

CapitaLand Investment Limited

Charting new growth



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SINGAPORE | REAL ESTATE | INITIATION

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- Stable and recurring revenues from fees income and real estate investment contributing c.20% and c.80% to EBITDA respectively.
- Growth in fund management and lodging AUM to drive fee income while capital recycling and new economy assets remain in focus.
- Initiate coverage on CLI with an ACCUMULATE rating and SOTP derived TP of S\$4.00, representing an 19.6% upside from current market price. CLI is trading at 16.0x P/E; we are forecasting FY21e dividend yield of 2.4%.

Investment Thesis

- Stable and recurring revenues from fees income and real estate investments** (Figure 1). These segments contribute c.20% and c.80% of EBITDA respectively. Approximately 80% of fee income from the fund management is recurring in nature while the lodging platform generates franchising and management fees from predominantly 3rd party-owned assets. Income generating assets held by CLI is also expected to deliver highly visible cashflows.
- Growth in fund management and lodging AUM to drive fee income.** CLI has made great headway towards hitting its 2024 funds under management (FAUM) target of S\$100bn. Two new senior hires, Mr Simon Treacy and Mr Patrick Boocock, have been brought on to spearhead the growth of private funds. The lodging platform also on track to surpass its 2023 target of 160K keys under management. CLI signed 8.3K keys in 8M21, bringing the number of keys to 130.9K, of which, c.40% are still under development and have not begun contributing to revenue.
- Divestment targets channelled into new economy sectors.** CLI remains committed to its S\$3bn divestment target, which will help replenish dry powder to be reinvested into new economy assets such as logistics, data centres, business parks, as well as lodging assets like PBSA and multifamily assets which provide stable returns. This helps to better diversify and keep the portfolio future ready.

Segmental Breakdown

CLI's revenue is categorised into fee-income and real estate investment.

Figure 1: Revenue breakdown by segment

	Drivers	Revenue
Fee-Income Business segments		
1. Investment Management	FAUM	Base fee (Recurring ~80%)
- Investment and Asset Management (IAM)	Capital recycling	Acq/Divest. Fees
- Property Management (PM)	Performance fee	Promote/Performance Fee
	AUM	Property mgmt. fees
2. Lodging management	Keys under mgmt	Franchising and management fee, % of turnover
Real Estate Investment Segments		
3. Investment Property	Performance of underlying asset	Rental Income
4. Stakes in listed funds	Value Add (AEI/devt.)	DPU
5. Stake in unlisted funds	Capital Recycling	Share of profits

Source: PSR

ACCUMULATE (Initiate)

LAST DONE PRICE	SGD 3.41
FORECAST DIV	SGD 0.08
TARGET PRICE	SGD 4.00
TOTAL RETURN	19.6%

COMPANY DATA

BLOOMBERG CODE:	CLI SP Equity
O/S SHARES (MN) :	5,203
MARKET CAP (USD mn / SGD mn) :	13149 / 17733
52 - WK HI/LO (SGD) :	3.54 / 2.9
3M Average Daily T/O (mn) :	-

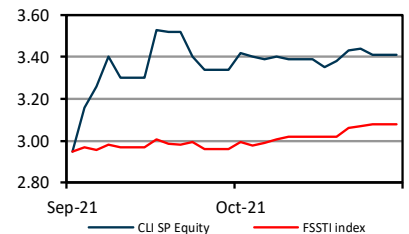
MAJOR SHAREHOLDERS (%)

TEMASEK HOLDINGS	51.5%
BLACKROCK INC	5.0%
VANGUARD GROUP	1.9%
NORGES BANK	87.0%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	-	-	-
STI RETURN	3.8	2.3	14.8

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, SGD mn	FY19*	FY20*	FY21e	FY22e
Revenue	2,488	1,983	2,208	2,453
Gross Profit	1,171	872	1,038	1,153
EBIT	1,383	(157)	1,051	1,273
EPS (SGD)	54.40	(19.90)	20.54	26.06
P/E (x)	0.0	-17.1	16.6	13.1
P/BV (x)	0.00	1.13	1.09	1.04
DPS (cents)	0.00	0.00	8.27	9.06
Div Yield, %	0.0%	0.0%	2.4%	2.7%
ROE, %	11.5%	-4.7%	7.2%	8.6%

