

CapitaLand Investment Ltd (CLI SP)

Moving Past A China Blip

Slow quarter, better 2H22 fundamentals

CLI's 1H22 operating PATMI at SGD346m (+31% YoY) was 46% of our FY22 estimate and could have been better, sans retail rental rebates in China (1.2 months), and slower property churn. While funds-under-management (FUM) was flat, fee-related earnings (FRE) rose 10% YoY and real estate investment business (REIB) jumped a stronger 59% YoY. Management remains confident on its FY22 SGD3b capital recycling target (vs SGD1.6b YTD), and we expect better fundamentals in 2H22 with FUM recovery and strengthening RevPAU. We see strong earnings growth supporting valuations, which are undemanding vs peers. Further ahead, we see accelerating FUM growth, expanding FRE, and faster conversion of on-balance sheet assets to FUM creating earnings upside. Our SOTP-based TP stays at SGD4.30. Reiterate BUY.

Fee income growth, strengthening RevPAU

2Q22 revenue of SGD756m (+42% YoY/+26% QoQ) was driven by improvement in investment properties under its REIB, which saw SGD564m in revenue (+59% YoY/+28% QoQ). This was underpinned by +14% YoY in fee income (fund management: +13% YoY, lodging management: +43% YoY, and property management: 0% YoY). We expect the recovery in its lodging business (which added 15% HoH in units and +44% YoY in RevPAU in 1H22), to gain traction in 2H22 with returning corporate travel and improving margins, which could rise to 40-50% (from 30+% currently).

Better FUM performance, China a key drag

FRE rose 13% YoY in 2Q22 (vs +28% YoY in 1Q22), backed by its private funds (+24% YoY) and REITs (+10% YoY). Event-driven fees, at 30% of 1H22 FRE (vs 36% in 1Q22/18% in FY21), helped lift FRE/FUM ratio to 52bps (vs 51bps in 1Q22/50bps in FY21). EBITDA contribution from China fell to 12% in 1H22 (vs 28% in FY21) as recycling plans were deferred to 2H22. It launched a maiden RMB700m special situation opportunity fund (CSSRF I) to acquire a SGD144m office asset in Shanghai, and is eyeing FUM growth opportunities in India, real estate credit, data centres, and lodging.

Strong balance sheet, eyeing inorganic growth

Its balance sheet metrics remain strong, with net gearing stable at 51% (vs 48% in 1Q22) at 4.9x interest cover and 2.8% borrowing cost (from 2.6%). Its fixed-rate debt rose to 66% (from 59%) with higher RMB-denominated debt exposure and recent deals. CLI is targeting an 8% FY22 cash ROE, and we see this backed by rising fund and lodging management fees, further securitisation of on-balance sheet assets, and scaling down of its share of capital in raising new FUM. Upside surprise could arise as management targets inorganic growth from listed and private equity platforms, while maintaining its APAC concentration.

FYE Dec (SGD m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	1,983	2,293	2,751	3,121	3,467
EBITDA	(33)	2,469	2,326	2,719	3,137
Core net profit	443	497	789	1,014	1,258
Core EPS (cts)	15.8	14.1	15.3	19.7	24.5
Core EPS growth (%)	(28.9)	(10.4)	8.6	28.6	24.0
Net DPS (cts)	9.0	15.0	11.0	13.0	15.0
Core P/E (x)	na	24.1	25.6	19.9	16.0
P/BV (x)	na	1.1	1.1	1.0	1.0
Net dividend yield (%)	na	4.4	2.8	3.3	3.8
ROAA (%)	1.1	1.3	2.1	2.6	3.1
EV/EBITDA (x)	nm	10.3	14.0	11.6	9.7
Net gearing (%) (incl perps)	42.8	48.1	39.4	32.4	25.0
Consensus net profit	-	-	1,262	1,458	1,650
MKE vs. Consensus (%)	-	-	7.3	11.7	16.6

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BUY

Share Price	SGD 3.92
12m Price Target	SGD 4.30 (+10%)
Previous Price Target	SGD 4.30

Company Description

CapitaLand Investment Ltd. is a real estate investment manager. It derives income from its fee-related businesses and investment properties.

