

City Developments Limited

Still resilient in face of adversity



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SINGAPORE | REAL ESTATE | FY18 RESULTS (CHANGE OF ANALYST)

- 4Q18 and FY18 PATMI below our expectations, mainly due to impairment losses recorded.
- Dividend of 20.0 cents per share for FY18 (FY17: 18.0 cents) was declared (including a 6.0 cent special interim dividend that was paid out in Sep 2018).
- Robust demand for launched Singapore projects – including those launched after July 2018.
- Steadily ramping up recurring income stream with addition of two London commercial buildings, ongoing AEI at Republic Plaza, and other potential AEI targets.
- Sizeable impairment losses recorded on back of U.S. hotels dragged 4Q18 PATMI down by 64%. Excluding this, and on a like-for-like basis, 4Q18 PATMI would have increased 17% YoY.
- Maintain ACCUMULATE with adjusted TP of S\$11.82 (change of analyst).

Results at a glance

(SGD mn)	4Q18	4Q17	YoY (%)	FY18	FY17	YoY (%)	Comments (4Q18 vs 4Q17)
Gross revenue	788.3	1,327.8	(40.6)	4,222.6	3,829.2	10.3%	Lower revenue due to full recognition of revenue and profit from The Brownstone EC which obtained its TOP in Oct 2017, and gain from partial divestment of interest in two Chongqing projects in 2017.
- Property Development	196.9	759.4	(74.1)	2,045.3	1,652.7	23.8%	Same as above
- Hotel Operations	452.9	450.2	0.6	1,679.4	1,694.2	-0.9%	Loss of \$53.2 million was registered for this segment in Q418, following significant hotel impairments particularly in the US and full closure of the Mayfair hotel in July 2018.
- Rental Properties	102.8	86.1	19.4	358.2	346.9	3.3%	
- Others	35.7	32.0	11.6	139.6	135.4	3.1%	
Gross profit	436.6	471.3	(7.4)	1,914.1	1,684.2	13.7%	
Operating profit	90.4	220.0	(58.9)	904.6	797.1	13.5%	
PATMI	72.8	202.3	(64.0)	557.3	522.2	6.7%	PATMI increased 17%, when excluding the S\$94.1mn impairment losses for hotels, S\$20.1mn allowance for foreseeable losses for the two small-scale Central London development projects, and a gain from the partial divestment of interest in two Chongqing projects in Chongqing in 2017.

Source: Company, PSR

The Positives

+ Robust demand for launched projects – including those launched after July 2018 cooling measures. The property development segment was the clear outperformer in FY2018. Keeping in mind its non-recurring nature, this segment has traditionally reported similar revenue to the hotel operations segment. Total sales value rose 14% YoY despite a 5% YoY lower number of units sold, and this is largely owed to New Futura (c.93% sold) – which carried a record price tag of c.S\$3,500psf, with S\$4,009psf being the highest price transacted for a non-penthouse unit to date. In addition, projects such as Whistler Grand (S\$1,380psf, 716 units) and South Beach Residences (S\$3450psf, 190 units) were able to achieve a total take-up rate of c.36% and c.28% despite being launched after July 2018.

+ Steadily ramping up recurring income stream. The acquisition of the two prime Grade A freehold commercial buildings in London (Aldgate House and 125 Old Broad Street) is in line with the Group's strategy of achieving an AUM of S\$5bn by 2023 and expanding its recurring income stream to S\$900mn by 2028. These two properties are currently under-rented and have an upside of up to c.27% - particularly for the latter property, of which has 24% of its leases up for expiry this year, of which half have already been committed to higher rental levels. In addition, its Yaojiang International property in China had begun its master lease agreement with Distrii (which CDL has a 24% stake in) in Nov 2018.

