

City Developments Limited

Reaping the rewards of successful land-banking



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SINGAPORE | REAL ESTATE | 1Q18 RESULTS

15 May 2018

- 1Q18 earnings below our expectations, at 10% of our FY18e NPAT, mainly due to timing differences in revenue recognition.
- Robust demand for newly launched projects – New Futura and The Tapestry. Expect momentum to continue for 3 more launches from the Group in 2018.
- Strategic expansion of land bank – Pipeline of c.3,000 units to be launched in FY18-19.
- Group RevPAR recovery maintaining pace from FY17, up 3.5% YoY on a like-for-like basis.
- Stronger GBP against major currencies impacted M&C's total revenue, down 2.7%.
- Maintain ACCUMULATE with unchanged TP of S\$13.40 (based on 15% discount to RNAV).

Results at a glance

(SGD mn)/Dec Yr End	1Q18	1Q17	YoY (%)	Comments
Gross revenue	1,057.8	783.7	35.0	Completion of The Criterion (EC) and contributions from Coco Palms, Hong Leong City Center
-Property Development	563.2	299.0	88.3	Same as above
-Hotel Operations	377.8	366.5	3.1	Stronger GBP vs SGD from M&C consolidation, higher revenue from newly open/acquired hotels such as M Social Auckland (4Q17) and The Lowry Hotel (2Q17)
-Rental Properties	84.2	85.2	(1.2)	
-Others	32.6	32.9	(0.7)	
Gross profit	363.1	367.3	(1.1)	Lower margins for The Criterion EC
Operating profit	182.5	134.4	35.8	Other op. income: divestment gain from Mercure Brisbane and Ibis Brisbane (CDLHT)
Net profit after tax	80.0	95.6	(16.3)	Compressed margins for The Criterion EC vs normal development projects. Absence of JV contributions from Commonwealth Towers

Source: Company, PSR

The Positives

+ **Robust demand for newly launched projects – New Futura and The Tapestry. Expect momentum to continue for 3 more launches from the Group in 2018.** Response to the two launches has been overwhelming with 97% of New Futura Phase 1 and 80% of The Tapestry Phase 1 sold within a few months from launch. Selling prices were also encouraging with The Tapestry's average selling prices of S\$1,310 representing a >20% premium over the median transacted prices of vicinity projects within the last year. We estimate margins for this project to be as high as 40% with the Group's favourable entry price in the land bid.

+ **Strategic expansion of land bank – Total pipeline of c.3,000 units to be launched in FY18-19.** The Group won three GLS sites totalling c.S\$1.2bn in 1Q18, two of which had close winning margins of 0.7%-4.7% over the next highest bidder. The Group will launch close to half of its pipeline in 2H18 and the rest in 1H19. We expect the Group's launches in 2H18 to generate healthy buying interest before bulk of the enbloc supply kicks in.

+ **Group RevPAR recovery maintaining pace from FY17, up 3.5% YoY on a like-for-like basis.** This compares with the 4% YoY increase for FY17. Australasia and Europe (excl. London) are the standout regions. On an overall basis, global RevPAR increased 3.2% in constant currency terms.

The Negatives

- **Stronger GBP against major currencies impacted M&C's total revenue, down 2.7%.** This is despite global RevPARs improving on a constant currency basis. We note that the Bloomberg GBP index is up c.4% YoY from 1Q17. Nonetheless, the stronger GBP against the SGD contributed to the higher hotel revenue when consolidated back to the Group reporting currency.

