MITA No. 010/06/2008

12 May 2009

# City Developments Ltd

Maintain
**SELL**
Previous Rating: SELL

S$8.05

Fair Value: S$5.69

| | |
|---|---|
| Stock Code: | |
| Reuters: | CTDM.SI |
| ISIN Code | C09 |
| Bloomberg: | CIT SP |
| Event: | Results |

**General Data**

| | |
|---|---|
| Issued Capital (m) | 909 |
| Mkt Cap (S$m/US$m) | 7,320/ 4,993 |
| Major Shareholder | |
| Hong Leong | (48.6%) |
| Aberdeen Asset Mgmt | (13.0%) |
| Free Float (%) | 51.2 |
| NAV per share (S$) | 6.11 |
| Daily Vol 3-mth ('000) | 3,450 |
| 52Wk High (S$) | 12.670 |
| 52Wk Low (S$) | 4.050 |

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## Weak results within expectations

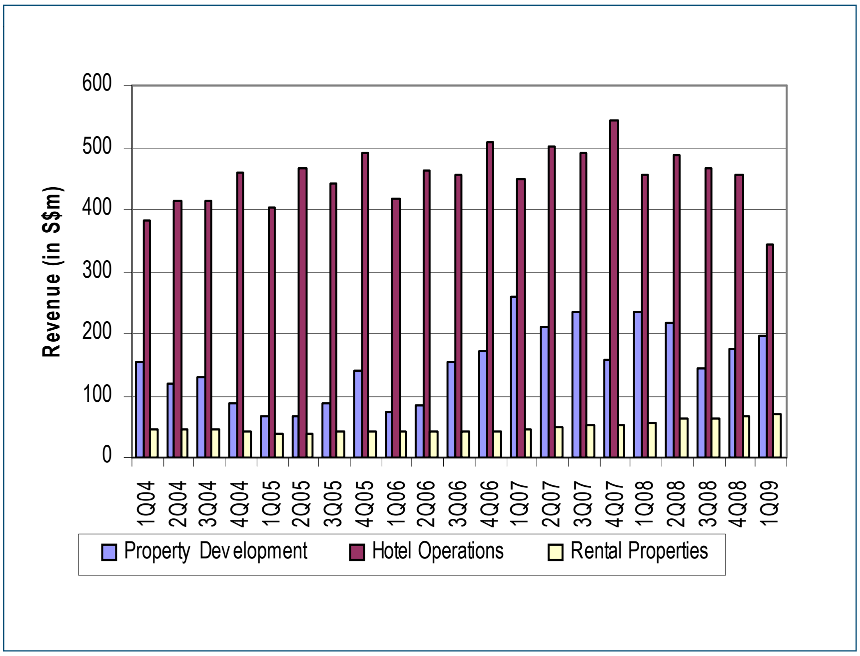
**Weak results within expectation**. City Developments (CDL) reported a weak set of 1Q09 results that was largely within expectation. Revenue declined by 18% YoY and 13.2% QoQ to S$622.5m due to weaker revenue contribution from its property development and hotel operations. Notwithstanding the weak office market, its investment properties continued to turn in strong performances, as positive rental reversions drove revenue higher by 22.4% YoY and 6.4% QoQ to S$70m in 1Q09. Operating profit declined by 39.7% YoY and 20.7% QoQ due to weaker margins from hotel operations but was partially offset by lower salaries and rental paid to CDL Hospitality Trusts. Contribution from jointly-controlled entities fell sharply by 69.3% YoY to S$17.6m due to the completion of projects (St Regis Residences and The Sail). PATMI for 1Q09 declined by 49.6% YoY and 16.8% QoQ to S$83.1m.

