

CDL Hospitality Trusts (CDREIT SP)

Normalising growth

Upside from rate cuts, recovery in visitor arrivals

CDREIT reported 3Q NPI of SGD36.3m, -6.8% YoY. High base of last year, incoming supply, and higher expenses crimped the top line. RevPAR performance was uneven across markets. Singapore RevPAR was down on the year due to lower room rates. Gearing and debt cost rose sequentially. While growth in demand is past its peak, upside remains from recovery of visitor arrivals to pre-pandemic level, lower borrowing expense and contribution from the build-to-rent project. Further, valuation is reasonable at a 6.5% FY25E yield and 0.6x P/BV. Maintain BUY.

Mixed performance

3Q revenue and NPI was SGD67.5m and SGD36.3m, -3.7% YoY and -6.8% YoY respectively. 9M revenue and NPI was SGD194.8m and SGD102.9m, +2.9% YoY and +1.0% YoY, respectively. Singapore accounted for 63% of 9M NPI, followed by UK (10%) and Germany (7%). Singapore RevPAR for 3Q was SGD214, -10.3% YoY due to 8% lower room rate and 2%pt lower occupancy. While 3Q visitor arrivals rose 14% YoY, higher room supply, more cost conscious travellers and short booking visibility of Chinese demand resulted in limited pass-through to RevPAR. Coupled with lower margins, 3Q Singapore NPI was -5.5% YoY. UK saw flat RevPAR as absence of leisure events was offset by better corporate demand. Weaker margin and stabilisation expenses for The Castings led to an 8.8% fall in 3Q NPI for UK. 3Q RevPAR for Germany rose 12.4% due to events and NPI was up 1.8% YoY. Australia and Japan saw strong RevPAR and NPI growth.

Positioned to benefit from projected rate cuts

Gearing was 38.8% vs. 37.7% in 2Q and debt cost was up 20bps to 4.4%. Coverage was 2.55x, down from 2.66x in 2Q. With low fixed hedge ratio of 40.5%, future rate cuts will be beneficial. Debt cost guide for FY25 is c.4%. Focus is on smaller acquisitions in high yielding tertiary markets.

Maintain BUY

We lower our FY24 and FY25E DPU by c.3%, factoring in lower portfolio NPI margins and lower FY25E revenue for Singapore with offset from The Castings. This results in a lower TP of SGD1.10 from SGD1.15. CDREIT is positioned to benefit from visitor arrival recovery and projected rate cuts.

FYE Dec (SGD m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	229	258	262	281	296
Net property income	124	138	139	152	160
Core net profit	95	40	62	78	86
Core EPU (cts)	7.7	3.2	5.0	6.1	6.6
Core EPU growth (%)	99.0	(58.1)	54.5	23.3	7.4
DPU (cts)	5.6	5.7	5.4	6.0	6.3
DPU growth (%)	31.6	1.2	(5.7)	12.1	4.1
P/NTA (x)	0.9	0.7	0.6	0.6	0.6
DPU yield (%)	4.5	5.1	5.8	6.5	6.8
ROAE (%)	12.6	6.8	1.2	1.9	2.2
ROAA (%)	3.1	1.2	1.9	2.3	2.4
Debt/Assets (x)	0.39	0.39	0.39	0.40	0.40
Consensus DPU	-	-	5.5	6.0	6.0
MIBG vs. Consensus (%)	-	-	(1.7)	0.1	4.5

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BUY

Share Price	SGD 0.93
12m Price Target	SGD 1.10 (+25%)
Previous Price Target	SGD 1.15

Company Description

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

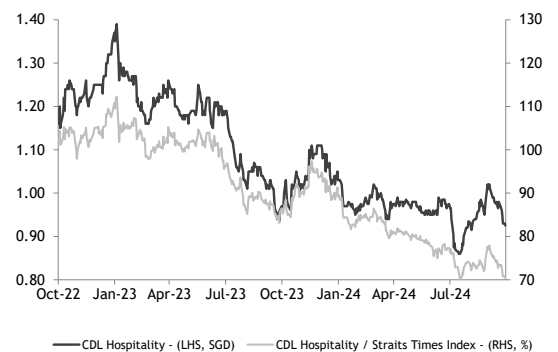
Statistics

52w high/low (SGD)	1.11/0.86
3m avg turnover (USDm)	1.5
Free float (%)	65.4
Issued shares (m)	1,244
Market capitalisation	SGD1.2B USD868M

