

COMPANY RESULTS

City Developments (CIT SP)

1H23: Strong EBITDA Growth Overshadowed By Financing Costs And One-Off Items

CDL reported a muted 1H23 that was impacted by one-off items and financing costs as well as a poor comparison vs 1H22 that included a large divestment gain from its hotel segment. Stripping out the exceptional items, EBITDA rose 48% yoy which was above our expectations. CDL was busy on the investments front in Australia, Korea and Japan in 1H23 and will look to continue to grow its living sector presence overseas. Maintain BUY. Target price: S\$8.00.

1H23 RESULTS

Year to 31 Dec (\$m)	1H22	1H23	Chg %	Remarks
Revenue	1,473	2,704	83.5	- Boosted by completion of Piermont Grand EC
Gross profit	583	787	35.0	
EBITDA*	323	478	48.0	
Divestment gains	1,422	19	NM	- Absence of 1H22 divestment gain (sale of Millenium Associates/JVs)
Associates/JVs	93	40	-57.0	Seoul and deconsolidation of CDL Hospitality Trust)
PATMI	1,119	66	NM	
Gross profit margin	39.6%	29.1%	-10.5ppt	
PATMI margin	76.5%	2.4%	-74.1ppt	

Note: * Excluding divestment gains and impairment losses
Source: City Developments Limited, UOB Kay Hian

RESULTS

- **A muted first half.** City Developments (CDL) reported revenue of S\$2.7b for 1H23 (+84% yoy) which was boosted by the completion of the Piermont Grand Executive Condominium (EC) and thus full revenue recognition of the project. Its EBITDA of S\$478m (excluding divestment gains and impairments) was 48% higher than the year-ago period and beat our expectations but missed consensus'. At the bottom line, CDL's S\$66m net profit was substantially lower than an extraordinary 1H22 which had seen substantial gains from the divestment of its hotel in Seoul and a gain from the deconsolidation of CDL Hospitality Trust. A special interim dividend of S\$0.04/share was declared (1H22: S\$0.12).
- **The S\$34m impairment loss seen in 1H23** related to CDL's UK investment properties witnessed a 20-50bp in cap rate expansion, thus leading to a drop in its valuation. Although financing costs in the UK has risen by 4x vs same period last year, management sees near-term stabilisation and continues to believe that its UK investment properties have bright prospects. In addition to the impairment loss, there was also a fair value loss on property-linked notes for an Australian project (S\$20m).

KEY FINANCIALS

Year to 31 Dec (\$m)	2021	2022	2023F	2024F	2025F
Net turnover	2,626	3,293	4,409	3,119	4,530
EBITDA	594	2,147	913	753	565
Operating profit	309	1,880	632	444	225
Net profit (rep./act.)	72	1,272	162	454	422
Net profit (adj.)	85	1,285	175	467	434
EPS (S\$ cent)	9.3	141.7	19.3	51.5	47.9
PE (x)	74.8	4.9	36.3	13.6	14.6
P/B (x)	0.8	0.7	0.7	0.7	0.7
EV/EBITDA (x)	20.8	5.8	13.6	16.4	21.9
Dividend yield (%)	1.3	4.0	1.1	1.5	1.4
Net margin (%)	2.7	38.6	3.7	14.6	9.3
Net debt/(cash) to equity (%)	107.6	79.3	61.3	23.7	3.4
Interest cover (x)	1.3	6.6	1.5	1.9	n.a.
ROE (%)	0.8	14.4	1.8	4.9	4.4
Consensus net profit	-	-	438	459	614
UOBKH/Consensus (x)	-	-	0.40	1.02	0.71

Source: City Developments Limited, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$6.99
Target Price	S\$8.00
Upside	+14.4%

COMPANY DESCRIPTION

CDL is a global real-estate operating company with a geographically-diverse portfolio comprising residences, offices, hotels, serviced apartments, integrated developments and shopping malls.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	CIT SP
Shares issued (m):	906.9
Market cap (S\$m):	6,339.2
Market cap (US\$m):	4,710.4
3-mth avg daily t'over (US\$m):	9.3

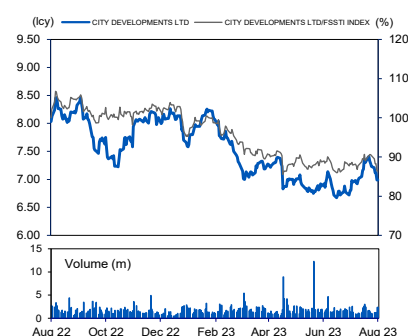
Price Performance (%)

52-week high/low		S\$8.47/S\$6.67		
1mth	3mth	6mth	1yr	YTD
4.0	0.3	(13.3)	(13.1)	(14.1)

