

Singapore Company Guide

City Developments

Version 11 | Bloomberg: CIT SP | Reuters: CTDM.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

8 Mar 2018

BUY

Last Traded Price (7 Mar 2018): S\$12.67 (STI : 3,450.69)

Price Target 12-mth: S\$15.40 (22% upside) (Prev S\$14.03)

Analyst

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What's New

- Top developer in Singapore residential market with S\$6bn in unsold stock, contrary to market perception
- Strong presales at upcoming launch of The Tapestry to drive share price higher
- Renewed focus on growing fund management business to drive recurring income and crystallise NAV

Price Relative



Forecasts and Valuation

FY Dec (S\$ m)	2016A	2017A	2018F	2019F
Revenue	3,905	3,829	3,633	4,520
EBITDA	1,050	984	1,313	1,430
Pre-tax Profit	914	780	1,060	1,148
Net Profit	640	525	787	839
Net Pft (Pre Ex.)	474	448	787	839
Net Pft Gth (Pre-ex) (%)	7.2	(5.5)	75.8	6.5
EPS (S cts)	70.4	57.8	86.6	92.2
EPS Pre Ex. (S cts)	52.1	49.2	86.6	92.2
EPS Gth Pre Ex (%)	7	(6)	76	7
Diluted EPS (S cts)	67.1	55.0	82.5	87.9
Net DPS (S cts)	17.4	14.0	16.0	16.0
BV Per Share (S cts)	1,022	1,054	1,127	1,203
PE (X)	18.0	21.9	14.6	13.7
PE Pre Ex. (X)	24.3	25.7	14.6	13.7
P/Cash Flow (X)	9.8	10.7	740.5	5.2
EV/EBITDA (X)	14.9	15.2	12.3	10.3
Net Div Yield (%)	1.4	1.1	1.3	1.3
P/Book Value (X)	1.2	1.2	1.1	1.1
Net Debt/Equity (X)	0.2	0.1	0.2	0.1
ROAE (%)	7.0	5.6	7.9	7.9

Earnings Rev (%):			33	86
Consensus EPS (S cts):			69.1	71.5
Other Broker Recs:	B: 19	S: 1	H: 3	

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P

Undisputed residential champion

Maintain BUY; TP revised to S\$15.40. We maintain our BUY call on City Dev with TP of S\$15.40 as we fine-tune our residential sales and investment property valuation assumptions. With the Singapore property market in the nascent stages of an upturn, City Dev is largely seen as a key proxy to upward trends in the Singapore residential market and has historically traded up to 1.2-1.3x P/NAV, which our TP implies.

Where we differ: Among the highest TP in the street. We believe that catalysts abound for the group after its successful land-banking activities which added five residential sites over the past year. Based on our analysis, City Dev is the developer with the largest amount of unsold inventory on the books, estimated at close to S\$6bn comprising c.3,600 units. These properties are located across various segments of the property market which allow the group to capture the widest market share in 2018. The strong pre-sales of upcoming launch – The Tapestry – will be a catalyst for further re-rating.

Potential catalyst: Strong pre-sales at launch projects/land-banking activities.

Growth in fund management platform a key focus. 4Q17 results were in line with expectations but one key focus was the company's renewed plans to accelerate its efforts to develop a fund management business, targeting to hit US\$5bn by 2023. The strategy is to drive recurring income and to achieve a more efficient capital structure and offer recycling opportunities for the group to deploy capital more actively.

Valuation:

We maintain our BUY call, TP of S\$15.40, based on a parity to RNAV, which implies 1.2x P/NAV.

Key Risks to Our View:

Non-completion of privatisation. The inability to complete the privatisation exercise could limit potential upside to RNAV.

At A Glance

Issued Capital (m shrs)	909
Mkt. Cap (S\$m/US\$m)	11,521 / 8,767
Major Shareholders (%)	
Davos Investments Holdings Ltd	16.4
Hong Leong Investment	15.4
Standard Life Aberdeen	6.0
Free Float (%)	57.2
3m Avg. Daily Val (US\$m)	16.9
ICB Industry : Financials / Real Estate	

WHAT'S NEW

Singapore largest land bank

Undisputed leader in Singapore residential market. Since early 2017, the group has turned more active in building its residential land bank in Singapore. After beating the competition in three recent land tenders in January - February 2018, City Development Limited (City Dev) remains the developer with the highest market share in terms of unsold stock in its books. We believe that the group is well positioned to leverage on the residential upcycle with over c.2,750 units in the pipeline from unlaunched residential projects. These properties are across the suburban, mid- to luxury-end segments.

