

28 May 2020

Property | Real Estate

## City Developments (CIT SP)

**Buy**(from Neutral)

### Trading At Attractive Valuations; U/G To BUY

Target Price (Return): SGD9.50 (23.7%)  
 Price: SGD7.68  
 Market Cap: USD4,912m  
 Avg Daily Turnover (SGD/USD) 23.9m/16.9m

- **U/G BUY from Neutral with new SGD9.50 TP from SGD10.50, 24% upside.** While City Developments' portfolio faces near-term headwinds, we believe most of the negatives are fully priced in, with the stock trading closer to -2SD levels in P/BV and P/RNAV terms (Figures 2 & 3), and below Global Financial Crisis lows. The slow but steady recurring income build-up, strong balance sheet, and brand name, coupled with an experienced management team, should help CDL emerge stronger from the crisis.
- **CDL's hospitality portfolio (c.16% of FY19 EBITDA) has been the hard hit,** with nearly half of Millennium & Copthorne Hotels' global portfolio of 152 hotels still closed. 1Q portfolio revenue/available room dropped 27% YoY, and is expected to fall sharply in 2Q, given worsening global conditions. The group has taken various steps to contain costs – including pay cuts of up to 30% and trimming headcount by 8%. While the near-term outlook for the hotel sector remains gloomy, we believe the cost containment measures and targeted capex should position CDL well for a potential rebound in 2021.
- **Outperforming peers in terms of residential project sales.** Despite a challenging Singapore residential market, CDL has outperformed peers with a 40% and 49% increase in unit sales and sales value in 2019. The group currently has an unsold inventory of c.1,476 units and another 1,800 in the launch pipeline. While near-term sales and prices are expected to face pressures, the recent 6-month extension of additional buyer's stamp duty deadline has provided temporary relief. Additionally, the strong brand name and good project attributes should help mitigate the overall impact.
- **Increased stakes in Sincere Property (Sincere) and IREIT Global (IREIT SP, BUY, TP: SGD 0.83) diversifies income stream.** CDL announced a revised CNY4.4bn (SGD0.9bn) 51% stake acquisition in Sincere and call option to acquire an additional 9% in FY22 for CNY0.8bn. The revised deal is significantly better to its initial announcement of a 24% stake for CNY5.5bn last year and is valued based on an attractive 0.5x of Sincere's FY19 NAV. CDL also lifted its IREIT stake to 20.9% from 12.5% after acquiring additional stakes at SGD0.49/share, a c.42% discount to book value. These recent acquisitions show management's confidence and commitment to long-term investment plans. Net gearing stands at 0.44x, including fair value gains (excluding: -0.62x), with a healthy interest cover of 6.2x. RNAV accretion from Sincere is not factored in yet, as the deal is pending completion.
- **Earnings and TP changes.** We have revised our FY20F-21F earnings by 18-28%, factoring in sharply lower income from the hotel segment and deferment of residential sales. Our RNAV discount is also raised to 45% from 40% to factor in higher risks.

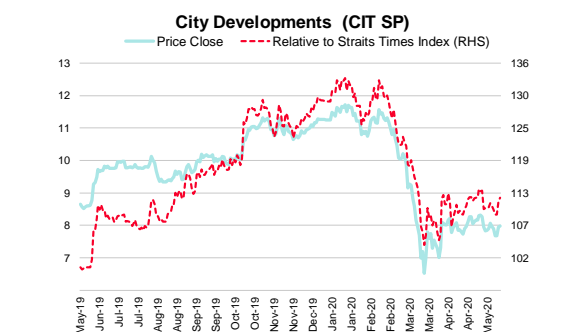
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(29.9)	1.2	(24.5)	(27.3)	(7.6)
Relative	(8.1)	2.4	(5.5)	(5.6)	13.0
52-wk Price low/high (SGD)				6.23 – 11.4	



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (SGDm)	4,223	3,429	3,361	3,784	4,337
Recurring net profit (SGDm)	557	565	421	499	586
Recurring net profit growth (%)	3.6	1.3	(25.5)	18.6	17.4
Recurring EPS (SGD)	0.58	0.59	0.44	0.52	0.61
DPS (SGD)	0.20	0.20	0.20	0.20	0.20
Recurring P/E (x)	13.15	12.98	17.42	14.68	12.51
P/B (x)	0.73	0.70	0.83	0.76	0.72
Dividend Yield (%)	2.6	2.6	2.6	2.6	2.6
Return on average equity (%)	5.7	5.5	4.3	5.4	5.9
Net debt to equity (%)	32.9	61.4	73.2	73.5	70.1

