

# City Developments Limited

Anticipating stronger growth in hospitality



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## SINGAPORE | REAL ESTATE | 1H23 Results

16 August 2023

- 1H23 revenue of S\$2.7bn (+83.6% YoY) was in line and formed 71% of our FY23e forecast due to the full revenue recognition of Piermont Grand Executive Condominium (EC) upon completion in 1H23. PATMI underperformed at S\$66.4mn (-94.1% YoY) due to the absence of divestment gains in 1H22, as well as higher financing costs and impairment/ fair value losses in 1H23.
- Excluding divestment gains and impairment losses, EBITDA and PBT increased 48%; PATMI increased 1% YoY to S\$104.3mn.
- Upgrade to BUY with a lower RNAV-derived TP of \$8.22 from \$8.33, a 45% discount to RNAV of S\$14.94.** We view CDL as a proxy for the Singapore residential market and hospitality recovery. Asset monetisation, unlocking value through AEs and redevelopments, establishing a fund management franchise, 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. CDL declared a special interim dividend of 4 Singapore cents per share.

### BUY (Upgraded)

LAST DONE PRICE	SGD 6.86
FORECAST DIV	SGD 0.20
TARGET PRICE	SGD 8.22
TOTAL RETURN	22.7%

### COMPANY DATA

BLOOMBERG CODE:	CIT SP Equity
O/S SHARES (MN):	907
MARKET CAP (USD mn / SGD mn):	4599 / 6221
52 - WK HI/LO (SGD):	8.48 / 6.64
3M Average Daily T/O (mn):	1.83

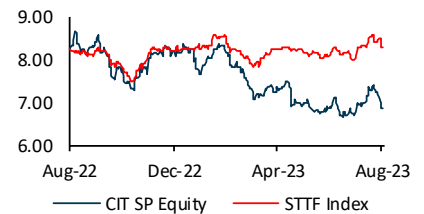
### MAJOR SHAREHOLDERS (%)

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

### PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	0.9	(1.6)	(13.6)
STTF RETURN	5.1	3.4	4.5

### PRICE VS. STTF



Source: Bloomberg, PSR

### KEY FINANCIALS

Y/E Dec, SGD mn	FY21	FY22	FY23e	FY24e
Revenue	2,626	3,293	3,806	2,949
Gross Profit	978	1,247	1,369	1,200
EBIT	322	1,880	532	516
EPS (SGD)	0.09	1.40	0.30	0.43
DPS (SGD)	0.12	0.28	0.20	0.20
P/E (x)	93.5	6.2	28.6	20.4
P/BV (x)	0.7	0.7	0.7	0.7
Div Yield	1.4%	3.2%	2.3%	2.3%
ROE	1.5%	13.7%	4.0%	4.2%

Source: Company Data, Bloomberg

### Valuation Method

RNAV

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### Results at a glance

(SGD mn)	1H23	1H22	YoY	Comments
Gross revenue	2,703.7	1,472.6	83.6%	Mainly due to higher revenue from property devt of +183% YoY
Gross profit	786.5	583.5	34.8%	
Operating profit	286.5	1,524.1	-81.2%	
<b>PBT comprising:</b>	<b>179.5</b>	<b>1,578.0</b>	<b>-88.6%</b>	<b>Due to absence of substantial divestment gains</b>
- Property Devt	195.1	104.2	87.3%	Fully sold Piermont Grand EC's revenue and profit recognised in its entirety upon TOP in 1H23
- Hotel Ops	(6.8)	1,325.1	n.m.	RevPAR grew 43% YoY; 1H22 included divestment gains of \$912mn upon sale of Millennium Hilton Seoul and \$399mn on deconsolidation of CDLHT
- Investment Ppty	(27.7)	124.1	n.m.	1H23 included \$16mn of divestment gains on sale of land at Tanglin Shopping Centre, impairment losses of \$34mn on UK investment properties, and FV loss on property-linked notes for an Australian project of \$20mn; 1H22 included divestment gains of \$121mn
- Others	19.0	24.7	-22.8%	
PATMI	66.5	1,119.5	-94.1%	

