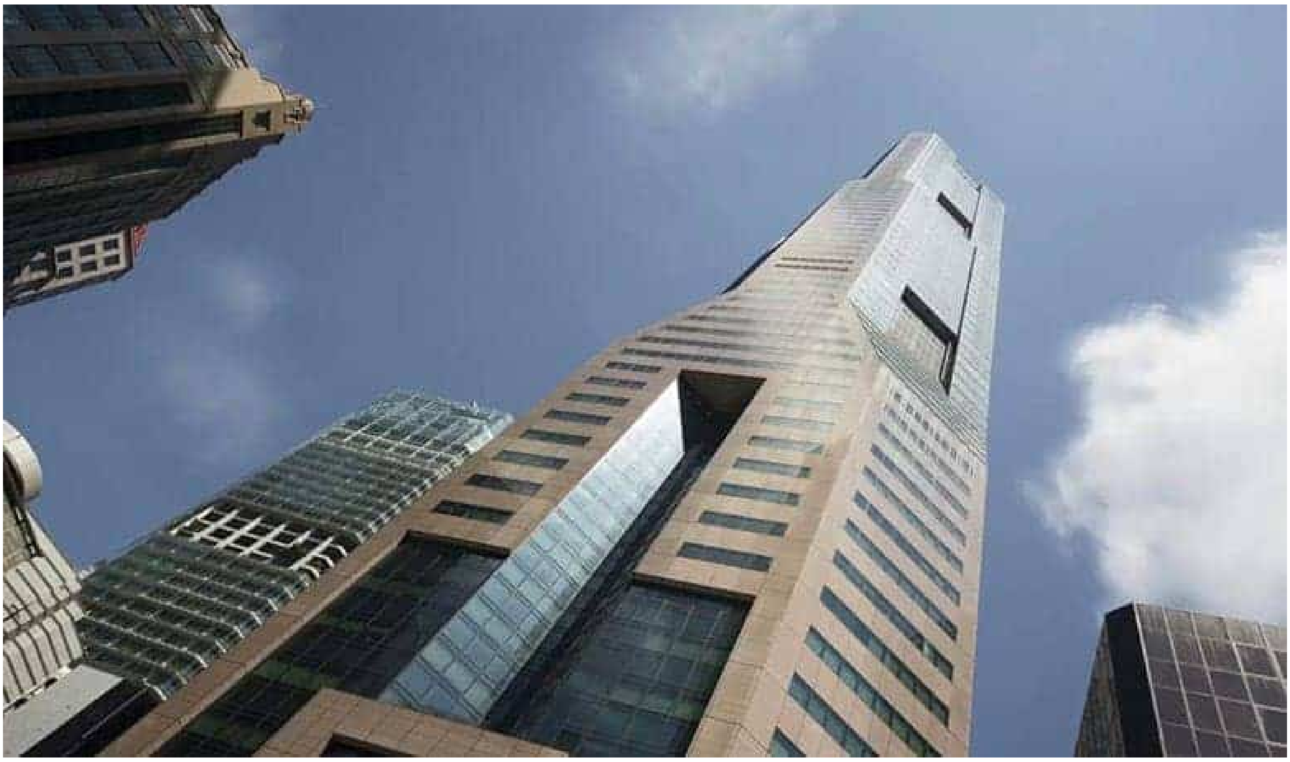
CDL $1.36B MAINLAND INVESTMENT IN DANGER AS SINCERE PROPERTY SUED FOR BANKRUPTCY

2021/07/08 BY CHRISTOPHER CAILLAVET — LEAVE A COMMENT



No screams were reported in CDL's Republic Plaza headquarters in Singapore today

Singapore real estate giant City Developments Limited confirmed today that after investing a total of the cash-strapped developer if a settlement proves elusive.

CDL, which after a board revolt last year has refused to invest further in Sincere as the privately held firm has defaulted on a series of domestic Chinese bonds this year, made clear in a statement to the Singapore Exchange acknowledging the bankruptcy case that it intends to keep its insolvent partner at arm's length.

"As announced previously, the Group stated that it has ring-fenced its current financial exposure to its investment in Sincere Property and it will not support the continuing financial obligations of Sincere Property," CDL said. "Despite the bankruptcy proceedings, the Group will continue to strenuously protect its position and limit further exposure."

