

City Developments Limited

Near-term pain but focused on the future

SINGAPORE | REAL ESTATE | 1H20 RESULTS

- COVID-19 impacted all segments, hotel operations accounted for 82% of decline in revenue due to closure of 28% of hotel inventory and lower RevPAR (-56.6%) and lower sales value from few units sold from mass market projects in 1H20 vs ultra-luxury projects in 1H19.
- Refreshing portfolio and unlocking additional GFA through redevelopment of Fuji Xerox and Central Mall.
- Maintain BUY with lower TP of S\$10.68, after factoring in the protracted recovery in the hospitality segment. FY2020/21e EPS was cut by 26.1% and 7.2% respectively.

Results at a glance

(SGD mn)	1H20	1H19	YoY	Comments
Gross revenue	1,072.9	1,596.5	-32.8%	Hotel operations accounted for 82% of the decline
Gross profit	446.5	771.4	-42.1%	
Operating profit	61.7	423.6	-85.4%	
PBT comprising:	13.8	490.3	-97.2%	Lower divestment gains (1H20: \$49.9mn, 1H19: \$197.2mn)
- Property Devt	115.0	179.6	-36.0%	Due to timing of income recognition and lower sales value from few units sold from mass market projects in 1H20 vs ultra-luxury projects in 1H19
- Hotel Ops	(208.2)	29.5	n.m.	28% of 152 hotels closed, RevPAR -56.6%
- Investment Ppty	26.3	258.4	-89.8%	Largely due to rental rebates provided and lower divestment gains (1H20: \$26.4mn, 1H19 \$153.9mn)
- Others	80.7	22.7	254.8%	Higher due to divestment gain on technology investment and higher interest income from property financing business
PATMI	3.1	362.0	-99.1%	

Source: Company, PSR

The Positives

+ Respectable 356 units sold in SG in 1H20 (-29.5%, 1H19: 505 units), despite 10 weeks of showroom closures. Sales value was 68.8% lower at \$514.7K (1H19: \$1.55mn), contributed by mass-market projects with lower margin, in contrast to the ultra-luxury projects sold in 1H19. CDL replenished its landbank in Jan20 through the successful tender of the GLS at Irwell Bank (540 units, est. launch 1H21). The Group will launch its JV project, Penrose Drive (566 units) in 3Q20.

+ Unlocking additional GFA through redevelopment of Fuji Xerox and Central Mall. Tapping on the CDB Incentive Scheme, plans for Fuji Xerox Towers' redevelopment includes a 25% GFA uplift, with demolition works slated for 2H21. Plans for Central Mall include a 240K sq ft uplift in GFA, with a 70% commercial and 30% hotel or serviced apartment component. Plans for both developments are still pending approvals from the URA.

The Negatives

- All segments impacted by COVID-19; Hospitality segment hardest hit with losses expected to continue despite cost cutting measures implemented. The Hospitality segment recorded a pre-tax loss of \$208.2mn due to the temporary closure of 28% of the Group's 152 hotels, \$33.9mn in impairment losses on 8 hotels (6 in US, 1 in UK and 1 in Europe), and \$7.0mn in doubtful receivables for 2 hotels which have payment difficulties due to COVID-19. RevPAR was down 56.6% as global hotel occupancy fell to 39.4%. The management guided that losses for this segment are likely to continue for the rest of the year due to the muted global recovery in international tourism.



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BUY (Maintained)

LAST DONE PRICE	SGD 7.97
FORECAST DIV	SGD 0.20
TARGET PRICE	SGD 10.68
TOTAL RETURN	36.6%

COMPANY DATA

BLOOMBERG CODE:	CIT SP Equity
O/S SHARES (MN) :	907
MARKET CAP (USD mn / SGD mn) :	6358 / 8833
52 - WK HI/LO (SGD) :	11.51 / 8.12
3M Average Daily T/O (mn) :	1.89

MAJOR SHAREHOLDERS (%)

