

China / Hong Kong Company Update

Sun Hung Kai Properties

Bloomberg: 16 HK EQUITY | Reuters: 0016.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

25 Feb 2022

BUY

Last Traded Price (24 Feb 2022): HK\$93.95 (HSI : 22,902)
Price Target 12-mth: HK\$118.20 (26% upside)

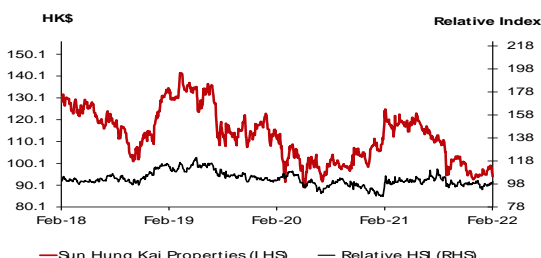
Analyst

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What's New

- 1HFY22 underlying profit fell 15% to HK\$14.8bn, ahead of our forecast due to smaller-than-expected drop in development earnings
- Strong project launch pipeline
- China rental portfolio is a bright spot
- BUY with HK\$118.2 TP

Price Relative



Forecasts and Valuation

FY 1un (HK\$ m)	2020A	2021A	2022F	2023F
Turnover	82,653	85,262	82,997	86,550
EBITDA	40,036	42,428	41,335	41,291
Pre-tax Profit	36,819	39,019	37,228	37,170
Underlying Profit	29,368	29,873	29,983	30,189
Underlying Profit Gth (%)	(9.4)	1.7	0.4	0.7
EPS (HK\$)	10.13	10.31	10.35	10.42
EPS Gth (%)	(9.4)	1.7	0.4	0.7
PE (X)	9.3	9.1	9.1	9.0
P/Cash Flow (X)	5.2	12.9	17.3	15.9
EV/EBITDA (X)	9.5	9.0	9.2	9.3
DPS (HK\$)	4.95	4.95	4.95	4.95
Div Yield (%)	5.3	5.3	5.3	5.3
Net Gearing (%)	14	16	17	18
ROE (%)	5.2	5.1	5.0	4.8
Est. NAV (HK\$):			246.4	262.7
Disc. to NAV (%)			(62)	(64)

Earnings Rev (%): Nil (3)
Consensus EPS (HK\$): 10.50 11.29
Other Broker Recs: B:12 S:0 H:4

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

Compelling valuations

Investment Thesis

BUY, HK\$118.20 TP. The stock is trading at a 62% discount to our appraised current NAV, c.2SD below its 10-year average discount of 45%. Estimated dividend yield for FY22 is 5.3%. Valuation is compelling even allowing for the adverse impact from COVID resurgence.

Portfolio expansion to boost rentals. In 1HFY22, net rental earnings grew 2% thanks to improved contributions from China investment property portfolio, retail malls in particular. In the next three to four years, the completion of new investment properties should propel the expansion of rental earnings. They include YOHO Mall extension, How Ming Street development, Nanjing IFC Mall, and the remaining phases of Shanghai ITC. In China, rental portfolio should expand to c.26msf by Jun-24 from the current 15.2msf.

Optimising the development value of mega-sized Shap Sz Heung project. In Oct-21, SHKP settled at a land premium of HK\$3.72bn for additional residential GFA of 1.06msf for its Shap Sz Heung development. This mega-sized project now offers a total GFA of 5.8msf, primarily for residential use. The number of units built has also been revised up significantly to >9,000. This should lead to better marketability and higher development value.

Valuation:

Our target price is based on 55% discount to our Dec-2022 NAV estimate.

Where we differ:

We are more positive on the long-term growth of rental earnings led by portfolio expansion in Hong Kong & China.

Key Risks to Our View:

Any further deterioration in property demand in Hong Kong & China could drag its earnings and share price performance. Any unexpected housing policy change could trigger a sector-wide re-rating or de-rating.

