

# China / Hong Kong Company Update

## Tai Cheung

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DBS Group Research . Equity

4 Jul 2022

**BUY** (Upgrade from Hold)

Last Traded Price (30 Jun 2022): HK\$4.48 (HSI : 21,860)

Price Target 12-mth: HK\$5.62 (25% upside) (Prev HK\$5.55)

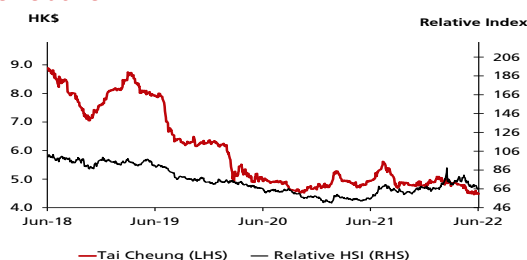
### Analyst

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### What's New

- Swings into the black with net profit of HK\$3m in FY22
- Strong investment income from financial assets
- Facelift at Sheraton-Hong Kong Hotel
- Upgrade to BUY with HK\$5.62 TP

### Price Relative



### Forecasts and Valuation

FY Mar (HK\$ m)	2021A	2022A	2023F	2024F
Turnover	74	132	574	575
EBITDA	(42)	(7)	239	237
Pre-tax Profit	(29)	3	287	328
Net Profit	(28)	3	246	286
Net Profit Gth (%)	N/A	N/A	8,521.0	16.1
EPS (HK\$)	(0.05)	0.00	0.40	0.46
EPS Gth (%)	N/A	N/A	8,521.0	16.1
PE (X)	nm	968.0	11.2	9.7
P/Cash Flow (X)	nm	nm	7.5	7.0
EV/EBITDA (X)	nm	nm	4.7	4.8
DPS (HK\$)	0.24	0.24	0.27	0.27
Div Yield (%)	5.4	5.4	6.0	6.0
Net Gearing (%)	CASH	CASH	CASH	CASH
ROE (%)	(0.4)	0.0	3.7	4.2
Est. NAV (HK\$):			22.0	22.5
Disc. to NAV (%)			(80)	(80)

Earnings Rev (%): (48) New

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

## Investment value re-emerges.

### Investment Thesis

Upgrade to BUY with HK\$5.62 TP. The stock is trading at an 80% discount to our assessed current NAV. Excluding net cash holdings, the remaining stub is trading at a 91% discount. Investment value has emerged following the share price correction in recent months.

**Improving signs for luxury market.** With gradual easing of social distancing measures, sentiment on the luxury residential sector has shown signs of improvement, as evidenced by encouraging recent transaction at No.15 Shouson. In addition, a luxury residential site, close to Tai Cheung's Pula, was sold to SEA Holdings via government tender for HK\$1.188bn in Feb-22. This translated into an accommodation value of HK\$62,352psf, a record high for a government site.

**Facelift at Sheraton-Hong Kong Hotel to boost long-term competitiveness.** Since Nov-21, its 35%-held Sheraton-Hong Kong Hotel in Tsim Sha Tsui has been undergoing a HK\$400m renovation work, which is scheduled to be completed by Oct-22. This should enhance the long-term competitiveness of the hotel when tourists return once the border re-opens.

### Valuation:

Our target price is based on a 75% discount to our Jun-23 NAV estimate.

### Where we differ:

The delayed border re-opening has impacted the company's luxury home sales, but we remain positive on the long-term prospects of luxury residential sector.

