Asia Credit Research

New Issue View: City Developments Ltd ("CDL")

Issuer Profile: Positive (2)

Ticker: **CITSP**

Background

Listed in 1963, City Developments Ltd ("CDL") is an international property and hotel conglomerate. CDL has three core business segments – property development, hotel operations and investment properties. CDL's hotel operations are conducted through its ~65%-owned subsidiary, Millennium & Copthorne Hotels plc ("M&C"), while the investment and development property portfolio is Singapore-centric. CDL is a subsidiary of Hong Leong Group Singapore, a conglomerate controlled by the Kwek family.

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Recommendation

- CDL is planning a new 5-year SGD issue at 3.00% (size TBD). The proceeds will be used for general corporate purposes and/or refinancing – we note that SGD100mn CITSP 3.38% '19s is due soon in Mar 2019.
- Relative to its existing curve, we think that the proposed new issue looks unattractive. **We prefer CITSP 3.75% '22s trading at 2.97% for a shorter tenor and similar yield or CITSP 3.48% '23s and CITSP 3.78% '24s which offer higher yield.**
- That said, in general, the CITSP curve looks more attractive than CapitaLand Ltd's CAPLSP curve given that the former trades wider. As such, we are **Neutral on the new CITSP 3% '24s (proposed).**

Relative Value:

Bond	Maturity Date	Net Gearing	Ask Yield	Spread
CITSP 3% '24s (proposed)	**TBC**	**24%**	**3.00%**	**100bps**
CITSP 3.75% '22s	06/07/2022	24%	2.97%	103bps
CITSP 3.48% '23s	03/04/2023	24%	3.04%	107bps
CITSP 3.78% '24s	21/10/2024	24%	3.11%	106bps
CAPLSP 3.8% '24s	28/08/2024	51%	3.06%	102bps

Indicative prices as at 08 Jan 2019 Source: Bloomberg
Net gearing based on latest available quarter

Key Considerations

- **Decent 3Q2018 results buoyed by property sales**: 3Q2018 revenue grew 17.7% y/y to SGD1.0bn due to higher revenue from property sales in Singapore (+60.2% y/y to SGD466.5mn) with the launch of New Futura, increased contribution from Phase 2 of Hong Leong City Center and Park Court Aoyama The Tower. Property development segment saw higher profit before tax ("PBT") of SGD154.8mn (+83% y/y), with higher share of contribution from Forest Woods. As a result, property development accounts for 52.6% of 9M2018 EBITDA (9M2017: 36.5%). However, it remains to be seen if property sales can be sustained post the cooling measures.

- **Singapore property sales remain resilient though a big pipeline remains:** Encouragingly, even after the cooling measures in Jul 2018, CDL's developments in Singapore continue to move, delivering SGD129mn reported EBITDA in 3Q2018. Between 2Q2018 to 3Q2018 results, 12 more units were moved at New Futura, 56 more units were moved at The Tapestry. Post 3Q2018 results, Whistler Grand sold 220 units, according to the URA caveats. However, these are lower hanging fruits as they are smaller developments or are priced to the mass market (Singaporean 1st time buyers are less affected by the cooling measures). Going forward, it remains to be seen if such momentum can persist as we believe that the property market sentiment has soured. For South Beach Residences, only 12 units out of 50 units released were sold while Amber Park (592 units) and Handy Road (188 units) have yet to launch (expected launch: 1H2019). In addition, the landbank is expanded as CDL (together with CapitaLand under a 50-50 JV) won the Sengkang Central commercial and residential site for SGD777.78mn. That said, we think CDL can manage the exposure to Singapore residential property, which represents 29.4% of total assets. 51% of total assets are accounted by hotel operations and rental properties.

- **Targeting a much higher recurring income…:** CDL is targeting to achieve SGD900mn recurring EBITDA, which we expect to be derived mainly from rental properties and hotel properties. This implies ~50% required growth with recurring EBITDA accounted for 56% (SGD599mn) of 2017's total EBITDA. However, the journey to grow this segment may be rocky. We note that hotel operations PBT plunged 50% y/y to SGD37mn, impacted by the full closure of Millennium Hotel London Mayfair (since Jul 2018), lower contribution from Millennium Hilton Bangkok (undergoing refurbishment) and Maldives (impacted by closure of a resort for rebranding). Rental properties also saw a decline in PBT to SGD44mn (-31% y/y) though this was due to lower divestment gains in 3Q2018 (3Q2017 divestment gain included SGD30mn disposal gain from an office building in Osaka). That said, we expect CDL to report stronger numbers with the Singapore office in an upcycle (CDL owns 2.3mn sq ft of office properties) and acquisitions.

- **… fuelled by acquisitions?:** In Sep 2018, CDL acquired Aldgate House in London for GBP183mn (~SGD328mn). Shortly after in Oct 2018, CDL purchased London's former Stock Exchange Tower for GBP385mn (SGD686.5mn). These acquisitions are intended to enhance CDL's recurring income portfolio.

- **Credit metrics remain decent**: Net gearing increased to 0.24x (2Q2018: 0.22x) even with SGD201.6mn operating cashflows from sales of properties due to ~SGD328mn acquisition of Aldgate House. Net gearing may increase further to ~0.3x following the settlement of the Sengkang Central site and the former Stock Exchange Tower. That said, we see the potential for CDL to monetise certain properties, including Manulife Centre and 7&9 Tampines Grande (which has been put up for sale since Apr 2018). While credit metrics are expected to weaken somewhat, it still falls within our threshold of Issuer Profile of Positive (2) for now.

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Explanation of Issuer Profile Rating ("IPR") / Issuer Profile Score ("IPS")

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 ("IPR") into a 7 point Issuer Profile Score ("IPS") scale.

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

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.

Withdrawal ("WD") – We may withdraw our issuer rating and bond level recommendation on specific issuers from time to time when corporate actions are announced but the outcome of these actions are highly uncertain. We will resume our coverage once there is sufficient clarity in our view on the impact of the proposed action.

Analyst Declaration

The analyst(s) who wrote this report and/or her or his respective connected persons did not hold securities in the above-mentioned issuer or company as at the time of the publication of this report.

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