

City Developments Limited

Putting the cash hoard to good use – Final offer for M&C



StocksBnB.com

SINGAPORE | REAL ESTATE | UPDATE

12 December 2017

- Privatisation of M&C to be RNAV-accretive, if the deal goes through. **Consolidation of M&C will lift RNAV by c.10.6% to S\$15.75/share, with a corresponding adjusted TP of S\$13.39 (from S\$12.10).** Post-acquisition, M&C will make up 27% of CDL's total GAV.
- Final offer of 620 pence/share is 12% higher than previously mooted offer price. Despite a 39% premium to pre-offer last close price, it represents an attractive value for CDL as it is pegged at 0.75x P/BV. The hotels are valued at cost in the books.
- Positive for CDL regardless if privatisation goes through as positive sentiment buoys M&C share price.

What is the news?

CDL announced a Final Offer for the remaining shares of M&C it doesn't own. The new offer at 620 pence/share (inclusive of special dividend) is 12% higher than the previously offered price. M&C's independent Directors deemed the offer fair and reasonable and unanimously recommend the Final Offer to M&C shareholders. The final offer is conditional on CDL receiving acceptance from more than 50% of the total shares they do not currently own. CDL's intention is to de-list M&C as soon as the Final Offer is declared wholly unconditional. Aggregate cash payable is c.£682mn, to be funded via internal cash and debt.

What do we think?

Minority investors caught between a rock and a hard place. While 12% higher than the previously mooted price, the improved offer still represents a significant 25% discount to M&C's net book value. This should form the main impediment to minority investors accepting the Final Offer. Nonetheless, due to the intensive capital requirement and low-returns nature of the business, M&C has historically traded at a sizable discount to its book (Figure 4). Even with its hotels carried at cost, the highest valuation M&C traded at in the past decade post GFC was still a 7% discount to book. Without a clear monetization strategy for its assets, investors hoping for an exit opportunity at a significant premium to book value could be in for a prolonged wait.

Improved offer at 0.75x P/BV but still at a discount to peer valuation. We note that the offer price is close to 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 (Figure 2).

Positive for CDL regardless if privatisation goes through. CDL currently already owns 65% of M&C. Successful privatisation of M&C would result in a nimbler company with centralised decision-making control and tremendous monetization potential after the 3 year moratorium on the sale or repositioning of Group hotels end. Even without a successful privatisation, we opine that the offer, as well as vocal resistance by minority shareholders including Aberdeen Standard Investments and Fidelity International over the "inadequate offer", would have provided reasonable support to the trading price of M&C. With this assumption, we think it is unlikely prices will fall back to the pre-offer valuation of 0.55x P/NAV which is lowest in a decade post GFC, even if the Final Offer does not go through.

ACCUMULATE (Maintained)

LAST DONE PRICE	SGD 12.44
FORECAST DIV	SGD 0.12
TARGET PRICE	SGD 12.10
TOTAL RETURN	-1.7%

COMPANY DATA

BLOOMBERG CODE	CIT SP
O/S SHARES (MN) :	909
MARKET CAP (USD mn / SGD mn) :	8369 / 11312
52 - WK HI/LO (SGD) :	13.3 / 7.97
3M Average Daily T/O (mn) :	2

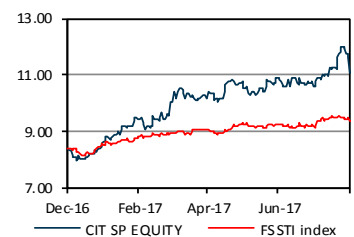
MAJOR SHAREHOLDERS (%)

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

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	(0.4)	5.2	47.1
STI RETURN	0.2	6.3	19.6

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

Dehong Tan (+65 6212 1849)

Investment Analyst
tandh@phillip.com.sg

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 could result in a 10.6% uplift in our RNAV to S\$15.75, translating to an increased TP of S\$13.39. We assumed utilisation of full cash in the balance sheet for acquisition.

