

25 August 2020

Property | REITS

CDL Hospitality Trusts (CDREIT SP)

Buy (from Neutral)

Awaiting Vaccine Shot; Upgrade To BUY

Target Price (Return): SGD1.25 (+25%)
Price: SGD1.00
Market Cap: USD890m
Avg Daily Turnover (SGD/USD) 2.93m/2.13m

- **Upgrade to BUY from Neutral, new SGD1.25 TP from SGD1.03, 25% upside.** Hospitality has been the industry hardest hit by the COVID-19 pandemic, but we expect visitor arrivals to rebound sharply when a vaccine is found. With the development of six vaccines being in advanced stages ([more details here](#)), and the gradual easing of travel restrictions, we believe a rebound in CDL Hospitality Trusts' stock price is around the corner. It is attractively valued at 0.7x FY20 P/BV, and offers a c.7% FY21F yield.
- **Positive green shoots.** From 1 Sep, visitors to Singapore from Brunei and New Zealand (1.2% of total visitors in 2019) can take a COVID-19 test upon arrival, without needing to comply with the mandatory 14-day stay-at-home (SHN) period. Also, the SHN period for visitors from Australia (excluding Victoria state), Macau, Mainland China, Taiwan, Vietnam and Malaysia will be cut to seven days. Singapore is also spending SGD45m on a campaign to promote domestic tourism. While these steps will not likely result in a significant spike in demand, this calibrated easing of measures is an incrementally positive move. Demand for some CDLHT Singapore hotels (63% of FY19 NPI) is also supported by the Government bulk-booking contracts for 3Q20 – as they will be used as dedicated SHN facilities.
- **Lease structures with fixed rental floor offers downside protection.** Lease structures (Figure 2) for its Singapore, New Zealand, Germany and Italy hotels have a fixed rental floor, which offers downside protection. Its Australian hotels are largely on fixed rental rates. In total, base rentals account for ~SGD53mpa. While CDLHT has not received fixed rental payments (for 1H20) from its German and Italian hotel operators (and has made corresponding provisions) due to the challenging environment, we believe there is a likelihood of these being collected. Our current forecasts assume 50-60% occupancy rates for FY20, and a 20-30% YoY drop in room rates – which we expect to increase by 70-75% YoY in 2021.
- **Overseas markets: Expect a slow recovery.** Among its overseas assets, Grand Millennium Auckland (12% of FY19 NPI) is expected to be impacted in 3Q20, from the recent re-imposition of lockdown measures. CDLHT has also reopened its UK and Italian hotels, on some easing in domestic and inter-EU travel restrictions. Asset enhancements for its Maldives assets are also nearing completion, with a full opening expected in 4Q20.
- **Balance sheet in reasonably good shape with strong sponsor backing.** Gearing remains modest at 37.1%, with sufficient liquidity to refinance near-term loans. CDLHT has also booked SGD26.8m in gains, from the recent completion of its divestment of Novotel Clarke Quay in July.
- **We cut FY20F DPU by 12% on slower-than-expected travel measures easing, but raise FY22-23F DPU by 2-4%. Our COE assumption also decreases by 100bps on a prolonged low interest rate environment and the higher probability of a vaccine being found later than expected.**

Analyst

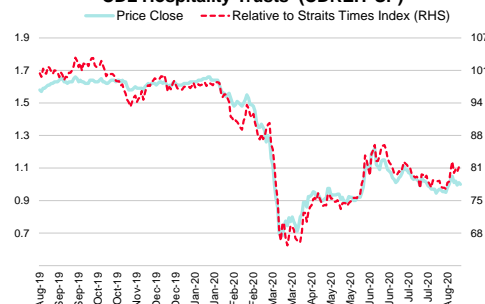
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(38.3)	(1.0)	11.1	(32.9)	(37.5)
Relative	(16.7)	1.0	10.0	(13.4)	(18.8)
52-wk Price low/high (SGD)				0.69	1.66

CDL Hospitality Trusts (CDREIT SP)



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (SGDm)	202	197	113	195	221
Net property income (SGDm)	146	141	70	137	155
Reported net profit (SGDm)	105	115	62	103	106
Total distributable income (SGDm)	93.3	89.9	31.5	76.6	90.9
DPS (SGD)	0.09	0.09	0.04	0.07	0.08
DPS growth (%)	0.4	(2.5)	(54.2)	72.0	15.4
P/B (x)	0.65	0.66	0.66	0.64	0.64
Dividend Yield (%)	9.3	9.0	4.1	7.1	8.2
Return on average equity (%)	5.7	6.2	3.3	5.5	5.5
Return on average assets (%)	3.6	3.8	1.9	3.0	3.1

Source: Company data, RHB

Note:

Small cap stocks are defined as companies with a market capitalization of less than USD1bn.

