Singapore Company Guide
CapitaLand

Version 18 | Bloomberg: CAPL SP | Reuters: CATL.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

27 May 2019

BUY

Last Traded Price (24 May 2019): S$3.28 (**STI :** 3,169.89)
Price Target 12-mth: S$4.00 (22% upside) (Prev S$3.62)

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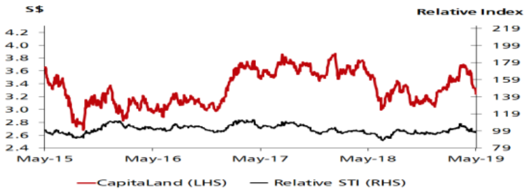
What's New

- Merger with Ascendas-Singbridge to herald a new era of growth
- Group to benefit from a highly recurring earnings stream that is less susceptible to macro shocks
- ROE to remain at a high of >9.0%; managed REITs remain at the forefront to acquire and grow
- TP raised to S$4.00 based on 25% discount to RNAV

Price Relative



Forecasts and Valuation

FY Dec (S$m)	2018A	2019F	2020F	2021F
Revenue	5,602	5,760	6,561	7,510
EBITDA	4,132	3,333	3,960	4,283
Pre-tax Profit	3,509	2,967	3,403	3,812
Net Profit	1,762	1,879	2,233	2,430
Net Pft (Pre Ex.)	1,762	1,479	1,833	2,030
Net Pft Gth (Pre-ex) (%)	12.3	(16.1)	23.9	10.8
EPS (S cts)	41.5	40.2	43.8	47.7
EPS Pre Ex. (S cts)	41.5	31.7	36.0	39.8
EPS Gth Pre Ex (%)	12	(24)	14	11
Diluted EPS (S cts)	41.4	40.2	43.8	47.7
Net DPS (S cts)	12.0	12.0	12.0	12.0
BV Per Share (S cts)	446	458	490	525
PE (X)	7.9	8.2	7.5	6.9
PE Pre Ex. (X)	7.9	10.4	9.1	8.2
P/Cash Flow (X)	25.2	10.2	7.8	3.9
EV/EBITDA (X)	11.3	16.7	13.6	11.4
Net Div Yield (%)	3.7	3.7	3.7	3.7
P/Book Value (X)	0.7	0.7	0.7	0.6
Net Debt/Equity (X)	0.5	0.7	0.6	0.4
ROAE (%)	9.4	8.9	9.3	9.4
Earnings Rev (%):		-	-	new
Consensus EPS (S cts):		22.3	24.5	25.3
Other Broker Recs:		B: 17	S: 0	H: 2

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P

Ain't no mountain high enough

Maintain BUY, TP raised to S$4.00. The merger of CapitaLand Limited (CAPL) and Ascendas-Singbridge (ASB) heralds a new era of growth for the group. We see a myriad of positives and see the combined entity emerging stronger financially and with an operational scale that puts it among the largest real estate managers globally. Our RNAV is revised upwards to S$5.42, accounting for ASB numbers and our TP is raised to S$4.00 on the back of a similar 25% discount to RNAV. BUY!

Where we differ: Ability to drive sustainable ROE. We forecast CAPL-ASB to be able to deliver a return on equity (ROE) of between 8.9% and 9.4% over FY19-FY21F, driven by an efficient mix of (i) higher proportion of recurring income derived from ASB's higher-yielding properties, (ii) projected continued asset revaluations on the back of higher operating incomes, and (iii) projected gains on S$3bn of planned asset divestments annually. The group has been active in achieving those targets with S$1.3bn worth of assets divested to date, with the momentum expected to continue in 2H19 and in the following years.

Rebalancing its portfolio. Management has articulated a strategy to divest c. S$3.0bn worth of properties annually and we believe that its managed REITs, which are trading at an average implied yield of 4.9%, are poised to deliver accretive acquisitions. With ample debt-funded capacity and conducive capital markets, we believe that re-cycling properties into their REITs will be a win-win strategy. We believe that properties in the business parks, commercial properties (UK/Japan) coupled with potential listings of their US office and multi-family portfolios will be strategic moves that enhance ROE in the coming years.

Valuation:

Our target price of S$4.00 is based on a 25% discount to our adjusted RNAV of S$5.42/share.

Key Risks to Our View:

Slowdown in Asian economies. The risk to our view is if there is a slowdown in Asian economies, especially China, which could dampen demand for housing and private consumption.

At A Glance

Issued Capital (m shrs)	4,175
Mkt. Cap (Sm/USm)	13,695 / 9,957
Major Shareholders (%)	
Temasek Holdings Private Ltd	40.3
Blackrock	7.0
Free Float (%)	52.7
3m Avg. Daily Val (US$m)	21.6
ICB Industry : Financials / Real Estate	

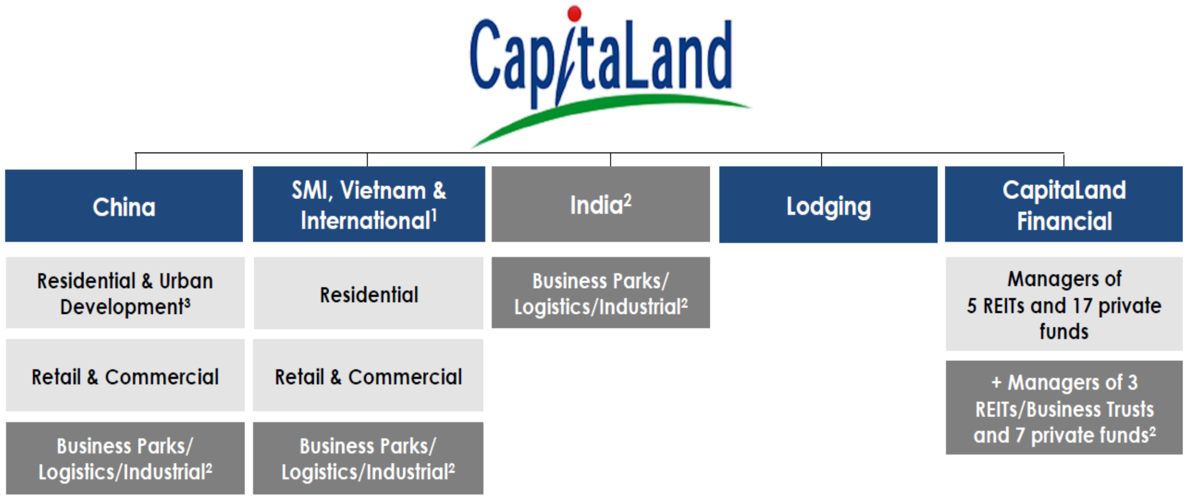
Live more, Bank less

ed: TH/ sa: AS, PY, CS

WHAT'S NEW

What is next for CapitaLand?

