City Developments (CIT SP)

Sharpening And Refreshing Its Growth Strategy

Highlights

- **Sharpening strategic focus, enhancing shareholder returns.** In its strategic review, CIT detailed a three-year plan to optimise its balance sheet and reinvest for growth, between 2027-29. When executed successfully, this should enable the group to unlock a total of about S$1b of net profit from divestment gains. Together, with a projected S$6b of future cash inflow from its development projects, gearing is expected to dip to about 55% by end-29.
- **S$6b of assets earmarked to be recycled…** The commercial segment will form the bulk (45%) of the S$6b assets to be sold, while hotels will make up a further 30% (S$1.8b) with living portfolio (5%) and the remaining 20% from legacy residential and other assets.
- **…and S$5b to be reinvested for future growth.** An estimated 60% of the S$5b investment target is allocated to Singapore (including residential development sites), 30% in China and 10% in other geographies. It plans to pace its exit from Australia, citing challenging market conditions. Core sectors for reinvestment include Singapore and China residential, Singapore commercial, hospitality properties in key gateway cities and the Singapore and Japan living sectors. That said, management is cognisant that the China residential market remains challenging and it would be very selective when assessing new opportunities.

Analysis

- **What does S$1b of net divestment gains mean for shareholders?** City Developments (CIT) reaffirmed its intention to pay at least 35% in dividend payout ratio on reported net profit annually, which includes divestment gains. A total of S$1b of asset-sale gains would imply a potential dividend payout of at least S$350m or an additional DPS of about S$0.39/share, when the assets are monetised. While this is likely to be spread over the next few years, we believe investors can look forward to a bump-up in DPS when these transactions occur.

Key Financials

Year to 31 Dec (S$m)	2024	2025	2026F	2027F	2028F
Net turnover	3,271.2	3,587.1	4,158.5	3,534.3	3,667.1
EBITDA	691.0	583.2	1,123.2	959.6	876.1
Operating profit	413.7	293.5	826.5	661.5	576.6
Net profit (rep./act.)	201.3	629.7	565.1	351.0	250.9
Net profit (adj.)	201.3	629.7	565.1	351.0	250.9
EPS (S$ cent)	22.4	70.5	63.3	39.3	28.1
PE (x)	33.8	10.8	12.0	19.3	27.0
P/B (x)	0.7	0.7	0.6	0.6	0.6
EV/EBITDA (x)	27.5	32.5	16.9	19.8	21.7
Dividend yield (%)	1.3	1.6	2.9	1.8	1.2
Net margin (%)	6.2	17.6	13.6	9.9	6.8
Net debt/(cash) to equity (%)	113.5	118.2	110.2	99.5	92.8
Interest cover (x)	1.9	1.4	3.3	2.6	2.4
ROE (%)	2.2	6.7	5.6	3.3	2.2
Consensus net profit (S$m)	-	-	429.2	468.5	475.6
UOBKH/Consensus (x)	-	-	1.32	0.75	0.53

Source: City Developments, Bloomberg, UOB Kay Hian

Analyst(s)

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BUY (Maintained)

Share Price	S$7.59
Target Price	S$11.85
Upside	56.1%
Previous TP	S$11.85

Stock Data

Sector	Real Estate
Bloomberg ticker	CIT SP
Shares issued (m)	893.4
Market cap (S$m)	6,780.9
Market cap (US$m)	5,303.8
3-mth avg daily t'over (US$m)	12.9

Price Performance (%)

52-week high/low: S$10.09/S$6.81

1mth	3mth	6mth	1yr	YTD
(9.0)	(3.4)	(9.4)	11.1	(5.1)

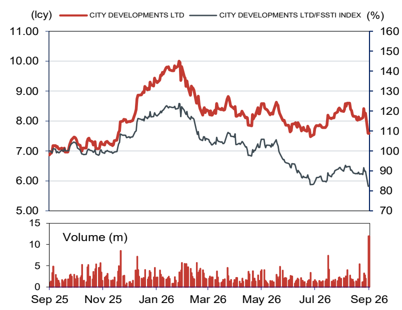
Major Shareholders (%)

Hong Leong Investment Hldgs	49.45

Balance Sheet Metrics

FY26 NAV/Share (S$)	11.70
FY26 Net Debt/Share (S$)	12.90

Price Chart



Source: Bloomberg

Company Description

CIT is a global real estate operating company with a geographically diverse portfolio comprising residences, offices, hotels, serviced apartments and shopping malls.

