City Developments Limited

Continued momentum in development sales

SINGAPORE | REAL ESTATE (DEVELOPERS) | RESULTS

11 November 2016

- City Developments' (CDL) share of launched but unsold units in Singapore dropped 13.8% QoQ to 668.3 units as at 3Q16
- Balance sheet continues to be strong with S$3 billion in cash and 27% net gearing

Results at a glance

(S$'mn)	3Q16	3Q15	y-y (%)	Comments
Revenue	**922.8**	**809.3**	**14%**	Mainly due to highly contribution from property development segment
Gross Profit	430.0	413.4	4%	
EBIT	245.3	155.9	57%	Higher operating income from the disposal of City e-Solutions
PATMI	**170.3**	**106.4**	**60%**	

Source: PSR (Singapore) & Company Data

Encouraging take up of units at soft launch of Gramercy Park but not expecting New Futura to be launched in the near term

CDL launched and sold 38 out of 40 units at the 174-unit Gramercy Park at an ASP of S$2,600psf which was within our expectations. Management intends to launch the remaining 134 units at a later date which we believe is likely to be after the overhang of unsold units in the Core Central Region ease further. CDL has ample time to launch these units since QC extension fees will only be due in May 2018. Additionally, the Group still has an unlaunched 124-unit development project, New Futura, which is 700 metres away from Gramercy Park. We are of the view that the launch of New Futura could only happen after the adjacent development, OUE Twin Peaks, which still have another 40% unsold units gets more substantially sold.

South Beach Tower retail units are fully leased and hotel operation is slated to commence in January 2017

The 32,000 square feet of retail and 510,000 square feet of office space at its Joint Venture mixed development, South Beach Tower, have been fully leased. Following the re-branding of South Beach Hotel into The JW Marriott Hotel Singapore South Beach, hotel operations are expected to commence in January 2017. Management mentioned that they will "evaluate and review market conditions" to launch the 190-unit South Beach Residences. We are of the view that the launch is unlikely to happen in the near term or at least until there are significant improvements in market conditions considering that CDL is not in a rush to clear these units since mixed developments are not subjected to the clawback of ABSD remissions and CDL has a strong balance sheet to hold onto them.

Sales for China residential projects continue positive momentum

Sales for Hong Leong City Center in Suzhou (CDL's biggest project in China, c.56% of total China projects RNAV) remain buoyant with all 156 units of their Phase 2 Residential Tower launch sold within an hour. Sales of residential projects in Shanghai, Suzhou and Chongqing continue to register y-o-y growth in total floor area sold despite rounds of cooling measures, with majority of cities continuing to see price increases this year. We expect the Group's China projects to continue their positive sales momentum due to their favourable locations and positive macro developments in some of the cities such as Chongqing.

Investment Action

While we pre-empt price cuts in certain development projects, the impact on profitability is limited considering these projects are >50% sold. Overall, we remain optimistic about CDL's property development segment as unsold units continue to move gradually. We also think the pessimism surrounding CCR properties has been overblown as recent transactions suggest slight discounts from current prices is sufficient to bring back a good volume of value investors. We remain confident of the Group's overseas development strategies, especially in China. We maintain our 'Accumulate' rating with an unchanged fair value of S$9.98 based on our FY17 RNAV estimates.

ACCUMULATE (Maintained)

LAST DONE PRICE	SGD 8.60
FORECAST DIV	SGD 0.16
TARGET PRICE	SGD 9.98
TOTAL RETURN	17.9%

COMPANY DATA

O/S SHARES (MN) :	909
MARKET CAP (USD mn / SGD mn) :	5568 / 7820
52 - WK HI/LO (SGD) :	9.24 / 6.55
3M Average Daily T/O (mn) :	1.36

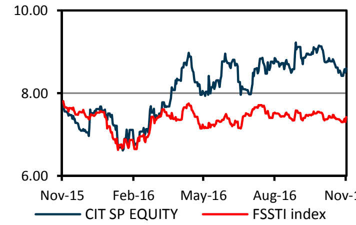
MAJOR SHAREHOLDERS (%)

DAVOS INVESTMENT HOLDINGS	16.4%
HONG LEONG INVESTMENT HLDG	15.4%
ABERDEEN	14.0%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	(6.9)	(2.5)	9.7
STI RETURN	(2.89)	(2.09)	(3.31)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

SGD MN	FY14	FY15	FY16e	FY17e
Revenue	3764	3304	3325	3765
Gross Profit	1632	1656	1473	1565
EBIT	1039	951	763	761
EPS (SGD)	0.83	0.84	0.75	0.75
PER, x (adj.)	12.4	9.2	11.8	11.7
P/BV, x	1.2	0.8	0.8	0.8
DPS (SGD)	0.16	0.16	0.16	0.16
Div Yield, %	1.6%	2.1%	1.8%	1.8%
ROE, %	9.2%	8.6%	5.7%	5.8%

Source: Company Data, PSR est.

