

COMPANY RESULTS

City Developments (CIT SP)

2021: Recovery In Hotel Earnings Likely To Continue Into 2022

CDL swung back to profitability in 2021, reporting PATMI of S\$98m post its Sincere misadventure which dragged down 2020 numbers. The key positives from the result were the hotel segment's earnings recovery and a S\$0.311 distribution for 2021 which includes a distribution in specie of units in CDLHT to its shareholders. Maintain BUY. Target price upgraded to S\$9.20.

2021 RESULTS

Year to 31 Dec, S\$m	2020	2021	Chg %	Remarks
Revenue	2,108	2,626	24.6%	- Strong performance from Singapore property development with hotels returning to profitability in 2H21
Gross profit	829	978	18.0%	
Impairments	-612	-6	99.0%	
Share of profit/(loss) of assoc.	-884	107	112.1%	
Pre-tax profit	-1,791	228	112.7%	
PATMI	-1,917	98	105.1%	
Gross profit margin	39.3%	37.2%	-2.1ppt	
NPAT margin	-90.9%	3.7%	NM	

Source: City Developments Limited, UOB Kay Hian

RESULTS

- Back in black.** City Developments (CDL) reported a 25% increase in revenue to S\$2.6b while at the PATMI level, the company swung back to profitability after its Sincere misadventure in 2020. Nevertheless the company missed our and consensus' estimates due to slightly lower-than-expected revenue and higher-than-expected costs. One of the main highlights of the result was the hotel segment's return to profitability in 2H21, with management reiterating during the analyst briefing its strong belief that the hospitality sector will imminently rebound.
- Distributions aplenty.** CDL proposed a final cash dividend of S\$0.09/share, comprising a S\$0.08 ordinary and a S\$0.01 special dividend, as well as a distribution in specie (DIS) of CDL Hospitality Trust (CDLHT) units valued at S\$0.191/share. Together with the interim dividend of S\$0.03, this would result in a total distribution of S\$0.311/share for 2021.
- Continued recovery in hotels.** Management stated that there was a marked recovery in the RevPAR for its hotel segment in 3Q and 4Q21, especially in markets where there are big domestic bases. Its US segment saw a 73% yoy increase in 2021 while Europe jumped 129% yoy. In particular, US regional hotels have seen RevPAR approaching or even exceeding their 2019 levels. We believe that all of its markets should see sequential improvement over the course of 2022.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2020	2021	2022F	2023F	2024F
Net turnover	2,108	2,626	2,776	3,021	2,799
EBITDA	(565)	599	831	918	848
Operating profit	(852)	322	525	582	478
Net profit (rep./act.)	(1,898)	85	435	436	333
Net profit (adj.)	(1,985)	98	448	449	346
EPS (S\$ cent)	(218.8)	10.8	49.4	49.5	38.1
PE (x)	n.m.	66.3	14.4	14.4	18.7
P/B (x)	0.8	0.8	0.8	0.7	0.7
EV/EBITDA (x)	n.m.	30.1	21.7	19.7	21.3
Dividend yield (%)	1.7	1.3	1.3	1.3	1.4
Net margin (%)	(90.0)	3.2	15.7	14.4	11.9
Net debt/(cash) to equity (%)	99.1	107.6	120.9	93.4	69.8
Interest cover (x)	(3.3)	1.4	1.9	2.0	1.7
ROE (%)	n.a.	1.0	5.1	4.9	3.6
Consensus net profit	-	-	567	540	-
UOBKH/Consensus (x)	-	-	0.79	0.83	n.m.

Source: City Developments, Bloomberg, UOB Kay Hian
n.m. : not meaningful; negative P/E, EV/EBITDA reflected as "n.m."

BUY

(Maintained)

Share Price	S\$7.14
Target Price	S\$9.20
Upside	+28.8%
(Previous TP	S\$8.50)

COMPANY DESCRIPTION

CDL is a global real-estate operating company with a geographically-diverse portfolio comprising residences, offices, hotels, serviced apartments, integrated developments and shopping malls.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	CIT SP
Shares issued (m):	906.9
Market cap (S\$m):	6,475.3
Market cap (US\$m):	4,779.9
3-mth avg daily t'over (US\$m):	11.4

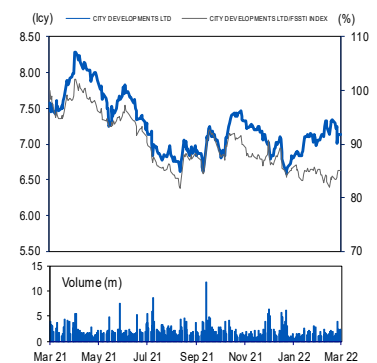
Price Performance (%)

