

CapitaLand Investment Limited

Growing recurring income streams



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SINGAPORE | REAL ESTATE | 3Q23 UPDATE

14 November 2023

- 9M23 revenue of S\$2.085bn (-3% YoY) was slightly below our estimates, forming 69% of our FY23e forecast.
- Fee-related revenue is on the rise, driven by a 31% increase in lodging management fees and a 9% growth in recurring fund management fees. However, this is offset by a significant decrease of 64% in event-driven fees. Including embedded funds under management (FUM) of S\$10bn that is pending deployment, CLI has reached its 2024 FUM target of S\$100bn. Total recurring income for 9M23 grew by 9% YoY.
- Maintain BUY with an unchanged SOTP TP of S\$3.68. No change in our estimates. Our SOTP-derived TP of S\$3.68 represents an upside of 25.3% and a forward P/E of 18x. We like CLI for its robust recurring fee income stream and asset-light model. We expect the lodging business to continue to improve with higher RevPAU (9M23: +25%) and more lodging units turning operational (>20 properties to be opened in 4Q23).

BUY (Maintained)

LAST DONE PRICE	SGD 3.03
FORECAST DIV	SGD 0.12
TARGET PRICE	SGD 3.68
TOTAL RETURN	25.3%

COMPANY DATA

BLOOMBERG CODE:	CLI SP 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

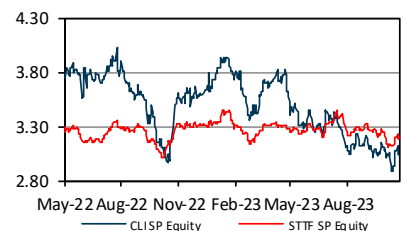
MAJOR SHAREHOLDERS (%)

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

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(0.7)	(6.7)	(13.8)
STTF RETURN	(1.8)	(4.6)	(0.1)

PRICE VS. STTF



Source: Bloomberg, PSR

Results at a glance

(SGD mn)	9M23	9M22	YoY	Comments
Revenue	2,085	2,155	-3%	
Comprising:				
1. RE investment (REIB)	1,442	1,571	-8%	Lower due to absence of contribution from divested properties; lower contribution from properties in China; and the stronger S\$.
2. Fee-related (FRB)	799	731	9%	Recurring fees increased by 9%.
- REITs mgmt	221	221	0%	8% growth in recurring fees to S\$203mn offset by a 45% decline in event-driven fees to S\$18mn.
- PE fund mgmt	83	118	-30%	Event-driven fees fell 75% to S\$14mn due to absence of event-driven private funds performance fees of S\$38mn.
- Commercial mgmt	246	231	6%	
- Lodging mgmt	249	190	31%	Improvement in RevPAU (+25% YoY), coupled with 5k more operational units in 9M23 YoY.

Source: Company, PSR

The Positives

+ Lodging segment star performer. 3Q23 RevPAU up 15% YoY, attributed to higher occupancy (+7ppts) and ADRs (+3%). Overall RevPAU stood at 107% of pre-COVID 3Q19 levels. The improvement in operating performance coupled with 6,200 units (3.8% of signed units) turning operational resulted in a 31% YoY growth in lodging management fees. CLI has a target to reach S\$500mn in lodging management fees within five years.

+ Recurring fund management fees grew 9% YoY to S\$272mn in 9M23. This alleviates the impact of lower event-driven fees (-64% YoY) in a market that is less conducive for deal-making. CLI has c.S\$10bn in embedded FUM that could lift fee income if deployed; it has a current FUM of S\$90bn (FY22: S\$88bn).

+ Active capital raising. CLI raised S\$3.5bn of capital for its private funds YTD (42% above total raised for FY22). During the quarter, it launched a new Wellness and Healthcare-related Fund with an initial close of S\$350mn - it has a target fund size of S\$500mn with an option to upsize to S\$1bn. In 3Q23 to date alone, it has raised S\$1.7bn and is looking at strong growth opportunities in SE Asia and India to deploy capital.

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)	7.9	18.1	15.1	14.4
P/BV (x)	0.66	1.03	1.00	0.97
DPS (cents)	15.0	17.90	12.00	12.00
Div Yield, %	-	5.9%	4.0%	4.0%
ROE, %	8.4%	5.7%	6.6%	6.7%

Source: Company Data, Bloomberg

Valuation Method

SOTP

Darren Chan (+65 6212 1878)

Senior Research Analyst
darrenchanrx@phillip.com.sg

The Negative

- **China remains a drag.** Despite improvements in shopper traffic (+34% YoY) and tenant sales (+22% YoY), retail rental reversions continue to be negative. Office rental reversions were mildly negative, with only new economy assets having mildly positive rental reversions.

