

12 August 2022

Property | Real Estate

## City Developments (CIT SP)

**Buy** (Maintained)

### Crystallising Its Portfolio; Keep BUY

Target Price (Return): SGD9.75 (18.2%)  
 Price (Market Cap): SGD8.25 (USD5,438m)  
 ESG score: 3.30 (out of 4)  
 Avg Daily Turnover (SGD/USD) 13.5m/9.71m

- **Maintain BUY and SGD9.75 TP, 18% upside and c.2% yield.** City Developments posted a record 1H profit, boosted by one-off items, while operating PATMI was broadly in line. Management's strategy of extracting value from its non-core assets is beginning to bear fruit, with positive impact to NAV and bottomline. Outlook is positive for 2H as the company has healthy unbilled residential sales, and a strong recovery is seen for its hotel and investment portfolio. Valuation is cheap, in our view, with the stock trading at >50% discount to its RNAV.
- **Record 1H net profit of SGD1.1bn**, boosted by divestment gains from the sale of Millennium Hotel Seoul (SGD526m) and accounting deconsolidation (SGD492.4m) of CDL Hospitality Trusts (CDLHT). Excluding the above, 1H operating PATMI stood at SGD110.3m (vs a loss of SGD32m in 1H21). We expect operating PATMI to double in 2H on the back of higher contributions from residential segment and strong recovery in hotel operations. CDL is also expected to recognise further gains to the tune of c.SGD250m from the sale of its stakes in Tanglin Shopping centre and Golden Mile Complex. It announced an interim dividend of 12 cents (vs 3 cents previously).
- **Hotel segment staging a strong recovery.** Hotel operations reversed into black in 1H with all markets registering positive EBITDA. A stronger performance is expected in 2H. Global RevPAR rose 110% YoY (driven by room rates, +53%) which returned to pre-COVID-19 levels on the back of a strong pent-up leisure travel demand. Post strategic review of its Millennium & Copthorne portfolio, CDL categorized its assets into: i) Core assets with focus on operational efficiency; ii) assets earmarked for asset enhancements; iii) redevelopments; and iv) divestments. We expect more value unlocking moves ahead from its hotel portfolio.
- **Good earnings visibility from healthy unbilled residential sales.** Take-up rates at CDL's Singapore residential launches have been strong with only c.10% of its launched inventory remaining unsold. We estimate unbilled residential sales (with JV projects) of c.SGD5bn to provide strong earnings visibility for the next two years. It also has a launch pipeline of >2,000 units in Singapore for which we continue to expect resilient demand.
- **Growing in scale on living sector portfolio** with the acquisition of three newly-built Private Rented Sector (PRS) projects in Japan, a freehold site in Melbourne (to be developed into 240 units PRS), and its maiden first Purpose-Built Student Accommodation (PBSA) in the UK. These assets are expected to form a pipeline for CDLHT and help in achieving its 2023 fund management target of SGD5bn.
- **No changes to core PATMI.** ESG score of 3.3 (out of 4.0), based on our in-house methodology. As the ESG score is three notches above our country median, we applied a 6% premium.

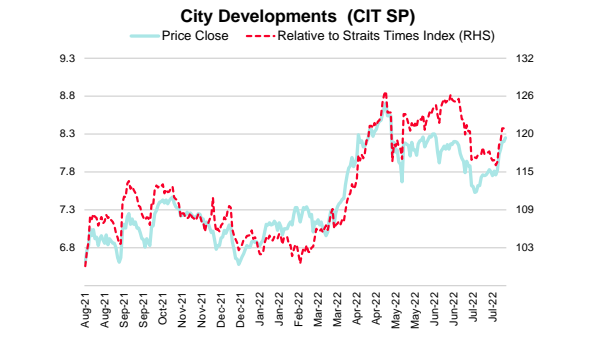
#### Analyst

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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	21.1	4.7	4.0	12.6	23.0
Relative	15.9	(0.3)	2.4	16.7	20.5
52-wk Price low/high (SGD)	6.58 – 8.71				



Source: Bloomberg

#### Overall ESG Score: 3.30 (out of 4)

##### E: EXCELLENT

Pledged net zero operational carbon by 2030 through the signing of World Green Building Council's Net Zero Carbon Buildings Commitment. Achieved 44% reduction in carbon emissions intensity against 2007 levels. Top real estate company in 2021 Global 100 Most Sustainable Corporations in the World.

##### S: EXCELLENT

CDL was awarded one of the "Best Companies to Work for in Asia" by HR Asia Magazine in 2020. CDL has been the only real estate company in Singapore to be included in the sector-neutral Bloomberg Gender-Equality Index (GEI), and is one of six Singapore companies listed on the 2021 index.

