

31 January 2023

Property | REITS

CDL Hospitality Trusts (CDREIT SP)

Neutral (Maintained)

Recovery More Than Priced In

- **NEUTRAL, new SGD1.25 TP from SGD1.15, 9% downside, 5% FY23F yield.** CDL Hospitality Trusts' strong 2H22 results were in line with expectations. Its outlook is moderated by a mix of slowing economic growth and inflationary pressures, but positive surprise could come from a strong rebound in Chinese tourist arrivals. This, however, is mostly priced in (share price has risen 25% in the last three months), and the stock is trading at levels close to its BV. It is also most exposed to rising interest rates, due to low hedges and half its debts expiring in 2023-2024.
- **2H22 operational DPU grew 75% YoY**, on a 48% YoY growth in NPI, with six of its eight operating markets recording healthy improvements. 13 of its 17 hotels outperformed pre-pandemic RevPAR in 4Q22 (vs 4Q19). Portfolio value (on a same-store basis) rose 4.8%YoY, driven by a 9% valuation jump in Singapore assets. While cap rates rose marginally (0-50bps) across markets, the effect was offset by the stronger performance and growth outlook. No capital top-ups were made for FY22 (vs SGD12.5m in FY21) and the guidance is for no additional capital top-ups this year.
- **Positive outlook with Singapore expected to lead the recovery...** driven by a healthy pipeline of meetings, incentives, conferences and exhibitions (MICE) events and an anticipated sharp recovery in Chinese tourists later this year. Other markets in its portfolio that could benefit from the recovery in China tourist arrivals include the Maldives, Japan, and New Zealand. Headwinds, on the other hand, include labour shortages and cost pressures – which management expects will ease, as the year progresses.
- **...but interest cost pressures may limit gains.** Only 56% of CDLHT's debt is on fixed interest rates, and this is among the lowest among the S-REITs. Every 100bps increase in its interest cost could shave DPU by SGD0.0086 (18% of FY22). In addition, it has 22% and 28% of debt expiring in FY23 and FY24, which we expect to be rolled over at interest rates of slightly above 4%. Overall interest costs, as a result, should come in at high 3% levels, vs 3.5% as of end Dec 2022.
- **Acquisitions likely in overseas markets.** CDLHT's gearing fell to 36.6% (FY21: 39.1%) on the back of the valuation increase. It could also tap-in equity on the back of the recent share price run-up. Management noted that potential acquisition opportunities are mostly overseas (the UK, Japan etc) with over-leveraged buyers likely to offload. An asset enhancement exercise is currently underway at Grand Copthorne Waterfront, with extensive rejuvenation works on all rooms and meeting facilities.
- **We fine-tune FY23-24F DPU by 1% and -3% after factoring in rising interest cost expenses.** Its ESG score of 3.1 is a notch above the country median, so we applied a 2% premium to intrinsic value to derive our TP.

Target Price (Return): SGD1.25 (-9%)
 Price (Market Cap): SGD1.37 (USD1,290m)
 ESG score: 3.10 (out of 4)
 Avg Daily Turnover (SGD/USD) 1.79m/1.27m

Analyst

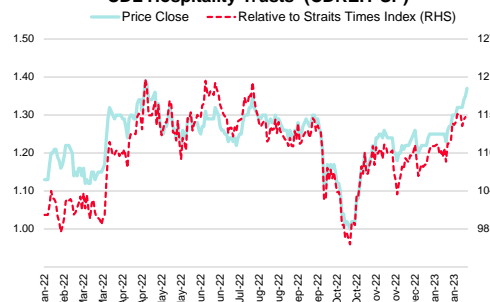
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Share Performance (%)

| | YTD | 1m | 3m | 6m | 12m |
|----------------------------|-----|-----|------|-------------|------|
| Absolute | 9.6 | 9.6 | 22.3 | 3.8 | 20.2 |
| Relative | 5.2 | 5.2 | 11.3 | (1.9) | 15.6 |
| 52-wk Price low/high (SGD) | | | | 1.00 – 1.39 | |

CDL Hospitality Trusts (CDREIT SP)



Source: Bloomberg

Overall ESG Score: 3.10 (out of 4)

E: EXCELLENT

CDLHT aims to be carbon-neutral by 2050, and adopted the TCFD framework for climate risk reporting. Its Singapore hotels are rated highly via BCA Green Mark standards, and have a Gold-or-higher rating. It also embarked on a portfolio LED conversion project (>60% completed) to reduce energy consumption, and is working on partnerships for eco-tourism certifications in Singapore

S: GOOD

Despite its business being severely affected by the COVID-19 pandemic, CDLHT and its hotel operators strive to retain talent, keep jobs, and provide training for 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 of training, vs 19 hours in FY19.

