

## City Developments (CIT SP)

Property - Real Estate  
Market Cap: USD4,682m

**Buy** (Maintained)

Target Price: **SGD9.18**

Price: **SGD7.24**

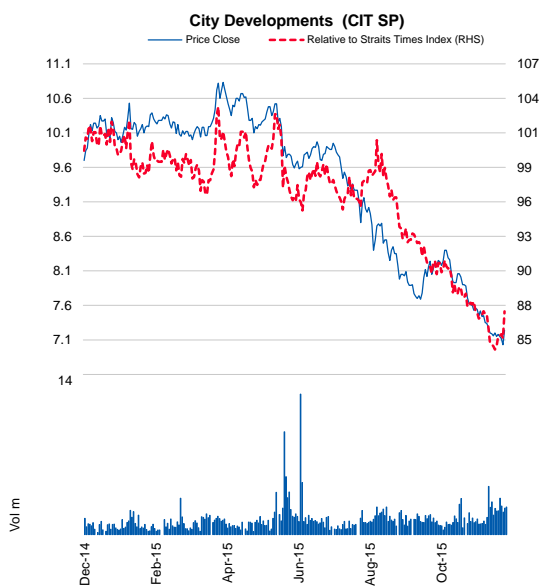
### Second PPS transaction to unlock value

Macro

Risks

Growth

Value



Source: Bloomberg

Avg Turnover (SGD/USD)	11.6m/8.20m
Cons. Upside (%)	47.8
Upside (%)	26.8
52-wk Price low/high (SGD)	7.03 - 10.8
Free float (%)	65
Share outstanding (m)	909
<b>Shareholders (%)</b>	
Hong Leong Holdings	35.3
Aberdeen	13.0
Vanguard	0.1

#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(29.5)	(5.1)	(9.3)	(24.9)	(27.3)
Relative	(13.2)	(1.3)	(8.4)	(9.6)	(12.8)

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**CDL and Alpha Investment Partners Limited (subsidiary of Keppel Land), through Alpha Asia Macro Trends Fund II, have entered into a Profit Participation Securities (PPS) transaction that will acquire three of CDL's prime office assets for a total value of approximately SGD1.1bn. We estimate this will unlock ~SGD580m net from our previous fair value forecast of the three office assets. We view this transaction positively and raise our TP from SGD8.75 to SGD9.18.**

- ◆ **SGD1.1bn Private Office Fund.** The three prime office assets are Central Mall (Office Tower), 7 & 9 Tampines Grande and Manulife Centre, which are to be injected at SGD218m, SGD336m and SGD487.5m respectively, according to its latest average valuation. Notably, Central Mall and Manulife are freehold and 999-year leasehold properties under CDL, but are sold off as 99-year leases to the joint office investment platform. The transaction is expected to complete no later than 22 Dec 2015.
- ◆ **60:40 split to co-finance the portfolio.** Alpha and CDL will co-finance the portfolio in a ratio of 60:40. The total aggregated value of the securities issued in the PPS transaction is SGD333.5 million (Alpha: SGD200.2m, CDL: SGD133.3m). Concurrently, DBS and OCBC will provide SGD750.1m in senior loan facilities to the joint investment entity, implying a 70:30 debt to equity breakdown to finance the acquisition.
- ◆ **Payouts terms.** Investors in the PPS transaction will, in addition to a participation in asset divestment, be entitled to a fully secured fixed coupon payout of 5% interest p.a. for a period of five years, in relation to a component of the PPS transaction involving the subscription of junior fixed rate bonds. The transaction provides AAMTF II with preferred returns with an internal rate of return of 12.6% p.a. following which CDL will then receive all cash flows until its capital is fully repaid. Thereafter, further upside sharing will occur between AAMTF II and CDL in the proportion of 40:60 respectively.
- ◆ **Market's immediate reaction likely positive.** The PPS structure presents an opportunity for CDL to unlock value and yet continue to remain a substantial investor in the prime assets comprised in this portfolio of properties. Reiterate BUY with a higher TP of SGD9.18.

