

# City Developments Limited

Stronger performance across most segments



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## SINGAPORE | REAL ESTATE | 3Q17 RESULTS

13 November 2017

- Properties sold in Singapore tripled in value YTD17 to S\$1.76bn.
- Recovery in Hotel Operations as global sentiment and tourism improves.
- Strategic partnership with Vanke in China likely to boost asset sales for partnered assets and paves way for future collaborations.
- Slower residential sales in UK, China. Successful launches of 4 residential projects in Singapore, mostly in 1H18 could be catalysts for share price and target price upgrade.
- Maintained Accumulate with unchanged TP of S\$12.10 (could increase to S\$13.50 depending on successful acquisition of M&C and offer price).

### Results at a glance

(SGD mn)/Dec Yr End	3Q17	3Q16	YoY (%)	Comments
Revenue	863.1	922.8	(6.5)	
-Property development	291	372	(21.8)	Mainly due to absence of contributions from EC projects which TOPed in 3Q16
-Hotel Operations	445	424	5.0	Contributions from hotel trading, land sales in New Zealand, and increases in global RevPARs in M&C hotels led by increases in occupancy
-Rental Properties	89	92	(3.3)	
-Others	38	35	8.6	
Gross Profit	426.6	430.0	(0.8)	
Profit from operations	238.4	245.3	(2.8)	
PATMI	156.1	170.3	(8.3)	Excluding one-off divestment gains etc, YTD PATMI increased 3.5%

Source: Company, PSR

### The positive

**+ Strong momentum in Singapore Property segment amid improvement in sentiment.** Continuing the sales momentum from 1H17, sales value for Singapore Property segment close to tripled YTD17 to S\$1.76bn. Number of units sold YTD was double YoY, implying an increased proportion of higher-end units sold. Going forward, 3 projects are due for launches in 1H18 at New Futura (124-units at Leonie Hill), Tampines Ave 10 (861 units), and South Beach Residences (190 units).

**+ Broad-based recovery for Hotel Operations as global sentiment and tourism improves.** On a like-for-like basis, Millennium & Copthorne (M&C)'s global RevPAR improved 1.4%, led by strong growth in Australasia, London and New York. These 3 markets make up close to 40% of M&C FY16 revenue. Including the impact of acquisitions, closures and refurbishments, global RevPar improved 4% in constant currency, an improvement in the -2.3% drop for FY16.

**+ Strategic partnership with Vanke in China likely to boost asset sales for partnered assets:** CDL's strategic partnership with China Vanke sets the stage for future collaborations which would enable CDL to tap on the local expertise and business networks of Vanke. The partnership which was achieved through the partial divestment of two properties in Chongqing, namely 70% of Chongqing Huang Huayuan and 50% of Eling Residences allows for 1) partial monetization (c.RMB1bn) of assets for capital recycling 2) access to Vanke's extensive local networks and development expertise which we believe could lead to increased future saleability for the two projects.

### The negatives

**- Slower residential sales in UK, China.** Uncertainties over Brexit and government cooling measures in UK and China led to slower sales of residential projects in these countries. The Group soft-launched 240-unit Teddington Riverside in late October, but opined that transactions could take time to gain traction as local buyers typically prefer to buy finished products.

### ACCUMULATE (Maintained)

LAST DONE PRICE	SGD 12.20
FORECAST DIV	SGD 0.12
TARGET PRICE	SGD 12.10
TOTAL RETURN	0.2%

### COMPANY DATA

BLOOMBERG CODE	CIT SP
O/S SHARES (MN) :	909
MARKET CAP (USD mn / SGD mn) :	8153 / 11093
52 - WK HI/LO (SGD) :	13.3 / 7.97
3M Average Daily T/O (mn) :	2

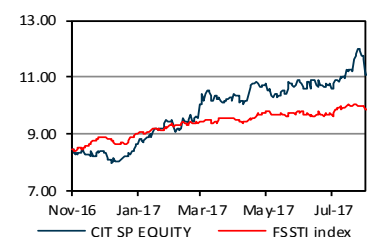
### MAJOR SHAREHOLDERS (%)

HONG LEONG HOLDINGS LTD	16.4%
HONG LEONG INVESTMENT HLDG	15.4%
ABERDEEN	7.9%

### PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	3.0	4.9	43.9
STI RETURN	4.1	3.6	24.8

### 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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Sales at the other major China project, HLCCC in Suzhou, continued at roughly the same slow pace as the previous quarter, with 25 (Phase 1) and 17 units (Phase 2) sold in the quarter. (2Q17: 56 units and 9 units respectively)

- **Drop in office occupancy to 92.5% (from 95.9% at FY16), but likely to improve going in to FY18.** Tapering new supply and improved corporate demand as noticed across most office S-REITs leads us to believe the blip in occupancy will likely improve going into FY18.