DAVOS INVESTMENT HOLDINGS	16.4%
HON GLEONG INVESTMENT HOLDINGS	15.5%
STANDARD LIFE ABERDEEN	5.0%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	(6.2)	6.6	(12.2)
STI RETURN	(3.0)	1.1	(15.6)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, SGD mn	FY18	FY19	FY20e	FY21e
Revenue	3,829	4,223	3,429	2,561
Gross Profit	1,684	1,914	1,638	1,178
EBIT	797	905	654	631
EPS (SGD)	0.56	0.60	0.61	0.58
DPS (SGD)	0.18	0.20	0.20	0.20
P/E (x)	19.1	17.8	17.6	18.5
P/BV (x)	1.0	1.0	0.9	0.9
Div Yield	1.7%	1.9%	1.9%	1.9%
ROE	5.6%	5.4%	5.4%	4.5%

Source: Company Data, Bloomberg

Valuation Method

RNAV

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Outlook

Following the privatisation of Millennium & Copthorne (M&C) and acquisition of 51.0% stake in Sincere Property Group (Sincere), the Group is focused on streamlining and restructuring operations. More divestment can be expected as expected as the Group reviews possible divestments of non-core hotel assets and China retail asset.

CDL is still eyeing the listing of a UK commercial REIT, which may materialise after the market volatility subsides, likely in 2021.

Maintain BUY with lower TP of S\$10.68 (prev. S\$11.82).

We cut our FY20e/21e EPS by 26.1% and 7.2% to factor in the protracted recovery in the hospitality segment. Our TP is lowered by 10.2% to \$10.68.

Figure 5: RNAV table

Segment	Location	Amount (S\$'m)	Per share (S\$)
Residential	SG + Overseas	7,387	8.14
Office	SG	7,926	8.74
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			
CDL Hospitality Trust (39% stake)		478	0.53
IREIT Global REIT (12.4% stake)		62	0.07
M&C (100% stake)		2,764	3.05
Total GAV		20,755	22.89
Add FY19e cash:		2,798	3.08
Less FY19e debt:		9,711	10.71
RNAV:		13,841	15.26
No. of shares ('m)		907	
Discount to RNAV (%)		30	
Target Price			10.68

Source: Company, PSR

Financials

Income Statement

Y/E Dec, SGD mn	FY17	FY18	FY19	FY20e	FY21e
Revenue	3,829	4,223	3,429	2,561	3,079
Gross Profit	1,684	1,914	1,638	1,178	1,416
Depreciation & Amortisation	215	219	276	236	233
EBIT	797	905	654	631	758
Net Finance (Expense)/Inc	(78)	(94)	(96)	(134)	(133)
Associates & JVs	44	65	196	131	163
Profit Before Tax	763	876	754	628	789
Taxation	(106)	(215)	(141)	(104)	(131)
Profit After Tax	657	661	613	524	658
Non-Controlling Interest	135	103	49	96	83
Net Income, reported	657	661	613	524	658

Per share data (SGD)

Y/E Dec, SGD	FY17	FY18	FY19	FY20e	FY21e
EPS, reported	0.56	0.60	0.61	0.58	0.72
DPS	0.18	0.20	0.20	0.20	0.22
BVPS	10.33	11.05	11.60	11.98	12.60

Cash Flows

Y/E Dec, SGD mn	FY17	FY18	FY19	FY20e	FY21e
CFO					
Profit for the year	657	661	613	524	658
Adjustments	189	267	50	233	197
WC changes	297	(1,531)	276	(398)	10
Cash generated from ops	1,249	(389)	1,080	463	996
Taxes paid, others	(162)	(211)	(244)	(104)	(131)
Cashflow from ops	1,087	(600)	836	359	865
CFI					
CAPEX, net	(45)	(106)	(204)	35	(220)
Cashflow from investments	(85)	(1,729)	(1,350)	100	(139)
CFF					
Dividends paid	(244)	(285)	(269)	(181)	(200)
Cashflow from financing	(939)	898	1,149	(72)	(197)
Net change in cash	63	(1,431)	636	386	529
Effects of exchange rates	(31)	(6)	(8)	-	-
CCE, end	3,599	2,162	2,790	3,176	3,705