Forecasts and Valuations	Dec-12	Dec-13	Dec-14	Dec-15F	Dec-16F
Total turnover (SGDm)	3,354	3,213	3,764	3,753	3,997
Reported net profit (SGDm)	678	686	770	563	564
Recurring net profit (SGDm)	625	686	770	563	564
Recurring net profit growth (%)	(21.8)	9.8	12.2	(26.9)	0.2
Recurring EPS (SGD)	0.65	0.72	0.81	0.59	0.59
Recurring P/E (x)	11.1	10.1	9.0	12.3	12.3
P/B (x)	0.95	0.89	0.82	0.77	0.71
P/CF (x)	106	10	24	na	2
EV/EBITDA (x)	6.56	7.06	6.99	8.62	6.10
Return on average equity (%)	9.6	9.1	9.5	6.5	6.0
Net debt to equity (%)	25.0	25.2	26.0	36.5	12.2
Our vs consensus EPS (adjusted) (%)				0.0	0.0

Source: Company data, RHB

**Figure 1: CDL's RNAV breakdown**

<b>Properties</b>	<b>Stake</b>	<b>RNAV (SGDm)</b>	<b>Value per share (SGD)</b>
Investment properties		5,871.8	6.15
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		(4,148.7)	(4.35)
Listed Companies:			
Millennium & Copthorne	60%	2,365.5	2.48
City e-solutions	53%	59.3	0.06
Sum of total parts		12,515.7	
No. of shares (m)		954.3	
<b>RNAV</b>			<b>13.12</b>
Premium/(discount) (%)			(30)
<b>Fair value</b>			<b>9.18</b>
Last price			7.24
<b>Upside (%)</b>			<b>26.8</b>

Source: RHB, Company

## Financial Exhibits

<b>Profit &amp; Loss (SGDm)</b>	<b>Dec-12</b>	<b>Dec-13</b>	<b>Dec-14</b>	<b>Dec-15F</b>	<b>Dec-16F</b>
Total turnover	3,354	3,213	3,764	3,753	3,997
Cost of sales	(1,693)	(1,552)	(2,132)	(1,813)	(1,931)
<b>Gross profit</b>	<b>1,661</b>	<b>1,661</b>	<b>1,632</b>	<b>1,940</b>	<b>2,066</b>
Other operating costs	(741)	(713)	(629)	(980)	(1,053)
<b>Operating profit</b>	<b>920</b>	<b>948</b>	<b>1,004</b>	<b>960</b>	<b>1,013</b>
Operating EBITDA	1,069	1,136	1,204	1,162	1,216
Depreciation of fixed assets	(148)	(188)	(200)	(201)	(204)
<b>Operating EBIT</b>	<b>920</b>	<b>948</b>	<b>1,004</b>	<b>960</b>	<b>1,013</b>
Net income from investments	80	41	55	80	117
Provisions	(60)	20	36	0	(0)
Interest income	39	31	41	31	36
Interest expense	(79)	(92)	(131)	(186)	(156)
Exceptional income - net	60	-	-	-	-
<b>Pre-tax profit</b>	<b>960</b>	<b>948</b>	<b>1,004</b>	<b>886</b>	<b>1,009</b>
Taxation	(100)	(70)	(95)	(104)	(199)
Minority interests	(182)	(192)	(139)	(219)	(246)
<b>Profit after tax &amp; minorities</b>	<b>678</b>	<b>686</b>	<b>770</b>	<b>563</b>	<b>564</b>
<b>Reported net profit</b>	<b>678</b>	<b>686</b>	<b>770</b>	<b>563</b>	<b>564</b>
<b>Recurring net profit</b>	<b>625</b>	<b>686</b>	<b>770</b>	<b>563</b>	<b>564</b>

Source: Company data, RHB

<b>Cash flow (SGDm)</b>	<b>Dec-12</b>	<b>Dec-13</b>	<b>Dec-14</b>	<b>Dec-15F</b>	<b>Dec-16F</b>
<b>Operating profit</b>	<b>920</b>	<b>948</b>	<b>1,004</b>	<b>960</b>	<b>1,013</b>
<b>Depreciation &amp; amortisation</b>	<b>148</b>	<b>188</b>	<b>200</b>	<b>201</b>	<b>204</b>
<b>Change in working capital</b>	<b>(673)</b>	<b>(177)</b>	<b>(482)</b>	<b>(1,892)</b>	<b>2,138</b>
Other operating cash flow	(331)	(282)	(430)	(111)	(206)
<b>Operating cash flow</b>	<b>65</b>	<b>677</b>	<b>292</b>	<b>(841)</b>	<b>3,149</b>
<b>Cash flow from operations</b>	<b>65</b>	<b>677</b>	<b>292</b>	<b>(841)</b>	<b>3,149</b>
Capex	(48)	(26)	(97)	-	-
Other investing cash flow	(304)	15	56	57	62
<b>Cash flow from investing activities</b>	<b>(353)</b>	<b>(11)</b>	<b>(42)</b>	<b>57</b>	<b>62</b>
Dividends paid	(182)	(320)	(275)	(202)	(209)
Other financing cash flow	122	154	1,014	(1,361)	(1,313)
<b>Cash flow from financing activities</b>	<b>(59)</b>	<b>(166)</b>	<b>739</b>	<b>(1,563)</b>	<b>(1,522)</b>
Cash at beginning of period	2,488	2,157	2,720	3,898	1,550
<b>Total cash generated</b>	<b>(347)</b>	<b>500</b>	<b>989</b>	<b>(2,347)</b>	<b>1,689</b>
Forex effects	16	63	189	-	-
<b>Implied cash at end of period</b>	<b>2,157</b>	<b>2,720</b>	<b>3,898</b>	<b>1,550</b>	<b>3,240</b>

