

19 May 2023

Property | Real Estate

City Developments (CIT SP)

Buy (Maintained)

Still Cheap Despite Cooling Measures; Keep BUY

Target Price (Return): SGD8.80 (27.4%)
 Price (Market Cap): SGD6.91 (USD4,658m)
 ESG score: 3.25 (out of 4)
 Avg Daily Turnover (SGD/USD) 13.3m/9.92m

- **BUY, new SGD8.80 TP from SGD9.75, 27% upside.** City Development's share price has corrected 16% YTD, weighed down by cooling measures. Despite a moderated residential outlook, we believe the impact to CDL's bottomline is manageable, as its inventory is substantially sold and the remaining landbank is mostly in mass/mid-tier segments. The global hospitality portfolio (c.one-third of RNAV) should continue to see a good recovery. Key catalysts: i) The unlocking of portfolio value via an asset spin-off into funds or REITs, ii) divestments, and iii) possible M&A.
- **Cooling measures impact manageable on residential portfolio.** CDL has sold the bulk (c.88%) of its launched inventory in Singapore as of April. We estimate c.SGD5bn of unbilled residential sales that can be recognised over the next three years. It currently has four projects with c.1,500 units (c.SGD2bn GDV) in the launch pipeline (Figure 2) with an estimated c.80% unsold units in mid-tier and mass market segments that are less impacted by the latest government cooling measures aimed mainly at foreigners and investors. While we expect a slight moderation in new launch prices post measures, margins are unlikely to see significant compressions and remain in an 8-20% range. In light of the recent measures CDL said it will defer its upcoming new launch – Newport Residences (its only high-end project in its pipeline) – while the remaining projects are likely to go ahead as per schedule. Overall, we revise our FY23F-24F earnings lower by 9% and 8%, mainly by deferring launch recognition and slightly slower sales.
- **Hospitality segment set to stay buoyant.** CDL's listed REIT subsidiary CDL Hospitality Trusts (CDREIT SP, NEUTRAL, TP: SGD1.25) posted a strong set of 1Q numbers with net property income up 35% YoY, boosted by strong revenue/available room or RevPAR recovery in Singapore, Australia, and Europe. We expect a similar trading performance for its Millennium & Copthorne operations and are positive on 2023's outlook.
- **Slowly progressing on its fund management ambitions.** Post the recent acquisitions of St Katherine Docks (UK) and Sofitel Brisbane, the fund management's asset under management stands at c.USD4bn – CDL has an end-2023 target of USD5bn. The fund management's business growth has been one of its key strategies to improve its weak core ROE.
- **ESG score by a notch to 3.3 (out of 4.0).** As there is now greater focus on the E pillar due to critical climate change issues, we have tweaked our ESG weightage. Henceforth, we assign a weightage of 50% to the E pillar, followed by 25% each to the S and G pillars. Further details are in our 2 May thematic research note [Envisioning a Better Future](#). As CDL's score is three notches above the country median, we apply a 6% ESG premium to reach our new SGD8.80 TP. Keep BUY.

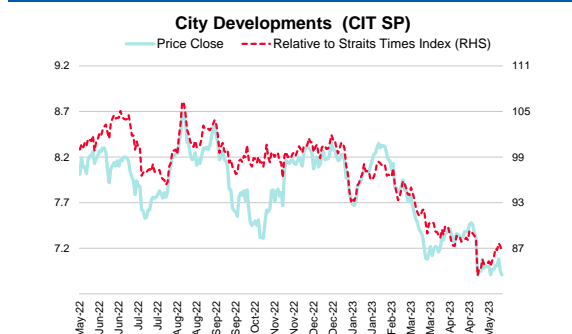
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(16.0)	(6.4)	(11.6)	(15.4)	(15.2)
Relative	(13.9)	(2.6)	(7.2)	(12.6)	(13.9)
52-wk Price low/high (SGD)	6.91 – 8.68				



Source: Bloomberg

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (SGDm)	2,626	3,293	3,998	4,393	4,546
Recurring net profit (SGDm)	85	1,285	415	473	506
Recurring net profit growth (%)	-	1,417.3	(67.7)	14.1	6.9
Recurring EPS (SGD)	0.09	1.41	0.46	0.52	0.56
DPS (SGD)	0.12	0.28	0.30	0.30	0.30
Recurring P/E (x)	74.17	4.89	15.15	13.28	12.43
P/B (x)	0.75	0.68	0.67	0.66	0.64
Dividend Yield (%)	1.7	4.0	4.3	4.3	4.3
Return on average equity (%)	1.0	14.6	4.5	5.0	5.2
Net debt to equity (%)	97.0	76.4	89.9	92.4	89.3

Source: Company data, RHB

Overall ESG Score: 3.25 (out of 4)

E: EXCELLENT

Complementing its pledge toward operational net zero by 2030, CDL achieved a 24% reduction in carbon emissions intensity in 2022 from base-year 2016, meeting its interim target. It's on track to achieving its Science Based Targets Initiative – validated target of a 63% reduction by 2030.

