

CK Asset Holdings

Bloomberg: 1113 HK Equity | Reuters: 1113.HK

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DBS Group Research . Equity

9 Feb 2022

BUY

Last Traded Price (28 Jan 2022): HK\$52.15 (HSI : 23,550)
Price Target 12-mth: HK\$63.20 (21% upside) (Prev HK\$60.00)

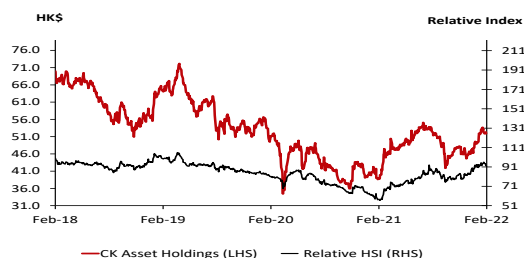
Analyst

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What's New

- Crystallizing the value of aircraft leasing business
- More proactive in land bank restocking in Hong Kong
- Li family has been raising its stake in the company
- BUY with HK\$63.2 TP

Price Relative



Forecasts and Valuation

FY Dec (HK\$ m)	2020A	2021F	2022F	2023F
Turnover	59,825	61,874	62,278	68,040
EBITDA	29,864	31,164	31,635	34,568
Pre-tax Profit	25,206	29,285	29,191	31,265
Underlying Profit	19,339	19,761	22,347	22,558
Underlying Profit Gth (%)	(32.7)	2.2	13.1	0.9
EPS (HK\$)	5.23	5.37	6.13	6.19
EPS Gth (%)	(32.7)	2.7	14.2	0.9
PE (X)	10.0	9.7	8.5	8.4
P/Cash Flow (X)	6.3	16.1	9.6	13.1
EV/EBITDA (X)	8.4	8.1	8.0	7.3
DPS (HK\$)	1.80	2.06	2.09	2.09
Div Yield (%)	3.5	4.0	4.0	4.0
Net Gearing (%)	5	10	CASH	CASH
ROE (%)	4.7	5.5	6.0	5.7
Est. NAV (HK\$):			122.5	126.3
Disc. to NAV (%)			(57)	(59)

Earnings Rev (%)		(23)	(24)	New
Consensus EPS (HK\$):		5.74	6.45	6.87
Other Broker Recs:		B:13	S:0	H:3

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

Vote of confidence

Investment Thesis

BUY with HK\$63.2 TP. The stock is trading at a 57% discount to our appraised current NAV. The disposal of its aircraft leasing business not only unlocks the company's NAV but also improves its balance sheet for pursuing value-accretive investments. Major shareholder Li family has been consistently raising its stake in the company reflecting its strong embedded value. More importantly, this has helped to underpin its continued share price outperformance over its peers.

Crystallizing the value of aircraft leasing business. In Dec-21, Cheung Kong Assets Holdings sold its aircraft leasing business for US\$4.28bn or HK\$33.2bn with estimated disposal gains of US\$170m. Due to prolonged pandemic outbreak, the risk and earnings profile of the aircraft business has become more unpredictable. We see this divestment as a sensible move. This allows the company to redeploy the capital into businesses with better long-term growth prospects in the post-COVID era.

More proactive in land banking in Hong Kong. In 2021, Cheung Kong spent over HK\$11bn on replenishing its development land bank in Hong Kong via various channels. With further improvement in financial strength led by the divestment of the aircraft leasing business, the company has strong war chest to pursue accretive land acquisitions in Hong Kong in the year ahead.

Valuation:

Our TP is based on 50% discount to our Dec-2022 NAV estimates.

Where we differ:

We are more positive on the company's capabilities to redeploy capital from the divestments of assets into new investments with better prospects. This could drive long-term growth and lead to a higher stock valuation.

Key Risks to Our View:

Any softening in residential demand in Hong Kong/China could be an earnings drag for CKAH.

