

China / Hong Kong Company Update

Lai Sun Development

Bloomberg: 488 HK Equity | Reuters: 0488.HK

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DBS Group Research . Equity

9 Feb 2022

BUY

Last Traded Price (28 Jan 2022): HK\$4.10 (HSI : 23,550)
Price Target 12-mth: HK\$5.26 (28% upside) (Prev HK\$5.24)

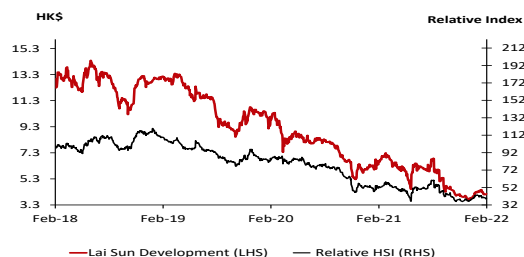
Analyst

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What's New

- Bought two old buildings in Mid-Levels for combined redevelopment in Jan 21
- Won the government tender for a luxury site in Kowloon Tong in Oct 21
- Applying for pre-sale consent for Bal Residence in Kwun Tong
- BUY with HK\$5.26 TP

Price Relative



Forecasts and Valuation

FY Iul (HK\$ m)	2020A	2021A	2022F	2023F
Turnover	5,214	5,987	4,913	4,706
EBITDA	(288)	82	680	1,055
Pre-tax Profit	(4,103)	(2,401)	(759)	(425)
Underlying Profit	(1,012)	(947)	(526)	(329)
Net Profit	(2,935)	(2,088)	(526)	(329)
Underlying Profit Gth (%)	N/A	6.4	44.4	37.6
Net Profit Gth (%)	N/A	28.8	74.8	37.6
EPS (HK\$)	(1.48)	(1.38)	(0.54)	(0.34)
EPS Gth (%)	N/A	7.0	60.5	37.6
PE (X)	nm	nm	nm	nm
P/Cash Flow (X)	nm	2.4	nm	nm
EV/EBITDA (X)	nm	354.0	42.6	27.5
DPS (HK\$)	0.00	0.00	0.00	0.00
Div Yield (%)	0.0	0.0	0.0	0.0
Net Gearing (%)	46	47	50	50
ROE (%)	N/A	N/A	N/A	N/A
Est. NAV (HK\$):			25.5	26.3
Disc. to NAV (%)			(84)	(84)
Earnings Rev (%):			nm	nm
Consensus EPS (HK\$):			(0.47)	(0.27)
Other Broker Recs:		B:1	S:0	H:0

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

Proactive land bank restocking

Investment Thesis

BUY with HK\$5.26 TP. The stock is trading 84% below our appraised current NAV. The current low valuation cushions downside risks on the share price. The recent land bank restocking should lay down a solid foundation for future development earnings growth. In the near term, any stake change by its second largest shareholder, the Yu family, would dictate share price performance.

Proactively replenished land bank with a focus on luxury segment. In Jan-22, Lai Sun Development acquired old buildings in Mid-Levels for redeveloping into an upmarket residential project. Since Jan 21, the company has acquired four luxury development sites which will, altogether, provide a total attributable GFA of 0.27msf. These projects are in superb locations such as the Mid-Levels and Kowloon Tong. This should make them well sought after when going on sale.

Planned sale of Bal Residence. Lai Sun Development is applying for pre-sale approval for the 156-unit Bal Residence in Kwun Tong which, if fully sold, should generate sales revenue of >HK\$1.2bn. This should help improve the company's financial strength.

Valuation:

Our target price is based on an 80% discount to our Dec-2022 NAV estimate.

Where we differ:

We are more positive on long-term value enhancement from the planned Leadenhall Street office redevelopment in London that is expected to commence in 2023.

Key Risks to Our View:

The Yu family may reduce its stake in the company. Global or local economic uncertainties could dent leasing demand for office/retail properties and, in turn, impact Lai Sun Development's rental earnings. The prolonged COVID-19 outbreak would drag the company's hotel performance.

At A Glance

Issued Capital (m shrs)	612
Mkt Cap (HK\$m/US\$m)	2,509 / 322
Major Shareholders (%)	
Lai Sun Garment International Ltd	53.2
Yu (Cheuk Yi)	26.3
Jinlong Road Ltd.	5.3
Free Float (%)	15.3
3m Avg. Daily Val. (US\$m)	0.09
GICS Industry: Real Estate / Real Estate Management & Development	



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Lai Sun Development

WHAT'S NEW

Acquired four luxury development sites within a year

In the past 12 months, Lai Sun Development has been proactively restocking its development land bank with a focus on the luxury segment.

After joining hands with New World Development, Empire Group, and CSI Properties to secure the development rights of Wong Chuk Hang Station Package 5 in Jan-21, the company acquired a three-storey building at 116 Waterloo Road in Ho Man Tin for HK\$328m in Sep-21. The transaction is expected to be completed with vacant possession in mid-22. The company intends to redevelop it into a residential property with a GFA of c.46,000sf subject to a land premium payment.

