

14 August 2020

Property | Real Estate

City Developments (CIT SP)

Buy (Maintained)

Looking Beyond Near-Term Headwinds; BUY

Target Price (Return): SGD9.50 (+12%)
 Price: SGD8.46
 Market Cap: USD5,593m
 Avg Daily Turnover (SGD/USD) 19.5m/13.9m

- **Keep BUY and SGD 9.50 TP, 12% upside.** City Developments' 1H20 numbers were weak, mainly from SGD208m pretax losses in hotel operations. Resilience is however noted across its property development and office portfolio. We are positive on the group's plans to redevelop two of its older assets in Singapore and divest its non-core hotels and China assets. In our view, near-term headwinds have been fully priced in, with the stock trading at -2SD levels in terms of P/BV and P/RNAV (Figures 2 & 3).
- **To redevelop FXT and CM tapping on government incentive schemes.** Fuji Xerox Towers (FXT), a freehold office building will be converted into a mixed-use project comprising 60% residential units and 40% commercial space with a potential 25% uplift in GFA under the Central Business District Incentive Scheme. For Central mall, it plans to convert it into a mixed use, with 70% commercial and 30% hotel or serviced apartments with GFA uplift expected under the Strategic Development Incentive Scheme. No details on redevelopment costs were shared as plans are still in preliminary stages and subjected to the authorities' approvals. We view the move positively as it will help to better reposition ageing assets and boost recurring income.
- **Residential segment to stay resilient.** In Singapore, CDL sold 356 units (1H19: 505 units) in 1H20 despite closure of show flats for 10 weeks. With resilient demand and lowering of supply under the Government Land Sales, management does not see the need to lower prices, and in fact, it has slightly increased the prices of some projects. China and Australia also saw healthy take-up. The company plans to launch its JV project – Penrose (566 units) in 3Q20 – we expect healthy demand due to its close proximity to the Aljunied MRT station and transformation of the Paya Lebar precinct.
- **More divestments expected; Potential listing of UK commercial assets under REIT in 1Q21.** CDL plans to divest some of its non-core hotel assets and China retail malls to strengthen its balance sheet and recycle capital. Net gearing stands at 0.7x (0.5x including fair value of investment portfolio), with a healthy cash position, which we believe can withstand a protracted slowdown in the hospitality segment. Plans to list its UK commercial assets under the REIT should also help lower its gearing further.
- **Near-term headwinds for hospitality segment.** RevPAR for its hospitality portfolio (~1/3 of its assets) fell sharply 57% YoY, with all markets impacted by border closures and lockdowns. While 3Q likely to remain weak we expect some improvement later in the year with the opening up of green channels and travel bubbles. Any potential breakthrough in a vaccine for COVID-19 will also be a major catalyst for its hospitality portfolio.
- **Earnings changes.** We cut FY20F-21F net profit by 55% and 3% factoring in protracted weakness in the hospitality portfolio, deferment in development property recognition and rental rebates. We have also included Sincere Property to our RNAV computation at acquisition cost.

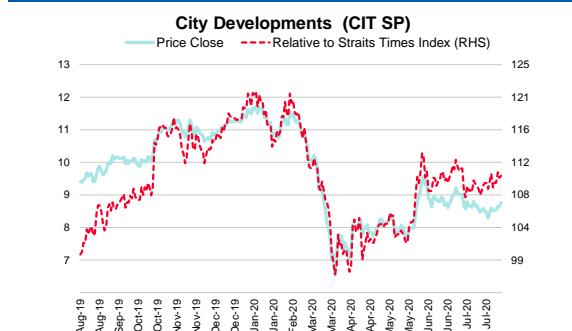
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(22.7)	1.1	10.6	(24.1)	(6.9)
Relative	(3.2)	2.4	9.7	(4.7)	10.6
52-wk Price low/high (SGD)				6.23 – 11.4	



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (SGDm)	4,223	3,429	2,857	3,784	4,337
Recurring net profit (SGDm)	557	565	173	494	560
Recurring net profit growth (%)	3.6	1.3	(69.4)	186.1	13.3
Recurring EPS (SGD)	0.58	0.59	0.18	0.52	0.59
DPS (SGD)	0.20	0.20	0.05	0.18	0.20
Recurring P/E (x)	14.48	14.30	46.76	16.35	14.42
P/B (x)	0.80	0.77	0.76	0.73	0.71
Dividend Yield (%)	2.4	2.4	0.6	2.1	2.4
Return on average equity (%)	5.7	5.5	1.6	4.6	5.0
Net debt to equity (%)	32.9	61.4	71.3	69.7	68.5

