

China / Hong Kong Company Update

Link REIT

Bloomberg: 823 HK EQUITY | Reuters: 0823.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

2 Jun 2022

BUY

Last Traded Price (1 Jun 2022): HK\$71.20 (HSI : 21,295)
Price Target 12-mth: HK\$81.80 (15% upside)

Analyst

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What's New

- FY22 distribution income rose 6.8% to HK\$6.4bn, c.4% below our estimate mainly due to omission of discretionary distribution in 2HFY22
- Instead, HK\$150m is earmarked for unit buybacks in FY23 in place of the discretionary distribution
- Hong Kong's retail rental reversion remained solid at 4.8%
- On the road to recovery, maintain BUY with TP of HK\$81.80

Price Relative



Forecasts and Valuation

FY Mar (HK\$ m)	2021A	2022A	2023F	2024F
Gross Revenue	10,744	11,602	12,509	13,145
Net Property Inc	8,238	8,776	9,494	9,980
Net Profit	1,185	6,894	6,606	6,943
Distribution Inc	6,010	6,419	6,656	6,993
DPU (HK\$)	2.90	3.06	3.15	3.31
DPU Gth (%)	1	5	3	5
Div Yield (%)	4.1	4.3	4.4	4.7
Gross Gearing (%)	18	22	24	24
Book Value (HK\$)	76.64	77.47	79.75	82.92
P/Book Value (x)	0.9	0.9	0.9	0.9

DPU Rev (%):			(1)	(1)
Consensus DPU (HK\$):			3.33	3.44
Other Broker Recs:		B:16	S:0	H:0

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

Link to a better future

Investment Thesis

BUY with HK\$81.8 TP. Link REIT offers distribution yields of 4.4-4.7% for FY23-24. There is room for further unit price appreciation in view of the improving retail scene in Hong Kong. Any positive news flow on the disposal of Stanley Plaza could provide additional upside to stock price.

Recovery for Hong Kong retail portfolio well on track. Despite the fifth wave of pandemic in 1QCY22, retail rental reversion in Hong Kong stayed positive at 4.8% in FY22. Overall retail sales value in Hong Kong rebounded 11.7% y-o-y in Apr-22 on the back of a revival of domestic consumption. Further lifting of pandemic measures and distribution of remaining phases of electronic consumption vouchers bode well for the recovery in the retail market. These factors, coupled with normalized rent-to-sales ratio, should underpin positive rental reversion in the year ahead.

Accretive acquisitions to propel growth. Link REIT has been in acquisition mode to achieve its Vision 2025 growth strategy. Following the recent acquisition of logistics assets in Yangtze River Delta, we believe Link REIT will continue to explore yield accretive acquisitions in China and overseas to drive DPU growth.

Valuation:

Link REIT provides unit holders with a relatively visible and steady distribution income stream. Thus, the Dividend Discount Model (DDM) would be the most appropriate valuation method. Under the DDM approach, the target price of Link REIT is equal to the discounted value of all future distributions paid with assumed discount rates of 6.6% and terminal growth of 2%.

Where we differ:

We believe that the gradual relaxation of social distancing measures and distribution of consumption vouchers from Apr would release pent-up demand for consumption. The REIT's community malls should be less vulnerable to the accelerating online shopping trend.

Key Risks to Our View:

Any unexpected delay in domestic consumption recovery would impact retail rental income. Any faster-than-expected interest rate hike would adversely affect its distribution and valuation.

At A Glance

Issued Capital (m shrs)	2,110
Mkt Cap (HKm/US\$m)	150,246 / 19,145
Major Shareholders (%)	
APG Asset Management N.V.	5.4
State Street Global Advisors Asia Ltd.	5.3
Free Float (%)	100
3m Avg. Daily Val. (US\$m)	48.97
GICS Industry: Real Estate / Equity Real Estate Investment	



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Link REIT

WHAT'S NEW

Prefer unit buybacks to one-off discretionary distribution

Link REIT's FY22 distribution income rose 6.8% to HK\$6.42bn (FY21: HK\$6.01bn), c.4% below our estimate primarily due to the shortfall in discretionary distribution for 2HFY22. Excluding the discretionary distribution in both years, distribution income would have improved 9.7%, thanks to higher rental earnings, partly offset by higher finance cost.

