

HK Property Sector (Office and Retail)

Refer to important disclosures at the end of this report

DBS Group Research . Equity

5 Aug 2022

Seeking growth, finding value

- **Upcoming new office supply to exert downward rental pressure**
- **Retail scene improving backed by domestic consumption revival**
- **Share buyback to support share price performance of [Hongkong Land](#) and [Hysan Development](#)**
- **BUY [Swire Properties](#) for its attractive valuations and investment-led growth**

Upcoming new office supply to exert rental pressure. The office market showed signs of stabilising vacancy and rents in 1H22. However, pre-leasing on new office supply coming onstream has been slower than expected partly due to the Omicron variant outbreak. This could cause the vacancies to rise again towards the end of 2022, which in turn would exert downward pressure on rentals. We forecast overall office rents to fall 3-5% in the next twelve months. Office reversionary growth is expected to stay in negative territory until 2024.

Retail scene improving backed by domestic consumption recovery. With the easing of social distancing protocols on one hand and distribution of consumption vouchers on the other, retail scene has been improving led by a revival in domestic consumption. Rental declines upon lease renewals and new lettings is narrowing with positive reversionary growth anticipated in 2023. But, a full-fledged retail market recovery hinges on the re-opening of the border with Mainland China which seems less likely in the short term. Overall, we forecast retail rents to be 3-5% higher over the next twelve months.

Stock recommendation. Property investors are trading at discounts of 43-65% to their respective assessed current NAVs, or 56% on a weighted average basis. Sector valuation is inexpensive. We like Swire Properties for its long-term investment-led growth and enticing valuation. Share buybacks should support the near-term share price performance of Hysan Development and Hongkong Land. Negatives from pandemic restrictions on Hang Lung Properties mall operations in China should be largely discounted.

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Recommendation & valuation

Company	Ticker	Mkt Cap HK\$bn	Price HK\$	12-m TP HK\$	Recom
Hang Lung Prop	101 HK	61	13.54	17.20	BUY
Hongkong Land@	HKL SP	12	5.16	6.14	BUY
Hysan Dev	14 HK	25	24.10	30.25	BUY
Swire Properties	1972 HK	108	18.40	25.35	BUY
Wharf REIC	1997 HK	109	36.05	42.00	BUY

Source: Thomson Reuters, DBS Bank (Hong Kong) Limited ("DBS HK")

@ Denominated in US\$

Closing prices at 4 Aug, 2022



Live more, Bank less

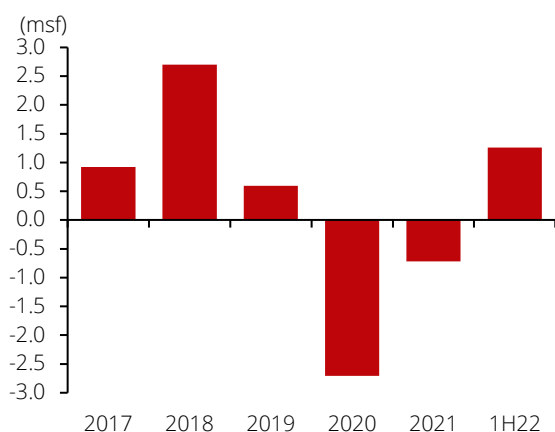
HK Property Sector (Office and Retail)

Office

Office vacancy stabilising. In 1H22, the office market recorded a net absorption of c.1.25msf, according to Jones Lang LaSalle, thanks to realisation of pre-committed space for newly completed developments.

