

HKR International Ltd

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DBS Group Research . Equity

9 Feb 2022

BUY

Last Traded Price (28 Jan 2022): HK\$3.11 (HSI : 23,550)
Price Target 12-mth: HK\$4.84 (56% upside) (Prev HK\$4.83)

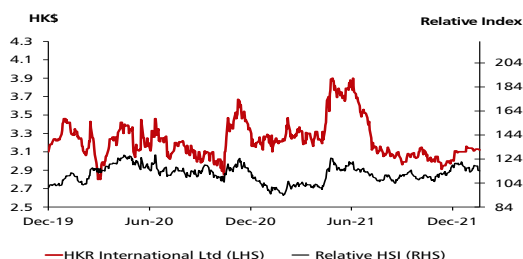
Analyst

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What's New

- Favourable land premium for Discovery Bay Master Plan 7.0E
- Foray into Hangzhou office market followed by residential site acquisition in Shanghai
- Crystallised the value of three properties in Tokyo
- BUY with HK\$4.84 TP

Price Relative



Forecasts and Valuation

FY Mar (HK\$ m)	2020A	2021A	2022F	2023F
Turnover	4,696	3,942	3,673	3,128
EBITDA	1,976	1,491	1,283	904
Pre-tax Profit	2,522	1,492	1,313	1,243
Underlying Profit	1,142	868	943	818
Underlying Profit Gth (%)	47.2	(24.0)	8.6	(13.2)
EPS (HK\$)	0.77	0.58	0.63	0.55
EPS Gth (%)	47.2	(24.0)	8.6	(13.2)
PE (X)	4.0	5.3	4.9	5.6
P/Cash Flow (X)	3.4	3.2	nm	2.8
EV/EBITDA (X)	8.0	10.6	12.4	17.5
DPS (HK\$)	0.12	0.09	0.09	0.12
Div Yield (%)	3.9	2.9	2.9	3.9
Net Gearing (%)	22	20	38	34
ROE (%)	7.5	3.9	3.9	3.3
Est. NAV (HK\$):			18.6	19.4
Disc. to NAV (%)			(83)	(84)

Earnings Rev (%): (1) 2

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

On expansion mode

Investment Thesis

BUY with HK\$4.84 TP. The stock, trading at 83% below our appraised current NAV, is attractively valued. The recent land bank restocking in Hong Kong and China should brighten its development earnings outlook.

Optimising the asset mix for growth. HKR has been proactively searching for new investment opportunities. The company made a foray into Hangzhou's office market in Sep-21 followed by the acquisition of a residential site in Shanghai in Nov-21. On the other hand, HKR realised the value of three properties in Tokyo. This not only augments the company's bottom-line earnings but also frees up capital for new investments.

Favourable land premium for new phases in Discovery Bay.

HKR has concluded the land premium negotiations for Master Plan 7.0E for Discovery Bay which will provide c.1,800 units with a total GFA of >1.3msf. Land premium is set at HK\$5.24bn or HK\$4,031 psf. With estimated pre-tax development margins of >30%, this sizeable project should be the major catalyst for medium to long-term development earnings, when completed in phases.

Valuation:

Our target price is based on a target discount of 75% to our Dec 2022 NAV estimate.

Where we differ:

We are more positive about the long-term growth prospects of the Discovery Bay projects and HKRI Taikoo Hui.

Key Risks to Our View:

Any deterioration in residential demand in Hong Kong led by a prolonged economic downturn would impact the company's project sales and its earnings.

If the retail market recovery in China is derailed, the performance of the mall at HKRI Taikoo Hui in Shanghai would be affected.

At A Glance

Issued Capital (m shrs)	1,485
Mkt Cap (HK\$m/US\$m)	4,648 / 597
Major Shareholders (%)	
CCM Trust (Cayman) Ltd.	48.2
LBJ Regents Limited	6.8
Free Float (%)	45.0
3m Avg. Daily Val. (US\$m)	0.06
GICS Industry: Real Estate / Real Estate Management & Development	



Watchlist the stock on Insights Direct to receive prompt updates



HKR International Ltd

WHAT'S NEW**Investing for a better future**

In Jiaxing, HKR launched Creekside One in Jiaxing for sale in Jul-21, with an overwhelming sales response. All 98 units were sold for c.Rmb500m with pre-tax development margins estimated at 25-30%. Mansion One, which contains 188 mid-rise apartments, has been substantially sold since its launch in mid-Oct. These two developments should dominate the company's near-term development profits.

In Hong Kong, HKR has sold a further 43 units at Poggibonsi in Discovery Bay for >HK\$680m since Apr-21. Thus far, the company has sold 187 units, representing >95% of the total. Recently, HKR sold two more houses at IL PICCO for HK\$127m in total. This brought the cumulative number of houses sold to five, representing 24% of the total.

