

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 (\$'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%: +1.0pt 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 (\$'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.

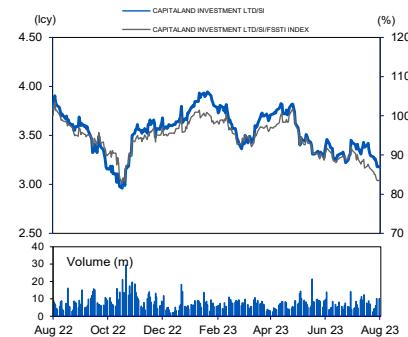
STOCK DATA

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	3mth	6mth	1yr	YTD
(3.3)	(15.0)	(16.5)	(17.5)	(12.6)
Major Shareholders				%
Temasek Hldgs				52.8
FY23 NAV/Share (\$)				2.96
FY23 Net Debt/Share (\$)				1.57

PRICE CHART



Source: Bloomberg

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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.

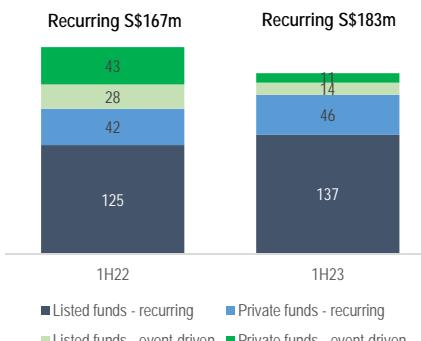
VALUATION/RECOMMENDATION

- 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

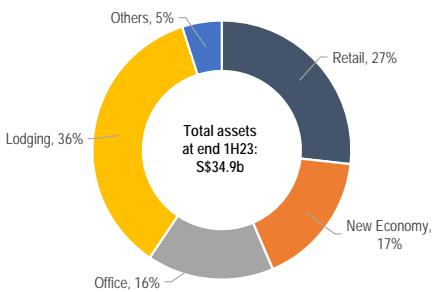
- a) Cap rate compression and stronger-than-expected growth in its FUM, and b) faster-than-expected recovery of the Chinese economy leading to overall better business in the lodging business and FUM given CLI's leverage in China.

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



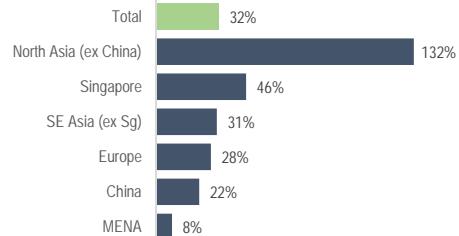
Source: CLI

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	\$mm	\$\$/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

	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 (S\$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

BALANCE SHEET

Year to 31 Dec (S\$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

CASH FLOW

Year to 31 Dec (S\$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

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

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