

CapitaLand Limited

Faster growth and re-rating

SINGAPORE | REAL ESTATE | UPDATE

- Proposed restructuring and demerger of investment-management business to allow unitholders to realise immediate upside from development business (at 0.95x BV offered), compared to CAPL's 20-30% historical discounts to NAV.
- Implied consideration of S\$4.102 is 24% premium to last traded price and 5-year VWAP. Comprises S\$0.951 cash, one CLIM unit and 0.155 unit of CICT valued at S\$2.823 and S\$0.328 respectively.
- Maintain BUY. TP raised from S\$3.75 to S\$4.38. Our new TP is based on an 80% probability-weighted RNAV that the demerger will be approved and SOTP. Demerger valuations are calculated using the average of the two valuation methods in Figures 1-2.

What's new?

Proposed restructuring and demerger of investment management business. CAPL and its largest shareholder, CLA Real Estate Holdings Pte Ltd (CLA), have proposed to restructure the group's businesses by: 1) consolidating its investment-management platform and lodging business into CapitaLand Investment Management (CLIM); and 2) decoupling and privatising its property development business with an NAV of S\$6.1bn (Figure 5). CLA is an investment holding company, indirectly wholly-owned by Temasek Holdings, with a 51.76% stake in CAPL.

Implied consideration of S\$4.102/share will be paid in cash (S\$0.951) and the distribution in specie of one CLIM share valued at S\$2.823 (1x NAV) and 0.155 unit of CapitaLand Integrated Commercial Trust (CICT SP, Accumulate, TP S\$2.50). The S\$0.328 figure for CICT is based on its last traded price of S\$2.122 (Figure 6). The cash consideration will not be reduced by CAPL's proposed FY20 DPS of 9 cents.

After the restructuring, CLIM will hold on its balance sheet: 1) CAPL's stakes in its listed REITs and private funds; 2) S\$10.1bn in investment properties, with a pipeline for injection into the REITs and private funds over the next 2-3 years; 3) the group's fund-management platform; 4) lodging platform; and 5) the asset managers of the listed REITs and private funds.

The restructuring is subject to approval from SGX and CAPL shareholders at an EGM in 3Q21. Assuming a successful completion sometime in 4Q21, CAPL will be delisted and CLIM will be the listed entity.

What do we think?

We see several merits in the scheme. By decoupling its development operations from its stable fund management and mature investment property portfolio, we believe investors will benefit from the immediate realisation of the development assets at the 0.95x BV offered, compared to CAPL's historical 20-30% trading discounts to NAV. Shareholders can also participate in a potential re-rating of CLIM as real estate investment management (REIM) vehicles historically trade at 1.5-2.6x premiums to NAV. Without a bulky development book, CLIM's fee and rental revenue from mature investment properties is expected to be more stable.

The scheme of arrangement will allow the group to sharpen its focus on asset-light and capital-efficient businesses and match each business' risk-return profile with the appropriate capital sources and capital structures, in our view. CLIM will be positioned as an asset-light, growth business while capital-intensive and longer-gestation development projects and assets, which are usually valued at discounts to RNAV, will be privatised.



24 March 2021

BUY (Maintained)

LAST DONE PRICE	SGD 3.75
FORECAST DIV	SGD 0.10
TARGET PRICE	SGD 4.38
TOTAL RETURN	19.5%

COMPANY DATA

BLOOMBERG CODE:	CAPL SP Equity
O/S SHARES (MN) :	5,203
MARKET CAP (USD mn /SGD mn) :	14544 / 19511
52 - WK HI/LO (SGD) :	4.01 / 2.51
3M Average Daily T/O (mn) :	8.45

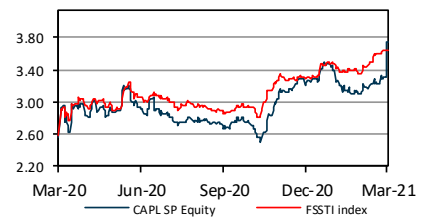
MAJOR SHAREHOLDERS (%)