### Outlook

**Main catalysts to come from successful launches of 4 residential projects in Singapore, mostly in 1H18:** CDL remains one of the most well-stocked developer under our coverage to benefit from the upcycle in the Singapore residential and commercial property market. Healthy demand and a recent pickup in interest in high end developments such as newly launched Martin Modern and CDL's Gramercy Park suggests healthy saleability for New Futura with new limited new supply in Core Central Region. We are similarly confident of take-up rates and ASPs for South Beach and Tampines Ave 10 site given 1) exclusivity of South Beach site with unblocked panoramic views of Marina Bay and the city 2) smaller units at Tampines site with affordable quantum – we have seen similar suburban projects sell well at psfs higher than the forecasted c.S\$1100psf for Tampines, such as in the S\$1300+ range in Tanah Merah precinct. We think higher execution risks exist for the Amber Park site. Healthy take-up rates and ASPs for these 4 launches next year and forward could be catalysts for share price and upward revision of target price.

**Office outlook looks set to further recover in 2018:** Grade A office rents appear to have bottomed with the first increase in 3Q17 after 10 quarters of decline. We believe the recovery should continue will improved corporate demand as evident across most office S-REITs and tapering new supply. This will likely mitigate the magnitude of negative reversions expected for the 27% leases (by NLA) expiring in 2018 for CDL's office portfolio.

**Hotel refurbishment programme ongoing which is likely to impact M&C earnings in the short term.** Management expects M&C to progress with its capital expenditure across a number of hotels for M&C, which will likely further impact M&C's earnings.

**Outlook for China Property development segment still bright in the longer term:** While we opine that China property development in China is likely to remain weak in the short term. This will be cushioned by the Group's relatively limited exposure to the country (value of unsold units amounted to ~4% of our RNAV estimates). We are of the view that some of the Group's development is likely to benefit in the longer term. For instance, the Group's 58%-sold Hongqiao Royal Lake villa project in Shanghai will enjoy some scarcity value as Villa development is no longer permitted in China in a move to intensify land use.

### **Maintained Accumulate with unchanged TP S\$12.10 (successful accretive acquisition of M&C could increase our TP to S\$13.50 depending on offer price)**

Post-acquisition of M&C, depending on final offer price, TP could potentially increase to S\$13.50. An offer, if any, would likely be at a substantial premium to the initial offer price given that current trading price is already 10% higher than the initial offer. 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.

Figure 1: Revised RNAV Table (assuming acquisition at current offer price)

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 Cophthorne (100% stake)		4,782	5.26
<b>Total GAV</b>		17,649	19.41
Add cash:		2,547	2.80
Less debt:		5,738	6.31
<b>RNAV:</b>		14,458	15.90
No. of shares ('m)		909	
Discount to RNAV (%)		15	
<b>Target Price</b>			13.51

