



City Developments Limited

Promising turnaround

SINGAPORE | REAL ESTATE | RESULT

14 March 2022

- FY21 revenue of S\$2,626mn (+24.5% YoY) formed 106% of our forecast but PATMI underperformed due to higher-than-expected taxes, excluding which, performance would have been in line with our forecasts.
- PATMI in the black due to strong residential sales and recovery in the hospitality segment, which has turned EBITDA positive. CDL moved 2,185 units in FY21, exceeding our sales forecast of 1,600 units.
- Proposed DPS of 31.1 Scts (FY20: 12 Scts), comprising 12 Scts in cash and a surprise distribution in specie of CDL Hospitality Trust (CDREIT SP, not rated) valued at 19.1 Scts.
- Maintain BUY and RNAV-derived TP S\$9.19 (35% discount). We view CDL as proxy for the Singapore residential market and hospitality recovery play. CDL is trading at an attractive 48% discount to our RNAV/share of S\$14.14. Asset monetisation, unlocking value through AEs and redevelopments, and faster-than-expected recovery in hospitality portfolio are potential catalyst for CDL, which could help narrow the discount between CDL's share price and RNAV.

BUY (Maintained)

LAST DONE PRICE	SGD 7.29
FORECAST DIV	SGD 0.15
TARGET PRICE	SGD 9.19
TOTAL RETURN	28.2%

COMPANY DATA

BLOOMBERG CODE:	CIT SP Equity
O/S SHARES (MN) :	907
MARKET CAP (USD mn / SGD mn) :	4852 / 6611
52 - WK HI/LO (SGD) :	8.3 / 6.52
3M Average Daily T/O (mn) :	2.09

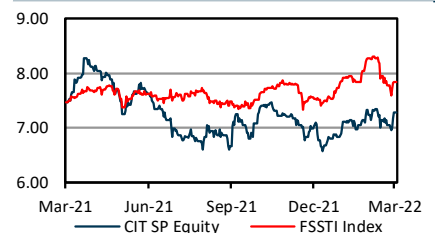
MAJOR SHAREHOLDERS (%)

HONG LEONG INVESTMENT HOLDINGS	17.2%
DAVOS INVESTMENT HOLDINGS	16.4%
ABRDN PLC	5.0%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	0.7	4.3	7.0
STI RETURN	(5.2)	4.0	4.2

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, SGD mn	FY20	FY21	FY22e	FY23e
Revenue	2,108	2,626	3,191	2,855
Gross Profit	829	978	1,448	1,220
EBIT	(852)	322	1,168	544
EPS (SGD)	(2.13)	0.09	0.74	0.53
DPS (SGD)	0.12	0.12	0.15	0.15
P/E (x)	-4.1	93.5	11.7	16.4
P/BV (x)	0.8	0.8	0.8	0.7
Div Yield	1.4%	1.4%	1.7%	1.7%
ROE	-20.3%	1.5%	10.0%	4.8%

Source: Company Data, Bloomberg

Valuation Method

RNAV

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Results at a glance

(SGD mn)	FY21	FY20*	YoY	Comments
Gross revenue	2,625.9	2,108.4	24.5%	Mainly due to higher revenue from property devt and hotel segments
Gross profit	997.7	828.9	20.4%	Gross profit margin compressed from 39% to 37% due to thinner margins from SG property devt segment
Operating profit	321.9	(93.4)	n.m.	
PBT	227.7	(14.0)	n.m.	
- Property Devt	245.0	220.0	11.4%	Due to timing of income recognition, boosted by negative goodwill of \$26mn for acquisition of Tusincere and lower allowance for foreseeable losses of \$6mn in FY21 (FY20: \$36mn)
- Hotel Ops	(71.0)	(467.0)	-84.8%	RevPAR +49% YoY due to stronger recovery in 2H21 and \$96mn write back of impairments in FY21 vs \$87mn in impairments recognised in FY20
- Investment Pty	24.0	136.0	-82.4%	Lower divestment gains of \$5.7mn for Mille Malle in FY21 vs \$117.1mn for Novotel CQ in FY20 and lower profit from Juncyelon and Fuji Xerox which were closed since Mar21 and 1H21
- Others	30.0	97.0	-69.1%	Lower due to absence of \$26mn in divestment gains in FY21 and lower JSS grants of \$6mn received in FY21 (FY20: \$20mn)
PATMI	97.7	(1,917.4)	n.m.	