ACCUMULATE (Maintained)

LAST DONE PRICE	SGD 12.40
FORECAST DIV	SGD 0.18
TARGET PRICE	SGD 13.40
TOTAL RETURN	9.5%

COMPANY DATA

BLOOMBERG CODE	CIT SP
O/S SHARES (MN):	909
MARKET CAP (USD mn / SGD mn):	8459 / 11275
52 - WK HI/LO (SGD):	13.53 / 10.13
3M Average Daily T/O (mn):	2

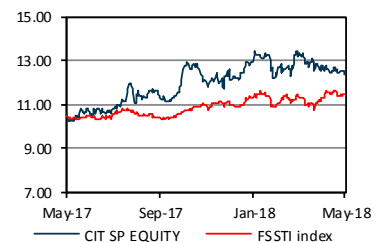
MAJOR SHAREHOLDERS (%)

HONG LEONG HOLDINGS LTD	16.4%
HONG LEONG INVESTMENT HLDG	15.4%
STANDARD LIFE ABERDEEN	5.0%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	0.0	3.4	17.2
STI RETURN	3.7	7.0	12.9

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

SGD'MN	FY16	FY17	FY18e	FY19e
Revenue	3,905	3,905	3,994	4,064
Gross Profit	1,758	1,758	1,696	1,901
EBIT	924	924	843	1,033
EPS (SGD)	0.70	0.70	0.78	0.94
DPS (SGD)	0.12	0.18	0.18	0.18
PER, x (adj.)	12.5	12.5	11.2	9.3
P/BV, x	0.9	1.2	1.2	1.2
Div Yield, %	1.4%	2.1%	2.1%	2.1%
ROE, %	6.7%	5.7%	7.2%	6.7%

Source: Company Data, PSR est.

Valuation Method

RNAV

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- **Slowdown in China sales momentum.** Sales momentum at the Group's major projects in China, Hong Leong City Center (HLCC) in Suzhou and Hongqiao Royal Lake (HRL) is slower in the quarter. To date, c.9% of HLCC (154 units) and 53% of HRL (40 villas) remain unsold. With the shopping mall (80% pre-leased) in HLCC set to commence operation in 2Q18, we expect sales momentum in HLCC to recover, though sales of high-end villas in HRL should remain muted with the existing cooling measures.

Outlook

The outlook for CDL's residential segment is positive following the successful acquisitions of 3 sites in 1Q18. Strong launches for New Futura Phase 2 (60 units, this week), South Beach Residences (190 units, 3Q18), and West Coast Vale site (c.730 units, 4Q18) are catalysts for the stock. CDL remains one of our favoured proxies to the uptick in the Singapore residential market, following the successful land banking efforts. Global tourism is on a gradual recovery track as evident from the sustained RevPAR recovery for the Group in 1Q18 at 3.5% YoY on a like-for-like basis.

Maintain ACCUMULATE with unchanged TP of S\$13.40.

Our RNAV-derived target price represents 1.29x FY18e P/NAV, still below the +1S.D. level of 1.48 since post-GFC.

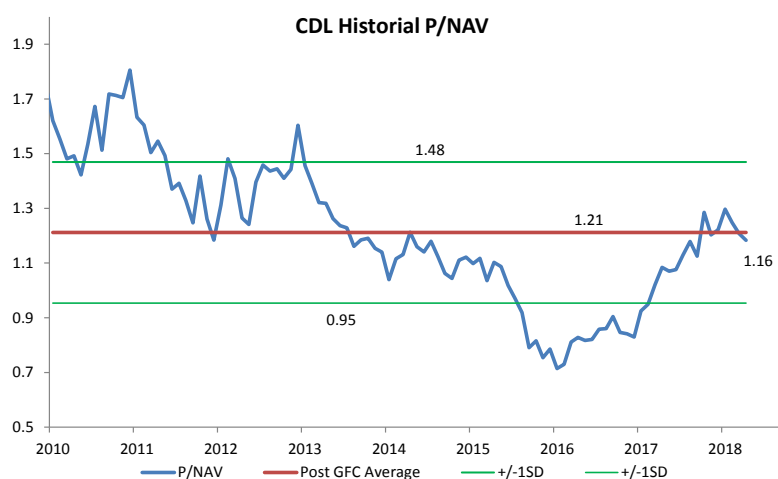
Valuations

Figure 1: RNAV Table

Segment	Location	Amount (S\$m)	Per share (S\$)
Residential	SG	5,920	6.51
	Overseas	2,356	2.59
Hotels	SG	512	0.56
Office	SG	3,234	3.56
Retail	SG	923	1.01
Others	SG	83	0.09
Commercial	Overseas	550	0.60
Add: Market Value of stakes in Listed Entities			
Millenium and Copthorne (65% stake)		2,269	2.50
Total GAV		15,847	17.43
Add FY18e cash:		3,510	3.86
Less FY18e debt:		5,022	5.52
RNAV:		14,335	15.76
No. of shares ('m)		909	
Discount to RNAV (%)		15	
Target Price			13.40

