

10 June 2019

Property | Real Estate

## City Developments (CIT SP)

**Neutral** (Maintained)

### Revised Takeover Offer For M&C

Target Price (Return)	SGD9.20 (+8%)
Price:	SGD8.47
Market Cap:	USD5,600m
Avg Daily Turnover (SGD/USD)	15.0m/11.0m

- **Remain NEUTRAL with an unchanged TP of SGD9.20, 8% upside and 2% yield.** CDL's revised takeover offer to acquire the remaining 35% stake and take full ownership of its London-listed subsidiary Millennium & Copthorne hotels (M&C) is likely to gain approval from minority shareholders. The move is a long-term positive and should help CDL to better reposition its ageing hotel assets but will also result in a significant increase in its near-term capex. We make no changes to our estimates, pending further updates.

- **Revised superior offer for M&C likely to gain minority acceptance.** Based on a revised takeover for M&C, the minority unit holders (CDL currently owns a 64.2% majority stake) will receive 685 pence per share in cash, a 37% premium to the closing price from 6 June. The final offer values the entire M&C at GBP2.2bn (SGD3.9bn), an implied FY18 P/B of 0.82x or 12.4x EV/EBITDA. This is a second takeover offer for M&C since in October 2017, CDL made an offer of 552.5 pence/share which it later revised to 620 pence/share. The offer lapsed on Jan 2018 as CDL failed by a small margin to get the minimum acceptance of >50% of M&C's shares that it did not already own.

We believe the latest offer is likely to gain a minority acceptance as it's a 10.4% premium to the previous offer and comes at a time when market conditions have worsened considerably amid heightened trade war concerns and Brexit uncertainty. CDL has also received irrevocable undertakings from the minority shareholders representing 43.6% of shares it currently does not own, thus it needs only 6.5% more in acceptance, to clear the hurdle. Additionally, M&C's independent directors, who have been advised by Credit Suisse, intend to recommend unanimously that M&C shareholders accept the final offer

- **Financial impact to CDL.** The maximum cash consideration for CDL based on the revised offer is GBP776m (SGD1.34bn), which will be funded by a combination of cash and debt. Net gearing post transaction and recent acquisition in China is likely to be at c.0.5x (from 0.36x as at 1Q19). CDL has been quite active in the acquisition front since 2018 and we believe post this successful acquisition completion, management's focus will be on repositioning and extracting more value from its existing assets through AEI. Overall, the above transaction is slightly dilutive (c.1%) to CDL's pro forma FY18 EPS but offers a slight 1% accretion to its NAV. Assuming successful completion, it will lift our RNAV estimates by 3-4% as we are currently valuing M&C at 550 pence per share.

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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
Recurring net profit (SGDm)	538	557	525	530	540
Recurring net profit growth	(17.6)	3.6	(5.8)	0.9	2.0
Recurring EPS (SGD)	0.6	0.6	0.6	0.6	0.6
Recurring P/E (x)	15.0	14.5	15.4	15.3	15.0
P/BV (x)	0.8	0.8	0.8	0.7	0.7
DPS (SGD)	0.18	0.20	0.20	0.20	0.21
Dividend Yield (%)	2.1	2.4	2.4	2.4	2.5
ROAE (%)	5.6	5.6	5.1	5.0	4.7
Net debt to equity (%)	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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