

COMPANY RESULTS

CapitaLand Investment (CLI SP)

1H22: Weaker-than-expected Results But Outlook Remains Solid

CLI reported weaker-than-expected 1H22 results with PATMI declining 38% yoy as a result of China's COVID-19-related restrictions. While some of CLI's near-term growth outlook hinges on China returning to normal, we nevertheless believe that the company's position remains solid with lodging and private funds management continuing to exhibit strong growth. Maintain BUY with a slightly higher target price of S\$4.28 (previously S\$4.13).

1H22 RESULTS

Year to 31 Dec (\$m)	1H21	1H22	Yoy %	Remarks
Revenue	1,049	1,354	29.1%	- Driven by recovery in lodging business and newly acquired assets in China, USA and Japan
Gross profit	504	634	25.8%	
Operating EBITDA	734	730	-0.5%	
Associate results	398	232	-41.7%	- Due to lower portfolio gains, rental rebates in China, & restructuring of Raffles City portfolio in China
Pre-tax profit	1,022	605	-40.8%	
PATMI	702	433	-38.3%	- Lower portfolio gains in 1H22
Gross profit margin	48.0%	46.8%	-1.2	
Pre-tax margin	97.4%	44.7%	-52.7	
Net margin	66.9%	32.0%	-34.9	

Source: CapitaLand Investment, UOB Kay Hian

RESULTS

- A weaker-than-expected quarter.** While CapitaLand Investments (CLI) reported 1H22 revenue that was in line with our estimates, its PATMI of S\$433m (-38% yoy) was weaker than expected as it formed only 41% of our full-year estimates. This was due to the China malaise: a) the country's COVID-19-related lockdowns delayed CLI's planned capital recycling deals in 2Q22 (which resulted in a lower level of portfolio gains in 1H22 compared to 1H21), and b) higher levels of rental rebates for its retail assets.
- Lodging resurgence.** The highlight continues to be lodging, with CLI increasing its units under management by 10% with >7,500 units signed, as well as the acquisition of the Oakwood Worldwide portfolio which brought in another 15,000 units into its fold. With a total of 153,000 units in its portfolio, CLI is well on track to hit its 2023 target of 160,000 units. Importantly, the overall travel environment has continued to improve as many countries regionally and globally have relaxed travel restrictions as COVID-19 infections have waned. This resulted in CLI witnessing a 44% yoy increase in revenue per available unit (RevPAU) to S\$82 in 1H22 (1H21: \$57). This was led by Europe (+228% yoy) and Singapore (+54% yoy) with only China stagnating (-11% yoy) – see chart overleaf.

KEY FINANCIALS

Year to 31 Dec (\$m)	2020	2021	2022F	2023F	2024F
Net turnover	1,983	2,293	2,768	3,000	3,111
EBITDA	(8)	1,251	1,515	1,647	1,711
Operating profit	(157)	1,091	1,371	1,499	1,560
Net profit (rep./act.)	(560)	1,349	1,131	1,261	1,392
Net profit (adj.)	(560)	1,349	1,131	1,261	1,392
EPS (S\$ cent)	(19.9)	38.4	32.2	35.8	39.6
PE (x)	n.m.	10.2	12.2	10.9	9.9
P/B (x)	0.9	1.3	1.2	1.3	1.3
EV/EBITDA (x)	n.m.	25.5	21.1	19.4	18.7
Dividend yield (%)	2.3	3.1	2.3	2.6	2.8
Net margin (%)	(28.2)	58.8	40.9	42.0	44.7
Net debt/(cash) to equity (%)	54.7	51.7	48.3	44.9	40.9
Interest cover (x)	(0.4)	2.9	3.4	4.0	4.2
ROE (%)	n.a.	9.4	6.8	7.6	8.7
Consensus net profit	-	-	1,005	1,131	1,279
UOBKH/Consensus (x)	-	-	1.13	1.11	1.09

Source: CapitaLand Investments, UOB Kay Hian

n.m. : not meaningful; negative P/E, EV/EBITDA reflected as "n.m."