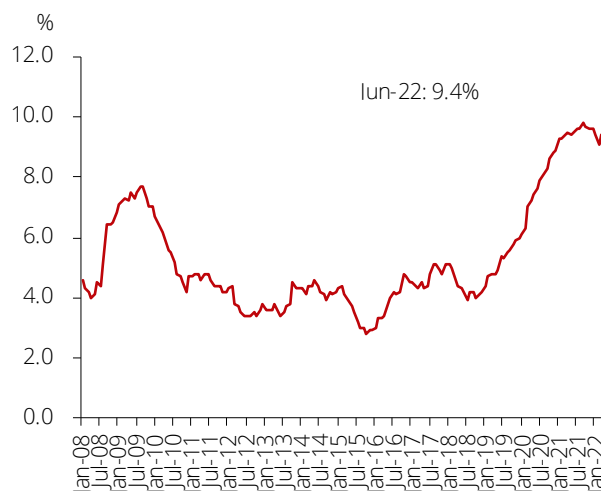
According to Jones Lang LaSalle, the overall office vacancy improved slightly to 9.4% in Jun-22 from Dec-21's 9.6%. The overall improvement would have been even better if not for higher vacancy at Island East. Based on Jones Lang LaSalle's data, office vacancy in Island East surged to 8.9% in Jun-22 from Dec-21's 7.5% and Jun-21's 6.5%. The increased vacancy was largely concentrated in non-Swire portfolio. Swire Properties' Taikoo Place portfolio remains 96% let in Jun-22.

Office Absorption



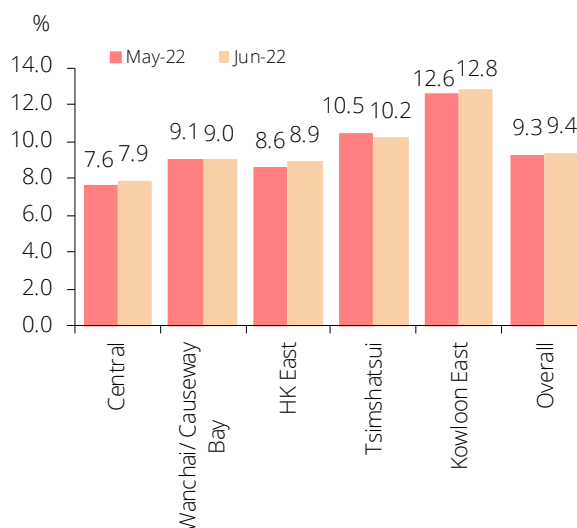
Source: Jones Lang LaSalle

Overall vacancy



Source: Jones Lang LaSalle

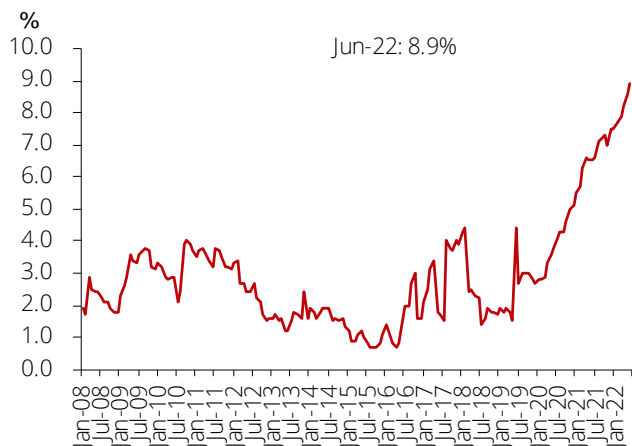
Office vacancy (different submarkets)



Source: Jones Lang LaSalle

HK Property Sector (Office and Retail)