Valuation Method

RNAV

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No significant price cuts at Commonwealth Towers and The Venue Residences yet; Expect further price cuts to accelerate unit sales as ABSD due dates are nearing

The average transacted prices at Commonwealth Towers in October 2016 has declined 5.9 percent to S$1,628 per square feet (PSF) from an average year-to-date (YTD) transacted prices of S$1,731 PSF which was within our expectations considering that the additional buyer's stamp duty (ABSD) deadline (February 2018) is approaching and there is currently still a large proportion of units (48%) unsold. We are of the view that CDL is likely to cut prices at Commonwealth Towers after the launch of the adjacent 732-unit development, Queen's Peak. The average transacted prices for the 242 units during the launch at Queen's Peak was S$1,632 PSF which coincides with the average YTD transacted prices at Commonwealth Towers. We expect ASP to fall to a region of S1,550 PSF which translates to a potential development margin of 10.7 percent and add S$0.03 per share to our revalued net asset value (RNAV) while assuming a breakeven cost of S$1,400 PSF.

The average transacted prices at The Venue Residences in October 2016 was up 16.2% month-on-month to S$1,410. We believe that the robust sales and sales volume (c.35% more units sold compared to YTD average) was partly due to the strong demand at the launch of Forest Woods which sold 66% of total units at an ASP of S$1,400 PSF on the first weekend of its launch. However, we are anticipating price cuts at the development in order for sales to accelerate considering that the ABSD deadline is in September 2017, and there are currently another 97 units (36.5%) remaining unsold. We are of the view that ASP cuts are unlikely to be significant as the take up rate for new units within the area is gradual but far from muted. In spite of this, we continue to maintain our assumption of an ASP of S$1,300 PSF (development margin: 13%) which will potentially add S$0.02 to our RNAV estimates, and believe that the assumed ASP is a conservative estimate for CDL to move the remaining unsold units before the ABSD deadline.

Rental from office units was down 8.2% but occupancy rate is improving despite a declining national average

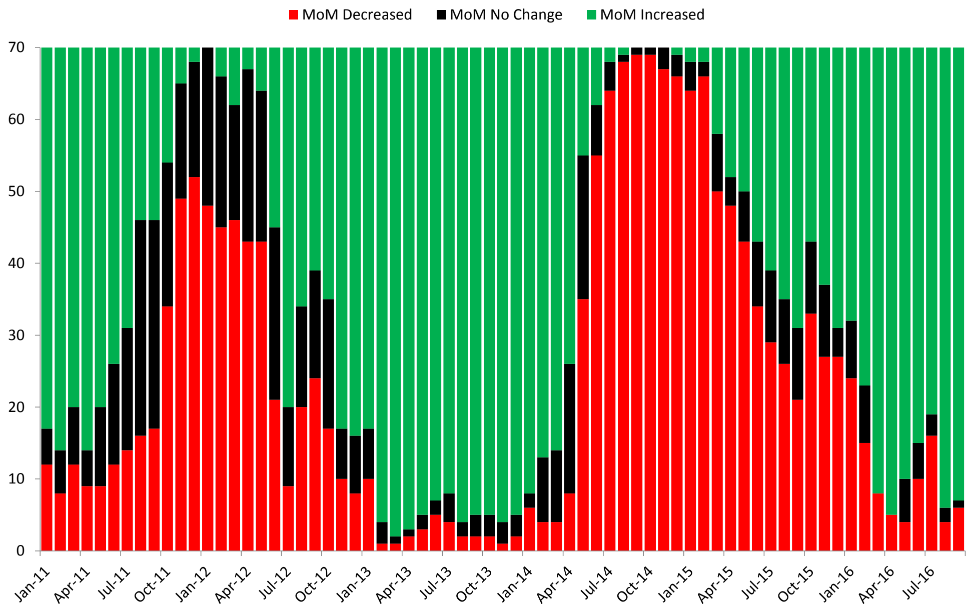
3Q16 rental revenue from CDL's investment properties was down 7.5% to S$278.2 million mainly due to an 8.2% drop in rental revenue from office properties amid a rising supply of new office space and a weaker economic environment. However, we are expecting the decline in office rental revenue to taper moving forward as occupancy rate has recovered 2.4 ppts to 96.2% despite the national occupancy rate for office space continuing to decline (3Q16: 89.6%, 2Q16: 90.9%).

