

COMPANY RESULTS

City Developments (CIT SP)

1H22: A Record Result Due To Divestment Gains

CDL reported a significant increase in its PATMI due to the completion of two large divestments. As a result, it declared a special interim dividend of S\$0.12 which is likely to be repeated in 2H22 given that another two large en bloc divestments should be completed before the year end. The company's hospitality segment remains its best performer and should continue to do well in 2H22 should corporate travel return in force. **Maintain BUY. Increase target price to S\$9.87.**

1H22 RESULTS

6M to 30 Jun (S\$m)	1H21	1H22	Chg %	Remarks
Revenue	1,192	1,473	23.5%	- Strong recovery in lodging segment
Gross profit	417	583	40.0%	
Divestment gains	15	1,413	NM	- Gain from sale of Seoul Hilton and distribution
Associates/JVs	-118	93	NM	in specie of CDL Hospitality Trust
PATMI	-19	1,126	NM	
Gross profit margin	35.0%	39.6%	+5ppt	
PATMI margin	-1.6%	76.5%	+78ppt	

Source: CapitalLand Investment, UOB Kay Hian

RESULTS

- **A record 1H22 due to divestment gains.** City Developments (CDL) reported a 24% yoy increase in 1H22 revenue to S\$1.5b while at the PATMI level, the company saw a record PATMI of S\$1.1b on the back of divestment gains from the sale of Millenium Hilton Seoul as well as gains from the deconsolidation of CDL Hospitality Trust. Excluding these gains, the company missed our and consensus' estimates due to slightly lower-than-expected property development revenue and higher-than-expected costs.
- **Another bonanza.** CDL declared a special interim dividend of S\$0.12/share to reward shareholders post the divestment gains outlined above. We would not rule out another special dividend on top of a final dividend when the company announces its 2022 results next year given that the company has sold another two assets via en bloc in 1H22, which are Golden Mile Complex and Tanglin Shopping Centre.
- **Continued recovery in hospitality segment.** CDL witnessed the continued rebound of its hotel operations with all major metrics showing growth, eg room occupancy rose 16ppt to 59% in 1H22 while RevPAR jumped 110% to S\$114. The company remains bullish as it believes that the return of corporate travel in 4Q22 will provide a further boost. We believe that all of its hospitality markets should continue to see sequential improvement over the course of 2022.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2020	2021	2022F	2023F	2024F
Net turnover	2,108	2,626	2,832	3,085	2,868
EBITDA	(565)	599	2,003	779	793
Operating profit	(852)	322	1,725	474	457
Net profit (rep./act.)	(1,898)	85	1,424	525	479
Net profit (adj.)	(1,985)	98	1,437	538	492
EPS (S\$ cent)	(218.8)	10.8	158.4	59.3	54.2
PE (x)	n.m.	76.5	5.2	13.9	15.2
P/B (x)	0.9	0.9	0.8	0.8	0.7
EV/EBITDA (x)	n.m.	30.2	9.0	23.2	22.8
Dividend yield (%)	1.5	1.1	2.4	1.0	1.1
Net margin (%)	(90.0)	3.2	50.3	17.0	16.7
Net debt/(cash) to equity (%)	99.1	107.6	98.8	74.6	52.7
Interest cover (x)	(3.3)	1.4	8.2	1.6	1.6
ROE (%)	n.a.	1.0	15.7	5.3	4.6
Consensus net profit	-	-	698	530	567
UOBKH/Consensus (x)	-	-	2.06	1.02	0.87

Source: City Developments, UOB Kay Hian

n.m. : not meaningful; negative P/E, EV/EBITDA reflected as "n.m."

BUY

(Maintained)

Share Price	S\$8.24
Target Price	S\$9.87
Upside	+19.8%
(Previous TP)	S\$9.20)

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):	7,472.9
Market cap (US\$m):	5,457.8
3-mth avg daily t'over (US\$m):	10.3

Price Performance (%)

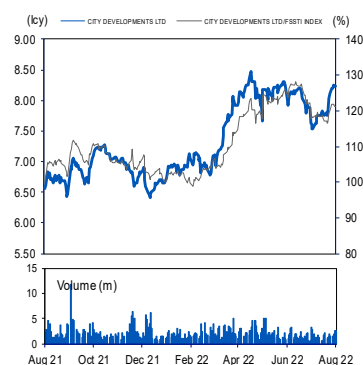
52-week high/low S\$8.48/S\$6.41

1mth	3mth	6mth	1yr	YTD
4.6	4.3	16.9	28.6	24.3

Major Shareholders

	%
Kwek Hldgs	48.6
-	-
-	-
FY22 NAV/Share (S\$)	10.39
FY22 Net Debt/Share (S\$)	10.63

