20 March 2018

Property | Real Estate

City Developments

Riding On The Residential Segment's Recovery

Buy (from Take Profit)

Target Price:	SGD15.00
Price:	SGD13.30
Market Cap:	USD9,166m
Bloomberg Ticker:	CIT SP

We resume coverage on CDL with an upgrade to BUY call (from Take Profit) and a revised TP of SGD 15.00 (from SGD11.30, 13% upside). As one of the largest residential landbank owners in Singapore, it remains the best proxy for investors looking to tap into the residential segment's recovery. Its listed subsidiary M&C's hotel operations are also poised to benefit from strong global economic growth aiding the hospitality sector. The renewed focus on its fund management platform would help boost recurring income and ROEs. With its net gearing at a historical low, CDL has a strong war chest of >SGD5bn for acquisition opportunities.

Holds one of the largest residential landbanks in Singapore. City Developments (CDL) current unsold inventory of ~3,859 units (Figure 1) makes it one of the developers with the highest unsold units. While it has been fairly aggressive in recent land bids, we believe its strong brand positioning and established track record should aid in its projects commanding premium prices. Our channel checks revealed that its recent preview of The Tapestry drew a strong response with >5,000 people visiting the show units during the launch on 10 Mar. We understand that launch prices are expected to be around SGD 1,300psf, which translates into a healthy margin of >20%.

Fund management – the next key growth driver. CDL targets to achieve assets under management (AUM) of USD5bn under its fund management platform by 2023. Notably, this AUM target does not include its existing profit participation securities (PPS) and REIT platforms but mainly consist of capital from third parties. It recently appointed a new CIO, Mr Frank Khoo, who will be in charge of growing the fund management business. Based on our rough estimate, this business, once established, could significantly boost the company's recurring income fees by ~ SGD50m pa (~9% of FY17's net profit).

Brighter prospects for M&C despite failed privatisation bid. The outlook for Millennium & Copthorne Hotels (M&C), CDL's 65%-owned listed subsidiary, is positive with strong global economic growth providing tailwinds for the hospitality sector. M&C plans to allocate a significant amount for capex to its existing hotels for product improvement and maintenance. While CDL did not succeed in its recent privatisation bid, management remains optimistic on its prospects and would look at increasing its stake, if the right opportunity arises.

Good headroom for acquisition-led growth. Net gearing (excluding revaluation surplus) is currently at a historical low of 9%, although it is expected to notch up to mid-teens post recent acquisitions. This presents CDL with a debt headroom of >SGD5bn for acquisitions. Management noted that Singapore would remain a key focus market for acquisitions in the near future.

Upgrade to BUY. We raise our RNAV estimates to SGD16.69 (from SGD14.12) by marking to market its listed M&C portfolio and including contributions from its recently-acquired assets in Singapore and overseas. We also narrow our RNAV discount to 10% from 20% with the Singapore residential property sector at the early stages of a recovery. Key catalysts are stronger-than-expected rebound in Singapore residential property prices, and yield-accretive and sizeable M&A transactions. A key risk is the introduction of additional property cooling measures.

Forecasts and Valuations	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Total turnover (SGDm)	3,905	3,829	4,053	4,397	4,595
Reported net profit (SGDm)	653	538	591	646	652
Recurring net profit (SGDm)	653	538	591	646	652
Recurring net profit growth (%)	(15.5)	(17.6)	9.7	9.4	0.8
Recurring EPS (SGD)	0.68	0.56	0.62	0.68	0.68
DPS (SGD)	0.16	0.18	0.18	0.20	0.20
Recurring P/E (x)	19.4	23.5	21.4	19.6	19.4
P/B (x)	1.36	1.32	1.27	1.20	1.13
Dividend Yield (%)	1.2	1.4	1.4	1.5	1.5
Return on average equity (%)	7.1	5.7	6.1	6.3	6.0
Return on average assets (%)	3.3	2.7	3.0	3.2	3.2
Net debt to equity (%)	18.1	10.5	12.2	14.2	11.6
Our vs consensus EPS (adjusted)					

Source: Company data, RHB

Share Data

Avg Daily Turnover (SGD/USD)	21.9m/16.8m
52-wk Price low/high (SGD)	10.2 - 13.5
Free Float (%)	65
Shares outstanding (m)	954
Estimated Return	13%