Residential sales momentum has been strong for the group, achieving 1,171 units with sales value of S\$1.93bn. From the group's portfolio of launched projects in Singapore, the group has a further 232 unsold inventory on its books (effective stake of 178 units). Based on estimates, the total unsold inventory (launched and unlaunched projects) could be worth up to S\$6bn. This will make City Dev the group with the largest share of unsold inventory in the market.

4Q17 results in line. City Dev reported a 24% drop in PATMI of S\$187m (4Q16 of S\$244m) and S\$538.2m for FY17. This was despite a 133.8% rise and 2.0% dip in revenues to S\$1,327m (4Q17) and S\$3,828m (FY17) respectively. Profit from operations dipped by 29.8% to S\$225.8m (4Q17) and fell by 13.4% to S\$799.8m (FY17). The drop in operational profits was mainly due to a high-base effect in 2016 where

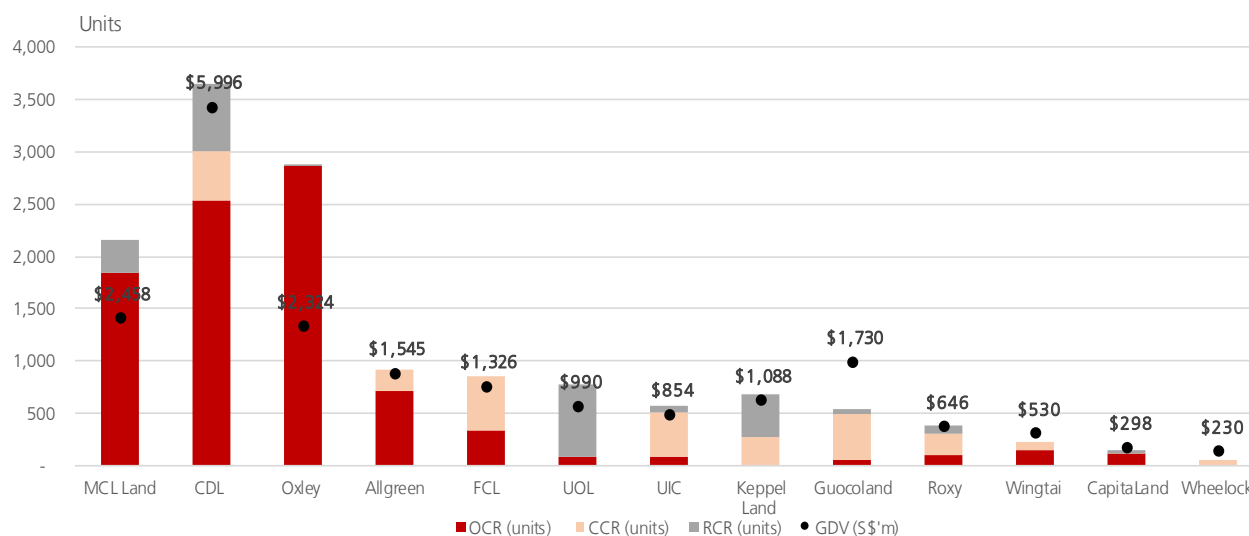
performance was boosted by sizeable contributions from Hong Leong City Center (HLCC) in Suzhou, higher-profit-margin projects like Coco Palms, D'Nest and Lush Acres Executive Condominiums (EC), and gains from selling selected properties into the group's third Profit Participation Securities (PPS).

Gearing remains conservative. City Dev's net gearing ratio remains low at 9% with strong reserves of S\$4bn. This financial headroom allows the group to undertake any opportunistic acquisitions in the future.

Higher dividends. The group proposes a higher final dividend per share of 8 Scts (vs 6 Scts in FY16), bringing total dividends to 18 Scts per share (16 Scts in FY16).