Source: Company data, RHB

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## Financial Exhibits

<b>Asia</b>	<b>Financial summary (SGD)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
Singapore	Recurring EPS	0.58	0.59	0.44	0.52	0.61
Property	EPS	0.58	0.59	0.44	0.52	0.61
<b>City Developments</b>	DPS	0.20	0.20	0.20	0.20	0.20
CIT SP	BVPS	10.52	11.03	9.28	10.16	10.73
Buy	Return on average equity (%)	5.7	5.5	4.3	5.4	5.9
	Return on average assets (%)	2.8	2.6	1.8	2.0	2.3
<b>Valuation basis</b>						
RNAV						
<b>Key drivers</b>	<b>Valuation metrics</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
i. Relaxation of cooling measures in Singapore;	Recurring P/E (x)	13.15	12.98	17.42	14.68	12.51
ii. Build-up of recurring income streams;	P/B (x)	0.7	0.7	0.8	0.8	0.7
iii. Strong management team with a wealth of experience.	Dividend Yield (%)	2.6	2.6	2.6	2.6	2.6
	EV/EBITDA (x)	7.72	10.22	11.78	10.41	9.24
<b>Key risks</b>	<b>Income statement (SGDm)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
i. A sharp fall in Singapore's property market;	Total turnover	4,223	3,429	3,361	3,784	4,337
ii. Lack of profitability from overseas ventures;	Gross profit	1,914	1,638	1,479	1,741	1,995
iii. Prolonged impact from COVID-19 on the hospitality segment.	EBITDA	1,123	930	916	1,055	1,179
	Depreciation and amortisation	(219)	(276)	(282)	(287)	(293)
	Operating profit	905	654	635	768	886
	Net interest	(94)	(96)	(155)	(202)	(233)
	Pre-tax profit	876	754	577	653	738
	Taxation	(215)	(141)	(100)	(92)	(104)
	Reported net profit	557	565	421	499	586
	Recurring net profit	557	565	421	499	586
<b>Company Profile</b>	<b>Cash flow (SGDm)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
CDL develops and owns properties. Through its subsidiaries, the company owns and operates hotels, manages clubs, invests in properties and shares, manages properties and projects, and provides information technology and procurement services.	Change in working capital	(1,531)	276	(770)	(164)	141
	Cash flow from operations	(600)	836	41	794	1,212
	Capex	(60)	(89)	(200)	(200)	(200)
	Cash flow from investing activities	(1,729)	(1,350)	(1,522)	(352)	(354)
	Dividends paid	(285)	(269)	(206)	(204)	(197)
	Cash flow from financing activities	898	1,149	668	(443)	(458)
	Cash at beginning of period	3,776	2,289	2,798	2,265	2,264
	Net change in cash	(1,431)	636	(814)	(1)	400
	Ending balance cash	2,289	2,798	2,265	2,264	2,665
	<b>Balance sheet (SGDm)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
	Total cash and equivalents	2,289	2,798	2,265	2,264	2,664
	Tangible fixed assets	5,013	5,462	5,572	5,683	5,797
	Total investments	6,773	7,904	9,300	9,692	10,066
	Total assets	20,886	23,200	24,443	25,346	26,246
	Short-term debt	1,258	2,038	2,200	2,350	2,500
	Total long-term debt	5,069	7,673	8,511	8,661	8,811
	Total liabilities	8,612	11,934	12,906	13,452	13,915
	Shareholders' equity	10,041	10,520	8,860	9,691	10,237
	Minority interests	2,233	746	2,678	2,203	2,094
	Total equity	12,274	11,267	11,537	11,894	12,331
	Total liabilities & equity	20,886	23,200	24,443	25,346	26,246
	<b>Key metrics</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
	Revenue growth (%)	10.3	(18.8)	(2.0)	12.6	14.6
	Recurring net profit growth (%)	3.6	1.3	(25.5)	18.6	17.4
	Recurrent EPS growth (%)	3.6	1.3	(25.5)	18.6	17.4
	Gross margin (%)	45.3	47.8	44.0	46.0	46.0
	Recurring net profit margin (%)	13.2	16.5	12.5	13.2	13.5
	Dividend payout ratio (%)	34.2	33.7	45.4	38.2	32.6

