

COMPANY UPDATE

City Developments (CIT SP)

1Q22: Positive Outlook As Operating Performance Remains Resilient

CDL reported a resilient operating performance in 1Q22 supported by healthy hospitality occupancy rates. However, its Singapore residential segment saw a 41% yoy fall in units sold due to uncertainty after the Dec 21 property cooling measures. It would appear that CDL's outlook remains reasonably strong for the rest of 2022 given its back-end loaded residential launches in Singapore as well as continued recovery in its hospitality segment. Maintain BUY. Target price S\$9.20.

WHAT'S NEW

- **Key highlights for 1Q22 were the recovery in the office segment...** As movement restrictions in Singapore eased in 1Q22, offices in general saw a gradual increase with workers exiting the 'work from home' mode. In 1Q22, City Developments (CDL) reported that its Singapore office portfolio had a healthy occupancy rate of 93% and higher than market average of 88%. A positive effect of this has been retail sales which has reached close to pre-COVID-19 levels, resulting in CDL's retail occupancy of 95% (vs market average of 92%).
- **...and the hospitality segment which has seen strong occupancy,** room rate and revenue per available room (RevPAR) metrics in most of its geographies with the exception of New Zealand (see charts overleaf). As expected, London and Europe were notably robust with RevPAR spiking 10x and 7x respectively. We expect 1H22 and even 3Q22 numbers to be similarly strong as the summer holiday season kicks in from Jun 22 onwards, and especially looking at recent outlook statements from various airlines regarding the summer high season.
- **Policy-related slowdown.** Due to Dec 21's property cooling measures, market sentiment stagnated resulting in only 188 units sold for 1Q22 (-41% yoy) vs 319 units in 1Q21. However, we do not view this as a major cause for concern given that CDL's launches in 2022 are back-end loaded. In addition, our channel checks with the construction industry point to a recovery, and the risk of delays has materially reduced.
- **China likely to be a drag in 1H22 due to the significant COVID-19 control measures implemented by the government.** While office occupancy in Shanghai remains relatively stable, retail in Suzhou has been significantly impacted and residential sales and construction work in these two cities as well as in Shenzhen have been negatively affected.

KEY FINANCIALS

Year to 31 Dec (\$m)	2020	2021	2022F	2023F	2024F
Net turnover	2,108	2,626	2,780	3,032	2,815
EBITDA	(565)	599	822	842	832
Operating profit	(852)	322	517	506	463
Net profit (rep./act.)	(1,898)	85	453	513	450
Net profit (adj.)	(1,985)	98	466	526	463
EPS (\$ cent)	(218.8)	10.8	51.4	57.9	51.1
PE (x)	n.m.	76.2	16.0	14.2	16.1
P/B (x)	0.9	0.9	0.9	0.8	0.8
EV/EBITDA (x)	n.m.	31.7	23.1	22.6	22.8
Dividend yield (%)	1.5	1.1	1.1	1.1	1.2
Net margin (%)	(90.0)	3.2	16.3	16.9	16.0
Net debt/(cash) to equity (%)	99.1	107.6	120.4	90.8	66.4
Interest cover (x)	(3.3)	1.4	1.9	1.7	1.6
ROE (%)	n.a.	1.0	5.3	5.7	4.8
Consensus net profit	-	-	696	530	555
UOBKH/Consensus (x)	-	-	0.67	0.99	0.83

Source: City Developments, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$8.22
Target Price	S\$9.20
Upside	+12.1%

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 (\$m):	7,445.7
Market cap (US\$m):	5,435.2
3-mth avg daily t'over (US\$m):	13.9

Price Performance (%)

52-week high/low S\$8.48/S\$6.41

1mth	3mth	6mth	1yr	YTD
(2.5)	18.1	19.4	10.4	23.8

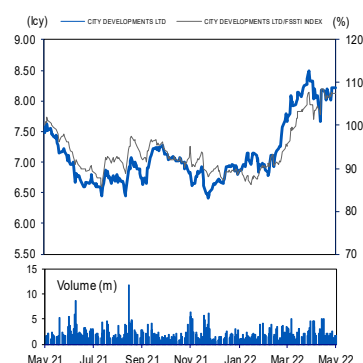
Major Shareholders

Kwek Hlds	%
-	-
-	-

FY22 NAV/Share (S\$) 9.32

FY22 Net Debt/Share (S\$) 11.67

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Positive outlook for investment properties as economy recovers.** With the post-COVID-19 reopening coupled with tight office supply in Singapore, CDL stated that 2022 and 2023 should continue on the office market's recovery path. Notably for some of its assets like City Square Mall and Palais Renaissance in Singapore, tenant sales are close to, or have even surpassed pre-COVID levels. In the UK, CDL stated that an increase in recent lettings and longer-term commitments from existing occupiers have benefitted Aldgate House and 125 Old Broad Street.
- **Improved liquidity situation.** As at end-1Q22, CDL had S\$4.6b in cash and available credit facilities and net gearing of 53%, an improvement from end-21 when these metrics stood at S\$3.9b and 61% respectively. The infusion of cash has likely come from the sale of the Millennium Hilton Seoul and we expect CDL's liquidity situation to improve further from the gains from the sale of its stake in the Tanglin Shopping Centre and the Golden Mile Complex.

