

# 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

9 Feb 2022

### BUY

Last Traded Price (28 Jan 2022): HK\$94.95 (HSI : 23,550)  
Price Target 12-mth: HK\$118.20 (24% upside) (Prev HK\$126.1)

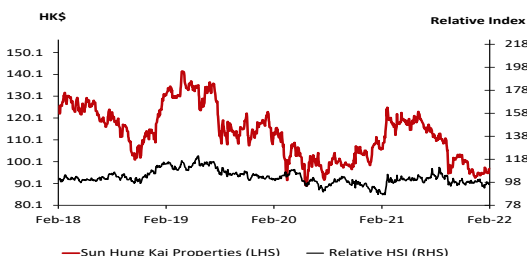
#### Analyst

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#### What's New

- Good response to project launch in the Northern Metropolis
- Planned launch of mass market projects in Tuen Mun and Tai Po
- Finalised the land premium for additional development area of sizeable Shap Sz Heung project
- BUY with HK\$118.20 TP

#### Price Relative



#### Forecasts and Valuation

| FY Jun (HK\$ m)           | 2020A  | 2021A  | 2022F  | 2023F  |
|---------------------------|--------|--------|--------|--------|
| Turnover                  | 82,653 | 85,262 | 81,921 | 91,192 |
| EBITDA                    | 40,036 | 42,428 | 41,885 | 42,598 |
| Pre-tax Profit            | 36,819 | 39,019 | 37,625 | 38,643 |
| Underlying Profit         | 29,368 | 29,873 | 29,901 | 31,029 |
| Underlying Profit Gth (%) | (9.4)  | 1.7    | 0.1    | 3.8    |
| EPS (HK\$)                | 10.13  | 10.31  | 10.32  | 10.71  |
| EPS Gth (%)               | (9.4)  | 1.7    | 0.1    | 3.8    |
| PE (X)                    | 9.4    | 9.2    | 9.2    | 8.9    |
| P/Cash Flow (X)           | 5.3    | 13.1   | 13.3   | 12.6   |
| EV/EBITDA (X)             | 9.4    | 8.9    | 9.0    | 8.8    |
| DPS (HK\$)                | 4.95   | 4.95   | 4.95   | 4.95   |
| Div Yield (%)             | 5.2    | 5.2    | 5.2    | 5.2    |
| Net Gearing (%)           | 14     | 16     | 16     | 16     |
| ROE (%)                   | 5.2    | 5.1    | 4.9    | 4.9    |
| Est. NAV (HK\$):          |        |        | 246.5  | 262.7  |
| Disc. to NAV (%)          |        |        | (61)   | (64)   |
| Earnings Rev (%)          |        |        | (3)    | (3)    |
| Consensus EPS (HK\$):     |        |        | 10.80  | 11.60  |
| Other Broker Recs:        |        | B:13   | S:1    | H:4    |

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

### Riding on the Northern Metropolis development

#### Investment Thesis

**BUY, HK\$118.20 TP.** The stock is trading at a 61% discount to our appraised current NAV, c.2SD below its 10-year average discount of 45%. Estimated dividend yield stands at 5.2%. Valuation is very compelling from a historical perspective. SHKP is among the major beneficiaries of the development of Northern Metropolis given its strong property exposure there.

**Smooth residential project sales.** Since Jul-21, SHKP achieved contracted sales of HK\$22bn in Hong Kong, representing c.50% of the FY22 sales target. The bulk came from selling residential projects in the Northern Metropolis such as Wetland Seasons Bay and YOHO Hub. In 2Q22, the company plans to launch two other mass-market projects in Tuen Mun and Tai Po, which should attract the market interest.

**Maximizing the development value of sizeable Shap Sz Heung project.** In 2H21, SHKP paid 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 total GFA of 5.8msf, primarily for residential use. The number of units built has also been revised up significantly to 9,500. 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 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\$/US\$m)  | 280,237 / 35,982 |
| 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)  | 44.68            |
| GICS Industry: Real Estate / Real Estate Management & Development |                  |



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## Sun Hung Kai Properties

### WHAT'S NEW

#### Encouraging sales response to project launches

Since Jul-21, SHKP achieved contracted sales of c.HK\$22bn in Hong Kong. This represents about 50% of the company's FY22 sales target. Wetland Seasons Bay Ph 1&2 in Tin Shui Wai were key contributors. Like the neighbouring Wetland Seasons Park, they are popular among end-users with c.90% of total units being pre-sold for >HK\$10bn. Given low land costs, we estimate pre-tax margins to exceed 40%. Besides, SHKP has sold >400 units at YOHO Hub Ph 1 in Yuen Long for >HK\$4bn. The balance came from inventory sales. For example, SHKP sold two houses at Central Peak on Stubbs Road for HK\$740m or HK\$100,000psf on average.