### Key Risks to Our View:

Any prolonged border closure would impact the sales of super luxury developments and hotel operations for Tai Cheung

### At A Glance

Issued Capital (m shrs)	618
Mkt Cap (HKm/US\$m)	2,769 / 353
Major Shareholders (%)	
Chan (Pun David)	38.2
Great Edward Investment Company Ltd.	6.6
Free Float (%)	55.2
3m Avg. Daily Val. (US\$m)	0.025
GICS Industry: Real Estate / Real Estate Management & Development	



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## Tai Cheung

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### WHAT'S NEW

#### Boosted by strong investment income

Tai Cheung was back in black with net profit of HK\$3m for FY22. (FY21: net loss of HK\$28m) This was led by investment income on financial assets primarily resulting from the distribution of US listed equity securities within an investment fund held by the company. The result was not a surprise to the market as the company has issued a profit alert earlier. Final DPS stayed unchanged at HK\$0.12, taking the full-year DPS to HK\$0.24. (FY21: HK\$0.24)

Gross profit amounted to HK\$3m which stemmed primarily from selling Ph 1 & 2 of the French Valley Airport Center, an industrial and commercial project in California. Construction works for Ph 3 is in progress with expected completion in 4Q22. On the other hand, Tai Cheung did not sell any luxury houses at Pulsa in Repulse Bay and Plunkett's Road on the Peak.

Profit contribution from its 35%-owned Sheraton-Hong Kong Hotel was HK\$19m, which came primarily from leasing the retail arcade to SOGO Department Store. Since Nov-21, the hotel portion has been under renovation which is scheduled to be completed in Oct-22. With budgeted capex of HK\$400m, the renovation should enhance the hotel's long-term competitive edge in attracting high-yielding travellers.

As of Mar-22, Tai Cheung's net cash stood at HK\$1.64bn, down slightly from Sep-21's HK\$1.83bn, mainly due to the payment of an interim dividend and construction expenses for the Ap Lei Chau project. For Ap Lei Chau luxury development, all piling works have been completed and excavation works had just commenced in mid-Jun.

With the pandemic-led restrictions gradually easing, the luxury market sentiment in Hong Kong has exhibited initial

signs of improvement. Recently, a luxury house at 15 Shouson in Island South, developed by a consortium comprising Emperor International, Mingfa Group, CC Land and CSI Properties, was sold for HK\$870m or HK\$108,347psf.

Elsewhere, SEA Holdings acquired a luxury residential lot in Repulse Bay through a government tender for HK\$1.188bn or HK\$62,352psf in Feb-22. This should signal high values for The Pulsa nearby.

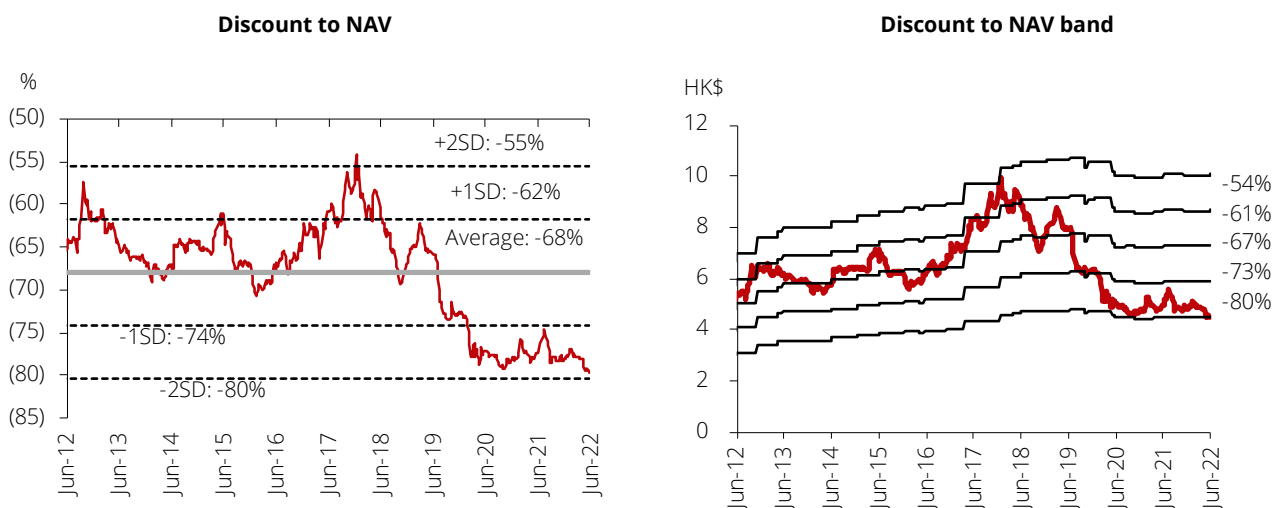
In the past six months, the share price of Tai Cheung has dropped 7%, slightly underperforming the broad market. Meanwhile, the stock is trading at 80% discount to our appraised NAV. Excluding its net cash holding, the remaining stub is trading at 91% discount. Investment value has re-emerged after the share price correction with signs of improving luxury market sentiment. Based on target discount of 75% to our Jun-2023 NAV estimate, we set our TP at HK\$5.62, which suggests 25% upside potential from the current level. Upgrade to BUY.

