

## City Developments (CIT SP)

# Strong Take-up at New Launches

### Maintain BUY and SGD14.20 TP

While 1Q18 net profit made up just 12% of our full-year forecast, strong sales achieved at recent launches should drive an earnings pick-up in the coming quarters. CDL is poised to benefit from the market upturn with a launch pipeline of over 3,000 units. A potential sale of two office buildings under the PPS 2 structure will also drive upside to our valuation. Maintain BUY and SGD14.20 TP, pegged to its RNAV (0% disc.).

### 1Q18 slow; But strong take-up at new launches

CDL has had a slow start to the year with 1Q18 net profit at just 12% of our full-year forecast. While revenue surged by 35% to SGD1.0b, it was driven by the completion of The Criterion, a lower margin executive condominium project. With stronger sales achieved at newly launched projects in recent months, we expect a pick-up in earnings recognition. Notably, The Tapestry set a new benchmark price in Tampines with SGD1,360 psf achieved for the 400 units sold. 62 units at luxury project New Futura were sold at ASPs of over SGD3,350 psf. This includes the recent sales of its penthouse for SGD36.3m or SGD4,630 psf.

### Strong pipeline to capture market rebound

With a solid launch pipeline of over 3,000 units, we see CDL as a key beneficiary of the strengthening residential market. It intends to launch the second phase of New Futura, South Beach Residences and West Coast Vale for the rest of the year. Amber Park will be launched in 1H19. With the first two projects already completed, any sales will immediately be recognised as profits. We see the strong 85% take-up rate at competing site Twin Views as positive for its coming launch at West Coast Vale.

### Potential upside from sale of two offices in PPS 2

The *Business Times* recently [reported](#) that CDL and Alpha Investments Partners have put two office buildings under the PPS 2 structure up for sale. CDL injected three office assets - Manulife Centre, 7 & 9 Tampines Grande and Central Mall (Office) - into a PPS 2 structure in Dec 2015 and are now looking to capitalise on stronger office values with a sale. Asking prices for Manulife Centre and Tampines Grande reflect premiums of 13% and 23% over their initial cost. After accounting for Alpha's preferred returns, we estimate a surplus of 6 cts for CDL if sold at their asking prices and is a potential upside to our valuation.

FYE Dec (SGD m)	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue	3,905	3,829	3,916	4,038	3,932
EBITDA	1,096	960	1,155	1,118	962
Core net profit	604	483	663	717	647
Core EPS (cts)	63.3	50.6	69.4	75.1	67.8
Core EPS growth (%)	(21.9)	(20.0)	37.2	8.2	(9.7)
Net DPS (cts)	16.0	18.0	18.0	18.0	18.0
Core P/E (x)	19.8	24.8	18.0	16.7	18.5
P/BV (x)	1.3	1.2	1.2	1.1	1.1
Net dividend yield (%)	1.3	1.4	1.4	1.4	1.4
ROAE (%)	7.6	6.1	7.1	7.3	6.3
ROAA (%)	3.0	2.5	3.4	3.7	3.5
EV/EBITDA (x)	11.0	15.8	13.2	12.5	12.9
Net gearing (%) (incl perps)	18.0	10.4	10.0	net cash	net cash
Consensus net profit	-	-	647	678	713
MKE vs. Consensus (%)	-	-	2.4	5.7	(9.3)

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# BUY

Share Price	SGD 12.53
12m Price Target	SGD 14.20 (+13%)
Previous Price Target	SGD 14.20

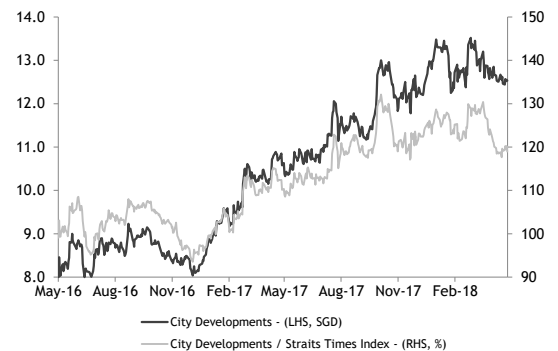
### Statistics

52w high/low (SGD)	13.52/10.33
3m avg turnover (USDm)	15.4
Free float (%)	52.3
Issued shares (m)	909
Market capitalisation	SGD11.4B
	USD8.5B