Organisation structure



1. Includes Europe, URA and Japan
2. To be reported after consolidation of ASB

Source: Company, DBS Bank

Strong mandate to undertake Ascendas-Singbridge merger: With a resounding mandate from shareholders to undertake the Ascendas-Singbridge merger, this will herald a new era for the group when completed sometime in 2Q-3Q19.Together with Ascendas-Singbridge, the enlarged group (CAPL-ASB) will emerge with a S$123bn platform that will rival that of global asset managers.

With Ascendas-Singbridge, the group will deepen its footprint in its core markets of China and Singapore with an expansion of assets under management (AUM) by 41% and 6% to S$42bn and S$51bn respectively. Most importantly, the enlarged group will gain access into real estate sectors with exposure to mainly business parks, industrial and warehouses. In our view, these real estate sectors cater to firms in the new economy sectors of e-commerce, urbanisation and knowledge economies where firms are expanding steadily.

Cross pollination of expertise. We look forward to potential revenue and cost synergies that the group will be looking to extract over time as an enlarged combined entity. An insight that we gather will be from the most recent organisation structure unveiled by the group which showed that the key businesses in ASB have been integrated into the businesses within CAPL (i.e. the development businesses in Singapore, India and China and also the fund management division), which we see as a focus on integrating and in minimising the overlap of expertise and by grouping together, will drive efficiencies and tap experience and expertise across functions. We understand the key divisional heads are selected from key leaders from both CAPL and ASB which, in our view, provides investors with more confidence that the integration between the two groups will be smooth and not result in a "brain drain" especially from the target company, ASB. In our view, the ability to retain talent in the enlarged group from the leadership down to the operational staff will be key in preventing any disruption to the portfolio.

Potential value-enhancement opportunities? We also note that CAPL-ASB has placed the Lodging and Fund Management business as a separate standalone platform, which potentially highlight the significance of the value that business units bring to the overall group. Over the longer term, we do not rule out that CAPL-ASB might consider realising value from these platforms once they have achieved operational scale.

- Lodging division. The lodging division comprises mainly The Ascott Limited, the serviced residences and hospitality arm of CAPL-ASB. This is the global standalone platform which is present in more than 30 countries. While we note returns as of FY18 had been the weakest across business units (EBIT margin of c.2.3% vs average of 8.7%), Ascott harbours ambitions to grow through management contracts, which will enhance its returns on equity (ROE), in our view. As of FY18, the operational units contribute c.S$186.9m in fee income and with a pipeline of 42,800 units under development, we see fee income growing strongly in the medium term. The Ascott Limited has also targeted to grow its units under management from 100,000 units to 160,000 units in the medium term. Once that target is achieved, we estimate fee income to rise as high as S$430m in the medium term.

- **Fund management division.** The combined entity CAPL-ASB entity will be the leading REIT and real estate manager in Singapore, expanding its number of REITs and private equity funds to 31 (eight REITs/Business Trusts and 23 private funds). Most importantly, ASB will allow the group to expand its exposure and capabilities in fund management to new asset classes and geographies. Over time, we see more opportunities for differentiated products and mandates to be launched to attract new capital partners. Both ASB and CAPL have also over time established track records in cultivating relationships with capital partners who could be tapped on to further invest in other funds or upcoming platforms that the combined entity will look to create in the future. According to CAPL, the combined fees generated is expected to rise to S$337m, a c.40% increase.

In the stable of seven REITs that are managed by CAPL-ASB, we estimate that the REIT generates close to S$191-197m in annual management fees (REIT manager and property management)

Projected fees from REITs

REIT	Code	Base Fees*	Performance Fees**	Property Mgmt Fees	Total Fees FY20F S$'m	Total Fees FY21F S$'m
Ascendas Hospitality Trust	AHT	0.30%	4.00%	Est. 2%-3% of revenues for all REITs.	11.5	12.0
Ascendas India Trust	AIT	0.50%	4.00%		15.7	17.8
Ascendas REIT	AREIT	0.50%	0.1% if DPU >2.5%, 0.2% if DPU >5%		56.4	56.9
Ascott Residence Trust	ART	0.30%	4.00%		21.4	21.7
CapitaLand Commercial Trust	CCT	0.10%	5.25%		22.0	23.0
CapitaLand Retail China Trust	CRCT	0.25%	4.00%		12.9	13.5
CapitaLand Mall Trust	CMT	0.25%	4.25%		51.2	52.3
Total					191.2	197.1

**Base fees are calculated as a percentage of deposited properties.*
*** Performance fees for A-REIT are pegged to deposited properties, Ascott Residence Trust is pegged to gross profit (similar to net property income.*
Source: Various REITs, DBS Bank

Development GFA in China to be extracted

One of the potential synergies that could be extracted will come from the "in-housing" of residential development capabilities for the master-plan development sites that are currently in the books of ASB. Noteworthy is the China-Singapore Guangzhou Knowledge City (CSGKC). We understand that phase 1 has a developable GFA of c.434,000 sqm, currently in different phases of development and contributed c.S$109m to PATMI in FY18. The group has signed the memorandum of understanding (MOU) for phase 2 of this master-planned project which will be acquired in phases over the next few years. The development of these land plots will take time to materialise. Apart from CSGKC, the group is also developing the Raffles City Chongqing, which is co-invested with CAPL.