Source: Company, PSR

Note: *FY20 PBT breakdown excludes Sincere writedowns and impairments

The Positives

- Highest number of residential sales in 10 years.** CDL sold 2,185 units in Singapore with total sales value of S\$4.3bn in FY21. This was 66% and 131% higher than FY20's 1,318 units and total sales value of S\$1.8bn and surpassed our FY21 sales estimate of 1.6k units. This was attributed to strong take-up at two projects, Irwell Hill Residence and Canning Hill Piers, which were launched in FY21 and are presently 77% and 86% sold. However, due to higher land and development cost for newer projects, PBT margin for the development segment compressed from 23% to 22%.
- Hotel segment turned EBITDA positive.** RevPAR jumped 49% YoY, with significant pick-up observed in 2Q/3Q21. Portfolio occupancy improved YoY from 38.6% to 51.0%,

widening gross operating margin from 3.7% to 21.8% (2019: 39%). Hotels in US and Europe recovered faster than those in Asia and Australia which experience longer periods of lockdowns and restrictions. Hospitality EBITDA still 40% below 2019 levels. More recovery expected as travel returns.

- + **Opportunistic divestment of Millennium Hilton Seoul and Tanglin Shopping Centre.** CDL signed a Sale and Purchase Agreement (SPA) to divest Millennium Hilton Seoul for S\$1.25bn on 24 Dec 2021. The sales was completed on 24 Feb 2022 with significant divestment gain of S\$528.8mn to be booked in FY22. CDL also launched a public tender for Tanglin Shopping Centre in December 2021, which closed on 22 February 2022 with a top bid of S\$868mn or S\$2,769 psf ppr. CDL owns 60% of NLA in this strata-titled property and we estimate this could unlock c.S\$280mn in divestment proceeds for the group, which will be booked in FY22.

The Negative

- Listing of UK commercial REIT delayed. The listing of a UK commercial REIT, of which CDL would be the co-sponsor, was intended for 2021 but did not materialise. The management intends to continue the listing process. While the delay in listing was a setback, occupancy of the two assets that will be injected into the REIT, 125 Old Broad Street and Aldgate House, has improved. This should strengthen the initial portfolio for the upcoming UK Commercial REIT. As per our estimates, assuming a 20-25% stake for CDL, the injection of 125 Old Broad Street and Aldgate House into a 38%-geared S\$3.5bn SREIT portfolio could unlock S\$526-633mn for the group.

Outlook

Healthy inventory levels allow for more conservative bidding

Three residential launches totalling 1,291 units are in the pipeline for 2022. CDL also picked up two more sites which will add 1,048 units to the pipeline, bringing unsold inventory to 3,047 as at 31 Dec 2021. CDL's inventory levels are healthy, allowing it to be more selective and conservative when bidding for new sites. The site at Upper Bukit Timah Road was purchased in an off-market deal from Tan Chong Realty for S\$126.3mn or S\$603 psf and could yield 603 units. On 26 Jan 2022, CDL won the tender for the Jalan Tembusu GLS with a bid of S\$589.9mn or S\$1,302 psf, adding 640 units to the pipeline. Given the higher land prices and cost of construction, CDL is aiming for margins of at least 10% for new projects.

