

Singapore Company Update

Capitaland Investment Ltd

Bloomberg: CLI SP | Reuters: CAPN.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

28 Feb 2022

BUY

Last Traded Price (25 Feb 2022): S\$3.72 (STI : 3,294.47)
Price Target 12-mth: S\$4.00 (7% upside, 10% total return)

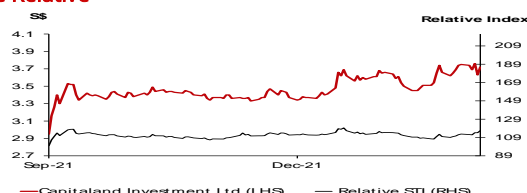
Analyst

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What's New

- FY21 PATMI ahead of expectations from robust portfolio gains from divestments
- Dividend hiked to 15 Scts a welcome surprise; resetting our dividend estimates higher in FY22-23F
- To focus on expanding its suite of Private Equity products in 2022 to capitalise on opportunities
- Lodging business ready to take off as borders re-open

Price Relative



Forecasts and Valuation

FY Dec (S\$m)	2020A	2021A	2022F	2023F
Revenue	1,983	2,293	2,377	2,564
EBITDA	(56.0)	2,406	1,818	1,947
Pre-tax Profit	(559)	1,956	1,290	1,318
Net Profit	(559)	1,349	991	1,014
Net Pft (Pre Ex.)	(559)	1,349	991	1,014
Net Pft Gth (Pre-ex) (%)	nm	nm	(26.5)	2.3
EPS (S cts)	(10.7)	26.2	19.3	19.7
EPS Pre Ex. (S cts)	(10.7)	26.2	19.3	19.7
EPS Gth Pre Ex (%)	nm	nm	(27)	2
Diluted EPS (S cts)	(10.7)	26.2	19.3	19.7
Net DPS (S cts)	0.0	15.0	10.5	10.5
BV Per Share (S cts)	228	312	316	326
PE (X)	nm	14.2	19.3	18.9
PE Pre Ex. (X)	nm	14.2	19.3	18.9
P/Cash Flow (X)	105.8	28.7	17.7	27.7
EV/EBITDA (X)	nm	13.7	18.0	16.7
Net Div Yield (%)	0.0	4.0	2.8	2.8
P/Book Value (X)	1.6	1.2	1.2	1.1
Net Debt/Equity (X)	0.4	0.5	0.5	0.4
ROAE (%)	(4.6)	8.7	6.1	6.1
Earnings Rev (%):			3	(8)
Consensus EPS (S cts):			21.3	24.5
Other Broker Recs:		B: 15	S: 0	H: 1

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

Ready for lift off

Investment Thesis:

Maintain BUY, TP: S\$4.00 implies 10% total returns. We maintain BUY on Capitaland Investment Limited ("CLI") with a target price of S\$4.00, pegged to its sum of the parts valuation. Catalysts that we see emerging are (i) launch of new fund products and REIT acquisitions, with an aim to grow funds under management (FUM) to S\$100 billion by 2024, up 19% from 2021; and (ii) rebound in operational performance at its lodging business. These are expected to drive 3-year net profit CAGR by 12% during FY21-24F.

Leading Asian real estate manager with ability to acquire across business cycles. CLI is an asset and capital efficient company with scalable fee-related earnings ("FRE") and Fund AUM ("FUM") platforms for growth. CLI's private funds and REITs complement each other in terms of acquisition strategy. With diverse real estate strategies ranging from opportunistic, value-add to core investments, we see CLI leveraging on opportunities during market upcycles and downcycles. Its REITs and private funds can be active across all real estate cycles.

Lodging business roaring back to profitability. Ascott Limited's global footprint is well placed to leverage on multi-year recovery of the hospitality sector in coming years. On top of robust growth in its operational footprint to 160,000 units by 2023, we see a turnaround in cashflows, as reopening of international borders is expected to drive the lodging business back to profitability.

Valuation:

Our valuation is based on sum-of-the-parts of CLI's various businesses. We derive a target price of S\$4.00.

Where we differ:

Our estimates are more conservative than consensus

Key Risks to Our View:

Falling capital values and inability to grow FUM.