Overseas Properties Update - China (43% of Overseas Properties RNAV): CDL China continued its steady sales performance of residential projects in Suzhou, Shanghai and Chongqing. Hong Leong City Center, Suzhou (HLCC), CDL's biggest project in China (c.56% to total forecasted China Properties RNAV), launched its Phase 2 residential tower during the quarter. The launch received an overwhelming response with all 156 units released purchased within an hour. Management expects the positive sales momentum to continue for the upcoming launches in this project. Total sales value generated so far for HLCC has hit RMB 2.55bn (S$524m).

On a more macro level, despite having more than 20 cities adopt restrictive measures to tame fast-rising prices, 63 out of 70 cities saw m-o-m increase in residential home prices in September 2016, continuing the strong momentum since the start of 2015. Shanghai and Suzhou for instance, have rolled out measures such as enforcing higher down-payments for second home purchases to stem a surge in property prices.

Figure 1: 63 out of 70 Chinese cities saw month-on-month property price increase in Sept

Sustained residential price increase in Chinese cities since start of 2015

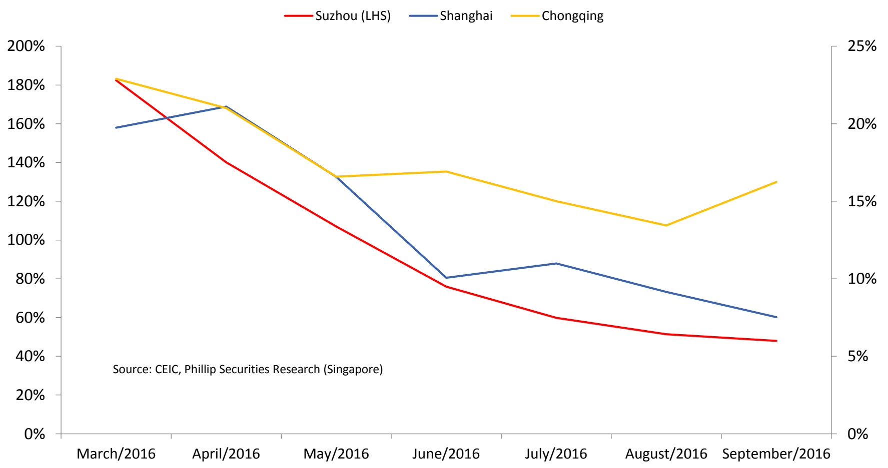


Source: CEIC, Phillip Securities Research (Singapore)

Total floor space sold similarly continued to grow on a year-on-year basis, despite declining growth rates. We expect the Group's China projects to continue their positive sales momentum due to their favourable locations and positive macro developments in some of the cities. Chongqing for instance, has, in September this year, been given approval by the central government to develop its free-trade zone and CDL's investments in the city are expected to benefit from this.

Figure 2: Y-o-Y change for total residential floor space sold ytd

Along with rising prices, total floor space sold continue to see y-o-y increase despite rounds of cooling measures



Overseas Properties Update - UK (37% of Overseas Properties RNAV): UK remains the Group's second largest market overseas for property development, constituting 37% of total RNAV for CDL's overseas properties. The Group's biggest projects at Pavilion Road Knightsbridge, Teddington and Stag Brewery remain long term projects with first completion at least three years away.

Hospitality business. Hotel revenue declined by 2.8% on a constant currency basis for Millennium and Copthorne to £581 million for 9M16. Declines in RevPAR for New York and Singapore, at -14.8% and -9.6% respectively, were the biggest causes for the drop in revenue. We expect Singapore's hotel portfolio to remain a drag given the anticipated 6.1% increase in hotel room supply in 2017. Most of the supply in 2017 belong to the upscale/luxury sector, which would pose a threat to CDL's current Singapore hotel portfolio. We do not foresee a strong enough uptick in tourist arrivals and lodging spending in 2017 to catch up with this upcoming supply.

