

### COMPANY RESULTS

## CapitaLand Investment (CLI SP)

3Q22: Glimmers Of Hope In China

CLI reported a strong 3Q22 business update with revenue that was above our expectations. The key highlight of the quarter was the company's private fund-raising which showed positive momentum – five new funds were launched with two of them being in China with new high-quality domestic investors, thus diversifying CLI's capital pool. As expected, its lodging business maintained its solid recovery momentum. **Maintain BUY. Target price lowered slightly to S\$4.13.**

### 3Q22 REVENUE

Year to 31 Dec (S\$m)	9M22	3Q22	% change yoy	
			9M22	3Q22
- Lodging management	190	72	48.4%	71.4%
- Property management	231	80	-2.1%	-2.4%
- Fund management	339	101	16.1%	6.3%
Fee related revenue	760	253	15.9%	15.5%
Real estate investment business	1,571	434	47.8%	10.7%
<b>Total revenue</b>	<b>2,331</b>	<b>687</b>	<b>35.6%</b>	<b>12.4%</b>

Source: CapitaLand Investment, UOB Kay Hian

### RESULTS

- **A better-than-expected quarter.** CapitaLand Investment (CLI) reported a better-than-expected performance for 9M22 with revenue up 36% yoy to S\$2.3b, accounting for 84% of our full-year forecast. 3Q22 revenue rose 12% yoy to S\$687m. Lodging continued to rebound with RevPAU for 9M22 up 41% yoy.
- **A bullish tone on the analyst call.** While CLI conceded that it remains somewhat hamstrung in its capital recycling efforts in China, due to the inability to have an open transaction market for their assets, it did state that it will be able to meet its S\$3b capital-recycling target for 2022. In our view, the key highlights for 3Q22 were updates on CLI's new funds, three of which are profiled below.

### DETAILS OF CLI'S NEW PRIVATE EQUITY FUNDS

Partner(s)	CLI stake	Size of fund	Type of investment
APG	10%	S\$570m <sup>1</sup>	Asia-focused self-storage platform
Domestic China investors	10%	RMB380m/S\$76m	Ascendas i-link business park in Shanghai
Domestic China investors	20%	RMB3.6b/S\$720m	LEED Gold-certified business park in China

Note: <sup>1</sup>Potential to increase this to S\$1.14b  
Source: CLI

### KEY FINANCIALS

Year to 31 Dec (S\$m)	2020	2021	2022F	2023F	2024F
Net turnover	1,983	2,293	2,816	3,043	3,167
EBITDA	(8)	1,251	1,361	1,572	1,632
Operating profit	(157)	1,091	1,217	1,424	1,481
Net profit (rep./act.)	(560)	1,349	1,165	1,241	1,369
Net profit (adj.)	(560)	1,349	1,165	1,241	1,369
EPS (S\$ cent)	(19.9)	38.4	33.1	35.3	38.9
PE (x)	n.m.	8.4	9.7	9.1	8.2
P/B (x)	0.8	1.0	1.0	1.1	1.1
EV/EBITDA (x)	n.m.	22.7	20.9	18.1	17.4
Dividend yield (%)	2.8	3.7	2.8	3.1	3.4
Net margin (%)	(28.2)	58.8	41.3	40.8	43.2
Net debt/(cash) to equity (%)	54.7	51.7	48.8	45.9	42.3
Interest cover (x)	(0.4)	2.9	3.0	3.8	4.0
ROE (%)	n.a.	9.4	7.0	7.5	8.5
Consensus net profit	-	-	1,050	1,091	1,202
UOBKH/Consensus (x)	-	-	1.11	1.14	1.14

Source: CapitaLand Investment Limited, Bloomberg, UOB Kay Hian  
n.m. : not meaningful; negative P/E, EV/EBITDA reflected as "n.m."

## BUY

(Maintained)

Share Price	S\$3.21
Target Price	S\$4.13
Upside	+27.9%
(Previous TP)	S\$4.28)

### 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):	5,114.2
Market cap (S\$m):	16,416.5
Market cap (US\$m):	11,592.7
3-mth avg daily t'over (US\$m):	20.7

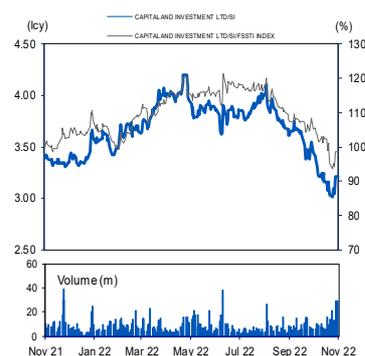
### Price Performance (%)