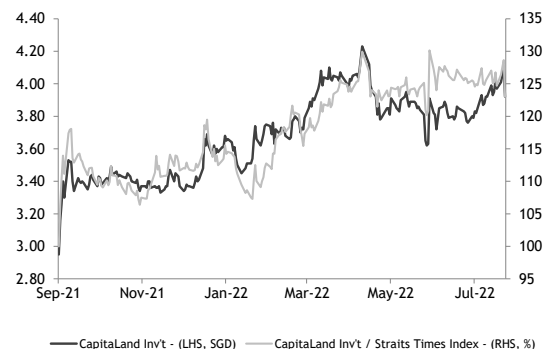
Statistics

52w high/low (SGD)	na/na
3m avg turnover (USDm)	21.0
Free float (%)	98.3
Issued shares (m)	5,203
Market capitalisation	SGD20.4B USD14.9B

Major shareholders:

Temasek Holdings Pte Ltd. (Investment Ma	51.8%
CapitaLand Investment Ltd.	1.6%
The Vanguard Group, Inc.	1.4%

Price Performance



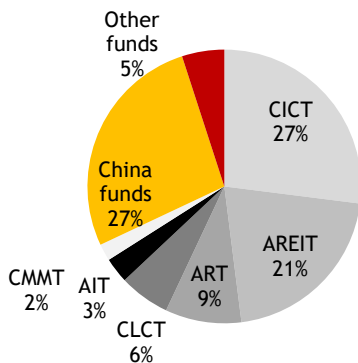
	-1M	-3M	-12M
Absolute (%)	2	1	na
Relative to index (%)	(3)	(1)	na

Source: FactSet

Value Proposition

- One of the largest real estate investment managers (REIMs) and second largest in Asia Pacific, with real estate assets-under-management (RE AUM) of SGD125b and real estate funds-under-management (RE FUM) of SGD86b.
- Owns 18-39% stakes in six listed REITs and 29 unlisted funds across the APAC, Europe and the US, with a diversified pipeline of investment properties at c.SGD10b, planned for monetisation in the next 3-4 years.
- Sharpened business model post-restructuring, targeting FUM and fee income growth, expected to support multiple re-rating, and close valuation gap to REIM peers.

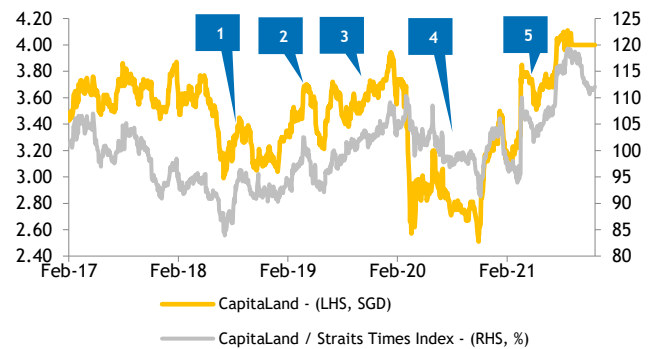
FUM breakdown



Source: Company

Price Drivers

Historical share price trend (for CAPL)



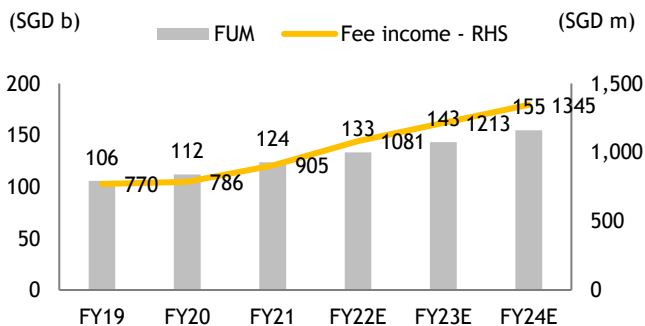
Source: Company, Maybank IBG Research

- Jan-19: CAPL announced a SGD11b acquisition of Ascendas-Singbridge, which managed three REITs/ BTs - Ascendas REIT (AREIT), Ascendas India Trust (AIT), and Ascendas Hospitality Trust (AHT).
- Jul-19: CAPL announced that Ascott Residence Trust (ART) and AHT would merge to form Asia's largest hospitality trust with a SGD7.6b combined AUM.
- Jan-20: CMT announces merger with CCT to create the largest S-REIT and 2nd largest APAC commercial REIT with a SGD22.4b AUM.
- Nov-20: CMT renamed as CICT, commenced trading post-merger, with three distinct property segments (retail, office and integrated development).
- Mar-21: CAPL announced restructuring to privatise its development business then relist its investment management and lodging operations as CLI.