Major shareholders:

City Developments Ltd.	33.8%
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Price Performance



	-1M	-3M	-12M
Absolute (%)	(6)	(5)	(4)
Relative to index (%)	(6)	(9)	(18)

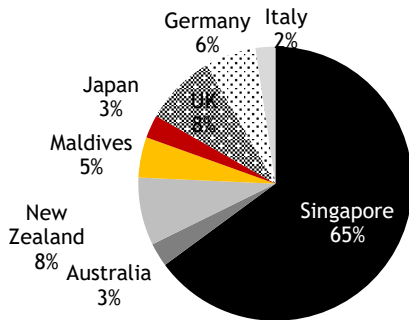
Source: FactSet

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Tear Sheet Insert

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.

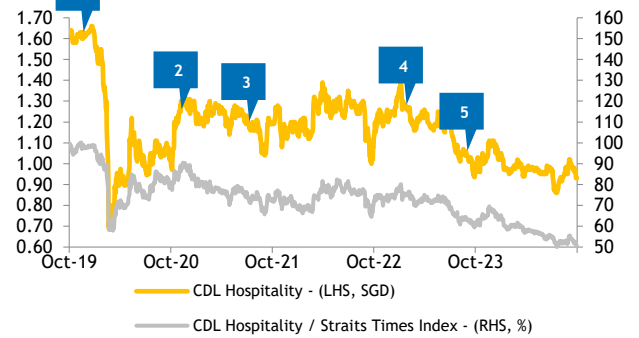
AUM breakdown



Source: Company

Price Drivers

Historical share price trend



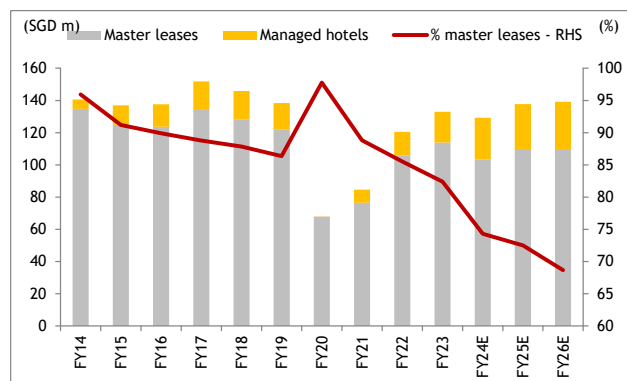
Source: Company, Maybank IBG Research

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 12% and 4% forecasted for FY25 and FY26, respectively.
- We forecast average RevPAR growth of 3% YoY for the forecast period of FY25 and FY26. We expect NPI margins of 53%-54%.
- We expect borrowing cost to fall from 4.4% in FY24 to 3.6% by FY26.
- CDLHT’s lease mix is shifting more towards managed contracts but still c.70% is from master leases and hence lower sensitivity to RevPAR and margin improvement.

NPI profile (FY14-24E)



Source: Company, Maybank IBG Research

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.

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. Result highlights

Fig 1: 3Q and 9MFY24 results

SGDm.	Sep-23 3Q23	Jun-24 2Q24	Sep-24 3Q24	QoQ, %	YoY, %	9MFY23	9MFY24	YoY, %
Gross revenue	70.1	62.1	67.5	8.7	(3.7)	189.3	194.8	2.9
Net property income	39.0	31.6	36.3	15.0	(6.8)	101.9	102.9	1.0
Singapore								
Occupancy (%)	86.9	74.7	84.9	10.2	(2.0)	75.2	80.6	5.4
ARR (SGD)	274	241	252	(8.0)	(8.2)	265	248	(6.4)
RevPAR (SGD)	238	180	214	18.9	(10.3)	199	200	0.4
Overseas RevPAR (Local Currency)								
	3Q23	2Q24	3Q24	QoQ, %	YoY, %	9MFY23	9MFY24	YoY, %
New Zealand	128	109	106	(2.8)	(17.2)	135	127	(6.3)
Australia	101	107	119	11.2	17.6	103	119	15.1
Japan	8375	10806	9762	(9.7)	16.6	8,325	10,193	22.4
Maldives (USD)	222	254	249	(2.0)	12.3	313	340	8.6
United Kingdom	155	152	155	2.0	(0.3)	133	137	2.7
Germany	122	123	137	11.4	12.4	98	108	10.4
Italy	273	321	253	(21.2)	(7.4)	231	239	3.4
Debt								
Gearing, %	38.4	37.7	38.8					
ICRx	2.9	2.66	2.55					
Cost of debt, %	4.2	4.2	4.4					

