

## Hong Kong

June 17, 2022 - 3:38 PM

### HOLD (no change)

Consensus ratings\*: Buy 2 Hold 7 Sell 3

Current price:	HK\$25.40
Target price:	HK\$27.30
Previous target:	HK\$27.30
Up/downside:	7.5%
CGS-CIMB / Consensus:	0.4%
Reuters:	0004.HK
Bloomberg:	4 HK
Market cap:	US\$9,889m
	HK\$77,623m
Average daily turnover:	US\$4.92m
	HK\$38.57m
Current shares o/s	3,056m
Free float:	40.1%

\*Source: Bloomberg

### Key financial forecasts

	Dec-22F	Dec-23F	Dec-24F
Net Profit (HK\$m)	5,397	6,267	6,408
Core EPS (HK\$)	1.77	2.05	2.10
Core EPS Growth	47.9%	16.1%	2.2%
FD Core P/E (x)	14.38	12.39	12.11
Recurring ROE	3.29%	3.73%	3.72%
P/BV (x)	0.47	0.46	0.44
DPS (HK\$)	0.53	0.62	0.63
Dividend Yield	2.09%	2.44%	2.48%



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	23.3	10.7	-9.6
Relative (%)	18.8	6.9	17.1

Major shareholders	% held
Wheelock & Co	59.9

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# Wharf Holdings Ltd

## Takeaways from virtual property conference

- Despite the recent Covid-19 outbreak in China, WHL's management is optimistic about the ongoing positive rental reversion trend of its IFS malls.
- Future landbanking of development property (DP) projects in China, if any, would only be made on a very selective basis.
- Management believes that its luxury DP sales in HK could recover only after HK's borders with China reopen. We reiterate our Hold with a TP of HK\$27.3.

### Optimistic about rental reversion trend of IFS malls

- WHL's management is glad to see a mom rebound in retail sales of its malls in China in May 22, after retail sales reached a trough in Apr 22 due to lockdowns in multiple cities during the Covid-19 outbreak.
- The positive rental reversion trend in its IFS malls does not seem to be derailed by the Covid-19 outbreak that has only affected short-term performance of the malls. Yet, the amount of rent concessions of non-IFS malls in Shanghai has yet to be finalised.
- Its future investments in investment properties (IP) in China will depend on several criteria, including location (Tier-1 cities or prime Tier-2 cities), future demand for retail and the potential growth of middle class in target locations.

### Resumption of China DP landbanking only on a very selective basis

- WHL has not replenished its development property (DP) land bank in China since 2H18. Management thinks that its resumption of replenishment of DP land bank would only be on a very selective basis.
- In our view, despite provisions made for China DP in recent years, WHL is now in a favourable position to resume land banking via tender or auction, given that quite a number of Chinese developers are struggling with liquidity problems with no budget for landbanking.

### Recovery of HK DP sales depends on timing of borders reopening

- DP sales in HK would continue to be under pressure until HK's borders reopen with China. Key bookings in 1H22F would come from sales of apartments and car park spaces at Mount Nicholson.
- Its future land banking would continue to be luxury-focused and hence participation in projects in the Northern Metropolis (NM) looks unlikely.

### Keeping a majority of long-term equity investments

- Management made some transactions in its equity investment portfolios in the past six months and is keeping most of its holdings as long-term investments.
- WHL's investment portfolio consists of stocks in two industries, namely property (HK property stocks) and technology ("CME2 portfolio"), plus investment in Greentown China (3900 HK, Add).

### Payout ratio to be maintained; reiterate Hold

- Management reiterates DPS guidance of 30% of annual underlying net profit and expects the fluctuation of DPS in recent years to diminish after HK's borders reopen.
- We reiterate our Hold rating for WHL with a TP of HK\$27.3, based on a 45% discount to NAV of HK\$49.6.
- Key downside risks include slower retail sales growth in its China IP and more provisions for China DP. Acquisition of NAV-accretive HK DP projects is a key upside risk.