Final DPU was 1.5% lower at HK\$1.46. Including the interim DPU, full year DPU was HK\$3.06, up 5.4% y-o-y.

In Nov-19, Link REIT budgeted a discretionary distribution of c.HK\$0.14/unit p.a. in FY20-22. Instead of distributing the remaining HK\$0.07/unit in 2HFY22 which amounted to HK\$150m in total, Link REIT has earmarked this amount for unit buybacks in FY23, subject to market conditions.

Total revenue increased 8% to HK\$11.6bn thanks to maiden contributions from newly acquired properties in China and Hong Kong, increased overseas office income and revenue recovery from Hong Kong and China retail portfolio.

Retail revenue from Hong Kong rose 2.7% to HK\$7.1bn mainly due to recovery in property management and air conditioning fees which went up 16.9% in the period. Base rental income from shops was 1% higher, supported by positive reversionary growth and higher average occupancy. On the back of domestic consumption recovery in 2H21, Hong Kong retail reversionary growth further advanced to +4.8% in FY22 from 1HFY22's +3.4%. This was mainly underpinned by remarkable rental reversions of 19% (1HFY22: 14.2%) from markets/cooked food stalls. Shops and education tenants also registered solid reversionary growth of 2.9% and 6.7% (1HFY22: 2.3% and 4.3%) respectively. This brought the average monthly unit rent up 0.5% y-o-y to HK\$62.7psf. Overall occupancy of Hong Kong retail portfolio climbed to a record high of 97.7% in Mar-22 from Sep-21's 97.5%.

COVID resurgence in early 2022 has taken a toll on the Hong Kong retail market with the F&B sector taking the hardest hit. In Feb-22, Link REIT announced a new round of its tenant support scheme amounting to HK\$120m. The scheme was then upsized to c.HK\$220m. A range of support measures including rental concessions, rent-free periods, late payments and service charge waivers, were

offered on a case-by-case basis. The amount has been reflected fully in FY22. Nonetheless, rental collection rate in the reporting period was high at 98%.

Despite disruptions led by the fifth wave of pandemic, overall carpark income rose 10.5% to HK\$2.1bn with hourly carpark income recording stellar growth of 24%. Two newly acquired carpark/car service centres and godown buildings in Hung Hom and Chai Wan made their maiden contribution of HK\$52m in FY22.

Committed occupancy of The Quayside in Kwun Tong further advanced to 96.6% as of May-22 from Oct-21's 93.8%.

Rental receipts from China retail portfolio was 24.4% higher at HK\$1.3bn mainly led by new contribution from Happy Valley Shopping Mall in Guangzhou and positive reversionary growth. This was despite income shortfall from Link CentralWalk in Shenzhen which underwent renovation work during the period. Tenant sales at stabilized malls in Beijing and Guangzhou registered positive growth supported by domestic consumption recovery. This underpinned solid reversionary growth of 8.8% for the five wholly owned shopping malls in China in FY22 (1HFY22: 12.1%). Meanwhile, the newly acquired minority-owned property, Qibao Vanke Plaza, continued to deliver robust rental reversion of 27.5% (1HFY22: 31.3%) brought by tenant mix optimization. Retail occupancy in China stood at 88.5% (Sep-21: 91.5%) as of Mar-22, or 92.3% (Sep-21: 96.2%) excluding Happy Valley Shopping Mall which will undergo asset enhancement.

Notwithstanding the lingering competition in Shanghai office market, rental decline upon renewal for Link Square narrowed to 8.1% in FY22 from 1HFY22's 12.1%. The property was 97% let as of Mar-22 (Sep-21: 96.7%).

Acquired in Oct-21, the two modern logistics properties in Dongguan and Foshan generated a rental income of HK\$32m in FY22. Both assets were fully let to reputable tenants as of Mar-22 with respective WALEs of 2.5 and 3.4 years.