According to CAPL, Raffles City Chongqing has done well with the residential towers 1, 2 and 6 achieving Rmb4.2bn in sales, implying a 75% sell-through rate for launched units. In addition, the retail mall with GFA of 235,000 sqm is projected to open in 2H19 and is also seeing favourable take-up from prospective clients.

China-Singapore Guangzhou Knowledge City

Source: AIT slides, DBS Bank

Raffles City Chonging successfully topped out

Source: AIT slides, DBS Bank

Revisiting the India strategy; refuelling Ascendas India Trust to greater heights

Revisiting India. In recent meetings, we are heartened that the management of CAPL-ASB has been re-looking to reinvest in India once again. While CAPL's experience in India has been "bitter-sweet" over time, the group will inherit a fairly successful India franchise in ASB and Ascendas India Trust (AIT) which was the first mover in the IT Parks and most recently, in the Indian warehouse space.

In fact, AIT is one of the fastest-growing REITs with an in-built growth pipeline of developments and acquisitions that is projected to drive distributions by c.14% CAGR over FY20-21F on the back of an estimated planned 61% growth in GFA. In fact, we believe that AIT can grow even faster if not constrained by capital. With a bigger entity, we hope to see more capital allocations into India over time.

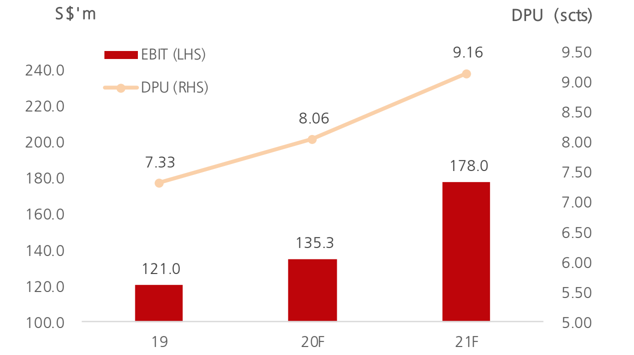
In the medium term, we see monetisation opportunities from ASB, which has been building up a pipeline of business parks. Noteworthy will come from developmental GFA in International Tech Park Park Gurgaon (ITPG) Special economic zone 1 (SEZ1) of c.210,000 sqm (phase 2) expected to complete in 2021 and a further c.96,200 sqm of GFA from ITPG SEZ 2. The group has also 19,000 sqm of development GFA in International Tech Park Pune which is expected to be completed in 2H20.

In addition, we remain excited about the potential from the recently launched Ascendas India Logistics Programme. This programme will be executed by ASB and Firstspace Realty (Firstspace) and aims to deliver modern logistics and industrial facilities across major warehousing and manufacturing hubs in India. Temasek and Ascendas-Singbridge have jointly committed INR20bn (c. S$400m) to the programme. The programme is expected to invest in projects in key warehousing and manufacturing hubs in Mumbai, National Capital Region, Pune, Chennai, Bangalore and Ahmadabad, among others. Over time, it targets to develop a portfolio of 13-15m sqft of space with two seed assets identified offering

1.25m sqft of operational space and over 4m sqft in development potential.

Over time, once these assets are completed and stabilised, they will form a natural pipeline for AIT to acquire and bulk up.

AIT is projected to deliver a 10% CAGR in DPU



Source: AIT slides, DBS Bank Estimates

ASB India strategy continues to bear fruit

Source: AIT slides, DBS Bank

Asset recycling to drive deleveraging target

Managed CAPL-ASB REITs to bulk up and scale up over the next two years. Post acquisition, CAPL-ASB's pro-forma gearing of 0.72x, while at the higher end of the group's historical range, remains at a comfortable level, in our view. The group has also unveiled a **plan to deleverage to 0.64x** by end-2020 which could be achieved through asset recycling (annual target of S$3.0bn) and higher cash on operations.

Asset recycling and yield optimisation have been a consistent strategy for the group. CAPL, together with its REITs, had divested close to cS$485.6m worth of properties as of 1Q19 and have continued divesting properties since with the injection of Innov Center to CapitaLand Asia Capital Partners 1 for S$621m and the non-core Storhub business for S$185m year-to-date. As of end-May, we estimate that total divestments was close to S$1.3bn. While this is still some way off the group's S$3.0bn AUM annual target, we believe that the momentum will pick up post completion of the proposed merger with ASB.

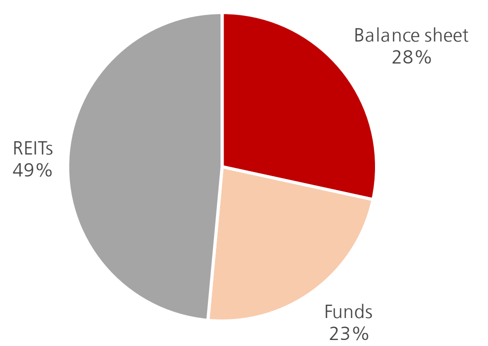
Based on our estimates, in terms of recycling opportunities, on a 100% basis, we estimate that CAPL has close to S$64.1bn of investment property assets as of 31 December 2018 which are held through its REITs, private equity funds or on the balance sheet. After adjusting for the group's effective stakes in the individual properties and stripping out properties held through their managed REITs, we estimate that close to S$33bn (or S$18.5bn on an effective basis) may be realised over the next few years through asset recycling into its listed REITs or as seed assets for new private equity funds. In addition, we estimate that ASB has close to S$1.5-2.0bn of stabilised properties which might be ready to be injected into their listed platforms over the coming years.

Near-term assets of the group that we believe may be available for sale include completed business parks/science parks in Singapore, completed commercial and hospitality properties in China and Europe that may be properties that its managed REITs can consider acquiring.

Ample capacity to acquire; implied yields of REITs are conducive for acquisitions. Looking at the balance sheets of CAPL-ASB's managed REITs, with average gearing at c.35.2%, there is ample capacity for the REITs to take on more acquisitions. We estimate that there is a debt-funded capacity of between S$3.6bn and S$7.7bn, assuming a target gearing of 40-45%, still within S-REIT regulatory limits. This headroom can be used opportunistically for any planned acquisition activities.