At A Glance

Issued Capital (m shrs)	2,898
Mkt Cap (HK\$m/US\$m)	272,267 / 34,871
Major Shareholders (%)	
HSBC Trustee (C.I.) Ltd.	27.2
Thriving Talent Ltd.	6.7
Rosy Result Ltd.	6.5
Asporto Ltd.	6.5
Free Float (%)	53.1
3m Avg. Daily Val. (US\$m)	46.79
GICS Industry: Real Estate / Real Estate Management & Development	



Watchlist the stock on Insights Direct to receive prompt updates



Sun Hung Kai Properties

WHAT'S NEW

Strong project launch pipeline

Sun Hung Kai Properties' (SHKP) 1HFY22 underlying earnings came in at HK\$14.8bn, down 15%, driven by lower development profit. Despite reduced earnings, interim DPS remained flat at HK\$1.25.

Development earnings fell 38% to HK\$7.7bn and included HK\$622m from China. The drop was due to fewer project completions. In Hong Kong, major contributors included Wetland Seasons Park Ph 2&3 in Tin Shui Wai, Regency Bay in Tuen Mun, and the balance came from continued sales of Grand YOHO Ph 2 and Cullinan West III. In China, key projects booked included Forest Hills in Guangzhou and Oriental Bund Ph 3B in Foshan.

As of Dec-21, SHKP has a net order book of HK\$34.5bn including HK\$28.6bn from Hong Kong and HK\$5.9bn from China.

Since Jul-21, SHKP has sold HK\$22.7bn worth of properties in Hong Kong representing 50% of its FY21 sales target. The bulk stemmed from the sales of Wetland Seasons Bay Ph 1&2 in Tin Shui Wai and YOHO Hub in Yuen Long which have been >90% and >40% pre-sold respectively. The remaining came from Imperial Kennedy and inventory sales of completed projects such as Cullinan West III. In China, SHKP achieved contracted sales of Rmb2bn amid weak market sentiment.

In the coming ten months, SHKP plans to sell two large mass market developments in Tuen Mun and Tai Po (TMTL463 and TPTL 244) in addition to continued sales of YOHO Hub after the current wave of COVID outbreak subsides. Other developments such as St. Michel Ph 2, Wetland Seasons Bay Ph 3 and Prince Central will also go on sale at an opportune time. Luxury project, Victoria Harbour Ph 2, could be available for sale once the border reopens with the return of affluent Mainland Chinese buyers.

In Oct-21, SHKP increased GFA of mega-sized Shap Sz Heung project from 4.8msf to 5.8msf after paying additional premium of HK\$3.72bn. The company boasts a land bank of 23.6msf which is sufficient for development over the next five to six years.

Gross and net rental receipts both rose 2% to HK\$12.6bn and HK\$9.7bn mainly led by improved contributions from

its China portfolio. China malls staged robust tenants' sales. For example, retail sales at Shanghai IFC had more than doubled the pre-COVID level. Fueled by stronger turnover rents and favourable rental reversion, China retail income jumped 23% to HK\$2.2bn. This in turn underpinned solid growth of 18% for gross rental billings from China. However, this was partly offset by the shortfall from its Hong Kong counterpart which recorded 3% income decline dragged by negative reversionary growth for commercial properties.

SHKP should see growing rental income stream aided by portfolio expansion in Hong Kong and China. In Hong Kong, the YOHO Mall extension is scheduled to open for business in 2023 followed by retail podium of the How Ming Street development in 2024. Preleasing of office portion that is slated for completion in 2023 is underway with positive market response. In China, a 220m-tall office tower at Shanghai ITC will be completed in mid-2022. The remaining portion of this sizeable mixed-use development will be completed in phases from 2023 onwards. Nanjing IFC Mall is expected to open in phases from mid-2022. With the completion of new investment properties, China rental portfolio should increase from the current 15msf to c.26msf by Jun-24, and further to c.29msf in Jun-26.

