

COMPANY UPDATE

CDL Hospitality Trusts (CDREIT SP)

Happy Days Are Back With More Holidays And Business Trips

We see continued recovery for CDREIT's hotels in 2H22. Singapore reopened its international borders in April and will benefit from the Singapore Grand Prix and large-scale MICE events in 2H22. Maldives should see sustained recovery from influx of holidaymakers. In the UK, Hilton Cambridge benefits from recovery of business travel while The Lowry Hotel is popular with sports enthusiasts. Newly-acquired Hotel Brooklyn started to contribute in 1Q22. Maintain BUY. Target price: S\$1.57.

WHAT'S NEW

- Outbreak of the Omicron variant had a short-term impact on bookings in January and February but recovery for the hospitality industry has resumed in March.
- **Singapore: Attraction as the safest and friendliest destination.** The Vaccinated Travel Framework was launched on 1 Apr 22 and the requirement for pre-departure COVID-19 tests was subsequently abolished on 26 Apr 22. The reopening of international borders led to recovery in visitor arrivals of 43% mom to 294,304 in the month of April, reaching 19% of pre-pandemic levels. Hotels benefitted from an increase in bookings from business guests, especially those from Europe and the US. Bookings for function rooms and ballrooms have surged due to the easing of safe distancing measures. Event organisers were placed on waiting lists as demand outweighs supply of venues.
- CDL Hospitality Trusts' (CDREIT) RevPAR for Singapore recovered 41% yoy to S\$95 in 1Q22. Grandstand and combination tickets for the three-day Formula 1 Singapore Grand Prix in Sep 22 have already sold out. Large scale MICE events, such as World Cities Summit, FHA – Food & Beverage, FIND – Design Fair Asia and The Singapore Business Show, would also attract more visitor arrivals to Singapore in 2H22. The full impact of the reopening of international borders is expected in 2H22.
- **Maldives: Wholehearted welcome of tourists.** Tourists are exempted from the mandatory 10-day quarantine required for all international arrivals. Guests have to quarantine at their villas should they test positive for COVID-19 but, as a gesture of goodwill, most resorts will refund the price of the stay in the form of vouchers. Visitor arrivals to Maldives started to improve in Jun 21 and recovered to pre-pandemic levels by Dec 21. RevPAR for Maldives rebounded 66% yoy and 27% qoq to US\$519 in 1Q22.
- CDREIT completed major refurbishment for all 79 beach villas at Angsana Velavaru in Jul 20 and construction of a new ultra-luxury presidential villa at Raffles Maldives Meradhoo in Dec 20. The enhancements were timely ahead of the recovery in 2H21. Maldives is not affected by the Russia-Ukraine war as, according to the World Bank, Russians and Ukrainians accounted for only 16.8% and 2.7% of the 1.3m visitor arrivals in 2021. Maldives is able to attract a high volume of visitors from other source markets, such as Western Europe (UK, Germany and Italy), Middle East and India.

KEY FINANCIALS

Year to 31 Dec (\$m)	2020	2021	2022F	2023F	2024F
Net turnover	118	158	188	240	258
EBITDA	49	71	93	130	142
Operating profit	33	50	73	110	122
Net profit (rep./act.)	(185)	72	46	76	86
Net profit (adj.)	9	28	46	76	86
EPU (\$ cent)	0.7	2.3	3.7	6.1	6.9
DPU (\$ cent)	5.0	4.3	5.2	6.6	7.4
PE (x)	170.4	55.8	34.3	20.8	18.5
P/B (x)	1.0	1.0	1.0	1.0	1.0
DPU Yld (%)	3.9	3.4	4.1	5.2	5.8
Net margin (%)	(157.6)	45.5	24.4	31.6	33.3
Net debt/(cash) to equity (%)	55.4	58.7	62.5	64.5	66.7
Interest cover (x)	2.3	4.0	4.3	5.1	5.4
ROE (%)	n.a.	4.4	2.8	4.7	5.4
Consensus DPU (\$ cent)	n.a.	n.a.	5.7	7.2	8.2
UOBKH/Consensus (x)	-	-	0.91	0.92	0.90

Source: CDL Hospitality Trusts, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$1.27
Target Price	S\$1.57
Upside	+23.6%
(Previous TP)	S\$1.45

COMPANY DESCRIPTION

CDREIT is a stapled group comprising CDL Hospitality REIT and CDL Hospitality Business Trust. It is the first hospitality REIT listed on the Main Board of the SGX on 19 Jul 06. It owns 19 operational properties and one build-to-rent project under development across eight countries with AUM of S\$3b as of Mar 22.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	CDREIT SP
Shares issued (m):	1,234.7
Market cap (\$m):	1,568.1
Market cap (US\$m):	1,140.0
3-mth avg daily t'over (US\$m):	2.2

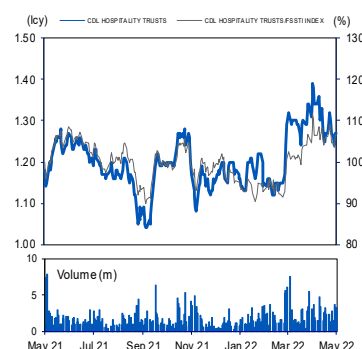
Price Performance (%)

