

# HKR International Ltd

Bloomberg: 480 HK Equity | Reuters: 0480.HK

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DBS Group Research . Equity

19 May 2022

## BUY

Last Traded Price (18 May 2022): HK\$2.91 (HSI : 20,644)  
Price Target 12-mth: HK\$4.76 (64% upside) (Prev HK\$4.84)

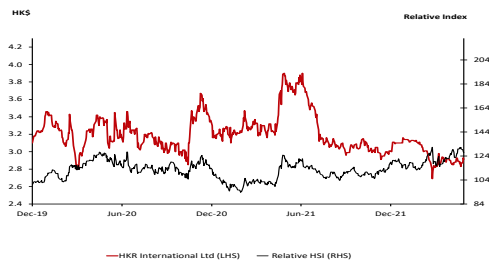
### Analyst

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### What's New

- Luxury development in Tai Po to go on sale shortly
- Further optimizing the asset portfolio for growth
- Phase 1 of Discovery Bay Master Plan 7.0E will commence in 2H22
- BUY with HK\$4.76 TP

### Price Relative



### Forecasts and Valuation

FY Mar (HK\$ m)	2021A	2022F	2023F	2024F
Turnover	3,942	4,087	1,821	4,487
EBITDA	1,468	1,009	597	1,021
Pre-tax Profit	1,492	1,322	1,017	1,492
Underlying Profit	868	899	703	1,074
Underlying Profit Gth (%)	(24.0)	3.5	(21.7)	52.6
EPS (HK\$)	0.58	0.61	0.47	0.72
EPS Gth (%)	(24.0)	3.5	(21.7)	52.6
PE (X)	5.0	4.8	6.1	4.0
P/Cash Flow (X)	3.0	nm	nm	2.6
EV/EBITDA (X)	10.6	15.4	26.0	15.2
DPS (HK\$)	0.09	0.08	0.08	0.08
Div Yield (%)	3.1	2.7	2.7	2.7
Net Gearing (%)	20	37	38	33
ROE (%)	3.9	3.8	2.9	4.3
Est. NAV (HK\$):			18.4	19.1
Disc. to NAV (%)			(84)	(85)
Earnings Rev (%):		(5)	(14)	New

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

## Overlooked gem

### Investment Thesis

**BUY with HK\$4.76 TP.** The stock, trading 84% below our appraised current NAV, is attractively valued. The upcoming launch of Villa Lucca in Tai Po, if greeted with favourable response, should improve the sentiment towards the counter. The company has been optimising its asset portfolio which should pave way for its long-term growth.

**Luxury development in Tai Po to go on sale shortly.** The company plans to launch Villa Lucca in Tai Po, a 40/60 JV with Hysan Development, soon. This luxury development contains 262 residential units including 41 houses with GFA of 0.5msf. Following the payment of land premium in 2021, HKR is scheduled to commence the development of the first phase of Master Plan 7.0E for Discovery Bay in 2H22. With estimated pre-tax development margins of 30%, this sizeable project with GFA of 1.3msf should be the major earnings catalyst in the medium to long-term.

**Optimising asset mix for growth.** The company made a foray into Hangzhou's office market in Sep-21, followed by the acquisition of a residential site in Shanghai in Nov-21. On the other hand, HKR sold the remaining two residential properties in Tokyo for HK\$237.4m in Feb-22 and sold GenRx Holdings to EC Health for HK\$68m in Mar-22. Non-core asset disposals enable the company to pursue new investments without stretching its balance sheet.

### Valuation:

Our target price is based on a 75% discount to our Dec 2022 NAV estimate.

### Where we differ:

We are more positive on the long-term growth prospects of the Discovery Bay projects and HKRI Taikoo Hui.

### Key Risks to Our View:

Any deterioration in residential demand in Hong Kong led by a prolonged economic downturn would impact the company's project sales and its earnings.

If the retail market recovery in China is derailed, the performance of the mall at HKRI Taikoo Hui in Shanghai would be affected.

