Securities Investors Association (Singapore)
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UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: CapitaLand Limited

Security: CapitaLand Limited

Meeting details:
Date: 12 April 2019
Time: 10.00 a.m.
Venue: The Star Theatre, Level 5, The Star Performing Arts Centre, 1 Vista Exchange Green, Singapore 138617

Company Description

CapitaLand Limited, together with its subsidiaries, develops, owns, and manages real estate properties in Singapore, North America, Europe, Asia, the United Kingdom, and internationally. The company operates through CapitaLand Singapore, CapitaLand China, CapitaLand Vietnam, and CapitaLand International segments. Its real estate portfolio includes integrated developments, shopping malls, lodging, offices, homes, and real estate investment trusts and funds. CapitaLand Limited also invests in real estate financial products and assets; and provides investment advisory and management services, as well as real estate asset management services. The company was formerly known as Pidemco Land Limited and changed its name to CapitaLand Limited in November 2000. CapitaLand Limited was founded in 1989 and is headquartered in Singapore.
(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=C31)

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1. As mentioned in the "Letter to shareholders" (pages 12 to 17 of the annual report), having served the group with dedication and distinction for 22 years, including as the Group's President & Group Chief Executive Officer (GCEO) from 2012, Mr Lim Ming Yan retired on 31 December 2018 and handed over the reins to Mr Lee Chee Koon on 15 September 2018.

Under Mr Lim's leadership, equity attributable to owners of the company increased from $15.1 billion as at 31 December 2012 to $19.0 billion as at 31 December 2018, a compound average growth rate of 3.88%. Dividends per share over the period increased steadily from 7.0 cents per share in FY2012 to 12.0 cents per share in FY2018. In the 6 years, the company returned approximately $2.3 billion to shareholders as dividends.

(i) **With the transition in leadership smoothly completed in September 2018, can the company elaborate further on some of the refinements made to the group's growth strategies? Are there adjustments to the group's risk strategy, risk appetite and risk limits? Is the proposed acquisition of Ascendas-Singbridge Pte Ltd a signal that the group will be more aggressive in pursuing growth?**

(ii) As noted in the annual report, the group has already met some of its "Year 2020" targets and is largely on track to achieve its "Year 2020" goals. **Would the new management team be evaluating its medium-term targets and be updating shareholders on the "Year 2025" goals?**

(iii) Given the stage of the market cycle, the uncertainties in the global economies, and even before considering the proposed acquisition of Ascendas-Singbridge Pte Ltd, the group's net debt to equity ratio has crept up from 0.41 (1 January 2017) to 0.49 (31 December 2017) to 0.56 (31 December 2018). **Has the board set an internal limit to the group's leverage?**

(iv) **What are the material risks identified by management if the group continues to increase its gearing?**

(v) **With the transition of the management team smoothly completed in 2018, what are the company's other plans to continue its board renewal in an orderly manner to avoid undue disruption and to preserve the institutional knowledge?** Ms Euleen Goh will be stepping down as an independent director having served on the board for nearly 7.5 years. In April 2019, the independent chairman would have served on the board for approximately 9 years, and two other independent directors would be reaching the 7 year mark as well. Under the revised Listing Rules, the term of an independent director will be limited to nine years after which the long tenured directors will be subject to a two-tier vote by shareholders.

2. As noted in the Performance review (page 90), the 21.3% improvement in the group's revenue of $5.6 billion was mainly attributed to newly acquired and operational properties in Singapore, China, Germany and the United States.

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For example, Gallileo, a freehold Grade A office building in Frankfurt valued at €356.0 million (~S$569.6 million), was jointly acquired with CapitaLand Commercial Trust while Rock Square in Guangzhou was jointly acquired with CapitaLand Retail China Trust for RMB3,360.7 million (about S$688.9 million).

Other major acquisitions included:

- A portfolio of 16 freehold multifamily properties in the US valued at US$835 million (S$1.14 billion)
- Pufa Tower in Shanghai, China, a 34-storey office property in Shanghai's core Lujiazui central business district in Pudong New Area, for RMB2,752 million (about $546.3 million) through a 50:50 joint venture [in January 2019]
- Shanghai's tallest twin towers in North Bund on a 50:50 basis with the Government of Singapore Investment Corporation (GIC) for RMB12.8 billion (~S$2.5 billion)

In the Message to shareholders, the group has stated it will be looking to expand its Assets Under Management (AUM) as an important and integral part of the group's growth strategy (page 14).