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

Post-acquisition of M&C, we arrive at an upward-adjusted RNAV of S\$15.75, with TP correspondingly increased to S\$13.39. For now, pending conclusion 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:		2,411	2.65
Less debt:		5,738	6.31
RNAV:		14,321	15.75
No. of shares ('m)		909	
Discount to RNAV (%)		15	
Target Price			13.39

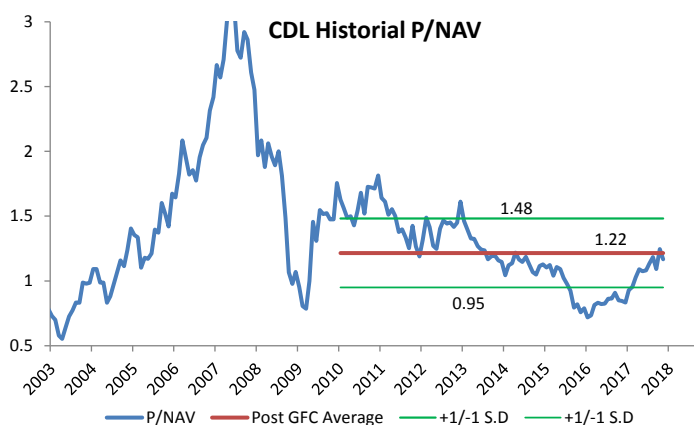
Source: Company, PSR

Figure 2: 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
MILLENNIUM & COPTHORNE HOTEL	3,256	10.03	20.3	4.71	2.63	1.38	0.68	22.1
SHANGRI-LA ASIA LTD	10,108	2.82	NA	4.72	2.23	0.86	1.23	40.8
AMARA HOLDINGS LTD	308	0.54	41.6	2.19	1.12	5.61	0.85	42.9
BANYAN TREE HOLDINGS LTD	433	0.54	23.58	-0.26	-0.09	NA	0.74	38.3
Local listed peer average						3.23	0.94	40.7

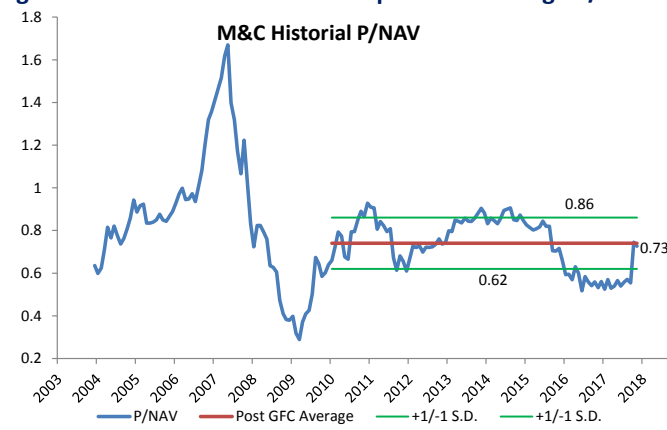
Source: Bloomberg, PSR

Figure 3: CDL trades at close to post-GFC average P/NAV of 1.2



Source: Bloomberg, PSR

Figure 4: M&C Final Offer close to post GFC average P/NAV



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

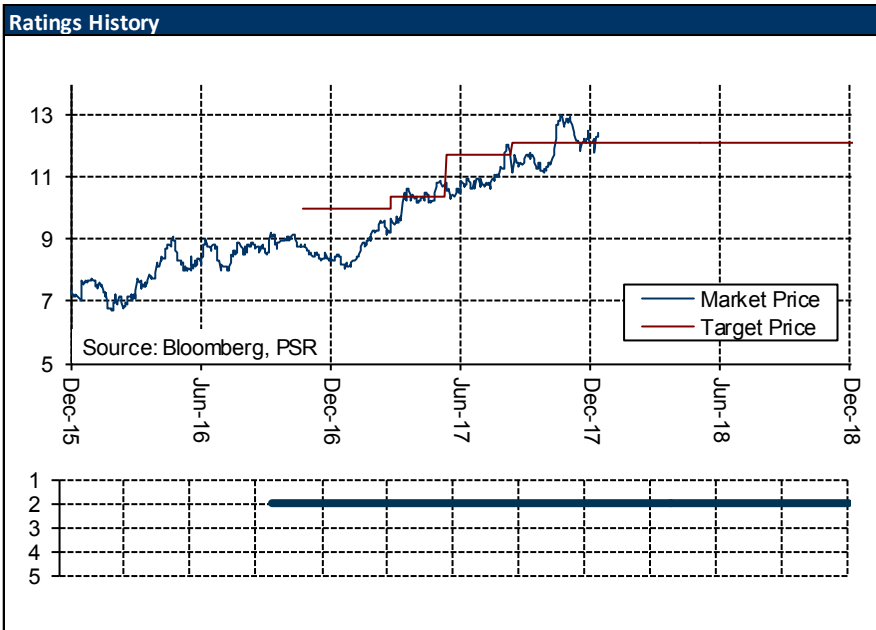
*Forward multiples and yields are based on current market price; historical multiples and yields are based on historical market price.