Disaster Watch

Sincere failed to repay the RMB 444.5 million ($68.8 million) principal on a bond that matured on 11 March, according to earlier media accounts, with the developer having now piled up overdue debts of RMB 8.8 billion, according to industry data, including bank loans, trust loans, bonds and related party loans.

CDL chief executive Sherman Kwek seems ready to write off his Chongqing adventure

Having acquired a 51 percent non-controlling stake in Sincere last year, CDL said in its statement that it will continue to monitor the situation and limit further exposure to its joint venture with the financially challenged builder.

The bankruptcy motion is considered to be a preliminary court procedure, with Sincere continuing to have an opportunity to attempt an amicable resolution with its creditors, according to a mainland legal advisor contacted by Mingtiandi.

CDL said its board had been informed that Sincere would announce the bankruptcy claim on the Shanghai Stock Exchange, although no message had appeared on the SSE website as of Thursday evening.

The developer controlled by Singapore billionaire Kwek Leng Beng noted that in preparing its 2020 financial results, a decision was made to impair S$1.78 billion ($1.32 billion), effectively writing off 93 percent of its total investment in Sincere. CDL's remaining exposure amounts to S$126 million.

Bloomberg reported that Sincere was preparing to work with stakeholders and creditors on a restructuring, citing sources who asked not to be identified discussing private information.

Blame the Committee

In March, a war of words erupted between the two joint venture partners after Sincere released a statement asserting that a delay in decision-making by "the controlling shareholder" — apparently meaning CDL — had "seriously affected the timely implementation of financing and asset disposal to improve company operations and cash flow".

Sincere Group's Chongqing headquarters could be turned into some quick cash

In its response, CDL contended that Sincere Property Holdings Ltd (a company controlled by Sincere Property Group's founder) and CDL jointly control the JV in terms of its material decisions, while the existing team set up by SPHL exercises direct oversight of day-to-day operations and worksite matters.

CDL said Sincere Property Group has its own eight-member board represented by all three shareholders — CDL (four directors), SPHL (two) and Greenland Holdings Group (two) — thus precluding majority control of board decisions by CDL.

In February, CDL announced that the write-down on the Sincere investment had "distorted" the company's 2020 results. CDL reported a full-year net loss of S$1.92 billion, calling it the worst performance in company history.

The Sincere impairment was revealed less than a week after CDL had signed on for its effective 55 percent stake in Shenzhen Tusincere Technology Park Development in a bid to shore up the liquidity of the joint venture with Sincere.

The handling of the Sincere investment had triggered the shock resignation last October of Kwek Leng Peck as non-executive, non-independent director after over 30 years in the role.

Kwek, the cousin of CDL executive chairman Kwek Leng Beng and the uncle of CDL group CEO Sherman Kwek, was followed out the door by three independent non-executive directors, Koh Thiam Hock, Tan Yee Peng and Jenny Lim.

