

COMPANY UPDATE

CDL Hospitality Trusts (CDREIT SP)

Singapore And Europe Leading The Recovery

CDREIT's six Singapore hotels will benefit from higher occupancies and increased contributions from GCWH during the seasonally stronger 2H23. Visitor arrivals have picked up since July as Singapore becomes a preferred destination for well-heeled Chinese tourists. CDREIT will benefit from the continued recovery in Germany and Italy. Residential Build-to-Rent project The Casting in the UK will start contributing in 2H24. Maintain BUY for 2024 distribution yield of 6.6%. Target price: S\$1.48.

WHAT'S NEW

- Singapore: Becoming a preferred destination for Chinese tourists.** RevPAR for CDL Hospitality Trusts' (CDREIT) six Singapore hotels increased 20.7% yoy to S\$182 in 2Q23 driven by higher room rates (+28.5% yoy). The recovery would have been more pronounced if not for: a) Grand Copthorne Waterfront Hotel (GCWH) undergoing refurbishment, and b) one of its hotels exiting the last government contract in Jan 23 and still undergoing gestation in 1H23. The average length of stay in Singapore was 3.9 days in 1H23, which is 15% higher than pre-pandemic levels. We expect continued recovery from Singapore driven by higher occupancies in 2H23 due to an influx of Chinese tourists. Its six hotels in Singapore will also benefit from the healthy line-up of MICE events and concerts.
- Repositioning GCWH as a leading conference hotel.** GCWH has just completed extensive refurbishment and will contribute more meaningfully post-renovation in 2H23. Full renovation for its 549 rooms was completed in Jun 23. The bedroom refurbishment removed 34,000 room nights (34% of total room nights) from its inventory in 1H23. Conference facilities were closed since Apr 23 but reopened in Jul 23. Room rates have increased by double digits, while the pace of bookings for corporate events have picked up. The hotel also benefits from the opening of the Havelock MRT station in Nov 22.
- Germany: Event calendar to pick up in 2H23.** RevPAR for Germany recovered 40.5% yoy although events have not fully recovered. The recovery was driven by corporate travellers and airline crew. NPI was boosted by variable rent of €0.4m in 1H23. Pullman Hotel Munich benefits from the pick-up in events during 2H23, including Oktoberfest and IAA Mobility (motor show focusing on passenger vehicles) in September.
- Italy: Benefitting from return of leisure travellers from Asia.** RevPAR for Italy grew 66.4% yoy and was 33.2% above pre-pandemic levels. Hotel Cerretani Firenze benefitted from the strong recovery of Asian travellers. Chinese tourists are fond of travelling to Italian cities, including Florence. The tourism industry has almost recovered back to pre-pandemic levels. NPI was boosted by variable rent of €1.2m in 1H23.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2021	2022	2023F	2024F	2025F
Net turnover	158	229	266	288	294
EBITDA	71	105	128	149	153
Operating profit	50	84	107	128	132
Net profit (rep./act.)	72	220	48	71	72
Net profit (adj.)	28	76	48	71	72
EPU (S\$ cent)	2.3	6.2	3.8	5.7	5.7
DPU (S\$ cent)	4.3	5.6	6.1	7.0	7.0
PE (x)	46.1	17.0	27.4	18.4	18.3
P/B (x)	0.8	0.7	0.8	0.8	0.8
DPU Yld (%)	4.1	5.4	5.8	6.6	6.7
Net margin (%)	45.5	95.8	17.9	24.8	24.6
Net debt/(cash) to equity (%)	58.7	55.1	62.7	67.0	70.2
Interest cover (x)	4.0	n.a.	2.5	3.0	2.9
ROE (%)	4.4	12.8	2.7	4.1	4.2
Consensus DPU (S\$ cent)	n.a.	n.a.	6.4	7.1	7.8
UOBKH/Consensus (x)	-	-	0.96	0.98	0.90

Source: CDL Hospitality Trusts, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$1.05
Target Price	S\$1.48
Upside	+41.0%
(Previous TP)	S\$1.55

