

Hong Kong

June 21, 2022 - 11:54 AM

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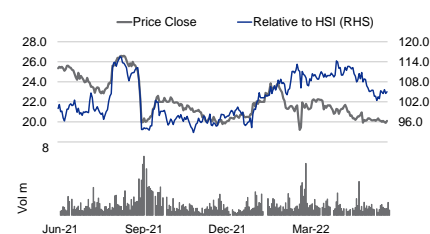
Consensus ratings*: Buy 9 Hold 2 Sell 0

Current price:	HK\$20.10
Target price:	HK\$28.90
Previous target:	HK\$28.90
Up/downside:	43.8%
CGS-CIMB / Consensus:	8.1%
Reuters:	0683.HK
Bloomberg:	683 HK
Market cap:	US\$3,724m
	HK\$29,230m
Average daily turnover:	US\$2.64m
	HK\$20.70m
Current shares o/s	1,454m
Free float:	33.0%

*Source: Bloomberg

Key financial forecasts

	Dec-22F	Dec-23F	Dec-24F
Net Profit (HK\$m)	4,956	6,002	5,436
Core EPS (HK\$)	3.41	4.13	3.74
Core EPS Growth	(40.6%)	21.1%	(9.4%)
FD Core P/E (x)	5.90	4.87	5.38
Recurring ROE	4.19%	4.93%	4.33%
P/BV (x)	0.24	0.24	0.23
DPS (HK\$)	1.35	1.40	1.40
Dividend Yield	6.72%	6.97%	6.97%



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-2.9	-7.2	-21.5
Relative (%)	-5.1	-6	5

Major shareholders	% held
Kerry Holdings	60.0
Schroders	7.0

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Kerry Properties

Takeaways from virtual property conference

- Management reiterated its FY22F sales target of HK\$7bn on the back of the warming up of HK property sales and improving sentiment in China.
- Management expected to see positive growth in China IP income this year as the occupancy of office and service apartments is likely to remain stable.
- Management is committed to FY22F DPS of not less than HK\$1.35, the same as FY21 after excluding the special dividend. Reiterate Add.

FY22F sales target HK\$7bn unchanged

- Management kept its HK\$7bn FY22F sales target (HK\$4bn in HK and HK\$3bn in China) unchanged despite the negative impact of the Covid-19 outbreak.
- Management believes the Hong Kong residential market is gradually warming up after the relaxation of social distancing, based on the recent increase in sales in the primary and secondary markets and strong domestic demand.
- For the China DP market, management sees market sentiment improving slowly among homebuyers in Jun compared to Apr and May this year, thanks to the supportive policies implemented by the government. Also, projects in Shanghai resumed construction and management believes it can make up for the delays.

Expects to see positive growth in China IP income in FY22F

- Management is confident it can record revenue growth in the overall IP portfolio in China this year.
- Although China's economy was hit by Covid-19 lockdowns in 1H22, occupancy rates in the offices and service apartments in Kerry's portfolio remained stable as Kerry offered rental concession to tenants.
- As for retail income growth, Kerry's management said this hinges on the recovery of the retail market in Shanghai, where it saw 'revenge spending' on luxury products in the past two weeks. Kerry also provided rental concessions to retail tenants.
- Management projects flattish rental reversion for office space in China.
- Management did not see corporations terminating office leasing agreements after the lockdown measures in Shanghai but some occurred at its service apartments.
- For its HK retail portfolio, management believes the consumption vouchers scheme will help boost sales at Megabox.

Management has committed to FY22F DPS not less than HK\$1.35

- Management is committed to declaring FY22F DPS of not less than HK\$1.35, unchanged from FY21 after excluding the special dividend.
- To lower its gearing ratio, Kerry disposed of two warehouses to CR Group for a consideration of HK\$4.6bn in late-May as it did not see any redevelopment opportunities in the near term.
- Kerry will continue to look for mid- to high-end residential sites in HK in good locations (e.g. near MTR stations). In China, management said it aims to participate in the auctions for 6 adjacent plots (Batch 2) in Shanghai Huangpu.

