City Developments Limited

Delayed gratifications in Core Central Region properties

SINGAPORE | REAL ESTATE (DEVELOPERS) | INITIATION

- 3rd Tranche of PPS involving Nouvel 18 unlocked value for shareholders, avoided impending QC charges and grew fund management business
- Strong take up of newly launched Forest Woods condominium suggests homebuyers continue to favour smaller-sized units
- South Beach is on track to be fully completed by 4Q16; office and retail space largely leased

Investment Merits

- **Thinning supply of new CCR properties and low land sales activity in CCR expected to boost prices; CDL expected to benefit with significant exposure to CCR**

New supply of CCR units will likely remain scarce moving forward underpinned by low land sales activity in CCR. We opine that the shrinking supply of CCR properties will eventually lift the segment's price. Unsold units in CCR made up 40.7% of total unsold units under CDL's portfolio of development properties, and CDL is well-positioned to benefit in the scenario of a market turnaround given its large exposure to CCR properties.

- **No risk to do a fire sale for now; Strong balance provides holding power to stash unsold units**

CDL has seven development projects which have more than 10% unsold units within the project. Apart from two projects, and assuming a gradual absorption of these unsold units based on transaction history, CDL remains in good stead to clear the inventory of unsold units. Given the Group's strong balance sheet (net gearing of 20% after including fair value gains on investment properties), it is not pressed for time to clear these units.

- **Recurring income from investment properties; solid execution for Group's office portfolio**

Rental Properties segment contributed 21.3% of total profit before taxes (PBT). The segment has provided a certain degree of earnings visibility, and helped to insulate its performance during market slowdowns. Within the Group's investment properties, office properties formed bulk of the portfolio's value (72.6%). The Group's portfolio of offices continues to enjoy healthy occupancy of 97.4% versus the national average of 90.9 % as at 2Q16 despite the softness in demand for office space.

- **Millennium & Copthorne (M&C) currently is currently trading at 0.56X price-to-book value; significantly below 10-year average of 0.7**

M&C carries most of its hotels at cost, less depreciation and impairment charges on its books. Despite this, M&C currently trades at a deep discount of close to 0.56 times book value, below the 10 year historical mean of 0.7 times.

- **Hotel assets in M&C provides fuel for asset monetisation and catalyst for share price upside**

We believe that CDL will continue its momentum in asset monetisation via M&C, as we note previous monetization strategies by the Group which included the restructuring of Singapore assets by M&C via the initial public offering of CDL Hospitality Trust (CDLHT), as well as the listing of China-focused developer First Sponsor, which reduced CDL's deemed stake in the company from 46.3% to 35.6% post listing.

Initiating coverage with "ACCUMULATE" rating and target price of S$9.98

We favour CDL for its exposure to CCR inventory and strong balance sheet, and we believe that the market has overly discounted the developer. This is on top of the fact that CDL holds its investment properties based on historical cost. With the successful launch of 3rd tranche of PPS, CDL does not face any impending Qualifying Certificate (QC) charges or claw back of Additional Buyer's Stamp Duty (ABSD) remission until September 2017.

24 October 2016

ACCUMULATE (Initiation)

LAST DONE PRICE	SGD 8.77
FORECAST DIV	SGD 0.16
TARGET PRICE	SGD 9.98
TOTAL RETURN	15.6%

COMPANY DATA

O/S SHARES (MN) :	909
MARKET CAP (USD mn / SGD mn) :	5717 / 7975
52 - WK HI/LO (SGD) :	9.24 / 6.55
3M Average Daily T/O (mn) :	144

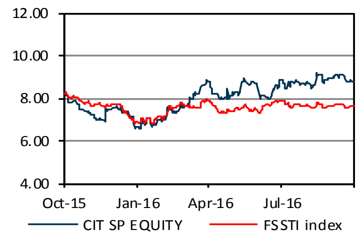
MAJOR SHAREHOLDERS (%)

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

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	(19)	0.5	9.3
STI RETURN	(0.65)	(2.10)	(2.76)

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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Ref. No.: SG2016_0211

Company Background

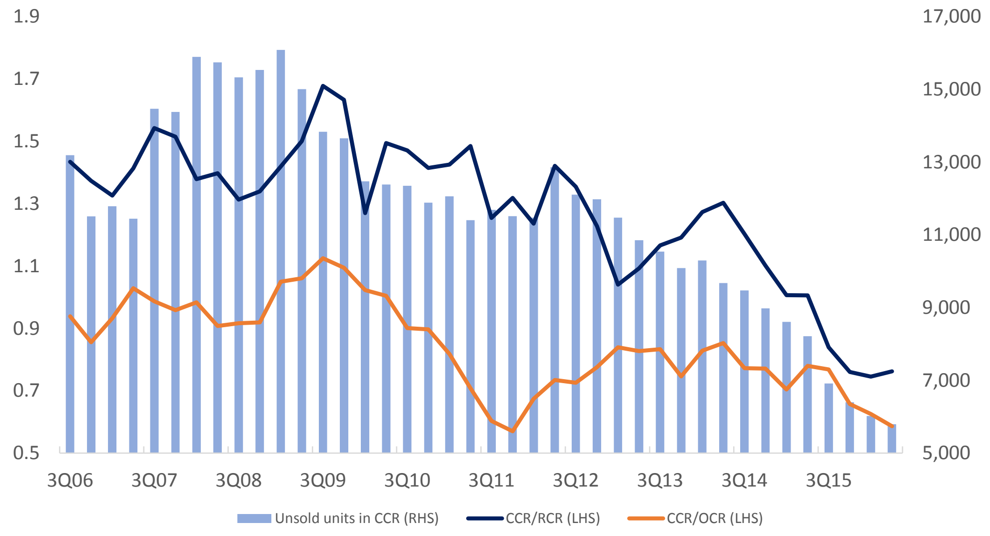
City Development Limited (CDL) was founded in 1963. It started with a development and sales model before branching out into property investments and management. It completed its first residential property in 1965. In 1972, Hong Leong Group(HLG), under the guidance and leadership of founder, Kwek Hong Png, acquired a controlling interest in CDL and embarked on a strategic diversification into investment properties. HLG provided the company with much greater financial resources, and allowed CDL to expand its footprint through numerous acquisitions and development projects. These properties span across numerous subsectors with a focus on residential, office and hospitality. As at 2Q16, the development properties totaled S$5.4bn while its investment properties are valued at S$2.6 billion.

Singapore Property Development

Thinning supply of new CCR properties and low land sales activity in CCR expected to boost prices; CDL to benefit with large portfolio of CCR units

While the absorption rate of CCR properties has been modest for the past few years, we note that the number of unsold units based on the ratio of CCR-to-RCR and CCR-to-OCR units have been declining for the past 10 years, which suggests that the supply of new CCR units is thinning. New supply of CCR units will likely remain scarce moving forward underpinned by low land sales activity in CCR. That is, apart from a CCR land sale at Martin Road in July 2016 which would house an additional 450 units, the prior CCR land sale happened in November 2013, which means that there was close to a 3-year time gap when there were no land sales activities in CCR. We opine that the shrinking supply of CCR properties will eventually lift the segment's price. Unsold units in CCR made up 40.7% of total unsold units under CDL's portfolio of development properties. The Group is well-positioned to benefit in the scenario of a market turnaround given its large exposure to CCR properties (Refer to Figure 2).