The Negatives

- Sizeable impairment losses on back of U.S. hotels. S\$94.1mn of impairment losses were recorded in 4Q18, mainly on the back of its U.S. hotels (stemming from an industry-wide challenge on the operating cost structure). This – in addition to the S\$20.1 million allowance for foreseeable losses for two small-scale Central London development projects which may potentially be leased out and the loss of revenue from the temporary full closure of the Millennium Hotel London Mayfair in July 2018 – dragged PATMI down by 64% in 4Q18. Excluding these factors and the FY17 gains from the partial divestment of two Chongqing projects, 4Q18 PATMI would have increased 17% YoY.

22 February 2019

ACCUMULATE (Maintained)

LAST DONE PRICE	SGD 9.54
FORECAST DIV	SGD 0.19
TARGET PRICE	SGD 11.82
TOTAL RETURN	25.9%

COMPANY DATA

BLOOMBERG CODE:	CIT SP Equity
O/S SHARES (MN):	907
MARKET CAP (USD mn / SGD mn):	6394 / 8652
52 - WK HI/LO (SGD):	13.44 / 7.8
3M Average Daily T/O (mn):	1.82

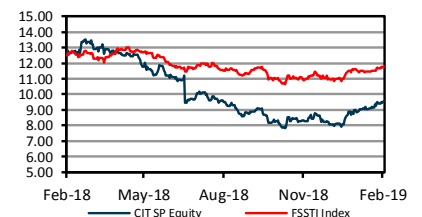
MAJOR SHAREHOLDERS (%)

DAVOS INVESTMENT HOLDINGS	16.4%
HON GLEONG INVESTMENT HOLDINGS	15.5%
STANDARD LIFE ABERDEEN	5.0%
HONG REALTY PVT LTD	3.5%
VANGUARD GROUP INC	1.8%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	6.1	14.4	(22.5)
STI RETURN	1.8	8.7	(2.2)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, SGD mn	FY17	FY18	FY19e	FY20e
Revenue	3,829	4,223	4,124	4,262
Gross Profit	1,684	1,914	1,879	1,960
EBIT	797	905	998	1,050
EPS (SGD)	0.56	0.60	0.87	0.92
DPS (SGD)	0.18	0.20	0.19	0.20
P/E (x)	21.1	19.7	13.6	12.8
P/BV (x)	1.1	1.1	1.0	0.9
Div Yield, %	1.5%	1.7%	1.6%	1.7%
ROE, %	5.6%	5.4%	6.3%	6.0%

Source: Company Data, Bloomberg

Valuation Method

RNAV

Tara Wong (+65 6212 1850)

Research Analyst
tarawongsj@phillip.com.sg

Outlook

While CDL’s share price - along with most Singapore property developers’ - took a beating post July 2018 cooling measures, net buys have since flowed back into the counter, and it has to-date recovered to c.85% of where it stood immediately before the cooling measures were announced.

With CDL largely being in the Singapore residential segment, its earnings drivers substantially weigh on the sales efficacy of its five launches this year (figure 1). Sumang Walk is the only executive condominium launch of the year and is expected to receive healthy interest – already getting requests to be placed on the site’s waiting list. Another site – Boulevard 88 in district 10 – had also already received informal interest for one of its highest-priced units. The Group is confident of achieving still-healthy margins given its successful land banking efforts earlier on in the cycle.

Going forward, the Management communicated that the strategy is to grow organically – with the possibility of asset-transfer into a fund as seed assets, as well as inorganically – via listed and unlisted real estate platforms. The recurring income segment and fund management platform will thus increasingly be the main areas of focus for CDL, such that the Group’s topline can be bolstered by a steady stream of income. CDL had previously announced its intention to unwind its three existing profit participation securities (PPS), having already divested Manulife Centre (under PPS 2) in Jan 2019. CDL is also in discussions with Blackstone to extend the fund life for PPS 1, particularly for the W Residences. Asset enhancement initiatives (AEIs) are underway for its flagship office building, Republic Plaza, which is slated to complete in 2H19. Other potential AEI targets are the Fuji Xerox Towers (Singapore), City Industrial Building (Singapore), Jungceylon Mall (Phuket, Thailand), and Aldgate House (London, UK).