Fully occupied by blue-chip tenants, 100 Market Street in Australia and The Cabot in UK delivered a total rental income of HK\$482m in FY22 (FY21: HK\$371m). Rental

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collection rate was high at 97% during the period. Acquisition of a JV interest in five Australian office assets was just completed. Subject to regulatory approval, the transaction for the three Australian retail assets is expected to complete shortly.

With the overall NPI margin edging down to 75.6% (FY21: 76.7%), net property income rose by a smaller 6.5% to HK\$8.8bn.

In 1HFY22, Link REIT completed the asset enhancement works at Hing Wah Plaza and Tai Wo Plaza with respective ROI of 13.2% and 3.6%. With total capex of RMB286m, AEI at Link CentralWalk in Shenzhen was completed in Jan-22. This has raised the total number of shops by 20% and improved the circulation and layout of the mall. ROI for the project was 11%. Link REIT is planning an asset enhancement work at Happy Valley Shopping Mall in Guangzhou, aiming to enhance the efficiency and attractiveness of the mall. Conducted in phases, the first phase is scheduled to commence in FY23 with estimated capex of >RMB150m. In addition, asset enhancement at Tai Yuen Market, Lok Fu Market and Tak Tin Market are underway with a total capex of HK\$127m.

Total debt rose to HK\$50.2bn in Mar-22 from Sep-21's HK\$42.5bn mainly due to acquisitions in Hong Kong and China. This translates into a gearing of 22% (Sep-21: 19.5%). After adjusting for the acquisition of 50% interest in three Australian retail assets, 49.9% stakes in five Australian offices and three logistics assets in China, Link REIT's pro-forma gearing is estimated at c.25%. Approximately 61.4% of interest cost was hedged to fixed rate as of Mar-22.

Despite sluggish retail scene in 1QCY22, overall tenant sales at Link REIT's Hong Kong retail portfolio recorded 7.8% growth in the period from Apr-21 to Mar-22, outperforming the Hong Kong retail market of 5.9%. This resulted in overall occupancy cost ratio trending down to 13.1% in FY22. With the improving pandemic situation and distribution of first batch of electronic consumption vouchers, overall retail sales in Hong Kong rebounded 11.7% in Apr-22 on the back of domestic consumption recovery. Further relaxation of social distancing measures

and distribution of remaining electronic consumption voucher should bode well for retail market recovery. All considered, we expect Link REIT's retail reversionary growth in Hong Kong to remain positive in FY23.

Link REIT is trading at distribution yield of 4.4-4.7% for FY23-24. This translated into a yield spread of 1.6-1.9%, against its 10 year average of 2.5%. Link REIT is on the road to recovery underpinned by positive reversionary growth amid an improving retail scene in Hong Kong. While the lockdown in Shanghai has caused short-term disruptions to its portfolio, the overall impact should not be material considering contribution from Shanghai retail property only accounted for c.3% of its distribution income. Link REIT's acquisition-led growth strategy should not only enhance its distribution yield but also diversify its income base. The unit buyback program could lend support to its unit price. Any positive news on the disposal of Stanley Plaza should prompt share price appreciation. Hence, we maintain BUY with DDM-based TP of HK\$81.80.

