

14 August 2014

City Development Ltd

No reason to doubt

Core earnings remain strong! - Accumulate

SINGAPORE | REAL ESTATE | 2Q14 Results

- CDL reported 2Q14 revenue of S\$861.1 mil (+5.9% y-o-y), PATMI of S\$137.9 mil (-32.8% y-o-y). Focusing on its core earnings, and excluding divestment gains in 2Q2013, PATMI represented 89.7% y-o-y gain.
- Current gearing remains low at ~33%, allows for new value accretive real estate deals.
- Maintain "Accumulate" rating, with optimistic outlook on future deals, a TP of S\$11.26 based on 30% discount to RNAV S\$16.08.

The property development segment remains the largest contributor of the Group's pre-tax profits, at S\$85.3M. CDL saw revenue from this segment increase +7.9% y-o-y and pre-tax profit showed 38.4% increment over 2Q2013. This was due to profit contribution from ongoing joint venture projects. There was no mention of any maiden contribution of new projects.

Profits from top-selling Coco Palms and Commonwealth Towers have yet to be recognised as were those from three fully sold Executive Condo. Coco Palms is a resort-inspired 944-units condo (780 units launched / 670 units sold - bestselling project May & June'14). Commonwealth Towers is a dual tower, 845-units condo, located within stone throw of Queenstown MRT station (400 units launched / 304 units sold).

Hotel segment undergo harsh market conditions including "geopolitical events" which particularly impacted Asian markets. Higher operating costs and ongoing refurbishments resulted in lower room inventory and higher depreciation. Nonetheless, hotel operations, primarily from Millennium & Copthorne Hotels, form the next highest contributor to earnings. Profit before tax streaming from Hotels increased 3.5% y-o-y.

Net gearing ratio remains low at 33%. Additionally, CDL's books do not include the valuations surplus on investment properties. Factoring in our estimates of the valuation, we reckon that CDL "true" net gearing stands at c.22%.

How do we view this

CDL's 2Q14 results were largely in line with our estimates. Earnings from core operations are back on a healthy growth profile. Top line revenue contribution from its property segment recovered, better operation controls allowed it to deliver a strong rebound in profits. We expect healthy take-up rate for its upcoming residential launches. Additionally, there may be a potential spike in its revenue and earnings, when EC projects are completed. The hotel segment remained resilient in the midst of recent unfortunate events. The company possesses a strong balance sheet, with S\$3.4B cash and low gearing ratio of 0.33x. We expect CDL to secure more value accretive projects/acquisitions in FY2014 and beyond.

Investment Action

We maintain "Accumulate" rating, with an optimistic outlook on future value accretive real estate acquisitions. We value CDL at TP of S\$11.26.

Results at a glance

| (SGD mn) | 2Q14 | 2Q13 | y-y (%) | 1Q14 | q-q (%) | Comments |
|----------|-------|-------|---------|-------|---------|-------------------------------------|
| Revenue | 861.1 | 813.5 | 5.9% | 734.2 | 17.3% | Higher revenue from core activities |
| EBITDA | 258.5 | 348.0 | -25.7% | 221.2 | 16.8% | Lack of divestment gains |
| EBIT | 210.6 | 302.4 | -30.3% | 175.0 | 20.4% | Lack of divestment gains |
| PATMI | 137.9 | 137.7 | 0.1% | 119.7 | 15.2% | |



Rating: **Accumulate**
Accumulate at S\$11.26

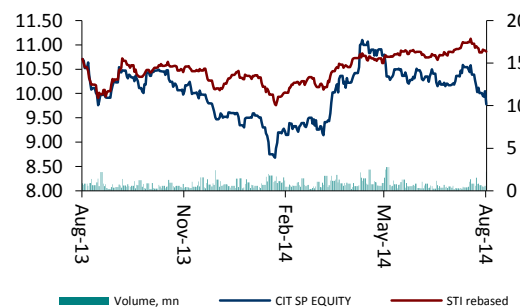
Target Price (SGD) 11.26
Forecast Dividend (SGD) 0.19
Closing Price (SGD) 9.78
Potential Upside 17.1%

Company Description

Incorporated in 1963, City Developments Ltd is a leading residential developer. CDL has built over 15,000 fine homes since 1963. It is also one of Singapore's biggest commercial landlords with more than 30 prime commercial buildings. With a stable of 101 hotels, the CDL Group is a leading hotel owner and operator. Its portfolio includes the Millennium, Copthorne and Kingsgate chains of hotels.