- **Implications of a S$6b asset sale and lowering gearing to 55%.** Achieving CIT's outlined objectives would have a two-fold impact. For one, while a smaller asset base could lead to a temporary dip in earnings, it would also mean a reduction in operating costs. To this end, management indicated that a S$1.8b hotel asset sale would mean a S$10m-20m cost savings to the bottom line. The other impact comes from lowering gearing. Our back-of-the-envelope calculation suggests that reducing gearing to 55% from 75% in 1H26 would reduce CIT's net debt position by about S$3.1b from 1H26's S$11.8b. Assuming an unchanged interest cost of 3.4% (vs 1H26), this could translate to an interest cost savings of S$70m-80m, after-tax, annually. Essentially, the flow-through to bottom line would result in an immediate uplift to ROE, even after accounting for the income vacuum from divested assets and before capital is recycled into new investments.
- **Reassessing its portfolio.** Some of the properties that CIT indicated it would look to accelerate exit include the UK development sites and unsold properties worth S$0.8b, as well as two development sites and four completed projects in Australia, with a carrying value of S$0.22b. Meanwhile, it could look to extract value from its investment properties in Central London and evaluate disposal opportunities for its stake in the Melbourne office building.
- **Hospitality is also a key area of focus.** CIT has a global hospitality portfolio of 165 hotels, of which 54 are directly owned and carry a value of S$8.6b. CIT deems S$5b of these assets as core and well-performing properties and will continue to hold them for recurring income and long-term value. Meanwhile it has identified another S$1.8b of hotels with potential upside and could undertake asset enhancements and redevelopment activities to optimise returns. A further S$1.8b are considered non-core or underperforming properties which could be recycled.
- **Plans to double AUM to S$10b.** These activities dovetail with the group's plans to double assets under management (AUM) to S$10b as some of these assets could be used to seed its private funds platforms. Expanding its asset-light platform would enable CIT to scale AUM through third-party capital, release capital for strategic allocation and increase fee income. This would likely lead to greater capital efficiency and lift ROE in the longer term.

Valuation/Recommendation

- **We maintain our BUY rating on CIT** on the back of its attractive valuation at 0.65x P/B and 55% discount to our RNAV estimate of S$16.92. We believe the potential positive knock-on benefits from a lower net debt-to-equity ratio and higher ROE, as the group executes its portfolio optimisation strategy on the back of the strategic review, should close the valuation gap between share price and asset backing. Our target price of S$11.85 is premised on a 30% discount to RNAV.

Earnings Revision/Risk

- We keep our RNAV at S$16.92 and maintain our target price at S$11.85, based on a 30% discount to RNAV. Key risks to our view include a longer-than-expected timeline to divest assets or lower-than-projected divestment gains.

Share Price Catalyst

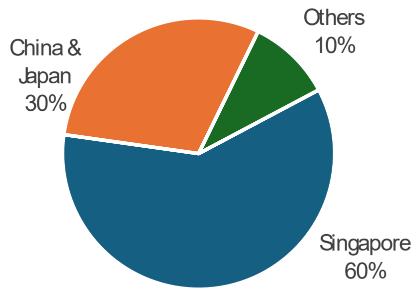
- Strong execution outcome for its asset sales and capital recycling efforts, resulting in a robust improvement in ROE.

Growth Focus Across Markets And Sectors

Sectors	Residential	Commercial	Hospitality	Living
Current Presence	• Singapore • UK • China • Australia	• Singapore • UK • China • Australia	• Asia • Europe • US • Australasia	• Singapore • UK • Japan • Australia
Priority Markets	Singapore China	Singapore	Key gateway cities	Singapore Japan