### Major shareholders:

KWEK FAMILY	37.4%
Aberdeen Asset Management (Asia) Ltd.	5.9%
Euroform Singapore Pte Ltd.	2.2%

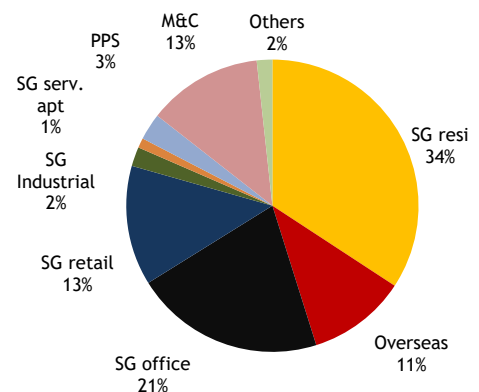
### Price Performance



	-1M	-3M	-12M
Absolute (%)	(1)	2	15
Relative to index (%)	(4)	(3)	6

Source: FactSet

### Exposure summary (% of valuation)



Source: Company, Maybank Kim Eng

Figure 1: Quarterly profit and loss

FYE 31 Dec	1Q17	4Q17	1Q18	Change		YTD18 (SGD m)	% of FY18E	FY18E (SGD m)
	(SGD m)	(SGD m)	(SGD m)	(QoQ %)	(YoY %)			
Revenue	784	1,328	1,058	(20.3)	35.0	1,058	27.0	3,916
EBITDA	186	279	233	(16.7)	25.1	233	20.1	1,155
D&A	(53)	(53)	(50)	(6.1)	(5.8)	(50)	21.4	(234)
EBIT	133	226	183	(19.2)	37.4	183	19.8	921
Net interest income/(expense)	(18)	(16)	(24)	53.2	32.1	(24)	45.7	(53)
Other items (recurring)	0	0	0	n.m.	n.m.	0	n.m.	0
Other items (exceptionals)	0	0	0	n.m.	n.m.	0	n.m.	0
Associates & JVs	0	29	9	(69.3)	>100	9	13.0	69
PBT	115	239	167	(30.0)	45.8	167	17.9	937
Taxation	(16)	(20)	(34)	66.7	>100	(34)	22.5	(149)
MI	(14)	(32)	(54)	66.7	>100	(54)	42.9	(126)
Net income	85	187	80	(57.1)	(6.4)	80	12.1	663

Source: Company, Maybank Kim Eng

Figure 2: Segmental performances

FYE 31 Dec	1Q17	2Q17	3Q17	4Q17	1Q18	Change (QoQ %)	Change (YoY %)
	(SGD m)	(SGD m)	(SGD m)	(SGD m)	(SGD m)		
Revenue	784	854	863	1,328	1,058	(20.3)	35.0
Property development	299	303	291	759	563	(25.8)	88.3
Hotel operations	367	432	445	450	378	(16.1)	3.1
Rental operations	85	86	89	86	84	(2.2)	(1.2)
Others	33	33	37	32	33	2.3	(0.9)
PBT	115	185	241	239	167	(30.0)	45.8
Property development	82	84	86	193	81	(58.1)	(1.3)
Hotel operations	5	69	74	1	21	>100	>100
Rental operations	28	28	72	40	61	53.8	115.0
Others	(0)	5	9	5	5	(8.6)	n.m.

