

# City Developments Limited

Lifted by hospitality and divestment gains

SINGAPORE | REAL ESTATE | RESULT

- 1H22 revenue of S\$1.47bn (+23.5% YoY) in line at 46% of our forecast. PATMI exceeded at 107% due to divestment gains from Millennium Hilton Seoul of \$526.2mn and \$94mn gains from deconsolidation of CDLHT, excluding which, performance would have been in line.
- All three core segments improved. Strong residential sales (712 units sold, in line) and recovery in the hospitality segment (RevPAR +110% YoY), which has turned EBITDA positive. Investment properties portfolio recovered with office and retail above expectations.
- 639-unit JV EC project, Copen Grand set to be launched in 4Q22; demand for project expected to be robust. Hotel operations to also benefit from reduction of Covid-19 restrictions, M&A and divestment opportunities.
- Downgrade to ACCUMULATE and lower RNAV-derived TP of \$8.86 (prev. \$9.19).** We view CDL as a proxy for the Singapore residential market and hospitality recovery. CDL is trading at an attractive 40% discount to our RNAV/share of S\$13.64. Asset monetisation, unlocking value through AEs and redevelopments, and faster-than-expected recovery in hospitality portfolio are potential catalyst for CDL, which could help narrow the discount between CDL's share price and RNAV. However, TP is reduced to \$8.86 as we incorporate higher borrowing costs for FY22e/FY23e along with slower profit recognition for its residential properties.

## Results at a glance

(SGD mn)	1H22	1H21	YoY	Comments
Gross revenue	1,472.6	1,192.2	23.5%	Driven by recovery in hotel RevPAR and occupancy.
Gross profit	583.5	416.8	40.0%	GP margin expanded to 40% from 35% driven by improvements in hospitality sector.
Operating profit	1,530.9	76.3	n.m.	
<b>PBT comprising:</b>	<b>227.7</b>	<b>9.7</b>	<b>n.m.</b>	
- Property Devt	104.2	118.8	-12.3%	In-line.
- Hotel Ops	1,325.1	(142.9)	n.m.	RevPAR +110% YoY, occupancy +15.9% points YoY
- Investment Ppty	131.0	9.5	n.m.	Incl. divestment gains of \$94mn from deconsolidation of CDLHT.
- Others	24.7	24.3	1.4%	
PATMI	97.7	(1,917.4)	n.m.	

Source: Company, PSR

## The Positives

- All three core segments improved.** Residential sales remained robust in 1H22 despite cooling measures imposed at the end of the year. CDL sold 712 units with total sales value of \$1.6bn vs. \$1.7bn in 1H21. Sales value is comparable with 1H21 despite 27% less units sold as the Group's existing inventory has been substantially sold. Its hotel operations globally improved with the easing of travel restrictions and the divestment of Millennium Hilton Seoul. Investment properties remained resilient with its office and retail portfolio recording strong occupancy in 1H22.
- Hotel segment 1H22 PATMI ahead, at 60% FY22e.** RevPAR surged 110% YoY, driven by a 53% increase in the average room rate and 16% points (58.5% from 42.6%) increase in occupancy. Hotels in US and Europe continued to recover faster than those in Asia, though average room rates increased across all regions, signalling a strong recovery momentum.
- On-track for AUM target of US\$5bn in 2023.** Fund management remains an integral part of the Group's transformational strategy and the Group will drive AUM growth via investment opportunities in both listed (IREIT and CDLHT) and unlisted platforms. It has an AUM of US\$2.9bn, and management remains confident of hitting the Group's US\$5bn



23 August 2022

## ACCUMULATE (Downgraded)

LAST DONE PRICE	SGD 8.21
FORECAST DIV	SGD 0.24
TARGET PRICE	SGD 8.86
<b>TOTAL RETURN</b>	<b>10.9%</b>

## COMPANY DATA

BLOOMBERG CODE:	CIT SP Equity
O/S SHARES (MN) :	907
MARKET CAP (USD mn / SGD mn) :	4852 / 6611
52 - WK HI/LO (SGD) :	8.3 / 6.52
3M Average Daily T/O (mn) :	2.09