Reiterate Add with TP of HK\$28.90

- We retain our Add rating and unchanged TP of HK\$28.90, still based on a 55% NAV discount to NAV, supported by its commitment to grow its IP portfolio. Kerry currently trades at a 69% discount to NAV. Potential re-rating catalysts include better-than-expected rental reversions in HK and China.
- Key downside risks include a prolonged Covid-19 outbreak in HK and extended weakness in the China DP market.

Figure 1: HK property peer comparison

Short Name	Ticker	Share price (HK\$)	TP (HK\$)	Rating	Mkt cap (US\$ m)	NAV/sh (HK\$)	Disc. to NAV		P/E (x)				P/BV (x)			Dividend yield (%)			Net Gearing (%)		
							NAV (%)	Upside (%)	2021	2022F	2023F	2024F	2021	2022F	2023F	2021	2022F	2023F	2021	2022F	2023F
CK Asset	1113 HK	51.50	58.10	ADD	23,904	105.6	51	13	8.8	8.1	7.9	7.6	0.51	0.49	0.47	4.3	4.3	4.3	9	2	3
HLD	12 HK	28.60	38.30	ADD	17,639	63.9	55	34	10.2	9.6	9.0	8.1	0.41	0.41	0.40	6.3	6.3	6.5	43	41	39
Kerry Prop	683 HK	20.10	28.90	ADD	3,724	64.1	69	44	3.5	5.9	4.9	5.4	0.25	0.24	0.24	18.2	6.7	7.0	16	21	20
NWD	17 HK	27.70	42.50	ADD	8,880	70.8	61	53	10.0	9.5	6.6	7.6	0.32	0.33	0.32	7.4	7.4	7.6	40	43	42
SHKP	16 HK	91.50	143.00	ADD	33,777	204.7	55	56	8.9	9.2	8.4	7.6	0.45	0.44	0.42	5.4	5.4	5.5	15	14	13
Sino	83 HK	11.14	12.10	ADD	10,953	20.1	45	9	8.3	12.0	12.9	11.4	0.53	0.50	0.49	7.5	5.1	5.1	(24)	(24)	(23)
Wharf Holdings	4 HK	25.70	27.30	HOLD	10,005	49.6	48	6	21.5	14.6	12.5	12.3	0.48	0.47	0.46	1.6	2.1	2.4	8	8	8
HLP	101 HK	14.64	18.00	HOLD	8,391	29.5	50	23	15.1	13.8	10.9	9.6	0.46	0.45	0.45	5.3	5.3	5.5	24	25	23
HKL*	HKL SP	4.82	6.10	ADD	11,250	10.2	53	27	11.6	11.5	11.4	10.9	0.32	0.32	0.29	4.6	4.6	4.6	15	17	17
Hysan	14 HK	22.70	26.60	ADD	2,979	60.5	62	17	10.0	10.1	9.2	8.6	0.32	0.31	0.31	6.3	6.3	6.4	11	15	14
Swire Prop	1972 HK	18.60	21.00	HOLD	13,861	38.1	51	13	11.4	13.6	12.5	11.3	0.37	0.37	0.37	5.1	5.3	5.4	4	4	3
Wharf REIC	1997 HK	34.05	37.50	HOLD	13,170	57.7	41	10	15.9	15.4	14.1	13.3	0.50	0.49	0.49	3.8	3.8	4.3	23	21	20
Champion REIT	2778 HK	3.44	4.10	HOLD	2,610	6.3	45	19	13.6	13.8	13.6	12.9	0.42	0.41	0.41	6.6	6.5	6.7	28	26	25
Link REIT	823 HK	63.40	80.00	ADD	17,043	79.7	20	26	112.9	19.4	19.7	18.7	0.83	0.82	0.82	4.6	4.8	5.1	27	31	31
Midland	1200 HK	0.74	1.29	ADD	68	NA	NA	74	5.3	NA	9.5	3.2	0.45	0.48	0.45	0.0	0.0	2.2	(69)	(42)	(39)
Developers							55	31	10.2	9.8	8.9	8.6	0.42	0.41	0.40	7.2	5.3	5.5	15	15	15
Landlords & REITs							46	19	27.2	13.9	13.1	12.2	0.46	0.45	0.45	5.2	5.2	5.4	19	20	19
Simple average (ex. Midland)							51	25	18.7	11.9	11.0	10.4	0.44	0.43	0.42	6.2	5.3	5.5	17	17	17

