

Singapore Company Update

City Developments

Bloomberg: CIT SP | Reuters: CTDM.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

28 Feb 2022

BUY

Last Traded Price (25 Feb 2022): S\$7.14 (STI : 3,294.47)

Price Target 12-mth: S\$10.50 (47% upside)

Analyst

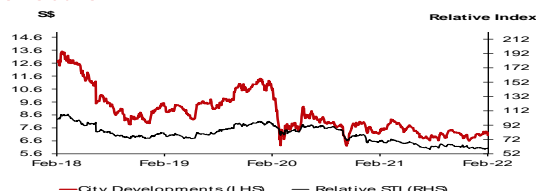
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What's New

- Strong earnings rebound in FY21 led by hospitality segment
- Announced 31.1 Scts dividend per share including 19.1 Scts dividend in specie of CDLHT shares
- Key positives: i) record high FY21 residential sales, ii) hospitality assets recovering towards pre-COVID levels, iii) asset divestment gains to drive FY22F earnings and more to come
- Maintain BUY; TP of S\$10.50

Price Relative



Forecasts and Valuation

FY Dec (S\$m)	2020A	2021A	2022F	2023F
Revenue	2,108	2,626	2,693	3,190
EBITDA	(798)	707	928	963
Pre-tax Profit	(1,791)	228	1,206	502
Net Profit	(1,930)	84.8	893	361
Net Pft (Pre Ex.)	(1,318)	84.8	114	361
Net Pft Gth (Pre-ex) (%)	nm	nm	34.4	217.1
EPS (S cts)	(213)	9.35	98.4	39.8
EPS Pre Ex. (S cts)	(145)	9.35	12.6	39.8
EPS Gth Pre Ex (%)	nm	nm	34	217
Diluted EPS (S cts)	(203)	8.90	93.8	37.9
Net DPS (S cts)	10.0	12.0	12.0	12.0
BV Per Share (S cts)	938	928	1,014	1,042
PE (X)	nm	76.4	7.3	17.9
PE Pre Ex. (X)	nm	76.4	56.9	17.9
P/Cash Flow (X)	nm	5.7	4.4	6.2
EV/EBITDA (X)	nm	23.2	15.1	14.2
Net Div Yield (%)	1.4	1.7	1.7	1.7
P/Book Value (X)	0.8	0.8	0.7	0.7
Net Debt/Equity (X)	1.0	1.1	0.7	0.7
ROAE (%)	(20.3)	1.0	10.1	3.9
Earnings Rev (%):			-	-
Consensus EPS (S cts):			63.5	59.1
Other Broker Recs:		B: 15	S: 0	H: 2

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

Quickening its pace to unlock value

Investment Thesis:

Realising hidden value. City Dev has quickened its pace to unlock deep, hidden value of "legacy assets" within its books via asset recycling or redevelopment which presents significant upside potential for NAV which we believe has yet to be priced in.

Recovery momentum especially from hospitality. COVID-19 has hit operations, but we see light at the end of tunnel as growth momentum returns and the economy picks up, particularly from the hospitality segment.

Trading at "distressed valuations". City Developments Limited (City Dev) is trading at an attractive valuation at 0.8x P/NAV (book value at cost) which is even below the low seen during the global financial crisis (GFC).

Valuation:

Our TP of S\$10.50 is based on a 25% discount to RNAV, which implies 1.1x P/NAV, slightly above -0.5SD of its historical range.

Where we differ:

Potential to unlock hidden value yet to be priced in. City Dev has quickened its pace in optimising its portfolio and unlocking deep hidden value via asset divestments to realise huge gains or redevelopment with GFA uplift. We believe investors will eventually appreciate the stock as City Dev realises more gains.

Key Risks to Our View:

Slower-than-expected economic recovery and rising unemployment. A longer drag in the economic recovery post COVID-19 will raise earnings risks.

Property measures impacting Singapore residential market. Additional property measures that could impact Singapore's residential market more than expected may see prices and demand soften, thus impacting its unsold stocks.