Source: Company Data, Bloomberg

Valuation Method

SOTP

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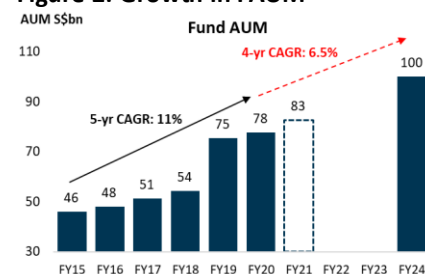
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* FY19 and FY20 numbers have been prepared as if the Internal Restructuring had occurred as at the beginning of the earliest period presented

1. Investment Management

FAUM has grown at 5-year CARG of 11% (Figure 2), largely attributed to the growth in listed funds AUM and the acquisition of Ascendas-Singbridge. CLI is still S\$17bn shy of its 2024 FAUM target of S\$100bn. Going forward, CLI hopes to capture private capital demand for real estate products via its private funds. CLI has brought on two new senior hires to spearhead the growth in private funds.

Figure 2: Growth in FAUM



Source: CLI, PSR

- Mr Simon Treacy has been appointed as CEO of Private Equity Real Estate. Formerly the CIO of Global Real Estate at Blackrock and CEO of Macquarie Global Property Advisors, Mr Treacy brings with him more than 23 years of real estate experience.
- Mr Patrick Boocock will join CLI as the CEO of Private Equity Alternative Assets, bringing with him more than 20 years of investment management experience. Previously the Managing Partner and Head of Asia at Brookfield Asset Management, Mr Boocock’s expertise in alternative assets spans real estate, infrastructure, renewable energy and private equity.

In June 2021, CLI obtained its registered Private Equity Fund Manager status in China, which will allow it to carry out RMB-denominated capital raising. The group aims to launch its first RMB-denominated fund product in 4Q21. CLI launched two funds YTD; a S\$400mn CapitaLand India Logistics Fund II in May21 and its second Korea Data Centre Fund in Jun21 raising S\$400mn from third party investors.

We value the fund management business using the P/E given the stability of fee income, applying a 16x P/E multiple, the average amongst comparable real estate investment manager peers, which have traded between 12.3x-25.1x P/E pre-pandemic.

Figure 3: Investment management peer comparables

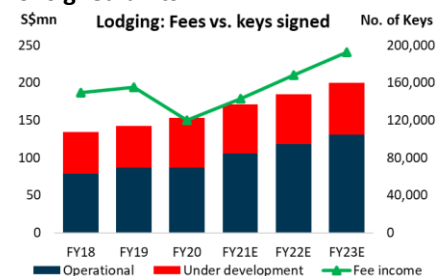
Bloomberg Ticker	Comparable Peer	Mkt Cap (S\$m)	P/E Ratio (x)					P/B (x)	Debt/Equity	ROE (%)	ROA (%)	Dividend Yield (%)	% of Earnings from		
			FY18	FY19	FY20	FY21e	FY22e						Real Estate	Invst. Mgmt.	
BX US Equity	Blackstone Inc	US	198,953	12.5	20.2	33.8	32.3	27.3	17.7	30.1	65.4	14.8	2.5	38.7%	49.7%
BAM US Equity	Brookfield Asset Mgmt	US	122,606	18.7	17.8	71.1	76.8	148.7	2.8	122.6	-0.6	0.0	0.9	15.0%	60.1%
CNS US Equity	Cohen & Steers Inc	US	5,649	14.7	22.8	31.9	24.0	21.5	18.7	-2.8	55.9	31.9	3.1	-	93.0%
CHC AU Equity	Charter Hall Group	AU	8,017	14.7	14.9	14.4	21.2	20.7	3.4	8.5	21.4	15.8	2.6	34.0%	56.5%
GMG AU Equity	Goodman Group	AU	40,095	11.8	16.2	15.1	28.7	25.4	3.0	9.4	18.7	14.0	1.4	5.7%	19.3%
LLC AU Equity	Lendlease Corp Ltd	AU	7,412	12.3	18.9	41.0	24.3	15.6	1.1	16.8	3.2	1.3	2.7	-	-
1821 HK Equity	ESR Cayman Ltd	HK	12,204	n.a	25.1	39.8	26.8	21.8	2.5	50.0	10.9	4.8	n.a.	26.1%	48.7%
	Weighted Average			14.0	19.1	43.4	45.1	64.2							
	Median			13.6	18.9	33.8	26.8	21.8							

Source: Bloomberg (extracted on 17 October 2021), PSR

2. Lodging Management

The Ascott Limited (TAL) is a global, long-stay lodging operating platform with an asset-light model. Of its 128,500 keys under management, 80% are managed units owned by third parties. Brands under TAL include Ascott, Citadines, Somerset, Quest and Lyf, which operate mainly longer-stay, serviced residence, business hotels and co-living assets. Over the past three years, TAL has expanded into adjacent sectors such as the purpose-built student accommodation (PBSA) and multifamily/rental housing asset classes. The clientele for these assets have a longer average length-of-stay between 3-24 months. The investment proposition of long-stay asset classes was tested and validated during the pandemic – SRs outperformed their hotels peers while the multifamily and PBSAs maintained occupancies above 95%.