52-week high/low	S\$8.20/S\$6.58			
1mth	3mth	6mth	1yr	YTD
1.6	0.1	2.6	(4.0)	4.8

Major Shareholders

	%
Kwek Hldgs	48.6
FY22 NAV/Share (S\$)	9.30
FY22 Net Debt/Share (S\$)	11.69

PRICE CHART



Source: Bloomberg

ANALYST(S)

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STOCK IMPACT

- Frustration over its share price.** It was clear during the analyst briefing that CDL was, and remains, frustrated regarding its share price which has been in a trading range of S\$6.80-7.80 for the better part of the past 12 months. The executive chairman in particular enunciated a desire to “find a strategy to move forward” so that its market valuation better reflects its “true” RNAV. While a share buyback has been discussed at the board level, it ultimately felt that this is “not the answer” as it would have little effect on its share price.
- Cooling measures.** CDL pointed out that while 2018’s cooling measures dampened sentiment, buying nevertheless resumed within 1-2 quarters; similarly with the Dec 21 cooling measures, it believes that there are genuine home buyers in the mass and mid-market who do not want to overly delay their purchases and thus the market will adapt to the higher stamp duties. In addition, CDL does not believe that its luxury segment will be deterred by the higher taxes. This echoes the sentiment of other market players that we have spoken to.
- CDL’s capex plans for 2022** will mainly focus on its hotels business; however this is not likely to be significant. The greatest single asset that the company will devote capex to will be the Fuji Xerox redevelopment; however, even here it will relate to construction costs. CDL believes that it has more than adequate dry powder given the recent divestment proceeds and recovery in its business segments. In addition, it highlighted the completion and TOP of various Singapore assets over 2022-23 which will lead to an influx of cash.
- UK REIT – still a work in progress with IPO on track for the next 6-12 months.** CDL stated that it is witnessing a strong recovery in London’s office market with its Aldgate asset now nearly 100% leased out (with only the cafe space unoccupied at present) while its 125 Broad St asset has increased its occupancy from low 90s to high 90% in the past few months. In our view, this should provide a solid backdrop for the launch of its UK commercial REIT over the next 6+ months. CDL also stated that it is currently looking to build on-ground property expertise and not manage its own and third-party funds.
- DIS of CDLHT units.** In our view, this is a positive move by CDL as it enables the company to: a) improve its net gearing from 61% to 55% on a pro forma basis, b) recognise an estimated gain of S\$468m, and c) enable the company to unlock further value from its hospitality portfolio through future transactions. Eligible shareholders will receive 0.159 CDLHT units (valued at S\$0.191) for each CDL share held as at Record Date (date to be confirmed), thus allowing CDL shareholders to participate in the hospitality industry’s expected growth trajectory. The DIS appears particularly timely given that it is happening just past the earnings trough as a result of COVID-19.

EARNINGS REVISION/RISK

- Upgrading earnings.** We have upgraded our 2022 earnings by 9% to take into account the resurgence in the hotel segment. Note that our PATMI does not include gains from the sale of investment properties, eg the Seoul Millennium Hilton.

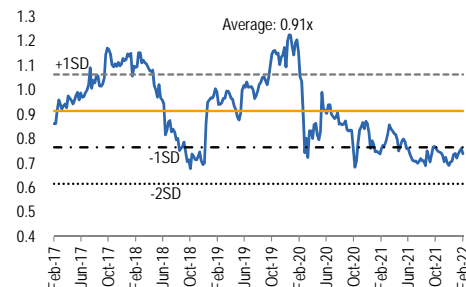
VALUATION/RECOMMENDATION

- We retain our BUY rating on the stock with a higher target price of S\$9.20** (previously S\$8.50). While our RNAV has risen slightly to S\$13.70/share (previously S\$13.50), we have lowered our discount to RNAV to 30% to reflect our confidence that much of the company’s assets, particularly in the office and hotel segments, are well on the path towards recovery and higher profitability. We note that CDL disclosed during its 1H21 results briefing that its RNAV (excluding revaluation of its hotel portfolio) was S\$15.70/share as at end-21.

SHARE PRICE CATALYST

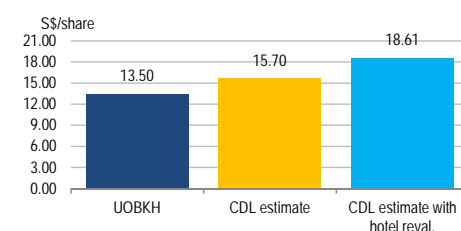
- Continued economic recovery from COVID-19, especially resumption of leisure and business travel; IPO of UK commercial assets.

