

21 July 2021

Property | Real Estate

CapitaLand (CAPL SP)

Gunning For Growth; Stay BUY

Buy (Maintained)

Target Price (Return): SGD4.40 (13.4%)
 Price: SGD3.88
 Market Cap: USD14,803m
 Avg Daily Turnover (SGD/USD) 29.9m/22.4m

Analyst

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• **BUY with higher SGD4.40 TP from SGD4.25, 13% upside** – pegged at a 20% discount to our revised SGD5.50 RNAV. CapitaLand's scheme document shines more light on the deal structure and growth avenues for CapitaLand Investment (CLI). The group expects to remain in the FTSE/EPRA Nareit Index post the proposed restructuring. Independent financial advisor Evercore has deemed the deal "Fair and Reasonable", and our recommendation is also to vote in favour of the transaction.

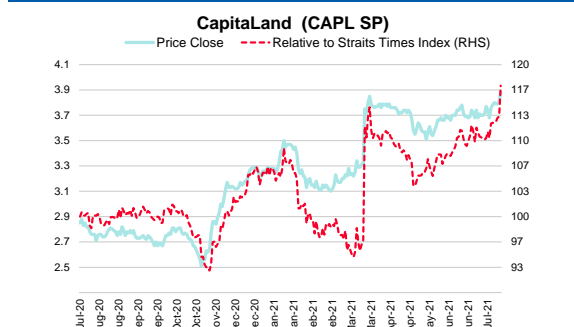
• **Key takeaways.** The newly listed entity will be called CLI (deal details: [Unlocking its true potential](#)), and will have two key segments: i) Fee Income-related (fund management and lodging), and ii) real estate investments (comprising stakes in listed and unlisted funds, and investment properties). The segments accounted for 21%/79% and 40%/60% of pro-forma (FY20) EBITDA and revenue. CLI's pro-forma NAV improved by 4% to SGD2.934 as at end-March, which we believe was mainly on gains from its divestments. The deal will preserve the existing CapitaLand ecosystem. Under a reciprocal Rights of First Refusal or ROFR arrangement between CLI and CapitaLand, CLI will be given a first right to invest up to 100% in relevant assets from CapitaLand, while CapitaLand will be given a first right to invest up to 100% in any development opportunity within CLI. An EGM and Scheme meeting will be convened on 10 Aug, and if approved, CapitaLand's delisting and CLI's listing are expected on 17 Sep (Fig 4).

• **Management expects double-digit ROEs on steady-state basis.** Funds under management or FUM – at SGD78bn as at end-Dec – is targeted to grow SGD100bn by 2024, while lodging units under management are targeted to grow to 160k by 2023 from 123k currently (70k operational and 53k under development), driving fee income growth. In the mid-to-long term, CLI is expected to adopt a more asset-light approach to investments, by taking slightly lower stakes in new investments and also divesting some of its existing stakes in REITs and private funds.

• **Lower gearing presents room for growth; dividend policy to remain at least 30% of cash PATMI.** CLI's pro-forma gearing (net debt/equity) is expected to be lower at 0.56x, compared to CapitaLand's 0.68x. Management intends to maintain a similar gearing target of c.0.7x. The low gearing, coupled with CapitaLand's divestment target of c.SGD3bn pa, presents good debt headroom and room for ROE enhancements from acquisitions. Overall debt cost, post transaction, is expected to be at similar levels (currently -3.0%), or slightly lower.

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	18.3	5.1	3.2	12.1	35.7
Relative	8.9	6.2	6.3	8.3	16.9
52-wk Price low/high (SGD)				2.51 – 3.88	



Source: Bloomberg

Forecasts and Valuation	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Total turnover (SGDm)	6,235	6,533	6,659	6,810	7,339
Recurring net profit (SGDm)	1,057	770	974	1,148	1,309
Recurring net profit growth (%)	10.5	(27.2)	26.5	17.9	14.1
Recurring EPS (SGD)	0.21	0.15	0.19	0.22	0.25
DPS (SGD)	0.12	0.09	0.12	0.12	0.12
Recurring P/E (x)	18.49	25.98	20.54	17.42	15.27
P/B (x)	0.84	0.90	0.86	0.84	0.82
Dividend Yield (%)	3.1	2.3	3.1	3.1	3.1
Return on average equity (%)	10.1	(6.9)	5.3	5.9	6.4
Net debt to equity (%)	66.4	70.1	66.8	62.0	58.9