EARNINGS REVISION/RISK

- **Upgrading earnings.** We have incorporated the sales of Piccadilly Grand into our earnings estimates as well as slightly higher average selling prices for Canninghill Piers. Note that there will be further earnings upgrades during CDL's 1H22 results given the capital gains that will come from: a) the divestment of Tanglin Shopping Centre (CDL 60.2% ownership of strata area), b) the collective sale of Golden Mile Complex (CDL 34.8% of strata area). In addition, it completed the divestment of the Millennium Hilton Seoul for S\$1.25b and will recognise a disposal gain of S\$526.2m. The market will be looking for guidance as to whether CDL intends to distribute some of these proceeds in the form of a special dividend.

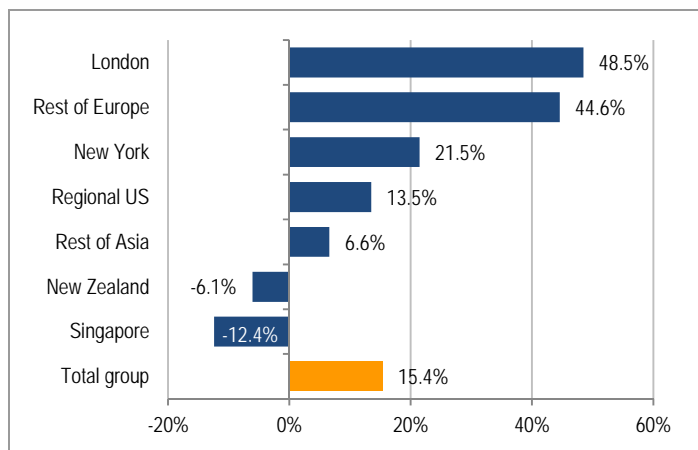
VALUATION/RECOMMENDATION

- **We retain our BUY rating on the stock with a target price of S\$9.20** which incorporates a 30% discount to our RNAV of S\$13.20/share. We like the stock for its exposure to the office and hotel segments which continue to exhibit positive momentum in their respective path towards recovery and higher profitability. We note that CDL disclosed during its 2021 results briefing that its RNAV (including revaluation of its hotel portfolio) was S\$18.61/share as at end-21.

SHARE PRICE CATALYST

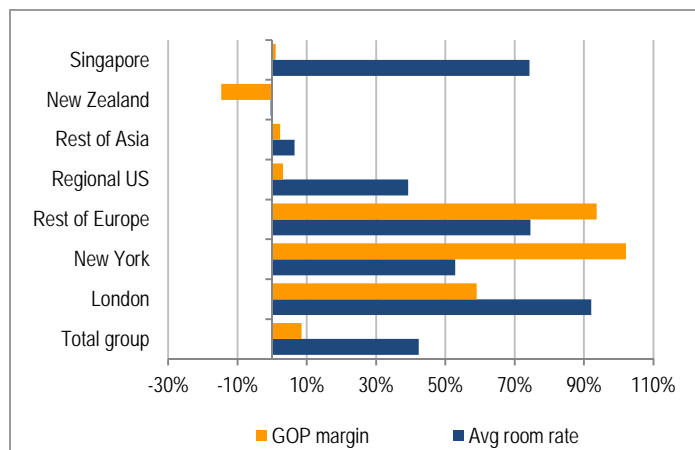
- Continued economic recovery from COVID-19 especially resumption of leisure and business travel.