COMPANY DESCRIPTION

CDREIT is a stapled group comprising CDL Hospitality REIT and CDL Hospitality Business Trust. It owns 19 operational properties with 4,820 rooms across eight countries with portfolio valuation of S\$2.8b as of Mar 23. It is the first hospitality REIT listed on the Main Board of the SGX on 19 Jul 06.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	CDREIT SP
Shares issued (m):	1,244.4
Market cap (S\$m):	1,306.6
Market cap (US\$m):	957.5
3-mth avg daily t'over (US\$m):	1.8

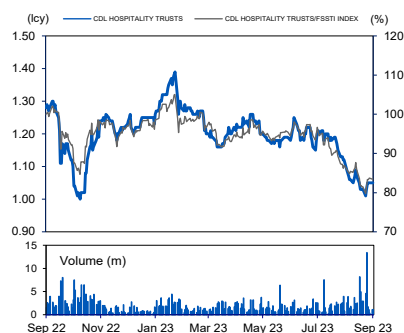
Price Performance (%)

52-week high/low	S\$1.39/S\$1.00			
1mth	3mth	6mth	1yr	YTD
(7.1)	(11.8)	(16.0)	(15.3)	(16.0)

Major Shareholders

	%
Kwek Hldgs	27.0
FY23 NAV/Share (S\$)	1.40
FY23 Net Debt/Share (S\$)	0.88

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- The UK: Margin pressure from higher wages and...** RevPAR for its two UK hotels increased 10.1% yoy to £141 and room rates were 13% above pre-pandemic levels in 2Q23. Hilton Cambridge City Centre and The Lowry Hotel were affected by higher labour costs and cessation of the government's COVID-19 business rates relief since 2Q22. Hotel Brooklyn provided full six months contribution in 1H23. Fixed rent from Hotel Brooklyn has increased 5% to £2.5m per year (7 May 23 to 6 May 24).
- ...expansion in rental housing.** Residential Build-to-Rent project The Castings with 352 units in Manchester, UK, has completed structural works and topped out in Jun 23. The Castings is on track for practical completion around mid-24. There is strong demand but a supply shortage for rental housing in Manchester. Asking rents have increased 10-15% yoy for one-bed, two-bed and three-bed units. The average length of stay is one year or more. We estimate that The Casting will contribute 4.4% of NPI in 2H24.
- Guiding for a slight increase in cost of debts.** Aggregate leverage was stable at 37.9% in 2Q23. About 48% of its borrowings are on fixed interest rates. CDREIT has refinanced term loan of S\$120m with five-year sustainability-linked loan. Cost of debt increased 0.3ppt qoq to 4.1% in 2Q23.

STOCK IMPACT

- Outlook for Singapore remains positive** with continued recovery supported by a healthy pipeline of MICE events and increased flight connectivity. Singapore Tourism Board (STB) expects visitor arrivals to reach 12m-14m in 2023 (2022: 6.3m), bringing in tourism receipts of S\$18b-21b (66-75% of pre-pandemic levels). Tourism activities are expected to recover fully to pre-pandemic levels in 2024.
- Recovery gathered pace in Jul 23.** Visitor arrivals increased 95% yoy and 26% mom to 1.4m in Jul 23, reaching 79% of pre-pandemic levels. Chinese tourists doubled mom to 231,326 in Jul 23 (16.3% of total), reaching 59% of pre-pandemic levels. China has, once again, become Singapore's largest source market. Visitor arrivals from Indonesia and Australia grew 6% and 8% mom respectively.
- Chinese visitors to boost demand in 2H23.** Well-heeled Chinese tourists have returned since Jul 23. Flight capacity has increased and administrative kinks for visa applications have been resolved. The volume of Chinese guests is expected to increase during the National Day Golden Week in Oct 23, which coincides with the mid-autumn festival. STB expects 1.1m-2.2m Chinese visitors in 2023 (2019: 3.6m).