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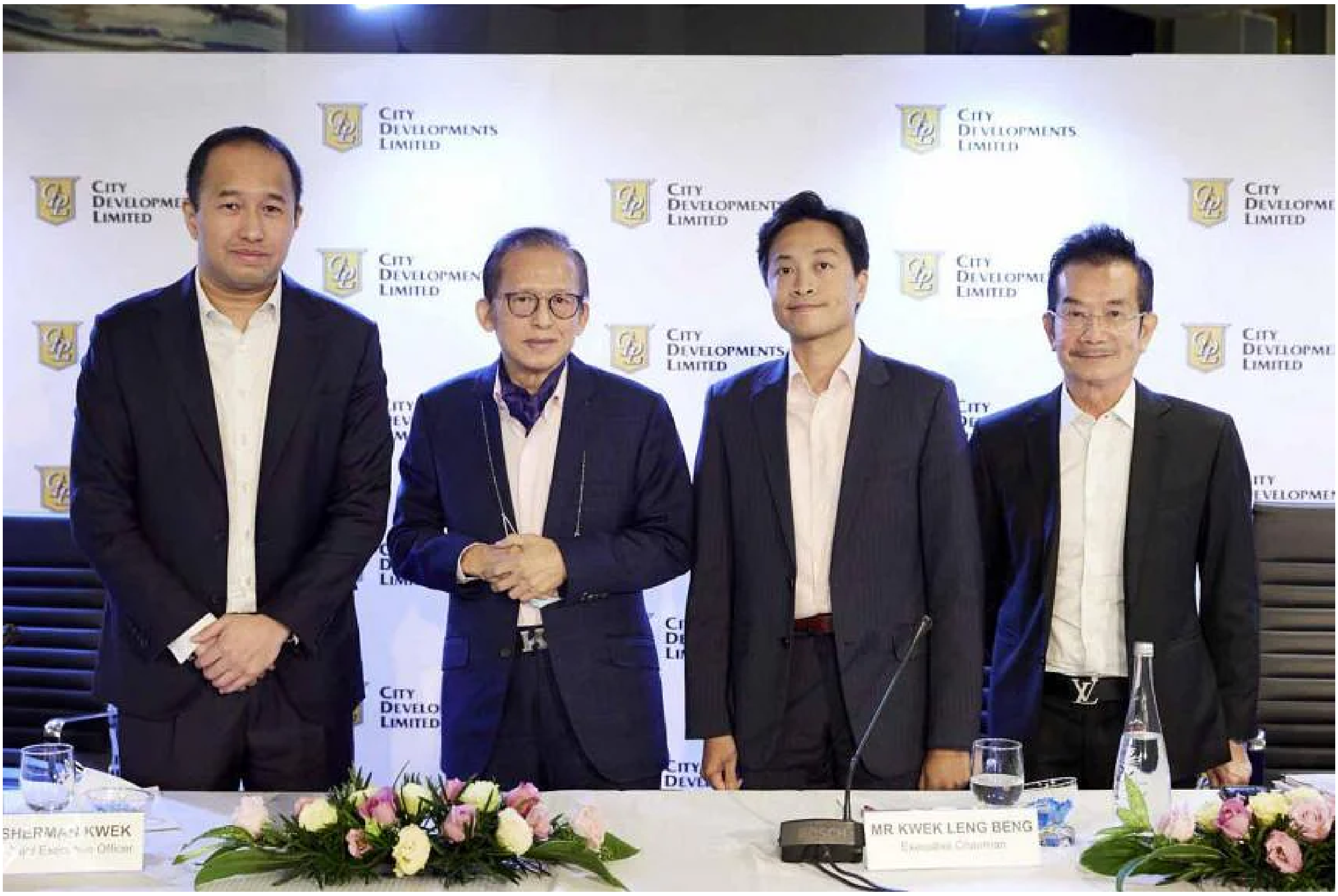

(From left) CDL group CEO Sherman Kwek, executive chairman Kwek Leng Beng, group COO Kwek Eik Sheng and group general manager Chia Ngiang Hong.
PHOTO: CITY DEVELOPMENTS LTD

Vivienne Tay

UPDATED 2022年8月12日 下午4:34 SGT

SINGAPORE (THE BUSINESS TIMES) - City Developments Limited (CDL) has reported record net profit of $1.1 billion for the first half ended June 30, reversing from a year-ago net loss of $32.1 million, on the back of divestments as well as revenue from hotel operations and property development.

Divestment gains came from the sale of Millennium Hilton Seoul ($496.2 million) and Tagore 23 warehouse in Singapore ($27.3 million). There was also a gain of $492.4 million (inclusive of negative goodwill) from the group's deconsolidation of CDL Hospitality Trusts (CDLHT), which resulted from the distribution in specie of CDLHT units in May 2022.

Excluding the above three items, net profit for H1 2022 would have been $110.3 million.

The board has proposed a special interim dividend of 12 cents per share, which is four times' last year's special interim dividend of three cents per share.

The $1.1 billion net profit was the highest net profit achieved since CDL's inception in 1963, it said in a statement. The results translate to earnings per share of $1.235, against a loss per share of $0.042 in the corresponding period a year ago.

Revenue was up 23.5 per cent to $1.5 billion, from $1.2 billion. CDL said the increase in revenue was mainly due to the hotel operations segment, although the group's property development segment continued to lead contributions.

