

MITA No. 013/06/2008

7 May 2009

City Developments Ltd

Downgrade to

SELL

Previous Rating: HOLD

\$S7.50

Fair Value: S\$5.53

Stock Code: CTDM.SI
 Reuters: C09
 ISIN Code: C09
 Bloomberg: CITSP

Event: Results

General Data	
Issued Capital (m)	909
Mkt Cap (S\$m/US\$m)	6,820/ 4,632
Major Shareholder	
Hong Leong	(48.6%)
Aberdeen Asset Mgmt	(13.0%)
Free Float (%)	
NAV per share (S\$)	5.97
Daily Vol 3-mth ('000)	4,385
52Wk High (S\$)	12.280
52Wk Low (S\$)	4.050

Weak M&C earnings a prelude to CDL 1Q09 results

M&C pre-tax earnings down 50% YoY in 1Q09. Millennium & Copthorne (M&C), the hotel subsidiary of City Developments (CDL), reported its 1Q09 yesterday. Revenue declined by 1.9% YoY to £50.7m but on a constant currency basis, it would have fallen 18.2% YoY. Hotels in New York and Singapore were the underperformers in 1Q09, as RevPAR fell by 37.8% and 30.6% YoY respectively. Headline operating profit before tax plunged 50% YoY to £11m. On a constant currency basis, it was down 58.6% YoY. For April, RevPAR continued to deteriorate sharply, falling by 22.9% YoY.

Weak GBP-SGD exchange rate could further weigh on results. We believe that the weakness in M&C's 1Q09 results could be further compounded on the financials of CDL due to the weakness in Pound sterling (GBP) (M&C's reported currency) against SGD (CDL's reported currency). During 1Q09, GBP was trading at a band of S\$2.0734-S\$2.2510 per £, which was 17.5%-27.5% lower than the band of S\$2.7289-S\$2.861 per £ in 1Q08. On a QoQ comparison, GBP stayed weak against the SGD in 1Q09, trading at the lower half of the GBP-SGD band of S\$2.0709-S\$2.5701 per £ in 4Q08.

Influenza H1N1 virus. The hospitality industry had already been badly affected by the financial crisis and economic slowdown. With the recent outbreak of Influenza H1N1 virus, the hospitality industry could sink into deeper woes as we expect to see a further decline in global travel if the virus outbreak worsens. In a situation whereby the virus outbreak turns for the worse from current status, CDL's earnings could be negatively affected as it has significant exposure to the hospitality segment (63.4% of FY08 revenue and 29.4% of FY08 pre-tax profit coming from hotel operations). This was evident during the SARS period in 2003 when M&C reported pre-tax loss of £6.3m for 1H03.

Downgrading to SELL. As CDL is announcing its 1Q09 results next Monday, we are now keeping our earnings estimates unchanged for now. Its share price has now surged 85.2% from its March low of S\$4.05 and base on yesterday's closing price of S\$7.50, CDL is now trading at Price/Book of 1.26x and Price/RNAV of 0.99x, which is already at the upper band of its historical downcycle Price/RNAV band. We are keeping our fair value of S\$5.53 unchanged, implying a downside potential of 26.3%. While we still like CDL for its strong balance sheet and prudent management, we are now downgrading CDL from HOLD to **SELL** on its heightened risk profile and valuation concerns.

