

12 July 2023

Property | REITS

CDL Hospitality Trusts (CDREIT SP)

Neutral (Maintained)

A Bumpy Recovery

Target Price (Return): SGD1.25 (5.3%)
 Price (Market Cap): SGD1.18 (USD1,092m)
 ESG score: 3.15 (out of 4)
 Avg Daily Turnover (SGD/USD) 1.81m/1.35m

- **Keep NEUTRAL and SGD1.25 TP, 5% upside.** Recent official data points to a steady pick-up in Singapore visitor arrivals, and 2024 looks promising with a line-up of major concerts and air shows. However, we expect the return of high-spending Chinese tourists to remain weak, and see a slow recovery in corporate travel. CDL Hospitality Trusts also faces challenges from rising interest costs and FX impact. Current valuations are fair, in our view, with the stock trading at 0.8x book value and offering 6% yields.

- **1H23 visitor arrivals of 6.3m was at 67% of pre-pandemic levels,** equivalent to 2022's full-year numbers. Singapore's visitor arrivals were propelled by key markets of Indonesia (18%), India (11%), and Malaysia (8%). Hotel revenue per available room (RevPAR; average 5M23) surged 21% above pre-COVID-19 (5M19) levels, driven by a strong increase in room rates (32%) from continued pent-up demand – especially in the high-end segment of the market. Overall, we expect full-year Singapore RevPAR to come in 15-20% above pre-pandemic levels and flatten out next year. This will remain the key driver of CDLHT's NPI, with two-thirds of its portfolio positioned on the mid-tier to upscale segment of the Singapore market.

- **Singapore hotel valuation has room for upside.** The recent sale of Park Royal Kitchener Hotel at a 24% premium to its latest valuation indicates continued investor interest in the Singapore hospitality market. The sale, in our view, will likely result in positive valuation rerating for upscale hotels, benefitting the REIT's Singapore assets. CDLHT's gearing is modest at 37.5% as at 1Q23, but is expected to rise by 1-2ppts with the ongoing progressive payments for UK build-to-rent developments and asset enhancements in Singapore. Management is also on the lookout for acquisition opportunities, mostly in overseas markets such as UK and Japan, and sees more opportunities from over-leveraged buyers.

- **Three reasons we are cautious on CDLHT:** i) Chinese visitors to Singapore – the bulk of pre-pandemic visitors, or one-fifth of the total – have seen a slow recovery, at 7% of the total in 1H23, with June marking the first month since Jan 2020 to cross the 100k threshold. We expect Chinese visitor recovery to remain patchy and see a return to pre-pandemic levels only by 2025, in addition to rising inflationary pressures and dissipation of pent-up demand posing challenges for visitor arrivals, ii) CDLHT has among the lowest debt hedges among SREIT's at c.56% and has nearly half of its debt maturing in 2023-2024. Therefore, rising interest costs will continue to weigh on earnings, and iii) performance at its overseas markets has been mixed and we expect the rising SGD to weigh on overseas earnings.

- **No changes to estimates.** We applied a 2% ESG premium to our DDM-derived TP, based on CDLHT's 3.2 ESG score (above the country median).

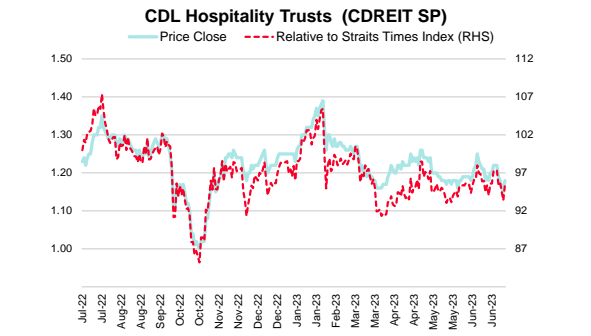
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(5.6)	(0.9)	(3.3)	(4.1)	(4.8)
Relative	(2.9)	(0.2)	0.8	(0.8)	(5.8)
52-wk Price low/high (SGD)	1.00 – 1.39				



Source: Bloomberg

Overall ESG Score: 3.15 (out of 4)

E: EXCELLENT

Aims for net zero by 2050 and has started disclosing Scope 1 and Scope 2 emissions in FY22. On track to achieve 5-7% energy consumption reduction across portfolio by 2026, with 2019 as base year. Adoption of TCFD framework for climate risk reporting. Its Singapore hotels are rated highly in BCA green mark standards with a Gold or higher rating.