Financial Metrics

- We project FUM growth of +7% CAGR to SGD104b through FY24E, fund fees to rise at a +12% CAGR to SGD580m, and EBITDA to increase at a +14% CAGR to SGD330m.
- We assume fund fee rate rises to 56bps (from 50bps in FY21), and EBITDA margin increases from 56% to 59% through FY24E.

FUM and fee-related income



Source: Company, Maybank IBG Research

Swing Factors

Upside

- Stronger-than-expected FUM growth.
- Better-than-expected AUM fund fee rate and earnings.
- Earlier-than-expected recovery in RevPAR.
- Accretive acquisitions (with cap rates exceeding cost of funds) or divestments (at low cap rates which unlock asset values).

Downside

- Slower-than-expected scaling up of FUM.
- Weaker-than-expected performance of REITs and private funds.
- Sharper-than-expected rise in interest rates could increase cost of debt, with higher cost of capital lowering valuations.
- Dilutive investments.

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Risk Rating & Score ¹	na
Score Momentum ²	na
Last Updated	na
Controversy Score ³	na

Business Model & Industry Issues

- CLI is one of the world’s largest real estate investment managers (REIMs) and it has adopted the CapitaLand group’s 2030 Sustainability Master Plan (SMP), which was unveiled in 2020. It is intended that the SMP will be a dynamic blueprint, with its outlined goals, focus areas and targets that will be reviewed every two years.
- The group aims to increase the quantum of sustainable finance to SGD6b by 2030. To effectively quantify the impact of its sustainability efforts, it is developing a new metric, Return on Sustainability (ROS), in addition to the regular financial return.
- It has incorporated KPIs that are tied to remuneration of all employees, including its top management, with targets that were disclosed from its inaugural annual report, at end-May 2022.
- CLI was in Nov 2021 included in the Dow Jones Sustainability World Index (DJSI World) and Dow Jones Sustainability Asia Pacific Index (DJSI Asia Pacific). It marks CapitaLand’s 10th/13th consecutive year of recognition on the DJSI World/DJSI Asia Pacific.

Material E issues

- It is transiting to a low-carbon business aligned with climate science as validated by the Science Based Targets initiative (SBTi) for a ‘well-below 2° C’ scenario; it raised scope 1 and 2 carbon emissions reduction target in FY22 by 46% (from 28%) to be in line with a 1.5° C trajectory.
- It achieved green certifications in FY21 for 46% of its global portfolio and targets to green all properties by FY30.
- Its KPIs, which include reducing carbon emissions/energy consumption intensity by 78%/35%, attributing 35% of total electricity consumption from renewable sources, and achieving 25% recycling rate in day-to-day operations, are linked to remuneration for its staff and top management.
- It has secured SGD7b of sustainable finance across its business units and REITs/ BTs as of end-FY21.

Material S issues

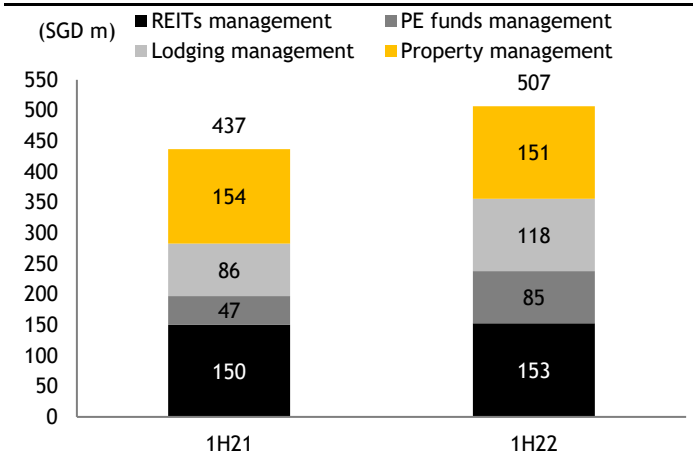
- The group has established a social charter, which upholds and respects the principles to protect individual rights with a zero-tolerance stance towards child/ forced labour and unlawful discrimination.
- It has introduced new training courses to equip employees with future economy skills, and delivered >41 hours on average in FY21 (vs 43/55 hours in FY20/19).
- Gender diversity is high among all >9,900 employees with female representation at 53% (in FY21), but lower at the senior management level at c.40%.
- Launched SGD50m CapitaLand Innovation Fund, of which at least 50% will be allocated for sustainability innovation.