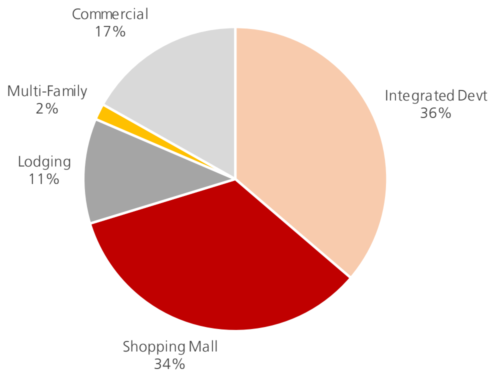
We believe that any potential asset injections for S-REITs will be seen to be win-win from both Sponsor and the REITs and would be a positive move. While the Sponsor will gain from a more flexible balance sheet coupled with realisation of asset values, the REITs should benefit from a growth in distributions. Based on our estimates, the positive yield spread between the market transaction yields against the REITs' implied yields (net property income/enterprise value) means that acquisitions will likely be accretive to unitholders' distributions.

CAPL AUM of income-producing properties (100% basis)



Source: CapitaLand, DBS Bank Estimates

Enlarged Group AUM (CAPL as of 31st Dec'18 and 30th Sept'18 for ASB)



Source: CapitaLand, DBS Bank Estimates

Assets/businesses that have been sold YTD

Divestment	Entities	Buyer	Consideration (S$'m)	Est Book Value (S$'m)	Gain (before tax)
Ascott Raffles Place	ART	3rd party	353.3	215	138.3
CapitaMall Saihan	CRCT	3rd party	90.8	71	19.8
CapitaMall Wuhu	CRCT	3rd party	41.4	30	11.4
Storhub Business	CAPL	3rd party	183.0	183.0	0
Innov Tower	CAPL	CapitaLand Asia Partners 1	621.0	420.0	201
Total			1,289.5	919.0	370.5

Source: Various REITs, DBS Bank Estimates

Potential assets that could be injected into REITs

Key Assets	Asset Class	Country	Sits in	Potential Entity	CUR	Stake	LC$'m	S$'m	Est Yield
U.S. Office Portfolio	Commercial	U.S.	ASB	IPO / AREIT	US$	100%	950	1,283	6.00%
U.S. Multi-Family Portfolio	Lodging	U.S.	CAPL	IPO / ART	US$	100%	845	1,141	6.30%
Raffles City Beijing	Retail	China	CAPL	CRCT	RMB	55%	3,263	544	5.00%
Raffles City Shanghai	Retail	China	CAPL	CRCT	RMB	30%	3,986	664	5.00%
Star Vista	Retail	Singapore	CAPL	CMT	S$	100%	262	262	4.00%
The Cavendish London	Lodging	U.K.	CAPL	ART	GBP	100%	158	269	5.00%
Main Airport Center	Commercial	Germany	CAPL	CCT	EUR	100%	248	379	4.50%
Commercial Portfolio	Commercial	Japan	CAPL	CCT	JPY	100%	138,160	1,625	4.50%
Ascendas Business Parks	Business Parks	Singapore	ASB	A-REIT	S$	100%	1,000	1,000	5.5%-6.0%

Source: Various REITs, DBS Bank Estimates

Potential debt-funded headroom and geographical focus for CAPL-ASB's managed REITs

REITs	Total Assets (S$'bn)	Total Debt (S$'bn)	Gearing (%)	Headroom @ 40% (S$'bn)	Headroom @ 45% (S$'bn)	SG (% of assets)	Overseas (% of assets)
Ascendas Hospitality Trust	1.7	0.6	33.1%	0.2	0.4	7%	93%
Ascendas India Trust	2.3	0.7	31.0%	0.4	0.6	0%	100%
Ascendas REIT	11.4	4.1	36.3%	0.8	1.7	84%	16%
Ascott Residence Trust	5.3	1.9	36.7%	0.3	0.8	9%	91%
CapitaLand Commercial Trust	9.7	3.4	35.2%	0.8	1.7	93%	7%
CapitaLand Retail China Trust	3.0	1.0	34.0%	0.3	0.6	0%	100%
CapitaLand Mall Trust	11.2	3.9	35.0%	0.9	2.0	100%	0%
Total / Average	**44.7**	**15.7**	**35.2%**	**3.6**	**7.7**		

Source: Various REITs, DBS Bank Estimates

S-REITs' implied yields are below the returns that most can obtain from the market

REITs	Mkt Cap (S$'bn)	Total Debt (S$'bn)	Enterprise Value (S$'bn)	NPI (S$'bn)	Implied yield (%)	Target acquisitions returns (%)	Target yield > Implied
Ascendas Hospitality Trust	1.1	0.6	1.6	0.1	6.2%	5%-6%	Accretion expected for most as the listed REITs are trading at implied yields < target acquisition yields
Ascendas India Trust	1.3	0.7	2.1	0.2	7.4%	9%-12%	
Ascendas REIT	9.0	4.1	13.2	0.7	5.2%	5.5%-7.0%	
Ascott Residence Trust	2.6	1.9	4.5	0.3	5.7%	5.0% - 7.0%	
CapitaLand Commercial Trust	7.1	3.4	10.5	0.4	4.1%	3.5%-5.0%	
CapitaLand Retail China Trust	1.4	1.0	2.4	0.2	6.4%	4.5%-6.0%	
CapitaLand Mall Trust	9.0	3.9	13.0	0.5	4.2%	4.5%-5.0%	
Total / Average	**31.5**	**15.7**	**47.3**	**2.3**	**4.9%**	**5.0%-7.0%**	