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary (SGD)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Singapore	Recurring EPS	0.58	0.59	0.18	0.52	0.59
Property	EPS	0.58	0.59	0.18	0.52	0.59
City Developments	DPS	0.20	0.20	0.05	0.18	0.20
CIT SP	BVPS	10.52	11.03	11.19	11.52	11.95
Buy	Return on average equity (%)	5.7	5.5	1.6	4.6	5.0
	Return on average assets (%)	2.8	2.6	0.7	2.0	2.2
Valuation basis						
RNAV						
Key drivers	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
i. Relaxation of cooling measures in Singapore;	Recurring P/E (x)	14.48	14.30	46.76	16.35	14.42
ii. Breakthrough in vaccine for COVID-19;	P/B (x)	0.8	0.8	0.8	0.7	0.7
iii. Strong management team with a wealth of experience	Dividend Yield (%)	2.4	2.4	0.6	2.1	2.4
	EV/EBITDA (x)	7.99	10.49	15.89	10.14	9.23
Key risks	Income statement (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
i. Sharp and prolonged downturn in Singapore economy;	Total turnover	4,223	3,429	2,857	3,784	4,337
ii. Lack of good profitability in its overseas ventures;	Gross profit	1,914	1,638	1,257	1,741	1,995
iii. Prolonged impact from COVID-19 in the hospitality segment	EBITDA	1,123	930	656	1,032	1,146
	Depreciation and amortisation	(219)	(276)	(282)	(287)	(293)
	Operating profit	905	654	375	745	854
	Net interest	(94)	(96)	(149)	(196)	(216)
	Pre-tax profit	876	754	313	636	723
	Taxation	(215)	(141)	(83)	(81)	(116)
	Reported net profit	557	565	173	494	560
	Recurring net profit	557	565	173	494	560
Company Profile	Cash flow (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
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.	Change in working capital	(1,531)	276	(877)	50	(73)
	Cash flow from operations	(600)	836	(310)	996	955
	Capex	(60)	(89)	(200)	(200)	(200)
	Cash flow from investing activities	(1,729)	(1,350)	(1,028)	(356)	(349)
	Dividends paid	(285)	(269)	(60)	(184)	(197)
	Cash flow from financing activities	898	1,149	415	(411)	(447)
	Cash at beginning of period	3,776	2,289	2,798	2,156	2,384
	Net change in cash	(1,431)	636	(923)	228	159
	Ending balance cash	2,289	2,798	2,156	2,384	2,544
	Balance sheet (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total cash and equivalents	2,289	2,798	2,156	2,384	2,543
	Tangible fixed assets	5,013	5,462	5,572	5,683	5,797
	Total investments	6,773	7,904	8,800	9,192	9,566
	Total assets	20,886	23,200	23,586	25,214	25,377
	Short-term debt	1,258	2,038	2,200	2,350	2,500
	Total long-term debt	5,069	7,673	8,111	8,261	8,411
	Total liabilities	8,612	11,934	12,150	13,407	13,160
	Shareholders' equity	10,041	10,520	10,677	10,996	11,401
	Minority interests	2,233	746	759	811	816
	Total equity	12,274	11,267	11,435	11,807	12,217
	Total liabilities & equity	20,886	23,200	23,586	25,214	25,377
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	10.3	(18.8)	(16.7)	32.4	14.6
	Recurring net profit growth (%)	3.6	1.3	(69.4)	186.1	13.3
	Recurrent EPS growth (%)	3.6	1.3	(69.4)	186.1	13.3
	Gross margin (%)	45.3	47.8	44.0	46.0	46.0
	Recurring net profit margin (%)	13.2	16.5	6.0	13.1	12.9
	Dividend payout ratio (%)	34.2	33.7	27.6	34.8	34.1

Source: Company data, RHB

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Figure 1: CDL's RNAV breakdown

Properties	Stake	RNAV (SGDm)	Value per share (SGD)
Investment properties		6,495.0	6.81
Property Development (GDV):			
-Singapore residential		4,510.6	4.73
-China residential		1,085.0	1.14
-UK residential		1,106.1	1.16
-JP residential		289.5	0.30
Millennium & Copthorne		6,660.0	6.98
Sincere Group		880.0	0.92
Net cash/debt incl. capex liabilities		(4,663.5)	(4.9)
Listed Companies:			
I-REIT Global	21%	110.6	0.12
Sum of total parts		16,473.3	
No. of shares (m) (full conversion of pref. shares)		954.2	
RNAV			17.26
Premium/(discount) (%)			(45.0)
Fair value			9.50
Last price			8.46
Upside (%)			12.2