Figure 3: Potential Supply of new Singapore hotel rooms 2016-2018

Bulk of hotel supply in 2017 belong to the upscale/luxury segment

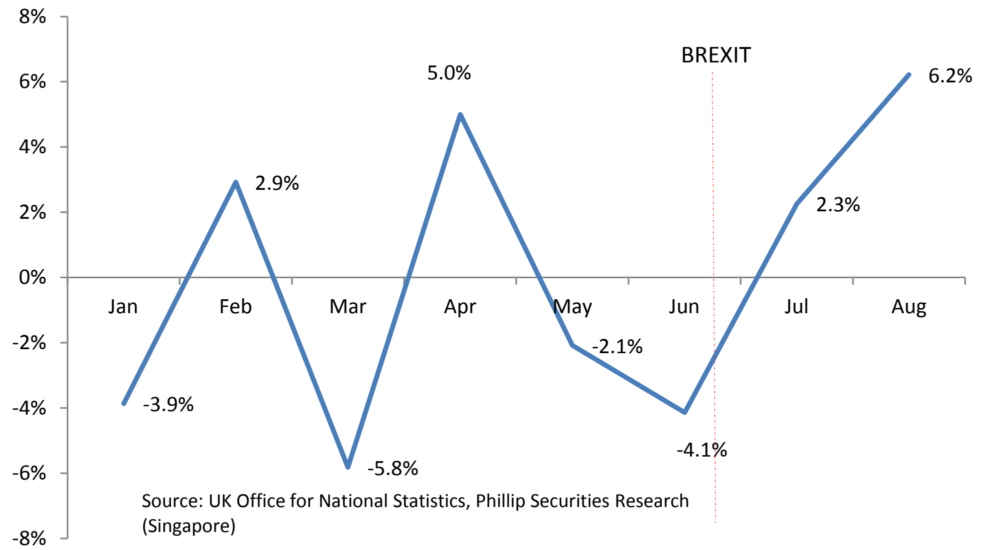
Name of Hotel	No. of Rms	Horwath Rating	Location	Expected Opening
The South Beach	-654	Upscale/Luxury	City Centre	Closed
Grand Park City Hall	-165	Mid-Tier	City Centre	Closed
Oasia Downtown Hotel	314	Upscale/Luxury	City Centre	Opened
Hotel Clover @ 7 HK St	27	Upscale/Luxury	City Centre	Opened
Hotel Indigo Singapore Katong	131	Upscale/Luxury	Outside City Centre	Opened
M Social	293	Mid-Tier	City Centre	Opened
Mercure Singapore Middle Road*	200	Mid-Tier	City Centre	Opened
Hotel Grand Central	46	Mid-Tier	City Centre	Opened
Holiday Inn Express Singapore Katong	451	Mid-Tier	Outside City Centre	Opened
Crowne Plaza Changi Airport (extension)	243	Mid-Tier	Outside City Centre	Opened
Premier Inn Singapore	300	Economy	City Centre	Opened
Ibis Styles	298	Economy	Outside City Centre	Opened
JW Marriott Hotel Singapore South Beach	634	Upscale/Luxury	City Centre	4Q 2016
Swissôtel Merchant Court**	150	Upscale/Luxury	City Centre	4Q 2016
The Warehouse Hotel	37	Upscale/Luxury	City Centre	4Q 2016
Villa Samadhi	20	Upscale/Luxury	Outside City Centre	4Q 2016
Mercure Singapore Middle Road*	195	Mid-Tier	City Centre	4Q 2016

Name of Hotel	No. of Rms	Horwath Rating	Location	Expected Opening
Andaz Singapore (DUO Project)	342	Upscale/Luxury	City Centre	2017
Novotel Singapore on Stevens	254	Upscale/Luxury	City Centre	2017
InterContinental Singapore Robertson Quay (former Gallery Hotel)	225	Upscale/Luxury	City Centre	2017
Sofitel Singapore City Centre (Tanjong Pagar Centre)	222	Upscale/Luxury	City Centre	2017
The Ascott Orchard Singapore	220	Upscale/Luxury	City Centre	2017
The Patina Capitol Singapore	157	Upscale/Luxury	City Centre	2017
Duxton Terrace (formerly Murray House)	138	Upscale/Luxury	City Centre	2017
Duxton House (formerly Blakes)	50	Upscale/Luxury	City Centre	2017
Laguna Dusit Thani	197	Upscale/Luxury	Outside City Centre	2017
Ibis Singapore on Stevens	528	Mid-Tier	City Centre	2017
Grand Park City Hall	181	Mid-Tier	City Centre	2017
Park Hotel Farrer Park	300	Mid-Tier	Outside City Centre	2017
Courtyard Marriott at Novena	250	Mid-Tier	Outside City Centre	2017
YOTEL Orchard Road	610	Economy	City Centre	2017
Aqueen Hotel Geylang	100	Economy	Outside City Centre	2017
Aqueen Hotel Little India	83	Economy	Outside City Centre	2017
YOTEL Changi Jewel	130	Economy	Outside City Centre	2018
Aqueen Hotel Lavender (Additional Rooms)	69	Economy	Outside City Centre	2018