Fund management. The group intends to accelerate its efforts to develop a fund management business to drive recurring income and to achieve a more efficient capital structure and offer recycling opportunities for the group to deploy capital more actively. With three PPS already under the fund management platform, the group intends to launch more co-mingled funds or JV, acquire platforms and manage third-party capital. The group aims to build an AUM of US\$5bn by 2023.

Estimated attributable developers' unsold inventory (gross development value and units)



Source of all data: Company, DBS Bank

Quarterly / Interim Income Statement (S\$m)

FY Dec	4Q2016	3Q2017	4Q2017	% chg yoy	% chg qoq
Revenue	1,167	863	1,328	13.8	53.8
Cost of Goods Sold	(637)	(437)	(852)	33.6	95.1
Gross Profit	530	427	476	(10.1)	11.6
Other Oper. (Exp)/Inc	(66.3)	(60.5)	(108)	63.2	78.8
Operating Profit	322	238	226	(29.8)	(5.3)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	-	-
Associates & JV Inc	31.0	18.2	29.0	(6.3)	59.1
Net Interest (Exp)/Inc	(21.1)	(15.5)	(15.7)	25.8	(1.1)
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
Pre-tax Profit	332	241	239	(27.9)	(0.8)
Tax	(63.8)	(39.0)	(20.1)	(68.5)	(48.5)
Minority Interest	(24.0)	(45.9)	(32.3)	(34.9)	(29.6)
Net Profit	244	156	187	(23.4)	19.6
Net profit bef Except.	244	156	187	(23.4)	19.6
EBITDA	418	312	308	(26.3)	(1.2)
Margins (%)					
Gross Margins	45.4	49.4	35.9		
Opg Profit Margins	27.6	27.6	17.0		
Net Profit Margins	20.9	18.1	14.1		

Source of all data: Company, DBS Bank

CRITICAL DATA POINTS TO WATCH

Critical Factors

Back to Singapore with a bang! Since early 2017, the group has turned more active in building its residential land bank in Singapore. After beating the competition in three recent land tenders in January-February 2018, City Development Limited (City Dev) remains the developer with the highest market share in terms of unsold stock in its books. We believe that the group is well positioned to leverage on the residential upcycle with over c.2,750 units in the pipeline from unlaunched residential projects. These properties are across the suburban, mid- to luxury-end segments.

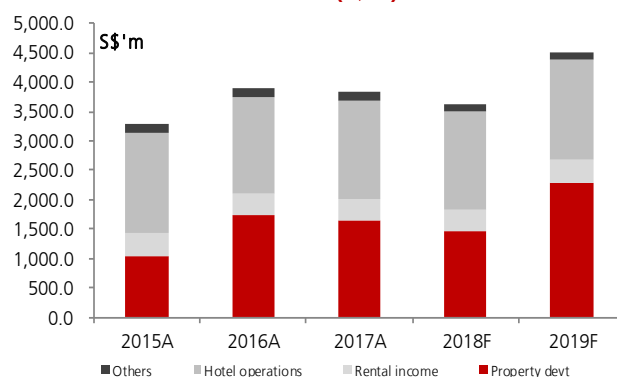
Strong sales momentum seen in existing projects. Residential sales momentum has been strong for the group, achieving 1,171 units with sales value of S\$1.93bn. From the group's portfolio of launched projects in Singapore, it has a further 232 unsold inventory on its books (effective stake of 178 units). Based on estimates, the total unsold inventory (launched and unlaunched projects) could be worth up to S\$6bn. This will make City Dev the group with the largest share of unsold inventory in the market.

Overseas investments to bear fruit in 2018. In London – City Dev will progressively complete projects at Belgravia and Knightsbridge in 2018 while the Teddington Riverside development is planned for completion by end 2019. Other projects like the Stag Brewery Mortlake site and the recently acquired site at Ransomes Wharf (acquired for GBP58m, GDV of GBP222m) is projected to be launched in the medium term.

