

# China / Hong Kong Company Update

## K.Wah International

Bloomberg: 173 HK EQUITY | Reuters: 0173.HK

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9 Feb 2022

### BUY

Last Traded Price (28 Jan 2022): HK\$3.05 (HSI : 23,550)  
Price Target 12-mth: HK\$3.92 (29% upside) (Prev HK\$4.95)

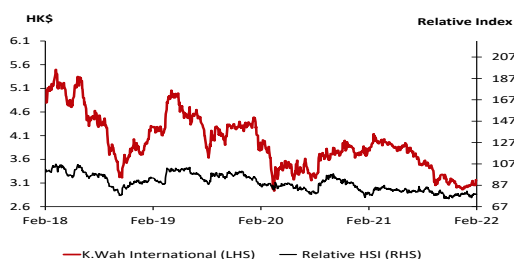
#### Analyst

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### What's New

- Achieved robust contracted sales in 2021
- Strong project launch pipeline in Hong Kong and China
- Upcoming completion of Wuyi Road commercial project in Shanghai to enhance rental portfolio
- BUY with HK\$3.92 TP

#### Price Relative



#### Forecasts and Valuation

FY Dec (HK\$ m)	2020A	2021F	2022F	2023F
Turnover	11,732	16,427	16,597	8,647
EBITDA	5,071	3,738	2,333	2,704
Pre-tax Profit	4,860	3,867	2,251	2,778
Underlying Profit	3,542	2,860	1,650	1,699
Underlying Profit Gth (%)	12.2	(19.3)	(42.3)	3.0
EPS (HK\$)	1.13	0.91	0.53	0.54
EPS Gth (%)	12.2	(19.3)	(42.4)	3.0
PE (X)	2.7	3.3	5.8	5.6
P/Cash Flow (X)	5.2	1.0	2.7	4.4
EV/EBITDA (X)	5.2	7.0	11.2	9.7
DPS (HK\$)	0.21	0.21	0.21	0.21
Div Yield (%)	6.9	6.9	6.9	6.9
Net Gearing (%)	40	26	25	29
ROE (%)	7.9	6.4	3.5	3.5
Est. NAV (HK\$):			14.8	15.7
Disc. to NAV (%)			(79)	(81)

Earnings Rev (%): (3) (41) New

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

### Too much value to ignore

#### Investment Thesis

**BUY with HK\$3.92 TP.** The stock is trading at a 79% discount to our assessed current NAV. Valuation is very appealing from a historical viewpoint. The rollout of new project launches should help narrow the discount to NAV, providing upside on share price.

**Robust contracted sales.** K.Wah achieved attributable contracted sales of >HK\$14bn. This included >HK\$7bn from Hong Kong which stemmed primarily from selling K.Summit in Kai Tak and Grand Victoria in Cheung Sha Wan. The virtually sold K.Summit has been substantially handed over to buyers and should be the mainstay of development earnings in FY21.

**Strong project launch pipeline in Hong Kong and China.** In Hong Kong, K.Wah plans to offer the Grampian Road luxury house project and Kam Sheung Road Station Package One for sale in 1H22. Two joint venture residential projects in Kai Tak and Lohas Park Package 11 should be available for pre-sale in 2H22. In China, the company will focus on selling projects in Yangtze River Delta including Shanghai, Nanjing and Suzhou.

#### 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 on the company's execution capability in property development which should translate into higher project profitability.

#### Key Risks to Our View:

Any deterioration in housing demand in Hong Kong and China (particularly in Yangtze River Delta and Greater Bay Area) could be a drag on its development earnings and share price performance.

#### At A Glance

Issued Capital (m shrs)	3,127
Mkt Cap (HK\$/US\$m)	9,913 / 1,273
Major Shareholders (%)	
Lui (Che Woo)	56.5
Polymate Company Limited	8.5
Free Float (%)	35.1
3m Avg. Daily Val. (US\$m)	0.43
GICS Industry: Real Estate / Real Estate Management & Development	



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**K.Wah International****WHAT'S NEW****Strong project launch pipeline**

K.Wah International achieved contracted sales of >HK\$7bn in Hong Kong which stemmed primarily from K.Summit in Kai Tak and Grand Victoria in Cheung Sha Wan.