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 impacted by the pandemic were given access to all necessary assistance including fair retrenchment packages and other forms of assistance.

G: GOOD

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

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (SGDm)	158	229	249	263	269
Net property income (SGDm)	86	124	132	139	143
Reported net profit (SGDm)	69	216	58	57	54
Total distributable income (SGDm)	53.6	70.7	86.9	86.9	89.3
DPS (SGD)	0.04	0.06	0.07	0.07	0.07
DPS growth (%)	(13.5)	31.8	22.5	(0.7)	2.1
P/B (x)	0.89	0.82	0.82	0.84	0.86
Dividend Yield (%)	3.6	4.8	5.8	5.8	5.9
Return on average equity (%)	4.2	12.6	3.3	3.2	3.0
Return on average assets (%)	2.4	7.2	1.9	1.8	1.6

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Singapore	Recurring EPS (SGD)	0.06	0.17	0.05	0.05	0.04
Property	EPS (SGD)	0.06	0.17	0.05	0.05	0.04
CDL Hospitality Trusts	DPS (SGD)	0.04	0.06	0.07	0.07	0.07
CDREIT SP	BVPS (SGD)	1.33	1.44	1.43	1.41	1.38
Neutral	Return on average equity (%)	4.2	12.6	3.3	3.2	3.0
	Weighted avg adjusted shares (m)	1,230.04	1,237.55	1,245.26	1,252.90	1,260.80
Valuation basis	Valuation metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
DDM	Recurring P/E (x)	21.10	6.75	25.23	25.73	27.81
	P/E (x)	21.10	6.75	25.23	25.73	27.81
	P/B (x)	0.9	0.8	0.8	0.8	0.9
	FCF Yield (%)	3.4	5.7	8.1	8.4	8.5
	Dividend Yield (%)	3.6	4.8	5.8	5.8	5.9
	EV/EBITDA (x)	10.66	7.77	7.65	7.42	7.40
	EV/EBIT (x)	10.66	7.77	7.65	7.42	7.40
Key drivers	Income statement (SGDm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
i. Strong recovery in Singapore portfolio aided by pent-up demand;	Total turnover	158	229	249	263	269
ii. Balanced mix of Master leases with management contracts;	EBITDA	75	110	120	126	129
iii. Strong sponsor (City Developments) support.	Operating profit	75	110	120	126	129
	Net interest	(22)	(4)	(41)	(48)	(55)
	Pre-tax profit	73	224	63	62	58
	Taxation	(4)	(8)	(5)	(5)	(4)
	Recurring net profit	69	216	58	57	54
Key risks	Cash flow (SGDm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
i. Inflation and interest cost pressures;	Change in working capital	(7)	4	3	1	1
ii. Sharp slowdown in economy resulting in demand slowdown;	Cash flow from operations	63	116	122	127	130
iii. Weak Chinese and corporate travel recovery.	Capex	(14)	(34)	(4)	(4)	(4)
	Cash flow from investing activities	(44)	(98)	(84)	(54)	(29)
	Dividends paid	(57)	(63)	(75)	(86)	(87)
	Cash flow from financing activities	(7)	(52)	(43)	(69)	(102)
	Cash at beginning of period	131	139	97	91	96
	Net change in cash	12	(34)	(4)	5	(0)
	Ending balance cash	138	106	93	96	95
Company Profile	Balance sheet (SGDm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
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. Its investment strategy is to invest in a diversified portfolio of real estate or development projects, which is or will be primarily used for hospitality, hospitality-related and other accommodation and/or lodging purposes globally.	Total cash and equivalents	139	97	91	96	95
	Total investments	1,922	2,105	2,158	2,213	2,271
	Total other assets	828	872	904	919	934
	Total assets	2,921	3,103	3,185	3,262	3,335
	Short-term debt	423	239	247	254	262
	Total long-term debt	768	972	1,059	1,146	1,237
	Total liabilities	1,279	1,310	1,389	1,486	1,585
	Shareholders' equity	1,635	1,786	1,789	1,769	1,744
	Minority interests	7	7	7	7	7
	Total equity	1,643	1,793	1,796	1,776	1,751
	Net debt	1,052	1,115	1,215	1,304	1,403
	Total liabilities & equity	2,921	3,103	3,185	3,262	3,335
	Key metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Revenue growth (%)	34.2	45.4	8.8	5.3	2.5
	Recurrent EPS growth (%)	0.0	212.7	(73.2)	(1.9)	(7.4)
	Operating EBITDA margin (%)	47.7	48.1	47.9	48.0	48.0
	Net profit margin (%)	43.6	94.3	23.3	21.9	19.9
	Dividend payout ratio (%)	76.4	32.2	147.5	149.4	165.0
	Capex/sales (%)	8.8	14.8	1.4	1.4	1.4
	Interest cover (x)	1.91	2.45	2.82	2.58	2.31

