

City Developments (CIT SP)

Deferring Launch Plans

Limited downside; maintain HOLD

1H18 EPS is in line, at 44% of our FY18E estimate. Nonetheless, we trim FY18E EPS by 5% to adjust for its deferred launch plans, while keeping FY19-20E numbers. Consequently, our RNAV dips to SGD13.88 from SGD13.91. Our TP stays at SGD10.40, a 25% discount to RNAV. With the stock trading close to -1SD of its 10-year average RNAV discount, we believe the market has priced in potential residential-market weakness. Maintain HOLD. Prefer UOL and CapitaLand for sector exposure.

Raised interim DPS

2Q18 profits were driven by New Futura & Gramercy Park in Singapore and contributions from Hong Leong City Center in Suzhou, completed in May. Interim DPS has been raised by 2 cts to 6 cts, to reflect its better YoY profitability. With no commitments to a higher full year payout, we have conservatively kept our FY18E DPS at 18 cts. CDL and its JV partners have received several offers for Manulife Centre and Tampines Grande. These are office assets under its PPS 2 structure. It is in advanced negotiations on the sale of the former. Apart from participating as a cornerstone investor in the IPO of E-House (2048 HK, Not Rated), one of the largest real-estate brokers in China, CDL has reached a strategic agreement with the company to market its properties in Singapore and London to Chinese buyers.

Responding to cooling measures

After the recent property-cooling measures, CDL is reviewing the launch timing for its JV projects, South Beach Residences and Boulevard 88. Plans for its mid-to-mass-market projects are unchanged, as these cater mostly to first-time home buyers, who should be less affected by the policy changes.

Targeting SGD900m of recurring EBITDA

CDL has a 10-year recurring-EBITDA target of SGD900m. This is a 50% increase from current levels of SGD600m. Plans to hit USD12b AUM for its fund-management platform should account for one-third of the increase, with the balance to come from acquisitions and improved yields for its properties. We believe stronger recurring income will enhance the stability of its earnings and offer scope for potentially higher payouts.

FYE Dec (SGD m)	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue	3,905	3,829	3,914	4,001	3,860
EBITDA	1,096	960	1,153	1,081	898
Core net profit	604	483	621	681	573
Core EPS (cts)	63.3	50.6	65.0	71.3	60.1
Core EPS growth (%)	(21.9)	(20.0)	28.6	9.7	(15.8)
Net DPS (cts)	16.0	18.0	18.0	18.0	18.0
Core P/E (x)	13.1	21.6	15.2	13.8	16.4
P/BV (x)	0.8	1.1	0.9	0.9	0.8
Net dividend yield (%)	1.9	1.6	1.8	1.8	1.8
ROAE (%)	7.6	6.1	6.7	7.0	5.6
ROAA (%)	3.0	2.5	3.2	3.6	3.1
EV/EBITDA (x)	11.0	15.8	11.2	10.7	11.3
Net gearing (%) (incl perps)	18.0	10.4	10.3	net cash	net cash
Consensus net profit	-	-	627	667	703
MKE vs. Consensus (%)	-	-	(1.0)	2.2	(18.5)

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HOLD

Share Price	SGD 9.88
12m Price Target	SGD 10.40 (+5%)
Previous Price Target	SGD 10.40

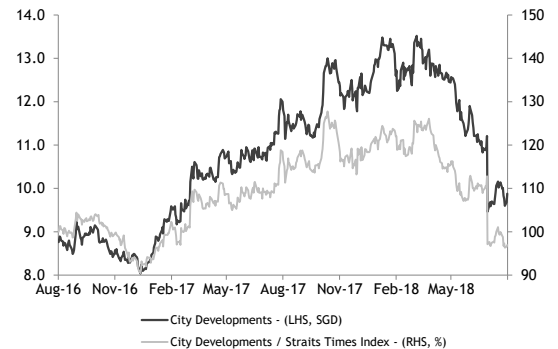
Statistics

52w high/low (SGD)	13.52/9.46
3m avg turnover (USDm)	18.0
Free float (%)	52.3
Issued shares (m)	909
Market capitalisation	SGD9.0B
	USD6.6B