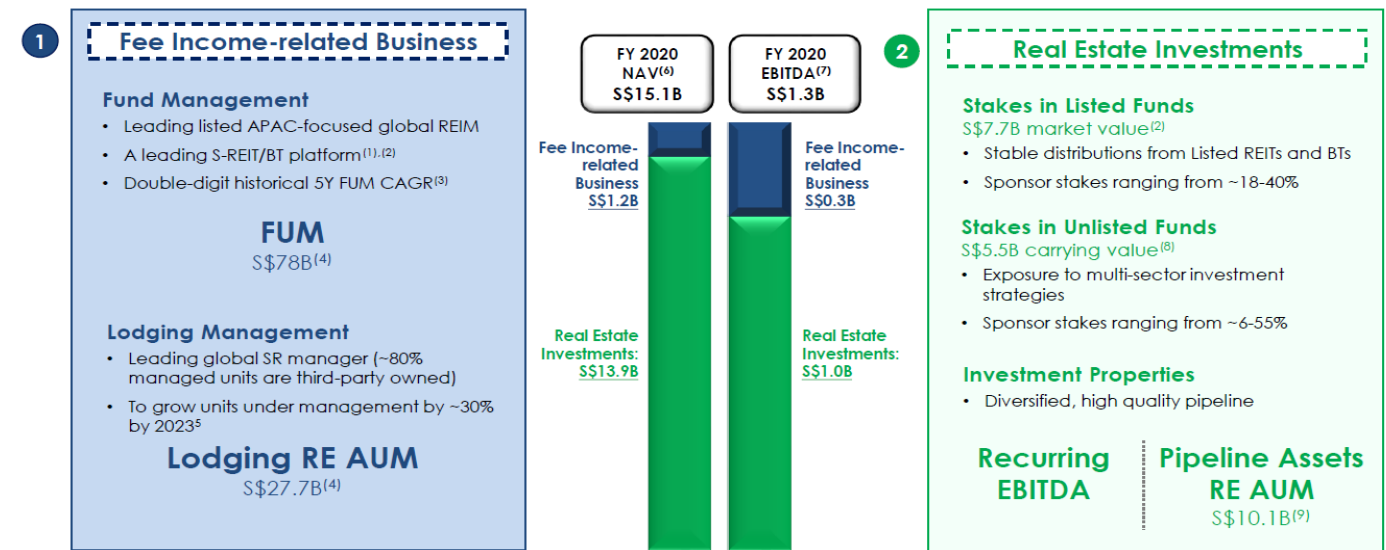
Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (SGD)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Singapore	Recurring EPS	0.21	0.15	0.19	0.22	0.25
Property	EPS	0.42 -	0.31	0.24	0.27	0.30
CapitaLand	DPS	0.12	0.09	0.12	0.12	0.12
CAPL SP	BVPS	4.64	4.33	4.51	4.64	4.76
Buy	Return on average equity (%)	10.1	(6.9)	5.3	5.9	6.4
	Return on average assets (%)	2.9	(1.9)	1.4	1.7	1.8
Valuation basis	Valuation metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
RNAV methodology	Recurring P/E (x)	18.49	25.98	20.54	17.42	15.27
	P/B (x)	0.8	0.9	0.9	0.8	0.8
Key drivers	Dividend Yield (%)	3.1	2.3	3.1	3.1	3.1
i. Rerating and unlocking value upon CLI listing;	EV/EBITDA (x)	0.35	7.22	0.81	0.17 -	0.10
ii. Growing recurring income from fund management segment; and						
iii. Divestments and M&A.						
Key risks	Income statement (SGDm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
i. Prolonged structural impact on commercial assets due to COVID-19;	Total turnover	6,235	6,533	6,659	6,810	7,339
ii. Prolonged weakness in hospitality (Ascott) portfolio; and;	Gross profit	3,000	2,919	2,997	3,065	3,303
iii. Slowdown in global economic recovery.	EBITDA	4,197	337	2,947	3,258	3,571
	Depreciation and amortisation	(118)	(157)	(160)	(166)	(171)
	Operating profit	4,079	180	2,787	3,092	3,400
	Net interest	(839)	(913)	(976)	(986)	(962)
	Pre-tax profit	4,228	(682)	2,547	2,871	3,222
	Taxation	(815)	(953)	(586)	(677)	(762)
	Reported net profit	2,136	(1,574)	1,213	1,392	1,559
	Recurring net profit	1,057	770	974	1,148	1,309
Company Profile	Cash flow (SGDm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
CapitaLand Limited and its subsidiaries operate in residential and commercial properties, property fund management, and serviced residences. The company also manages other properties	Change in working capital	11	(954)	784	924	262
	Cash flow from operations	2,246	1,528	2,876	3,068	3,166
	Capex	85	(197)	(830)	(850)	(850)
	Cash flow from investing activities	(359)	32	(515)	(550)	(537)
	Dividends paid	(1,345)	(989)	(1,367)	(1,420)	(1,519)
	Cash flow from financing activities	(766)	1,299	(4,473)	(2,104)	(2,437)
	Cash at beginning of period	5,060	6,168	9,175	7,061	7,475
	Net change in cash	1,121	2,859	(2,113)	414	192
	Ending balance cash	6,168	9,175	7,061	7,475	7,665
	Balance sheet (SGDm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Total cash and equivalents	6,168	9,175	7,061	7,475	7,665
	Tangible fixed assets	1,269	1,435	1,465	1,515	1,565
	Total investments	61,728	60,401	61,540	62,685	63,834
	Total other assets	2,724	3,142	3,205	3,269	3,335
	Total assets	82,346	84,370	83,289	84,104	85,863
	Short-term debt	5,451	5,799	4,937	4,937	4,937
	Total long-term debt	27,461	30,221	29,021	28,221	27,921
	Total liabilities	42,063	46,078	43,006	42,647	43,066
	Shareholders' equity	23,359	22,306	23,255	23,911	24,527
	Minority interests	16,923	15,986	17,028	17,546	18,270
	Total equity	40,283	38,292	40,283	41,457	42,798
	Total liabilities & equity	82,346	84,370	83,289	84,104	85,863
	Key metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Revenue growth (%)	11.3	4.8	1.9	2.3	7.8
	Recurring net profit growth (%)	10.5	(27.2)	26.5	17.9	14.1
	Recurrent EPS growth (%)	(8.1)	(28.8)	26.5	17.9	14.1
	Gross margin (%)	48.1	44.7	45.0	45.0	45.0
	Recurring net profit margin (%)	17.0	11.8	14.6	16.9	17.8
	Dividend payout ratio (%)	28.3	(29.5)	51.0	44.4	39.7