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



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.

Contact Information (Singapore Research Team)

Head of Research

Paul Chew – paulchewkl@phillip.com.sg

Research Operations Officer

Mohamed Amiruddin - amiruddin@phillip.com.sg

Consumer | Healthcare

Soh Lin Sin - sohls@phillip.com.sg

Oil & Gas | Energy

Chen Guangzhi - chengz@phillip.com.sg

Macro

Pei Sai Teng - peist@phillip.com.sg

Transport | REITs (Industrial)

Richard Leow - richardleowwt@phillip.com.sg

REITs (Commercial, Retail, Healthcare) | Property

Dehong Tan - tandh@phillip.com.sg

Technical Analysis

Jeremy Ng - jeremyngch@phillip.com.sg

Banking and Finance

Jeremy Teong - jeremyteongfh@phillip.com.sg

US Equity

Ho Kang Wei - hokw@phillip.com.sg

Contact Information (Regional Member Companies)

SINGAPORE

Phillip Securities Pte Ltd

Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel +65 6533 6001
Fax +65 6535 6631
Website: www.poems.com.sg

MALAYSIA

Phillip Capital Management Sdn Bhd

B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel +603 2162 8841
Fax +603 2166 5099
Website: www.poems.com.my

HONG KONG

Phillip Securities (HK) Ltd

11/F United Centre 95 Queensway
Hong Kong
Tel +852 2277 6600
Fax +852 2868 5307
Websites: www.phillip.com.hk

JAPAN

Phillip Securities Japan, Ltd.

4-2 Nihonbashi Kabuto-cho Chuo-ku,
Tokyo 103-0026
Tel +81-3 3666 2101
Fax +81-3 3666 6090
Website: www.phillip.co.jp

INDONESIA

PT Phillip Securities Indonesia

ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel +62-21 5790 0800
Fax +62-21 5790 0809
Website: www.phillip.co.id

CHINA

Phillip Financial Advisory (Shanghai) Co Ltd

No 550 Yan An East Road,
Ocean Tower Unit 2318,
Postal code 200001
Tel +86-21 5169 9200
Fax +86-21 6351 2940
Website: www.phillip.com.cn

THAILAND

Phillip Securities (Thailand) Public Co. Ltd

15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel +66-2 6351700 / 22680999
Fax +66-2 22680921
Website www.phillip.co.th

FRANCE

King & Shaxson Capital Limited

3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel +33-1 45633100
Fax +33-1 45636017
Website: www.kingandshaxson.com

UNITED KINGDOM

King & Shaxson Capital Limited

6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel +44-20 7426 5950
Fax +44-20 7626 1757
Website: www.kingandshaxson.com

UNITED STATES

Phillip Capital Inc

141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1-312 356 9000
Fax +1-312 356 9005
Website: www.phillipusa.com

AUSTRALIA

Phillip Capital Limited

Level 10, 330 Collins Street
Melbourne, Victoria 3000, Australia
Tel +61-03 9629 8288
Fax +61-03 9629 8882
Website: www.phillipcapital.com.au

SRI LANKA

Asha Phillip Securities Limited

2nd Floor, Lakshmans Building,
No. 321, Galle Road,
Colombo 03, Sri Lanka
Tel: (94) 11 2429 100
Fax: (94) 11 2429 199
Website: www.ashaphillip.net

INDIA

PhillipCapital (India) Private Limited

No.1, 18th Floor, Urmi Estate
95, Ganpatrao Kadam Marg
Lower Parel West, Mumbai 400-013
Maharashtra, India
Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969
Website: www.phillipcapital.in

TURKEY

PhillipCapital Menkul Degerler

Dr. Cemil Bengü Cad. Hak Is Merkezi
No. 2 Kat. 6A Caglayan
34403 Istanbul, Turkey
Tel: 0212 296 84 84
Fax: 0212 233 69 29
Website: www.phillipcapital.com.tr

DUBAI

Phillip Futures DMCC

Member of the Dubai Gold and
Commodities Exchange (DGCX)
Unit No 601, Plot No 58, White Crown Bldg,
Sheikh Zayed Road, P.O.Box 212291
Dubai-UAE
Tel: +971-4-3325052 / Fax: + 971-4-3328895

