

City Developments Limited

A sincere stride into China



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SINGAPORE | REAL ESTATE | 1Q19 RESULTS

17 May 2019

- Revenue missed our estimates due to weakness at its hotel operations-while PATMI was within our expectations.
- Recurring income shone, being the only segment that reported YoY revenue growth.
- Singapore residential sales is still going strong - launch of Boulevard 88 (highest unit psf sold to date of S\$4.9k psf) in March 2019 comprised c.43% of total sales value.
- Hotel operations in the red, mainly due to US hotel losses and higher net finance costs.
- Proposed c.24% stake in Sincere Property Group would accelerate its entry into China's residential segment. EPS-accretive notwithstanding accounting reversals. Proposed 70% stake in Sincere's key commercial asset also bumps recurring income.
- Upgrade to BUY with unchanged TP of S\$11.82. Our target price incorporates a 30% discount to RNAV.

BUY (Upgraded)

LAST DONE PRICE	SGD 8.63
FORECAST DIV	SGD 0.19
TARGET PRICE	SGD 11.82
TOTAL RETURN	39.1%

COMPANY DATA

BLOOMBERG CODE:	CIT SP Equity
O/S SHARES (MN) :	907
MARKET CAP (USD mn / SGD mn) :	5657 / 7745
52 - WK HI/LO (SGD) :	12.19 / 7.75
3M Average Daily T/O (mn) :	169

MAJOR SHAREHOLDERS (%)

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

PRICE PERFORMANCE (%)

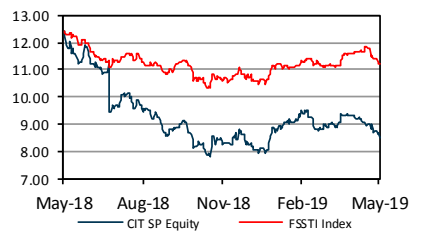
	1M TH	3M TH	1YR
COMPANY	-5.4	(7.2)	(28.4)
STIRETURN	(18)	0.8	(5.8)

Results at a glance

(SGD mn)	1Q19	1Q18	YoY (%)	Comments (1Q19 vs 1Q18)
Gross revenue	746.2	1,057.8	(29.5)	Excluding the contribution from The Criterion Executive Condominium in Feb 2018 (1Q18), revenue would have increased by 6%.
- Property Development	249.5	563.2	(55.7)	Primarily due to timing of recognition for EC.
- Hotel Operations	360.2	377.8	(4.7)	Weakening of sterling pound and ongoing refurbishment works for hotels in London and Singapore.
- Rental Properties	103.2	84.2	22.6	Contribution from the three buildings acquired in 2H2019, re-opening of Le Grove Serviced Residences and Hong Leong City Center's mall.
- Others	33.2	32.6	1.8	
Gross profit	352.1	370.3	(4.9)	Higher profit margins for the development projects that contributed to 1Q19 results compared with that of EC, and higher rental income.
Operating profit	253.2	178.0	42.3	Realisation of a S\$144.3mn pre-tax gain from divestment of Manulife Centre in Jan 2019.
PATMI	199.6	85.3	133.8	Contribution from South Beach Residences (Singapore) and Ivy and Eve project (Australia).

Source: Company, PSR

PRICE VS. STI



Source: Bloomberg, PSR

The Positives

+ Recurring income stream shone through. Rental properties was the only segment that reported YoY revenue growth, which was largely due to the three buildings acquired in 2H2018 – Aldgate House, London (Sep 2018), 125 Old Broad Street, London (Oct 2018) and remaining 60% stake in Central Mall Office Tower, Singapore (Dec 2018). This segment was also the frontrunner among all business segments this quarter, on both the PBT and EBITDA levels, mainly due to a \$144.3mn realised gain from the divestment of Manulife Centre to Golden Crest Holdings Pte. Ltd. (PPS 2 platform) in Jan 2019.

+ Singapore residential game still going strong. Number of units sold in 1Q19 was c.62% lower YoY, though total sales value was down less-than-proportionate due to the higher ASPs of the projects sold. This included the launch of high-end Boulevard 88 (total 154 units), which contributed c.43% of its total sales value (based on figures available on URA Realis) in 1Q19. The quarter also captured the highest unit price psf of S\$4,927psf that was sold to date, for this development.