With the easing of border restrictions and supported by pent-up demand for travel, the group's hotel revenue per available room (RevPAR) grew 110.4 per cent, led by the Europe and US markets, which posted strong improvements in occupancies and average room rates. However, the performance of the group's hotels in North Asia was still impacted by travel restrictions due to the resurgence of Covid-19 infections.

CDL executive chairman Kwek Leng Beng said: "With post-pandemic travel fuelling continued recovery, we expect hospitality to be a star performer for the rest of the year. As Covid-19 concerns wane, our hospitality portfolio will be a valuable growth engine contributing meaningfully to the group's recurring earnings."

The group is also "actively discussing" share buybacks. At a results briefing on Thursday (Aug 11), CDL's group chief executive officer, Sherman Kwek, said: "We hope in the near future that we can delight analysts and shareholders by buying our shares, which demonstrates that we want to own more of our own business, because we believe that our assets are undervalued, we believe our share price is undervalued."

The counter is trading below its net asset value (NAV) and revalued net asset value (RNAV).

CDL's NAV per share rose to $10.18 as at Jun 30, 2022 from $9.28 as at Dec 31, 2021. Over the same period, its RNAV per share (factoring in fair-value gains on investment properties) climbed to $16.37 from $15.70. If revaluation surpluses on its hotel properties are also included, the group's RNAV per share increased to $18.86 from $18.61.

Meanwhile, the property development segment contributed 41 per cent of total revenue for the first half, supported by "well-sold" Singapore projects like Amber Park and Irwell Hill Residences, as well as overseas projects such as Shenzhen Longgang Tusincere Tech Park and New Zealand land sales.

Sherman Kwek said that the Singapore residential property market remains resilient, notwithstanding rising mortgage rates, citing strong household savings and low unemployment. His father, Kwek Leng Beng, too highlighted that "property investment, when viewed with a medium- to long-term perspective for value appreciation, is a well-established hedge against inflation".

The group will be selective in replenishing its residential land bank here. "But the good news is that at least we have a good inventory and land bank to last us for the next two years or so, with more than 2,000 Singapore residential units in the launch pipeline," said Sherman Kwek. "This reduces the pressure on us to have to engage in a bidding frenzy in order to replenish our land."

In addition to building a "solid development pipeline", the group said it will keep its focus on strengthening its recurring income streams. As part of this strategy, CDL is pressing ahead with building up its exposure to other segments of the accommodation market, or "living sector". These include the private rented sector (PRS); a PRS asset is basically a residential building with the apartments leased out individually. The group has been building up its PRS portfolio overseas, including in Japan, the United Kingdom, the United States and Australia.

It also has a presence in other segments of the living sector, such as senior housing and affordable housing. In June, CDL entered the purpose-built student accommodation (PBSA) segment, acquiring a 19-storey, 505-bed facility in Coventry, UK.

The group embarked on the living-sector strategy in 2018, but still needs a lot more scale to achieve cost efficiencies, said Sherman Kwek. Building up a sizeable portfolio in, say, the PRS segment, will also open the potential of seeding its assets into a Reit (including possibly its sponsored stapled group CDLHT) or into a private fund.

Giving an update on its plans to launch a Singapore-listed Reit holding UK office assets, CDL noted that market sentiment for initial public offerings of Reits in Singapore has been hit by rising interest rates. The group continues to monitor market conditions and will decide in due course on whether to proceed with the planned listing, it added.

On a more positive note, the group is expected to realise a significant capital gain upon the completion of the collective sales of Tanglin Shopping Centre and Golden Mile Complex; it has held strata units in these buildings over a long period at low book value.

Sherman Kwek also highlighted the group's own asset base, especially within its privatised hotel arm, Millennium & Copthorne, that can be used selectively as the group's future land bank for redevelopment. The group owns a sizeable collection of hotels across the world.

"For some of them, the highest and best use may not be a hotel any more. Or it may not be just a hotel; it could be a mixed-use (asset) or even student accommodation. So actually, we have a very, big latent land bank in our hospitality portfolio too, and that's thanks to our chairman for accumulating these assets over so many years, so many decades."