Net debt stood at HK\$105bn in Dec-21. (Jun-21: HK\$95bn) This put its gearing at 17.5%. (Jun-21: 16%). Despite slightly higher gearing, financial position remains sound. This allows the company to pursue accretive land banking for long-term growth.

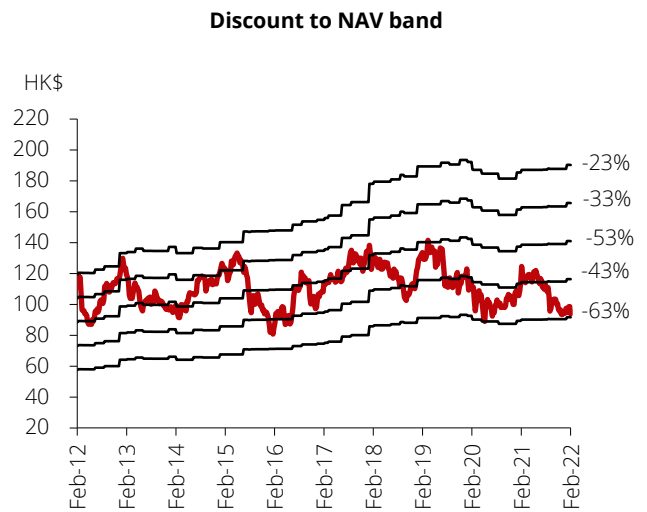
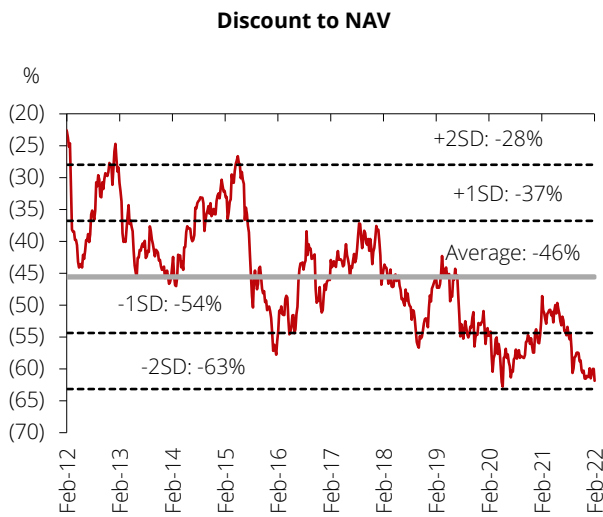
Meanwhile, the stock is trading at a 62% discount to our appraised current NAV, c.2SD below its 10-average of 45%. Estimated dividend yield for FY22 stands at 5.3%. Valuations are very attractive from a historical perspective. This should lend support to its share price. Portfolio expansion in Hong Kong and China should widen the company's rental income base, thus improving earnings quality. Longer term, SHKP stands to benefit from the development of Northern Metropolis given its strong exposure there. Overall, SHKP should remain a core holding for those investors betting on the Hong Kong real estate sector. Maintain BUY with HK\$118.20 TP, based on 55% discount to our Dec-2022 NAV estimate. Any positive newsflow on the pandemic situation and border re-opening could be key catalyst, amongst others.

Sun Hung Kai Properties

Company Background

Sun Hung Kai Properties (SHKP) is a leading property company in Hong Kong where it owns a total land bank of 57.8m sf in GFA, comprising 34.2m sf of completed properties (mainly for rental) and 23.6m sf of development properties as of Dec-21. The company also holds sizeable agricultural land in New Territories. In China, SHKP's total land bank reached 71.1m sf, made up of 17.5m sf of completed properties (mainly for rental) and 53.6m sf of development properties.