Unlocking value through strategic redevelopments

CDL entered into a put and call option agreement with Far East Hospitality REIT (FEHT SP, not rated) to acquire Central Square, a 99-year leasehold commercial and residential development, with a remaining lease tenure of approximately 72 years, for S\$315mn. Central Square is adjacent to CDL's Central Mall. The purchase of Central Square is expected to be completed in Mar22. The enlarged site, comprising Central Mall's office component, Central Mall conservation shophouses and Central Square, will be redeveloped under URA's Strategic Development Incentive Scheme, yielding a GFA uplift of 67%, from 441,650 sq ft presently to 735,00 sq ft. The proposed mixed-use development will comprise commercial, hotel and service apartment components, subject to CDL getting planning approval for residential use. Phased completion for this redevelopment is expected in 2027.

City House, which is located along Robinson Road and Cross Street, falls under the CBD Incentive Scheme, which could potentially unlock additional GFA. Similar to the Fuji Xerox redevelopment, the redeveloped site could benefit from GFA uplift if CDL decides to undertake the redevelopment to convert the assets into a mixed-use development. The management is currently evaluating the merits of undertaking a redevelopment and has not announced any plans presently.

Distribution in Specie hints at more active recycling of hospitality assets

CDL has proposed distribution in specie (DIS) of CDLHT valued at 19.1 Scts, allowing shareholders to take part in the recovery of the hospitality sector. The DIS will reduce

CDL's stake in CDLHT from 38.7% to 27%, resulting in a deconsolidation of CDLHT. CDL will recognise an estimated accounting gain of c.S\$467.5mn on the deconsolidation of CDLHT and gearing will improve from 61% to 55% on a pro forma basis. The deconsolidation will allow CDL to recognise gains on any future sale of assets to CDLHT should the transaction value exceed the carrying book value of the assets while allowing unitholders to benefit from the recovery in the hospitality sector. This could be the start of more active recycling of hospitality assets to CDLHT. The DIS will be subjected to shareholder approval during the AGM on 28 April 2022.

Maintain BUY and RNAV TP of S\$9.19

We view CDL as proxy for the Singapore residential market and hospitality recovery play. While land prices have trended up in recent years, redevelopment and off-market purchases should provide better margins, allowing to replenish its inventory and participate in the peaking Singapore residential market. CDL is trading at an attractive 48% discount to our RNAV/share of S\$14.14. Asset monetisation, unlocking value through AEs and redevelopments, and faster-than-expected recovery in hospitality portfolio are potential catalyst for CDL, which could help narrow the discount between CDL's share price and RNAV.

Figure 1: RNAV table

Segment	Location	RNAV (S\$m)	Per share (S\$)		
Residential	SG Surplus	1,663	1.83		
	Overseas Surplus	460	0.51		
	SG+Overseas NAV	5,889	6.49		
Office	SG	2,775	3.06		
Hotels/SRs	SG + Overseas	7,954	8.77		
Retail	SG	734	0.81		
Industrial	SG	327	0.36		
Commercial	Overseas	2,736	3.02		
Stakes in listed entities:					
	<u>Stake</u>	<u>TP/Consenses (S\$)</u>	<u>Shares (mn)</u>		
CDL Hospitality Trust	39%	1.20	1,231	576	0.64
IREIT Global REIT	21%	0.75	1,155	182	0.20
First Sponsor Group	36%	1.56	924	519	0.57
Total GAV				23,815	26.26
Net cash/(debt)				(10,988)	(12.12)
RNAV:				12,827	14.14
No. of shares (mn)				906.9	
RNAV per share (S\$)				14.14	
Discount to RNAV				35%	
Target Price (S\$)				9.19	

