

31 July 2023

Property | REITS

CDL Hospitality Trusts (CDREIT SP)

Neutral (Maintained)

Brighter Outlook But Interest Costs Continue To Weigh

Target Price (Return): SGD1.25 (6.1%)
 Price (Market Cap): SGD1.18 (USD1,103m)
 ESG score: 3.1 (out of 4)
 Avg Daily Turnover (SGD/USD) 1.77m/1.32m

- **Stay NEUTRAL with an unchanged TP of SGD1.25, 6% upside.** 1H DPU came in slightly below our and consensus' estimates. We expect the ongoing strong recovery in the Singapore hospitality sector to continue well into 2H and 2024 backed by a strong event pipeline and leisure demand. However we forecast the overseas segment performance to remain mixed coupled with a sharp impact from rising interest costs and FX volatility. We expect the stock to trade rangebound with key catalyst an earlier than expected rate peak and an economic recession as the key risk.
- **1H DPS up 23% YoY; 2H to see a stronger recovery in Singapore** amidst a continued surge in pent-up demand, with CDL Hospitality Trusts guiding that room rates across its hotels are likely to cross all-time highs last seen in 2011 and 2012. This comes after a strong 1H driven by Singapore with 43% YoY net property income (NPI) growth resulting from rising RevPAR (19% higher vs the level in 1H 2019). Visitor arrivals in 1H in Singapore have been rising to 6.3m, c.67% of the level in 2019, with total visitor days of 24.6m - at 77% of the level in 2019 - indicating longer stays. The outlook for 2H remains healthy with strong Formula 1 attendance anticipated but we expect Chinese visitor recovery to remain patchy.
- **A mixed bag from overseas markets:** Italy, Germany, Japan, and Australia saw the biggest NPI improvements in 1H aided by a strong surge in inbound travel and events. 2H outlook for these markets remains rosy. Hotels in the UK saw a modest (+7%) NPI growth in 1H which is likely to soften in 2H. The performance in Maldives was impacted by an increase in supply and reopening of alternative destinations (ex. Seychelles, Mauritius etc.), resulting in 29% YoY lower NPI. Similarly the performance in New Zealand was impacted by weather events and higher operational costs resulting in a 48% YoY NPI decline. We expect the above two markets to remain as a drag in 2H.
- **Interest cost pressures to persist and weigh on bottom-line.** Only c.48% of CDLHT's debt is fixed. YTD average interest cost surged 60bps to 4.1%. While there is a GBP 86m loan due in August, this is currently on floating rates and should not result in a cost increase upon refinancing. However interest costs are expected to rise further in 2024 when c.32% of its loans are due with the majority of them currently on fixed rates.
- **Gearing is comfortable at 37.9%** and we expect the overall valuation to remain largely stable with a slight upside seen for its Singapore hotels. Management remains on the lookout for acquisitions with opportunities mostly seen in Europe.
- **We have tweaked our FY23F-24F DPU by -1%/+2%.** With an ESG score of 3.1 (out of 4.0) which is one notch above our country median score, we applied a 2% ESG premium to our DDM-derived TP.

Analyst

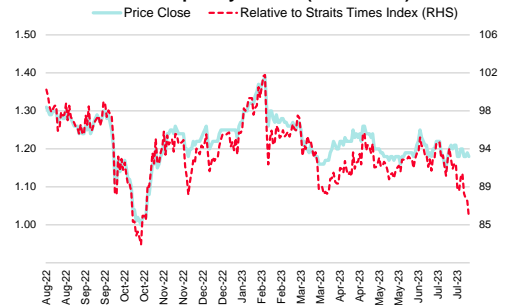
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(5.6)	(1.7)	(6.4)	(12.6)	(12.6)
Relative	(9.3)	(6.8)	(9.5)	(11.9)	(17.3)
52-wk Price low/high (SGD)	1.00 – 1.39				

CDL Hospitality Trusts (CDREIT SP)



Source: Bloomberg

Overall ESG Score: 3.1 (out of 4)

E: EXCELLENT

Aims to net zero by 2050 and started disclosing Scope 1 and 2 emissions in FY22. On track to achieve 5-7% energy consumption reduction across portfolio by 2026, with 2019 as base year. Adoption of TCFD framework for climate risk reporting. Its Singapore hotels are rated highly in BCA green mark standards with a gold or higher rating.

S: GOOD

Despite severe impact from COVID-19, CDLHT and its hotel operators strived to retain talent, keep jobs, and provide training for the employees where possible. Employees who were impacted by the pandemic were given access to all necessary assistance including fair retrenchment packages and other forms of assistance.