### At A Glance

Issued Capital (m shrs)	1,485
Mkt Cap (HKm/US\$m)	4,262 / 543
Major Shareholders (%)	
CCM Trust (Cayman) Ltd.	48.2
LBJ Regents Limited	6.8
Free Float (%)	45.0
3m Avg. Daily Val. (US\$m)	0.04
GICS Industry: Real Estate / Real Estate Management & Development	



Watchlist the stock on Insights Direct to receive prompt updates



**HKR International Ltd****WHAT'S NEW****Villa Lucca to go on sale soon**

HKR International has obtained the pre-sale consent for Villa Lucca in Tai Po, a 40/60 joint venture with Hysan Development. This luxury project is near completion and should be available for sale soon. It contains 262 residential units including 41 houses with GFA of 0.5msf. The consortium acquired the two sites where the projects are built through government tender for HK\$3.39bn in total in Nov-16. This translated into accommodation value of HK\$6,823psf on GFA basis. Adding construction and financing costs, we estimate total development costs at HK\$15,700psf on saleable area basis. Based on our estimated ASP of HK\$21,000psf, we estimate that a complete sale of this development should yield attributable pre-tax earnings of c.HK\$1bn to HKR. This luxury project will become the mainstay of the company's development profit in FY23.

Contribution should also stem from inventory sales of Poggibonsi and IL PICCO in Discovery Bay. HKR has sold 188 units at Poggibonsi for HK\$2.51bn or HK\$16,500psf on average since its initial launch in Mar-19. Profit from the majority of sold units has been recognised. The company sold five houses at IL PICCO for HK\$287m or HK\$27,600psf on average with profit recognition expected in FY22. Elsewhere, Creekside One and Mansion One, both in Jiaying, have been completely sold with profit recognition in FY22.

In 2021, HKR paid the land premium for Discovery Bay Master Plan 7.0E which was fixed at HK\$5.24bn or HK\$4,030psf. This sizeable plot of land is located close to Poggibonsi. It will be developed in four phases with total GFA of 1.3msf. Construction works of the first phase, which will provide >0.3msf GFA, is scheduled to commence in 2H22. This large residential development should play a crucial role in driving its medium-term development earnings.

In Hong Kong, rental flagship CDW Building in Tsuen Wan remains >90% occupied. While office income should remain steady, retail operations have been impacted by the COVID resurgence recently. West Gate Tower in Cheung Sha Wan has been converted into commercial use from industrial following the completion of HK\$150m renovation. Leasing has been underway with committed occupancy reaching 50-60%. Occupancy of DB Plaza New Extension has been ramping up.

In Shanghai, HKRI Centres 1 & 2 remained fully let in Mar-22. Spot rates ranged between Rmb350psm and Rmb450psm with positive reversionary growth. Committed occupancy of HKRI Taikoo Hui increased to 98% in Mar-22 from Dec-21's 97% but tenants' sales fell 27% in 1Q22 primarily due to the COVID resurgence

Following the disposal of three properties in Tokyo in Nov-21, HKR sold the remaining two residential properties there for JPY3.49bn or HK\$237.4m in Feb-22. Based on combined net profit from these two properties for FY3/21, the implied exit yield is low at 2%. This disposal would yield net gains of HK\$33.5m. The company now does not hold any property in Tokyo.

HKR sold GenRx Holdings to EC Health for HK\$68m in Mar-22. Based on disposal price and net profit of HK\$7.1m for 1HFY22, the implied PE was c.5x. GenRx operates a comprehensive healthcare network in Hong Kong and Macau, covering specialist services that focus on chronic disease management and dental care. Following this divestment, HKR has ceased health care operations.

A string of non-core asset divestments not only brings in disposal gains but also frees up capital for new investments.