Source: CEIC, Phillip Securities Research (Singapore)

Figure 4: UK Tourist Receipts Y-o-Y growth

UK Tourist Arrivals continue to benefit from the weakening of the GBP



Source: UK Office for National Statistics, Phillip Securities Research (Singapore)

RNAV Table

Segment	Location	Amount (S$'m)	Per share (S$)
Residential	SG	5,336	5.87
	Overseas	2,356	2.59
Hotels	SG	733	0.81
Office	SG	2,698	2.97
Retail	SG	927	1.02
Others	SG	83	0.09
Commercial	Overseas	550	0.60
Add: Market Value of stakes in Listed Entities			
Millenium and Copthorne (65% stake)		1,569	1.73
Total GAV		14,252	15.67
Add cash:		3,444	3.79
Less debt:		6351	6.98
RNAV:		11,345	12.48
No. of shares ('m)		909	
Discount to RNAV (%)		20	
Target Price			9.98

Source: Phillip Securities Research (Singapore)

Investment Action

While we pre-empt price cuts in certain development projects, the impact on profitability is limited considering these projects are >50% sold. Overall, we remain optimistic about CDL's property development segment as unsold units continue to move gradually. We also think the pessimism surrounding CCR properties has been overblown as recent transactions suggest slight discounts from current prices is sufficient to bring back a good volume of value investors. We remain confident of the Group's overseas development strategies, especially in China. We maintain our 'Accumulate' rating with an unchanged fair value of S$9.98 based on our FY17 RNAV estimates.

Financials

Income Statement

Y/E Dec, SGD mn	FY14	FY15	FY16e	FY17e	FY18e
Revenue	**3,764**	**3,304**	**3,325**	**3,765**	**3,856**
Gross Profit	1,632	1,656	1,473	1,565	1,773
Depreciation & Amortisation	200	215	226	238	250
EBIT	1,039	951	763	761	950
Net Finance (Expense)/Inc	(90)	(72)	(73)	(82)	(84)
Associates & JVs	55	107	81	94	87
Profit Before Tax	1,004	985	771	773	953
Taxation	(95)	(119)	(93)	(94)	(115)
Profit After Tax	909	866	678	679	838
Non-Controlling Interest	139	93	141	124	119
Net Income, reported	770	773	819	803	957

Per share data (SGD)

Y/E Dec, SGD	FY14	FY15	FY16e	FY17e	FY18e
EPS, reported	0.83	0.84	0.75	0.75	0.92
DPS	0.16	0.16	0.16	0.16	0.16
BVPS	9.25	9.89	10.67	10.79	11.49

Balance Sheet

Y/E Dec, SGD mn	FY14	FY15	FY16e	FY17e	FY18e
ASSETS					
PPE	4,918	5,175	5,445	5,729	6,028
Associates & JVs	1,128	1,307	1,334	1,420	1,499
Investment Properties	3,109	2,584	2,573	2,573	2,573
Others	215	365	267	282	305
Total non-current assets	**9,371**	**9,430**	**9,619**	**10,004**	**10,405**
Development property	4,793	5,515	5,532	5,203	5,047
Accounts Receivables	1,589	1,762	1,773	2,007	2,056
Cash balance	3,898	3,565	3,897	3,970	4,397
Others					
Total current assets	**10,329**	**10,888**	**11,250**	**11,229**	**11,548**
Total Assets	**19,701**	**20,319**	**20,869**	**21,233**	**21,953**
LIABILITIES					
Short term loans	2,233	1,911	1,911	1,911	1,911
Accounts Payables	1,470	1,602	1,612	1,826	1,870
Others	254	319	268	285	293
Total current liabilities	**3,957**	**3,832**	**3,791**	**4,021**	**4,074**
Long term loans	4,466	4,572	4,572	4,572	4,572
Others	501	702	586	619	645
Total non-current liabilities	**4,968**	**5,274**	**5,158**	**5,191**	**5,217**
Total Liabilities	**8,925**	**9,106**	**8,949**	**9,212**	**9,291**
EQUITY					
Shareholder Equity	8,410	8,996	9,702	9,804	10,445
Non-controlling interest	2,365	2,217	2,217	2,217	2,217
Total Equity	**10,776**	**11,213**	**11,919**	**12,021**	**12,662**