Key G metrics and issues

- The CapitaLand group was placed 4th out of 577 listed companies in the Singapore Governance and Transparency Index 2020 (was 3rd in 2019), an annual study conducted by the National University of Singapore Business School’s Centre for Governance, Institutions and Organisations.
- Board independence for CLI is high, with its Chairman and CEO as the only 2 non-independent members out of the 11-member board. It has 3 female members, vs the Council of Board Diversity Singapore’s target of 30% women on boards of listed companies by 2030.
- CLI owns and manages six REITs/BTs, with activities relating to their permissible investments, leverage limits and annual reporting requirements, regulated by the MAS under Singapore’s code on collective investment schemes.
- CLI’s expected dividend policy is consistent with that of CAPL, which is to declare a dividend of at least 30% of the annual cash PATMI, defined as the sum of operating PATMI, portfolio gains/losses and realised valuation gains/loss.
- The group has completed two transformative acquisitions, first of Ascendas-Singbridge, which received 90% approval from shareholders in Apr 2019 and then the privatisation of its development business followed by the listing of CLI, which saw an approval of 97.6%.
- Its listed funds have acquired >SGD14b of assets over the last six years (from 2016-21), with two-thirds from third parties. Recent acquisitions like AREIT’s 11 European data centre deal, have focused on new economy space.
- The group has generated shareholder value from its listed funds, notably the redevelopment of Ascott Orchard under ART, Funan under CICT, as well as the Market Street car park into CapitaGreen, and of Golden Shoe car park into CapitaSpring.

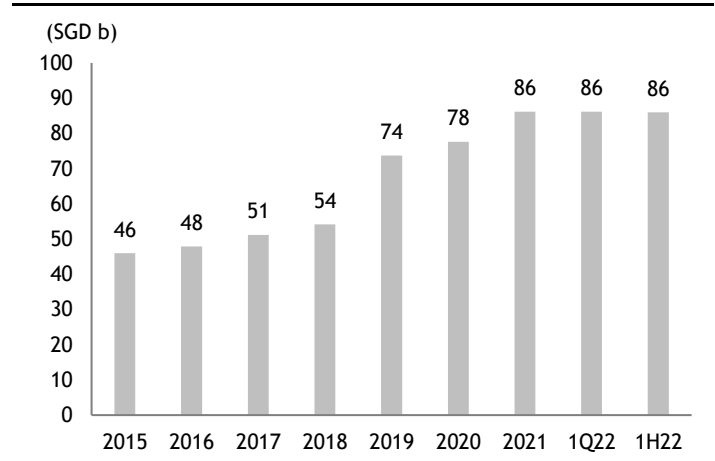
¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company’s exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company’s enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company’s score since the last update - a **negative** integer indicates a company’s improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Fig 1: Fee income rose 21% YoY in 1H22 (or +14% YoY in 2Q22)



