Singapore Company Guide

CDL Hospitality Trusts

Version 16 | Bloomberg: CDREIT SP | Reuters: CDLT.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

19 Nov 2018

BUY

Last Traded Price (16 Nov 2018): S$1.49 (**STI :** 3,083.60)
Price Target 12-mth: S$1.85 (24% upside and 6.3% yield)

Analyst
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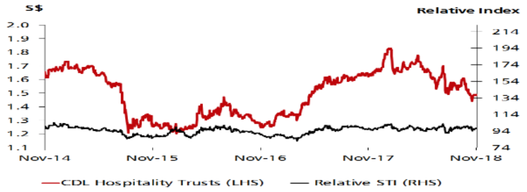
What's New

- Maiden acquisition in Italy of 95% interest in Hotel Cerretani Florence for EUR40.6m at 4.6% NPI yield
- 1% DPU accretion but upside from higher room rates as the extensive refurbishment was only done in 2016
- Expect further acquisitions in Europe ahead given modest 35% gearing post Florence acquisition

Price Relative



Forecasts and Valuation

FY Dec (S$m)	2017A	2018F	2019F	2020F
Gross Revenue	204	201	217	231
Net Property Inc	152	144	156	168
Total Return	129	86.2	92.9	101
Distribution Inc	122	125	131	138
EPU (S cts)	5.87	7.14	7.66	8.25
EPU Gth (%)	(18)	22	7	8
DPU (S cts)	9.22	9.33	9.73	10.1
DPU Gth (%)	(4)	1	4	4
NAV per shr (S cts)	153	148	148	148
PE (X)	25.4	20.9	19.5	18.1
Distribution Yield (%)	6.2	6.3	6.5	6.8
P/NAV (x)	1.0	1.0	1.0	1.0
Aggregate Leverage (%)	32.5	35.1	34.9	34.8
ROAE (%)	3.8	4.7	5.2	5.6
Distn. Inc Chng (%):			1	1
Consensus DPU (S cts):		9.2	9.7	10.0
Other Broker Recs:		B: 11	S: 2	H: 3

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

Buongiorno (Hello) Florence

Attractive value. We maintain our BUY call on CDL Hospitality Trusts (CDREIT) with a TP of S$1.85. While CDREIT's results disappointed over the last two quarters, we believe the projected recovery in the overall Singapore hospitality market, with revenue per available room (RevPAR) growth of 3-5% p.a. over the next few years should drive share price higher. This, combined with CDREIT's recent acquisitions, should result in DPU CAGR of 3% between 2017-2020. Moreover, CDREIT's yield is based on a 90% payout ratio versus its peers which typically have a 100% payout ratio.

Where we differ: Should trade at a higher premium to book. Consensus has a lower target price at c. S$1.75. This implies CDREIT's Singapore portfolio is valued at c.S$700,000 per key, below asking prices for hotels in Singapore which are in excess of S$1m per key. With a potential upturn in the Singapore market over the next three years, this is too conservative in our view. Thus, given the quality of its properties, CDREIT should re-rate closer to our TP which implies price per key of c.S$800,000 or 1.2x P/B.

Upside from acquisitions. Going forward, we expect future accretive acquisitions to act as a re-rating catalyst. This follows the recent DPU accretive acquisition of a hotel in Florence.

Valuation:

We maintain DCF-based TP of S$1.85. With over 24% capital upside we retain our BUY call.

Key Risks to Our View:

Weaker-than-expected demand supply outlook in Singapore. The key risk to our view is a weaker-than-expected demand-supply outlook for the Singapore hospitality market.

