

31 October 2019

Property | REITS

CDL Hospitality Trusts (CDREIT SP)

Buy (Maintained)

Strong SG Offset by Weakness Overseas

Target Price (Return)	SGD1.78 (+9%)
Price:	SGD1.63
Market Cap:	USD1,450m
Avg Daily Turnover (SGD/USD)	1.8m/1.3m

- **BUY, new SGD1.78 TP from SGD1.79, 9% upside with 6% FY20F yield.** CDL Hospitality Trusts remains our preferred hospitality pick. 3Q19/9M19 results were slightly below our estimates, due to the weaker performance of its overseas properties. On the positive side, its Singapore hotels registered the strongest RevPAR growth in 3Q19 since 2012, and this trend is expected to continue. Valuations are reasonably attractive, at 1.1x P/BV. This stock is still one of the most liquid proxies to Singapore's hospitality sector.

- **Singapore: good RevPAR growth; positive 2020F outlook.** 3Q19 revenue per available room (RevPAR) grew 4.9% YoY, marking the biggest jump in the last seven years – largely driven by higher room rates. Management noted that despite the weak corporate environment, strong demand for leisure more than compensated for the weakness. The completion of asset enhancement works at Orchard Hotel also helped in boosting RevPAR, with strong demand seen for refurbished products. For the first 27 days in October, RevPAR for its Singapore hotels rose by 0.2% YoY. In 2020, market conditions should be more favourable, with minimal supply (~1%) and a healthy demand pipeline on the back of a strong event calendar. Management guided that 2-3% RevPAR growth for 2020 should be achievable, barring unforeseen circumstances.

- **Overseas: a disappointing quarter; hit by weaker market conditions and fluctuating FX.** Overseas NPI contributions declined across all countries, being impacted by decelerating demand on top of higher supply and unfavourable FX rate fluctuations. Raffles Maldives Meradhoo was fully opened in September after undergoing a major renovation and rebranding exercise, but management expects a 1-2 year gestation period for the asset before it starts contributing meaningfully to total numbers. Asset enhancements for Angsana Velavaru in the Maldives are expected to be completed by end-2019. In terms of outlook, CDREIT's Germany and Italy hotels are expected to book a better operational performance, while weakness is expected to persist in its New Zealand, Japan, UK and Maldives assets.

- **Acquisitions likely a potential catalyst in the near term.** Management is actively looking out for assets to acquire, with Singapore and Europe being the preferred markets. In Singapore, we believe M Social Hotel from its sponsor could be a potential candidate for acquisition in the near term. For Europe, the attractive yield spreads (yields minus borrowing cost) remain the key draw. Asset enhancement works are currently being carried out at Copthorne Kings Hotel in Singapore and The Lowry Hotel in the UK, with minimal disruption expected to operations. Gearing stands at a modest 36.3%, and we expect potential acquisitions to be funded via a combination of debt and equity.

- **DP and TP adjustments.** Our FY19F-21F DPU is lowered by 1-3%, after imputing the anticipated prolonged weakness in its Maldives properties and lower contributions from its New Zealand assets.

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	11.6	(0.6)	(1.8)	1.9	11.6
Relative	7.2	(3.4)	2.5	7.6	3.6
52-wk Price low/high (SGD)	1.43 - 1.68				



Source: Bloomberg

Forecasts and Valuation	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (SGDm)	204	202	212	221	233
Net property income (SGDm)	152	146	153	159	169
Reported net profit (SGDm)	129	111	120	126	134
Distributable income (SGDm)	116	110	114	119	126
DPS (SGD - cents)	9.2	9.3	9.3	9.4	9.7
DPS growth (%)	(7.8)	0.4	(0.1)	1.7	3.3
P/BV (x)	1.1	1.1	1.1	1.0	1.0
Dividend Yield (%)	5.7	5.7	5.7	5.8	6.0
Return on average equity (%)	7.0	6.0	6.4	6.6	6.9
Return on average assets (%)	4.5	3.7	4.0	4.1	4.4
Interest coverage (x)	4.2	3.7	4.2	4.4	4.6

