

Issuer Profile: CapitaLand Ltd (“CAPL”)

Neutral (3)

Ticker:

CAPLSP

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Recommendation

- Continuing [1Q2019's trend](#), 2Q2019's results appear lackluster with 10.4% y/y fall in reported EBIT to SGD1.26bn. That said, this is mainly due to portfolio and revaluation gains as operating EBIT rose 1.1% y/y to SGD604.6mn.
- Following the acquisition of Ascendas-Singbridge Pte Ltd (“ASB”), net gearing has risen to 73.2% q/q (1Q2019: 57.9%). Going forward, we expect CAPL to focus on deleveraging and reduce net gearing to 64%. We also note that ASB has yet to contribute to results given that the acquisition was only completed on 30 June 2019.
- Overall, we remain comfortable with CAPL's credit metrics given that it is anchored by recurring income from investment properties, which forms 84.5% of total reported EBIT (less portfolio and revaluation gains).
- In general, we think the CAPLSP curve looks tight, especially post-acquisition of ASB, though we think the USD-denominated CAPLSP 4.076% '22s look interesting. Within the higher rated Singapore developer space, we think the CITSP curve offers better value given wider spreads and healthier credit metrics.

Relative Value:

Bond	Maturity / Call date	Net gearing	Ask YTW	Spread
CAPLSP 4.3% 2020	31/08/2020	73.2%	2.09%	45bps
CAPLSP 4.076% 2022 (USD)	20/09/2022	73.2%	2.70% (SGD)	123bps
CAPLSP 3.8% 2024	28/08/2024	73.2%	2.73%	117bps
CAPLSP 3.08% 2027	19/10/2027	73.2%	2.99%	132bps
CITSP 3.00% 2020	27/10/2020	36.2%	2.36%	73bps
CITSP 3.78% 2024	21/10/2024	36.2%	2.87%	130bps
CITSP 3.48% 2026	15/06/2026	36.2%	3.04%	141bps

*Indicative prices as at 7 August 2019 Source: Bloomberg
Aggregate leverage based on latest available quarter*

Background

- CapitaLand Ltd (“CAPL”) is Singapore's leading real estate company, with development and investments in retail, office, serviced residences and residential properties.
- Following the acquisition of Ascendas-Singbridge Pte Ltd (“ASB”), CAPL will structure its business segments along (1) CL China, (2) CL SMI, Vietnam & International, (3) CL India, (4) CL Lodging, (5) CL Financial and (6) Centres of Excellence.
- Listed on the SGX with a market cap of SGD17.5bn, CAPL holds SGD66.5bn in total assets. CAPL is 51.0%-owned by Temasek.

Key Considerations

- Acquisition of ASB impacting balance sheet and cashflow:** Acquisition of ASB added SGD6.0bn in net assets, which is the main driver behind the q/q increase in net assets to SGD38.3bn (1Q2019: SGD33.9bn). The biggest assets purchased include SGD7.1bn worth of investment properties and SGD4.0bn of associates and joint ventures, lifting total assets to SGD81.5bn (1Q2019: SGD66.5bn). Taking into account SGD534.1mn of cash in ASB and ~SGD3.0bn in new shares issued to Temasek to finance the acquisition, the net cash outflow from acquisition of ASB is SGD2.5bn.
- Still subdued results though this has yet to factor contribution from ASB:** On the income statement, there has been minimal contribution by ASB to 2Q2019 results as the transaction was completed on 30 Jun 2019 though this has resulted in SGD36.1mn transaction costs. Revenue fell 19.3% y/y to SGD1.08bn, mainly due to declines in revenue

from CL China (-54.5% y/y to SGD258.4mn) while results of CL SMI, Vietnam and International (-0.7% y/y to SGD490.9mn) was flattish. Reported EBIT was also down 10.4% y/y to SGD1.26bn. We will be elaborated more in the following.

