

# CapitaLand Investment Limited

Lodging business is the star performer



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## SINGAPORE | REAL ESTATE | 1H23 RESULTS

18 August 2023

- 1H23 revenue of S\$1.345bn (-0.7% YoY) was slightly below our estimates, forming 41% of our FY23e forecast. This was due to a 3.6% decline in contribution from the Real Estate Investment Business (REIB) as there was loss of contribution from properties divested in 2022, as well as lower contribution from properties in China. It was partially offset by higher Fee Income-related Business (FRB), which was up 2.4% YoY supported by stronger fees from lodging management.
- 1H23 PATMI of S\$351mn (-18.9% YoY) was below our FY23e estimates at 28% due to lower portfolio gains from asset recycling, higher finance costs and absence of event-driven performance fees from two private funds exited in 1H22.
- Upgrade to BUY with a lower SOTP TP of S\$3.68. We lower FY23e/24e earnings by 17% to account for higher finance costs, lower portfolio gains, and lower margins from FRB. Our SOTP-derived TP of S\$3.68 represents an upside of 22.9% and a forward P/E of 15x. We like CLI for its robust recurring fee income stream and asset-light model. Immediate catalyst for CLI is a stronger China recovery.

### BUY (Upgraded)

LAST DONE PRICE	SGD 3.09
FORECAST DIV	SGD 0.12
TARGET PRICE	SGD 3.68
TOTAL RETURN	22.9%

### COMPANY DATA

BLOOMBERG CODE:	CLISP Equity
O/S SHARES (MN):	5,122
MARKET CAP (USD mn / SGD mn):	11706 / 15878
52 - WK HI/LO (SGD):	3.97 / 2.94
3M Average Daily T/O (mn):	7.46

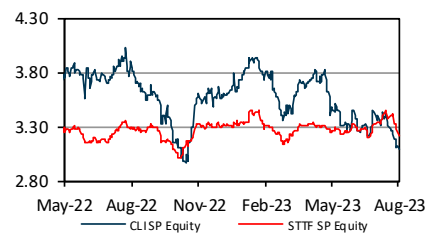
### MAJOR SHAREHOLDERS (%)

TEMASEK HOLDINGS PTE LTD	57.2%
VANGUARD GROUP	2.1%
BLACKROCK INC	2.0%

### PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(8.5)	(8.2)	(11.5)
STTF RETURN	0.1	2.5	2.3

### PRICE VS. STTF



Source: Bloomberg, PSR

### KEY FINANCIALS

Y/E Dec, SGD mn	FY21	FY22	FY23e	FY24e
Revenue	2,293	2,876	3,038	3,339
Gross Profit	1,058	1,290	1,397	1,536
EBIT	1,068	1,435	1,610	1,676
EPS (SGD)	38.35	16.79	20.10	21.06
P/E (x)	8.1	18.4	15.4	14.7
P/BV (x)	0.68	1.05	1.02	0.99
DPS (cents)	15.0	17.90	12.00	12.00
Div Yield, %	-	5.8%	3.9%	3.9%
ROE, %	8.4%	5.7%	6.6%	6.7%

Source: Company Data, Bloomberg

### Valuation Method

SOTP

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### Results at a glance

(SGD mn)	1H23	1H22	YoY	Comments
<b>Revenue</b>	<b>1,345</b>	<b>1,354</b>	<b>-0.7%</b>	
Comprising:				
1. RE investment (REIB)	932	967	-3.6%	Lower due to absence of contribution from divested properties in SG and KR in 2022 and lower contribution from properties in China.
2. Fee-related (FRB)	519	507	2.4%	Higher fee revenue driven by lodging management.
- REITs mgmt	151	153	-1.3%	Due to lower event-driven fees (-50% YoY), partially offset by higher recurring fees (+10% YoY).
- PE fund mgmt	57	85	-32.9%	Excluding performance fees of S\$31mn in 1H22, recurring fees grew 6% YoY.
- Property mgmt	152	151	0.7%	
- Lodging mgmt	159	118	34.7%	Improvement in RevPAU (+32% YoY) in 1H23 driven by global travel recovery, coupled with 14k more operational lodging units in 1H23 YoY.
<b>Total PATMI</b>	<b>351</b>	<b>433</b>	<b>-18.9%</b>	
Comprising:				
- Operating PATMI	344	346	-0.6%	Stronger operating performance from lodging, lower operating expenses and lower FX losses offset by higher interest expense and absence of performance fees from funds.
- Portfolio gains	7	87	-92.0%	Fewer divestments at lower value and dilution loss from private placement in CLAR in 1H23.