52-week high/low		S\$1.39/S\$1.04		
1mth	3mth	6mth	1yr	YTD
(3.1)	10.4	5.8	7.6	8.5

Major Shareholders

	%
Kwek Hldgs	27.0
FY22 NAV/Share (\$)	1.30
FY22 Net Debt/Share (\$)	0.81

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- **UK: Travel has returned to normality.** The British government abolished COVID-19 tests and quarantine for vaccinated travellers in Feb 22. The last vestige of COVID-19 related border control was removed in Mar 22 with pre-departure COVID-19 tests no longer required for unvaccinated travellers. According to British Airways, there was strong recovery for premium leisure travel in 1Q22. Business and group travel are also returning. The UK-US corridor would be restored to full capacity in 3Q22.
- RevPAR for the UK eased 21% qoq to £86 in 1Q22 due to weakness in January and February. The newly acquired Hotel Brooklyn contributed fixed rent of S\$0.4m. Recovery in domestic travel is expected to pick up in 2Q22 due to the slew of public holidays (Easter, Bank Holiday and Jubilee weekend).

STOCK IMPACT

- **Expanded scope of investment strategy.** CDREIT has revised its principal investment strategy to include adjacent accommodation/lodging assets, such as rental housing, co-living, student accommodation and senior housing. Rental housing includes residential apartment blocks and standalone houses targeting singles, couples and families. These adjacent assets provide stable income streams, which is less susceptible to economic cycles. They have a longer length of stay ranging from a few months to 1-2 years.
- **First foray into adjacent lodging space.** CDREIT has invested in a residential build-to-rent (BTR) project for £73.3m (S\$136.0m) in Aug 21. It paid £9.5m for the land. The vendor will redevelop the land into a BTR building The Castings for £63.8m (S\$118.4m). CDREIT will pay £58.2m periodically over the development period and £5.6m after practical completion expected in May 24. The freehold 352-unit BTR block has a residential floor area of 219,600sf. It is located at Piccadilly East, Manchester and near Piccadilly Station, Arndale Shopping Centre and Old Trafford football stadium. The Castings will be leased out to individuals and families for periods of one year or more. The transaction is accretive to pro forma 2020 DPU by 2.2% assuming it is fully funded by GBP loans.
- **Further expansion of footprint in Manchester.** CDREIT has completed the acquisition of 189-room Hotel Brooklyn at 57 & 59 Portland Street, Manchester, UK for £22.8m (S\$41.5m) on 22 Feb 22. The 4-star upscale lifestyle hotel was recently opened in Feb 20 and is centrally located near Manchester's CBD. It is in close proximity to Canal Street, which has a variety of cafes, bars and restaurants.
- The hotel is leased to HLD (Manchester) Limited, which is part of Marshall Holdings Limited, from 7 May 21 to 6 May 81 on a full repairing and insuring basis (59 years unexpired). The tenant pays fixed rent of £2.3m per year subject to upward-only rent review based on inflation. NPI yield has improved by 0.4ppt to 7.8% from 7 May 22 due to rent review based on UK's Retail Price Index (RPI). The acquisition is accretive to pro forma 2021 DPU by 1.1%. Exposure to the UK has expanded by 1.6ppt to 10% of AUM.
- **Expect limited selling pressure on CDREIT.** Sponsor City Development (CIT) has distributed 144.3m CDREIT units in specie on a pro rata basis to its shareholders valued at 19.1 S cents per share. CIT shareholders will receive 159 existing CDREIT units for every 1,000 CIT shares. The distribution would be made and credited to CIT shareholders' accounts on 26 May 22. CIT has reduced its stake in CDREIT from 39% to 27%. We expect limited selling pressure on CDREIT as we are still in the early stages of recovery for the hospitality industry.

EARNINGS REVISION/RISK

- We raised our DPU forecasts for 2022 by 9% and 2023 by 8% due to the accelerated pace of recovery in the hospitality industry.

VALUATION/RECOMMENDATION

- **Maintain BUY.** Our target price for CDREIT of S\$1.57 is based on DDM (cost of equity: 6.25% (previous: 6.5%), terminal growth: 1.8%).

SHARE PRICE CATALYST

- Reopening of international borders in Singapore. Growth of corporate and leisure travel in Germany, Japan, Maldives, New Zealand and the UK.
- Contributions from yield accretive acquisitions, including hotels and rental housing.