5-YEAR P/B



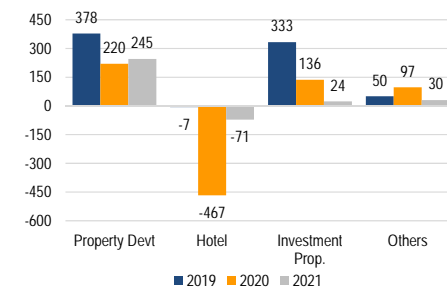
Source: Bloomberg, UOB Kay Hian

UOBKH RNAV ESTIMATE VS CDL



Source: UOB Kay Hian, CDL

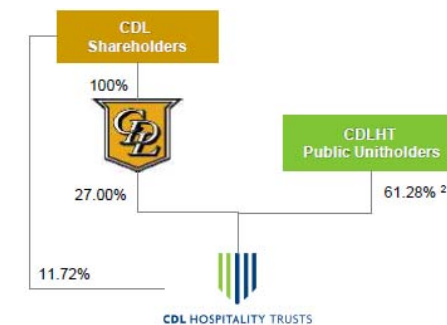
PRE-TAX PROFIT BY SEGMENT (\$M)



Note: 2020 pre-tax profit excludes net loss from Sincere

Source: CDL

OWNERSHIP OF CDLHT POST DISTRIBUTION IN SPECIE



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (\$Sm)	2021	2022F	2023F	2024F
Net turnover	2,626	2,776	3,021	2,799
EBITDA	599	831	918	848
Deprec. & amort.	278	305	336	369
EBIT	322	525	582	478
Total other non-operating income	0	0	0	0
Associate contributions	107	272	258	144
Net interest income/(expense)	(202)	(190)	(232)	(135)
Pre-tax profit	228	608	608	487
Tax	(88)	(109)	(109)	(93)
Minorities	(42)	(50)	(50)	(49)
Preferred dividends	(13)	(13)	(13)	(13)
Net profit	85	435	436	333
Net profit (adj.)	98	448	449	346

BALANCE SHEET

Year to 31 Dec (\$Sm)	2021	2022F	2023F	2024F
Fixed assets	5,362	5,134	4,876	4,585
Other LT assets	6,774	6,974	6,997	7,060
Cash/ST investment	2,083	1,142	2,942	4,728
Other current assets	9,674	11,646	10,208	8,757
Total assets	23,893	24,897	25,024	25,130
ST debt	5,188	6,188	6,111	5,917
Other current liabilities	2,714	2,714	2,714	2,714
LT debt	5,952	5,552	5,352	5,352
Other LT liabilities	707	707	707	707
Shareholders' equity	8,414	8,767	9,121	9,372
Minority interest	918	968	1,018	1,067
Total liabilities & equity	23,893	24,897	25,024	25,130

CASH FLOW

Year to 31 Dec (\$Sm)	2021	2022F	2023F	2024F
Operating	1,134	(751)	2,246	2,206
Pre-tax profit	140	498	499	395
Tax	0	0	0	0
Deprec. & amort.	278	305	336	369
Associates	(107)	(272)	(258)	(144)
Working capital changes	814	(1,473)	1,438	1,451
Non-cash items	0	0	0	0
Other operating cashflows	11	190	232	135
Investing	(863)	83	(58)	(39)
Capex (growth)	(271)	(200)	(300)	(400)
Capex (maintenance)	0	0	0	0
Investments	(635)	(78)	(78)	(78)
Proceeds from sale of assets	0	0	0	0
Others	42	361	320	439
Financing	(1,277)	(273)	(388)	(381)
Dividend payments	(186)	(95)	(95)	(95)
Issue of shares	0	0	0	0
Proceeds from borrowings	0	0	0	0
Loan repayment	(378)	(400)	(200)	0
Others/interest paid	(713)	222	(93)	(287)
Net cash inflow (outflow)	(1,006)	(941)	1,800	1,786
Beginning cash & cash equivalent	3,127	2,083	1,142	2,942
Changes due to forex impact	(37)	n.a.	n.a.	n.a.
Ending cash & cash equivalent	2,083	1,142	2,942	4,728

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	22.8	29.9	30.4	30.3
Pre-tax margin	8.7	21.9	20.1	17.4
Net margin	3.2	15.7	14.4	11.9
ROA	0.4	1.8	1.7	1.3
ROE	1.0	5.1	4.9	3.6
Growth				
Turnover	24.5	5.7	8.8	(7.4)
EBITDA	n.a.	38.6	10.4	(7.6)
Pre-tax profit	n.a.	166.8	0.1	(19.9)
Net profit	n.a.	413.6	0.1	(23.6)
Net profit (adj.)	n.a.	359.0	0.1	(22.9)
EPS	n.a.	359.0	0.1	(22.9)
Leverage				
Debt to total capital	54.4	54.7	53.1	51.9
Debt to equity	132.4	133.9	125.7	120.2
Net debt/(cash) to equity	107.6	120.9	93.4	69.8
Interest cover (x)	1.4	1.9	2.0	1.7

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