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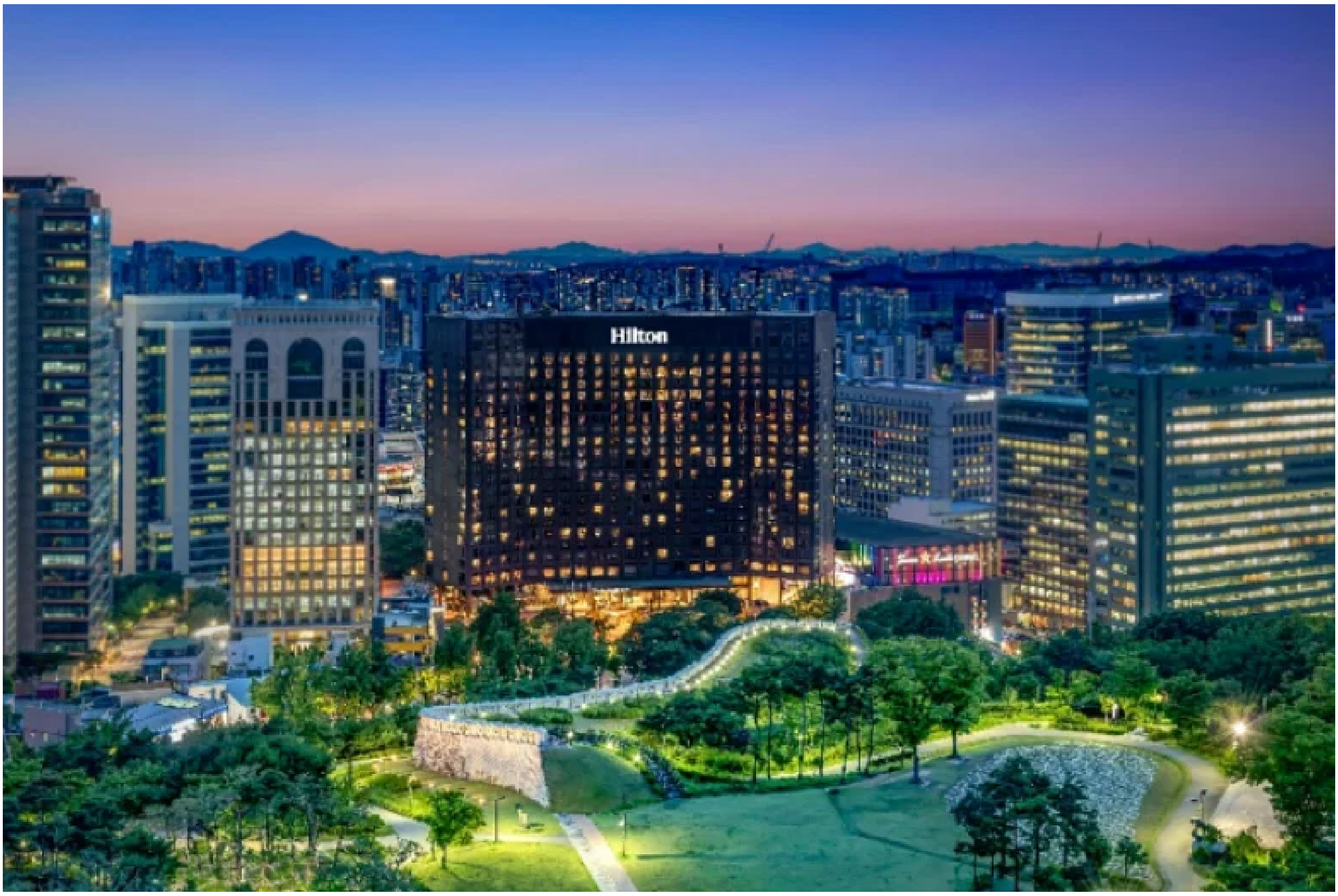
CDL to sell 5-star hotel Millennium Hilton Seoul, adjoining land for $1.26b, shares jump



The 22-storey Millennium Hilton Seoul has 680 rooms and 29 suites and is operated by Hilton Hotels & Resorts. PHOTO: CITY DEVELOPMENTS LIMITED

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SINGAPORE (THE BUSINESS TIMES) - Shares of City Developments Limited (CDL) hit a three-week high on Monday (Dec 13), after the property developer announced plans to divest Millennium Hilton Seoul. The stock rose 2.7 per cent to hit a high of $7.18 on Monday morning.