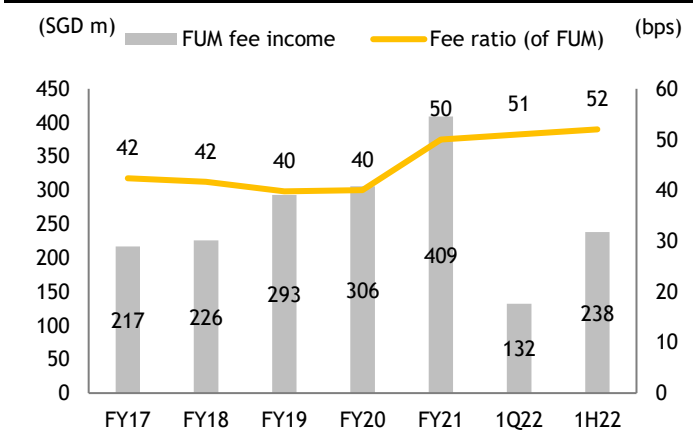
Source: Company data

Fig 2: FUM was flat at c.SGD86b



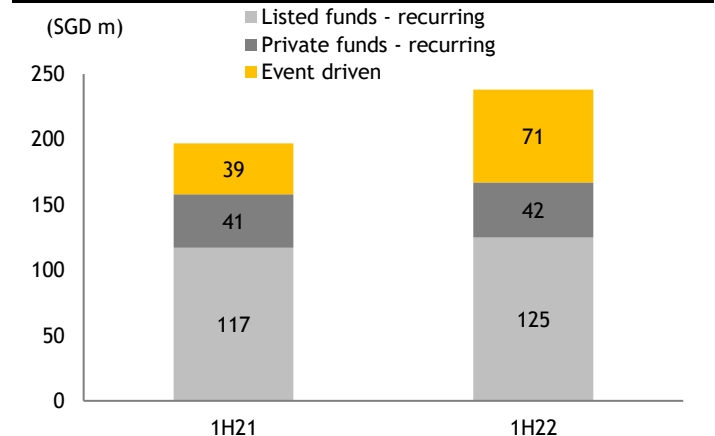
Source: Company data

Fig 3: Fund fees were +21% YoY in 1H22 (vs +28% YoY in 1Q22), underpinned by higher 52bps fee ratio



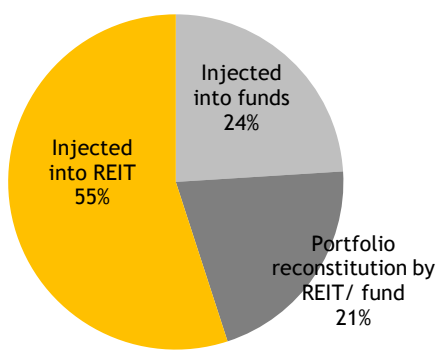
Source: Company data

Fig 4: Event-driven fees were c.30% of FRE in 1H22 (vs c.20% in 1H21)



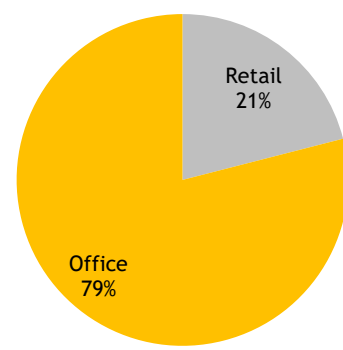
Source: Company data

Fig 5: Divestments were at SGD1.6b in 1H22, mostly into REITs



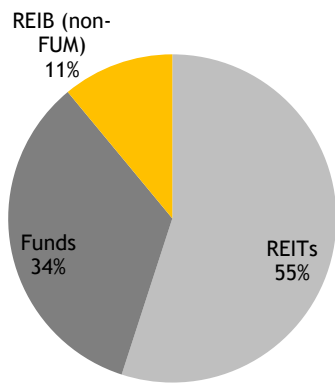
Source: Company data

Fig 6: ... largely from office projects (79 Robinson Road etc.)



