

Tai Cheung

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DBS Group Research . Equity

9 Feb 2022

HOLD (Downgrade from BUY)

Last Traded Price (28 Jan 2022): HK\$4.88 (HSI : 23,550)

Price Target 12-mth: HK\$5.55 (14% upside) (Prev HK\$5.62)

Analyst

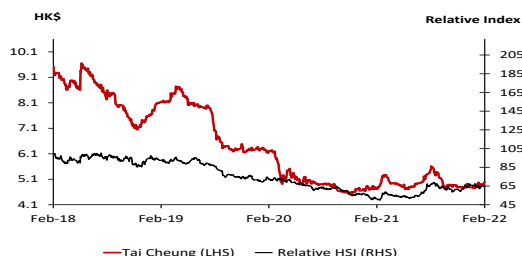
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What's New

- Border re-opening crucial for company's luxury home sales
- Facelift at Sheraton-Hong Kong Hotel to boost competitiveness
- Strong cash holding
- HOLD with HK\$5.55 TP

Price Relative



Forecasts and Valuation

FY Mar (HK\$ m)	2020A	2021A	2022F	2023F
Turnover	43	74	185	1,139
EBITDA	(55)	(34)	(13)	537
Pre-tax Profit	125	(29)	34	565
Net Profit	125	(28)	29	478
Net Profit Gth (%)	(46.2)	N/A	N/A	1,533.8
EPS (HK\$)	0.20	(0.05)	0.05	0.77
EPS Gth (%)	(46.2)	N/A	N/A	1,533.8
PE (X)	24.2	nm	103.1	6.3
P/Cash Flow (X)	nm	nm	38.7	3.1
EV/EBITDA (X)	nm	nm	nm	2.2
DPS (HK\$)	0.24	0.24	0.24	0.27
Div Yield (%)	4.9	4.9	4.9	5.5
Net Gearing (%)	CASH	CASH	CASH	CASH
ROE (%)	1.8	(0.4)	0.4	7.0
Est. NAV (HK\$):			21.9	22.2
Disc. to NAV (%)			(78)	(78)

Earnings Rev (%):

(88) (0)

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

Awaiting border re-opening

Investment Thesis

HOLD with HK\$5.55 TP. The stock is trading 78% below our appraised current NAV. Excluding net cash, the remaining stub is trading at a 90% discount. However, we do not foresee any near-term catalysts to narrow its discount to NAV.

Border re-opening crucial for luxury home sales. Prior to the recent COVID resurgence, sentiment on the luxury residential sector has improved, as evidenced by encouraging transactions at Mount Nicholson on the Peak. However, the spread of the Omicron variant has delayed the re-opening of the border with Mainland China, which is crucial for Tai Cheung's sales of luxury house projects in Repulse Bay and The Peak.

Facelift at Sheraton-Hong Kong Hotel to boost long-term competitiveness. The 35%-held Sheraton-Hong Kong Hotel in Tsim Sha Tsui has commenced its HK\$400m renovation work, which is expected to be completed by mid-2022. This should enhance the long-term competitiveness of the hotel when tourists return once the border re-opens.

Valuation:

Our target price is based on a 75% discount to our Dec 22 NAV estimate.

Where we differ:

The delayed border re-opening should impact the company's luxury home sales but we remain positive on the long-term prospects of luxury residential sector.

Key Risks to Our View:

Any stronger-than-expected demand for super luxury developments could provide an earnings boost to Tai Cheung

At A Glance

Issued Capital (m shrs)	618
Mkt Cap (HK\$m/US\$m)	3,059 / 393
Major Shareholders (%)	
Chan (Pun David)	38.2
Great Edward Investment Company Ltd.	6.6
Free Float (%)	55.2
3m Avg. Daily Val. (US\$m)	0.02
GICS Industry: Real Estate / Real Estate Management & Development	



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Tai Cheung

WHAT'S NEW**Renovating Sheraton-Hong Kong Hotel**

The renovation work on Tai Cheung's 35%-owned Sheraton-Hong Kong Hotel in Tsim Sha Tsui commenced in Nov-21. With a budgeted capex of c.HK\$400m, the refurbishment is targeted for completion in mid-2022. This should enhance the hotel's competitiveness in attracting tourists once the border control measures are relaxed.