Source: Various REITs, DBS Bank Estimates

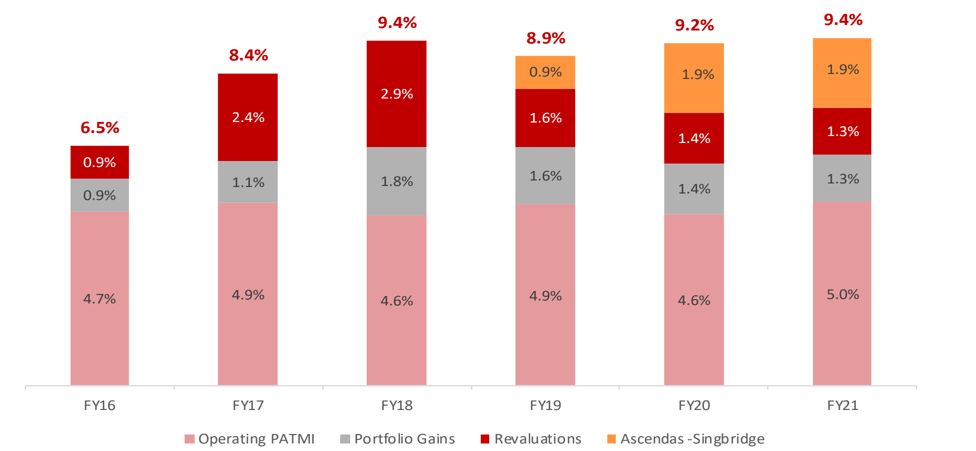
Returns of Equity (ROE) to hit >9.0% over FY20-21F

With the merger expected to be completed by 3Q19, we input ASB into our estimates. We forecast the group to be able to deliver a return on equity (ROE) of between 8.9% and 9.4% over FY19-FY21F. Given the highly recurring nature of ASB's revenues, we believe that 75-76% of our ROE of c.9.0% is backed by rental income from its stable of commercial and industrial properties which is highly recurring and sustainable, which means that the group should be able to achieve an ROE of between 6.5% and c.7.0% annually.

The remaining 2.6-2.8% is split equally between (i) revaluation gains which we believe can be achieved supported by projected higher net operating income (NOIs) for the group's investment properties. This is supported by higher rents driven by the supply squeeze especially for the group's Singapore portfolio, and (ii) forecasted gain of c.10% on divestments, while subjective is dependent on the pace of asset-recycling activities that the group undertakes over the next couple of years.

The group's balance sheet position will also decline towards 0.6x by end-FY20F if no major re-investment is assumed. That said, we believe that reinvestment of the proceeds will be positive as it forms the foundation for higher returns in the medium term.

Return on Equity Trend for CAPL



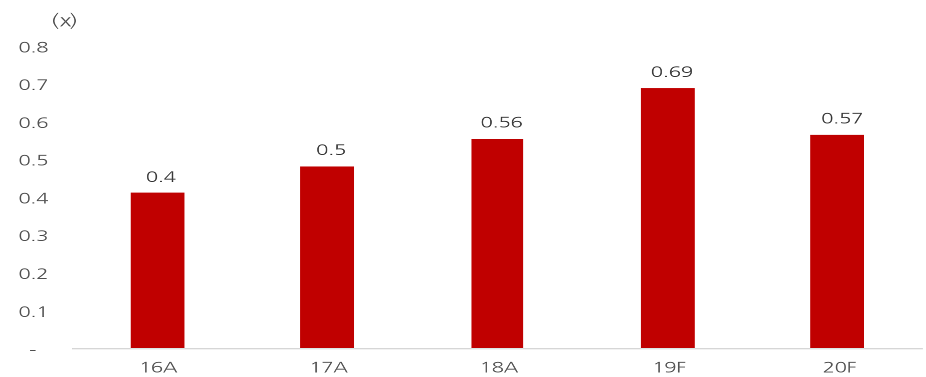
Source: Company, DBS Bank Estimates

Remarks

We estimate that CAPL will be able to achieve least 6.5-7.0% return on equity upon consolidation with ASB.

The remainder will depend on the revaluations of its current investment property book and gains, dependent on divestment opportunities.

Net debt-to-equity to decline towards 0.6x by end of FY20F



Source: Company, DBS Bank Estimates

Remarks

Assuming no major reinvestment opportunities, the group's net debt-to-equity is likely to decline towards 0.6x by end of FY20F.

CRITICAL DATA POINTS TO WATCH

Critical Factors

Gaining from an earnings stream that is less susceptible to macro shocks: The Ascendas-Singbridge merger will herald a new era for the group. Together with Ascendas-Singbridge, the enlarged group (CAPL-ASB) will emerge with a S$123bn platform that will rival that of global asset managers.

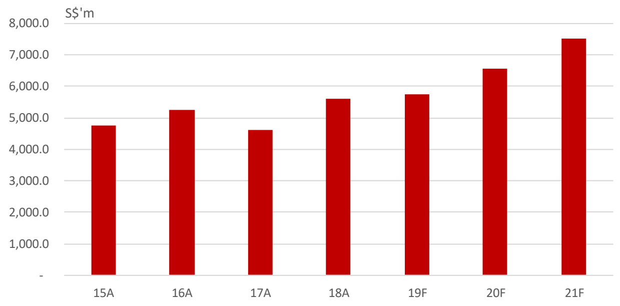
With Ascendas-Singbridge, the group will deepen its footprint in its core markets of China and Singapore with an expansion of assets under management (AUM) by 41% and 6% to S$42bn and S$51bn respectively. Most importantly, the enlarged group will gain access into real estate sectors with exposure mainly to business parks, industrial lots and warehouses. In our view, these real estate sectors cater to firms in the new economy sectors of e-commerce, urbanisation and knowledge economies where firms are expanding steadily.

Ample capacity to acquire; implied yields of REITs are conducive for acquisitions with CAPL's target to sell S$3.0bn in assets annually. Looking at the balance sheets of CAPL-ASB's managed REITs, with average gearing at c.35.2%, there is ample capacity for the REITs to take on more acquisitions. We estimate that there is a debt-funded capacity of between S$3.6bn and S$7.7bn, assuming a target gearing of 40-45%, still within S-REIT regulatory limits. This headroom can be used opportunistically for any planned acquisition activities.

