

CDL Hospitality Trusts (CDREIT SP)

Sell (Maintained)

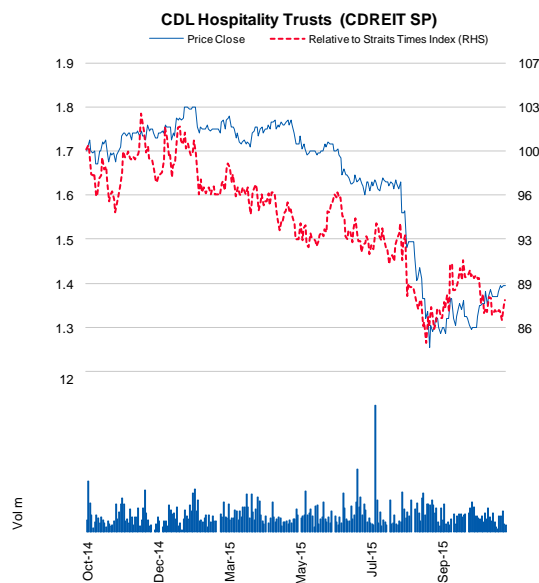
Property - REITS

 Target Price: **SGD1.14**

Market Cap: USD985m

 Price: **SGD1.40**

Challenging Environment For Singapore Hoteliers

 Macro
 Risks
 Growth
 Value


Source: Bloomberg

Avg Turnover (SGD/USD)	1.81m/1.29m
Cons. Upside (%)	25.0
Upside (%)	-18.6
52-wk Price low/high (SGD)	1.26 - 1.80
Free float (%)	64
Share outstanding (m)	985
Shareholders (%)	
City Developments Ltd	32.1
Nomura Asset Management	16.5
Aberdeen	4.9
Share Performance (%)	
	YTD 1m 3m 6m 12m
Absolute	(19.8) 6.9 (13.6) (19.8) (17.0)
Relative	(10.1) (2.0) (6.3) (6.8) (11.7)

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CDLHT posted negative 3Q15/9M15 DPS growth of 9.6/10.3% YoY, in line with our expectations. Maintain SELL and a DDM-derived SGD1.14 TP (19% downside). This was mainly on a weak performance by its Singapore hotels (3Q15 RevPAR: -5.7% YoY). While its Japanese assets did perform, thanks to successful government policies that boosted tourism, they constitute only c.4% of its net property income (NPI).

- ◆ **Weak performances were in line with our expectations.** CDL Hospitality Trust's (CDLHT) 3Q15/9M15 results were within our expectations as it reported negative DPS growth of 9.6% and 10.3% YoY respectively. This met c.71% of our full-year estimates. CDLHT's 3Q15/9M15 revenue was up 2.4/0.5% YoY. This was mainly attributable to the acquisition of Japanese hotels in Dec 2014, which translated into a 9% (3Q15) and 9.7% YoY (9M15) decrease in its total income available for distribution. CDLHT's gearing ratio rose to 36.5% (2Q15: 32%) due to the recent acquisition of Cambridge City Hotel in the UK.
- ◆ **The Singapore portfolio proved to be challenging as revenue/available room (RevPAR) was down 5.7% YoY.** Due to new hotel supply amidst slower global economic growth, room rates within its portfolio suffered a 3.8% YoY drop in average room rate (ARR) of SGD209. In addition, the prolonged haze situation since early August has also dampened travel to Singapore. Given that the factors above are expected to persist in the near term, we retain our pessimistic view on Singapore's hospitality sector.
- ◆ **Japanese hotels were the only performing asset in CDLHT's portfolio.** CDLHT's assets in Australia, New Zealand and the Maldives were not spared by the weaker global economic environment – booking negative RevPAR growth vis-à-vis their respective previous years. On the other hand, the trust's Japanese assets registered RevPAR growth of c.21% YoY. This was on foreign visitor arrivals to Japan growing c.49% YTD to 14.5m.
- ◆ **Maintain SELL, with an unchanged SGD1.14 TP.** Our team believes that the hospitality industry is likely to remain a challenging one. This is due to the unfavourable supply demand dynamics amidst the slowing down of the global economy. Maintain SELL.

