

Prosperity REIT

Bloomberg: 808 HK EQUITY | Reuters: 0808.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

21 Jan 2022

BUY

Last Traded Price (20 Jan 2022): HK\$3.08 (HSI : 24,952)
Price Target 12-mth: HK\$3.34 (8% upside)

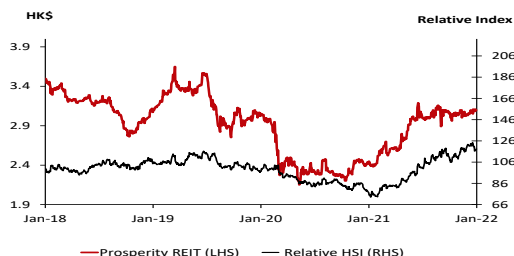
Analyst

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What's New

- Portfolio occupancy improves to >97% led by Metropolis Tower
- Reversionary growth should turn less negative in 2022 as spot rents stabilise
- Unit buyback to support price performance and enhance distribution yield
- BUY with DDM-based TP of HK\$3.34

Price Relative



Forecasts and Valuation

FY Dec (HK\$ m)	2020A	2021F	2022F	2023F
Gross Revenue	453	444	438	447
Net Property Inc	358	351	345	351
Net Profit	(875)	204	200	195
Distribution Inc	273	265	261	258
DPU (HK\$)	0.18	0.17	0.17	0.17
DPU Gth (%)	(2)	(3)	(1)	(2)
Div Yield (%)	5.8	5.7	5.6	5.5
Gross Gearing (%)	22	23	23	22
Book Value (HK\$)	4.95	4.75	4.84	4.97
P/Book Value (x)	0.6	0.6	0.6	0.6

DPU Rev (%): (1) (1)

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

Buyback to support share price

Investment Thesis

BUY with HK\$3.34 TP. Prosperity REIT is trading at distribution yields of 5.7-5.6% for FY21-22. While consistent unit buyback should lend support to its unit price, the bottoming office market should improve sentiment towards the REIT.

Unit buyback to support price performance and enhance distribution yield. Since May-21, Prosperity REIT has bought back 41m units, accounting for c.2.7% of its outstanding units. This has helped to enhance its DPU and support its unit price performance. Prosperity REIT is financially capable to continue its unit repurchase with estimated cash on hand of >HK\$200m.

Firm portfolio occupancy with reversionary growth expected to turn less negative. Prosperity REIT's portfolio occupancy rises slightly to >97% led by Metropolis Tower in Hung Hom where occupancy improves to >95% currently. With stabilizing spot rents, negative reversionary growth should turn less negative in 2022.

Valuation:

Prosperity REIT provides unitholders with a relatively visible and steady distribution income. In our view, the Dividend Discount Model (DDM) would be the most appropriate valuation method for Prosperity REIT. Under the DDM approach, the target price (TP) of Prosperity REIT is equal to the discounted value of all future distribution income paid with an assumed discount rate of 6.6%.

Where we differ:

We believe that the office market is bottoming.

Key Risks to Our View:

Market Risk. Any deterioration in leasing demand for decentralised office space could drag its earnings and unit price performance.

Interest rate risk. Any interest rate hike would adversely affect its valuation.

At A Glance

Issued Capital (m shrs)	1,524
Mkt Cap (HK\$/US\$m)	4,694 / 603
Major Shareholders (%)	
CK Asset Holdings Limited	18.3
Free Float (%)	81.7
3m Avg. Daily Val. (US\$m)	0.42
GICS Industry: Real Estate / Equity Real Estate Investment	



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China/Hong Kong Company Update

Prosperity REIT

WHAT'S NEW

Negative reversionary growth to bottom out

Led by improved occupancy at Metropolis Tower in Hung Hom, Prosperity REIT's portfolio occupancy has edged up to >97% from Jun-21's 96%. Leasing momentum has seen signs of picking up since mid-21 along with economic recovery. Occupancy at Metropolis Tower advanced to >95% from Jun-21's 89.5% thanks to new tenants relocating from Tsim Sha Tsui, mainly from IT and electronics trades. Meanwhile, at Prosperity Millennia Plaza in North Point, there was in-house expansion from the IT and pharmaceutical tenants. Occupancy remained firm at c.97%. Driven by strong demand from retail service trades, particularly beauty tenants, occupancy at Prosperity Place in Kwun Tong climbed slightly from Jun-21's 97.8%. Currently, c.60% of gross rental area in Prosperity Centre is let to semi-retail tenants including beauty, bakery house and education tenants.