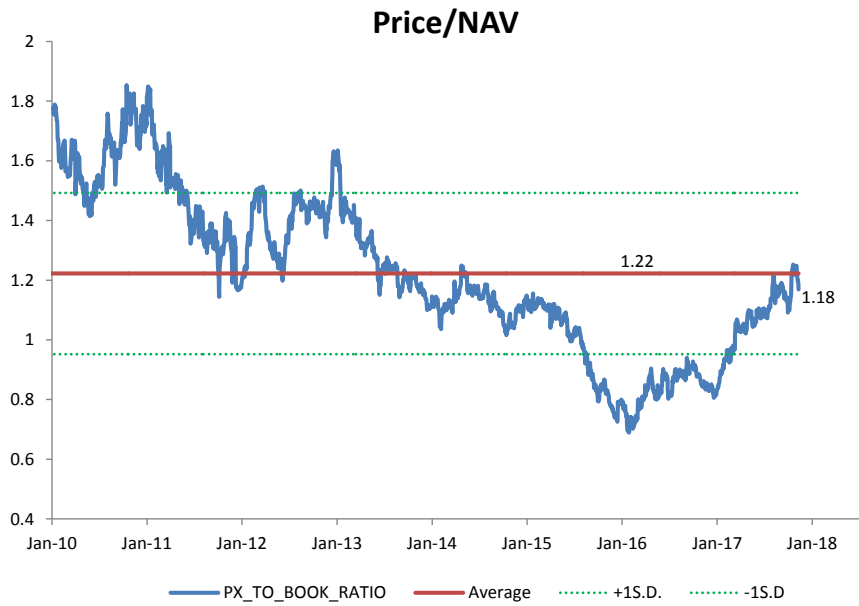
Source: Company, PSR

Figure 2: Property Developers Peer Comparison Table and PSR coverage

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	11,093	12.20	ACCUMULATE	12.10	19.0	6.08	2.82	1.31	1.18	28.98
CAPITALAND LTD	15,205	3.58	ACCUMULATE	4.19	8.9	5.26	1.78	2.79	0.84	32.47
UOL GROUP LTD	7,363	8.75	ACCUMULATE	8.93	8.2	4.67	2.57	1.71	0.80	20.85
WHEELLOCK PROPERTIES (S) LTD	2,309	1.93	TRADING BUY	2.28	39.5	3.46	2.99	3.11	0.76	0.00
HO BEE LAND LTD	1,738	2.61	ACCUMULATE	2.98	6.3	6.36	4.17	2.30	0.57	30.62
FRASERS CENTREPOINT LTD	6,045	2.08			9.2	9.16	2.52	4.13	0.88	40.47
UNITED INDUSTRIAL CORP LTD	4,740	3.31			16.8	4.46	3.22	0.91	0.75	14.40
YANLORD LAND GROUP LTD	3,322	1.72			4.6	15.71	3.40	2.53	0.79	24.26
GUOCOLAND LTD	2,686	2.27			5.1	8.15	3.36	3.08	0.68	48.51
WING TAI HOLDINGS LTD	1,735	2.24			67.7	0.59	0.41	2.68	0.53	20.14
BUKIT SEMBAWANG ESTATES LTD	1,608	6.21			52.3	3.92	3.52	5.31	1.25	0.00
FRAGRANCE GROUP LTD	1,134	0.17			127.6	0.90	0.46	0.59	1.07	43.59
<i>Large cap average (&gt;S\$1bn)</i>						5.7	2.6	2.7	0.8	25.0
CHIP ENG SENG	599	0.97	BUY	0.90	16.7	3.51	1.18	4.15	0.79	52.45
BANYAN TREE	485	0.61	ACCUMULATE	0.71	26.4	-6.12	-2.09	NA	0.84	38.34
CENTURION CORP LTD	431	0.54	ACCUMULATE	0.59	13.8	7.48	2.64	3.74	0.98	58.98
HONG FOK CORP LTD	770	0.89			9.0	-0.97	-0.51	1.13	0.50	25.34
ROXY-PACIFIC HLDGS LTD	650	0.55			19.0	6.66	2.24	2.53	1.29	56.97
BONVESTS HOLDINGS LTD	563	1.40			22.4	3.39	2.51	1.86	0.63	18.19
TUAN SING HOLDINGS LTD	516	0.44			20.7	2.66	1.03	1.38	0.56	48.08
HIAP HOE LTD	416	0.88			10.2	1.39	0.73	1.70	0.57	31.56
YING LI INTERNATIONAL	366	0.14			21.8	1.14	0.39	NA	0.44	40.53
HOTEL ROYAL LTD	339	4.03			33.1	1.56	1.16	1.24	0.62	20.90
SING HOLDINGS LIMITED	198	0.50			36.1	-12.16	-6.85	2.78	0.78	44.14
HEETON HOLDINGS LTD	182	0.56			3.3	6.29	2.95	1.07	0.47	40.55
<i>Small-Mid cap average</i>						1.2	0.4	2.2	0.7	39.7

Source: Bloomberg, PSR

Figure 3: CDL trades at slightly below post-GFC P/NAV of 1.22



Source: Bloomberg, PSR

## Financials

### Income Statement

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

### 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
<b>CFO</b>					
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)
<b>Cashflow from ops</b>	<b>78</b>	<b>1,181</b>	<b>1,014</b>	<b>922</b>	<b>752</b>
CFI					
CAPEX, net	843	(204)	(256)	(269)	(282)
<b>Cashflow from investments</b>	<b>520</b>	<b>318</b>	<b>(322)</b>	<b>(336)</b>	<b>(347)</b>
CFF					
Dividends paid	(271)	(237)	(237)	(237)	(237)
<b>Cashflow from financing</b>	<b>(914)</b>	<b>(1,338)</b>	<b>(376)</b>	<b>(380)</b>	<b>(377)</b>
<b>Net change in cash</b>	<b>(316)</b>	<b>161</b>	<b>316</b>	<b>206</b>	<b>29</b>
Effects of exchange rates	7	-	-	-	-
<b>CCE, end</b>	<b>3,416</b>	<b>3,576</b>	<b>3,892</b>	<b>4,098</b>	<b>4,127</b>