Source: Company data, RHB

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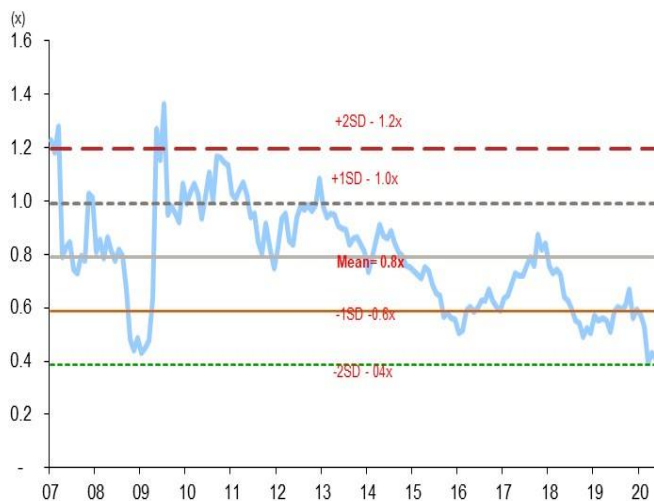
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Figure 1: CDL's RNAV breakdown

Properties	Stake	RNAV (SGDm)	Value per share (SGD)
Investment properties		6,816.4	7.14
Property Development (GDV):			
-Singapore residential		4,510.6	4.73
-China residential		835.0	0.88
-UK residential		1,106.1	1.16
-Japan residential		189.5	0.20
Millennium & Cophorne		5,827.5	6.11
Net asset/liabilities		432.0	0.45
Net cash/debt		(3,351.8)	(3.5)
Listed companies:			
IREIT Global	21%	110.6	0.12
Sum of total parts		16,476.0	
Number of shares (m)		954.2	
<b>RNAV</b>			<b>17.27</b>
Premium/(discount) (%)			(45.0)
<b>Fair value</b>			<b>9.50</b>
Last price			7.65
<b>Upside (%)</b>			<b>24.1</b>

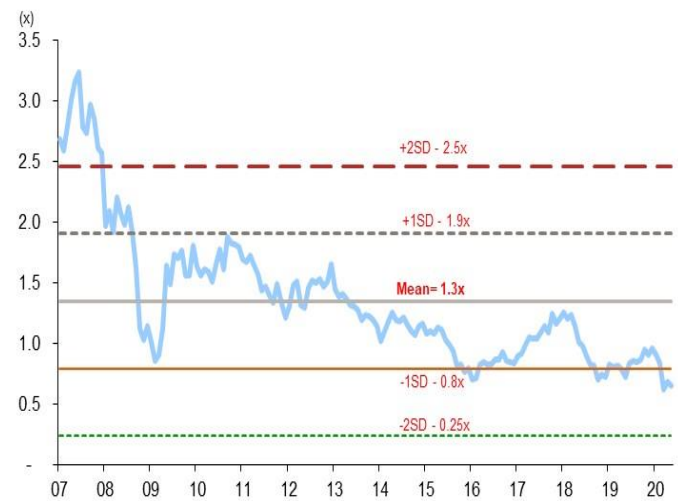
Source: RHB

Figure 1: Historical P/RNAV



Source: Bloomberg, RHB

Figure 2: Historical P/BV

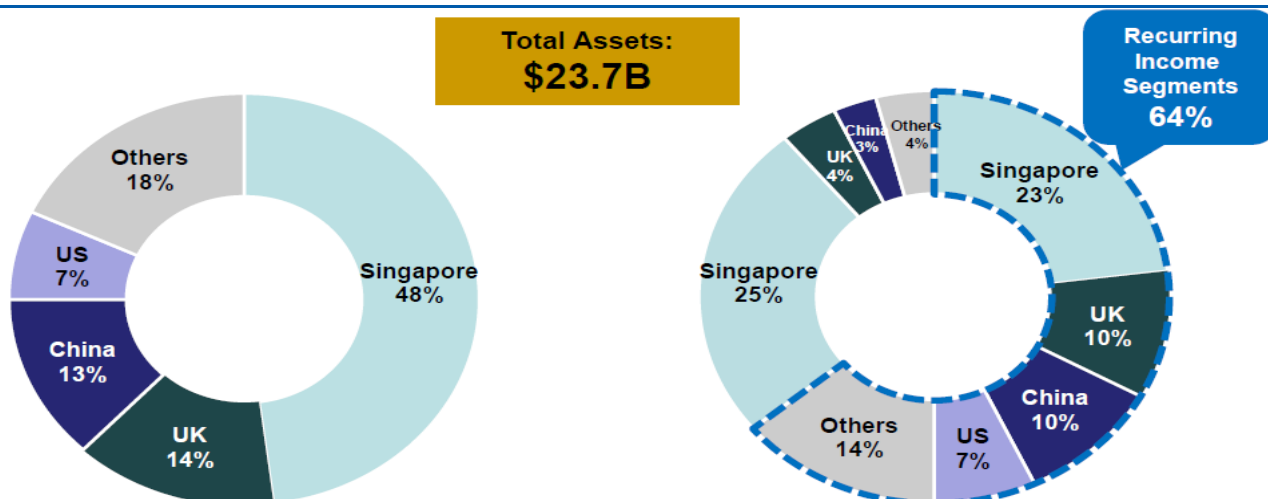


Source: Bloomberg, RHB

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Figure 3: Portfolio overview