Reversionary growth should stay negative at 8-9% in 2H21. Spot rents have started to stabilize as office leasing market turned more active in the recent months. Prosperity REIT has concluded the renewal for c.25% of the leases scheduled for expiry in 2022, which account for 39.6% of the portfolio in terms of gross rental area. The majority will take effect in 1H22 with higher concentration in Trendy Center. Reversionary growth at Trendy Centre and Prosperity Place show signs of turning positive in 2022. On the other hand, rental reversion at Metropolis Tower should stay in the negative territory as MNC demand remain subdued. Against this backdrop, overall rental reversion should turn less negative in 2022.

Carpark utilization rate has exceeded pre-COVID level since mid-21 as economic activities start to normalize. Hence, we forecast carpark income to grow by a similar >10% in FY21 (1H21: +12%). Overall, we estimate FY21 and FY22's revenue to fall by 2% and 1% respectively, primarily dragged by negative reversionary growth. With cost to income ratio expected to stay at c.21% (FY20: 20.9%), NPI should drop by a similar 2% in FY21.

Prosperity REIT has completed the building management system upgrade and chiller plant replacement at Prosperity Millennium Plaza with total capex of c.HK\$20m

in 2021. In 2022/23, Prosperity REIT will commence the asset enhancement works at Metropolis Tower in phases with budget capex of >HK\$30m. The lobby renovation will commence shortly in early 2022. Other ESG-related enhancement initiatives, mainly at Metropolis Tower, are also in the pipeline.

Prosperity REIT is in discussions with banks on the refinancing of HK\$1.54bn term loans maturing in Nov-22, with credit margin expected to be slightly higher than the existing one (82 bps).

Prosperity REIT continues to explore acquisition opportunities, preferably grade B offices.

Since May-21, Prosperity REIT has bought back 41m shares, representing c.2.7% of its outstanding shares. This has underpinned its unit price performance which rose by 3% in the past six months, outperforming its peers by 5-13%.

Following the price rally, Prosperity REIT currently offers distribution yields of 5.7-5.6% for FY21-22. Negative reversionary growth shows signs of bottoming out as spot rents start to stabilize. This should improve sentiment towards the REIT. Furthermore, ongoing unit buyback should continue to provide strong price support, and hence, we maintain BUY with a DDM-based TP of HK\$3.34.

Company Background

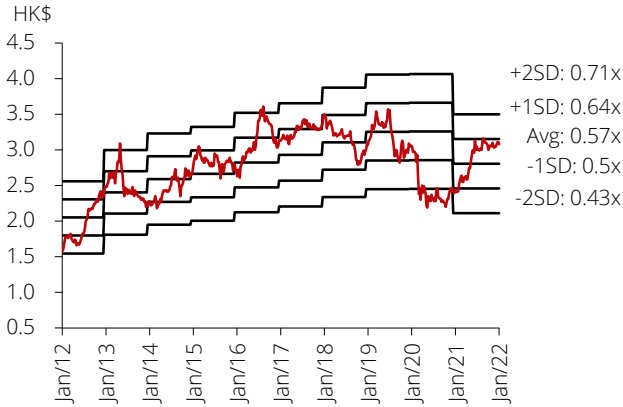
Listed in Dec-05, Prosperity REIT was the first private sector REIT listed on the Hong Kong Stock Exchange. In Jan-14, Prosperity REIT made its first major acquisition of 9 Chong Yip Street, a Grade A office building in Kwun Tong. In Mar-17, the REIT sold Harbourfront Landmark in Hong Hum. The REIT currently owns a diverse portfolio of seven office/commercial, industrial/office and industrial properties in decentralised business districts of Hong Kong.