Source: Company, PSR

### The Positives

**+ Lodging segment star performer.** 1H23 lodging management fee-related income grew 35% YoY to S\$159mn due to higher room rates as well as improved occupancy across the portfolio. Portfolio RevPAU grew 32% YoY to S\$87 and was 106% of 1H19 pre-COVID levels. CLI has a target to reach S\$500mn in lodging management fees within five years.

**+ Recurring fund management fees grew 10% YoY to S\$183mn in 1H23.** This alleviates the impact of lower event-driven fees (-65% YoY) in a market that is less conducive for deal-making. CLI has S\$1.3bn in acquisitions from listed and private funds yet to be reported in Funds Under Management (FUM), as well as S\$8.5bn in committed but undeployed capital in private funds that could lift fee income if deployed; it has a current FUM of S\$89bn.

**+ Managed to raise funds in a market battered by high interest rates.** CLI raised S\$3.2bn of committed equity for its private funds YTD (S\$2.5bn for whole of FY22) – it established a new fund, CapitaLand India Growth Fund 2, mandated to invest in Grade A business parks in India. It also raised S\$986mn of new equity in its CapitaLand China Opportunistic Partners Programme and S\$150mn in its CapitaLand Open End Real Estate Fund.

#### The Negative

- **REIB revenue declined 3.6% YoY to S\$932mn**, due to lower contribution from China properties and absence of income contribution from properties divested in 2022. It is unlikely that CLI will be able to hit its S\$3bn divestment target for FY23 with only S\$839mn of divestments YTD in this challenging environment.

#### Outlook

CLI's lodging management business should continue to remain strong on the back of higher travel demand. We also expect event-driven fee-related income to pick up in 2H23, despite the cautious deal-making environment. As only 65% of debt is on fixed rate, CLI could continue to be impacted by higher interest rates (+0.2ppts QoQ to 3.8% in 1H23). CLI has a current gearing of 0.57x, up from 0.52x as at end Dec22.

**Upgrade to BUY with a lower TP of S\$3.68.** Our SOTP-derived TP represents an upside of 22.9% and a forward P/E of 15x. The pick-up in travel and China's continued re-opening will be immediate catalysts for CLI.

SOTP Valuation		
RNAV		
		S\$m
Direct stakes	Valuation	8,602
ION	Valuation (50%)	1,647
Listed stakes	Market value	11,371
Fee income	16x EV/EBITDA	7,158
Total EV		28,778
Less net debt	-	9,922
Equity value		18,856
No of shares (m)		5,129
RNAV per share (S\$)		3.68

## Financials

### Income Statement

Y/E Dec, SGD mn	FY20	FY21	FY22	FY23e	FY24e
<b>Revenue</b>	<b>1,983</b>	<b>2,293</b>	<b>2,876</b>	<b>3,038</b>	<b>3,339</b>
<b>Gross profit</b>	<b>872</b>	<b>1,058</b>	<b>1,290</b>	<b>1,397</b>	<b>1,536</b>
Operating inc./exp	(1,094)	10	145	212	140
<b>Gross operating profit</b>	<b>(222)</b>	<b>1,068</b>	<b>1,435</b>	<b>1,610</b>	<b>1,676</b>
Finance cost	(377)	(353)	(432)	(491)	(504)
Share of results from:					
- Associates	81	1,008	425	472	494
- Joint ventures	(106)	210	106	133	143
<b>(Loss)/Profit before tax</b>	<b>(559)</b>	<b>1,956</b>	<b>1,388</b>	<b>1,588</b>	<b>1,663</b>
Tax expense	(114)	(396)	(318)	(364)	(381)
<b>(Loss)/Profit for the year</b>	<b>(673)</b>	<b>1,560</b>	<b>1,070</b>	<b>1,224</b>	<b>1,282</b>
<b>Attributed to:</b>					
Owners of the company	<b>(559)</b>	<b>1,349</b>	<b>861</b>	<b>1,031</b>	<b>1,080</b>
<b>Non-controlling interests</b>	<b>(114)</b>	<b>211</b>	<b>209</b>	<b>193</b>	<b>202</b>