Cash Flows

Y/E Dec, SGD mn	FY14	FY15	FY16e	FY17e	FY18e
CFO					
Profit for the year	909	866	678	679	838
Adjustments	(20)	52	305	314	357
WC changes	(482)	(712)	16	(347)	(160)
Cash generated from ops	407	206	999	646	1,035
Taxes paid, others	(115)	(128)	(93)	(94)	(115)
Cashflow from ops	292	78	906	552	920
CFI					
CAPEX, net	(838)	843	(270)	(284)	(299)
Cashflow from investments	(42)	520	(101)	(206)	(220)
CFF					
Dividends paid	(275)	(271)	(273)	(273)	(273)
Cashflow from financing	739	(914)	(323)	(273)	(273)
Net change in cash	989	(316)	481	73	427
Effects of exchange rates	17	7	-	-	-
CCE, end	3,725	3,416	3,897	3,970	4,397

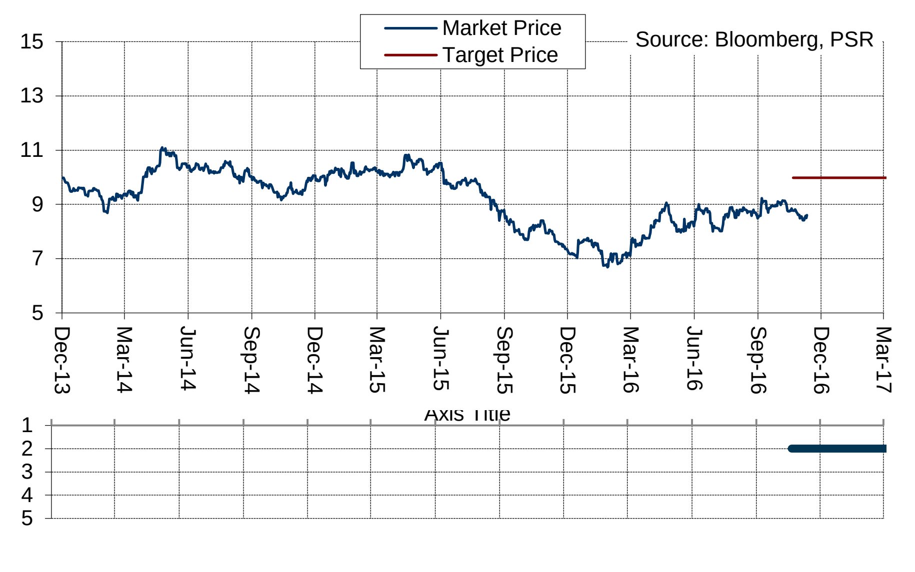
Valuation Ratios

Y/E Dec, SGD mn	FY14	FY15	FY16e	FY17e	FY18e
P/E (X), adj.	12.4	9.2	11.8	11.7	9.5
P/B (X)	1.2	0.8	0.8	0.8	0.8
Dividend Yield (%)	1.6%	2.1%	1.8%	1.8%	1.8%
Growth & Margins (%)					
Growth					
Revenue	17.1%	-12.2%	0.6%	13.2%	2.4%
EBIT	7.4%	-8.5%	-19.7%	-0.3%	24.9%
Net Income, adj.	3.4%	-4.7%	-21.7%	0.2%	23.4%
Margins					
EBIT margin	27.6%	28.8%	23.0%	20.2%	24.6%
Net Profit Margin	24.1%	26.2%	20.4%	18.0%	21.7%
Key Ratios					
ROE (%)	9.2%	8.6%	5.7%	5.6%	6.6%
ROA (%)	4.6%	4.3%	3.2%	3.2%	3.8%
Gearing (X)	0.34	0.32	0.31	0.31	0.30

Source: Company, Phillip Securities Research (Singapore) Estimates

**Forward multiples and yields are based on current market price; historical multiples and yields are based on historical market price.*

Ratings History



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
<-20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation.

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