52-week high/low	S\$4.20/S\$3.01			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
(7.8)	(20.1)	(21.5)	(6.0)	(5.2)

### Major Shareholders

Temasek Hldgs	52.8
FY22 NAV/Share (S\$)	3.16
FY22 Net Debt/Share (S\$)	1.58

### PRICE CHART



Source: Bloomberg

### ANALYST(S)

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### STOCK IMPACT

- JV with APG to build an Asia-focused self-storage platform.** We view this new fund, with its first investment in storage business Extra Space Asia, particularly interesting and important given that APG is a quality investor and should thus allow CLI to attract more of such investors going forwards. Additionally, given that this is a Pan Asian platform, it fits into CLI's aspirations to grow in the region, which also align with APG's interests. During the analyst call, CLI's management highlighted that this fund is lowly geared at <20% and thus it can utilise this headroom for future M&As.
- Two new renminbi funds allow for capital pool diversification.** CLI also announced another two fund-raising activities to raise close to RMB4b to acquire two fully-leased Shanghai assets. The key highlights of these two funds are that they allow the company to diversify its funding sources with four new domestic investors for the first fund, and six new domestic investors for the second fund.
- China private equity market – not as grim as one would think.** During the analyst briefing, CLI highlighted that there remains a high level of China domestic interest for investment with base fees at a standard 50-100bps with carry embedded into them. CLI stated that it has seen reasonably high levels of liquidity with demand for real estate exposure to new economy sectors (ie industrial, logistics, renewables) as well as the usual commercial/retail properties where the owners are in distress. One key source of capital is the US\$187b insurance industry which has historically invested in debt, but is now looking for private equity and direct investments.
- Continued investment in its portfolio to generate healthy longer-term returns.** CLI stated that in 2022, a total of 17 properties in listed funds have undergone a total of c.S\$1b in asset enhancement initiatives (AEI) or redevelopment. Importantly this has occurred across the whole gamut of its real estate exposure, from office, industrial, retail, to lodging and also across its geographies. These AEIs/redevelopments that are being conducted within its diversified asset base should allow CLI to build longer-term resilience and returns into its portfolio, in our view.

### EARNINGS REVISION/RISK

- Marginal movement in earnings estimates.** We have made minor changes of +3% to -2% to our 2022-24 earnings estimates (see table on RHS) to take into account the better-than-expected funds under management (FUM) fee rate as well as slightly slower revenue growth in CLI's real estate investments business.

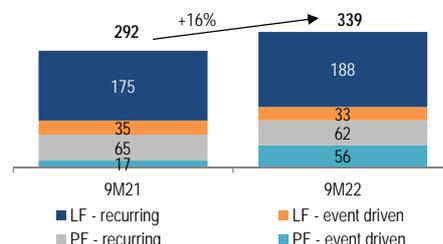
### VALUATION/RECOMMENDATION

- Maintain BUY with a slightly lower SOTP-based target price of S\$4.13 (\$4.28 previously).** The lower target price is the result of: a) CLI's comparable companies experiencing EBITDA multiples compression, and b) lower target prices and market prices for CLI's listed REITs. While this is partially reflected in CLI's 20% share price decline since its 1H22 results, we believe that the company's current P/B valuation is inexpensive at 1.1x for 2023 vs its 2022 peak P/B of 1.4x. While 1H22 presented some challenges, we believe that the company will be in a much stronger shape heading into 2023 as we expect China's recovery path to be sustained post 4Q22. In addition, we look forward to the company closing and deploying more funds over the next six months. As at end 3Q22, CLI had embedded FUM of S\$6b, ie committed funds but not yet deployed.

### SHARE PRICE CATALYSTS

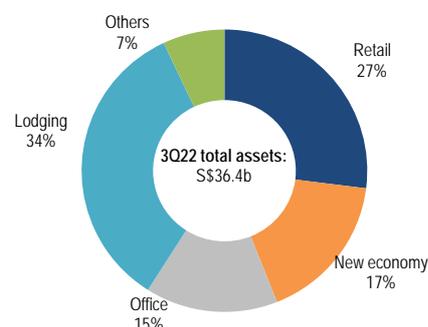
- Cap rate compression and stronger-than-expected growth in its FUM.
- Continued recovery in lodging business from the further reopening of regional and global economies.
- China moving beyond its zero-COVID strategy.
- Share buy-backs.