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Financial Exhibits

Asia	Financial summary	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Singapore	Recurring EPS (SGD)	0.09	0.09	0.05	0.08	0.08
Property	EPS (SGD)	0.09	0.09	0.05	0.08	0.09
CDL Hospitality Trusts	DPS (SGD)	0.09	0.09	0.04	0.07	0.08
CDREIT SP	BVPS (SGD)	1.53	1.52	1.52	1.55	1.57
Buy	Return on average equity (%)	5.7	6.2	3.3	5.5	5.5
	Weighted avg adjusted shares (m)	1,206.42	1,213.26	1,220.50	1,229.59	1,240.40
Valuation basis						
DDM						
Key drivers	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
i. Master leases with minimum rental guarantee buffering some of the impact;	Recurring P/E (x)	11.47	10.54	20.14	12.14	11.98
ii. Staycations, SHNs and green channels starting to pick up;	P/E (x)	11.47	10.54	19.83	11.93	11.68
iii. Strong sponsor (City Developments) support.	P/B (x)	0.7	0.7	0.7	0.6	0.6
	FCF Yield (%)	9.1	7.8	3.9	8.9	10.4
	Dividend Yield (%)	9.3	9.0	4.1	7.1	8.2
	EV/EBITDA (x)	3.64	5.78	7.23	3.27	2.74
	EV/EBIT (x)	3.64	5.78	7.23	3.27	2.74
Key risks	Income statement (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
i. Prolonged tourism impact from COVID-19 extending beyond 2021;	Total turnover	202	197	113	195	221
ii. Sharp slowdown in economic growth, resulting in weaker corporate demand;	EBITDA	132	127	60	123	140
iii. Unexpected structural changes in tourism demand.	Operating profit	132	127	60	123	140
	Net interest	(27)	(29)	(29)	(36)	(36)
	Pre-tax profit	121	127	65	115	120
	Taxation	(16)	(11)	(3)	(12)	(14)
	Recurring net profit	105	115	61	101	104
Company Profile	Cash flow (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
CDL Hospitality Trusts is a stapled group comprising H-REIT and HBT. H-REIT is a REIT that invest in a portfolio of income-producing properties, while HBT is a business trust.	Change in working capital	(12)	8	2	0	2
	Cash flow from operations	123	121	60	124	143
	Capex	(14)	(26)	(12)	(14)	(14)
	Cash flow from investing activities	(62)	(28)	330	(14)	(14)
	Dividends paid	(113)	(110)	(60)	(53)	(83)
	Cash flow from financing activities	(73)	(78)	387	(40)	(91)
	Cash at beginning of period	96	140	136	538	611
	Net change in cash	(11)	15	777	70	39
	Ending balance cash	85	155	914	610	652
	Balance sheet (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total cash and equivalents	140	136	538	611	653
	Total investments	2,429	2,139	2,451	2,466	2,469
	Total other assets	360	386	332	331	330
	Total assets	2,962	3,061	3,337	3,436	3,485
	Short-term debt	249	79	79	79	79
	Total long-term debt	763	985	1,290	1,296	1,300
	Total liabilities	1,107	1,199	1,469	1,511	1,528
	Shareholders' equity	1,848	1,854	1,860	1,917	1,948
	Minority interests	8	8	8	8	8
	Total equity	1,855	1,862	1,869	1,926	1,957
	Net debt	872	928	831	764	726
	Total liabilities & equity	2,962	3,061	3,337	3,436	3,485
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	(1.2)	(2.4)	(42.5)	72.4	12.9
	Recurrent EPS growth (%)	(25.7)	8.8	(47.6)	65.9	1.3
	Operating EBITDA margin (%)	65.5	64.4	53.0	63.0	63.6
	Net profit margin (%)	52.1	58.4	54.3	52.8	48.1
	Dividend payout ratio (%)	93.8	77.2	49.6	73.4	84.7
	Capex/sales (%)	6.9	13.3	11.0	7.3	6.5
	Interest cover (x)	4.06	4.03	1.94	2.85	3.24