Figure 1. Ratio of CCR properties to RCR and OCR and remaining unsold units in CCR



Source: REALIS, Phillip Securities Research (Singapore)

Figure 2. CDL's portfolio of unsold units as at 2Q16

Development Project	Total Units	Unsold Units	Sold Units
CCR			
St Regis Residences	173	12	161
The Oceanfront @ Sentosa Cove	264	1	263
One Shenton	341	14	327
Cliveden@Grange^	110	66	44
UP@Robertson Quay	70	13	57
South Beach Residences*	190	190	0
New Futura*	124	124	0
Gramercy Park	174	137	37
RCR			
Echelon	508	2	506
The Venue Residences^^	266	115	151
Forest Woods	519	179	340
Commonwealth Towers	845	416	429
Bartley Ridge	868	1	867
OCR			
D'Nest	912	12	900
Coco Palms	944	88	856
Total (Exclude EC)	**6,308**	**1,370**	**4,938**
EC			
The Brownstone	638	139	499
The Criterion	505	354	151
Total (Include EC)	**7,451**	**1,863**	**5,588**

** - Development is unlaunched*

^ - 44 units are owned under a special purpose vehicle and leased out

^^ - 150 units are unlaunched

Source: Company Data, Phillip Securities Research (Singapore)

Near term price pressure expected on CDL's portfolio of CCR properties, D9 and D10 in focus

As developers race to clear existing inventory of unsold units in order to avoid the impending QC and claw back of ABSD, they have resorted to cutting average selling price (ASP) of developments. This was in particular to the prices of new developments in District 9, 10 and 11 where ASP fell an average of 20% since the last five years. We believe the higher quantum of these units as well as the ABSD cooling measure would have most likely led to weaker demand. The weakness the demand for CCR units was accentuated when Heeton Holdings resorted to selling iLiv@Grange, a 30-unit luxury condominium project in a bulk sale for a price which translated to S$1,623 per square feet (PSF). Heeton was unable to sell any of the units since its temporary occupancy status (TOP) was granted to the development in October 2013, which subsequently resulted in the Group incurring a QC extension charge amounting to S$5.8 million. We estimate the sale would lead the Group to recognise a loss of c.S$18 million or S$307 PSF. We view that the iLiv@Grange transaction along with the ongoing weak demand for CCR units are among factors that are likely to put near term price pressure on CDL's projects in the vicinity such as Gramercy Park (22% sold), Cliveden@Grange (37% sold after accounting for units that were leased) and New Futura (yet to be launched).

Profit Participation Security (PPS) investment platform

CDL launched a unique Profit Participation Security (PPS) investment platform in December 2014, which allowed it to monetize its properties through injecting these assets into a partnership for a five-year period with an option to extend for another two. Such a move also allows CDL to avoid any upcoming Qualifying Certificate (QC) extension charges by structuring the PPS entity under Singapore citizens or Singapore-incorporated private companies fully owned by Singaporeans. Besides allowing CDL to recycle capital for possible land bank replenishment, the structure also allows CDL to tide through the current weakness in Singapore's property market and sell the properties at a more opportune time when prices recover within the five-year duration of the investment vehicle.

3rd Tranche of PPS involving Nouvel 18 unlocks value for shareholders, avoided impending QC charges and grew fund management business

CDL has successfully launched the third tranche of PPS on 21 October 2016 which involved injecting Nouvel 18, a 174-unit luxury condominium development through a sale of the development for S$977.6 million (valuation: S$965.4 million) into the fund management. The proposed transaction will fetch a price of S$2,750 PSF, recognising a c.22% profit before tax margin for CDL which we believe is a fair price considering the current market conditions while matched with the transacted prices of nearby developments such as Ardmore Three (S$2,600 PSF) after factoring in discounts offered at the development). Secondly, the transaction also allowed the Group to avoid an impending QC extension charge of S$37.2 million. Including the latest PPS, CDL has launched three PPS' between December 2014 and October 2016, the Group currently has c.S$3.5 billion of assets under management, and has met 70% of its S$5 billion target by 2018.

No need to perform fire-sale; Strong balance provides holding power to stash unsold units

Under CDL's portfolio of development projects with at least one unsold unit, there are eight out of 17 development projects that are not subjected to either QC conditions or the clawback of ABSD. Given the Group's strong balance sheet (net gearing of 20% after including fair value gains on investment properties), it is not pressed for time to clear these units. Out of the remaining nine development projects that are subjected to either QC extension charges or the clawback of ABSD, there are seven development projects which have more than 10% unsold units within the project, and may potentially incur the aforementioned penalties. Apart from Commonwealth Towers and The Venue Residences, and assuming a gradual absorption rate for these unsold units based on transaction history, CDL remains in good stead to clear the inventory of unsold units.

Figure 3. CDL's projects with >10% unsold units, impacted by upcoming QC extension charges

Project	Market segment	Unsold units (%)	Land cost (S$'mn)	Estimated QC fee (S$'mn)	QC/sqft	QC deadline
Gramercy Park	CCR	79	383	24	73	May-18
New Futura (Unlaunched)	CCR	100	287	23	92	Nov-18 (est)

Source: Company Data, Phillip Securities Research (Singapore)

Figure 4. CDL's projects with >10% unsold units, impacted by upcoming clawback of ABSD

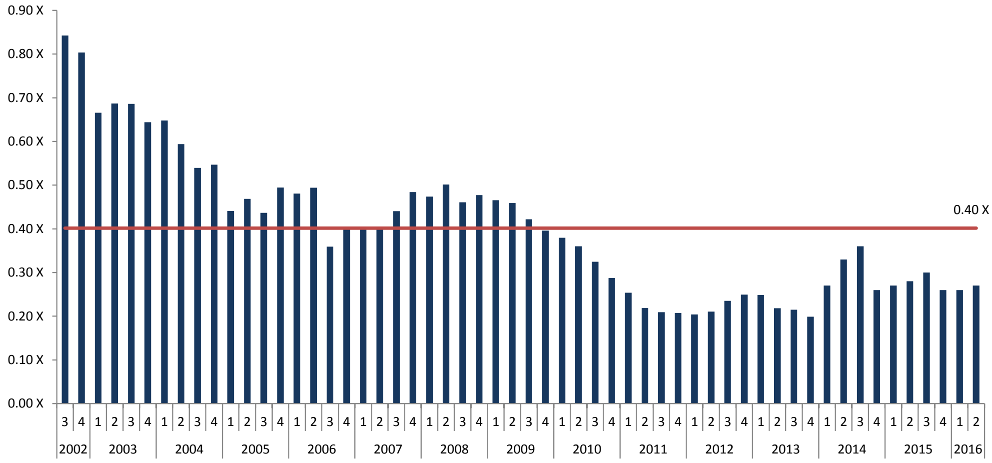
Project	Market segment	Unsold units (%)	Land cost (S$'mn)	Estimated ABSD (S$'mn)	ABSD/sqft	ABSD deadline
The Venue Residences	RCR	43	245	31	233	Sep-17
Commonwealth Towers	RCR	49	563	70	224	Dec-17
The Criterion [EC]	OCR	70	179	22	58	May-18
The Brownstone [EC]	OCR	22	226	28	197	Jan-19
Forest Woods	RCR	35	321	40	253	Nov-20

Source: Company Data, Phillip Securities Research (Singapore)

Balance sheet staying strong; net gearing lower than industry average

CDL's balance sheet as at 2Q16 stayed strong with S$3.3 million in cash with a net gearing of 26% which is significantly below its historical average of 40%. Although some of its peers enjoy greater access to funding, CDL prefers to lower its interest rate risk in a more traditional manner. Since 2009, management has actively lower its reliance on debt funding for its development/investment projects, thereby lowering net debt. On an adjusted basis (including the fair value gain of its investment properties), CDL's net gearing of 20% is lower than the industry average of 26%. The large availability of cash pile and low gearing provides CDL a war chest to pick up value accretive investments when the opportunities surfaces. In line with the management guidance, they are highly selective and critical of opportunities that arise during weak market conditions.