Source: Company, PSR

### The Positives

- Singapore residential market remains resilient despite cooling measures.** In 1H23, the group and its joint venture associates sold 508 units with a total sales value of S\$1.1bn (1H22: 712 units with a total sales value of S\$1.6bn). Sales picked up in 2Q23 with the launch of the 638-unit Tembusu Grand in April with 58% of units sold to date. In July, the Group launched The Myst, a 408-unit development at Upper Bukit Timah and it is 32% sold to date at an ASP of S\$2,057 psf. Looking ahead, the Group will be launching a 512-unit EC at Bukit Batok West Avenue 5 in 1Q24 and we anticipate strong demand for this project as it is near three MRT stations and the new Anglo-Chinese School (Primary), which is relocating to Tengah in 2030.
- Hospitality segment remains robust.** Excluding divestment gains and impairment losses, EBITDA grew 69% due to stronger RevPAR performance across the portfolio (+42.7% YoY to S\$151.5). It was driven by both an 18.3% increase in average room rates to S\$216.8 and an 11.9% points (69.9% from 58%) increase in occupancy. Compared with pre-COVID 1H19, RevPAR grew 17.2%. We expect RevPAR to continue growing in 2H23, albeit at a slower pace. However, this segment reported a loss before tax of S\$6.8mn, due to one-

off expenses and higher interest expense. The group's strategic expansion of its hotel portfolio continues as it recently completed the acquisition of the 408-room Nine Tree Premier Hotel Myeongdong II in Seoul in July 2023 for KRW140bn. Furthermore, the group has entered into a significant agreement to purchase the 416-room Sofitel Brisbane Central hotel in Australia for A\$177.7mn, or about A\$427,000 per key.

### The Negatives

- **Borrowing costs rose sharply to 4.1% for 1H23 compared with 2.4% for FY22.** Consequently, net finance cost rose 3.8x YoY to S\$147mn. Net gearing (including fair value on investment properties) also increased to 57% from 51% as at Dec22.
- **Sizable impairment/ fair value losses on investment properties of \$54mn.** There were impairment losses of \$34mn on UK investment properties due to a 30-50bps expansion in cap rates, leading to a drop in valuations. There was also a fair value loss on property-linked notes for an Australian project of \$20mn.

### Outlook

CDL aims to strengthen its foothold in the living sector, encompassing both the Private Rented Sector (PRS) and Purpose-Built Student Accommodation (PBSA) segments, which are considered defensive due to their reliable recurring income streams. It also perceives the current climate as opportune for replenishing its landbank in China, with a focus on tier-1 cities. As part of this strategy, CDL recently acquired an undeveloped piece of land in Suzhou, for a consideration of RMB350mn.

The recent cooling measures primarily target high-end/luxury properties with a greater proportion of foreign demand, rather than the mass and mid-tier segments predominantly sought by local buyers and SPRs. As a result, CDL continues to see resilient demand for its launched projects as they are mostly in the mid-tier segment (apart from Newport Residences).

### Upgrade to BUY with a lower RNAV TP of \$8.22

We view CDL as a proxy for the Singapore residential market and hospitality recovery. CDL is trading at an attractive 54% discount to our RNAV/share of S\$14.94. 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.

Figure 1: RNAV table

Segment	Location	RNAV (S\$m)	Per share (S\$)		
Residential	SG Development Gains	1,107	1.22		
	Overseas Development Gains	460	0.51		
	SG+Overseas NAV	5,958	6.57		
Office	SG	2,775	3.06		
Hotels/SRs	SG + Overseas	6,102	6.73		
Retail	SG	734	0.81		
Industrial	SG	327	0.36		
Commercial	Overseas	2,797	3.08		
<b>Stakes in listed entities:</b>					
	<u>Stake</u>	<u>(S\$)</u>	<u>Shares (mn)</u>		
CDL Hospitality Trust	27%	1.20	1,243	403	0.44
IREIT Global REIT	21%	0.44	1,156	107	0.12
First Sponsor Group	35%	1.24	924	401	0.44
<b>Total GAV</b>			21,170		23.34
Net cash/(debt)			(7,622)		(8.40)
<b>RNAV:</b>			13,549		14.94
No. of shares (mn)			906.9		
<b>RNAV per share (S\$)</b>			<b>14.94</b>		
Discount to RNAV			45%		
<b>Target Price (S\$)</b>			<b>8.22</b>		