**Shifting focus to the mass market segment.** CDL had been a beneficiary of the return in demand for mass and mid-market properties over the past months, selling more than 60 units in Livia and more than 250 units in its new launch, The Arte at Thomson. We believe that the current condition in the property market had prompted CDL to shift its focus towards the mass market segment. CDL is now planning to launch a new mass market project at the former Hong Leong Garden Condominium at West Coast Drive by 4Q09. At the same time, CDL could also be holding back the launch for its high end project- The Quayside Isle Collection at Sentosa Cove until the project is completed or near completion. Such moves demonstrate CDL's competitive advantage of holding a diversified range of landbank that provides flexibility to manage the challenging market condition.

**Maintain SELL**. We are now raising our FY09 revenue and PATMI estimates to S$2,667.9m (previously S$2,538.7m) and S$451.9m (previously S$444.5m) to factor in recent sales at Livia and The Arte. Our RNAV estimate has now been raised to S$7.72 per share (previously S$7.56). While sentiments in the equity market had improved considerably since March, we prefer to remain cautious at this point in time and maintain our 30% discount to development profits and valuation of investment properties. Key parameters to re-rating would include the sustainability of recent home buyers' demand and improvement in unemployment rate and wages. Our fair value of CDL has now been raised to S$5.69 (previously S$5.53) but we maintain our **SELL** recommendation on valuation grounds.

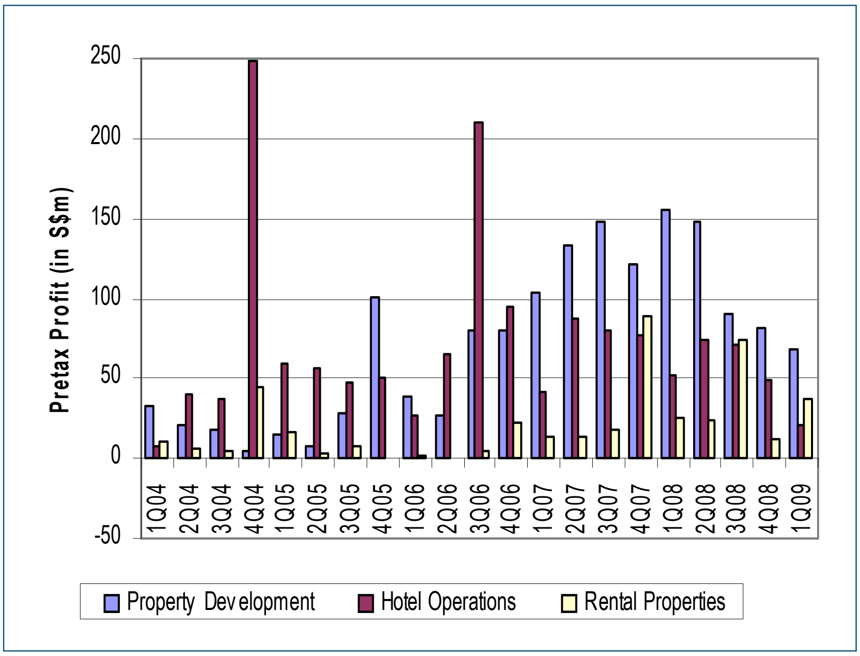
| Year to 31-Dec | Turnover (S$m) | Gross Profit (S$m) | Net Profit (S$m) | EPS (S cents) | PER (x) | P/Bk (x) | Div Yield (%) |
|---|---|---|---|---|---|---|---|
| FY 07 | 3,106.1 | 1,628.0 | 725.0 | 78.3 | 10.3 | 1.4 | 3.7 |
| FY 08 | 2,945.2 | 1,673.8 | 580.9 | 63.9 | 12.6 | 1.3 | 0.9 |
| FY 09F | 2,667.9 | 1,557.1 | 451.9 | 49.7 | 16.2 | 1.3 | 0.9 |
| FY 10F | 2,822.8 | 1,550.7 | 426.3 | 46.9 | 17.2 | 1.2 | 0.9 |