Major shareholders:

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

Price Performance



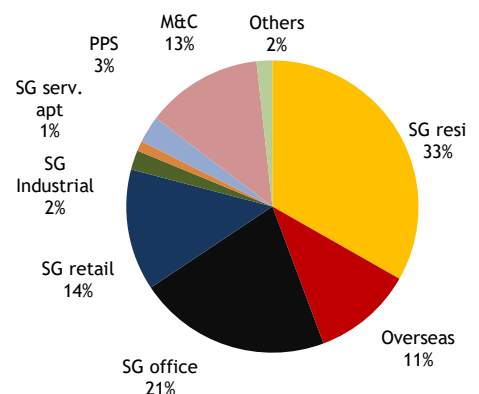
	-1M	-3M	-12M
Absolute (%)	4	(21)	(18)
Relative to index (%)	1	(15)	(17)

Source: FactSet

Stocks mentioned

CapitaLand (CAPL SP, BUY, TP SGD3.80)
 UOL (UOL SP, BUY, TP SGD8.80)

Exposure summary (% of valuation)



Source: Company, Maybank Kim Eng

Fig 1: Quarterly profit and loss

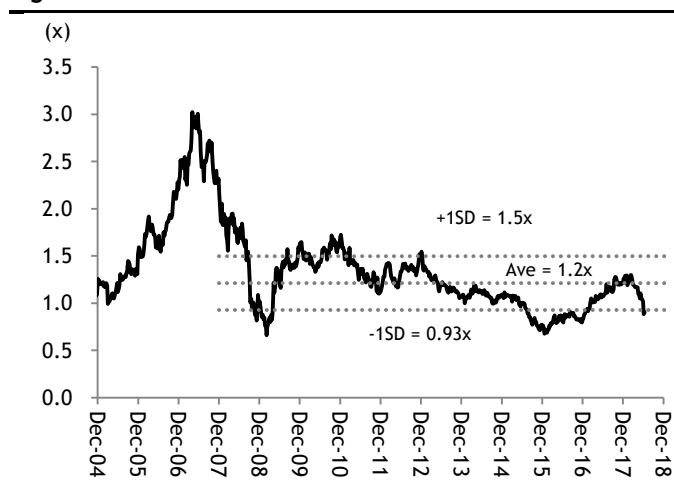
FYE 31 Dec	2Q17	1Q18	2Q18	Change		YTD18	% of FY18E	FY18E
	(SGD m)	(SGD m)	(SGD m)	(QoQ %)	(YoY %)			
Revenue	854	1,058	1,360	28.5	59.2	2,417	61.8	3,914
EBITDA	257	233	399	71.5	55.2	632	54.8	1,153
D&A	(54)	(50)	(54)	8.7	0.2	(104)	44.7	(234)
EBIT	203	183	345	88.7	69.9	527	57.3	919
Net interest income/(expense)	(16)	(24)	(22)	(8.5)	41.9	(46)	87.6	(53)
Associates & JVs	(2)	9	3	(68.0)	n.m.	12	19.2	61
PBT	185	167	325	94.4	75.5	493	53.1	928
Taxation	(31)	(34)	(90)	>100	>100	(124)	83.4	(149)
MI	(45)	(54)	(30)	(43.9)	(32.4)	(84)	67.0	(126)
Net income	110	80	205	>100	86.4	285	43.6	654

