

MITA No. 010/06/2008

8 April 2009

# CapitaLand Limited

## Looks fairly-valued now

Downgrade to

# HOLD

Previous Rating: BUY

## S\$2.57

## Fair Value: S\$2.51

Stock Code:

Reuters: CATL.SI

ISIN Code C31

Bloomberg: CAPL SP

Event: Update

General Data	
Issued Capital (m)	4,244
Mkt Cap (S\$m/US\$m)	10,908
	7,206
Major Shareholder	Temasek (47%)
Free Float (%)	38
NTA per share (S\$)	2.85
Daily Vol 3-mth ('000)	33,792
52Wk High (S\$)	5.888
52Wk Low (S\$)	1.700

**Strong recovery in share price.** The recent market rally had seen the share price of CapitaLand (CapLand) staging a significant recovery. While the STI has now gained 23.7% after hitting its 52-week closing low of 1,456.95, CapLand has surged 43.6% over the same period. With no catalyst in sight for a sustainable recovery in the property market, we believe that the recent spike in share price is largely sentiment-driven, rather than fundamentally-driven one.

**Rights issue completed.** Since our last report in February, CapitaLand has completed its Rights issue and with that, it had successfully raised gross proceeds of S\$1,835.5m. For CapitaMall Trust's (CMT) Rights issue, CapLand subscribed for a total of 446.1m Rights units and the capital commitment for the subscription amounted to S\$365.8m. Upon the completion of its Rights issue and its subscription for CMT's Rights shares, CapLand now has a cash hoard of ~S\$5,698.1m and its net gearing has fallen from 0.46x to 0.3x. Focus will now be on the deployment of the funds raised, which could be a potential catalyst to the re-rating of CapLand's shares.

**Limited impact on landbank write-down.** As the property market continues to deteriorate, we are seeing increasing risks of write-down in landbank, especially those acquired during the later stage of the property upcycle. For CapLand, its acquisition of Char Yong Garden (at S\$1,788 psf ppr) and Farrer Court (at ~S\$780 psf ppr) could be at risk of write-down. Taking into consideration CapLand's effective stakes in these two acquisitions (50% in Char Yong Gardens and 35% in Farrer Court), CapLand's total exposure is ~S\$877m and the exposure on CapLand's book value is limited as these account for ~6.3% of CapLand's book value.

**Downgrading to HOLD on valuations; Fair value S\$2.51.** To reflect the increase in market valuation of its listed REITs and investments, our RNAV estimate of CapLand has now been raised to S\$3.06 (previously S\$3.00). At current share price of S\$2.57, CapLand is trading at price/book of 0.87x and price/RNAV of 0.84x. We maintain our 30% discount on our valuation of CapLand's development profits and investment properties and no discount for its listed investments. Our fair value of CapLand has now been raised to S\$2.51. While fundamentals remain solid, valuation looks rich now. Purely on valuation, we are now downgrading CapLand to **HOLD**.

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Year to 31 Dec	Turnover (S\$m)	Gross Profit (S\$m)	Net Profit (S\$m)	EPS (cents)	PER (x)	P/B (x)	Div Yield (%)
FY 07	3,792.7	1,327.0	2,759.3	98.6	2.6	0.7	5.8
FY 08	2,752.3	1,072.2	1,260.1	44.7	5.8	0.7	2.7
FY 09F	2,586.2	1,272.7	700.2	16.5	15.6	0.8	2.7
FY 10F	2,907.2	960.6	558.1	13.2	19.5	0.8	2.7

Please refer to the important disclosures at the back of this document.