#### Company Background

Tai Cheung is a small property developer in Hong Kong which focuses on premium developments. The company has luxury residential projects at The Peak and Repulse Bay. In May 2020, Tai Cheung secured a luxury residential lot in Ap Lei Chau through government tender. The company also owns a 35% stake in Sheraton Hong Kong Hotel in Tsim Sha Tsui.

## Tai Cheung

### Discount to NAV



Source: Bloomberg Finance L.P., DBS HK

### Results summary

FY Mar (HK\$m)	FY21	FY22	% Chg	Comments
Turnover	73.8	131.9	79	FY22: higher income from property development
<b>Segment results</b>				
Property development and leasing	(48.9)	(48.0)	(2)	
Property management	0.7	0.7	0	
Investment holding	19.6	34.3	75	FY22: mainly from the distribution of US listed equity securities within an investment fund held by the group
<b>Operating profit</b>	<b>(28.6)</b>	<b>(13.0)</b>	<b>(55)</b>	
Borrowing costs	(9.9)	(3.1)	(69)	
Share of results of associates	9.5	19.4	104	
<b>Profit before taxation</b>	<b>(29.0)</b>	<b>3.3</b>	<b>N.A.</b>	
Taxation	0.8	(0.4)	(150)	
<b>Net profit</b>	<b>(28.2)</b>	<b>2.9</b>	<b>N.A.</b>	
EPS (HK\$)	(0.046)	0.005	N.A.	
DPS (HK\$)	0.24	0.24	0	

Source: Company

## Tai Cheung

### 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 and leasing	32	63	122	565	565
Property management	11	11	10	10	10
<b>Total</b>	<b>43</b>	<b>74</b>	<b>132</b>	<b>574</b>	<b>575</b>

Source: DBS HK

### Income Statement (HK\$ m)

FY Mar	2020A	2021A	2022A	2023F	2024F
Turnover	43	74	132	574	575
EBITDA	(55)	(42)	(7)	239	237
Depr / Amort	(8)	(14)	(14)	(14)	(14)
<b>EBIT</b>	<b>(63)</b>	<b>(56)</b>	<b>(21)</b>	<b>224</b>	<b>223</b>
Associates Inc	120	9	19	42	74
Interest (Exp)/Inc	69	17	5	20	31
Exceptionals	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>125</b>	<b>(29)</b>	<b>3</b>	<b>287</b>	<b>328</b>
Tax	(1)	1	0	(40)	(42)
<b>Net Profit</b>	<b>125</b>	<b>(28)</b>	<b>3</b>	<b>246</b>	<b>286</b>
Sales Gth (%)	(88)	72	79	335	0
Net Profit Gth (%)	(46)	N/A	N/A	8,521	16
EBITDA Margins (%)	(127)	(57)	(5)	42	41
EBIT Margin (%)	(147)	(75)	(16)	39	39
Tax Rate (%)	0	N/A	12	14	13

