

13 August 2019

Property | Real Estate

City Developments (CIT SP)

Neutral (Maintained)

Transformation In Progress

Target Price (Return) SGD9.20 (+2%)
Price: SGD9.03
Market Cap: USD5,933m
Avg Daily Turnover (SGD/USD) 17.1m/12.4m

- **Stay NEUTRAL and SGD9.20 TP, 2% upside plus 2.2% yield.** 2Q results were broadly in line, excluding one-off gains. Key positives: Healthy sales at City Developments' high-end residential launches and a revised privatisation offer for its subsidiary, which is likely to gain minority approval. Yet, headwinds persist across CDL's core operating markets in terms of high residential supply, Brexit uncertainty, and a slowing macro economy. While valuations are attractive – share price at a 42% discount to RNAV – it lacks clear catalysts.

- **Positive response for high-end new launches.** Despite a challenging market, CDL's Singaporean high-end new launches – Boulevard 88, Amber Park, and South Beach Residences – saw healthy take-ups, supported by a pick-up in foreign buying activity. It sold 515 units in 1H19 (1H18: 658) with a higher total sales value of SGD1.6bn (1H18: SGD1.3bn). Management guidance: Margins for high-end launches are likely to be slightly higher than 20% (50%-plus for legacy landbank) and low-teens for recently-acquired sites. Looking ahead, the group is expected to launch its 680-unit Sengkang Grand Residences JV project in 4Q19, for which we expect a favourable response due to its attractive location and mixed-use facilities.

- **Fund management business gaining traction.** CDL announced the partial unwinding of its Profit Participation Securities (PPS) 1 structure by acquiring the hotel and retail component at W Singapore-Sentosa Cove and Quayside Isle, valuing it at SGD393m. The residential component is expected to be refinanced to extend the sales timeframe. PPS2 has been successfully unwound with a SGD154m pre-tax gain. CDL also sold 18 of 30 launched units in Nouvel 18 (PPS3) at >SGD3,330psf. Separately, it acquired a 50% manager stake and 12.4% holding in SGX-listed IREIT Global for SGD77m.

- **Revised Millennium & Copthorne Hotels (M&C) offer likely to gain acceptance.** CDL launched a revised takeover offer in June for its M&C subsidiary, valuing it at GBP2.2bn (SGD3.9bn), a P/BV of 0.82x, or c.13x FY18 EV/EBITDA. The offer is currently awaiting regulatory approvals. CDL also received irrevocable undertakings representing 43.5% of shares it currently does not own – it only needs 6.5% more acceptance to clear the hurdle. This move is long-term positive and will help the group to better reposition its ageing hotel assets. However, it will result in significant increases in near-term capex.

- **Diversifying market presence.** CDL has entered into an agreement with ASX-listed Abacus Property to acquire three mixed development projects in Brisbane and Melbourne for AUD25.9m (SGD25m). In China, the group raised its stake in Shanghai Hongqiao Sincere Centre to 100% from 70% for a total purchase price of CNY1.75bn (SGD334m). In Japan CDL acquired the 34-unit Horie Lux residential project in Osaka for JPY2bn (c.SGD25m), targeting the rental market with an entry yield of 4.5% pa.

- **Upside/downside risks:** relaxation of cooling measures, continued slowdown in residential sales and prices.

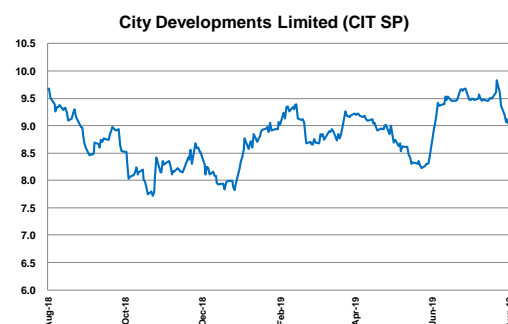
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	12.1	(4.6)	2.3	(0.6)	(7.4)
Relative	8.8	0.3	5.7	0.4	(2.7)
52-wk Price low/high (SGD)	7.75 - 9.96				