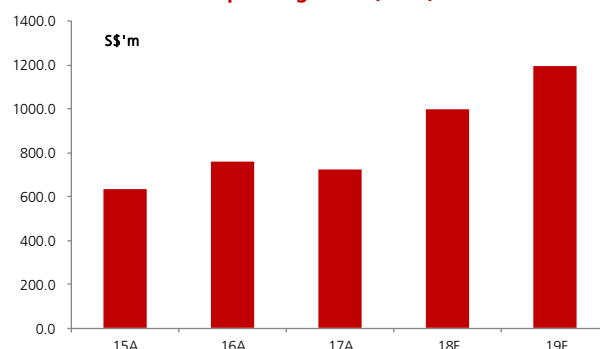
In **China**, City Dev will continue to focus on the execution and delivery of Hong Leong City Center. Phase 1 is 86% sold (sales value RMB2.6bn) and phase 2 is 89% sold with sales value of RMB928m adding to the group's earnings visibility and de-risking its exposure in these properties.

Fund management platform. The group intends to accelerate its efforts to develop a fund management business to drive recurring income and to achieve a more efficient capital structure and offer recycling opportunities for the group to deploy capital more actively. With three PPS already under the fund management platform, the group intends to launch more co-mingled funds or JV, acquire platforms and manage third-party capital. The group aims to build an AUM of US\$5bn by 2023.

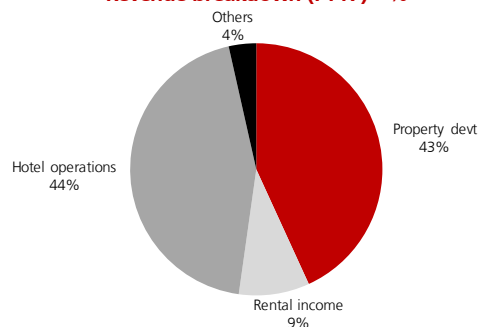
Revenues (S\$m)



Operating Profit (S\$m)



Revenue breakdown (FY17) - %



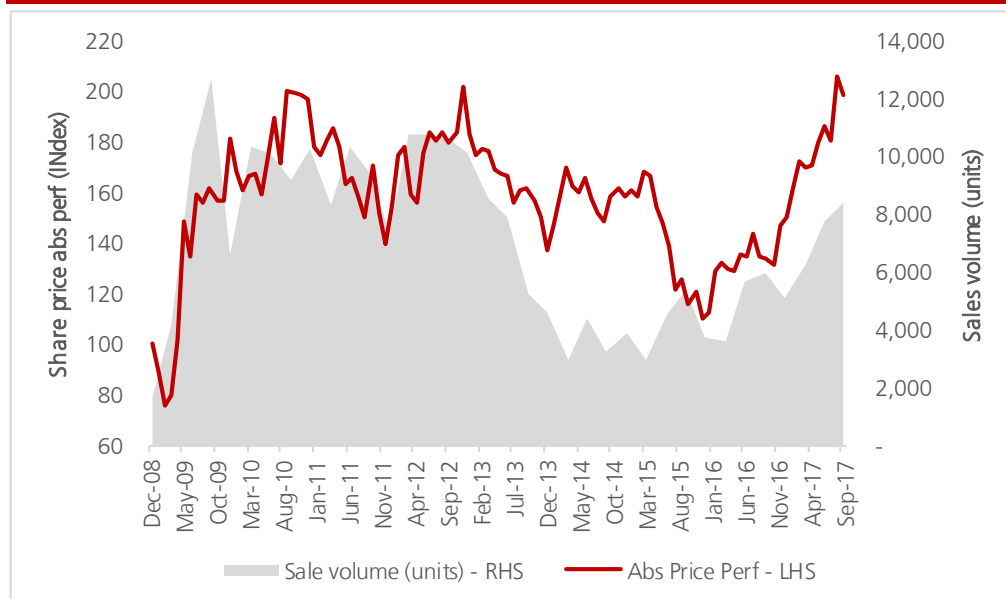
RNAV

RNAV	S\$m
Investment Portfolio (office)	3,434.5
Investment Portfolio (mixed Development)	1,505.1
Investment Portfolio (hotels)	1,071.5
Investment Portfolio (retail)	934.4
Investment Portfolio (industrial and others)	137.4
GDV of residential portfolio	5,561.1
Listed Stakes in	
M&C	3,118.0
CDL HT	412.0
Others	0.0
Gross Asset Value	16,174.0
Less: pref conversion	(211.8)
Less: Net debt	(1,264.7)
RNAV of CDL	14,697.5
No of shares	954.3
RNAV/share	15.4
Discount	0%
TP	15.40

