

## BUY

Last Traded Price (28 Jan 2022): HK\$27.05 (HSI : 23,550)  
 Price Target 12-mth: HK\$31.70 (17% upside) (Prev HK\$31.50)

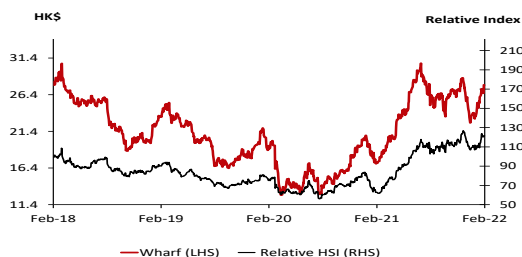
### Analyst

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### What's New

- Sold three luxury apartments at Mount Nicholson at an ASP of HK\$137,600psf
- Unparalleled land bank for luxury development
- China malls enjoy positive reversionary growth
- BUY with HK\$31.70 TP

### Price Relative



### Forecasts and Valuation

FY Dec (HK\$ m)	2020A	2021F	2022F	2023F
Turnover	20,997	29,570	20,139	16,046
EBITDA	11,101	8,216	7,087	7,122
Pre-tax Profit	9,527	4,520	7,678	7,231
Underlying Profit	3,092	2,258	5,758	5,289
Underlying Profit Gth (%)	14.1	(27.0)	155.1	(8.2)
EPS (HK\$)	1.01	0.74	1.88	1.73
EPS Gth (%)	13.9	(27.1)	155.1	(8.2)
PE (X)	26.7	36.6	14.4	15.6
P/Cash Flow (X)	12.4	109.4	14.4	29.3
EV/EBITDA (X)	11.6	15.7	18.2	18.1
DPS (HK\$)	0.40	0.45	0.55	0.55
Div Yield (%)	1.5	1.7	2.0	2.0
Net Gearing (%)	16	23	18	18
ROE (%)	2.6	1.4	3.5	3.1
Est. NAV (HK\$):			61.4	63.4
Disc. to NAV (%)			(56)	(57)
Earnings Rev (%)		(5)	(5)	New
Consensus EPS (HK\$):		1.34	1.88	2.07
Other Broker Recs:		B:4	S:4	H:5

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

## Unparalleled luxury land bank

### Investment Thesis

**BUY with HK\$31.70 TP.** Despite the recent share price appreciation, Wharf, trading 56% below our assessed current NAV, remains inexpensive. While retail landmarks in China are benefitting from positive rental reversion, its luxury land bank in Hong Kong should provide an impetus for long-term growth.

### China malls enjoy favourable reversionary growth.

Occupancy cost ratios for Chengdu IFS and Changsha IFS stay healthy at teens. This should augur well for retail reversionary growth in the years ahead, which in turn underpins the rental income growth from China.

**Luxury home sales to bolster earnings.** Wharf Holdings has sold three apartments at Mount Nicholson for HK\$1.78bn or HK\$137,600psf on average in the recent months. Decent profit is produced to spice up the company's earnings. Wharf boasts an unparalleled land bank of >1.2msf in attributable GFA for luxury developments in Kowloon Tong and Kai Tak, and on the Peak, which makes up of 23% of its GAV. These projects should bring in respectable returns for Wharf.

### Valuation:

Our TP for Wharf is based on a target discount of 50% to our Dec-22 NAV estimates.

### Where we differ:

We are more positive on the long-term growth prospects of Wharf's retail malls and hotel operations in China.

### Key Risks to Our View:

Any deterioration in leasing demand for commercial properties and housing policies in China could affect Wharf's earnings and share price performance. Any unfavourable change in luxury home demand in Hong Kong could impact the company's future profitability as well as valuation, given the company's growing exposure in this segment.

### At A Glance

Issued Capital (m shrs)	3,051
Mkt Cap (HK\$/US\$m)	84,665 / 10,871
Major Shareholders (%)	
Wheelock and Co Ltd	55.6
Free Float (%)	44.4
3m Avg. Daily Val. (US\$m)	3.76
GICS Industry: Real Estate / Real Estate Management & Development	

**Wharf**

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**WHAT'S NEW****Apartments at Mount Nicholson fetched high prices**

Despite sporadic COVID outbreaks, the growth momentum of tenants' sales of Wharf's China malls remained in 2H21. Occupancy cost ratio stays healthy at teens. This should bode well for reversionary growth. Chengdu IFS mall should record favourable rental growth of >10% upon lease renewal and new letting. Changsha IFS is entering the second leasing cycle with positive rental reversions expected. Office occupancy at Changsha IFS stays steady at c.85%. Office reversionary growth at Chengdu IFS is largely neutral.

In 2021, Wharf did not buy any land for development in China. Given the challenging market conditions in 2H21, the company may miss the full-year sales target of HK\$15bn for 2021.