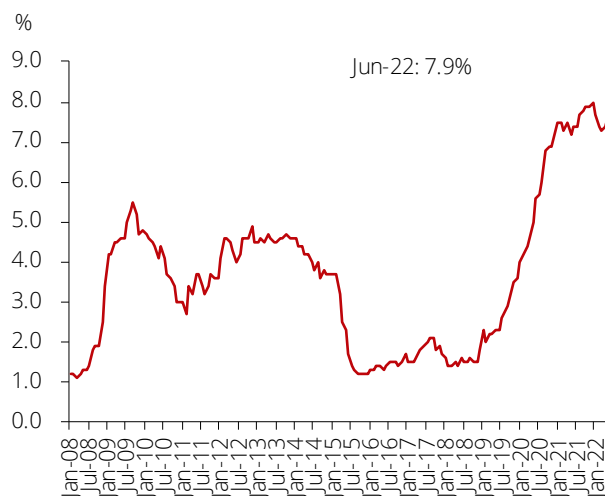
Office vacancy – Island East



Source: Jones Lang LaSalle

Office vacancy in Central stood at 7.9% in Jun-22, down slightly from Dec-21's 8%. US-based investment bank Jefferies Group relocated from Cheung Kong Center to Two IFC, taking up one office floor surrendered by Nomura Securities. Aided by continued "flight to quality" demand, office buildings in core Central enjoy relatively lower vacancy than other Central offices. As of Jun-22, Hongkong Land's Central office portfolio was 5.4% vacant. On a committed basis, the vacancy was just 5.1%. One and Two IFC remains virtually fully let. Recently, US-based hedge fund Citadel and Citadel Securities leased two more office floors totalling 44,000sf at Two IFC for expansion within the same building. On the other hand, vacancy of selected office buildings in fringe Central remains at >10% currently.

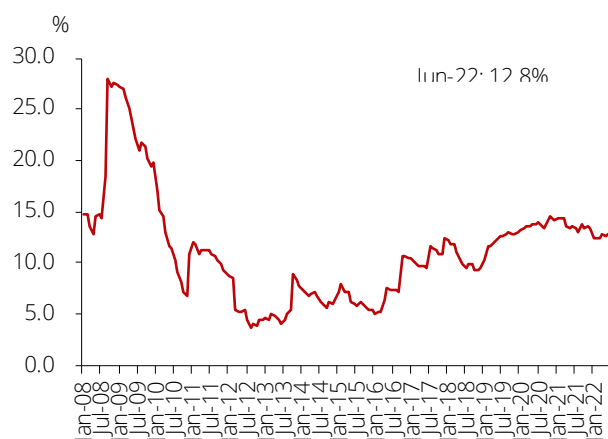
Office vacancy – Central



Source: Jones Lang LaSalle

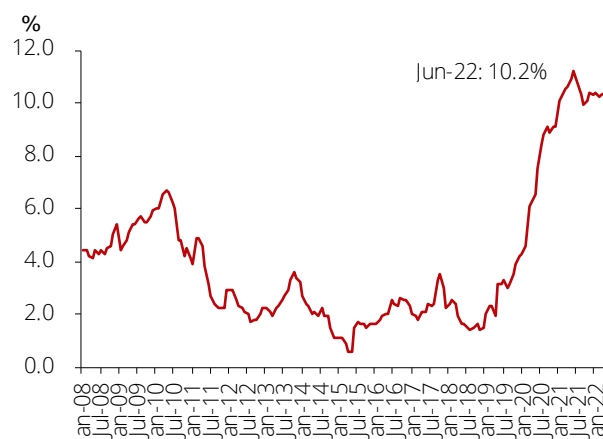
Office vacancy in Kowloon East improved to 12.8% in Jun-22 from 13.3% in Dec-21. The government has leased >110,000sf of office space in Kowloon East in recent months. For example, Radio Television Hong Kong took up one floor (28,000sf) at Landmark East in Kwun Tong for HK\$25psf and the Health Department occupies three floors (52,000sf) at One Kowloon in Kowloon Bay.

Office vacancy – Kowloon East



Source: Jones Lang LaSalle

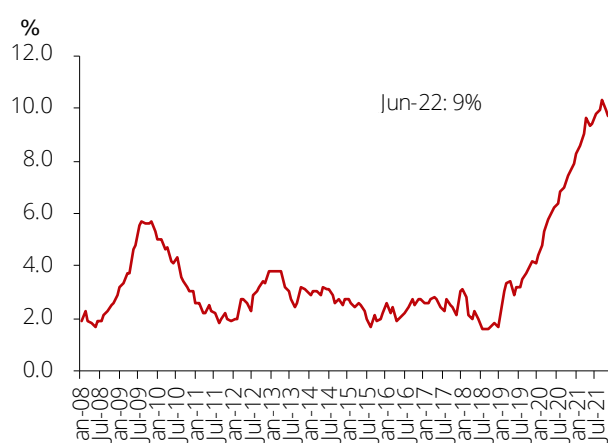
Office vacancy – Tsim Sha Tsui



Source: Jones Lang LaSalle

Office vacancy in Wan Chai/Causeway Bay also headed lower to 9% in Jun-22 from Dec-21's 9.6%. However, occupancy of Hysan Developments' office portfolio in Causeway Bay softened from Dec-21's 94% partly due to the departure of Prudential Assurance. Office vacancy in Tsim Sha Tsui remained broadly stable at 10.2% in Jun-22.

