

COMPANY RESULTS

CapitaLand Investment (CLI SP)

1H23: Still Waiting On Sustained Recovery In China

CLI's weaker-than-expected 1H23 results, with PATMI declining 19% yoy, again underline the problems that China-focused companies have had in the past 6-12 months. High interest rates continue to be a burden on deal-making and its capital recycling target will likely be missed. However, we note the steady contribution of its fee-related earnings. Maintain BUY. Target price slightly lowered to S\$4.25.

1H23 RESULTS

Year to 31 Dec (S\$m)	1H22	1H23	yoy %	Remarks
Revenue	1,354	1,345	-0.7	- Due to lower real estate investment business
Gross profit	634	628	-0.9	
Operating EBITDA	730	764	4.7	- Improved operating performance from lodging
Finance costs	-197	-239	21.3	- 1H23 implied interest cost 3.8%: +1.0ppt over 12mths
Associate results	232	213	-8.2	
Pre-tax profit	605	448	-26.0	
PATMI	433	351	-18.9	- Due to lower portfolio gains, higher interest expense
Gross profit margin	46.8%	46.7%	-0.1	
Pre-tax margin	44.7%	33.3%	-11.4	
Net margin	32.0%	26.1%	-5.9	

Source: CapitaLand Investment, UOB Kay Hian

RESULTS

- **A weaker-than-expected 1H23...** CapitaLand Investment (CLI) reported 1H23 revenue of S\$1.35b (-0.7% yoy) and PATMI of S\$351m (-19% yoy), both of which missed our and consensus estimates on a run-rate basis. The miss was due to a multitude of factors including higher financing costs, lower portfolio gains, the absence of event-driven performance fees and lower contribution from properties in China. The key highlight in the result was clearly lodging which saw higher fee-related earnings as well as contributions from new management contracts.
- **...but CLI should turn the corner soon.** We note that while CLI is well short of its annual capital recycling target of S\$3b, it has achieved S\$839m ytd (-48% yoy) – note that S\$800m of this was completed after 30 Jun 23 and thus not captured in the company's 1H23 results.
- **In our view, 1H23 demonstrated the resiliency of CLI's business** as seen by its recurring fund management fees which grew by 10% yoy in 1H23 to S\$183m, while in 2Q23, its fund management FRE was stable on a qoq basis at S\$106m.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2021	2022	2023F	2024F	2025F
Net turnover	2,293	2,876	3,172	3,270	3,363
EBITDA	1,251	1,435	1,354	1,361	1,410
Operating profit	1,091	1,289	1,205	1,207	1,252
Net profit (rep./act.)	1,349	862	909	1,048	1,087
Net profit (adj.)	1,349	862	909	1,048	1,086
EPS (S\$ cent)	38.4	16.8	17.7	20.4	21.2
PE (x)	8.3	18.9	17.9	15.6	15.0
P/B (x)	1.0	1.1	1.1	1.0	1.0
EV/EBITDA (x)	22.3	19.5	20.6	20.5	19.8
Dividend yield (%)	3.8	3.8	3.3	3.8	4.0
Net margin (%)	58.8	30.0	28.7	32.1	32.3
Net debt/(cash) to equity (%)	51.7	54.2	51.5	47.2	43.4
Interest cover (x)	2.9	2.7	2.7	3.6	3.8
ROE (%)	9.4	5.4	5.8	6.5	6.6
Consensus net profit	-	-	900	1,008	1,146
UOBKH/Consensus (x)	-	-	1.01	1.04	0.95

Source: CapitaLand Investment Limited, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$3.18
Target Price	S\$4.25
Upside	+33.6%
(Previous TP)	S\$4.27

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):	5,121.8
Market cap (S\$m):	16,287.4
Market cap (US\$m):	12,072.8
3-mth avg daily t'over (US\$m):	18.4

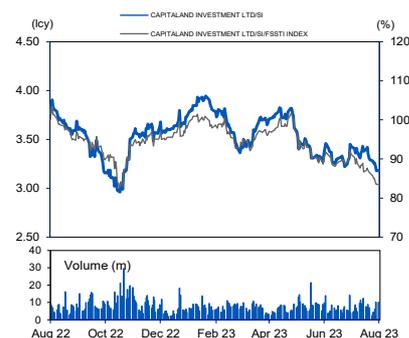
Price Performance (%)

