

1 August 2022

Property | REITS

CDL Hospitality Trusts (CDREIT SP)

Neutral (Maintained)

Positive Outlook But Risks Emerging

Target Price (Return): SGD1.30 (-4%)
 Price (Market Cap): SGD1.35 (USD1,205m)
 ESG score: 3.00 (out of 4)
 Avg Daily Turnover (SGD/USD) 3.50m/2.53m

- **Stay NEUTRAL and SGD 1.30 TP, 4% downside.** 1H operational numbers were broadly in line. While CDL Hospitality Trusts' key markets are staging a strong recovery on the back of pent-up demand, we see risks to travel recovery in 2023 from the worsening macroeconomic outlook, inflationary pressures and a drop in pent-up demand. We see limited accretive acquisition opportunities, with gearing at 40% limiting debt headroom. Valuation has priced in the ongoing recovery, in our view, with the stock trading at 1x P/BV.
- **2Q/1H22 NPI rose 55%/38% YoY** on the back of a broad-based recovery across all its markets, except NZ, where its hotels are mainly used for government quarantine facilities, with rents paid depending on the actual occupancy. Nine of its 16 hotels have seen Jun 2022 revenue per available room (RevPAR) exceeding pre-pandemic Jun 2019 levels on the back of pent-up demand resulting in strong pricing power. Management guided for a positive 3Q/2H22F outlook based on healthy forward bookings across its key markets – Singapore, Maldives and the UK. It expects asset values to remain largely firm despite rate hikes on the back of healthy demand for hospitality assets post COVID-19.
- **Singapore driving recovery** (65% of portfolio value), with RevPAR surging 72% YoY, driven by an 85% increase in room rates. The recovery was much stronger in 2Q, post full reopening, resulting in strong pricing power for hoteliers from international travellers and staycation. CDLHT was also able to maintain its margin despite inflationary pressures by increasing prices. For 2H, only one of its six Singapore hotels will remain under government contract, but at a higher contracted rate than last year. Forward bookings as well as Singapore's healthy event line up indicate a rosy 2H outlook, driven primarily by leisure demand, while management noted that corporate demand (multi-national corporations) remains soft.
- **Maldives, the UK and Europe** were the bright spots in its overseas portfolio on the back of removal of quarantine restrictions. The impact on tourism from the ongoing Russia-Ukraine war and China's Zero-Covid policy has been mitigated so far by strong demand from other markets (India, the US, Australia) and strong domestic demand in Europe. On the other hand, Japan hotel performance remained soft on the back of slow and cautious reopening. While 3Q outlook remains largely positive, ongoing economic slowdown and a reduction in pent-up demand are likely to pose risks moving into 4Q.
- **Interests costs expected to jump by 50-70bps** with c.26% or SGD283m of GBP and EUR loans up for renewal in 2H. 64% of its loans are fixed currently. Overseas income is typically hedged in the 50-80% range.
- **We tweak our FY22F-24F DPU by -1 to -2%** by adjusting interest costs. CDLHT has an ESG score of 3.0 (out of 4.0) based on our proprietary in-house methodology. As this score is in line with the country median, no premium or discount is applied to our intrinsic TP.

Analyst

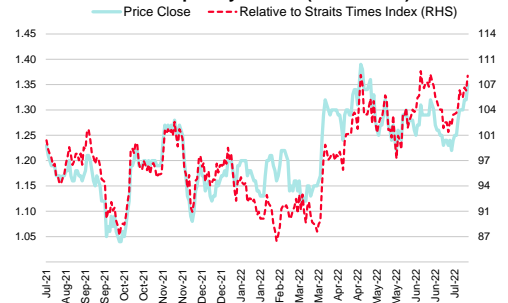
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	15.4	3.1	(2.2)	18.4	9.8
Relative	12.3	0.5	1.2	19.2	7.3
52-wk Price low/high (SGD)	1.04 – 1.39				

CDL Hospitality Trusts (CDREIT SP)



Source: Bloomberg

Overall ESG Score: 3.00 (out of 4)

E: GOOD

CDLHT's Singapore hotels are rated highly in BCA green mark standards with a Gold or higher rating. CDLHT achieved its target of reducing electricity intensity for the hotels scoped (FY2020) by more than 2% and water intensity dropped by 36.4% albeit based on an extraordinary trading environment and is striving towards reducing energy intensity by 1% to 2% each upcoming year

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. Employees received an average of 44 hours training as compared to 19 hours in FY19.