At A Glance

Issued Capital (m shrs)	907
Mkt. Cap (S\$m/US\$m)	6,475 / 4,785
Major Shareholders (%)	
Hong Leong Investment Holdings Pte Ltd	18.6
Davos Investment Holdings Pte Ltd	17.5
Hong Realty Ptd Ltd	7.2
Free Float (%)	56.7
3m Avg. Daily Val (US\$m)	11.0

GIC Industry: Real Estate / Real Estate Management & Development



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City Developments

WHAT'S NEW

Coming back stronger

FY21 posted strong rebound led by recovery in hospitality and impairment writebacks; proposed 31.1 Scts dividend with distribution in-specie of CDLHT shares.

- City Developments' (City Dev) delivered a strong rebound in 2H21, closing FY21 with a PATMI of S\$98m vs net loss of S\$140m (ex-Sincere) in FY20 (FY20 reported net loss of S\$1.9b), largely due to a recovery in the hospitality segment and writeback of impairment losses of S\$96m (vs S\$87m impairment loss in FY20) on hospitality assets.
- Similarly, 2H21 recorded PATMI of S\$130m vs net loss of S\$134m led by the recovery in the hospitality segment and reversal of impairment loss (S\$96m vs impairment loss of S\$53m in 2H20).
- FY21 revenue grew 25% y-o-y to S\$2.6b, led by property development (+30% y-o-y) and hospitality (+36% y-o-y) while investment properties (-6% y-o-y) were impacted by lockdown and ongoing redevelopment / refurbishment.
- FY21 EBITDA (ex-Sincere) almost doubled y-o-y to S\$707m, mainly from property development (+21% y-o-y) and turnaround in hospitality to slight positive vs EBITDA loss in FY20.
- We estimated that FY21 core PBT (ex-impairment, allowance for foreseeable losses and negative goodwill) improved by 3% y-o-y, mainly from the turnaround in hospitality segment, partially offset by lower divestment gains and lower contribution from investment properties slated for redevelopment.
- Gearing increased to 99% vs 97% in 3Q21 (93% in FY20) while average cost of debt was flat q-o-q at 1.7%.
- Based on proforma, net gearing (on fair value) will reduce from 61% to 55% post divestment of Millennium Hilton Seoul, and further down to 49% post deconsolidation of CDLHT following the distribution in specie.
- City Dev has proposed a DPS of 31.1 Scts in FY21 via 12 Scts in cash (flat y-o-y) and 19.1 Scts distribution in specie of CDL Hospitality Trust (CDLHT) shares. Post distribution, City Dev's stake in CDLHT will drop from 38.72% to 27% and CDLHT will not be consolidated. The distribution requires a simple majority approval from shareholders at the AGM to be held on 28 Apr 2022.

Outlook

(+) Record high FY21 residential sales; 2.4k units launch pipeline.

- City Dev achieved record high property sales volume in Singapore in FY21, +66% y-o-y to 2.2k units while sales value +31% y-o-y to S\$4.3b.
- 2H21 property sales were stronger h-o-h with volume and value +25% h-o-h and +49% h-o-h respectively.
- Majority of the sales came from Irwell Hill Residences (418 units), CanningHill Piers (595 units), Sengkang Grand Residences (325 units), Amber Park (287 units), The Jovell (177 units), and Penrose (129 units).
- Most projects are >77% sold, while Haus on Handy is 27% sold
- Launch pipeline of 2.4k units, upcoming launches expected are i) Piccadilly Grand & Galleria (407 units in 1H22), ii) Tengah Garden Walk EC (639 units in 2H22) and Fuji Xerox Towers residential (256 units in 2H22).
- Although cooling measures have dampened sentiment in the near-term, management expects prices to be supported by limited supply.

(+) Commercial properties – office occupancies improved including UK offices.

- In Singapore, office occupancy improved by 2.7ppts h-o-h to 93.3% while retail occupancy held stable at 93.8%.
- Office leasing demand largely came from FIs and wealth management companies.
- UK offices have seen improved occupancies with Aldgate achieving close to 100% and 125 Old Broad St improving to high 90%.

(+) Hotel – Strong recovery towards pre-COVID levels soon.

- Hotel segment has seen strong progressive recovery as the world progressively relaxes its travel borders.
- 2H21 occupancy improved 11ppts h-o-h to 59% with the greatest improvement seen in Europe and US markets.
- Similarly, 2H21 RevPAR was 89% h-o-h higher with Europe and US posting the largest improvements.
- Management continues to see strong recovery in FY22F and expects RevPAR to trend towards pre-COVID levels.