At A Glance

Issued Capital (m shrs)	5,141
Mkt. Cap (S\$m/US\$m)	19,125 / 14,132
Major Shareholders (%)	
Capitaland Group Pte Ltd	52.4
Free Float (%)	47.6
3m Avg. Daily Val (US\$m)	22.3
GIC Industry : Real Estate / Real Estate Management & Development	



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WHAT'S NEW

Ready for lift off

Key highlights

PATMI of S\$1,349m ahead of expectations. Capitaland Investment Limited ("CLI") reported a strong rebound in operating performance in 2021, reversing from a net loss position of S\$559m in 2020. Operating PATMI increased by 12% y-o-y to S\$497m, driven mainly by improvement at all its business units, where we saw higher fee income from its fund management platform and lodging management performance. Revenues increased by c.16% with higher income from CLI's fee-income related business ("FRB"). The listed REITs and private funds drove higher management fees as funds under management ("FUM") grew 10% to S\$86.2bn. In addition, real estate investment business fee-related earnings also saw an improvement as economic conditions recover.

Cash PATMI rose to S\$1.1bn, boosted by S\$616m of portfolio gains from divestments (CLI achieved a 13% premium to book for divestments in 2021). Overall return on equity ("ROE") increased to 8.7%, ahead of our estimates.

Dividend hike a surprise, raising hopes of sustainable growth rate as FUM grows. CLI proposed a dividend of 12.0 Scts and a special dividend of 3.0 Scts, translating to a pay-out ratio of c.57.4%, ahead of its guidance of 30% of cash PATMI. We believe that shareholders will take the dividend surprise positively and we read this as a signal that management remains confident of its growth trajectory to maintain its core dividend of 12.0 Scts in 2022.

Balance sheet improvement. The group recorded a reversal in the write-downs of its investment properties in 2021, achieving S\$233m in unrealised fair value gains (PATMI) in FY21, with most of its markets seeing higher values with the exception in China (-S\$130m) which was due covid-related asset writedowns.

With the strong rebound in operating performance, the group's net debt to equity declined to 0.48x and other financial metrics remained strong with an all-in interest cost of 2.7% (63% fixed rates). The group has strong cash and bank lines amounting to close to S\$7.0bn to deploy strategically.

Our thoughts

(+) Expansion in suite of PE products in 2022 as listed REITs remain on the hunt to drive inorganic growth. The Group reported organic growth of 10% in FUM to S\$86.0bn, mainly from higher FUM from its listed REITs (+11.5% y-o-y to S\$58.0bn) while private funds FUM grew by +8.0% to S\$28.0bn. The Group achieved fee related earnings / FUM of 50 bps and EBITDA margins of 54%. In 2022, the immediate priority will be growth to continue expanding its suite of private funds solutions (7 funds incepted in 2021, raising S\$1.4bn in external capital with new relationships forged) with Asia Pacific and China a key focus for investment.

(+) Lodging recovery underway; robust outlook in 2022-2023. Ascott Limited achieved a new milestone in 2022 with a 10% rise in operational units to 77k units with 56k units in the pipelines. With 15k units secured in 2021 and a pipeline of over 8,200 units, Ascott is on track to hit its target of 160,000 units by 2023. Portfolio RevPAR recovered +19% y-o-y to S\$78/night with most markets reporting an improvement y-o-y as border restrictions relaxed. The outlook remains robust as border restrictions are expected to gradually ease, driving operational performance towards pre-COVID levels.

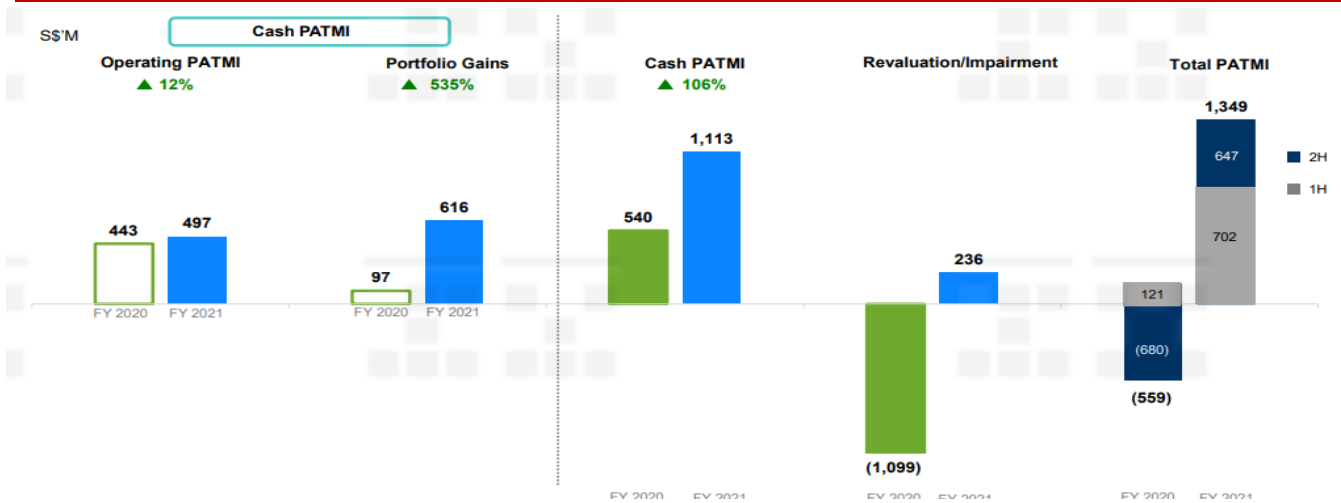
(+) Asset recycling a key focus. Assets on the balance sheet of CLI amounting to cS\$16.3bn are potential seed assets for future funds or could be divested to its listed or private platforms in the coming years. The potential divestment of these properties will be a key driver for potential event-driven portfolio gains, which will drive ROE higher in the future.