Forecasts and Valuations	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover (SGDm)	149	167	175	179	180
Net property income (SGDm)	137	141	142	145	145
Reported net profit (SGDm)	140	122	112	116	122
Total distributable income (SGDm)	107	108	99	102	107
DPS (SGD)	0.11	0.11	0.10	0.10	0.11
DPS growth (%)	(3.1)	0.1	(9.3)	2.3	4.3
Recurring P/E (x)	9.7	11.2	12.3	12.0	11.5
P/B (x)	0.85	0.85	0.85	0.84	0.84
Dividend Yield (%)	7.9	7.9	7.1	7.3	7.6
Return on average equity (%)	8.9	7.6	6.9	7.0	7.3
Return on average assets (%)	6.3	5.1	4.6	4.7	4.9
Interest coverage ratio (x)	7.31	7.25	5.87	6.05	6.10

Figure 1: CDLHT's 3Q15 results summary

(SGDm)	3Q14	2Q15	3Q15	%QoQ	%YoY	Comment
Gross revenue	40.1	39.0	41.1	5.3	2.4	The improvement was mainly attributed to additional new contributions of SGD2.4m in total from CDLHT's Japan Hotels. Hotel MyStays Asakusabashi and Hotel MyStays Kamata were acquired in Dec 2014.
Operating expenses	(6.3)	(7.4)	(8.0)	8.5	27.2	
NPI	33.8	31.6	33.1	4.6	(2.2)	
Manager's fees	(3.2)	(3.1)	(3.2)	1.1	0.3	
Trustee fees	(0.1)	(0.1)	(0.1)	1.5	3.0	
Other expenses	(0.4)	(0.3)	(2.3)	730.0	493.2	
Net income before financing cost & tax	30.2	28.1	27.5	(2.3)	(9.0)	
Interest income	0.1	0.1	0.9	1,269.8	858.9	
Borrowing costs	(5.3)	(6.6)	(5.5)	(16.0)	5.3	Net finance costs in 3Q15 were reduced by SGD0.5m to SGD4.7m. This was mainly due to an exchange gain from the translation of its USD-denominated cash and cash equivalent balances.
EBT	25.0	21.6	22.8	5.6	(8.8)	
Gains from asset divestments	0.0	0.0	0.0	nm	nm	
Revaluations of investment properties	0.0	0.0	0.0	nm	nm	
Total return before tax	25.0	21.6	22.8	5.6	(8.8)	
Tax	(0.2)	(1.6)	(0.3)	(84.7)	26.1	
Total return - reported	24.8	20.0	22.6	13.0	(9.1)	
Total return (ex exceptionals)	24.8	20.0	22.6	13.0	(9.1)	
Add-back: Non tax deductibles	3.6	4.6	3.3	(28.6)	(7.8)	
Income available for distribution	28.4	24.6	25.9	5.2	(9.0)	
Distributable income	25.6	22.1	23.3	5.2	(9.0)	
Number of units ('m end of period)	980.3	985.2	987.1	0.2	0.7	
DPU (SGD-cts)	2.61	2.25	2.36	4.9	(9.6)	
DPU (SGD-cts) (excl. inc. retained)	2.90	2.50	2.62	5.0	(9.6)	
NAV (SGD)	1.60	1.62	1.59	(2.0)	(0.8)	
Payout ratio (%)	90.0	90.0	90.0	(0.0) bps	0.0 bps	
NPI margins (%)	84.3	81.1	80.5	(0.6) bps	(3.8) bps	