Since its initial launch in Dec-19, the company has sold >980 units at K.Summit for HK\$11.4bn or HK\$24,800psf on average. This represented 98% of a total of 1,006 units. After obtaining the certificate of compliance, the company has been handing over the units to the buyers from Dec-21. Thus far, over 70% of sold units were handed over with the corresponding profit being recognised in FY21. We estimate that K.Summit, if fully sold, should generate total pre-tax earnings of c.HK\$3bn and be the mainstay of the company's near-term development profit.

Situated on the waterfront of Cheung Sha Wan, Grand Victoria is a joint venture with Sino Land, Wheelock and SEA Holdings. K.Wah has a 22.5% stake in this residential development which is being developed in three phases with a total of 1,437 units. The consortium has sold >680 units, 47% of total, for >HK\$9bn, since its initial launch in Mar-21. ASP reached HK\$28,000psf. The site was acquired for HK\$17.3bn or HK\$17,501psf (on GFA basis) through government tender in Nov-17. Given relatively high land cost, we estimate pre-tax development margins at <10%. The project is scheduled for completion in 2023.

In 2022, K.Wah plans to sell the newly completed Grampian Road project in Kowloon City. This development contains five houses with GFA of 21,528sf. Since the site was acquired at low cost more than 10 years ago, this luxury house development should command fat pre-tax margins of >50%.

K.Wah is applying for pre-sale consent of Ph 1A of Kam Sheung Road Package One project (715 units) which is expected to go on pre-sale in 1H22. Two joint venture projects in Kai Tak and one in Tseung Kwan O (Lohas Park Package 11) should also be available for pre-sale in 2H22. Overall, K.Wah has strong project pipeline for 2022.

In China, K.Wah attained contracted sales of c.HK\$7bn in 2021. About 40% came from Azure in Shanghai which has been virtually sold out with project handover in 2H21. The balance came from inventory sales of Windermere in Shanghai, Bayview in Dongguan and projects in Jiangmen, and sales of Vetta in Suzhou. Launched in Jul-21, K.Wah has sold about one-third of units at Vetta for Rmb29,000psm on average.

K.Wah will focus on launching projects in Yangtze River Delta in 2021. The company intends to offer the residential portion of joint venture project in Shanghai Hongkou and its mixed-use development in Nanjing for sale in 1H22. Besides, the Weifang Village project in Shanghai and two other developments in Suzhou and Nanjing are anticipated to go on sale in 2H22.

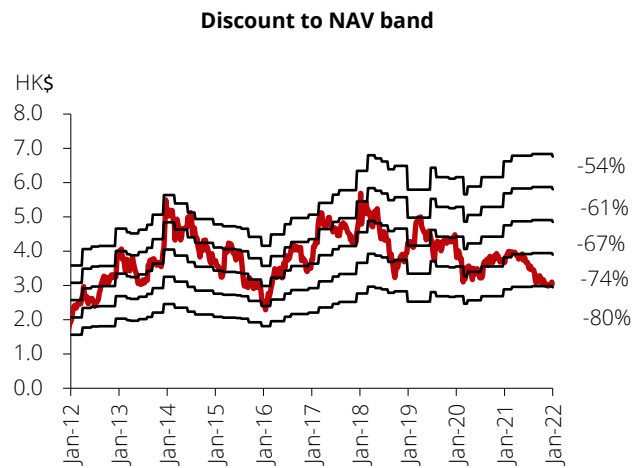
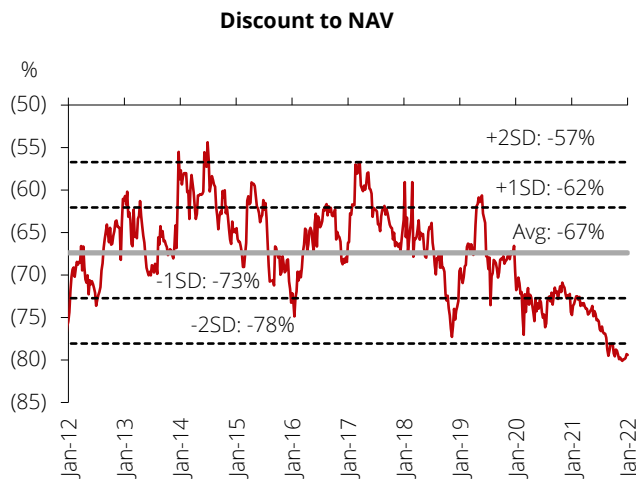
Occupancy of its flagship rental property, Shanghai K.Wah Centre, is firm at c.95% with slightly positive reversionary growth. The fully-let EDGE in Shanghai, will provide its first full-year rental contribution in FY22. Construction of the Wuyi Road office/commercial project in Shanghai is expected to be completed in 2Q22 with pre-leasing activities underway. With a GFA of 13,700sm, this new project should further enhance the company's recurrent income base.