At A Glance

Issued Capital (m shrs)	3,693
Mkt Cap (HK\$/US\$m)	193,329 / 24,823
Major Shareholders (%)	
Li (Ka Shing)	29.7
Li Ka Shing Foundation	6.6
Free Float (%)	63.7
3m Avg. Daily Val. (US\$m)	30.22
GICS Industry: Real Estate / Real Estate Management & Development	



Watchlist the stock on Insights Direct to receive prompt updates



CK Asset Holdings**WHAT'S NEW****Realizing the value of aircraft leasing business**

In Dec-21, Cheung Kong Assets Holdings (CKAH) sold its aircraft leasing business for US\$4.28bn or HK\$33.2bn to Maverick Aviation Holdings, managed by The Carlyle Group. This deal involves 125 aircrafts, mainly narrow body aircraft. The disposal is estimated to produce gains of US\$170m upon completion. Due to the prolonged pandemic outbreak, the operating landscape of aviation has undergone major structural change given travel restrictions and border control measures. This makes the risk and earnings profile of aircraft business more unpredictable. We see this divestment as a sensible move which enables the company to reallocate the capital into businesses with better long-term growth prospects in the post-COVID era.

CKAH has expedited the sales of 21 Borrett Road, the super-luxury development in Mid-levels since May-21, and has sold 29 apartments for a total of HK\$6bn or c.HK\$85,300psf. Profit booking is expected to kick in from 2H21 onwards. Based on our estimated all-in development costs of HK\$47,000psf, we forecast decent pre-tax development earnings of >40%.

In 2021, CKAH was active in exploring investment opportunities in residential land market with HK\$11.4bn spent to replenish its land bank in Hong Kong. Following the HK\$10.28bn acquisition of a residential site on the former Kai Tak Airport Runway in Feb-21, the company won the tender for a Yuen Long residential site for HK\$716m or HK\$9,112psf. This site is adjacent to the School of Motoring (Yuen Long) and a five-minute drive from both Yuen Long Station and Long Ping Station. Total GFA is 78,574sf. CKAH plans to build two-storey garden houses on this site. We see this as the best way to exploit the development value of this site which has a tranquil environment on one hand and offers good transportation accessibility on the other.

The company also converted an agricultural land in Kam Tin into residential use with GFA of 137,584sf after paying the

land premium of HK\$388m or HK\$2,820psf. This low-density residential development is about 15-minute walk from Kam Sheung Road Station. Adding up construction and financing costs, we estimate all-in development cost at HK\$8,000psf on a saleable area basis.

After repurchasing 410m shares at HK\$51 apiece following asset injection from Li Ka Shing Foundation, CKAH bought back another 3.15m shares for HK\$164m. This was followed by Li family increasing its stake in the company. Li family bought 27m shares for HK\$1.3bn, raising its stake to 46.34%. These not only signals strong embedded value of the company but has also propped up the share price which has risen 9% in the previous three months, outperforming the broad market by 17ppts.

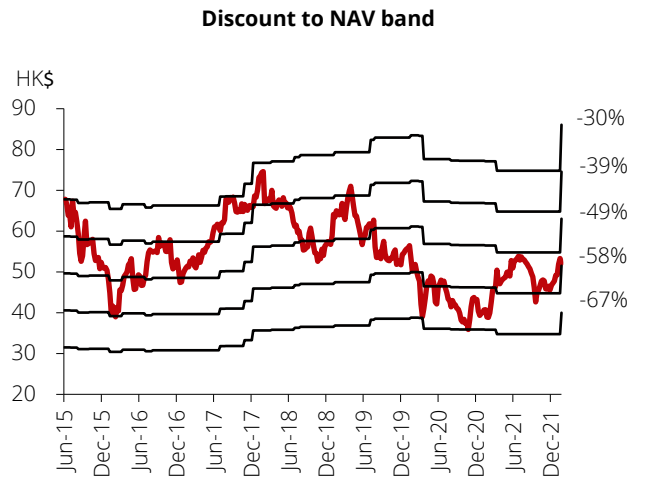
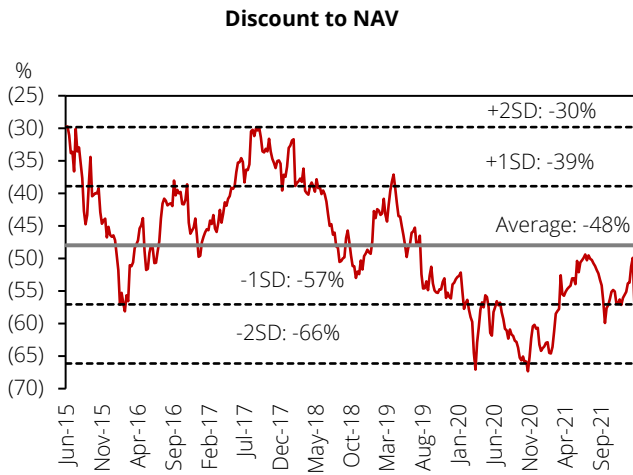
Following the share price appreciation, the stock is now trading at a 57% discount to our assessed current NAV. Valuation remains undemanding. Any further stake increase by Li family would lend support to its share price. We reiterate our BUY call at this stage with HK\$63.2 TP, based on target discount of 50% to our Dec-22 NAV estimate