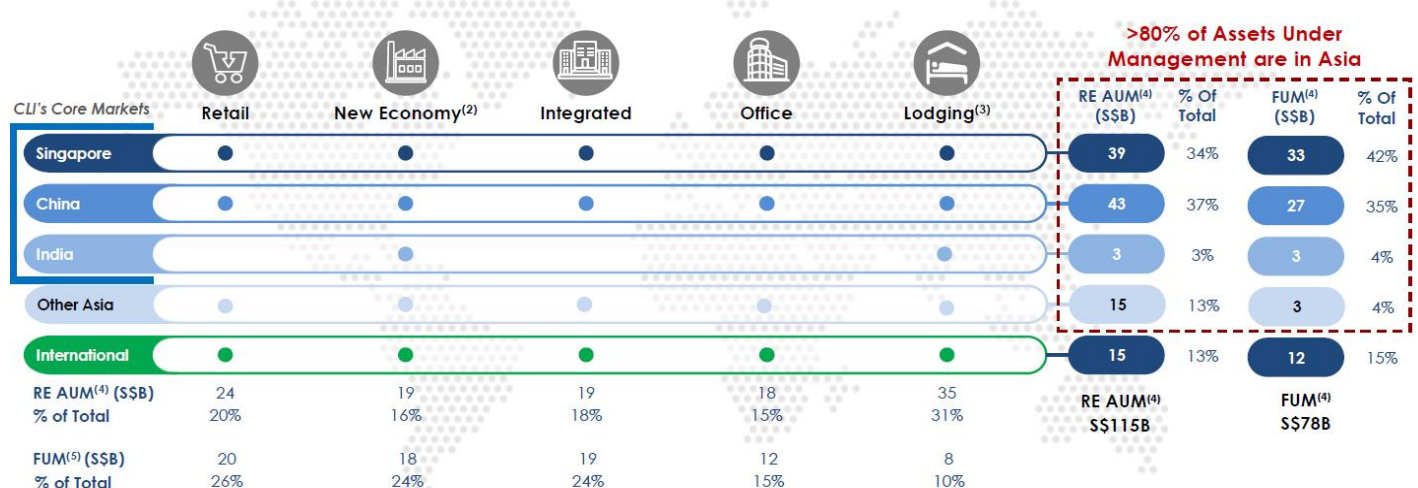
Source: Company data, RHB

Figure 1: CapitaLand investment breakdown



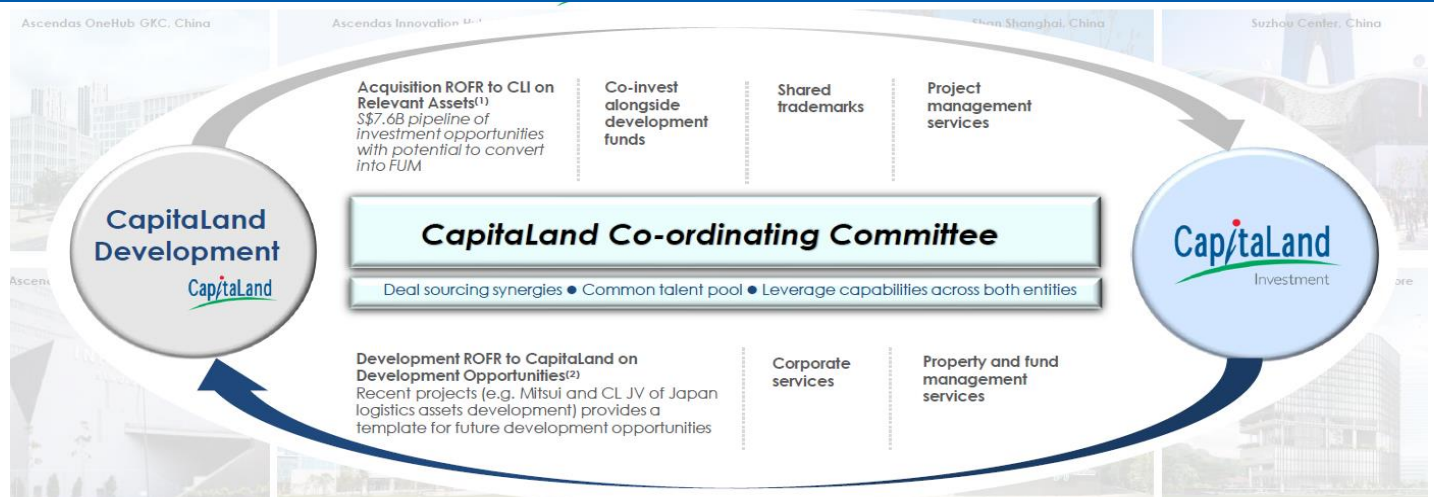
Source: Company

Figure 2: CLI segment and market mix



Source: Company

Figure 3: CapitaLand ecosystem remains post restructuring..



Source: Company

Figure 4: Restructuring timeline

Important Dates and Times for EGM and Scheme Meeting



Latest date and time for lodgment of EGM and Scheme Meeting Proxy Forms	<ul style="list-style-type: none"> Saturday, 7 August 2021 at 2:00 p.m. and 2:15 p.m. respectively
Latest date and time to pre-register online to attend the EGM and Scheme Meeting	<ul style="list-style-type: none"> Saturday, 7 August 2021 at 2:15 p.m.
Date and time of the EGM	<ul style="list-style-type: none"> Tuesday, 10 August 2021 at 2:00 p.m.
Date and time of the Scheme Meeting	<ul style="list-style-type: none"> Tuesday, 10 August 2021 at 2:15 p.m. (or in the event that the EGM concludes after 2:15 p.m., as soon thereafter following the conclusion of the EGM)
Expected last date of "cum" trading of the Shares on SGX-ST	<ul style="list-style-type: none"> On or around Thursday, 2 September 2021