At A Glance

Issued Capital (m shrs)	1,205
Mkt. Cap (Sm/USm)	1,795 / 1,307
Major Shareholders (%)	
Hospitality Holdings	26.0
M & C Reit Management Ltd	6.1
Republic Hotels & Resorts	5.2
Free Float (%)	62.7
3m Avg. Daily Val (US$m)	1.5

ICB Industry : Financials / Real Estate Investment Trust

WHAT'S NEW

Maiden acquisition in Italy

Acquires Florence hotel for EUR40.6m

- CDREIT announced its maiden acquisition in Italy, with the acquisition of a 95% interest in Hotel Cerretani Florence, MGallery by Sofitel, for EUR40.6m (c.S$63.6m). This translates to an annualised NPI yield of 4.6% for the nine months ended 30 September 2018 or c.EUR497k (c.S$778k) per key.
- The property will be leased and operated by the existing lessee, FC Operations Hotel SRL which is affiliated to EVENT Hotels, for 20 years commencing from the date of completion (late November). EVENT Hotels is the largest fully integrated hotel management platform in Germany which owns, operates and manages more than 80 hotels with c.14,100 keys throughout Europe.
- Under the lease structure, CDREIT will receive c.93% of net operating profit subject to a base rent of EUR1.3m (c.S$2m)
- The property is expected to be funded through a three-year facility with an interest rate of c.0.7%.

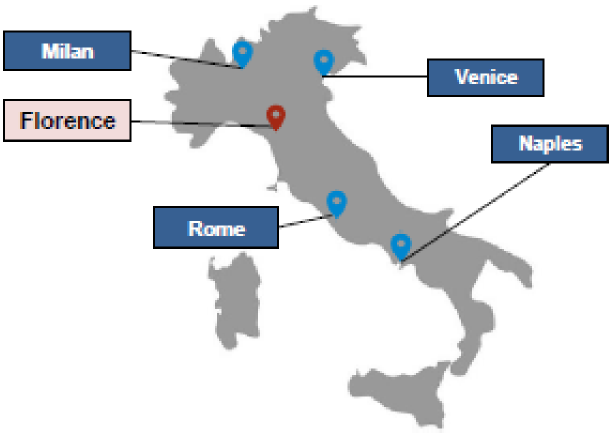
Hotel overview

- The 4-star 86 room freehold property is under the "MGallery by Sofitel" brand and completed an extensive refurbishment programme in 2016 for c.EUR5.3m.
- The hotel is within walking distance to many of Florence's key attractions including Cathedral of Santa Maria del Fiore (Il Duomo), Ponte Vecchio, Galleria dell'Accademia, and the Uffizi Gallery.
- We understand the properties' revenue per available room (RevPAR) is around EUR150 with occupancy in the mid to high 70's.
- Near term there is c.6.5% cumulative increase in new room supply over the couple of years. However, with restricted supply in the inner part of Florence, due to expected growth in demand, CDREIT expects to improve room rates to EUR210-220 from EUR190 currently.
- Growth in demand is expected to be driven by Chinese visitors who only represent c.12% of total tourists to Florence. For the property itself, 65% of guests are non-Italian predominantly from the US, UK, France and Germany.
- Furthermore, as the property is relatively small, CDREIT believes occupancy for the property can stabilise at around the 80% level in the medium term.
- In term of seasonality, we understand peak occupancy typically occurs in the third quarter at around the 90% level with a seasonal lull in the colder months of December, January and February.

Our thoughts

- The acquisition of the property is not unexpected given the attractive yield spreads on offer in Europe owing to the low funding costs. Furthermore, the market has been waiting for CDREIT to redeploy the A$77m (c.S$77m) proceeds from the sale of Mercure and Ibis Brisbane in January this year (exit yield of 5.3% on fixed rental), which thus far has been used to repay its more expensive borrowings.
- We believe the market should react positively to this acquisition, given the expected 1% accretion to FY19-20F DPU despite gearing marginally increasing to c.35% from c.34% at end September.
- While some investors may question the "tight" NPI yield for the Florence hotel and buying an asset with a lower yield that that of the recently sold Brisbane hotels, we understand the NPI yield is consistent with recent transactions and the effective yield spread (NPI yield less borrowing costs) of the Florence property is higher at c.3.9% versus c.1.3% for the Brisbane hotels.
- With 24% upside to our TP of S$1.85, we maintain our BUY call. We continue to be bullish on CDREIT's prospects given the leverage to the multi-year recovery in the Singapore market. Further upside would also come from further acquisitions which we understand CDREIT is actively pursuing.

