SECTOR UPDATE

Property Developers – Singapore

1H24: A Slight Miss For CLI; Worse-than-expected For CDL

CLI and CDL both reported weaker-than-expected results with the latter's results hit by the timing of revenue recognition as well as a 25% yoy increase in financing cost for 1H24. While both saw continued strength in their respective lodging/hospitality segments in 1H24, CLI's capital recycling targets appear to be on track versus delays for CDL. Maintain our BUY recommendations: We prefer CLI (target price: S$4.04) over CDL (target price lowered to S$7.00). Maintain OVERWEIGHT on the sector.

CAPITALAND INVESTMENT: 1H24 RESULTS

1H24 RESULTS

Year to 31 Dec (S$m)	1H23	1H24	Yoy %	Remarks
Revenue	1,345	1,365	1.5%	- Steady performance from free-related business and
Gross profit	628	643	2.4%	real estate investment business
EBITDA	757	819	8.2%	
Divestment gains	7	35	NM	- Participation in CLI REITs distribution reinvestment
Associates/JVs	254	259	2.0%	plans and completion of earlier divestment
PATMI	351	331	-5.7%	- Impacted by higher interest cost, forex losses
Gross profit margin	46.7%	47.1%	+0.4ppt	
PATMI margin	26.1%	24.2%	-1.8ppt	

Source: CapitaLand Investment, UOB Kay Hian

- **A slight miss for 1H24.** CapitaLand Investment (CLI) reported core PATMI of S$331m, down 5.7% yoy and a slight miss compared with our expectation. This was due to both higher-than-expected interest cost as well as forex losses given the strength of the Singapore dollar versus other currencies that CLI is exposed to. The highlight of the results was the stable contribution from its fee income-related businesses (FRB), continued strength in its lodging business, and the reiteration of its S$3b capital recycling target for 2024.
- **A new template for diversification in China.** On 13 August, CLI announced the first close of its sixth onshore RMB fund which will focus on business parks and has an initial equity commitment of Rmb1.2b and an onshore major institutional investor as the fund's anchor investor. The close-ended fund is expected to add Rmb2b (S$370m) to CLI's funds under management (FUM) when fully deployed. As part of the process, CLI sold down a balance sheet asset (Ascendas iHub Suzhou) as a seed investment for the fund with management commenting that this is a template for future portoflio diversification in China.
- **Commercial management leading the way in CLI's FRB.** In 1H24, commercial management rose 22% to S$185m driven by improved asset performance and management fee restructuring. This sub-segment remains the largest within the FRB and helped it to grow 8% yoy to S$561m. Overall margin remained flat on a yoy basis at 46bp and slightly ahead of our estimate of 45bp.
- **CLI's real estate investment business (REIB) was negatively affected** by higher interest expense, forex losses and the absence of contribution from divested assets. However, management believes that this should reverse in 2H24 as interest costs decline into next year. The strong Singapore dollar vs other currencies in which CLI operates also had a negative impact, especially for accounts receivable in JPY. On a net property income basis, only China witnessed a decline of 1.6% on RMB terms as rental reversion negatively impacted the business. Interestingly, CLI disclosed that tenant sales fell on a yoy basis for both Singapore and China, down 2.5% and 1.8% respectively.
- **A solid performance from lodging and a robust outlook.** 1H24 saw continued strong growth in lodging with fee income up 4% yoy to S$166m, driven by a 6% yoy increase in RevPAU with a substantial 20% yoy growth in Japan. With 7,000 units signed across 33 properties (1H23: 5,900 properties) and >5,000 units opened across 23 properties in in 1H24, the lodging segment should continue to deliver growth for CLI in the coming 12 months.

OVERWEIGHT

(Maintained)

KEY STOCKS

Company	Rec	------ Price (S$) ----- 14 Jul	Target	Up/down (%)
City Dev	BUY	5.21	7.00	34.4
CapitaLand Inv	BUY	2.49	4.04	62.2

Source: Bloomberg, UOB Kay Hian

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- **Looking for growth in Asia ex China.** During the results briefing, management stated that, in diversifying out of China, it will look instead to grow AUM in Japan, Korea and Australia either via acquiring platforms, establishing local real estate teams that are strong and entrepreneurial, or being co-general partners in funds. CLI continues to believe that thematic investing remains sought after by investors. In Australia, CLI believes that there are structural opportunities in credit, self-storage, living sector and hospitality with the latter epitomised by its investments in co-living and serviced apartments (via the Quest brand). In Japan, lodging remains a key sector where CLI has invested via various vehicles while in Korea, CLI sees opportunities within the date centre and credit markets as well as the Grade A office sector, which remains chronically undersupplied.

- **No changes to earnings estimates.** We have elected to keep our earnings unchanged at this time.

CITY DEVELOPMENTS: 1H24 RESULTS

1H24 RESULTS

Year to 31 Dec (S$m)	1H23	1H24	Yoy %	Remarks
Revenue	2,704	1,563	-42.2%	- 1H23 property development bumped up by $1b revenue recognition for Piermont Grand project
Gross profit	787	693	-11.9%	
EBITDA*	460	456	-0.8%	
Divestment gains	16	120	668.6%	- Gains from sale of Singapore strata assets
Associates/JVs	40	18	-54.9%	
Pre-tax profit	180	155	-13.4%	- Negatively impacted by higher financing costs
PATMI	66	88	33.0%	- Supported by divestment gains
Gross profit margin	29.1%	44.4%	+15.3ppt	
PATMI margin	2.4%	5.6%	+3.2ppt	

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

- **Worse-than-expected results.** The results briefing for City Developments (CDL) was a somewhat downbeat affair given its reported 42% yoy decline in revenue to S$1.6b and PATMI of S$88m (+33% yoy) that was helped by divestment gains. The miss was due to the property development business where timing of revenue recognition was not in the company's favour in 1H24, however the profit recognition should come in the few quarters. CDL declared an interim special dividend of S$0.02/share (1H23: S$0.04).