Source: Company, PSR

## Financials

### Income Statement

Y/E Dec, SGD mn	FY20	FY21	FY22	FY23e	FY24e
<b>Revenue</b>	<b>2,108</b>	<b>2,626</b>	<b>3,293</b>	<b>3,806</b>	<b>2,949</b>
Gross Profit	829	978	1,247	1,369	1,200
Depreciation & Amortisation	287	278	276	238	235
<b>EBIT</b>	<b>(852)</b>	<b>322</b>	<b>1,880</b>	<b>532</b>	<b>516</b>
Net Finance (Expense)/Inc	(93)	(202)	(193)	(330)	(341)
Associates & JVs	(846)	107	170	314	383
<b>Profit Before Tax</b>	<b>(1,791)</b>	<b>228</b>	<b>1,857</b>	<b>515</b>	<b>559</b>
Taxation	(88)	(88)	(543)	(135)	(142)
<b>Profit After Tax</b>	<b>(1,879)</b>	<b>140</b>	<b>1,314</b>	<b>380</b>	<b>417</b>
Non-Controlling Interest	39	64	29	104	30
<b>Net Income, reported</b>	<b>(1,879)</b>	<b>140</b>	<b>1,314</b>	<b>380</b>	<b>417</b>

### Per share data (SGD)

Y/E Dec, SGD	FY20	FY21	FY22	FY23e	FY24e
EPS, reported	-2.13	0.09	1.40	0.30	0.43
DPS	0.12	0.12	0.28	0.20	0.20
BVPS	9.38	9.28	10.16	10.10	10.33

### Cash Flows

Y/E Dec, SGD mn	FY20	FY21	FY22	FY23e	FY24e
<b>CFO</b>					
Profit for the year	(1,879)	140	1,314	380	417
Adjustments	2,091	193	(1,468)	250	187
WC changes	(581)	814	(177)	321	(88)
Cash generated from ops	(280)	1,234	212	1,086	658
Taxes paid, others	(76)	(100)	(338)	(135)	(142)
<b>Cashflow from ops</b>	<b>(356)</b>	<b>1,134</b>	<b>(126)</b>	<b>951</b>	<b>516</b>
<b>CFI</b>					
CAPEX, net	154	(78)	1,453	(161)	(145)
<b>Cashflow from investments</b>	<b>(1,076)</b>	<b>(863)</b>	<b>780</b>	<b>(623)</b>	<b>(399)</b>
<b>CFF</b>					
Dividends paid	(190)	(174)	(222)	(181)	(181)
<b>Cashflow from financing</b>	<b>1,564</b>	<b>(1,277)</b>	<b>(290)</b>	<b>(644)</b>	<b>(644)</b>
<b>Net change in cash</b>	<b>131</b>	<b>(1,006)</b>	<b>364</b>	<b>(315)</b>	<b>(527)</b>
Effects of exchange rates	34	(5)	(60)	-	-
<b>CCE, end</b>	<b>2,955</b>	<b>1,944</b>	<b>2,248</b>	<b>1,933</b>	<b>1,406</b>