China/Hong Kong Company Update

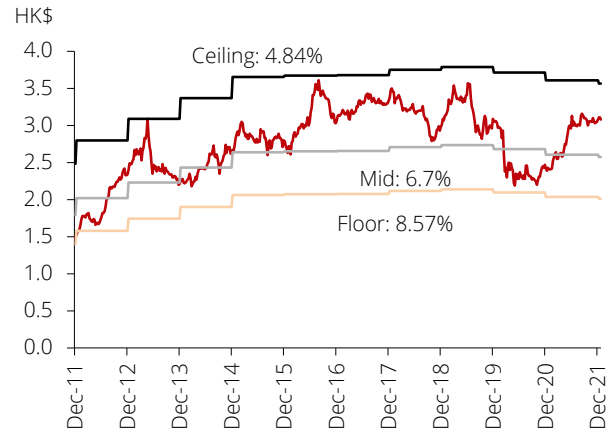
Prosperity REIT

Price to book NAV band and historical yield band

Price to book NAV band



Historical yield band



Source: Bloomberg Finance L.P. DBS HK

China/Hong Kong Company Update

Prosperity REIT

Share Buyback

Date	No. of shares	Issued shares as a % of existing number of issued shares before relevant share issue	Date	No. of shares	Issued shares as a % of existing number of issued shares before relevant share issue
20-Jan-22	170,000	0.0113%	3-Nov-21	1,500,000	0.0989%
19-Jan-22	230,000	0.0153%	2-Nov-21	254,000	0.0167%
18-Jan-22	196,000	0.0130%	1-Nov-21	126,000	0.0083%
17-Jan-22	64,000	0.0043%	29-Oct-21	610,000	0.0402%
14-Jan-22	180,000	0.0120%	28-Oct-21	688,000	0.0455%
13-Jan-22	188,000	0.0125%	8-Oct-21	310,000	0.0204%
12-Jan-22	74,000	0.0049%	7-Oct-21	459,000	0.0302%
11-Jan-22	59,000	0.0039%	6-Oct-21	433,000	0.0285%
10-Jan-22	42,000	0.0028%	5-Oct-21	201,000	0.0132%
7-Jan-22	194,000	0.0129%	4-Oct-21	566,000	0.0373%
6-Jan-22	150,000	0.0100%	30-Sep-21	833,000	0.0549%
5-Jan-22	129,000	0.0086%	29-Sep-21	556,000	0.0363%
4-Jan-22	177,000	0.0118%	28-Sep-21	134,000	0.0088%
3-Jan-22	99,000	0.0066%	27-Sep-21	988,000	0.0645%
31-Dec-21	44,000	0.0029%	24-Sep-21	1,385,000	0.0904%
30-Dec-21	285,000	0.0189%	23-Sep-21	2,282,000	0.1490%
29-Dec-21	139,000	0.0092%	21-Sep-21	1,198,000	0.0782%
28-Dec-21	171,000	0.0113%	20-Sep-21	2,500,000	0.1633%
24-Dec-21	29,000	0.0019%	17-Sep-21	1,577,000	0.1030%
23-Dec-21	85,000	0.0056%	16-Sep-21	376,000	0.0246%
22-Dec-21	317,000	0.0210%	14-Sep-21	414,000	0.0270%
21-Dec-21	97,000	0.0064%	10-Sep-21	28,000	0.0018%
20-Dec-21	153,000	0.0101%	9-Sep-21	294,000	0.0192%
17-Dec-21	614,000	0.0406%	7-Sep-21	114,000	0.0074%
16-Dec-21	311,000	0.0206%	6-Sep-21	70,000	0.0046%
15-Dec-21	299,000	0.0198%	3-Sep-21	4,000	0.0003%
14-Dec-21	361,000	0.0239%	2-Sep-21	1,500,000	0.0980%
13-Dec-21	136,000	0.0090%	1-Sep-21	348,000	0.0227%
10-Dec-21	368,000	0.0244%	31-Aug-21	557,000	0.0363%
9-Dec-21	134,000	0.0089%	30-Aug-21	665,000	0.0434%
8-Dec-21	187,000	0.0124%	27-Aug-21	325,000	0.0212%
7-Dec-21	220,000	0.0146%	26-Aug-21	612,000	0.0399%
6-Dec-21	470,000	0.0311%	25-Aug-21	509,000	0.0332%