Source: Company

Fig 3: RNAV and TP

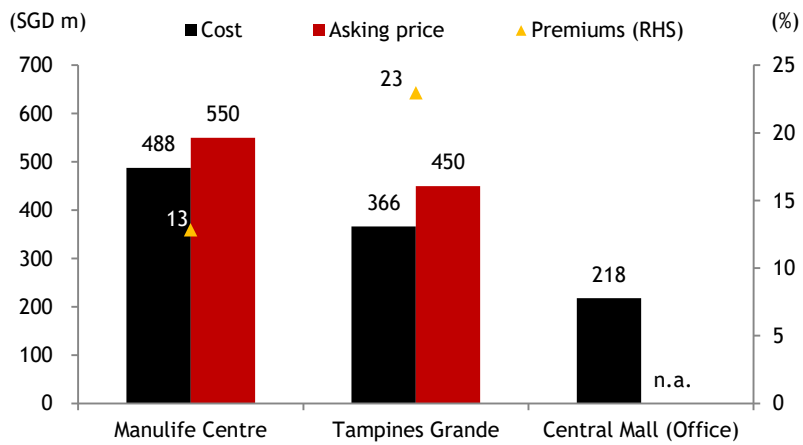
Every 10% change in the market value of M&amp;C affects our RNAV by 23cts

Valuation	2018E	% of total	per share	Remarks
	(SGD m)	(%)	(SGD)	
Singapore resi & mixed developments	5,613	34.2	6.17	
Overseas resi & mixed developments	1,792	10.9	1.97	
Investment properties	6,145	37.5	6.76	
Office	3,445	21.0	3.79	
Retail	2,174	13.3	2.39	
Industrial	349	2.1	0.38	
Serviced apartments	178	1.1	0.20	
PPS 1 - Quayside Isle (NAV)	211	1.3	0.23	
PPS 2 - Office (NAV)	133	0.8	0.15	
PPS 3 - Nouvel 18 (loans)	140	0.9	0.15	
Millennium & Copthorne	2,086	12.7	2.29	Market value of 65% stake in M&C at 550 pence/share.
Others	282	1.7	0.31	
<b>Gross asset value</b>	<b>16,402</b>	<b>100.0</b>	<b>18.04</b>	
Less: adjusted net liabilities	(3,503)			
<b>RNAV</b>	<b>12,899</b>			
Outstanding no. of shares (m)	909			
<b>RNAV per share (SGD)</b>	<b>14.19</b>			
<b>TP (SGD)</b>	<b>14.20</b>			Rounded.
RNAV discount (%)	0			

Source: Maybank Kim Eng

**Fig 4: Two office buildings in PPS 2 up for sale**

Asking price: Manulife Centre at SGD2,273 psf, Tampines Grande at SGDSGD1,563 psf

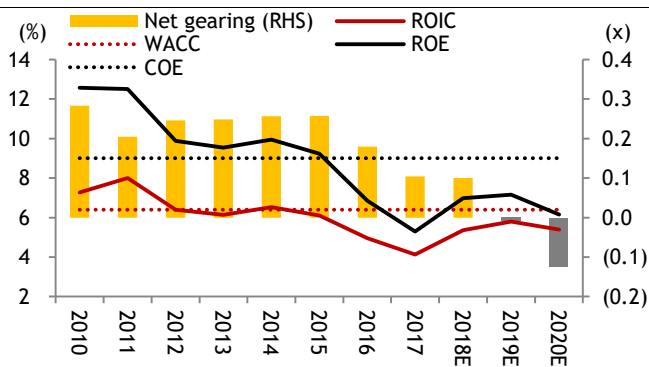


Source: Company, The Business Times, Maybank Kim Eng

## Value Proposition

- CityDev's ability to meet its cost of capital is dependent on property cycles (note: return metrics are not comparable to peers as its properties are not re-valued).
- It is increasing its overseas presence. Given its limited overseas track record, the market appears to have ascribed a higher risk premium to the stock in this transition.
- However, the majority of its business remains in Singapore and the stock will continue to trade on its developments.
- We expect returns on capital to improve along with the upturn in Singapore's property cycle. Nonetheless, it remains low relative to its cost of capital.