In Oct 21, Lai Sun Development defeated 16 other developers to secure a luxury residential site (NKIL6638) in Kowloon Tong via government tender at a land premium of HK\$1.61bn or HK\$22,465psf. Formerly the Educational Television Centre, the site will be developed into a luxury project with a GFA of 71,591sf upon completion. Adding construction and financing costs, we estimate all-in development costs at HK\$36,000psf on a saleable area basis.

In Jan-22, the company bought two ageing residential buildings at 1 & 1A Kotewall Road in Mid-Levels through private treaties for HK\$1.3bn in total. The company plans to redevelop the sites into a luxury project with 20 apartments. Total GFA is 57,450sf. Including construction and financing costs, total investment is estimated at HK\$1.7-1.8bn.

Following these land acquisitions, we estimate the company's gearing to rise to c.50% (or c.3% excluding net debt of eSun and Lai Fung Holdings).

That said, the company's financial risk should not be overly concerning. Lai Sun Development is applying for pre-sale consent for Bal Residence in Kwun Tong. This development will provide 156 units with a residential GFA of c.64,000sf upon scheduled completion in 3Q23. The project is expected to go on sale in 1H22. When fully sold, Bal Residence should generate sales proceeds of >HK\$1.2bn. Elsewhere, the company is developing another residential project in Yuen Long with a GFA of 42,200sf. Improved market sentiment there following the government's announcement of the plan to develop the Northern Metropolis should facilitate the future sales of this project.

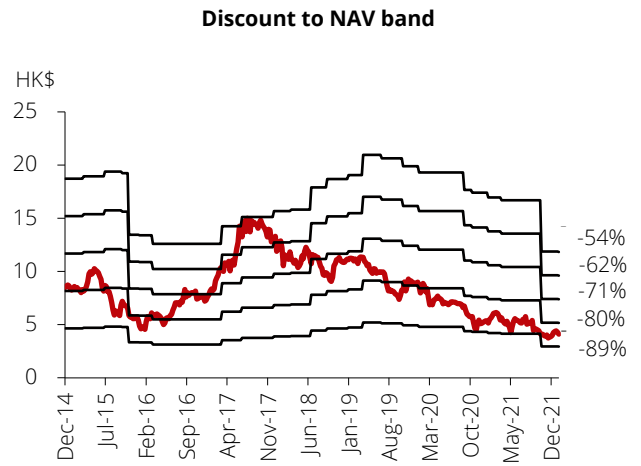
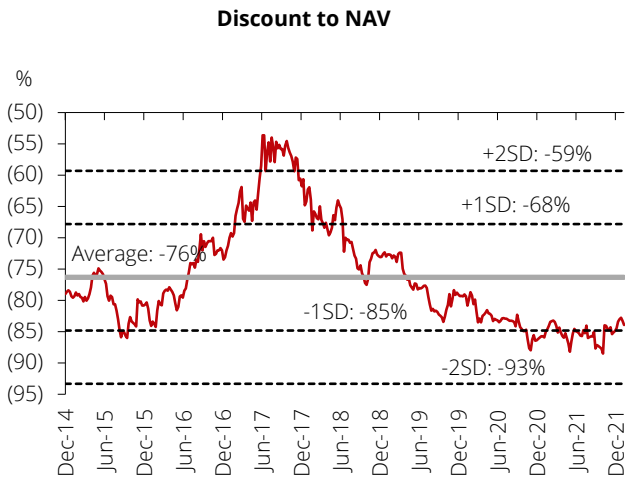
The stock is trading at an 84% discount to our appraised current NAV. A string of land acquisitions should lay down a solid foundation for future growth of the company's development earnings. This should, in turn, brighten the medium-term profit outlook. In the near term, the stake change by its second largest shareholder, the Yu family, would play a key role in dictating its share performance. Based on a target discount of 80% to our Dec-2022 NAV estimate, we set our TP at HK\$5.26 and hence recommend a BUY call.

Company Background

Lai Sun Development is principally engaged in property development and investment in Hong Kong, as well as hotel operations and management. It also has a c.75% stake in eSun Holdings (571 HK), which is engaged in the media and entertainment business, directly and indirectly through Media Asia Group (8075 HK), and carries out the property business in China through c.55%-owned Lai Fung Holdings (1125 HK).