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(+) 3 ongoing projects / earmarked for redevelopment; more commercial & hotel assets identified for change of use

- Redevelopment projects at Fuji Xerox Towers (+25% GFA uplift) and Central Mall & Central Square (+67% GFA uplift) are progressing.
- City Dev has identified City House as a potential redevelopment project under CBD Incentive Scheme and identified 4 assets (hotel & office) for change of use potential

(+) More asset recycling to unlock value, reduce gearing and reinvest for future growth

- Post the divestment of Millennium Hilton Seoul and the recent collective sale of Tanglin Shopping Centre, we estimate City Dev would realise c.S\$800m, which is c.40% of the S\$1.9b impairment taken on Sincere.
- We believe there will be more capital recycling as City Dev looks to unlock some of its "legacy" assets held at cost. Aside from the ongoing M&C's portfolio optimisation, City Dev owns a number of strata units including, Katong Shopping Centre, Delfi Orchard, The Arcade, Citilink Warehouse Complex and Cititech Industrial Building.
- We believe these are deep value assets and if successful, the lucrative gains will be able to offset previous impairment and reposition City Dev on firmer footing again to invest for future growth.

(+) Growing its Private Rented Sector (PRS) Portfolio to achieve scale

- Management is keen in building and growing a substantial PRS portfolio from current 1,734 units (492 operational and 1,242 pipeline) via change of use and / or development.
- Management continues to grow the PRS portfolio especially in Japan and UK where they see most potential.

(+) Paring down its holdings in CDLHT to deconsolidate; may see potential pipeline of hospitality / PRS assets for injection into CDLHT

- City Dev has taken the step to pare down its holdings in CDLHT via distribution in specie to deconsolidate CDLHT.
- We believe this allows shareholders to participate in the recovery of hospitality as the world emerges from the pandemic.
- In addition, we may see City Dev injecting hospitality / PRS assets into CDLHT.

BUY maintained; TP at S\$10.50. We maintain our BUY rating on City Developments (City Dev) and TP of S\$10.50. We believe City Dev will emerge stronger with its transformation and growth plans. City Dev is progressively unlocking deep value assets via recycling, repositioning and redevelopment. Aside from this, City Dev's hospitality assets have seen strong turnaround and would continue to recover as the world emerges from the pandemic and travel returns.

Currently trading at 0.8x P/NAV, close to -1SD, we believe valuations are too cheap to ignore as City Dev has all stars aligned towards recovery and growth.

Company Background

City Developments Limited (City Dev) is one of the pioneers in Singapore's property sector. It is a property and hotel conglomerate involved in real estate development and investment, hotel ownership and management, and facility management.

Key highlights of results and operational update

Summary of results	2H2021	2H2020	% y-o-y	1H2021	% h-o-h	FY2021	FY2020	% y-o-y
Revenue	1,433.7	1,035.5	38%	1,192.2	20%	2,625.9	2,108.4	25%
Adjusted EBITDA	434.8	(1,600.0)	-127%	272.0	60%	706.9	(1,410.0)	-150%
PBT	218.0	(1,804.6)	-112%	9.7	2137%	227.7	(1,790.8)	-113%
PATMI	129.7	(1,920.5)	-107%	(32.1)	-504%	97.7	(1,917.4)	-105%
Ex Sincere's impairment								
Adjusted EBITDA	434.8	187.0	133%	272.0	60%	706.9	367.0	93%
PBT	218.0	(18.0)	-1311%	9.7	2137%	227.7	(14.0)	-1727%
PATMI	129.7	(134.0)	-197%	(32.1)	-504%	97.7	(140.0)	-170%
PBT by segments *								
Property Development	126.0	110.0	15%	118.8	6%	244.8	220.0	11%
Hotel Operations	71.9	(258.0)	-128%	(142.9)	-150%	(71.0)	(467.0)	-85%
Investment Properties	14.8	114.0	-87%	9.5	55%	24.3	136.0	-82%
Others	5.4	16.0	-66%	24.3	-78%	29.7	97.0	-69%
Total PBT	218.0	(18.0)	-1311%	9.7	21.4	227.7	(14.0)	-1727%