Expected date and time of commencement of the "ex" trading of the Shares on SGX-ST	<ul style="list-style-type: none"> On or around Friday, 3 September 2021 at 9:00 a.m.
Expected date of trading suspension	<ul style="list-style-type: none"> On or around Friday, 3 September 2021
Expected Record Date	<ul style="list-style-type: none"> On or around Tuesday, 7 September 2021
Expected Effective Date	<ul style="list-style-type: none"> On or around Wednesday, 8 September 2021
Expected date for payment of the Cash Consideration	<ul style="list-style-type: none"> On or around Thursday, 16 September 2021
Expected date for the crediting of the CLI Shares and CICT Units to Shareholders pursuant to the DIS	<ul style="list-style-type: none"> On or around Thursday, 16 September 2021
Expected date for the delisting of the Shares and listing of CLI Shares	<ul style="list-style-type: none"> On or around Friday, 17 September 2021

Source: Company

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2021-03-22	Buy	4.25	3.31
2020-08-10	Buy	3.75	2.74
2020-05-05	Buy	4.00	2.88
2019-11-06	Buy	4.20	3.66
2018-09-24	Buy	4.00	3.36
2018-08-23	Buy	na	3.39
2018-08-22	Buy	4.00	3.34

Source: RHB, Bloomberg

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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