The Negatives

- Hotel operations segment in the red. While revenue was stable YoY, PBT from this segment recorded a slight dip in 1Q19. This was mainly due to the continued losses recorded at its US hotels (recall the industry-wide challenge on the operating cost structure

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	1,897	1,960
EBIT		797	905	1,016	1,050
EPS (SGD)		0.56	0.60	0.89	0.92
DPS (SGD)		0.18	0.20	0.19	0.20
P/E (x)		211	19.7	13.3	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%	6.4%	6.0%

Source: Company Data, Bloomberg

Valuation Method

RNAV

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communicated last quarter) and higher net financing costs. Millennium & Copthorne Hotels plc (M&C) is seeing the refurbishment London and Singapore hotels (namely, the full closure of Millennium Hotel London Mayfair and Dhevanafushi Maldives Luxury Resort in mid-2018) and also in the final stage of discussions with Hilton to potentially designate the newly named Millennium Times Square New York as an affiliate of Hilton, with access to its reservation channels and loyalty programme.

What else was new?

- Proposed acquisition of 24% effective stake in Sincere Property Group (Sincere) for RMB5.5bn (S\$1.1bn).** (figures 1 and 2)
 - Access to pipeline of 70 development projects with GDV of c.RMB130bn over 12.6mn sqm and 31 investment properties (14 malls, 10 offices, 5 hotels and 2 serviced apartments). CDL's asset allocation in China will be increased from 9% to 15%.
 - 6.7% pro-forma accretion to EPS (slight dilution if accounting for reversal of revaluation gain and depreciation – contingent on estimation of purchase price allocation (PPA) to Sincere's assets). Pro-forma NAV remains constant. 41% pro-forma gearing (1Q19: 36%).
 - Acquisition will be funded in two parts – part one in the form of a loan and part two in the form of a share subscription and loan, expected to be completed by Q419.
- Proposed acquisition of 70% stake in one of Sincere's prime commercial assets for RMB1.2bn (S\$247mn).**
 - Target asset is Shanghai Hongqiao Sincere Centre (Phase 2) with stabilised 4% NOI yield.
 - Completion slated for Q319.
- Stake in IREIT Global and its Manager.**
 - Acquired 12.4% stake in IREIT Global (S\$59.4mn) and 50% stake in its Manager (S\$18.4mn) in April 2019.
- Expansion into UK private rented sector.**
 - Acquired a 194k sqft freehold site in Leeds, UK, with plans to develop a 664-unit build-to-rent residential project with retail space in March 2019.
 - Total development cost of £140 million (S\$250mn). Net yield of c.5%.
 - Expected completion by 2023.
- Replenishment of Singapore landbank with acquisition of Sims Drive GLS site.**
 - Awarded, via a 40% stake in a JV, a 99-year lease site at Sims Drive for S\$384mn, in March 2019.
 - Estimated 560 residential units to be built.

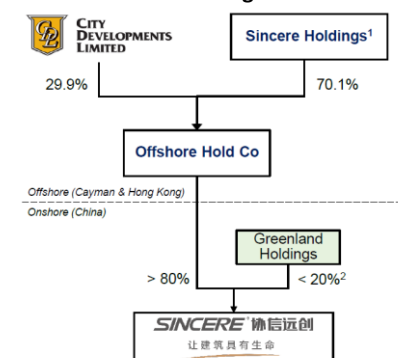
Outlook

CDL's proposed acquisition of stake in Sincere Property Group would immediately accelerate its entry into China's residential segment. While the figures appear to be accretive based on the EPS metric (notwithstanding the accounting reversals), the pro-forma financial effects are currently based on an estimation of the PPA to Sincere's assets.

The proposed acquisition of a stake in Sincere's Shanghai Hongqiao Sincere Centre (Phase 2), along with its newly acquired stakes in IREIT Global and its Manager and the freehold build-to-rent project in the UK, is in line with its strategy of ramping up its recurring income segment.

With CDL still largely in the Singapore residential segment, its earnings drivers substantially weigh on the sales efficacy of its five launches this year (figure 3). Boulevard 88 and Amber Park has been boding well so far for the Group and healthy interest is expected for its Piermont Grand (Sumang Walk) EC, being the only EC launch in 2019.