Company Background

Capitaland Investment (CLI) strategy, based on generating sustainable double-digit return on equity (ROE) above cost of equity (COE), is supported by three synergistic growth drivers of fund management, lodging management with active capital management.

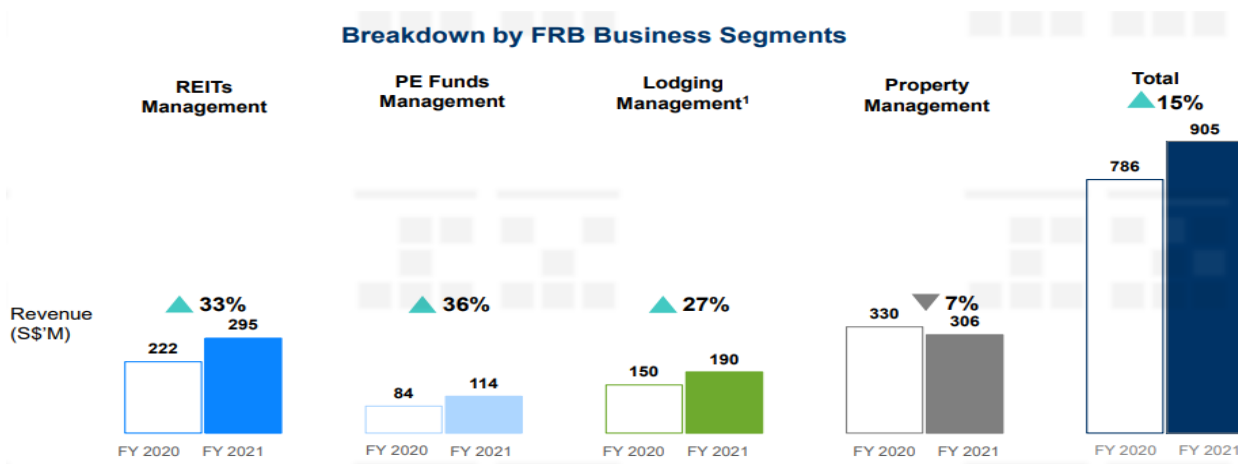
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Breakdown of PATMI