52-week high/low	S\$4.03/S\$2.96
1mth	3.3
3mth	(15.0)
6mth	(16.5)
1yr	(17.5)
YTD	(12.6)

Major Shareholders

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

PRICE CHART



Source: Bloomberg

ANALYST(S)

Adrian Loh
+65 6590 6633
adrianloh@uobkayhian.com

STOCK IMPACT

- Ready to deploy capital.** While interest rates continue to be a problem for CLI and other market players, management remains cautiously optimistic that it has peaked. CLI stated that it has witnessed the lowest amount of capital raised in the market as investors have not been able to grapple with where interest rates are heading, resulting in a slowdown in deals. Nevertheless, the company pointed out that its REITs raised over S\$1b for the right deals in the past year, and on the private funds side, it has raised S\$3.2b in equity (2022: S\$2.5b). As a result, CLI's embedded FUM is now close to S\$10b and ready for deployment into areas like self-storage, credit and special situations.
- China still a point of focus.** During the results briefing, much time was spent on China with CLI stating that its recovery will take longer than initially expected. While there are many China portfolios for sale, these require extensive due diligence and it will look for more special situations and credit deals in 2H23, especially in sectors which have policy support. CLI noted in particular that its key strength is being able to provide exit opportunities for its investors, either via their own funds or its REITs. The company stated that while it is potentially looking at a China REIT (CREIT) listing, it cautioned that this is not an easy transaction given the differing and more stringent rules vs Singapore, eg 90% of proceeds from asset recycling needs to be reinvested.
- Seeing "unprecedented attention" on India.** CLI stated that it continues to see high investor interest in India and highlighted that it has the right assets in the right cities and is well-positioned for growth in the country's economy. Note that on 12 Aug 23, the company launched a business park development fund (CapitaLand India Growth Fund 2) with a target fund size of S\$525m to invest in Grade A business parks in prime locations across gateway cities in India. CLI has secured S\$263m (Rp16.3b) from a global institution for a 50% stake in the fund's first closing with CLI maintaining a sponsor stake of 20%.
- Lodging:** As expected, and similar to other Singapore property companies, CLI experienced very strong performance in its lodging segment with RevPAU increase driven by higher occupancy (+11pp) and average daily rates (+11%). Its current aggregate RevPAU of S\$87 is 6% higher than that in 1H19. Of note was Japan where the lifting of travel restrictions has seen its RevPAU rise to 23% higher than pre-COVID-19 levels while Singapore and Europe RevPAU were 29% and 20% higher than pre-COVID-19 levels. Ytd, CLI has c.7,000 new units signed across 40 properties. As at end-1H23, CLI had 162,000 units in its portfolio, a 17% yoy increase from 139,000 at end-1H22.

EARNINGS REVISION/RISK

- Downgrading earnings estimates.** We have lowered earnings estimates for 2023-25E by between 2-13% to take into account higher-than-expected financing costs for 2023, lower EBITDA margins for its fund management business and slower recovery for its China properties.

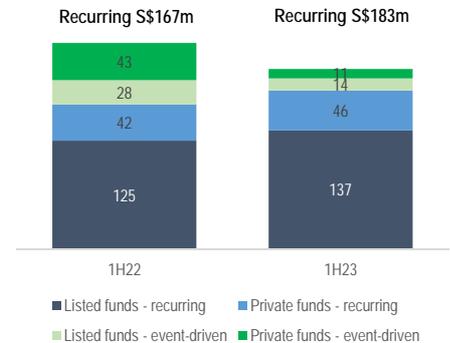
VALUATION/RECOMMENDATION

- Maintain BUY with a slightly lower SOTP-based target price of S\$4.25 (\$4.27 previously).** The slightly lower target price is the result of CLI's comparable companies experiencing EBITDA multiples expansion, offset by 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.

SHARE PRICE CATALYST

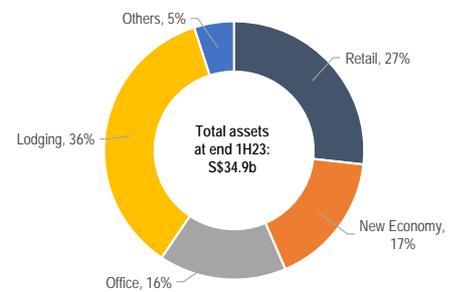
- a) Cap rate compression and stronger-than-expected growth in its FUM, and b) faster-than-expected recovery of the Chinese economy leading to overall better business in the lodging business and FUM given CLI's leverage in China.

