

# 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

29 Feb 2024

## BUY

Last Traded Price (28 Feb 2024): S\$2.78 (STI : 3,138.93)

Price Target 12-mth: S\$3.85 (39% upside) (Prev S\$4.25)

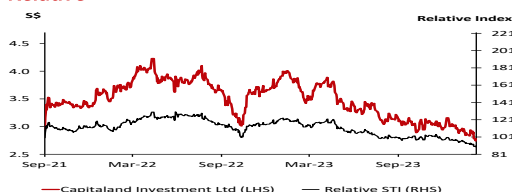
### Analyst

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### What's New

- Operating PATMI dipped 6.0% y-o-y, ahead of downbeat expectations
- Targets to double funds under management ("FUM") to S\$200bn in 5 years
- Lodging business roaring back; could present as key surprise for investors
- BUY call, TP adjusted to S\$3.85 as we refine our TP pegs for its listed platforms.

### Price Relative



### Forecasts and Valuation

FY Dec (\$m)	2022A	2023A	2024F	2025F
Revenue	2,876	2,784	2,806	2,927
EBITDA	1,893	1,042	1,673	1,909
Pre-tax Profit	1,388	474	1,068	1,300
Net Profit	861	181	736	929
Net Pft (Pre Ex.)	861	181	736	929
Net Pft Gth (Pre-ex) (%)	(36.2)	(79.0)	306.8	26.2
EPS (S cts)	16.6	3.48	14.2	17.9
EPS Pre Ex. (S cts)	16.6	3.48	14.2	17.9
EPS Gth Pre Ex (%)	(37)	(79)	307	26
Diluted EPS (S cts)	16.6	3.48	14.2	17.9
Net DPS (S cts)	10.4	11.9	11.9	11.9
BV Per Share (S cts)	291	269	271	277
PE (X)	16.8	79.8	19.6	15.5
PE Pre Ex. (X)	16.8	79.8	19.6	15.5
P/Cash Flow (X)	19.6	21.2	35.6	26.4
EV/EBITDA (X)	14.9	27.7	17.5	15.3
Net Div Yield (%)	3.7	4.3	4.3	4.3
P/Book Value (X)	1.0	1.0	1.0	1.0
Net Debt/Equity (X)	0.5	0.6	0.6	0.5
ROAE (%)	5.5	1.2	5.3	6.5
Earnings Rev (%)			(21)	(20)
Consensus EPS (S cts):			17.1	19.6
Other Broker Recs:		B: 15	S: 0	H: 0

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

## Disproving naysayers

### Investment Thesis:

**Leading Asia real estate manager with ability to acquire across business cycles.** CLI is an asset and capital efficient company with a scalable fee related earnings ("FRE") and Fund AUM ("FUM") platform for growth. We see its private funds and REITs complementing each other in terms of its acquisition strategy across business cycles. With diverse real estate strategies ranging from opportunistic, value-add to core investment, we see CLI leveraging on opportunities in market upcycles and downcycles as its REITs and private funds can be active through those real estate cycles, ensuring consistent and visible growth profiles.

**Adding the next S\$100bn to its FUM target.** After a quiet 2023 with market and interest rates volatility slowing deployment opportunities, the group still achieved S\$100bn in funds under management ("FUM") mainly from its private funds division and is now gunning to add the next S\$100bn to FUM within 5 years, with inorganic growth one of the key strategies to achieve that target, in our view.

**BUY, TP: S\$3.85 for >20% upside.** We maintain our BUY call for CapitaLand Investment Limited ("CLI") with a target price of S\$3.85 pegged to its sum of the parts valuation. We see upside from the stock largely coming from (i) earnings re-rate from earnings CAGR of 8% (8% upside) and (ii) multiple re-rating towards 18x (average peer range) for its funds management business (7% upside). With ongoing news-flow of positive momentum seen from China, we see further catalysts coming from (i) launch of new fund products, (ii) REITs acquiring and (iii) rebound in operational performance from its lodging business.

### Key Risks

Sustained high interest rates could potentially prevent CLI from being able to acquire and grow its FUM.