Capital Management

Gearing (%)	99.0%	93.0%	6 ppt	97.0%	2 ppt
ICR	3.0	3.4	(0.4)	2.5	0.5
Av cost of debt	1.7%	1.8%	-0.1 ppt	1.7%	0 ppt

Operational Updates**Singapore**

Residential sales (units)	1,214	972	25%	971	25%	2,185	1,318	66%
Office occupancy (%)	93.3%	92.2%	1.1 ppt	90.6%	2.7 ppt			
Office lease expiries in FY22	27.4%		27.4 ppt	26.1%	1.3 ppt			
Office lease expiries in FY23	22.8%		22.8 ppt	22.8%	0 ppt			
Retail occupancy (%)	93.8%	92.2%	1.6 ppt	93.8%	0 ppt			
Retail lease expiries in FY22	25.4%		25.4 ppt	24.1%	1.3 ppt			
Retail lease expiries in FY23	28.4%		28.4 ppt	23.0%	5.4 ppt			

Hospitality

- Occupancy (%)	59.1%	37.8%	21.3 ppt	42.6%	16.5 ppt	51.0%	38.6%	12.4 ppt
- Av Room Rate (S\$)	173.4	118.6	46%	126.9	37%	154.8	137.2	13%
- RevPAR (S\$)	102.5	44.8	129%	54.1	89%	78.9	52.9	49%

Source: Company, DBS Bank

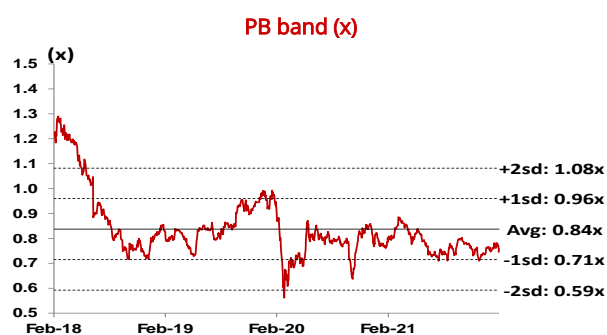
City Developments

Interim Income Statement (S\$m)

FY Dec	2H2020	1H2021	2H2021	% chg yoy	% chg hoh
Revenue	1,036	1,192	1,434	38.4	20.3
Cost of Goods Sold	(653)	(775)	(873)	33.6	12.6
Gross Profit	382	417	561	46.7	34.6
Other Oper. (Exp)/Inc	(455)	(91)	(63)	(86.1)	(30.7)
Operating Profit	(301)	76	246	(181.5)	221.6
Other Non Opg (Exp)/Inc	0	0	0	-	-
Associates & JV Inc	(833)	52	56	nm	7.9
Net Interest (Exp)/Inc	(58)	(118)	(83)	(44.0)	29.6
Exceptional Gain/(Loss)	(612)	0	0	nm	-
Pre-tax Profit	(1,804)	10	218	nm	2,136.6
Tax	(74)	(28)	(59)	(20.0)	108.9
Minority Interest	(42)	(13)	(29)	30.8	115.3
Net Profit	(1,920)	(32)	130	nm	(504.4)
Net profit bef Except.	(1,308)	(32)	130	nm	(504.4)
EBITDA	(1,135)	128	301	nm	135.3
Margins (%)					
Gross Margins	36.9	35.0	39.1		
Opg Profit Margins	(29.1)	6.4	17.1		
Net Profit Margins	(185.4)	(2.7)	9.0		

Source of all data: Company, DBS Bank

Historical PB band



Source: Bloomberg Finance L.P., DBS Bank estimates

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Segmental Breakdown

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenues (\$m)					
Property devt	1,137	966	1,254	1,475	1,365
Rental income	438	361	873	314	320
Hotel operations	1,705	640	341	748	1,348
Others	149	141	157	157	157
Total	3,429	2,108	2,626	2,693	3,190
Pre-tax Profit (\$m)					
Property devt	224	(740)	245	306	283
Rental income	304	(575)	24.3	100	102
Hotel operations	(6.6)	(573)	(71.1)	111	199
Others	232	(773)	102	(89.4)	(83.0)
Total	754	(2,662)	300	428	502
Pre-tax Profit Margins					
Property devt	19.7	(76.6)	19.5	20.8	20.8
Rental income	69.4	(159.1)	2.8	32.0	32.0
Hotel operations	(0.4)	(89.5)	(20.8)	14.8	14.8
Others	156.1	(550.0)	65.2	(56.9)	(52.8)
Total	22.0	(126.2)	11.4	15.9	15.7