On property development, CDL is focused on clearing its already-low Singapore inventory while also keeping an eye on any attractive government land sales sites (more so than en-bloc sites). The Management opined that, barring any geopolitical shocks, property prices should stabilise in the near term, given the pent-up demand and demand from cash-rich en-bloc sellers.

Figure 1: CDL’s Singapore residential launches for 2019

Project / Site	Tenure	Equity Stake	Total Units	Est Total Saleable Area (sq ft)	Land Price (\$ million)	Land Cost (\$ psf ppr)	Expected Launch
Boulevard 88 (Former Boulevard Hotel site)	Freehold	40%	154	316,844	*	*	
Amber Park	Freehold	80%	592	604,000	906.7	1,515	1H 2019
Haus on Handy	99-year	100%	188	121,242	212.2	1,722	
Sumang Walk (Exec Condo site)	99-year	60%	820	899,740	509.4	583	
Sengkang Central	99-year	50%	680	549,902	777.8	924	2H 2019

> 2,400 units ~2.5 million sq ft

Source: Company

Figure 2: CDL’s current PPS structures, which it currently acts as the asset manager for

PPS 1 – Dec 2014

\$1.5 billion comprising the Quayside Collection in Sentosa

PPS 3 – Oct 2016

\$1.0 billion comprising Nouvel 18, a 156-unit luxury residential development at Anderson Road

PPS 2 – Dec 2015

\$1.1 billion comprising three office properties:

- > Manulife Centre ▶ Asset sold to ARA & Chelsfield Asia for \$555.5 million in Jan 2019
- > 7 & 9 Tampines Grande ▶ EOI ongoing
- > Central Mall (Office Tower) ▶ Acquired remaining 60% stake from Alpha in Dec 2018

Source: Company

Maintain ACCUMULATE with adjusted TP of S\$11.82 (prev S\$13.40).

Our RNAV-derived target price represents 1.0x FY19e P/NAV. Adjustment to target price was mainly to account for a different set of assumptions, including the discount used against the revalued net asset value (RNAV), following a change of analyst.

Figure 3: RNAV Table

Segment	Location	Amount (S\$'m)	Per share (S\$)
Residential	SG + Overseas	6,934	0.80
Office	SG	7,595	8.37
Hotels	SG	512	0.56
Retail	SG	974	1.07
Industrial	SG	103	0.11
Commercial	Overseas	550	0.61
Add: Market Value of stakes in Listed Entities			
Millenium and Copthorne (65% stake)		1,695	1.87
CDL Hospitality Trust (39% stake)		743	0.82
Total GAV		19,106	21.07
Add FY19e cash:		2,536	2.80
Less FY19e debt:		6,327	6.98
RNAV:		15,315	16.89
No. of shares ('m)		907	
Discount to RNAV (%)		30	
Target Price			11.82

Source: Company, PSR

Financials

Income Statement

Y/E Dec, SGD mn	FY16	FY17	FY18	FY19e	FY20e
Revenue	3,905	3,829	4,223	4,124	4,262
Gross Profit	1,758	1,684	1,914	1,879	1,960
Depreciation & Amortisation	222	215	219	227	239
EBIT	924	797	905	998	1,050
Net Finance (Expense)/Inc	(80)	(78)	(94)	(104)	(104)
Associates & JVs	71	44	65	55	60
Profit Before Tax	914	763	876	949	1,006
Taxation	(151)	(106)	(215)	(157)	(167)
Profit After Tax	763	657	661	792	839
Non-Controlling Interest	109	135	103	116	118
Net Income, reported	968	657	661	792	839

Per share data (SGD)

Y/E Dec, SGD	FY16	FY17	FY18	FY19e	FY20e
EPS, reported	0.70	0.56	0.60	0.87	0.92
DPS	0.12	0.18	0.20	0.19	0.20
BVPS	10.22	10.33	11.05	11.43	12.88