Project sales in China progressed slowly given weak market sentiment. Since Jul-21, SHKP sold >HK\$1bn worth of properties in China with no new project launches.

In 1H22, SHKP has a strong project launch pipeline. The company will release a new batch of units at YOHO Hub onto the market after Chinese New Year. Elsewhere, it plans to launch the first phase of two large developments in Tuen Mun (TMTL483) and Tai Po (TPTL214) in 2Q22.

Retail tenants' sales improved on back of reviving local consumption, outperforming the broad market in 2H21. Retail occupancy has recovered to c.93-94% with narrower rental decline on renewal. On the office front, IFC Office remains virtually fully let. On the other hand, SHKP is still looking for replacement tenants for the space surrendered by Deutsche Bank at ICC. Overall, office reversionary growth remains under pressure.

Retail tenants' sales growth in Shanghai stayed positive in 2H21 with favourable rental growth achieved upon lease renewal and new lettings. Office rental reversion, however, should remain largely neutral in China. A new 220m-tall office tower at Shanghai ITC is scheduled for completion in mid-2022 with pre-leasing underway. Nanjing IFC mall is targeted to open for business in late 2022. Contributions from these new investment properties should add

momentum to the company's rental income from China.

In 2H21, SHKP paid 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 total GFA of 5.8msf, primarily for residential use. The number of units built is also revised up to 9,500 from 4,930. This should lead to better marketability and higher development value. Infrastructural works are currently underway with pre-sale of the first phase expected in 2023 at the earliest.

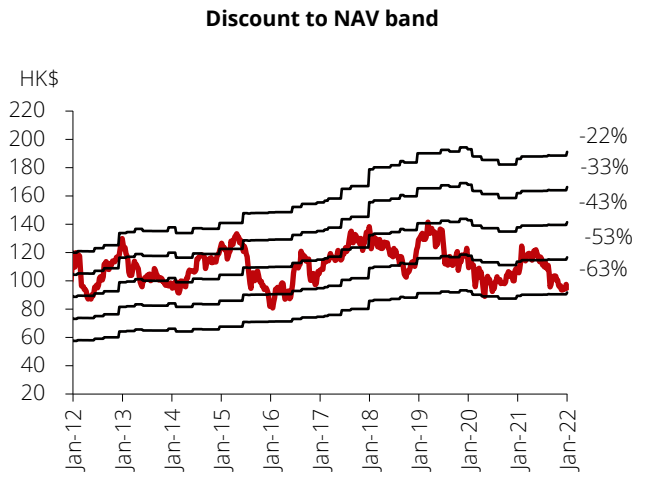
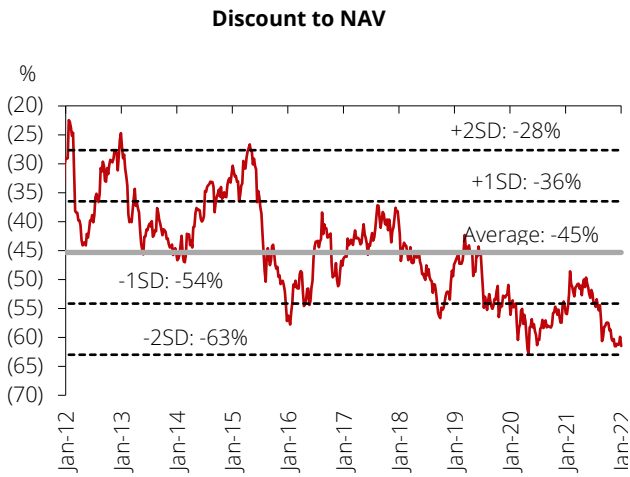
Shares of SHKP fell 7% in the previous three months, underperforming its peers. Meanwhile, the stock is trading at a 61% discount to our assessed current NAV, c.2SD below its 10-year average of 45%. Estimated dividend yield for FY22 is 5.2%. Valuation is very compelling from a historical perspective. SHKP derives an estimated 7% of its GAV from projects in the Northern Metropolis and stands to benefit from the future development there. With strong project launch to unlock NAV on one hand and growing rental income to improve earnings quality on the other, SHKP remains a core holding amongst those investors betting on the Hong Kong real estate market. BUY with HK\$118.20 TP. This is premised on 55% discount to our Dec-22 NAV estimate.