- **Expect portfolio valuation declines at year end.** Due to higher interest rates and cap rate expansion, valuation declines are expected in Australia, Europe, UK and USA. Valuations in China are also expected to decline due to the softer economic outlook in China, while valuations in Singapore and India are expected to be stable.

Outlook

CLI's lodging management business should continue to remain strong on the back of higher travel demand. We expect event-driven fee-related income to improve in FY24 as interest rate stabilises. Deployment of capital under embedded FUM remains slow, but we expect it to pick up in 2H24. As only 64% of debt is on fixed rate, CLI could continue to be impacted by higher interest rates (+0.1ppts QoQ to 3.9% in 9M23). CLI has a current gearing of 0.55x, up from 0.52x as at end Dec22.

CLI has divested S\$1.2bn of assets YTD, and it is unlikely to hit its S\$3bn divestment target for FY23. It has c.S\$10bn of assets in the divestment pipeline, with almost half of it coming from China.

Maintain BUY with an unchanged TP of S\$3.68. No change in our estimates. Our SOTP-derived TP represents an upside of 25.3% and a forward P/E of 18x.

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
Revenue	1,983	2,293	2,876	3,038	3,339
Gross profit	872	1,058	1,290	1,397	1,536
Operating inc./exp	(1,094)	10	145	212	140
Gross operating profit	(222)	1,068	1,435	1,610	1,676
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
(Loss)/Profit before tax	(559)	1,956	1,388	1,588	1,663
Tax expense	(114)	(396)	(318)	(364)	(381)
(Loss)/Profit for the year	(673)	1,560	1,070	1,224	1,282

Attributed to:

Owners of the company	(559)	1,349	861	1,031	1,080
Non-controlling interests	(114)	211	209	193	202

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
CFO					
(Loss)/Profit for the year	(673)	1,560	1,070	1,224	1,282
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)
Cashflow from ops	183	667	735	938	1,604

CFI

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	-	-
Cashflow from investments	1,068	1,268	(382)	(110)	(119)

CFF

Dividends paid	(849)	(117)	(958)	(616)	(616)
Interest expense paid	(365)	(342)	(418)	(419)	(420)
Net cash from borrowings/debt securities	172	750	105	-	-
Cashflow from financing	(972)	223	(1,370)	(1,035)	(1,036)

Net change in cash	279	2,158	(1,017)	(206)	450
Effects of exchange rates	42	(21)	(145)	-	-
Cash & equivalents at end of year	1,678	3,815	2,624	2,372	2,720

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, SGD mn	FY20	FY21	FY22	FY23e	FY24e
ASSETS					
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
Total non-current assets	31,980	31,824	30,689	31,286	31,913
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
Total current assets	6,243	5,822	4,421	4,072	4,671
Total Assets	38,223	37,646	35,110	35,358	36,584

LIABILITIES

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
Total current liabilities	7,137	5,616	4,162	3,801	4,361
Long term borrowings	6,049	10,428	9,880	9,880	9,880
Others	9,303	1,501	2,139	2,139	2,139
Total non-current liabilities	15,352	11,929	12,019	12,019	12,019
Total Liabilities	22,489	17,545	16,181	15,820	16,380

EQUITY

Shareholder Equity	11,875	16,044	15,133	15,548	16,013
Perpetual Securities	396	396	396	396	396
Non-controlling interest	3,463	3,661	3,400	3,593	3,795
Total Equity	15,734	20,101	18,929	19,538	20,204

Valuation Ratios

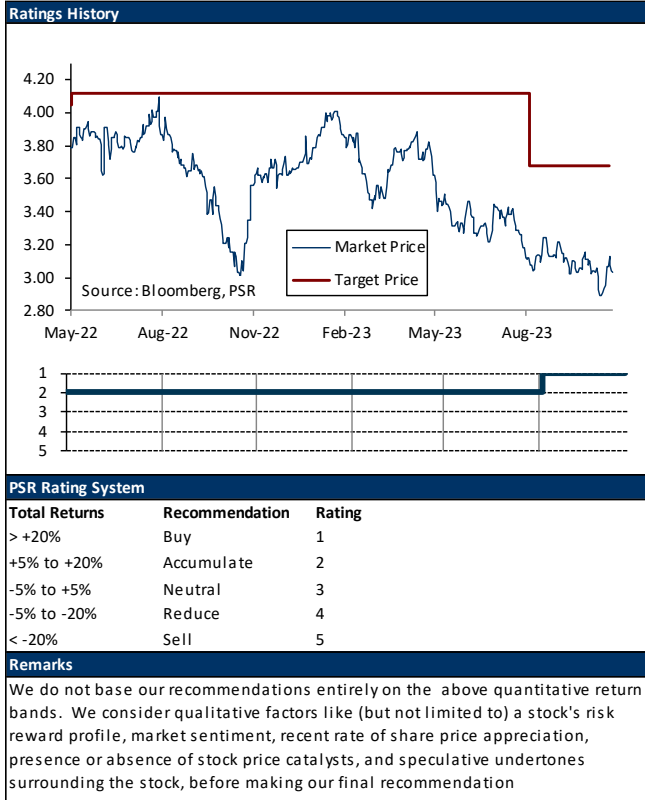
Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
P/E	-15.2	7.9	18.1	15.1	14.4
P/B	0.72	0.66	1.03	1.00	0.97
Dividend Yield			5.9%	4.0%	4.0%

