

2 May 2019

Property | REITs

## CDL Hospitality Trusts (CDREIT SP)

**Buy** (Maintained)

### Soft Quarter Hit By Asset Enhancements; BUY

Target Price (Return)	SGD1.77 (+11%)
Price:	SGD1.60
Market Cap:	USD1,419m
Avg Daily Turnover (SGD/USD)	3.0m/2.2m

- **Keep BUY with a revised SGD1.77 TP from SGD1.80, 11% upside plus 6% yield.** Our TP is at the high end of consensus. CDL Hospitality Trust remains our hospitality sector Top Pick. Despite a slightly weak 1Q, we believe remains the best proxy to the sector's ongoing recovery. With most hotels' asset enhancement initiatives (AEI) nearing completion, a better performance is expected from 3Q19 with favourable demand-supply dynamics providing some tailwind. Key risk: lower demand pickup on weak global economic growth.
- **Singapore – slightly moderated revenue per available room (RevPAR) growth guidance.** Management guided on 2019 RevPAR growth at 1-3% from 3-5% due to slightly weak corporate demand pickup. RevPAR for its Singapore hotels were lower at 2.4% YoY mainly on extensive AEI at Orchard Hotel, excluding which RevPAR rose 0.4% YoY. 2Q RevPAR is also likely to stay flattish due to the ongoing phased refurbishment of 260 rooms at the hotel. Management noted that ongoing elections across key Singapore visitor markets might have had some impact on weak 1H demand. A pickup is expected from 2H19, with AEI completion and limited new hotel supply.
- **Maldives – some improvement in trading conditions.** Demand has picked up with an increase in inbound flights and the Government stepping up its efforts in marketing. This was reflected in 18% YoY RevPAR growth for Angsana Velavaru (AV) in 1Q19. Some refurbishment works are planned for AV in the near term but it is not expected to cause any major disruption to hotel operations. The rebranded Raffles Maldives Meradhoo will be opened in phases from 2Q19, but performance is expected to remain sub-optimal during the gestation period (~1 year).
- **Other markets – Germany remains a bright spot** supported by strong Munich events calendar, with healthy RevPAR growth expected for Pullman Hotel Munich. The newly-acquired Hotel Cerretani Florence registered a healthy 24% YoY RevPAR growth due to adoption of a volume strategy. New Zealand RevPAR is expected to remain flattish to slightly lower after exceptional growth in the last few years. While hotel supply in Tokyo (economy segment) is expected to increase, the impact is likely to be mitigated by an increase in tourist arrivals and reduced Airbnb listings. UK hotel performances are likely to remain weak due to the Brexit uncertainty and rising wage environment, which are impacting operating costs.
- **More European hotel acquisitions likely in the near term.** Gearing remains modest at 35.2%. Management still sees more opportunities in the European market due to attractive yield spreads (NPI yield -borrowing cost).
- **DPU adjustments.** We cut our FY19F-21F DPU 2-3% after factoring in a slightly weaker-than-expected market outlook.

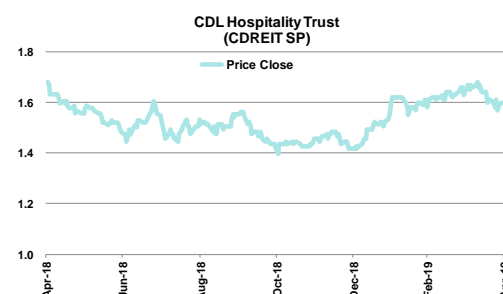
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	9.6	(1.8)	(4.2)	10.3	(10.1)
Relative	(1.2)	(7.7)	(10.8)	(2.3)	(4.2)
52-wk Price low/high (SGD)	1.43 - 1.78				



Source: Bloomberg

Forecasts and Valuation	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (SGDm)	204.3	201.8	226.2	237.0	248.4
Net property income (SGDm)	151.8	146.1	165.1	173.0	181.4
Reported net profit (SGDm)	129.1	110.5	129.2	136.0	143.5
Distributable income (SGDm)	116.3	109.6	123.7	129.6	136.3
DPS (SGD cents)	9.2	9.3	9.4	9.8	10.2
DPS growth (%)	(7.8)	0.4	1.7	4.0	4.4
P/BV (x)	1.0	1.0	1.0	1.0	1.0
Dividend Yield (%)	5.8	5.8	5.9	6.1	6.4
Return on average equity (%)	7.0	6.0	6.8	7.1	7.3
Return on average assets (%)	4.5	3.7	4.3	4.5	4.7
Interest coverage (x)	4.2	3.7	4.6	4.7	4.9