### At A Glance

Issued Capital (m shrs)	5,122
Mkt. Cap (S\$m/US\$m)	14,238 / 10,593
Major Shareholders (%)	
Temasek Holdings Pte	57.8
Free Float (%)	42.2
3m Avg. Daily Val (US\$m)	20.0

**GIC Industry:** Real Estate / Real Estate Management & Development



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**WHAT'S NEW****Shaking off naysayers**

Capitaland Investment Limited ("CLI") reported a 6.7% dip in operating PATMI to S\$568m, slightly ahead of our projections of S\$532m. Including portfolio gains of S\$213m in FY23, cash PATMI (operating + portfolio) gains was similarly 6.0% lower to S\$781m (-8.0% y-o-y). In line with previous guidance, CLI saw net loss in impairments and devaluations to the tune of -\$600m (vs +\$30m in FY22), driving a c.44% dip in EBITDA to S\$1.104m (vs S\$1,966m). Overall, while 2H23 went into a net loss position, CLI remained profitable in FY23 with an overall PATMI of S\$181m, -79% y-o-y.

Financial metrics remained stable with steady net debt/equity of 0.56x (flat q-o-q) with ICR ratio of 3.8x (FY22: 4.7x). Given resilient cashflows, CLI announced a dividend of 12 scts / share, in line with projections.

**Steadily growing fund management platform.** CLI's fund management platform ("FUM") grew to S\$100bn, including commitments, achieving its target of S\$100bn by 2024. Close to 61% of its FUM is derived from the group's listed REITs but a large part of the growth has been through its private fund platform in recent years. While CLI's managed REITs returned steady growth in FUM (stable y-o-y) as acquisition activity remained subdued (net investment of c.S\$700m (S\$1.2bn investments against S\$532m in divestments) due to high interest rate environment, the lower interest rates environment will make it more conducive for its listed REIT platforms to pursue growth initiatives.

The group raised 4 fund closings through 2023 with a new equity commitment of S\$1.0bn, out of which 81% is raised from the funds' capital partners. We understand that the private funds business has turned more productive with lower equity commitment levels of c.10%-20% for their newly launched funds compared to >30% for its funds with older vintages.

Looking ahead, the group has set a new ambitious target of S\$200bn within 5 years and will look for bolt on acquisition opportunities to grow its FUM. The targets are expected to be delivered through a mix of organic and inorganic, with opportunities within the developed markets space to be most attractive for management.

**Lodging business roaring back, new rooms added, RevPAU surpassed pre-COVID-19 levels (ex-China).** The group's lodging business is roaring back with the group adding close to 5,000 units in 2023, achieving a total count of 164,900 units as of end FY23. The strong pent-up travel demand has driven overall RevPAU up by c.20% y-o-y to S\$91/night in 2023 with most markets seeing strong rebound, most notable being the group's north Asian Markets (ex China) which jumped 84% y-o-y. In 4Q23, RevPAU

recovered to 106% of pre-COVID 2019 levels with a good mix of both higher rates and occupancy rates.

**Our view**

Overall numbers, while lower y-o-y, came in better than expected in our view, given the stock has been under pressure since the start of 2024, on the back of worries of erosion of NAV and profits given expected revaluation losses. Stock is now trading at 1.0x P/B, after a c.8% decline in NAV to S\$2.75/share. Looking ahead, with overall funds under management ("FUM") hitting its goal of S\$100bn, the group looks to grow towards S\$200bn in 5 years, through organic or inorganic opportunities, setting the stage and focus for management to be one of the leading real estate investment managers ("REIM") in Asia.

**BUY call, TP adjusted to S\$3.85.** We have refreshed our estimates and our sum-of-the-parts ("SOTP") with refinements from lower REIT target prices in our estimates. Given upside of >20%, we maintain our BUY call.

SUM of the parts valuation	Value (S\$m)
Real Estate Investments	7,437.6
Stakes in listed S-REITs	7,798.4
Stakes in PE	9,372.3
Fund Mgmt Business	5,562
Lodging	4,479
<b>Gross Valuation</b>	<b>34,649.6</b>
Less :	0
Net Debt	-9,173
Future capex	-1,959
Minority Interest	-3,880
<b>Sum of the parts</b>	<b>19,638</b>
SOTP / share	3.85
Discount	0%
<b>Target Price</b>	<b>3.85</b>

Source: Company, DBS Bank Ltd

**Company Background**

CapitaLand Investment (CLI)'s 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, and active capital management.