**Exhibit 1: CapitaLand's FY09 RNAV estimates**

	in S\$m
NPV of development profits	
- Singapore	668.2
- Overseas	824.8
	1,493.0
Valuation of investment properties	5,171.1
Valuation of fund management business	948.6
Stakes in listed entities	3,363.2
Stakes in unlisted funds	2,362.8
Shareholders Equity (ex-AustraLand and TAG)	7,896.9
Less:	
- Book value of investment properties, associates and jointly-controlled €	-10,119.7
RNAV	11,115.9
Gross proceeds from rights issue	1,835.5
Enlarged share base (m)	4,235.5
RNAV per share	3.06
Fair value (Discount for development profits and investment properties pegged at 30% and listed investments kept at market value)	<b>2.51</b>

Source: OIR estimates

**CapitaLand's Key Financial Data**

**EARNINGS FORECAST**

<b>Year Ended 31 Dec (S\$ m)</b>	<b>FY07</b>	<b>FY08</b>	<b>FY09F</b>	<b>FY10F</b>
Revenue	3,792.7	2,752.3	2,586.2	2,907.2
Cost of sales	-2,465.7	-1,680.2	-1,313.5	-1,946.6
Gross profit	1,327.0	1,072.2	1,272.7	960.6
Other operating income	1,553.4	1,330.7	212.5	217.1
Admin expenses	-561.0	-466.8	-439.6	-348.9
Other operating expenses	-7.5	-97.6	-87.8	-96.6
Profit from operations	2,311.9	1,838.4	957.7	732.2
Finance costs	-403.5	-516.3	-495.0	-536.2
Share of results (net of tax) of:				
Associates	907.7	318.3	183.9	222.5
Jointly-controlled entities	604.4	56.8	197.2	263.2
Profit before taxation	3,420.5	1,697.2	843.8	681.8
Taxation	-268.0	-235.8	-117.2	-94.7
Profit after taxation from continuing operations	3,152.4	1,461.4	726.5	587.1
PAT from discontinued operations	0.0	0.0	0.0	0.0
Profit after taxation	3,152.4	1,461.4	726.5	587.1
Attributable to:				
Equity holders	2,759.3	1,260.1	700.2	558.1
Minority interests	393.1	201.3	26.4	29.0
Underlying profit (ex-revaluation and disposal gain)	1,874.2	470.2	726.5	587.1
EBIT	3,824.0	2,213.5	1,338.8	1,218.0

<b>BALANCE SHEET</b>				
<b>As at 31 Dec (S\$ m)</b>	<b>FY07</b>	<b>FY08</b>	<b>FY09F</b>	<b>FY10F</b>
<b>Current assets</b>				
Development properties for sale	3,540.8	3,347.2	3,179.8	3,020.8
Trade & other receivables	2,064.4	1,715.1	1,378.5	1,353.8
Cash	4,356.0	4,228.4	5,568.0	6,501.9
Other current assets	301.7	253.9	266.6	279.9
<b>Total current assets</b>	<b>10,262.8</b>	<b>9,544.6</b>	<b>10,393.0</b>	<b>11,156.5</b>
<b>Non-current assets</b>				
PPE	1,588.6	1,633.4	1,725.9	1,815.3
Intangible assets	37.9	588.9	588.9	588.9
Investment properties	6,208.2	4,254.8	4,467.6	4,691.0
Properties under development	569.2	593.9	642.2	700.7
Interests in assoc & jointly-controlled entities	6,450.7	7,864.6	8,257.8	8,670.7
Other assets	723.8	603.3	633.5	665.2
<b>Total non-current assets</b>	<b>15,578.5</b>	<b>15,539.0</b>	<b>16,316.0</b>	<b>17,131.8</b>
<b>Total assets</b>	<b>25,841.3</b>	<b>25,083.6</b>	<b>26,708.9</b>	<b>28,288.3</b>
<b>Current liabilities</b>				
Trade & other payables	2,889.5	2,357.2	1,479.2	1,830.9
Short-term borrowings	1,802.8	1,871.0	1,602.5	2,263.1
Finance leases	4.0	4.2	8.0	8.0
Other current liabilities	446.1	460.4	483.4	507.6
<b>Total current liabilities</b>	<b>5,142.3</b>	<b>4,692.8</b>	<b>3,573.2</b>	<b>4,609.5</b>
<b>Non-current liabilities</b>				
Long-term borrowings	8,066.6	7,918.8	7,799.0	7,920.7
Finance leases	42.8	35.3	27.3	19.2
Other non-current liabilities	724.3	448.9	471.4	494.9
	<b>8,833.6</b>	<b>8,403.0</b>	<b>8,297.6</b>	<b>8,434.9</b>
<b>Total liabilities</b>	<b>13,976.0</b>	<b>13,095.8</b>	<b>11,870.8</b>	<b>13,044.4</b>
Share capital	4,350.1	4,396.1	6,199.0	6,199.0
Reserves	5,590.8	6,285.5	7,306.7	7,683.4
<b>Shareholders' equity</b>	<b>9,940.9</b>	<b>10,681.7</b>	<b>13,505.7</b>	<b>13,882.4</b>
Minority interests	1,924.4	1,306.1	1,332.5	1,361.4
<b>Total equity</b>	<b>11,865.3</b>	<b>11,987.8</b>	<b>14,838.1</b>	<b>15,243.8</b>
<b>Total liabilities and equity</b>	<b>25,841.3</b>	<b>25,083.6</b>	<b>26,708.9</b>	<b>28,288.3</b>