**Exhibit 1: Revenue trend and breakdown**




*Source: Company*

**Exhibit 2: Pre-tax profit trend and breakdown**




*Source: Company*

**Exhibit 3: RNAV estimate**

| | in S$m |
|---|---|
| NPV of development profits | 1,848.9 |
| Investment properties | 3,690.7 |
| Less: | |
| - Book value of investment properties | -2,135.0 |
| | 1,555.7 |
| Stakes in listed entities | 861.6 |
| Less: | |
| - Book value of listed entities | -2,443.7 |
| Surplus on listed entities | -1,582.1 |
| Net Asset (end FY08) | 5,198.8 |
| RNAV | 7,021.3 |
| Outstanding share base (m) | 909.3 |
| RNAV per share | **$7.72** |
| Fair value (Discount for development profits and investment properties pegged at 30% and listed investments kept at market value) | **$5.69** |

*Source: OIR estimates*

## CDL's Key Financial Data

| **CDL Results**<br>**Year Ended 31 Dec (S$ m)** | **1Q08 (S$m)** | **1Q09 (S$m)** | **% Chg (YoY)** | **4Q08 (S$m)** | **% Chg (QoQ)** |
|---|---|---|---|---|---|
| Revenue | 758.8 | 622.5 | -18.0 | 717.5 | -13.2 |
| Cost of sales | -333.2 | -297.5 | -10.7 | -315.4 | -5.7 |
| Gross profit | 425.5 | 325.0 | -23.6 | 402.1 | -19.2 |
| Other operating income | 1.6 | 2.7 | 68.0 | 84.4 | -96.8 |
| Administrative expenses | -130.4 | -110.9 | -15.0 | -125.8 | -11.9 |
| Other operating expenses | -103.1 | -100.2 | -2.8 | -213.5 | -53.1 |
| Profit from operations | 193.6 | 116.7 | -39.7 | 147.2 | -20.7 |
| Finance income | 8.3 | 3.4 | -59.1 | 9.9 | -65.6 |
| Finance costs | -30.0 | -21.1 | -29.5 | -28.3 | -25.4 |
| Net finance costs | -21.7 | -17.7 | -18.2 | -18.4 | -3.8 |
| Share of after-tax profit of associates | 3.2 | 2.8 | -14.2 | 4.5 | -38.5 |
| Share of after-tax profit of jointly-controlled entities | 57.3 | 17.6 | -69.3 | -1.6 | NM |
| Profit before income tax | 232.5 | 119.3 | -48.7 | 131.7 | -9.4 |
| Income tax expense | -42.3 | -28.1 | -33.6 | -14.3 | 96.6 |
| Profit for the period | 190.1 | 91.2 | -52.0 | 117.4 | -22.3 |
| Attributable to: Equity holders of the company | 165.0 | 83.1 | -49.6 | 100.0 | -16.8 |
| Minority interests | 25.1 | 8.0 | -68.0 | 17.4 | -53.8 |

| EARNINGS FORECAST<br>Year Ended 31 Dec (S$ m) | FY07 | FY08 | FY09F | FY10F |
|---|---|---|---|---|
| Revenue | 3,106.1 | 2,945.2 | 2,667.9 | 2,822.8 |
| Cost of sales | -1,478.2 | -1,271.4 | -1,110.7 | -1,272.1 |
| Gross profit | 1,628.0 | 1,673.8 | 1,557.1 | 1,550.7 |
| 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 | 671.6 | 635.2 |
| Net finance costs | -70.3 | -84.5 | -98.3 | -81.7 |
| 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 | 634.5 | 595.3 |
| Income tax expense | -65.4 | -152.1 | -126.9 | -119.1 |
| Profit for the period | 889.2 | 681.7 | 507.6 | 476.3 |
| Minority interests | -164.2 | -100.7 | -55.7 | -50.0 |
| Shareholders' profit | 725.0 | 580.9 | 451.9 | 426.3 |