**Figure 1: HK property valuation summary**

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	51.70	58.10	ADD	23,997	105.6	51	12	8.9	8.1	7.9	7.6	0.51	0.49	0.47	4.3	4.3	4.3	9	2	3
HLD	12 HK	28.55	38.30	ADD	17,608	63.9	55	34	10.1	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	19.98	28.90	ADD	3,701	64.1	69	45	3.5	5.9	4.8	5.3	0.25	0.24	0.23	18.3	6.8	7.0	16	21	20
NWD	17 HK	28.10	42.50	ADD	9,009	70.8	60	51	10.1	9.6	6.7	7.8	0.32	0.34	0.33	7.3	7.3	7.5	40	43	42
SHKP	16 HK	90.80	143.00	ADD	33,518	204.7	56	57	8.8	9.1	8.3	7.5	0.44	0.43	0.42	5.5	5.5	5.5	15	14	13
Sino	83 HK	11.12	12.10	ADD	10,933	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	25.40	27.30	HOLD	9,888	49.6	49	7	21.3	14.4	12.4	12.1	0.48	0.47	0.46	1.6	2.1	2.4	8	8	8
HLP	101 HK	14.44	18.00	HOLD	8,276	29.5	51	25	14.9	13.6	10.8	9.4	0.46	0.44	0.44	5.4	5.4	5.5	24	25	23
HKL*	HKL SP	4.72	6.10	ADD	11,016	10.2	54	29	11.4	11.3	11.1	10.6	0.31	0.31	0.29	4.7	4.7	4.7	15	17	17
Hysan	14 HK	23.15	26.60	ADD	3,038	60.5	62	15	10.2	10.3	9.4	8.8	0.32	0.32	0.32	6.2	6.2	6.3	11	15	14
Swire Prop	1972 HK	18.76	21.00	HOLD	13,980	38.1	51	12	11.5	13.7	12.6	11.4	0.38	0.37	0.37	5.1	5.2	5.4	4	4	3
Wharf REIC	1997 HK	33.70	37.50	HOLD	13,035	57.7	42	11	15.7	15.3	14.0	13.2	0.50	0.49	0.48	3.9	3.8	4.4	23	21	20
Champion REIT	2778 HK	3.51	4.10	HOLD	2,663	6.3	44	17	13.9	14.1	13.8	13.2	0.43	0.42	0.42	6.5	6.4	6.6	28	26	25
Link REIT	823 HK	65.20	80.00	ADD	17,527	79.7	18	23	116.1	20.0	20.2	19.2	0.86	0.85	0.84	4.4	4.7	4.9	27	31	31
Midland	1200 HK	0.73	1.29	ADD	67	NA	NA	77	5.2	NA	9.4	3.1	0.44	0.47	0.45	0.0	0.0	2.2	(69)	(42)	(39)
<b>Developers</b>							<b>55</b>	<b>31</b>	<b>10.1</b>	<b>9.8</b>	<b>8.9</b>	<b>8.5</b>	<b>0.42</b>	<b>0.41</b>	<b>0.40</b>	<b>7.2</b>	<b>5.3</b>	<b>5.5</b>	<b>15</b>	<b>15</b>	<b>15</b>
<b>Landlords &amp; REITs</b>							<b>46</b>	<b>19</b>	<b>27.7</b>	<b>14.0</b>	<b>13.1</b>	<b>12.2</b>	<b>0.46</b>	<b>0.46</b>	<b>0.45</b>	<b>5.2</b>	<b>5.2</b>	<b>5.4</b>	<b>19</b>	<b>20</b>	<b>19</b>
<b>Simple average (ex. Midland)</b>							<b>50</b>	<b>25</b>	<b>18.9</b>	<b>11.9</b>	<b>11.0</b>	<b>10.4</b>	<b>0.44</b>	<b>0.43</b>	<b>0.43</b>	<b>6.2</b>	<b>5.3</b>	<b>5.4</b>	<b>17</b>	<b>17</b>	<b>17</b>

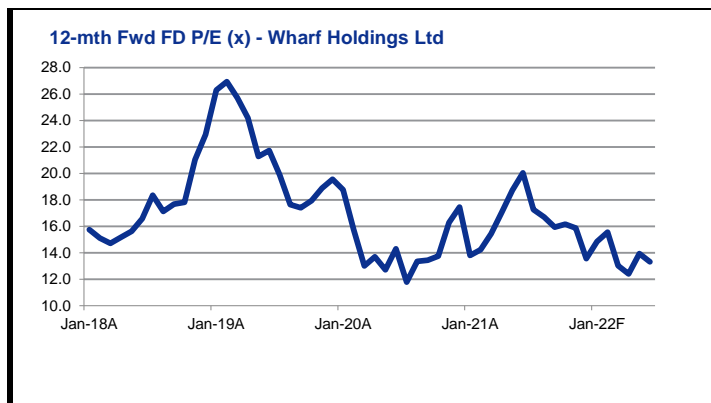
Share price data as of 16 Jun 2022; \* HKL data stated in US\$

