

City Developments (CIT SP)

Property - Real Estate
Market Cap: USD4,937m

Buy (from Neutral)

Target Price: **SGD8.75**

Price: **SGD7.71**

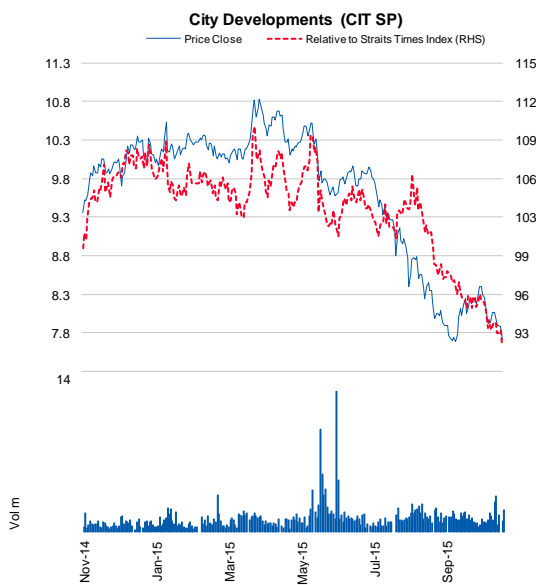
Attractively-Priced Now

Macro

Risks

Growth

Value



Source: Bloomberg

Avg Turnover (SGD/USD)	11.3m/7.99m
Cons. Upside (%)	38.8
Upside (%)	13.5
52-wk Price low/high (SGD)	7.69 - 10.8
Free float (%)	65
Share outstanding (m)	909
Shareholders (%)	
Hong Leong Holdings	35.3
Aberdeen	13.0
Vanguard	0.1
Share Performance (%)	
	YTD 1m 3m 6m 12m
Absolute	(24.9) (6.4) (12.4) (23.7) (17.6)
Relative	(12.8) (4.0) (9.0) (9.6) (7.7)

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3Q/9M15 results were largely in line, as CDL reported PATMI of SGD106m/SGD363m, down 16.4%/5.7% YoY. While we recognise weakness in both local residential market and global hotel industry, its share price has fallen (-24.9% YTD) to an attractive price level. Upgrade to BUY (from Neutral) with a lower RNAV-derived TP of SGD8.75 (13.5% upside), as we assume a decline in its ASP for the local residential projects.

- ◆ **3Q/9M15 results largely in line.** City Developments (CDL) reported 3Q/9M15 PATMI of SGD106.4m/SGD362.9m, down 16.4%/5.7% YoY. 3Q/9M15 revenue fell c.39%/16% YoY mainly due to an absence of significant revenue recognition from executive condominium (EC) projects, as compared to revenue recognised in entirety for Blossom Residences EC in 3Q14 following the project's completion.
- ◆ **Sales at existing projects remain healthy, while no rush to sell off its new ECs.** CDL launched its best-performing EC in July, Brownstone, which is currently c.45% sold. Riding on the success, it launched another EC in late September, The Criterion, with 45 units sold. According to management, EC buyers tend to be more active when the project is closer to completion as this is where they will be able to envisage the value of the offering. Hence, CDL remains confident of its long-term sales performance.
- ◆ **Hoteliers are not too rosy in the global scene.** Due to the challenging conditions in Asia, 3Q15 global revenue per available room (RevPAR) declined 1.4% YoY to c.GBP78. In Singapore, 9M15 RevPAR declined 7.5% YoY as a result of new room supply and lower visitor arrivals. Similarly, the rest of Asia witnessed a 10.9% YoY decrease in RevPAR, mainly due to the weakening of China's economy. Moving forward, we expect the weak economic growth and higher operating costs to continue to pressure margins in Asia.
- ◆ **Upgrade to BUY as share price has fallen to attractive level.** We reduce our RNAV-derived TP to SGD8.75 (from SGD9.76) as we assume: i) a 10% decline in ASP in both mid and mass market projects, and ii) a 5% decline in ASP in high-end projects. As CDL's share price has fallen 24.9% YTD, we find the counter trading at an attractive price level to its TP. Upgrade to BUY from Neutral with a potential 13.5% upside from its TP.