Source: Bloomberg

Forecasts and Valuation	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (SGDm)	3,829	4,223	4,478	4,849	4,441
Net property income (SGDm)	538	557	525	530	540
Reported net profit (SGDm)	(17.6)	3.6	(5.8)	0.9	2.0
Distributable income (SGDm)	0.6	0.6	0.6	0.6	0.6
DPS (SGD - cents)	16.0	15.5	16.4	16.3	15.9
DPS growth (%)	0.9	0.8	0.8	0.8	0.7
P/BV (x)	0.18	0.20	0.20	0.20	0.21
Dividend Yield (%)	2.0	2.2	2.2	2.2	2.3
Return on average equity (%)	5.6	5.6	5.1	5.0	4.7
Return on average assets (%)	11	29	23	23	21
Interest coverage (x)	12.3	9.6	6.6	7.3	6.7

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary	Dec-17	Dec 18	Dec 19F	Dec 20F	Dec 21F
Singapore	Recurring EPS (SGD)	0.58	0.60	0.58	0.58	0.59
Property	EPS (SGD)	0.58	0.60	0.58	0.58	0.59
City Developments	DPS (SGD)	0.18	0.20	0.20	0.20	0.21
Bloomberg CIT SP	BVPS (SGD)	10.22	10.54	11.04	11.21	11.60
	Weighted avg adjusted shares (m)	909	907	909	909	909
Valuation basis	Valuation metrics	Dec-17	Dec 18	Dec 19F	Dec 20F	Dec 21F
RNAV methodology	Recurring P/E (x)	15.6	15.1	15.6	15.5	15.2
	P/E (x)	15.6	15.1	15.6	15.5	15.2
	P/B (x)	0.9	0.9	0.8	0.8	0.8
	FCF Yield (%)	8.8	(24.0)	11.6	5.2	7.7
	Dividend Yield (%)	2.0	2.2	2.2	2.2	2.3
	EV/EBITDA (x)	8.9	10.3	10.0	10.1	10.0
	EV/EBIT (x)	11.2	12.6	12.4	12.5	12.4
Key drivers	Income statement (SGDm)	Dec-17	Dec 18	Dec 19F	Dec 20F	Dec 21F
i. Successful privatisation and transformation of M&C;	Total turnover	3,829	4,223	4,478	4,849	4,441
ii. Rebound in Singapore property market;	Gross profit	1,685	1,914	1,971	2,134	2,043
iii. Rapid scale-up of the fund management business.	EBITDA	1,057	1,185	1,115	1,112	1,107
	Depreciation and amortisation	212	215	215	215	215
	Operating profit	800	905	851	808	805
	Net interest	(65)	(94)	(129)	(111)	(119)
	Income from associates & JVs	46	65	49	90	88
	Exceptional income - net	0	0	0	0	0
	Pre-tax profit	780	876	771	786	773
	Taxation	(105)	(215)	(123)	(117)	(117)
	Minority interests	(137)	(103)	(122)	(140)	(115)
	Recurring net profit (adj)	538	557	525	530	540
Key risks	Cash flow (SGDm)	Dec-17	Dec 18	Dec 19F	Dec 20F	Dec 21F
Relaxation of cooling measures, continued slowdown in residential sales and prices.	Change in working capital	286	(1,531)	505	(285)	(85)
	Cash flow from operations	1,076	(600)	1,450	628	830
	Capex	(45)	(60)	(500)	(200)	(200)
	Cash flow from investing activities	(91)	(1,729)	(736)	(194)	(198)
	Dividends paid	(244)	(285)	(224)	(230)	(232)
	Cash flow from financing activities	(922)	898	(407)	(627)	(421)
	Cash at beginning of period	3,567	3,599	2,162	2,470	2,277
	Net change in cash	63	(1,431)	308	(193)	211
	Ending balance cash	3,599	2,162	2,470	2,277	2,488
Company Profile	Balance sheet (SGDm)	Dec-17	Dec 18	Dec 19F	Dec 20F	Dec 21F
CDL is a leading global real estate operating company with a network spanning 103 locations in 29 countries and regions. With a proven track record of over 55 years in real estate development, investment, and management, the group has developed over 43,000 homes and owns more than 18m sq ft of lettable floor area globally. Its diversified global landbank offers 4.1m sq ft of developable gross floor area.	Total cash and equivalents	3,776	2,289	2,819	2,626	2,837
	Tangible fixed assets	12,023	14,459	14,341	14,223	14,919
	Intangible assets	2	2	2	2	2
	Total investments	12,026	14,460	14,343	14,225	14,921
	Total other assets	3,702	4,136	4,117	4,486	4,006
	Total assets	19,503	20,886	21,278	21,336	21,764
	Short-term debt	1,266	1,258	1,258	1,258	1,258
	Total long-term debt	3,756	5,069	4,463	4,363	4,463
	Other liabilities	2,640	2,285	2,859	2,578	2,482
	Total liabilities	7,662	8,612	8,581	8,200	8,203
	Shareholders' equity	1,991	1,991	1,991	1,991	1,991
	Minority interests	2,258	2,233	2,500	2,585	2,108
	Total equity	11,841	12,274	12,697	13,137	13,561
	Net debt	1,246	4,038	2,903	2,996	2,885
	Total liabilities & equity	19,503	20,886	21,278	21,336	21,764
Key metrics	Key metrics	Dec-17	Dec 18	Dec 19F	Dec 20F	Dec 21F
	Revenue growth (%)	(2.0)	10.3	6.0	8.3	(8.4)
	Recurrent EPS growth (%)	(17.9)	3.6	(3.6)	0.9	2.0
	Gross margin (%)	44.0	45.3	44.0	44.0	46.0
	Operating EBITDA margin (%)	27.6	28.1	24.9	22.9	24.9
	Net profit margin (%)	14.1	13.2	11.7	10.9	12.2
	Dividend payout ratio (%)	100.0	100.0	100.0	100.0	100.0
	Capex/sales (%)	1.2	1.4	11.2	4.1	4.5
	Interest cover (x)	7.2	6.2	5.7	5.9	5.6