The property developer announced on Monday plans to sell Millennium Hilton Seoul, a five-star 22-storey hotel situated near Seoul's downtown business district, and its adjoining land plot for 1.1 trillion won (S$1.26 billion).

The proposed sale of the assets in South Korea marks the property group's fourth hotel divestment of the Millennium & Copthorne Hotels Limited (M&C) portfolio since its privatisation and the largest hotel divestment to date.

In a bourse filing on Monday, CDL said the proposed divestment, which is expected to be completed by Feb 28 next year, is "in line with the acceleration of the CDL Group's capital recycling strategy to unlock latent value from its long-held assets".

CDL added that the performance of the hotel, which is located at the foot of Mount Namsan, "has been trending negatively over the years" and was further hit by Covid-19, which saw a sharp decline in accommodation and event bookings.

Upon its completion, CDL is expected to recognise an estimated gain in the income statement of $529.73 million, net of taxes and related transaction costs, it stated.

"This is expected to positively impact the net asset value per share and earnings per share of the group," it said.

The sale price represents an excess of 835.17 billion won over CDL's net book value of the property as at Nov 30, it pointed out.

The deal - between CDL's indirect wholly-owned subsidiary CDL Hotel (Korea) and YD427 PFV, an entity managed by IGIS Asset Management, one of South Korea's largest real estate managers - was arrived at on a "willing-buyer and willing-seller basis".

However, it was "the highest offer" compared with several unsolicited and competing offers, CDL added.

Millennium Hilton Seoul is operated by Hilton Hotels & Resorts under a management contract, and comprises 680 guest rooms and 29 suites.

Opened in 1983, the hotel was previously owned by Daewoo Group before it was acquired by the CDL Group in November 1999 for US$213.5 million following the Asian financial crisis. In 2013, CDL Hotels (Korea) Limited acquired the adjoining 1,563.7 sq m freehold land plot from Woo Yang Industrial Development for 29.5 billion won.

On Monday, CDL said it started reviewing M&C's entire global hotel footprint to restructure hotel assets and streamline cost structures with a view to unlock value "at the right time" following M&C's privatisation in November 2019.

Commenting on the sale, CDL and M&C executive chairman Kwek Leng Beng said the group had "always believed that (Millennium Hilton Seoul) would be an asset that could provide tremendous value to shareholders at the right time and at the right price".

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Stressing that CDL had "negotiated hard to maximise value", he reiterated that the "sizeable divestment at a significant premium to book value" was the impetus to sell without hesitation and realise a substantial profit.

"We remain confident of the global hospitality recovery with pent-up demand. We will continue to review and fine-tune our portfolio to accelerate the Group's growth and transformation while enhancing shareholder value," he added.

The previous two non-core M&C hotel divestments completed were Millennium Hotel Cincinnati and Copthorne Hotel Birmingham, with Millennium Harvest House Boulder in the United States expected to be completed next year.

These three non-core divestments have a combined sales value of around $178.96 million.

As at June 30 this year, M&C owns, manages and operates more than 145 hotels across some 80 locations worldwide throughout Asia, Europe, the Middle East, New Zealand and the US.