Source: RHB

Figure 2: Trading at 10-year low historical P/BV



Source: Bloomberg, RHB

Figure 3: Historical P/RNAV chart

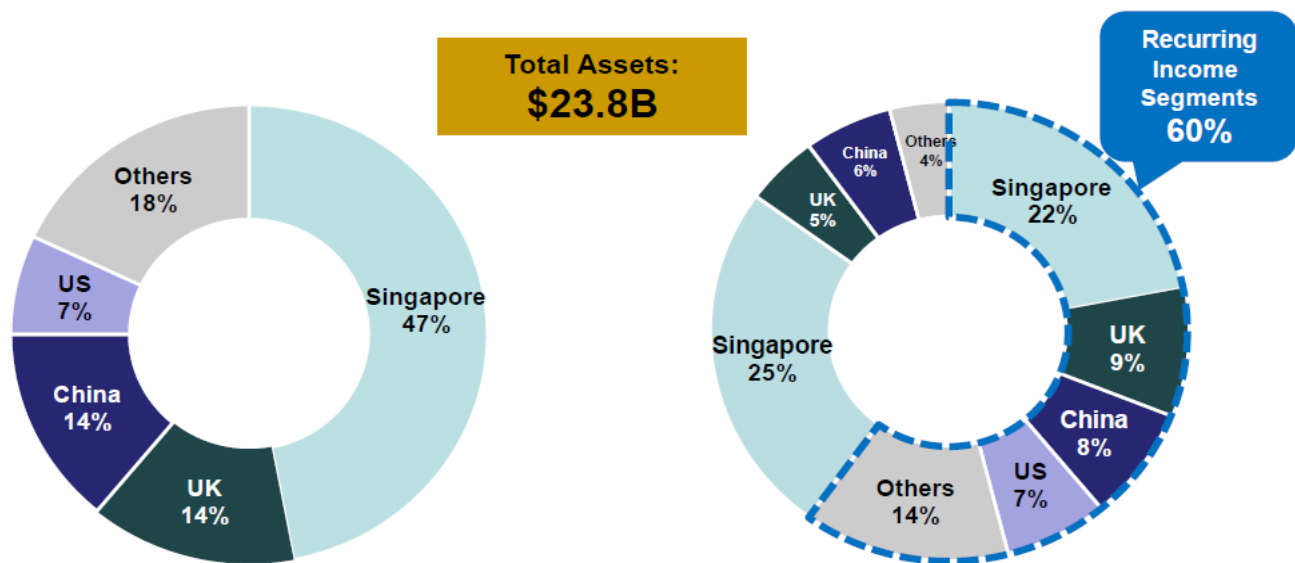


Source: Bloomberg, RHB

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Figure 4: Portfolio overview



Source: Company data

Figure 5: Weak hotel operations across geographies

	Room Occupancy			Average Room Rate			RevPAR		
	1H 2020 %	1H 2019 %	Incr / (Decr) % pts	1H 2020 \$	1H 2019 \$	Incr / (Decr) %	1H 2020 \$	1H 2019 \$	Incr / (Decr) %
Singapore	65.5	84.7	(19.2)	126.2	185.5	(32.0)	82.6	157.1	(47.4)
Rest of Asia	29.4	67.4	(38.0)	128.8	161.9	(20.4)	37.9	109.2	(65.3)
Total Asia	43.7	74.2	(30.5)	127.3	172.4	(26.2)	55.6	127.9	(56.5)
Australasia	45.9	84.0	(38.1)	163.4	151.5	7.9	75.0	127.3	(41.1)
London	24.6	78.1	(53.5)	221.4	218.7	1.2	54.4	170.7	(68.1)
Rest of Europe	27.9	69.8	(41.9)	134.4	153.8	(12.6)	37.5	107.4	(65.1)
Total Europe	26.3	73.4	(47.1)	172.8	184.0	(6.1)	45.5	135.1	(66.3)
New York	53.3	82.5	(29.2)	205.2	323.7	(36.6)	109.3	267.0	(59.1)
Regional US	34.9	56.4	(21.5)	148.0	188.2	(21.4)	51.6	106.1	(51.4)
Total US	41.9	65.0	(23.1)	175.6	245.0	(28.3)	73.5	159.3	(53.9)
Total Group	39.4	72.2	(32.8)	153.2	192.6	(20.5)	60.3	139.1	(56.6)

Source: Company data

Figure 6: SG residential inventory (as at Jun 2020)

Project	Equity Stake	Total Units	Units Sold	Total Unsold Inventory	CDL's Share of Unsold Inventory
Cuscaden Residences	25%	75	74	1	0.3
St. Regis Residences	33%	173	161	12	4.0
The Oceanfront @ Sentosa Cove	50%	264	263	1	0.5
One Shenton	100%	341	327	14	14.0
Cliveden at Grange**	100%	110	43	67	67.0
UP@Robertson Quay	100%	70	61	9	9.0
Echelon	50%	508	506	2	1.0
The Venue Residences	60%	266	265	1	0.6
Coco Palms	51%	944	942	2	1.0
Forest Woods	50%	519	517	2	1.0
New Futura	100%	124	124	0	0.0
The Tapestry	100%	861	801	60	60.0
Whistler Grand	100%	716	528	188	188.0
Boulevard 88	40%	154	96	58	23.2
Amber Park	80%	552	209	383	306.4
Haus on Handy	100%	188	34	154	154.0
Piermont Grand	60%	820	540	280	168.0
Sengkang Grand Residences	50%	680	241	439	219.5
South Beach Residences	50%	190	135	55	27.6
The Jovell	33%	428	133	295	97.4
TOTAL:		8,023	6,000	2,023	~1,342

Source: Company data

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-05-28	Buy	9.5	7.7
2019-11-14	Neutral	10.5	10.5
2019-08-13	Neutral	9.2	9.1
2018-07-23	Neutral	na	10.2
2018-07-22	Neutral	10.4	10.1

Source: RHB, Bloomberg

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