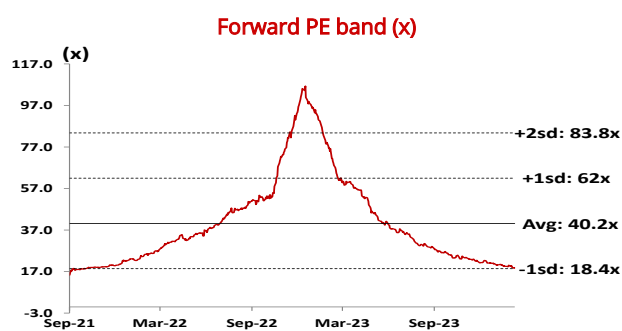
## Capitaland Investment Ltd

### Interim Income Statement (\$m)

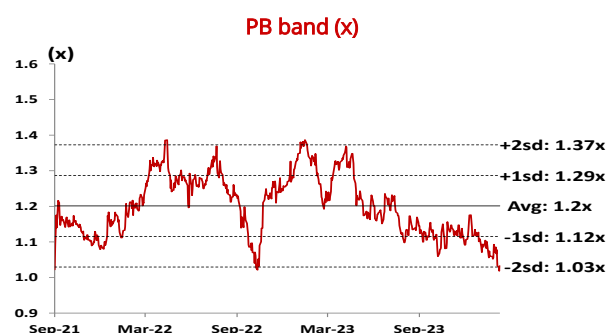
FY Dec	2H2022	1H2023	2H2023	% chg yoy	% chg hoh
Revenue	1,522	1,345	1,439	(5.5)	7.0
Cost of Goods Sold	(866)	(717)	(807)	(6.8)	12.6
<b>Gross Profit</b>	<b>656</b>	<b>628</b>	<b>632</b>	<b>(3.7)</b>	<b>0.6</b>
Other Oper. (Exp)/Inc	(180)	(234)	(215)	19.4	(8.1)
<b>Operating Profit</b>	<b>476</b>	<b>394</b>	<b>417</b>	<b>(12.4)</b>	<b>5.8</b>
Other Non Opg (Exp)/Inc	250	0	(184)	nm	nm
Associates & JV Inc	254	254	19	(92.5)	(92.5)
Net Interest (Exp)/Inc	(197)	(200)	(226)	(14.7)	(13.0)
Exceptional Gain/(Loss)	0	0	0	-	-
<b>Pre-tax Profit</b>	<b>783</b>	<b>448</b>	<b>26</b>	<b>(96.7)</b>	<b>(94.2)</b>
Tax	(193)	(31)	(110)	(43.0)	254.8
Minority Interest	(162)	(66)	(86)	46.9	30.3
<b>Net Profit</b>	<b>428</b>	<b>351</b>	<b>(170)</b>	<b>nm</b>	<b>nm</b>
Net profit bef Except.	428	351	(170)	nm	nm
EBITDA	1,040	719	312	(70.0)	(56.6)
<b>Margins (%)</b>					
Gross Margins	43.1	46.7	43.9		
Opg Profit Margins	31.3	29.3	29.0		
Net Profit Margins	28.1	26.1	(11.8)		

