

City Developments Limited

Putting the cash hoard to good use

SINGAPORE | REAL ESTATE | UPDATE

- Privatisation to be RNAV-accretive, if the deal goes through. Our revised RNAV will be S\$15.90 per share. Post-acquisition, M&C will make up 27% of CDL's total GAV.
- Offer price, despite a 24% premium to last close price, offers attractive value for CDL as it is pegged at 0.7x P/BV. And the hotels are valued at cost in the books.
- Potential selling price for a new project on Amber Park en bloc site suggests a 38% upside from current market prices in the vicinity.

What is the news?

- CDL announced the potential offer for the remaining shares of M&C which it doesn't own. CDL current owns about 65% of M&C and the offer price of 553 pence a share pegs the offer valuation to 0.7x P/BV, close to the average of 0.74x P/BV that M&C has traded at since post-GFC.
- In a separate announcement one week ago, CDL (through an 80% owned JV) announced the en bloc acquisition of Amber Park, a 200-unit freehold condominium in Katong, for S\$906.7mn. The sale price reflects a land rate of S\$1,515 psf, based on the current plot ratio of 2.8. CDL plans to redevelop the project into a luxury condominium with close to 800 units.

What do we think?

Offer price for M&C at 0.7x P/BV still at a discount to peer valuation. We note that the offer price is close to the average post-GFC P/BV valuation of 0.74 for M&C. However, the offer price also represents a discount to the average valuation of 0.98x P/BV for M&C's locally listed peers who are hotel operators with similar asset-heavy balance sheets and most self-owned hotels.

Post full consolidation at book value, M&C makes up 27% of CDL's total Gross Asset Value (GAV). Assuming the current offer price is successful, post-consolidation of M&C accounts, RNAV gets adjusted upwards to S\$15.90 (from S\$14.24). Our target price will improve to S\$13.51 from S\$12.10 assuming the same 15% discount to RNAV post full consolidation. We assumed utilisation of full cash in the balance sheet for acquisition.

Low valuation of M&C, cheap GBP/SGD, improving hospitality outlook likely reasons for offer. Apart from the cheap valuation of M&C stated above, the c.9% drop in GBP/SGD since Brexit, and improving global hospitality RevPAR could be likely reasons for the offer.

Longer term unlocking of value in M&C balance sheet still depends on monetization plans. Markets tend to discount asset-heavy hotel operators because of the heavy capital expenditure and slower ability to scale. CDL has stated it has no intention to sell or repurpose any of M&C's hotels in London or New York. We note that previous monetization strategies by the Group included the restructuring of Singapore hospitality assets by M&C via the IPO of CDLHT.



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10 October 2017

ACCUMULATE (Maintained)

LAST DONE PRICE	SGD 11.82
FORECAST DIV	SGD 0.12
TARGET PRICE	SGD 12.10
TOTAL RETURN	3.4%

COMPANY DATA

BLOOMBERG CODE	CIT SP
O/S SHARES (MN) :	909
MARKET CAP (USD mn / SGD mn) :	7903 / 10748
52 - WK HI/LO (SGD) :	12.29 / 7.97
3M Average Daily T/O (mn) :	2

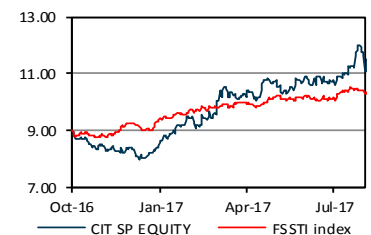
MAJOR SHAREHOLDERS (%)

HONG LEONG HOLDINGS LTD	16.4%
HONG LEONG INVESTMENT HLDG	15.4%
ABERDEEN	9.0%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	0.4	9.6	30.6
STI RETURN	2.0	3.3	18.3

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

SGD'MN	FY15	FY16	FY17e	FY18e
Revenue	3,304	3,905	3,994	4,064
Gross Profit	1,656	1,758	1,696	1,901
EBIT	951	924	843	1,033
EPS (SGD)	0.84	0.70	0.78	0.94
DPS (SGD)	0.16	0.12	0.12	0.12
PER, x (adj.)	9.2	12.5	11.2	9.3
P/BV, x	0.8	0.9	0.9	0.8
Div Yield, %	2.1%	1.4%	1.4%	1.4%
ROE, %	8.6%	6.7%	6.2%	7.1%

Source: Company Data, PSR est.