Cash Flows

Y/E Dec, SGD mn	FY16	FY17	FY18	FY19e	FY20e
CFO					
Profit for the year	763	657	661	792	839
Adjustments	94	189	267	269	276
WC changes	330	297	(1,531)	(254)	(519)
Cash generated from ops	1,186	1,249	(389)	807	596
Taxes paid, others	(157)	(162)	(211)	(157)	(167)
Cashflow from ops	1,030	1,087	(600)	650	430
CFI					
CAPEX, net	(204)	(45)	(106)	(251)	(263)
Cashflow from investments	318	(85)	(1,729)	(887)	(966)
CFF					
Dividends paid	(237)	(244)	(285)	(170)	(180)
Cashflow from financing	(1,154)	(939)	898	611	890
Net change in cash	193	63	(1,431)	374	353
Effects of exchange rates	-	(31)	(6)	-	-
CCE, end	3,609	3,599	2,162	2,536	2,890

Source: Company, PSR Estimates

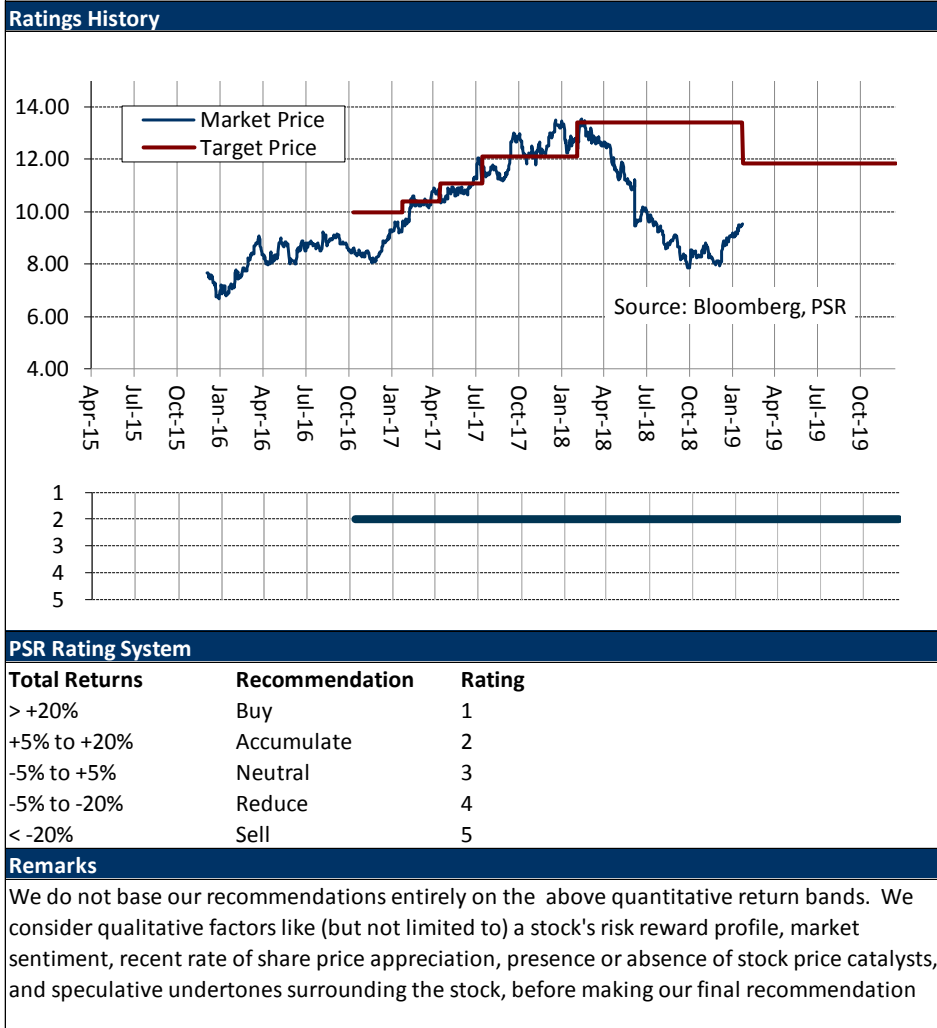
*Forward multiples and yields are based on current market price; historical multiples and yields are based on historical market price.