BUY

(Maintained)

Share Price	S\$3.92
Target Price	S\$4.28
Upside	+9.2%
(Previous TP)	S\$4.13)

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

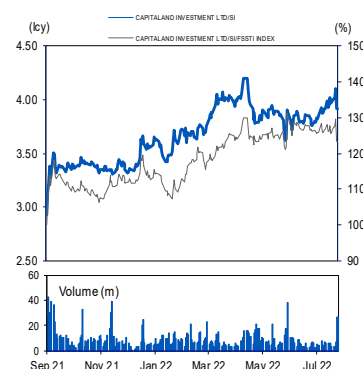
GICS sector	Real Estate
Bloomberg ticker:	CLI SP
Shares issued (m):	5,121.1
Market cap (S\$m):	20,996.4
Market cap (US\$m):	15,242.4
3-mth avg daily t'over (US\$m):	22.0
Price Performance (%)	

52-week high/low S\$4.20/S\$2.93

1mth	3mth	6mth	1yr	YTD
1.8	1.0	7.9	n.a.	15.8

Major Shareholders	%
Temasek Hldgs	52.8
-	-
-	-
FY22 NAV/Share (S\$)	3.14
FY22 Net Debt/Share (S\$)	1.59

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Not all doom and gloom in China.** While its China retail assets were a drag in 1H22, we highlight that CLI's business park assets had positive rental reversions. In addition, the company launched its first onshore renminbi fund in 1H22 and will look to launch more of such renminbi funds in the near term. CLI also disclosed that large experienced fund managers (eg sovereign wealth funds and pension funds) continue to have a reasonably healthy appetite for investing in China via CLI's private funds, while the smaller funds have largely taken a risk-off mode for China. We also note that US funds are currently underweight on China and have evinced interest in increasing exposure in the near to medium term.
- **Capital recycling – still targeting S\$3b for 2022.** With S\$1.6b worth of capital recycling achieved ytd, CLI remains optimistic that it can hit its annual target of S\$3b for 2022. In 2Q22, China was the key drag with zero capital recycled despite having >Rmb5b in deals that the company had in the pipeline, but which had to be deferred.
- **Potential exclusion from the FTSE EPRA NAREIT index.** During the analyst call, management appeared nonplussed regarding its potential exclusion from the index, principally on the basis that as its fee income-related business grows in the next 12 months, less than 75% of its EBITDA is derived from "relevant real estate activities" (1H22: 73%). The potential funds outflow from CLI could be meaningful as it is a constituent of four of the 10 indices with weighting of between 0.35% to 2.03%.

EARNINGS REVISION/RISK

- **Changes to earnings forecasts.** We have made some minor changes to our earnings forecasts with c.4% upgrades for 2022-24. While we have lowered our assumptions for associate earnings, this has been more than offset by a faster recovery in lodging earnings (as well as the inclusion of the Oakwood acquisition), lower interest cost as well as lower administrative costs.

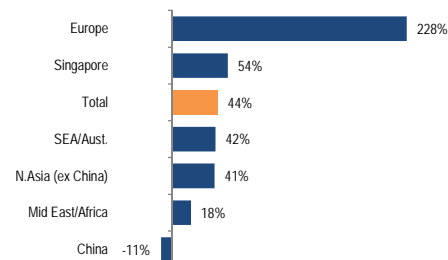
VALUATION/RECOMMENDATION

- **Maintain BUY with a higher SOTP-based target price of S\$4.28.** The investment and lodging management segments are valued using global EV/EBITDA multiples while the property management segment is valued based on RNAV. CLI's listed and unlisted funds are valued using a combination of market and/or UOB Kay Hian target prices and carrying value respectively. CLI's 2022F PE and P/B of 12.2x and 1.2x respectively are inexpensive in our view. While 1H22 presented some challenges, we believe that the company will be in a much stronger shape 6-12 months from now as we expect China's recovery path to be sustained post 4Q22.

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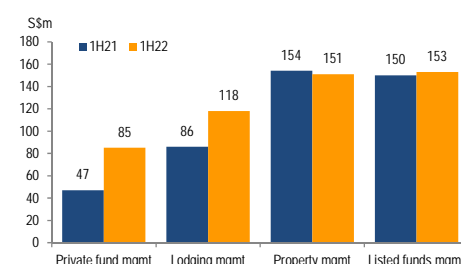
- Cap rate compression and stronger-than-expected growth in its FUM.
- Continued recovery in lodging business from the further reopening of regional and global economies.
- Gradual reopening in China after the recent COVID-19 lockdowns.