Source: Maybank IBG Research, Company data

2. Estimate changes

Fig 2: Estimate changes

SGDm.	FY24E	FY25E	FY24E	FY25E	FY24	FY25
	New	New	Old	Old	% chng	% chng
Revenue	262.3	280.9	262.3	280.0	0%	0%
NPI	139.0	151.7	141.6	156.2	-2%	-3%
Mgmt & Trust fees	(14.9)	(15.6)	(15.0)	(15.8)	-1%	-1%
Borrowing costs	(70.8)	(66.6)	(70.8)	(68.0)	0%	-2%
Distributable income	67.3	77.0	69.2	79.4	-3%	-3%
DPU, cents	5.37	6.02	5.53	6.21	-3%	-3%

Source: Maybank IBG Research

3. Valuation

We value CDLHT using a 3-stage dividend discount model and apply a CoE of 7.0%, in line with peers. We lower our DPU by 3% due to lower revenue from Singapore and lower margins partly offset by factoring in SGD4.8m of NPI for FY25 from The Castings. We keep borrowing cost the same for FY24E but lower it for FY25E. All in, this results in a lower TP of SGD1.10, implying total return of 25%. Maintain BUY.

4. Risks

Slower-than-expected recovery in China's outbound market, delayed rate cuts, Higher cost run rate

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Metrics					
Price/DPU(x)	22.2	19.5	17.2	15.4	14.8
P/BV (x)	0.9	0.7	0.6	0.6	0.6
P/NTA (x)	0.9	0.7	0.6	0.6	0.6
DPU yield (%)	4.5	5.1	5.8	6.5	6.8
FCF yield (%)	5.3	3.5	11.2	11.9	12.2
INCOME STATEMENT (SGD m)					
Revenue	229.0	257.6	262.3	280.9	296.4
Net property income	123.7	138.3	139.0	151.7	160.1
Management and trustee fees	(13.4)	(14.5)	(14.9)	(15.6)	(16.1)
Net financing costs	(45.1)	(63.3)	(70.8)	(66.6)	(66.3)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	143.5	107.9	0.0	0.0	0.0
Other pretax income/expenses	40.6	0.8	0.8	0.8	0.8
Pretax profit	223.2	141.8	26.8	42.8	51.1
Income tax	(7.8)	(17.8)	(4.0)	(6.4)	(7.7)
Minorities	0.0	0.0	0.0	1.0	1.0
Discontinued operations	2.0	2.0	2.0	3.0	3.0
Total return avail to unitholders	215.4	124.0	22.8	37.4	44.4
Preferred Dividends	0.0	0.0	0.0	1.0	1.0
Core net profit	94.9	40.0	62.3	78.4	85.8
Distributable inc to unitholders	69.7	71.0	67.3	77.0	81.6
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	96.9	72.0	99.1	132.6	168.8
Accounts receivable	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	783.3	814.6	814.6	814.6	814.6
Investment properties	2,164.3	2,364.3	2,435.3	2,508.3	2,533.4
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	58.7	51.7	51.7	51.7	51.7
Total assets	3,103.2	3,302.6	3,400.6	3,507.2	3,568.5
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	49.8	60.3	60.3	60.3	60.3
LT interest bearing debt	1,211.9	1,290.0	1,340.0	1,390.0	1,440.0
Other liabilities	48.1	66.1	66.1	66.1	66.1
Total Liabilities	1,309.9	1,416.4	1,466.4	1,516.4	1,566.4
Shareholders Equity	1,786.4	1,878.4	1,926.5	1,983.0	1,994.3
Minority Interest	6.9	7.8	7.8	7.8	7.8
Total shareholder equity	1,793.3	1,886.3	1,934.3	1,990.8	2,002.2
Total liabilities and equity	3,103.2	3,302.6	3,400.6	3,507.2	3,568.5
CASH FLOW (SGD m)					
Cash flow from operations	116.4	123.8	130.2	140.2	147.2
Capex	(33.8)	(74.9)	0.0	0.0	0.0
Acquisitions & investments	(65.1)	(13.9)	(13.9)	(13.9)	(13.9)
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	0.7	1.5	0.8	1.8	1.8
CF from investing activities	(98.2)	(87.3)	(13.1)	(12.1)	(12.1)
Dividends paid	(62.9)	(75.7)	(67.3)	(77.0)	(81.6)
Interest expense	(31.2)	(48.8)	(70.8)	(66.6)	(66.3)
Change in debt	39.7	63.5	50.0	50.0	50.0
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Other financial activities	2.5	(0.5)	0.0	0.0	0.0
CF from financing activities	(51.9)	(61.5)	(88.0)	(93.6)	(97.9)
Effect of exchange rate changes	(6.1)	(0.3)	0.0	0.0	0.0
Net cash flow	(39.8)	(25.3)	29.1	34.5	37.2

