

CDL Hospitality Trusts (CDREIT SP)

On an even keel

Broad-based operational improvement

CDLHT's business update indicates strong top-line growth in 3Q23 YoY, led by recovery in travel. RevPAR grew in most markets; Singapore rose by high teens, led by higher room rates. The cost of debt inched up while the interest-coverage ratio was lower sequentially. We lower our DPU estimates and reduce our TP by 16% to SGD1.05 after factoring in higher interest expense and cost of equity, but maintain BUY due to continued growth and reasonable valuation vs peers.

RevPAR continues to grow

3Q23 gross revenue rose 19.7% YoY to SGD70.1m while NPI of SGD39m was up 23.3%. On a 9M23 basis, gross revenue and NPI rose 20.4% and 23.3% YoY, respectively. Growth was aided by continued recovery in international travel. Barring Australia and Germany, RevPAR grew in all the other markets on a YoY basis in 3Q23 in local currency terms. Australia and Germany were impacted by seasonality and the absence of one-off events. Singapore 3Q23 RevPar rose 19.6% YoY, led by higher room rates while occupancy slipped by 1%. Compared to 3Q19, RevPAR for Singapore hotels grew by 32.6% on a same-store basis. In the UK, its second key market in terms of NPI, RevPAR grew 6.5% YoY in 3Q23 despite a fragile economy.

Higher cost of debt, investments on track

CDLHT's gearing inched up to 38.4% from 37.9% in 2Q23. Cost of debt rose 10bps to 4.2% and interest coverage ratio fell to 2.9x from 3.2x. The fixed rate hedge ratio was 50.2%, up from 47.9% in 2Q23. Management guided for cost of debt of mid to high 4%. The build-to-rent project in Manchester, UK is on schedule to be completed by mid-2024. Residential rental growth remains robust in Manchester with 13-17% YoY increase in rents in Sep'23. Management is likely to focus on occupancy next year. Acquisitions are likely to focus on smaller deals (SGD50-150m). Slight expansion in cap rates are likely to be offset by better operating performance.

Lowering DPU estimate and TP, maintain BUY

We factor in higher cost of debt and equity, and lower our DPU estimates by 6% on average and TP by 16%. CDLHT has underperformed its hospitality peers by -10% to -38% YTD and this provides room for outperformance. Maintain BUY due to reasonable valuation (6.1% yield, 0.6x PB) vs its own history.

FYE Dec (SGD m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	158	229	260	283	309
Net property income	86	124	145	155	167
Core net profit	47	95	76	79	89
Core EPU (cts)	3.9	7.7	6.1	6.4	7.1
Core EPU growth (%)	101.5	99.0	(20.5)	4.3	11.7
DPU (cts)	4.3	5.6	5.9	6.2	6.8
DPU growth (%)	(13.6)	31.9	5.3	4.5	9.4
P/NTA (x)	0.9	0.9	0.6	0.6	0.6
DPU yield (%)	3.7	4.5	6.1	6.4	7.0
ROAE (%)	4.2	12.6	2.3	2.5	2.9
ROAA (%)	1.6	3.1	2.4	2.5	2.7
Debt/Assets (x)	0.41	0.39	0.38	0.39	0.39
Consensus DPU	-	-	6.1	7.0	7.7
MIBG vs. Consensus (%)	-	-	(3.1)	(11.2)	(11.8)

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BUY

Share Price	SGD 0.97
12m Price Target	SGD 1.05 (+15%)
Previous Price Target	SGD 1.25

Company Description

CDL Hospitality Trusts invests in income-producing real estate, primarily used for hospitality, lodging and student accommodation etc

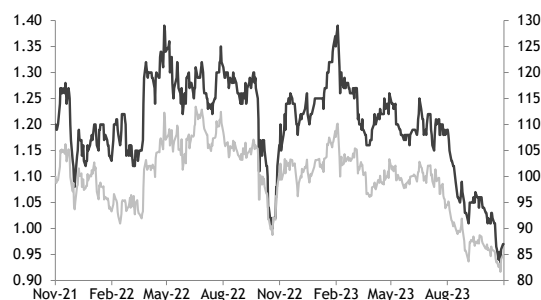
Statistics

52w high/low (SGD)	1.39/0.94
3m avg turnover (USDm)	1.7
Free float (%)	65.4
Issued shares (m)	1,244
Market capitalisation	SGD1.2B USD881M

Major shareholders:

City Developments Ltd.	33.8%
The Vanguard Group, Inc.	2.6%
BlackRock Fund Advisors	1.5%