Source: Company, PSR

Financials

Income Statement

Y/E Dec, SGD mn	FY19	FY20	FY21	FY22e	FY23e
Revenue	3,429	2,108	2,626	3,191	2,855
Gross Profit	1,638	829	978	1,448	1,220
Depreciation & Amortisation	276	287	278	232	231
EBIT	654	(852)	322	1,168	544
Net Finance (Expense)/Inc	(96)	(93)	(202)	(187)	(182)
Associates & JVs	196	(846)	107	214	248
Profit Before Tax	754	(1,791)	228	1,195	610
Taxation	(141)	(88)	(88)	(214)	(126)
Profit After Tax	613	(1,879)	140	981	484
Non-Controlling Interest	49	39	64	308	4
Net Income, reported	613	(1,879)	140	981	484

Per share data (SGD)

Y/E Dec, SGD	FY19	FY20	FY21	FY22e	FY23e
EPS, reported	0.61	-2.13	0.09	0.74	0.53
DPS	0.20	0.12	0.12	0.15	0.15
BVPS	11.60	9.38	9.28	9.45	9.77

Cash Flows

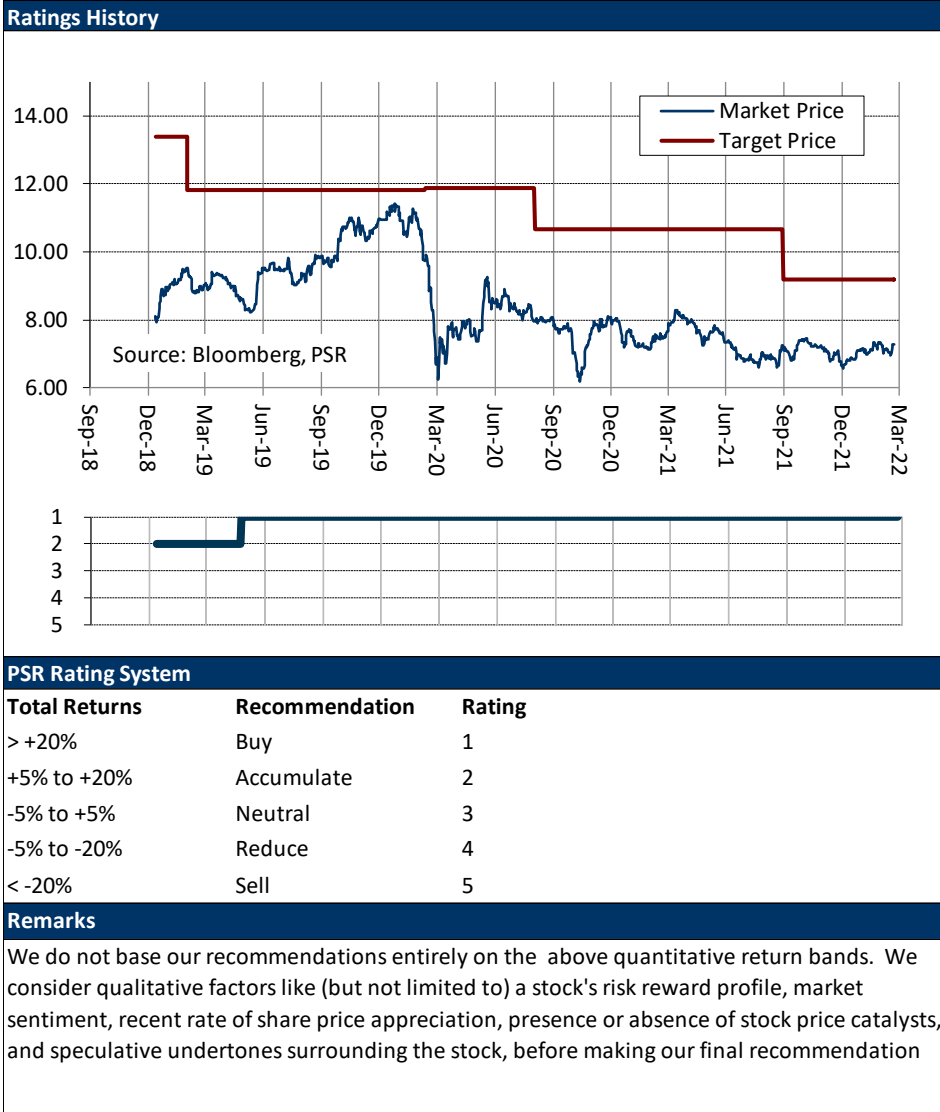
Y/E Dec, SGD mn	FY19	FY20	FY21	FY22e	FY23e
CFO					
Profit for the year	613	(1,879)	140	981	484
Adjustments	50	2,091	193	(329)	159
WC changes	276	(581)	814	708	(89)
Cash generated from ops	1,080	(280)	1,234	1,573	680
Taxes paid, others	(244)	(76)	(100)	(214)	(126)
Cashflow from ops	836	(356)	1,134	1,359	554
CFI					
CAPEX, net	(204)	154	(78)	1,236	(207)
Cashflow from investments	(1,350)	(1,076)	(863)	170	(791)
CFF					
Dividends paid	(269)	(190)	(174)	(136)	(136)
Cashflow from financing	1,149	1,564	(1,277)	(1,098)	(413)
Net change in cash	636	131	(1,006)	432	(650)
Effects of exchange rates	(8)	34	(5)	-	-
CCE, end	2,790	2,955	1,944	2,376	1,727