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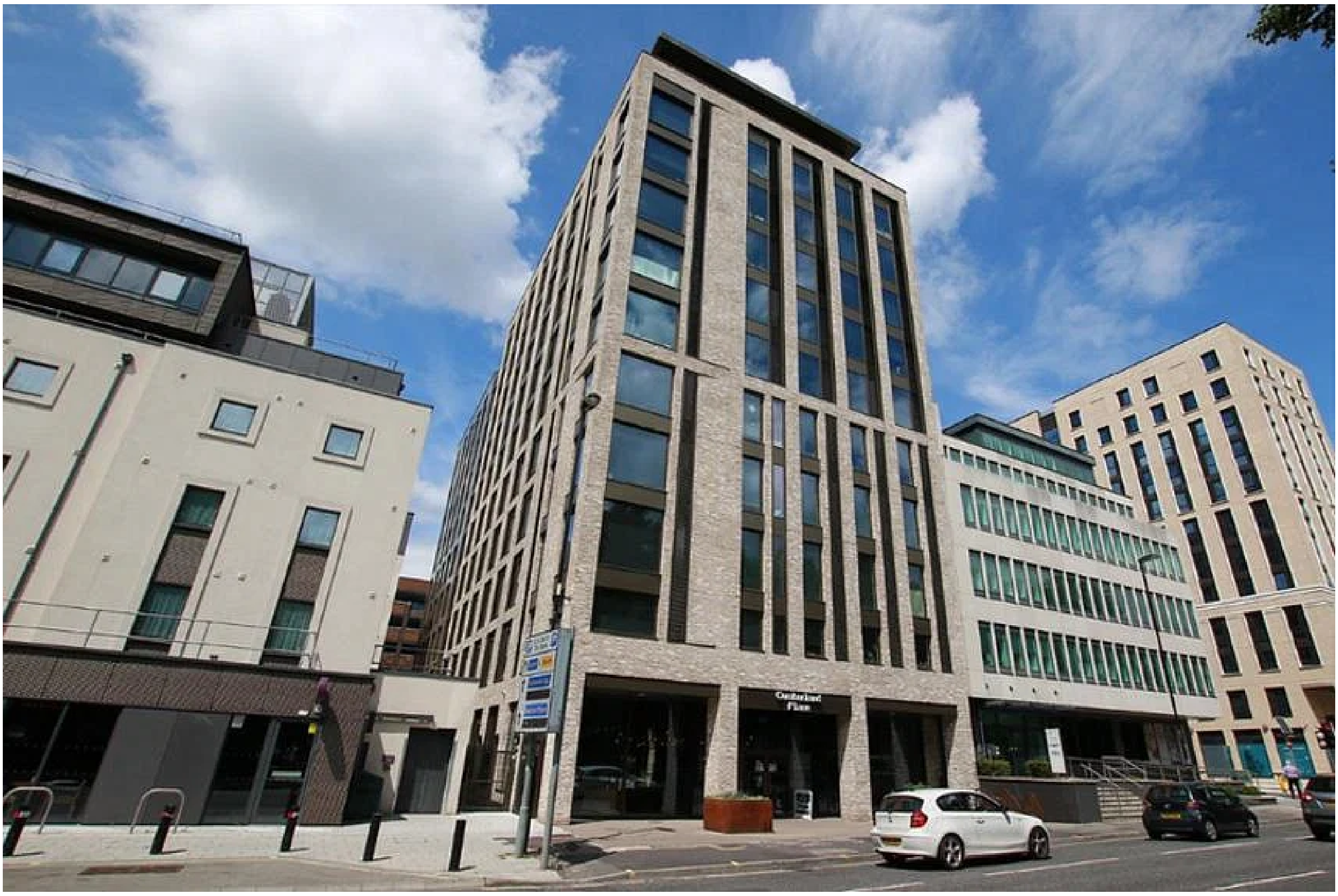
CDL buys five UK student dorms for $357 million



The purpose-built student accommodation properties have a combined portfolio of 1,863 beds. PHOTO: CITY DEVELOPMENTS LIMITED

Renald Yeo

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SINGAPORE - City Developments Limited (CDL) has made further inroads into the student accommodation sector in the United Kingdom, with the acquisition of five such assets for £215 million (S$357 million).

The purpose-built student accommodation (PBSA) properties have a combined portfolio of 1,863 beds and an average committed occupancy rate of over 98 per cent, CDL said on Thursday.

The newly acquired properties are located across the UK, spanning Birmingham, Canterbury, Coventry, Leeds and Southampton.

With the completed acquisitions, CDL now owns six PBSA properties totalling 2,368 beds in the UK. All properties are located in prime catchment areas close to key transportation nodes and prominent universities, according to the group.

"The UK student accommodation sector continues to demonstrate strong resilience as students return to campus post-Covid," said CDL group chief executive Sherman Kwek.

"Our newly acquired assets are strategically located in cities where there is high demand but traditionally underserved by a lack of supply, providing further rental growth potential in the longer term."

The latest acquisitions come after CDL's June acquisition of a 19-storey, 505-bed PBSA in Coventry, marking its first foray into the segment.

Shares of CDL were trading at $8.26, up one cent or 0.1 per cent, at 1.15 pm on Thursday. THE BUSINESS TIMES

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