CAMBODIA

Phillip Bank Plc

Ground Floor of B-Office Centre,#61-64,
Norodom Blvd Corner Street 306,Sangkat
Boeung Keng Kang 1, Khan Chamkamorn,
Phnom Penh, Cambodia
Tel: 855 (0) 7796 6151/855 (0) 1620 0769
Website: www.phillipbank.com.kh

Important Information

This report is prepared and/or distributed by Phillip Securities Research Pte Ltd ("Phillip Securities Research"), which is a holder of a financial adviser's licence under the Financial Advisers Act, Chapter 110 in Singapore.

By receiving or reading this report, you agree to be bound by the terms and limitations set out below. Any failure to comply with these terms and limitations may constitute a violation of law. This report has been provided to you for personal use only and shall not be reproduced, distributed or published by you in whole or in part, for any purpose. If you have received this report by mistake, please delete or destroy it, and notify the sender immediately.

The information and any analysis, forecasts, projections, expectations and opinions (collectively, the "Research") contained in this report has been obtained from public sources which Phillip Securities Research believes to be reliable. However, Phillip Securities Research does not make any representation or warranty, express or implied that such information or Research is accurate, complete or appropriate or should be relied upon as such. Any such information or Research contained in this report is subject to change, and Phillip Securities Research shall not have any responsibility to maintain or update the information or Research made available or to supply any corrections, updates or releases in connection therewith.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this report are as of the date indicated and are subject to change at any time without prior notice. Past performance of any product referred to in this report is not indicative of future results.

This report does not constitute, and should not be used as a substitute for, tax, legal or investment advice. This report should not be relied upon exclusively or as authoritative, without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this report has been made available constitutes neither a recommendation to enter into a particular transaction, nor a representation that any product described in this report is suitable or appropriate for the recipient. Recipients should be aware that many of the products, which may be described in this report involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made, unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of any product. Any decision to purchase any product mentioned in this report should take into account existing public information, including any registered prospectus in respect of such product.

Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may provide an array of financial services to a large number of corporations in Singapore and worldwide, including but not limited to commercial / investment banking activities (including sponsorship, financial advisory or underwriting activities), brokerage or securities trading activities. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have participated in or invested in transactions with the issuer(s) of the securities mentioned in this report, and may have performed services for or solicited business from such issuers. Additionally, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have provided advice or investment services to such companies and investments or related investments, as may be mentioned in this report.

Phillip Securities Research or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report may, from time to time maintain a long or short position in securities referred to herein, or in related futures or options, purchase or sell, make a market in, or engage in any other transaction involving such securities, and earn brokerage or other compensation in respect of the foregoing. Investments will be denominated in various currencies including US dollars and Euro and thus will be subject to any fluctuation in exchange rates between US dollars and Euro or foreign currencies and the currency of your own jurisdiction. Such fluctuations may have an adverse effect on the value, price or income return of the investment.

To the extent permitted by law, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may at any time engage in any of the above activities as set out above or otherwise hold an interest, whether material or not, in respect of companies and investments or related investments, which may be mentioned in this report. Accordingly, information may be available to Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, which is not reflected in this report, and Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may, to the extent permitted by law, have acted upon or used the information prior to or immediately following its publication. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited its officers, directors, employees or persons involved in the issuance of this report, may have issued other material that is inconsistent with, or reach different conclusions from, the contents of this report.

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities Research to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

This report is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this report may not be suitable for all investors and a person receiving or reading this report should seek advice from a professional and financial adviser regarding the legal, business, financial, tax and other aspects including the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This report is not intended for distribution, publication to or use by any person in any jurisdiction outside of Singapore or any other jurisdiction as Phillip Securities Research may determine in its absolute discretion.

IMPORTANT DISCLOSURES FOR INCLUDED RESEARCH ANALYSES OR REPORTS OF FOREIGN RESEARCH HOUSES

Where the report contains research analyses or reports from a foreign research house, please note:

- (i) recipients of the analyses or reports are to contact Phillip Securities Research (and not the relevant foreign research house) in Singapore at 250 North Bridge Road, #06-00 Raffles City Tower, Singapore 179101, telephone number +65 6533 6001, in respect of any matters arising from, or in connection with, the analyses or reports; and
- (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, Phillip Securities Research accepts legal responsibility for the contents of the analyses or reports.