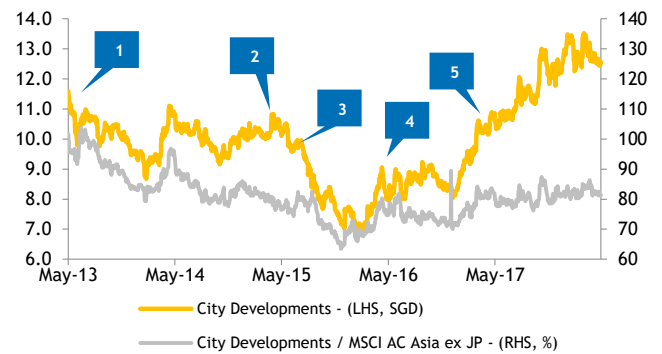
### Returns vs cost of capital



Source: Company, Maybank Kim Eng

## Price Drivers

### Historical share price trend



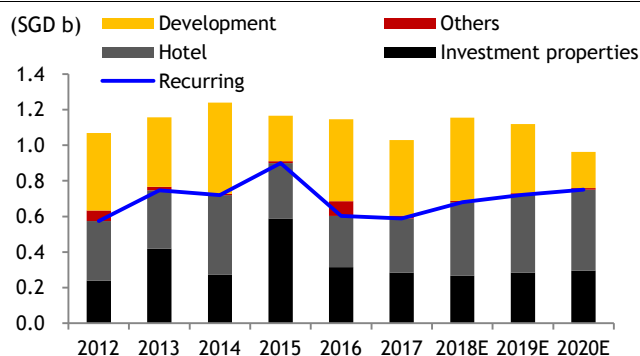
Source: Company, FactSet, Maybank Kim Eng

- Eighth round of cooling measures in Singapore in Jun 2013. Home sales weakened for three years before a 2017 rebound.
- Positive sector sentiment on privatisation of Keppel Land by Keppel Corp in early 2015.
- CityDev removed from FTSE EPRA/NAREIT Global Real Estate Index.
- Re-included in the FTSE EPRA/NAREIT Global Real Estate Index.
- Singapore government relaxes cooling measures in March 2017 for the first time since GFC.

## Financial Metrics

- Targets USD5b AUM by 2023 for its newly established fund management unit. Unlike the previously established PPS deals, this entity seeks to grow third party assets.
- Home prices in Singapore have turned up. Resurgent enbloc market should drive a positive feedback loop: front-loading demand and pushing out supply.
- With improved sentiment, property prices can continue to rise even without further policy easing.
- Apart from the more cyclical property development business, rental trends for offices and malls, and hotel operating performances are also metrics to watch. Aims to lift recurring income to 65% of EBITDA from 56% in 2017.

### Segmental EBITDA - CDL aims to raise its recurring income



Source: Company, Maybank Kim Eng

## Swing Factors

### Upside

- Monetisation of investment assets conservatively held at cost.
- Renewed interest in Singapore's high-end residential market.
- Strong rebound in home sales.

### Downside

- Sharp fall in home prices, necessitating impairment charges.
- Poor execution of overseas projects. Recent ventures into China, the UK and Japan have raised risk profile.
- Sharp increase in interest rates could hit demand for properties and drive down asset prices.

FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
<b>Key Metrics</b>					
P/E (reported) (x)	11.7	18.9	17.5	16.2	18.0
Core P/E (x)	19.8	24.8	18.0	16.7	18.5
P/BV (x)	1.3	1.2	1.2	1.1	1.1
P/NTA (x)	1.3	1.2	1.2	1.1	1.1
Net dividend yield (%)	1.3	1.4	1.4	1.4	1.4
FCF yield (%)	9.3	9.7	2.6	14.3	15.9
EV/EBITDA (x)	11.0	15.8	13.2	12.5	12.9
EV/EBIT (x)	13.8	20.4	16.6	15.9	17.3

