

CapitaLand Investment Limited

Growth supported by RevPAU recovery



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SINGAPORE | REAL ESTATE | 3Q22 RESULTS

8 November 2022

- 9M22 revenue of S\$2,331mn (+36% YoY) was above our estimates, forming 88% of our forecast.
- RE investment revenue grew 48% YoY, driven by an occupancy recovery in their core markets, Singapore and India. Fee-related revenue was up 16% YoY, lifted by PE fund management (+44%) and lodging management (+48%) as RevPAU recovered to 92% of pre-pandemic 3Q22 levels.
- Maintain ACCUMULATE with an unchanged SOTP TP of S\$4.12. We raise FY22e earnings by 8% as we increase RE investment revenue estimates for FY22e. The pick-up in travel and lifting of lockdowns in China will be immediate catalysts for CLI.

Results at a glance

(SGD mn)	9M22	9M21	YoY	Comments
Revenue	2,331	1,719	35.6%	
Comprising:				
1. RE investment (REIB)	1,571	1,063	47.8%	Driven by recovery in operations.
2. Fee-related (FRB)	760	656	15.9%	Higher fee revenue from PE and lodging management.
- REITs mgmt	221	210	5.2%	Due to higher recurring fees (+7%) offset by lower event-driven fees (-6%).
- PE fund mgmt	118	82	43.9%	Due to higher event-driven fees (+229%) which account for 47% of PE fee-related revenue.
- Property mgmt	231	236	-2.1%	
- Lodging mgmt	190	128	48.4%	Recovery in operating performance (RevPAU +41% YoY, daily rates +20% and occupancy +10%) and 7.3k/2.7k new units turning operational in 9M22/3Q22.

Source: Company, PSR

Note: In the 3Q22 update, only revenue and funds under management details were provided

The Positives

+ Fund management fee-related revenue (+16% YoY) formed 15% of revenue. PE fees (+44%) were boosted by higher transaction-related fees, which formed 47% of PE fees, while recurring PE fees dipped slight and fell 5% YoY. CLI's listed funds posted +7% and -6% growth in recurring and transaction-related fees respectively. The latter was the result of a high base in 9M21, as transactions picked up after the pandemic year in 2020. Recurring fees made up 74% of 9M22 fee-related revenue.

+ Lodging segment recovering steadily. Lodging management fees rose 48% on recovering operating performance as well as 8.2k/7.3k new units turning operational in FY21/9M22. RevPAU grew 41% as average daily rates grew 20% and portfolio occupancy increased 10%. Recovery was seen across all CLI's key markets, except China, with the strongest RevPAU recovery in Europe (+139%) and Singapore (+66%). The group also signed 7.3k keys in 9M22, ~89% of the number of keys signed in FY21, taking the number of keys signed to 155k. CLI is on track (~97%) to meet its 2023 target of signing 160k keys.

+ Real estate investment business (REIB) grew 48% YoY, on the back of reopening in most of CLI's markets, except for China. Significant easing of community safe management measures since Mar 22 has improved business and consumer sentiment and increased activities. Leasing activity in India has similarly picked up with physical occupancy at business parks improving to ~39% from <5% in FY21.

ACCUMULATE (Maintained)

LAST DONE PRICE	SGD 3.24
FORECAST DIV	SGD 0.13
TARGET PRICE	SGD 4.12
TOTAL RETURN	31.4%

COMPANY DATA

BLOOMBERG CODE:	CLI SP Equity
O/S SHARES (MN):	5,139
MARKET CAP (USD mn / SGD mn):	13979 / 19476
52 - WK HI/LO (SGD):	4.27 / 2.88
3M Average Daily T/O (mn):	8.66

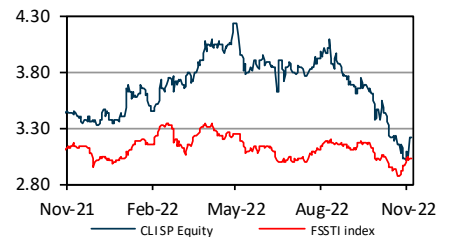
MAJOR SHAREHOLDERS (%)

CAPITALAND GROUP PTE. LTD.	52.3%
DBSN SERVICES PTE. LTD.	8.1%
PHILLIP SECURITIES PTE LTD	0.4%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(3.4)	7.4	15.3
STI RETURN	(3.2)	(5.2)	4.2

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, SGD mn	FY20*	FY21	FY22e	FY23e
Revenue	1,983	2,293	2,961	3,208
Gross Profit	872	1,058	1,392	1,508
EBIT	(157)	1,091	1,507	1,589
EPS (SGD)	(19.90)	38.30	25.86	26.12
P/E (x)	(16.3)	8.5	12.5	12.4
P/BV (x)	1.1	1.04	1.00	0.97
DPS (cents)	-	-	13.17	14.66
Div Yield, %	-	-	4.1%	4.5%
ROE, %	-4.7%	8.4%	8.0%	7.8%

Source: Company Data, Bloomberg

Valuation Method

SOTP

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* FY19 and FY20 numbers have been prepared as if the Internal Restructuring had occurred as at the beginning of the earliest period presented

The Negatives

- **China retail lagging recovery.** Due to China's zero COVID-19 policy, China has not fully reopened since the start of the pandemic. While tenant sales in Singapore have recovered 29.4% YoY for 9M22, tenant sales in China declined 13.3%. Similarly, shopper traffic in China has declined 20.8% in China compared to an increase of 21.5% in Singapore. Occupancy at Chinese malls has dipped to 92% (2Q22: 92%), compared to the 97% retail occupancy for Singapore.