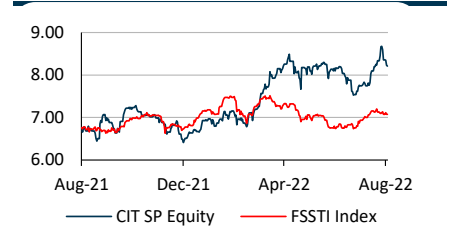
## MAJOR SHAREHOLDERS (%)

HONG LEONG INVESTMENT HOLDINGS	17.2%
DAVOS INVESTMENT HOLDINGS	16.4%
ABRDN PLC	5.0%

## PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	0.7	4.3	7.0
STI RETURN	(5.2)	4.0	4.2

## PRICE VS. STI



Source: Bloomberg, PSR

## KEY FINANCIALS

Y/E Dec, SGD mn	FY20	FY21	FY22e	FY23e
Revenue	2,108	2,626	3,191	2,855
Gross Profit	829	978	1,448	1,220
EBIT	(852)	322	2,088	544
EPS (SGD)	(2.13)	0.09	1.36	0.54
DPS (SGD)	0.12	0.12	0.24	0.15
P/E (x)	-4.1	93.5	6.4	16.0
P/BV (x)	0.9	0.9	0.9	0.9
Div Yield	1.4%	1.4%	2.8%	1.7%
ROE	-20.3%	1.5%	16.4%	5.1%

Source: Company Data, Bloomberg

## Valuation Method

RNAV

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target by 2023. We believe one way it could boost its AUM is to pivot the proposed listing of its UK commercial REIT into a private fund.

- + **12 cents special dividend a surprise, share buyback under consideration.** A special dividend of 12 cents was declared vs. 3 cents in the same period last year and 6 cents pre-Covid. We revise our FY22e dividend payout to 24 cents on the back of management's optimistic outlook for rest of 2022. Management is considering adopting share buybacks due to the current significant discount to its RNAV.

#### The Negative

- **Replenishment of landbank to slow as land costs have surged.** The management will be selective with the replenishment of its landbank. Management remains confident of replenishing its landbank as it believes that property prices will continue to trend up on the back of higher costs, though it expects volumes to slow.

#### Outlook

##### Healthy inventory levels allow for more conservative bidding

Cumulative launch pipeline of 1,931 units with the next launch Copen Grand (Tengah Garden Walk EC, 639 units) targeted for 4Q22. CDL also picked up three more sites which will add ~1,458 units to the pipeline. CDL's inventory levels are healthy, allowing it to be more selective and conservative when bidding for new sites. The site at Upper Bukit Timah Road was purchased in an off-market deal from Tan Chong Realty for S\$126.3mn or S\$603 psf, and could yield 603 units. On 26 Jan 2022, CDL won the tender for the Jalan Tembusu GLS with a bid of S\$589.9mn or S\$1,302 psf, adding 640 units to the pipeline. Given the higher land prices and cost of construction, CDL is aiming for margins of at least 10% for new projects.

##### Strategic review of global hospitality portfolio

CDL has launched a strategic review of its global hospitality portfolio that should help narrow the discount to its RNAV. Its restructuring plans for its hotel business, Millennium & Copthorne, in the next few years should help the Group crystallise value for its assets. These restructuring plans may include asset divestments, portfolio optimisation as well as a rebranding of its hotels to improve earnings and drive upside to NAV.

##### Downgrade to ACCUMULATE from BUY with lower RNAV TP of \$8.86 (prev. \$9.19)

We view CDL as proxy for the Singapore residential market and hospitality recovery. While land prices have trended up in recent years, redevelopment and off-market purchases should provide better margins, allowing it to replenish its inventory and participate in the peaking Singapore residential market. CDL is trading at an attractive 40% discount to our RNAV/share of S\$13.64. Asset monetisation, unlocking value through AEs and redevelopments, and faster-than-expected recovery in the hospitality portfolio are potential catalysts for CDL, which could help narrow the discount between CDL's share price and RNAV. We downgrade CDL to ACCUMULATE from BUY with a lower RNAV TP of \$8.86 as we raise borrowings costs slightly for FY22e/FY23e along with slower profit recognition for its residential projects.