Location of Hotel Cerretani Florence, MGallery by Sofitel



Source: CDREIT, DBS Bank

Pictures of Hotel Cerretani Florence, MGallery by Sofitel

Source: CDREIT, DBS Bank

CRITICAL DATA POINTS TO WATCH

Critical Factors

Recovery in Singapore on the horizon. CDREIT's profitability is largely dependent on earnings from its Singapore hotels. There is potential for price competition in 2018 due to new hotel room supply in late 2017 still ramping up occupancy. This may lead to some pressure on ADRs (average room rates). However, as we progress through 2018 and beyond, we expect a recovery in RevPAR (3-5% growth p.a.) as supply pressures ease. New supply over the next three years is expected to grow by 1-2% versus 4-7% growth in the past 2-4 years.

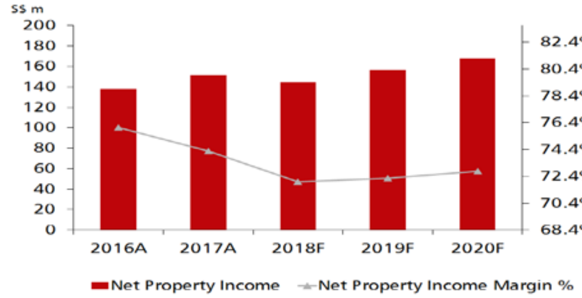
Boost from recent acquisitions in the UK and Europe. Over the past 18 months, CDREIT has acquired Hilton Cambridge Hotel and The Lowry in the UK, Pullman Hotel in Munich, Germany as well as Hotel Cerretani Florence, MGallery by Sofitel in Italy. This should provide the trust with additional growth legs ahead. With CDREIT's gearing settling around 35% post the disposal of Mercure Brisbane and Ibis Brisbane, we expect further acquisitions to materialise to give a further boost to CDREIT's earnings.

Japan remains a medium-term growth driver. Near term, CDREIT's operations face the challenge of a stronger JPY relative to regional currencies, which has tempered the growth in visitors to Japan. Combined with an increase in supply, this has resulted in some downside pressure on ADR. Nevertheless, in the medium term and ahead of the Tokyo Olympics in 2020, we expect the Japanese hospitality market to resume its growth path as the JPY stabilises. Furthermore, with additional regulations on share accommodation, competition from AirBnb and the like should reduce over the coming quarters. Thus, Japan will remain a key growth driver for CDREIT going forward.

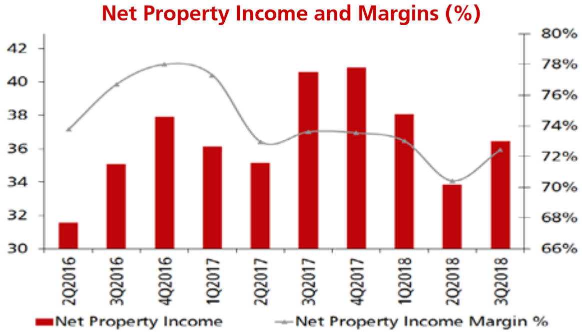
Softness from Maldives. Given the slowdown in Chinese visitors, increased supply and travel advisories issued by several governments to avoid Maldives due to the political situation in Male, we expect performance for CDREIT's Maldives operations to be soft. Furthermore, in 2018, earnings will be impacted by the closure and refurbishment of the Dhevanafushi Maldives Luxury Resort into a Raffles hotel property. However, contribution from the Maldives may bottom in 2018/1H19 as there are signs of a pick-up in European visitors and the government in Maldives is planning to moderate the supply of new resorts in the country.

Asset optimisation. In the medium term, we believe CDREIT can further maximise the returns of its portfolio by undertaking AEIs such as the recently completed refurbishments at Grand Copthorne Waterfront Hotel and M Hotel in Singapore.