Source: Company data, RHB

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Results And Operations Update

Net gearing rose to 44% (FY18: 31%) and is expected to rise further with the expected acquisition of stakes in Sincere Property and M&C. Including fair value gains from investment properties, net gearing stands at 32%. Management is comfortable to gear up to 50-60% levels, including fair value gains.

Weighted average cost of debt slightly increased in 1H19 to 2.4% (FY18: 2.3%), with c.43% of CDL's debt at a fixed rate.

1H19 PATMI lifted by divestment gains, results in line. 2Q19 revenue and gross profit declined 38% and 31% due to lower development property contributions. Other income for the 2Q19 and 1H19 stood at SGD17m and SGD162m, aided largely by divestment gains from the PPS1 and PPS2 structures.

Excluding divestment gains, 1H19 results came broadly in line with our expectations.

Figure 1: CDL's results summary

(SGDm)	2Q18	1Q19	2Q19	%QoQ	%YoY	1H18	1H19	%YoY	Comments
Turnover	1,359.5	746.2	850.4	14.0	(37.5)	2,417.4	1,596.5	(34.0)	Lower property development segment revenue.
(a) Property development	818.7	249.5	286.5	14.8	(65.0)	1,381.9	536.0	(61.2)	Consolidation of W Singapore-Sentosa Cove from Apr 2019. Contributions from Aldgate House, 125 Old Broad Street, and Central Mall Office Tower.
(b) Hotel operations	420.7	360.2	425.1	18.0	1.0	798.5	785.3	(1.7)	
(c) Rental properties	84.5	103.2	104.3	1.0	23.3	168.8	207.5	23.0	
(d) Others	35.6	33.2	34.5	3.8	(3.1)	68.3	67.7	(0.8)	
Gross profit	603.5	352.1	419.3	19.1	(30.5)	973.8	771.4	(20.8)	
Profit from operations	366.9	253.2	170.4	(32.7)	(53.6)	544.8	423.6	(22.2)	
Share of results of associates & JVs	2.4	40.2	66.4	65.3	2,690.2	10.9	106.5	874.5	
PBIT	341.3	265.6	224.7	(15.4)	(34.2)	514.3	490.3	(4.7)	
(a) Property development	270.8	87.4	100.3	14.7	(63.0)	357.3	179.6	(49.7)	Lower M&C contributions offset by W Singapore-Sentosa Cove. Gains from PPS2. Higher gains mainly due to interest income earned on loans granted to Sincere Property.
(b) Hotel operations	35.6	(1.9)	31.5	nm	(11.7)	56.4	29.5	(47.7)	
(c) Rental properties	26.0	180.6	77.8	(56.9)	199.3	87.1	258.4	196.8	
(d) Others	8.8	(0.5)	15.1	nm	71.9	13.5	22.7	68.4	
Net profit	250.2	211.5	182.7	(13.6)	(27.0)	389.5	394.2	1.2	
PATMI	220.7	199.6	162.4	(18.6)	(26.4)	306.1	362.0	18.3	
EPS (cents)	23.6	22.0	17.2	(21.8)	(27.1)	83.4	39.2	(53.0)	
NAV (SGD)	11.13	11.32	11.29	(0.3)	1.4	11.13	11.29	1.4	
Annualised ROE (%)	8.50	7.80	6.11	(21.6)	(28.2)	14.98	6.94	(53.6)	
Net debt/equity (x)	0.22	0.36	0.44	22.2	100.0	0.22	0.44	100.0	
Gross margin: (%)	44.4	47.2	49.3	2.1	4.9	40.3	48.3	8.0	
PBT margin: (%)	25.1	35.6	26.4	(9.2)	1.3	21.3	30.7	9.4	
PBR (x)							0.80		
Price-Book Premium/(Discount) (%)							(20.0)		
Price-RNAV Premium/(Discount) (%)							(41.1)		
PBT margin: (%)									
(a) Property development	33.1	35.0	35.0	(0.0)	1.9	25.9	33.5	7.7	
(b) Hotel operations	8.5	-0.5	7.4	nm	(1.1)	7.1	3.8	(3.3)	
(c) Rental properties	30.7	175.0	74.6	(100.4)	43.9	51.6	124.5	72.9	
(d) Others	24.7	-1.5	43.9	nm	19.1	19.8	33.6	13.8	