SOURCES: CGS-CIMB RESEARCH, BLOOMBERG, COMPANY REPORTS

## BY THE NUMBERS

Profit & Loss				
(HK\$m)	Dec-21A	Dec-22F	Dec-23F	Dec-24F
<b>Total Net Revenues</b>	<b>22,378</b>	<b>22,159</b>	<b>28,287</b>	<b>28,247</b>
<b>Gross Profit</b>	<b>11,314</b>	<b>10,607</b>	<b>10,811</b>	<b>9,516</b>
<b>Operating EBITDA</b>	<b>8,536</b>	<b>8,002</b>	<b>8,156</b>	<b>7,180</b>
Depreciation And Amortisation	0	0	0	0
<b>Operating EBIT</b>	<b>8,536</b>	<b>8,002</b>	<b>8,156</b>	<b>7,180</b>
Financial Income/(Expense)	(316)	(634)	(693)	(753)
Pretax Income/(Loss) from Assoc.	968	1,156	931	1,206
Non-Operating Income/(Expense)	0	0	0	0
<b>Profit Before Tax (pre-EI)</b>	<b>9,188</b>	<b>8,525</b>	<b>8,394</b>	<b>7,633</b>
Exceptional Items	(2,245)	(898)	(449)	0
<b>Pre-tax Profit</b>	<b>6,943</b>	<b>7,627</b>	<b>7,945</b>	<b>7,633</b>
<b>Taxation</b>	<b>(2,046)</b>	<b>(1,691)</b>	<b>(1,411)</b>	<b>(937)</b>
Exceptional Income - post-tax				
<b>Profit After Tax</b>	<b>4,897</b>	<b>5,936</b>	<b>6,534</b>	<b>6,696</b>
Minority Interests	(1,301)	(539)	(267)	(288)
Prof. & Special Div	0	0	0	0
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax	0	0	0	0
<b>Net Profit</b>	<b>3,596</b>	<b>5,397</b>	<b>6,267</b>	<b>6,408</b>
Recurring Net Profit	3,646	5,397	6,267	6,408
<b>Fully Diluted Recurring Net Profit</b>	<b>3,646</b>	<b>5,397</b>	<b>6,267</b>	<b>6,408</b>

Cash Flow				
(HK\$m)	Dec-21A	Dec-22F	Dec-23F	Dec-24F
EBITDA	8,536	8,002	8,156	7,180
Cash Flow from Inv. & Assoc.	968	1,156	931	1,206
Change In Working Capital	7,205	8,726	3,444	6,889
Straight Line Adjustment				
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense	(1,495)	(1,465)	(1,442)	(1,419)
Other Operating Cashflow				
Net Interest (Paid)/Received	1,953	1,585	1,526	1,466
Tax Paid	(2,046)	(1,691)	(1,411)	(937)
<b>Cashflow From Operations</b>	<b>15,121</b>	<b>16,314</b>	<b>11,204</b>	<b>14,384</b>
Capex	(16,500)	(10,564)	(5,282)	(5,282)
Disposals Of FAs/subsidiaries				
Disposals of Investment Properties				
Acq. Of Subsidiaries/investments				
Other Investing Cashflow				
<b>Cash Flow From Investing</b>	<b>(16,500)</b>	<b>(10,564)</b>	<b>(5,282)</b>	<b>(5,282)</b>
Debt Raised/(repaid)	(7,885)	0	0	0
Proceeds From Issue Of Shares				
Shares Repurchased				
Dividends Paid	(2,523)	(2,159)	(2,161)	(2,214)
Preferred Dividends				
Other Financing Cashflow				
<b>Cash Flow From Financing</b>	<b>(10,408)</b>	<b>(2,159)</b>	<b>(2,161)</b>	<b>(2,214)</b>



Balance Sheet				
(HK\$m)	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Cash And Equivalents	23,559	23,206	22,966	25,855
Properties Under Development	48,485	47,156	49,578	48,998
Total Debtors	1,886	1,886	1,886	1,886
Inventories				
Total Other Current Assets	248	248	248	248
<b>Total Current Assets</b>	<b>74,178</b>	<b>72,496</b>	<b>74,679</b>	<b>76,987</b>
Fixed Assets	0	0	0	0
<b>Total Investments</b>	<b>178,253</b>	<b>188,063</b>	<b>192,568</b>	<b>197,050</b>
Intangible Assets	298	298	298	298
Total Other Non-Current Assets	971	971	971	971
<b>Total Non-current Assets</b>	<b>179,522</b>	<b>189,332</b>	<b>193,837</b>	<b>198,319</b>
Short-term Debt	3,664	3,664	3,664	3,664
Current Portion of Long-Term Debt				
Total Creditors	31,458	38,855	44,722	51,030
Other Current Liabilities	3,451	3,451	3,451	3,451
<b>Total Current Liabilities</b>	<b>38,573</b>	<b>45,970</b>	<b>51,837</b>	<b>58,145</b>
Total Long-term Debt	33,117	33,117	33,117	33,117
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	15,633	15,633	15,633	15,633
<b>Total Non-current Liabilities</b>	<b>48,750</b>	<b>48,750</b>	<b>48,750</b>	<b>48,750</b>
Total Provisions	0	0	0	0
<b>Total Liabilities</b>	<b>87,323</b>	<b>94,720</b>	<b>100,587</b>	<b>106,895</b>
<b>Shareholders' Equity</b>	<b>162,020</b>	<b>165,797</b>	<b>170,170</b>	<b>174,652</b>
Minority Interests	4,357	1,311	(2,240)	(6,240)
<b>Total Equity</b>	<b>166,377</b>	<b>167,108</b>	<b>167,930</b>	<b>168,412</b>