Source: Company, Maybank Kim Eng

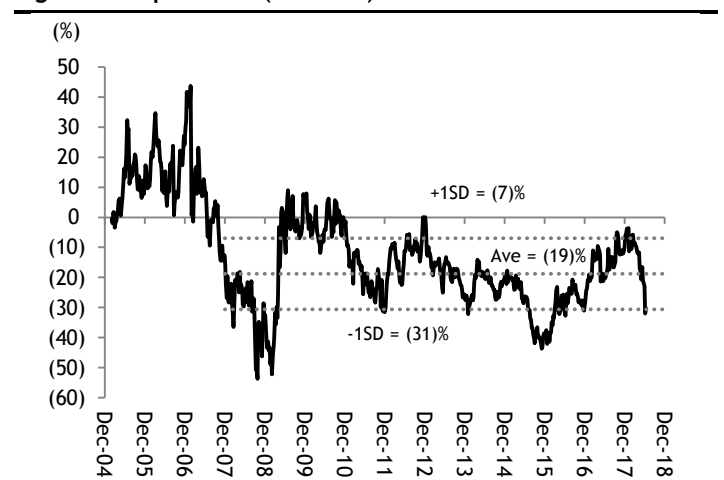
Fig 2: RNAV and TP

Valuation	2018E	% of total	per share	Remarks
	(SGD m)	(%)	(SGD)	
Singapore resi & mixed developments	5,372	33.2	5.91	
Overseas resi & mixed developments	1,792	11.1	1.97	
Investment properties	6,145	38.0	6.76	
Office	3,445	21.3	3.79	
Retail	2,174	13.4	2.39	
Industrial	349	2.2	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	12.9	2.29	Market value of 65% stake in M&C at 550 pence/share.
Others	282	1.7	0.31	
Gross asset value	16,162	100.0	17.77	
Less: adjusted net liabilities	(3,543)			
RNAV	12,619			
Outstanding no. of shares (m)	909			
RNAV per share	13.88			
TP	10.40			Rounded.
RNAV discount (%)	(25)			

Source: Maybank Kim Eng

Fig 3: P/BV

Source: Bloomberg, Company, Maybank Kim Eng

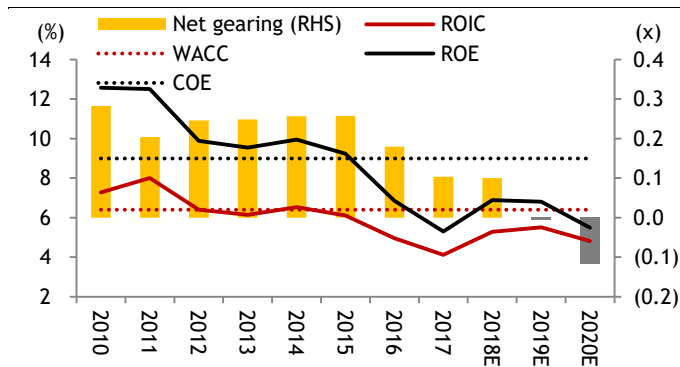
Fig 4: RNAV premium/(discount)

Source: Bloomberg, Company, 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, majority of its business remains in Singapore and the stock will continue to trade on its developments.
- We expect returns on capital to remain low relative to its cost of capital.

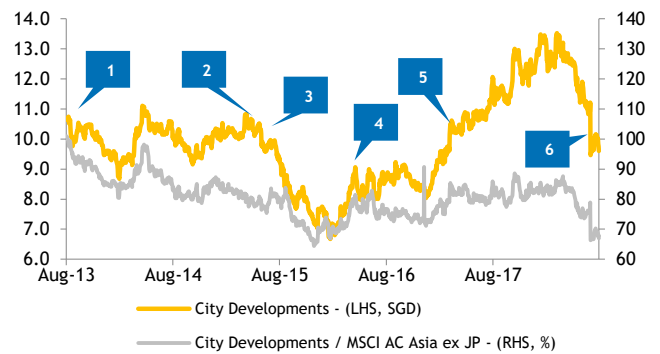
Returns vs cost of capital



Source: Company, Maybank Kim Eng

Price Drivers

Historical share price trend



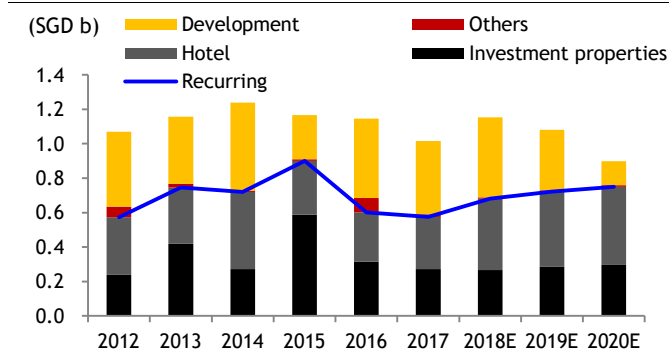
Source: Factset, Company, Maybank Kim Eng

- 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.
- Surprise policy tightening.