Source: Company, DBS Bank

Appendix 1:

City Dev's absolute performance vs Property sales volume

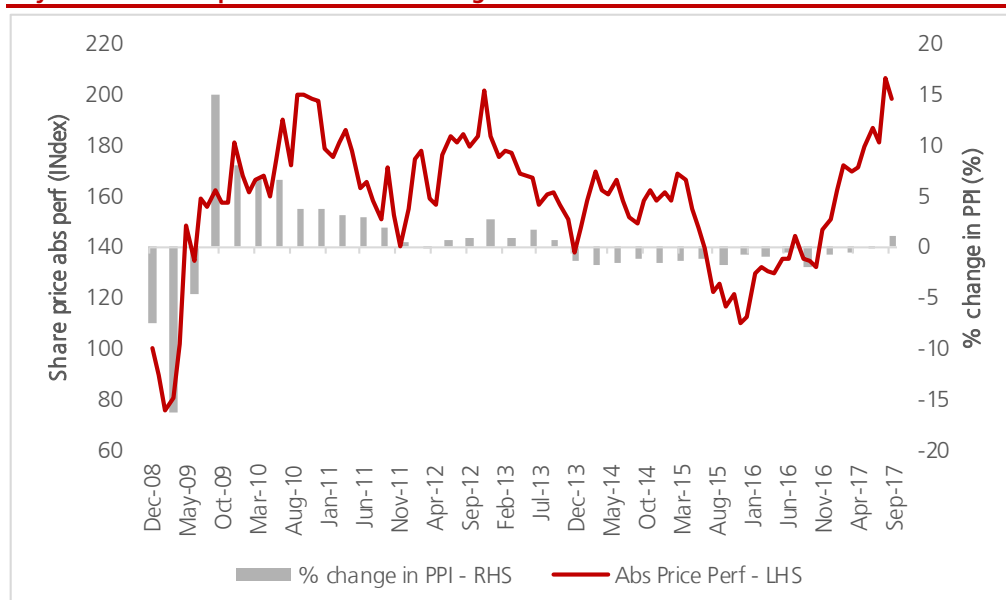


Source: DBS Bank, Thomson Analytics, Company, Bloomberg Finance L.P.

Remarks

Share price performance is positively correlated to the property sales volume.

City Dev's absolute performance vs % change in PPI



Source: DBS Bank, Thomson Analytics, Company, Bloomberg Finance L.P.

Remarks

While the increase in property prices led the share price performance in 2009-2010, we do not see any major correlation thereafter.

Balance Sheet:

Undervalued Net Asset Value (NAV). As the group has chosen to account for investment properties on a historical cost basis, its NAV is conservative as we estimate that current fair values of City Dev's properties are much higher than their carrying values.

Low gearing of 9%. City Dev's gearing is estimated to remain low at 30% (and closer to mid-teens assuming that its investment property values are marked-to-market) which is within management's comfortable range. This provides greater financial flexibility and debt headroom for the group to acquire opportunistically.

Share Price Drivers:

Replenishing land bank is key to income sustainability. The ongoing tight government measures have taken a toll on the group's residential business segment, with the group staying selective on land-banking activities while continuing to clear existing land bank in its portfolio. With 5 sites in the bag, the group remains on track as the developer with the largest land-bank in Singapore.

Successful launch of new residential projects. The successful take-up of its pipeline projects especially the high-value projects in New Futura and South Beach Residences will drive positive investor sentiment on property stocks, which we believe will enable City Dev to maintain its premium-to-NAV valuation.