##### G: GOOD

While CDL has been transparent in its earnings updates. Resignation of four CDL directors recently due to disagreements over Sincere investments and other personal reasons as well as relative lack of information on events that culminated to Sincere's eventual failure have raised concerns.

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (SGDm)	2,108	2,626	3,247	3,609	4,027
Recurring net profit (SGDm)	(1,917)	98	393	460	580
Recurring net profit growth (%)	(439.6)	-	302.3	17.2	26.0
Recurring EPS (SGD)	-	2.11	0.11	0.43	0.51
DPS (SGD)	0.12	0.12	0.18	0.20	0.20
Recurring P/E (x)	na	76.82	19.09	16.29	12.94
P/B (x)	0.88	0.89	0.87	0.85	0.81
Dividend Yield (%)	1.5	1.5	2.2	2.4	2.4
Return on average equity (%)	(20.2)	1.2	4.6	5.3	6.4
Net debt to equity (%)	91.2	97.1	97.9	96.1	93.0

Source: Company data, RHB

## Financial Exhibits

Asia	Financial summary (SGD)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Singapore	Recurring EPS	-	2.11	0.11	0.43	0.64
Property	EPS	-	2.11	0.11	0.43	0.64
<b>City Developments</b>	DPS		0.12	0.12	0.18	0.20
CIT SP	BVPS		9.35	9.25	9.45	9.71
Buy	Return on average equity (%)		(20.2)	1.2	4.6	5.3
	Return on average assets (%)		(8.2)	0.4	1.7	1.9
<b>Valuation basis</b>						
RNAV	<b>Valuation metrics</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Recurring P/E (x)	na	76.82	19.09	16.29	12.94
	P/B (x)	0.9	0.9	0.9	0.8	0.8
	Dividend Yield (%)	1.5	1.5	2.2	2.4	2.4
	EV/EBITDA (x)	na	19.21	12.89	11.73	10.66
<b>Key drivers</b>	<b>Income statement (SGDm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
i. Resilient Singapore residential market with healthy unbilled sales;	Total turnover	2,108	2,626	3,247	3,609	4,027
ii. Steady build-up of recurring income stream offers resilience; and	Gross profit	829	978	1,558	1,732	1,933
iii. Strong brand presence in Singapore	EBITDA	(565)	599	863	955	1,058
	Depreciation and amortisation	(287)	(278)	(283)	(289)	(295)
	Operating profit	(852)	322	580	666	764
	Net interest	(93)	(202)	(179)	(217)	(244)
	Pre-tax profit	(1,791)	228	503	602	768
	Taxation	(88)	(88)	(62)	(94)	(116)
	Reported net profit	(1,917)	98	393	460	580
	Recurring net profit	(1,917)	98	393	460	580
<b>Key risks</b>	<b>Cash flow (SGDm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
i. Economy tipping into deep recession;	Change in working capital	(581)	814	(2,322)	117	101
ii. Disappointing/negative returns from its overseas ventures; and	Cash flow from operations	(356)	1,134	(1,526)	972	1,039
iii. Sharp spike interest rates	Capex	(126)	(271)	(200)	(200)	(300)
	Cash flow from investing activities	(1,076)	(863)	(876)	(374)	(542)
	Dividends paid	(190)	(174)	(183)	(201)	(204)
	Cash flow from financing activities	1,564	(1,277)	2,147	(328)	(207)
	Cash at beginning of period	2,798	3,127	2,083	1,936	2,206
	Net change in cash	131	(1,006)	(255)	271	291
	Ending balance cash	3,127	2,083	1,936	2,206	2,497
<b>Company Profile</b>	<b>Balance sheet (SGDm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
City Developments Limited 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	3,127	2,083	1,936	2,206	2,497
	Tangible fixed assets	5,526	5,362	5,469	5,578	5,690
	Total investments	7,339	6,774	7,621	7,968	8,416
	Total assets	23,677	23,893	23,340	25,097	25,237
	Short-term debt	2,799	5,188	2,500	3,000	3,500
	Total long-term debt	8,756	5,952	8,722	8,622	8,522
	Total liabilities	14,434	14,561	13,851	15,300	14,993
	Shareholders' equity	8,502	8,414	8,592	8,832	9,274
	Minority interests	740	918	897	965	970
	Total equity	9,242	9,332	9,489	9,796	10,244
	Total liabilities & equity	23,677	23,893	23,340	25,097	25,237
	<b>Key metrics</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Revenue growth (%)	(38.5)	24.5	23.7	11.1	11.6
	Recurring net profit growth (%)	(439.6)	0.0	302.3	17.2	26.0
	Recurrent EPS growth (%)	(439.6)	0.0	302.3	17.2	26.0
	Gross margin (%)	39.3	37.2	48.0	48.0	48.0
	Recurring net profit margin (%)	(90.9)	3.7	12.1	12.8	14.4
	Dividend payout ratio (%)	(5.7)	111.4	41.5	39.4	31.3