Key Ratios				
	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	7.4%	(1.8%)	37.3%	0.7%
Operating EBITDA Growth	(23.1%)	(6.3%)	1.9%	(12.0%)
Operating EBITDA Margin	49.8%	47.5%	35.3%	30.8%
Net Cash Per Share (HK\$)	(4.33)	(4.44)	(4.52)	(3.58)
BVPS (HK\$)	53.02	54.25	55.68	57.15
Gross Interest Cover	9.89	8.21	7.65	6.20
Effective Tax Rate	29.5%	22.2%	17.8%	12.3%
Net Dividend Payout Ratio	20.9%	25.7%	28.2%	30.0%
Accounts Receivables Days	43.04	40.86	29.77	29.64
Inventory Days	-	-	-	-
Accounts Payables Days	1,012	1,111	873	935
ROIC (%)	72%	47%	99%	149%
ROCE (%)	4.18%	3.93%	3.99%	3.50%
Return On Average Assets	2.94%	2.90%	2.89%	2.74%

Key Drivers				
	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Property investment revenue (HK\$ m)	5,964.0	6,414.8	7,066.7	7,261.9
Property development revenue (HK\$ m)	11,193.0	10,433.1	16,058.8	16,023.6
Logistics revenue (HK\$ m)	3,002.0	3,092.1	2,942.9	2,742.7
Investments and other revenue (HK\$ m)	2,219.0	2,219.0	2,219.0	2,219.0
DP operating margin (%)	26.3%	21.4%	12.8%	6.2%
IP operating margin (%)	65.4%	66.5%	67.0%	67.5%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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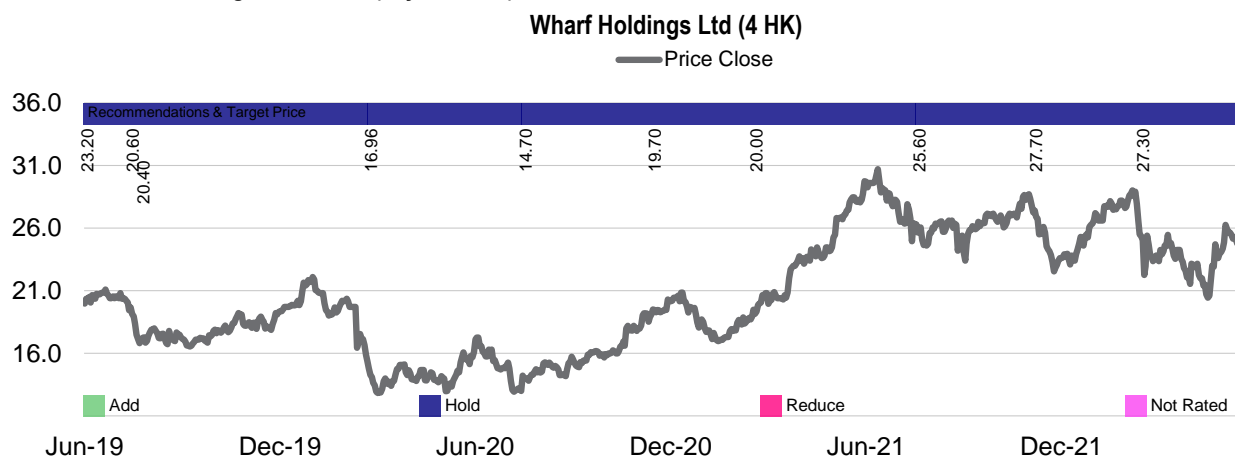
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Add	70.3%	0.8%
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Reduce	7.8%	0.2%

### 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

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*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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Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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