Figure 4: Fee income and breakdown of signed units



Source: CLI, PSR estimates

On track to hit 160,000 keys target by 2023. TAL has been growing the number of keys signed at a 5-year CAGR of 24%. Despite the pandemic, a record 14,000 keys were signed in FY20. FY21’s signings are likely to keep pace with FY20’s numbers – TAL signed 8,300 keys

year-to-July, representing a 40% YoY growth in new signings compared to the same period in FY20. TAL will need to grow the number of keys signed at a CAGR of 8.2% p.a., or c.12,500 keys/year, to hit meet its 160,000 keys target.

Unrealised earning potential. Of its 128,500 keys signed, c.47% are still under development and have not begun contributing to revenue. The management expects to reap S\$20-25mn per 10,000 stabilised units. We expect fee income to grow at a 5-year CAGR of 16%, on the back of hospitality recovery and more units turning operational.

Due to the varied geographical portfolios of its comparable peers, we elected to use the EV/EBITDA multiple as a tax-neutral valuation method for the lodging segment. Comparable lodging operator peers have traded between 12.6x-24.7x EV/EBITDA. As such, we applied an average EV/EBITDA ratio of 16x for our valuation of the lodging platform.

Figure 5: Hotel operator peer comparables

Bloomberg Ticker	Comparable Peer	Exchange Code	Mkt Cap (\$\$mn)	EV/EBITDA (x)					P/B (x)	No. of hotels	Franchise & Mgmt Fee as a % of Rev.
				FY18	FY19	FY20	FY21e	FY22e			
MAR US Equity	Marriott International	US	70,292	16.8	24.7	49.8	28.6	19.2	65.5	7,000	75%
HLT US Equity	Hilton Worldwide Holdings	US	54,320	15.3	17.0	51.3	31.8	21.1	n.a.	6,400	73%
IHG LN Equity	InterContinental Hotels Group	LN	17,331	15.7	17.3	159.6	26.0	17.4	n.a.	5,900	83%
AC FP Equity	Accor SA	FP	13,107	18.2	14.8	14.8	882.0	18.7	2.0	5,100	74%
WH US Equity	Wyndham Hotels & Resorts	US	10,520	12.6	13.3	24.9	18.4	15.8	7.4	9,000	100%
CHH US Equity	Choice Hotels International	US	10,330	12.6	16.4	23.2	22.6	20.5	73.0	7,000	100%
			Weighted Average	15.8	19.7	55.4	92.0	19.4			
			Median	15.5	16.7	37.4	27.3	19.0			

Source: Bloomberg (extracted on 17 October 2021), Company Filings, PSR

3. Investment Property

CLI holds stabilised office, retail, industrial, hospitality and mixed-use assets on its books and through associates and joint ventures. These assets provide recurring rental income for CLI and are expected to be monetised over the next 3-4years to CLI's REITs, private funds or third-party buyers.

4. Stake in Listed Funds

CLI manages six listed funds with equity stakes varying between 18.0%-40.7%, receiving distributions based on the number of units owned. We value this segment using PSR's and consensus target prices of the respective REITs.

5. Stake in Unlisted Funds

CLI manages more than 20 private funds including Core and Core Plus, Value Add, Opportunistic and Alternative funds. Value Add and Opportunistic funds are expected to deliver higher return and represent c.90% of the funds managed. The remaining c.10% are Core and Core Plus funds which invest in stabilised assets. The group maintains a between 6.5%-55.0% stake in the funds. We value this segment based on the RNAV of CLI's respective stakes in the funds.

Outlook

CLI's property portfolio continues recovers on the back of a reopening and return-to-normalcy, while its investment management and lodging platform continues to receive growing demand from private capital and lodging owners. The group remains committed to its S\$3bn divestment target - monetising its balance sheet and rebalancing into new economy assets to keep its portfolio future ready.

Initiate with ACCUMULATE; SOTP TP of S\$4.00

We adopt a sum-of-the-parts (SOTP) valuation for CLI post restructuring. Our SOTP derived TP of S\$4.00 represents an upside of 19.6% from current market price. CLI is trading at 16.0x P/E; we are forecasting FY21e dividend yield of 2.4%.