The stock is trading 79% below our appraised current NAV. The valuation is very attractive from a historical viewpoint. The planned project launch, if greeted with satisfactory market response, should help to narrow its discount to NAV. We keep our BUY call with HK\$3.92 TP. This is derived by applying 75% discount to our Dec-2022 NAV estimate.

**Company Background**

K.Wah International is a mid-sized property developer focusing on Hong Kong & Shanghai markets. It holds c.3.8% stake in Galaxy Entertainment (27.HK).

Discount to NAV



Source: Bloomberg Finance L.P., DBS HK

## K.Wah International

### 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
<b>Revenues (HK\$ m)</b>					
Sale of properties	9,957	11,102	15,676	15,805	7,790
Rental income	582	560	662	695	748
Hotel operation	112	70	89	97	109
<b>Total</b>	<b>10,652</b>	<b>11,732</b>	<b>16,427</b>	<b>16,597</b>	<b>8,647</b>

Source: DBS HK

### Income Statement (HK\$ m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Turnover	10,652	11,732	16,427	16,597	8,647
EBITDA	4,935	5,071	3,738	2,333	2,704
Depr / Amort	(30)	(30)	(31)	(32)	(33)
<b>EBIT</b>	<b>4,905</b>	<b>5,041</b>	<b>3,706</b>	<b>2,301</b>	<b>2,671</b>
Associates Inc	262	61	156	0	192
Interest (Exp)/Inc	94	68	5	(50)	(85)
Exceptionals	38	(310)	0	0	0
<b>Pre-tax Profit</b>	<b>5,299</b>	<b>4,860</b>	<b>3,867</b>	<b>2,251</b>	<b>2,778</b>
Tax	(2,063)	(1,565)	(903)	(495)	(971)
Non-controlling interests	(86)	(27)	(104)	(106)	(108)
<b>Net Profit</b>	<b>3,150</b>	<b>3,268</b>	<b>2,860</b>	<b>1,650</b>	<b>1,699</b>
<b>Underlying Profit</b>	<b>3,156</b>	<b>3,542</b>	<b>2,860</b>	<b>1,650</b>	<b>1,699</b>
Sales Gth (%)	(1)	10	40	1	(48)
Net Profit Gth (%)	(22)	4	(13)	(42)	3
EBITDA Margins (%)	46	43	23	14	31
EBIT Margin (%)	46	43	23	14	31
Tax Rate (%)	39	32	23	22	35