Company Data

Raw Beta (Past 2yrs weekly data) 1.23
Market Cap. (USD mn / SGD mn) 7139 / 8893
3M Average Daily T/O (mn) 0.7
Closing Px in 52 week range 8.60 - 11.18



Major Shareholders

| | (%) |
|----------------------------------|------|
| 1. Hong Leong Holdings | 16.4 |
| 2. Hong Leong Investment Holding | 15.4 |
| 3. Aberdeen | 12.9 |

Valuation Method

RNAV

Analyst

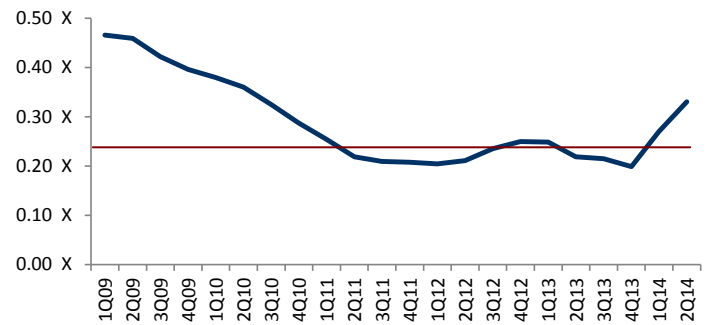
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Key Financial Summary

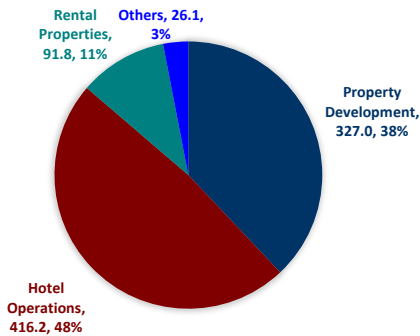
| FYE Dec | FY11 | FY12 | FY13 | FY14F | FY15F |
|---------------------|------|-------|-------|-------|-------|
| Revenue (SGD mn) | 799 | 3,354 | 3,162 | 3,352 | 3,309 |
| NPAT, adj. (SGD mn) | 799 | 678 | 683 | 686 | 753 |
| EPS, adj. (SGD) | 0.84 | 0.71 | 0.72 | 0.72 | 0.79 |
| P/E (X),adj. | 12.3 | 15.5 | 15.0 | 14.9 | 13.6 |
| BVPS (SGD) | 7.51 | 5.97 | 8.63 | 8.90 | 9.21 |
| P/B (X) | 1.4 | 1.8 | 1.2 | 1.2 | 1.2 |
| DPS (SGD) | 0.18 | 0.12 | 0.16 | 0.19 | 0.21 |
| Div. Yield (%) | 1.7% | 1.1% | 1.5% | 1.8% | 1.9% |

Source: Company Data, PSR est.