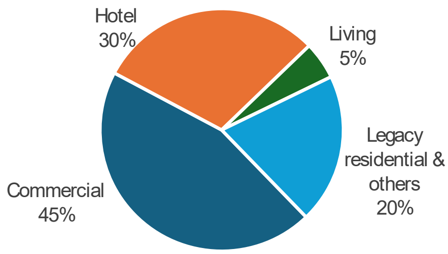
Source: City Developments, UOB Kay Hian

Reinvestment Focus By Geography



Source: City Developments, UOB Kay Hian

Potential Divestments By Segment



Source: City Developments, UOB Kay Hian

RNAV Breakdown

Investment properties	Stake	NLA	Mkt value (S$m)	Value/share (S$)
Republic Plaza	100%	769,069	2996.1	3.35
City House	100%	157,283	475.6	0.53
Palais Renaissance	100%	111,061	300.4	0.34
King's Centre	100%	91,183	98.2	0.11
City Square Mall	100%	473,671	1188.4	1.33
Delfi orchard	100%	91,279	208.2	0.23
Katong Shopping Centre	100%	187,334	341.8	0.38
The Arcade	100%	48,815	111.3	0.12
Le Grove	100%	137	133.0	0.15
Biltmore Court & Tower USA	100%	377,995	235.0	0.26
125 Old Broad St UK	100%	329,396	302.2	0.34
Aldgate House UK	100%	209,860	367.7	0.41
St Katharine Docks UK	100%	525,201	746.8	0.84
330 Collins St AU	67%	193,907	116.8	0.13
Hong Leong Plaza Hongqiao - office	100%	345,229	40.9	0.05
Hong Leong Hongqiao Center - office	100%	360,432	47.4	0.05
Hong Leong Hongqiao Center - retail	100%	24,266	5.1	0.01
Hong Leong Technology Park Shenzhen	100%	931,274	36.8	0.04
Owned hotels	**Stake**	**Rooms**		
M Social Singapore	100%	293	162.8	0.18
Millinnium Hilton Bangkok	58%	533	86.3	0.10
M Social Suzhou	100%	292	55.9	0.06
M&C hotels	**Stake**	**Rooms**		
Rest of Asia	100%	3,744	936.8	1.05
Australasia	86%	2,204	551.1	0.62
New York	100%	2,238	1,509.9	1.69
Regional US	100%	2,525	257.8	0.29
London	100%	2,343	1,463.5	1.64
Rest of Europe	100%	2,316	444.5	0.50
Living assets		**Units**		
UK PRS	100%	1,505	733.7	0.82
UK PBSA	100%	2,368	454.5	0.51
Japan PRS	100%	2,246	584.0	0.65
Australia BTR	100%	563	354.7	0.40
PV of development profits				
Singapore residential and other projects under devt			2852.9	3.19
China			62.2	0.07
Australia and others			15.5	0.02
Associates	**Stake**	**Issued units**		
CDL HT	29%	1,270.8	280.2	0.31
IREIT	21%	1,344.8	52.7	0.06
First Sponsor	35%	1,129.3	385.4	0.43
GAV			18,996.1	21.26
Other net assets/liabilities			7,466.3	8.36
Net cash/debt			-11,336.4	-12.69
RNAV			15,126.1	
RNAV/share			**16.93**	
Assumed discount			30%	
TP			**11.85**	

Source: UOB Kay Hian

Profit & Loss

Year to 31 Dec (S$m)	2025	2026F	2027F	2028F
Net turnover	3,587	4,159	3,534	3,667
EBITDA	583	1,123	960	876
Deprec. & amort.	290	297	298	299
EBIT	293	827	662	577
Total other non-operating income	30	0	0	0
Associate contributions	181	167	154	122
Net interest income/(expense)	(404)	(342)	(373)	(368)
Pre-tax profit	772	708	443	331
Tax	(136)	(137)	(89)	(77)
Minorities	(6)	(5)	(3)	(2)
Net profit	630	565	351	251
Net profit (adj.)	630	509	351	251

Balance Sheet

Year to 31 Dec (S$m)	2025	2026F	2027F	2028F
Fixed assets	12,114	12,171	12,228	12,284
Other LT assets	3,857	4,024	4,178	4,300
Cash/ST investment	2,060	2,024	2,653	3,084
Other current assets	9,019	9,743	9,660	9,802
Total assets	27,049	27,961	28,718	29,470
ST debt	3,176	3,176	3,176	3,176
Other current liabilities	1,790	1,684	1,648	1,742
LT debt	10,221	10,371	10,521	10,671
Other LT liabilities	1,603	1,603	1,603	1,603
Shareholders' equity	9,592	10,454	11,094	11,599
Minority interest	668	674	677	679
Total liabilities & equity	27,049	27,961	28,718	29,470

Cash Flow

Year to 31 Dec (S$m)	2025	2026F	2027F	2028F
Operating	(1,512)	333	967	762
Pre-tax profit	772	708	443	331
Tax	(119)	(137)	(89)	(77)
Deprec. & amort.	290	297	298	299
Associates	(181)	(167)	(154)	(122)
Working capital changes	(2,075)	(709)	96	(37)
Non-cash items	(612)	0	0	0
Other operating cashflows	415	342	373	368
Investing	397	102	63	40
Capex (growth)	(1,005)	(150)	(150)	(150)
Investments	1,345	167	154	122
Others	56	85	59	68
Financing	421	(471)	(401)	(371)
Dividend payments	(139)	(194)	(120)	(85)
Issue of shares	0	0	0	0
Proceeds from borrowings	3,151	150	150	150
Loan repayment	(2,016)	0	0	0
Others/interest paid	(574)	(427)	(432)	(436)
Net cash inflow (outflow)	(694)	(36)	629	431
Beginning cash & cash equivalent	2,689	1,995	1,959	2,588
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	1,995	1,959	2,588	3,020

Key Metric

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	16.3	27.0	27.2	23.9
Pre-tax margin	21.5	17.0	12.5	9.0
Net margin	17.6	13.6	9.9	6.8
ROA	2.5	2.2	1.3	0.9
ROE	6.7	5.8	3.5	2.4
Growth				
Turnover	(27.4)	15.9	(15.0)	(11.8)
EBITDA	(36.2)	92.6	(14.6)	(22.0)
Pre-tax profit	63.3	(8.2)	(37.4)	(53.3)
Net profit	98.4	(10.3)	(37.9)	(55.6)
Net profit (adj.)	212.8	(10.3)	(37.9)	(28.5)
EPS	101.4	(10.3)	(37.9)	(55.6)
Leverage				
Debt to total capital	130.6	121.7	116.4	112.8
Debt to equity	139.7	129.6	123.5	119.4
Net debt/(cash) to equity	118.2	110.2	99.6	92.8
Interest cover	1.4	3.3	2.6	2.4