| BALANCE SHEET<br>As at 31 Dec (S$ m) | FY07 | FY08 | FY09F | FY10F |
|---|---|---|---|---|
| Property, plant and equipment | 4,038.3 | 4,161.5 | 3,717.8 | 3,784.1 |
| Investment properties | 2,468.3 | 2,312.7 | 2,987.7 | 2,953.2 |
| 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 | 995.2 | 805.5 |
| Cash and cash equivalents | 711.6 | 775.9 | 962.6 | 915.3 |
| Other current assets | 82.4 | 30.9 | 32.5 | 34.1 |
| Total assets | 12,218.6 | 12,523.5 | 12,747.6 | 12,462.1 |
| | | | | |
| Interest-bearing borrowings (Non-current) | 3,235.4 | 3,286.6 | 3,031.1 | 2,469.3 |
| Other non-current liabilities | 542.0 | 524.7 | 550.9 | 578.4 |
| Trade and other payables | 585.0 | 641.2 | 740.5 | 751.1 |
| Interest-bearing borrowings (Current) | 796.3 | 860.1 | 793.2 | 646.2 |
| Other current liabilities | 143.5 | 188.7 | 198.1 | 208.0 |
| Total liabilities | 5,302.2 | 5,501.2 | 5,313.7 | 4,653.0 |
| | | | | |
| Share capital | 1,991.4 | 1,991.4 | 1,991.4 | 1,991.4 |
| Reserves | 3,207.4 | 3,438.3 | 3,822.0 | 4,174.0 |
| | 5,198.8 | 5,429.7 | 5,813.4 | 6,165.3 |
| Minority interests | 1,717.6 | 1,592.6 | 1,620.4 | 1,643.7 |
| Total equity | 6,916.4 | 7,022.3 | 7,433.8 | 7,809.1 |
| | | | | |
| Total equity and liabilities | 12,218.6 | 12,523.5 | 12,747.6 | 12,462.1 |

| CASH FLOW<br>Year Ended 31 Dec (S$ m) | FY07 | FY08 | FY09F | FY10F |
|---|---|---|---|---|
| Profit before income tax | 954.6 | 833.8 | 634.5 | 595.3 |
| Adjustments | -143.2 | 58.7 | 186.9 | 190.4 |
| Operating profit before working capital changes | 811.4 | 892.5 | 821.3 | 785.8 |
| Changes in working capital | -97.9 | -365.6 | 348.2 | 338.4 |
| Income tax paid | -98.2 | -78.8 | -63.4 | -59.5 |
| Cashflow from operating activities | 615.3 | 448.1 | 1,106.0 | 1,064.6 |
| Cashflow from investing activities | -596.4 | -236.9 | -99.7 | -148.6 |
| Cashflow from financing activities | -74.3 | -119.4 | -813.6 | -963.3 |
| Net change in cash | -55.4 | 91.8 | 192.7 | -47.3 |
| Cash at beginning of the year | 774.6 | 710.6 | 769.9 | 962.6 |
| Forex | -8.7 | -32.5 | 0.0 | 0.0 |
| Cash at end of the year | 710.6 | 769.9 | 962.6 | 915.3 |
| Other adjustments (Overdraft, reclassification) | 1.0 | 6.0 | 0.0 | 0.0 |
| Reported cash on balance sheet | 711.6 | 775.9 | 962.6 | 915.3 |
| | | | | |
| **Key Ratios** | | | | |
| PER (x) | 10.3 | 12.6 | 16.2 | 17.2 |
| P/NAV (x) | 1.4 | 1.3 | 1.3 | 1.2 |
| Gross profit margin (%) | 52.4 | 56.8 | 58.4 | 54.9 |
| Net profit margin (%) | 28.6 | 23.1 | 19.0 | 16.9 |
| Net gearing (x) | 0.5 | 0.5 | 0.4 | 0.3 |
| Dividend yield (%) | 3.7 | 0.9 | 0.9 | 0.9 |
| ROE (%) | 13.9 | 10.7 | 7.8 | 6.9 |
| ROA (%) | 7.3 | 5.4 | 4.0 | 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.



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