

COMPANY UPDATE

CapitaLand Investment (CLI SP)

Short-term Headwinds But There Should Still Be A Growth Story In 2024

CLI reported a weaker-than-expected 3Q23 business update and, with the exception of its lodging business, guided for a difficult medium-term outlook with fair value losses and impairments likely at its 2023 annual results in Feb 24. In the longer term, CLI's slight pivot away toward Southeast Asia and India with its inaugural wellness & healthcare fund should provide an interesting avenue of growth. Maintain BUY. EPS is lowered for 2023-25, and target price reduced to S\$3.90 (previously S\$4.25).

WHAT'S NEW

- Working through tough times.** CapitaLand Investment (CLI) reported a difficult 3Q23 business update with revenue of S\$2.1b (-3% yoy) that was below estimates, making up only 60% of our full-year numbers. On the analyst call, management guided for a difficult medium-term outlook, with the exception of lodging management which continues to perform strongly due to robust travel trends globally.
- A resilient business in parts but dragged down by lack of capital recycling.** 9M23 demonstrated the resiliency of CLI's business as seen by its recurring fund management fees which grew by 9% yoy to S\$272m. Largely as the result of a stagnant market in China, CLI remains well short of its annual capital recycling target of S\$3b, achieving S\$1.2b ytd. The company commented that it remains "tough to do deals" and with unequal economic growth across their markets, the outlook remains decidedly mixed in 2024. Nevertheless, CLI has raised S\$3.5b ytd in 2023 (42% higher than the whole of 2022) and currently has S\$9b of dry powder for deployment.
- A mild change in strategic direction.** CLI's historical focus has been on Singapore and China. However, one of the interesting comments during the analyst call was CLI highlighting an adjustment in geographic focus beyond its two core countries and towards Southeast Asia and India as it sees strong growth opportunities in these markets. For example, CLI's new fund in partnership with Thailand's Pruksa Holding, with initial close of S\$350m, looks to tap into the wellness and healthcare sector in Southeast Asia.
- Fair value gains and losses highly likely for this year.** Management commented that there is a high likelihood for fair value losses for 2023. We highlight that Frasers Property Limited issued a profit warning in Oct 23 related to its property in UK and Europe, and with valuers taking guidance from each other, CLI warned that its properties in China, Australia, US and Europe could be affected.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2021	2022	2023F	2024F	2025F
Net turnover	2,293	2,876	2,946	3,044	3,135
EBITDA	1,251	1,435	1,180	1,249	1,296
Operating profit	1,091	1,289	1,030	1,095	1,139
Net profit (rep./act.)	1,349	862	788	974	1,012
Net profit (adj.)	1,349	862	788	974	1,011
EPS (S\$ cent)	38.4	16.8	15.4	19.0	19.7
PE (x)	7.9	18.0	19.7	16.0	15.4
P/B (x)	1.0	1.0	1.0	1.0	1.0
EV/EBITDA (x)	21.8	19.0	23.1	21.8	21.0
Dividend yield (%)	4.0	4.0	3.0	3.8	3.9
Net margin (%)	58.8	30.0	26.7	32.0	32.3
Net debt/(cash) to equity (%)	51.7	54.2	52.9	48.6	45.1
Interest cover (x)	2.9	2.7	2.2	3.2	3.5
ROE (%)	9.4	5.4	5.0	6.1	6.2
Consensus net profit	-	-	858	1,012	1,168
UOBKH/Consensus (x)	-	-	0.92	0.96	0.87

Source: CapitaLand Investments, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$3.03
Target Price	S\$3.90
Upside	+28.7%
(Previous TP)	S\$4.25

COMPANY DESCRIPTION

CLI is a global real estate manager with an Asian foothold and a diversified exposure across retail, office, lodging and new economy asset classes.