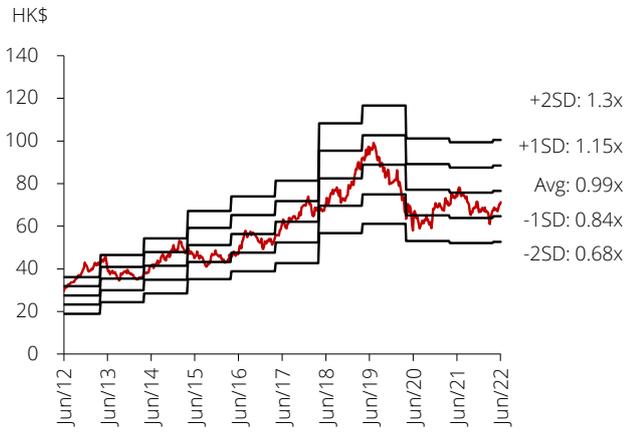
Company Background

Link REIT is the largest listed REIT in Hong Kong. Its portfolio comprises mainly retail properties located adjacent to public housing estates and has a 60% stake in The Quayside in Kwun Tong. In China, Link REIT holds a portfolio of neighborhood malls in first-tier cities mainly Beijing, Guangzhou, Shanghai and Shenzhen and an office property in Shanghai. In 2020, Link REIT expanded its presence in overseas office market by acquiring 100 Market Street in Sydney and The Cabot in London. In Oct-21, Link REIT made its maiden foray into the China logistics property market by acquiring 75% stake of two modern warehouses in Dongguan and Foshan. In Nov-21, Link REIT acquired 50% interests in three retail properties in Sydney, marking its first venture in the Australian retail market. In the same month, Link REIT purchased a godown in Chai Wan and a mixed-use car parking building in Hung Hom. In Feb-22, Link REIT further expanded its office presence in Australia.

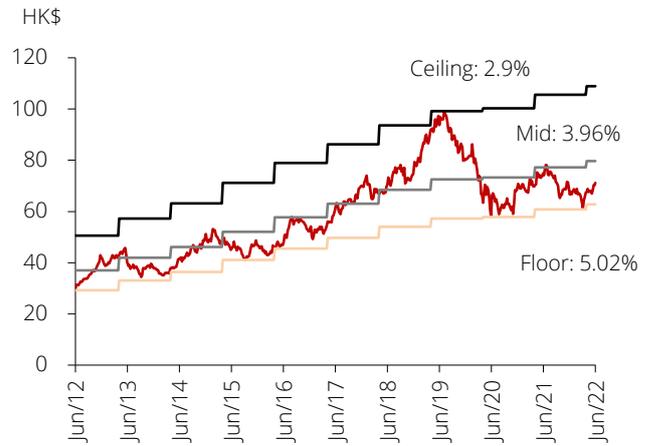
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Price to book NAV band and historical yield band

Price to book NAV band



Historical yield band



Source: Bloomberg Finance L.P. DBS HK

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Result Summary

FY Mar (HK\$m)	FY21	FY22	% Chg	Comments
Rental income from HK retail properties	6,159	6,223	1	FY22: mainly due to higher occupancy and portfolio reversion rate of 4.8%
Rental income from HK carparks and related business	1,883	2,130	13	FY22: from newly-acquired car park and godown buildings
Rental income from Mainland China retail properties	850	1,061	25	FY22: driven by positive retail reversion of 8.8% and new contribution from Happy Valley Shopping Mall in Guangzhou
Rental income from Hong Kong, Mainland China and overseas office properties	778	854	10	FY22: Full year contribution from 100 Market Street in Sydney and The Cabot in London.
Rental income from Mainland China logistics	0	32	N.A.	FY22: Two logistics properties in Dongguan and Foshan were newly acquired in Oct-21
Other revenue	1,074	1,302	21	
Revenues	10,744	11,602	8	
Property operating expenses	(2,506)	(2,826)	13	FY22: mainly due to higher promotion and marketing expenses, staff costs and utilities expenses
Net property income	8,238	8,776	7	FY22: NPI margins dropped slightly to 75.6% from FY21's 76.7%
General and administrative expenses	(428)	(512)	20	
Change in fair values of investment properties and impairment of goodwill	(5,322)	426	N.A.	
Operating profit	2,488	8,690	249	
Interest income	126	98	(22)	
Finance cost on interest bearing liabilities	(770)	(1,005)	31	
Loss on disposals of financial assets at amortised cost	0	(11)	N.A.	
Share of net profit of a joint venture	0	364	N.A.	
Profit before taxation and transactions with unitholders	1,844	8,136	341	
Taxation	(1,092)	(1,229)	13	
Profit for the year, before transactions with unitholders	752	6,907	818	
Non controlling interest	433	(13)	N.A.	
Profit for the year, attributable to unitholders	1,185	6,894	482	
Adjustments:				
Change in fair values of investment properties and impairment of goodwill attributable to shareholders	4,910	(714)	N.A.	
Deferred taxation on change in fair values of IP attributable to unitholders	(12)	172	N.A.	
Change in fair values of derivative components of convertible bonds	32	(32)	N.A.	
Change in fair values of financial instruments	(320)	(80)	(75)	
Depreciation on amortisation of real estate and related assets	54	51	(6)	
Loss on disposals of financial assets at amortised cost	0	11	N.A.	
Other non-cash Income	(129)	(29)	(78)	
Total distributable income	5,720	6,273	10	
Discretionary distribution	290	146	(50)	
Total distributable amount	6,010	6,419	7	
Interim DPU (HK\$)	1.4165	1.5959	13	
Final DPU (HK\$)	1.4834	1.4608	(2)	
Total DPU (HK\$)	2.8999	3.0567	5	

