

# China / Hong Kong Company Update

## HKR International Ltd

Bloomberg: 480 HK Equity | Reuters: 0480.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

30 Jun 2022

### BUY

Last Traded Price (29 Jun 2022): HK\$2.90 (HSI : 21,997)  
Price Target 12-mth: HK\$4.76 (64% upside)

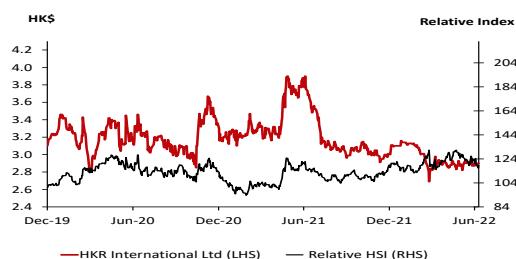
#### Analyst

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#### What's New

- FY22 underlying profit rose 11% to HK\$960m, slightly ahead of our forecast
- Contributions from HKRI Taikoo Hui grew 21%
- Villa Lucca in Tai Po to go on sale soon
- Strong asset backing, maintain BUY with HK\$4.76

#### Price Relative



#### Forecasts and Valuation

FY Mar (HK\$ m)	2021A	2022A	2023F	2024F
Turnover	3,942	4,313	1,740	4,484
EBITDA	1,468	946	510	958
Pre-tax Profit	1,492	974	926	1,431
Underlying Profit	868	960	644	1,029
Underlying Profit Gth (%)	(24.0)	10.6	(32.9)	59.8
EPS (HK\$)	0.58	0.65	0.43	0.69
EPS Gth (%)	(24.0)	10.6	(32.9)	59.8
PE (X)	5.0	4.5	6.7	4.2
P/Cash Flow (X)	3.0	nm	nm	2.6
EV/EBITDA (X)	10.3	16.0	29.8	15.8
DPS (HK\$)	0.09	0.08	0.08	0.08
Div Yield (%)	3.1	2.8	2.8	2.8
Net Gearing (%)	20	32	33	29
ROE (%)	3.9	4.5	2.5	4.0
Est. NAV (HK\$):			18.5	19.1
Disc. to NAV (%)			(84)	(85)

Earnings Rev (%): (8) (4)

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

### Villa Lucca launch on the horizon

#### Investment Thesis

**BUY with HK\$4.76 TP.** The stock is trading 84% below our appraised current NAV. Such a low valuation should lend strong support to its share price. The impending launch of Villa Lucca in Tai Po should unlock the discount to NAV. In recent years, the company has been optimising its asset portfolio which should bode well for its long-term valuations.

**Villa Lucca in Tai Po on sale shortly.** The company plans to launch Villa Lucca in Tai Po, a 40/60 JV with Hysan Development, shortly. This luxury development contains 262 residential units including 41 houses with GFA of 0.5msf. We estimate that Villa Lucca, if fully sold, should yield attributable pre-tax earnings of c.HK\$1bn to HKR. This would become the mainstay of the company's near-term development earnings.

**Optimising asset mix for future growth.** HKR made forays into Hangzhou's office market in Sep-21, followed by the purchase of a residential lot in Shanghai in Nov-21. HKR also sold GenRx Holdings to EC Health for HK\$68m in Mar-22 and the remaining two residential properties in Tokyo for HK\$237.4m in Apr-22. Proceeds from non-core asset divestments allows HKR to explore new investments with better growth prospects without stretching its balance sheet.

#### Valuation:

Our target price is based on a 75% discount to our Jun-2023 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 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)	4,307 / 549
Major Shareholders (%)	
CCM Trust (Cayman) Ltd.	48.2
LBJ Regents Limited	6.8
Free Float (%)	45.0
3m Avg. Daily Val. (US\$m)	0.03
GICS Industry: Real Estate / Real Estate Management & Development	



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**HKR International Ltd****WHAT'S NEW****Aided by property disposal gains**

Stripping out the revaluation gains on investment properties, HKR International's FY22 net earnings came in at HK\$960m, up 11%, aided by gains on disposal of its properties in Tokyo. This was despite lower development profit. Final DPS stayed unchanged at HK\$0.05, taking the full-year DPS to HK\$0.08. (FY21:HK\$0.09)

Including associates and joint ventures, after-tax profit from property development fell 39% to HK\$450m. Poggibonsi in Discovery Bay remained the key contributor with profit from 58 units sold. Since its initial launch in Mar-19, the company has sold 188 units for c.HK\$2.5bn or c.HK\$16,500psf. This represented 96% of the total. Elsewhere, HKR also booked profits from selling five houses at IL PICCO in Discovery Bay. Other projects booked included the Creekside One and Mansion One, both in Jiaxing, and Elite House in Shanghai.