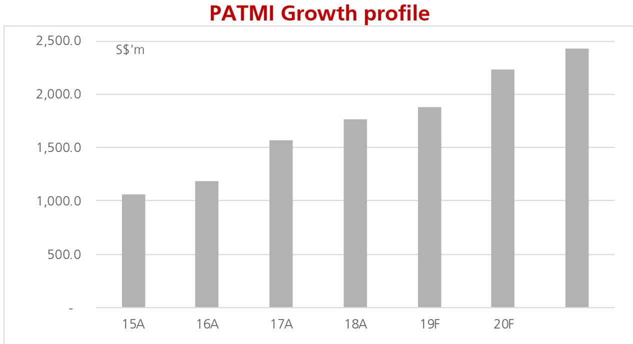
Riding on the robust India growth strategy. The group will inherit a fairly successful India franchise in ASB and Ascendas India Trust (AIT) which has been the first mover in IT Parks and most recently, in the Indian warehouse space. In the medium term, we see monetisation opportunities from ASB, which has been building up a pipeline of business parks. In addition, we remain excited about the potential from the recently launched Ascendas India Logistics Programme which aims to deliver modern logistics and industrial facilities across major warehousing and manufacturing hubs in India.

Hitting a high of 9.0% ROE on a recurring basis. With the completion of the merger, we forecast the group to be able to deliver a return on equity (ROE) of between 8.9% and 9.4% over FY19-FY21F. Given the highly recurring nature of ASB's revenues, we believe that 75-76% of our ROE of c.9.0% is backed by rental income from its stable of commercial and industrial properties which is highly recurring and sustainable. This means that the group should be able to achieve an ROE of between 6.5% and c.7.0% annually.

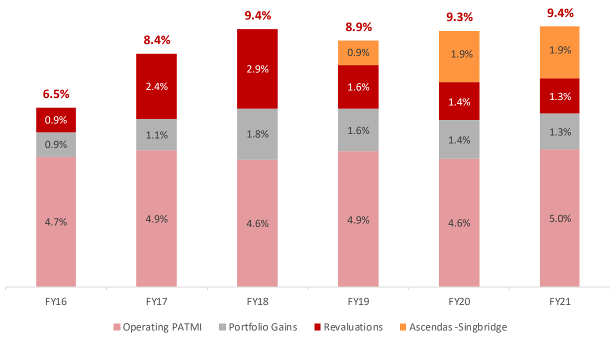
Revenue Growth profile



PATMI Growth profile



ROE contribution



RNAV

RNAV of CapitaLand	S$'bn
Value of CapitaLand Singapore	7,971.2
Value of CapitaLand China	11,632.7
CapitaMalls Asia	17,783.6
Ascott	4,166.3
Others	935.0
Ascendas	17,735.2
GDV of CAPL Group	60,224.0
Less: Net Debt	(24,467.3)
Less: devt capex	(8,118.8)
RNAV of CAPL	27,637.9
Total Shares	5,095.1
RNAV per share	5.42
Discount to RNAV	25%
Target price	**4.00**

Source: Company, DBS Bank

Balance Sheet:

Balance sheet remains strong. We forecast debt/equity ratio to rise to a high of 0.7x in FY19 but fall towards 0.6x in the coming years. CAPL's debt maturity profile remains long at 3.0 years with an average cost of 3.4%. The group aims to maintain a higher level of interest cost hedged.

Share Price Drivers:

Strong residential sales to translate into higher prices. CAPL has taken advantage of the improved property sentiment in Singapore to sell most of its existing inventory. The key will be potential land-banking opportunities to replenish its balance sheet. In addition, strong sales in China, we believe, will result in higher prices.

M&A and acquisitions. CAPL is looking at opportunities across the region and with the strong residential sales recorded in recent years across Singapore, China and Vietnam, it makes sense to be replenishing land banks in these countries. Acknowledging strong competition for land, the management is looking at opportunities to acquire land through JVs or mergers & acquisitions (M&A) which will offer the group an alternative and lower entry price. The group remains keen to build on its recurring income base and we could see acquisitions in that space.

Asset recycling into listed S-REITs/funds. CAPL will continue to demonstrate its ability to crystallise value through strategic divestments of mature assets to its listed REITs, which are market leaders in their respective subsectors of retail, office and hospitality. The ability to recycle capital efficiently will enable the group to free up capital, improve its balance sheet position and deploy capital to projects with higher returns.

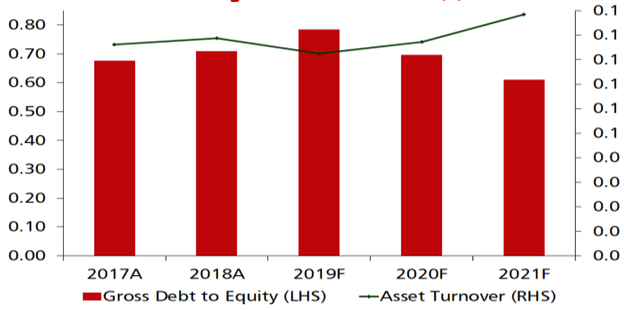
Key Risks:

Slowdown in Asian economies. The risk to our view is a further slowdown in Asian economies which could dampen demand for housing and private consumption expenditure and retail sales. This could, in turn, result in slower-than-expected projections.

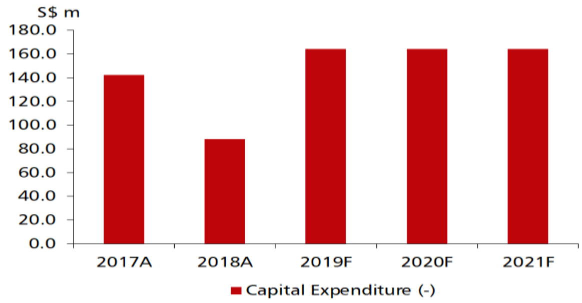
Company Background

CapitaLand (CAPL) is one of Asia's largest real estate companies headquartered and listed in Singapore. Its two core markets are Singapore and China; while Indonesia, Malaysia and Vietnam have been identified as its new growth markets.

