Asia Credit Research

OCBC Bank

CapitaLand Ltd: FY2015 Results

Friday, 19 February 2016

Resilient FY2015 Results: CapitaLand Ltd (CapitaLand) reported full-year 2015 results with revenue up 21.3% y/y to SGD4.76bn, mainly due to higher contributions from China residential and Ascott (serviced residences). EBITDA however, was only up 10.5% y/y to SGD1.15bn due to lower residential margins from a change in product mix. PATMI was down 8.2% y/y to SGD1.07bn mainly due to the lack of one-off gain from the Westgate Tower sale in 4Q2014 which boosted PATMI in FY2014 by SGD123.1mn. Overall, it was a resilient set of results with the company benefiting from its diversified operations as strong earnings growth in China residential (EBIT +38.2% y/y) and Ascott (EBIT +9.6% y/y) offset weaknesses in Singapore (EBIT -38.2% y/y) and the malls business (EBIT-16% y/y due to prior year one-off gains).

Strong China residential: China residential delivered a strong performance with 2015 revenue up 220% y/y to SGD2.04bn. Contracted sales was up 102.6% y/y to RMB15.4bn or 9,402 units (2014:4,961) as the company benefitted from a recovery in the residential markets in the upper-tier cities. However, it is highly unlikely that such stellar sales will be repeated for 2016 given the company will only have about 10,000 units available for sale (7,352 launch-ready units + ~3,000 unsold units from completions) in 2016. Assuming a flat sell-through rate with 2015 (ie. 77%) 2016 sales could be in the range of 7,000-8,000 units, a decline from 9,402 units in 2015.

Slowdown in Singapore residential: Singapore residential sales slowed with CapitaLand selling 244 units in 2015 (2014:278 units), down 12% y/y or 0.4% y/y in value terms to SGD559mn. However, this was commendable in light of weak market conditions and without a major downward adjustment in prices. For example, the 2 top selling projects in 2015, Sky Vue (84 units) and DLeedon (39 units), had higher average psfs of SGD1,541 (2014:SGD1,523) and SGD1,708 (2014:1,601) in 2015, respectively. CapitaLand currently has inventory of 1,100 units in Singapore (including 432 units from 3 new launches in 2016) valued at SGD3.1bn or 6.8% of CapitaLand's total assets, so the company is not overly-exposed to the slowdown in Singapore residential.

Growth at Ascott and stable malls business: Management has a target of 80,000 units under management by 2020 (current: 42,977, 2014:38,381). Due to the growth in number of units, revenue was up 9% y/y to SGD744.1mn while EBIT was up 9.6% y/y to SGD326mn. Operating performance was stable with RevPAU increasing 1% y/y to SGD124. The malls business saw 2015 revenue fall 43.7% y/y to SGD662.6mn and EBIT down 16% y/y to SGD794.3mn. However this was mainly due to the lumpy Westgate transaction and EBIT would have been stable stripping out the Westgate transaction.

Deleveraging in 2015: Cash increased to SGD4.17bn as of Dec 2015 from SGD2.75bn at the end of 2014 mainly due to strong cash collections from contracted sales in China. As a result, net debt position decreased to SGD11.89bn from SGD13.24bn as gross debt was relatively stable at SGD16.1bn. Net debt/EBITDA improved to 10.3x in 2015 from 12.7x, however if adjusted for dividends received from associates and JVs, it improved to 7.7x in 2015 from 9.2x in 2014. Net gearing improved to 48% from 57% in 2014. Note that CapitaLand's leverage is higher due to FRS110 requirements where the company consolidates Ascott Residence Trust, CapitaLand Commercial Trust and CapitaLand Malaysia Mall Trust on its balance sheet. Without the REIT consolidation, net gearing would have been 41%. CapitaLand has SGD2.2bn of debt refinancing needs in 2016 (inclusive of SGD0.4bn at the REIT level) and this should see the company's average funding costs (3.5%) creep up slightly given the movement in SGD swap rates.

Recommendation: Given the protracted slowdown in the Singapore residential market, we advocate being more defensive and a shift up the credit curve to larger developers with strong balance sheets and diversified operations to weather the downturn. We think this has been reflected in CapitaLand's results where strong operating performance in China and Ascott offset weaknesses in Singapore and therefore maintain our Positive issuer profile on CapitaLand. Although spreads have widened YTD (18-28bps for 19s, 37bps for 20s and 34bps for 24s) and might pose attractive entry points for spread investors, we maintain our Neutral rating across much of the CAPLSP curve.