G: GOOD

High level earnings and operating information disclosure and regular engagements and updates for stakeholders. The group has a well laid out plan on corporate governance matters and whistle blowing policies.

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (SGDm)	158	229	250	263	271
Net property income (SGDm)	86	124	132	140	143
Reported net profit (SGDm)	69	216	47	49	49
Total distributable income (SGDm)	53.6	70.7	86.2	89.1	91.3
DPS (SGD)	0.04	0.06	0.07	0.07	0.07
DPS growth (%)	(13.5)	31.8	21.4	2.8	1.9
P/B (x)	0.89	0.82	0.83	0.84	0.86
Dividend Yield (%)	3.6	4.8	5.8	5.9	6.0
Return on average equity (%)	4.2	12.6	2.7	2.8	2.8
Return on average assets (%)	2.4	7.2	1.5	1.5	1.5

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Singapore	Recurring EPS (SGD)	0.06	0.17	0.04	0.04	0.04
Property	EPS (SGD)	0.06	0.17	0.04	0.04	0.04
CDL Hospitality Trusts	DPS (SGD)	0.04	0.06	0.07	0.07	0.07
CDREIT SP	BVPS (SGD)	1.33	1.44	1.43	1.40	1.38
Neutral	Return on average equity (%)	4.2	12.6	2.7	2.8	2.8
	Weighted avg adjusted shares (m)	1,230.04	1,237.52	1,245.17	1,252.75	1,260.60
Valuation basis	Valuation metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
DDM	Recurring P/E (x)	21.10	6.75	30.98	30.29	30.38
	P/E (x)	21.10	6.75	30.98	30.29	30.38
	P/B (x)	0.9	0.8	0.8	0.8	0.9
	FCF Yield (%)	3.4	5.7	8.2	8.5	8.6
	Dividend Yield (%)	3.6	4.8	5.8	5.9	6.0
	EV/EBITDA (x)	10.66	7.77	7.68	7.42	7.36
	EV/EBIT (x)	10.66	7.77	7.68	7.42	7.36
Key drivers	Income statement (SGDm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
I. Strong recovery in Singapore portfolio aided by pent-up demand;	Total turnover	158	229	250	263	271
II. Balanced mix of Master leases with management contracts; and	EBITDA	75	110	120	126	130
III. Strong Sponsor (City Developments) support	Operating profit	75	110	120	126	130
	Net interest	(22)	(4)	(53)	(58)	(61)
	Pre-tax profit	73	224	51	53	53
	Taxation	(4)	(8)	(4)	(4)	(4)
	Recurring net profit	69	216	47	49	49
Key risks	Cash flow (SGDm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
I. Inflation and interest cost pressures;	Change in working capital	(7)	4	3	1	1
II. Sharp slowdown in economy resulting in demand slowdown; and	Cash flow from operations	63	116	123	129	131
III. Weak Chinese and corporate travel recovery.	Capex	(14)	(34)	(4)	(4)	(4)
	Cash flow from investing activities	(44)	(98)	(84)	(54)	(29)
	Dividends paid	(57)	(63)	(70)	(77)	(81)
	Cash flow from financing activities	(7)	(52)	(53)	(68)	(99)
	Cash at beginning of period	131	139	97	82	89
	Net change in cash	12	(34)	(13)	7	4
	Ending balance cash	138	106	84	89	93
Company Profile	Balance sheet (SGDm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
CDL Hospitality Trusts is a stapled group comprising H-REIT and HBT. H-REIT is a real estate investment trust that invest in a portfolio of income-producing properties and HBT is a business trust. Its investment strategy is to invest in a diversified portfolio of real estate or development projects, which is or will be primarily used for hospitality, hospitality-related and other accommodation and/or lodging purposes globally.	Total cash and equivalents	139	97	82	89	93
	Total investments	1,922	2,105	2,158	2,213	2,271
	Total other assets	828	872	904	919	934
	Total assets	2,921	3,103	3,176	3,255	3,333
	Short-term debt	423	239	247	254	262
	Total long-term debt	768	972	1,060	1,148	1,240
	Total liabilities	1,279	1,310	1,386	1,485	1,586
	Shareholders' equity	1,635	1,786	1,783	1,763	1,740
	Minority interests	7	7	7	7	7
	Total equity	1,643	1,793	1,790	1,770	1,747
	Net debt	1,052	1,115	1,225	1,313	1,409
	Total liabilities & equity	2,921	3,103	3,176	3,255	3,333
	Key metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Revenue growth (%)	34.2	45.4	8.9	5.5	2.8
	Recurrent EPS growth (%)	0.0	212.6	(78.2)	2.3	(0.3)
	Operating EBITDA margin (%)	47.7	48.1	47.9	48.0	48.0
	Net profit margin (%)	43.6	94.3	19.0	18.5	18.1
	Dividend payout ratio (%)	76.4	32.2	179.6	180.5	184.4
	Capex/sales (%)	8.8	14.8	1.4	1.4	1.4
	Interest cover (x)	1.91	2.45	2.20	2.15	2.11