Source: Company data, RHB

## Results And Operations Review

**1Q19 DPS was down 3.7%YoY, results slightly below expectations.** Revenue and NPI for the quarter were down 11% YoY mainly due to extensive AEI at Orchard hotel and the closure of Raffles Maldives Meradhoo. Interest expenses were higher 33% YoY due to higher debt to fund recent acquisitions as well as a drawdown of debt to fund ongoing renovation works. 1Q also included a capital distribution of SGD2.4m from the sale of Mercure and Ibis Brisbane. Management expects a capital distribution of SGD6-7m for the full year to offset some of the DPU shortfall. Overall DPU was slightly below, at 22% of our full-year estimates.

**Geographical breakdown.** SG portfolio still accounts for the bulk 60% of NPI, followed by New Zealand (15%), Australia (7%), Germany (7%), UK (6%), and others. Except for Germany, where NPI rose 22% YoY, the rest of the markets were weak, hit by one-offs and weaker trading environments.

**Borrowing costs remain stable.** Weighted average cost of debt remained stable QoQ at 2.4%, with c.60% of its debt at fixed rates. Weighted average debt maturity currently stands at c.2.7 years, with c.20% debt due for refinancing in 2H19.

Figure 1: 1Q19 results summary

(SGDm)	1Q19	1Q18	YoY(%)	4Q18	QoQ (%)	Comments
Revenue	46.3	51.8	(10.6%)	52.3	(11.4%)	Mainly due to lower contribution from Singapore and Maldives, which were hit by asset enhancements.
NPI	33.8	37.8	(10.7%)	38.4	(12.1%)	In line with above.
NPI (%)	72.9%	73.0%	(0.1ppt)	73.5%	(0.6ppts)	
Distributable Income	24.1	28.2	(14.4%)	29.1	(17.0%)	Lower property taxes.
Unitholders distribution	25.3	26.1	(3.0%)	33.4	(24.4%)	Includes capital distribution of SGD2.4m from Australian hotels.
DPU (cents)	2.1	2.2	(3.7%)	2.8	(24.5%)	
RevPAR - Singapore Hotels	157	161	(2.5%)	160	(1.9%)	Impacted by AEIs, excluding which RevPAR rose 0.4% YoY.

Source: RHB

Figure 2: CDREIT – fair value based on DDM

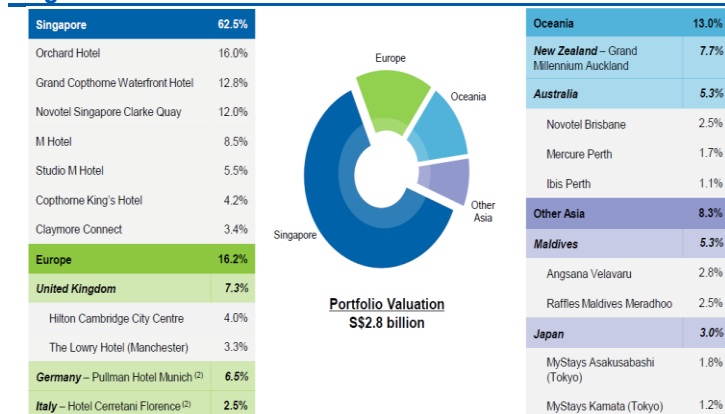
	FY19F	FY20F	FY21F	FY22F	Terminal Value
DPU (SGD cents)	9.42	9.80	10.23	10.40	195.45
<b>Fair value (SGD)</b>	<b>1.77</b>				
Current price (SGD)	1.60				
Price upside (%)	10.6				
Distribution yield (%)	5.9				