Source of all data: Company, DBS Bank Ltd

### Historical PE and PB band



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



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

## Capitaland Investment Ltd

### Income Statement (\$\$m)

FY Dec	2021A	2022A	2023A	2024F	2025F
Revenue	2,293	2,876	2,784	2,806	2,927
Cost of Goods Sold	(1,235)	(1,586)	(1,524)	(1,388)	(1,425)
<b>Gross Profit</b>	<b>1,058</b>	<b>1,290</b>	<b>1,260</b>	<b>1,418</b>	<b>1,503</b>
Other Opng (Exp)/Inc	(674)	(396)	(449)	(603)	(463)
<b>Operating Profit</b>	<b>384</b>	<b>894</b>	<b>811</b>	<b>816</b>	<b>1,040</b>
Other Non Opng (Exp)/Inc	678	342	(184)	0.0	0.0
Associates & JV Inc	1,218	531	273	731	743
Net Interest (Exp)/Inc	(324)	(379)	(426)	(479)	(483)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>1,956</b>	<b>1,388</b>	<b>474</b>	<b>1,068</b>	<b>1,300</b>
Tax	(396)	(318)	(141)	(182)	(221)
Minority Interest	(211)	(209)	(152)	(150)	(150)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>1,349</b>	<b>861</b>	<b>181</b>	<b>736</b>	<b>929</b>
Net Profit before Except.	1,349	861	181	736	929
EBITDA	2,406	1,893	1,042	1,673	1,909
<b>Growth</b>					
Revenue Gth (%)	15.6	25.4	(3.2)	0.8	4.3
EBITDA Gth (%)	nm	(21.3)	(45.0)	60.5	14.1
Opg Profit Gth (%)	(344.6)	132.8	(9.3)	0.6	27.5
Net Profit Gth (Pre-ex) (%)	nm	(36.2)	(79.0)	306.8	26.2
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	46.1	44.9	45.3	50.6	51.3
Opg Profit Margin (%)	16.7	31.1	29.1	29.1	35.5
Net Profit Margin (%)	58.8	29.9	6.5	26.2	31.7
ROAE (%)	9.7	5.5	1.2	5.3	6.5
ROA (%)	3.6	2.4	0.5	2.1	2.6
ROCE (%)	0.9	2.1	1.8	2.1	2.6
Div Payout Ratio (%)	57.2	62.7	340.8	83.8	66.4
Net Interest Cover (x)	1.2	2.4	1.9	1.7	2.2

Source: Company, DBS Bank Ltd

## Capitaland Investment Ltd

### Interim Income Statement (\$m)

FY Dec	2H2021	1H2022	2H2022	1H2023	2H2023
Revenue	1,244	1,354	1,522	1,345	1,439
Cost of Goods Sold	(691)	(720)	(866)	(717)	(807)
<b>Gross Profit</b>	<b>553</b>	<b>634</b>	<b>656</b>	<b>628</b>	<b>632</b>
Other Oper. (Exp)/Inc	(247)	(124)	(180)	(234)	(215)
<b>Operating Profit</b>	<b>306</b>	<b>510</b>	<b>476</b>	<b>394</b>	<b>417</b>
Other Non Opg (Exp)/Inc	0.0	0.0	250	0.0	(184)
Associates & JV Inc	777	277	254	254	19.0
Net Interest (Exp)/Inc	(149)	(182)	(197)	(200)	(226)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>934</b>	<b>605</b>	<b>783</b>	<b>448</b>	<b>26.0</b>
Tax	(200)	(125)	(193)	(31.0)	(110)
Minority Interest	(87.0)	(47.0)	(162)	(66.0)	(86.0)
<b>Net Profit</b>	<b>647</b>	<b>433</b>	<b>428</b>	<b>351</b>	<b>(170)</b>
Net profit bef Except.	647	433	428	351	(170)
EBITDA	1,083	858	1,040	719	312
<b>Growth</b>					
Revenue Gth (%)	nm	8.8	12.4	(11.6)	7.0
EBITDA Gth (%)	nm	(20.8)	21.2	(30.9)	(56.6)
Opg Profit Gth (%)	nm	66.7	(6.7)	(17.2)	5.8
Net Profit Gth (%)	nm	(33.1)	(1.2)	(18.0)	(148.4)
<b>Margins</b>					
Gross Margins (%)	44.5	46.8	43.1	46.7	43.9
Opg Profit Margins (%)	24.6	37.7	31.3	29.3	29.0
Net Profit Margins (%)	52.0	32.0	28.1	26.1	(11.8)