Figure 6: Sum-of-the-parts valuation

SOTP Valuation				
Business Segments	Basis	Multiple (x)	\$mn	Valuation (\$mn)
			<u>FY22 PATMI</u>	
1. Investment Management	P/E	16	220.6	3,530
Fund Management				
Property Management				
			<u>FY22 EBITDA</u>	
2. Lodging Management	EV/EBITDA	16	71	1,142
3. Investment Property	IP Valuation			7,773
4. Stake in Listed Funds	Carrying Value			9,236
	<u>Shares (mn)</u>	<u>Stake</u>	<u>TP/Concensus</u>	
CICT	6,479	22.9%	2.54	3,768
AREIT	4,195	18.0%	3.65	2,756
ART	3,273	40.7%	1.19	1,585
CLCT	1,531	22.2%	1.56	529
AIT	1,153	21.6%	1.77	440
CLMT	2,128	38.1%	0.19	157
5. Stake in Unlisted Funds	RNAV			6,186
		<u>Stake</u>		
		6% - 55%		
All Segments				27,867
Less: Net Debt and Capitalised Overheads				(7,075)
Valuation				20,792
Shares Outstanding (mn)				5,203
Valuation Per Share (\$)				4.00

Source: PSR

Figure 7: Summary of financials and key ratios

Financials

Income Statement

Y/E Dec, SGD mn	FY19*	FY20*	FY21e	FY22e
Revenue	2,488	1,983	2,208	2,453
Gross profit	1,171	872	1,038	1,153
Operating inc./exp	212	(1,029)	13	120
Gross operating profit	1,383	(157)	1,051	1,273
Finance cost	(327)	(377)	(345)	(359)
Share of results from:				
- Associates	793	81	582	643
- Joint ventures	172	(106)	(31)	19
(Loss)/Profit before tax	2,021	(559)	1,257	1,576
Tax expense	(273)	(114)	(188)	(220)
(Loss)/Profit for the year	1,748	(673)	1,069	1,356

Per share data (SGD)

Y/E Dec, SGD cents	FY19*	FY20*	FY21e	FY22e
EPS	54.40	(19.90)	20.54	26.06
DPS			8.27	9.06
BVPS	3.19	3.02	3.13	3.28

Cash Flows

Y/E Dec, SGD mn	FY19*	FY20*	FY21e	FY22e
CFO				
(Loss)/Profit for the year	1,748	(673)	1,069	1,356
Adjustments	(858)	1,428	(572)	(531)
WC changes	(463)	(429)	(813)	49
Cash generated from ops	427	326	(316)	874
Taxes paid, others	(110)	(143)	(113)	(132)
Cashflow from ops	317	183	(429)	742
CFI				
CAPEX and acquisitions	(175)	(236)	(2,238)	(2,201)
Dividends from associates & JV	466	502	457	510
Proceeds from disposal of IP	-	364	3,054	2,500
Cashflow from investments	58	1,068	280	(213)
CFE				
Dividends paid	(454)	(720)	(335)	(430)
Interest expense paid	(308)	(365)	(329)	(341)
Net cash from borrowings/debt securi	493	31	1,278	(600)
Cashflow from financing	(48)	(972)	477	(1,529)
Net change in cash	327	279	328	(1,000)
Effects of exchange rates	(2)	42	-	-
Cash & equivalents at end of year	1,354	1,678	2,006	1,006

Source: Company, Phillip Securities Research (Singapore) Estimates

* FY19 and FY20 numbers have been prepared as if the Internal Restructuring had occurred as at the beginning of the earliest period presented