Company Background

CK Asset Holdings (CKAH) was the property arm of the Cheung Kong Group. The company was spun off as CK Property in 2015 and renamed as CK Asset Holdings in 2017. For its property business, CKAH develops residential properties for sale, holds investment properties for rental, and operates hotels. CKAH also owns c. 32%, 27%, and 18% stakes in Huxian REIT, Fortune REIT and Prosperity REIT respectively. For its non-property business, CKAH has investments in brewery/pubs, and a portfolio of utilities/infrastructure companies to generate recurring income.

CK Asset Holdings

Discount to NAV



Source: Bloomberg Finance L.P., DBS HK

CK Asset Holdings

Key Assumptions (%)

	2022F	2023F
Residential price - HK	0	2
Office rental - HK	0	0
Retail rental (Shopping centre) - HK	5	5

Source: DBS HK

Segmental Breakdown (HK\$ m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Revenues (HK\$ m)					
Property sales	64,099	38,653	34,893	31,867	37,642
Property rental	7,302	6,603	6,544	6,467	6,479
Hotels and serviced suites	4,168	2,039	2,710	3,182	3,933
Property and project management	827	798	838	871	906
Aircraft leasing	2,375	2,202	1,890	1,890	0
Pub operations	3,611	9,530	15,000	18,000	19,080
Total	82,382	59,825	61,874	62,278	68,040

Source: DBS HK

Income Statement (HK\$ m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Turnover	82,382	59,825	61,874	62,278	68,040
EBITDA	38,196	29,864	31,164	31,635	34,568
Depr / Amort	(2,192)	(3,445)	(3,721)	(4,018)	(4,340)
EBIT	36,004	26,419	27,443	27,616	30,229
Associates Inc	2,569	2,411	3,222	3,124	3,036
Interest (Exp)/Inc	(1,291)	(1,451)	(1,380)	(1,550)	(2,000)
Exceptionals	228	(2,173)	0	0	0
Pre-tax Profit	37,510	25,206	29,285	29,191	31,265
Tax	(7,464)	(7,417)	(8,549)	(6,218)	(8,062)
Non-controlling interests	(371)	(957)	(750)	(400)	(420)
Holders of Perpetual Securities	(541)	(500)	(225)	(225)	(225)
Net Profit	29,134	16,332	19,761	22,347	22,558
Underlying Profit	28,729	19,339	19,761	22,347	22,558
Sales Gth (%)	64	(27)	3	1	9
Net Profit Gth (%)	(27)	(44)	21	13	1
EBITDA Margins (%)	46	50	50	51	51
EBIT Margin (%)	44	44	44	44	44
Tax Rate (%)	20	29	29	21	26