Financial Metrics

- Targets USD5b AUM by 2023 and USD12b AUM by 2028 for its newly established fund management unit. Unlike the previously established PPS deals, this entity seeks to grow third party assets.
- Fresh policy measures announced in July 2018 could cap upside to home prices in Singapore.
- 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 EBITDA to SGD900m by 2028E, from about SGD600m today.

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.

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FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
Key Metrics					
P/E (reported) (x)	11.7	18.9	14.8	13.5	16.0
Core P/E (x)	13.1	21.6	15.2	13.8	16.4
P/BV (x)	0.8	1.1	0.9	0.9	0.8
P/NTA (x)	0.8	1.1	0.9	0.9	0.8
Net dividend yield (%)	1.9	1.6	1.8	1.8	1.8
FCF yield (%)	14.1	11.2	3.1	17.8	19.4
EV/EBITDA (x)	11.0	15.8	11.2	10.7	11.3
EV/EBIT (x)	13.8	20.4	14.0	13.8	15.5

INCOME STATEMENT (SGD m)

Revenue	3,905.5	3,828.6	3,913.5	4,001.3	3,859.8
Gross profit	3,683.6	3,612.7	3,680.0	3,763.0	3,616.8
EBITDA	1,096.0	960.3	1,152.7	1,080.8	897.9
Depreciation	(221.9)	(216.0)	(233.5)	(238.2)	(243.0)
EBIT	874.1	744.3	919.2	842.5	655.0
Net interest income / (exp)	(80.1)	(64.9)	(52.6)	(50.9)	(20.3)
Associates & JV	70.5	45.5	28.1	119.6	150.8
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	894.7	911.3	785.4
Income tax	(151.4)	(105.5)	(148.6)	(132.6)	(103.6)
Minorities	(109.3)	(136.7)	(125.6)	(97.9)	(108.4)
Reported net profit	653.2	538.2	620.6	680.8	573.3
Core net profit	603.7	482.7	620.6	680.8	573.3
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	3,225.5	3,059.4	3,040.1
Accounts receivable	1,166.5	1,035.9	1,250.0	1,312.5	1,378.1
Inventory	5,208.9	4,560.8	4,904.6	4,097.6	3,004.1
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	1,571.9	1,631.7	1,707.1
Other assets	3,135.4	3,543.3	3,598.0	3,655.5	3,715.8
Total assets	19,797.4	19,503.3	19,555.1	18,753.6	17,837.5
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
Total Liabilities	8,388.7	7,662.1	7,238.0	5,874.9	4,518.6
Shareholders Equity	9,293.8	9,583.6	10,009.4	10,531.8	10,928.5
Minority Interest	2,114.9	2,257.6	2,307.8	2,347.0	2,390.4
Total shareholder equity	11,408.7	11,841.2	12,317.2	12,878.8	13,318.9
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Total liabilities and equity	19,797.4	19,503.3	19,555.1	18,753.6	17,837.5

CASH FLOW (SGD m)

Pretax profit	914.0	780.4	894.7	911.3	785.4
Depreciation & amortisation	221.9	216.0	233.5	238.2	243.0
Adj net interest (income)/exp	80.1	64.9	52.6	50.9	20.3
Change in working capital	329.7	286.3	(515.1)	823.9	1,111.3
Cash taxes paid	(156.7)	(161.8)	(148.6)	(132.6)	(103.6)
Other operating cash flow	(51.3)	52.3	120.5	12.9	(47.1)
Cash flow from operations	1,180.9	1,076.3	489.1	1,772.1	1,905.6
Capex	(205.4)	(109.5)	(225.0)	(230.0)	(238.2)
Free cash flow	1,063.0	1,107.5	278.2	1,601.9	1,742.7
Dividends paid	(224.5)	(230.9)	(181.9)	(145.5)	(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)	(113.9)	(49.8)	(10.0)
Effect of exch rate changes	(6.6)	(31.0)	0.0	0.0	0.0
Net cash flow	151.2	32.3	(566.2)	(166.1)	(19.3)

FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
Key Ratios					
Growth ratios (%)					
Revenue growth	18.2	(2.0)	2.2	2.2	(3.5)
EBITDA growth	(5.9)	(12.4)	20.0	(6.2)	(16.9)
EBIT growth	(8.1)	(14.9)	23.5	(8.3)	(22.3)
Pretax growth	(7.2)	(14.6)	14.6	1.9	(13.8)
Reported net profit growth	(15.5)	(17.6)	15.3	9.7	(15.8)
Core net profit growth	(21.9)	(20.0)	28.6	9.7	(15.8)
Profitability ratios (%)					
EBITDA margin	28.1	25.1	29.5	27.0	23.3
EBIT margin	22.4	19.4	23.5	21.1	17.0
Pretax profit margin	23.4	20.4	22.9	22.8	20.3
Payout ratio	22.7	31.1	26.9	24.5	29.2
DuPont analysis					
Net profit margin (%)	16.7	14.1	15.9	17.0	14.9
Revenue/Assets (x)	0.2	0.2	0.2	0.2	0.2
Assets/Equity (x)	2.1	2.0	2.0	1.8	1.6
ROAE (%)	7.6	6.1	6.7	7.0	5.6
ROAA (%)	3.0	2.5	3.2	3.6	3.1
Leverage & Expense Analysis					
Asset/Liability (x)	2.4	2.5	2.7	3.2	3.9
Net gearing (%) (incl perps)	18.0	10.4	10.3	net cash	net cash
Net gearing (%) (excl. perps)	18.0	10.4	10.3	net cash	net cash
Net interest cover (x)	10.9	11.5	17.5	16.6	32.2
Debt/EBITDA (x)	5.2	5.2	3.9	2.8	1.7
Capex/revenue (%)	5.3	2.9	5.7	5.7	6.2
Net debt/ (net cash)	2,048.3	1,230.0	1,274.5	(59.4)	(1,540.1)

Source: Company; Maybank

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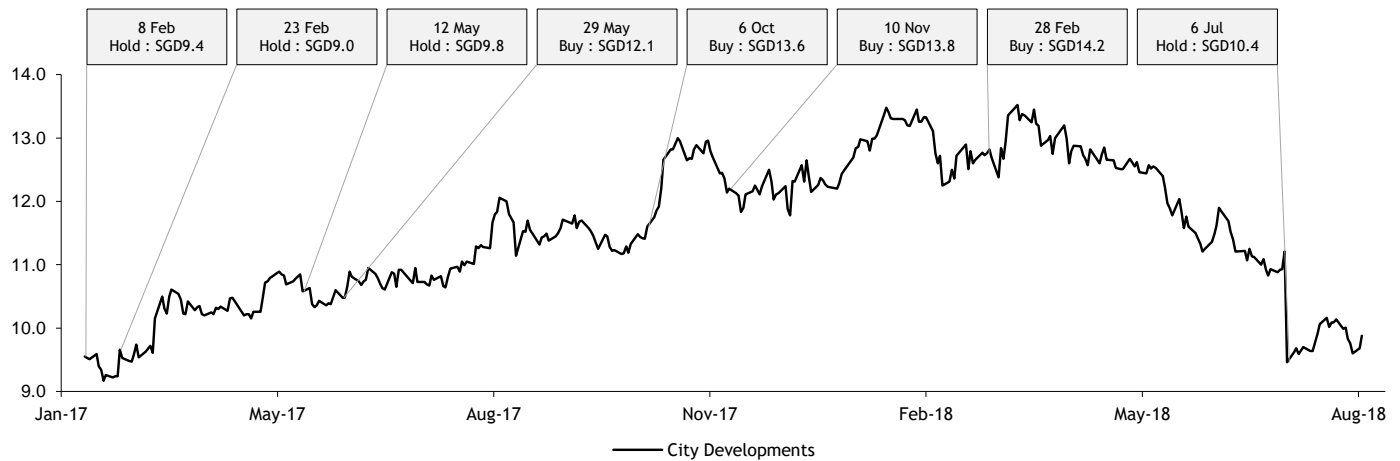
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