- **Macro-economic and geopolitical headwinds slowing fund generation and acquisition momentum.** Inflation, rising interest rates and the Russia-Ukraine conflict have resulted in more circumspect behaviour and higher required returns for capital investors, limiting the assets eligible to seed funds. While USD-denominated capital has taken a wait-and-see approach towards RMB investments, CLI's RMB fund management license allows it to tap local capital. However, continued lockdowns and tightened restrictions in China have impeded business discussions and may delay planned transactions.

Outlook

CLI's real estate investment and lodging management business should continue to recover on the back of further easing of travel and mobility restrictions. After having divested S\$2.4bn YTD, CLI is on track to hit its annual divestment target of S\$3bn. However, its 10% FUM growth target may be at risk given the current macro-economic and geopolitical headwinds which have resulted in more circumspect behaviour among capital investors. Prolonged lockdowns in Shanghai and Beijing may also delay planned transactions.

Maintain ACCUMULATE with unchanged SOTP TP of S\$4.12

We maintain our ACCUMULATE recommendation with an unchanged SOTP target price of S\$4.12. We raise FY22e earnings by 8% as we increase RE investment revenue estimates for FY22e. Our SOTP derived TP of S\$4.12 represents an upside of 9.5% and a P/E of 16.1x. The pick-up in travel and lifting of lockdowns in China will be immediate catalysts for CLI.

SOTP Valuation				
<u>Business Segments</u>	<u>Basis</u>	<u>Multiple (x)</u>	<u>S\$m</u>	<u>Valuation (S\$m)</u>
1. Investment Management	P/E	16	<u>FY22 PATMI</u> 283.0	4,529
Fund Management				
Property Management				
2. Lodging Management	EV/EBITDA	16	<u>FY22 EBITDA</u> 76	1,214
3. Investment Property	IP Valuation			7,773
4. Stake in Listed Funds	Carrying Value			9,135
	<u>Shares (mn)</u>	<u>Stake</u>	<u>TP/Consensus</u>	
CICT	6,625	22.9%	2.46	3,732
AREIT	4,198	18.0%	3.52	2,660
ART	3,284	40.7%	1.24	1,657
CLCT	1,672	22.2%	1.46	543
AIT	1,158	21.6%	1.58	394
CLMT	2,155	38.1%	0.18	149
5. Stake in Unlisted Funds	RNAV			6,186
		<u>Stake</u> 6% - 55%		
All Segments				28,836
Less: Net Debt and Capitalised Overheads				(7,373)
Valuation				21,463
Shares Outstanding (mn)				5,203
Valuation Per Share (S\$)				4.12

Financials

Income Statement

Y/E Dec, SGD mn	FY19*	FY20*	FY21	FY22e	FY23e
Revenue	2,488	1,983	2,293	2,961	3,208
Gross profit	1,171	872	1,058	1,392	1,508
Operating inc./exp	212	(1,029)	33	115	81
Gross operating profit	1,383	(157)	1,091	1,507	1,589
Finance cost	(327)	(377)	(353)	(347)	(340)
Share of results from:					
- Associates	793	81	1,008	581	481
- Joint ventures	172	(106)	210	204	165
(Loss)/Profit before tax	2,021	(559)	1,956	1,946	1,895
Tax expense	(273)	(114)	(396)	(377)	(326)
(Loss)/Profit for the year	1,748	(673)	1,560	1,569	1,568
Attributed to:	-	-	-	-	-
Owners of the company	1,444	(559)	1,349	1,330	1,343
Non-controlling interests	304	(114)	211	239	225

Per share data (SGD)

Y/E Dec, SGD cents	FY19*	FY20*	FY21	FY22e	FY23e
EPS		(19.90)	38.30	25.86	26.12
DPS				13.17	14.66
BVPS		3.02	3.12	3.23	3.35