Figure 5. CDL's historical net gearing



Source: Company Data, Phillip Securities Research (Singapore)

Strong take up of newly launched Forest Woods condominium suggests homebuyers continue to favour smaller-sized units

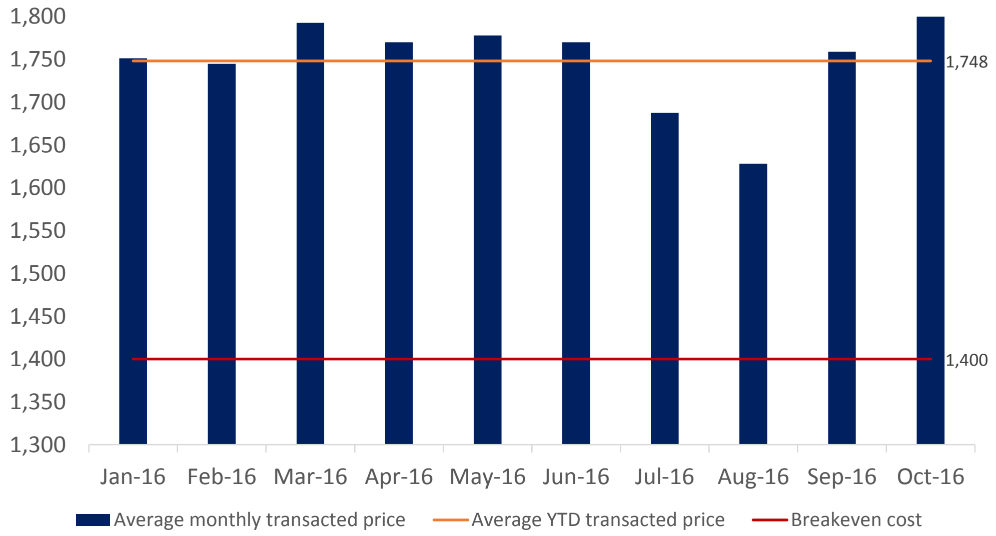
CDL launched Forest Woods, a 519-unit condominium project belonging to the RCR market segment, and sold 66% of the project within the first weekend of launch. We note that the strong take up rate of Forest Woods was driven by the sale of smaller units where units below 1,000 square feet accounted for 60 % of total sales volume. This was unlike the case for the Group's other nearby mixed development project, The Venue Residences, where more than half of the development has remained unsold (including 44% of unlaunched units). We view that the larger sized units in The Venue Residences – average size of 963 square feet (based on transactions) compared to an average size of 754 square feet in the Forest Woods is most likely the factor behind the weaker sales. As such, we expect buoyancy in the sales of smaller sized units to persist on the back of the 60% TDSR requirement as mentioned in a previous sector report published on 3 October 2016.

Significant price cuts expected at Commonwealth Towers and The Venue Residences amid keen competition in the area

There are 416 and 115 unsold units in Commonwealth Towers and The Venue Residences mass market development projects as at 20 October 2016. Queen's Peak, a mass market development project which is a 200-metre distance away from Commonwealth Towers, is slated to be launched on 22 October 2016. Queen's Peak will add another 736 units to the current available units within the area. We estimate the breakeven costs for these two developments to be in the region of S$1,400 PSF. While volume of transactions are small, we find the year-to-date (YTD) transacted prices at Commonwealth Towers encouraging, considering that they were still coming through at a healthy YTD average price of S$1,750 PSF. This amount is still significantly higher than our estimated breakeven cost and provides room for price cuts when competition intensifies. We view that a price cut is imminent considering that the deadline before the claw back of ABSD remission is December 2017, which translates to a sale of 32 units per month. Given that sales volume at Commonwealth Towers is 36 units YTD, it is unlikely that sales volume will pick up in the next 13 months before the ABSD deadline unless there is an unwinding of the property cooling measures or significant price cuts.

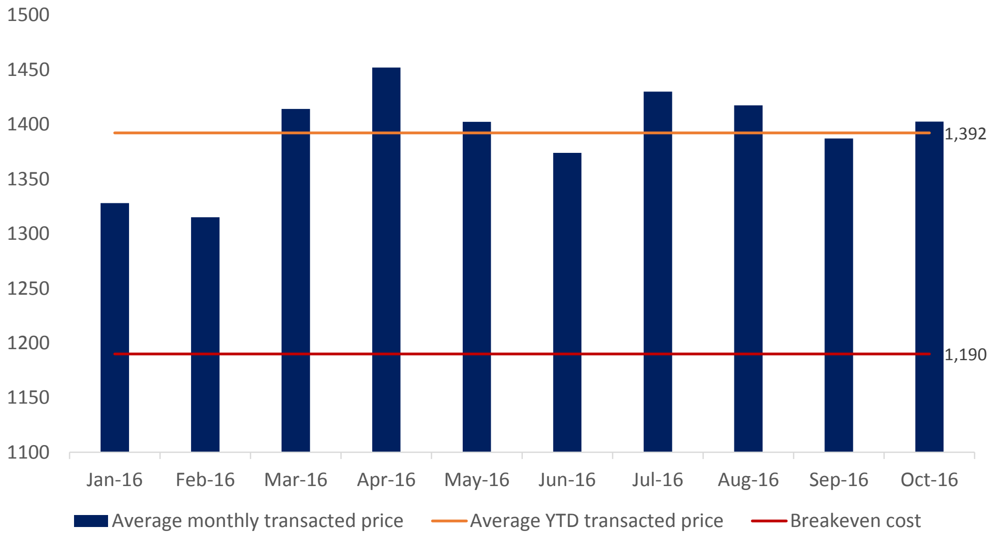
CDL still has 110 units in The Venue Residences which remained to be unlaunched as at 20 October 2016. There are another 166 units (including 161 unlaunched units) at a nearby development, Poiz Residences, which are competing for sales in the same area as The Venue Residences. Taking into account of the deadline from the claw back of ABSD remission for The Venue Residences is September 2017, as well as the recent en-bloc transaction at Raintree Residences which will potentially add another 750 units when launched, we believe that CDL is likely to cut prices in order to accelerate sales at The Venue Residences. The price reduction is likely to be significant given that some homebuyers may be unable to obtain bank loans due to the 60% TDSR requirement since the purchase price of units in The Venue Residences is larger than Poiz Residences. The average size of units in the Venue Residences (963 sqft) is considerably larger than Poiz Residences (721 sqft). On a positive note, CDL will triumph in a price competition since the land cost of S$710 PSF at The Venue Residences is the lowest among than the three (Poiz Residences: S$775 PSF, Raintree Residences: S$797).

Figure 6. Price transactions at Commonwealth Towers (S$'PSF)



Source: REALIS, Phillip Securities Research (Singapore)

Figure 7. Price transactions at The Venue Residences (S$'PSF)



Source: REALIS, Phillip Securities Research (Singapore)

No catalyst for a market recovery; not until the unwinding of cooling measures in our view

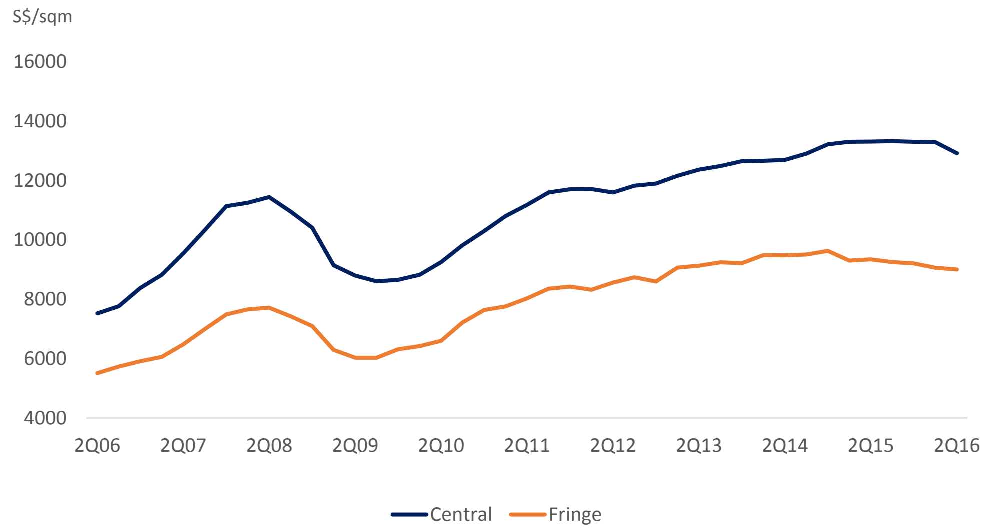
As of 19 October 2016, unsold units in the CCR market segment occupied 40.7% of unsold private residential units (include units from unlaunched developments and exclude EC) in CDL's portfolio. We expect CDL to significantly benefit from a recovery in the overall real estate market which we are inclined to believe it should happen when the Singapore Government unwinds the existing property cooling measures in particular to the ABSD and 60% TDSR requirement. We do not anticipate the cooling measures to be removed in the near term considering that overall prices measured by the price index has merely retraced by 10 % from a high of 154 points in 2013. Any further price gains would reduce the affordability as prices of private properties have grown by c.70% in the 10-year period between 2006 and 2015 while median wage growth was up 60% in the same period. As such, we opine that it is still premature for the Singapore Government to unwind the existing property cooling measures. However, as reiterated by the Singapore Government, they are committed to moderate growth and do not intend to bring about a hard landing in the property market. We believe that developers with strong balance sheets like the case of CDL will weather this period of slowness and emerge largely unscathed.