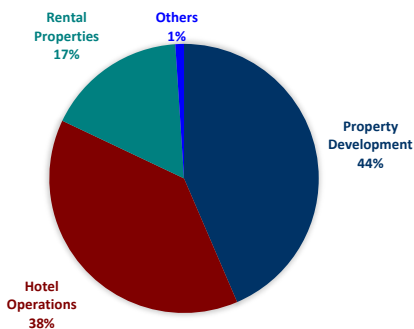
Gearing Ratio



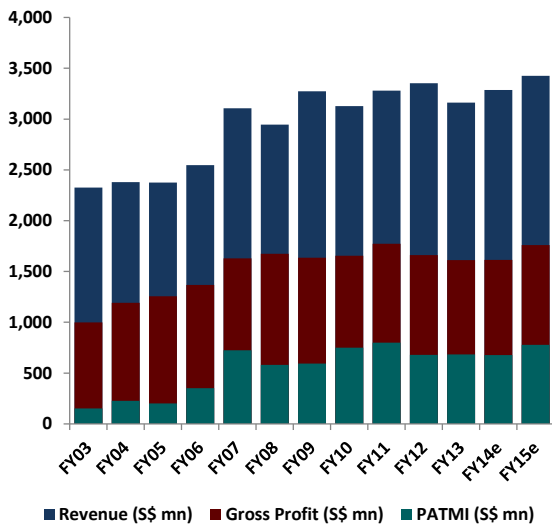
Segment - Revenue



Segment - Profit before Tax



Revenue, PATMI - Forecast



RNAV - Base Case

| | | Total | Per Share | Percentage |
|----------------------------|--------|----------|-----------|------------|
| Resi | SG | 4,756 M | 5.2 | 28% |
| | Global | 226 M | 0.2 | 1% |
| Hotels | Global | 3,099 M | 3.4 | 18% |
| Office | SG | 5,043 M | 5.5 | 30% |
| | Global | 627 M | 0.7 | 4% |
| Retail | SG | 2,618 M | 2.9 | 16% |
| | Global | 216 M | 0.2 | 1% |
| Others | Global | 283 M | 0.3 | 2% |
| Total GAV | | 16,869 M | 18.6 | |
| add cash: | | 2,871 M | 3.2 | |
| Less Debt | | -4,826 M | -5.3 | |
| RNAV | | 14,914 M | 16.4 | |
| No. of shares | | 909 M | | |
| Target Price | 30% | 10,440 M | 11.48 | |
| (30% discount to RNAV) | | | | |
| Premium over current price | | | | 17.28% |

| FYE Dec | FY11 | FY12 | FY13 | FY14F | FY15F |
|----------------------------------|--------------|------------|------------|------------|------------|
| Income Statement (SGD mn) | | | | | |
| Revenue | 3,280 | 3,354 | 3,162 | 3,352 | 3,309 |
| EBITDA | 1,261 | 1,069 | 1,018 | 1,029 | 1,103 |
| Depreciation & Amortisation | -133 | -148 | -148 | -148 | -148 |
| EBIT | 1,127 | 920 | 870 | 881 | 954 |
| Net Finance (Expense)/Inc | -53 | -40 | -45 | -48 | -37 |
| Other items | 0 | 0 | 0 | 0 | 0 |
| Associates & JVs | 62 | 80 | 68 | 67 | 70 |
| Exceptional items | 0 | 0 | 0 | 0 | 0 |
| Profit Before Tax | 1,136 | 960 | 892 | 900 | 988 |
| Taxation | -175 | -100 | -69 | -94 | -103 |
| Profit After Tax | 962 | 860 | 823 | 806 | 885 |
| Non-controlling Interest | 163 | 182 | 140 | 120 | 131 |
| Net Income, reported | 799 | 678 | 683 | 686 | 753 |
| Net Income, adj. | 799 | 678 | 683 | 686 | 753 |

