

15 August 2024

Property | Real Estate

## City Developments (CIT SP)

**Buy** (Maintained)

### Shifting To Asset Deleveraging Mode; BUY

Target Price (Return): SGD7.30 (+40%)  
 Price (Market Cap): SGD5.22 (USD3,530m)  
 ESG score: 3.3 (out of 4)  
 Avg Daily Turnover (SGD/USD) 20.2m/15.0m

- **Maintain BUY and SGD7.30 TP, 40% upside and c.2% yield.** 1H24 net profit missed expectations on lower development project recognition and higher costs. During the analyst briefing, management guided for a clear deleveraging path with an aim to lower gearing to <60% by 2025, which we see positively. Fund management and the living sector particularly are key areas of growth. Share price has underperformed mainly on low ROE concerns and index exclusion, but successful asset monetisation should help uplift returns and act as a catalyst.
- **More divestments than acquisitions ahead in the near term.** YTD, City Developments has achieved a portfolio divestment value of ~SGD271m mainly from sale of strata units at its various industrial and retail assets in Singapore at a good premium. Management acknowledged it is behind its SGD1bn divestment target set earlier this year. This is mainly due to buyers adopting a wait-and-watch approach, as well as requiring a longer lead time for decision making due to market uncertainties. Management guided that it is currently in discussion with several prospects on various large assets, but is not in a rush to offload assets cheaply considering the potential turn in rate cycle. For 1H24, acquisitions totalled SGD1.1bn, mainly from the acquisition of the Zion Road residential site and Hilton Paris Opera hotel. Overall net gearing as a result rose to 69% (4Q:61%).
- **Resilient residential sales with two launches planned in 2H.** YTD, the group and JV sold a total of 588 units with sales value of SGD1.2bn (1H23: SGD1.1bn). Overall, we estimate unbilled residential sales of >SGD4bn. It currently has a pipeline of five residential launches – two of which (Union Square Residences and Norwood Grand) are expected to be launched later this year. Demand is expected to be strong considering the lack of new launches in the sub market. CIT, along with four other JV partners, have also submitted two joint bids for the Jurong Lake District master developer site, the details of which will likely be announced in 2H24.
- **Hospitality outlook remains positive but growth is tapering.** CIT's global hotel portfolio revenue per available room (RevPAR) rose +3% in 1H24, driven by strong Australasia performance and new acquisitions. For 2H24, the group expects RevPAR growth to remain positive at similar levels with its UK, France and Europe portfolios' hotels expected to benefit from the Paris 2024 Olympics spillover demand.
- **No changes to estimates** as we expect a stronger 2H24 from development projects' earnings recognition. CIT is showing good progress towards its environmental targets but we see room for improvement in governance and earnings transparency. Its ESG score of 3.3 results in a 4% ESG premium.

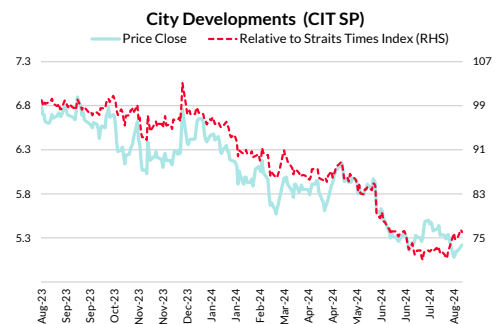
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(21.5)	(4.9)	(12.4)	(12.6)	(23.9)
Relative	(22.1)	1.9	(11.0)	(16.3)	(22.8)
52-wk Price low/high (SGD)	5.08 – 6.90				



Source: Bloomberg

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (SGDm)	3,293	4,941	4,188	4,314	4,465
Recurring net profit (SGDm)	1,285	317	332	378	400
Recurring net profit growth (%)	1,417.3	(75.3)	4.8	13.6	5.9
Recurring EPS (SGD)	1.41	0.35	0.37	0.42	0.44
DPS (SGD)	0.28	0.12	0.12	0.15	0.15
Recurring P/E (x)	3.69	14.96	14.28	12.56	11.86
P/B (x)	0.52	0.52	0.50	0.49	0.48
Dividend Yield (%)	5.3	2.3	2.3	2.9	2.9
Return on average equity (%)	14.6	3.4	3.6	4.0	4.1
Net debt to equity (%)	76.4	96.7	92.4	96.7	91.6