G: GOOD

The group has a well laid-out plan on corporate governance matters and whistle-blowing policies. There is a high level of disclosure on earnings and operating information, and regular engagements and updates for stakeholders

| 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) | 31.9 | 22.6 | (0.6) | 2.2 |
| P/B (x) | 1.03 | 0.95 | 0.95 | 0.97 | 0.99 |
| Dividend Yield (%) | 3.1 | 4.1 | 5.0 | 5.0 | 5.1 |
| 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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Property | REITS

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 | 1,237.05 | 1,243.79 | 1,250.47 | 1,257.37 |
| Valuation basis | Valuation metrics | Dec-21 | Dec-22 | Dec-23F | Dec-24F | Dec-25F |
| DDM | Recurring P/E (x) | 24.49 | 7.83 | 29.26 | 29.81 | 32.20 |
| | P/E (x) | 24.49 | 7.83 | 29.26 | 29.81 | 32.20 |
| | P/B (x) | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| | FCF Yield (%) | 2.9 | 4.9 | 7.0 | 7.2 | 7.3 |
| | Dividend Yield (%) | 3.1 | 4.1 | 5.0 | 5.0 | 5.1 |
| | EV/EBITDA (x) | 10.50 | 7.66 | 7.50 | 7.20 | 7.10 |
| | EV/EBIT (x) | 10.50 | 7.66 | 7.50 | 7.20 | 7.10 |
| Key drivers | Income statement (SGDm) | Dec-21 | Dec-22 | Dec-23F | Dec-24F | Dec-25F |
| i. Continued recovery in global travel aided by the return of tourists from China; | 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 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 REIT that invests in a portfolio of income-producing properties, while 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 accommodations 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

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Figure 1: DDM valuation

| | FY23F | FY24F | FY25F | FY26F | Terminal Value |
|-------------------------|--------------|-------|-------|-------|----------------|
| DPU (SG 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) | 1.35 | | | | |
| Price upside (%) | (8.6) | | | | |
| Distribution yield (%) | 5.0 | | | | |
| Total return (%) | (3.6) | | | | |
| 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 market

| RevPAR | 2H 2022 | 2H 2021 | Better / (Worse) | FY 2022 | FY 2021 | Better / (Worse) |
|-----------------------------------|---------|---------|------------------|---------|---------|------------------|
| Singapore (S\$) | 209 | 91 | 129.3% ▲ | 166 | 82 | 104.1% ▲ |
| New Zealand (NZ\$) | 98 | 185 | (46.7)% ▼ | 128 | 175 | (26.8)% ▼ |
| Australia (A\$) | 113 | 38 | 201.7% ▲ | 87 | 49 | 75.6% ▲ |
| Japan (¥) | 5,355 | 2,909 | 84.1% ▲ | 4,393 | 2,729 | 61.0% ▲ |
| Maldives (US\$) | 263 | 280 | (5.8)% ▼ | 322 | 256 | 25.9% ▲ |
| United Kingdom (£) ⁽¹⁾ | 138 | 113 | 22.1% ▲ | 123 | 72 | 70.2% ▲ |
| Germany (€) | 119 | 42 | 184.5% ▲ | 86 | 28 | 207.3% ▲ |
| Italy (€) | 177 | 64 | 178.5% ▲ | 152 | 35 | 339.3% ▲ |