STOCK DATA

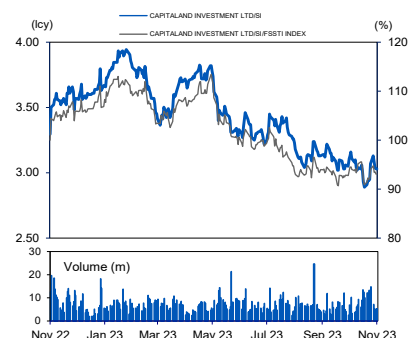
GICS sector	Real Estate
Bloomberg ticker:	CLI SP
Shares issued (m):	5,105.6
Market cap (S\$m):	15,470.0
Market cap (US\$m):	11,400.1
3-mth avg daily t'over (US\$m):	16.3
Price Performance (%)	
52-week high/low	S\$3.94/S\$2.89

1mth	3mth	6mth	1yr	YTD
(0.7)	(7.1)	(20.7)	(8.0)	(16.7)

Major Shareholders

Temasek Hldgs	52.8
FY23 NAV/Share (S\$)	2.96
FY23 Net Debt/Share (S\$)	1.57

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **CLI's lodging segment continues to be the beneficiary of strong demand tailwinds** with North Asia ex China displaying the best RevPAU growth, up a strong 110% yoy for 9M23 driven by higher occupancy (+9pp) and average daily rates (+8pp). As seen in the chart on RHS, only the Middle East/Africa/India business displayed single-digit growth while others had comfortable double-digit RevPAU growth.
- **A tale of the second half.** Despite having embedded funds under management of S\$10b (which includes the wellness fund which has raised \$350m and targeting S\$500m), the company's deployed capital has moved slower than expected with management forecasting that it will be slow in the medium term. On the analyst call, management stated that given the market's softer conditions, 1H24 will likely be quiet with hopes of a potential mild recovery in 2H24.
- **Market comments – Mixed in the medium term.** CLI remains cautious on China and presaged negative rental reversions in the retail sector, balanced out by the fact that the office sector has been reasonably solid and seeing positive rental reversions. On the other hand, the company struck a brighter note in India where it is seeing a lot of investor interest, strong leasing momentum and positive rental reversions overall.
- **Longer term resilient, recurrent fee platform.** On the analyst call, management highlighted its desire to scale its commercial management (previously known as property management) business which it views as a capital-efficient, high ROE and asset-light way to support its platform and to grow its AUM and fees. For 9M23, it earned S\$246m of fee-related earnings in its commercial management arm (+6% yoy). With 60% of this derived from Singapore, CLI will look at expanding this business into China and India which only contribute 29% and 11% respectively to the commercial management pie at present.

EARNINGS REVISION/RISK

- **Downgrading earnings estimates.** We have lowered earnings estimates for 2023-25 by 7-14% to take into account higher interest rates costs for 2023-24, lower EBITDA margins and revenue growth for its fund management business and slower recovery for its China properties. We have not factored in any impairment charges for its assets for 2023.

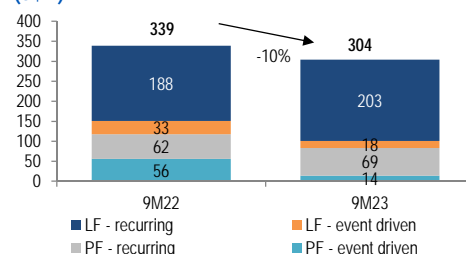
VALUATION/RECOMMENDATION

- **Maintain BUY with a lower SOTP-based target price of S\$3.90 (\$4.25 previously).** The slightly lower target price is the result of CLI's comparable companies experiencing EBITDA multiples contraction coupled with our earnings downgrades as highlighted above. We believe that the company's current P/B valuation is inexpensive at 1.0x for 2024F vs its peak P/B of 1.4x for 2022. In our view, the company's active share buyback program should provide a floor at current levels.

SHARE PRICE CATALYST

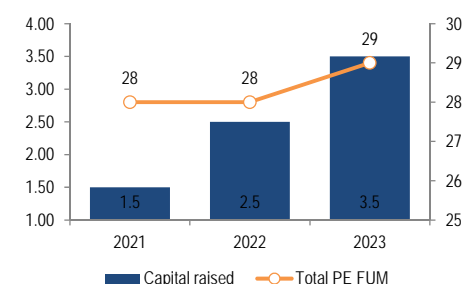
- a) Cap rate compression and stronger-than-expected growth in its FUM, and b) faster-than-expected recovery of the Chinese economy leading to overall better business in the lodging business and FUM given CLI's leverage in China.