Construction work of the luxury project in Tai Po, a 40/60 joint venture with Hysan Development, is close to completion. This low-density residential development contains 262 units including 41 houses with a GFA of 0.5msf. The project is expected to go on sale when completed in 1H22.

In 1HFY22, HKR concluded the land premium negotiation for Discovery Bay Master Plan 7.0E. Land premium was fixed at HK\$5.24bn or HK\$4,031 psf. Located adjacent to Poggibonsi, this development will provide a total GFA of >1.3msf upon phased completion. With estimated pre-tax development margins of >30%, this sizeable residential project should be the company's key development earnings catalyst over the medium to long term.

In Sep-21, HKR acquired 12 office floors or 156 office units and 62 car parking lots at Jinsha INCITY in the Qiantang district of Hangzhou for Rmb414m. This marked the company's first foray into Hangzhou's office market. The properties generated a total income of Rmb20m p.a. and after-tax profit of Rmb14m p.a.. This implies an initial gross yield and net yield of 4.8% and 3.4%, respectively. This property will be held for rental initially to diversify its rental income base. In Nov 21, the company acquired a residential

lot in Songjiang, Shanghai, for Rmb830m. With a GFA of 32,528sm (of which 5% is earmarked for a security housing development), this site will be developed into a low-density residential project.

On the other hand, HKR realised the value of mature property assets. In Oct-21, HKR agreed to dispose of two residential properties and one office property in Tokyo for JPY19.3bn or HK\$1.35bn. Based on their aggregate after-tax profit in FY3/21, the exit yield is estimated at 1.94%. The disposal should yield estimated gains of HK\$289m in 2HFY22. Net sales proceeds after the repayment of the corresponding onshore bond and bank loan will be recycled into new investments with better growth potential. After this divestment that was completed in Nov 21, HKR still owns two residential properties in Tokyo for leasing.

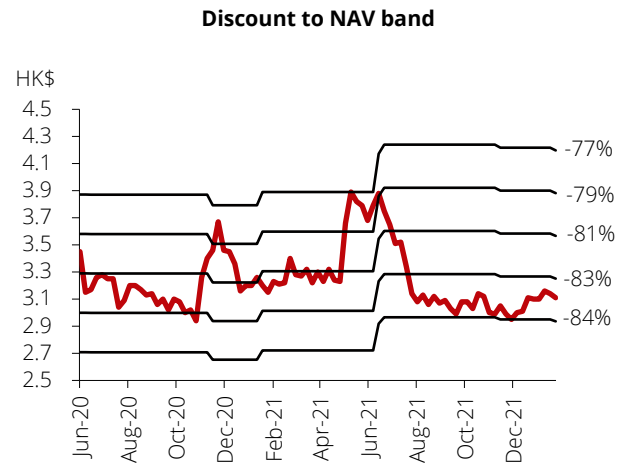
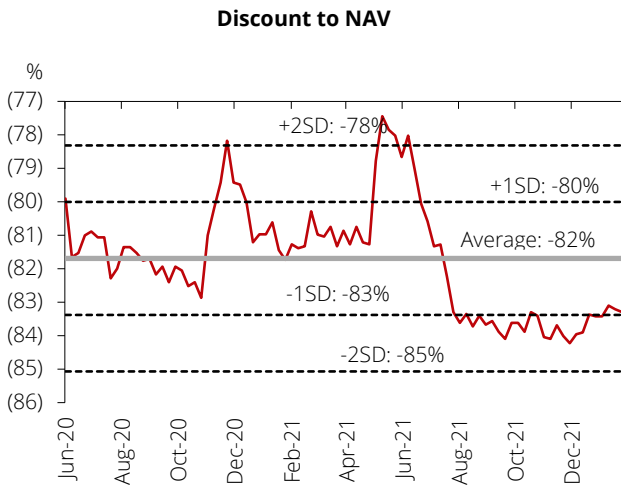
The stock, trading at 83% discount to our appraised current NAV, is undervalued. Favourable land premium for Discovery Bay Master Plan 7E has laid down a solid foundation for the company's medium to long-term growth of development profit. The company has been proactively optimising its asset portfolio through divesting mature property assets on one hand and making new investments with better growth prospects on the other. This augurs well for its long-term valuation. BUY with HK\$4.84 TP, based on 75% discount to our Dec-22 NAV estimate.

Company Background

Listed in 1989, HKR International is engaged primarily in property development and investment in Hong Kong, China, and Asia. Throughout the years, the company has transformed Discovery Bay into a fully integrated residential community. HKR also owns an investment property portfolio with major rental properties including CDW Building in Tsuen Wan and HKRI Taikoo Hui in Shanghai. HKR also provides healthcare services.