G: GOOD

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

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (SGDm)	118	158	202	235	252
Net property income (SGDm)	69	86	111	130	138
Reported net profit (SGDm)	(179)	69	81	84	90
Total distributable income (SGDm)	70.2	53.6	74.9	90.8	95.9
DPS (SGD)	0.05	0.04	0.06	0.07	0.08
DPS growth (%)	(32.6)	(13.5)	39.9	20.9	5.2
P/B (x)	1.02	1.02	1.00	1.00	1.00
Dividend Yield (%)	3.6	3.2	4.4	5.3	5.6
Return on average equity (%)	(10.3)	4.2	4.9	5.0	5.3
Return on average assets (%)	(6.1)	2.4	2.7	2.7	2.8

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Singapore	Recurring EPS (SGD)	-	0.15	0.06	0.07	0.07
Property	EPS (SGD)	-	0.15	0.06	0.07	0.07
CDL Hospitality Trusts	DPS (SGD)		0.05	0.04	0.06	0.08
CDREIT SP	BVPS (SGD)		1.32	1.33	1.35	1.35
Neutral	Return on average equity (%)		(10.3)	4.2	4.9	5.0
	Weighted avg adjusted shares (m)		1,221.56	1,230.04	1,236.48	1,242.55
						1,249.06
Valuation basis						
DDM						
Key drivers						
i. Strong surge in travel post COVID-19;						
ii. Master leases with minimum rent guarantee buffering some of the impact;						
iii. Strong Sponsor (City Developments) support						
Key risks						
i. Sharp slowdown in pent-up demand;						
ii. Rising inflation and cost pressures;						
iii. Faltering economy and recession curtailing hospitality recovery.						
Company Profile						
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.						
	Valuation metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Recurring P/E (x)	na	24.14	20.56	19.96	18.82
	P/E (x)	na	24.14	20.56	19.96	18.82
	P/B (x)	1.0	1.0	1.0	1.0	1.0
	FCF Yield (%)	2.5	2.9	5.8	6.7	7.0
	Dividend Yield (%)	3.6	3.2	4.4	5.3	5.6
	EV/EBITDA (x)	9.25	10.18	8.00	6.95	6.53
	EV/EBIT (x)	9.25	10.18	8.00	6.95	6.53
	Income statement (SGDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Total turnover	118	158	202	235	252
	EBITDA	58	75	100	117	126
	Operating profit	58	75	100	117	126
	Net interest	(24)	(22)	(25)	(28)	(30)
	Pre-tax profit	(175)	73	91	96	102
	Taxation	(4)	(4)	(10)	(12)	(13)
	Recurring net profit	(179)	69	81	84	90
	Cash flow (SGDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Change in working capital	(12)	(7)	4	3	2
	Cash flow from operations	50	63	99	114	120
	Capex	(8)	(14)	(2)	(2)	(2)
	Cash flow from investing activities	82	(44)	(65)	(17)	(17)
	Dividends paid	(77)	(57)	(51)	(77)	(92)
	Cash flow from financing activities	(146)	(7)	(36)	(97)	(105)
	Cash at beginning of period	136	131	139	133	133
	Net change in cash	(14)	12	(2)	0	(2)
	Ending balance cash	131	138	137	133	130
	Balance sheet (SGDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Total cash and equivalents	131	139	133	133	130
	Total investments	1,978	1,922	2,010	2,053	2,097
	Total other assets	714	828	883	912	924
	Total assets	2,854	2,921	3,066	3,144	3,202
	Short-term debt	290	423	436	449	462
	Total long-term debt	739	768	829	858	887
	Total liabilities	1,227	1,279	1,386	1,449	1,502
	Shareholders' equity	1,620	1,635	1,673	1,687	1,693
	Minority interests	8	7	7	7	7
	Total equity	1,628	1,643	1,680	1,695	1,700
	Net debt	897	1,052	1,132	1,174	1,219
	Total liabilities & equity	2,854	2,921	3,066	3,144	3,202
	Key metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Revenue growth (%)	(40.3)	34.2	28.1	16.6	6.8
	Recurrent EPS growth (%)	(254.8)	0.0	17.4	2.9	6.0
	Operating EBITDA margin (%)	49.3	47.7	49.5	49.8	49.9
	Net profit margin (%)	(152.6)	43.6	40.2	35.7	35.6
	Dividend payout ratio (%)	(33.7)	76.4	91.0	106.8	106.0
	Capex/sales (%)	7.1	8.8	1.1	1.0	0.9
	Interest cover (x)	1.30	1.91	3.73	3.91	3.92