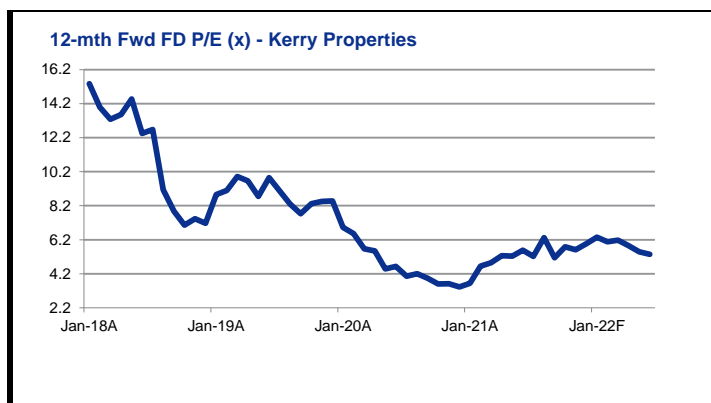
Share price data as of 20 Jun 2022; * HKL data stated in US\$

SOURCES: CGS-CIMB RESEARCH, BLOOMBERG, COMPANY REPORTS

BY THE NUMBERS

Profit & Loss				
(HK\$m)	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Net Revenues	15,327	18,276	19,610	20,637
Gross Profit	8,743	9,759	10,216	10,897
Operating EBITDA	9,122	9,074	9,506	10,158
Depreciation And Amortisation	0	0	0	0
Operating EBIT	9,122	9,074	9,506	10,158
Financial Income/(Expense)	(13)	23	(118)	(223)
Pretax Income/(Loss) from Assoc.	3,402	746	1,533	699
Non-Operating Income/(Expense)	0	0	0	0
Profit Before Tax (pre-EI)	12,511	9,843	10,921	10,634
Exceptional Items				
Pre-tax Profit	12,511	9,843	10,921	10,634
Taxation	(3,270)	(3,212)	(3,102)	(3,302)
Exceptional Income - post-tax				
Profit After Tax	9,241	6,631	7,819	7,332
Minority Interests	(932)	(1,676)	(1,817)	(1,896)
Prof. & Special Div	0	0	0	0
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax	2,000	0	0	0
Net Profit	10,309	4,956	6,002	5,436
Recurring Net Profit	8,358	4,956	6,002	5,436
Fully Diluted Recurring Net Profit	8,358	4,956	6,002	5,436

Cash Flow				
(HK\$m)	Dec-21A	Dec-22F	Dec-23F	Dec-24F
EBITDA	9,122	9,074	9,506	10,158
Cash Flow from Invnt. & Assoc.				
Change In Working Capital	9,976	5,125	6,183	14,563
Straight Line Adjustment				
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense				
Other Operating Cashflow	2,378	(163)	761	93
Net Interest (Paid)/Received	(208)	(288)	(487)	(632)
Tax Paid	(3,270)	(3,212)	(3,102)	(3,302)
Cashflow From Operations	17,999	10,535	12,860	20,880
Capex	(17,478)	(17,773)	(11,688)	(11,825)
Disposals Of FAs/subsidiaries	11,000	0	73	0
Disposals of Investment Properties				
Acq. Of Subsidiaries/investments				
Other Investing Cashflow	1,597	1,597	1,597	(3,403)
Cash Flow From Investing	(4,881)	(16,176)	(10,018)	(15,228)
Debt Raised/(repaid)	(4,598)	5,000	0	0
Proceeds From Issue Of Shares	0	0	0	0
Shares Repurchased				
Dividends Paid	(5,309)	(1,964)	(2,036)	(2,036)
Preferred Dividends				
Other Financing Cashflow	(264)	(264)	(264)	(264)
Cash Flow From Financing	(10,171)	2,772	(2,301)	(2,301)