1H23 RESULTS

Year to 31 Dec (S\$m)	1H23	yoy % chg	Remarks
Total Revenue	119.2	+20.9	Registered healthy growth despite renovation at GCWH.
Net Property Income (NPI)	62.9	+23.3	Growth driven by Singapore, Japan, Australia, Europe and the UK.
Distributable Income	31.2	+23.8	Interest costs increased 71.4% yoy.
DPU (S cents)	2.51	+23.0	

Source: CDREIT, UOB Kay Hian

EARNINGS REVISION/RISK

- We trimmed our 2023 DPU forecast by 11% due to the seasonally softer 1H23 and depreciation of AUD (-6.1% yoy) and JPY (-8.5% yoy) against the SGD.

VALUATION/RECOMMENDATION

- Maintain BUY.** Our target price of S\$1.48 is based on DDM (cost of equity: 7.25%, terminal growth: 2.8%).

SHARE PRICE CATALYST

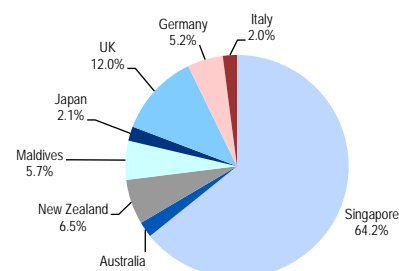
- Recovery of MICE events in Singapore. Return of corporate and leisure travellers to Australia, Germany, Italy, Japan, Maldives, New Zealand and the UK.
- Contributions from yield-accretive acquisitions, including hotels and rental housing.

KEY OPERATING METRICS - CDREIT

	2Q22	3Q22	4Q22	1Q23	2Q23	yoy % Chg	qoq % Chg*
DPU (S cents)	2.04	n.a.	3.59	n.a.	2.51	23.0%	-30.1%
Aggregate Leverage	39.5%	39.4%	36.6%	37.5%	37.9%	-1.6ppt	0.4ppt
Weighted All-in-Financing Cost	2.3%	2.5%	3.5%	3.8%	4.1%	1.8ppt	0.3ppt
% Borrowings in Fixed Rate	63.8%	64.4%	55.9%	55.5%	47.9%	-24.9ppt	-13.7ppt
Weighted Debt Maturity (years)	1.9	1.7	2.0	1.9	2.1	0.2yrs	0.2yrs
Singapore Hotels							
Average Occupancy Rate (%)	65.2%	88.1%	86.8%	67.9%	69.2%	4ppt	1.3ppt
Average Room Rate (%)	189	226	241	259	258	36.5ppt	-0.4ppt
RevPAR	123	199	209	176	179	45.5ppt	1.7ppt

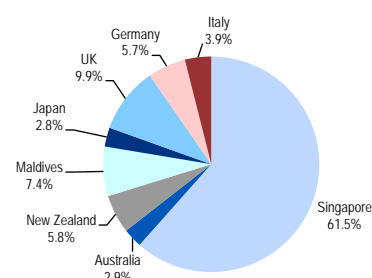
Source: CDREIT, UOB Kay Hian * hoh % chg for DPU

PORTFOLIO VALUATION BY COUNTRY (JUN 23)



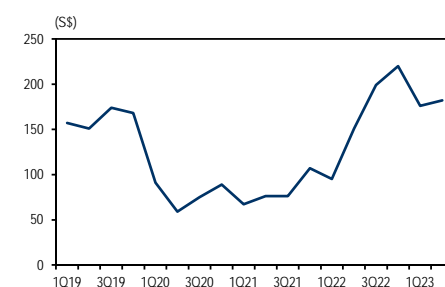
Source: CDREIT

NPI BY COUNTRY (1H23)