Balance Sheet

Y/E Dec, SGD mn	FY16	FY17	FY18	FY19e	FY20e
ASSETS					
PPE	5,136	4,999	5,013	5,264	5,527
Associates & JVs	1,462	1,502	1,735	1,783	1,835
Investment Properties	2,346	2,449	3,741	3,741	3,741
Others	774	1,027	1,296	1,032	1,118
Total non-current assets	9,717	9,976	11,786	11,820	12,222
Development property	5,209	4,308	5,704	6,051	6,585
Accounts Receivables	1,166	896	955	1,232	1,273
Cash balance	3,673	3,776	2,289	2,536	2,890
Others					
Total current assets	10,081	9,388	9,099	9,850	10,779
Total Assets	19,797	19,364	20,886	21,670	23,001
LIABILITIES					
Short term loans	1,783	1,266	1,258	1,259	1,659
Accounts Payables	1,575	1,299	1,293	1,663	1,719
Others	301	752	552	382	410
Total current liabilities	3,659	3,317	3,104	3,305	3,788
Long term loans	3,955	3,756	5,069	5,068	4,668
Others	774	645	439	654	616
Total non-current liabilities	4,729	4,401	5,508	5,723	5,285
Total Liabilities	8,389	7,718	8,612	9,027	9,072
EQUITY					
Shareholder Equity	9,294	9,391	10,041	10,365	11,685
Non-controlling interest	2,115	2,255	2,233	2,278	2,244
Total Equity	11,409	11,646	12,274	12,643	13,929

Valuation Ratios

Y/E Dec, SGD mn	FY16	FY17	FY18	FY19e	FY20e
P/E (X), adj.	16.79	21.11	19.73	13.57	12.80
P/B (X)	1.16	1.14	1.07	1.03	0.92
Dividend Yield (%)	0.01	0.02	0.02	0.02	0.02
Growth & Margins (%)					
Growth					
Revenue	18.2%	-2.0%	10.3%	-2.3%	3.3%
EBIT	-2.8%	-13.7%	13.5%	10.3%	5.2%
Net Income	-11.9%	-13.8%	0.5%	19.8%	6.0%
Margins					
EBIT margin	23.6%	20.8%	21.4%	24.2%	24.6%
Net Profit Margin	19.5%	17.2%	15.6%	19.2%	19.7%
Key Ratios					
ROE (%)	6.7%	5.6%	5.4%	6.3%	6.0%
ROA (%)	3.9%	3.4%	3.2%	3.7%	3.6%
Gearing (X)	0.29	0.26	0.30	0.29	0.28



Contact Information (Singapore Research Team)

Head of Research

Paul Chew – paulchewkl@phillip.com.sg

Research Admin

research@phillip.com.sg

Banking & Finance | Healthcare

Tin Min Ying – tinmy@phillip.com.sg

Oil & Gas | Energy

Chen Guangzhi – chengz@phillip.com.sg

Telco | Technology

Alvin Chia – alvinchiawy@phillip.com.sg

Transport | REITs (Industrial)

Richard Leow – richardleowwt@phillip.com.sg

China/HK Equity

Zheng Jieyuan – zhengjy@phillip.com.sg

REITs (Commercial, Retail, Healthcare) | Property

Tara Wong – tarawongsi@phillip.com.sg

US Equity

Edmund Xue – edmundxueji@phillip.com.sg

REITs

Natalie Ong – natalieongpf@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

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

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

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

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

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

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

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

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

AUSTRALIA

Phillip Capital Limited

Level 10, 330 Collins Street
Melbourne, Victoria 3000, Australia
Tel +61-03 8633 9803
Fax +61-03 8633 9899
Website: www.phillipcapital.com.au

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

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

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

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

SRI LANKA

Asha Phillip Securities Limited

No. 60, 5th Lane,
Colombo 3, Sri Lanka
Tel: (94) 11 2429 100
Fax: (94) 11 2429 199
Website: www.ashaphillip.net

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

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