Source: Link REIT

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Key Assumptions (%)

	2022F	2023F
Retail rental (Shopping centre) -HK	0	5

Source: Company, DBS HK

Segmental Breakdown (HK\$ m)

FY Mar	2020A	2021A	2022A	2023F	2024F
Revenues (HK\$ m)					
Hong Kong Retail Properties	6,288	6,159	6,223	6,543	6,820
Hong Kong Car parks and related business	1,912	1,883	2,130	2,412	2,522
Mainland China retail Properties	937	850	1,061	1,177	1,317
Hong Kong, Mainland China and overseas offices	401	778	854	859	895
Mainland China logistics	0	0	32	124	157
Other revenue	1,180	1,074	1,302	1,394	1,434
Total	10,718	10,744	11,602	12,509	13,145

Source: Company, DBS HK

Income Statement (HK\$ m)

FY Mar	2020A	2021A	2022A	2023F	2024F
Gross revenue	10,718	10,744	11,602	12,509	13,145
Property expenses	(2,498)	(2,506)	(2,826)	(3,015)	(3,165)
Net Property Income	8,220	8,238	8,776	9,494	9,980
Other expenses	(416)	(428)	(512)	(563)	(591)
Joint ventures	0	0	364	399	491
Interest (Exp)/Inc	(447)	(644)	(907)	(1,345)	(1,453)
Exceptionals	(23,948)	(5,322)	415	0	0
Pre-Tax Profit	(16,591)	1,844	8,136	7,985	8,427
Tax	(712)	(1,092)	(1,229)	(1,302)	(1,399)
Non-Controlling Interests	181	433	(13)	(78)	(85)
Net Profit	(17,122)	1,185	6,894	6,606	6,943
Distribution income	5,965	6,010	6,419	6,656	6,993
Revenue Gth (%)	7	0	8	8	5
NPI Gth (%)	7	0	7	8	5
Dist. Inc Growth (%)	4	1	7	4	5
DPU Growth (%)	6	1	5	3	5

Source: Company, DBS HK

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Balance Sheet (HK\$ m)

FY Mar	2020A	2021A	2022A	2023F	2024F
Fixed Assets	194,613	200,375	214,009	220,561	227,692
Other LT Assets	231	218	414	414	414
Intangibles Assets	424	392	400	400	400
Associates/JVs	0	0	3,756	10,219	10,710
Bank Balance/Cash & Liquid	7,877	2,530	2,949	3,117	3,319
ST Investments	2,746	2,742	2,082	2,082	2,082
Inventory	0	0	0	0	0
Debtors	1,231	1,195	1,384	1,394	1,409
Other Non Cash Current	497	2,433	722	722	722
Total Assets	207,619	209,885	225,716	238,910	246,748
ST Debt	937	3,248	5,735	19,535	20,535
Creditors	2,640	2,504	2,700	2,690	2,710
Other Current Liab	2,278	2,893	2,832	2,862	2,892
LT Debt	33,661	35,388	44,010	37,710	37,710
Deferred Tax Liabilities	2,871	3,029	3,348	3,348	3,348
Other LT Liabilities	5,115	4,130	4,101	4,101	4,101
Non-Controlling Interests	406	(27)	302	380	465
Unitholders' funds	159,711	158,720	162,688	168,284	174,987
Total Capital	207,619	209,885	225,716	238,910	246,748
Share Capital (m)	2,057	2,071	2,100	2,110	2,110
Gross Debt	(34,598)	(38,636)	(49,745)	(57,245)	(58,245)
Working Capital	6,496	255	(4,130)	(17,772)	(18,605)
Book NAV (HK\$)	77.64	76.64	77.47	79.75	82.92
Gross Gearing (%)	17	18	22	24	24