Price Performance



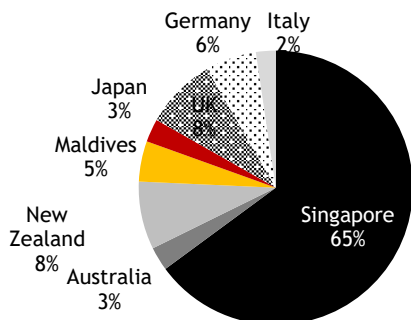
	-1M	-3M	-12M
Absolute (%)	(7)	(18)	(16)
Relative to index (%)	(2)	(10)	(16)

Source: FactSet

Value Proposition

- First listed hospitality group in Singapore with a portfolio of 19 properties valued at SGD2.9b (with 4,821 rooms and a mall), and a build-to-rent project (with 352 units).
- Sponsor Millennium & Copthorne Hotels owns/operates over 130 hotels globally while its parent City Developments (CIT SP, Not Rated) is Singapore’s second largest listed developer.
- Organic growth driven by improving Singapore RevPARs and rising contributions from recent UK/Europe deals.
- 38.4% leverage and SGD694m in debt headroom as of end-Sep 2023 (50% limit) supports potential acquisitions.

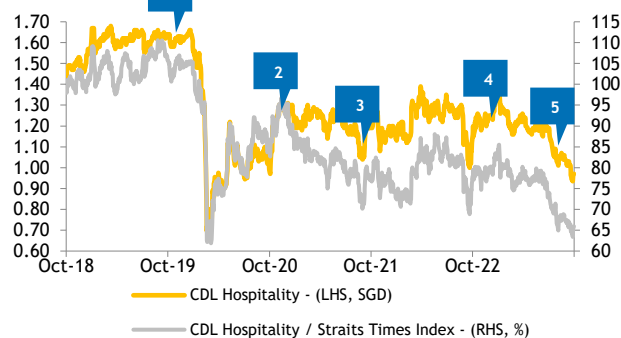
AUM breakdown



Source: Company

Price Drivers

Historical share price trend



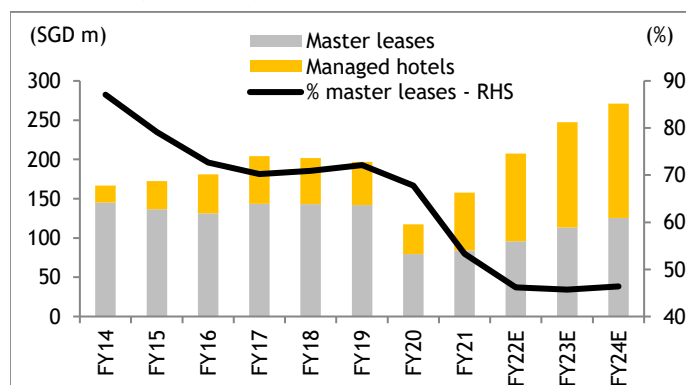
Source: Company, Maybank IBG Research

1. Nov-19: announces divestment of Novotel Clarke Quay (SGD375.9m) together with forward purchase of the new hotel and acquires W Sentosa (SGD324m) from sponsor.
2. Oct-20: announces divestment of Mercure Brisbane for SGD66.4m, at c.7% above 2010 purchase price.
3. Aug 21: CDLHT makes maiden entry into build-to-rent sector in Manchester, UK.
4. Dec 22: CDLHT renews lease agreement with Banyan Tree for Angsana Velavaru in Maldives.
5. Jul 23: reports 23%YoY increase in 1H DPU.

Financial Metrics

- DPU growth of 25% and 12% forecasted for FY23 and FY24 respectively.
- We forecast average RevPAR growth of 15% YoY for the forecast period. We expect NPI margins to range between 53% and 60% vs. 52% in 1H22.
- We expect borrowing cost to increase from 3.6% in FY21 to 4.5% by FY23.
- CDLHT’s lease mix is shifting more towards managed contracts but still 43% is from master leases and hence lower sensitivity to RevPAR and margin improvement.

NPI profile (FY14-24E)



Source: Company

Swing Factors

Upside

- Earlier-than-expected pick-up in corporate demand driving improvement in occupancy.
- Better-than-anticipated RevPAR trends.
- Accretive acquisitions where cap rates exceed cost of funds, or divestments at low cap rates that unlock asset values.

Downside

- Sizeable increases in hotel room supply without commensurate growth in demand.
- Deterioration in global macro outlook resulting in decline in RevPARs.
- Significant volatility in foreign exchange rates could impede hedging efforts and impact DPU estimates.
- Sharper-than-expected rise in interest rates could increase cost of debt and negatively impact earnings, with higher cost of capital lowering valuations.