Treasury Advisory

Corporate FX & Structured Products

Tel: 6349-1888 / 1881

Interest Rate Derivatives

Tel: 6349-1899

Investments & Structured Products

Tel: 6349-1886

GT Institutional Sales

Tel: 6349-1810

OCBC Credit Research

Nicholas Koh

+65 6722 2533

NicholasKoh@ocbc.com

CapitaLand Limited

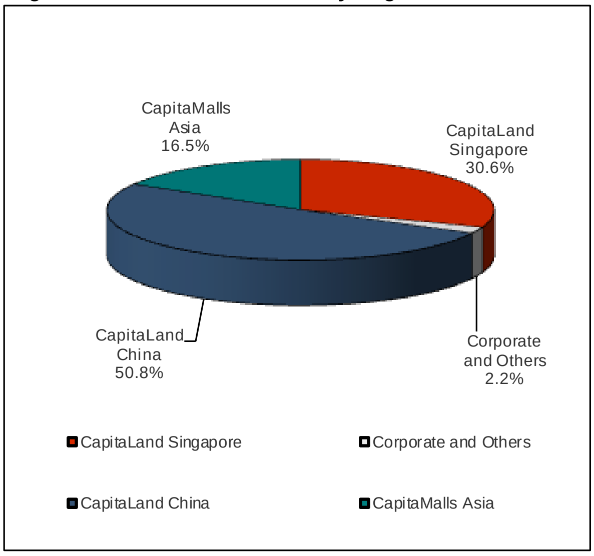
Table 1: Summary Financials

Year Ended 31st Dec	FY2013	FY2014	FY2015
Income Statement (SGD'mn)			
Revenue	3,977.5	3,924.6	4,761.9
EBITDA	419.1	1,039.6	1,148.4
EBIT	369.5	970.1	1,073.1
Gross interest expense	585.9	439.5	477.3
Profit Before Tax	1,353.5	2,026.6	1,838.8
Net profit	849.8	1,160.8	1,065.7
Balance Sheet (SGD'mn)			
Cash and bank deposits	6,306.3	2,749.4	4,173.3
Total assets	45,063.1	44,113.5	47,052.6
Gross debt	15,936.2	15,985.8	16,058.5
Net debt	9,629.8	13,236.4	11,885.2
Shareholders' equity	24,454.8	23,208.5	24,937.7
Total capitalization	40,390.9	39,194.3	40,996.1
Net capitalization	34,084.6	36,445.0	36,822.9
Cash Flow (SGD'mn)			
Funds from operations (FFO)	899.4	1,230.4	1,141.0
CFO	523.0	998.7	2,466.6
Capex	82.0	129.2	64.0
Acquisitions	1,004.3	1,302.0	940.0
Disposals	1,035.2	1,226.2	513.0
Dividend	432.0	704.9	726.9
Free Cash Flow (FCF)	441.0	869.6	2,402.6
FCF Adjusted	39.8	88.9	1,248.7
Key Ratios			
EBITDA margin (%)	10.5	26.5	24.1
Net margin (%)	21.4	29.6	22.4
Gross debt to EBITDA (x)	38.0	15.4	14.0
Net debt to EBITDA (x)	23.0	12.7	10.3
Gross Debt to Equity (x)	0.65	0.69	0.64
Net Debt to Equity (x)	0.39	0.57	0.48
Gross debt/total capitalisation (%)	39.5	40.8	39.2
Net debt/net capitalisation (%)	28.3	36.3	32.3
Cash/current borrowings (x)	4.93	0.79	1.86
EBITDA/gross interest (x)	0.9	2.4	2.4

Source: Company, OCBC estimates

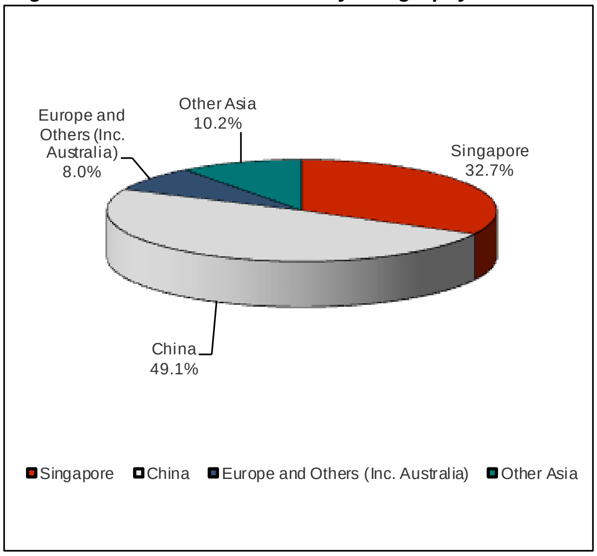
** FCF Adjusted = FCF - Acquisitions - Dividends + Disposals*

Figure 1: Revenue breakdown by Segment - FY2015



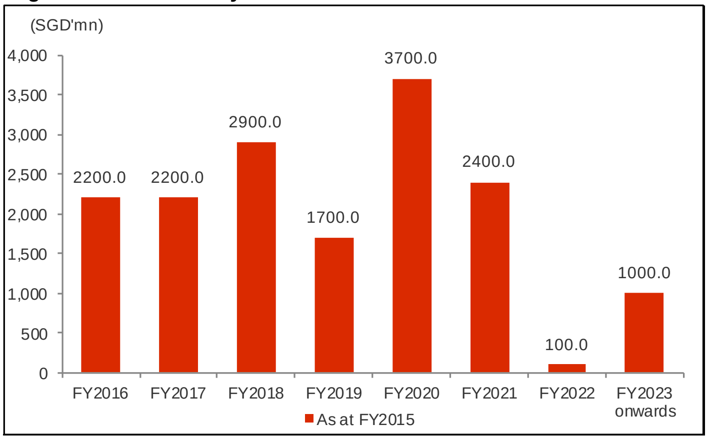
Source: Company

Figure 2: Revenue breakdown by Geography - FY2015



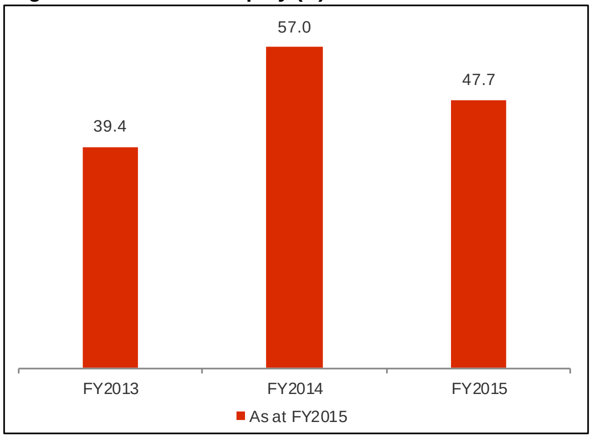
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (%)



Source: Company, OCBC estimates