Forecasts and Valuations	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover (SGDm)	3,213	3,764	3,793	4,037	4,638
Reported net profit (SGDm)	686	770	571	563	677
Recurring net profit (SGDm)	686	770	571	563	677
Recurring net profit growth (%)	9.8	12.2	(25.8)	(1.3)	20.3
Recurring EPS (SGD)	0.72	0.81	0.60	0.59	0.71
Recurring P/E (x)	10.7	9.6	12.9	13.1	10.9
P/B (x)	0.95	0.87	0.82	0.75	0.68
P/CF (x)	10.9	25.2	na	2.3	11.5
EV/EBITDA (x)	7.23	7.17	8.57	6.15	4.95
Return on average equity (%)	9.1	9.5	6.6	6.0	6.6
Net debt to equity (%)	25.2	26.0	36.3	12.1	10.0

Source: Company data, RHB

Figure 1: Summary of CDL's 3Q/9M15 results

FYE Dec (SGDm)	3Q14	2Q15	3Q15	%QoQ	%YoY	9M14	9M15	%Change	Comments
Turnover	1,321.6	861.1	809.3	(6.0)	(38.8)	2,917.0	2,449.1	(16.0)	There was an absence of significant revenue recognition from executive condominium (EC) projects, as compared to revenue recognised in entirety for Blossom Residences EC in 3Q14 following the project's completion.
(a) Property Development	750.4	327.0	228.0	(30.3)	(69.6)	1,334.8	795.4	(40.4)	
(b) Hotel Operations	444.2	416.2	437.8	5.2	(1.5)	1,214.3	1,235.4	1.7	
(c) Rental Properties	95.0	91.8	101.4	10.4	6.6	281.9	300.6	6.6	
(d) Others	31.9	26.1	42.2	61.3	32.0	86.0	117.8	36.9	
Gross profit	459.3	421.4	413.4	(1.9)	(10.0)	1,235.6	1,193.1	(3.4)	
Profit from operations	225.2	201.5	155.9	(22.6)	(30.8)	585.6	491.5	(16.1)	
Share of results of associates & JVs	15.4	9.1	20.6	126.0	34.0	40.6	77.7	91.3	
PBIT	213.9	196.0	154.5	(21.2)	(27.8)	566.6	514.0	(9.3)	
(a) Property Development	99.8	85.3	64.1	(24.9)	(35.8)	280.3	240.0	(14.4)	
(b) Hotel Operations	87.6	75.5	59.2	(21.5)	(32.4)	193.6	161.8	(16.4)	
(c) Rental Properties	34.4	33.1	39.9	20.5	16.1	105.0	111.1	5.8	
(d) Others	(7.9)	2.0	(8.7)	nm	9.9	(12.4)	1.1	nm	
Net profit	127.2	176.4	106.4	(39.7)	(16.4)	495.5	438.8	(11.5)	
PATMI	127.2	137.9	106.4	(22.8)	(16.4)	384.7	362.9	(5.7)	
EPS (cents)	14.0	14.5	11.7	(19.3)	(16.4)	41.6	39.2	(5.8)	
NAV (SGD)	8.67	8.67	9.53	9.9	9.9	8.67	9.53	9.9	
Annualised ROE (%)	6.48	6.71	4.92	(26.6)	(24.0)	9.60	8.23	(14.3)	
Net Debt/Equity (x)	0.33	0.33	0.30	(9.1)	(9.1)	0.33	0.30	(9.1)	
Gross margin: (%)	34.8	48.9	51.1	2.1	16.3	42.4	48.7	6.4	
PBT margin: (%)	16.2	22.8	19.1	(3.7)	2.9	19.4	21.0	1.6	
PBR (x)		26.1					0.81		
Price-Book Premium/(Discount) (%)		18.1					(19.1)		
Price-RNAV Premium/(Discount) (%)		36.1					(38.4)		
PBT margin: (%)									
(a) Property Development	13.3	26.1	28.1	2.0	14.8	21.0	30.2	9.2	
(b) Hotel Operations	19.7	18.1	13.5	(4.6)	(6.2)	15.9	13.1	(2.8)	
(c) Rental Properties	36.2	36.1	39.4	3.3	3.2	37.3	37.0	(0.3)	
(d) Others	-24.8	7.8	-20.7	nm	4.1	-14.4	0.9	nm	

Source: RHB, Company

Figure 2: CDL's RNAV breakdown

Properties	Stake	RNAV (SGDm)	Value per share (SGD)
Investment properties		5,302.2	5.56
Property Development (GDV):			
-Singapore residential		4,947.3	5.18
-China residential		586.2	0.61
Singapore commercial devt surplus		248.3	0.26
China Suzhou devt surplus		888.4	0.93
Net asset/liabilities		613.8	0.64
Net cash/debt		(4,159.6)	(4.36)
Listed Companies:			
Millennium & Copthorne	60%	2,365.5	2.48
City e-solutions	53%	59.3	0.06
Sum of total parts		11,935.2	
No. of shares (m)		954.3	
RNAV			12.51
Premium/(discount) (%)			(30)
TP			8.75
Last price			7.71
Upside (%)			13.5