Income Statement (\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	3,429	2,108	2,626	2,693	3,190
Cost of Goods Sold	(1,790)	(1,279)	(1,648)	(1,442)	(1,779)
Gross Profit	1,638	829	978	1,252	1,411
Other Opng (Exp)/Inc	(1,107)	(1,069)	(656)	(673)	(797)
Operating Profit	531	(230)	322	579	614
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	196	(856)	107	72.0	70.9
Net Interest (Exp)/Inc	(96.2)	(93.4)	(202)	(223)	(184)
Exceptional Gain/(Loss)	123	(612)	0.0	779	0.0
Pre-tax Profit	754	(1,791)	228	1,206	502
Tax	(141)	(87.7)	(87.9)	(263)	(86.2)
Minority Interest	(48.8)	(38.9)	(42.2)	(37.7)	(41.6)
Preference Dividend	(12.9)	(12.9)	(12.9)	(12.9)	(12.9)
Net Profit	552	(1,930)	84.8	893	361
Net Profit before Except.	429	(1,318)	84.8	114	361
EBITDA	1,004	(798)	707	928	963
Growth					
Revenue Gth (%)	(18.8)	(38.5)	24.5	2.6	18.4
EBITDA Gth (%)	(20.3)	nm	nm	31.3	3.7
Opg Profit Gth (%)	(45.6)	(143.2)	(240.1)	79.8	6.2
Net Profit Gth (Pre-ex) (%)	(30.4)	nm	nm	34.4	217.1
Margins & Ratio					
Gross Margins (%)	47.8	39.3	37.2	46.5	44.2
Opg Profit Margin (%)	15.5	(10.9)	12.3	21.5	19.3
Net Profit Margin (%)	16.1	(91.6)	3.2	33.1	11.3
ROAE (%)	5.4	(20.3)	1.0	10.1	3.9
ROA (%)	2.5	(8.2)	0.4	3.7	1.5
ROCE (%)	2.1	(1.1)	0.9	2.1	2.3
Div Payout Ratio (%)	26.3	N/A	128.4	12.2	30.1
Net Interest Cover (x)	5.5	(2.5)	1.6	2.6	3.3

Source: Company, DBS Bank

City Developments

Interim Income Statement (S\$m)

FY Dec	2H2019	1H2020	2H2020	1H2021	2H2021
Revenue	1,832	1,073	1,036	1,192	1,434
Cost of Goods Sold	(965)	(626)	(653)	(775)	(873)
Gross Profit	867	446	382	417	561
Other Oper. (Exp)/Inc	(328)	(125)	(455)	(91.2)	(63.2)
Operating Profit	230	61.7	(301)	76.4	246
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	89.8	(12.6)	(833)	51.7	55.8
Net Interest (Exp)/Inc	(56.3)	(35.4)	(57.9)	(118)	(83.3)
Exceptional Gain/(Loss)	0.0	0.0	(612)	0.0	0.0
Pre-tax Profit	264	13.8	(1,804)	9.75	218
Tax	(44.6)	(13.4)	(74.3)	(28.5)	(59.5)
Minority Interest	(16.5)	2.75	(41.6)	(13.4)	(28.8)
Net Profit	203	3.14	(1,920)	(32.1)	130
Net profit bef Except.	203	3.14	(1,308)	(32.1)	130
EBITDA	320	49.2	(1,135)	128	301

Growth

Revenue Gth (%)	14.8	(41.4)	(3.5)	15.1	20.3
EBITDA Gth (%)	(39.6)	(84.6)	nm	nm	135.3
Opg Profit Gth (%)	(45.6)	(73.2)	(588.4)	(125.3)	221.6
Net Profit Gth (%)	(44.0)	(98.4)	(61,160.6)	(98.3)	(504.4)