Major Shareholders

Kwek Hldgs	48.6
FY23 NAV/Share (S\$)	9.70
FY23 Net Debt/Share (S\$)	6.16

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Singapore residential sector looking stable.** While CDL is happy with the sales launch of Tembusu Grand (58% sold as at 2 Aug 23), the sale performance at The Myst was lower than expected, which could be attributable to buyers' fatigue due to a number of new launches earlier in that area. Looking ahead, CDL will be launching another executive condominium (EC) in 1Q24, with sales likely to be strong for this type of residential product, as well as the Central Mall redevelopment with three sites and is targeted for launch in early-24. The news on its high-end Newport Residences is less encouraging with no visibility at present as to when it can be launched with the company stating that it is waiting until there is "market stability". CDL disclosed that it has obtained an extension from the government and has to complete the sales by 2031.
- Hotels segment remains a bright light.** Hotel operations saw a 69% increase in EBITDA with occupancy up 12ppt yoy to 79% and RevPAR up 43% to S\$152. Management continues to focus on increasing the performance of this segment, for example via the expansion of its MSocial brand which launched its first property in Suzhou, China, in 1H23. At the pre-tax level, this segment incurred a loss of S\$7m due to net financing costs of S\$51m, or over one-third of CDL's financing costs. The company guided for strong RevPAR in 2H23 and for its gross operating profit margin to remain at around 30%.
- New projects – strong outlook.** Management stated that it will focus its capital allocation on UK and Japanese living assets. In 1H23, the company invested in the Sofitel Brisbane Central in Brisbane (416 rooms), the Nine Tree Premier Hotel Myeongdong II in Seoul (408 rooms) and two Private Rented Sector projects in Osaka (201 units). CDL commented that it will continue to look to build on its living sector segment which it views as resilient and defensive. Management also revealed during the results briefing that it is looking to get back into China to replenish its landbank, and will focus on upper tier cities such as Shanghai and Suzhou given that valuations are low.
- Balance sheet slightly weaker over the past six months.** During the results briefing, management stated that the upper limit of its net gearing is 65% vs 57% as at end-1H23 (1H22: 51%). We also note that its interest cover has declined from 9.8x at end-22 to 2.8x at end-1H23, and its cash and available committed credit facilities had fallen from S\$4.1b at end-22 to S\$3.4b at end-1H23.

EARNINGS REVISION/RISK

- Earnings downgraded.** While we have put through a material 65% downgrade of our 2023 earnings, this is very much in the rear-view mirror given that they mostly relate to one-off items in 1H23, as well as higher-than-expected financing costs. Importantly, the outlook appears reasonably solid with interest rates likely to decline over the next 12 months, and continued robust performance from its property development and hotel arms.

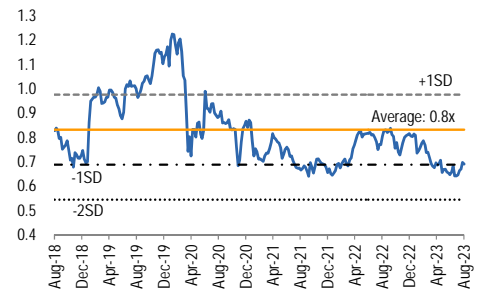
VALUATION/RECOMMENDATION

- We retain our BUY rating on the stock with an unchanged target price of S\$8.00.** Our target price is pegged to a 40% discount to our assessed RNAV of S\$14.10 which is largely in line with the company's historical discount to RNAV. We note that CDL disclosed at its results briefing that its RNAV (including revaluation of its hotel portfolio) was S\$18.97/share as at end-1H23. Applying its 10-year trough P/B of 0.64x to its 2023 book value would imply a share price of S\$6.45.

SHARE PRICE CATALYSTS

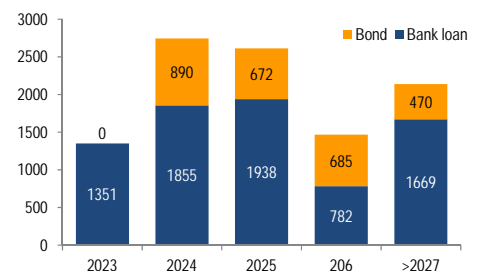
- Continued economic recovery from COVID-19 especially resumption of leisure and business travel; higher-than-expected return of capital to shareholders in 2023.**