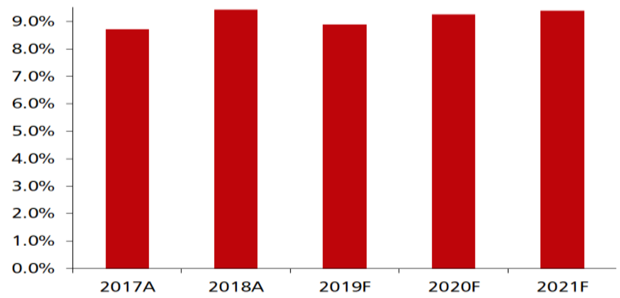
Leverage & Asset Turnover (x)



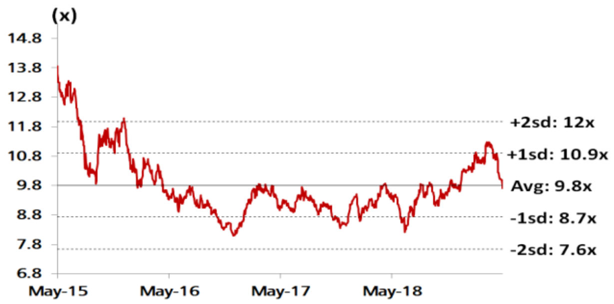
Capital Expenditure



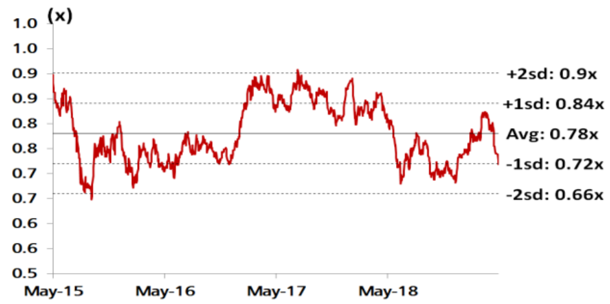
ROE (%)



Forward PE Band (x)



PB Band (x)



Source: Company, DBS Bank

Income Statement (S$m)

FY Dec	2017A	2018A	2019F	2020F	2021F
Revenue	4,618	5,602	5,760	6,561	7,510
Cost of Goods Sold	(2,594)	(2,913)	(2,698)	(2,911)	(3,515)
Gross Profit	**2,024**	**2,689**	**3,062**	**3,650**	**3,995**
Other Opng (Exp)/Inc	(455)	(494)	(519)	(545)	(572)
Operating Profit	**1,569**	**2,196**	**2,543**	**3,106**	**3,423**
Other Non Opg (Exp)/Inc	789	902	398	398	398
Associates & JV Inc	882	959	318	382	388
Net Interest (Exp)/Inc	(425)	(548)	(691)	(882)	(797)
Exceptional Gain/(Loss)	0.0	0.0	400	400	400
Pre-tax Profit	**2,816**	**3,509**	**2,967**	**3,403**	**3,812**
Tax	(469)	(659)	(462)	(541)	(614)
Minority Interest	(777)	(1,087)	(626)	(630)	(767)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	**1,570**	**1,762**	**1,879**	**2,233**	**2,430**
Net Profit before Except.	1,570	1,762	1,479	1,833	2,030
EBITDA	3,316	4,132	3,333	3,960	4,283
Growth					
Revenue Gth (%)	(12.1)	21.3	2.8	13.9	14.5
EBITDA Gth (%)	39.7	24.6	(19.3)	18.8	8.2
Opg Profit Gth (%)	35.0	39.9	15.8	22.1	10.2
Net Profit Gth (Pre-ex) (%)	31.9	12.3	(16.1)	23.9	10.8
Margins & Ratio					
Gross Margins (%)	43.8	48.0	53.2	55.6	53.2
Opg Profit Margin (%)	34.0	39.2	44.2	47.3	45.6
Net Profit Margin (%)	34.0	31.5	32.6	34.0	32.4
ROAE (%)	8.7	9.4	8.9	9.3	9.4
ROA (%)	2.9	2.8	2.7	3.0	3.2
ROCE (%)	2.7	3.1	3.4	3.8	4.2
Div Payout Ratio (%)	32.5	28.9	32.5	27.4	25.2
Net Interest Cover (x)	3.7	4.0	3.7	3.5	4.3

Source: Company, DBS Bank

Quarterly / Interim Income Statement (S$m)

FY Dec	4Q2017	1Q2018	2Q2018	3Q2018	4Q2018
Revenue	1,213	1,376	1,342	1,260	1,624
Cost of Goods Sold	(592)	(773)	(771)	(676)	(838)
Gross Profit	**621**	**603**	**572**	**584**	**786**
Other Oper. (Exp)/Inc	(202)	(101)	(93.0)	(111)	(203)
Operating Profit	**418**	**502**	**479**	**472**	**583**
Other Non Opg (Exp)/Inc	37.2	21.2	519	169	207
Associates & JV Inc	232	179	330	135	315
Net Interest (Exp)/Inc	(126)	(131)	(133)	(144)	(140)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	**561**	**571**	**1,195**	**633**	**964**
Tax	(82.4)	(76.2)	(116)	(66.5)	(256)
Minority Interest	(211)	(176)	(474)	(204)	(233)
Net Profit	**268**	**319**	**606**	**362**	**476**
Net profit bef Except.	268	319	606	362	476
EBITDA	705	720	1,346	795	1,124
Growth					
Revenue Gth (%)	(19.5)	13.4	(2.4)	(6.1)	28.9
EBITDA Gth (%)	(13.0)	2.1	86.9	(40.9)	41.3
Opg Profit Gth (%)	6.5	20.0	(4.7)	(1.3)	23.4
Net Profit Gth (Pre-ex) (%)	(15.5)	19.2	89.8	(40.2)	31.3
Margins					
Gross Margins (%)	51.2	43.8	42.6	46.3	48.4
Opg Profit Margins (%)	34.5	36.5	35.6	37.5	35.9
Net Profit Margins (%)	22.1	23.2	45.1	28.7	29.3

Balance Sheet (S$m)