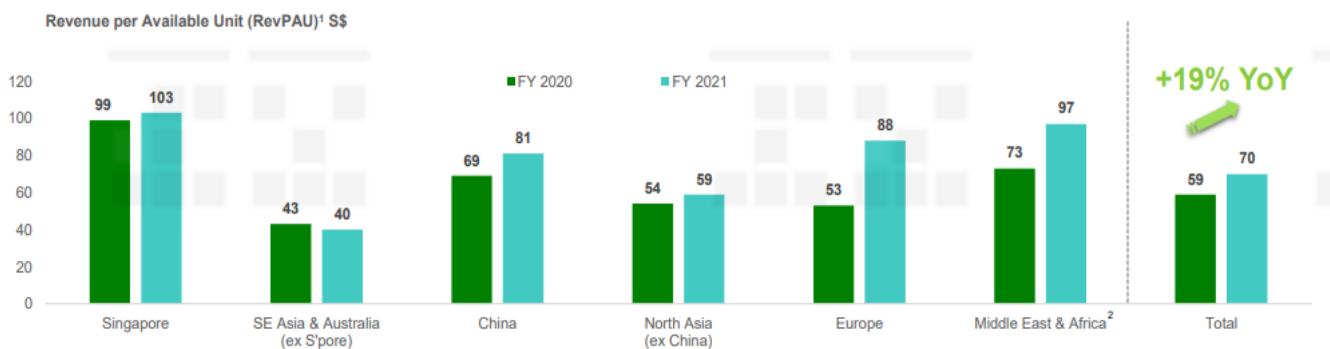
Source: Company

Breakdown of PATMI by business units



Source: Company

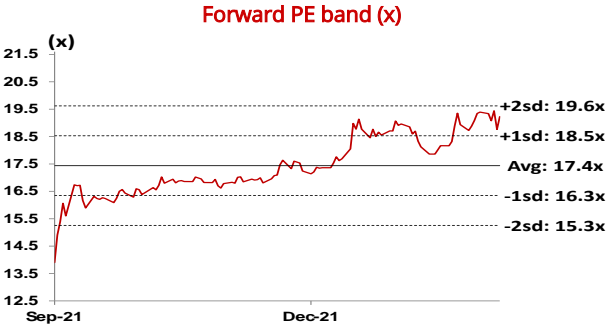
RevPAR remains on an uptrend



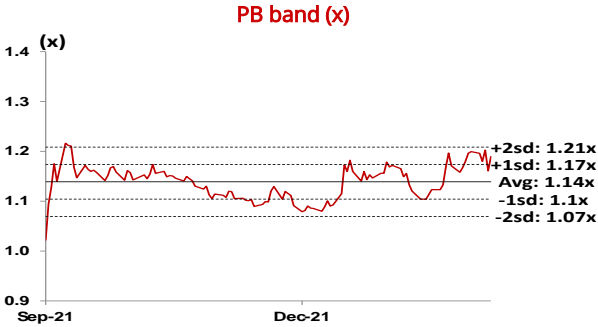
Source: Company

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Historical PE and PB band



Source: Bloomberg Finance L.P., DBS Bank estimates



Source: Bloomberg Finance L.P., DBS Bank estimates

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Segmental Breakdown

FY Dec	2021A	2022F	2023F
Revenues (\$m)			
Fund Management	715	707	766
Lodging Management	190	332	433
Rental of Investment	1,506	1,388	1,445
Others	(118)	(50.0)	(80.0)
Total	2,293	2,377	2,564
Gross Profit (\$m)			
Fund Management	279	257	285
Lodging Management	0.0	33.2	65.0
Rental of Investment	1,054	972	1,012
Others	(118)	(50.0)	(80.0)
Total	1,215	1,211	1,282
Gross Profit Margins (%)			
Fund Management	39.1	36.3	37.3
Lodging Management	0.0	10.0	15.0
Rental of Investment	70.0	70.0	70.0
Others	0.0	0.0	0.0
Total	53.0	51.0	50.0

Income Statement (\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	2,488	1,983	2,293	2,377	2,564
Cost of Goods Sold	(1,317)	(1,111)	(1,235)	(1,166)	(1,282)
Gross Profit	1,171	872	1,058	1,211	1,282
Other Opng (Exp)/Inc	212	(1,029)	4.00	(120)	(127)
Operating Profit	1,383	(157)	1,062	1,091	1,155
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	965	(25.0)	1,218	600	666
Net Interest (Exp)/Inc	(327)	(377)	(324)	(402)	(502)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	2,021	(559)	1,956	1,290	1,318
Tax	(273)	(114)	(396)	(219)	(224)
Minority Interest	(304)	114	(211)	(80.0)	(80.0)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	1,444	(559)	1,349	991	1,014
Net Profit before Except.	1,444	(559)	1,349	991	1,014
EBITDA	2,474	(56.0)	2,406	1,818	1,947
Growth					
Revenue Gth (%)	N/A	(20.3)	15.6	3.7	7.9
EBITDA Gth (%)	nm	nm	nm	(24.4)	7.1
Opg Profit Gth (%)	nm	(111.4)	(776.4)	2.8	5.8
Net Profit Gth (Pre-ex) (%)	nm	nm	nm	(26.5)	2.3
Margins & Ratio					
Gross Margins (%)	47.1	44.0	46.1	51.0	50.0
Opg Profit Margin (%)	55.6	(7.9)	46.3	45.9	45.1
Net Profit Margin (%)	58.0	(28.2)	58.8	41.7	39.6
ROAE (%)	22.9	(4.6)	9.7	6.1	6.1
ROA (%)	7.4	(1.5)	3.6	2.5	2.4
ROCE (%)	7.2	(0.5)	2.5	2.6	2.7
Div Payout Ratio (%)	0.0	N/A	57.2	54.5	53.2
Net Interest Cover (x)	4.2	(0.4)	3.3	2.7	2.3