Valuation Method

RNAV

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Potential selling price for new project on Amber Park site represents a 38% increase from current prices in the vicinity. CDL's stated plan to develop close to 800 units on the current Amber Park site suggests an average unit size of 747 sq. ft. Transactions for similar sized freehold units in surrounding projects are done at closer to S\$1,800/psf. Assuming breakeven costs of c.S\$2,100 for CDL, and factoring in profit margins in the teens, potential launch price could be in the S\$2,500 region. This represents a bullish 38% increase from current transacted prices in the vicinity. A more prominent beneficiary of this bullish land tender could be UOL Group (UOL SP, Accumulate, TP S8.93), who bought an Amber Road site (360m away from the CDL's Amber Park site) in January this year. UOL's land cost was c.40% lower at S\$1,063/psf.

Maintain "Accumulate" with unchanged TP of S\$12.10

Post-acquisition of M&C, we arrive at an upward-adjusted RNAV of S\$15.90, with TP correspondingly increased to S\$13.50. For now, pending closure of the deal, we maintain ACCUMULATE with a TP of S\$12.10. We continue to favour CDL for its large Singapore development exposure of unlaunched and available for sale inventory to capture the potential upswing in SG property prices. Post consolidation, SG residential makes up c.31% of adjusted GAV. Including properties in other sectors, SG exposure stands at c.56% of adjusted GAV.

Valuations

Figure 1: Revised RNAV Table (assuming acquisition goes through)

Segment	Location	Amount (S\$m)	Per share (S\$)
Residential	SG	5,500	6.05
	Overseas	2,356	2.59
Hotels	SG	496	0.55
Office	SG	3,005	3.31
Retail	SG	877	0.96
Others	SG	83	0.09
Commercial	Overseas	550	0.60
Add: Market Value of stakes in Listed Entities			
Millenium and Copthorne (100% stake)		4,782	5.26
Total GAV		17,649	19.41
Add cash:		2,547	2.80
Less debt:		5,738	6.31
RNAV:		14,458	15.90
No. of shares ('m)		909	
Discount to RNAV (%)		15	
Target Price			13.51

Source: Company, PSR

Figure 2: Peer Comparison Table

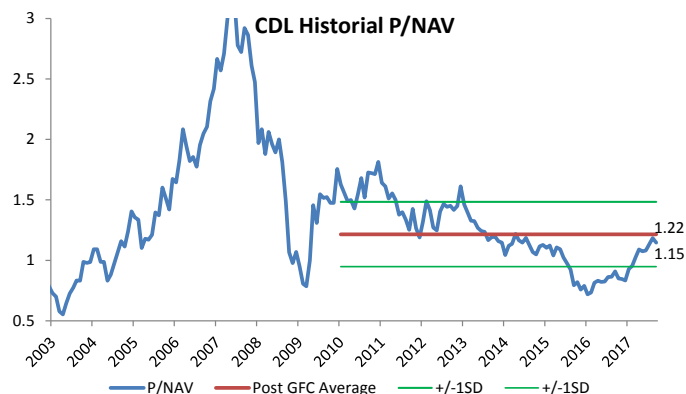
Name	Mkt Cap (SGD mn)	Last Px (SGD)	PSR RATING	PSR TARGET PRICE	P/E	ROE (%)	ROA (%)	Dividend Yield (%)	P/B	Total Debt to Assets
CITY DEVELOPMENTS LTD	10,739	11.81	ACCUMULATE	12.10	18.0	5.66	2.57	1.35	1.19	28.98
CAPITALAND LTD	15,672	3.69	ACCUMULATE	4.19	9.5	6.55	2.47	2.71	0.89	32.47
UOL GROUP LTD	7,190	8.55	ACCUMULATE	8.93	20.8	3.91	2.72	1.75	0.83	20.85
WHEELLOCK PROPERTIES (S) LTD	2,351	1.97	TRADING BUY	2.28	40.2	3.46	2.99	3.05	0.78	0.00
HO BEE LAND LTD	1,598	2.40	ACCUMULATE	2.98	6.4	5.49	3.55	2.50	0.54	30.62
CHIP ENG SENG	531	0.86	BUY	0.90	19.3	3.38	1.12	4.68	0.71	52.45
BANYAN TREE	521	0.65	BUY	0.74	NA	-6.12	-2.09	NA	0.90	38.34
CENTURION CORP LTD	410	0.52	ACCUMULATE	0.59	12.4	7.89	2.74	3.88	0.94	58.98
FRASERS CENTREPOINT LTD	5,986	2.06			9.1	9.16	2.52	4.17	0.87	40.47
UNITED INDUSTRIAL CORP LTD	4,625	3.23			18.4	4.46	3.22	0.93	0.73	14.40
YANLORD LAND GROUP LTD	3,712	1.92			5.2	15.71	3.40	2.27	0.87	24.26
GUOCOLAND LTD	2,793	2.36			7.3	4.22	1.73	3.81	0.74	48.51
OXLEY HOLDINGS LTD	1,828	0.63			8.4	23.48	4.60	1.68	1.75	53.34
WING TAI HOLDINGS LTD	1,743	2.25			86.9	0.68	0.46	2.67	0.53	20.14
BUKIT SEMBAWANG ESTATES LTD	1,626	6.28			31.9	3.92	3.52	5.25	1.27	0.00
FRAGRANCE GROUP LTD	1,154	0.17			140.5	0.90	0.46	0.58	1.09	43.59
HONG FOK CORP LTD	723	0.83			8.5	-0.97	-0.51	1.20	0.47	25.34
ROXY-PACIFIC HLDGS LTD	644	0.54			15.8	8.07	2.67	2.55	1.28	56.97
BONVESTS HOLDINGS LTD	573	1.43			10.6	3.39	2.51	1.82	0.64	18.19
YING LI INTERNATIONAL REAL E	371	0.15			22.0	1.14	0.39	NA	0.44	40.53
TUAN SING HOLDINGS LTD	504	0.43			20.2	2.92	1.11	1.41	0.55	48.08