Rental income remained largely stable at HK\$500m. The revenue shortfall from the disposal of properties in Tokyo was offset by contributions from newly acquired office floors and carparks at Jinsha City in Hangzhou and rising contributions from revitalized West Gate Tower in Cheung Sha Wan and newly opened DB Plaza in Discovery Bay. Committed occupancy at West Gate Tower reached 57% in Mar-22.

Profit contributions from HKRI Taikoo Hui grew 21% to HK\$275m. HKRI Centres 1 & 2 in Shanghai remained fully let in Mar-22, with spot rates of Rmb350psm-Rmb450psm. However, due to the volatile pandemic situation, tenants' sales of 94%-let HKRI Taikoo Hui were 27% y-o-y lower in 1Q22, after jumping 29% in 2021.

As of Mar-22, net debt stood at HK\$7.94bn, down 5% from Sep-21's HK\$8.32bn, thanks to proceeds from project sales in Jiaxing and disposal of GenRx Holdings. This translated into gearing of 32%. Financial risk remains manageable in our view.

HKR plans to launch Villa Lucca in Tai Po, a 40/60 joint venture residential development with Hysan Development. This project contains 262 units including 41 houses with 0.5msf GFA. The consortium bought the two sites where Villa Lucca is built on via government tender for HK\$3.39bn in total in Nov-16. Including construction and financing costs, we estimate total development costs at HK\$15,700psf on saleable area basis. Our analysis suggests a complete sale would generate attributable pre-tax profit of c.HK\$1bn to HKR, making it a near-term development earnings driver.

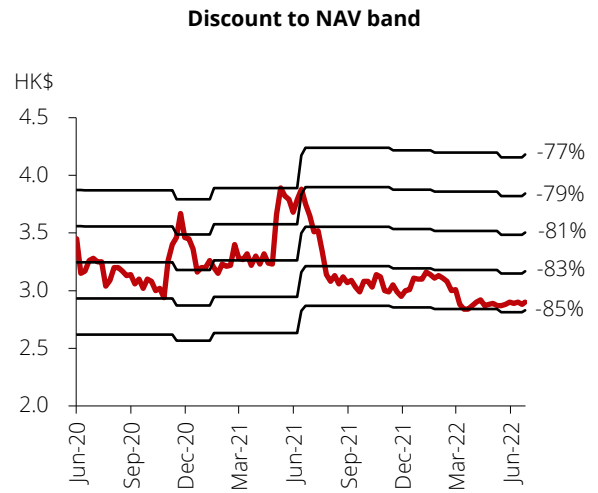
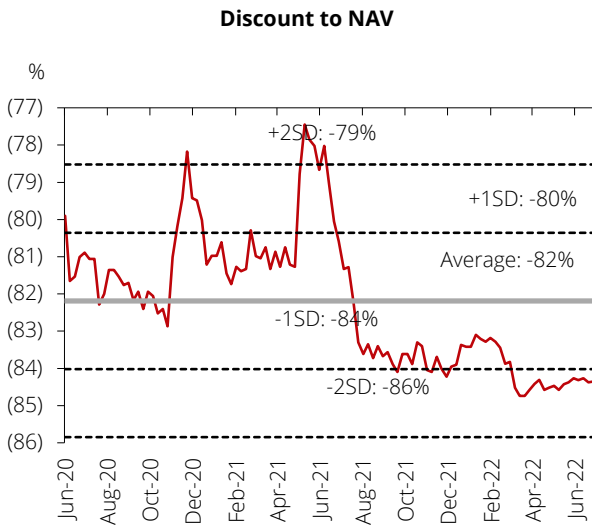
Trading 84% below our appraised current NAV, the stock is attractively valued. The current low valuation should limit any further downside risk on share price. A strong reception to the impending launch of Villa Lucca in Tai Po could be a catalyst. More importantly, HKR has been optimizing its asset mix for long-term growth which should bode well for its valuation in the future. By assigning a target discount of 75% to our Jun-2023 NAV estimate, we derive our TP at HK\$4.76, and hence our BUY call.