Source: Company, PSR

Figure 2: CDL trades at slightly below post-GFC average P/NAV of 1.21



Source: Bloomberg, PSR

Financials

Income Statement

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
Revenue	3,304	3,905	3,829	4,067	4,097
Gross Profit	1,656	1,758	1,685	1,903	1,879
Depreciation & Amortisation	215	222	216	227	239
EBIT	951	924	800	1,034	1,003
Net Finance (Expense)/Inc	(72)	(80)	(65)	(83)	(84)
Associates & JVs	107	71	46	58	52
Profit Before Tax	985	914	780	1,008	971
Taxation	(119)	(151)	(105)	(167)	(161)
Profit After Tax	866	763	675	841	810
Non-Controlling Interest	93	109	114	105	109
Net Income, reported	773	872	675	946	920

Per share data (SGD)

Y/E Dec, SGD	FY15	FY16	FY17	FY18e	FY19e
EPS, reported	0.84	0.70	0.58	0.93	0.89
DPS	0.16	0.12	0.18	0.18	0.18
BVPS	9.89	10.22	10.54	10.37	10.90

Cash Flows

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
CFO					
Profit for the year	866	763	675	841	810
Adjustments	52	245	277	337	324
WC changes	(712)	330	286	(195)	157
Cash generated from ops	206	1,338	1,238	983	1,291
Taxes paid, others	(128)	(157)	(162)	(167)	(161)
Cashflow from ops	78	1,181	1,076	816	1,130
CFI					
CAPEX, net	843	(204)	(45)	(186)	(199)
Cashflow from investments	520	318	(91)	(433)	(434)
CFF					
Dividends paid	(271)	(237)	(244)	(341)	(341)
Cashflow from financing	(914)	(1,341)	(922)	(479)	(474)
Net change in cash	(316)	158	63	(96)	222
Effects of exchange rates	7	-	(31)	-	-
CCE, end	3,416	3,573	3,606	3,510	3,731

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	FY17	FY18e	FY19e
ASSETS					
PPE	5,175	5,136	5,014	5,264	5,528
Associates & JVs	1,307	1,462	1,558	1,608	1,653
Investment Properties	2,584	2,346	2,449	2,449	2,449
Others	365	774	1,023	721	839
Total non-current assets	9,430	9,717	10,043	10,042	10,468
Development property	5,515	5,209	4,561	4,614	4,460
Accounts Receivables	1,762	1,166	1,036	1,215	1,224
Cash balance	3,565	3,673	3,776	3,510	3,731
Others					
Total current assets	10,888	10,081	9,460	9,375	9,449
Total Assets	20,319	19,797	19,503	19,418	19,917