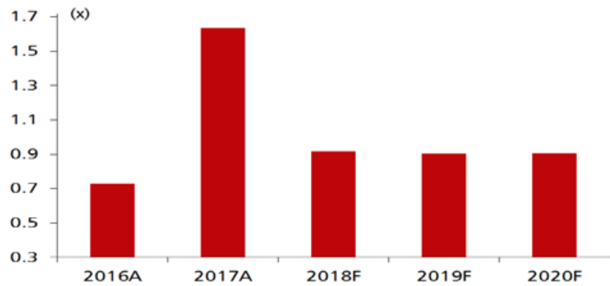
Net Property Income and Margins (%)



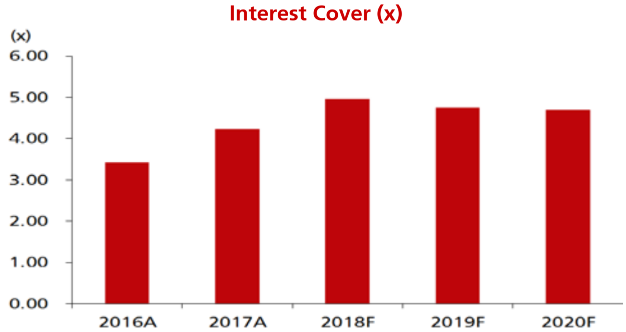
Net Property Income and Margins (%)



Distribution Paid / Net Operating CF



Interest Cover (x)



Source: Company, DBS Bank

Balance Sheet:

Low gearing. Following the acquisition of the hotel in Florence, we expect CDREIT's gearing should settle at around 34-35%. Nevertheless, CDREIT remains in a strong financial position to pursue future acquisitions.

Moderate exposure to rising interest rates. Approximately 66% of CDREIT's borrowings were on fixed interest rates as at 30 September 2018. This provides a moderate hedge against rising interest rates.

Share Price Drivers:

Recovery in the Singapore hospitality market. We believe the expected recovery in the Singapore hospitality market next year, combined with the additional earnings from recent acquisitions, should result in a healthy 3% DPU CAGR between 2017 and 2020. Delivery of this healthy DPU profile, we believe, will re-rate CDREIT going forward.

Discount to recent market transactions. CDREIT offers one of the cheapest exposure to the upturn in the Singapore market. The implied price per key for CDREIT's Singapore portfolio stands at c.S$580,000, below asking prices for hotels in Singapore which are in excess of S$1m per key. Given the mid-tier to luxury category of CDREIT's room inventory and its successful track record, we believe CDREIT's Singapore portfolio conservatively should trade closer to S$800,000 as implied by our TP of S$1.85.

Key Risks:

Interest rate risk. Any increase in interest rates will result in higher interest payments, which could result in lower distribution per unit (DPU) for unitholders.

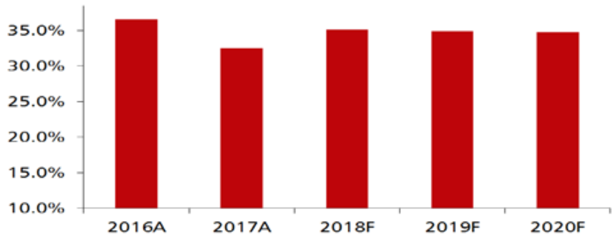
Currency risk. As CDREIT earns rental income in various currencies (AUD, GBP, JPY, NZD, and USD), a depreciation of any foreign currency against the SGD could negatively impact distribution income, which is distributed in SGD.

Brexit. With the UK voting to exit the EU (Brexit), this may negatively impact business activities in the UK and CDREIT's Hilton Cambridge property. In addition, Brexit may result in a depreciation of the GBP versus SGD, which will negatively impact distributions in SGD.

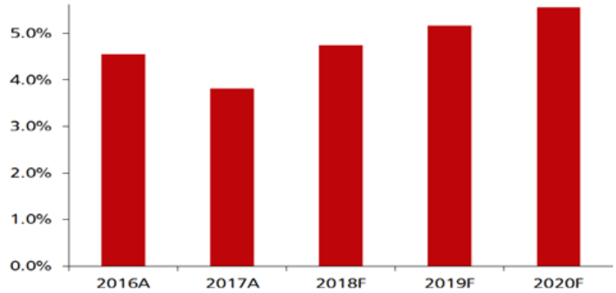
Company Background

CDL Hospitality Trusts (CDREIT) is a stapled group comprising H-REIT and HBT. H-REIT is a real estate investment trust that invests in a portfolio of income-producing hospitality-related properties while HBT is a business trust. CDREIT currently owns hotels in Singapore, Australia, Japan, Germany, Maldives, New Zealand and UK.