Source: Company data

Figure 4: Hotel operational performance – 1Q20

	Room Occupancy			Average Room Rate			RevPAR		
	Q1 2020 %	Q1 2019 %	Incr / (Decr) % pts	Q1 2020 \$	Q1 2019 \$	Incr / (Decr) %	Q1 2020 \$	Q1 2019 \$	Incr / (Decr) %
Singapore	54.5	85.6	(31.1)	190.3	170.0	11.9	103.6	145.6	(28.8)
Rest of Asia	41.2	66.4	(25.2)	143.3	162.6	(11.9)	59.1	107.9	(45.2)
<b>Total Asia</b>	<b>46.3</b>	<b>73.3</b>	<b>(27.0)</b>	<b>164.4</b>	<b>165.7</b>	<b>(0.8)</b>	<b>76.1</b>	<b>121.1</b>	<b>(37.2)</b>
<b>New Zealand</b>	<b>77.2</b>	<b>91.3</b>	<b>(14.1)</b>	<b>166.4</b>	<b>166.4</b>	<b>-</b>	<b>128.5</b>	<b>152.0</b>	<b>(15.5)</b>
London	47.3	73.7	(26.4)	225.8	198.8	13.6	106.8	146.5	(27.1)
Rest of Europe	49.6	62.8	(13.2)	118.8	126.5	(6.1)	58.9	79.5	(25.9)
<b>Total Europe</b>	<b>48.4</b>	<b>68.0</b>	<b>(19.6)</b>	<b>172.1</b>	<b>163.7</b>	<b>5.1</b>	<b>83.3</b>	<b>111.3</b>	<b>(25.2)</b>
New York	58.5	76.9	(18.4)	229.4	263.4	(12.9)	134.2	202.6	(33.8)
Regional US	48.6	51.5	(2.9)	161.5	165.9	(2.7)	78.5	85.5	(8.2)
<b>Total US</b>	<b>52.3</b>	<b>59.9</b>	<b>(7.6)</b>	<b>190.3</b>	<b>209.3</b>	<b>(9.1)</b>	<b>99.5</b>	<b>125.4</b>	<b>(20.7)</b>
<b>Total Group</b>	<b>52.1</b>	<b>70.0</b>	<b>(17.9)</b>	<b>173.9</b>	<b>177.4</b>	<b>(2.0)</b>	<b>90.6</b>	<b>124.1</b>	<b>(27.0)</b>

Source: Company data

Figure 5: SG residential inventory (as at Mar 2020)

Project	Equity Stake	Total Units	Units Sold	Total Unsold Inventory	CDL's Share of Unsold Inventory
Cuscaden Residences	25%	75	74	1	0.3
St. Regis Residences	33%	173	161	12	4.0
The Oceanfront @ Sentosa Cove	50%	264	263	1	0.5
One Shenton	100%	341	327	14	14.0
Cliveden at Grange**	100%	110	43	67	67.0
UP@Robertson Quay	100%	70	61	9	9.0
Echelon	50%	508	506	2	1.0
The Venue Residences	60%	266	265	1	0.6
Coco Palms	51%	944	940	4	2.0
Forest Woods	50%	519	516	3	1.5
New Futura	100%	124	124	0	0.0
The Tapestry	100%	861	733	128	128.0
Whistler Grand	100%	716	495	221	221.0
Boulevard 88	40%	154	92	62	24.8
Amber Park	80%	592	204	388	310.4
Haus on Handy	100%	188	33	155	155.0
Piermont Grand	60%	820	510	310	186.0
Sengkang Grand Residences	50%	680	238	442	221.0
South Beach Residences	50%	190	134	56	28.1
The Jovell	33%	428	120	308	101.6
<b>TOTAL:</b>		<b>8,023</b>	<b>5,839</b>	<b>2,184</b>	<b>~1,476</b>

Source: Company data

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2019-11-14	Neutral	10.5	10.5
2019-08-13	Neutral	9.2	9.1
2018-07-23	Neutral	na	10.2
2018-07-22	Neutral	10.4	10.1

Source: RHB, Bloomberg

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<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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