Balance Sheet				
(HK\$m)	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Cash And Equivalents	16,514	13,645	14,186	17,537
Properties Under Development	31,169	26,356	20,543	6,389
Total Debtors	0	0	0	0
Inventories				
Total Other Current Assets	921	921	921	921
Total Current Assets	48,604	40,921	35,650	24,847
Fixed Assets	115,985	133,070	143,933	154,768
Total Investments	31,929	31,929	31,929	36,929
Intangible Assets	123	123	123	123
Total Other Non-Current Assets	0	0	0	0
Total Non-current Assets	148,036	165,121	175,984	191,819
Short-term Debt	5,268	5,268	5,268	5,268
Current Portion of Long-Term Debt				
Total Creditors	0	0	0	0
Other Current Liabilities	13,758	13,758	13,758	13,758
Total Current Liabilities	19,027	19,027	19,027	19,027
Total Long-term Debt	32,376	37,376	37,376	37,376
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	0	0	0	0
Total Non-current Liabilities	32,376	37,376	37,376	37,376
Total Provisions	10,624	10,624	10,624	10,624
Total Liabilities	62,027	67,027	67,027	67,027
Shareholders' Equity	116,829	119,821	123,859	127,259
Minority Interests	17,784	19,195	20,747	22,379
Total Equity	134,613	139,016	144,607	149,639

Key Ratios				
	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	5.5%	19.2%	7.3%	5.2%
Operating EBITDA Growth	30.2%	(0.5%)	4.8%	6.9%
Operating EBITDA Margin	59.5%	49.6%	48.5%	49.2%
Net Cash Per Share (HK\$)	(14.53)	(19.94)	(19.57)	(17.26)
BVPS (HK\$)	80.32	82.38	85.16	87.50
Gross Interest Cover	10.64	10.67	9.42	9.10
Effective Tax Rate	26.1%	32.6%	28.4%	31.0%
Net Dividend Payout Ratio	51.5%	39.6%	33.9%	37.5%
Accounts Receivables Days	-	-	-	-
Inventory Days	-	-	-	-
Accounts Payables Days	-	-	-	-
ROIC (%)	5.84%	5.64%	5.41%	5.59%
ROCE (%)	5.31%	5.14%	5.14%	5.31%
Return On Average Assets	5.77%	3.28%	3.79%	3.51%

Key Drivers				
	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Property development revenue (HK\$ m)	8,371.1	11,182.3	11,836.3	12,291.4
Property investment revenue (HK\$ m)	6,955.7	7,093.9	7,773.8	8,345.6
Property development - GPM (%)	50.7%	46.6%	44.2%	45.0%
Property investment - GPM (%)	64.7%	64.1%	64.1%	64.2%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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Description:	Excellent	Very Good	Good	N/A	N/A

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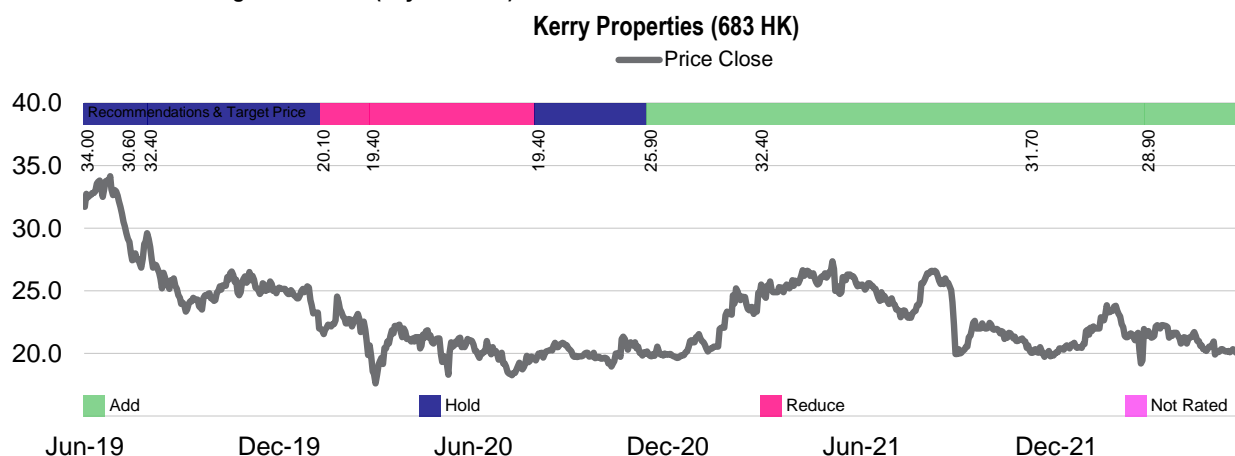
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Distribution of stock ratings and investment banking clients for quarter ended on 31 March 2022		
632 companies under coverage for quarter ended on 31 March 2022		
	Rating Distribution (%)	Investment Banking clients (%)
Add	70.3%	0.8%
Hold	22.0%	0.0%
Reduce	7.8%	0.2%

