearing on profitability rather than cash flows.

Outlook

Momentum is strong in the development segment while leasing headwinds persist in the retail, commercial and industrial sectors. The recovery in hospitality is somewhat stunted, hinging on the vaccine timeline. CAPL is focusing on digitalisation to build stickiness and future-proof its portfolio, while conserving cash.

Maintain BUY and TP of S\$3.82

No change in our estimates. Our TP remains based on a 20% discount to RNAV. CAPL is our top pick in the sector. Portfolio diversification and decades of experience in real estate should help it ride out near-term headwinds.



StocksBnB.com

10 November 2020

BUY (Maintained)

LAST DONE PRICE	SGD 2.64
FORECAST DIV	SGD 0.12
TARGET PRICE	SGD 3.82
TOTAL RETURN	49.3%

COMPANY DATA

BLOOMBERG CODE:	CAPL SP Equity
O/S SHARES (MN):	5,193
MARKET CAP (USD mn / SGD mn):	10209 / 13709
52 - WK HI/LO (SGD):	3.97 / 2.51
3M Average Daily T/O (mn):	8.52

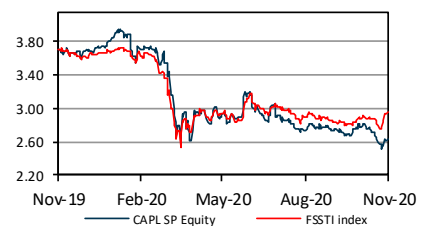
MAJOR SHAREHOLDERS (%)

TEMASEK HOLDINGS	51.5%
BLACKROCK INC	5.0%
VANGUARD GROUP	1.9%
NORGES BANK	87.0%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	(5.1)	(5.1)	(25.5)
STI RETURN	2.1	1.8	(17.5)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, SGD mn	FY18	FY19	FY20e	FY21e
Revenue	5,602	6,235	5,880	6,217
Gross Profit	2,689	3,000	2,823	2,984
EBIT	3,186	4,079	3,297	3,485
EPS (SGD)	0.42	0.46	0.30	0.40
P/E (x)	6.3	5.7	8.7	6.5
P/BV (x)	0.61	0.58	0.55	0.56
DPS (SGD)	0.12	0.12	0.12	0.06
Div Yield, %	4.6%	4.6%	4.5%	2.3%
ROE, %	9.3%	9.1%	6.7%	8.7%

Source: Company Data, Bloomberg

Valuation Method

RNAV

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The Group has elected to adopt half-yearly reporting and will be conducting valuations on an annual basis instead of semi-annually.

Figure 1: RNAV table

RNAV Table		
	(S\$mn)	(S\$)
Development properties		
Singapore residential surplus	357	0.07
China residential surplus	3,625	0.70
Other Overseas residential surplus	213	0.04
Development properties	7,725	1.50
	11,921	2.31
Investment properties		
Singapore	6,081	1.18
China (Includes HK)	10,980	2.13
Japan	1,741	0.34
Other Asia	1,429	0.28
Europe, U.S. and Australia	1,960	0.38
	22,192	4.31
Listed / unlisted entities		
CMT	2,447	0.47
CCT	2,169	0.42
AREIT	2,515	0.08
ART	828	0.16
Others	3,462	1.08
	11,421	2.22
Fund Management Platform		
PER: 12	5,576	1.08
GAV	51,110	9.92
Less: FY20E cash (net debt and committed CAPEX)	-26,513	(5.15)
RNAV	24,597	
RNAV/share (S\$)	4.77	
Premium/(discount) to RNAV	-20%	
Fair value (S\$)	3.82	

Source: PSR

Financials

Income Statement

Y/E Dec, SGD mn	FY17	FY18	FY19	FY20e	FY21e
Revenue	4,618	5,602	6,235	5,880	6,217
Gross Profit	2,024	2,689	3,000	2,823	2,984
Depreciation & Amortisation	(69)	(63)	(118)	(113)	(131)
EBIT	2,420	3,186	4,079	3,297	3,485
Net Finance (Expense)/Inc	(487)	(636)	(839)	(867)	(859)
Associates & JVs	882	959	989	1,242	1,284
Profit Before Tax	2,816	3,509	4,228	3,672	3,909
Taxation	(469)	(659)	(815)	(661)	(704)
Profit After Tax	2,347	2,850	3,414	2,409	3,206
Non-Controlling Interest	777	1,087	1,278	843	1,122
Net Income, reported	1,570	1,762	2,136	1,566	2,084

Per share data (SGD)

Y/E Dec, SGD	FY17	FY18	FY19	FY20e	FY21e
EPS, reported	0.37	0.42	0.46	0.30	0.40
DPS	0.12	0.12	0.12	0.12	0.06
BVPS	4.33	4.35	4.55	4.82	4.71