Since Nov-21, Wharf Holdings has sold three apartments at Mount Nicholson on the Peak, a 50/50 JV with Nan Fung Group, for HK\$1.78bn or HK\$137,600psf. We estimate total attributable pre-tax earnings at c.HK\$600m, which should add spice to the company's bottom-line earnings. Currently, two houses and seven apartments remain unsold.

A consortium in which Wharf has a 30% stake is applying for pre-sale consent for a residential project in Kai Tak. Scheduled for completion in 2024, this development will offer >2,000 units with residential GFA of 1.08msf.

Foundation work of the Kowloon Tong luxury residential project is underway, with project completion scheduled for

2024. This luxury development comprises four residential towers with GFA of 0.44msf, and should be a medium-term earnings catalyst for Wharf. Wharf is in land premium negotiations for the Kowloon Godown redevelopment in Kowloon Bay. Should a favourable land premium be secured, this waterfront project would bring in good return for the company. Going forward, the company will focus on the Hong Kong property market.

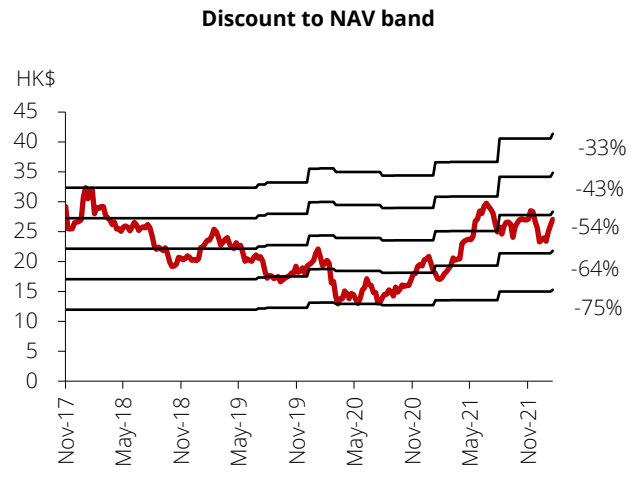
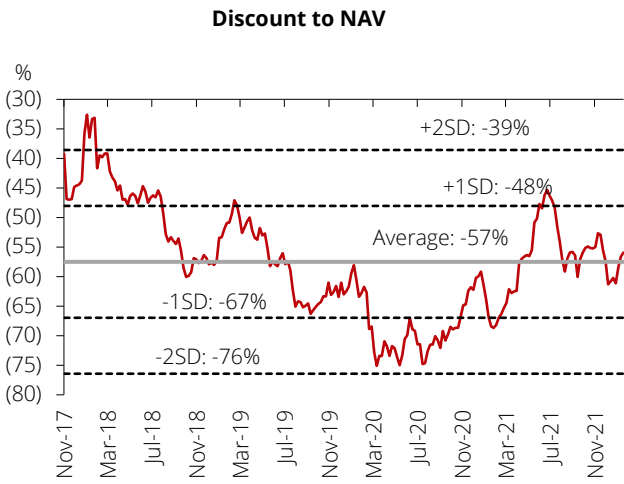
The stock is trading 56% below our assessed current NAV. Valuation remains inexpensive in our view. While retail landmarks in China are benefitting from positive rental reversion, its unparalleled luxury land bank in Hong Kong should provide an impetus for long-term growth. By applying a target discount of 50% to our Dec 2022 NAV, we derive our TP at HK\$31.70, suggesting a 17% upside potential from the current level. We recommend BUY.

**Company Background**

Wharf has a development land bank of 2.6m square metres in the key cities of China. Wharf has been expanding its investment property portfolio there. In Hong Kong, it owns the Peak portfolio, Kowloon Godown, and a 15% stake in the Yau Tong Bay redevelopment in addition to the Kowloon Tong & Kai Tak sites. Moreover, Wharf owns a 67% stake in Modern Terminals.

**Wharf**

**Discount to NAV**



Source: Bloomberg Finance L.P., DBS HK

## Wharf

### 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>					
Investment Property	4,090	4,363	5,599	5,957	6,286
Hotels	530	396	543	572	600
Logistics	2,597	2,566	3,072	3,362	3,696
Development Property	7,054	11,222	17,834	7,649	2,787
Investment and others	2,603	2,450	2,524	2,599	2,677
<b>Total</b>	<b>16,874</b>	<b>20,997</b>	<b>29,570</b>	<b>20,139</b>	<b>16,046</b>