**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 International Ltd**

**Discount to NAV**



Source: Bloomberg Finance L.P., DBS HK

## HKR International Ltd

### Result Summary

FY Mar (HK\$m)	FY21	FY22	% Chg	Comments
<b>Turnover</b>	<b>3,809.5</b>	<b>4,167.9</b>	<b>9</b>	
Cost of sales	(2,043.1)	(2,675.9)	31	
<b>Gross Profit</b>	<b>1,766.4</b>	<b>1,492.0</b>	<b>(16)</b>	
Other income	279.8	229.1	(18)	
Other gains and losses	83.7	(45.0)	N.A.	FY22: Included net foreign exchange loss of HK\$39.2m; FY21: Included net gain of HK\$77.2m on deregistration of subsidiaries
Administrative expenses	(658.2)	(667.3)	1	
Change in fair value and gains on disposal of investment properties	23.5	447.9	1806	
Finance costs	(87.6)	(123.3)	41	
Share of results of associates	(0.1)	(0.2)	100	
Share of results of JV	220.6	343.4	56	FY22: Included net fair value gains of HK\$57m (FY21: loss of HK\$5.4m)
<b>Profit before taxation</b>	<b>1,628.1</b>	<b>1,676.6</b>	<b>3</b>	
Taxation	(510.8)	(483.9)	(5)	FY22: Included LAT of HK\$172m (FY21: HK\$242.7m)
Profit from discontinued operation	11.3	26.8	137	FY22: From healthcare services that was sold in Mar-22
Minority Interest	(231.3)	(122.2)	(47)	
<b>Net profit</b>	<b>897.3</b>	<b>1,097.3</b>	<b>22</b>	
<b>Underlying profit</b>	<b>868.6</b>	<b>960.4</b>	<b>11</b>	
EPS (HK\$)	0.60	0.74	22	
DPS (HK\$)	0.09	0.08	(11)	
<b>Segment results (after tax)</b>	<b>1,265.5</b>	<b>1,371.3</b>	<b>8</b>	
Property Development	735.8	450.1	(39)	FY22: Derived from the sales of Creekside One and Mansion One in Jiaxing & Poggibonsi and IL PICCO in Discovery Bay
Property Investment	539.2	920.7	71	FY22: Included disposal gains of three investment properties in Tokyo
Transportation services and property management	62.3	37.5	(40)	FY22: Due to fuel price inflation, higher maintenance cost and shortages of skilled operations staff
Hotel operations	(82.4)	(31.3)	(62)	FY22: Narrowing loss due to improved performance of Auberge Discovery Bay Hotel
Leisure businesses	10.6	(5.7)	N.A.	FY22: Due to pandemic restrictions

Source: HKR International

## HKR International Ltd

### Key Assumptions (%)

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

Source: DBS HK

### Segmental Breakdown (HK\$ m)

FY Mar	2020A	2021A	2022A	2023F	2024F
<b>Revenues (HK\$ m)</b>					
Property development	3,223	2,785	2,963	471	3,129
Property leasing	528	503	500	495	504
Hotel management	264	124	218	250	285
Others	681	530	632	524	566
<b>Total</b>	<b>4,696</b>	<b>3,942</b>	<b>4,313</b>	<b>1,740</b>	<b>4,484</b>

Source: DBS HK

### Income Statement (HK\$ m)

FY Mar	2020A	2021A	2022A	2023F	2024F
Turnover	4,696	3,942	4,313	1,740	4,484
EBITDA	1,976	1,468	946	510	958
Depr / Amort	(192)	(201)	(204)	(244)	(268)
<b>EBIT</b>	<b>1,784</b>	<b>1,266</b>	<b>741</b>	<b>266</b>	<b>690</b>
Associates Inc	507	226	280	686	825
Interest (Exp)/Inc	(214)	(24)	(48)	(59)	(83)
Exceptionals	445	24	0	34	0
<b>Pre-tax Profit</b>	<b>2,522</b>	<b>1,492</b>	<b>974</b>	<b>926</b>	<b>1,431</b>
Tax	(838)	(363)	246	(177)	(324)
Non-controlling Interest	(60)	(231)	(122)	(105)	(78)
<b>Net Profit</b>	<b>1,625</b>	<b>897</b>	<b>1,097</b>	<b>644</b>	<b>1,029</b>
<b>Underlying Profit</b>	<b>1,142</b>	<b>868</b>	<b>960</b>	<b>644</b>	<b>1,029</b>
Sales Gth (%)	22	(16)	9	(60)	158
Net Profit Gth (%)	(26)	(45)	22	(41)	60
EBITDA Margins (%)	42	37	22	29	21
EBIT Margin (%)	38	32	17	15	15
Tax Rate (%)	33	24	N/A	19	23