Source: Company data, RHB

Figure 1: CDLHT – Dividend discount model valuation

	FY23F	FY24F	FY25F	FY26F	Terminal Value
DPU (SGD cts)	6.83	7.01	7.18	7.32	134.60
Intrinsic value (SGD)	1.24				
ESG Premium	0.01				
Fair Value (SGD)	1.25				
Current price (SGD)	1.19				
Price upside (%)	6.1				
Distribution yield (%)	5.8				
Total return (%)	11.9				
Assumptions					
Risk-free rate (%)	2.8				
Beta	0.8				
Cost of equity (%)	7.6				
Terminal growth (%)	2.0				

Source: RHB

Figure 2: RevPAR breakdown by markets

RevPAR	2Q 2023	2Q 2022	Better / (Worse)	1H 2023	1H 2022	Better / (Worse)
Singapore (S\$)	182	150	20.7% ▲	179	123	45.8% ▲
New Zealand (NZ\$)	113	141	(19.6)% ▼	139	158	(12.1)% ▼
Australia (A\$)	86	86	0.1% ▲	104	59	74.8% ▲
Japan (¥)	9,036	3,742	141.5% ▲	8,299	3,415	143.0% ▲
Maldives (US\$)	257	246	4.5% ▲	359	381	(5.8)% ▼
United Kingdom (£ ⁽¹⁾)	141	128	10.1% ▲	122	107	14.5% ▲
Germany (€)	112	80	40.5% ▲	86	52	64.7% ▲
Italy (€)	307	195	57.5% ▲	210	126	66.4% ▲

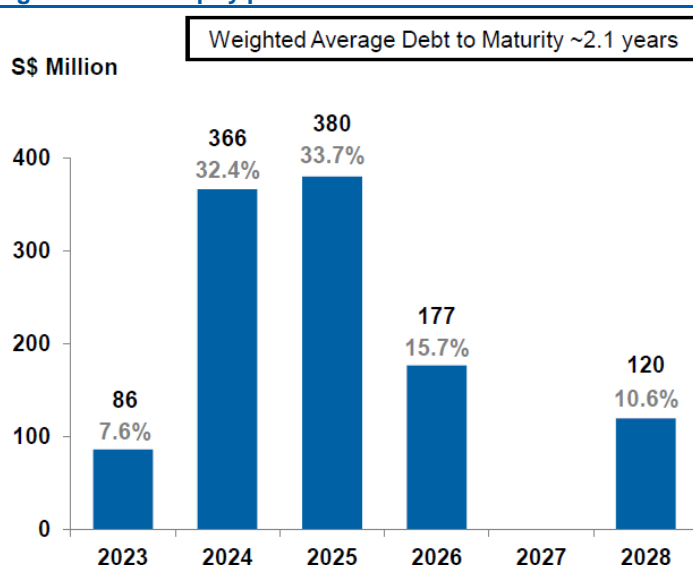
Source: CDLHT

Figure 3: NPI breakdown by markets

	2Q 2023 S\$ '000	2Q 2022 S\$ '000	Change S\$ '000	Better / (Worse)	1H 2023 S\$ '000	1H 2022 S\$ '000	Change S\$ '000	Better / (Worse)
Singapore	19,129	16,388	2,741	16.7% ▲	38,681	27,103	11,578	42.7% ▲
New Zealand	948	2,128	(1,180)	(55.5)% ▼	3,652	7,005	(3,353)	(47.9)% ▼
Australia	370	929	(559)	(60.2)% ▼	1,816	348	1,468	421.8% ▲
Japan	1,048	167	881	527.5% ▲	1,790	189	1,601	847.1% ▲
Maldives	531	1,079	(548)	(50.8)% ▼	4,656	6,582	(1,926)	(29.3)% ▼
United Kingdom ⁽¹⁾	3,968	4,026	(58)	(1.4)% ▼	6,209	5,798	411	7.1% ▲
Germany	2,097	1,555	542	34.9% ▲	3,581	3,168	413	13.0% ▲
Italy	2,077	487	1,590	326.5% ▲	2,469	773	1,696	219.4% ▲
Total	30,168	26,759	3,410	12.7% ▲	62,854	50,966	11,888	23.3% ▲