Singapore Investment Property Segment

Declining vacancy rates and office rentals expected in our view

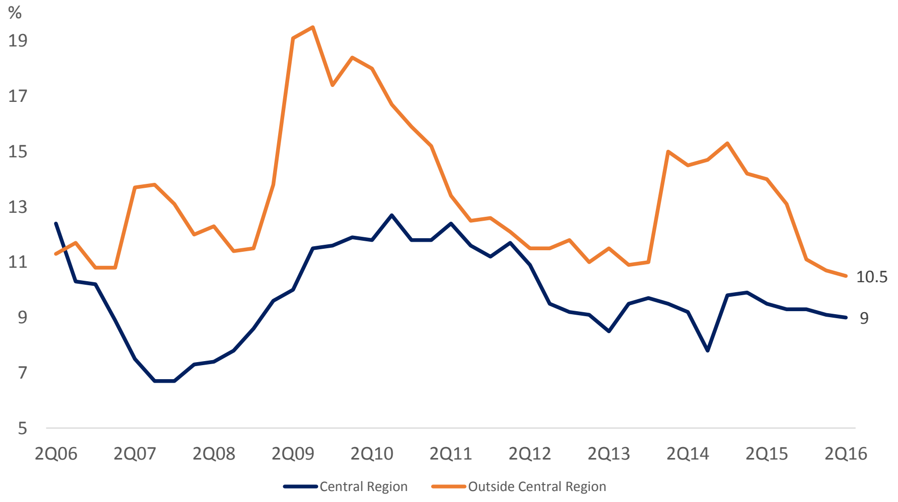
Since 2010, new office stock has increased by ~10.5 million square feet in the central business district (CBD). Most of the new office space is located in Marina Bay, where the area is regarded as the premium office area in Singapore. From 2013, the main theme of the market was centred on major and large financial firms relocating their back-office functions to the island fringe in order to combat rising costs. Any increase in rental rates within the CBD area was largely due to smaller tenants moving in and paying a premium for smaller spaces at top levels. We believe that the effective rental rates have stayed stagnant since 2H12. While the market continues to grapple with an influx of new office space, vacancy rates have been declining, and therefore have been showing some signs of stabilising. Moving forward, we view that demand for office space is expected to be moderate and rental growth is likely to be flattish in the next two years.

Figure 8. Singapore office capital value



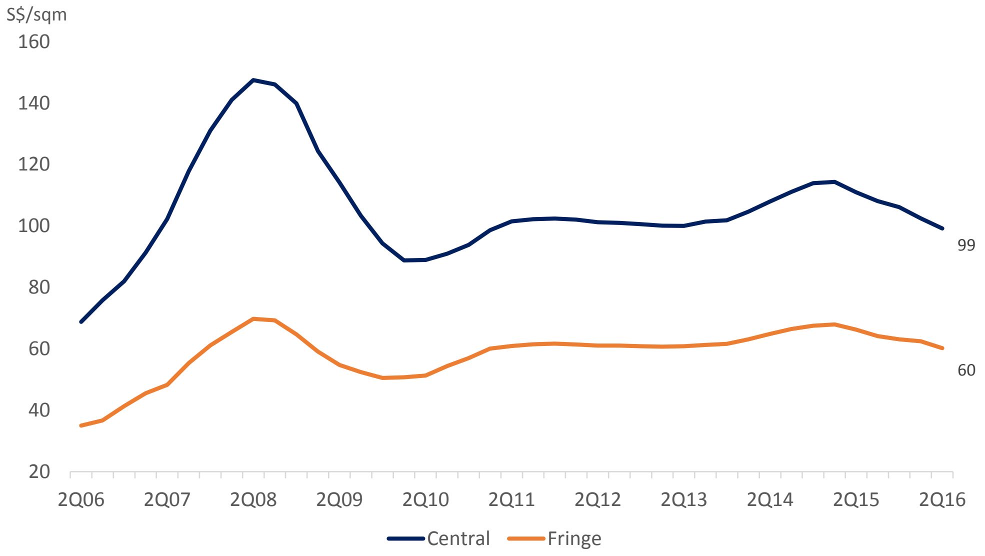
Source: REALIS, Phillip Securities Research (Singapore)

Figure 9. Office Vacancy



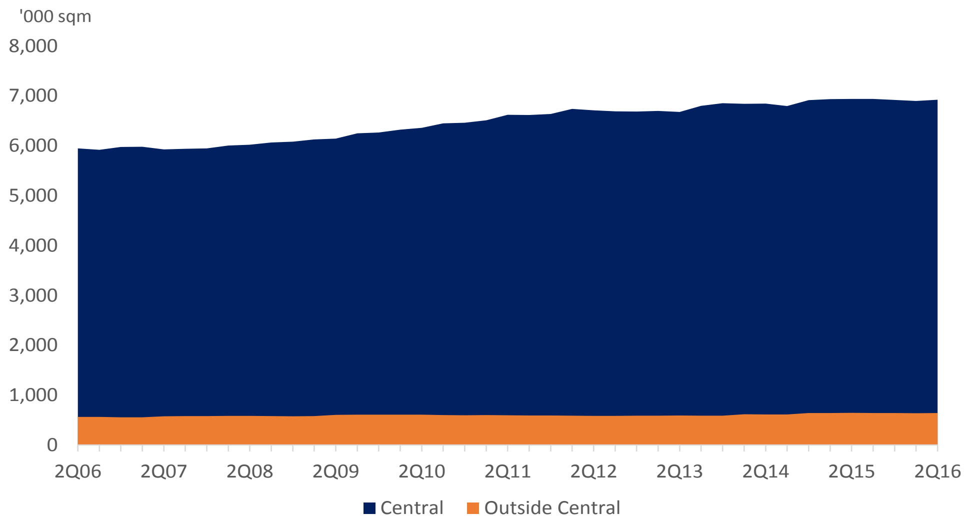
Source: REALIS, Phillip Securities Research (Singapore)

Figure 10. Office rental value



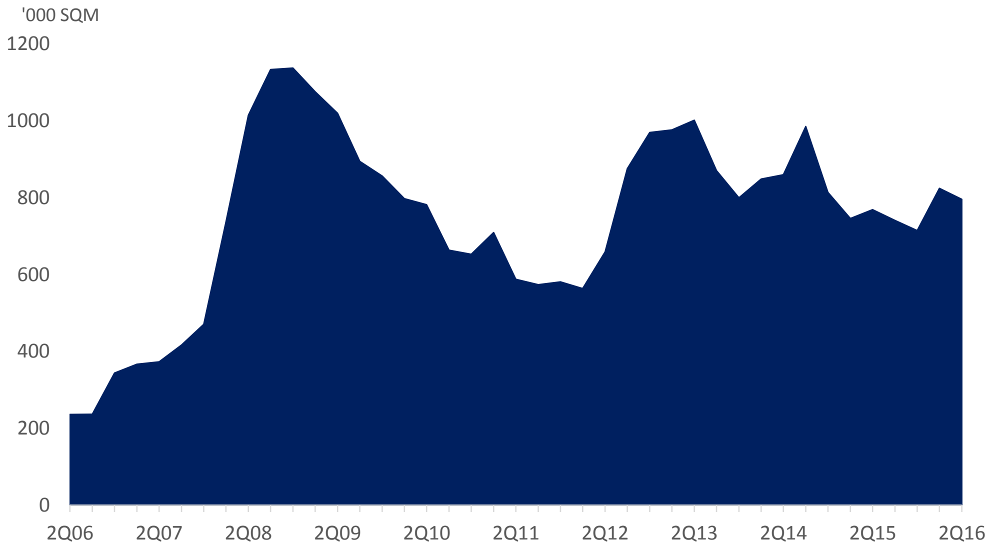
Source: REALIS, Phillip Securities Research (Singapore)

Figure 11. Office Stock



Source: REALIS, Phillip Securities Research (Singapore)

Figure 12. Office Supply (under construction)



Source: REALIS, Phillip Securities Research (Singapore)

Recurring income from investment properties; solid execution for Group's office portfolio

Although revenue from the Rental Properties segment made up 10% of CDL's revenue in 1H16, however, the segment contributed 21.3% of total profit before taxes (PBT). On a PBT basis, the Rental Properties segment is the second largest contributor of profits for the Group after Property Development. Within the Group's investment properties, office properties formed bulk of the portfolio's value (72.6%). The Group's portfolio of offices continues to enjoy healthy occupancy of 97.4% versus the national average of 90.9 % as at 2Q16 despite the softness in demand for office space.

