

MITA No. 010/06/2008

12 May 2009

City Developments Ltd

Maintain

SELL

Previous Rating: SELL

\$8.05

Fair Value: S\$5.69

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

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

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.

Foo Sze Ming

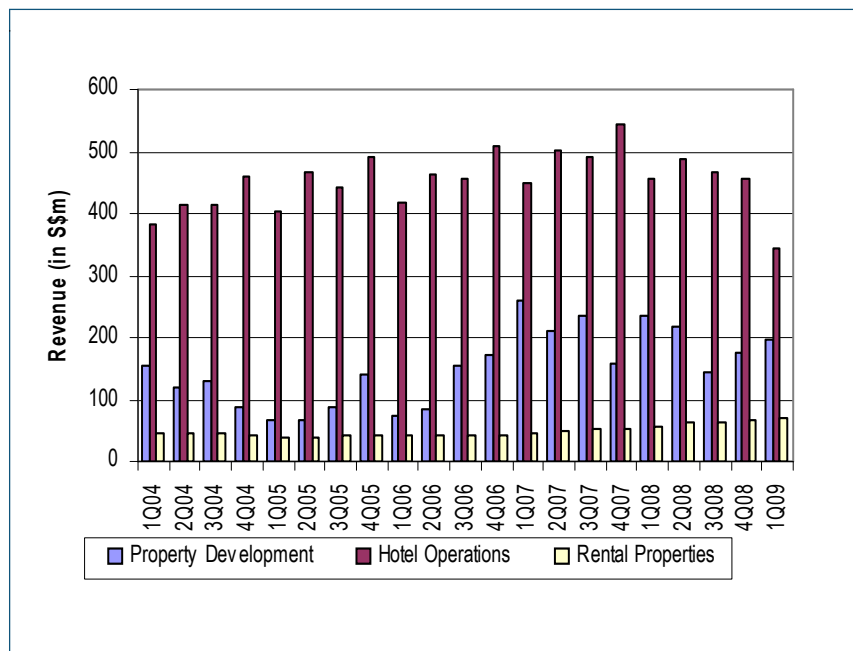
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Year to 31-Dec	Turnover (S\$m)	Gross Profit (S\$m)	Net Profit (S\$m)	EPS (S cents)	PER (x)	P/Bk (x)	Div Yield (%)
FY 07	3,106.1	1,628.0	725.0	78.3	10.3	1.4	3.7
FY 08	2,945.2	1,673.8	580.9	63.9	12.6	1.3	0.9
FY 09F	2,667.9	1,557.1	451.9	49.7	16.2	1.3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

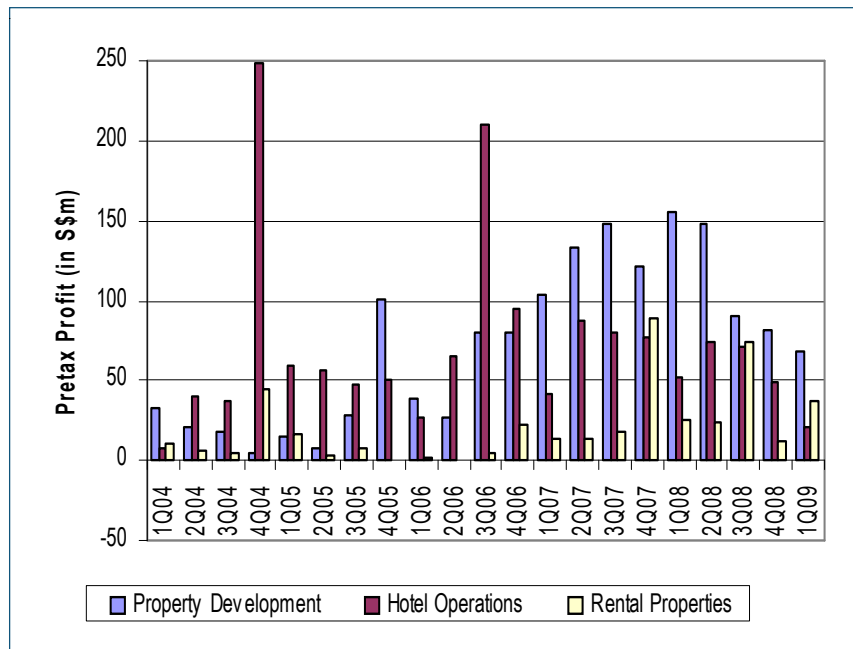
Please refer to the important disclosures at the back of this document.

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 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

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

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

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.

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