Source: Bloomberg, PSR

Figure 3: M&C's locally listed peer trades at higher P/NAVs

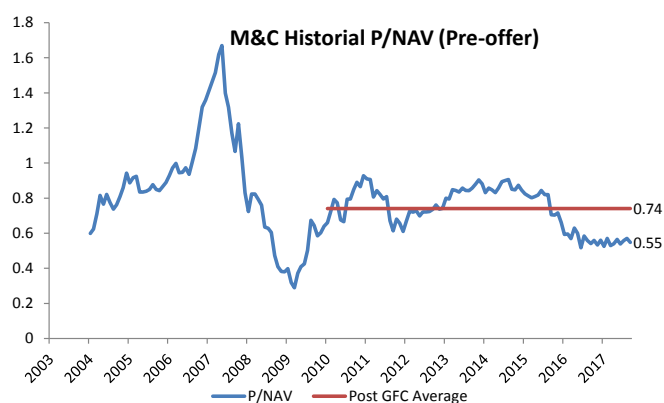
Name	Mkt Cap (SGD mn)	Last Px (SGD)	P/E	ROE	ROA	Dvd 12M Yld	P/B	Debt/Assets LF
MILLENNIUM & COPTHORNE HOTEL	3,256	10.03	20.3	4.71	2.63	1.38	0.68	22.1
SHANGRI-LA ASIA LTD	9,356	2.61	NA	2.68	1.27	0.93	1.11	40.8
AMARA HOLDINGS LTD	331	0.58	40.3	2.40	1.23	5.22	0.92	42.9
BANYAN TREE HOLDINGS LTD	521	0.65	NA	-6.12	-2.09	NA	0.90	38.3
Local listed peer average							0.98	

Figure 4: CDL trades at slightly below post-GFC P/NAV of 1.22



Source: Bloomberg, PSR

Figure 5: M&C was trading below post-GFC average P/NAV of 0.74 before the offer



Source: Bloomberg, PSR

Financials

Income Statement

Y/E Dec, SGD mn	FY15	FY16	FY17e	FY18e	FY19e
Revenue	3,304	3,905	3,994	4,064	4,094
Gross Profit	1,656	1,758	1,696	1,901	1,498
Depreciation & Amortisation	215	222	233	245	257
EBIT	951	924	843	1,033	624
Net Finance (Expense)/Inc	(72)	(80)	(82)	(83)	(84)
Associates & JVs	107	71	89	80	84
Profit Before Tax	985	914	850	1,029	624
Taxation	(119)	(151)	(141)	(170)	(103)
Profit After Tax	866	763	709	858	521
Non-Controlling Interest	93	109	114	105	109
Net Income, reported	773	653	595	753	411

Per share data (SGD)

Y/E Dec, SGD	FY15	FY16	FY17e	FY18e	FY19e
EPS, reported	0.84	0.70	0.78	0.94	0.57
DPS	0.16	0.12	0.12	0.12	0.12
BVPS	9.89	10.22	10.30	10.99	11.34