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Risk Rating & Score ¹	16.2
Score Momentum ²	+1.4
Last Updated	22 Nov 2022
Controversy Score ³ (Updated: 22 Nov 2022)	

Business Model & Industry Issues

- CDLHT draws on its available pool of funds to invest in hospitality-related real estate, undertake asset enhancements, and redevelop properties to optimise value for unitholders. It is susceptible to sustainability-focused investors with strong preference for investing in companies that meet specific ESG criteria, given its incessant need for additional capital.
- Its activities relating to permissible investments, leverage limits and annual reporting requirements are regulated by the MAS under Singapore's code on collective investment schemes. Independence, real estate and capital markets experience on its board is high, with representation by members with international experience, essential in our view, as its overseas portfolio is increasingly a growth platform.
- Engagement with its master lessees and hotel managers has increased to expand the scope of reporting, to all of its 19 properties in FY21 (with the addition of the Claymore Connect mall in Singapore, and the Ibis and Mercure hotels in Perth).
- Revamped its ESG framework in FY21, and expects to commence reporting on new materiality topics in FY22 and FY23.

Material E issues

- Its five Singapore hotels are at least BCA Green Mark Gold certified, with M Hotel and Orchard Hotel rated Gold-Plus, while Copthorne King's and Grand Copthorne Waterfront boast the highest Platinum certification.
- Its Millennium & Copthorne (M&C) hotels are subjected to M&C's environmental policy, which aims to reduce energy usage and cost by >=3% pa, while Pullman is monitored by Accor's Planet 21 programme, and Cambridge is committed to reducing carbon intensity by 52% by 2030.
- Targets across its portfolio are individually established, and it aims to achieve an aggregate 5-7% reduction in energy consumption and 2-7% reduction in water consumption, over the next five years, from a FY19 comparative baseline.

Material S issues

- Initiatives to enhance retention and employee engagement include identifying strong team performers for successive leadership roles, and quarterly anonymous surveys for the submission of unbiased feedback.
- The Hilton Cambridge City Centre was recognised as the only Lesbian, Gay, Bisexual, Transgender, Queer, and Others (LGBTQ+) led hotel in Cambridge, with all employees having undergone a diversity, inclusion and unconscious bias training, conducted by the hotel's general manager.
- Gender diversity was lower YoY in FY21 as females represented 22% of all permanent and temporary employees (from 37% and 28% in FY20, and 41% and 55% in 2019), and was maintained at 50% for the REIT management team.
- It began disclosing employee training metrics by gender in FY21 as part of its diversity and inclusion strategies.

Key G metrics and issues

- Group managed externally by subsidiaries of its sponsor City Developments, which supports its growth via a pipeline of property assets from its development activities, and access to capital markets.
- Board independence is high - 5 of its 6 members are independent, and the CEO is the only executive and non-independent member.
- Revised performance fee from 2.85% of gross revenue to 4.25% of NPI at the 2016 AGM. This, and its base fee at 0.25% of deposited property and acquisition and disposal fee at 1.0% and 0.5% of deal value, is comparable to peers.
- Does not disclose the cumulative remuneration of its key management team including the CEO.
- Payout ratio for taxable income has been consistently maintained above the minimum 90% threshold for tax transparency.
- Rental income supported by the minimum fixed rent received from its master leases in Singapore, Australia, New Zealand, Germany, Italy, and Angsana Velavaru in the Maldives.
- Its deal to divest Novotel Clarke Quay at a SGD39.8m gain, forward purchase the new hotel at a fixed valuation cap, and acquire W Sentosa, is well-structured, at a +2.7% DPU accretion, and strengthens its long-term Singapore hospitality presence.
- Maintains a strong balance sheet with leverage averaging c.34% from 2017-21.

¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

1. Results highlights

Fig 1: 3Q23 updates (SGDm)

	Sep-22	Sep-23				
	3Q22	3Q23	YoY	9M22	9M23	YoY
Gross revenue	58.5	70.1	19.7	157.2	189.3	20.4
Net property income	31.6	39.0	23.3	82.6	101.9	23.3
Singapore						
Occupancy (%)	88.1	86.9	(1.2)	72.9	75.2	4.7
ARR (SGD)	226	274	21.2	204	265	2.7
RevPAR (SGD)	199	238	19.6	148	199	9.3
Overseas RevPAR (LCY)						
New Zealand	71	128	80.3	129	135	4.7
Australia	109	101	(7.3)	76	103	35.5
Japan	4146	8375	102.0	3661	8325	127.4
Maldives (USD)	189	222	17.5	317	313	(1.3)
United Kingdom	146	155	6.2	120	133	10.8
Germany	129	122	(5.4)	78	98	25.6
Italy	194	273	40.7	149	231	55.0
Debt						
Gearing, %	39.4	38.4				
ICRx	3.7	2.9				
Cost of debt, %	2.5	4.2				