S: EXCELLENT

CDL was awarded one of the "Best Companies to Work for in Asia" by HR Asia Magazine in 2020. It 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, we believe there is room for more granular and timely disclosures. In the recent past, there have been some disagreements with board members in terms of the investment approach, which resulted in their resignations.

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Financial Exhibits

Asia Singapore Property City Developments CIT SP Buy	Financial summary (SGD)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Recurring EPS	0.09	1.41	0.46	0.52	0.56
	EPS	0.09	1.41	0.46	0.52	0.56
	DPS	0.12	0.28	0.30	0.30	0.30
	BVPS	9.24	10.14	10.29	10.52	10.81
	Return on average equity (%)	1.0	14.6	4.5	5.0	5.2
	Return on average assets (%)	0.4	5.5	1.8	1.9	2.0
Valuation basis	Valuation metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
RNAV	Recurring P/E (x)	74.17	4.89	15.15	13.28	12.43
	P/B (x)	0.7	0.7	0.7	0.7	0.6
	Dividend Yield (%)	1.7	4.0	4.3	4.3	4.3
	EV/EBITDA (x)	17.57	3.83	10.01	9.13	8.46
Key drivers	Income statement (SGDm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
i. Strong Hospitality recovery and steady build-up of recurring income stream;	Total turnover	2,626	3,293	3,998	4,393	4,546
ii. Resilient Singapore residential market with healthy unbilled sales;	Gross profit	978	1,247	1,799	1,977	2,091
iii. Strong brand presence and track record in Singapore.	EBITDA	594	2,156	927	1,050	1,105
	Depreciation and amortisation	(285)	(276)	(282)	(285)	(293)
	Operating profit	309	1,880	646	766	811
	Net interest	(202)	(193)	(242)	(297)	(325)
	Pre-tax profit	215	1,857	557	647	674
	Taxation	(88)	(543)	(95)	(102)	(112)
	Reported net profit	85	1,285	415	473	506
	Recurring net profit	85	1,285	415	473	506
Key risks	Cash flow (SGDm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
i. Disappointing/negative returns from its overseas ventures;	Change in working capital	814	(177)	(662)	(224)	422
ii. Unexpected sharp decline in Singapore's economy;	Cash flow from operations	1,134	(126)	165	718	1,409
iii. Rise in interest rates.	Capex	(271)	(273)	(200)	(300)	(300)
	Cash flow from investing activities	(863)	780	(408)	(308)	(571)
	Dividends paid	(174)	(222)	(304)	(314)	(303)
	Cash flow from financing activities	(1,277)	(290)	25	(459)	(566)
	Cash at beginning of period	3,127	2,101	2,363	2,152	2,104
	Net change in cash	(1,006)	364	(217)	(49)	272
	Ending balance cash	2,101	2,363	2,152	2,104	2,376
Company Profile	Balance sheet (SGDm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
City Developments develops and owns properties. Through its subsidiaries, the company owns and operates hotels and clubs, invests in properties and shares, manages properties and projects, and provides information technology and procurement services.	Total cash and equivalents	2,101	2,363	2,152	2,104	2,376
	Tangible fixed assets	5,362	4,061	4,142	4,183	4,309
	Total investments	7,760	8,341	9,098	9,556	10,085
	Total assets	23,880	22,981	24,225	25,336	25,455
	Short-term debt	5,188	2,354	3,000	3,500	3,000
	Total long-term debt	5,952	7,315	7,897	7,797	8,497
	Total liabilities	14,561	13,416	14,502	15,382	15,242
	Shareholders' equity	8,401	9,216	9,356	9,569	9,826
	Minority interests	918	348	367	384	386
	Total equity	9,319	9,565	9,723	9,954	10,212
	Total liabilities & equity	23,880	22,981	24,225	25,336	25,455
	Key metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Revenue growth (%)	24.5	25.4	21.4	9.9	3.5
	Recurring net profit growth (%)	0.0	1417.3	(67.7)	14.1	6.9
	Recurrent EPS growth (%)	0.0	1417.3	(67.7)	14.1	6.9
	Gross margin (%)	37.2	37.9	45.0	45.0	46.0
	Recurring net profit margin (%)	3.2	39.0	10.4	10.8	11.1
	Dividend payout ratio (%)	128.5	19.8	65.6	57.5	53.8