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Property development – still some challenges in Singapore.** Management highlighted the continued difficult conditions for Singapore property developers due to the “five-year ABSD rule” (developers have a five-year deadline to develop the residential site and sell all the available units, otherwise it will have to pay 25% of the land price that it paid). With its landbank running low, CDL has had to bid at government land sales as well as en blocs and it noted that this landbank bidding has been hotly contested. The company is nevertheless satisfied with what it has in its launch pipeline, with more than 2,000 units (ranging from mass market to high-end projects) coming up for sale, which should reduce pressure on it to engage in the bidding frenzy.
- Living sector – not a new segment but a greater emphasis for the future.** During the analyst briefing, management spent time to elaborate on its strategy for the living sector segment where it is looking to invest more capital going forward. This sector comprises of its traditional hospitality business as well as its relatively new purpose built students’ accommodation (PBSA), private rented assets, affordable housing, and senior housing. Management disclosed that in particular, it will look to invest into more PBSA assets in the UK, Japan and Australia. As for exit options, CDL stated that it will look to divest these assets into other CDL entities (either its public REITs or private funds) with sales to third parties being the least preferred option.
- Manageable debt levels.** CDL disclosed that its average interest rate for 1H22 was 1.9% but did highlight that it will incur higher interest cost in 2H22 due to the higher base rates. While the company has around S\$2.7b in debt due in 2022, 66% of this has been refinanced via bank agreements and a further 23% are short-term loans subject to annual review. As at end-1H22, CDL’s net gearing was 83% vs 99% at end-21, and it had S\$4.1b in cash and available committed credit facilities.

EARNINGS REVISION/RISK

- Upgrading earnings.** We have upgraded our 2022 earnings (see table on RHS) to take into account the divestment gains. Note that our 2022 PATMI does not include gains from the two en bloc properties – Golden Mile Complex and the Tanglin Shopping Centre.

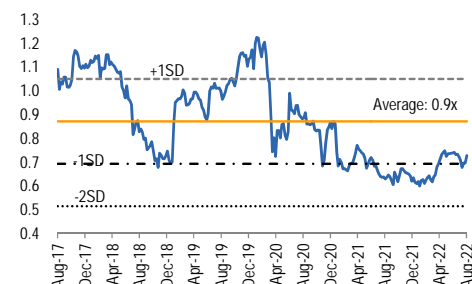
VALUATION/RECOMMENDATION

- We retain our BUY rating on the stock with a higher target price of S\$9.87 (previously S\$9.20).** Our RNAV has risen slightly from S\$13.70 to \$14.10 to account for the divestment gains in 1H22. Our target price is pegged to a 30% discount to RNAV which is largely in line with the company’s historical discount to RNAV. We note that CDL disclosed during its 2021 results briefing that its RNAV (including revaluation of its hotel portfolio) was S\$18.86/share as at end-21. During the analyst briefing, the company stated that its board had discussed a potential share buyback scheme at length which would support the share price in the near term, in our view.

SHARE PRICE CATALYST

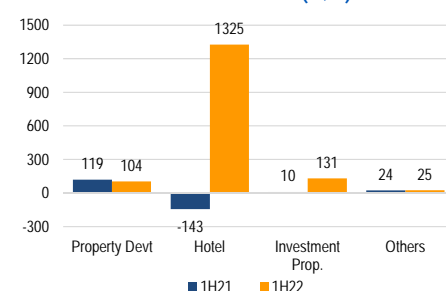
- Continued economic recovery from COVID-19, especially with the resumption of leisure and business travel.
- Implementation of a share buyback scheme in 2H22.