FY Dec	2017A	2018A	2019F	2020F	2021F
Net Fixed Assets	840	753	843	932	1,022
Invts in Associates & JVs	10,205	10,180	10,586	11,035	11,487
Other LT Assets	38,182	41,269	52,447	50,344	48,242
Cash & ST Invts	6,648	5,320	3,743	5,243	8,903
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	1,462	1,944	1,986	2,853	3,265
Other Current Assets	4,202	5,182	5,404	5,134	4,214
Total Assets	**61,539**	**64,648**	**75,008**	**75,541**	**77,133**
ST Debt	2,739	3,193	3,193	3,193	3,193
Creditor	4,748	4,750	4,497	4,851	5,858
Other Current Liab	1,375	1,451	1,614	1,854	2,168
LT Debt	18,956	20,440	26,440	24,440	22,440
Other LT Liabilities	1,604	1,505	1,505	1,505	1,505
Shareholder's Equity	18,413	18,953	23,322	24,943	26,762
Minority Interests	13,705	14,354	14,437	14,754	15,206
Total Cap. & Liab.	**61,539**	**64,648**	**75,008**	**75,541**	**77,133**
Non-Cash Wkg. Capital	(458)	924	1,279	1,281	(547)
Net Cash/(Debt)	(15,047)	(18,314)	(25,891)	(22,391)	(16,731)
Debtors Turn (avg days)	131.2	110.9	124.5	134.6	148.7
Creditors Turn (avg days)	683.7	610.7	643.2	601.5	568.1
Inventory Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Asset Turnover (x)	0.1	0.1	0.1	0.1	0.1
Current Ratio (x)	1.4	1.3	1.2	1.3	1.5
Quick Ratio (x)	0.9	0.8	0.6	0.8	1.1
Net Debt/Equity (X)	0.5	0.5	0.7	0.6	0.4
Net Debt/Equity ex MI (X)	0.8	1.0	1.1	0.9	0.6
Capex to Debt (%)	0.7	0.4	0.6	0.6	0.6
Z-Score (X)	0.8	0.8	0.8	0.8	0.8

Leverage to head down

Source: Company, DBS Bank

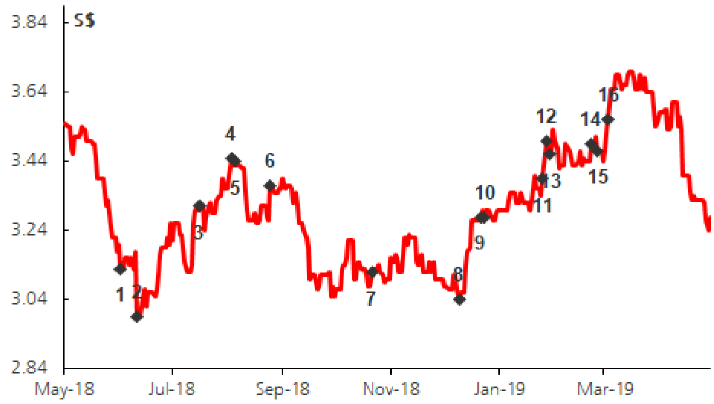
Live more, Bank less

Cash Flow Statement (S$m)

FY Dec	2017A	2018A	2019F	2020F	2021F
Pre-Tax Profit	2,347	2,850	2,967	3,403	3,812
Dep. & Amort.	76.3	74.5	74.5	74.5	74.5
Tax Paid	(379)	(390)	(300)	(300)	(300)
Assoc. & JV Inc/(loss)	(882)	(959)	(318)	(382)	(388)
Chg in Wkg.Cap.	809	(1,414)	(517)	(243)	1,514
Other Operating CF	195	392	(398)	(398)	(398)
Net Operating CF	**2,166**	**553**	**1,509**	**2,155**	**4,315**
Capital Exp.(net)	(142)	(88.3)	(164)	(164)	(164)
Other Invts.(net)	(386)	(701)	(10,780)	2,500	2,500
Invts in Assoc. & JV	(1,559)	(1,126)	(200)	(200)	(200)
Div from Assoc & JV	262	541	111	134	136
Other Investing CF	54.5	19.4	0.0	0.0	0.0
Net Investing CF	**(1,770)**	**(1,356)**	**(11,033)**	**2,269**	**2,271**
Div Paid	(1,022)	(1,248)	(1,054)	(925)	(926)
Chg in Gross Debt	1,708	1,657	6,000	(2,000)	(2,000)
Capital Issues	0.0	0.0	3,000	0.0	0.0
Other Financing CF	294	(626)	0.0	0.0	0.0
Net Financing CF	**979**	**(217)**	**7,946**	**(2,925)**	**(2,926)**
Currency Adjustments	(62.9)	(26.2)	0.0	0.0	0.0
Chg in Cash	1,313	(1,045)	(1,577)	1,500	3,660
Opg CFPS (S cts)	31.9	46.3	43.4	47.1	55.0
Free CFPS (S cts)	47.6	10.9	28.8	39.1	81.5

Source: Company, DBS Bank

Target Price & Ratings History



***Note**: Share price and Target price are adjusted for corporate actions.*

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	27 Jun 18	3.13	4.35	BUY
2:	06 Jul 18	2.99	3.62	BUY
3:	10 Aug 18	3.31	3.62	BUY
4:	28 Aug 18	3.45	3.62	BUY
5:	30 Aug 18	3.44	3.62	BUY
6:	19 Sep 18	3.37	3.62	BUY
7:	15 Nov 18	3.12	3.62	BUY
8:	03 Jan 19	3.04	3.62	BUY
9:	15 Jan 19	3.28	3.62	BUY
10:	17 Jan 19	3.28	3.62	BUY
11:	19 Feb 19	3.39	3.62	BUY
12:	21 Feb 19	3.50	3.62	BUY
13:	23 Feb 19	3.46	3.62	BUY
14:	18 Mar 19	3.49	3.62	BUY
15:	22 Mar 19	3.47	3.62	BUY
16:	28 Mar 19	3.56	3.62	BUY

Source: DBS Bank
Analyst: Derek TAN
Rachel TAN

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STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)
BUY (>15% total return over the next 12 months for small caps, >10% for large caps)
HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)
FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)
SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

** Share price appreciation + dividends*

Completed Date: 27 May 2019 08:00:34 (SGT)
Dissemination Date: 27 May 2019 09:04:20 (SGT)

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