Lai Sun Development

Discount to NAV



Source: Bloomberg Finance L.P., DBS HK

Lai Sun Development

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 Jul	2019A	2020A	2021A	2022F	2023F
Revenues (HK\$ m)					
Property Dev & Sales	2,280	1,690	2,503	1,295	800
Property Investment	1,357	1,299	1,287	1,255	1,290
Hotel & Rest. operations	1,201	1,095	1,064	1,232	1,484
Others	1,656	1,129	1,132	1,132	1,132
Total	6,494	5,214	5,987	4,913	4,706

Source: DBS HK

Income Statement (HK\$ m)

FY Jul	2019A	2020A	2021A	2022F	2023F
Turnover	6,494	5,214	5,987	4,913	4,706
EBITDA	4,387	(288)	82	680	1,055
Depr / Amort	(440)	(941)	(904)	(904)	(904)
EBIT	3,947	(1,229)	(822)	(224)	151
Associates Inc	676	(441)	(453)	195	193
Interest (Exp)/Inc	(381)	(698)	(767)	(730)	(770)
Exceptionals	650	(1,735)	(359)	0	0
Pre-tax Profit	4,892	(4,103)	(2,401)	(759)	(425)
Tax	(159)	90	(256)	75	7
Non-controlling interests	110	1,078	569	158	90
Net Profit	4,843	(2,935)	(2,088)	(526)	(329)
Underlying Profit	453	(1,012)	(947)	(526)	(329)
Sales Gth (%)	284	(20)	15	(18)	(4)
Net Profit Gth (%)	12	N/A	29	75	38
EBITDA Margins (%)	68	(6)	1	14	22
EBIT Margin (%)	61	(24)	(14)	(5)	3
Tax Rate (%)	3	N/A	N/A	N/A	N/A

Source: DBS HK

Lai Sun Development

Balance Sheet (HK\$ m)

FY Jul	2019A	2020A	2021A	2022F	2023F
Fixed Assets	50,769	48,773	49,806	49,927	49,848
Long-term Investments	81	71	55	55	55
Other LT Assets	6,263	3,277	3,759	3,759	3,759
Intangibles Assets	236	272	274	274	274
Deferred Tax Asset	0	0	0	0	0
Associates/JVs	7,756	7,093	7,342	7,357	7,550
Bank Balance/Cash & Liquid	5,174	6,025	10,555	9,134	8,766
ST Investments	143	48	5	5	5
Inventory	6,131	9,839	9,475	13,091	13,611
Debtors	1,383	1,211	1,294	1,244	1,294
Other Non Cash Current	690	509	472	472	472
Total Assets	78,626	77,118	83,038	85,318	85,635
ST Debt	4,324	8,075	3,151	3,500	3,501
Creditors	4,862	4,484	4,872	5,007	5,142
Other Current Liab	298	726	829	829	829
LT Debt	14,988	14,087	23,631	23,782	23,581
Deferred Tax Liabilities	5,470	5,013	5,256	5,256	5,256
Other LT Liabilities	329	1,282	2,314	2,314	2,314
Non-controlling interests	12,526	8,481	8,835	8,678	8,588
Shareholder's Equity	35,828	34,970	34,149	35,952	36,423
Total Cap. & Liab.	78,626	77,118	83,038	85,318	85,635
Share Capital (m)	606	684	688	969	969
Net Cash/(Debt)	(14,057)	(16,066)	(16,172)	(18,093)	(18,261)
Working Capital	4,036	4,347	12,951	14,610	14,677
Net Gearing (%)	39	46	47	50	50

Source: DBS HK

Cash Flow Statement (HK\$ m)

FY Jul	2019A	2020A	2021A	2022F	2023F
EBIT	3,947	(1,229)	(822)	(224)	151
Tax Paid	(255)	(167)	(329)	75	7
Depr/Amort	353	941	904	904	904
Profit or loss on disposal of FAs/subsidiaries/investment	(6,526)	824	222	0	0
Chg in Wkg.Cap	(1,507)	(88)	3,101	(3,200)	(105)
Other Non-Cash	2,270	(575)	(1,906)	(1,000)	(1,140)
Operating CF	(1,717)	(294)	1,170	(3,445)	(183)
Net Capex	(3,317)	(1,591)	(974)	(25)	(25)
Investments	0	0	0	0	0
Associates & JVs	1,438	(252)	(972)	0	0
Associates' Dividends	1,774	70	67	220	40
Others	1,548	(36)	(113)	0	0
Investing CF	1,443	(1,809)	(1,992)	195	15
Net Chg in Debt	524	2,882	4,206	500	(200)
Non-controlling interests	3	8	45	0	0
New Capital	0	0	0	1,329	0
Dividend	(93)	(58)	(2)	0	0
Other Financing CF	(359)	(203)	584	0	0
Financing CF	75	2,630	4,833	1,829	(200)
Chg in Cash	(199)	527	4,011	(1,421)	(368)

Source: DBS HK

Lai Sun Development

Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	29-Mar-21	HK\$6.33	HK\$8.85	Buy
2:	25-Oct-21	HK\$4.14	HK\$5.24	Buy

Source: DBS HK

Analyst: Jeff YAU CFA,

Lai Sun Development

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)

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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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