Figure 1: RNAV table

Segment	Location	RNAV (S\$m)	Per share (S\$)		
Residential	SG Surplus	1,671	1.84		
	Overseas Surplus	460	0.51		
	SG+Overseas NAV	5,889	6.49		
Office	SG	2,775	3.06		
Hotels/SRs	SG + Overseas	7,954	8.77		
Retail	SG	734	0.81		
Industrial	SG	327	0.36		
Commercial	Overseas	2,736	3.02		
<b>Stakes in listed entities:</b>					
	<u>Stake</u>	<u>TP/Consenses (S\$)</u>	<u>Shares (mn)</u>		
CDL Hospitality Trust	39%	1.20	1,231	576	0.64
IREIT Global REIT	21%	0.75	1,155	182	0.20
First Sponsor Group	36%	1.56	924	519	0.57
<b>Total GAV</b>				23,823	26.27
<b>Net cash/(debt)</b>				(11,455)	(12.63)
<b>RNAV:</b>				12,368	13.64
No. of shares (mn)				906.9	
<b>RNAV per share (S\$)</b>				<b>13.64</b>	
Discount to RNAV				35%	
<b>Target Price (S\$)</b>				<b>8.86</b>	

Source: Company, PSR

## Financials

### Income Statement

Y/E Dec, SGD mn	FY19	FY20	FY21	FY22e	FY23e
<b>Revenue</b>	<b>3,429</b>	<b>2,108</b>	<b>2,626</b>	<b>3,191</b>	<b>2,855</b>
Gross Profit	1,638	829	978	1,448	1,220
Depreciation & Amortisation	276	287	278	232	231
<b>EBIT</b>	<b>654</b>	<b>(852)</b>	<b>322</b>	<b>2,088</b>	<b>544</b>
Net Finance (Expense)/Inc	(96)	(93)	(202)	(178)	(180)
Associates & JVs	196	(846)	107	255	291
<b>Profit Before Tax</b>	<b>754</b>	<b>(1,791)</b>	<b>228</b>	<b>2,165</b>	<b>655</b>
Taxation	(141)	(88)	(88)	(628)	(159)
<b>Profit After Tax</b>	<b>613</b>	<b>(1,879)</b>	<b>140</b>	<b>1,537</b>	<b>496</b>
Non-Controlling Interest	49	39	64	308	4
<b>Net Income, reported</b>	<b>613</b>	<b>(1,879)</b>	<b>140</b>	<b>1,537</b>	<b>496</b>

### Per share data (SGD)

Y/E Dec, SGD	FY19	FY20	FY21	FY22e	FY23e
EPS, reported	0.61	-2.13	0.09	1.36	0.54
DPS	0.20	0.12	0.12	0.24	0.15
BVPS	11.60	9.38	9.28	8.99	9.32

### Cash Flows

Y/E Dec, SGD mn	FY19	FY20	FY21	FY22e	FY23e
<b>CFO</b>					
Profit for the year	613	(1,879)	140	1,537	496
Adjustments	50	2,091	193	(1,264)	114
WC changes	276	(581)	814	708	(89)
Cash generated from ops	1,080	(280)	1,234	1,608	680
Taxes paid, others	(244)	(76)	(100)	(628)	(159)
<b>Cashflow from ops</b>	<b>836</b>	<b>(356)</b>	<b>1,134</b>	<b>980</b>	<b>522</b>
<b>CFI</b>					
CAPEX, net	(204)	154	(78)	1,236	(207)
<b>Cashflow from investments</b>	<b>(1,350)</b>	<b>(1,076)</b>	<b>(863)</b>	<b>170</b>	<b>(791)</b>
<b>CFF</b>					
Dividends paid	(269)	(190)	(174)	(218)	(136)
<b>Cashflow from financing</b>	<b>1,149</b>	<b>1,564</b>	<b>(1,277)</b>	<b>(1,179)</b>	<b>(413)</b>
<b>Net change in cash</b>	<b>636</b>	<b>131</b>	<b>(1,006)</b>	<b>(29)</b>	<b>(682)</b>
Effects of exchange rates	(8)	34	(5)	-	-
<b>CCE, end</b>	<b>2,790</b>	<b>2,955</b>	<b>1,944</b>	<b>1,916</b>	<b>1,234</b>