Source: Company data, RHB

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Figure 1: CDL's RNAV breakdown

	Stake	RNAV (SGDm)	Value per share (SGD)
Investment properties		6,840.8	7.52
Property Development (GDV):			
-Singapore residential		3,282.9	3.61
-China residential		410.0	0.45
-UK properties		889.5	0.98
-Japan residential		389.5	0.43
Millennium & Copthorne		5,775.0	6.35
Net cash/debt including capex liabilities		(3,988.7)	(4.4)
Listed companies:			
I-REIT Global	21%	132.7	0.15
Sum of total parts		13,731.8	
No. of shares (m) (full conversion of pref. shares)			909.3
RNAV			15.10
Market premium/(discount) (%)			-45.00
Fair value (SGD)			8.31
ESG premium/(discount) (SGD)			0.50
TP (SGD)			8.80
Last price			6.91
Upside (%)			27.4

Source: RHB

Figure 2: CDL's Singapore Residential Land bank – Launched and Pipeline Projects

S. No	Project name	Project type and location	Stake	Total units	Units sold*	Total unsold units	CDL's share of unsold units
1	St. Regis Residences	CCR	33%	173	161	12	4
2	One Shenton	CCR	100%	341	329	12	12
3	Cliveden at Grange	CCR	100%	110	47	63	63
4	UP@Robertson Quay	CCR	100%	70	61	9	9
5	Boulevard 88	CCR	40%	154	137	17	7
6	Amber Park	RCR	80%	592	589	3	2
7	Haus on Handy	CCR	100%	188	188	0	0
8	Irwell Hill Residences	CCR	100%	540	533	7	7
9	Canning Hill Piers	CCR	50%	696	677	19	10
10	Piccadilly Grand	RCR	50%	407	372	35	18
11	Tembusu Grand	RCR	50%	638	354	284	142
Total				3909	3448	461	274
Project pipeline							
1	Newport Residences	CCR	100%	246	-	246	246
2	The Myst	RCR	100%	408	-	408	408
3	Bukit Batok West Avenue 5 EC	OCR	100%	510	-	510	510
4	Former Central Square	RCR	100%	329	-	329	329
Total				1493		1493	1493

Note: *As of April

Note 2: CCR – Core Central Region

Note 3: RCR – Rest of Central Region

Note 4: OCR – Outside Central Region

Source: Urban Redevelopment Authority, Company data, RHB

Recommendation Chart

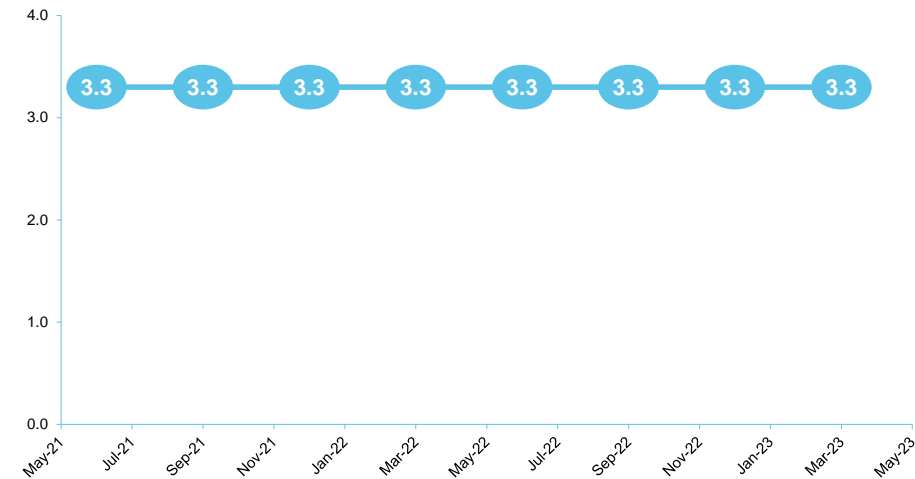


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
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

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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