#### Company Background

Sun Hung Kai Properties (SHKP) is a leading property company in Hong Kong where it owns a total land bank of 57.9m sf in GFA, comprising 34m sf of completed properties (mainly for rental) and 23.9m sf of development properties as of Jun-21. The company also holds sizeable agricultural land in New Territories. In China, SHKP's total land bank reached 75.3m sf, made up of 16.3m sf of completed properties (mainly for rental) and 59m sf of development properties.

**Sun Hung Kai Properties**

**Discount to NAV**



Source: Bloomberg Finance L.P., DBS HK

## 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         |
|--------------------------|---------------|---------------|---------------|---------------|---------------|
| <b>Revenues (HK\$ m)</b> |               |               |               |               |               |
| Property sales           | 38,573        | 39,765        | 42,701        | 37,196        | 43,973        |
| Rental income            | 20,590        | 19,909        | 20,410        | 21,018        | 21,459        |
| Hotel operation          | 4,786         | 2,595         | 2,178         | 2,878         | 3,742         |
| Telecommunication        | 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        |
| <b>Total</b>             | <b>85,302</b> | <b>82,653</b> | <b>85,262</b> | <b>81,921</b> | <b>91,192</b> |

Source: DBS HK

### Income Statement (HK\$ m)

| FY Jun                          | 2019A         | 2020A         | 2021A         | 2022F         | 2023F         |
|---------------------------------|---------------|---------------|---------------|---------------|---------------|
| Turnover                        | 85,302        | 82,653        | 85,262        | 81,921        | 91,192        |
| EBITDA                          | 40,770        | 40,036        | 42,428        | 41,885        | 42,598        |
| Depr / Amort                    | (2,912)       | (4,581)       | (5,183)       | (5,442)       | (5,605)       |
| <b>EBIT</b>                     | <b>37,858</b> | <b>35,455</b> | <b>37,245</b> | <b>36,443</b> | <b>36,993</b> |
| Associates Inc                  | 3,911         | 3,147         | 3,682         | 3,183         | 3,700         |
| Interest (Exp)/Inc              | (2,051)       | (2,120)       | (1,990)       | (2,000)       | (2,050)       |
| Exceptionals                    | 347           | 337           | 82            | 0             | 0             |
| <b>Pre-tax Profit</b>           | <b>40,065</b> | <b>36,819</b> | <b>39,019</b> | <b>37,625</b> | <b>38,643</b> |
| Tax                             | (6,618)       | (6,674)       | (8,378)       | (6,889)       | (6,814)       |
| Non-controlling interests       | (878)         | (608)         | (702)         | (835)         | (800)         |
| Holders of Perpetual Securities | (171)         | (169)         | (66)          | 0             | 0             |
| <b>Underlying Profit</b>        | <b>32,398</b> | <b>29,368</b> | <b>29,873</b> | <b>29,901</b> | <b>31,029</b> |
| Sales Gth (%)                   | 0             | (3)           | 3             | (4)           | 11            |
| Net Profit Gth (%)              | 7             | (9)           | 2             | 0             | 4             |
| EBITDA Margins (%)              | 48            | 48            | 50            | 51            | 47            |
| EBIT Margin (%)                 | 44            | 43            | 44            | 44            | 41            |
| Tax Rate (%)                    | 17            | 18            | 21            | 18            | 18            |