Source: Company, PSR Estimates

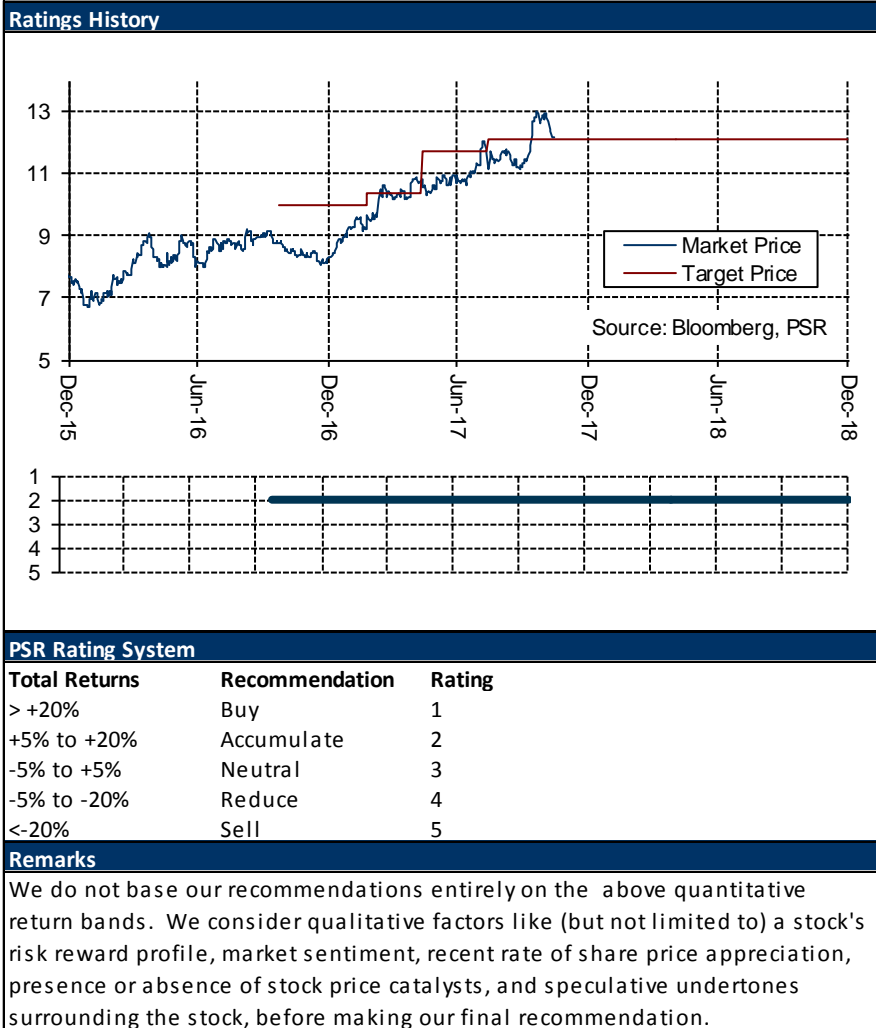
\*Forward multiples and yields are based on current market price; historical multiples and yields are based on historical market price.

### Balance Sheet

Y/E Dec, SGD mn	FY15	FY16	FY17e	FY18e	FY19e
<b>ASSETS</b>					
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
<b>Total non-current assets</b>	<b>9,430</b>	<b>9,717</b>	<b>9,731</b>	<b>10,150</b>	<b>10,563</b>
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					
<b>Total current assets</b>	<b>10,888</b>	<b>10,081</b>	<b>10,090</b>	<b>10,386</b>	<b>10,291</b>
<b>Total Assets</b>	<b>20,319</b>	<b>19,797</b>	<b>19,821</b>	<b>20,536</b>	<b>20,854</b>
<b>LIABILITIES</b>					
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
<b>Total current liabilities</b>	<b>3,832</b>	<b>3,659</b>	<b>3,688</b>	<b>3,728</b>	<b>3,735</b>
Long term loans	4,572	3,955	3,955	3,955	3,955
Others	702	774	704	746	745
<b>Total non-current liabilities</b>	<b>5,274</b>	<b>4,729</b>	<b>4,659</b>	<b>4,701</b>	<b>4,700</b>
<b>Total Liabilities</b>	<b>9,106</b>	<b>8,389</b>	<b>8,347</b>	<b>8,430</b>	<b>8,435</b>
<b>EQUITY</b>					
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
<b>Total Equity</b>	<b>11,213</b>	<b>11,409</b>	<b>11,474</b>	<b>12,106</b>	<b>12,419</b>

### 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%
<b>Growth &amp; Margins (%)</b>					
<b>Growth</b>					
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%
<b>Margins</b>					
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%
<b>Key Ratios</b>					
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



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