Source: RHB, Company data

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Figure 2: CDL's RNAV breakdown

Properties	Stake	RNAV (SGDm)	Value per share (SGD)
Investment properties		6,816.4	7.14
Property development (GDV):			
-Singapore residential		4,842.3	5.07
-China residential		835.0	0.88
-UK residential		1,106.1	1.16
-JP residential		189.5	0.20
Net asset/liabilities		432.0	0.45
Net cash/debt		(1,470.8)	(1.54)
Listed Companies:			
Millennium & Copthorne	65%	1,821.9	1.91
Sum of total parts		14,632.2	
No. of shares (m) (full conversion of pref. shares)		954.2	
RNAV			15.33
Premium/(discount) (%)			(40)
Fair value			9.20
Last price			9.03
Upside (%)			1.9

Source: RHB

Figure 3: M&C operational performance (RevPAR)

	1H 2019	Reported Currency	Constant Currency
New York	£147.82	↑ 4.8%	↓ 1.5%
Regional US	£58.73	↑ 6.3%	-
Total US	£88.18	↑ 5.6%	↓ 0.7%
London	£97.11	↑ 12.8%	↑ 12.8%
Rest of Europe	£51.40	↓ 6.0%	↓ 5.9%
Total Europe	£73.08	↑ 3.3%	↑ 3.3%
Singapore	£82.57	↑ 2.4%	↓ 1.4%
Rest of Asia	£62.60	↓ 0.2%	↓ 1.6%
Total Asia	£70.33	↑ 0.9%	↓ 1.5%
Australasia	£75.21	↑ 1.4%	↑ 0.7%
Total Group	£77.82	↑ 3.4%	↑ 0.2%

Source: Company data

Figure 4: Singapore landbank as of 2Q19

Project	Equity Stake	Total Units	Units Sold	% Sold	Total Unsold Inventory	CDL's Share of Unsold Inventory
Cuscaden Residences	25%	75	74	99%	1	0.3
St. Regis Residences	33%	173	161	93%	12	4.0
The Oceanfront @ Sentosa Cove	50%	264	263	99%	1	0.5
One Shenton	100%	341	327	96%	14	14.0
Cliveden at Grange**	100%	110	43	39%	67	67.0
UP@Robertson Quay	100%	70	61	87%	9	9.0
Echelon	50%	508	506	99%	2	1.0
The Venue Residences	60%	266	265	99%	1	0.6
Coco Palms	51%	944	939	99%	5	2.6
Forest Woods	50%	519	512	99%	7	3.5
New Futura	100%	124	123	99%	1	1.0
The Tapestry (750 units released)	100%	861	631	^84%	^119	^119.0
Whistler Grand (400 units released)	100%	716	343	^80%	^57	^57.0
Boulevard 88 (70 units released)	40%	154	62	^89%	^8	^3.2
Amber Park (160 units released)	80%	592	157	^80%	^3	^2.4
South Beach Residences (100 units released)	50%	190	89	^80%	^11	^5.5
The Jovell (250 units released)	33%	428	84	^34%	^166	^54.8
TOTAL:		6,335	4,640		484	345

Source: Company data

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