Source: DBS HK

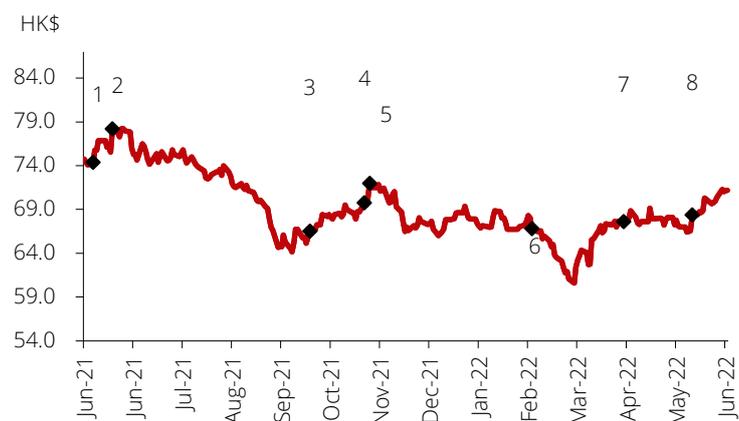
Cash Flow Statement (HK\$ m)

FY Mar	2020A	2021A	2022A	2023F	2024F
Pre-Tax Income	(16,591)	1,844	8,136	7,985	8,427
Associates' Profits	0	0	(364)	(399)	(491)
Tax Paid	(933)	(737)	(1,456)	(1,302)	(1,399)
Depr/Amort	75	75	75	75	75
Disposal of FAs/Subsidiaries	15	0	0	0	0
Chg in Wkg.Cap.	(282)	(70)	(174)	10	35
Other Non-Cash	24,305	5,966	481	1,345	1,453
Operational CF	6,589	7,078	6,698	7,714	8,100
Net Capex	(1,673)	(8,375)	(9,896)	(1,308)	(625)
Net change in asso/jv	0	0	(947)	(6,396)	0
Net Change in Investments	(2,777)	0	647	0	0
Assoc, MI, Invsmt	3,918	(2,167)	(386)	447	120
Investment CF	(532)	(10,542)	(10,582)	(7,257)	(505)
Net Chg in Debt	10,129	3,169	9,576	7,500	1,000
New issues/Unit Buyback	(4,240)	(379)	(82)	0	0
Distribution Paid	(5,930)	(3,966)	(4,405)	(6,329)	(6,821)
Other Financing CF	(725)	(884)	(951)	(1,460)	(1,573)
Financing CF	(766)	(2,060)	4,138	(289)	(7,394)
Chg in Cash	5,291	(5,524)	254	168	201

Source: Company, DBS HK

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Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	7-Jun-21	HK\$74.10	HK\$80.40	Buy
2:	18-Jun-21	HK\$75.55	HK\$80.65	Buy
3:	8-Oct-21	HK\$65.90	HK\$80.65	Buy
4:	8-Nov-21	HK\$68.70	HK\$81.45	Buy
5:	11-Nov-21	HK\$70.40	HK\$82.80	Buy
6:	11-Feb-22	HK\$68.00	HK\$83.30	Buy
7:	4-Apr-22	HK\$67.65	HK\$82.00	Buy
8:	13-May-22	HK\$66.55	HK\$81.80	Buy

Source: DBS HK

Analyst: Percy Leung
 Jeff Yau, CFA

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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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Sources for all charts and tables are DBS HK unless otherwise specified.

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