Foo Sze Ming

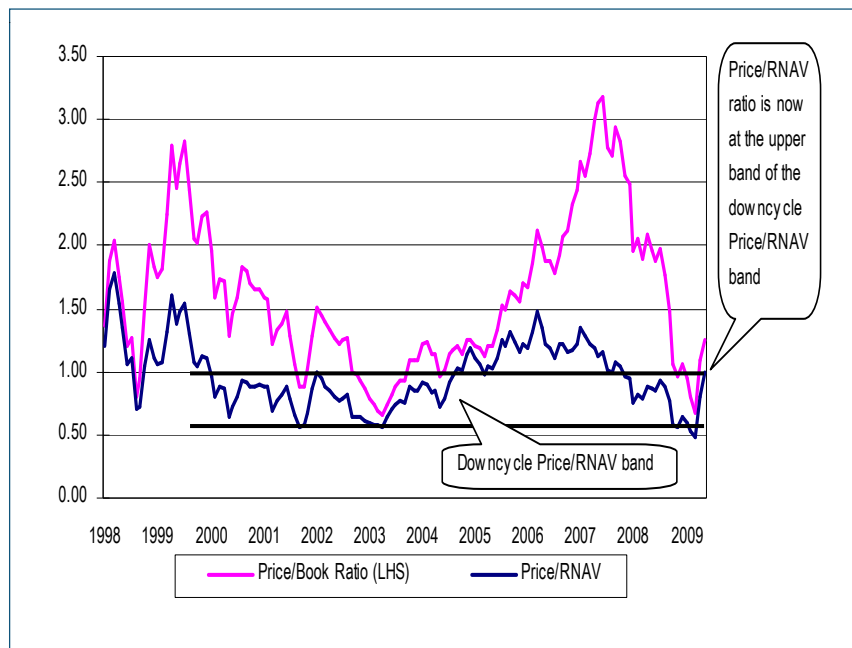
(65) 6531 9810

e-mail: FooSzeMing@ocbc-research.com

Year to 31 Dec	Turnover (S\$m)	Gross Profit (S\$m)	Net Profit (S\$m)	EPS (cents)	PER (x)	P/Book (x)	Div Yield (%)
FY 07	3,106.1	1,628.0	725.0	78.3	9.6	1.3	4.0
FY 08	2,945.2	1,673.8	580.9	63.9	11.7	1.3	1.0
FY 09F	2,538.7	1,540.1	444.5	48.9	15.3	1.2	1.0
FY 10F	2,658.2	1,531.5	420.2	46.2	16.2	1.1	1.0

Please refer to the important disclosures at the back of this document.

Exhibit 1: Historical Price/Book and Price/RNAV band



Source: Bloomberg, OIR

Exhibit 2: RNAV Table

	in S\$m
NPV of development profits	1,846.1
Investment properties	3,690.7
Less:	
- Book value of investment properties	-2,135.0
	1,555.7
Stakes in listed entities	717.8
Less:	
- Book value of listed entities	-2,443.7
Surplus on listed entities	-1,726.0
Net Asset (end FY08)	5,198.8
RNAV	6,874.6
Outstanding share base (m)	909.3
RNAV per share	\$7.56
Fair value (Discount for development profits and investment properties pegged at 30% and listed investments kept at market value)	\$5.53

Source: OIR estimates

City Dev's Key Financial Data
EARNINGS FORECAST

Year Ended 31 Dec (S\$ m)	FY07	FY08	FY09F	FY10F
Revenue	3,106.1	2,945.2	2,538.7	2,658.2
Cost of sales	-1,478.2	-1,271.4	-998.5	-1,126.6
Gross profit	1,628.0	1,673.8	1,540.1	1,531.5
Other operating income	29.2	138.1	94.9	99.7
Administrative expenses	-522.8	-504.6	-479.3	-488.9
Other operating expenses	-396.2	-527.5	-501.1	-526.2
Profit from operations	738.2	779.8	654.6	616.1
Net finance costs	-70.3	-84.5	-93.3	-74.5
Share of after-tax profit of associates	16.3	19.0	13.0	13.0
Share of after-tax profit of jointly-controlled entities	270.5	119.5	48.3	28.8
Profit before income tax	954.6	833.8	622.5	583.4
Income tax expense	-65.4	-152.1	-124.5	-116.7
Profit for the period	889.2	681.7	498.0	466.7
Minority interests	-164.2	-100.7	-53.5	-46.5
Shareholders' profit	725.0	580.9	444.5	420.2