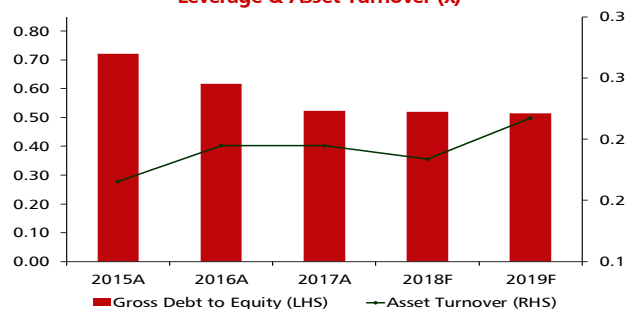
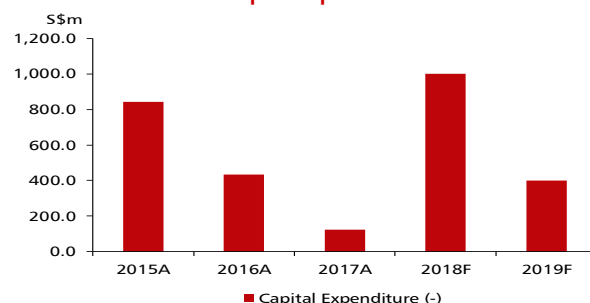
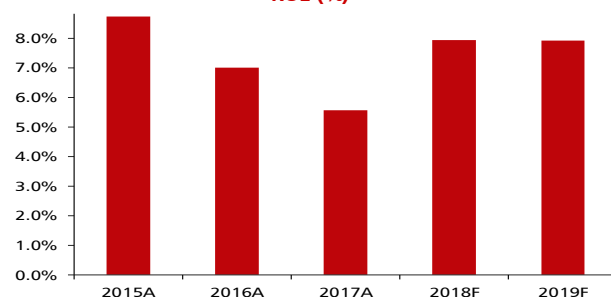
Key Risks:

Decline in residential prices in Singapore. Seen as a proxy to Singapore's residential market, a worsening of the operating environment is expected to cap any upside potential for the stock. Unsold inventories are mainly in the high-end and executive segments whose unsold stocks typically take time to clear.

Interest rate risk. A rise in interest rates will have a negative impact on property transactions, given lower affordability and thus could adversely affect the group's outlook.

Company Background

City Developments Limited (City Dev) is one of the pioneers in Singapore's property sector. It is a property and hotel conglomerate involved in real estate development and investment, hotel ownership and management, and facility management.

Leverage & Asset Turnover (x)**Capital Expenditure****ROE (%)****Forward PE Band (x)****PB Band (x)**

Source: Company, DBS Bank

Segmental Breakdown

FY Dec	2015A	2016A	2017A	2018F	2019F
Revenues (\$\$m)					
Property devt	1,037	1,745	1,653	1,471	2,301
Rental income	405	367	347	366	373
Hotel operations	1,698	1,634	1,694	1,661	1,711
Others	163	160	135	135	135
Others	0.0	0.0	0.0	0.0	0.0
Total	3,304	3,905	3,829	3,633	4,520

Property development drives top-line growth

Income Statement (\$\$m)

FY Dec	2015A	2016A	2017A	2018F	2019F
Revenue	3,304	3,905	3,829	3,633	4,520
Cost of Goods Sold	(1,648)	(2,148)	(2,144)	(1,678)	(2,139)
Gross Profit	1,656	1,758	1,685	1,955	2,381
Other Opng (Exp)/Inc	(1,024)	(1,001)	(963)	(955)	(1,188)
Operating Profit	632	757	722	1,000	1,193
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	107	70.5	45.5	96.9	21.3
Net Interest (Exp)/Inc	(72.2)	(80.1)	(64.9)	(37.1)	(66.5)
Exceptional Gain/(Loss)	318	166	77.6	0.0	0.0
Pre-tax Profit	985	914	780	1,060	1,148
Tax	(119)	(151)	(105)	(145)	(169)
Minority Interest	(92.7)	(109)	(137)	(115)	(127)
Preference Dividend	(12.9)	(12.9)	(12.9)	(12.9)	(12.9)
Net Profit	760	640	525	787	839
Net Profit before Except.	442	474	448	787	839
EBITDA	954	1,050	984	1,313	1,430
Growth					
Revenue Gth (%)	(12.2)	18.2	(2.0)	(5.1)	24.4
EBITDA Gth (%)	1.6	10.1	(6.3)	33.5	8.9
Opg Profit Gth (%)	(7.6)	19.8	(4.6)	38.5	19.3
Net Profit Gth (Pre-ex) (%)	10.2	7.2	(5.5)	75.8	6.5
Margins & Ratio					
Gross Margins (%)	50.1	45.0	44.0	53.8	52.7
Opg Profit Margin (%)	19.1	19.4	18.9	27.5	26.4
Net Profit Margin (%)	23.0	16.4	13.7	21.7	18.6
ROAE (%)	8.7	7.0	5.6	7.9	7.9
ROA (%)	3.8	3.2	2.7	4.0	4.0
ROCE (%)	3.1	3.5	3.5	4.8	5.3
Div Payout Ratio (%)	20.8	24.7	24.2	18.5	17.4
Net Interest Cover (x)	8.8	9.5	11.1	27.0	17.9