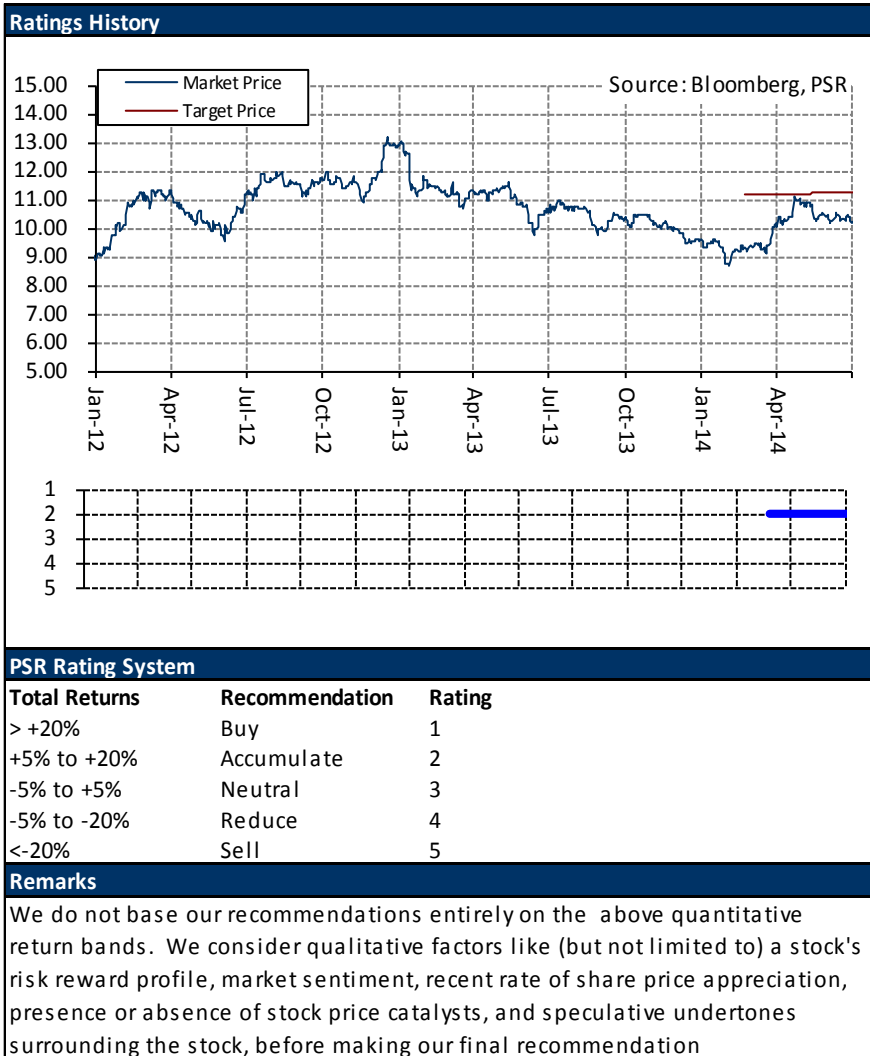
| FYE Dec | FY11 | FY12 | FY13 | FY14F | FY15F |
|-----------------------------|------|------|------|-------|-------|
| Per share data (SGD) | | | | | |
| EPS, reported | 0.86 | 0.73 | 0.74 | 0.74 | 0.81 |
| EPS, adj. | 0.84 | 0.71 | 0.72 | 0.72 | 0.79 |
| DPS | 0.18 | 0.12 | 0.16 | 0.19 | 0.21 |
| BVPS | 7.51 | 5.97 | 8.63 | 8.90 | 9.21 |

| FYE Dec | FY11 | FY12 | FY13 | FY14F | FY15F |
|-------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Cashflow Statements (SGD mn) | | | | | |
| CFO | | | | | |
| PBT | 1,136 | 960 | 892 | 900 | 988 |
| Adjustments | -83 | -18 | -41 | -166 | -180 |
| WC changes | 91 | -673 | -176 | 531 | 290 |
| Cash generated from ops | 1,145 | 269 | 676 | 1,265 | 1,098 |
| Others | -162 | -204 | -135 | -94 | -103 |
| Cashflow from ops | 983 | 65 | 541 | 1,172 | 995 |
| CFI | | | | | |
| CAPEX, net | -195 | -48 | -24 | -114 | -111 |
| Others | 247 | -305 | 238 | 100 | 106 |
| Cashflow from investments | 53 | -353 | 214 | -14 | -5 |
| CFF | | | | | |
| Share issuance | 0 | 0 | 0 | 0 | 0 |
| Loans, net of repayments | -28 | 75 | 85 | 508 | 452 |
| Dividends | -247 | -182 | -251 | -184 | -202 |
| Others | -144 | 47 | -84 | 0 | 0 |
| Cashflow from financing | -419 | -59 | -250 | 324 | 250 |
| Net change in cash | 616 | -347 | 505 | 1,482 | 1,240 |
| Effects of exchange rates | -2 | -14 | 17 | 0 | 0 |
| CCE, end | 2,603 | 2,157 | 2,871 | 4,353 | 5,593 |