- **Underlying results for CL SMI, Vietnam and International is steady:** The fall in reported EBIT is mainly due to the CL SMI, Vietnam and International segment which saw EBIT falling by 27.9% y/y to SGD527.1mn. However, this is mainly due to lower net portfolio gains and revaluation gains of SGD216.0mn in 2Q2019 (2Q2018 estimates: SGD451.5mn). We estimate that operating EBIT (without the one-offs) rose by 3.4% y/y to SGD311.1mn, which should be attributable to the acquisition of the multifamily portfolio in USA. Meanwhile, performance from the Singapore retail and office should remain stable, as inferred from the results of [CapitaLand Mall Trust](#) and [CapitaLand Commercial Trust](#). That said, the residential landbank in Singapore is mostly dry, with One Pearl Bank (774 units) as the most significant project. In Vietnam, just 77 units worth SGD19mn were handed over in 2Q2019 (2Q2018: 465 units worth SGD77mn) due to fewer units available for sale. That said, another 2,318 units worth SGD726mn is expected to be handed over in the future, of which SGD196mn is expected to be recognised in 2H2019. We understand that a significant portion of ASB's portfolio is in Singapore, which will support 2H2019's results.
- **CL China boosted by one-offs though underlying results in 2H may be stronger than 1H:** Reported EBIT for CL China rose 16.2% y/y to SGD635.7mn, mainly from SGD468.2mn portfolio and fair value gains. Without the one-offs, we estimate operating EBIT for 2Q2019 would have fallen ~25% y/y to SGD167.5mn. This is mainly due to the decline in revenue (-54.5% y/y to SGD258.4mn) as projects which are consolidated handed over fewer units. That said, including the projects from associates and JVs, handover rose slightly to 2,271 units worth RMB2.26bn (2Q2018: 1,486 units worth RMB2.2bn). We think 2H will be stronger than 1H with property sales increasing y/y to 1,807 units sold worth RMB3.8bn (2Q2018: 746 units worth RMB3.2bn). In total, 7,300 units have been sold worth RMB18.3bn, of which RMB9.2bn is expected to be recognised in 2H2019. Meanwhile, NPI growth from retail in China is strong (1H2019: +14.5% y/y to RMB2.7bn) while Raffles City China saw 17.5% y/y NPI growth to RMB1.0bn in 1H2019.
- **New segments:** Compared to previous year, CL has established new business segments in CL Financial (2Q2019 revenue: -18.8% y/y to SGD51.3mn) and CL Lodging (+13.5% y/y to SGD333.2mn). CL India will be reported as a business segment going forward, given the acquisition of ASB.
- **Credit profile well-anchored by investment properties:** As of 2Q2019, investment properties accounted for 94.4% of total EBIT (2Q2018: 90.0%), in part because the Singapore residential development landbank is dry. Excluding portfolio and revaluation gains as well as contribution from corporate/others segment, income from recurring sources (retail, commercial, lodging) forms 84.5% of total reported EBIT. This is in-line with the split by asset class, with income from recurring sources, including industrial properties, representing 83% of total assets.
- **Credit metrics weakened q/q though CAPL is committed to bring net gearing lower:** Net gearing rose q/q to 73.2% (1Q2019: 57.9%), mainly due to the acquisition of ASB. We refrain from analysing using EBITDA given that ASB's contribution has yet to be factored in 2Q2019's results. Going forward, net gearing is not expected to stay high as CAPL has reiterated the focus to reduce net gearing to 64% by end-2020. This is expected to be achieved through divestments. According to management, divestments include non-core assets as well as stabilised assets, which may be injected into the REITs. Based on the divestments to date, we estimate CAPL will generate another SGD1.4bn in proceeds which may bring net gearing below 70%. Liquidity remains ample with cash balances and available undrawn facilities of SGD9.9bn, in comparison to SGD2.5bn of debt due in 2019 – of which we understand that CAPL is looking to refinance SGD1.8bn.

Explanation of Issuer Profile Rating / Issuer Profile Score

Positive (“Pos”) – The issuer’s credit profile is either strong on an absolute basis, or expected to improve to a strong position over the next six months.

Neutral (“N”) – The issuer’s credit profile is fair on an absolute basis, or expected to improve / deteriorate to a fair level over the next six months.

Negative (“Neg”) – The issuer’s credit profile is either weaker or highly geared on an absolute basis, or expected to deteriorate to a weak or highly geared position over the next six months.

To better differentiate relative credit quality of the issuers under our coverage, we have further sub-divided our Issuer Profile Ratings into a 7 point Issuer Profile Score scale.

IPR	Positive		Neutral			Negative	
IPS	1	2	3	4	5	6	7

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