Source: Company, DBS Bank

Quarterly / Interim Income Statement (\$m)

FY Dec	4Q2016	1Q2017	2Q2017	3Q2017	4Q2017
Revenue	1,167	784	854	863	1,328
Cost of Goods Sold	(637)	(418)	(438)	(437)	(852)
Gross Profit	530	366	416	427	476
Other Oper. (Exp)/Inc	(66.3)	(101)	(85.2)	(60.5)	(108)
Operating Profit	322	133	203	238	226
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	31.0	0.20	(1.9)	18.2	29.0
Net Interest (Exp)/Inc	(21.1)	(18.2)	(15.5)	(15.5)	(15.7)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	332	115	185	241	239
Tax	(63.8)	(15.6)	(30.8)	(39.0)	(20.1)
Minority Interest	(24.0)	(13.8)	(44.7)	(45.9)	(32.3)
Net Profit	244	85.5	110	156	187
Net profit bef Except.	244	85.5	110	156	187
EBITDA	418	186	255	312	308

Growth

Revenue Gth (%)	26.5	(32.8)	9.0	1.1	53.8
EBITDA Gth (%)	33.3	(55.5)	37.1	22.2	(1.2)
Opg Profit Gth (%)	31.2	(58.7)	52.6	17.6	(5.3)
Net Profit Gth (Pre-ex) (%)	43.1	(64.9)	28.6	42.2	19.6

Margins

Gross Margins (%)	45.4	46.7	48.7	49.4	35.9
Opg Profit Margins (%)	27.6	16.9	23.7	27.6	17.0
Net Profit Margins (%)	20.9	10.9	12.9	18.1	14.1

Balance Sheet (\$m)

FY Dec	2015A	2016A	2017A	2018F	2019F
Net Fixed Assets	5,175	5,136	5,014	5,798	5,982
Invt in Associates & JVs	1,307	1,462	1,558	1,655	1,677
Other LT Assets	2,949	3,120	3,472	3,472	3,472
Cash & ST Invt	3,597	3,690	3,849	3,024	4,966
Inventory	11.2	11.8	11.0	8.62	11.0
Debtors	1,762	1,166	1,036	983	1,223
Other Current Assets	5,519	5,213	4,565	5,117	4,217
Total Assets	20,319	19,797	19,503	20,056	21,546
ST Debt	1,911	1,783	1,266	1,266	1,266
Creditor	1,602	1,575	1,604	1,256	1,601
Other Current Liab	319	301	391	218	242
LT Debt	4,572	3,955	3,756	4,056	4,356
Other LT Liabilities	702	774	645	645	645
Shareholder's Equity	8,996	9,294	9,584	10,243	10,937
Minority Interests	2,217	2,115	2,258	2,373	2,500
Total Cap. & Liab.	20,319	19,797	19,503	20,056	21,546
Non-Cash Wkg. Capital	5,371	4,515	3,616	4,635	3,608
Net Cash/(Debt)	(2,885)	(2,047)	(1,172)	(2,297)	(656)
Debtors Turn (avg days)	185.0	136.8	105.0	101.4	89.1
Creditors Turn (avg days)	390.3	301.1	301.0	357.0	271.1
Inventory Turn (avg days)	2.9	2.2	2.2	2.5	1.9
Asset Turnover (x)	0.2	0.2	0.2	0.2	0.2
Current Ratio (x)	2.8	2.8	2.9	3.3	3.4
Quick Ratio (x)	1.4	1.3	1.5	1.5	2.0
Net Debt/Equity (X)	0.3	0.2	0.1	0.2	0.1
Net Debt/Equity ex MI (X)	0.3	0.2	0.1	0.2	0.1
Capex to Debt (%)	(13.0)	7.5	2.4	18.8	7.1
Z-Score (X)	1.9	2.1	2.1	2.1	2.0