Source: Company Data, PSR est

| FYE Dec | FY11 | FY12 | FY13 | FY14F | FY15F |
|--------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Balance Sheet (SGD mn) | | | | | |
| PPE | 3,313 | 3,405 | 3,566 | 3,418 | 3,270 |
| Intangibles | 0 | 0 | 0 | 0 | 0 |
| Associates & JVs | 1,095 | 1,225 | 1,265 | 1,276 | 1,286 |
| Investments | 2,907 | 2,916 | 2,786 | 2,900 | 3,011 |
| Others | 561 | 264 | 193 | 193 | 192 |
| Total non-current assets | 7,877 | 7,810 | 7,811 | 7,786 | 7,759 |
| Development properties | 3,244 | 4,311 | 4,327 | 4,049 | 3,759 |
| Financial assets | 26 | 33 | 37 | 37 | 37 |
| Trade receivables | 1,201 | 1,183 | 1,635 | 1,102 | 1,088 |
| Cash | 2,603 | 2,157 | 2,871 | 4,353 | 5,593 |
| Others | 11 | 115 | 11 | 11 | 11 |
| Total current assets | 7,086 | 7,798 | 8,880 | 9,551 | 10,488 |
| Total Assets | 14,962 | 15,608 | 16,691 | 17,338 | 18,247 |
| Short term loans | 1,477 | 998 | 968 | 718 | 518 |
| Accounts Payables | 982 | 1,034 | 1,313 | 1,034 | 1,020 |
| Others | 361 | 302 | 231 | 231 | 231 |
| Total current liabilities | 2,819 | 2,334 | 2,512 | 1,983 | 1,770 |
| Long term loans | 2,929 | 3,469 | 3,858 | 4,707 | 5,460 |
| Others | 518 | 548 | 492 | 492 | 492 |
| Total non-current liabilities | 3,447 | 4,017 | 4,350 | 5,199 | 5,952 |
| Non-controlling interest | 1,869 | 1,953 | 1,983 | 2,061 | 2,146 |
| Shareholder Equity | 6,827 | 7,304 | 7,845 | 8,095 | 8,379 |

| FYE Dec | FY11 | FY12 | FY13 | FY14F | FY15F |
|---------------------------------|-------|--------|-------|-------|-------|
| Valuation Ratios | | | | | |
| P/E (X), adj. | 12.3 | 15.5 | 15.0 | 14.9 | 13.6 |
| P/B (X) | 1.37 | 1.85 | 1.24 | 1.21 | 1.16 |
| EV/EBITDA (X), adj. | 12.2 | 14.4 | 15.2 | 15.0 | 14.0 |
| Dividend Yield (%) | 1.7% | 1.1% | 1.5% | 1.8% | 1.9% |
| Growth & Margins (%) | | | | | |
| Growth | | | | | |
| Revenue | 4.9% | 2.2% | -5.7% | 6.0% | -1.3% |
| EBITDA | 11.2% | -15.2% | -4.7% | 1.1% | 7.2% |
| EBIT | 13.6% | -18.4% | -5.5% | 1.2% | 8.4% |
| Net Income, adj. | 6.6% | -15.1% | 0.7% | 0.5% | 9.8% |
| Margins | | | | | |
| EBITDA margin | 38.4% | 31.9% | 32.2% | 30.7% | 33.3% |
| EBIT margin | 34.4% | 27.4% | 27.5% | 26.3% | 28.8% |
| Net Profit Margin | 29.3% | 25.7% | 26.0% | 24.0% | 26.7% |
| Key Ratios | | | | | |
| ROE (%) | 12.1% | 9.6% | 9.0% | 8.6% | 9.1% |
| ROA (%) | 5.5% | 4.4% | 4.2% | 4.0% | 4.2% |
| Net Debt/(Cash) | 1,803 | 2,310 | 1,955 | 1,072 | 385 |
| Net Gearing (X) | 20.7% | 25.0% | 19.9% | 10.6% | 3.7% |



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