Source: RHB, Company

Financial Exhibits

Profit & Loss (SGDm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover	3,213	3,764	3,793	4,037	4,638
Cost of sales	(1,552)	(2,132)	(1,832)	(1,950)	(2,241)
Gross profit	1,661	1,632	1,961	2,087	2,398
Other operating costs	(713)	(629)	(971)	(1,044)	(1,075)
Operating profit	948	1,004	990	1,043	1,322
Operating EBITDA	1,136	1,204	1,192	1,246	1,528
Depreciation of fixed assets	(188)	(200)	(201)	(204)	(206)
Operating EBIT	948	1,004	990	1,043	1,322
Net income from investments	41	55	59	95	92
Provisions	20	36	(0)	0	(0)
Interest income	31	41	31	36	43
Interest expense	(92)	(131)	(186)	(156)	(126)
Pre-tax profit	948	1,004	894	1,018	1,330
Taxation	(70)	(95)	(104)	(201)	(352)
Minority interests	(192)	(139)	(219)	(246)	(295)
Profit after tax & minorities	686	770	570	570	683
Reported net profit	686	770	570	570	683
Recurring net profit	686	770	570	570	683

Source: Company data, RHB

Cash flow (SGDm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Operating profit	948	1,004	990	1,043	1,322
Depreciation & amortisation	188	200	201	204	206
Change in working capital	(177)	(482)	(1,912)	2,158	(529)
Other operating cash flow	(282)	(430)	(111)	(207)	(359)
Operating cash flow	677	292	(831)	3,196	640
Cash flow from operations	677	292	(831)	3,196	640
Capex	(26)	(97)	-	-	-
Other investing cash flow	15	56	57	65	71
Cash flow from investing activities	(11)	(42)	57	65	71
Dividends paid	(320)	(275)	(201)	(208)	(208)
Other financing cash flow	154	1,014	(1,383)	(1,338)	(1,313)
Cash flow from financing activities	(166)	739	(1,584)	(1,546)	(1,521)
Cash at beginning of period	2,157	2,720	3,898	1,540	3,255
Total cash generated	500	989	(2,358)	1,716	(810)
Forex effects	63	189	-	-	-
Implied cash at end of period	2,720	3,898	1,540	3,255	2,445

Source: Company data, RHB

Financial Exhibits

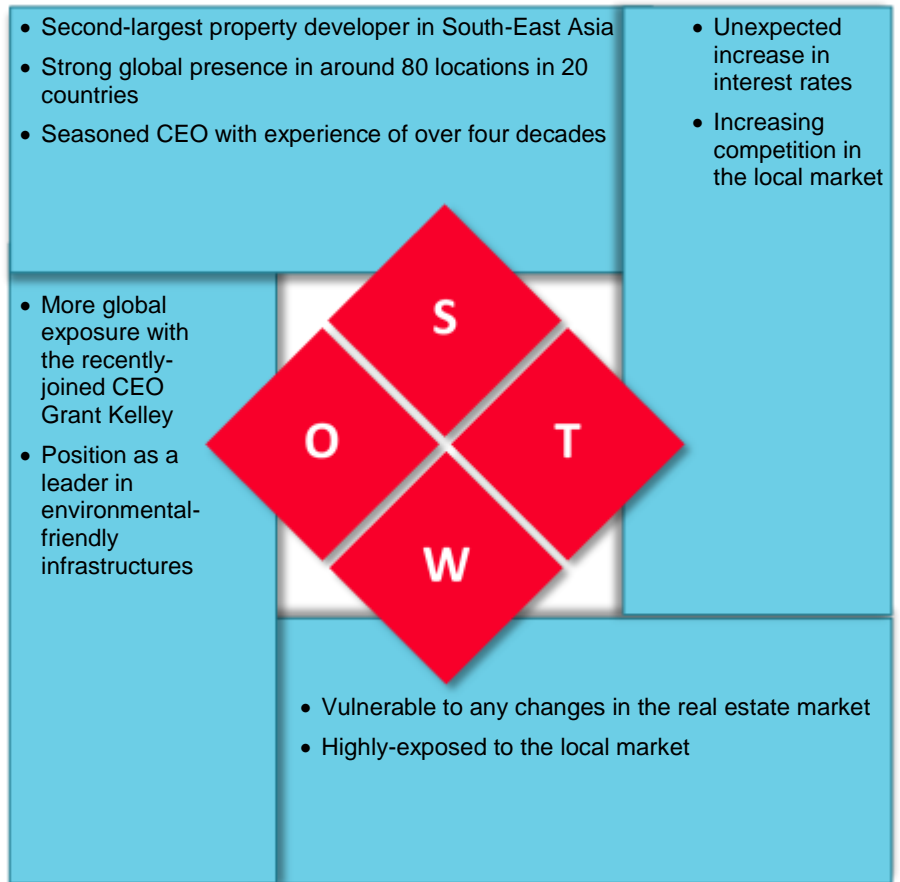
Balance Sheet (SGDm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total cash and equivalents	2,720	3,898	1,540	3,255	2,445
Inventories	4,327	4,793	5,137	4,430	3,220
Other current assets	1,690	1,639	3,069	1,936	3,799
Total current assets	8,736	10,329	9,745	9,622	9,465
Total investments	4,418	4,453	4,440	4,442	4,444
Tangible fixed assets	4,399	4,918	4,967	5,017	5,067
Total non-current assets	8,817	9,371	9,407	9,459	9,511
Total assets	17,554	19,701	19,152	19,081	18,976
Short-term debt	894	2,233	2,233	2,233	2,233
Accounts payable	1,327	1,463	1,325	1,642	1,766
Other current liabilities	224	261	262	262	262
Total current liabilities	2,445	3,957	3,819	4,137	4,261
Total long-term debt	4,401	4,466	3,466	2,466	1,466
Other liabilities	493	501	503	505	506
Total non-current liabilities	4,893	4,968	3,969	2,971	1,973
Total liabilities	7,338	8,925	7,788	7,108	6,234
Share capital	1,991	1,991	1,991	1,991	1,991
Other reserves	5,740	6,419	7,007	7,784	8,780
Shareholders' equity	7,731	8,410	8,999	9,775	10,771
Minority interests	2,484	2,365	2,365	2,197	1,971
Total equity	10,216	10,776	11,364	11,972	12,742
Total liabilities & equity	17,554	19,701	19,152	19,081	18,976