KEY OPERATING METRICS

	1Q21	2Q21	3Q21	4Q21	1Q22	yoy % Chg	qoq % Chg
DPU (S cents)	n.a.	1.22	n.a.	3.06	n.a.	n.a.	n.a.
Aggregate Leverage	39.1%	39.1%	40.1%	39.1%	39.8%	0.7ppt	0.7ppt
Average Cost of Debt	1.9%	1.9%	1.9%	2.0%	2.1%	0.2ppt	0.1ppt
% Borrowings in Fixed Rate	63.6%	63.3%	61.6%	61.3%	63.5%	-0.2ppt	3.6ppt
Weighted Debt Maturity (years)	2.1	1.8	2.0	2.1	2.1	0yrs	0yrs

Source: CDREIT, UOB Kay Hian

OVERVIEW OF HOTEL BROOKLYN

Description	<ul style="list-style-type: none"> • 4 star, upscale lifestyle hotel • Opened in February 2020 • BREEAM Certified with 'Very Good' rating
Location	57 & 59 Portland Street, Manchester, UK
Title	Leasehold (196 years remaining)
Rooms and Amenities	<ul style="list-style-type: none"> • 189 rooms (average room size: 26sqm) • Two food and beverage outlets. Three meeting rooms for up to 140 people. • Casino with restaurant and bar
Property Consideration	£22.8m (S\$41.5m)
Total Acquisition Cost	£24.1m (S\$43.8m)
Valuation	£25.3m (S\$46.1m)

Source: CDREIT

HOTEL BROOKLYN



Source: CDREIT

OVERVIEW OF THE CASTINGS

The Transaction	Forward-funding scheme for Residential Build-to-Rent (BTR) property.
Location	Piccadilly East, Manchester, UK
Target Completion	May 2024. Development Period of 140 weeks.
Land Title	Freehold
Total Area	236,900sf
Residential Apartments	Net internal area of 219,600sf. 352 apartments (studio: 39, one bedroom: 77, two bedroom: 227 and three bedroom: 9)

Source: CDREIT

THE CASTINGS (CONCEPT DRAWING)



Source: CDREIT

PROFIT & LOSS

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Net turnover	157.7	188.1	239.8	257.6
EBITDA	71.0	93.1	130.2	142.2
Deprec. & amort.	21.5	20.4	20.4	20.4
EBIT	49.6	72.7	109.8	121.8
Net interest income/(expense)	(17.9)	(21.8)	(25.6)	(26.4)
Pre-tax profit	75.5	50.9	84.2	95.5
Tax	(3.8)	(5.1)	(8.4)	(9.5)
Minorities	0.1	0.0	0.0	0.0
Net profit	71.8	45.9	75.8	85.9
Net profit (adj.)	28.0	45.9	75.8	85.9

BALANCE SHEET

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Fixed assets	2,714.4	2,775.9	2,795.9	2,815.9
Other LT assets	30.8	3.1	3.1	3.1
Cash/ST investment	139.5	154.7	159.7	160.4
Other current assets	36.4	48.2	58.5	60.7
Total assets	2,921.1	2,982.0	3,017.2	3,040.1
ST debt	421.8	421.8	421.8	421.8
Other current liabilities	54.7	75.2	91.6	95.2
LT debt	676.9	740.0	770.0	800.0
Other LT liabilities	125.0	125.0	125.0	125.0
Shareholders' equity	1,635.3	1,612.6	1,601.4	1,590.8
Minority interest	7.3	7.3	7.3	7.3
Total liabilities & equity	2,921.1	2,982.0	3,017.2	3,040.1

CASH FLOW

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Operating	62.5	99.8	103.4	109.4
Pre-tax profit	71.6	46.7	80.0	91.3
Tax	(3.8)	(5.1)	(8.4)	(9.5)
Deprec. & amort.	21.5	20.4	20.4	20.4
Working capital changes	(7.8)	8.7	6.1	1.3
Non-cash items	8.9	8.9	10.5	11.1
Other operating cashflows	(27.8)	20.1	(5.3)	(5.1)
Investing	(43.9)	(61.5)	(20.0)	(20.0)
Capex (growth)	(23.1)	(41.5)	0.0	0.0
Capex (maintenance)	(21.5)	(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	(7.2)	(23.1)	(78.4)	(88.7)
Distribution to unitholders	(57.1)	(64.4)	(82.8)	(92.4)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	310.9	63.1	30.0	30.0
Loan repayment	(237.5)	0.0	0.0	0.0
Others/interest paid	(23.5)	(21.8)	(25.6)	(26.4)
Net cash inflow (outflow)	11.5	15.3	5.0	0.7
Beginning cash & cash equivalent	131.1	139.5	154.7	159.7
Changes due to forex impact	(3.1)	0.0	0.0	0.0
Ending cash & cash equivalent	139.5	154.7	159.7	160.4

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	45.0	49.5	54.3	55.2
Pre-tax margin	47.9	27.1	35.1	37.1
Net margin	45.5	24.4	31.6	33.3
ROA	2.5	1.6	2.5	2.8
ROE	4.4	2.8	4.7	5.4
Growth				
Turnover	34.2	19.3	27.5	7.4
EBITDA	43.8	31.2	39.8	9.2
Pre-tax profit	n.a.	(32.5)	65.3	13.3
Net profit	n.a.	(36.1)	65.3	13.3
Net profit (adj.)	207.4	64.0	65.3	13.3
EPU	205.3	62.9	64.4	12.6
Leverage				
Debt to total capital	40.1	41.8	42.6	43.3
Debt to equity	67.2	72.0	74.4	76.8
Net debt/(cash) to equity	58.7	62.5	64.5	66.7
Interest cover (x)	4.0	4.3	5.1	5.4

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