BALANCE SHEET

As at 31 Dec (S\$ m)	FY07	FY08	FY09F	FY10F
Property, plant and equipment	4,038.3	4,161.5	4,217.8	4,272.8
Investment properties	2,468.3	2,312.7	2,287.7	2,263.0
Other non-current assets	1,263.0	1,223.8	1,277.8	1,334.5
Development properties	2,578.0	2,920.1	2,774.1	2,635.4
Trade and other receivables	1,076.9	1,098.6	947.0	805.5
Cash and cash equivalents	711.6	775.9	741.0	782.1
Other current assets	82.4	30.9	32.5	34.1
Total assets	12,218.6	12,523.5	12,277.8	12,127.4
Interest-bearing borrowings (Non-current)	3,235.4	3,286.6	2,724.8	2,210.8
Other non-current liabilities	542.0	524.7	550.9	578.4
Trade and other payables	585.0	641.2	665.7	751.1
Interest-bearing borrowings (Current)	796.3	860.1	713.0	578.5
Other current liabilities	143.5	188.7	198.1	208.0
Total liabilities	5,302.2	5,501.2	4,852.5	4,326.8
Share capital	1,991.4	1,991.4	1,991.4	1,991.4
Reserves	3,207.4	3,438.3	3,814.6	4,166.6
	5,198.8	5,429.7	5,806.0	6,158.0
Minority interests	1,717.6	1,592.6	1,619.4	1,642.6
Total equity	6,916.4	7,022.3	7,425.4	7,800.6
Total equity and liabilities	12,218.6	12,523.5	12,277.8	12,127.4

CASH FLOW

Year Ended 31 Dec (S\$ m)	FY07	FY08	FY09F	FY10F
Profit before income tax	954.6	833.8	622.5	583.4
Adjustments	-143.2	58.7	181.8	184.8
Operating profit before working capital changes	811.4	892.5	804.3	768.1
Changes in working capital	-97.9	-365.6	321.6	365.0
Income tax paid	-98.2	-78.8	-62.3	-58.3
Cashflow from operating activities	615.3	448.1	1,063.6	1,074.8
Cashflow from investing activities	-596.4	-236.9	-158.2	-154.0
Cashflow from financing activities	-74.3	-119.4	-934.2	-879.8
Net change in cash	-55.4	91.8	-28.8	41.1
Cash at beginning of the year	774.6	710.6	769.9	741.0
Forex	-8.7	-32.5	0.0	0.0
Cash at end of the year	710.6	769.9	741.0	782.1
Other adjustments (Overdraft, reclassification)	1.0	6.0	0.0	0.0
Reported cash on balance sheet	711.6	775.9	741.0	782.1
Key Ratios				
PER (x)	9.6	11.7	15.3	16.2
P/NAV (x)	1.3	1.3	1.2	1.1
Gross profit margin (%)	52.4	56.8	60.7	57.6
Net profit margin (%)	28.6	23.1	19.6	17.6
Net gearing (x)	0.5	0.5	0.4	0.3
Dividend yield (%)	4.0	1.0	1.0	1.0
ROE (%)	13.9	10.7	7.7	6.8
ROA (%)	7.3	5.4	4.1	3.8

Source: Company data, OIR estimates

SHAREHOLDING DECLARATION:

The analyst/analysts who wrote this report holds NIL shares in the above security.

RATINGS AND RECOMMENDATIONS:

OCBC Investment Research's (OIR) technical comments and recommendations are short-term and trading oriented.

- However, OIR's fundamental views and ratings (Buy, Hold, Sell) are medium-term calls within a 12-month investment horizon. OIR's Buy = More than 10% upside from the current price; Hold = Trade within +/- 10% from the current price; Sell = More than 10% downside from the current price.

- For companies with less than S\$150m market capitalization, OIR's Buy = More than 30% upside from the current price; Hold = Trade within +/- 30% from the current price; Sell = More than 30% downside from the current price.

DISCLAIMER FOR RESEARCH REPORT

This report is solely for information and general circulation only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our written consent. This report should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities mentioned herein. Whilst we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee its accuracy or completeness, and you should not act on it without first independently verifying its contents. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. You may wish to seek advice from a financial adviser regarding the suitability of the securities mentioned herein, taking into consideration your investment objectives, financial situation or particular needs, before making a commitment to invest in the securities. OCBC Investment Research Pte Ltd, OCBC Securities Pte Ltd and their respective connected and associated corporations together with their respective directors and officers may have or take positions in the securities mentioned in this report and may also perform or seek to perform broking and other investment or securities related services for the corporations whose securities are mentioned in this report as well as other parties generally.

Privileged/Confidential information may be contained in this message. If you are not the addressee indicated in this message (or responsible for delivery of this message to such person), you may not copy or deliver this message to anyone. Opinions, conclusions and other information in this message that do not relate to the official business of my company shall not be understood as neither given nor endorsed by it.

For OCBC Investment Research Pte Ltd

Co.Reg.no.: 198301152E



Carmen Lee
Head of Research

Published by OCBC Investment Research Pte Ltd