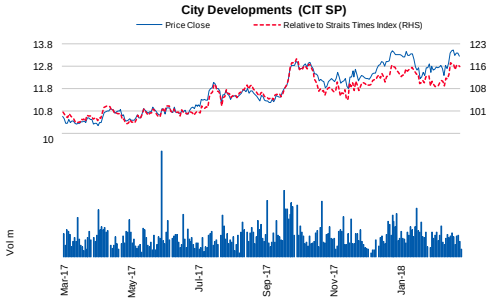
Shareholders (%)

Hong Leong Holdings	35.3
Aberdeen	6.0
Vanguard Group	1.7

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	6.1	2.7	7.1	15.7	24.9
Relative	3.3	2.4	4.3	7.3	14.5

Source: Bloomberg



Source: Bloomberg

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Financial Exhibits

Financial model updated on : 2018-03-19

Asia
Singapore
Property
City Developments
Bloomberg CIT SP
Buy

Valuation basis

RNAV

Key drivers

i. Acquisition of more sites in Singapore,
ii. Expansion of its fund management platform,
iii. Relaxation of cooling measures.

Key risks

i. Implementation of additional policy measures dampening property prices;
ii. A sharp hike in interest rates
iii. Transitioning to a younger management team;

Company Profile

City Developments (CDL) develops and owns properties. Through its subsidiaries, the company owns and operates hotels, operates clubs, invests in properties and shares, manages properties and projects, as well as provides information technology and procurement services.

Financial summary	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Recurring EPS (SGD)	0.68	0.56	0.62	0.68	0.68
EPS (SGD)	0.68	0.56	0.62	0.68	0.68
DPS (SGD)	0.16	0.18	0.18	0.20	0.20
BVPS (SGD)	9.7	10.0	10.4	11.1	11.7
Weighted avg adjusted shares (m)	954	954	954	954	954

Valuation metrics	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Recurring P/E (x)	19.4	23.5	21.4	19.6	19.4
P/E (x)	19.4	23.5	21.4	19.6	19.4
P/B (x)	1.36	1.32	1.27	1.20	1.13
FCF Yield (%)	9.2	8.2	(1.5)	(0.8)	2.1
Dividend Yield (%)	1.2	1.4	1.4	1.5	1.5
EV/EBITDA (x)	9.25	9.36	9.48	8.83	8.89
EV/EBIT (x)	11.5	11.9	12.0	10.9	11.1

Income statement (SGDm)	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Total turnover	3,905	3,829	4,053	4,397	4,595
Gross profit	1,758	1,685	1,784	1,935	2,022
EBITDA	1,146	1,016	1,059	1,190	1,167
Depreciation and amortisation	(222)	(216)	(220)	(225)	(229)
Operating profit	924	800	839	965	937
Net interest	(80)	(65)	(89)	(109)	(76)
Income from associates & JVs	71	46	57	46	76
Pre-tax profit	914	780	806	902	937
Taxation	(151)	(105)	(119)	(128)	(138)
Minority interests	(109)	(137)	(96)	(128)	(148)
Recurring net profit	653	538	591	646	652

Cash flow (SGDm)	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Change in working capital	330	286	(623)	(660)	(52)
Cash flow from operations	1,181	1,076	310	394	969
Capex	(22)	(45)	(500)	(500)	(700)
Cash flow from investing activities	318	(91)	(389)	(465)	(583)
Dividends paid	(237)	(244)	(190)	(218)	(223)
Cash flow from financing activities	(1,341)	(922)	(128)	(161)	(307)
Cash at beginning of period	3,565	3,673	3,776	3,567	3,335
Net change in cash	158	63	(207)	(232)	79
Ending balance cash	3,673	3,776	3,567	3,335	3,415

Balance sheet (SGDm)	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Total cash and equivalents	3,673	3,776	3,567	3,335	3,415
Tangible fixed assets	5,136	5,014	5,114	5,216	5,321
Total investments	4,581	5,030	5,122	5,266	5,411
Total assets	19,797	19,503	19,954	20,319	20,849
Short-term debt	1,783	1,266	1,266	1,266	1,266
Total long-term debt	3,955	3,756	3,806	3,906	3,706
Other liabilities	774	645	649	667	671
Total liabilities	8,389	7,662	7,616	7,425	7,379
Shareholders' equity	9,294	9,584	9,926	10,567	11,177
Minority interests	2,115	2,258	2,412	2,327	2,294
Total equity	11,409	11,841	12,338	12,894	13,470
Net debt	2,065	1,246	1,504	1,836	1,557
Total liabilities & equity	19,797	19,503	19,954	20,319	20,849