Source: Company data, RHB

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Property | REITs

Financial Exhibits

Asia	Financial summary	Dec-17	Dec 18	Dec 19F	Dec 20F	Dec 21F
Singapore	Recurring EPS (SGD)	0.11	0.09	0.10	0.10	0.11
Property	EPS (SGD)	0.11	0.09	0.10	0.10	0.11
CDL Hospitality Trusts	DPS (SGD)	0.09	0.09	0.09	0.09	0.10
Bloomberg CDREIT SP	BVPS (SGD)	1.53	1.53	1.55	1.56	1.58
	Weighted avg adjusted shares (m)	1200	1204	1213	1220	1227
	Valuation metrics	Dec-17	Dec 18	Dec 19F	Dec 20F	Dec 21F
Valuation basis	Recurring P/E (x)	15.1	17.8	16.5	15.8	15.0
We use DDM:	P/E (x)	15.1	17.8	16.5	15.8	15.0
i. COE of 7.2%;	P/B (x)	1.1	1.1	1.1	1.0	1.0
ii. Risk free rate of 2.75%;	FCF Yield (%)	6.4	5.6	6.5	6.8	7.3
iii. 2% terminal growth.	Dividend Yield (%)	5.7	5.7	5.7	5.8	6.0
Key drivers	EV/EBITDA (x)	19.0	20.0	19.4	18.8	17.9
i. Tapering hotel supply in Singapore;	EV/EBIT (x)	19.0	20.0	19.4	18.8	17.9
ii. Diversified asset portfolio mitigating risks;						
iii. Potential yield-accretive acquisitions or divestments.						
Key risks	Income statement (SGDm)	Dec-17	Dec 18	Dec 19F	Dec 20F	Dec 21F
i. Unexpected slowdown in visitor demand (corporate, in particular);	Total turnover	204	202	212	221	233
ii. Increasing completion from new hotels and Airbnb.	Gross profit	152	146	153	159	169
	EBITDA	152	146	153	159	169
	Depreciation and amortisation	0	0	0	0	0
	Operating profit	152	146	153	159	169
	Net interest	(27)	(27)	(30)	(31)	(32)
	Income from associates & JVs	0	0	0	0	0
	Exceptional income - net	0	0	0	0	0
	Pre-tax profit	142	135	142	153	160
	Taxation	(12)	(16)	(17)	(18)	(19)
	Minority interests	5	8	8	8	8
	Recurring net profit (adj)	129	111	120	126	134
Company Profile	Cash flow (SGDm)	Dec-17	Dec 18	Dec 19F	Dec 20F	Dec 21F
CDL Hospitality Trusts is one of Asia's leading hospitality trusts, with assets valued at SGD2.8bn. It owns 19 properties, with a total of 5,088 hotel rooms spread across six hotels and a retail mall in Singapore, three hotels in Australia, one hotel in New Zealand, two hotels in Japan, two hotels in the UK, one hotel in Germany, one hotel in Italy and two resorts in the Maldives.	Change in working capital	(2)	(12)	1	0	(0)
	Cash flow from operations	139	123	145	151	160
	Capex	(14)	(14)	(16)	(17)	(17)
	Cash flow from investing activities	(269)	(3)	(16)	(17)	(17)
	Dividends paid	(104)	(113)	(100)	(105)	(110)
	Cash flow from financing activities	145	(73)	(161)	(157)	(140)
	Cash at beginning of period	81	95	138	106	84
	Net change in cash	15	47	(32)	(22)	3
	Ending balance cash	95	138	106	84	63
	Balance sheet (SGDm)	Dec-17	Dec 18	Dec 19F	Dec 20F	Dec 21F
	Total cash and equivalents	96	140	106	84	63
	Tangible fixed assets	2331	2429	2509	2569	2631
	Intangible assets	0	0	0	0	0
	Total investments	2331	2429	2509	2569	2631
	Total other assets	435	394	374	375	376
	Total assets	2862	2962	2990	3028	3070
	Short-term debt	286	249	0	0	0
	Total long-term debt	644	763	1006	1011	1015
	Other liabilities	87	95	100	104	109
	Total liabilities	1017	1107	1106	1115	1123
	Shareholders' equity	1840	1848	1875	1905	1939
	Minority interests	5	8	8	8	8
	Total equity	1845	1855	1883	1913	1946
	Net debt	834	872	900	927	952
	Total liabilities & equity	2862	2962	2990	3028	3070
	Key metrics	Dec-17	Dec 18	Dec 19F	Dec 20F	Dec 21F
	Revenue growth (%)	13.0	(1.2)	5.0	4.3	5.3
	Recurrent EPS growth (%)	116.1	(14.9)	7.6	4.4	5.7
	Gross margin (%)	74.3	72.4	72.0	72.0	72.5
	Operating EBITDA margin (%)	74.3	72.4	72.0	72.0	72.5
	Net profit margin (%)	63.2	54.8	56.5	56.8	57.4
	Dividend payout ratio (%)	90	90	90	90	90
	Capex/sales (%)	6.9	6.9	7.6	7.5	7.3
	Interest cover (x)	5.5	4.5	4.8	4.9	5.1

