

CapitaLand Limited

Stability from recurring income



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SINGAPORE | REAL ESTATE | 1Q18 RESULTS

- Revenue and net profit in line with our forecasts.
- Same-mall YoY tenant sales growth stable at 6.2% for China, CAPL's biggest market.
- 1Q18 China residential sales sold had halved YoY due to less units available for sale. Only 4% of all units launched remain unsold.
- Serviced Residences RevPAU grew 5% YoY, continuing the momentum from 4Q17.
- Maintain Accumulate with unchanged TP of S\$4.19.

Results at a glance

(\$\$mn)/Dec Yr End	1Q18	1Q17	YoY (%)	Comments
Gross Revenue	1,375.5	897.5	53.3	Higher contribution from development projects in Singapore and China including Victoria Park Villas and Metropolis. Consolidation of revenue from CMT, CRCT, RCST
EBIT	719.8	625.4	15.1	Higher portfolio and revaluation gains, and net writeback of provision for foreseeable losses
Finance costs	148.5	103.9	42.9	Consolidation of finance costs for three trusts amounting to S\$37mn in 1Q18. Average cost of borrowings for Group lower at 3.1% (vs 3.2% year ago)
Total PATMI	319.1	392.8	(18.8)	Absence of gain from sale of The Nassim in 1Q17, mitigated by higher gains explained in revenue line
Operating PATMI	228.7	343.8	(33.5)	Up 24% if excluding gain of S\$161mn from sale of The Nassim in 1Q17

Source: Company, PSR

The Positives

+ Same-mall YoY tenant sales growth stable at 6.2% for China, CAPL's biggest market. Tier 1 and 2 cities saw higher sales growth vs lower Tier cities. China accounts for 60% of CAPL's total retail assets by valuation. Smaller markets in Japan and Malaysia also saw low-to-mid single digit growth. Singapore was only region with slight negative sales growth.

+ 1Q18 China residential sales sold had halved YoY due to less units available for sale. Only 4% of all units launched remain unsold. 998 units were sold in the quarter, half of that one year ago, due to less units available for sale. With 6,000 units ready for launch by end FY18, we expect sales numbers to pick up over the next few quarters.

+ Serviced Residences RevPAU grew 5% YoY, continuing the momentum from 4Q17. Despite the weak RevPAU performance from Ascott REIT, overall Group RevPAU grew 5%, led by strong performances in Europe, Singapore and China. China (40%) and SE Asia/Australia (30%) are the biggest markets for the Group by property value.

The Negatives

- Tenant sales growth for Singapore malls (36% of total retail portfolio by value, second biggest market after China) remains sluggish. Same-mall tenant sales stayed muted with a slight negative -0.1% growth vs 0.9% in FY17. Sales have generally lagged the general retail sales index which grew on average 6.5% (ex-Motor) in the first two months of the year.

Outlook

With >80% of CAPL's assets being investment properties (predominantly in Singapore and China) contributing to recurring income, CAPL's earnings outlook remain stable. Residential sales worth RMB10.6bn in China and S\$343mn in Vietnam are expected to be completed and handed over in the next 9 months, which will provide further support to earnings in FY18. Retail sales in CAPL's Tier 1 and 2 malls are stabilising around mid-single digits growth and 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. We estimate annualised operating PATMI for the recurring income segment alone to be c.S\$740mn, sufficient to cover c.1.5x FY17's dividend of 12c/share.

3 May 2018

ACCUMULATE (Maintained)

LAST CLOSE PRICE	SGD 3.76
FORECAST DIV	SGD 0.10
TARGET PRICE	SGD 4.19
TOTAL RETURN	14.1%

COMPANY DATA

BLOOMBERG CODE	CAPL SG
O/S SHARES (MN)	4,201
MARKET CAP (USD mn / SGD mn)	1921 / 15795
52 - WK HI/LO (SGD)	3.88 / 3.42
3M Average Daily T/O (mn)	10.75

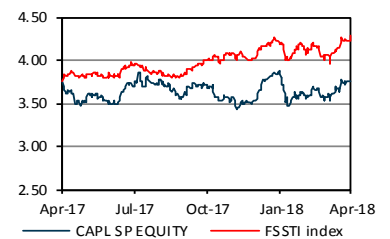
MAJOR SHAREHOLDERS (%)

TEMASEK HOLDINGS	40.4%
BLACKROCK	6.1%
VANGUARD GRP	189%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	5.0	(2.3)	2.4
STIRETURN	4.4	10	16.5

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

SGD M N	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
PER, 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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Maintain Accumulate with an unchanged TP of S\$4.19.