(i) **Going forward as a more frequent acquirer of larger (and sometimes trophy) assets, how does the group guard against overpaying for assets in a competitive environment?**

(ii) **How different is a "buy and manage" business model from the more traditional developer's role of "develop and sell/rent"?**

(iii) **In terms of its development pipeline, has the group grown so big that it would only make sense for the group to participate in projects that are of certain size?** For example, in the key market of Singapore, the group was largely quiet on the development front until its acquisition Pearl Bank Apartments for S$728.0 million in a private treaty collective sale in February 2018. The window of opportunity closed soon after when the government announced new cooling measures on 6 July 2018 that raised additional buyer's stamp duty rates and tightened loan-to-value limits on residential property purchases. **Has the group maintained its agility in acquiring attractive development sites and launching them quickly to de-risk the projects?**

(iv) In addition, on top of the RMB 24 billion mega project, Raffles City Chongqing, the group added a 32-hectare prime mixed-use site in Chongqing, China for RMB5.7 billion (~S$1.2 billion). **Has the board/management evaluated if the group has significant exposure to a single city (other than Singapore)?**

(v) **Given its current scale across geographies and asset classes, has management reviewed the group's "network effect" and explored how it could better leverage its integrated platform?**

3. On 14 January 2019, the company announced a proposed transaction with Temasek to acquire its subsidiary, Ascendas-Singbridge Pte Ltd ("ASB") in a deal worth $11 billion.

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The rationale given was that, post transaction, the combined total AUM of the group will exceed S$116 billion, making it one of the top 10 real estate investment managers globally.

The group will gain immediate scale in new sectors (such as logistics/business park) and markets (such as India) and further strengthen the group's position in Singapore across all asset classes.

The circular to shareholders (dated 22 March 2019) in relation to the proposed transaction, including the recommendations of the independent financial adviser and the recommendation of the independent directors, can be found on SGXNet and on the company's website: https://investor.capitaland.com/news.html/id/709070

While shareholders can understand the synergies in acquiring ASB, the impact of the transaction to shareholders, including the consideration and the terms of payment, must be carefully considered.

The proposed transaction is an "interested person transaction" and also a "major transaction". The vendor is a subsidiary of Temasek who has total interests in approximately 40.69% of the issued share capital of the company.

(i) **Can the board/management clarify if it pro-actively made the approach to acquire ASB from Temasek?**

(ii) **How was the consideration determined? Who led the negotiation with ASB/Temasek? Can the board help shareholders understand why it had agreed to pay for the acquisition half in cash and half in new shares?**

(iii) **In particular, how was the issue price of $3.50 for the consideration shares determined?**

(iv) The proposed transaction involves valuing the target at "fair value", such as paying 17x P/E for the fund management business and uplifting the valuation of the investment properties (page I-13 of the circular). In opting to pay in new shares, the company further gives the vendor a discount as the issue price of $3.50 is substantially lower the NAV per share of $4.55.

Can the board elaborate further on the expected synergies? How much cost savings will the enlarged group achieve? What are the key execution risks in this proposed acquisition?

(v) In the circular, it was stated that the transaction is EPS accretive and ROE accretive, not taking into account the consideration paid out in cash and the higher leverage. On page I-26 of the circular, it was stated that the implied P/E multiple and the implied P/NAV multiple of ASB are 17.0x and 1.2x respectively. CapitaLand itself trades at a P/E multiple of 13.1x and a P/NAV 0.8x.

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Just as importantly, the acquisition will result in a decrease in the net tangible assets per share from S$4.40 to S$4.04.

The group's consolidated net debt/equity ratio would also increase from 0.56 times to 0.72 times on a pro forma basis, as of 31 December 2018.

Considering that the company itself trades at a lower valuation and has better quality earnings, did the independent directors evaluate the other options available to the company/group? For instance, the company can be more aggressive in carrying out its share buyback and that would have a greater impact on its ROE and an immediate uplift to its NAV per share, compared to the current proposed acquisition that would come with the usual risks of M&A, including execution risks and the risk of overpaying.

A copy of the questions for the Annual Report for the financial year ended 31 December 2017 could be found here:

https://sias.org.sg/qa-on-annual-reports/?company=CapitaLand%20Ltd&cid=6309,4636

The company's response could be found here: -----