Source: Maybank IBG Research, Company Data

2. Estimate changes

Fig 2: Estimate changes (SGDm)

	FY23E	FY24E	FY23E	FY24E	FY23	FY24
	New	New	Old	Old	% chg	% chg
Revenue	260.4	283.4	260.4	283.4	0%	0%
NPI	145.4	155.2	135.4	150.2	7%	3%
Mgt fees	(14.5)	(15.1)	(14.1)	(14.9)	3%	2%
Borrowing costs	(64.5)	(69.9)	(55.0)	(57.6)	17%	21%
Distri. income	75.7	79.4	75.4	85.5	0%	-7%
DPU, cents	5.94	6.20	6.10	6.84	-3%	-9%

Source: Maybank IBG Research

3. Valuation

We value CDLHT using a 3-stage dividend discount model and applying a risk-free rate of 3.3% and CoE of 7.7%, higher than earlier input of 7.2%. Along with average DPU cut of c. 6%, our target price is lowered by 16% to SGD1.05. We lower DPU estimates after factoring in higher borrowing costs, offset by slightly higher NPI for FY23E and FY24E.

4. Risks

Risks include: 1) slower-than-expected recovery of corporate travel; 2) recession impacting RevPAR growth; 3) higher interest rates; and 4) lower asset values leading to higher leverage.

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
Price/DPU(x)	27.3	22.2	16.3	15.6	14.3
P/BV (x)	0.9	0.9	0.6	0.6	0.6
P/NTA (x)	0.9	0.9	0.6	0.6	0.6
DPU yield (%)	3.7	4.5	6.1	6.4	7.0
FCF yield (%)	4.2	6.6	11.1	11.8	12.5
INCOME STATEMENT (SGD m)					
Revenue	157.7	229.0	260.4	283.4	308.7
Net property income	86.1	123.7	145.4	155.2	166.7
Management and trustee fees	(10.9)	(13.4)	(14.5)	(15.1)	(15.7)
Net financing costs	(39.4)	(45.1)	(64.5)	(69.9)	(72.0)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	43.8	143.5	0.0	0.0	1.0
Other pretax income/expenses	17.7	40.6	5.0	5.0	5.0
Pretax profit	71.6	223.2	50.4	54.2	63.9
Income tax	(3.8)	(7.8)	(7.6)	(8.1)	(9.4)
Minorities	0.0	0.0	0.0	0.0	1.0
Discontinued operations	2.0	2.0	2.0	2.0	3.0
Total return avail to unitholders	67.8	215.4	42.8	46.1	55.5
Preferred Dividends	0.0	0.0	0.0	0.0	1.0
Core net profit	47.4	94.9	75.7	79.4	89.2
Distributable inc to unitholders	52.6	69.7	73.7	77.4	85.2
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	139.5	96.9	110.0	122.9	88.5
Accounts receivable	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	792.7	783.3	783.3	783.3	783.3
Investment properties	1,949.4	2,164.3	2,229.3	2,296.1	2,319.1
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	39.6	58.7	58.7	58.7	58.7
Total assets	2,921.1	3,103.2	3,181.2	3,261.0	3,249.5
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	45.2	49.8	49.8	49.8	49.8
LT interest bearing debt	1,191.2	1,211.9	1,211.9	1,261.9	1,261.9
Other liabilities	42.1	48.1	48.1	48.1	48.1
Total Liabilities	1,278.5	1,309.9	1,309.9	1,359.9	1,359.9
Shareholders Equity	1,635.3	1,786.3	1,864.3	1,894.1	1,882.6
Minority Interest	7.3	7.0	7.0	7.0	7.0
Total shareholder equity	1,642.6	1,793.3	1,871.3	1,901.1	1,889.6
Total liabilities and equity	2,921.1	3,103.2	3,181.2	3,261.0	3,249.5
CASH FLOW (SGD m)					
Cash flow from operations	67.5	93.1	133.2	142.2	152.2
Capex	(7.7)	9.5	0.0	0.0	0.0
Acquisitions & investments	(37.0)	(37.0)	(37.0)	(37.0)	(37.0)
Disposal of FA & investments	0.0	0.0	0.0	0.0	0.0
Dividend income from associates	0.0	0.0	0.0	0.0	0.0
Other investing cash flow	0.8	40.6	5.0	5.0	6.0
CF from investing activities	(43.9)	13.1	(32.0)	(32.0)	(31.0)
Dividends paid	(57.1)	(69.7)	(73.7)	(77.4)	(85.2)
Interest expense	(20.4)	(45.1)	(64.5)	(69.9)	(72.0)
Change in debt	72.0	20.8	0.0	50.0	0.0
Equity raised / (purchased)	0.0	0.0	0.0	0.0	1.6
Other financial activities	(1.6)	(0.3)	0.0	0.0	0.0
CF from financing activities	(7.2)	(94.3)	(138.2)	(97.2)	(155.7)
Effect of exchange rate changes	(3.0)	0.0	0.0	0.0	1.0
Net cash flow	13.5	11.9	(37.0)	13.0	(33.5)