Source: Company data

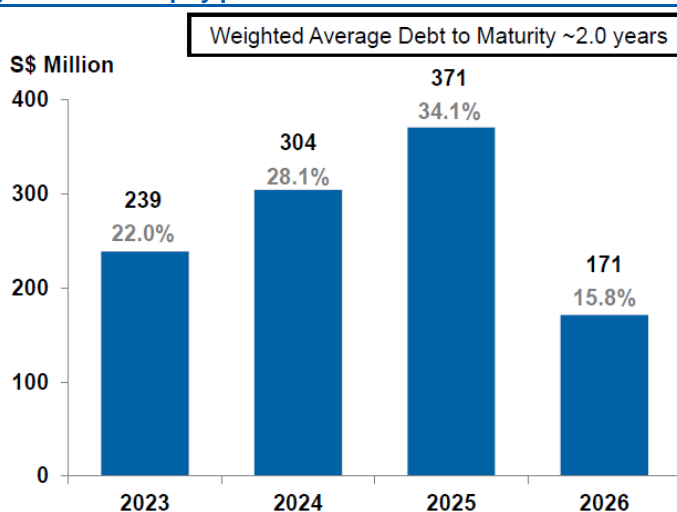
Figure 3: NPI breakdown by market

| | 2H 2022 S\$ '000 | 2H 2021 S\$ '000 | Change S\$ '000 | Better / (Worse) | FY 2022 S\$ '000 | FY 2021 S\$ '000 | Change S\$ '000 | Better / (Worse) |
|-------------------------------|------------------|------------------|-----------------|------------------|------------------|------------------|-----------------|------------------|
| Singapore | 49,565 | 22,200 | 27,365 | 123.3% ▲ | 76,668 | 39,105 | 37,563 | 96.1% ▲ |
| New Zealand | 3,478 | 11,842 | (8,364) | (70.6)% ▼ | 10,483 | 21,640 | (11,157) | (51.6)% ▼ |
| Australia ⁽¹⁾ | 2,642 | (460) | 3,102 | 674.3% ▲ | 2,990 | 1,869 | 1,121 | 60.0% ▲ |
| Japan | 965 | 243 | 722 | 297.1% ▲ | 1,154 | 386 | 768 | 199.0% ▲ |
| Maldives | 1,698 | 4,636 | (2,938) | (63.4)% ▼ | 8,280 | 8,084 | 196 | 2.4% ▲ |
| United Kingdom ⁽²⁾ | 7,748 | 6,456 | 1,292 | 20.0% ▲ | 13,546 | 7,733 | 5,813 | 75.2% ▲ |
| Germany | 4,227 | 3,425 | 802 | 23.4% ▲ | 7,395 | 5,786 | 1,609 | 27.8% ▲ |
| Italy | 2,430 | 791 | 1,639 | 207.2% ▲ | 3,203 | 1,507 | 1,696 | 112.5% ▲ |
| Total | 72,753 | 49,133 | 23,620 | 48.1% ▲ | 123,719 | 86,110 | 37,609 | 43.7% ▲ |

⁽¹⁾ The fixed-rent leases for the Perth Hotels expired on 30 Apr 2021.⁽²⁾ Includes inorganic contribution from Hotel Brooklyn which was acquired on 22 Feb 2022.

Source: Company data

Figure 4: Debt expiry profile

⁽¹⁾ Comprising €64 million 3-year term loan fixed with EUR/SGD CCS and a £54 million 4-year floating rate term loan⁽²⁾ Based on exchange rates of US\$1 = S\$1.3456, €1 = S\$1.4318, £1 = S\$1.6265 and S\$1 = ¥98.8142

Source: Company data, RHB

| Currency | Amount | Type | Expiry |
|----------|-----------|---------------------------------|----------|
| GBP | S\$37.5M | Bridge Loan fixed via IRS | Feb 2023 |
| SGD | S\$120.0M | Fixed Term Loan | Jun 2023 |
| GBP | S\$81.3M | Floating Term Loan | Aug 2023 |
| EUR | S\$53.8M | Term Loan fixed via EUR/USD CCS | Jul 2024 |
| SGD | S\$70.0M | Fixed Term Loan | Aug 2024 |
| USD | S\$87.5M | Fixed Term Loan | Dec 2024 |
| Multi | S\$71.7M | Floating RCF | Dec 2024 |
| GBP | S\$21.4M | Fixed and Floating Term Loan | Dec 2024 |
| Multi | S\$152.9M | Fixed and Floating RCF | Mar 2025 |
| EUR | S\$63.0M | 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\$87.8M | Floating Term Loan | Dec 2026 |

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Recommendation Chart

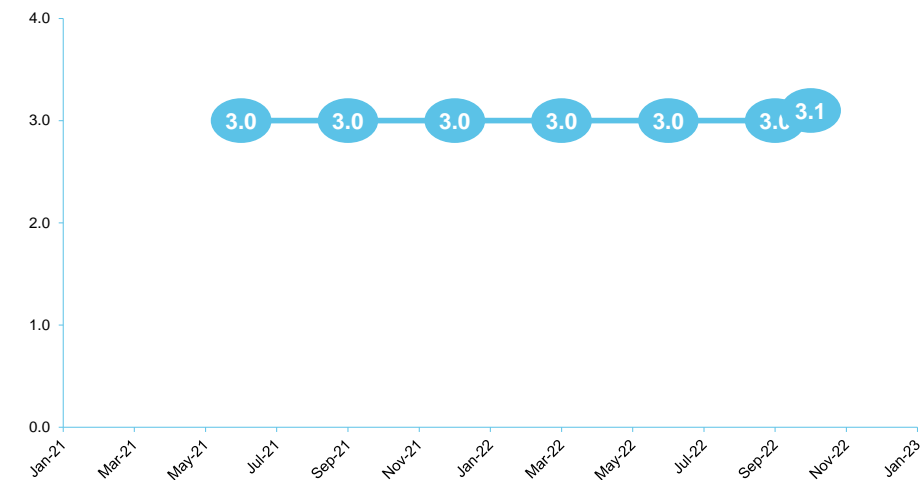


Source: RHB, Bloomberg

| Date | Recommendation | Target Price | Price |
|------------|----------------|--------------|-------|
| 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 |
| 2019-05-02 | Buy | 1.77 | 1.61 |

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

RHB Guide to Investment Ratings

| | |
|---------------------|--|
| Buy: | Share price may exceed 10% over the next 12 months |
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