Source: Company, PSR Estimates

### Balance Sheet

Y/E Dec, SGD mn	FY19	FY20	FY21	FY22e	FY23e
<b>ASSETS</b>					
PPE	5,462	5,526	5,362	5,340	5,316
Associates & JVs	1,755	1,793	1,856	2,511	3,197
Investment Properties	4,410	4,569	3,997	4,717	4,952
Others	1,738	977	923	1,088	1,093
<b>Total non-current assets</b>	<b>13,366</b>	<b>12,865</b>	<b>12,138</b>	<b>13,656</b>	<b>14,558</b>
Development property	5,156	5,391	5,839	5,889	5,939
Accounts Receivables	822	1,681	1,873	765	685
Cash balance	2,798	3,127	2,083	2,055	1,373
Others	1,059	613	1,961	515	515
<b>Total current assets</b>	<b>9,834</b>	<b>10,812</b>	<b>11,757</b>	<b>9,224</b>	<b>8,512</b>
<b>Total Assets</b>	<b>23,200</b>	<b>23,677</b>	<b>23,895</b>	<b>22,880</b>	<b>23,069</b>

### LIABILITIES

Short term loans	2,038	2,799	5,188	478	1,504
Accounts Payables	1,199	1,349	1,453	1,116	998
Others	540	867	1,261	1,248	1,246
<b>Total current liabilities</b>	<b>3,777</b>	<b>5,014</b>	<b>7,902</b>	<b>2,841</b>	<b>3,748</b>
Long term loans	7,673	8,756	5,952	9,972	8,946
Others	483	634	707	697	715
<b>Total non-current liabilities</b>	<b>8,156</b>	<b>9,390</b>	<b>6,659</b>	<b>10,669</b>	<b>9,661</b>
<b>Total Liabilities</b>	<b>11,934</b>	<b>14,404</b>	<b>14,561</b>	<b>13,510</b>	<b>13,409</b>

### EQUITY

Shareholder Equity	10,520	8,502	8,414	8,154	8,450
Non-controlling interest	746	740	918	1,216	1,210
<b>Total Equity</b>	<b>11,267</b>	<b>9,272</b>	<b>9,334</b>	<b>9,370</b>	<b>9,660</b>

### Valuation Ratios

Y/E Dec, SGD mn	FY19	FY20	FY21	FY22e	FY23e
P/E (X), adj.	14.30	-4.08	93.47	6.41	16.00
P/B (X)	0.71	0.88	0.88	0.91	0.88
Dividend Yield	2.3%	1.4%	1.4%	2.8%	1.7%

### Growth & Margins (%)

<b>Growth</b>					
Revenue	-18.8%	-38.5%	24.5%	21.5%	-10.5%
EBIT	-27.7%	-230.2%	-137.8%	548.6%	-74.0%
Net Income	-7.2%	-406.3%	-107.4%	999.3%	-67.7%

### Margins

EBIT margin	19.1%	-40.4%	12.3%	65.4%	19.0%
Net Profit Margin	17.9%	-89.1%	5.3%	48.2%	17.4%

### Key Ratios

ROE (%)	5.4%	-20.3%	1.5%	16.4%	5.1%
ROA (%)	2.6%	-7.9%	0.6%	6.7%	2.2%
Gearing (x)	0.61	0.91	0.97	0.90	0.94



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