Discount to NAV



Source: Bloomberg Finance L.P., DBS HK

Sun Hung Kai Properties

Result Summary

FY Jun (HK\$m)	1HFY21	1HFY22	% Chg	Comments
Turnover	46,070	40,153	(13)	1HFY22: led by lower development income
Property sales	11,340	7,190	(37)	1HFY22: mainly from Wetland Seasons Park Ph 2 & 3 and Regency Bay
Property rental	7,778	8,029	3	1HFY22: stronger earnings from China portfolio, partially offset by lower contributions from the Hong Kong counterpart
Hotel operation	(202)	(138)	(32)	1HFY22: due to improved occupancy
Telecommunications	380	391	3	
Transportation, infrastructure and logistics	612	602	(2)	
Data centre operations	471	505	7	
Other businesses	799	594	(26)	
Other net income	627	607	(3)	
Unallocated administrative expenses	(782)	(873)	12	
Profit from operation before fair value changes on investment properties	21,023	16,907	(20)	
Increase in fair value of investment properties	(3,240)	1,038	n.a.	1HFY22: primarily attributable to the revaluation gain from the Mainland portfolio, as a result of the strong retail rental growth in China, with no material change in cap rate
Finance costs	(1,172)	(1,103)	(6)	
Finance income	155	186	20	
Associates and jointly controlled entities	1,349	1,954	45	
- Property sales	1,026	468	(54)	mainly from China projects
- Property rental	1,718	1,699	(1)	
- Hotel operation	(26)	(24)	(8)	
- Transportation, infrastructure and logistics	235	176	(25)	
- Other businesses	36	51	42	
- Other net income	0	50	n.a.	
- Net finance costs	(180)	(131)	(27)	
- Increase in fair value of investment properties	(619)	341	n.a.	
- Taxation	(841)	(676)	(20)	
Profit before taxation	18,115	18,982	5	
Taxation	(4,140)	(3,468)	(16)	
Non controlling interest	(331)	(328)	(1)	
Perpetual capital securities holders	(66)	0	(100)	
Net profit	13,578	15,186	12	
Underlying profit	17,482	14,818	(15)	

Source: Sun Hung Kai Properties

Sun Hung Kai Properties

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 Jun	2019A	2020A	2021A	2022F	2023F
Revenues (HK\$ m)					
Property sales	38,573	39,765	42,701	38,579	39,761
Rental income	20,590	19,909	20,410	21,018	21,459
Hotel operation	4,786	2,595	2,178	2,571	3,312
Telecommunications	8,415	6,986	6,720	7,031	7,308
Data Centre operations	1,561	1,714	1,874	2,192	2,755
Others	11,377	11,684	11,379	11,607	11,955
Total	85,302	82,653	85,262	82,997	86,550

Source: DBS HK

Income Statement (HK\$ m)

FY Jun	2019A	2020A	2021A	2022F	2023F
Turnover	85,302	82,653	85,262	82,997	86,550
EBITDA	40,770	40,036	42,428	41,335	41,291
Depr / Amort	(2,912)	(4,581)	(5,183)	(5,442)	(5,605)
EBIT	37,858	35,455	37,245	35,892	35,685
Associates Inc	3,911	3,147	3,682	3,335	3,585
Interest (Exp)/Inc	(2,051)	(2,120)	(1,990)	(2,000)	(2,100)
Exceptionals	347	337	82	0	0
Pre-tax Profit	40,065	36,819	39,019	37,228	37,170
Tax	(6,618)	(6,674)	(8,378)	(6,609)	(6,381)
Minority Interest	(878)	(608)	(702)	(635)	(600)
Holders of Perpetual	(171)	(169)	(66)	0	0
Underlying Profit	32,398	29,368	29,873	29,983	30,189
Sales Gth (%)	0	(3)	3	(3)	4
Net Profit Gth (%)	7	(9)	2	0	1
EBITDA Margins (%)	48	48	50	50	48
EBIT Margin (%)	44	43	44	43	41
Tax Rate (%)	17	18	21	18	17

Source: DBS HK

Sun Hung Kai Properties

Balance Sheet (HK\$ m)