### Assumptions

Risk-free rate (%)	3.0
Beta	0.8
Cost of equity (%)	7.4
Terminal growth (%)	2.0

Source: Company data, RHB

Figure 3: Portfolio value breakdown



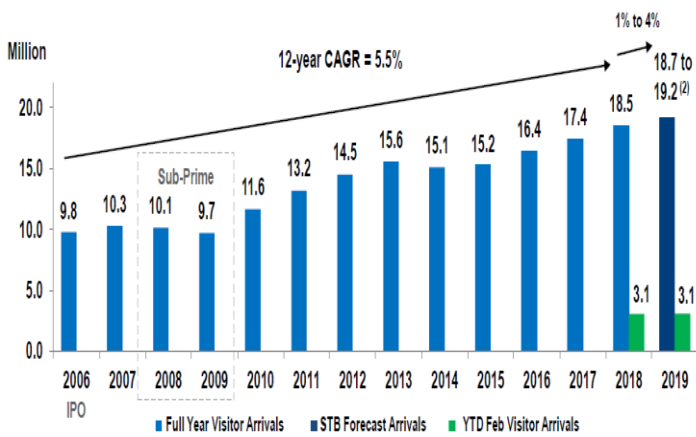
Source: Company data

Figure 4: NPI breakdown by geography

	1Q '19 S\$'000	1Q '18 S\$'000	Change S\$'000	YoY Change
Singapore (Renovation of Orchard Hotel)	20,511	21,999	(1,488)	-6.8%
New Zealand	5,046	5,360	(314)	-5.9%
Australia	2,325	2,625 <sup>(1)</sup>	(300)	-11.4%
United Kingdom	2,140	2,378	(238)	-10.0%
Germany	2,364	1,940	424	21.9%
Italy <sup>(2)</sup>	467	-	467	N.M
Maldives (Closure of DMLR for renovations)	(176)	2,380	(2,556)	N.M
Japan	1,093	1,136	(43)	-3.8%
<b>Total</b>	<b>33,770</b>	<b>37,818</b>	<b>(4,048)</b>	<b>-10.7%</b>

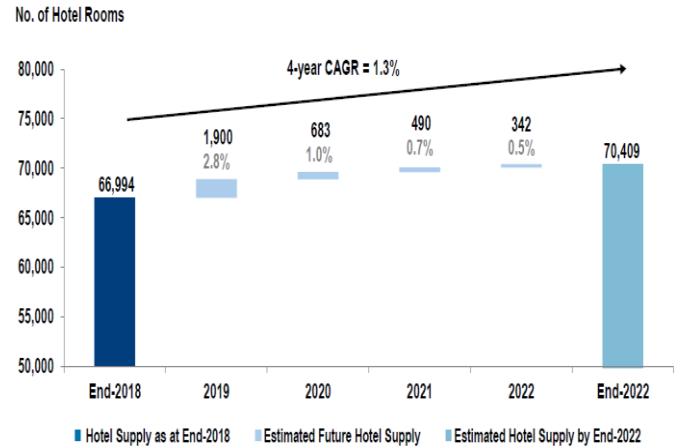
Source: Company data

Figure 5: SG visitor arrivals trend



Source: STB, Company data

Figure 6: Singapore hotel room supply



Source: STB, Horwath HTL, Company Data

Figure 7: SG tourism future demand drivers

#### 1. Jurong Lake District <sup>(1)</sup>

- 7-ha site set aside for an integrated tourism development that will include attractions, eateries and retail shops

#### 7. Mandai Nature Precinct

- Rejuvenation of Mandai into an integrated nature and wildlife destination
- Eco-tourism hub will house the new Bird Park and Rainforest Park

#### 6. Jewel Changi Airport <sup>(4)</sup>

- Recently opened S\$1.7 billion complex connecting 3 terminals with 135,700 sqm of GFA
- 5-storey garden with a 40m tall (world's largest) indoor waterfall
- More than 280 shops and food and beverage outlets
- Enhances Changi Airport's position as one of the world's best airports

#### 2. Greater Southern Waterfront <sup>(2)</sup>

- Relocation of Pasir Panjang and Tanjong Pagar port terminals to Tuas
- Frees up ~1,000ha of land for a new waterfront city (3x Marina Bay size)
- New tourism attractions and facilities (including MICE) being planned for Sentosa, Pulau Brani and the waterfront along Tanjong Pagar up to 2030
- Further development and expansion of Marina Bay Cruise Centre

#### 4. Resorts World Sentosa ("RWS")

- RWS expanding with multiple new attractions
- New Minion Park and Super Nintendo World in Universal Studios Singapore
- SEA Aquarium expanding to 3x its current size <sup>(3)</sup>

#### 5. Orchard Road

- Revamp of Orchard Road shopping belt via 4 sub-preincts to include more activities, retail concepts and attractions
- Tanglin – Arts and lifestyle
- Orchard – Retail core
- Somerset – Youth hub
- Dhoby Ghaut – Green and family-friendly attractions

Source: Company

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