**INCOME STATEMENT (SGD m)**

Revenue	3,905.5	3,828.6	3,915.5	4,037.9	3,931.6
Gross profit	3,683.6	3,612.7	3,682.0	3,799.7	3,688.6
EBITDA	1,096.0	960.3	1,154.6	1,118.4	962.1
Depreciation	(221.9)	(216.0)	(233.5)	(238.2)	(243.0)
EBIT	874.1	744.3	921.1	880.2	719.1
Net interest income / (exp)	(80.1)	(64.9)	(52.6)	(50.3)	(19.6)
Associates & JV	70.5	45.5	68.5	128.1	175.2
Exceptionals	49.5	55.5	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	914.0	780.4	937.0	958.1	874.8
Income tax	(151.4)	(105.5)	(148.9)	(139.1)	(114.7)
Minorities	(109.3)	(136.7)	(125.6)	(102.4)	(113.2)
Reported net profit	653.2	538.2	662.5	716.6	646.9
Core net profit	603.7	482.7	662.5	716.6	646.9
Preferred Dividends	(12.9)	(12.9)	(12.9)	(12.9)	(12.9)

**BALANCE SHEET (SGD m)**

Cash & Short Term Investments	3,689.4	3,791.7	3,264.9	3,111.2	3,160.8
Accounts receivable	1,166.5	1,035.9	1,250.0	1,312.5	1,378.1
Inventory	5,208.9	4,560.8	4,905.1	4,100.8	3,001.8
Property, Plant & Equip (net)	5,135.7	5,013.8	5,005.2	4,997.0	4,992.3
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	1,461.5	1,557.8	1,592.1	1,656.1	1,743.7
Other assets	3,135.4	3,543.3	3,598.0	3,655.5	3,715.8
<b>Total assets</b>	<b>19,797.4</b>	<b>19,503.3</b>	<b>19,615.3</b>	<b>18,833.1</b>	<b>17,992.5</b>
ST interest bearing debt	1,782.8	1,266.0	1,500.0	1,000.0	500.0
Accounts payable	1,575.2	1,604.3	1,650.0	1,732.5	1,819.1
LT interest bearing debt	3,954.9	3,755.7	3,000.0	2,000.0	1,000.0
Other liabilities	1,076.0	1,036.0	1,088.0	1,142.0	1,199.0
<b>Total Liabilities</b>	<b>8,388.7</b>	<b>7,662.1</b>	<b>7,238.0</b>	<b>5,874.9</b>	<b>4,518.6</b>
Shareholders Equity	9,293.8	9,583.6	10,069.5	10,609.5	11,079.8
Minority Interest	2,114.9	2,257.6	2,307.8	2,348.8	2,394.0
<b>Total shareholder equity</b>	<b>11,408.7</b>	<b>11,841.2</b>	<b>12,377.3</b>	<b>12,958.3</b>	<b>13,473.9</b>
Perpetual securities	0.0	0.0	0.0	0.0	0.0
<b>Total liabilities and equity</b>	<b>19,797.4</b>	<b>19,503.3</b>	<b>19,615.3</b>	<b>18,833.1</b>	<b>17,992.5</b>

**CASH FLOW (SGD m)**

Pretax profit	914.0	780.4	937.0	958.1	874.8
Depreciation & amortisation	221.9	216.0	233.5	238.2	243.0
Adj net interest (income)/exp	80.1	64.9	52.6	50.3	19.6
Change in working capital	329.7	286.3	(515.6)	821.3	1,116.8
Cash taxes paid	(156.7)	(161.8)	(148.9)	(139.1)	(114.7)
Other operating cash flow	(51.3)	52.3	80.4	10.9	(60.5)
Cash flow from operations	1,180.9	1,076.3	490.2	1,800.6	1,964.3
Capex	(205.4)	(109.5)	(225.0)	(230.0)	(238.2)
Free cash flow	1,063.0	1,107.5	299.4	1,634.7	1,813.6
Dividends paid	(224.5)	(230.9)	(163.7)	(163.7)	(163.7)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(658.9)	(595.3)	(521.7)	(1,500.0)	(1,500.0)
Other invest/financing cash flow	78.6	(64.3)	(93.7)	(47.6)	0.1
Effect of exch rate changes	(6.6)	(31.0)	0.0	0.0	0.0
Net cash flow	151.2	32.3	(526.8)	(153.6)	49.6

FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	18.2	(2.0)	2.3	3.1	(2.6)
EBITDA growth	(5.9)	(12.4)	20.2	(3.1)	(14.0)
EBIT growth	(8.1)	(14.9)	23.7	(4.4)	(18.3)
Pretax growth	(7.2)	(14.6)	20.1	2.2	(8.7)
Reported net profit growth	(15.5)	(17.6)	23.1	8.2	(9.7)
Core net profit growth	(21.9)	(20.0)	37.2	8.2	(9.7)
<b>Profitability ratios (%)</b>					
EBITDA margin	28.1	25.1	29.5	27.7	24.5
EBIT margin	22.4	19.4	23.5	21.8	18.3
Pretax profit margin	23.4	20.4	23.9	23.7	22.3
Payout ratio	22.7	31.1	25.2	23.3	25.8
<b>DuPont analysis</b>					
Net profit margin (%)	16.7	14.1	16.9	17.7	16.5
Revenue/Assets (x)	0.2	0.2	0.2	0.2	0.2
Assets/Equity (x)	2.1	2.0	1.9	1.8	1.6
ROAE (%)	7.6	6.1	7.1	7.3	6.3
ROAA (%)	3.0	2.5	3.4	3.7	3.5
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	2.4	2.5	2.7	3.2	4.0
Net gearing (%) (incl perps)	18.0	10.4	10.0	net cash	net cash
Net gearing (%) (excl. perps)	18.0	10.4	10.0	net cash	net cash
Net interest cover (x)	10.9	11.5	17.5	17.5	36.8
Debt/EBITDA (x)	5.2	5.2	3.9	2.7	1.6
Capex/revenue (%)	5.3	2.9	5.7	5.7	6.1
Net debt/ (net cash)	2,048.3	1,230.0	1,235.1	(111.2)	(1,660.8)

Source: Company; Maybank

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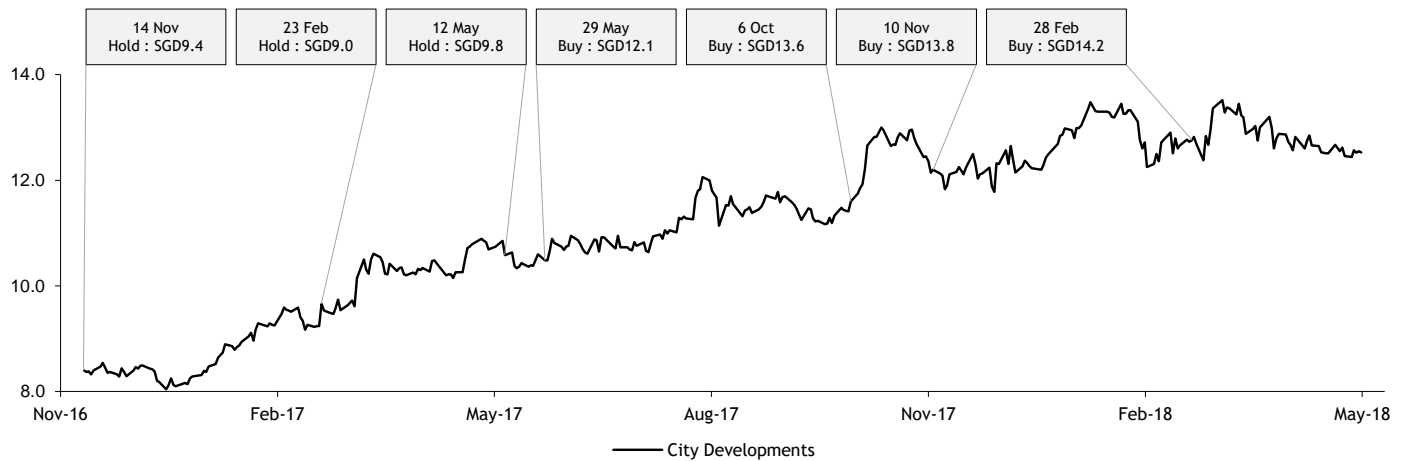
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