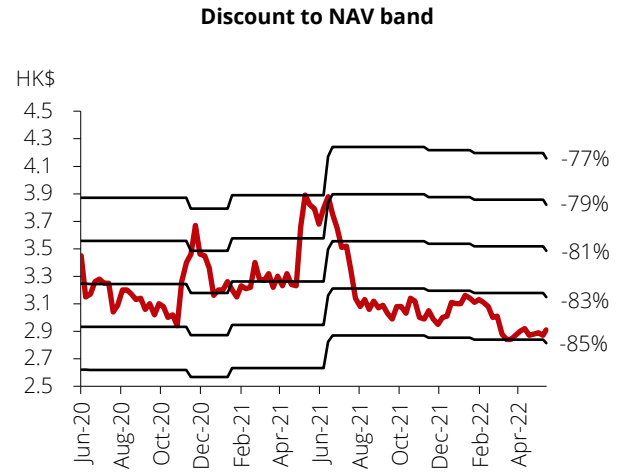
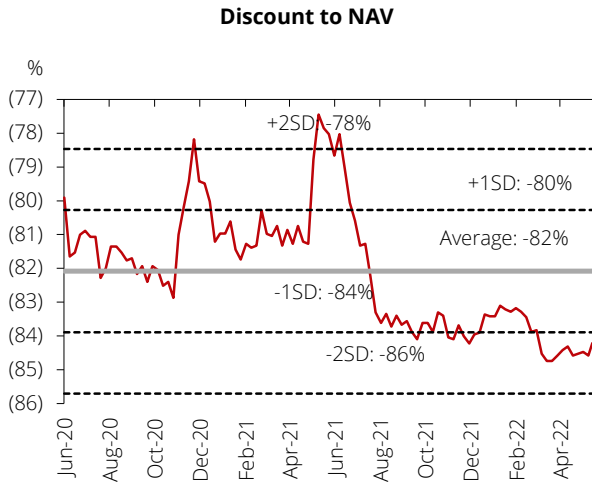
The stock is trading 84% below our appraised current NAV. Such a low valuation should lend support to its share price performance. The upcoming launch of Villa Lucca, if greeted with favourable response, should improve the sentiment towards the counter. The company has been optimising its asset portfolio which should pave way for its long-term growth. Based on target discount of 75% to our Dec-2022 NAV estimate, we set our TP at HK\$4.76. Maintain BUY.

**Company Background**

Listed in 1989, HKR International is engaged primarily in property development and investment in Hong Kong, China, and Asia. Throughout the years, the company has transformed Discovery Bay into a fully integrated residential community. HKR also owns an investment property portfolio with major rental properties including CDW Building in Tsuen Wan and HKRI Taikoo Hui in Shanghai. HKR also provides healthcare services.

**HKR International Ltd**

**Discount to NAV**



Source: Bloomberg Finance L.P., DBS HK

## HKR International Ltd

### Key Assumptions (%)

	2022F	2023F
Residential price - HK	0	2
Office rental - HK	0	0
Retail rental (Shopping centre) - HK	0	5

Source: DBS HK

### Segmental Breakdown (HK\$ m)

FY Mar	2020A	2021A	2022F	2023F	2024F
<b>Revenues (HK\$ m)</b>					
Property development	3,223	2,785	2,728	549	3,129
Property leasing	528	503	476	489	497
Hotel management	264	124	233	269	305
Others	681	530	650	515	556
<b>Total</b>	<b>4,696</b>	<b>3,942</b>	<b>4,087</b>	<b>1,821</b>	<b>4,487</b>

Source: DBS HK

### Income Statement (HK\$ m)

FY Mar	2020A	2021A	2022F	2023F	2024F
Turnover	4,696	3,942	4,087	1,821	4,487
EBITDA	1,976	1,468	1,009	597	1,021
Depr / Amort	(192)	(201)	(221)	(244)	(268)
<b>EBIT</b>	<b>1,784</b>	<b>1,266</b>	<b>788</b>	<b>354</b>	<b>753</b>
Associates Inc	507	226	287	689	822
Interest (Exp)/Inc	(214)	(24)	(41)	(59)	(83)
Exceptionals	445	24	289	34	0
<b>Pre-tax Profit</b>	<b>2,522</b>	<b>1,492</b>	<b>1,322</b>	<b>1,017</b>	<b>1,492</b>
Tax	(838)	(363)	(208)	(191)	(335)
Non-controlling Interest	(60)	(231)	(216)	(122)	(83)
<b>Net Profit</b>	<b>1,625</b>	<b>897</b>	<b>899</b>	<b>703</b>	<b>1,074</b>
<b>Underlying Profit</b>	<b>1,142</b>	<b>868</b>	<b>899</b>	<b>703</b>	<b>1,074</b>
Sales Gth (%)	22	(16)	4	(55)	146
Net Profit Gth (%)	(26)	(45)	0	(22)	53
EBITDA Margins (%)	42	37	25	33	23
EBIT Margin (%)	38	32	19	19	17
Tax Rate (%)	33	24	16	19	22