Aggregate Leverage (%)

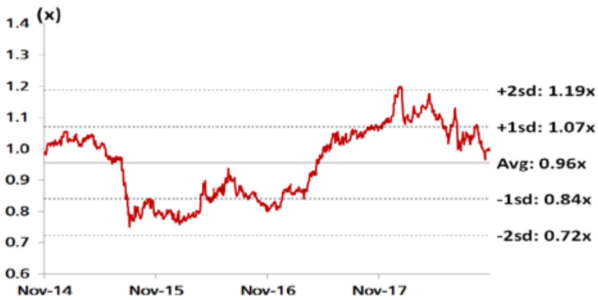


ROE (%)



Distribution Yield (%)

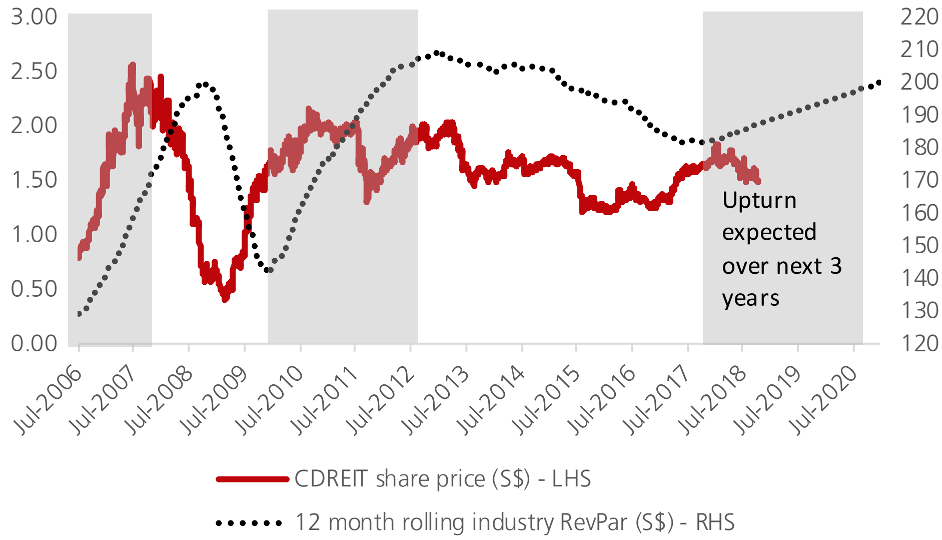
PB Band (x)



Source: Company, DBS Bank

Live more, Bank less

CDREIT share price versus RevPAR



Source: Bloomberg Finance L.P., STB, DBS Bank

Remarks

CDREIT's share price largely anticipates an upturn or downturn in the Singapore hospitality market by 6-12 months.

With the market anticipating a potential recovery from 2018, CDREIT's share price had staged a rally since the start of 2017.

Near term, CDREIT has corrected due to weaker than expected recovery in RevPAR. However, we believe as the overall market RevPAR improves over the next 2-3 years, this should translate to higher share price ahead.

Income Statement (S$m)