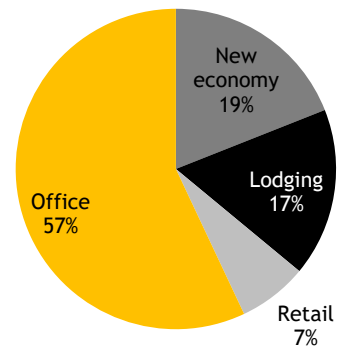
Source: Company data

Fig 7: Investments of SGD2.5b, mostly through its REITs



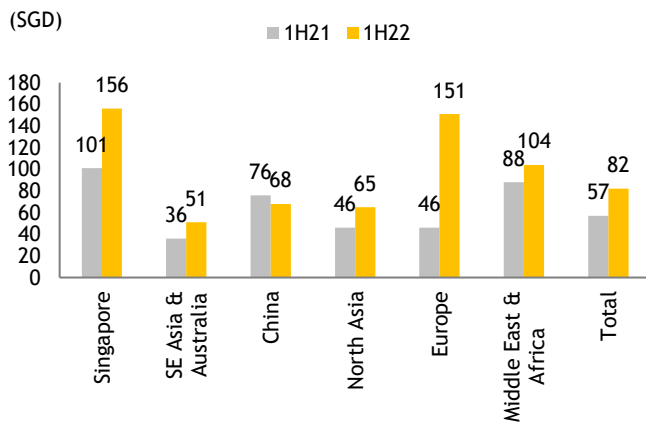
Source: Company data

Fig 8: .. >90% into office, new economy and lodging assets



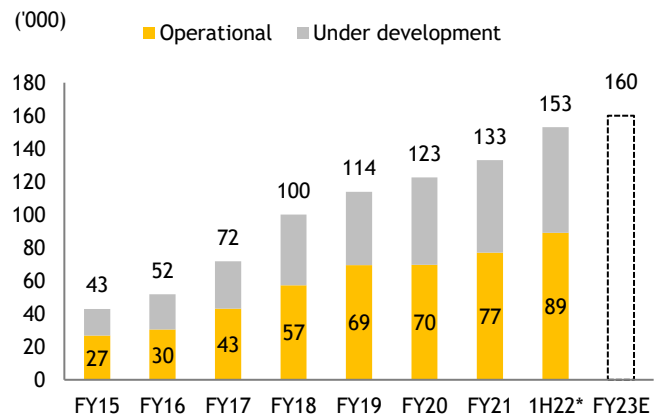
Source: Company data

Fig 9: RevPAU recovery underway



Source: Company data

Fig 10: On track to 160k in lodging management units by 2023



Source: Company data, *includes Oakwood acquisition

Fig 11: Real estate investment business (REIB) performance

	Operating GFA ('000 sqm)	Committed occupancy	WALE (years)		Ccy	NPI 1H22 (m)	NPI 1H21 (m)	NPI yield on 1H22 valuation	
<u>New economy</u>									
Australia	840.4	96.6%	3.1		SGD	58.7	59.1	4.9%	
China	1523.4	92.4%	1.7		RMB	342.0	298.0	7.4%	
Europe	590.4	96.2%	5.6		SGD	55.0	42.9	5.5%	
India	2368.8	86.6%	4.0		SGD	108.0	96.3	7.5%	
Singapore	3136.3	91.6%	3.4		SGD	312.0	291.0	6.3%	
US	691.4	95.3%	4.1		SGD	65.0	60.0	5.4%	
<u>Office</u>									
				<u>New leases ('000 sqm)</u>					
China	916.9	86.4%	2.0	114.0	RMB	768.0	767.0	3.8%	
Germany	100.8	95.8%	4.1	-	EUR	14.2	12.8	4.6%	
Japan	49.1	93.9%	1.8	10.2	JPY	955.0	941.0	3.9%	
Singapore	499.5	92.9%	4.2	96.9	SGD	164.0	147.0	3.6%	
South Korea	65.5	96.6%	4.8	3.2	KRW	8726.3	7232.6	4.4%	
<u>Retail</u>									
				<u>Shopper traffic</u>	<u>Tenant sales</u>				
China	3046.4	92.5%	2.3	-24.0%	-17.2%	RMB	1740.0	1780.0	4.2%
Malaysia	612.2	83.6%	1.4	63.3%	60.6%	MYR	125.0	85.0	4.7%
Singapore	1087.3	96.7%	2.1	14.4%	23.0%	SGD	432.0	407.0	5.2%
<u>Raffles City</u>									
Tier 1	645.4	Retail: 92.0%, Office: 90.5%				RMB	833.0	843.0	4.1%
Tier 2	488.9	Retail: 95.1%, Office: 90.7%				RMB	237.0	258.0	4.3%
<u>Multifamily</u>									
US	<u>Operating</u> 3787	94.9%	<u>Weighted length of stay</u> 1		USD	25.8	21.6	5.2%	

Source: Company data

Fig 12: Sum-of-the-parts (SOTP) valuation

	SGD/ share	%		Valuation method
Fee business	6,895			
Fund fees and property management	5,896	19%		18x FY22E EBITDA
Lodging management	1,599	5%		18x FY22E EBITDA
Less: corporate/ unallocated costs	(600)			18x FY22E opex
On balance sheet assets	9,221	29%		
Investment properties	9,221			Appraised value
Stakes in listed REITs	9,280	30%	Stake (%)	
CICT	3,871		23%	TP of SGD2.55
AREIT	2,647		18%	TP of SGD3.50
ART	1,873		41%	TP of SGD1.40
CLCT	430		22%	Market value
AIT	305		22%	Market value
CMMT	153		38%	Market value
Stakes in unlisted funds	5,872	19%	39%	SGD 26.4b AUM at 42% LTV
Gross asset value	31,367	100%		
Less: adjusted net debt	(9,370)			
RNAV	21,997			
Shares (m)	5,121			
RNAV/ share (SGD)	4.30			