Source: Company, DBS Bank

Capitaland Investment Ltd

Balance Sheet (\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	914	1,096	1,067	1,217	1,367
Invts in Associates & JVs	13,693	13,198	13,248	13,655	13,959
Other LT Assets	18,033	17,686	17,509	17,509	17,509
Cash & ST Invts	1,421	1,736	3,877	4,254	4,640
Inventory	253	32.0	268	268	268
Debtors	4,302	4,258	1,661	4,754	5,127
Other Current Assets	226	217	16.0	16.0	16.0
Total Assets	38,842	38,223	37,646	41,673	42,886
ST Debt	1,492	1,154	2,549	2,549	2,549
Creditor	5,293	5,513	2,128	6,424	6,929
Other Current Liab	399	470	939	219	224
LT Debt	6,641	7,312	10,999	11,149	11,299
Other LT Liabilities	8,441	8,040	930	930	930
Shareholder's Equity	13,007	12,271	16,440	16,660	17,134
Minority Interests	3,569	3,463	3,661	3,741	3,821
Total Cap. & Liab.	38,842	38,223	37,646	41,673	42,886
Non-Cash Wkg. Capital	(911)	(1,476)	(1,122)	(1,606)	(1,742)
Net Cash/(Debt)	(6,712)	(6,730)	(9,671)	(9,444)	(9,208)
Debtors Turn (avg days)	315.6	787.8	471.1	492.5	703.4
Creditors Turn (avg days)	811.1	2,002.1	1,257.4	1,501.4	2,108.6
Inventory Turn (avg days)	38.8	52.8	49.4	94.1	84.6
Asset Turnover (x)	0.1	0.1	0.1	0.1	0.1
Current Ratio (x)	0.9	0.9	1.0	1.0	1.0
Quick Ratio (x)	0.8	0.8	1.0	1.0	1.0
Net Debt/Equity (X)	0.4	0.4	0.5	0.5	0.4
Net Debt/Equity ex MI (X)	0.5	0.5	0.6	0.6	0.5
Capex to Debt (%)	2.2	1.0	0.0	2.0	2.0
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS Bank

Capitaland Investment Ltd

Cash Flow Statement (\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	1,748	(673)	1,560	1,290	1,318
Dep. & Amort.	95.0	126	126	126	126
Tax Paid	(110)	(143)	(207)	(939)	(219)
Assoc. & JV Inc/(loss)	(965)	(45.6)	(1,218)	(600)	(666)
Chg in Wkg.Cap.	(463)	(429)	255	1,203	131
Other Operating CF	12.0	1,348	151	0.0	0.0
Net Operating CF	317	183	667	1,080	690
Capital Exp.(net)	(175)	(81.0)	0.0	(276)	(276)
Other Invt.(net)	65.0	262	0.0	0.0	0.0
Invt. in Assoc. & JV	(912)	301	(665)	(287)	(171)
Div from Assoc & JV	466	502	1,980	480	532
Other Investing CF	614	84.0	(47.0)	0.0	0.0
Net Investing CF	58.0	1,068	1,268	(82.6)	85.5
Div Paid	(603)	(833)	(104)	(771)	(540)
Chg in Gross Debt	857	217	750	150	150
Capital Issues	149	0.0	(208)	0.0	0.0
Other Financing CF	(451)	(356)	(215)	0.0	0.0
Net Financing CF	(48.0)	(972)	223	(621)	(390)
Currency Adjustments	62.0	103	(17.0)	0.0	0.0
Chg in Cash	389	382	2,141	377	386
Opg CFPS (S cts)	15.0	11.8	8.01	(2.4)	10.9
Free CFPS (S cts)	2.73	1.96	13.0	15.6	8.06

Source: Company, DBS Bank

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	03 Jan 22	3.48	4.00	BUY

Source: DBS Bank

Analyst: Derek TAN

Rachel TAN

DBS Bank recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

Completed Date: 28 Feb 2022 07:06:14 (SGT)

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