Cash Flows

Y/E Dec, SGD mn	FY15	FY16	FY17e	FY18e	FY19e
CFO					
Profit for the year	866	763	709	858	521
Adjustments	52	245	189	298	201
WC changes	(712)	330	257	(63)	133
Cash generated from ops	206	1,338	1,154	1,093	855
Taxes paid, others	(128)	(157)	(141)	(170)	(103)
Cashflow from ops	78	1,181	1,014	922	752
CFI					
CAPEX, net	843	(204)	(256)	(269)	(282)
Cashflow from investments	520	318	(322)	(336)	(347)
CFF					
Dividends paid	(271)	(237)	(237)	(237)	(237)
Cashflow from financing	(914)	(1,338)	(376)	(380)	(377)
Net change in cash	(316)	161	316	206	29
Effects of exchange rates	7	-	-	-	-
CCE, end	3,416	3,576	3,892	4,098	4,127

Source: Company, PSR Estimates

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

Balance Sheet

Y/E Dec, SGD mn	FY15	FY16	FY17e	FY18e	FY19e
ASSETS					
PPE	5,175	5,136	5,392	5,662	5,945
Associates & JVs	1,307	1,462	1,541	1,611	1,686
Investment Properties	2,584	2,346	2,346	2,346	2,346
Others	365	774	451	530	585
Total non-current assets	9,430	9,717	9,731	10,150	10,563
Development property	5,515	5,209	4,962	5,033	4,903
Accounts Receivables	1,762	1,166	1,193	1,214	1,223
Cash balance	3,565	3,673	3,892	4,098	4,127
Others					
Total current assets	10,888	10,081	10,090	10,386	10,291
Total Assets	20,319	19,797	19,821	20,536	20,854
LIABILITIES					
Short term loans	1,911	1,783	1,783	1,783	1,783
Accounts Payables	1,602	1,575	1,611	1,639	1,651
Others	319	301	294	306	301
Total current liabilities	3,832	3,659	3,688	3,728	3,735
Long term loans	4,572	3,955	3,955	3,955	3,955
Others	702	774	704	746	745
Total non-current liabilities	5,274	4,729	4,659	4,701	4,700
Total Liabilities	9,106	8,389	8,347	8,430	8,435

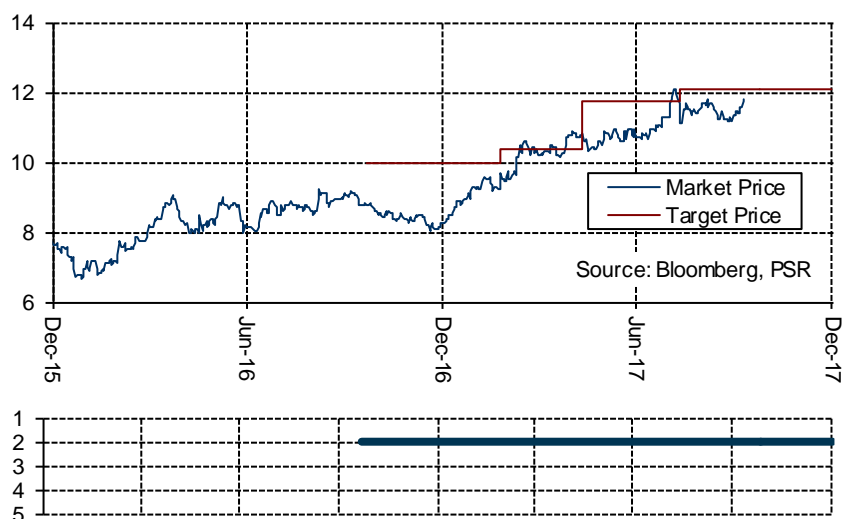
EQUITY

Shareholder Equity	8,996	9,294	9,359	9,991	10,304
Non-controlling interest	2,217	2,115	2,115	2,115	2,115
Total Equity	11,213	11,409	11,474	12,106	12,419

Valuation Ratios

Y/E Dec, SGD mn	FY15	FY16	FY17e	FY18e	FY19e
P/E (X), adj.	9.2	12.5	11.2	9.3	15.3
P/B (X)	0.8	0.9	0.9	0.8	0.8
Dividend Yield (%)	2.1%	1.4%	1.4%	1.4%	1.4%
Growth & Margins (%)					
Growth					
Revenue	-12.2%	18.2%	2.3%	1.7%	0.7%
EBIT	-8.5%	-2.8%	-8.7%	22.5%	-39.6%
Net Income, adj.	-4.7%	-11.9%	-7.0%	21.1%	-39.3%
Margins					
EBIT margin	28.8%	23.6%	21.1%	25.4%	15.2%
Net Profit Margin	26.2%	19.5%	17.7%	21.1%	12.7%
Key Ratios					
ROE (%)	8.6%	6.7%	6.2%	7.1%	4.2%
ROA (%)	4.3%	3.9%	3.6%	4.2%	2.5%
Gearing (X)	0.32	0.29	0.29	0.28	0.28

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

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