

Issuer Profile: City Developments Ltd (“CDL”)

Neutral (3)

Ticker:

CITSP

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Recommendation

- The poorer y/y results are mainly due to one-off gains from property in the prior year. Otherwise, we think results are still decent with PBT from the property segment rising 14.7% q/q. Thus far, sales rate for CDL's Singapore residential projects have been decent.
- Net gearing rose q/q to 44.5% (1Q2019: 36.2%), mainly due to acquisitions of stakes in Sincere, Liang Court and Sims Drive, W Singapore. We think net gearing may reach 70%-80% due to acquisitions and capex, including the [acquisition of M&C](#).
- We are Neutral on the CITSP curve. That said, we think the CITSP curve, in general, offers better value than the CAPLSP curve given higher yields.

Relative Value:

Bond	Maturity / Call date	Net gearing	Ask YTW	Spread
CITSP 3.00% 2020	02/04/2020	44.5%	2.24%	57bps
CITSP 3.00% 2020	27/10/2020	44.5%	2.39%	77bps
CITSP 2.93% 2021	24/03/2021	44.5%	2.47%	88bps
CITSP 3.75% 2022	06/07/2022	44.5%	2.57%	104bps
CITSP 3.48% 2023	03/04/2023	44.5%	2.63%	111bps
CITSP 2.80% 2023	27/06/2023	44.5%	2.66%	116bps
CITSP 3.00% 2024	17/01/2024	44.5%	2.78%	128bps
CITSP 3.90% 2024	21/03/2024	44.5%	2.73%	124bps
CITSP 3.78% 2024	21/10/2024	44.5%	2.83%	134bps
CITSP 3.48% 2026	15/06/2026	44.5%	3.00%	150bps
CAPLSP 4.3% 2020	31/08/2020	73.2%	2.09%	45bps
CAPLSP 3.8% 2024	28/08/2024	73.2%	2.73%	117bps
CAPLSP 3.08% 2027	19/10/2027	73.2%	2.99%	132bps

Indicative prices as at 15 August 2019 Source: Bloomberg
Aggregate leverage based on latest available quarter

Background

- Listed on the SGX with a market cap of SGD8.3bn, City Developments Ltd (“CDL”) conducts (1) Property Development, (2) Hotel operations and (3) holds Investment properties. CDL is a subsidiary of Hong Leong Group, a conglomerate controlled by the Kwek family.

Key Considerations

- **Results due to one-off gains in the prior period from property, still decent otherwise:** CDL reported 2Q2019 results for the quarter ending 30 June. Revenue fell 37.5% y/y to SGD850.4mn, mainly due to declines from the property development segment (-65.0% y/y to SGD286.5mn). The decline in revenue has also impacted profit before tax (-34.2% y/y to SGD224.7mn) and impacted reported EBITDA (-28.3% y/y to SGD304mn). That said, this is due to profits recognised in entirety in 2Q2018 from Phase 2 of HLCC and Park Court Aoyama The Tower. On a q/q basis, profit before tax from property development rose 14.7%. Meanwhile, the Hotel Operations segment remained largely stable (+1.0% y/y to SGD425.1mn) while Investment Properties segment revenue rose 23.3% y/y to SGD104.3mn. The large increase from Investment Properties segment is due to full quarter contributions from new properties acquired in 2018.
- **Decent Singapore residential sales rate achieved thus far:** Decent sales momentum continued into 2Q2019. 100%-owned New Futura (124 units) is fully sold. 80%-owned Amber Park (592 total units) launched in 2Q2019 sold 166 units (180 units released), Haus on Handy (188 total units) launched in 3Q2019 sold 25 units (30 units released). Piermont Grand EC (820 total units) launched in 3Q2019 also did well with 379 units sold. Nouvel 18

(156 total units) which has a higher ASP (over SGD3,300 psf) also sold 18 units out of 30 units. Meanwhile, the earlier launched units also did well, with 100%-owned Tapestry (861 total units) sold 644 units (750 units released), 100%-owned Whistler Grand (716 total units) sold 371 units (400 units released) and 50.1%-owned South Beach Residences (190 total units) sold 95 units (100 units released). Given the good sales rate thus far, we are optimistic that most of the remaining units can be sold. Going forward, CDL is looking to launch 50%-owned Sengkang Grand Residences (680 total units) in 4Q2019 and 40%-owned Sims Drive (560 units) in 1Q2020. We are not overly worried over the upcoming launches as they will most likely be targeted towards the mass market.