### Per share data (SGD)

Y/E Dec, SGD cents	FY20	FY21	FY22	FY23e	FY24e
EPS	(19.91)	38.35	16.79	20.10	21.06
DPS		15.00	17.90	12	12
BVPS	4.23	4.56	2.95	3.03	3.12

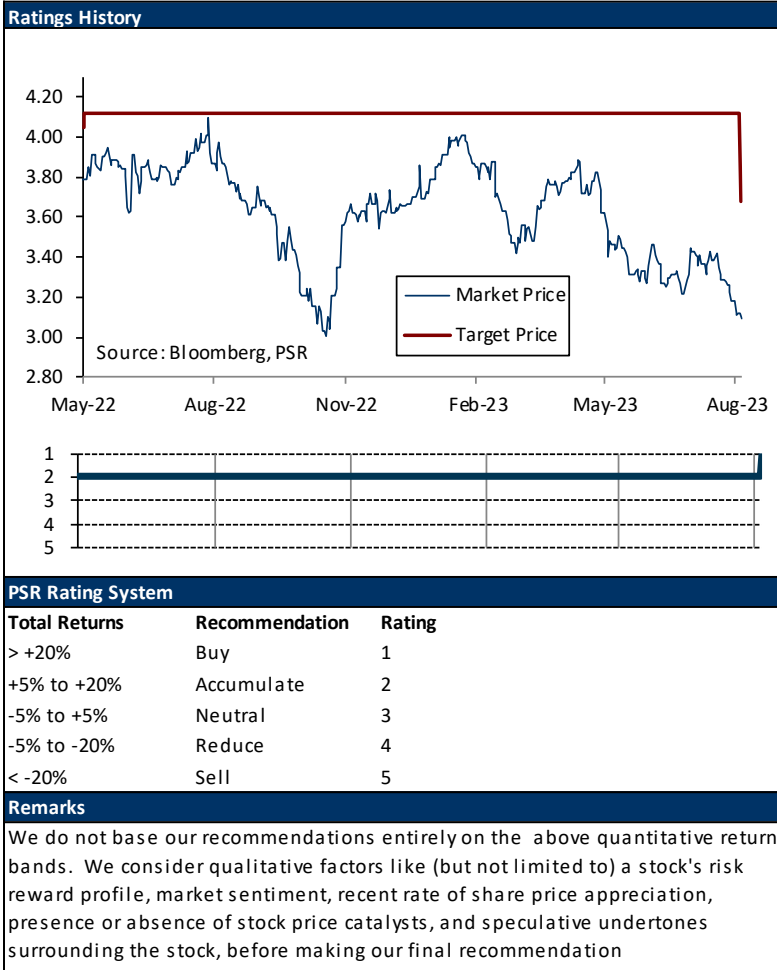
### Cash Flows

Y/E Dec, SGD mn	FY20	FY21	FY22	FY23e	FY24e
<b>CFO</b>					
<b>(Loss)/Profit for the year</b>	<b>(673)</b>	<b>1,560</b>	<b>1,070</b>	<b>1,224</b>	<b>1,282</b>
Adjustments	1,428	(941)	(119)	386	394
WC changes	(429)	255	(21)	(89)	291
Cash generated from ops	326	874	930	1,521	1,968
Taxes paid, others	(143)	(207)	(195)	(583)	(364)
<b>Cashflow from ops</b>	<b>183</b>	<b>667</b>	<b>735</b>	<b>938</b>	<b>1,604</b>
<b>CFI</b>					
CAPEX	(236)	(1,242)	(1,009)	(458)	(467)
Dividends from associates & JV	502	1,980	348	348	348
Proceeds from disposal of IP	385	1,354	15	-	-
<b>Cashflow from investments</b>	<b>1,068</b>	<b>1,268</b>	<b>(382)</b>	<b>(110)</b>	<b>(119)</b>
<b>CFE</b>					
Dividends paid	(849)	(117)	(958)	(616)	(616)
Interest expense paid	(365)	(342)	(418)	(419)	(420)
Net cash from borrowings/debt securities	172	750	105	-	-
<b>Cashflow from financing</b>	<b>(972)</b>	<b>223</b>	<b>(1,370)</b>	<b>(1,035)</b>	<b>(1,036)</b>
<b>Net change in cash</b>	<b>279</b>	<b>2,158</b>	<b>(1,017)</b>	<b>(206)</b>	<b>450</b>
Effects of exchange rates	42	(21)	(145)	-	-
<b>Cash &amp; equivalents at end of year</b>	<b>1,678</b>	<b>3,815</b>	<b>2,624</b>	<b>2,372</b>	<b>2,720</b>