Source: Company data, RHB

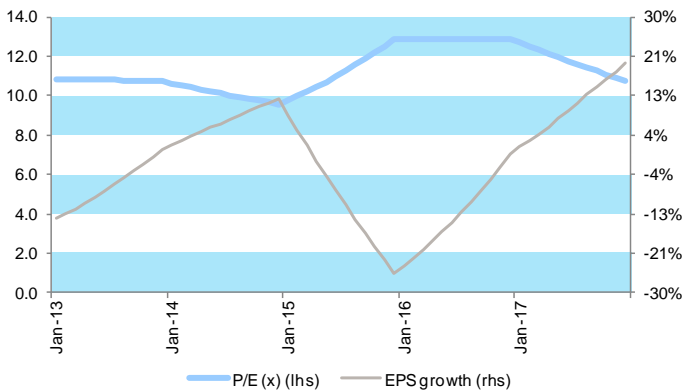
Key Ratios (SGD)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Revenue growth (%)	(4.2)	17.1	0.8	6.4	14.9
Operating profit growth (%)	3.0	5.9	(1.4)	5.3	26.8
Net profit growth (%)	1.2	12.2	(25.9)	(0.0)	19.8
EPS growth (%)	1.2	12.2	(25.9)	(0.0)	19.8
BVPS growth (%)	5.9	8.8	7.0	8.6	10.2
Operating margin (%)	29.5	26.7	26.1	25.8	28.5
Net profit margin (%)	21.4	20.4	15.0	14.1	14.7
Return on average assets (%)	4.1	4.1	2.9	3.0	3.6
Return on average equity (%)	9.1	9.5	6.6	6.1	6.7
Net debt to equity (%)	25.2	26.0	36.6	12.1	9.8
Recurrent cash flow per share	0.71	0.31	(0.87)	3.35	0.67

Source: Company data, RHB

SWOT Analysis

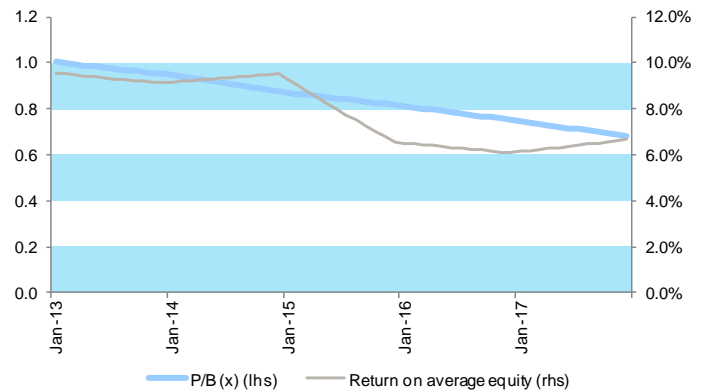


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE



Source: Company data, RHB

Company Profile

City Developments Limited develops and owns properties. Through its subsidiaries, the company owns and operates hotels, operates clubs, invests in properties and shares, manages properties and projects, as well as provides information technology and procurement services.

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2015-08-14	Neutral	9.8	9.2
2015-06-12	Neutral	10.2	9.8
2015-05-13	Neutral	10.2	10.2
2015-02-16	Neutral	10.1	10.3
2014-12-17	Neutral	9.7	9.8
2014-11-13	Neutral	9.5	9.5

Source : RHB, Bloomberg

RHB Guide to Investment Ratings

Buy: Share price may exceed 10% over the next 12 months

Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels

Sell: Share price may fall by more than 10% over the next 12 months

Not Rated: Stock is not within regular research coverage

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