Balance Sheet

Y/E Dec, SGD mn	FY19	FY20	FY21	FY22e	FY23e
ASSETS					
PPE	5,462	5,526	5,362	5,340	5,316
Associates & JVs	1,755	1,793	1,856	2,470	3,112
Investment Properties	4,410	4,569	3,997	4,717	4,952
Others	1,738	977	923	1,088	1,093
Total non-current assets	13,366	12,865	12,138	13,614	14,473
Development property	5,156	5,391	5,839	5,889	5,939
Accounts Receivables	822	1,681	1,873	765	685
Cash balance	2,798	3,127	2,083	2,515	1,866
Others	1,059	613	1,961	515	515
Total current assets	9,834	10,812	11,757	9,685	9,005
Total Assets	23,200	23,677	23,895	23,299	23,477
LIABILITIES					
Short term loans	2,038	2,799	5,188	478	1,504
Accounts Payables	1,199	1,349	1,453	1,116	998
Others	540	867	1,261	1,248	1,246
Total current liabilities	3,777	5,014	7,902	2,841	3,748
Long term loans	7,673	8,756	5,952	9,972	8,946
Others	483	634	707	697	715
Total non-current liabilities	8,156	9,390	6,659	10,669	9,661
Total Liabilities	11,934	14,404	14,561	13,510	13,409
EQUITY					
Shareholder Equity	10,520	8,502	8,414	8,573	8,859
Non-controlling interest	746	740	918	1,216	1,210
Total Equity	11,267	9,272	9,334	9,789	10,068

Valuation Ratios

Y/E Dec, SGD mn	FY19	FY20	FY21	FY22e	FY23e
P/E (X), adj.	14.30	-4.08	93.47	11.71	16.41
P/B (X)	0.63	0.78	0.79	0.77	0.75
Dividend Yield	2.3%	1.4%	1.4%	1.7%	1.7%
Growth & Margins (%)					
Growth					
Revenue	-18.8%	-38.5%	24.5%	21.5%	-10.5%
EBIT	-27.7%	-230.2%	-137.8%	262.9%	-53.4%
Net Income	-7.2%	-406.3%	-107.4%	601.3%	-50.6%
Margins					
EBIT margin	19.1%	-40.4%	12.3%	36.6%	19.0%
Net Profit Margin	17.9%	-89.1%	5.3%	30.7%	17.0%
Key Ratios					
ROE (%)	5.4%	-20.3%	1.5%	10.0%	4.8%
ROA (%)	2.6%	-7.9%	0.6%	4.2%	2.1%
Gearing (x)	0.61	0.91	0.97	0.81	0.85



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