Source: Maybank IBG Research

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	na	8.8	14.9	12.4	10.5
Core P/E (x)	na	24.1	25.6	19.9	16.0
P/BV (x)	na	1.1	1.1	1.0	1.0
P/NTA (x)	na	1.1	1.1	1.0	1.0
Net dividend yield (%)	na	4.4	2.8	3.3	3.8
FCF yield (%)	na	10.8	6.6	7.7	9.0
EV/EBITDA (x)	nm	10.3	14.0	11.6	9.7
EV/EBIT (x)	nm	11.0	15.0	12.3	10.2

INCOME STATEMENT (SGD m)

Revenue	1,983.0	2,293.0	2,751.4	3,120.5	3,466.6
EBITDA	(33.0)	2,469.0	2,326.0	2,719.5	3,137.1
Depreciation	(149.0)	(160.0)	(160.0)	(160.0)	(160.0)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	(182.0)	2,309.0	2,166.0	2,559.5	2,977.1
Net interest income / (exp)	(377.0)	(353.0)	(366.5)	(393.6)	(420.7)
Associates & JV	(25.0)	1,218.0	764.9	881.7	990.1
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	(559.0)	1,956.0	1,799.4	2,165.9	2,556.4
Income tax	(114.0)	(396.0)	(233.9)	(281.6)	(332.3)
Minorities	114.0	(211.0)	(211.7)	(254.9)	(300.8)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	(559.0)	1,349.0	1,353.7	1,629.4	1,923.2
Core net profit	443.0	497.0	788.7	1,014.4	1,258.2

BALANCE SHEET (SGD m)

Cash & Short Term Investments	1,736.0	3,877.0	4,230.3	5,290.1	6,586.7
Accounts receivable	4,258.0	1,661.0	1,661.0	1,661.0	1,661.0
Inventory	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	1,096.0	1,067.0	907.0	747.0	587.0
Intangible assets	1,006.0	990.0	990.0	990.0	990.0
Investment in Associates & JVs	13,198.0	13,248.0	13,368.0	13,368.0	13,368.0
Other assets	16,929.0	16,803.0	17,303.0	17,803.0	18,303.0
Total assets	38,223.0	37,646.0	38,459.3	39,859.1	41,495.7
ST interest bearing debt	1,154.0	2,549.0	2,549.0	2,549.0	2,549.0
Accounts payable	5,513.0	2,128.0	2,128.0	2,128.0	2,128.0
LT interest bearing debt	7,312.0	10,999.0	10,228.0	10,228.0	10,228.0
Other liabilities	8,510.0	1,869.0	1,869.0	1,869.0	1,869.0
Total Liabilities	22,489.0	17,545.0	16,774.0	16,774.0	16,774.0
Shareholders Equity	12,271.0	16,440.0	17,924.3	19,224.1	20,760.7
Minority Interest	3,463.0	3,661.0	3,761.0	3,861.0	3,961.0
Total shareholder equity	15,734.0	20,101.0	21,685.3	23,085.1	24,721.7
Total liabilities and equity	38,223.0	37,646.0	38,459.3	39,859.1	41,495.7

CASH FLOW (SGD m)

Pretax profit	(559.0)	1,956.0	1,799.4	2,165.9	2,556.4
Depreciation & amortisation	149.0	160.0	160.0	160.0	160.0
Adj net interest (income)/exp	377.0	353.0	366.5	393.6	420.7
Change in working capital	(429.0)	255.0	0.0	0.0	0.0
Cash taxes paid	(143.0)	(207.0)	(233.9)	(281.6)	(332.3)
Other operating cash flow	25.0	(1,218.0)	(764.9)	(881.7)	(990.1)
Cash flow from operations	159.0	1,299.0	1,327.2	1,556.3	1,814.6
Capex	0.0	0.0	0.0	0.0	0.0
Free cash flow	159.0	1,299.0	1,327.2	1,556.3	1,814.6
Dividends paid	(720.0)	(1.0)	(771.2)	(565.5)	(668.4)
Equity raised / (purchased)	0.0	(38.0)	0.0	0.0	0.0
Change in Debt	(25.0)	4,027.0	0.0	0.0	0.0
Perpetual securities distribution	(16.0)	(13.0)	(13.0)	(13.0)	(13.0)
Other invest/financing cash flow	857.0	(2,484.0)	(106.7)	103.0	184.4
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	255.0	2,790.0	436.3	1,080.8	1,317.7