Source: DBS HK

## Tai Cheung

### Balance Sheet (HK\$ m)

FY Mar	2020A	2021A	2022A	2023F	2024F
Fixed Assets	79	70	56	42	28
Long-term Investments	0	0	0	0	0
Deferred Tax Asset	41	41	41	41	41
Associates/JVs	150	172	177	177	177
Bank Balance/Cash & Liquid	3,611	2,048	1,730	1,976	2,277
Inventory	3,510	4,804	4,880	4,746	4,578
Debtors	72	34	92	92	92
Other Non Cash Current	6	0	0	0	0
<b>Total Assets</b>	<b>7,469</b>	<b>7,168</b>	<b>6,975</b>	<b>7,073</b>	<b>7,192</b>
ST Debt	0	142	0	0	0
Creditors	191	151	168	168	168
Other Current Liab	0	0	0	0	0
LT Debt	219	0	91	91	91
Deferred Tax Liabilities	4	4	4	4	4
Other LT Liabilities	59	49	36	36	36
Shareholder's Equity	6,996	6,823	6,676	6,774	6,894
<b>Total Cap. &amp; Liab.</b>	<b>7,469</b>	<b>7,168</b>	<b>6,975</b>	<b>7,073</b>	<b>7,192</b>
Share Capital (m)	618	618	618	618	618
Net Cash/(Debt)	3,393	1,906	1,638	1,885	2,186
Working Capital	7,007	6,593	6,532	6,645	6,778
Net Gearing (%)	CASH	CASH	CASH	CASH	CASH

Source: DBS HK

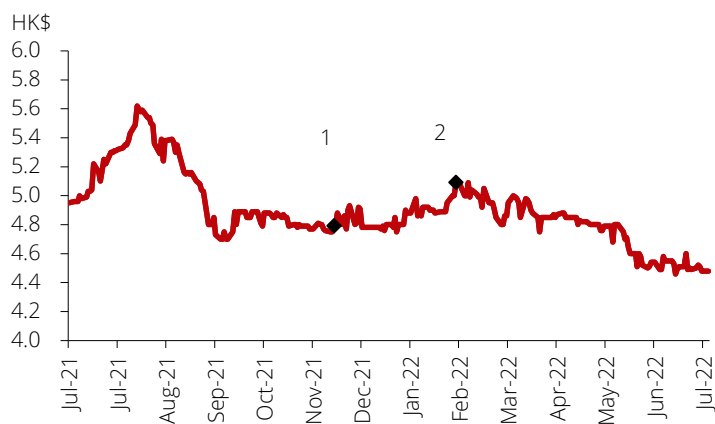
### Cash Flow Statement (HK\$ m)

FY Mar	2020A	2021A	2022A	2023F	2024F
EBIT	(63)	(56)	(21)	224	223
Tax Paid	(11)	6	0	(40)	(42)
Depr/Amort	8	14	14	14	14
Profit or loss on disposal of FAs/subsidiaries/investment	0	(2)	0	0	0
Chg in Wkg.Cap	(48)	(1,330)	(136)	134	168
Other Non-Cash	(16)	(9)	(30)	(5)	(7)
<b>Operating CF</b>	<b>(130)</b>	<b>(1,376)</b>	<b>(173)</b>	<b>327</b>	<b>356</b>
Net Capex	(1)	(1)	0	0	0
Investments	0	0	0	0	0
Associates & JVs	0	0	0	0	0
Associates' Dividends	112	14	19	42	74
Others	99	39	34	25	38
<b>Investing CF</b>	<b>210</b>	<b>51</b>	<b>54</b>	<b>67</b>	<b>112</b>
Net Chg in Debt	(74)	(89)	(51)	0	0
New Capital	0	0	0	0	0
Dividend	(216)	(148)	(148)	(148)	(167)
Other Financing CF	0	0	0	0	0
<b>Financing CF</b>	<b>(290)</b>	<b>(237)</b>	<b>(199)</b>	<b>(148)</b>	<b>(167)</b>
Chg in Cash	(210)	(1,562)	(318)	246	301

Source: DBS HK

**Tai Cheung**

**Target Price & Ratings History**



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	1-Dec-21	HK\$4.75	HK\$5.62	Buy
2:	9-Feb-22	HK\$4.88	HK\$5.55	Hold

Source: DBS HK

Analyst: Jeff Yau

## Tai Cheung

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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)

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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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