Source: RHB, Company data

Figure 2: CDLHT's 9M15 results summary

(SGDm)	9M14	9M15	%Change	RHB FY15F	% of Y15F	Comment
Gross revenue	121.7	122.3	0.5	176.2	69.4	This includes a SGD7.2m contribution from its Japan Hotels (acquired in Dec 14), spurred by positive government tourism initiatives and the spending latitude offered by the weakened JPY.
Operating expenses	(19.8)	(23.1)	16.4	(33.5)	69.0	
NPI	101.9	99.2	(2.6)	142.7	69.5	
Manager's fees	(9.4)	(9.5)	0.3	(13.6)	69.8	
Trustee fees	(0.2)	(0.2)	3.5	(0.5)	39.8	
Other expenses	(1.4)	(3.2)	140.1	(10.0)	32.4	
Net income before financing cost & tax	90.9	86.3	(5.1)	118.6	72.7	
Interest income	0.8	1.9	128.7	0.6	326.5	
Borrowing costs	(13.9)	(17.0)	22.1	(22.8)	74.6	Net finance costs for the period increased by SGD2m to SGD15.1m. This is mainly the result of higher interest expense of SGD2.7m mitigated by an exchange difference of SGD0.7m over the corresponding period last year.
EBT	77.8	71.2	(8.5)	96.4	73.8	
Gains from asset divestments	0.0	0.0	nm	0.0	nm	
Revaluations of investment properties	0.0	0.0	nm	18.5	nm	
Total return before tax	77.8	71.2	(8.5)	114.9	61.9	
Tax	(1.1)	(2.2)	89.9	(2.1)	103.6	
Total return - reported	76.6	69.0	(10.0)	112.8	61.2	
Total return (ex exceptionals)	76.6	69.0	(10.0)	94.3	73.2	
Add-back: Non tax deductibles	8.8	8.1	(7.5)	(3.3)	nm	
Income available for distribution	85.4	77.1	(9.7)	109.6	70.4	
Distributable income	76.9	69.4	(9.7)	98.6	70.4	
Number of units ('m end of period)	980.3	987.1	0.7	992.6	99.5	
DPU (SGD-cts)	7.86	7.05	(10.3)	9.97	70.7	
DPU (SGD-cts) (excl. inc. retained)	8.73	7.83	(10.3)	11.08	70.6	
NAV (SGD)	1.60	1.59	(0.8)	1.64	96.4	
Payout ratio (%)	90.0	90.0	0.0 bps	90.0		
NPI margins (%)	83.7	81.1	(2.6) bps	81.0		

Source: RHB, Company data

Figure 3: CDLHT's key metrics performance

Operating Performance:	3Q14	4Q14	1Q15	2Q15	3Q15
Avg. Occupancy Rate: (%)	92.0	90.0	87.7	86.5	90.2
Avg. Room Rate: (SGD/night):	209.0	205.0	197.0	200.0	201.0
RevPar: (SGD/night)	192.0	185.0	173.0	173.0	181.0
DPU (SG cts)	2.61	3.13	2.44	2.25	2.36
Capital Management:	3Q14	4Q14	1Q15	2Q15	3Q15
Interest Cover (x)	8.30	8.60	7.50	6.80	6.60
Aggreg. Leverage: (%)	30.2	31.7	32.3	32.0	36.5
Term of Debt: (yrs)	2.4	2.8	2.3	2.1	2.1

Source: Company

Figure 4: CDLHT's TP based on DDM

	FY15F	FY16F	FY17F	FY18F	FY19F	Terminal value
DPU (SGD cts)	9.97	10.26	10.72	10.77	10.83	104.60
Fair value (SGD)	1.14					
Current price (SGD)	1.40					
Price upside (%)	(18.6)					
Distribution yield (%)	7.1					
Total return (%)	(11.5)					
Assumptions						
Risk-free rate (%)	3.0					
Beta	0.76					
Cost of equity (%)	7.9					

Source: RHB

Financial Exhibits

Profit & Loss (SGDm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover	149	167	175	179	180
Property operating expenses	(11)	(26)	(33)	(34)	(34)
Net property income	137	141	142	145	145
Management fees	(12)	(13)	(13)	(13)	(13)
Trust expenses	(0)	(0)	(0)	(0)	(0)
Operating EBIT	125	127	128	131	131
Operating EBITDA	125	127	128	131	131
Net income from investments	37	18	18	18	18
Other recurring income	(2)	(5)	(10)	(10)	(5)
Interest income	0	1	1	1	1
Interest expense	(17)	(18)	(22)	(22)	(22)
Pre-tax profit	143	124	114	118	124
Taxation	(3)	(1)	(2)	(2)	(2)
Profit after tax & minorities	140	122	112	116	122
Reported net profit	140	122	112	116	122
Adjustment for distributable income	(34)	(15)	(14)	(14)	(15)
Total distributable income	107	108	99	102	107

Source: Company data, RHB

Cash flow (SGDm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Operating profit	125	127	128	131	131
Change in working capital	(2)	5	29	1	0
Other operating cash flow	8	7	1	2	7
Operating cash flow	131	140	159	134	139
Tax paid	(0)	(0)	-	-	-
Cash flow from operations	131	139	159	134	139
Capex	(14)	(27)	(7)	(7)	(7)
Other new investments	(167)	-	-	-	-
Cash flow from investing activities	(181)	(27)	(7)	(7)	(7)
Dividends paid	(107)	(106)	(101)	(100)	(104)
Increase in debt	307	154	(4)	(4)	(5)
Other financing cash flow	(157)	(88)	(24)	(23)	(23)
Cash flow from financing activities	43	(39)	(129)	(128)	(132)
Cash at beginning of period	75	69	76	81	80
Total cash generated	(7)	73	23	(1)	(0)
Implied cash at end of period	68	142	99	80	80