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	(20.3)	15.6	20.0	13.4	11.1
EBITDA growth	nm	nm	(5.8)	16.9	15.4
EBIT growth	nm	nm	(6.2)	18.2	16.3
Pretax growth	nm	nm	(8.0)	20.4	18.0
Reported net profit growth	nm	nm	0.4	20.4	18.0
Core net profit growth	(24.8)	12.2	58.7	28.6	24.0
Profitability ratios (%)					
EBITDA margin	nm	nm	84.5	87.1	90.5
EBIT margin	nm	nm	78.7	82.0	85.9
Pretax profit margin	nm	85.3	65.4	69.4	73.7
Payout ratio	nm	39.1	41.8	41.0	40.1
DuPont analysis					
Net profit margin (%)	nm	58.8	49.2	52.2	55.5
Revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	3.1	2.3	2.1	2.1	2.0
ROAE (%)	na	na	na	na	na
ROAA (%)	1.1	1.3	2.1	2.6	3.1
Leverage & Expense Analysis					
Asset/Liability (x)	1.7	2.1	2.3	2.4	2.5
Net gearing (%) (incl perps)	42.8	48.1	39.4	32.4	25.0
Net gearing (%) (excl. perps)	42.8	48.1	39.4	32.4	25.0
Net interest cover (x)	na	6.5	5.9	6.5	7.1
Debt/EBITDA (x)	nm	5.5	5.5	4.7	4.1
Capex/revenue (%)	0.0	0.0	0.0	0.0	0.0
Net debt/ (net cash)	6,730.0	9,671.0	8,546.7	7,486.9	6,190.3

Source: Company; Maybank IBG Research

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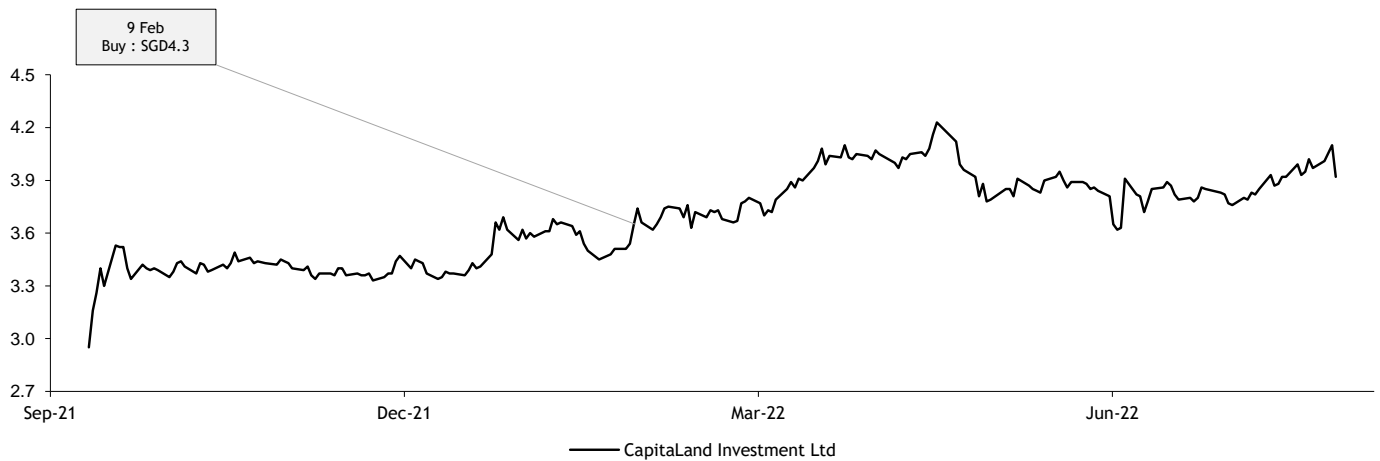
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