Figure 1: Post-completion investment structure. CDL's effective stake in Sincere will be c.24%, the percentage of which is subject to further discussion with Greenland Holdings.



Source: Company

Figure 2: Key figures extracted from Sincere's FY2018 financial statement.

RMB (mn)	FY2018	FY2017
Income statement		
Revenue	9,147	9,453
Gross profit	2,111	1,765
EBIT	2,317	1,218
Net finance costs	1,293	706
PBT	1,153	487
PAT	813	180
Balance sheet		
PPE	819	533
Long-term equity investment	4,523	3,287
Investment properties	24,738	22,700
Total debt	40,584	36,331
Total assets	52,527	75,222
Total liabilities	21,992	58,385
Total equity	17,049	16,837
Cashflow		
Capex	3,721	5,784
Dividends paid + interest payment	3,473	5,767
Cash balance	2,464	5,032

Source: Sincere Group, PSR

Figure 3: CDL's Singapore residential launches for 2019

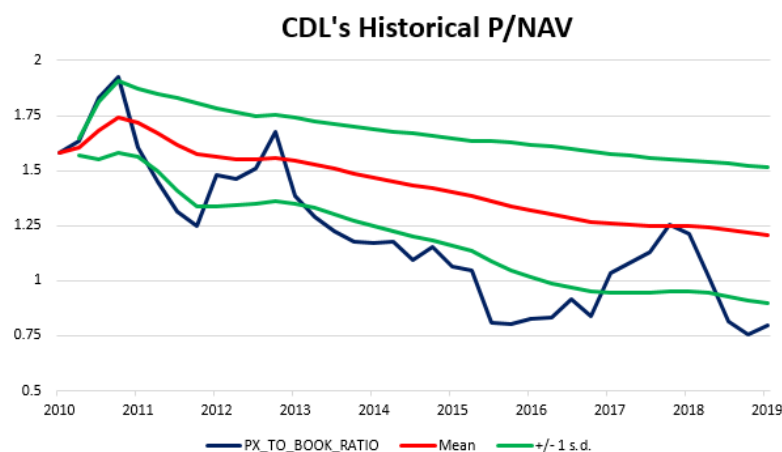
Project	Tenure	Equity stake	Total Units	Sold*	Expected Launch	Expected TOP
Boulevard 88	Freehold	40%	154	47	Launched 8 Mar 2019	2022
Amber Park	Freehold	80%	592	145	Launched 4 May 2019	2023
Haus on Handy	99-year	100%	188	-	Q2 2019	-
Piermont Grand (Sumang Walk) EC	99-year	60%	820	-	Q3 2019	-
Sengkang Central	99-year	50%	680	-	Q4 2019	-

* as at 12 May 2019

Source: Company, PSR

Upgrade to BUY with unchanged TP of S\$11.82.

Our RNAV-derived target price represents 1.0x FY19e P/NAV. Valuations are very attractive. CDL has since corrected to 77% of what it stood at immediately before the July 2018 property cooling measures. While there is limited momentum in property sales, we think the market is pricing in a c.40% correction in CDL's RNAV (figure 4).

Figure 4: CDL currently trades below its post-GFC -1 s.d. level, at 0.80x

Source: Bloomberg, PSR

Figure 5: 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	1,897	1,960
Depreciation & Amortisation	222	215	219	227	239
EBIT	924	797	905	1,016	1,050
Net Finance (Expense)/Inc	(80)	(78)	(94)	(104)	(104)
Associates & JVs	71	44	65	55	60
Profit Before Tax	914	763	876	967	1,006
Taxation	(151)	(106)	(215)	(160)	(167)
Profit After Tax	763	657	661	807	839
Non-Controlling Interest	109	135	103	116	118
Net Income, reported	968	657	661	807	839

Per share data (SGD)

Y/E Dec, SGD	FY16	FY17	FY18	FY19e	FY20e
EPS, reported	0.70	0.56	0.60	0.89	0.92
DPS	0.12	0.18	0.20	0.19	0.20
BVPS	10.22	10.33	11.05	11.44	12.90