Source: DBS HK

## K.Wah International

### Balance Sheet (HK\$ m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Fixed Assets	15,541	16,047	16,328	16,775	17,235
Long-term Investments	9,327	9,790	9,790	9,790	9,790
Other LT Assets	588	1,127	1,127	1,127	1,127
Intangibles Assets	0	0	0	0	0
Deferred Tax Asset	119	179	179	179	179
Associates/JVs	12,807	13,511	15,248	17,160	19,567
Bank Balance/Cash & Liquid	5,443	7,673	11,255	12,181	10,450
ST Investments	1,313	1,972	1,972	1,972	1,972
Inventory	28,271	26,761	21,941	21,154	22,190
Debtors	625	4,061	3,981	4,031	4,081
Other Non Cash Current	525	635	635	635	635
<b>Total Assets</b>	<b>74,559</b>	<b>81,754</b>	<b>82,454</b>	<b>85,001</b>	<b>87,224</b>
ST Debt	4,269	5,516	2,500	3,200	3,201
Creditors	7,357	5,315	5,395	5,365	5,445
Other Current Liab	4,109	3,746	3,746	3,746	3,746
LT Debt	16,172	19,526	20,542	20,842	21,341
Deferred Tax Liabilities	2,527	2,724	2,646	2,526	2,403
Other LT Liabilities	7	102	102	102	102
Non-controlling interests	1,232	1,248	1,469	1,755	2,048
Shareholder's Equity	38,886	43,577	46,054	47,465	48,938
<b>Total Cap. &amp; Liab.</b>	<b>74,559</b>	<b>81,754</b>	<b>82,454</b>	<b>85,001</b>	<b>87,224</b>
Share Capital (m)	3,125	3,126	3,129	3,133	3,133
Net Cash/(Debt)	(14,998)	(17,368)	(11,787)	(11,861)	(14,092)
Working Capital	20,442	26,524	28,142	27,660	26,934
Net Gearing (%)	39	40	26	25	29

Source: DBS HK

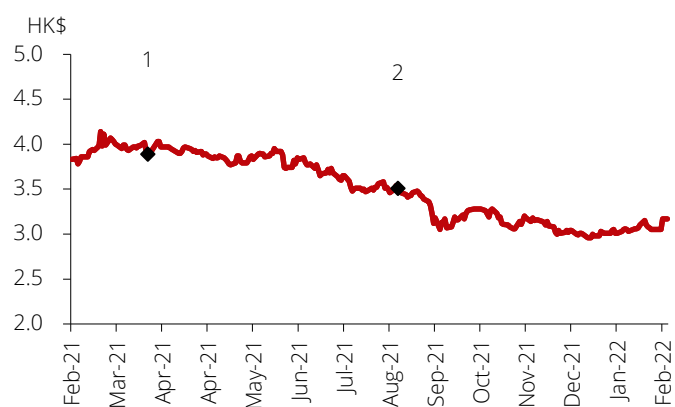
### Cash Flow Statement (HK\$ m)

FY Dec	2019A	2020A	2021F	2022F	2023F
EBIT	4,905	5,041	3,706	2,301	2,671
Tax Paid	(1,261)	(1,705)	(903)	(495)	(971)
Depr/Amort	30	30	31	32	33
Profit or loss on disposal of FAs/subsidiaries/investment	0	0	0	0	0
Chg in Wkg.Cap	449	(3,277)	5,380	1,157	(541)
Other Non-Cash	(704)	(277)	(475)	(580)	(630)
<b>Operating CF</b>	<b>3,420</b>	<b>(187)</b>	<b>7,739</b>	<b>2,415</b>	<b>562</b>
Net Capex	(296)	(42)	0	0	0
Investments	(796)	(513)	0	0	0
Associates & JVs	(6,119)	(1,940)	(1,581)	(1,912)	(2,215)
Associates' Dividends	807	903	0	0	0
Others	107	146	80	80	80
<b>Investing CF</b>	<b>(6,298)</b>	<b>(1,446)</b>	<b>(1,501)</b>	<b>(1,832)</b>	<b>(2,135)</b>
Net Chg in Debt	1,700	4,405	(2,000)	1,000	500
New Capital	1	5	0	0	0
Dividend	(665)	(698)	(657)	(657)	(658)
Other Financing CF	(148)	(51)	0	0	0
<b>Financing CF</b>	<b>888</b>	<b>3,661</b>	<b>(2,657)</b>	<b>343</b>	<b>(158)</b>
Chg in Cash	(1,990)	2,028	3,582	925	(1,731)

Source: DBS HK

## K.Wah International

### Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	24-Mar-21	HK\$3.93	HK\$4.82	Buy
2:	25-Aug-21	HK\$3.54	HK\$4.95	Buy

Source: DBS HK

Analyst: Jeff YAU CFA,

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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)

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\*Share price appreciation + dividends

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