### FUNDS MANAGEMENT – FEE-RELATED EARNINGS COMPOSITION (\$M)



Source: CLI

### DISTRIBUTION OF ASSETS BY ASSET CLASS



Source: CLI

### SOTP VALUATION

Business units	S\$m	S\$/share
Investment management	4,373	0.86
Lodging management	506	0.10
Property investment	9,020	1.73
Unlisted funds	5,800	1.11
Listed funds	8,171	1.57
Less: overheads	-300	-0.06
<b>Gross asset value</b>	<b>27,570</b>	<b>5.30</b>
Less: other adjustments	-6,250	-1.20
<b>Enterprise value</b>	<b>21,320</b>	<b>4.13</b>

Source: UOB Kay Hian

### FORECAST EARNINGS CHANGES

S\$m	2022E	2023E	2024E
NPAT – old	1,131	1,261	1,392
NPAT – new	1,164	1,239	1,367
% change	2.9%	-1.7%	-1.8%

Source: UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (\$Sm)	2021	2022F	2023F	2024F
<b>Net turnover</b>	<b>2,293</b>	<b>2,816</b>	<b>3,043</b>	<b>3,167</b>
EBITDA	1,251	1,361	1,572	1,632
Deprec. & amort.	160	144	148	151
EBIT	1,091	1,217	1,424	1,481
Total other non-operating income	0	1	2	2
Associate contributions	1,218	750	650	750
Net interest income/(expense)	(353)	(331)	(353)	(333)
<b>Pre-tax profit</b>	<b>1,956</b>	<b>1,637</b>	<b>1,723</b>	<b>1,900</b>
Tax	(396)	(344)	(344)	(380)
Minorities	(211)	(129)	(138)	(152)
Preferred dividends	0	0	0	0
<b>Net profit</b>	<b>1,349</b>	<b>1,165</b>	<b>1,241</b>	<b>1,369</b>
Net profit (adj.)	1,349	1,165	1,241	1,369

### BALANCE SHEET

Year to 31 Dec (\$Sm)	2021	2022F	2023F	2024F
Fixed assets	1,067	1,173	1,275	1,374
Other LT assets	30,757	30,782	30,737	30,762
Cash/ST investment	3,877	1,227	1,726	2,247
Other current assets	1,945	1,952	1,959	1,966
<b>Total assets</b>	<b>37,646</b>	<b>35,134</b>	<b>35,697</b>	<b>36,349</b>
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	1,442	2,706	3,982
Shareholders' equity	16,440	16,823	16,278	15,808
Minority interest	3,661	3,753	3,846	3,942
<b>Total liabilities &amp; equity</b>	<b>37,646</b>	<b>35,134</b>	<b>35,697</b>	<b>36,349</b>

### CASH FLOW

Year to 31 Dec (\$Sm)	2021	2022F	2023F	2024F
<b>Operating</b>	<b>667</b>	<b>1,017</b>	<b>1,228</b>	<b>1,253</b>
Pre-tax profit	1,956	1,637	1,723	1,900
Tax	(396)	(344)	(344)	(380)
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)	(420)	(299)	(419)
<b>Investing</b>	<b>1,268</b>	<b>53</b>	<b>(30)</b>	<b>10</b>
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	303	220	260
<b>Financing</b>	<b>223</b>	<b>(3,720)</b>	<b>(699)</b>	<b>(741)</b>
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
<b>Net cash inflow (outflow)</b>	<b>2,158</b>	<b>(2,650)</b>	<b>498</b>	<b>521</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>1,678</b>	<b>3,815</b>	<b>1,165</b>	<b>1,664</b>
Changes due to forex impact	41	62	62	62
<b>Ending cash &amp; cash equivalent</b>	<b>3,877</b>	<b>1,227</b>	<b>1,726</b>	<b>2,247</b>

### KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
<b>Profitability</b>				
EBITDA margin	54.6	48.3	51.7	51.5
Pre-tax margin	85.3	58.1	56.6	60.0
Net margin	58.8	41.3	40.8	43.2
ROA	3.6	3.2	3.5	3.8
ROE	9.4	7.0	7.5	8.5
<b>Growth</b>				
Turnover	15.6	22.8	8.0	4.1
EBITDA	n.a.	8.8	15.5	3.9
Pre-tax profit	n.a.	(16.3)	5.2	10.3
Net profit	n.a.	(13.7)	6.6	10.3
Net profit (adj.)	n.a.	(13.7)	6.6	10.3
EPS	n.a.	(13.7)	6.6	10.3
<b>Leverage</b>				
Debt to total capital	38.1	31.5	31.4	31.2
Debt to equity	75.2	56.1	56.5	56.6
Net debt/(cash) to equity	51.7	48.8	45.9	42.3
Interest cover (x)	2.9	3.0	3.8	4.0

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