Source: Company data, RHB

Figure 1: CDLHT – TP calculation based on DDM

	FY19F	FY20F	FY21F	FY22F	Terminal Value
DPU (SGD cts)	9.25	9.41	9.72	9.97	196.42
Fair value (SGD)	1.78				
Current price (SGD)	1.63				
Price upside (%)	9.2				
Distribution yield (%)	5.7				
Total return (%)	14.9				
Assumptions					
Risk-free rate (%)	2.8				
Beta	0.8				
Cost of equity (%)	7.2				
Terminal growth (%)	2.0				

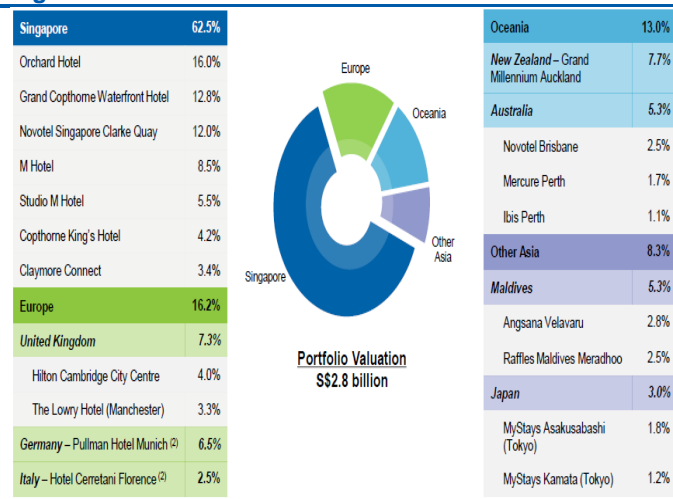
Source: Company data, RHB

Figure 2: NPI by country

	3Q '19 S\$'000	3Q '18 S\$'000	Change S\$'000	YoY Change	YTD Sep '19 S\$'000	YTD Sep '18 S\$'000	Change S\$'000	YoY Change
Singapore	23,370	21,936	1,434	6.5%	63,314	63,918	(604)	-0.9%
New Zealand	3,144	3,904	(760)	-19.5%	11,621	12,985	(1,364)	-10.5%
Australia	2,266	2,408	(142)	-5.9%	6,890	7,464 ⁽¹⁾	(574)	-7.7%
United Kingdom	3,408	3,692	(284)	-7.7%	9,353	9,505	(152)	-1.6%
Germany	2,579	3,218	(639)	-19.9%	8,001	7,044	957	13.6%
Italy⁽²⁾	886	-	886	N.M	2,328	-	2,328	N.M
Maldives <i>(Closure of one resort for renovations)</i>	(694)	(112)	(582)	N.M	(1,035)	3,167	(4,202)	N.M
Japan	707	1,180	(473)	-40.1%	2,723	3,559	(836)	-23.5%
Total	35,666	36,226	(560)	-1.5%	103,195	107,642	(4,447)	-4.1%

Source: Company data

Figure 3: Portfolio valuation breakdown



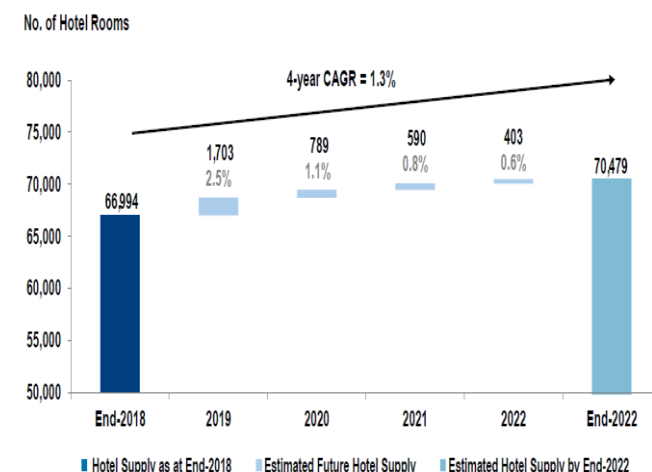
Source: Company data

Figure 4: Key operating metrics

Operating Performance:	3Q18	4Q18	1Q19	2Q19	3Q19
Avg occupancy rate: (%)	90.8	85.8	87.3	84.2	91.4
Avg room rate: (SGD/night)	182.0	186.0	180.0	179.0	190.0
RevPar: (SGD/night)	165.3	160.0	157.0	151.0	174.0
DPU (SG cts)	2.18	2.77	2.09	2.07	2.09
Capital Management:	3Q18	4Q18	1Q19	2Q19	3Q19
Interest cover (x)	7.20	7.10	5.80	5.80	5.90
Aggregated leverage: (%)	33.8	34.2	35.2	35.2	36.3
Term of debt: (years)	2.9	2.8	2.7	2.7	2.8

Source: RHB, Company data

Figure 5: Supply of hotel rooms in Singapore



Source: Horwath HTL, Singapore Tourism Board, Company data

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