Source: Company data, RHB

Figure 1: CDLHT – fair value based on a DDM calculation

	FY20F	FY21F	FY22F	FY23F	Terminal Value
DPU (SG cents)	4.14	7.13	8.23	8.48	142.68
Fair value (SGD)	1.25				
Current price (SGD)	1.00				
Price upside (%)	25.0				
Distribution yield (%)	4.1				
Total return (%)	29.1				
Assumptions					
Risk-free rate (%)	2.8				
Beta	0.9				
Cost of equity (%)	8.1				
Terminal growth (%)	2.0				

Source: RHB

Figure 2: CDLHT's hotel lease structures

Geography	Lease Structure
Singapore	Orchard Hotel, Grand Copthorne Waterfront Hotel, M Hotel, Copthorne King's Hotel: -Rent: 20% of hotels' revenue + 20% of their gross operating profit, with a fixed rental floor of SGD26.4m -Term of 20 years from listing (19 Jul 2006) with a 20-year option - Claymore Connect: H REIT receives rental payments directly from tenants
	Studio M Hotel: -Rent: 30% of the hotel's revenue + 20% of its gross operating profit, with a fixed rental floor of SGD5.0m for the initial 10 years of the lease -Term of 20 years from 3 May 2011, with a 20+20+10-year option
	Novotel Singapore Clarke Quay: -Rent: Hotel's gross operating profit less Accor's management fees -The divestment of Novotel Clarke Quay has been approved, with completion expected in end-July
New Zealand	Grand Millennium Auckland: -Rent: Net operating profit of the hotel with an annual base rental rate of NZD6m -First 3-year term expired in 6 Sep 2019; lease provides for two 3-year renewal terms, subject to mutual agreement -Lease renewed for a second 3-year term from 7 Sep 2019, and will expire on 6 Sep 2022
Australia	Novotel Brisbane, Mercure & Ibis Perth: -Base rent + Variable rent -Base rent : AUD9.6m pa -Variable rent: 10% of portfolio's net operating profit in excess of base rent -Term ~ 11 years from 19 Feb 2010, expires on 30 Apr 2021
Germany	Pullman Hotel Munich: -Rent: Around 90% of the hotel's net operating profit, subject to a fixed rental rate of EUD3.6m -Term of 20 years, from 14 Jul 2017 to 13 Jul 2037
Italy	Hotel Cerretani Firenze MGallery -Rent: Around 93% of the hotel's net operating profit, subject to a base rental rate of EUD1.3m -Term of 20 years. Started in 27 Nov 2018, and will expire on 26 Nov 2038
Maldives	Angsana Velavaru -Rent: Hotel's gross operating profit less lessee's management fee -Tiered lessee's management fee incentivises lessee to drive growth in gross operating profit -Term of 10 years from 1 Feb 2013 to 31 Jan 2023
	Raffles Maldives Meradhoo: -HBT is the master lessee for the resort's operations -Resort reopened as Raffles Maldives Meradhoo in Sep 2019 after an extensive renovation -Accor Hotels is the hotel manager, appointed by HBT -Term of 20 years from 9 May 2019 to 8 May 2039 (operator has the right to extend the contract by another five years) -Typical management fees apply
Japan	Hotel MyStays Asakusabashi and Hotel MyStays Kamata -HBT is the master lessee for the hotels' operations -MyStays Hotel Management is the hotel manager, appointed by HBT -The hotel management agreements renew on a 3-year auto renewal basis, unless terminated with notice -Typical management fees apply
United Kingdom	Hilton Cambridge City Centre: -HBT is the asset owner and is currently responsible for the hotel's operations -Hilton UK Manage (an affiliate of Hilton Worldwide) is the hotel manager, appointed by HBT -Term of 12.25 years from 1 Oct 2015 to 31 Dec 2027 -Typical management fees apply The Lowry Hotel: -HBT, the asset owner, is currently responsible for the hotel's operations and management

Source: RHB

Figure 3: 1H20 NPI breakdown By market

	1H'20 S\$ '000	1H'19 S\$ '000	Change S\$ '000	YoY Change
Singapore	20,584	39,944	-19,360	-48.5%
New Zealand	5,560	8,477	-2,917	-34.4%
Australia	4,433	4,624	-191	-4.1%
United Kingdom	-832	5,945	-6,777	N.M
Germany	1,169	5,422	-4,253	-78.4%
Italy	-144	1,442	-1,586	N.M
Maldives	-1,363	-341	-1,022	N.M
Japan	314	2,016	-1,702	-84.4%
Total	29,721	67,529	-37,808	-56.0%