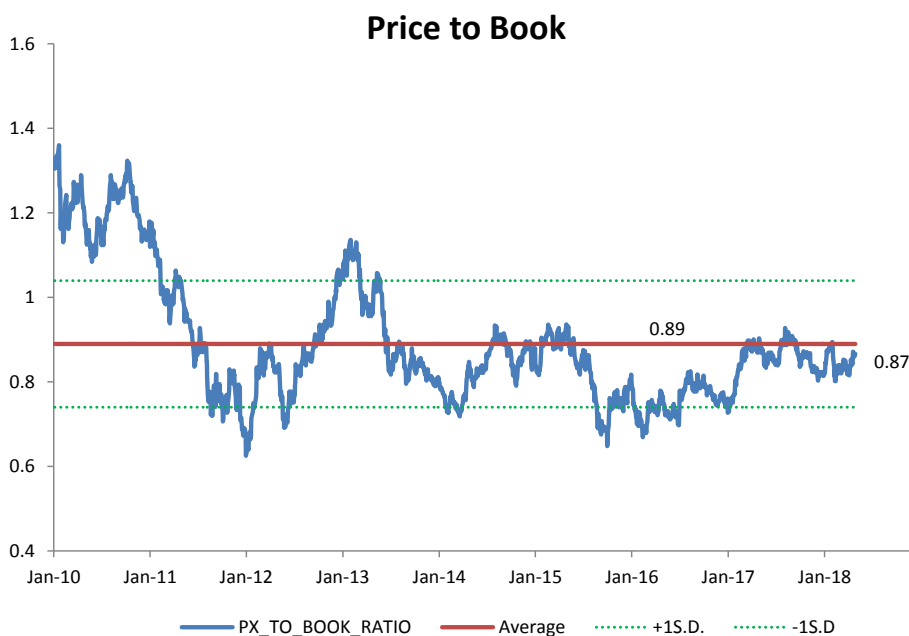
We maintain our Accumulate rating with an unchanged target price. Our Target price translates to a P/NAV ratio of 0.93.

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 close to 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	4.51

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	2,379
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)	(323)
CFF					
Dividends paid	(384)	(383)	(425)	(510)	(510)
Cashflow from financing	(1,213)	(2,462)	979	(1,770)	(2,032)
Net change in cash	1,408	772	1,376	(756)	(220)
Effects of exchange rates	40	(129)	(47)	-	-
CCE, end	4,153	4,778	6,080	5,324	5,103

Source: Company, Phillip Securities Research (Singapore) Estimates

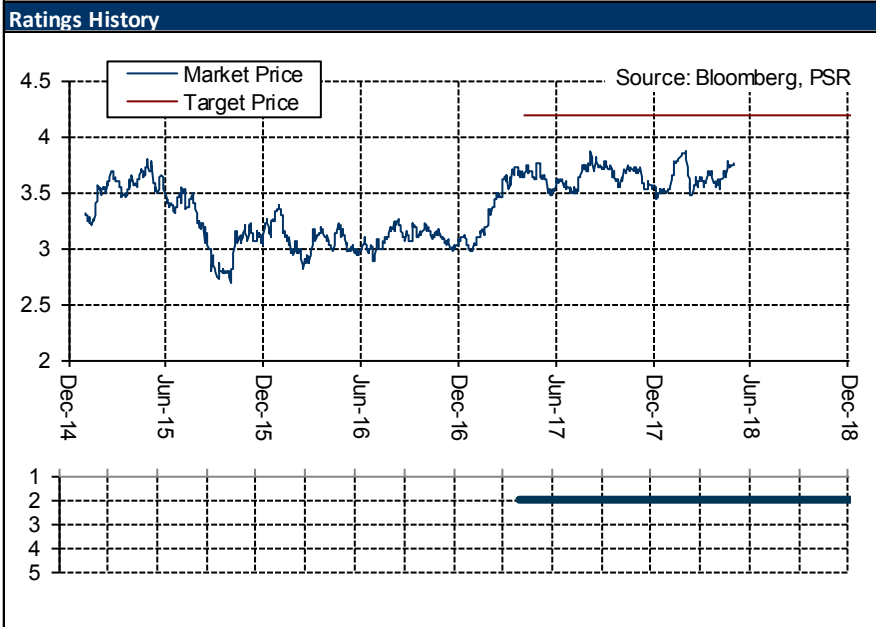
*Forward multiples and yields are based on current market price; historical multiples and yields are based on historical market price.

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	5,324	5,103
Others	92	277	577	579	580
Total current assets	12,627	11,765	12,227	10,322	8,778
Total Assets	47,053	45,741	61,446	60,274	59,635
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	19,099	19,303
Non-controlling interest	7,032	6,696	13,701	12,975	12,287
Total Equity	24,938	24,300	32,083	32,074	31,590

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%	1.5%
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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