Source: Company, DBS Bank

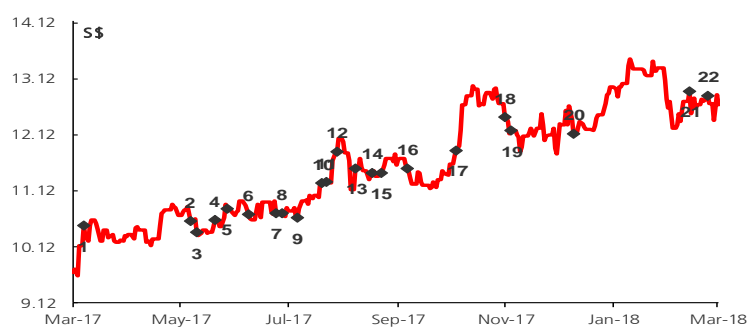
Conservative gearing

Cash Flow Statement (\$m)

FY Dec	2015A	2016A	2017A	2018F	2019F
Pre-Tax Profit	985	914	780	1,060	1,148
Dep. & Amort.	215	222	216	216	216
Tax Paid	(194)	(157)	(162)	(318)	(145)
Assoc. & JV Inc/(loss)	(107)	(70.5)	(45.5)	(96.9)	(21.3)
Chg in Wkg.Cap.	(712)	330	286	(845)	1,002
Other Operating CF	(110)	(57.4)	0.93	0.0	0.0
Net Operating CF	77.8	1,181	1,076	15.6	2,200
Capital Exp.(net)	843	(433)	(123)	(1,000)	(400)
Other Invt.(net)	0.0	0.0	(48.3)	0.0	0.0
Invt in Assoc. & JV	(227)	(113)	(58.6)	(100.0)	(100.0)
Div from Assoc & JV	16.9	53.9	99.6	99.6	99.6
Other Investing CF	(113)	810	38.9	0.0	0.0
Net Investing CF	520	318	(91.0)	(1,000)	(400)
Div Paid	(271)	(237)	(244)	(140)	(158)
Chg in Gross Debt	(310)	(664)	(458)	300	300
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(333)	(440)	(220)	0.0	0.0
Net Financing CF	(914)	(1,341)	(922)	160	142
Currency Adjustments	(16.6)	(49.7)	39.6	0.0	0.0
Chg in Cash	(333)	108	103	(825)	1,941
Opg CFPS (\$ cts)	86.8	93.6	86.9	94.7	132
Free CFPS (\$ cts)	101	82.3	105	(108)	198

Source: Company, DBS Bank

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	13 Mar 17	10.50	10.52	BUY
2:	12 May 17	10.58	12.63	BUY
3:	16 May 17	10.38	12.63	BUY
4:	26 May 17	10.60	12.63	BUY
5:	02 Jun 17	10.81	12.63	BUY
6:	14 Jun 17	10.70	12.63	BUY
7:	30 Jun 17	10.73	12.63	BUY
8:	03 Jul 17	10.73	12.63	BUY
9:	12 Jul 17	10.64	12.63	BUY
10:	26 Jul 17	11.26	12.63	BUY
11:	28 Jul 17	11.28	12.63	BUY
12:	03 Aug 17	11.83	12.63	BUY
13:	14 Aug 17	11.53	12.63	BUY
14:	23 Aug 17	11.45	12.63	BUY
15:	28 Aug 17	11.45	12.63	BUY
16:	12 Sep 17	11.53	12.63	BUY
17:	10 Oct 17	11.85	12.63	BUY
18:	06 Nov 17	12.44	12.63	BUY
19:	10 Nov 17	12.20	14.03	BUY
20:	15 Dec 17	12.15	14.03	BUY
21:	19 Feb 18	12.90	14.03	BUY
22:	01 Mar 18	12.82	14.03	BUY

Source: DBS Bank

Analyst: Rachel TAN
Derek TAN

DBS Bank recommendations are based on Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

Completed Date: 8 Mar 2018 08:55:22 (SGT)

Dissemination Date: 8 Mar 2018 09:15:20 (SGT)

Sources for all charts and tables are DBS Bank unless otherwise specified.

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