Source: Company data, RHB

Figure 1: CDLHT – DDM valuation

	FY23F	FY24F	FY25F	FY26F	Terminal value
DPU (SGD cents)	6.91	6.87	7.02	7.30	134.18
Intrinsic value (SGD)	1.24				
ESG premium	0.01				
Fair value (SGD)	1.25				
Current price (SGD)	1.18				
Price upside (%)	5.3				
Distribution yield (%)	5.8				
Total return (%)	11.1				
Assumptions					
Risk-free rate (%)	2.8				
Beta	0.8				
Cost of equity (%)	7.6				
Terminal growth (%)	2.0				

Source: RHB

Figure 2: RevPAR breakdown by markets

RevPAR	1Q 2023	1Q 2022	Better / (Worse)
Singapore (S\$)	176	95	86.1% ▲
New Zealand (NZ\$)	164	175	(5.9)% ▼
Australia (A\$)	122	33	273.3% ▲
Japan (¥)	7,553	3,084	144.9% ▲
Maldives (US\$)	463	519	(10.8)% ▼
United Kingdom (£) ⁽¹⁾	104	86	21.2% ▲
Germany (€)	59	24	145.7% ▲
Italy (€)	113	57	97.1% ▲

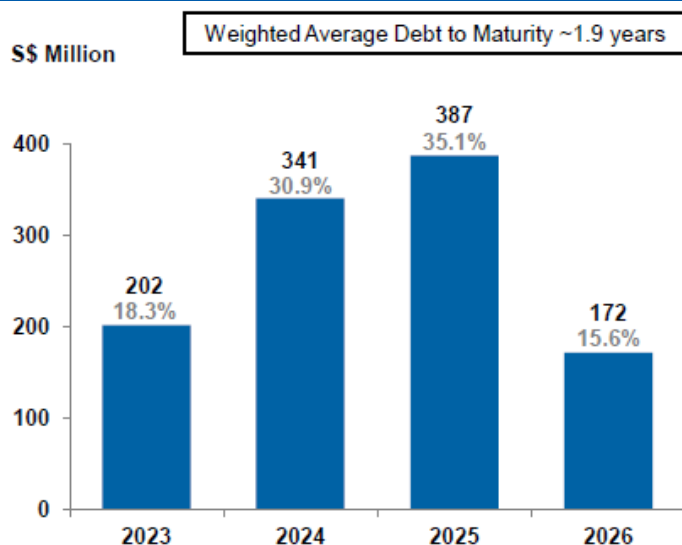
Source: CDLHT

Figure 3: NPI breakdown by markets

	1Q 2023 S\$ '000	1Q 2022 S\$ '000	Change S\$ '000	Better / (Worse)
Singapore	19,552	10,716	8,836	82.5% ▲
New Zealand	2,704	4,877	(2,173)	(44.6)% ▼
Australia	1,446	(581)	2,027	N.M. ▲
Japan	742	22	720	N.M. ▲
Maldives	4,125	5,503	(1,378)	(25.0)% ▼
United Kingdom ⁽¹⁾	2,241	1,772	469	26.5% ▲
Germany	1,484	1,613	(129)	(8.0)% ▼
Italy	392	286	106	37.1% ▲