Figure 4: 1H20 RevPAR breakdown by country

RevPAR ⁽¹⁾	1H'20	1H'19	YoY Change
Singapore (S\$) ⁽²⁾	78	154	-49.2%
New Zealand (NZ\$)	125	184	-32.2%
Japan (¥)	3,531	8,189	-56.9%
Maldives (US\$) ⁽³⁾⁽⁴⁾	105	190	-44.6%
Germany (€) ⁽⁴⁾	36	107	-66.5%
Italy (€) ⁽⁴⁾	33	158	-79.1%
United Kingdom (£) ⁽⁴⁾	39	121	-68.1%

(1) RevPAR for Australia Hotels not included as CDLHT receives fixed rent.

(2) Room refurbishment was carried out until Apr 2020 for Copthorne King's Hotel while Studio M Hotel commenced its room refurbishment from Apr 2020. Excluding the out-of-order rooms, RevPAR would be S\$83 for 1H 2020.

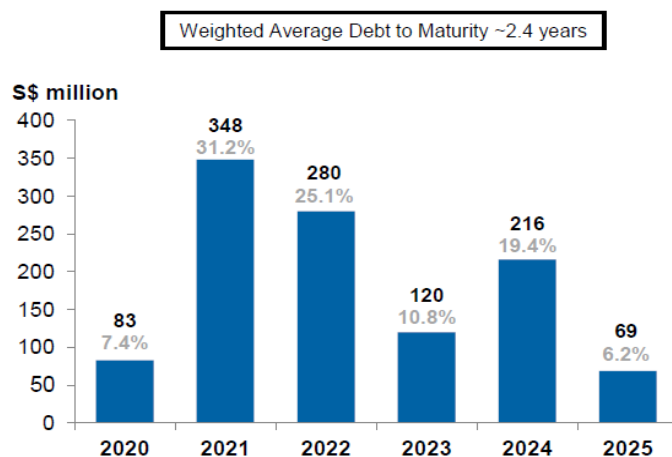
(3) RevPAR only accounts for Angsana Velivatu, Raffles Maldives Meradhoo (RMM) was closed during 1H 2019 for renovation and was undergoing gestation after it reopened in Sep 2019. RMM was closed since 1 Apr 2020 due to the pandemic.

(4) These hotels were either closed or operating at very low occupancies in 2Q 2020.

Source: Company data

Source: Company data

Figure 5: Debt maturity profile



(1) Based on exchange rates of US\$1 = S\$1.3919, £1 = S\$1.7306, €1 = S\$1.5638 and S\$1 = ¥76.9823

(2) Multi-currency RCF

Currency	Amount	Type	Expiry
JPY	S\$82.7M	Fixed Term Loan and TMK Bond	Sep 2020
SGD	S\$83.6M	Floating Term Loan	Aug 2021
GBP	S\$115.1M	Floating Term Loan	Aug 2021
Multi	S\$149.5M ⁽²⁾	Floating RCF	Dec 2021
Multi	S\$80.4M ⁽²⁾	Floating RCF	Mar 2022
EUR	S\$106.0M	Term Loan fixed via EUR/USD CCS	Nov 2022
GBP	S\$93.5M	Fixed Term Loan	Dec 2022
SGD	S\$120.0M	Fixed Term Loan	Jun 2023
EUR	S\$55.7M	Term Loan fixed via EUR/USD CCS	Jul 2024
SGD	S\$70.0M	Fixed Term Loan	Aug 2024
USD	S\$90.5M	Fixed Term Loan	Dec 2024
EUR	S\$68.8M	Fixed Term Loan	Apr 2025

Source: Company data

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-04-20	Neutral	1.03	0.95
2020-01-31	Neutral	1.62	1.56
2019-11-22	Buy	1.78	1.58
2019-07-31	Buy	1.79	1.64
2019-05-02	Buy	1.77	1.61
2019-01-30	Buy	1.80	1.63
2018-04-30	Buy	na	1.78
2018-01-29	Buy	1.95	1.83

Source: RHB, Bloomberg

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