3-Dec-21	259,000	0.0171%	18-Aug-21	100,000	0.0065%
2-Dec-21	439,000	0.0291%	17-Aug-21	12,000	0.0008%
1-Dec-21	350,000	0.0232%	13-Aug-21	286,000	0.0187%
30-Nov-21	1,000,000	0.0662%	30-Jun-21	245,000	0.0160%
29-Nov-21	214,000	0.0141%	29-Jun-21	396,000	0.0258%
26-Nov-21	282,000	0.0186%	28-Jun-21	429,000	0.0280%
25-Nov-21	386,000	0.0254%	25-Jun-21	234,000	0.0153%
24-Nov-21	387,000	0.0255%	24-Jun-21	390,000	0.0254%
23-Nov-21	663,000	0.0437%	23-Jun-21	296,000	0.0193%
22-Nov-21	356,000	0.0235%	22-Jun-21	230,000	0.0150%
19-Nov-21	70,000	0.0046%	21-Jun-21	307,000	0.0200%
18-Nov-21	450,000	0.0297%	18-Jun-21	277,000	0.0181%
17-Nov-21	235,000	0.0155%	17-Jun-21	68,000	0.0044%
16-Nov-21	126,000	0.0083%	16-Jun-21	482,000	0.0314%
15-Nov-21	200,000	0.0132%	8-Jun-21	82,000	0.0053%
12-Nov-21	110,000	0.0073%	7-Jun-21	56,000	0.0037%
11-Nov-21	197,000	0.0130%	4-Jun-21	421,000	0.0275%
10-Nov-21	230,000	0.0152%	3-Jun-21	167,000	0.0109%
9-Nov-21	125,000	0.0082%	2-Jun-21	622,000	0.0406%
8-Nov-21	192,000	0.0127%	26-May-21	256,000	0.0167%
5-Nov-21	126,000	0.0083%	25-May-21	313,000	0.0204%
4-Nov-21	126,000	0.0083%	24-May-21	115,000	0.0075%
			Total	41,095,000	2.70%

Source: HKEXnews

China/Hong Kong Company Update

Prosperity REIT

Key Assumptions (%)

	2022F	2023F
Office rental - HK	0	0

Source: Company, DBS HK

Segmental Breakdown (HK\$ m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Revenues (HK\$ m)					
Rental income	375	364	353	345	352
Carpark income	30	27	30	31	32
Rental-related income	58	62	61	62	63
Total	462	453	444	438	447

Source: Company, DBS HK

Income Statement (HK\$ m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Gross revenue	462	453	444	438	447
Property expenses	(96)	(95)	(93)	(93)	(96)
Net Property Income	366	358	351	345	351
Other expenses	(64)	(61)	(59)	(61)	(62)
Interest (Exp)/Inc	(60)	(54)	(46)	(43)	(54)
Exceptionals	133	(1,077)	0	0	0
Pre-Tax Profit	375	(835)	246	241	236
Tax	(42)	(40)	(42)	(41)	(40)
Non-Controlling Interests	0	0	0	0	0
Net Profit	333	(875)	204	200	195
Distribution income	275	273	265	261	258
Revenue Gth (%)	3	(2)	(2)	(1)	2
NPI Gth (%)	4	(2)	(2)	(2)	2
Dist. Inc Growth (%)	2	(1)	(3)	(1)	(1)
DPU Growth (%)	1	(2)	(3)	(1)	(2)