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        | 447,384        | 456,161        |
| 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        | 103,807        | 106,345        |
| Bank Balance/Cash & Liquid    | 22,038         | 31,705         | 21,781         | 27,019         | 28,459         |
| ST Investments                | 1,103          | 824            | 1,383          | 1,383          | 1,383          |
| Inventory                     | 196,463        | 233,737        | 200,934        | 223,563        | 246,034        |
| Debtors                       | 22,811         | 17,396         | 18,735         | 18,235         | 17,735         |
| <b>Total Assets</b>           | <b>751,162</b> | <b>797,831</b> | <b>796,419</b> | <b>834,696</b> | <b>869,422</b> |
| ST Debt                       | 9,168          | 26,375         | 20,979         | 12,000         | 12,001         |
| Creditors                     | 28,699         | 36,851         | 28,210         | 28,410         | 28,610         |
| 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              |
| Non-controlling interests     | 5,601          | 14,789         | 5,806          | 6,449          | 7,058          |
| Shareholder's Equity          | 566,405        | 571,813        | 593,820        | 621,254        | 650,171        |
| <b>Total Cap. &amp; Liab.</b> | <b>751,162</b> | <b>797,831</b> | <b>796,419</b> | <b>834,696</b> | <b>869,422</b> |
| Share Capital (m)             | 2,897          | 2,898          | 2,898          | 2,898          | 2,898          |
| Net Cash/(Debt)               | (72,968)       | (80,901)       | (95,042)       | (99,804)       | (103,364)      |
| Working Capital               | 176,513        | 186,320        | 169,634        | 205,780        | 228,990        |
| Net Gearing (%)               | 13             | 14             | 16             | 16             | 16             |

Source: DBS HK

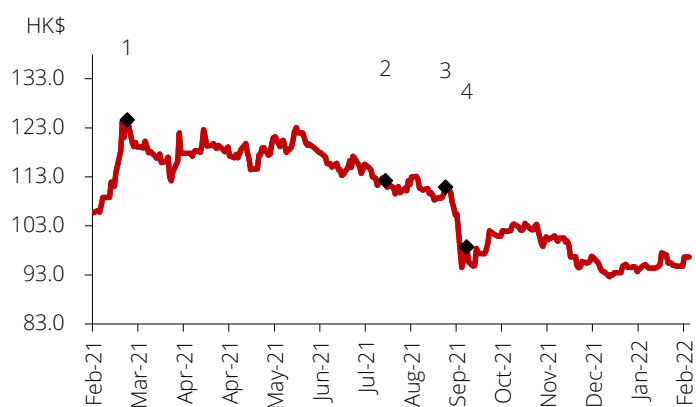
### Cash Flow Statement (HK\$ m)

| FY Jun   | 2019A           | 2020A           | 2021A           | 2022F          | 2023F           |
|--|-----------------|-----------------|-----------------|----------------|-----------------|
| EBIT   | 37,858          | 35,455          | 37,245          | 36,443         | 36,993          |
| Tax Paid   | (5,539)         | (4,518)         | (5,426)         | (6,889)        | (6,814)         |
| Depr/Amort   | 2,912           | 4,581           | 5,183           | 5,442          | 5,605           |
| Profit or loss on disposal of<br>FAs/subsidiaries/investment | (73)            | (239)           | (28)            | 0              | 0               |
| Chg in Wkg.Cap   | (17,020)        | 12,047          | (20,089)        | (21,129)       | (20,772)        |
| Other Non-Cash   | 1,617           | 542             | (1,229)         | 0              | 0               |
| <b>Operating CF</b>  | <b>19,755</b>   | <b>47,868</b>   | <b>15,656</b>   | <b>13,868</b>  | <b>15,013</b>   |
| Net Capex  | (12,315)        | (48,687)        | (10,222)        | (2,150)        | (2,150)         |
| Investments  | (253)           | 625             | (651)           | 0              | 0               |
| Associates & JVs   | (391)           | 363             | 1,316           | 7              | 312             |
| Associates' Dividends  | 0               | 0               | 0               | 850            | 850             |
| Others   | 123             | (1,368)         | (3)             | 0              | 0               |
| <b>Investing CF</b>  | <b>(12,836)</b> | <b>(49,067)</b> | <b>(9,560)</b>  | <b>(1,293)</b> | <b>(988)</b>    |
| 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)        | (3,050)         |
| <b>Financing CF</b>  | <b>(8,073)</b>  | <b>11,321</b>   | <b>(16,896)</b> | <b>(7,336)</b> | <b>(12,585)</b> |
| Chg in Cash  | (1,154)         | 10,122          | (10,800)        | 5,238          | 1,440           |

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    |

Source: DBS HK

Analyst: Jeff YAU CFA,

## Sun Hung Kai Properties

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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)

**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

Completed Date: 8 Feb 2022 17:29:38 (HKT)

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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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