FUND MANAGEMENT FEE RELATED EARNINGS (\$M)



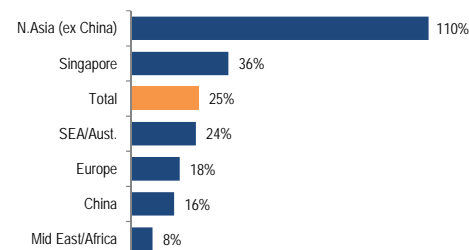
Source: CLI

PRIVATE CAPITAL RAISED (\$B)



Source: CLI

REVPAU: STRONG GROWTH ACROSS ALL MARKETS IN 9M23 (% YOY)



Source: CLI

SOTP VALUATION

Business units	\$m	S\$/share
Investment management	3,446	0.67
Lodging management	918	0.18
Property investment	9,020	1.76
Unlisted funds	7,900	1.54
Listed funds	7,498	1.46
Less: overheads	-500	-0.10
Gross asset value	28,282	5.51
Less: other adjustments	-8,296	-1.62
Enterprise value	19,985	3.90

Source: UOB Kay Hian

FORECAST EARNINGS CHANGES

\$m	2023E	2024E	2025E
NPAT – old	909	1,048	1,086
NPAT – new	786	972	1,009
% change	-13.6%	-7.2%	-7.1%

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Net turnover	2,876	2,946	3,044	3,135
EBITDA	1,435	1,180	1,249	1,296
Deprec. & amort.	146	150	153	157
EBIT	1,289	1,030	1,095	1,139
Total other non-operating income	1	2	2	3
Associate contributions	531	650	750	750
Net interest income/(expense)	(432)	(412)	(335)	(321)
Pre-tax profit	1,389	1,270	1,512	1,570
Tax	(318)	(292)	(302)	(313)
Minorities	(209)	(191)	(236)	(245)
Preferred dividends	0	0	0	0
Net profit	862	788	974	1,012
Net profit (adj.)	862	788	974	1,011

CASH FLOW

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Operating	735	888	947	982
Pre-tax profit	1,389	1,270	1,512	1,570
Tax	(318)	(292)	(302)	(313)
Deprec. & amort.	146	150	153	157
Associates	0	0	0	1
Working capital changes	(21)	0	0	0
Non-cash items	0	0	0	1
Other operating cashflows	(461)	(240)	(417)	(434)
Investing	(382)	(2)	(22)	(17)
Capex (growth)	(999)	(250)	(250)	(250)
Capex (maintenance)	0	0	0	1
Investments	738	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	(121)	248	228	232
Financing	(1,370)	(3,393)	(739)	(593)
Dividend payments	(958)	(797)	(651)	(765)
Issue of shares	(133)	0	0	0
Proceeds from borrowings	104	0	0	0
Loan repayment	0	(2,630)	(250)	0
Others/interest paid	(383)	34	162	172
Net cash inflow (outflow)	(1,017)	(2,506)	185	372
Beginning cash & cash equivalent	3,815	2,624	118	303
Changes due to forex impact	(130)	44	44	44
Ending cash & cash equivalent	2,668	162	347	719

BALANCE SHEET

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Fixed assets	1,225	1,325	1,422	1,515
Other LT assets	29,464	29,419	29,444	29,470
Cash/ST investment	2,668	162	347	718
Other current assets	1,753	1,759	1,765	1,772
Total assets	35,110	32,665	32,978	33,475
ST debt	1,208	1,208	1,208	1,208
Other current liabilities	2,954	2,954	2,954	2,954
LT debt	9,880	7,250	7,000	7,000
Other LT liabilities	2,139	2,078	2,060	2,050
Shareholders' equity	15,529	15,690	16,184	16,601
Minority interest	3,400	3,485	3,572	3,661
Total liabilities & equity	35,110	32,665	32,978	33,475

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	49.9	40.1	41.0	41.3
Pre-tax margin	48.3	43.1	49.7	50.1
Net margin	30.0	26.7	32.0	32.3
ROA	2.4	2.3	3.0	3.0
ROE	5.4	5.0	6.1	6.2
Growth				
Turnover	25.4	2.4	3.3	3.0
EBITDA	14.7	(17.8)	5.8	3.8
Pre-tax profit	(29.0)	(8.6)	19.1	3.8
Net profit	(36.1)	(8.6)	23.7	3.9
Net profit (adj.)	(36.1)	(8.6)	23.7	3.8
EPS	(56.2)	(8.6)	23.7	3.9
Leverage				
Debt to total capital	36.9	30.6	29.4	28.8
Debt to equity	71.4	53.9	50.7	49.4
Net debt/(cash) to equity	54.2	52.9	48.6	45.1
Interest cover (x)	2.7	2.2	3.2	3.5

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