Source: Company, DBS HK

China/Hong Kong Company Update

Prosperity REIT

Balance Sheet (HK\$ m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Fixed Assets	11,126	10,147	9,888	10,134	10,438
Other LT Assets	27	0	0	0	0
Bank Balance/Cash & Liquid	387	352	205	201	192
Debtors	12	13	13	13	13
Total Assets	11,552	10,512	10,107	10,348	10,642
ST Debt	0	798	1,540	0	1
Creditors	191	188	188	191	194
Other Current Liab	194	188	178	182	180
LT Debt	2,320	1,530	788	2,328	2,327
Other LT Liabilities	210	266	277	287	298
Unitholders' funds	8,637	7,543	7,136	7,360	7,643
Total Capital	11,552	10,512	10,107	10,348	10,642
Share Capital (m)	1,503	1,524	1,502	1,519	1,536
Gross Debt	(2,340)	(2,340)	(2,340)	(2,340)	(2,340)
Working Capital	13	(809)	(1,688)	(158)	(170)
Book NAV (HK\$)	5.75	4.95	4.75	4.84	4.97
Gross Gearing (%)	20	22	23	23	22

Source: DBS HK

Cash Flow Statement (HK\$ m)

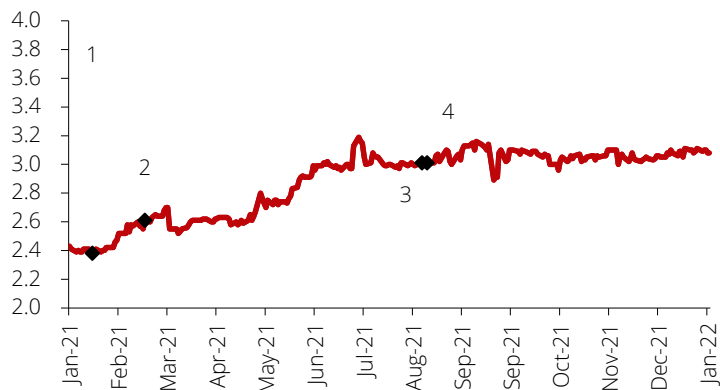
FY Dec	2019A	2020A	2021F	2022F	2023F
Pre-Tax Income	375	(835)	246	241	236
Tax Paid	1	(52)	(31)	(30)	(30)
Depr/Amort	0	0	0	0	0
Chg in Wkg.Cap.	4	(12)	2	2	2
Other Non-Cash	(19)	1,185	95	93	106
Operational CF	361	286	312	306	313
Net Capex	(8)	(4)	(20)	(10)	(10)
Net Change in Investments	0	0	0	0	0
Assoc, MI, Invsmt	5	5	1	1	1
Investment CF	(3)	1	(19)	(9)	(9)
Net Chg in Debt	0	0	0	0	0
New issues/Unit Buyback	0	0	(119)	0	0
Distribution Paid	(272)	(271)	(275)	(257)	(260)
Other Financing CF	(58)	(51)	(47)	(44)	(55)
Financing CF	(330)	(322)	(440)	(301)	(314)
Chg in Cash	28	(35)	(147)	(4)	(10)

Source: Company, DBS HK

China/Hong Kong Company Update

Prosperity REIT

Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	14-Jan-21	HK\$2.39	HK\$2.87	Buy
2:	3-Feb-21	HK\$2.39	HK\$2.87	Buy
3:	5-Mar-21	HK\$2.55	HK\$2.90	Buy
4:	10-Aug-21	HK\$3.01	HK\$3.26	Buy
5:	13-Aug-21	HK\$2.99	HK\$3.34	Buy

Source: DBS HK

Analyst: Jeff YAU CFA,
Percy LEUNG

China/Hong Kong Company Update

Prosperity REIT

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STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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China/Hong Kong Company Update

Prosperity REIT

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