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

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	6.4	0.6	0.9
STI RETURN	8.6	10.8	10.2

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, SGD mn	FY19	FY20	FY21e	FY22e
Revenue	6,235	6,533	6,033	6,144
Gross Profit	3,000	2,919	2,896	2,949
EBIT	4,079	180	3,218	3,278
EPS (SGD)	0.46	(0.31)	0.34	0.35
P/E (x)	8.1	-12.1	11.2	10.8
P/BV (x)	0.81	0.87	0.86	0.84
DPS (cents)	12.00	9.00	10.00	11.00
Div Yield, %	3.2%	2.4%	2.7%	2.9%
ROE, %	9.1%	-7.1%	7.7%	7.8%

Source: Company Data, Bloomberg

Valuation Method

RNAV

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CLIM's unitholders can still have exposure to development revenue as CLIM is able to establish a development fund to develop projects or jointly develop projects with the privatised CapitaLand Development.

Outlook

Lodging AUM and fund assets under management (FAUM) will continue to be lynchpins of growth for the group. On its lodging platform are 52,900 units (30%) that are expected turn operational in the next three years. Once operational, they will begin contributing to earnings. Also, about S\$1.0bn of third-party capital under private funds has yet to be deployed and will increase FAUM and fee income when put to play.

Maintain BUY; probability-weighted RNAV TP raised from S\$3.75 to S\$4.38

No change to our earnings forecasts, pending details on the scheme of arrangement in 3Q21 (Figure 7). Given the clarity on its future direction to isolate its fund-management and lodging platforms, we revert our valuation of The Ascott Limited (Not listed) from DCF to P/E. This is in line with market P/E valuations for REIMs. We raise our P/E for its fund-management platform from 12x to 15x, which is the average for investment-management platforms in Asia.

Our new TP for CAPL is based on an 80% probability-weighted RNAV and SOTP valuations. Our demerger valuations are based on an average of the two valuation methods as outlined in Figures 1 and 2.

CAPL is still our top pick for the sector. A high proportion of recurring income and its pivot to New Economy assets are expected to keep earnings stable and future-proof its portfolio.

Figure 1: Valuation breakdown

Valuation					
CAPL valuation w/o demerger based on 20% disc. to RNAV ¹				\$3.44	(A)
Demerger valuation (1):					
	CLIM units	CICT units	Cash consideration		
Number of units	1.0	0.155			
P/NAV multiple ²	1.5x				
Pro forma NAV	\$2.82				
PSR TP for CICT		\$2.50			
Valuation	\$4.23	\$0.39	\$0.95	\$5.57	(1)
Demerger valuation (2):					
RNAV - 15% discount to RNAV ³					
	NAV per share				
Development properties	\$1.91				
Investment properties	\$3.91				
Listed / unlisted entities	\$1.99				
Fund Management Platform	\$0.61				
The Ascott Limited	\$0.79				
Gross asset value (GAV)	\$9.22				
Less: FY20E cash (net debt & CAPEX)	-\$4.92				
RNAV per share	\$4.30				
Premium/(discount) to RNAV	-15%				
Fair Value	\$3.66				(2)
Demerger valuation:					
Based on average of Demerger valuation (1) and (2)				\$4.61	(B)
Probability weighted target price:					
	Probability	Scenario	Valuation	Weighted average valuation	
(A) Against	20%	W/o demerger	\$3.44	\$0.69	
(B) In favour	80%	Demerger	\$4.61	\$3.69	
		TP	\$4.38		

Source: PSR

¹ Refer to RNAV table in Figure 2² 1.5x P/NAV assumption is conservative in our view, at the lower of the end of the 1.5-2.9x range that REIMs traded at in the last five years. CLIM's valuation of S\$4.23 is based on 1.5x CICT's NAV of S\$2.82.³ Discount to RNAV lowered from 20% to 15% to reflect cash and distribution-in-species and de-risking of the portfolio as the development arm will be decoupled from its investment-management business.