Total	32,686	24,208	8,478	35.0% ▲

Source: CDLHT

Figure 4: Debt expiry profile



Currency	Amount	Type	Expiry
SGD	S\$120.0M	Fixed Term Loan	Jun 2023
GBP	S\$81.8M	Floating Term Loan	Aug 2023
EUR	S\$53.2M	Term Loan fixed via EUR/USD CCS	Jul 2024
SGD	S\$70.0M	Fixed Term Loan	Aug 2024
USD	S\$86.4M	Fixed Term Loan	Dec 2024
Multi	S\$97.3M	Floating RCF	Dec 2024
GBP	S\$34.1M	Fixed and Floating Term Loan	Dec 2024
Multi	S\$169.1M	Fixed and Floating RCF	Mar 2025
EUR	S\$63.3M	Fixed Term Loan	Apr 2025
JPY	S\$64.5M	Fixed Term Loan and TMK Bond	Sep 2025
EUR	S\$90.2M	Term Loan fixed via EUR/SGD CCS	Nov 2025
SGD	S\$83.6M	Floating Term Loan	Aug 2026
GBP	S\$88.4M	Floating Term Loan	Dec 2026

(1) Based on exchange rates of US\$1 = S\$1.3291, €1 = S\$1.4386, £1 = S\$1.6365 and S\$1 = ¥98.7167

Source: Company data, RHB

Recommendation Chart

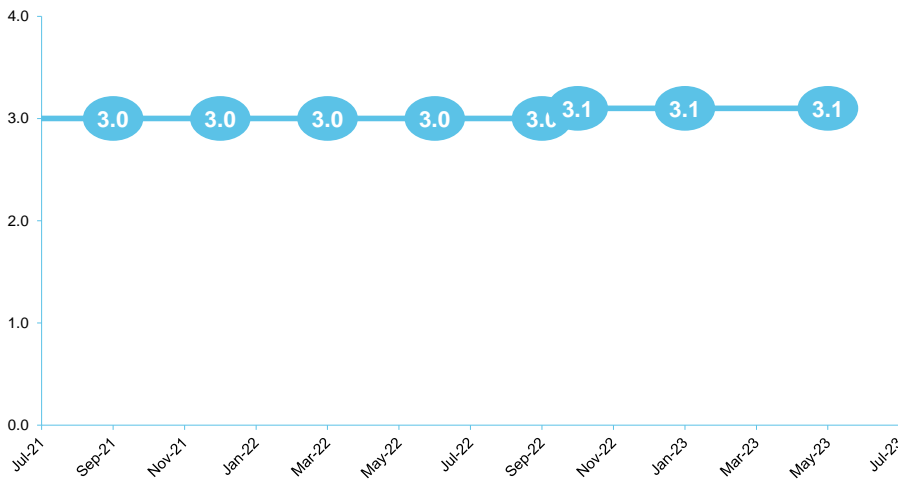


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-01-31	Neutral	1.25	1.35
2022-10-30	Neutral	1.15	1.12
2022-07-31	Neutral	1.30	1.32
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

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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Analyst	Company
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