Source: Company data, RHB

#### Overall ESG Score: 3.3 (out of 4)

##### E: EXCELLENT

Complementing its pledge toward operational net zero by 2030, CDL has achieved a 33% reduction in carbon emissions intensity in 2023 from base-year 2016, exceeding its interim target. It is on track to achieving its Science Based Targets Initiative - validated target of a 63% reduction by 2030. All of CDL's owned and/or managed buildings have now received Green Mark Certification.

##### S: EXCELLENT

CDL places strong emphasis on employee occupational health, safety and well-being and has robust framework in place to monitor employee welfare. Eight of its Singapore properties have obtained WELL Health- Safety Rating. Balanced Gender profile with 43% of its 6,877 permanent employees being female.

##### G: GOOD

While CDL has been regularly engaging investors via earnings updates, we believe there is ample room for more granular and timely disclosures. CDL in recent past has also had some disagreement with board members in terms of investment approach which resulted in their resignations.

## Financial Exhibits

<b>Asia</b>	<b>Financial summary (SGD)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
Singapore	Recurring EPS	1.41	0.35	0.37	0.42	0.44
Property	EPS	1.41	0.35	0.37	0.42	0.44
<b>City Developments</b>	DPS	0.28	0.12	0.12	0.15	0.15
CITSP	BVPS	10.14	10.10	10.36	10.66	10.97
Buy	Return on average equity (%)	14.6	3.4	3.6	4.0	4.1
	Return on average assets (%)	5.5	1.3	1.4	1.5	1.6
<b>Valuation basis</b>						
<b>RNAV</b>	<b>Valuation metrics</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Recurring P/E (x)	3.69	14.96	14.28	12.56	11.86
	P/B (x)	0.5	0.5	0.5	0.5	0.5
	Dividend Yield (%)	5.3	2.3	2.3	2.9	2.9
	EV/EBITDA (x)	3.61	8.22	8.62	9.02	8.41
<b>Key drivers</b>	<b>Income statement (SGDm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
i. Strong hospitality recovery and steady build-up of recurring income stream;	Total turnover	3,293	4,941	4,188	4,314	4,465
ii. Resilient Singapore residential market with healthy unbilled sales;	Gross profit	1,247	1,649	1,591	1,682	1,741
iii. Strong brand presence and track record in Singapore.	EBITDA	2,156	1,073	1,028	1,044	1,078
	Depreciation and amortisation	(276)	(254)	(257)	(264)	(275)
	Operating profit	1,880	819	772	779	803
	Net interest	(193)	(394)	(436)	(446)	(421)
	Pre-tax profit	1,857	473	474	519	552
	Taxation	(543)	(124)	(95)	(99)	(107)
	Reported net profit	1,285	317	332	378	400
	Recurring net profit	1,285	317	332	378	400
<b>Key risks</b>	<b>Cash flow (SGDm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
i. Disappointing/negative returns from its overseas ventures;	Change in working capital	(177)	242	(496)	(264)	666
ii. Unexpected sharp decline in Singapore economy;	Cash flow from operations	(126)	950	432	674	1,630
iii. Continued rise in interest rates.	Capex	(273)	(232)	(300)	(300)	(300)
	Cash flow from investing activities	780	(1,860)	(367)	(540)	(641)
	Dividends paid	(222)	(206)	(206)	(206)	(258)
	Cash flow from financing activities	(290)	726	(129)	(663)	(1,052)
	Cash at beginning of period	2,101	2,363	2,400	2,447	1,919
	Net change in cash	364	(184)	(64)	(528)	(63)
	Ending balance cash	2,363	2,400	2,447	1,919	1,856
<b>Company Profile</b>	<b>Balance sheet (SGDm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
City Developments develops and owns properties. Through its subsidiaries, the Company owns and operates hotels, operates clubs, invests in properties and shares, manages properties and projects, as well as provides information technology and procurement services.	Total cash and equivalents	2,363	2,400	2,447	1,919	1,856
	Tangible fixed assets	4,061	4,213	4,255	4,383	4,558
	Total investments	8,341	9,925	9,794	10,327	10,855
	Total assets	22,981	24,234	24,979	24,880	25,590
	Short-term debt	2,354	3,913	3,500	3,000	3,000
	Total long-term debt	7,315	7,713	7,997	8,647	8,347
	Total liabilities	13,416	14,695	15,185	14,816	15,234
	Shareholders' equity	9,216	9,180	9,425	9,695	9,978
	Minority interests	348	359	370	368	379
	Total equity	9,565	9,539	9,795	10,063	10,357
	Total liabilities & equity	22,981	24,234	24,979	24,880	25,590
	<b>Key metrics</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Revenue growth (%)	25.4	50.0	(15.2)	3.0	3.5
	Recurring net profit growth (%)	1417.3	(75.3)	4.8	13.6	5.9
	Recurrent EPS growth (%)	1417.3	(75.3)	4.8	13.6	5.9
	Gross margin (%)	37.9	33.4	38.0	39.0	39.0
	Recurring net profit margin (%)	39.0	6.4	7.9	8.8	9.0
	Dividend payout ratio (%)	19.8	34.3	32.7	36.0	34.0