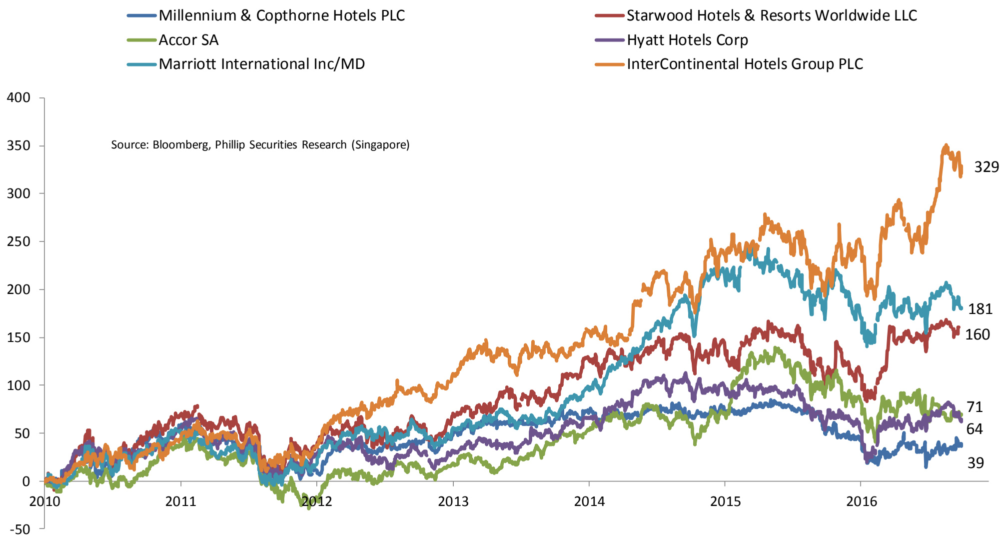
South Beach is on track to be fully completed by 4Q16; office and retail space largely leased

South Beach, a mixed development consisting of a hotel, office, retail space and 190 residential units is on track for full completion by 4Q16. The development is centrally located in the City Hall area with linked walkways to Esplanade MRT station. Despite the challenging market conditions, the office space in South Beach is 99% leased while the retail portion is >76% leased according to management. Currently, ~50% of retail space has already been opened to the public. We will be monitoring the performance of the hotel segment after it has been rebranded to The JW Marriott Hotel Singapore South Beach.

Hospitality Business: Millennium and Copthorne

Another potential monetization route for CDL lies in its 65% stake in M&C, listed on the London Stock Exchange. Perhaps due to the investor concerns over the capital intensive nature of M&C's business model, M&C's stock has recovered the least (39%) versus the other major international hotel chains, following the Global Financial Crisis. International hotel chains which are bigger proponents of the asset-light model, such as IHG and Marriott, are on the other end of the returns spectrum with a 329% and 181% return since 2010 respectively.

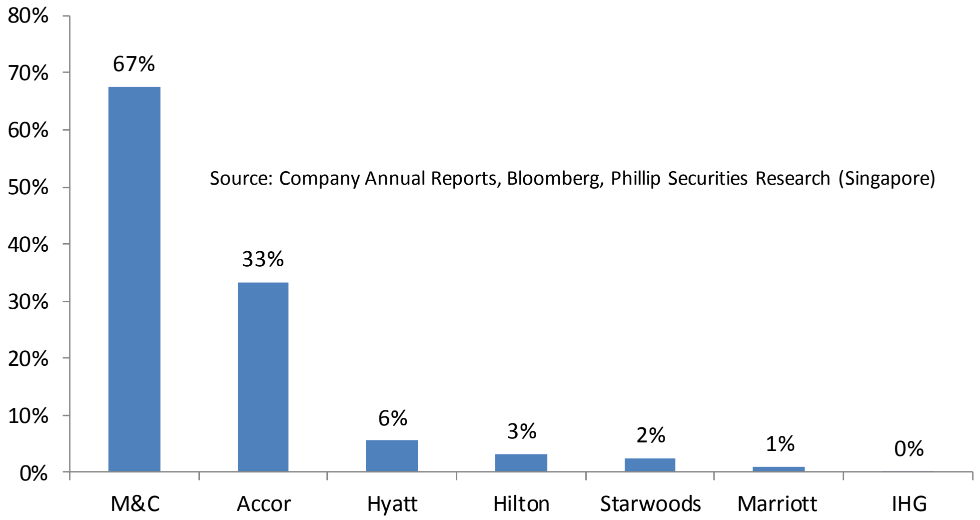
Figure 13: Price performance of major international hotel chains vs M&C since post GFC (2010 to present)



Source: Bloomberg, Phillip Securities Research (Singapore)

Even as the other traditionally more asset-heavy international hotel chains such as Accor and Hyatt adopt an increasingly asset-light operating model, M&C retains a model that still owns one of the highest proportion of hotels in its portfolio than its competitors.

Figure 14: % of self-owned hotels amongst major international hotel chains



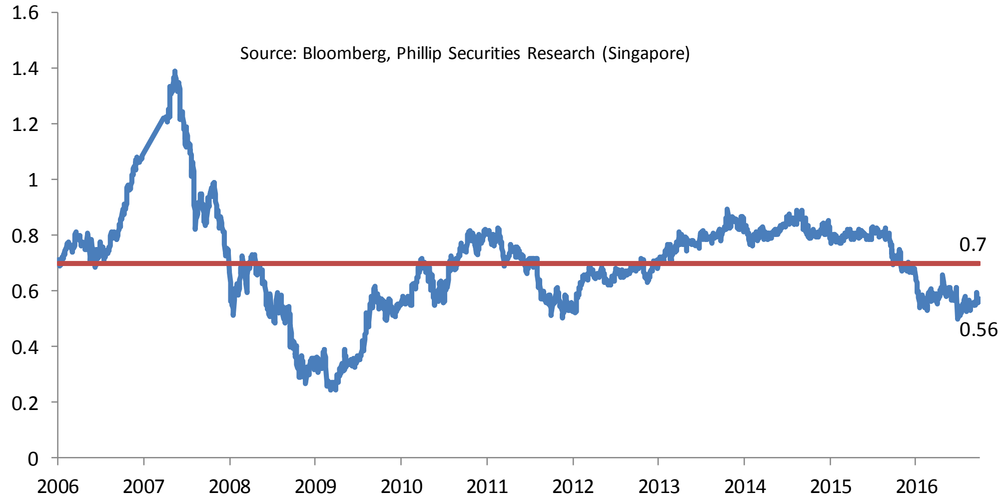
Source: Company Annual Reports, Bloomberg, Phillip Securities Research (Singapore)

Notwithstanding the capital-intensive nature of owning its portfolio hotels (versus the more expansion-friendly method of operating management/franchising contracts), one other advantage of owning the physical properties is the opportunity to participate in larger capital value appreciation for the owned hotels.

M&C carries most of its hotels at cost, less depreciation and impairment charges on its books. Despite this, M&C currently trades at a deep discount of close to 0.56 times book value, below the 10-year historical mean of 0.7 times. We note that this model of owning and operating hotels is not unlike some of the locally-listed hospitality REITs investors are familiar with. With a mix of management contracts and master leases, these hospitality REITs too are exposed to the volatilities of the tourism business. Master Leases do provide some form of stabilization for these REITs but revenue from such Master Leases can go as low as 17% as in the case of Ascendas Hospitality Trust. The remaining revenue will be subject to the performance of the management contracts and seasonal volatile tourism industry. These hospitality S-REITS though trade from a range of 0.66-0.92x book value, despite having their hotels/investment properties revalued every year.