Source: Company, PSR Estimates

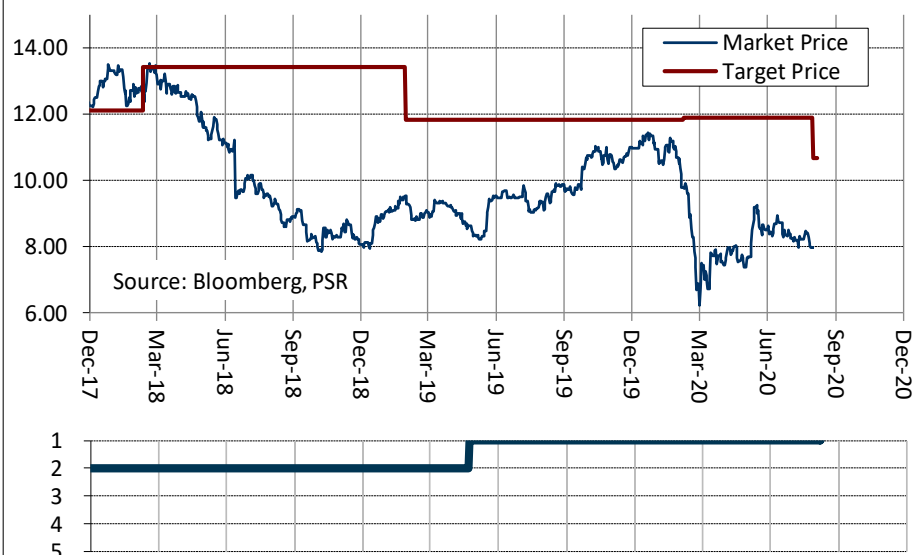
Balance Sheet

Y/E Dec, SGD mn	FY17	FY18	FY19	FY20e	FY21e
ASSETS					
PPE	4,999	5,013	5,462	5,403	5,389
Associates & JVs	1,502	1,735	1,755	1,836	1,866
Investment Properties	2,449	3,741	4,410	4,485	4,566
Others	1,027	1,296	1,738	1,744	1,750
Total non-current assets	9,976	11,786	13,366	13,468	13,572
Development property	4,308	5,704	5,156	5,447	5,497
Accounts Receivables	896	955	822	614	738
Cash balance	3,776	2,289	2,798	3,176	3,705
Others					
Total current assets	9,388	9,099	9,834	10,084	10,787
Total Assets	19,364	20,886	23,200	23,552	24,359
LIABILITIES					
Short term loans	1,266	1,258	2,038	1,609	1,751
Accounts Payables	1,299	1,293	1,199	896	1,076
Others	752	552	540	529	532
Total current liabilities	3,317	3,104	3,777	3,033	3,360
Long term loans	3,756	5,069	7,673	8,164	8,013
Others	645	439	483	602	572
Total non-current liabilities	4,401	5,508	8,156	8,766	8,585
Total Liabilities	7,718	8,612	11,934	11,799	11,945
EQUITY					
Shareholder Equity	9,391	10,041	10,520	10,863	11,431
Non-controlling interest	2,255	2,233	746	889	983
Total Equity	11,646	12,274	11,267	11,752	12,414

Valuation Ratios

Y/E Dec, SGD mn	FY17	FY18	FY19	FY20e	FY21e
P/E (X), adj.	19.08	17.84	17.57	18.53	14.76
P/B (X)	1.03	0.97	0.92	0.89	0.85
Dividend Yield	1.7%	1.9%	1.9%	1.9%	2.1%
Growth & Margins (%)					
Growth					
Revenue	-2.0%	10.3%	-18.8%	-25.3%	20.2%
EBIT	-13.7%	13.5%	-27.7%	-3.5%	20.2%
Net Income	-13.8%	0.5%	-7.2%	-14.6%	25.6%
Margins					
EBIT margin	20.8%	21.4%	19.1%	24.6%	24.6%
Net Profit Margin	17.2%	15.6%	17.9%	20.5%	21.4%
Key Ratios					
ROE (%)	5.6%	5.4%	5.4%	4.5%	5.3%
ROA (%)	3.4%	3.2%	2.6%	2.2%	2.7%
Gearing (X)	0.26	0.30	0.42	0.41	0.40

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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