Source: Company data, RHB

## Financial Exhibits

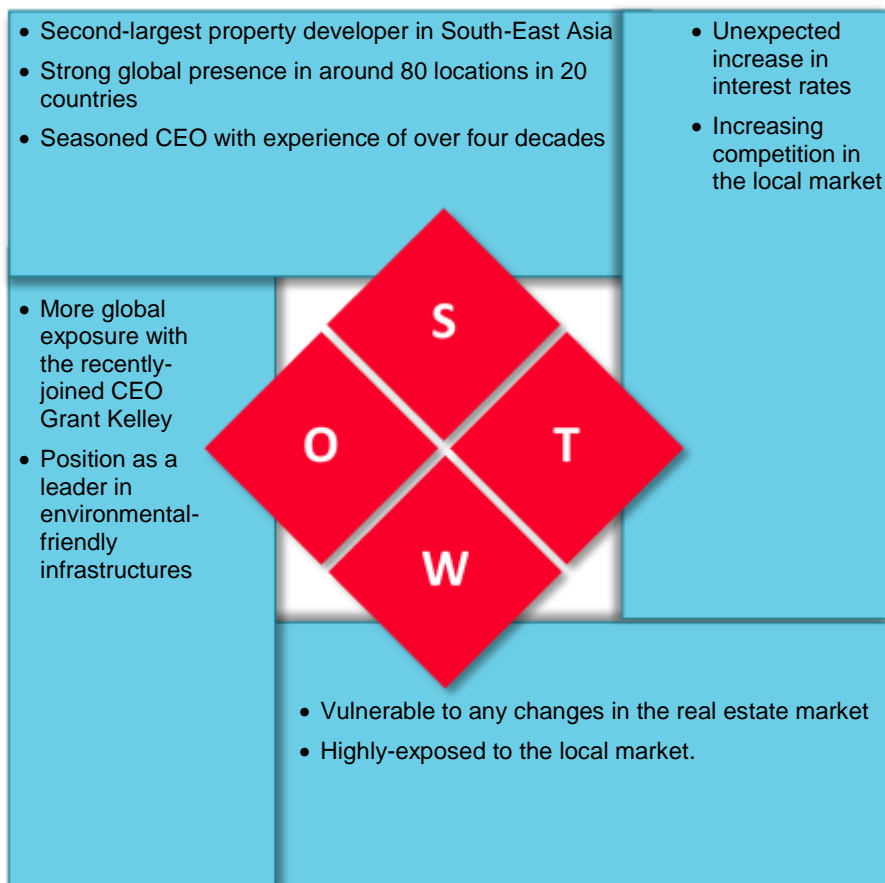
<b>Balance Sheet (SGDm)</b>	<b>Dec-12</b>	<b>Dec-13</b>	<b>Dec-14</b>	<b>Dec-15F</b>	<b>Dec-16F</b>
Total cash and equivalents	2,157	2,720	3,898	1,550	3,240
Inventories	4,311	4,327	4,793	5,137	4,430
Other current assets	1,330	1,690	1,639	3,020	1,936
<b>Total current assets</b>	<b>7,798</b>	<b>8,736</b>	<b>10,329</b>	<b>9,707</b>	<b>9,606</b>
Total investments	4,405	4,418	4,453	4,440	4,442
Tangible fixed assets	3,405	4,399	4,918	4,967	5,017
Total non-current assets	7,810	8,817	9,371	9,407	9,459
<b>Total assets</b>	<b>15,608</b>	<b>17,554</b>	<b>19,701</b>	<b>19,114</b>	<b>19,065</b>
Short-term debt	998	894	2,233	2,233	2,233
Accounts payable	1,034	1,327	1,463	1,295	1,643
Other current liabilities	302	224	261	262	262
<b>Total current liabilities</b>	<b>2,334</b>	<b>2,445</b>	<b>3,957</b>	<b>3,790</b>	<b>4,137</b>
Total long-term debt	3,469	4,401	4,466	3,466	2,466
Other liabilities	548	493	501	503	505
<b>Total non-current liabilities</b>	<b>4,017</b>	<b>4,893</b>	<b>4,968</b>	<b>3,969</b>	<b>2,971</b>
<b>Total liabilities</b>	<b>6,351</b>	<b>7,338</b>	<b>8,925</b>	<b>7,759</b>	<b>7,108</b>
Share capital	1,991	1,991	1,991	1,991	1,991
Other reserves	5,312	5,740	6,419	6,999	7,768
<b>Shareholders' equity</b>	<b>7,304</b>	<b>7,731</b>	<b>8,410</b>	<b>8,990</b>	<b>9,759</b>
Minority interests	1,953	2,484	2,365	2,365	2,197
<b>Total equity</b>	<b>9,257</b>	<b>10,216</b>	<b>10,776</b>	<b>11,355</b>	<b>11,957</b>
<b>Total liabilities &amp; equity</b>	<b>15,608</b>	<b>17,554</b>	<b>19,701</b>	<b>19,114</b>	<b>19,065</b>