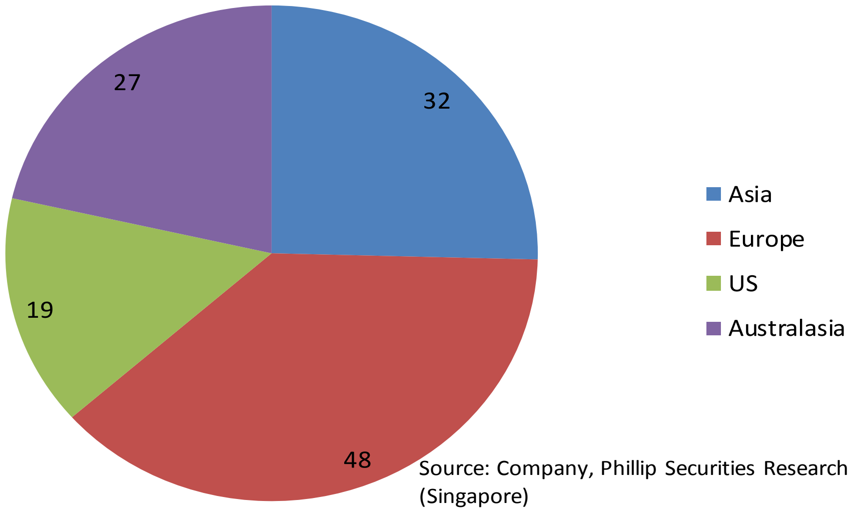
With M&C currently trading at a big discount to book, which is also below the 10-year average, any reversion to mean in trading valuations or monetization strategies by the hotel chain could accrue potential upside to CDL. We note previous monetization strategies by the Group which included the restructuring of Singapore assets by M&C via the initial public offering of CDL Hospitality Trust (CDLHT), as well as the listing of China-focused developer First Sponsor, which reduced CDL's deemed stake in the company from 46.3% to 35.6% post listing.

Figure 15: M&C Historical Price to NAV chart



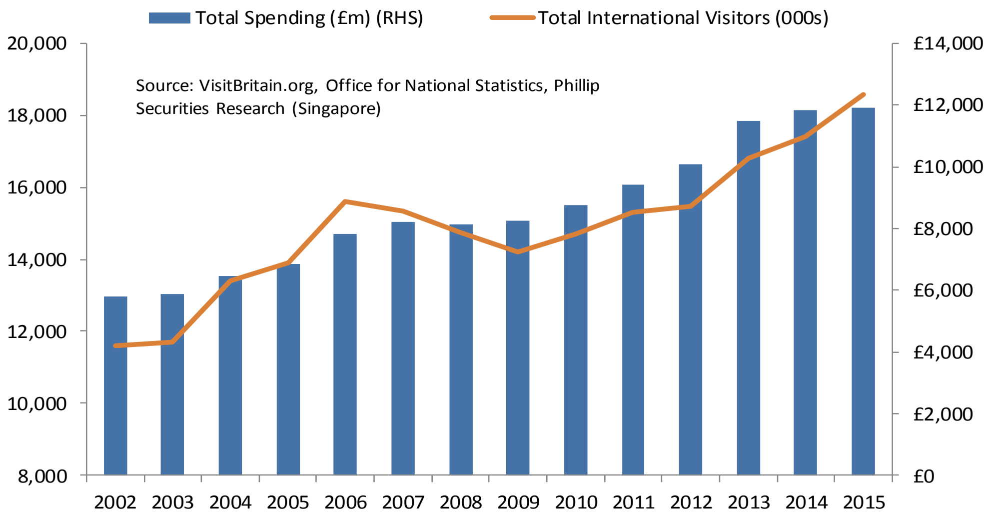
With Singapore and London making up a total of close to 70% of FY15 operating income, these two countries are important markets for M&C. London welcomed a record 18.5 million international visitors in 2015 (up 6.8% y-o-y), with total spending rising to GBP 11.9 billion (up 0.8% y-o-y). More recently, post Brexit, the UK Office for National Statistics noted signs that the fall in the pound has attracted tourists on shopping sprees, with sales of watches and jewellery up 16.6% y-o-y in July, the month after the referendum. International tourist receipts broke a 4-month negative trend to grow 2.3% y-o-y in that same month.

Figure 16: Breakdown of M&C's 126 hotels by geographic regions



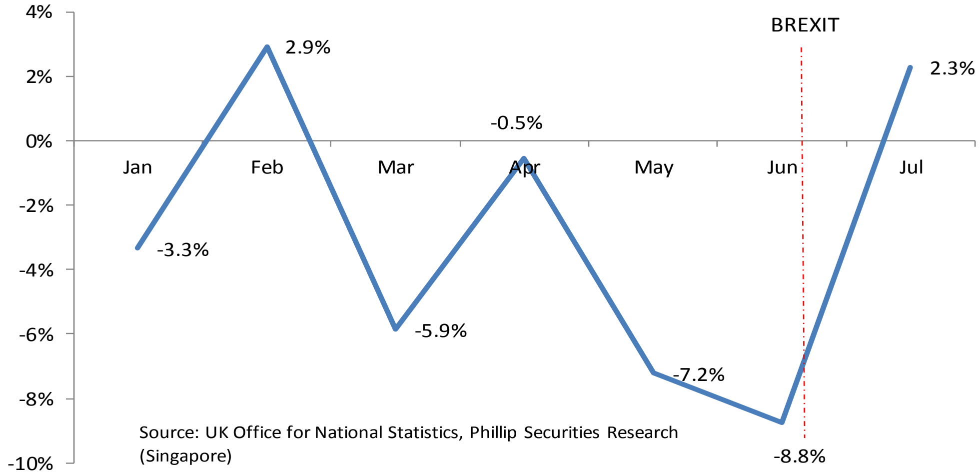
Source: Company, Phillip Securities Research (Singapore)

Figure 17: London International Tourist Arrivals and Total Spending



Source: VisitBritain.org, Office for National Statistics, Phillip Securities Research (Singapore)

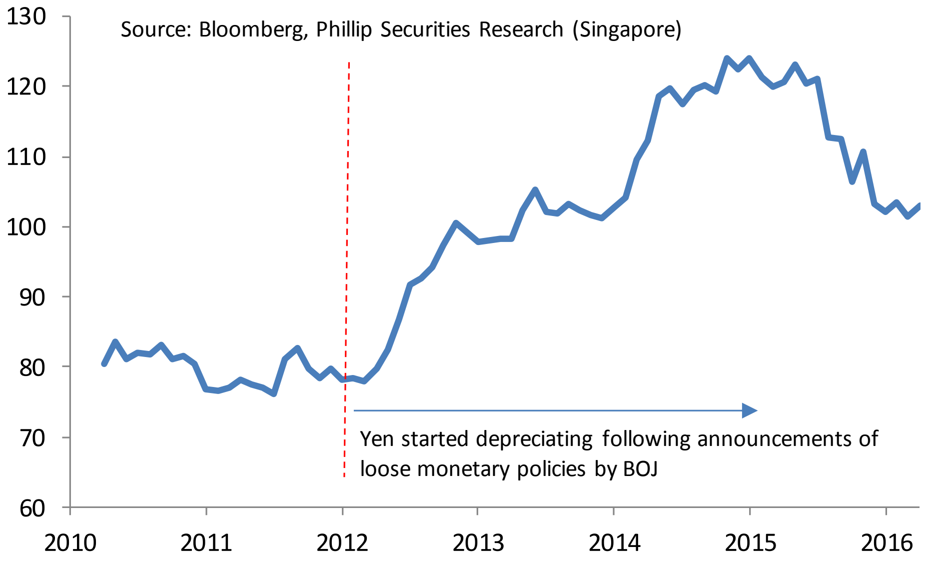
Figure 18: 2016 UK International Tourists Total Receipts Y-o-Y change