Margins

Gross Margins (%)	47.3	41.6	36.9	35.0	39.1
Opg Profit Margins (%)	12.6	5.8	(29.1)	6.4	17.1
Net Profit Margins (%)	11.1	0.3	(185.4)	(2.7)	9.0

Balance Sheet (S\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	5,462	5,526	5,362	4,703	4,826
Invt in Associates & JVs	1,755	1,793	1,854	2,005	2,155
Other LT Assets	6,148	5,546	4,920	4,920	4,920
Cash & ST Invt	3,573	3,193	2,111	4,845	5,590
Inventory	16.7	10.5	10.8	8.28	10.2
Debtors	822	1,681	1,873	609	722
Other Current Assets	5,424	5,928	7,763	7,179	6,653
Total Assets	23,200	23,677	23,893	24,269	24,875
ST Debt	2,056	2,799	5,188	5,188	5,188
Creditor	1,199	1,349	1,453	808	996
Other Current Liab	523	897	1,261	1,161	984
LT Debt	7,863	8,756	5,952	6,252	6,552
Other LT Liabilities	294	634	707	707	707
Shareholder's Equity	10,520	8,502	8,414	9,197	9,450
Minority Interests	746	740	918	956	998
Total Cap. & Liab.	23,200	23,677	23,893	24,269	24,875
Non-Cash Wkg. Capital	4,541	5,374	6,932	5,827	5,404
Net Cash/(Debt)	(6,346)	(8,361)	(9,029)	(6,595)	(6,151)
Debtors Turn (avg days)	94.6	216.7	247.1	168.2	76.2
Creditors Turn (avg days)	300.4	468.5	373.1	354.4	219.4
Inventory Turn (avg days)	3.6	5.0	2.8	3.0	2.2
Asset Turnover (x)	0.2	0.1	0.1	0.1	0.1
Current Ratio (x)	2.6	2.1	1.5	1.8	1.8
Quick Ratio (x)	1.2	1.0	0.5	0.8	0.9
Net Debt/Equity (X)	0.6	1.0	1.1	0.7	0.7
Net Debt/Equity ex MI (X)	0.6	1.0	1.1	0.7	0.7
Capex to Debt (%)	3.1	(0.6)	0.7	(10.1)	3.4
Z-Score (X)	1.4	1.3	1.4	1.4	1.4

Source: Company, DBS Bank

City Developments

Cash Flow Statement (\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	613	(1,879)	140	428	502
Dep. & Amort.	276	287	278	278	278
Tax Paid	(244)	(76.2)	(100.0)	(363)	(263)
Assoc. & JV Inc/(loss)	(196)	856	(107)	(72.0)	(70.9)
Chg in Wkg.Cap.	276	(159)	814	1,205	600
Other Operating CF	111	615	111	0.0	0.0
Net Operating CF	836	(356)	1,134	1,475	1,045
Capital Exp.(net)	(308)	70.6	(77.9)	1,160	(400)
Other Invt.(net)	(233)	(35.8)	(684)	0.0	0.0
Invt. in Assoc. & JV	(439)	(1,172)	(143)	(100.0)	(100.0)
Div from Assoc & JV	104	42.0	20.7	20.7	20.7
Other Investing CF	(475)	19.4	20.9	0.0	0.0
Net Investing CF	(1,350)	(1,076)	(863)	1,081	(479)
Div Paid	(269)	(190)	(174)	(122)	(122)
Chg in Gross Debt	2,879	1,724	(931)	300	300
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(1,461)	30.2	(173)	0.0	0.0
Net Financing CF	1,149	1,564	(1,277)	178	178
Currency Adjustments	(0.2)	197	(37.1)	0.0	0.0
Chg in Cash	635	329	(1,043)	2,734	744
Opg CFPS (S cts)	61.8	(21.7)	35.3	29.8	49.1
Free CFPS (S cts)	58.3	(31.5)	116	291	71.1

Source: Company, DBS Bank

Target Price & Ratings History (NA)



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
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Note: Share price and Target price are adjusted for corporate actions.

Source: DBS Bank

Analyst: Rachel TAN

Derek TAN

DBS Bank recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

Completed Date: 28 Feb 2022 07:47:19 (SGT)

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