FY Jun	2019A	2020A	2021A	2022F	2023F
Fixed Assets	422,474	421,542	438,800	438,287	447,568
Long-term Investments	3,313	2,603	3,229	3,229	3,229
Other LT Assets	4,764	6,954	5,803	5,803	5,803
Intangibles Assets	4,445	4,288	4,273	4,273	4,273
Associates/JVs	73,751	78,782	101,481	103,182	105,604
Bank Balance/Cash & Liquid	22,038	31,705	21,781	22,227	18,495
ST Investments	1,103	824	1,383	1,383	1,383
Inventory	196,463	233,737	200,934	226,563	252,481
Debtors	22,811	17,396	18,735	19,035	18,535
Total Assets	751,162	797,831	796,419	823,981	857,371
ST Debt	9,168	26,375	20,979	12,000	12,001
Creditors	28,699	36,851	28,210	27,710	27,910
Other Current Liab	28,035	34,116	24,010	24,010	24,010
LT Debt	85,838	86,231	95,844	114,823	119,822
Deferred Tax Liabilities	23,328	22,638	25,694	25,694	25,694
Other LT Liabilities	275	1,205	2,056	2,056	2,056
Perpetual Securities	3,813	3,813	0	0	0
Minority Interests	5,601	14,789	5,806	6,249	6,658
Shareholder's Equity	566,405	571,813	593,820	611,439	639,219
Total Cap. & Liab.	751,162	797,831	796,419	823,981	857,371
Share Capital (m)	2,897	2,898	2,898	2,898	2,898
Net Cash/(Debt)	(72,968)	(80,901)	(95,042)	(104,596)	(113,328)
Working Capital	176,513	186,320	169,634	205,487	226,973
Net Gearing (%)	13	14	16	17	18

Source: DBS HK

Cash Flow Statement (HK\$ m)

FY Jun	2019A	2020A	2021A	2022F	2023F
EBIT	37,858	35,455	37,245	35,892	35,685
Tax Paid	(5,539)	(4,518)	(5,426)	(6,609)	(6,381)
Depr/Amort	2,912	4,581	5,183	5,442	5,605
Profit or loss on disposal of FAs/subsidiaries/investment	(73)	(239)	(28)	0	0
Chg in Wkg.Cap	(17,020)	12,047	(20,089)	(25,629)	(24,218)
Other Non-Cash	1,617	542	(1,229)	0	0
Operating CF	19,755	47,868	15,656	9,097	10,691
Net Capex	(12,315)	(48,687)	(10,222)	(2,950)	(2,950)
Investments	(253)	625	(651)	0	0
Associates & JVs	(391)	363	1,316	785	312
Associates' Dividends	0	0	0	850	850
Others	123	(1,368)	(3)	0	0
Investing CF	(12,836)	(49,067)	(9,560)	(1,315)	(1,788)
Net Chg in Debt	4,055	18,191	2,605	10,000	5,000
Non-controlling interests	0	9,394	0	0	0
New Capital	64	18	0	0	0
Dividend	(14,282)	(15,083)	(14,760)	(14,536)	(14,535)
Other Financing CF	2,090	(1,199)	(4,741)	(2,800)	(3,100)
Financing CF	(8,073)	11,321	(16,896)	(7,336)	(12,635)
Chg in Cash	(1,154)	10,122	(10,800)	446	(3,732)

Source: DBS HK

Sun Hung Kai Properties

Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	26-Feb-21	HK\$125.00	HK\$135.2	Buy
2:	4-Aug-21	HK\$112.1	HK\$141.1	Buy
3:	10-Sep-21	HK\$109.60	HK\$142.60	Buy
4:	23-Sep-21	HK\$96.1	HK\$126.10	Buy
5:	9-Feb-22	HK\$94.95	HK\$118.20	Buy

Source: DBS HK
Analyst: Jeff Yau

Sun Hung Kai Properties

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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Sources for all charts and tables are DBS HK unless otherwise specified.

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Sun Hung Kai Properties

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