Cash Flows

Y/E Dec, SGD mn	FY17	FY18	FY19	FY20e	FY21e
CFO					
Profit for the year	2,347	2,850	3,414	2,409	3,206
Adjustments	(1,504)	(1,700)	(2,263)	(1,845)	(1,631)
WC changes	809	(1,414)	185	(381)	401
Cash generated from ops	2,545	943	2,717	1,592	3,422
Taxes paid, others	(379)	(390)	(471)	(661)	(704)
Cashflow from ops	2,166	553	2,246	931	2,718
CFI					
CAPEX, net	(142)	(88)	(75)	(102)	(88)
Cashflow from investments	(1,770)	(1,356)	(359)	(347)	(676)
CFF					
Dividends paid	(425)	(504)	(501)	(316)	(644)
Cashflow from financing	979	(217)	(767)	(697)	(2,639)
Net change in cash	1,376	(1,019)	1,120	(113)	(597)
Effects of exchange rates	(47)	(60)	(42)	-	-
CCE, end	6,080	5,005	6,061	5,948	5,351

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

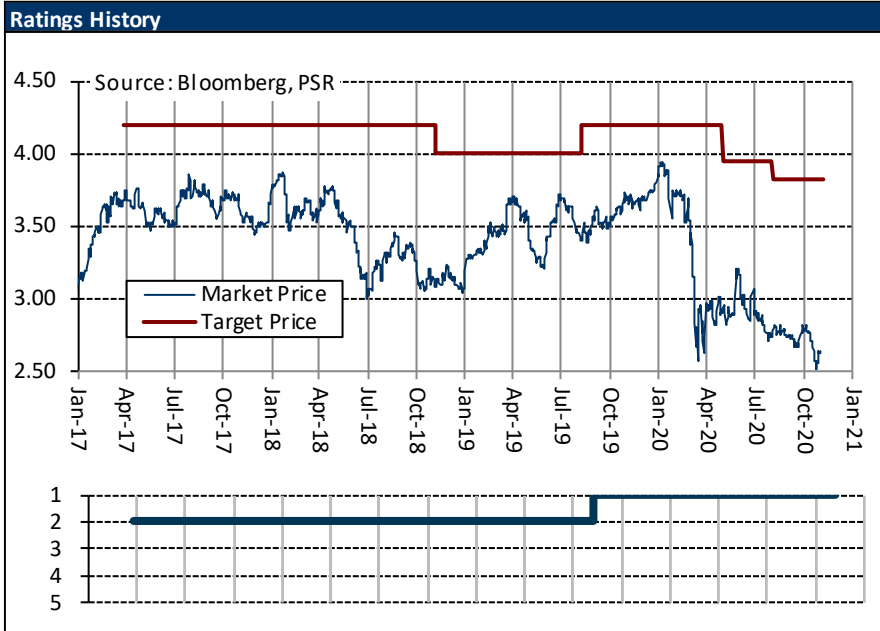
Y/E Dec, SGD mn	FY17	FY18	FY19	FY20e	FY21e
ASSETS					
PPE	840	753	1,059	1,161	1,249
Associates & JVs	10,205	10,180	12,996	13,327	13,668
Investment Properties	36,479	39,446	48,732	49,927	51,093
Others	1,702	1,823	2,934	2,922	2,908
Total non-current assets	49,227	52,201	65,721	67,336	68,918
Development properties	3,977	5,129	7,725	7,508	7,231
Accounts Receivables	1,462	1,944	2,302	2,024	2,198
Cash balance	6,105	5,060	6,168	5,948	5,351
Others	768	314	431	46	46
Total current assets	12,312	12,446	16,625	15,526	14,825
Total Assets	61,539	64,648	82,346	82,862	83,742
LIABILITIES					
Short term loans	2,739	3,193	3,950	4,300	5,800
Accounts Payables	3,067	3,842	5,048	4,233	4,591
Others	3,055	2,360	3,430	3,402	3,402
Total current liabilities	8,861	9,395	12,427	11,935	13,793
Long term loans	18,956	20,440	27,461	28,161	26,361
Others	1,604	1,505	2,175	2,175	2,175
Total non-current liabilities	20,560	21,945	29,636	30,336	28,536
Total Liabilities	29,421	31,341	42,063	42,271	42,328
EQUITY					
Shareholder Equity	18,413	18,953	23,359	23,383	23,824
Non-controlling interest	13,705	14,354	16,026	16,312	16,693
Total Equity	32,118	33,307	40,283	40,592	41,414

Valuation Ratios

Y/E Dec, SGD mn	FY17	FY18	FY19	FY20e	FY21e
P/E	7.1	6.3	5.7	8.7	6.5
P/B	0.61	0.61	0.58	0.55	0.56
Dividend Yield	4.5%	4.6%	4.6%	4.5%	2.3%

Growth & Margins

Growth					
Revenue	-12.1%	21.3%	11.3%	-5.7%	5.7%
EBIT	46.5%	31.6%	28.0%	-19.2%	5.7%
Net Income, adj.	56.0%	21.4%	19.8%	-29.4%	33.1%
Margins					
EBIT margin	52.4%	56.9%	65.4%	56.1%	56.0%
Net Profit Margin	50.8%	50.9%	54.8%	41.0%	51.6%
Key Ratios					
ROE	8.5%	9.3%	9.1%	6.7%	8.7%
ROA	2.6%	2.7%	2.6%	1.9%	2.5%
Gearing (Total Debt/Total As:	0.35	0.37	0.38	0.39	0.38



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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