FY Dec	2016A	2017A	2018F	2019F	2020F
Gross revenue	181	204	201	217	231
Property expenses	(43.3)	(52.6)	(56.1)	(60.1)	(62.7)
Net Property Income	**138**	**152**	**144**	**156**	**168**
Other Operating expenses	(24.6)	(36.3)	(31.5)	(32.3)	(32.9)
Other Non Opg (Exp)/Inc	(8.1)	(11.1)	0.0	0.0	0.0
Net Interest (Exp)/Inc	(32.9)	(27.3)	(22.8)	(26.1)	(28.7)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Net Income	**72.0**	**77.1**	**90.2**	**98.1**	**106**
Tax	(1.0)	(12.4)	(3.6)	(4.8)	(5.2)
Minority Interest	0.0	(0.1)	(0.4)	(0.4)	(0.4)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Income After Tax	**71.0**	**64.6**	**86.2**	**92.9**	**101**
Total Return	49.3	129	86.2	92.9	101
Non-tax deductible Items	60.4	(7.1)	36.3	35.6	34.0
Net Inc available for Dist.	110	122	125	131	138
Growth & Ratio					
Revenue Gth (%)	4.9	13.0	(1.8)	7.9	6.5
N Property Inc Gth (%)	0.4	10.3	(4.8)	8.3	7.3
Net Inc Gth (%)	(12.3)	(9.0)	33.5	7.8	8.4
Dist. Payout Ratio (%)	90.4	90.5	90.0	90.0	90.0
Net Prop Inc Margins (%)	76.1	74.3	72.0	72.3	72.8
Net Income Margins (%)	39.2	31.6	43.0	42.9	43.7
Dist to revenue (%)	60.6	59.7	62.4	60.6	59.6
Managers & Trustee's fees	13.6	17.8	15.7	14.9	14.3
ROAE (%)	4.5	3.8	4.7	5.2	5.6
ROA (%)	2.8	2.4	3.0	3.2	3.4
ROCE (%)	4.4	3.6	3.8	4.1	4.5
Int. Cover (x)	3.4	4.2	5.0	4.8	4.7

Source: Company, DBS Bank

Recovery in earnings on the back of an upturn in the Singapore hospitality market due to limited new room supply in 2018 as well as recent acquisitions such as The Lowry, Pullman Munich and Florence hotel

Quarterly / Interim Income Statement (S$m)

FY Dec	3Q2017	4Q2017	1Q2018	2Q2018	3Q2018
Gross revenue	54.8	55.2	51.8	47.7	50.0
Property expenses	(14.5)	(14.6)	(14.0)	(14.1)	(13.8)
Net Property Income	40.4	40.6	37.8	33.6	36.2
Other Operating expenses	(7.4)	(8.2)	(7.5)	(7.6)	(7.6)
Other Non Opg (Exp)/Inc	4.80	(11.2)	5.37	0.0	(0.1)
Net Interest (Exp)/Inc	(5.7)	(4.5)	(6.3)	(7.1)	(4.8)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Net Income	**27.3**	**16.8**	**29.4**	**18.9**	**23.8**
Tax	(1.6)	(8.5)	(1.4)	(1.7)	(1.5)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Income after Tax	**25.8**	**8.29**	**28.0**	**17.3**	**22.3**
Total Return	0.0	0.0	0.0	0.0	0.0
Non-tax deductible Items	4.68	(35.4)	0.20	7.80	4.93
Net Inc available for Dist.	30.4	37.3	28.2	25.1	27.3
Growth & Ratio					
Revenue Gth (%)	15	1	(6)	(8)	5
N Property Inc Gth (%)	16	1	(7)	(11)	8
Net Inc Gth (%)	98	(68)	238	(38)	29
Net Prop Inc Margin (%)	73.6	73.5	73.0	70.4	72.4
Dist. Payout Ratio (%)	90.0	90.0	90.0	90.0	90.0

Balance Sheet (S$m)

FY Dec	2016A	2017A	2018F	2019F	2020F
Investment Properties	2,175	2,331	2,390	2,401	2,408
Other LT Assets	251	340	340	340	340
Cash & ST Invts	82.2	95.9	158	159	165
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	25.7	20.8	22.3	24.1	25.6
Other Current Assets	1.22	74.3	1.41	1.41	1.41
Total Assets	**2,535**	**2,862**	**2,911**	**2,925**	**2,940**
ST Debt	0.0	286	0.0	0.0	0.0
Creditor	33.4	41.9	43.6	47.1	50.1
Other Current Liab	2.54	4.09	4.09	4.09	4.09
LT Debt	929	644	1,022	1,022	1,022
Other LT Liabilities	24.1	40.7	40.7	40.7	40.7
Unit holders' funds	1,546	1,840	1,795	1,806	1,817
Minority Interests	0.0	4.99	5.35	5.73	6.11
Total Funds & Liabilities	**2,535**	**2,862**	**2,911**	**2,925**	**2,940**
Non-Cash Wkg. Capital	(9.1)	49.0	(24.0)	(25.7)	(27.2)
Net Cash/(Debt)	(847)	(834)	(864)	(863)	(857)
Ratio					
Current Ratio (x)	3.0	0.6	3.8	3.6	3.5
Quick Ratio (x)	3.0	0.4	3.8	3.6	3.5
Aggregate Leverage (%)	36.6	32.5	35.1	34.9	34.8
Z-Score (X)	1.5	0.4	0.4	0.4	0.4