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
Key Ratios					
Growth ratios (%)					
Revenue growth	45.2	12.5	1.8	7.1	5.5
Net property income growth	43.7	11.8	0.5	9.1	5.5
Core net profit growth	100.1	(57.9)	55.8	25.9	9.4
Distributable income growth	32.6	1.8	(5.2)	14.5	6.0
Profitability ratios (%)					
Net property income margin	54.0	53.7	53.0	54.0	54.0
Core net profit margin	41.4	15.5	23.7	27.9	29.0
Payout ratio	73.3	177.0	108.0	98.2	95.1
DuPont analysis					
Total return margin (%)	94.1	48.1	8.7	13.3	15.0
Gross revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.7	1.8	1.8	1.8	1.8
ROAE (%)	12.6	6.8	1.2	1.9	2.2
ROAA (%)	3.1	1.2	1.9	2.3	2.4
Leverage & Expense Analysis					
Asset/Liability (x)	2.4	2.3	2.3	2.3	2.3
Net gearing (%) (excl. perps)	62.2	64.6	64.2	63.2	63.5
Net interest cover (x)	1.9	1.5	1.4	1.6	1.8
Debt/EBITDA (x)	14.4	13.4	13.9	12.8	12.4
Capex/revenue (%)	14.8	29.1	0.0	0.0	0.0
Net debt/ (net cash)	1,115.0	1,218.0	1,240.9	1,257.4	1,271.2
Debt/Assets (x)	0.39	0.39	0.39	0.40	0.40

Source: Company; Maybank IBG Research

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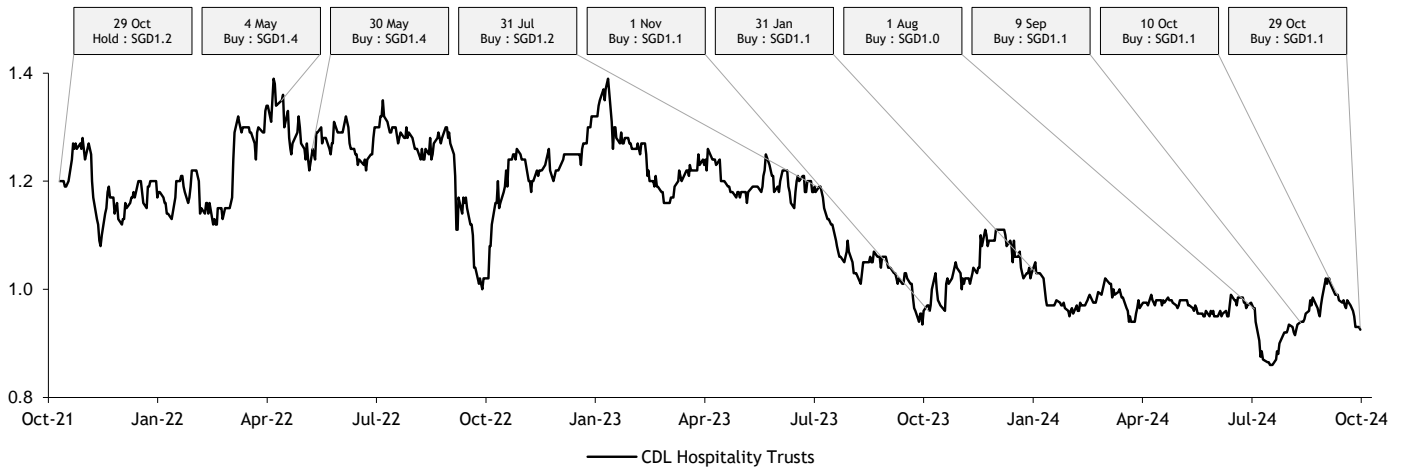
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