UOBKayHian

SECTOR UPDATE

Property Developers – Singapore

2022: Strong Results From Both CLI And CDL; Outlook Remains Bright

CLI and CDL reported strong 2022 results, with the latter's result boosted by the sale of a hospitality asset, and both seeing strength in their respective lodging/hospitality segments as expected. CLI's China ambitions in funds management should pay off in 2023 while CDL will maintain its focus on Singapore and the UK. Reiterate BUY recommendations on both CLI (Target price: S$4.28) and CDL (Target price: S$9.70). Maintain OVERWEIGHT.

CAPITALAND INVESTMENT: 2022 RESULTS

2022 RESULTS

Year to 31 Dec (S$m)	2021A	2022A	yoy %	Remarks
Revenue	2,293	2,876	25.4%	
EBITDA	2,178	1,966	-9.7%	
Reported PATMI	1,349	861	-36.2%	- Due to lower portfolio gains & revaluations
Core PATMI	497	609	22.5%	- Due to improved fee-related businesses & lodging
EBITDA margin	95.0%	68.4%	-26.6ppt	
PATMI margin	58.8%	29.9%	-28.9ppt	

Source: CapitaLand Investment, UOB Kay Hian

- **Strong set of numbers.** CapitaLand Investment (CLI) reported a strong set of results that were slightly better than expectations, with core PATMI up 23% yoy to S$609m as a result of better performance in its Fee Income-related Businesses (FRB) and recovery in its lodging business. At the reported PATMI level, the company was negatively affected by lower yoy portfolio gains and revaluations, mainly due to China.
- **DPS of S$0.12 declared.** The company declared a final dividend of S$0.12 as well as a special dividend-in-specie of S$0.057. CapitaLand Ascott's shares are valued at S$0.059 per unit.
- **Would have been better if not for China.** EBITDA for 2022 of nearly S$2b was 10% lower yoy mainly due to lower gains from asset recycling and revaluation of investment properties. Notably, China, which used to comprise one-third of CLI's EBITDA, fell to only 11% in 2022. However, we expect the post-COVID-19 reflation story to positively impact contributions from China this year.
- **Lodging business took up the slack.** In 2022, lodging management became a much more significant contributor to CLI's overall performance as travel resumed. Importantly, this segment is a fee-income generator which is the identified direction for CLI's earnings going forwards. While the segment's margins are reasonably healthy at 30% at present, this is expected to go up as CLI scales up the business further. The management commented that it has a healthy pipeline that will be operational in the next few years, thus it expects margins to continue expanding towards 50%.
- **Capital recycling should accelerate in 2023.** CLI divested gross asset value of S$3.1b in 2022 at an average premium of 12% (2021: 13%). This was a good outcome overall given the challenging market conditions last year, and while the company admitted that it could have done more, it chose to walk away from poor deals. During the analyst call, management shared that 1H23 will still be a period of adjustment and analysis with 2H23 likely to see a greater level of capital recycling activity given the "wall of capital" that is waiting to be invested.
- **Two new China funds.** In the past two days, and in a clear indication that foreign capital is ready to go back into China, CLI announced the setting up of two China funds: a) the CapitaLand China Opportunistic Partners Programme (S$1.1b in equity committed), and b) the CapitaLand China Data Centre Partners Fund (S$530m in equity committed). These China-focused special situation funds allows investors to take advantage of dislocation or gaps in the market. In the former fund, it acquired a high quality logistics asset with a 15-year lease in Foshan, Guangdong, while the latter fund comprises of two hyperscale data centre sites in Beijing with new global institutional investor clients. In total, CLI has three Rmb funds set up and it has targeted to set up six in the near to medium term.

OVERWEIGHT

(Maintained)

SECTOR PICKS

Company	Rec	------- Price (S$) ------- 23 Feb	Target	Up/down (%)
City Devts	BUY	7.84	9.70	23.7
CapitaLand Inv	BUY	3.79	4.28	12.9

Source: UOB Kay Hian

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CITY DEVELOPMENTS: 2022 RESULTS

2022 RESULTS

Year to 31 Dec (S$m)	2021A	2022	Yoy %	Remarks
Revenue	2,626	3,293	25.4%	- Strong recovery in all lodging geographies
Gross profit	978	1,247	27.5%	
Associates	107	170	58.9%	
Pre-tax profit	228	1857	NM	
PATMI	98	1,285	NM	- Bolstered by sale of Millenium Hilton Seoul hotel
Gross profit margin	37.2%	37.9%	0.6	
NPAT margin	4.07%	5.16%	1.1	

Source: City Developments, UOB Kay Hian

- **Record earnings bolstered by sale of the Millenium Hilton Seoul.** City Developments (CDL) reported that its 2022 revenue rose 25.4% yoy to S$3.3b, with PATMI of S$1.3b bolstered by divestment gains, the largest being the sale of Millennium Hilton Seoul and the gain on the deconsolidation of CDL Hospitality Trusts (CDLHT). Singapore property development (Amber Park, Haus on Handy and Irwell Hill Residences) remained the biggest contributor, accounting for 42% of 2022 revenue.