Cash Flows

Y/E Dec, SGD mn	FY16	FY17	FY18	FY19e	FY20e
CFO					
Profit for the year	763	657	661	807	839
Adjustments	94	189	267	269	276
WC changes	330	297	(1,531)	(254)	(519)
Cash generated from ops	1,186	1,249	(389)	822	596
Taxes paid, others	(157)	(162)	(211)	(160)	(167)
Cashflow from ops	1,030	1,087	(600)	662	430
CFI					
CAPEX, net	(204)	(45)	(106)	(251)	(263)
Cashflow from investments	318	(85)	(1,729)	(887)	(966)
CFE					
Dividends paid	(237)	(244)	(285)	(170)	(180)
Cashflow from financing	(1,154)	(939)	898	611	890
Net change in cash	193	63	(1,431)	386	353
Effects of exchange rates	-	(31)	(6)	-	-
CCE, end	3,609	3,599	2,162	2,548	2,902

Source: Company, PSR Estimates

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	2,548	2,902
Others					
Total current assets	10,081	9,388	9,099	9,862	10,791
Total Assets	19,797	19,364	20,886	21,682	23,013
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	10,377	11,697
Non-controlling interest	2,115	2,255	2,233	2,278	2,244
Total Equity	11,409	11,646	12,274	12,655	13,941

Valuation Ratios

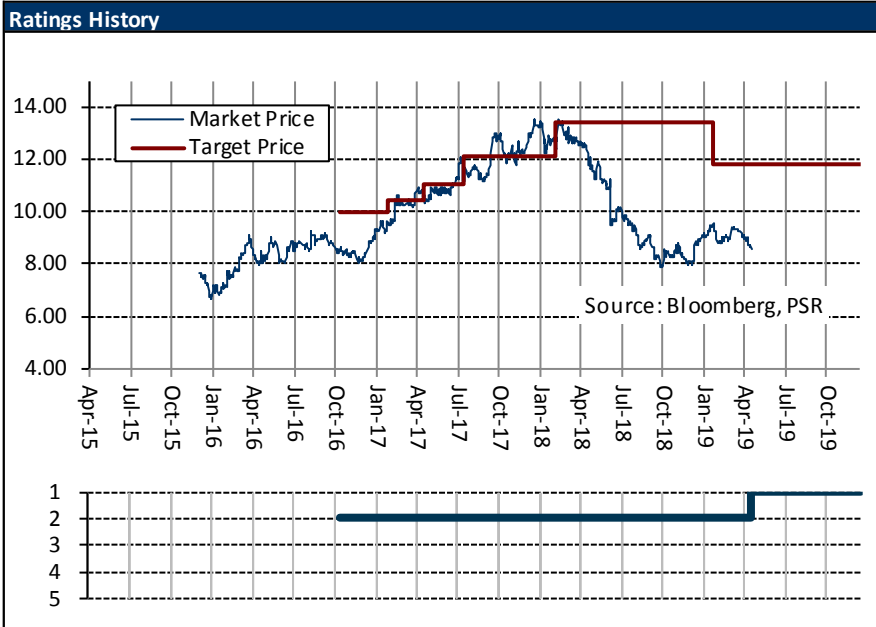
Y/E Dec, SGD mn	FY16	FY17	FY18	FY19e	FY20e
P/E (X), adj.	16.80	21.13	19.75	13.33	12.81
P/B (X)	1.16	1.15	1.07	1.03	0.92
Dividend Yield (%)	0.01	0.02	0.02	0.02	0.02

Growth & Margins (%)

Growth					
Revenue	18.2%	-2.0%	10.3%	-2.3%	3.3%
EBIT	-2.8%	-13.7%	13.5%	12.3%	3.3%
Net Income	-11.9%	-13.8%	0.5%	22.1%	4.0%
Margins					
EBIT margin	23.6%	20.8%	21.4%	24.6%	24.6%
Net Profit Margin	19.5%	17.2%	15.6%	19.6%	19.7%

Key Ratios

ROE (%)	6.7%	5.6%	5.4%	6.4%	6.0%
ROA (%)	3.9%	3.4%	3.2%	3.7%	3.6%
Gearing (X)	0.29	0.26	0.30	0.29	0.27



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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