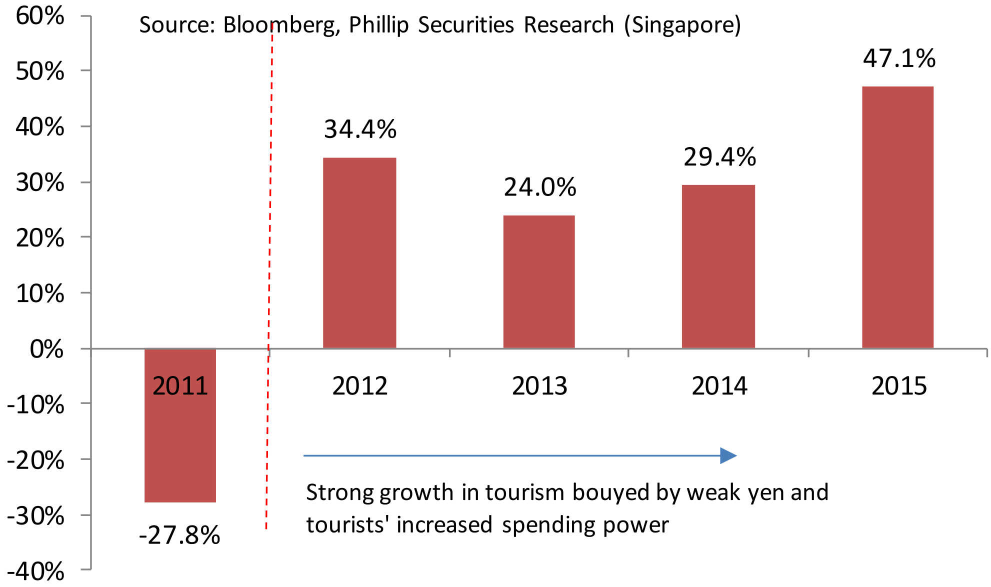
Source: UK Office for National Statistics, Phillip Securities Research (Singapore)

We previously saw a similar strong trend in tourism growth for Japan after the JPY weakened post the loose monetary easing policies implanted by the BOJ in 2012. At its trough, the JPY depreciated up to c.59% against the USD from 2012-2015. Buoyed by this increased spending power for overseas tourists, Japan saw tremendous y-o-y growth of >24% in each of the four years from 2012-2015 as the JPY stayed weak. The GBP has depreciated c.14% against the USD to c.1.27 since Brexit in June. In a similar vein, we expect the ongoing Brexit situation to continue to depress the GBP which would likely be a big booster for tourism. The Bloomberg Composite forecast for GBP/USD is c.1.32 going forward to 2017/2018.

Figures 19 and 20: USD/JPY – Depreciation of the yen since 2012…

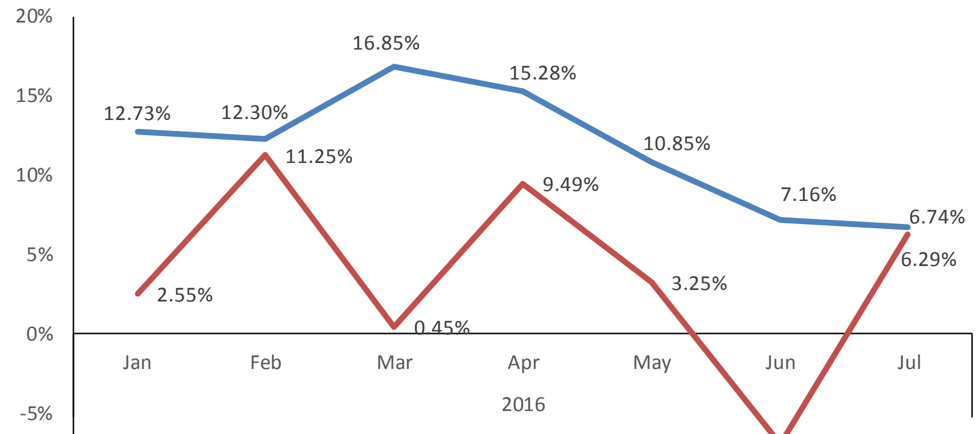


… Brought about a spike in tourist arrivals as tourists' spending power increased



Singapore too saw a recovery in tourist arrivals for the first seven months this year, boosted by huge increases in Chinese and Indonesian tourists to the island. After the lacklustre -3% and 0.9% growth in tourist arrivals in 2014 and 2015, the average y-o-y growth for the first 7 months was 11.7%. Total room revenue grew an average 3.8% after mildly nudging up 0.9% in 2015.

Figure 21: Singapore 2016 Tourist Arrival Numbers and Total Room Revenue Y-o-Y change



Source: CEIC, Phillip Securities Research (Singapore)

Current low oil prices may continue to provide a boost to air travel and the tourism industry. In addition, we think the impact of the advent of sharing economy platforms such as Airbnb may not be as pronounced in CDL's portfolio which focuses more on corporate and high end leisure segment while the former is more targeted at budget conscious leisure travelers.

Overseas Residential Projects (UK, China, Australia, Japan)

CDL's international growth and overseas diversification strategy will start reaping rewards from 2016-2018 when substantial sales and developments from overseas properties complete during this period. Revenue from CDL's overseas residential properties is recognised upon full completion of project construction, unlike the percentage of completion method in Singapore.

UK and China make up a substantial portion of overseas residential property for CDL. Overseas residential properties represent c.16% of our total GAV for CDL. In China, Hong Leong City 丰隆城市中心 in Suzhou, Huang Huayuan 黄花园 in Chongqing and Hongqiao Royal Lake 御湖 in Shanghai are three major projects CDL is currently undertaking.

China property prices have enjoyed a good run post Global Financial Crisis. Shanghai, Suzhou, and Chongqing saw median property prices increase 76.5%, 42% and 5.1% respectively since 2010, compared to the All-China price increase of 39.5%. For CDL's projects in China, upcoming estimated completion for Hong Leong City Center 丰隆城市中心 Phase 1 and Phase 2 will be 4Q16 and 4Q17 respectively. Phase 1 is 69% sold with sales value of RMB 2 billion achieved to date. Final review on the unit mix for another major project Huang Huayuan 黄花园 in Chongqing has commenced and construction work on the project is expected to resume this year. Estimated completion remains to be announced.

For UK, the fully-sold 82-unit Hanover House is expected to be completed by 2H16 and will contribute to revenue once completed. Further out, CDL has 3 upcoming projects, Teddington Riverside, Stag Brewery and Knightsbridge (Pavilion Road) which will complete from 2018 onwards. The cost for these 3 projects represent c.80% of the total outlay CDL has shelled out since its entry into London in 2013.

Figure 22: Launched overseas residential projects under CDL

Projects Launched	City	Total Units	Total Sold	% Sold	Total Estimated Saleable Area (Sq ft)	Estimated Completion
Australia						
Ivy and Eve	Brisbane	472	423	90	348,678	1H2018
China						
Hong Leong City Center (Phase 1)	Suzhou	1374	945	69	1,376,570	4Q2016
Hongqiao Royal Lake	Shanghai	85	18	21	385,394	Completed
UK						
Hanover House (Reading)	London	82	82	100	29,893	Completed

Source: Company, Phillip Securities Research (Singapore)

Figure 23: Yet to be launched overseas residential projects under CDL – A series of completions from 2017-2019 to boost revenue

Project	City	Total Units	Total Estimated Saleable Area (Sq ft)	Estimated Completion
China				
Hong Leong City Center (Phase 2)	Suzhou	430	448,844	4Q2017
Eling Residences	Chongqing	126	354,814	2Q2017
Huang Huayuan	Chongqing	TBC	1,304,062	TBC
UK				
Belgravia	London	6	12,393	1Q2017
Knightsbridge	London	3	5,193	1Q2017
Chelsea	London	9	16,143	2018
Teddington	London	239	240,000	2018/2019
Knightsbridge (Pavilion Road)	London	TBC	135,000	TBC
Stag Brewery, Mortlake	London	TBC	1,000,000	TBC
Japan				
Shirokane	Tokyo	TBC	180,995	TBC

Source: Company, Phillip Securities Research (Singapore)

Risks to our views

Upside

- Unwinding of property cooling measures with ABSD and 60% TDSR in focus
- Broadening of immigration policy
- Depreciation in the S$ which could boost inbound tourism to Singapore

Downside

- A further slowdown in Singapore's Real Estate sector
- Unforeseen circumstances (e.g. terrorism and pandemic) that are adverse to the Hospitality subsector