Source: CDLHT

Figure 4: Debt expiry profile

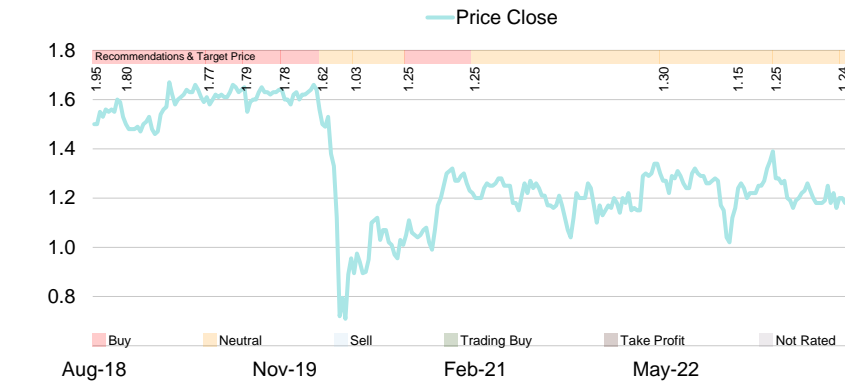


Currency	Amount	Type	Expiry
GBP	S\$86.2M	Floating Term Loan	Aug 2023
EUR	S\$54.1M	Term Loan fixed via EUR/USD CCS	Jul 2024
SGD	S\$70.0M	Fixed Term Loan	Aug 2024
USD	S\$88.0M	Fixed Term Loan	Dec 2024
Multi	S\$100.8M	Floating RCF	Dec 2024
GBP	S\$53.1M	Fixed and Floating Term Loan	Dec 2024
Multi	S\$164.7M	Fixed and Floating RCF	Mar 2025
EUR	S\$64.9M	Fixed Term Loan	Apr 2025
JPY	S\$60.2M	Fixed Term Loan and TMK Bond	Sep 2025
EUR	S\$90.2M	Term Loan fixed via EUR/SGD CCS	Nov 2025
SGD	S\$83.6M	Floating Term Loan	Aug 2026
GBP	S\$93.1M	Floating Term Loan	Dec 2026
SGD	S\$40.0M	Fixed Term Loan	Jun 2028
SGD	S\$80.0M	Floating Term Loan	Jun 2028

¹ Based on exchange rates of US\$1 = S\$1.3537, €1 = S\$1.4745, £1 = S\$1.7245 and S\$1 = ¥105.8201

Source: Company data, RHB

Recommendation Chart

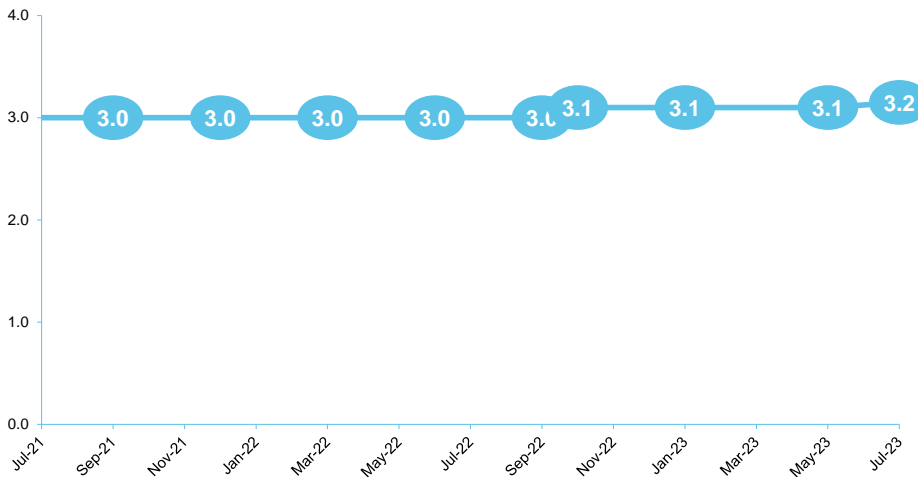


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-07-12	Neutral	1.24	1.20
2023-01-31	Neutral	1.25	1.35
2022-10-30	Neutral	1.15	1.12
2022-07-31	Neutral	1.30	1.32
2022-05-03	Neutral	1.30	1.34
2022-03-13	Neutral	1.25	1.15
2021-10-31	Neutral	1.25	1.20
2021-02-01	Neutral	1.25	1.22
2020-11-01	Buy	1.25	0.99
2020-08-24	Buy	1.25	1.00
2020-04-20	Neutral	1.03	0.95
2020-01-31	Neutral	1.62	1.56
2020-01-30	Neutral	1.62	1.56
2019-11-22	Buy	1.78	1.58
2019-10-31	Buy	1.78	1.64

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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