Spitzer Chart for stock being researched (2 year data)



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2021, Anti-Corruption 2021

ADVANC – Excellent, Certified, **AMATA** – Excellent, Certified, **ANAN** – Excellent, n/a, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Excellent, n/a, **AWC** – Excellent, Declared, **AU** – Good, n/a, **BAM** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Excellent, Certified, **BCH** – Very Good, Certified, **BCP** - Excellent, Certified, **BCPG** – Excellent, Certified, **BDMS** – Excellent, n/a, **BEAUTY** – Good, n/a, **BEM** – Excellent, n/a **BH** - Good, n/a, **BJC** – Very Good, n/a, **BLA** – Very Good, Certified, **BTS** - Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – n/a, n/a, **CENTEL** – Excellent, Certified, **CHAYO** – Very Good, n/a, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COM7** – Excellent, Certified, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** - Excellent, Certified, **CPNREIT** – n/a, n/a, **CRC** – Excellent, Declared, **DELTA** - Excellent, Certified, **DDD** – Excellent, n/a, **DIF** – n/a, n/a, **DOHOME** – Very Good, Declared, **DREIT** – n/a, n/a, **DTAC** – Excellent, Certified, **ECL** – Excellent, Certified, **EGCO** - Excellent, Certified, **EPG** – Excellent, Certified, **ERW** – Very Good, Certified, **GFPT** - Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Excellent, n/a, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Certified, **III** – Excellent, Declared, **INTUCH** - Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** - Excellent, Certified, **JASIF** – n/a, n/a, **JKN** – n/a, Certified, **JMT** – Very Good, n/a, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KEX** – Very Good, Declared, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MAKRO** – Excellent, Certified, **MC** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** - Excellent, Certified, **MTC** – Excellent, Certified, **NETBAY** – Very Good, n/a, **NRF** – Very Good, Declared, **OR** – Excellent, n/a, **ORI** – Excellent, Certified, **OSP** – Excellent, n/a, **PLANB** – Excellent, Certified, **PRINC** – Very Good, Certified, **PR9** – Excellent, Declared, **PSH** – Excellent, Certified, **PTT** - Excellent, Certified, **PTTEP** – Excellent, n/a, **PTTGC** - Excellent, Certified, **QH** – Excellent, Certified, **RAM** – n/a, n/a, **RBF** – Very Good, n/a, **RS** – Excellent, Declared, **RSP** – Good, n/a, **S** – Excellent, n/a, **SAK** – Very Good, Declared, **SAPPE** – Very Good, Certified, **SAWAD** – Very Good, n/a, **SCB** - Excellent, Certified, **SCC** – Excellent, Certified, **SCGP** – Excellent, Declared, **SECURE** – n/a, n/a, **SHR** – Excellent, n/a, **SIRI** – Excellent, Certified, **SPA** – Very Good, n/a, **SPALI** - Excellent, Certified, **SPRC** – Excellent, Certified, **SSP** - Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIDLOR** – n/a, Certified **TISCO** - Excellent, Certified, **TKN** – Very Good, n/a, **TOP** - Excellent, Certified, **TRUE** – Excellent, Certified, **TTB** - Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Certified, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – n/a, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

- CG Score 2021 from Thai Institute of Directors Association (IOD)

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- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

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