Key metrics	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Revenue growth (%)	18.2	(2.0)	5.9	8.5	4.5
Recurrent EPS growth (%)	(15.5)	(17.6)	9.7	9.4	0.8
Gross margin (%)	45.0	44.0	44.0	44.0	44.0
Operating EBITDA margin (%)	29.3	26.5	26.1	27.1	25.4
Net profit margin (%)	16.7	14.1	14.6	14.7	14.2
Dividend payout ratio (%)	23.4	31.9	29.1	29.5	29.3
Capex/sales (%)	0.6	1.2	12.3	11.4	15.2
Interest cover (x)	7.47	6.80	6.65	6.73	7.39

Source: Company data, RHB

Strategic partnership with China Vanke (Vanke) (2202 HK, NR). In Sep 2017, CDL entered into a strategic partnership with Vanke, one of the top three residential developers in China. Together with this partnership, CDL also divested its 50% and 70% stakes in two of its projects located in Chongqing respectively and booked pre-tax gains of SGD55.5m from these divestments. More importantly, the strategic partnership would help CDL tap into Vanke's expertise in residential developments in China, and pave the way for future collaborations and business expansion opportunities in both China and Singapore.

Update on other overseas markets. As market conditions in the UK remain subdued, CDL is not in a hurry to sell the units and plans to defer some of its project launches to a later date. In Australia, the group entered into a collaboration with Waterbrook Lifestyle Resorts to develop two 5-star retirement villages in New South Wales.

The group's 20%-owned JV residential project in Japan, Park Court Aoyoma The Tower, in central Tokyo, is >80% sold, with average selling prices being higher than management's expectations. The group is currently exploring various design options to maximise the potential of its prime Shirokane residential site in central Tokyo.

Asset enhancement initiative (AEI). The planned SGD70m AEI for Republic Plaza would commence in 1H18 and is expected to be completed by 1H19. It includes the creation of a new retail cluster at second floor of the premises.

Figure 1: CDL's residential landbank breakdown in Singapore*

Launched projects					
S.No	Project	Location	Stake	Total units	Unsold units TOP/Expected TOP date
1	New Futura	Leonie Hill Road	100%	124	85 Aug-17
2	Forest Woods	Lorong Liew Lian	50%	519	42 May-21
3	Gramercy Park	Grange Road	100%	174	16 May-16
4	The Criterion EC	Yishun street 51	70%	505	33 Dec-18
5	The Brownstone EC	Canberra Drive	70%	631	7 Feb-18
6	Coco Palms	Pasir Ris Grove	51%	931	13 Jun-19
7	Echelon	Alexandra Road	50%	508	2 Nov-16
8	UP@Robertson Quay	Robertson Quay	100%	70	12 Jan-16
9	Clivden at Grange	Grange Road	100%	110	67 2011
10	One Shenton	Shenton Way	100%	341	14 2011
11	The Oceanfront @ Sentosa	Sentosa Cove	50%	264	1 2010
12	St. Regis Residences	Tanglin Road	33%	173	12 2008
Total				**4350**	**304**
Unlaunched projects					
S.No	**Project**	**Location**	**Stake**	**Total units**	**Unsold units Expected Launch date**
1	The Tapestry	Tampines Ave 10	100%	861	861 Mar-18
2	South Beach Residences	Beach Road	50.10%	190	190 2Q18/3Q18
3	West Coast Vale Site	West Coast Vale	100%	730	730 4Q18/1Q19
4	Amber Park Site	Amber Road	80%	600	600 1H19
5	Handy Road site	Handy Road	100%	200	200 1H19
6	Boulevard Hotel Site	Cuscaden Road	40%	154	154 n.a
7	Sumang Walk EC	Sumang Walk	60%	820	820 n.a
Total				**3555**	**3555**