Source: Company data, RHB

Figure 1: CDLHT – Dividend Discount Model valuation

	FY22F	FY23F	FY24F	FY25F	Terminal Value
DPU (SG cents)	5.98	7.23	7.60	7.88	144.82
Intrinsic value (SGD)	1.30				
ESG Premium	0.00				
Fair Value (SGD)	1.30				
Current price (SGD)	1.35				
Price upside (%)	(3.7)				
Distribution yield (%)	3.2				
Total return (%)	(0.5)				
Assumptions					
Risk-free rate (%)	2.8				
Beta	0.8				
Cost of equity (%)	7.6				
Terminal growth (%)	2.0				

Source: RHB

Figure 2: RevPAR by markets

RevPAR	2Q 2022	2Q 2021	YoY Change	1H 2022	1H 2021	YoY Change
Singapore (S\$)	151	76	99.6% ▲	123	72	72.1% ▲
New Zealand (NZ\$)	141	143	-1.1% ▼	158	164	-3.9% ▼
Australia (A\$)	86	69	25.3% ▲	59	61	-3.0% ▼
Japan (¥)	3,742	2,679	39.7% ▲	3,415	2,546	34.1% ▲
Maldives (US\$)	246	151	63.0% ▲	381	231	64.8% ▲
United Kingdom (£) ⁽¹⁾	128	51	N.M. ▲	107	30	N.M. ▲
Germany (€)	80	19	N.M. ▲	52	14	N.M. ▲
Italy (€)	195	10	N.M. ▲	126	5	N.M. ▲