Figure 2: Valuation without demerger

RNAV Table		
	(S\$mn)	(S\$)
Development properties		
Singapore residential surplus	799	0.15
China residential surplus	2,851	0.55
Other Overseas residential surplus	213	0.04
Development properties	6,078	1.17
	9,941	1.91
Investment properties		
Singapore	6,218	1.20
China (Includes HK)	9,053	1.74
Japan	1,358	0.26
Other Asia	1,534	0.30
Europe, U.S. and Australia	2,150	0.41
	20,312	3.91
Listed / unlisted entities		
CICT	4,674	0.90
CLCT	801	0.00
AREIT	2,795	0.15
ART	1,461	0.28
Others	609	0.66
	10,340	1.99
Fund Management Platform		
PE Multiple: 15 , FY1e fee PATMI: 212.4	3,185	0.61
The Ascott Limited		
PE Multiple: 15 , FY1e fee PATMI: 273.0	4,095	0.79
GAV		
GAV	47,874	9.22
Less: FY20E cash (net debt and committed CAPEX)	-25,535	(4.92)
RNAV	22,339	
RNAV/share (S\$)	4.30	
Premium/(discount) to RNAV	-20%	
Fair value (S\$)	3.44	

Source: PSR

Figure 3: Summary of financials and key ratios

Financials

Income Statement

Y/E Dec, SGD mn	FY18	FY19	FY20	FY21e	FY22e
Revenue	5,602	6,235	6,533	6,033	6,144
Gross Profit	2,689	3,000	2,919	2,896	2,949
Depreciation & Amortisation	(63)	(118)	(157)	(187)	(211)
EBIT	3,186	4,079	180	3,218	3,278
Net Finance (Expense)/Inc	(636)	(839)	(913)	(914)	(914)
Associates & JVs	959	989	52	1,002	1,047
Profit Before Tax	3,509	4,228	(682)	3,307	3,411
Taxation	(659)	(815)	(953)	(629)	(649)
Profit After Tax	2,850	3,414	(1,635)	2,678	2,762
Non-Controlling Interest	1,087	1,278	(61)	937	967
Net Income, reported	1,762	2,136	(1,574)	1,740	1,795

Per share data (SGD)

Y/E Dec, SGD	FY18	FY19	FY20	FY21e	FY22e
EPS, reported	0.42	0.46	-0.31	0.34	0.35
DPS (cents)	12.00	12.00	9.00	10.00	11.00
BVPS	4.55	4.64	4.30	4.37	4.44

Cash Flows

Y/E Dec, SGD mn	FY18	FY19	FY20	FY21e	FY22e
CFO					
Profit for the year	2,850	3,414	(1,635)	2,678	2,762
Adjustments	(1,700)	(2,263)	2,862	(1,311)	(1,330)
WC changes	(1,414)	185	(249)	624	1,130
Cash generated from ops	943	2,717	2,040	3,534	4,125
Taxes paid, others	(390)	(471)	(512)	(358)	(369)
Cashflow from ops	553	2,246	1,528	3,176	3,756
CFI					
CAPEX, net	(88)	(75)	(70)	(84)	(82)
Cashflow from investments	(1,356)	(359)	32	(584)	(682)
CFF					
Dividends paid	(504)	(501)	(218)	(467)	(519)
Cashflow from financing	(217)	(767)	1,298	(2,144)	(2,217)
Net change in cash	(1,019)	1,120	2,858	448	857
Effects of exchange rates	(60)	(42)	172	-	-
CCE, end	5,005	6,061	9,089	9,537	10,394