Foundation work for the Ap Lei Chau project commenced in Jun-21. The site was acquired through government tender for HK\$1.33bn or HK\$15,097psf in May 20. Scheduled for completion in early 2025, the site will be developed into a luxurious residential tower with GFA of 88,280sf.

Prior to the recent COVID resurgence, sentiment on the luxury residential market has improved along with local economic recovery. Since Nov 21, three apartment units at Mount Nicholson on The Peak were sold for HK\$1.78bn or HK\$137,600psf. With a combined market value estimated at HK\$6.7bn, Tai Cheung's two luxury home projects should yield a pre-tax profit of HK\$3.9bn when fully sold. They should be the mainstay of the company's earnings in the years ahead. However, the spread of the Omicron variant has delayed the border re-opening, which is crucial for the company's luxury home sales with the return of affluent Mainland buyers.

As of Sep-21, net cash fell slightly to HK\$1.83bn from Mar-21's HK\$1.91bn. Nevertheless, the company remains financially strong to fund the hotel renovation and pursue value-accretive acquisitions when the opportunity knocks.

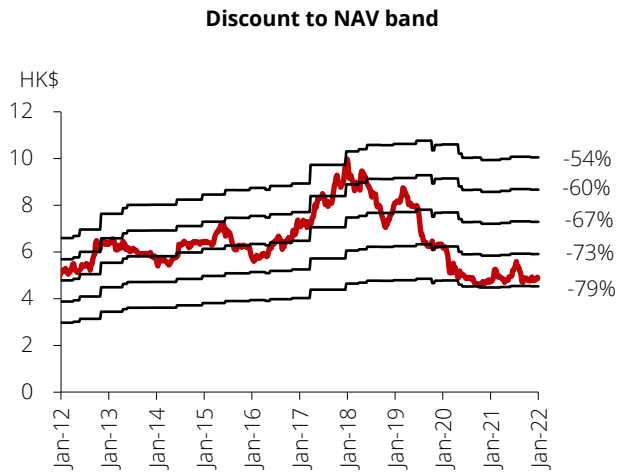
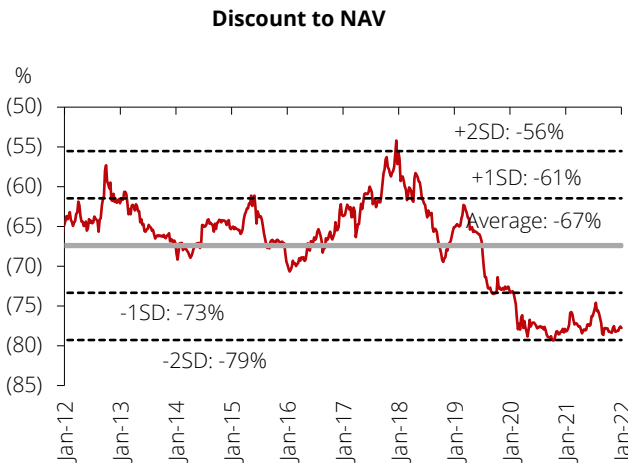
In the previous three months, Tai Cheung's share prices rose 1% outperforming the broad market by 8ppt. The stock is now trading at 78% discount to our current assessed NAV. Stripping out the net cash holding, the remaining stub is trading at a deep discount of 90%. The recent spread of the Omicron variant has delayed the long-awaited border re-opening. We do not foresee any near-term catalyst to narrow the company's discount to NAV. Downgraded to HOLD with TP of HK\$5.55, derived from assigning a 75% discount to our Dec-22 NAV estimate.

Company Background

Tai Cheung is a small property developer in Hong Kong which focuses on premium developments. The company has luxury residential projects at The Peak and Repulse Bay. In May 2020, Tai Cheung secured a luxury residential lot in Ap Lei Chau through government tender. The company also owns a 35% stake in Sheraton Hong Kong Hotel in Tsim Sha Tsui.

