

CapitaLand Limited

A year of active portfolio re-constitution



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SINGAPORE | REAL ESTATE | FY17 RESULTS

- 20% dividend hike to 12c/share for FY17.
- Replenishing of land bank in Singapore with en bloc purchase of Pearl Bank.
- Lower residential sales value in China partially offset by higher sales in Vietnam.
- Active portfolio reconstitution with realised divestment gains tripled YoY at S\$318mn.
- Maintain Accumulate with unchanged TP of S\$4.19.

Results at a glance

(SGD mn)/Dec Yr End	FY17	FY16	YoY (%)	Comments
Gross Revenue	4,609.8	5,252.3	(12.2)	Lower completion and handover of units in China and consolidation of revenue from CMT, CRCT, RCST
EBIT	3,110.5	2,359.5	31.8	Above reasons plus gain from sale of Nassim, higher rental income from newly acquired/opened properties
Finance costs	486.7	452.6	7.5	Consolidation of CMT, CRCT, RCST from Aug 2017. Average borrowing costs slightly lower yoy at 3.2% (3.3% in FY16)
Total PATMI	1,550.7	1,190.3	30.3	Higher fair value gains from revaluation of investment properties
Operating PATMI	908.30	865.30	5.0	Higher contribution from Singapore segments offset by lower contributions from China and Vietnam development projects

Source: Company, PSR

The Positives

+ 20% dividend hike to 12c/share for FY17. This is the highest percentage increase since 2009, when dividends were raised from 5c to 6c/share.

+ Replenishing of land bank with en bloc purchase of Pearl Bank. Acquisition price of S\$728mn, plus a lease top-up premium of S\$201mn translates to a total cost of S\$1,515psf for the 82,376 sq ft land site. The Group plans to build an 800-unit development on the site. We estimate breakeven cost to be close to S\$2,000/psf. We note that the closest comparison in the vicinity, 5-year old Dorsett Residences beside Outram Park MRT has traded in the S\$1800-\$2500/psf over the last 5 years.

+ Lower residential sales value in China partially offset by higher sales in Vietnam. Due to less available units for sale in China, FY17 contracted sales value dropped by c.15% YoY (or c.S\$570mn). This is partially offset by a c.60% jump (or c.S\$180mn) in contracted sales value in Vietnam. Contracted sales value in Singapore remained stable mostly due to bulk sale of The Nassim.

+ Active portfolio reconstitution with realised divestment gains tripled YoY at S\$318mn. S\$2.6bn divestments were made in FY17, with capital redeployed into S\$7.3bn worth of new assets, including more noticeably Asia Square Tower 2 and Golden Shoe Car Park redevelopment. The Group has now set a target to recycle S\$3bn of investment properties annually.

+ Efficient capital management with lowered financing costs and extended debt maturity. Despite fears of rising interest rates, the Group managed to achieve a slightly lower all-in interest rate of 3.2% (down 0.1pps YoY) with slightly extended debt maturity profile of 3.4 years (vs 3.3 years in FY16).

+ Stable retail portfolio in China. Same-mall tenant sales in China accelerated to 7% YoY from 3.4% in FY16, excluding master-leased mall, supermarkets, and department stores.

+ RevPAUs for serviced residences seeing recovery in key markets. Total portfolio RevPAU grew 1% in FY17, led by key regions in Europe, South-east Asia and China. This is an improvement from the -4% YoY drop in FY16.

19 February 2017

ACCUMULATE (Maintained)

LAST CLOSE PRICE	SGD 3.57
FORECAST DIV	SGD 0.10
TARGET PRICE	SGD 4.19
TOTAL RETURN	20.2%

COMPANY DATA

BLOOMBERG CODE	CAPL SG
O/S SHARES (MN) :	4,247
MARKET CAP (USD mn / SGD mn) :	1562 / 15162
52 - WK HI/LO (SGD) :	3.88 / 3.42
3M Average Daily T/O (mn) :	10.17

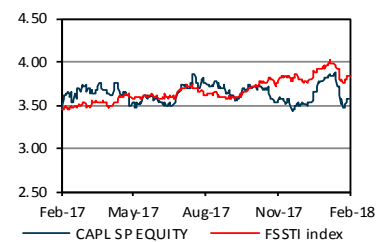
MAJOR SHAREHOLDERS (%)

TEMASEK HOLDINGS	40.0%
BLACKROCK	6.0%
VANGUARD GRP	1.82%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	(5.3)	1.1	5.1
STIRETURN	(2.5)	2.6	15.1