**CASH FLOW**

Year Ended 31 Dec (S\$ m)

	FY07	FY08	FY09F	FY10F
<b>Operating cashflow</b>				
Profit after tax	3,152.4	1,461.4	726.5	587.1
Adjustments:	-2,395.6	-552.4	209.3	106.0
Operating profit before working capital changes	756.9	909.0	935.8	693.1
Net change in working capital	-111.9	428.5	-435.0	463.5
Cash generated from operations	645.0	1,337.5	500.8	1,156.6
Income tax paid	-103.0	-192.1	-117.2	-94.7
Customer deposits and other non-current payables	13.2	24.6	0.0	0.0
Net cash generated from operating activities	555.2	1,170.0	383.6	1,061.9
<b>Investing cashflow</b>				
Purchase of PPE	-210.0	-358.2	-150.0	-150.0
(Increase)/Decrease in associates and jointly-controlled entities	-127.5	-1,346.6	-393.2	-412.9
Acquisition of investment properties and properties under dvlp	-1,386.4	-1,366.8	-212.7	-223.4
Proceeds from disposal of investment properties and properties under dvlp	1,586.6	1,169.5	0.0	0.0
Dividends received from assoc and jointly-controlled entities	376.2	265.8	417.2	438.0
(Acquisition)/Disposal of subsidiaries	-132.2	1,447.5	99.1	-366.7
Interest income generated	103.0	87.5	139.9	163.3
Others	-172.2	-835.0	0.0	0.0
Net cash generated from investing activities	37.5	-936.4	-99.8	-551.6
	37.5	-936.4	-99.8	-551.6
<b>Financing cashflow</b>				
Proceeds from issue of shares under share option plan	44.7	23.0	23.0	23.0
Rights issue	0.0	0.0	1,802.8	0.0
Bank borrowings	1,737.4	-127.7	-388.3	782.2
Repayment of finance lease payables	-3.9	-8.0	-8.0	-8.0
Dividends paid to minority interests	-319.2	-76.9	-76.9	-76.9
Dividends paid to shareholders	-317.1	-423.4	-296.8	-296.8
Interest expense paid	-478.0	-556.5	0.0	0.0
Others	418.4	782.1	0.0	0.0
Net cash generated from financing activities	1,082.3	-387.5	1,055.8	423.5
Net change in cash (net of exchange rate impact)	1,671.1	-127.6	1,339.6	933.9
Beginning cash balance	2,684.9	4,356.0	4,228.4	5,568.0
Ending cash balance	4,356.0	4,228.4	5,568.0	6,501.9
<b>Key Ratios</b>				
PER (x)	2.6	5.8	15.6	19.5
P/NAV (x)	0.7	0.7	0.8	0.8
Gross profit margin (%)	35.0	39.0	49.2	33.0
Net profit margin (%)	83.1	53.1	28.1	20.2
Net gearing (x)	0.5	0.5	0.3	0.2
Dividend yield (%)	5.8	2.7	2.7	2.7
ROE (%)	26.6	12.2	4.9	3.9
ROA (%)	12.2	5.8	2.7	2.1

Source: Company data, OIR estimates

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