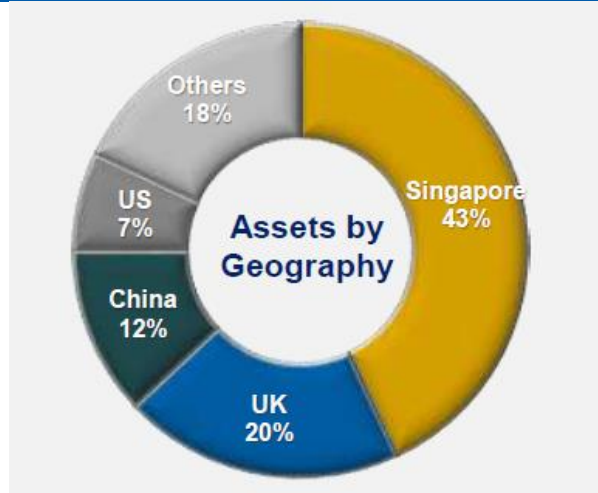
Source: Company data, RHB

Figure 1: CIT's RNAV breakdown

	Stake	RNAV (SGD m)	Value per share (SGD)
Investment properties		6,669.3	7.33
Property Development (GDV):			
-Singapore residential		3,282.9	3.61
-China residential		260.0	0.29
-UK properties		869.5	0.96
-JP residential		389.5	0.43
Millennium & Copthorne		5,676.0	6.24
Net cash/debt incl. capex liabilities		(4,497.0)	(4.9)
Listed Companies:			
I-REIT Global	21%	117.9	0.13
Sum of total parts		12,768.2	
No. of shares (m) (full conversion of pref. shares)	909.3		
RNAV			14.04
Market Premium/(discount) (%)			(50.00)
Fair value (SGD)			7.02
ESG Premium/(discount) (SGD)			0.28
Target Price (SGD)			7.30
Last price			5.61
Upside (%)			39.9

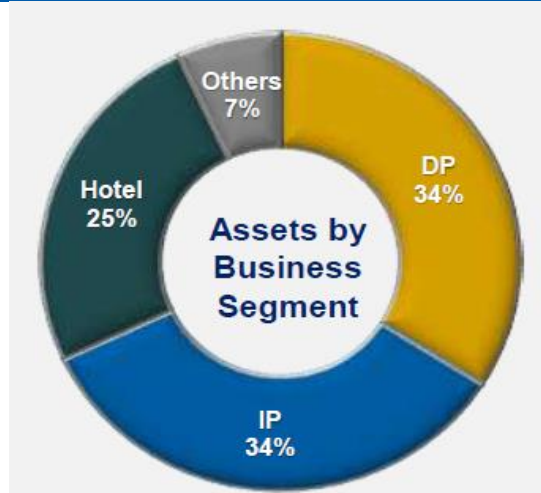
Source: RHB

Figure 2: Asset breakdown by markets (Total: SGD24bn)