HOTEL OPERATIONS: YOY CHANGE IN AVERAGE OCCUPANCY RATE – 1Q22 VS 1Q21



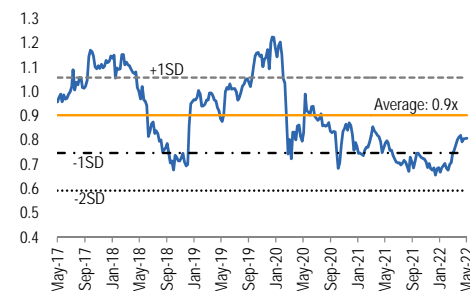
Source: CDL

HOTEL OPERATIONS: YOY CHANGE IN AVERAGE ROOM RATE AND GROSS OPERATING PROFIT MARGIN – 1Q22 VS 1Q21



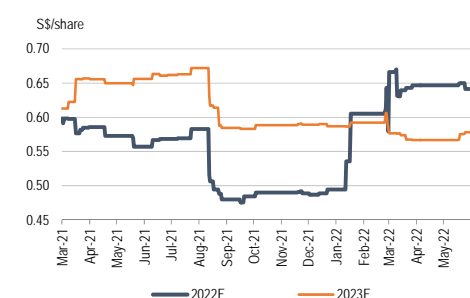
Source: CDL

FIVE-YEAR P/B



Source: Bloomberg, UOB Kay Hian

EPS REVISION MOMENTUM



Source: Bloomberg, UOB Kay Hian

CHANGES TO EARNINGS FORECASTS

	2022E	2023E	2024E
NPAT - Old	448	449	346
NPAT - New	466	526	463
Change	3.9%	17.2%	33.9%

Note: Excludes divestment gains

Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Net turnover	2,626	2,780	3,032	2,815
EBITDA	599	822	842	832
Deprec. & amort.	278	305	336	369
EBIT	322	517	506	463
Total other non-operating income	0	0	0	0
Associate contributions	107	302	427	301
Net interest income/(expense)	(202)	(190)	(231)	(132)
Pre-tax profit	228	629	702	632
Tax	(88)	(113)	(126)	(120)
Minorities	(42)	(50)	(50)	(49)
Preferred dividends	(13)	(13)	(13)	(13)
Net profit	85	453	513	450
Net profit (adj.)	98	466	526	463

BALANCE SHEET

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Fixed assets	5,362	5,134	4,876	4,585
Other LT assets	6,774	6,974	6,997	7,204
Cash/ST investment	2,083	1,159	2,899	4,504
Other current assets	9,674	11,646	10,145	8,650
Total assets	23,893	24,914	24,918	24,942
ST debt	5,188	6,188	6,111	6,117
Other current liabilities	2,714	2,714	2,714	2,714
LT debt	5,952	5,552	5,152	4,752
Other LT liabilities	707	707	707	707
Shareholders' equity	8,414	8,785	9,216	9,584
Minority interest	918	968	1,018	1,067
Total liabilities & equity	23,893	24,914	24,918	24,942

CASH FLOW

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Operating	1,134	(764)	2,216	2,207
Pre-tax profit	140	516	576	512
Tax	0	0	0	0
Deprec. & amort.	278	305	336	369
Associates	(107)	(302)	(427)	(301)
Working capital changes	814	(1,473)	1,501	1,496
Non-cash items	0	0	0	0
Other operating cashflows	11	190	231	132
Investing	(863)	113	112	(27)
Capex (growth)	(271)	(200)	(300)	(400)
Capex (maintenance)	0	0	0	0
Investments	(635)	(78)	(78)	(78)
Proceeds from sale of assets	0	0	0	0
Others	42	391	489	451
Financing	(1,277)	(273)	(588)	(576)
Dividend payments	(186)	(95)	(95)	(95)
Issue of shares	0	0	0	0
Proceeds from borrowings	0	0	0	0
Loan repayment	(378)	(400)	(400)	(400)
Others/interest paid	(713)	222	(93)	(82)
Net cash inflow (outflow)	(1,006)	(924)	1,740	1,605
Beginning cash & cash equivalent	3,127	2,083	1,159	2,899
Changes due to forex impact	(37)	n.a.	n.a.	n.a.
Ending cash & cash equivalent	2,083	1,159	2,899	4,504

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	22.8	29.6	27.8	29.6
Pre-tax margin	8.7	22.6	23.1	22.5
Net margin	3.2	16.3	16.9	16.0
ROA	0.4	1.9	2.1	1.8
ROE	1.0	5.3	5.7	4.8
Growth				
Turnover	24.5	5.9	9.1	(7.2)
EBITDA	n.a.	37.2	2.4	(1.2)
Pre-tax profit	n.a.	176.2	11.6	(9.9)
Net profit	n.a.	434.4	13.2	(12.2)
Net profit (adj.)	n.a.	377.0	12.8	(11.9)
EPS	n.a.	377.0	12.8	(11.9)
Leverage				
Debt to total capital	54.4	54.6	52.4	50.5
Debt to equity	132.4	133.6	122.2	113.4
Net debt/(cash) to equity	107.6	120.4	90.8	66.4
Interest cover (x)	1.4	1.9	1.7	1.6

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