Source: DBS HK

## HKR International Ltd

### Balance Sheet (HK\$ m)

FY Mar	2020A	2021A	2022F	2023F	2024F
Fixed Assets	17,563	17,946	17,031	16,703	16,501
Long-term Investments	626	665	665	665	665
Other LT Assets	213	1,268	5,268	5,268	5,268
Deferred Tax Asset	39	114	114	114	114
Associates/JVs	9,047	9,643	9,930	10,619	11,441
Bank Balance/Cash & Liquid	2,511	3,061	3,198	2,186	2,691
ST Investments	30	27	27	27	27
Inventory	5,926	4,381	5,961	6,867	6,225
Debtors	1,069	813	723	573	563
Other Non Cash Current	217	227	227	227	227
<b>Total Assets</b>	<b>37,241</b>	<b>38,145</b>	<b>43,143</b>	<b>43,248</b>	<b>43,723</b>
ST Debt	4,109	777	2,300	1,500	1,500
Creditors	1,289	1,032	1,052	1,072	1,092
Other Current Liab	2,016	1,229	1,229	1,229	1,229
LT Debt	3,212	6,908	9,885	10,185	9,685
Deferred Tax Liabilities	473	469	469	469	469
Other LT Liabilities	1,396	1,125	1,125	1,125	1,125
Non-controlling Interests	2,679	2,921	2,921	2,921	2,921
Shareholder's Equity	22,067	23,684	24,162	24,747	25,702
<b>Total Cap. &amp; Liab.</b>	<b>37,241</b>	<b>38,145</b>	<b>43,143</b>	<b>43,248</b>	<b>43,723</b>
Share Capital (m)	1,485	1,485	1,485	1,485	1,485
Net Cash/(Debt)	(4,810)	(4,624)	(8,987)	(9,499)	(8,494)
Working Capital	2,340	5,471	5,554	6,078	5,912
Net Gearing (%)	22	20	37	38	33

Source: DBS HK

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

FY Mar	2020A	2021A	2022F	2023F	2024F
EBIT	1,784	1,266	788	354	753
Tax Paid	(653)	(482)	(208)	(191)	(335)
Depr/Amort	192	201	221	244	268
Profit or loss on disposal of FAs/subsidiaries/investment	(234)	2	(289)	(34)	0
Chg in Wkg.Cap	(694)	(123)	(5,470)	(736)	672
Other Non-Cash	309	95	289	33	0
<b>Operating CF</b>	<b>705</b>	<b>960</b>	<b>(4,668)</b>	<b>(330)</b>	<b>1,357</b>
Net Capex	(689)	(573)	613	118	(67)
Others	(493)	70	68	0	0
<b>Investing CF</b>	<b>(1,182)</b>	<b>(502)</b>	<b>681</b>	<b>118</b>	<b>(67)</b>
Net Chg in Debt	618	393	4,500	(500)	(500)
Dividend	(166)	(359)	(335)	(241)	(202)
Other Financing CF	(22)	(140)	(41)	(59)	(83)
<b>Financing CF</b>	<b>430</b>	<b>(107)</b>	<b>4,124</b>	<b>(800)</b>	<b>(785)</b>
Chg in Cash	(48)	350	137	(1,012)	506

Source: DBS HK

**HKR International Ltd**

**Target Price & Ratings History**



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	16-Jun-21	HK\$3.77	HK\$4.74	Buy
2:	24-Jun-21	HK\$3.90	HK\$4.83	Buy
3:	18-Nov-21	HK\$2.99	HK\$4.83	Buy
4:	9-Feb-22	HK\$3.11	HK\$4.84	Buy

Source: DBS HK

Analyst: *Jeff Yau, CFA*  
*Percy Leung*

## HKR International Ltd

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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

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