Cash Flows

Y/E Dec, SGD mn	FY19*	FY20*	FY21	FY22e	FY23e
CFO					
(Loss)/Profit for the year	1,748	(673)	1,560	1,569	1,568
Adjustments	(858)	1,428	(941)	(521)	(389)
WC changes	(463)	(429)	255	125	49
Cash generated from ops	427	326	874	1,173	1,228
Taxes paid, others	(110)	(143)	(207)	(226)	(189)
Cashflow from ops	317	183	667	947	1,039
CFI					
CAPEX and acquisitions	(175)	(236)	(1,241)	(2,208)	(2,180)
Dividends from associates & JV	466	502	1,980	287	280
Proceeds from disposal of IP	-	364	1,354	5,000	4,250
Cashflow from investments	58	1,068	1,268	2,049	1,321
CFF					
Dividends paid	(454)	(720)	(1)	(771)	(677)
Interest expense paid	(308)	(365)	(342)	(336)	(330)
Net cash from borrowings/debt securities	493	31	4,091	(508)	50
Cashflow from financing	(48)	(972)	223	(1,777)	(1,100)
Net change in cash	327	279	2,158	1,219	1,260
Effects of exchange rates	(2)	42	(21)	-	-
Cash & equivalents at end of year	1,354	1,678	3,815	5,034	6,294

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, SGD mn	FY19*	FY20*	FY21	FY22e	FY23e
ASSETS					
PPE	914	1,096	1,067	998	934
Associates & JVs	13,693	13,198	13,248	14,751	16,123
Investment Properties	16,256	15,852	16,249	14,037	12,490
Others	1,777	1,834	1,260	1,222	1,185
Total non-current assets	32,640	31,980	31,824	31,009	30,733
Accounts Receivables	4,302	4,258	1,661	2,073	2,246
Cash balance	1,421	1,736	3,877	5,096	6,356
Others	479	249	284	284	284
Total current assets	6,202	6,243	5,822	7,453	8,886
Total Assets	38,842	38,223	37,646	38,461	39,619
LIABILITIES					
Short term borrowings	1,263	1,132	1,941	1,841	2,091
Accounts Payables	5,293	5,513	2,128	2,665	2,887
Others	628	492	1,547	939	939
Total current liabilities	7,184	7,137	5,616	5,445	5,917
Long term borrowings	5,437	6,049	10,428	10,028	9,828
Others	9,645	9,303	1,501	2,252	2,389
Total non-current liabilities	15,082	15,352	11,929	12,280	12,217
Total Liabilities	22,266	22,489	17,545	17,725	18,134
EQUITY					
Shareholder Equity	12,611	11,875	16,044	16,584	17,230
Perpetual Securities	396	396	396	396	396
Non-controlling interest	3,569	3,463	3,661	3,757	3,858
Total Equity	16,576	15,734	20,101	20,736	21,484

Valuation Ratios

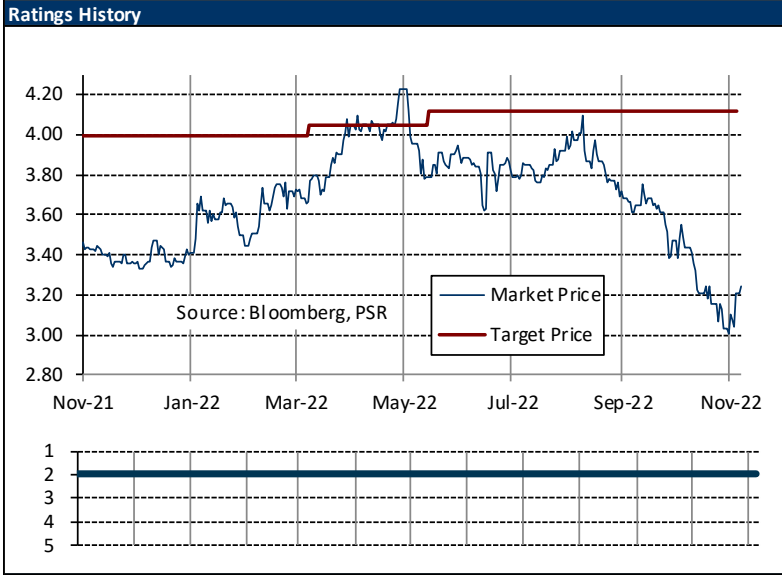
Y/E Dec	FY19*	FY20*	FY21	FY22e	FY23e
P/E		-16.3	8.5	12.5	12.4
P/B		1.07	1.04	1.00	0.97
Dividend Yield				4.1%	4.5%

Growth & Margins

	FY19*	FY20*	FY21	FY22e	FY23e
Growth					
Revenue	-46.1%	-20.3%	15.6%	29.2%	8.3%
EBIT			n.m.	38.2%	5.4%
Net Income, adj.			n.m.	0.6%	0.0%
Margins					
EBIT margin	52.4%	55.6%	-7.9%	47.6%	50.9%
Net Profit Margin	34.0%	70.3%	-33.9%	68.0%	53.0%

Key Ratios

	FY19*	FY20*	FY21	FY22e	FY23e
ROE	11.5%	-4.7%	8.4%	8.0%	7.8%
ROA	4.5%	-1.8%	4.1%	4.1%	4.0%
Debt/Equity	0.40	0.43	0.48	0.38	0.31



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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