LIABILITIES

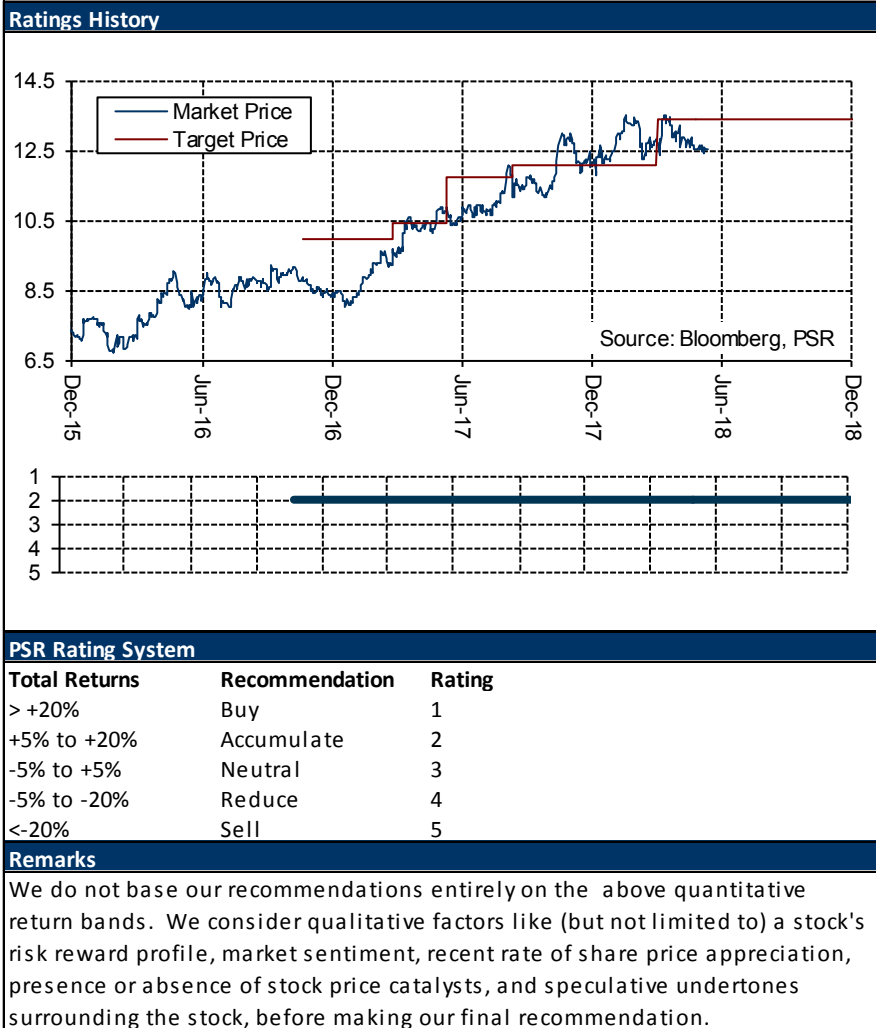
Short term loans	1,911	1,783	1,266	1,266	1,266
Accounts Payables	1,602	1,575	1,604	1,640	1,652
Others	319	301	391	339	345
Total current liabilities	3,832	3,659	3,262	3,245	3,263
Long term loans	4,572	3,955	3,756	3,756	3,756
Others	702	774	645	734	728
Total non-current liabilities	5,274	4,729	4,401	4,489	4,484
Total Liabilities	9,106	8,389	7,662	7,735	7,747

EQUITY

Shareholder Equity	8,996	9,294	9,584	9,426	9,913
Non-controlling interest	2,217	2,115	2,258	2,258	2,258
Total Equity	11,213	11,409	11,841	11,683	12,170

Valuation Ratios

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
P/E (X), adj.	9.2	12.5	15.2	9.5	9.8
P/B (X)	0.8	0.9	1.2	1.2	1.2
Dividend Yield (%)	2.1%	1.4%	2.1%	2.1%	2.1%
Growth & Margins (%)					
Growth					
Revenue	-12.2%	18.2%	-2.0%	6.2%	0.7%
EBIT	-8.5%	-2.8%	-13.4%	29.2%	-2.9%
Net Income, adj.	-4.7%	-11.9%	-11.5%	24.6%	-3.7%
Margins					
EBIT margin	28.8%	23.6%	20.9%	25.4%	24.5%
Net Profit Margin	26.2%	19.5%	17.6%	20.7%	19.8%
Key Ratios					
ROE (%)	8.6%	6.7%	5.7%	7.2%	6.7%
ROA (%)	4.3%	3.9%	3.5%	4.3%	4.1%
Gearing (X)	0.32	0.29	0.26	0.26	0.25



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