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Discount to NAV



Source: Bloomberg Finance L.P., DBS HK

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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 Mar	2019A	2020A	2021A	2022F	2023F
Revenues (HK\$ m)					
Property development	2,297	3,223	2,785	2,264	1,530
Property leasing	460	528	503	476	498
Hotel management	329	264	124	243	343
Others	758	681	530	689	757
Total	3,844	4,696	3,942	3,673	3,128

Source: DBS HK

Income Statement (HK\$ m)

FY Mar	2019A	2020A	2021A	2022F	2023F
Turnover	3,844	4,696	3,942	3,673	3,128
EBITDA	1,003	1,976	1,491	1,283	904
Depr / Amort	(165)	(192)	(201)	(221)	(244)
EBIT	838	1,784	1,290	1,062	661
Associates Inc	947	507	226	293	642
Interest (Exp)/Inc	(171)	(214)	(24)	(41)	(59)
Exceptionals	1,117	445	0	0	0
Pre-tax Profit	2,731	2,522	1,492	1,313	1,243
Tax	(326)	(838)	(363)	(197)	(218)
Non-controlling interests	(198)	(60)	(231)	(173)	(207)
Net Profit	2,207	1,625	897	943	818
Underlying Profit	776	1,142	868	943	818
Sales Gth (%)	73	22	(16)	(7)	(15)
Net Profit Gth (%)	(4)	(26)	(45)	5	(13)
EBITDA Margins (%)	26	42	38	35	29
EBIT Margin (%)	22	38	33	29	21
Tax Rate (%)	12	33	24	15	18

Source: DBS HK

HKR International Ltd

Balance Sheet (HK\$ m)

FY Mar	2019A	2020A	2021A	2022F	2023F
Fixed Assets	14,797	17,563	17,946	17,099	16,956
Long-term Investments	491	626	1,597	5,597	5,597
Other LT Assets	173	213	336	336	336
Deferred Tax Asset	16	39	114	114	114
Associates/JVs	8,764	9,047	9,643	9,936	10,578
Bank Balance/Cash & Liquid	2,611	2,511	3,061	2,911	3,317
ST Investments	28	30	27	27	27
Inventory	7,212	5,926	4,381	6,217	5,638
Debtors	854	1,069	813	723	573
Other Non Cash Current	513	217	227	227	227
Total Assets	35,457	37,241	38,145	43,187	43,362
ST Debt	906	4,109	777	2,300	1,500
Creditors	1,201	1,289	1,032	1,052	1,072
Other Current Liab	1,894	2,016	1,229	1,229	1,229
LT Debt	5,780	3,212	6,908	9,885	10,185
Deferred Tax Liabilities	382	473	469	469	469
Other LT Liabilities	1,371	1,396	1,125	1,125	1,125
Non-controlling interests	2,622	2,679	2,921	2,921	2,921
Shareholder's Equity	21,300	22,067	23,684	24,206	24,861
Total Cap. & Liab.	35,457	37,241	38,145	43,187	43,362
Share Capital (m)	1,485	1,485	1,485	1,485	1,485
Net Cash/(Debt)	(4,076)	(4,810)	(4,624)	(9,274)	(8,368)
Working Capital	7,216	2,340	5,471	5,524	5,980
Net Gearing (%)	19	22	20	38	34

Source: DBS HK

Cash Flow Statement (HK\$ m)

FY Mar	2019A	2020A	2021A	2022F	2023F
EBIT	838	1,784	1,290	1,062	661
Tax Paid	(227)	(653)	(482)	(197)	(218)
Depr/Amort	165	192	201	221	244
Profit or loss on disposal of FAs/subsidiaries/investment	(3)	(234)	2	(289)	0
Chg in Wkg.Cap	(124)	(694)	(123)	(5,726)	749
Other Non-Cash	3	309	71	0	0
Operating CF	653	705	960	(4,930)	1,436
Net Capex	(438)	(689)	(573)	613	(100)
Others	666	(493)	70	0	0
Investing CF	228	(1,182)	(502)	613	(100)
Net Chg in Debt	(817)	618	393	4,500	(500)
Dividend	(171)	(166)	(359)	(292)	(371)
Other Financing CF	(123)	(22)	(140)	(41)	(59)
Financing CF	(1,112)	430	(107)	4,167	(930)
Chg in Cash	(230)	(48)	350	(150)	406

Source: DBS HK

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Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	16-Jun-21	HK\$3.77	HK\$4.74	Buy
2:	24-Jun-21	HK\$3.90	HK\$4.83	Buy
3:	18-Nov-21	HK\$2.99	HK\$4.83	Buy

Source: DBS HK

Analyst: Jeff YAU CFA,
Percy LEUNG

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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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