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, SGD mn	FY18	FY19	FY20	FY21e	FY22e
ASSETS					
PPE	753	1,059	1,435	1,519	1,600
Associates & JVs	10,180	12,996	12,528	13,092	13,681
Investment Properties	39,446	48,732	47,873	48,373	48,973
Others	1,823	2,934	3,142	3,125	3,105
Total non-current assets	52,201	65,721	64,978	66,108	67,359
Development properties	5,129	7,725	6,778	6,078	5,518
Accounts Receivables	1,944	2,302	3,076	2,637	2,359
Cash balance	5,060	6,168	9,175	9,623	10,480
Others	314	431	362	362	362
Total current assets	12,446	16,625	19,392	18,700	18,720
Total Assets	64,648	82,346	84,370	84,808	86,079
LIABILITIES					
Short term loans	3,193	3,950	4,937	5,537	5,537
Accounts Payables	3,842	5,048	5,257	4,741	5,034
Others	2,360	3,430	3,545	3,816	4,096
Total current liabilities	9,395	12,427	13,739	14,095	14,667
Long term loans	20,440	27,461	30,221	29,621	29,621
Others	1,505	2,175	2,118	2,118	2,118
Total non-current liabilities	21,945	29,636	32,339	31,739	31,739
Total Liabilities	31,341	42,063	46,078	45,834	46,406

EQUITY

Shareholder Equity	18,953	23,359	22,306	22,681	23,064
Non-controlling interest	14,354	16,026	14,989	15,296	15,613
Total Equity	33,307	40,283	38,292	38,974	39,673

Valuation Ratios

Y/E Dec, SGD mn	FY18	FY19	FY20	FY21e	FY22e
P/E	7.5	6.8	-10.2	9.5	9.2
P/B	0.70	0.68	0.74	0.73	0.71
Dividend Yield	3.8%	3.8%	2.8%	3.2%	3.5%

Growth & Margins

Growth					
Revenue	21.3%	11.3%	4.8%	-7.6%	1.8%
EBIT	31.6%	28.0%	-95.6%	nm	1.8%
Net Income, adj.	21.4%	19.8%	-147.9%	nm	3.2%
Margins					
EBIT margin	56.9%	65.4%	2.8%	53.3%	53.3%
Net Profit Margin	50.9%	54.8%	-25.0%	44.4%	45.0%

Key Ratios

ROE	9.3%	9.1%	-7.1%	7.7%	7.8%
ROA	2.7%	2.6%	-1.9%	2.1%	2.1%
Gearing (Total Debt/Total As)	0.37	0.38	0.42	0.41	0.41