*Note: *As at Mar 2018*

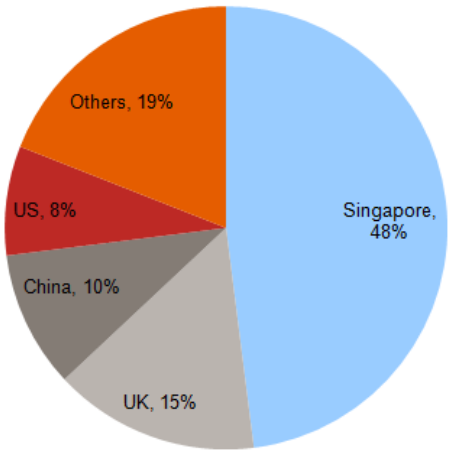
Source: RHB, Company data

Figure 2: CDL's RNAV breakdown

Properties	Stake	RNAV (SGDm)	Value per share (SGD)
Investment properties		6,397.4	6.70
Property Development (GDV):			
-Singapore residential		4,167.7	4.37
-China residential		1,014.8	1.06
-UK residential		1,428.3	1.50
-JP residential		465.1	0.49
Singapore commercial devt surplus		220.6	0.23
Net asset/liabilities		432.0	0.45
Net cash/debt		(495.8)	(0.52)
Listed Companies:			
Millennium & Copthorne	65%	2,271.1	2.38
Sum of total parts		15,901.3	
No. of shares (m) (full conversion of pref. shares)		954.2	
RNAV			**16.66**
Premium/(discount) (%)			(10)
Fair value			15.00
Last price			13.36
Upside (%)			**12.3**

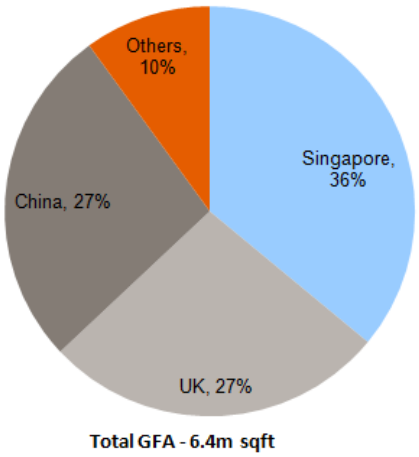
Source: RHB, Company data

Figure 3: Total assets by geography (2017)



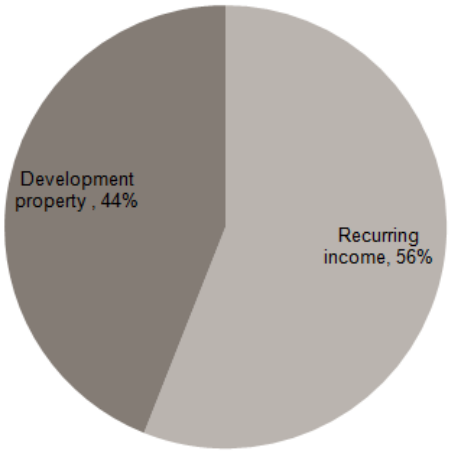
Source: RHB, Company data

Figure 4: Landbank composition by region (as as Dec 2017)



Source: RHB, Company data

Figure 5: EBITDA breakdown (2017)



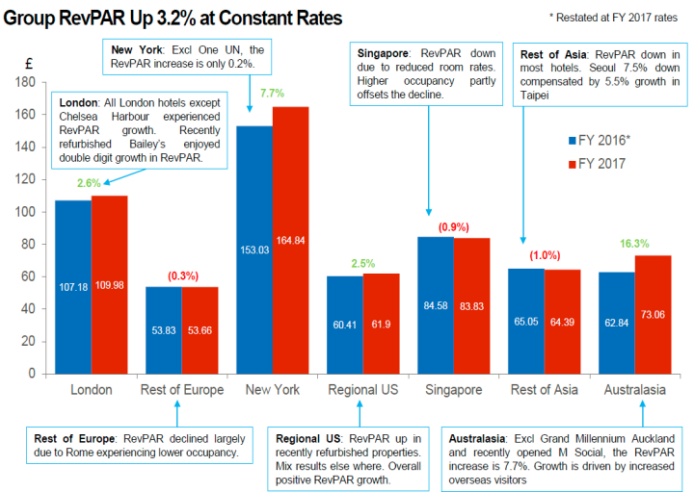
Source: RHB, Company data

Figure 6: CDL's unlaunched overseas landbank

Project	City	Tenure	Equity Stake	Total Units	Est. Total Saleable Area / GFA^ / Site Area* (sq ft)	Expected Completion
China						
Huang Huayuan	Chongqing	50-year lease	30%	>700	1,041,589	2020
UK						
Belgravia	London	Freehold	100%	6	12,375	Q2 2018
Knightsbridge	London	Freehold	100%	3	5,193	Q2 2018
Chelsea	London	Freehold	100%	9	16,143	Q1 2019
Knightsbridge (Pavilion Road)	London	Freehold	100%	34	135,000^	TBC
Teddington Riverside*	London	Freehold	100%	240	233,552	Q4 2019
Stag Brewery, Mortlake	London	Freehold	100%	TBC	1,000,000	TBC
Ransomes Wharf, Battersea	London	Freehold	100%	118	240,899^	2020
Japan						
Shirokane	Tokyo	Freehold	100%	TBC	180,995*	TBC