Source: Company, DBS Bank

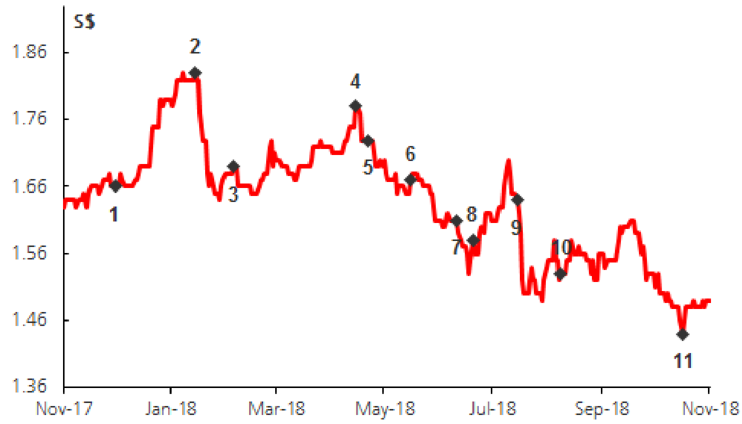
Cash Flow Statement (S$m)

FY Dec	2016A	2017A	2018F	2019F	2020F
Pre-Tax Income	72.0	77.1	90.2	98.1	106
Dep. & Amort.	0.0	0.0	0.0	0.0	0.0
Tax Paid	(0.8)	(4.1)	(3.6)	(4.8)	(5.2)
Associates &JV Inc/(Loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	1.76	(2.2)	0.14	1.69	1.50
Other Operating CF	60.5	(7.1)	36.3	35.6	34.0
Net Operating CF	**133**	**63.8**	**123**	**131**	**137**
Net Invt in Properties	(14.2)	(266)	(88.2)	(11.5)	(6.9)
Other Invts (net)	0.0	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc. & JVs	0.0	0.0	0.0	0.0	0.0
Other Investing CF	(3.9)	(3.1)	72.9	0.0	0.0
Net Investing CF	**(18.1)**	**(269)**	**(15.4)**	**(11.5)**	**(6.9)**
Distribution Paid	(97.2)	(104)	(113)	(118)	(124)
Chg in Gross Debt	15.0	13.1	67.2	0.0	0.0
New units issued	0.0	251	0.0	0.0	0.0
Other Financing CF	(22.9)	(15.6)	0.0	0.0	0.0
Net Financing CF	**(105)**	**145**	**(45.4)**	**(118)**	**(124)**
Currency Adjustments	(0.6)	(1.0)	0.0	0.0	0.0
Chg in Cash	9.63	(61.4)	62.2	1.00	6.01
Operating CFPS (S cts)	13.3	5.99	10.2	10.6	11.1
Free CFPS (S cts)	12.0	(18.4)	2.88	9.81	10.6

Includes the purchase of Florence hotel

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	15 Dec 17	1.66	1.95	BUY
2:	29 Jan 18	1.83	2.00	BUY
3:	20 Feb 18	1.69	2.00	BUY
4:	30 Apr 18	1.78	2.00	BUY
5:	07 May 18	1.73	2.00	BUY
6:	31 May 18	1.67	2.00	BUY
7:	26 Jun 18	1.61	2.00	BUY
8:	05 Jul 18	1.58	2.00	BUY
9:	30 Jul 18	1.64	1.95	BUY
10:	24 Aug 18	1.53	1.95	BUY
11:	01 Nov 18	1.44	1.85	BUY

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

Source: DBS Bank

Analyst: Mervin SONG, CFA
Derek TAN

DBS Bank recommendations are based an 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: 19 Nov 2018 08:28:55 (SGT)
Dissemination Date: 19 Nov 2018 08:40:29 (SGT)

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

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