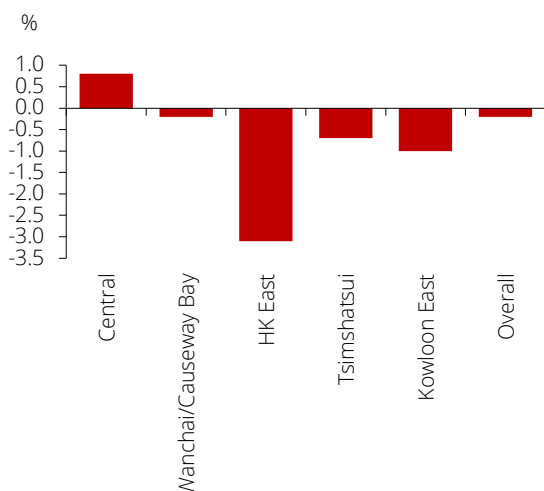
Office vacancy – Wan Chai/Causeway Bay



Source: Jones Lang LaSalle

Office rentals continued to stabilise..... Based on Jones Lang LaSalle's data, office rents fell by marginal 0.2% in 1H22 after dropping 5.2% in 2021. Among different submarkets, Central was the best performer in terms of rentals in 1H22. Office rents in Central rose slightly by 0.8% during the period. On the other hand, Island East saw rental declines by 3.1% in 1H22, the largest amongst key submarkets. This came after a fall of 7.4% in 2021. Other submarkets including Wan Chai/Causeway Bay, Tsim Sha Tsui and Kowloon East registered rental drops of 0.2%-1% in 1H22.

Office rental change – different submarkets



Source: Jones Lang LaSalle

.....but reversionary growth remains negative. Since mid-2019, the overall office rents have corrected >25%. Despite the recent rental stabilisation, office landlords saw their reversionary growth turn more negative in 1H22 as expiring leases were signed during the previous market peak.

Flexible space operators expanding footprint. Aside from fund management and private banks, flexible space operators are also expanding their footprint. For example, IWG leased 8 Queen's Road East in Wan Chai on an en bloc basis and opened a "Spaces" centre in July. With total GFA of 81,346sf, this property has been vacant following the departure of WeWork in 2022.

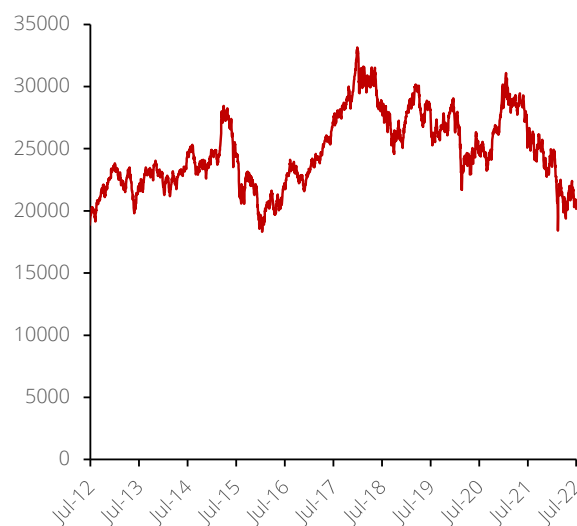
8 Queen's Road East



Source: DBS

Weak financial market a drag on leasing demand. That said, the Hang Seng Index has fallen 13.9% YTD. The IPO market was also weak. Volatile financial markets should have inevitably dampened office leasing demand.