Source: Company data, RHB

Financial Exhibits

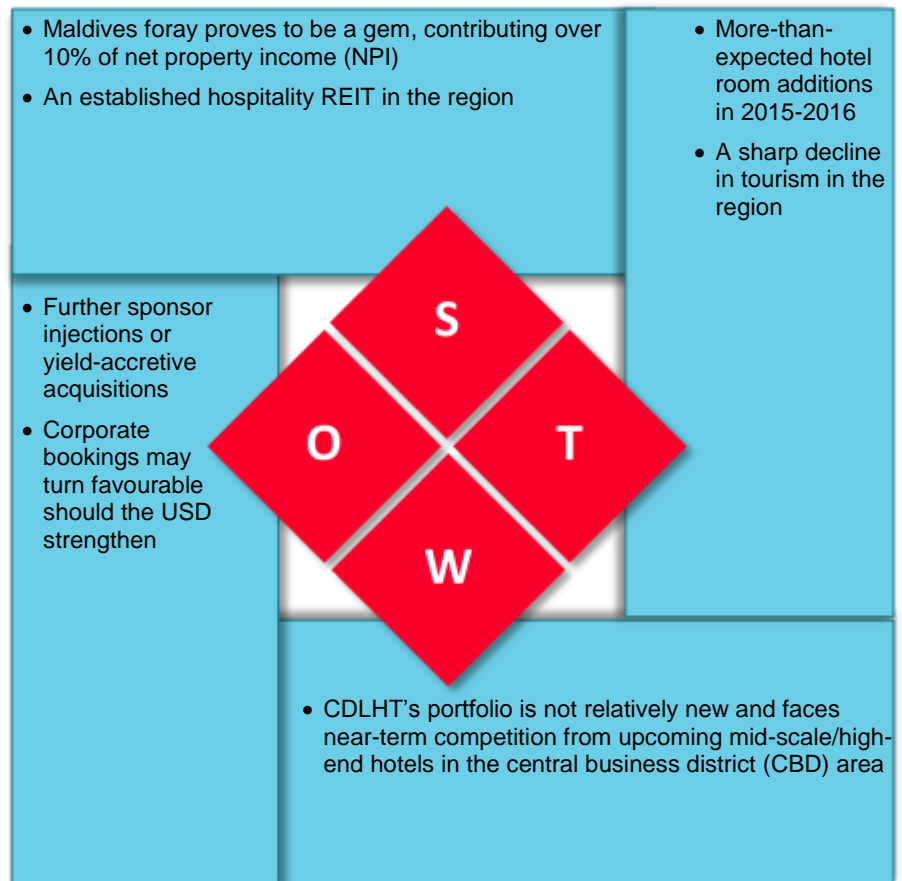
Balance Sheet (SGDm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total cash and equivalents	69	76	81	80	80
Accounts receivable	15	20	18	18	18
Other current assets	-	1	-	-	-
Total current assets	84	98	99	98	98
Total investments	2,162	2,206	2,343	2,367	2,392
Total other assets	77	146	0	0	0
Total non-current assets	2,239	2,352	2,343	2,367	2,392
Total assets	2,323	2,450	2,442	2,466	2,490
Short-term debt	146	317	-	-	-
Accounts payable	22	40	72	74	74
Other current liabilities	0	1	0	0	0
Total current liabilities	168	358	72	74	74
Total long-term debt	542	458	725	720	716
Other liabilities	17	19	14	14	14
Total non-current liabilities	559	476	738	734	730
Total liabilities	728	834	810	808	804
Other reserves	1,595	1,616	1,631	1,658	1,686
Shareholders' equity	1,595	1,616	1,631	1,658	1,686
Total equity	1,595	1,616	1,631	1,658	1,686
Total liabilities & equity	2,323	2,450	2,442	2,466	2,490