- **High debt load remains a drag.** As was evident in 2023, CDL's high debt load coupled with high interest rates continued to be a drag on profitability in 1H24. Finance costs increased 25% yoy to S$275m in 1H24 with net gearing having risen to 0.69x as at end-1H24 vs 61% as at end-23. The company conceded that its interest cover ratio of 2x is "not great". For the full-year, the company forecasts that its borrowing cost will come in lower than its budgeted 4.7-4.8% and remains hopeful that the anticipated US Fed funds rate cut in Sep 24 will ultimately lead to lower interest rates from 2025 onwards.

- **Capital recycling still a work in progress.** Despite its debt levels, CDL has continued to acquire landbank in Singapore and assets overseas. The company did point out that it has slowed the pace of its capital deployment given that it acquired S$2.4b in assets last year vs S$1.1b ytd. Nevertheless, the company remains some distance away from its S$1b divestment target given that it only achieved a sales value to date of S$172m and may achieve only S$400m-500m by end-24. Management stated that there are a few large assets earmarked for divestment which will take time to negotiate and complete. CDL's executive chairman commented that should attractive assets come up for sale, he would be willing to seize the opportunity.

- **Growth in the near to medium term** will come from its property development sector with the launch of its Union Square Residences (366 units) and Norwood Grand (348 units) in 2H24 while 2025 will see the launch of two major projects at Lorong 1 Toa Payoh (777 nuits) and Zion Road Parcel A (>700 units). CDL is still waiting for the right time to launch its luxury Newport Residences (246 units) given that it does not have any pressure on the Additional Buyer Stamp Duty front.

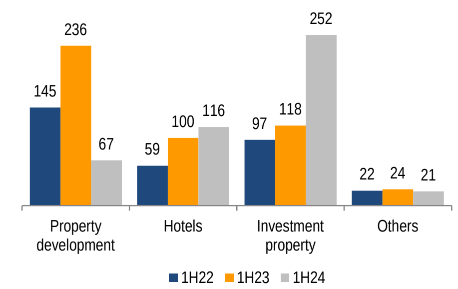
- **Lodging business continues to perform steadily.** With the exception of London, all of CDL's hospitality geographies saw positive RevPAR increases on a yoy basis. Australasia

CDL: CHANGES TO EARNINGS FORECASTS

S$m	2024E	2025E	2026E
NPAT - was	450	412	465
NPAT - is	250	328	348
Change	-44.5%	-20.4%	-25.1%

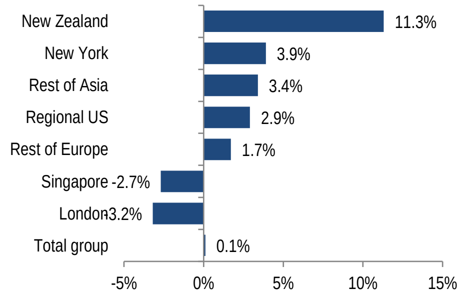
Source: UOB Kay Hian

CDL: EBITDA TREND



Source: CDL

CDL: CHANGE IN AVERAGE ROOM RATES



Source: CDL

was the highlight, up 30% yoy due to the inclusion of the Sofitel Brisbane Central which it bought in Dec 23. At a group level, RevPAR grew 3% yoy to S$156 in 1H24 and for the full-year, management guided this growth rate would likely be maintained.

- **Downgrading earnings.** We have downgraded earnings for CDL by 25-45% for 2024-26 given the weaker-than-expected property development earnings, high financing costs and lower divestment target.

ACTION

Capitaland Investment (CLI SP/BUY/Target:S$4.04).

- **Maintain BUY with an unchanged SOTP–based target price of S$4.04.** We believe that the company's current P/B valuation is inexpensive at 0.9x for 2025 vs its 2023 peak P/B of 1.4x. CLI's share price has suffered in lock-step with the China market, however with the potential turning point in the interest-rate cycle, we believe that patient investors will be rewarded in 2H24. Management reiterated that with an equity base of around S$14, it will continue to buy back its shares and believes it has enough operating cash flow to sustain the buyback as well as its dividend of at least S$0.12/share and potentially up to S$0.18/share. This implies a yield of 4.8% to 7.2% based on yesterday's closing share price.

City Developments (CIT SP/BUY/Target:S$7.00)

- **We maintain our BUY rating on the stock with a lower target price of S$7.00 (S$8.20 previously).** Our target price is pegged to a higher 50% discount to our assessed RNAV of S$12.90/share which we view as reasonable given the company's continued struggle to divest its assets coupled with its high debt levels. At our target price, we note that CDL would trade at a 2025F P/B of 0.65x which is 1SD below its five-year average. The company disclosed at its results briefing that its RNAV (including revaluation of its hotel portfolio) was S$19.49/share as at end-1H24. We are cognizant that in the near term, CDL will be unlikely to continue buying back its shares given the stretched nature of its balance sheet.

SHARE PRICE CATALYSTS

- Progress in both companies' capital recycling efforts.
- An improved M&A market with signs of the US Fed showing a willingness to cut interest rates.

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