Figure 4: PSR rating

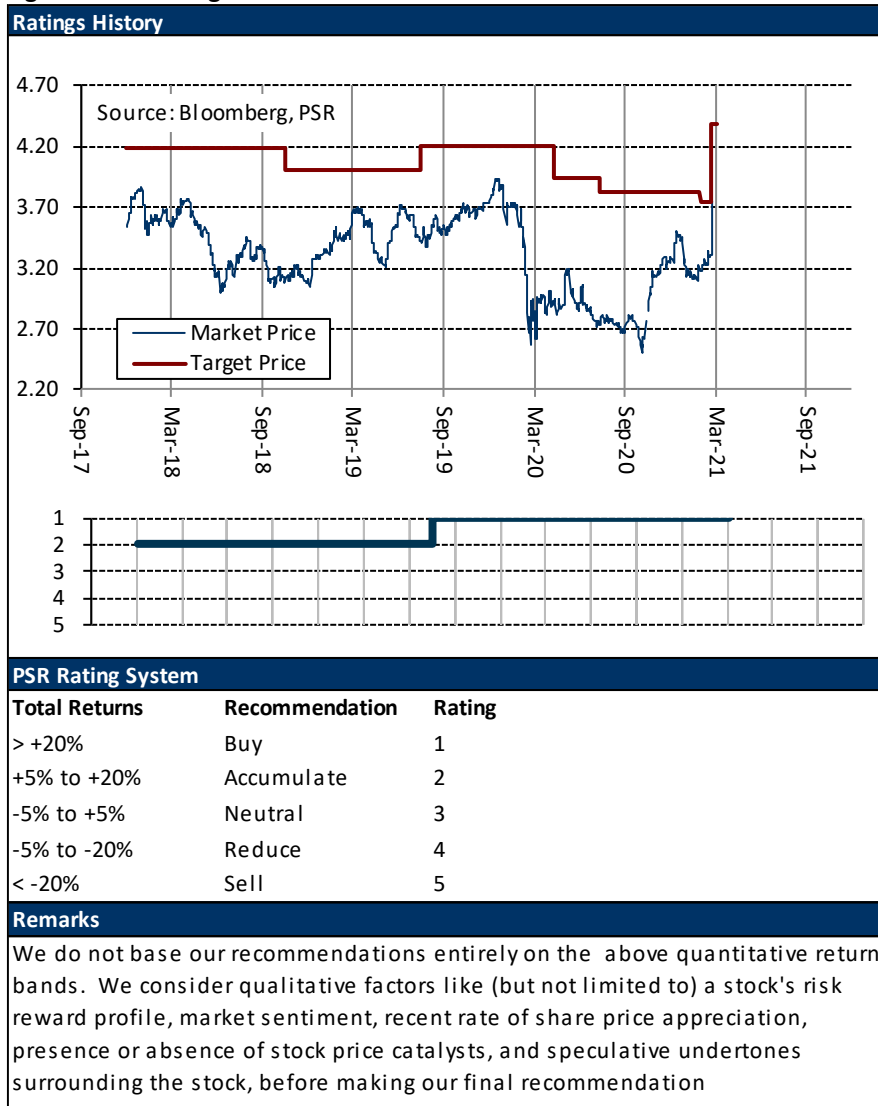
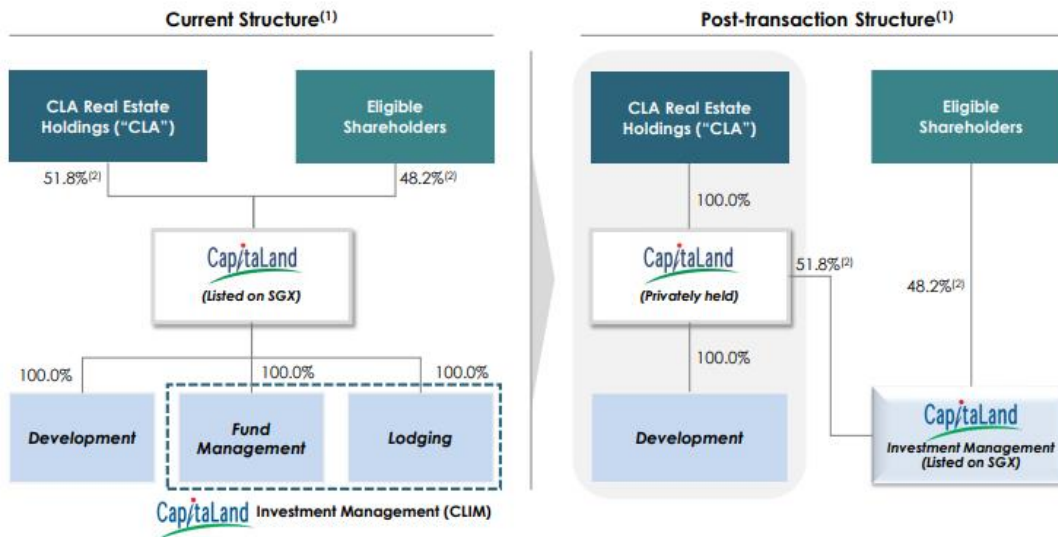
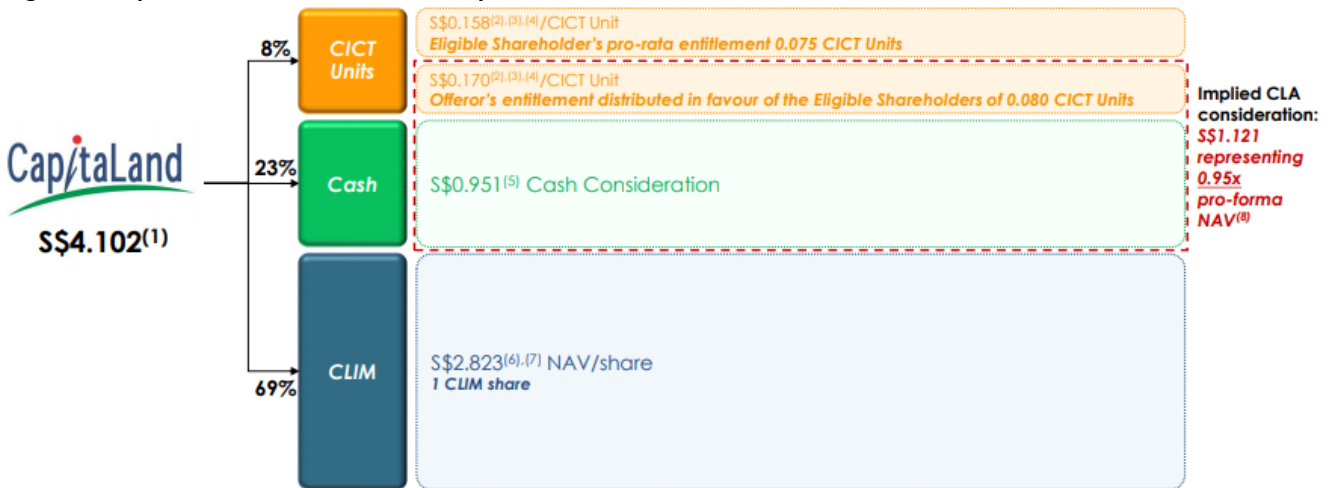