Growth & Margins

Growth					
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%
Margins					
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%

Key Ratios

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



Contact Information (Singapore Research Team)

Head of Research

Paul Chew – paulchewkl@phillip.com.sg

Research Admin

Qystina Azli - gystina@phillip.com.sg

Technical Analyst

Zane Aw – zaneawyx@phillip.com.sg

Property | REITs

Darren Chan – darrenchanrx@phillip.com.sg

Banking & Finance

Glenn Thum – glenthumjc@phillip.com.sg

Credit Analyst

Shawn Sng – shawnsngkh@phillip.com.sg

Property | REITs

Liu Miaomiao – liumm@phillip.com.sg

Conglomerate | Transport

Peggy Mak – peggymak@phillip.com.sg

US Tech Analyst (Software/Services)

Ambrish Shah – amshah@phillipventuresifsc.in

US Tech Analyst (Digital Media & Entertainment)

Jonathan Woo – jonathanwookj@phillip.com.sg

Contact Information (Regional Member Companies)

SINGAPORE

Phillip Securities Pte Ltd
Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel +65 6533 6001
Fax +65 6535 6631
Website: www.poems.com.sg

MALAYSIA

Phillip Capital Management Sdn Bhd
B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel +603 2162 8841
Fax +603 2166 5099
Website: www.poems.com.my

HONG KONG

Phillip Securities (HK) Ltd
11/F United Centre 95 Queensway
Hong Kong
Tel +852 2277 6600
Fax +852 2868 5307
Websites: www.phillip.com.hk

JAPAN

Phillip Securities Japan, Ltd.
4-2 Nihonbashi Kabuto-cho Chuo-ku,
Tokyo 103-0026
Tel +81-3 3666 2101
Fax +81-3 3666 6090
Website: www.phillip.co.jp

INDONESIA

PT Phillip Securities Indonesia
ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel +62-21 5790 0800
Fax +62-21 5790 0809
Website: www.phillip.co.id

CHINA

Phillip Financial Advisory (Shanghai) Co Ltd
No 550 Yan An East Road,
Ocean Tower Unit 2318,
Postal code 200001
Tel +86-21 5169 9200
Fax +86-21 6351 2940
Website: www.phillip.com.cn

THAILAND

Phillip Securities (Thailand) Public Co. Ltd
15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel +66-2 6351700 / 22680999
Fax +66-2 22680921
Website www.phillip.co.th

FRANCE

King & Shaxson Capital Limited
3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel +33-1 45633100
Fax +33-1 45636017
Website: www.kingandshaxson.com

UNITED KINGDOM

King & Shaxson Capital Limited
6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel +44-20 7426 5950
Fax +44-20 7626 1757
Website: www.kingandshaxson.com

UNITED STATES

Phillip Capital Inc
141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1-312 356 9000
Fax +1-312 356 9005
Website: www.phillipusa.com

AUSTRALIA

Phillip Capital Limited
Level 10, 330 Collins Street
Melbourne, Victoria 3000, Australia
Tel +61-03 8633 9803
Fax +61-03 8633 9899
Website: www.phillipcapital.com.au

CAMBODIA

Phillip Bank Plc
Ground Floor of B-Office Centre, #61-64,
Norodom Blvd Corner Street 306, Sangkat
Boeung Keng Kang 1, Khan Chamkamorn,
Phnom Penh, Cambodia
Tel: 855 (0) 7796 6151/855 (0) 1620 0769
Website: www.phillipbank.com.kh

INDIA

PhillipCapital (India) Private Limited
No.1, 18th Floor, Urmi Estate
95, Ganpatrao Kadam Marg
Lower Parel West, Mumbai 400-013
Maharashtra, India
Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969
Website: www.phillipcapital.in

TURKEY

PhillipCapital Menkul Degerler
Dr. Cemil Bengü Cad. Hak Is Merkezi
No. 2 Kat. 6A Caglayan
34403 Istanbul, Turkey
Tel: 0212 296 84 84
Fax: 0212 233 69 29
Website: www.phillipcapital.com.tr

DUBAI

Phillip Futures DMCC
Member of the Dubai Gold and
Commodities Exchange (DGCX)
Unit No 601, Plot No 58, White Crown Bldg,
Sheikh Zayed Road, P.O.Box 212291
Dubai-UAE
Tel: +971-4-3325052 / Fax: + 971-4-3328895

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