Source: DBS HK

CK Asset Holdings

Balance Sheet (HK\$ m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Fixed Assets	217,351	223,784	221,350	219,931	218,243
Long-term Investments	16,924	16,787	16,787	16,787	16,787
Other LT Assets	7,716	8,096	9,595	11,093	12,590
Intangibles Assets	6,492	6,655	6,655	6,655	6,655
Deferred Tax Asset	2,688	3,102	3,102	3,102	3,102
Associates/JVs	66,371	69,544	86,544	54,165	53,965
Bank Balance/Cash & Liquid	60,304	59,519	37,419	59,405	65,570
Inventory	121,930	121,737	136,342	144,400	160,660
Debtors	8,281	11,479	11,259	11,304	11,254
Other Non Cash Current	0	0	0	0	0
Total Assets	508,057	520,703	529,052	526,842	548,826
ST Debt	6,841	22,887	3,000	3,000	3,001
Creditors	21,970	21,336	20,336	20,341	20,311
Other Current Liab	20,947	26,600	26,600	26,600	26,600
LT Debt	73,241	55,006	71,893	51,893	55,892
Deferred Tax Liabilities	13,836	14,938	14,938	14,938	14,938
Other LT Liabilities	9,990	12,718	12,718	12,718	12,718
Perpetual Securities	11,670	6,200	6,200	6,200	6,200
Non-controlling interests	5,309	6,379	7,129	7,529	7,949
Shareholder's Equity	344,253	354,639	366,238	383,623	401,217
Total Cap. & Liab.	508,057	520,703	529,052	526,842	548,826
Share Capital (m)	3,696	3,696	3,678	3,644	3,644
Net Cash/(Debt)	(19,778)	(18,374)	(37,474)	4,512	6,677
Working Capital	140,757	121,912	135,083	165,167	187,572
Net Gearing (%)	6	5	10	CASH	CASH

Source: DBS HK

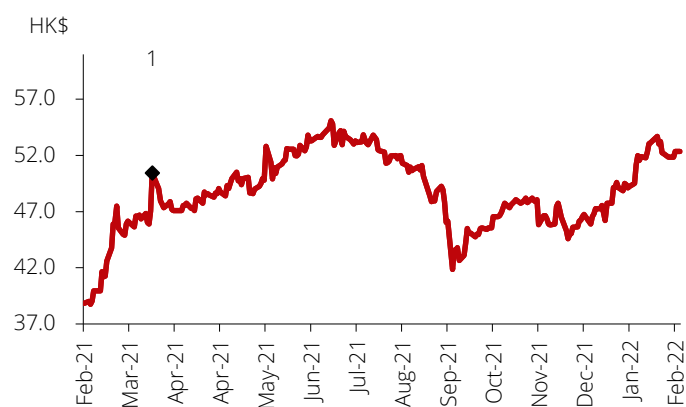
Cash Flow Statement (HK\$ m)

FY Dec	2019A	2020A	2021F	2022F	2023F
EBIT	36,004	26,419	27,443	27,616	30,229
Tax Paid	(4,520)	(8,278)	(8,549)	(6,218)	(8,062)
Depr/Amort	2,192	3,445	3,721	4,018	4,340
Profit or loss on disposal of FAs/subsidiaries/investment	(2,190)	834	0	0	0
Chg in Wkg.Cap	3,179	4,148	(15,065)	(7,648)	(15,840)
Other Non-Cash	7,250	(2,271)	1,723	1,626	1,539
Operating CF	41,915	24,297	9,273	19,395	12,206
Net Capex	(2,996)	(8,715)	0	0	0
Investments	11,331	151	0	0	0
Associates & JVs	389	628	(17,000)	32,379	200
Associates' Dividends	2,431	1,387	0	0	0
Others	(25,997)	(715)	0	0	0
Investing CF	(14,842)	(7,264)	(17,000)	32,379	200
Net Chg in Debt	(11,953)	(3,596)	(3,000)	(20,000)	4,000
Non-controlling interests	0	0	0	0	0
New Capital	0	(11,670)	(2,544)	0	0
Dividend	(7,992)	(7,298)	(6,904)	(7,562)	(7,615)
Other Financing CF	(2,802)	3,184	(1,925)	(2,225)	(2,625)
Financing CF	(22,747)	(19,380)	(14,374)	(29,788)	(6,241)
Chg in Cash	4,326	(2,347)	(22,100)	21,986	6,165

Source: DBS HK

CK Asset Holdings

Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	19-Mar-21	HK\$47.05	HK\$60.00	Buy

Source: DBS HK

Analyst: Jeff YAU CFA,

CK Asset Holdings

DBS HK recommendations are based on an Absolute Total Return* Rating system, defined as follows:

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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