Source: Company data

Figure 3: Asset breakdown by segments (Total: SGD24bn)



Note: DP - Development Properties, IP - Investment Properties  
Source: Company data

## Emissions And ESG

### Trend analysis

In 2023, CIT achieved a carbon emissions intensity reduction of 33% (vs 24% in 2022), as compared to baseline year of 2016. CIT has reaped ~SGD 42m in energy savings from green initiatives in Singapore from its managed buildings from 2012 to 2023.

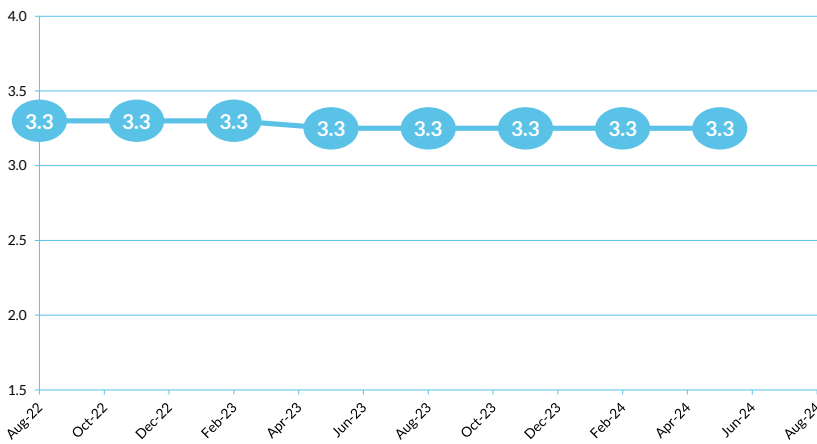
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	2,645	1,798	88
Scope 2	12,640	11,945	11,359
Scope 3	6,007	5,474	5,102
Total emissions	21,292	19,217	16,549

Source: Company data, RHB

## Latest ESG-Related Developments

- First Singapore real estate developer to sign World Green Building Council's Net Zero Carbon Buildings Commitment.
- CIT is currently included in 14 leading global sustainability ratings, rankings and indexes. Ranked 22nd on Global 100 Most Sustainable Corporations in the World; top real estate management and development company globally.
- Over SGD6.3bn sustainable financing completed since 2017; secured its first SBTi-aligned OCBC 1.5°C loan of SGD334m in 2023.

## ESG Rating History



Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-06-05	Buy	7.3	5.6
2024-02-29	Buy	8.0	5.7
2023-11-30	Buy	8.2	6.3
2023-08-28	Buy	8.2	6.7
2023-05-19	Buy	8.8	6.9
2023-03-30	Buy	9.8	7.4
2023-02-23	Buy	9.7	7.8
2022-04-12	Buy	9.8	8.2
2022-02-27	Buy	9.3	7.1
2021-12-13	Buy	9.0	7.0
2021-11-21	Buy	9.0	7.2
2021-08-13	Buy	8.5	6.8
2021-03-01	Buy	8.7	7.6
2020-08-14	Buy	9.5	8.4
2020-05-28	Buy	9.5	7.7

Source: RHB, Bloomberg

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<b>Buy:</b>	Share price may exceed 10% over the next 12 months
<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
<b>Neutral:</b>	Share price may fall within the range of +/- 10% over the next 12 months
<b>Take Profit:</b>	Target price has been attained. Look to accumulate at lower levels
<b>Sell:</b>	Share price may fall by more than 10% over the next 12 months
<b>Not Rated:</b>	Stock is not within regular research coverage

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Analyst	Company
-	-

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