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

SGD MN	FY 16	FY 17	FY 18 e	FY 19 e
Revenue	5252	4610	4691	4340
Gross Profit	1598	1838	1548	1476
EBIT	1652	2234	1736	1673
EPS (SGD)	0.28	0.37	0.23	0.20
P ER, x (adj.)	10.8	9.9	16.1	17.8
P/BV, x	0.7	0.8	0.8	0.8
DPS (SGD)	0.10	0.12	0.12	0.12
Div Yield, %	3.3%	3.3%	3.3%	3.3%
ROE, %	6.8%	8.4%	5.0%	4.5%

Source: Company Data, PSR est.

Valuation Method

RNAV

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The Negatives

- **Tenant sales growth for Singapore malls (40% of total shopping mall portfolio) remains muted.** Same-mall tenant sales stayed muted with a 0.9% YoY growth vs 1.4% growth in FY16. This is despite the Singapore general retail sales index rebounding in 2017 (average 1.8% YoY ex-Motor vehicles).

- **Slowdown in China residential sales as a result of less units available for sale.** The 15% fall in contracted sales value was due to less units available for sale. Despite this, a healthy 93% of launched units was sold as at 31 Dec 2017.

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. RMB10.3bn worth of China residential sales are expected to be completed and handed over in FY18, which will provide further support to earnings over the next FY. We expect the three new Raffles City integrated developments in China which opened in FY17 to boost recurring income growth in FY18 as occupancy improves. While the retail sector in Singapore remains sluggish, tenant sales in China has stabilised. The office and service residences segments have shown signs of improvement and are expected to lead the recovery in recurring income.

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

We maintain our Accumulate rating with an unchanged target price as we roll forward our forecasts to FY18 and beyond. 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\$)
Development properties		
Singapore residential surplus	62	0.01
China residential surplus	263	0.06
Other Overseas residential surplus	51	0.01
Development properties	4,074	0.96
	4,450	1.05
Investment properties		
Singapore	2,412	0.57
China (Includes HK)	12,220	2.88
Japan	961	0.23
Other Asia (Exclude CN and SG)	751	0.18
Europe and Australia	659	0.16
	17,002	4.01
Listed / unlisted entities		
CMT	2,113	0.50
CCT	2,010	0.47
CRCT	470	0.11
ART	1,089	0.26
Others	292	0.07
	5,973	1.41
Fund Management Platform		
PER: 12	1,453	0.34
GAV	28,878	6.82
Less: FY18E net debt (cash) and committed CAPEX	(6,695)	(1.58)
RNAV		22,183
RNAV/share (S\$)		5.24
Premium/(discount) to RNAV		-20%
Fair value (S\$)		4.19

Source: PSR

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



Source: Bloomberg, PSR

Financials

Income Statement

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
Revenue	4,762	5,252	4,610	4,691	4,340
Gross Profit	1,475	1,598	1,838	1,548	1,476
Depreciation & Amortisation	3	3	7	4	5
EBIT	1,590	1,652	2,234	1,736	1,673
Net Finance (Expense)/Inc	(477)	(453)	(487)	(759)	(868)
Associates & JVs	726	708	877	616	629
Profit Before Tax	1,839	1,907	2,624	1,593	1,434
Taxation	(344)	(403)	(298)	(271)	(244)
Profit After Tax	1,495	1,504	2,326	1,322	1,190
Non-Controlling Interest	430	314	775	366	325
Net Income, reported	1,066	1,190	1,551	957	865

Per share data (SGD)

Y/E Dec, SGD	FY15	FY16	FY17	FY18e	FY19e
EPS, reported	0.25	0.28	0.37	0.23	0.20
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	1,322	1,190
Adjustments	(1,081)	(902)	(1,499)	(968)	(1,013)
WC changes	1,548	2,250	961	258	1,160
Cash generated from ops	2,727	3,655	2,510	1,564	2,380
Taxes paid, others	(261)	(350)	(344)	(271)	(244)
Cashflow from ops	2,467	3,305	2,166	1,293	2,136
CFI					
CAPEX, net	(62)	(75)	(142)	(93)	(104)
Cashflow from investments	154	(71)	(1,770)	(279)	(325)
CFF					
Dividends paid	247	-	-	-	-
Cashflow from financing	(1,213)	(2,462)	979	(1,803)	(1,857)
Net change in cash	1,408	772	1,376	(789)	(46)
Effects of exchange rates	40	(129)	(47)	-	-
CCE, end	4,153	4,778	6,080	5,291	5,245