Source: DBS HK

## HKR International Ltd

### Balance Sheet (HK\$ m)

FY Mar	2020A	2021A	2022A	2023F	2024F
Fixed Assets	17,563	17,946	17,130	16,802	16,600
Long-term Investments	626	665	645	645	645
Other LT Assets	213	1,268	5,294	5,294	5,294
Deferred Tax Asset	39	114	58	58	58
Associates/JVs	9,047	9,643	10,222	10,908	11,733
Bank Balance/Cash & Liquid	2,511	3,061	2,718	1,603	2,061
ST Investments	30	27	34	34	34
Inventory	5,926	4,381	5,507	6,460	5,819
Debtors	1,069	813	1,316	1,166	1,156
Other Non Cash Current	217	227	483	483	483
<b>Total Assets</b>	<b>37,241</b>	<b>38,145</b>	<b>43,408</b>	<b>43,453</b>	<b>43,883</b>
ST Debt	4,109	777	2,391	1,500	1,500
Creditors	1,289	1,032	1,081	1,101	1,121
Other Current Liab	2,016	1,229	627	627	627
LT Debt	3,212	6,908	8,265	8,655	8,155
Deferred Tax Liabilities	473	469	503	503	503
Other LT Liabilities	1,396	1,125	2,596	2,596	2,596
Non-controlling Interests	2,679	2,921	2,919	2,919	2,919
Shareholder's Equity	22,067	23,684	25,027	25,552	26,463
<b>Total Cap. &amp; Liab.</b>	<b>37,241</b>	<b>38,145</b>	<b>43,408</b>	<b>43,453</b>	<b>43,883</b>
Share Capital (m)	1,485	1,485	1,485	1,485	1,485
Net Cash/(Debt)	(4,810)	(4,624)	(7,938)	(8,553)	(7,594)
Working Capital	2,340	5,471	5,960	6,518	6,305
Net Gearing (%)	22	20	32	33	29

Source: DBS HK

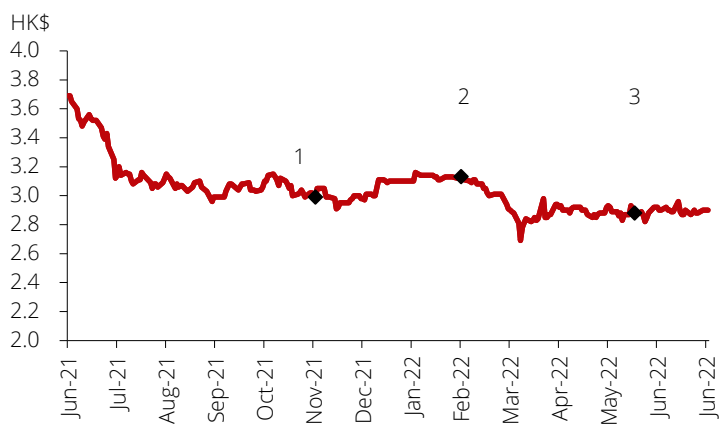
### Cash Flow Statement (HK\$ m)

FY Mar	2020A	2021A	2022A	2023F	2024F
EBIT	1,784	1,266	741	266	690
Tax Paid	(653)	(482)	246	(177)	(324)
Depr/Amort	192	201	204	244	268
Profit or loss on disposal of FAs/subsidiaries/investment	(234)	2	0	(34)	0
Chg in Wkg.Cap	(694)	(123)	(4,370)	(783)	672
Other Non-Cash	309	95	0	33	0
<b>Operating CF</b>	<b>705</b>	<b>960</b>	<b>(3,179)</b>	<b>(450)</b>	<b>1,305</b>
Net Capex	(689)	(573)	613	118	(67)
Others	(493)	70	41	0	0
<b>Investing CF</b>	<b>(1,182)</b>	<b>(502)</b>	<b>654</b>	<b>118</b>	<b>(67)</b>
Net Chg in Debt	618	393	2,471	(500)	(500)
Dividend	(166)	(359)	(241)	(224)	(197)
Other Financing CF	(22)	(140)	(48)	(59)	(83)
<b>Financing CF</b>	<b>430</b>	<b>(107)</b>	<b>2,182</b>	<b>(783)</b>	<b>(780)</b>
Chg in Cash	(48)	350	(343)	(1,115)	458

Source: DBS HK

**HKR International Ltd**

**Target Price & Ratings History**



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	18-Nov-21	HK\$2.99	HK\$4.83	Buy
2:	9-Feb-22	HK\$3.11	HK\$4.84	Buy
3:	19-May-22	HK\$2.91	HK\$4.76	Buy

Source: DBS HK

Analyst: Jeff Yau, CFA

## HKR International Ltd

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**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

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**FULLY VALUED** (negative total return, i.e., > -10% over the next 12 months)

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\*Share price appreciation + dividends

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