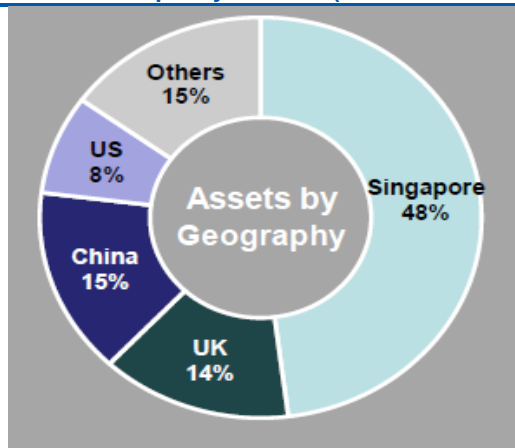
Source: Company data, RHB

Figure 1: CDL's RNAV breakdown

	Stake	RNAV (SGD m)	Value per share (SGD)
Investment properties		6,457.1	7.10
Property Development (GDV):			
-Singapore residential		4,030.2	4.43
-China residential		585.0	0.64
-UK properties		919.5	1.01
-JP residential		389.5	0.43
Millennium & Copthorne		5,940.0	6.53
Net cash/debt incl. capex liabilities		(3,288.7)	(3.6)
Listed Companies:			
I-REIT Global	21%	178.5	0.20
Sum of total parts		15,211.1	
No. of shares (m) (full conversion of pref. shares)			909.3
RNAV			16.73
Market Premium/(discount) (%)			(45.00)
<b>Fair value (SGD)</b>			<b>9.20</b>
<b>ESG Premium/(discount) (SGD)</b>			<b>0.55</b>
<b>TP (SGD)</b>			<b>9.75</b>
Last price			8.25
Upside (%)			18.2

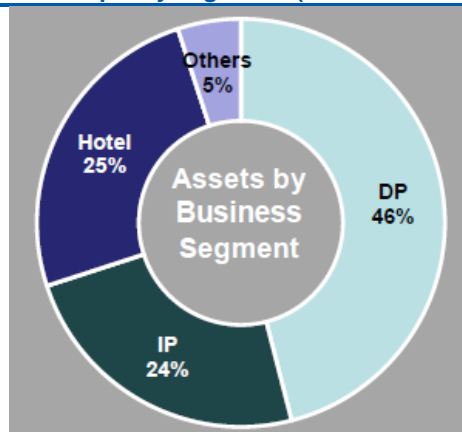
Source: RHB

Figure 2: Asset split by markets (based on book value)



Source: Bloomberg, RHB

Figure 3: Asset split by segments (based on book value)



Source: Bloomberg, RHB

## Recommendation Chart

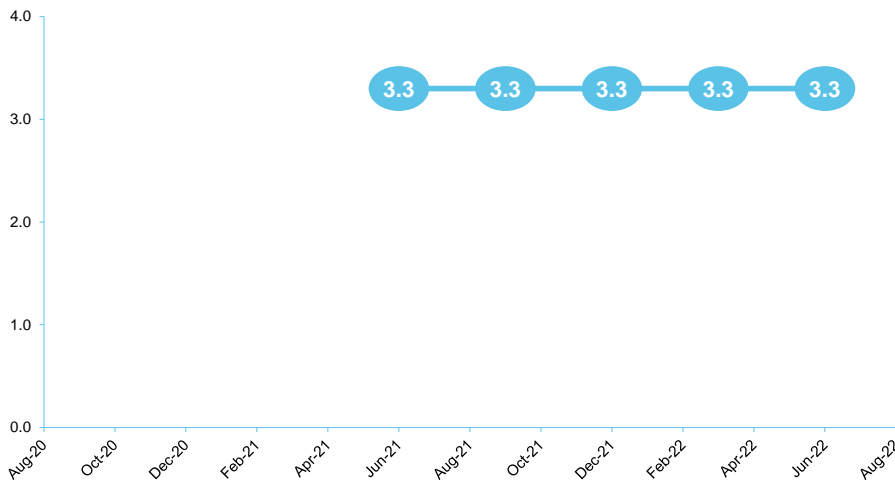


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2019-11-14	Neutral	10.5	10.5
2019-08-13	Neutral	9.2	9.1
2019-06-10	Neutral	9.2	9.0
2019-05-16	Neutral	9.2	8.6
2019-02-22	Neutral	9.2	9.3
2018-11-09	Neutral	9.2	8.5
2018-07-23	Neutral	na	10.2

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB

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<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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<b>Not Rated:</b>	Stock is not within regular research coverage

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Analyst	Company
-	-

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