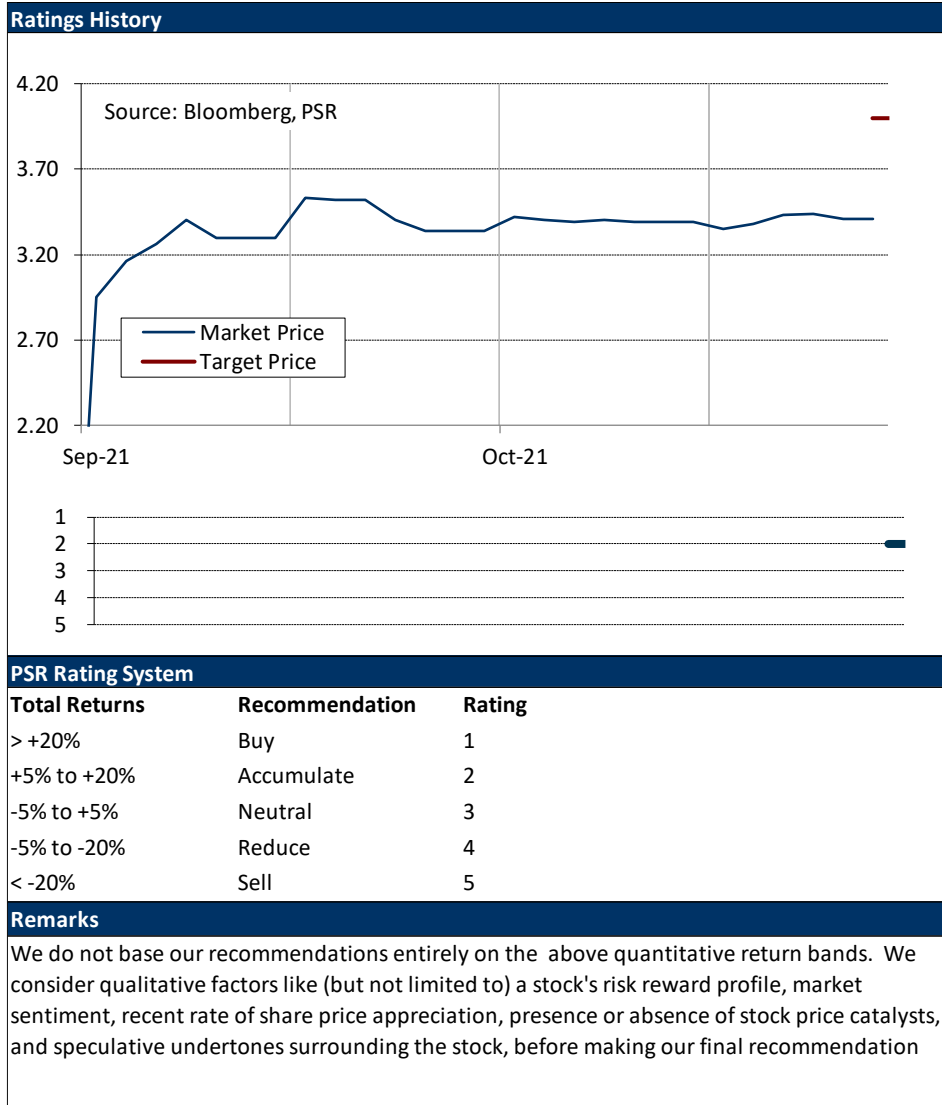
Balance Sheet

Y/E Dec, SGD mn	FY18	FY19*	FY20*	FY21e	FY22e
ASSETS					
PPE		914	1,096	1,042	990
Associates & JVs	13,693	13,198	14,303	15,465	
Investment Properties	16,256	15,852	15,679	15,912	
Others	1,777	1,834	1,813	1,792	
Total non-current assets		32,640	31,980	32,836	34,159
Accounts Receivables	4,302	4,258	1,546	1,717	
Cash balance	1,421	1,736	2,006	1,006	
Others	479	249	217	217	
Total current assets	6,202	6,243	3,769	2,940	
Total Assets	38,842	38,223	36,605	37,100	
LIABILITIES					
Short term borrowings		1,263	1,132	1,432	1,132
Accounts Payables		5,293	5,513	1,987	2,208
Others		628	492	470	870
Total current liabilities		7,184	7,137	3,889	4,210
Long term borrowings		5,437	6,049	7,049	6,749
Others		9,645	9,303	9,378	9,066
Total non-current liabilities		15,082	15,352	16,427	15,815
Total Liabilities		22,266	22,489	20,317	20,025
EQUITY					
Shareholder Equity		12,611	11,875	12,365	13,060
Perpetual Securities		396	396	396	396
Non-controlling interest		3,569	3,463	3,527	3,620
Total Equity		16,576	15,734	16,288	17,075

Valuation Ratios

Y/E Dec	FY18	FY19*	FY20*	FY21e	FY22e
P/E			-17.1	16.6	13.1
P/B			1.13	1.09	1.04
Dividend Yield (%)				0.02426	0.03
Growth & Margins					
Growth					
Revenue			-20.3%	11.4%	11.1%
EBIT			n.m.	n.m.	21.2%
Net Income, adj.			n.m.	n.m.	26.9%
Margins					
EBIT margin			55.6%	-7.9%	47.6%
Net Profit Margin			70.3%	-33.9%	48.4%
Key Ratios					
ROE		13.9%	-5.7%	8.6%	10.4%
ROA		4.5%	-1.8%	2.9%	3.7%
Debt/Equity		0.40	0.43	0.48	0.48

Figure 8: PSR rating



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