FIVE-YEAR P/B



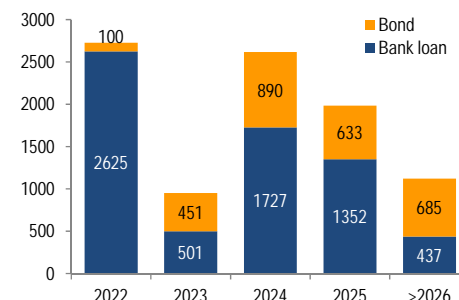
Source: Bloomberg, UOB Kay Hian

PRE-TAX PROFIT BY SEGMENT (\$M)



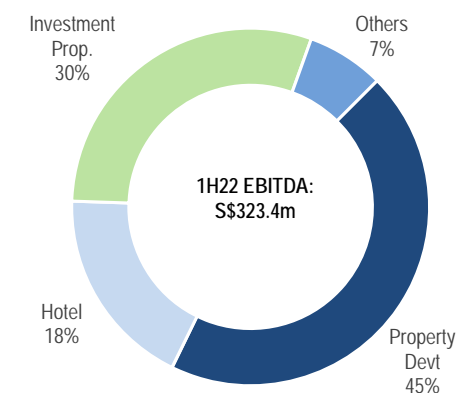
Source: CDL

DEBT MATURITY PROFILE (\$M)



Source: CDL

EBITDA (EX DIVESTMENT GAINS) IN 1H22



Source: CDL

CHANGES TO EARNINGS FORECASTS

S\$ m	2022F	2023F	2024F
Net profit - was	466	526	463
Net profit - is	1,437	538	492
Change	NM	2.3%	6.2%

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Net turnover	2,626	2,832	3,085	2,868
EBITDA	599	2,003	779	793
Deprec. & amort.	278	278	305	336
EBIT	322	1,725	474	457
Total other non-operating income	0	0	0	0
Associate contributions	107	186	427	301
Net interest income/(expense)	(202)	(98)	(183)	(90)
Pre-tax profit	228	1,813	717	668
Tax	(88)	(326)	(129)	(127)
Minorities	(42)	(50)	(50)	(49)
Preferred dividends	(13)	(13)	(13)	(13)
Net profit	85	1,424	525	479
Net profit (adj.)	98	1,437	538	492

BALANCE SHEET

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Fixed assets	5,362	5,162	4,935	4,677
Other LT assets	6,774	6,974	6,997	7,204
Cash/ST investment	2,083	2,102	3,724	5,333
Other current assets	9,674	11,646	10,145	8,650
Total assets	23,893	25,885	25,802	25,863
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	9,756	10,099	10,506
Minority interest	918	968	1,018	1,067
Total liabilities & equity	23,893	25,885	25,802	25,863

CASH FLOW

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Operating	1,134	204	2,151	2,161
Pre-tax profit	140	1,487	588	541
Tax	0	0	0	0
Deprec. & amort.	278	278	305	336
Associates	(107)	(186)	(427)	(301)
Working capital changes	814	(1,473)	1,501	1,496
Non-cash items	0	0	0	0
Other operating cashflows	11	98	183	90
Investing	(863)	21	159	15
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	299	537	492
Financing	(1,277)	(206)	(688)	(567)
Dividend payments	(186)	(95)	(194)	(85)
Issue of shares	0	0	0	0
Proceeds from borrowings	0	0	0	0
Loan repayment	(378)	(400)	(400)	(400)
Others/interest paid	(713)	288	(93)	(82)
Net cash inflow (outflow)	(1,006)	19	1,622	1,609
Beginning cash & cash equivalent	3,127	2,083	2,102	3,724
Changes due to forex impact	(37)	n.a.	n.a.	n.a.
Ending cash & cash equivalent	2,083	2,102	3,724	5,333

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Growth				
Turnover	22.8	70.7	25.3	27.6
EBITDA	8.7	64.0	23.2	23.3
Pre-tax profit	3.2	50.3	17.0	16.7
Net profit	0.4	5.7	2.0	1.9
Net profit (adj.)	1.0	15.7	5.3	4.6
EPS				
Profitability				
EBITDA margin	24.5	7.9	8.9	(7.0)
Pre-tax margin	n.a.	234.1	(61.1)	1.7
Net margin	n.a.	696.0	(60.4)	(6.9)
ROA	n.a.	1,579.8	(63.1)	(8.8)
ROE	n.a.	1,371.0	(62.6)	(8.6)
	n.a.	1,371.0	(62.6)	(8.6)
Leverage				
Debt to total capital				
Debt to equity	54.4	52.3	50.3	48.4
Net debt/(cash) to equity	132.4	120.3	111.5	103.5

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