Source: DBS HK

### Income Statement (HK\$ m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Turnover	16,874	20,997	29,570	20,139	16,046
EBITDA	7,124	11,101	8,216	7,087	7,122
Depr / Amort	(712)	(724)	(753)	(783)	(814)
<b>EBIT</b>	<b>6,412</b>	<b>10,377</b>	<b>7,463</b>	<b>6,303</b>	<b>6,308</b>
Associates Inc	834	1,238	406	1,724	1,393
Interest (Exp)/Inc	345	(53)	(330)	(350)	(470)
Exceptionals	(1,121)	(2,035)	(3,019)	0	0
<b>Pre-tax Profit</b>	<b>6,470</b>	<b>9,527</b>	<b>4,520</b>	<b>7,678</b>	<b>7,231</b>
Tax	(3,000)	(4,743)	(1,818)	(1,488)	(1,459)
Non-controlling interests	(84)	(920)	(444)	(431)	(483)
<b>Net Profit</b>	<b>3,386</b>	<b>3,864</b>	<b>2,258</b>	<b>5,758</b>	<b>5,289</b>
<b>Underlying Profit</b>	<b>2,710</b>	<b>3,092</b>	<b>2,258</b>	<b>5,758</b>	<b>5,289</b>
Sales Gth (%)	(20)	24	41	(32)	(20)
Net Profit Gth (%)	(49)	14	(42)	155	(8)
EBITDA Margins (%)	42	53	28	35	44
EBIT Margin (%)	38	49	25	31	39
Tax Rate (%)	46	50	40	19	20

Source: DBS HK

## Wharf

### Balance Sheet (HK\$ m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Fixed Assets	87,867	91,401	92,144	92,924	93,703
Long-term Investments	36,531	66,875	76,875	76,875	76,875
Other LT Assets	261	299	299	299	299
Intangibles Assets	298	298	298	298	298
Deferred Tax Asset	752	670	670	670	670
Associates/JVs	43,085	33,139	31,445	26,124	26,887
Bank Balance/Cash & Liquid	27,292	16,668	9,524	20,521	16,852
Inventory	44,083	42,396	46,967	49,236	54,497
Debtors	1,987	2,160	2,660	2,660	2,660
Other Non Cash Current	62	189	189	189	189
<b>Total Assets</b>	<b>242,218</b>	<b>254,095</b>	<b>261,071</b>	<b>269,796</b>	<b>272,929</b>
ST Debt	10,647	11,549	11,500	3,700	3,700
Creditors	33,790	29,705	29,505	29,505	29,505
Other Current Liab	2,795	4,444	4,444	4,444	4,444
LT Debt	35,689	30,625	35,674	46,474	44,474
Deferred Tax Liabilities	12,539	13,915	13,915	13,915	13,915
Other LT Liabilities	415	381	381	381	381
Non-controlling interests	3,469	4,622	4,266	4,197	4,130
Shareholder's Equity	142,874	158,854	161,386	167,180	172,381
<b>Total Cap. &amp; Liab.</b>	<b>242,218</b>	<b>254,095</b>	<b>261,071</b>	<b>269,796</b>	<b>272,929</b>
Share Capital (m)	3,049	3,049	3,049	3,049	3,049
Net Cash/(Debt)	(19,044)	(25,506)	(37,650)	(29,653)	(31,322)
Working Capital	26,192	15,715	13,891	34,956	36,549
Net Gearing (%)	13	16	23	18	18

Source: DBS HK

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

FY Dec	2019A	2020A	2021F	2022F	2023F
EBIT	6,412	10,377	7,463	6,303	6,308
Tax Paid	(2,763)	(2,783)	(1,818)	(1,488)	(1,459)
Depr/Amort	712	724	753	783	814
Chg in Wkg.Cap	4,076	(3,395)	(7,740)	(1,619)	(4,581)
Other Non-Cash	883	5,345	(880)	(1,000)	(1,150)
<b>Operating CF</b>	<b>9,320</b>	<b>10,268</b>	<b>(2,222)</b>	<b>2,980</b>	<b>(69)</b>
Net Capex	(837)	(1,287)	0	0	0
Investments	2,286	(21,803)	(10,000)	0	0
Associates & JVs	(2,055)	6,672	2,099	7,045	631
Others	(2,201)	2,201	0	0	0
<b>Investing CF</b>	<b>(2,807)</b>	<b>(14,217)</b>	<b>(7,901)</b>	<b>7,045</b>	<b>631</b>
Net Chg in Debt	3,162	(4,659)	5,000	3,000	(2,000)
New Capital	0	0	0	0	0
Dividend	(2,065)	(845)	(2,022)	(2,028)	(2,231)
Non-controlling interests	320	0	0	0	0
Other Financing CF	(5)	(6)	0	0	0
<b>Financing CF</b>	<b>1,412</b>	<b>(5,510)</b>	<b>2,978</b>	<b>972</b>	<b>(4,231)</b>
Chg in Cash	7,925	(9,459)	(7,144)	10,997	(3,669)

Source: DBS HK

**Wharf**

**Target Price & Ratings History**



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	10-Mar-21	HK\$18.96	HK\$23.10	Buy
2:	11-Aug-21	HK\$26.30	HK\$31.50	Buy

Source: DBS HK

Analyst: Jeff YAU CFA,

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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