Source: Company data, RHB

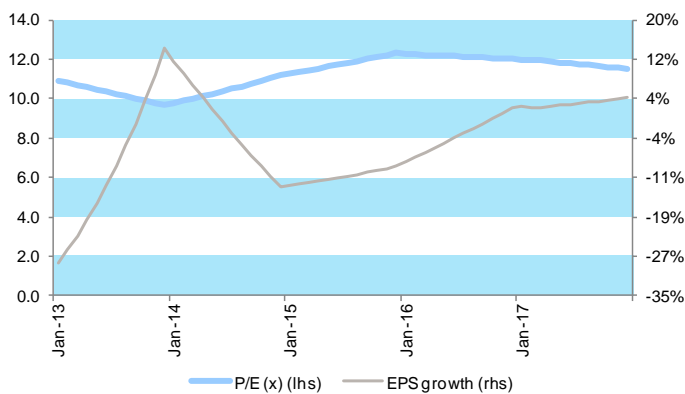
Key Ratios (SGD)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Revenue growth (%)	(0.5)	12.1	4.8	2.4	0.3
Net profit growth (%)	15.0	(12.7)	(8.4)	3.3	5.3
EPS growth (%)	14.3	(13.4)	(9.3)	2.4	4.4
BVPS growth (%)	1.4	0.2	0.1	0.8	0.9
Net profit margin (%)	94.3	73.4	64.2	64.7	67.9
Return on average assets (%)	6.3	5.1	4.6	4.7	4.9
Return on average equity (%)	8.9	7.6	6.9	7.0	7.3
Net debt to equity (%)	38.8	43.2	39.5	38.6	37.7
DPS	0.11	0.11	0.10	0.10	0.11
Recurrent cash flow per share	0.13	0.14	0.16	0.13	0.14

Source: Company data, RHB

SWOT Analysis

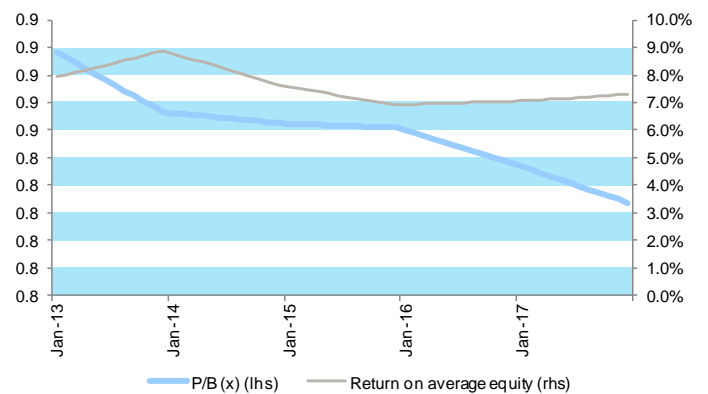


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE

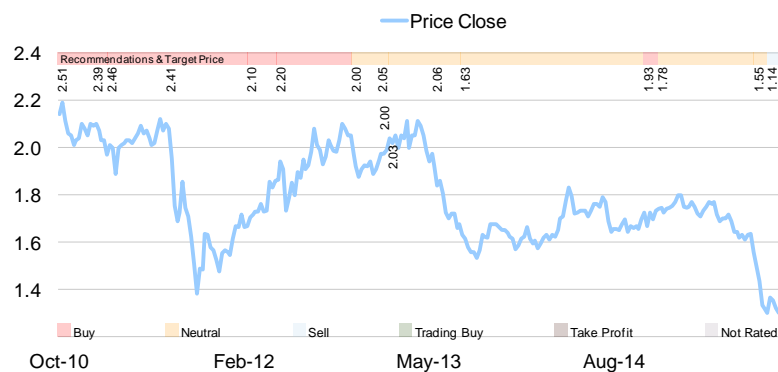


Source: Company data, RHB

Company Profile

CDL Hospitality Trusts (CDLHT) is a stapled group comprising CDL Hospitality REIT (H-REIT) and CDL Hospitality Business Trust (HBT). H-REIT is a REIT that invests in a portfolio of income-producing properties while HBT is a business trust.

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2015-09-01	Sell	1.14	1.30
2015-07-30	Neutral	1.55	1.56
2015-01-28	Neutral	1.78	1.80
2014-12-02	Neutral	1.78	1.74
2014-10-28	Buy	1.93	1.68
2013-07-29	Neutral	1.63	1.68
2013-05-20	Neutral	2.06	1.99
2013-01-30	Neutral	2.03	2.01
2013-01-09	Neutral	2.00	1.97
2013-01-04	Neutral	2.05	1.95

Source: RHB, Bloomberg

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