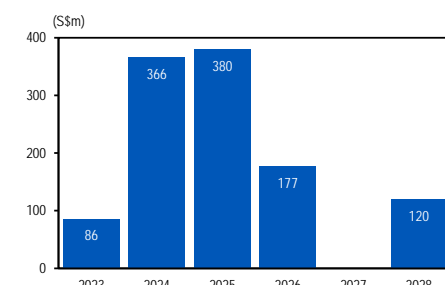
Source: CDREIT

SINGAPORE HOTELS - REVPAR



Source: CDREIT

DEBT MATURITY PROFILE



Source: CDREIT

PROFIT & LOSS

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Net turnover	229.4	266.3	287.7	293.6
EBITDA	105.1	128.4	148.8	152.9
Deprec. & amort.	21.0	21.4	20.4	20.4
EBIT	84.1	107.0	128.4	132.5
Net interest income/(expense)	0.1	(50.8)	(49.1)	(52.1)
Pre-tax profit	227.7	56.2	79.3	80.3
Tax	(7.8)	(8.2)	(7.9)	(8.0)
Minorities	(0.1)	(0.2)	0.0	0.0
Net profit	219.8	47.8	71.4	72.3
Net profit (adj.)	76.3	47.8	71.4	72.3

CASH FLOW

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Operating	116.4	95.3	117.4	120.3
Pre-tax profit	223.2	51.7	75.1	76.1
Tax	(7.8)	(8.2)	(7.9)	(8.0)
Deprec. & amort.	21.0	21.4	20.4	20.4
Working capital changes	4.3	5.4	1.2	0.0
Non-cash items	10.8	12.0	12.9	13.3
Other operating cashflows	(135.1)	13.1	15.7	18.4
Investing	(98.2)	(79.7)	(42.0)	(20.0)
Capex (growth)	(77.0)	(59.7)	(22.0)	0.0
Capex (maintenance)	(22.0)	(20.0)	(20.0)	(20.0)
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	0.8	0.0	0.0	0.0
Financing	(51.9)	(16.9)	(76.4)	(100.6)
Distribution to unitholders	(62.9)	(76.6)	(87.3)	(88.5)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	464.8	110.4	60.0	40.0
Loan repayment	(421.8)	0.0	0.0	0.0
Others/interest paid	(32.0)	(50.8)	(49.1)	(52.1)
Net cash inflow (outflow)	(33.7)	(1.3)	(1.0)	(0.3)
Beginning cash & cash equivalent	139.5	96.9	95.6	94.6
Changes due to forex impact	(8.8)	0.0	0.0	0.0
Ending cash & cash equivalent	96.9	95.6	94.6	94.3

BALANCE SHEET

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Fixed assets	2,887.9	2,919.0	3,077.1	3,097.1
Other LT assets	62.8	119.3	3.3	3.3
Cash/ST investment	96.9	95.6	94.6	94.3
Other current assets	55.5	56.9	58.2	58.3
Total assets	3,103.2	3,190.9	3,233.3	3,253.0
ST debt	238.8	86.2	86.2	86.2
Other current liabilities	61.1	68.8	71.3	71.4
LT debt	842.0	1,105.0	1,165.0	1,205.0
Other LT liabilities	168.1	177.2	177.2	177.2
Shareholders' equity	1,786.2	1,746.3	1,726.2	1,705.8
Minority interest	6.9	7.3	7.3	7.3
Total liabilities & equity	3,103.2	3,190.9	3,233.3	3,253.0

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	45.8	48.2	51.7	52.1
Pre-tax margin	99.3	21.1	27.6	27.4
Net margin	95.8	17.9	24.8	24.6
ROA	7.3	1.5	2.2	2.2
ROE	12.8	2.7	4.1	4.2
Growth				
Turnover	45.4	16.1	8.0	2.1
EBITDA	48.0	22.2	15.9	2.7
Pre-tax profit	201.5	(75.3)	41.2	1.3
Net profit	206.1	(78.3)	49.4	1.3
Net profit (adj.)	172.8	(37.3)	49.4	1.3
EPU	170.8	(37.7)	48.4	0.6
Leverage				
Debt to total capital	37.6	40.5	41.9	43.0
Debt to equity	60.5	68.2	72.5	75.7
Net debt/(cash) to equity	55.1	62.7	67.0	70.2
Interest cover (x)	n.a.	2.5	3.0	2.9

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