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	34.2	45.2	13.7	8.8	8.9
Net property income growth	24.2	43.7	17.5	6.7	7.4
Core net profit growth	102.8	100.1	(20.2)	4.9	12.4
Distributable income growth	(13.0)	32.6	5.7	5.0	10.1
Profitability ratios (%)					
Net property income margin	54.6	54.0	55.8	54.8	54.0
Core net profit margin	30.1	41.4	29.1	28.0	28.9
Payout ratio	110.9	73.5	97.4	97.5	95.5
DuPont analysis					
Total return margin (%)	43.0	94.1	16.4	16.3	18.0
Gross revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.8	1.7	1.7	1.7	1.7
ROAE (%)	4.2	12.6	2.3	2.5	2.9
ROAA (%)	1.6	3.1	2.4	2.5	2.7
Leverage & Expense Analysis					
Asset/Liability (x)	2.3	2.4	2.4	2.4	2.4
Net gearing (%) (excl. perps)	64.0	62.2	58.9	59.9	62.1
Net interest cover (x)	1.3	1.9	1.7	1.7	1.8
Debt/EBITDA (x)	nm	14.4	11.0	10.6	9.7
Capex/revenue (%)	4.9	nm	0.0	0.0	0.0
Net debt/ (net cash)	1,051.7	1,115.0	1,102.0	1,139.0	1,173.5
Debt/Assets (x)	0.41	0.39	0.38	0.39	0.39

Source: Company; Maybank IBG Research

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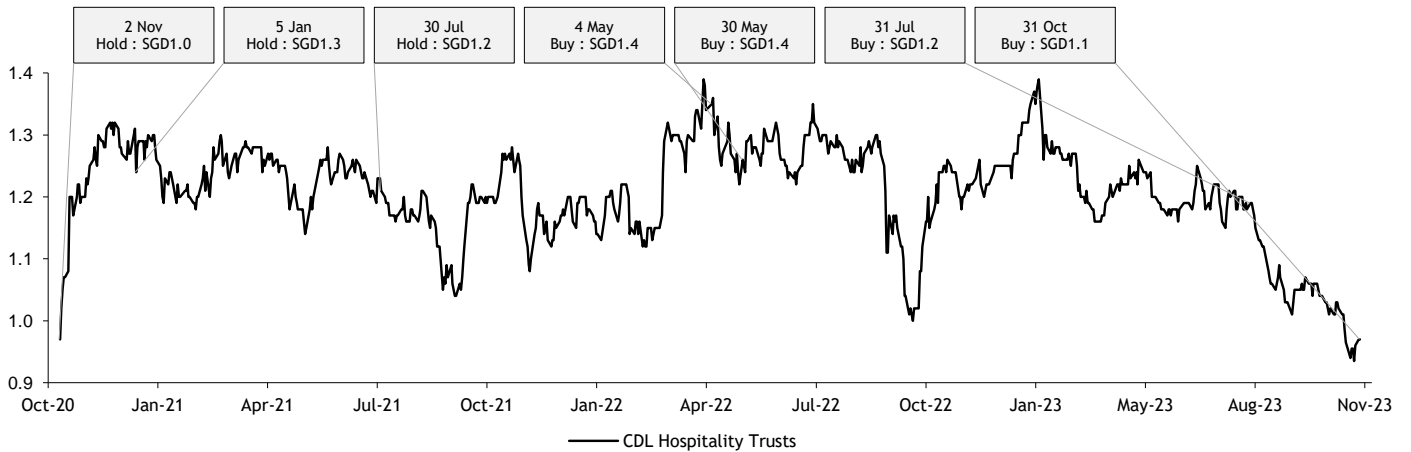
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