LODGING: YOY GROWTH IN REVENUE PER AVERAGE UNIT (1H22 VS 1H21)



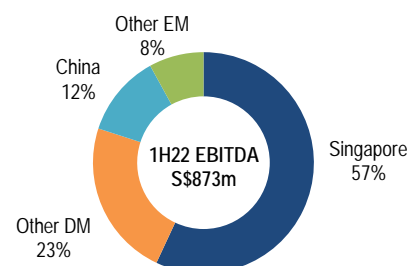
Source: CLI

REVENUE FROM FEE INCOME-RELATED BUSINESS



Source: CLI

EBITDA BY GEOGRAPHY



Note: DM = developed markets; EM = emerging markets

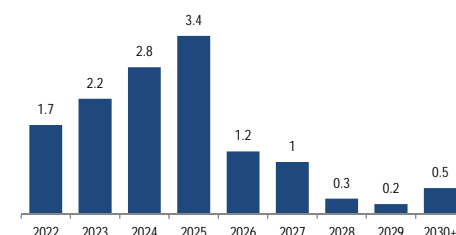
Source: CLI

SOTP VALUATION

Business units	S\$m	S\$/share
Investment management	4,642	0.89
Lodging management	590	0.11
Property investment	9,020	1.73
Unlisted funds	5,800	1.11
Listed funds	8,762	1.68
Less: overheads	-300	-0.06
Gross asset value	28,514	5.48
Less: other adjustments	-6,250	-1.20
Enterprise value	22,264	4.28

Source: UOB Kay Hian

LOAN MATURITY



Source: CLI

PROFIT & LOSS

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Net turnover	2,293	2,768	3,000	3,111
EBITDA	1,251	1,515	1,647	1,711
Deprec. & amort.	160	144	148	151
EBIT	1,091	1,371	1,499	1,560
Total other non-operating income	0	1	2	2
Associate contributions	1,218	550	600	700
Net interest income/(expense)	(353)	(331)	(351)	(330)
Pre-tax profit	1,956	1,591	1,750	1,932
Tax	(396)	(334)	(350)	(386)
Minorities	(211)	(126)	(140)	(154)
Preferred dividends	0	0	0	0
Net profit	1,349	1,131	1,261	1,392
Net profit (adj.)	1,349	1,131	1,261	1,392

BALANCE SHEET

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Fixed assets	1,067	1,173	1,275	1,374
Other LT assets	30,757	30,642	30,562	30,552
Cash/ST investment	3,877	1,331	1,885	2,467
Other current assets	1,945	1,952	1,959	1,966
Total assets	37,646	35,097	35,681	36,359
ST debt	1,941	1,941	1,941	1,941
Other current liabilities	3,675	3,675	3,675	3,675
LT debt	10,428	7,500	7,250	7,000
Other LT liabilities	1,501	1,439	2,705	3,983
Shareholders' equity	16,440	16,790	16,264	15,817
Minority interest	3,661	3,753	3,846	3,942
Total liabilities & equity	37,646	35,097	35,681	36,359

CASH FLOW

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Operating	667	1,181	1,297	1,325
Pre-tax profit	1,956	1,591	1,750	1,932
Tax	(396)	(334)	(350)	(386)
Deprec. & amort.	160	144	148	151
Associates	0	0	0	0
Working capital changes	255	0	0	0
Non-cash items	0	0	0	0
Other operating cashflows	(1,308)	(220)	(251)	(372)
Investing	1,268	(7)	(43)	(2)
Capex (growth)	(1,241)	(250)	(250)	(250)
Capex (maintenance)	0	0	0	0
Investments	1,927	0	0	0
Proceeds from sale of assets	49	0	0	0
Others	533	243	207	248
Financing	223	(3,720)	(699)	(741)
Dividend payments	(117)	(883)	(571)	(623)
Issue of shares	(208)	0	0	0
Proceeds from borrowings	750	0	0	0
Loan repayment	0	(2,928)	(250)	(250)
Others/interest paid	(202)	92	122	132
Net cash inflow (outflow)	2,158	(2,546)	555	582
Beginning cash & cash equivalent	1,678	3,815	1,269	1,823
Changes due to forex impact	41	62	62	62
Ending cash & cash equivalent	3,877	1,331	1,885	2,467

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Growth				
Turnover	15.6	20.7	8.4	3.7
EBITDA	n.a.	21.1	8.7	3.9
Pre-tax profit	n.a.	(18.7)	10.0	10.4
Net profit	n.a.	(16.1)	11.4	10.4
Net profit (adj.)	n.a.	(16.1)	11.4	10.4
EPS	n.a.	(16.1)	11.4	10.4
Profitability				
EBITDA margin	54.6	54.7	54.9	55.0
Pre-tax margin	85.3	57.5	58.3	62.1
Net margin	58.8	40.9	42.0	44.7
ROA	3.6	3.1	3.6	3.9
ROE	9.4	6.8	7.6	8.7
Leverage				
Debt to total capital	38.1	31.5	31.4	31.2
Debt to equity	75.2	56.2	56.5	56.5
Net debt/(cash) to equity	51.7	48.3	44.9	40.9

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