- **Significant cash outflow from sizeable investments:** CDL is undertaking several large scale acquisitions that resulted in significant cash outflows. These includes:
 - i) **Sincere Property Group:** [Following up on the announcement in 1Q2019 to invest in Sincere Property Group](#) ("Sincere"), CDL has subscribed for USD230mn (~SGD320mn) bond issued by Sincere Property Group. This follows SGD657.9mn loans made to Sincere in 1Q2019.
 - ii) **Liang Court retail mall and Sims Drive:** An estimated ~SGD240mn cash outlay in 2Q2019 is due to advances to joint ventures to fund the acquisition of [Liang Court retail mall \(worth SGD400mn, in a 50-50 JV with CapitaLand Ltd\)](#) and a land site at [Sims Drive for SGD383.5mn \(40-60 JV with Intrepid Pte Ltd\)](#).
 - iii) **W Singapore and Quayside Isle:** SGD63.9mn was used to acquire the remaining non-residential components of Profit Participation Securities 1 ("PPS 1").
 - iv) **IREIT Global:** SGD59.8mn was paid to acquire 12.4%-stake in IREIT Global.
 - v) **First Sponsor Group Ltd ("FSG"):** We estimate that CDL subscribed for ~SGD53mn of perpetual convertible capital securities issued by FSG.
- **Credit metrics weakened though liquidity remains sufficient:** Mainly due to the above-mentioned cash outlay, net gearing has increased q/q to 44.5% (1Q2019: 36.2%). We expect net gearing to reach mid-60%, with management confident of completing the [acquisition of the stakes it doesn't already own of M&C](#) for GBP776.29mn (SGD1.3bn) as well as the acquisition of 100%-stake in Shanghai Hongqiao Sincere Centre (Phase 2) for SGD344mn. There is sufficient liquidity to complete the purchases given SGD3.0bn in cash and cash equivalents.
- **Further acquisitions and capex may continue to pressure credit metrics though we remain comfortable still given recurring income:** Management guided that a comfortable net gearing ratio (including fair value gains of investment properties) will be 50%-60%, which we work out to ~69%-83% net gearing without including the fair value gains of investment properties. We think net gearing will trend towards management's guidance with CDL looking to grow its recurring EBITDA to SGD900mn p.a. by 2028 (2018: SGD530mn) which will be likely through acquisitions, asset enhancement initiatives – further, we note that CDL stressed that growing recurring income is a key priority. Aside from acquisitions, CDL is looking at the potential redevelopment of Fuji Xerox Towers and City House given the recently implemented CBD Incentive Scheme which allows existing office buildings to be converted to mixed-use developments. That said, we remain comfortable as credit metrics will be deteriorating from a high base; reported interest cover is solid at 14.4x as of 1HFY2019 with strong recurring income.
- **Recurring income from hospitality and rental income:** Hotel operations and rental properties contributed SGD198mn reported EBITDA out of CDL's total of SGD304mn in 2Q2019. Performance is expected to improve when several hospitality assets recommence operations, including Millennium Hotel London Mayfair (closed since Jul 2018) in London, Orchard Hotel in Singapore (closed since 4Q2018). According to CDL, their closure impacted revenue by GBP7mn (SGD11.7mn). As a proportion, hotel operations and rental properties segments represent 52.7% of CDL's SGD23.2bn total assets.

Explanation of Issuer Profile Rating / Issuer Profile Score

Positive (“Pos”) – The issuer’s credit profile is either strong on an absolute basis, or expected to improve to a strong position over the next six months.

Neutral (“N”) – The issuer’s credit profile is fair on an absolute basis, or expected to improve / deteriorate to a fair level over the next six months.

Negative (“Neg”) – The issuer’s credit profile is either weaker or highly geared on an absolute basis, or expected to deteriorate to a weak or highly geared position over the next six months.

To better differentiate relative credit quality of the issuers under our coverage, we have further sub-divided our Issuer Profile Ratings into a 7 point Issuer Profile Score scale.

IPR	Positive		Neutral			Negative	
IPS	1	2	3	4	5	6	7

Please note that Bond Recommendations are dependent on a bond’s price, underlying risk free rates and an implied credit spread that reflects the strength of the issuer’s credit profile. Bond Recommendations may not be relied upon if one or more of these factors change.

Explanation of Bond Recommendation

Overweight (“OW”) – The performance of the issuer’s specific bond is expected to outperform the issuer’s other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

Neutral (“N”) – The performance of the issuer’s specific bond is expected to perform in line with the issuer’s other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

Underweight (“UW”) – The performance of the issuer’s specific bond is expected to underperform the issuer’s other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

Other

Suspension – We may suspend our issuer rating and bond level recommendation on specific issuers from time to time when OCBC is engaged in other business activities with the issuer. Examples of such activities include acting as a joint lead manager or book runner in a new issue or as an agent in a consent solicitation exercise. We will resume our coverage once these activities are completed.

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