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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 and leasing	357	32	63	174	1,128
Property management	11	11	11	11	11
Total	368	43	74	185	1,139

Source: DBS HK

Income Statement (HK\$ m)

FY Mar	2019A	2020A	2021A	2022F	2023F
Turnover	368	43	74	185	1,139
EBITDA	(1)	(55)	(34)	(13)	537
Depr / Amort	(1)	(8)	(14)	(14)	(14)
EBIT	(2)	(63)	(48)	(27)	523
Associates Inc	158	120	10	6	36
Interest (Exp)/Inc	78	69	10	56	6
Exceptionals	0	0	0	0	0
Pre-tax Profit	235	125	(29)	34	565
Tax	(3)	(1)	1	(5)	(87)
Net Profit	232	125	(28)	29	478
Sales Gth (%)	(67)	(88)	72	151	516
Net Profit Gth (%)	(35)	(46)	N/A	N/A	1,534
EBITDA Margins (%)	0	(127)	(46)	(7)	47
EBIT Margin (%)	0	(147)	(65)	(15)	46
Tax Rate (%)	1	0	N/A	14	15

Source: DBS HK

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Balance Sheet (HK\$ m)

FY Mar	2019A	2020A	2021A	2022F	2023F
Fixed Assets	11	79	70	56	42
Long-term Investments	0	0	0	0	0
Deferred Tax Asset	41	41	41	41	41
Associates/JVs	162	150	172	172	172
Bank Balance/Cash & Liquid	3,818	3,611	2,048	2,038	2,813
Inventory	3,539	3,510	4,804	4,708	4,276
Debtors	56	72	34	34	34
Other Non Cash Current	0	6	0	0	0
Total Assets	7,627	7,469	7,168	7,049	7,379
ST Debt	290	0	142	0	0
Creditors	243	191	151	151	151
Other Current Liab	4	0	0	0	0
LT Debt	0	219	0	142	142
Deferred Tax Liabilities	4	4	4	4	4
Other LT Liabilities	0	59	49	49	49
Shareholder's Equity	7,087	6,996	6,823	6,704	7,033
Total Cap. & Liab.	7,627	7,469	7,168	7,049	7,379
Share Capital (m)	618	618	618	618	618
Net Cash/(Debt)	3,528	3,393	1,906	1,896	2,672
Working Capital	6,876	7,007	6,593	6,630	6,973
Net Gearing (%)	CASH	CASH	CASH	CASH	CASH

Source: DBS HK

Cash Flow Statement (HK\$ m)

FY Mar	2019A	2020A	2021A	2022F	2023F
EBIT	(2)	(63)	(48)	(27)	523
Tax Paid	(92)	(11)	6	(5)	(87)
Depr/Amort	1	8	14	14	14
Profit or loss on disposal of FAs/subsidiaries/investment	0	0	(2)	0	0
Chg in Wkg.Cap	608	(48)	(1,330)	96	432
Other Non-Cash	(10)	(16)	(16)	(5)	(5)
Operating CF	506	(130)	(1,376)	73	877
Net Capex	0	(1)	(1)	0	0
Investments	0	0	0	0	0
Associates & JVs	0	0	0	0	0
Associates' Dividends	131	112	14	6	36
Others	77	99	39	60	10
Investing CF	207	210	51	66	46
Net Chg in Debt	60	(74)	(89)	0	0
New Capital	0	0	0	0	0
Dividend	(216)	(216)	(148)	(148)	(148)
Other Financing CF	0	0	0	0	0
Financing CF	(156)	(290)	(237)	(148)	(148)
Chg in Cash	557	(210)	(1,562)	(9)	775

Source: DBS HK

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Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	5-May-21	HK\$4.82	HK\$5.55	Buy
2:	30-Jun-21	HK\$4.93	HK\$5.74	Buy
3:	1-Dec-21	HK\$4.75	HK\$5.62	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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