Source: Company, Phillip Securities Research (Singapore) Estimates

### Balance Sheet

Y/E Dec, SGD mn	FY20	FY21	FY22	FY23e	FY24e
<b>ASSETS</b>					
PPE	1,096	1,067	1,225	1,178	1,122
Associates & JVs	13,198	13,248	13,152	13,428	13,734
Investment Properties	15,852	16,249	14,706	15,074	15,450
Others	1,834	1,260	1,606	1,606	1,606
<b>Total non-current assets</b>	<b>31,980</b>	<b>31,824</b>	<b>30,689</b>	<b>31,286</b>	<b>31,913</b>
Accounts Receivables	4,258	1,661	1,025	972	1,223
Cash balance	1,736	3,877	2,668	2,372	2,720
Others	249	284	728	728	728
<b>Total current assets</b>	<b>6,243</b>	<b>5,822</b>	<b>4,421</b>	<b>4,072</b>	<b>4,671</b>
<b>Total Assets</b>	<b>38,223</b>	<b>37,646</b>	<b>35,110</b>	<b>35,358</b>	<b>36,584</b>
<b>LIABILITIES</b>					
Short term borrowings	1,132	1,941	1,208	1,208	1,208
Accounts Payables	5,513	2,128	2,093	1,952	2,494
Others	492	1,547	861	642	659
<b>Total current liabilities</b>	<b>7,137</b>	<b>5,616</b>	<b>4,162</b>	<b>3,801</b>	<b>4,361</b>
Long term borrowings	6,049	10,428	9,880	9,880	9,880
Others	9,303	1,501	2,139	2,139	2,139
<b>Total non-current liabilities</b>	<b>15,352</b>	<b>11,929</b>	<b>12,019</b>	<b>12,019</b>	<b>12,019</b>
<b>Total Liabilities</b>	<b>22,489</b>	<b>17,545</b>	<b>16,181</b>	<b>15,820</b>	<b>16,380</b>
<b>EQUITY</b>					
Shareholder Equity	<b>11,875</b>	<b>16,044</b>	<b>15,133</b>	<b>15,548</b>	<b>16,013</b>
Perpetual Securities	396	396	396	396	396
Non-controlling interest	3,463	3,661	3,400	3,593	3,795
<b>Total Equity</b>	<b>15,734</b>	<b>20,101</b>	<b>18,929</b>	<b>19,538</b>	<b>20,204</b>
<b>Valuation Ratios</b>					
Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
P/E	-15.5	8.1	18.4	15.4	14.7
P/B	0.73	0.68	1.05	1.02	0.99
Dividend Yield			5.8%	3.9%	3.9%
<b>Growth &amp; Margins</b>					
<b>Growth</b>					
Revenue		15.6%	25.4%	5.6%	9.9%
EBIT		n.m.	34.4%	12.2%	4.1%
Net Income, adj.		n.m.	-31.4%	14.4%	4.8%
<b>Margins</b>					
EBIT margin	-11.2%	46.6%	49.9%	53.0%	50.2%
Net Profit Margin	-33.9%	68.0%	37.2%	40.3%	38.4%
<b>Key Ratios</b>					
ROE	-4.7%	8.4%	5.7%	6.6%	6.7%
ROA	-1.8%	4.1%	3.0%	3.5%	3.5%
Debt/Equity	0.43	0.48	0.52	0.52	0.49



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