Source: Company data

Figure 7: M&C's hotel segment – operational performance



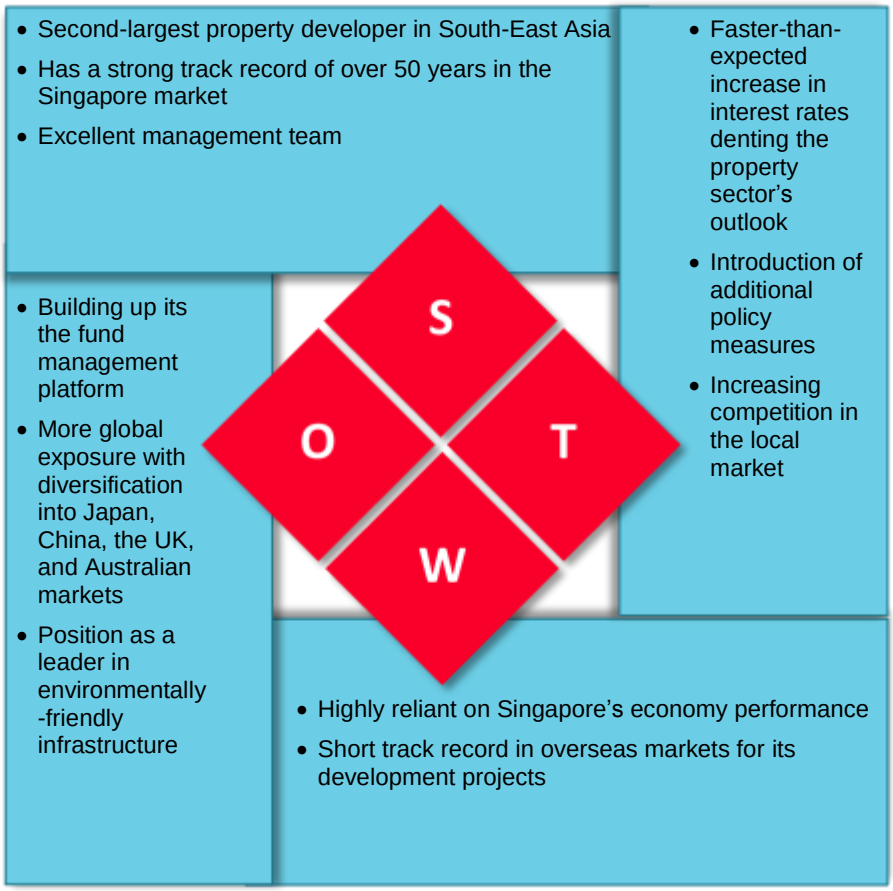
Source: Company data

Figure 8: M&C's hotel operations

Hotel and Room Count	Hotels		Rooms	
	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
By region:				
• New York	4	4	2,238	2,238
• Regional US	15	15	4,559	4,559
• London	8	8	2,649	2,651
• Rest of Europe	21	19	3,528	3,081
• Middle East *	31	26	10,346	7,805
• Singapore	7	7	3,011	3,011
• Rest of Asia	25	27	9,240	10,036
• Australasia	25	25	3,831	3,641
Total:	**136**	**131**	**39,402**	**37,022**
Pipeline				
By region:				
• Middle East *	10	17	3,239	5,465
• Asia	4	4	1,594	1,608
• Regional US	1	1	263	263
• Rest of Europe	1	1	184	153
• Australasia	1	-	42	-
Total:	**17**	**23**	**5,322**	**7,489**

Source: Company data

SWOT Analysis



Recommendation Chart

Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2017-05-12	Take Profit	11.3	10.6
2017-03-23	Buy	11.3	10.2
2017-02-24	Buy	10.5	9.5
2017-01-16	Buy	9.7	8.9
2016-11-10	Buy	9.4	8.6
2016-08-11	Take Profit	9.0	8.9
2016-06-26	Buy	9.0	8.3
2016-05-12	Buy	9.4	8.0
2016-02-26	Buy	9.2	7.2
2015-12-16	Buy	9.2	7.7

Source: RHB, Bloomberg

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