Source: Company, Phillip Securities Research (Singapore) Estimates

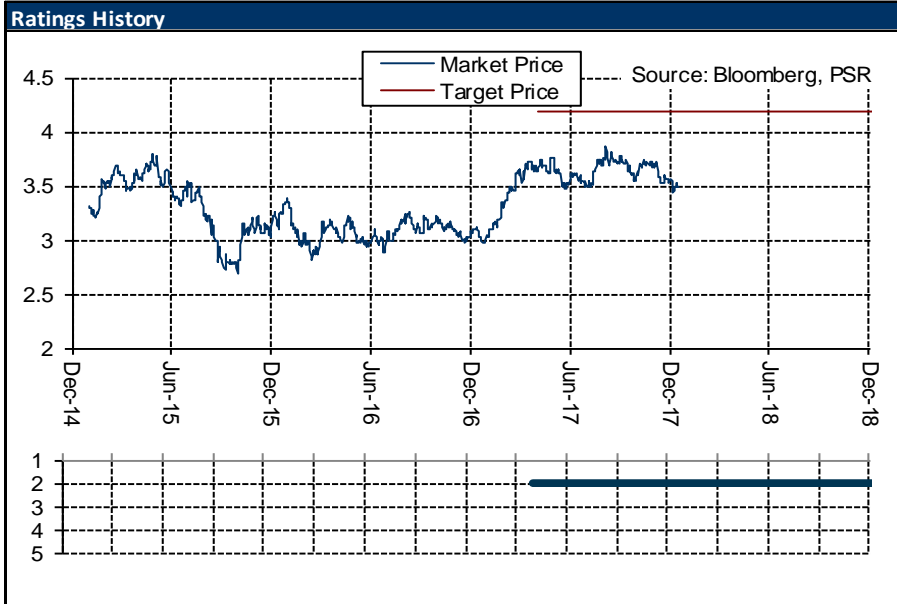
*Forward multiples and yields are based on current market price; historical multiples and yields are based on historical market price.

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	37,474	38,376
Others	1,332	1,578	1,702	1,608	1,662
Total non-current assets	34,426	33,976	49,219	49,952	50,857
Development properties	6,936	4,837	4,074	2,899	1,652
Accounts Receivables	1,424	1,859	1,471	1,520	1,442
Cash balance	4,173	4,793	6,105	5,291	5,245
Others	92	277	577	579	580
Total current assets	12,627	11,765	12,227	10,289	8,919
Total Assets	47,053	45,741	61,446	60,242	59,776
LIABILITIES					
Short term loans	2,246	2,373	2,739	2,739	2,739
Accounts Payables	4,063	4,685	5,442	4,575	4,409
Others	620	670	622	527	527
Total current liabilities	6,930	7,728	8,803	7,842	7,676
Long term loans	13,812	12,479	18,956	18,956	18,956
Others	1,373	1,233	1,604	1,403	1,413
Total non-current liabilities	15,185	13,712	20,560	20,359	20,369
Total Liabilities	22,115	21,440	29,363	28,201	28,045
EQUITY					
Shareholder Equity	17,905	17,605	18,382	19,066	19,445
Non-controlling interest	7,032	6,696	13,701	12,975	12,287
Total Equity	24,938	24,300	32,083	32,041	31,731

Valuation Ratios

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
P/E (X), adj.	13.4	10.8	9.9	16.1	17.8
P/B (X)	0.9	0.7	0.8	0.8	0.8
Dividend Yield (%)	2.7%	3.3%	3.3%	3.3%	3.3%
Growth & Margins (%)					
Growth					
Revenue	21.3%	10.3%	-12.2%	1.8%	-7.5%
EBIT	8.4%	3.9%	35.2%	-22.3%	-3.7%
Net Income, adj.	-15.0%	0.6%	54.6%	-43.1%	-10.0%
Margins					
EBIT margin	33.4%	31.4%	48.5%	37.0%	38.5%
Net Profit Margin	31.4%	28.6%	50.5%	28.2%	27.4%
Key Ratios					
ROE (%)	6.0%	6.8%	8.4%	5.0%	4.5%
ROA (%)	2.3%	2.6%	2.5%	1.6%	1.4%
Gearing (X)	0.34	0.32	0.35	0.36	0.36



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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