Figure 24: CDL Historical Price to NAV

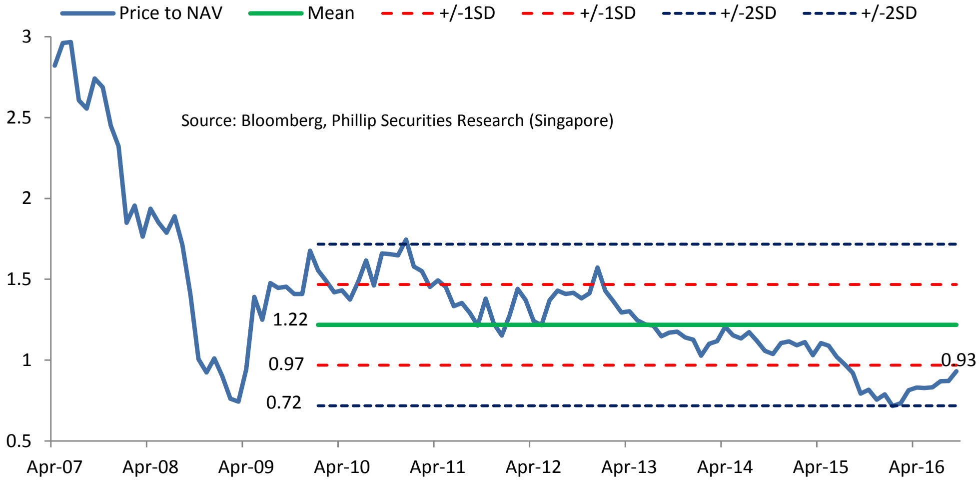


Figure 25: Peer Comparison Table

Name	Mkt Cap (SGD mn)	Price (SGD)	P/E	ROE	ROA	Dividend Yield	P/B	Debt/Assets
CITY DEVELOPMENTS LTD	**7,975**	**8.77**	**10.7**	**6.2**	**3.8**	**1.8**	**0.90**	**31.9**
CAPITALAND LTD	13,221	3.12	14.0	4.2	2.1	2.9	0.79	33.9
GLOBAL LOGISTIC PROPERTIES	8,530	1.82	10.3	-0.1	3.4	3.3	0.72	21.8
UOL GROUP LTD	4,594	5.7	14.6	4.4	2.7	2.6	0.58	23.5
FRASERS CENTREPOINT LTD	4,393	1.515	7.4	7.6	2.6	5.7	0.69	41.2
UNITED INDUSTRIAL CORP LTD	3,874	2.73	12.4	5.2	3.7	1.1	0.63	16.0
YANLORD LAND GROUP LTD	2,700	1.39	7.0	5.8	2.3	1.1	0.64	21.1
GUOCOLAND LTD	2,390	2.02	3.5	4.0	7.4	2.5	0.68	48.4
WHEELOCK PROPERTIES (S)	1,795	1.5	31.6	1.9	1.5	4.0	0.60	12.9
HO BEE LAND LTD	1,419	2.13	5.2	10.2	6.8	3.3	0.52	33.5
OXLEY HOLDINGS LTD	1,360	0.465	6.6	32.8	4.8	4.4	1.74	55.6
WING TAI HOLDINGS LTD	1,323	1.71	187.9	0.2	0.1	1.8	0.42	27.7
BUKIT SEMBAWANG ESTATES	1,168	4.51	13.1	6.8	6.1	7.3	0.89	0.0
SIM LIAN GROUP LTD	1,086	1.08	15.8	5.9	4.0	6.7	0.94	17.1

Source: Bloomberg, Phillip Securities Research (Singapore)

Valuation Methodology

Valuation (Base Case) and Valuation Methodology

CDL is primarily engaged in the real estate development and investment business. It is natural for companies in this industry to have lower asset turnover as companies have heavier asset bases. Based on the previous full-year earnings in FY15, property development (32 %) and hotel operations (51 %) formed bulk of the Group's revenue. With full/part ownership in more than 70 hotels and several ongoing property development projects, we opine that CDL's value is best measured by utilising a Revised/Revalued Net Asset Value (RNAV) methodology. By incorporating this method, we value:

1. Investment properties: By applying appropriate market cap rates on net operating income
2. Development properties: Valued at Net Present Value of their after tax cash flow less all associated costs

CDL does not include revaluation surplus in their accounting books, which means that all properties are held at cost. We believe that the market valuation of the stock does not take into account the intrinsic value of the underlying assets on the Group's balance sheet.
We valued CDL's Singapore investment properties by applying cap rates of 4.25 - 5% for office, 5 - 5.7% for retail, 6.5% for industrial and 6-7.5% for overseas properties. For its Singapore residential properties, we assumed relevant market ASP based on nearby

developments or past transaction records. We adopt a standard development schedule, and discount cash flows by a ~5% discount rate (future sales of residential units are priced at 10% lower than current market ASP). Stakes in listed entities such as Millennium and Copthorne and City e-Solutions are taken at latest listed market values of the traded shares.

We derived a total gross asset value (GAV) of S$14.4 billion or S$15.83/share. After subtracting total debt, we arrived at a RNAV of S$11.3 billion or S$12.47/share. Historically, the large cap developers have traded between 20% to 55% discount to RNAV. Historically, CDL has traded between 10% and 45% below RNAV. Here we are pegging our CDL price target to a 20% discount to RNAV and a price target of S$9.98. Accumulate as fundamentals remain intact and the Group continues to stay committed in unlocking value in their assets (i.e. PPS investment platform). Additionally, we believe that strategic direction of venturing overseas will bring diversification benefits and upside in the longer term.

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
City e-Solutions (53% stake)		138	0.15
Total GAV		14,390	15.83
Add cash:		3,300	3.63
Less debt:		6351	6.98
RNAV:		11,339	12.47
No. of shares ('m)		909	
Discount to RNAV (%)		20	
Target Price			9.98

Source: Phillip Securities Research (Singapore)

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	10.63	10.76	11.49

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	(200)	(206)	(220)
CFF					
Dividends paid	(275)	(271)	(273)	(273)	(273)
Cashflow from financing	739	(914)	(323)	(273)	(273)
Net change in cash	989	(316)	383	73	427
Effects of exchange rates	17	7	-	-	-
CCE, end	3,725	3,416	3,799	3,872	4,299

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	1,396	1,498	1,593
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**	**9,680**	**10,082**	**10,499**
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	3,799	3,872	4,299
Others					
Total current assets	**10,329**	**10,888**	**11,152**	**11,131**	**11,450**
Total Assets	**19,701**	**20,319**	**20,832**	**21,213**	**21,949**
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	9,665	9,784	10,440
Non-controlling interest	2,365	2,217	2,217	2,217	2,217
Total Equity	**10,776**	**11,213**	**11,882**	**12,001**	**12,658**

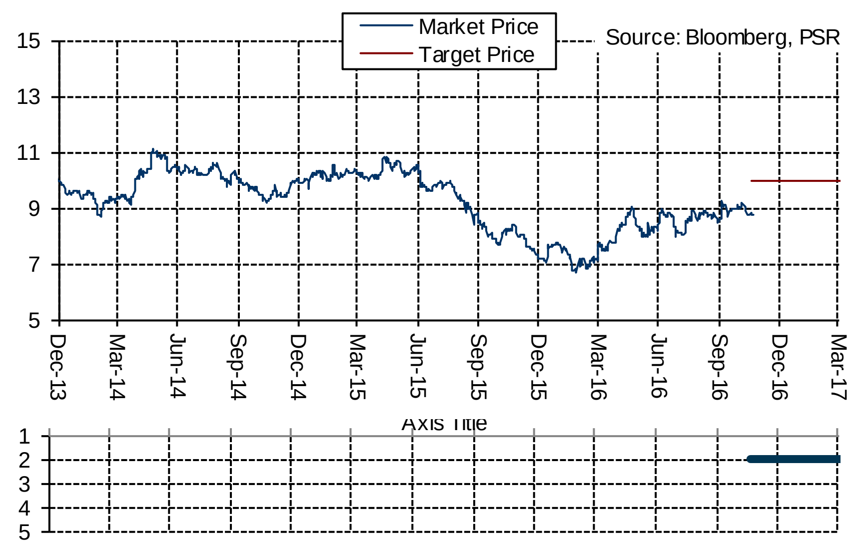
Valuation Ratios

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%	5.7%	6.6%
ROA (%)	4.6%	4.3%	3.3%	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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