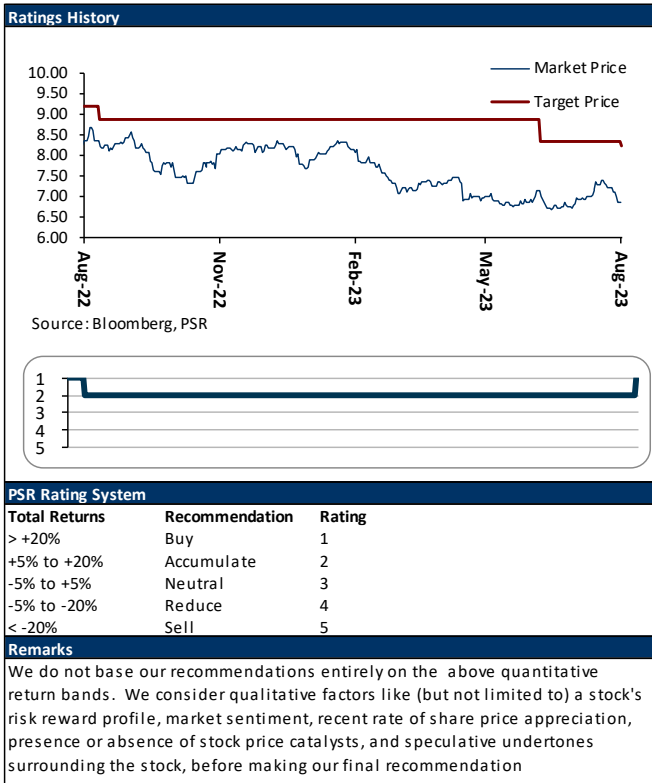
Source: Company, PSR Estimates

### Balance Sheet

Y/E Dec, SGD mn	FY20	FY21	FY22	FY23e	FY24e
<b>ASSETS</b>					
PPE	5,526	5,362	4,061	3,998	3,908
Associates & JVs	1,793	1,856	2,347	2,922	3,375
Investment Properties	4,569	3,997	4,967	5,239	5,511
Others	977	923	1,027	1,032	1,037
<b>Total non-current assets</b>	<b>12,865</b>	<b>12,138</b>	<b>12,401</b>	<b>13,191</b>	<b>13,831</b>
Development property	5,391	5,839	5,958	6,008	6,058
Accounts Receivables	1,681	1,873	1,697	1,962	1,520
Cash balance	3,127	2,083	2,363	2,048	1,521
Others	613	1,961	562	547	547
<b>Total current assets</b>	<b>10,812</b>	<b>11,757</b>	<b>10,580</b>	<b>10,564</b>	<b>9,645</b>
<b>Total Assets</b>	<b>23,677</b>	<b>23,895</b>	<b>22,981</b>	<b>23,755</b>	<b>23,477</b>
<b>LIABILITIES</b>					
Short term loans	2,799	5,188	2,354	2,354	2,354
Accounts Payables	1,349	1,453	1,466	2,106	1,632
Others	867	1,261	1,097	1,093	1,087
<b>Total current liabilities</b>	<b>5,014</b>	<b>7,902</b>	<b>4,918</b>	<b>5,553</b>	<b>5,073</b>
Long term loans	8,756	5,952	7,315	7,315	7,315
Others	634	707	1,183	1,280	1,256
<b>Total non-current liabilities</b>	<b>9,390</b>	<b>6,659</b>	<b>8,499</b>	<b>8,596</b>	<b>8,571</b>
<b>Total Liabilities</b>	<b>14,404</b>	<b>14,561</b>	<b>13,416</b>	<b>14,148</b>	<b>13,645</b>
<b>EQUITY</b>					
Shareholder Equity	8,502	8,414	9,216	9,164	9,370
Non-controlling interest	740	918	348	443	462
<b>Total Equity</b>	<b>9,272</b>	<b>9,334</b>	<b>9,565</b>	<b>9,607</b>	<b>9,832</b>

### Valuation Ratios

Y/E Dec, SGD mn	FY20	FY21	FY22	FY23e	FY24e
P/E (X), adj.	-4.08	93.47	6.20	28.55	20.38
P/B (X)	0.73	0.74	0.68	0.68	0.66
Dividend Yield	1.4%	1.4%	3.2%	2.3%	2.3%
<b>Growth &amp; Margins (%)</b>					
<b>Growth</b>					
Revenue	-38.5%	24.5%	25.4%	15.6%	-22.5%
EBIT	-230.2%	-137.8%	484.0%	-71.7%	-3.0%
Net Income	-406.3%	-107.4%	839.8%	-71.1%	9.6%
<b>Margins</b>					
EBIT margin	-40.4%	12.3%	57.1%	14.0%	17.5%
Net Profit Margin	-89.1%	5.3%	39.9%	10.0%	14.1%
<b>Key Ratios</b>					
ROE (%)	-20.3%	1.5%	13.7%	4.0%	4.2%
ROA (%)	-7.9%	0.6%	5.7%	1.6%	1.8%
Gearing (x)	0.91	0.97	0.85	0.79	0.83



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