### Balance Sheet (\$m)

FY Dec	2021A	2022A	2023A	2024F	2025F
Net Fixed Assets	1,067	1,225	1,312	1,462	1,612
Invt in Associates & JVs	13,248	13,152	13,043	13,519	13,713
Other LT Assets	17,509	16,312	15,331	15,331	15,331
Cash	3,877	2,668	2,460	2,378	2,731
ST Investment	0.0	0.0	0.0	0.0	0.0
Inventory	268	415	812	812	812
Debtors	1,661	1,025	939	1,000	1,043
Net Intangibles Assets	990	1,142	1,177	1,177	1,177
Other Current Assets	16.0	313	236	236	236
<b>Total Assets</b>	<b>37,646</b>	<b>35,110</b>	<b>34,133</b>	<b>34,738</b>	<b>35,478</b>
ST Debt	2,549	1,368	1,252	1,252	1,252
Creditor	2,128	2,093	1,455	2,042	2,130
Other Current Liab	939	701	837	436	475
LT Debt	10,999	11,222	11,338	11,488	11,638
Other LT Liabilities	930	797	1,014	1,014	1,014
Shareholder's Equity	16,440	15,529	14,357	14,476	14,789
Minority Interests	3,661	3,400	3,880	4,030	4,180
<b>Total Cap. &amp; Liab.</b>	<b>37,646</b>	<b>35,110</b>	<b>34,133</b>	<b>34,738</b>	<b>35,478</b>
Non-Cash Wkg. Capital	(1,122)	(1,041)	(305)	(430)	(514)
Net Cash/(Debt)	(9,671)	(9,922)	(10,130)	(10,362)	(10,159)
Debtors Turn (avg days)	471.1	170.4	128.7	126.1	127.4
Creditors Turn (avg days)	1,257.4	527.6	468.5	505.9	586.4
Inventory Turn (avg days)	49.4	85.4	162.0	234.9	228.2
Asset Turnover (x)	0.1	0.1	0.1	0.1	0.1
Current Ratio (x)	1.0	1.1	1.3	1.2	1.3
Quick Ratio (x)	1.0	0.9	1.0	0.9	1.0
Net Debt/Equity (X)	0.5	0.5	0.6	0.6	0.5
Net Debt/Equity ex MI (X)	0.6	0.6	0.7	0.7	0.7
Capex to Debt (%)	0.0	1.2	2.6	2.2	2.1

Source: Company, DBS Bank Ltd

## Capitaland Investment Ltd

### Cash Flow Statement (\$m)

FY Dec	2021A	2022A	2023A	2024F	2025F
Pre-Tax Profit	1,560	1,070	333	1,068	1,300
Dep. & Amort.	126	131	142	126	126
Tax Paid	(207)	(195)	(154)	(583)	(182)
Assoc. & JV Inc/(loss)	(1,218)	(531)	(273)	(731)	(743)
Chg in Wkg.Cap.	255	(21.0)	(190)	526	45.0
Other Operating CF	151	281	824	0.0	0.0
<b>Net Operating CF</b>	<b>667</b>	<b>735</b>	<b>682</b>	<b>406</b>	<b>546</b>
Capital Exp.(net)	0.0	(156)	(325)	(276)	(276)
Other Invs.(net)	0.0	0.0	0.0	0.0	0.0
Invs in Assoc. & JV	(665)	(528)	(344)	(330)	(45.0)
Div from Assoc & JV	1,980	217	413	585	595
Other Investing CF	(47.0)	85.0	69.0	0.0	0.0
<b>Net Investing CF</b>	<b>1,268</b>	<b>(382)</b>	<b>(187)</b>	<b>(20.9)</b>	<b>274</b>
Div Paid	(104)	(772)	(773)	(617)	(617)
Chg in Gross Debt	750	106	420	150	150
Capital Issues	(208)	(133)	0.0	0.0	0.0
Other Financing CF	(215)	(571)	(284)	0.0	0.0
<b>Net Financing CF</b>	<b>223</b>	<b>(1,370)</b>	<b>(637)</b>	<b>(467)</b>	<b>(467)</b>
Currency Adjustments	(17.0)	(192)	(66.0)	0.0	0.0
Chg in Cash	2,141	(1,209)	(208)	(82.3)	353
Opg CFPS (S cts)	8.01	14.6	16.8	(2.3)	9.65
Free CFPS (S cts)	13.0	11.1	6.87	2.49	5.20

Source: Company, DBS Bank Ltd

### Target Price & Ratings 12-mth 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:	12 May 23	3.62	4.25	BUY
2:	10 Nov 23	2.94	4.25	BUY

Source: DBS Bank Ltd

Analyst: Derek TAN

DBS Bank Ltd 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

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Dissemination Date: 29 Feb 2024 10:02:00 (SGT)

Sources for all charts and tables are DBS Bank Ltd unless otherwise specified.

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