RECURRING FUND MANAGEMENT FEES ROSE 10% YOY (S\$m)



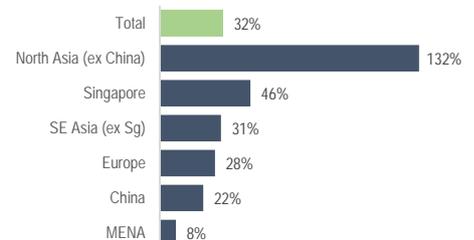
Source: CLI

DISTRIBUTION OF ASSETS BY ASSET CLASS



Source: CLI

REVPAU: STRONG GROWTH ACROSS ALL MARKETS IN 1H23 (% YOY)



Note: MENA = Middle East & North Africa

Source: CLI

SOTP VALUATION

Business units	S\$m	S\$/share
Investment management	4,137	0.81
Lodging management	1,056	0.21
Property investment	9,020	1.76
Unlisted funds	7,900	1.54
Listed funds	8,107	1.58
Less: overheads	-300	-0.06
Gross asset value	29,919	5.83
Less: other adjustments	-8,145	-1.59
Enterprise value	21,774	4.25

Source: UOB Kay Hian

FORECAST EARNINGS CHANGES

S\$m	2023E	2024E	2025E
NPAT - old	1,138	1,100	1,122
NPAT - new	907	1,046	1,084
% change	-12.7%	-2.9%	-1.6%

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Net turnover	2,876	3,172	3,270	3,363
EBITDA	1,435	1,354	1,361	1,410
Deprec. & amort.	146	150	153	157
EBIT	1,289	1,205	1,207	1,252
Total other non-operating income	1	2	2	3
Associate contributions	531	650	750	750
Net interest income/(expense)	(432)	(390)	(332)	(318)
Pre-tax profit	1,389	1,466	1,627	1,687
Tax	(318)	(337)	(325)	(337)
Minorities	(209)	(220)	(254)	(263)
Preferred dividends	0	0	0	0
Net profit	862	909	1,048	1,087
Net profit (adj.)	862	909	1,048	1,086

CASH FLOW

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Operating	735	1,017	1,036	1,073
Pre-tax profit	1,389	1,466	1,627	1,687
Tax	(318)	(337)	(325)	(337)
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)	(262)	(420)	(437)
Investing	(382)	(2)	(19)	(14)
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	231	235
Financing	(1,370)	(3,371)	(814)	(638)
Dividend payments	(958)	(797)	(725)	(810)
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)	56	162	172
Net cash inflow (outflow)	(1,017)	(2,355)	203	421
Beginning cash & cash equivalent	3,815	2,624	269	472
Changes due to forex impact	(130)	44	44	44
Ending cash & cash equivalent	2,668	313	516	937

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	313	516	936
Other current assets	1,753	1,759	1,765	1,772
Total assets	35,110	32,816	33,147	33,692
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	2,107	2,107	2,116
Shareholders' equity	15,529	15,812	16,306	16,753
Minority interest	3,400	3,485	3,572	3,661
Total liabilities & equity	35,110	32,816	33,147	33,692

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	49.9	42.7	41.6	41.9
Pre-tax margin	48.3	46.2	49.8	50.2
Net margin	30.0	28.7	32.1	32.3
ROA	2.4	2.7	3.2	3.3
ROE	5.4	5.8	6.5	6.6
Growth				
Turnover	25.4	10.3	3.1	2.8
EBITDA	14.7	(5.6)	0.5	3.6
Pre-tax profit	(29.0)	5.6	11.0	3.7
Net profit	(36.1)	5.5	15.3	3.7
Net profit (adj.)	(36.1)	5.5	15.3	3.6
EPS	(56.2)	5.5	15.3	3.7
Leverage				
Debt to total capital	36.9	30.5	29.2	28.7
Debt to equity	71.4	53.5	50.3	49.0
Net debt/(cash) to equity	54.2	51.5	47.2	43.4
Interest cover (x)	2.7	2.7	3.6	3.8

Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2023, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W