Figure 5: Details of the restructuring
Strategic restructuring to be carried out through Scheme of Arrangement



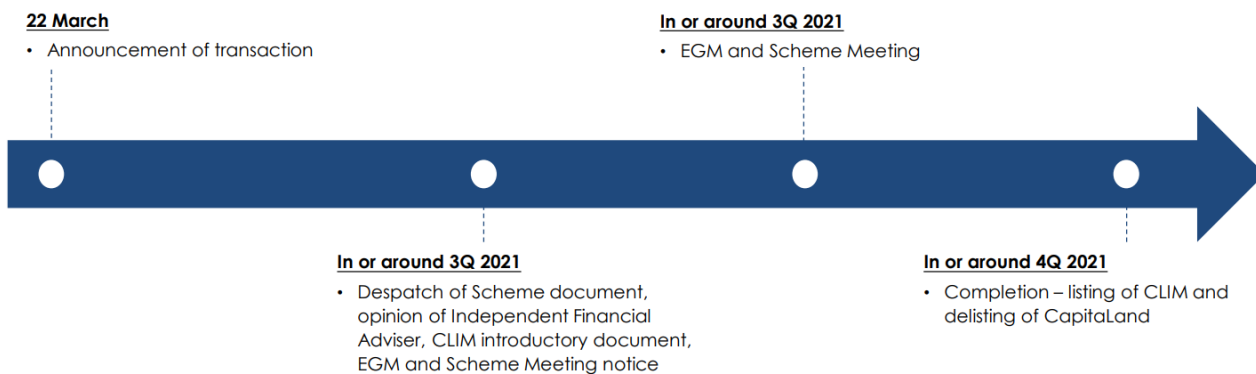
Source: CapitaLand

Figure 6: Implied consideration of S\$4.102 per unit of CAPL



Source: CapitaLand

Figure 7: Indicative timeline



Source: CapitaLand

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