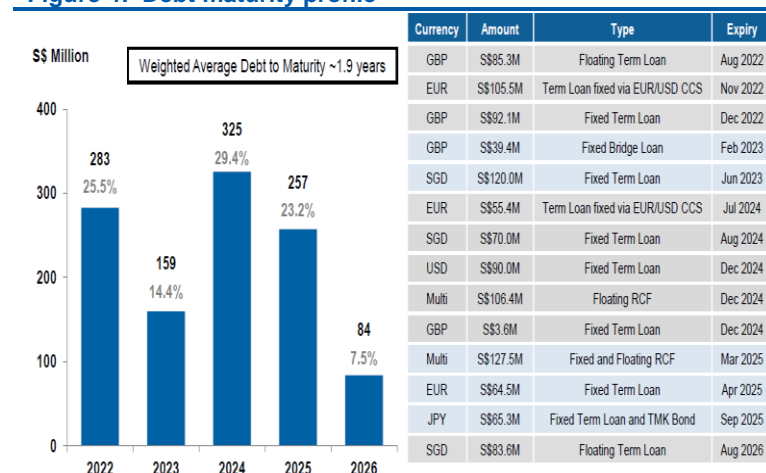
Source: Company data

Figure 3: NPI breakdown by markets

	2Q 2022 S\$ '000	2Q 2021 S\$ '000	Change S\$ '000	YoY Change	1H 2022 S\$ '000	1H 2021 S\$ '000	Change S\$ '000	YoY Change
Singapore	16,388	8,500	7,888	92.8% ▲	27,103	16,905	10,198	60.3% ▲
New Zealand	2,128	3,348	(1,220)	-36.4% ▼	7,005	9,798	(2,793)	-28.5% ▼
Australia ⁽¹⁾	929	1,129	(200)	-17.7% ▼	348	2,329	(1,981)	-85.1% ▼
Japan	167	47	120	N.M. ▲	189	143	46	32.2% ▲
Maldives	1,079	303	776	N.M. ▲	6,582	3,448	3,134	90.9% ▲
United Kingdom ⁽²⁾	4,026	1,819	2,207	N.M. ▲	5,798	1,277	4,521	N.M. ▲
Germany	1,555	1,686	(131)	-7.8% ▼	3,168	2,361	807	34.2% ▲
Italy	487	384	103	26.8% ▲	773	716	57	8.0% ▲
Total	26,759	17,216	9,543	55.4% ▲	50,966	36,977	13,989	37.8% ▲

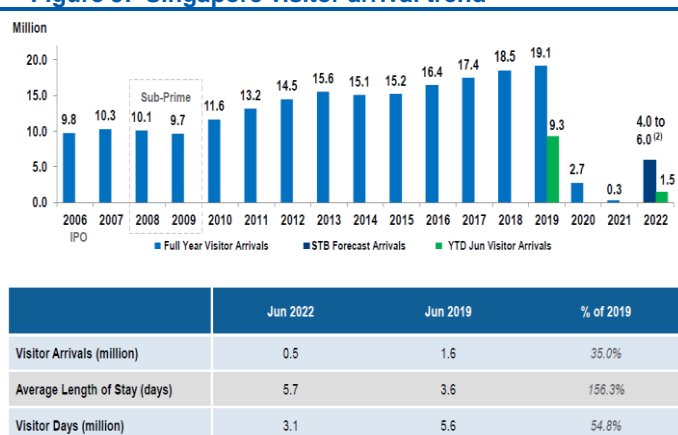
Source: Company data

Figure 4: Debt maturity profile



Source: Company data

Figure 5: Singapore visitor arrival trend



Source: Company data

Recommendation Chart

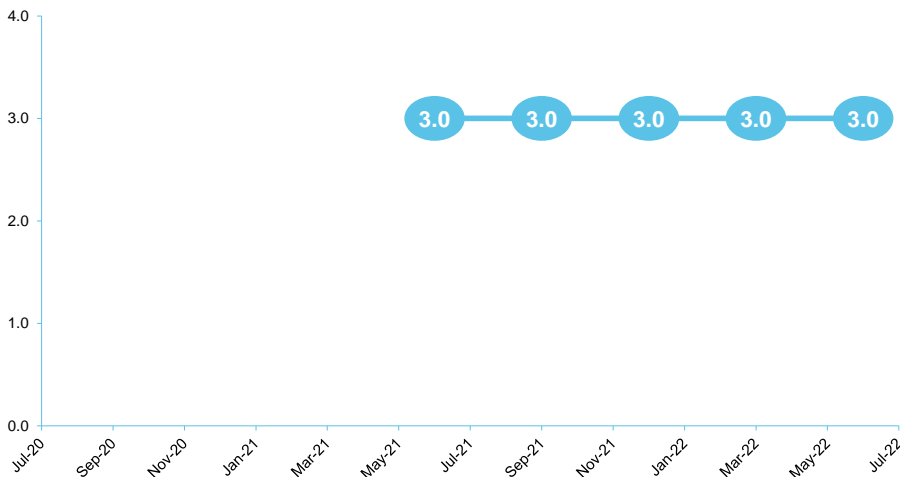


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2019-07-31	Buy	1.79	1.64
2019-05-02	Buy	1.77	1.61
2019-01-30	Buy	1.80	1.63
2018-11-01	Buy	1.80	1.44

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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