5-YEAR P/B



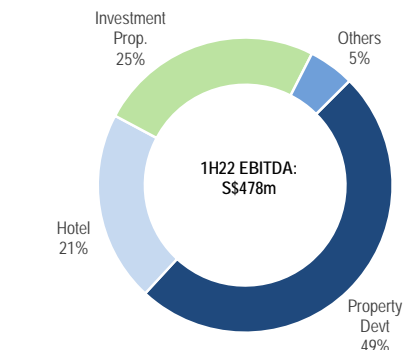
Source: Bloomberg, UOB Kay Hian

DEBT MATURITY PROFILE (\$M)



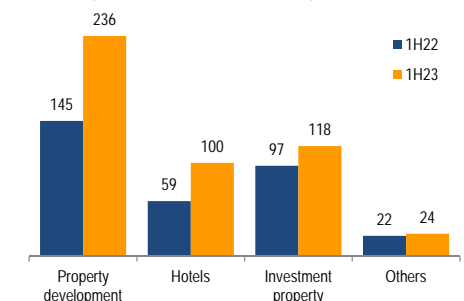
Source: Bloomberg, UOB Kay Hian

SHARE OF EBITDA (EX DIVESTMENT GAINS) IN 1H23



Source: CDL

EBITDA (EX DIVESTMENT GAINS) IN 1H23



Source: CDL

PROFIT & LOSS

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Net turnover	3,293	4,409	3,119	4,530
EBITDA	2,147	913	753	565
Deprec. & amort.	267	281	309	340
EBIT	1,880	632	444	225
Total other non-operating income	0	0	0	0
Associate contributions	170	80	290	308
Net interest income/(expense)	(193)	(293)	(46)	111
Pre-tax profit	1,857	419	688	645
Tax	(543)	(143)	(172)	(161)
Minorities	(29)	(102)	(49)	(49)
Preferred dividends	(13)	(13)	(13)	(13)
Net profit	1,272	162	454	422
Net profit (adj.)	1,285	175	467	434

CASH FLOW

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Operating	(126)	736	1,910	404
Pre-tax profit	1,314	277	516	483
Tax	0	0	0	0
Deprec. & amort.	267	281	309	340
Associates	(170)	(80)	(290)	(308)
Working capital changes	(177)	(34)	1,329	0
Non-cash items	0	0	0	0
Other operating cashflows	(1,360)	293	46	(111)
Investing	780	1,356	1,526	1,691
Capex (growth)	(273)	(300)	(400)	(400)
Capex (maintenance)	0	0	0	0
Investments	926	1,453	1,453	1,453
Proceeds from sale of assets	0	0	0	0
Others	127	203	473	638
Financing	(290)	(883)	(513)	(525)
Dividend payments	(232)	(267)	(84)	(106)
Issue of shares	0	0	0	0
Proceeds from borrowings	193	0	0	0
Loan repayment	0	(400)	(400)	(400)
Others/interest paid	(251)	(216)	(29)	(19)
Net cash inflow (outflow)	364	1,209	2,923	1,570
Beginning cash & cash equivalent	2,083	2,363	3,573	6,495
Changes due to forex impact	(84)	n.a.	n.a.	n.a.
Ending cash & cash equivalent	2,363	3,573	6,495	8,065

BALANCE SHEET

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Fixed assets	4,061	2,327	565	(1,228)
Other LT assets	8,341	8,333	8,517	8,766
Cash/ST investment	2,363	3,573	6,495	8,065
Other current assets	8,216	8,251	6,922	6,922
Total assets	22,981	22,483	22,499	22,525
ST debt	2,354	2,246	2,230	2,279
Other current liabilities	2,564	2,564	2,564	2,564
LT debt	7,315	6,915	6,515	6,115
Other LT liabilities	1,183	1,183	1,183	1,183
Shareholders' equity	9,216	9,124	9,507	9,835
Minority interest	348	450	499	548
Total liabilities & equity	22,981	22,483	22,499	22,525

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	65.2	20.7	24.1	12.5
Pre-tax margin	56.4	9.5	22.1	14.2
Net margin	38.6	3.7	14.6	9.3
ROA	5.4	0.7	2.0	1.9
ROE	14.4	1.8	4.9	4.4
Growth				
Turnover	25.4	33.9	(29.3)	45.2
EBITDA	261.5	(57.5)	(17.5)	(25.0)
Pre-tax profit	764.4	(77.4)	64.1	(6.3)
Net profit	1,672.0	(87.3)	180.7	(7.2)
Net profit (adj.)	1,417.3	(86.4)	167.4	(7.0)
EPS	1,417.3	(86.4)	167.4	(7.0)
Leverage				
Debt to total capital	50.3	48.9	46.6	44.7
Debt to equity	104.9	100.4	92.0	85.4
Net debt/(cash) to equity	79.3	61.3	23.7	3.4
Interest cover (x)	6.6	1.5	1.9	n.a.

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