Source: Company data, RHB

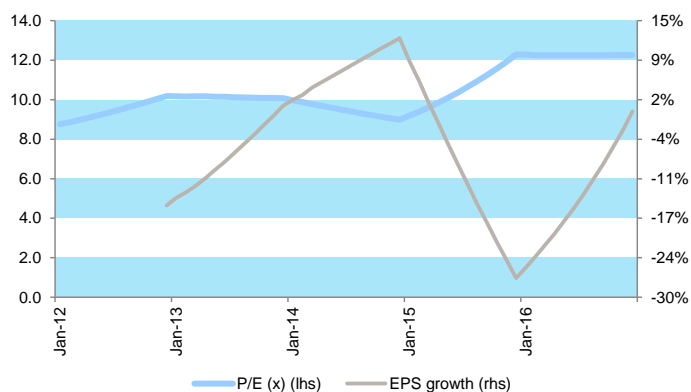
<b>Key Ratios (SGD)</b>	<b>Dec-12</b>	<b>Dec-13</b>	<b>Dec-14</b>	<b>Dec-15F</b>	<b>Dec-16F</b>
Revenue growth (%)	2.2	(4.2)	17.1	(0.3)	6.5
Operating profit growth (%)	(18.4)	3.0	5.9	(4.3)	5.5
Net profit growth (%)	(15.1)	1.2	12.2	(26.9)	0.2
EPS growth (%)	(15.1)	1.2	12.2	(26.9)	0.2
BVPS growth (%)	7.0	5.9	8.8	6.9	8.6
Operating margin (%)	27.4	29.5	26.7	25.6	25.3
Net profit margin (%)	20.2	21.4	20.4	15.0	14.1
Return on average assets (%)	4.4	4.1	4.1	2.9	3.0
Return on average equity (%)	9.6	9.1	9.5	6.5	6.0
Net debt to equity (%)	25.0	25.2	26.0	36.5	12.2
Recurrent cash flow per share	0.07	0.71	0.31	(0.88)	3.30

Source: Company data, RHB

## SWOT Analysis

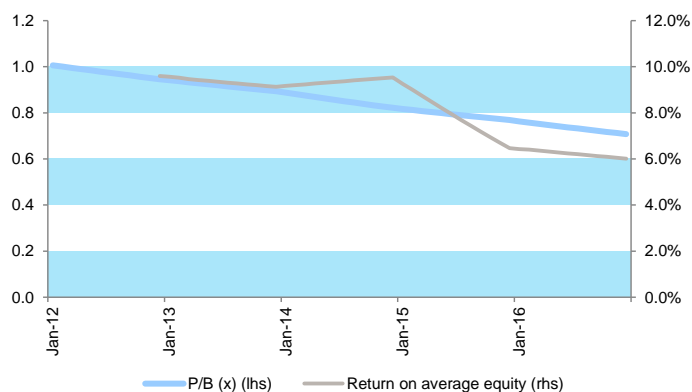


P/E (x) vs EPS growth



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
2015-11-13	Buy	8.8	7.6
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

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**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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