- **Final write-off.** CDL wrote off the final S$81m in Sincere having made most of the write-offs in 2021. Given the lack of clarity on the timeline of bankruptcy proceedings in China, the company thought it was prudent to completely write off Sincere as it could not ascertain how much it could recover post completion of the bankruptcy proceedings.

- **Hotel operations displayed strength as expected.** CDL's hotel operations segment saw a 58.1% yoy increase in revenue and a 91% growth in RevPAR, assisted by the continued post-pandemic recovery and "revenge travel".

- **Expansion in the UK.** Post the failed attempt at a REIT listing of its UK office assets, it appears that CDL has decided to scale up this GBP600m portfolio before new monetisation plans – either via a REIT or a PE fund – are put in place. The company's management highlighted that it will be acquiring St Catherine's Dock, London, to get its UK portfolio to approximately GBP1b. In addition, CDL will look at expanding further in the living sector, with its UK living sector currently comprising 5% of total CDL assets or about S$1b. With about 2000 beds (98% utilisation in 2022), management believes that it has good economies of scale and is targeting to increase this by 2-3x over the next few years.

- **Forward plans:** Management commented that Singapore residential projects will remain a key focus area for the company as it is still optimistic on the market despite the fact that. COVID-19 has increased costs. As a result, the company will look to replenish its landbank in Singapore either via Government Land Sales or en blocs that may be attractive. The company also highlighted that it has been able to extract residential exposure out of its historical office assets within the Central Mall and Fuji Xerox Tower redevelopment projects. While management will continue to look at monetising some of its hospitality assets, it did acknowledge that it would be difficult to replicate something that was the size of its Seoul divestment.

ACTION

Capitaland Investment (CLI SP, BUY, target price S$4.28).

- **Maintain BUY with a slightly higher SOTP–based target price of S$4.28 ($4.13 previously).** The higher target price is the result of: a) CLI's comparable companies experiencing EBITDA multiples expansion, and b) higher target prices and market prices for CLI's listed REITs. We believe that the company's current P/B valuation is inexpensive at 1.1x for 2023 vs its 2022 peak P/B of 1.4x.

- **The China angle.** In our view, the company will be in a much stronger shape in 2023 as we expect China's recovery path to be sustained given a post-COVID-19 normalisation of the economy. In addition, we look forward to the company closing and deploying more funds over the next six months. In the past week, CLI announced two niche Rmb funds and we should expect more of such funds built on the company proprietary niches in 2023. As at end-22, CLI had embedded FUM of S$8b, ie committed funds but not yet deployed.

City Developments (CIT SP, BUY, target price S$9.70)

- **We retain our BUY rating on the stock with a slightly lower target price of S$9.70 (S$9.87 previously).** Our target price is pegged to a 30% discount to our assessed RNAV of S$14.50 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$19.14/share as at end-22. In our view, market concerns over the company's balance sheet has dissipated given that CDL's total debt declined 13% in 2022 to S$9.7b as at end-22 (net gearing of 58%).

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 – both companies have active share buyback mandates.

PEER COMPARISON

Company	Ticker	Share price	Mkt cap	---------------------- PE ----------------------			---------------------- P/B ----------------------			EV/EBITDA	ROE
		(S$)	(US$m)	2022	2023E	2024E	2022	2023E	2024E	2023E	2023E
City Dev	CIT SP	7.84	5,386	5.7	13.9	13.8	n.a.	0.7	0.7	15.0	5.6
UOL	UOL SP	6.71	4,234	16.2	15.6	16.9	0.5	0.5	0.5	16.5	3.4
OUE	OUE SP	1.23	779	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Oxley	OHL SP	0.143	457	178.8	n.a.	n.a.	0.6	n.a.	n.a.	n.a.	n.a.
Wing Tai	WINGT SP	1.49	846	9.0	18.4	24.8	0.3	0.3	0.3	20.4	1.9
Ho Bee Land	HOBEE SP	2.37	1,176	6.6	6.1	7.0	0.4	0.4	0.4	18.0	6.2
Average				43.2	13.5	15.6	0.5	0.5	0.5	17.4	4.3
Capitaland Inv	CLI SP	3.79	14,709	22.9	17.5	15.1	n.a.	1.2	1.1	n.a.	7.2

Source: Bloomberg, UOB Kay Hian

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