Hang Seng Index



Source: DBS

HK Property Sector (Office and Retail)

New office pre-leasing slower than expected. The office portion of 11 Skies at Chek Lap Kok commenced operations in Jul-22. It comprises three Grade A office tower with total GFA of 0.57msf. Committed tenants came primarily from wealth management, and wellness and medical sectors. Given its close proximity to the Hong Kong-Zhuhai-Macau Bridge, the property should appeal to those tenants targeting customers in the Greater Bay Area. Due to the fifth wave of the pandemic and prolonged border closure, the pre-leasing progress has been slower than previously expected. Meanwhile, the leasing rate is anticipated to reach 60% by end-2022. In our view, the re-opening of the border with Mainland China would play a key role in boosting the occupancy of this newly built office property.

China CITIC Bank has reportedly pre-committed c.150,000sf at Two Taikoo Place in Quarry Bay, relocating from nearby Devon House and other office buildings. This makes it the anchor tenant at Two Taikoo Place, which is scheduled for completion in 4Q22. Other companies committed to moving into the new tower include Julius Baer, Amundi, BASF, and Boston Consulting Group. Overall, pre-commitment rate of this soon-to-be-completed office property is close to 50% now.

Two Taikoo Place



Source: DBS

Elsewhere, the leasing of Nan Fung's Airside in Kai Tak, which offers GFA of 1.2msf, is also proceeding slowly.

Carlyle Group has become the second tenant at The Henderson in Central, relocating from Two Pacific Place nearby. This US-based financial institution agreed to lease 20,000sf at this Grade A office building, which is scheduled to be completed in late 2023. Including four floors (50,000sf) committed by Christie's in mid-21, this Grade A office tower is c.20% pre-leased. On a fully let basis, we estimate that The Henderson should generate annual rental income of HK\$600m p.a..

The Henderson



Source: DBS

Given gradual completion of new office developments and relatively low pre-commitment rate, we expect office vacancy to rise again in late 2022 unless office leasing demand stages a strong rebound which seems less likely.

We forecast overall office rents to fall 3-5% in the next twelve months. Against this backdrop, office rental reversion should stay negative until 2024.

Developed by New World Development, NCB Innovation Centre (formerly known as 888 Lai Chi Kok Road) in Cheung Sha Wan was completed in 1H22. This office tower is a five-minute walk from Lai Chi Kok MTR Station with saleable area of 0.58msf. Since its initial launch in Dec-20, the company has sold >75% of office area for >HK\$6bn or HK\$14,000psf on average. Buyers include Nanyang Commercial Bank, NWS

HK Property Sector (Office and Retail)

Holdings, PC Partner Group and University of Hong Kong. The site was acquired through a government tender for HK\$4.03bn or HK\$7,478psf (on GFA basis) in May-17. We estimate this office development offers 15-20% pre-tax margin. New World Development is also developing two other office projects on Wing Hong Street and King Lam Street in the area, which are planned for sale in 2023. They collectively provide aggregate GFA of 1.4msf upon completion.

NCB Innovation Centre



Source: DBS

Wing Hong Street office project



Source: DBS

King Lam Street office project



Source: DBS

Standard rates for land premium assessment to increase office supply from industrial property redevelopments. In Mar-21, the government announced a pilot scheme to standardise the land premium on the redevelopment of industrial properties. Hong Kong is divided into five broad regions with standardised rates set for each region. Within each region, the rates also depend on usage conversion, with reference to a basket of relevant market data. The rates will be unchanged during the two-year pilot period. A growing number of owners have chosen to assess their land premium via the pilot scheme to convert their industrial buildings into office use. This expedites the redevelopment of industrial buildings and increase office supply in decentralized areas such as Kowloon East.

First Group concluded land premium agreement for redeveloping its former headquarters, First Group Centre in Kowloon Bay, into an office building from industrial use with the aid of standardisation of land premium assessment. Land premium is set at HK\$724m or HK\$3,307psf. Located near Kingston International Centre, the site is 10-minute walk from the Kowloon Bay MTR Station. Redevelopment works are well underway. Upon scheduled completion in 2024, this redevelopment will provide total GFA of 219,000sf.

Law's Group has fixed the land premium for its office project, East 350 in Kwun Tong, at HK\$899m or HK\$3,258psf. The project is redeveloped from Maxwell Industrial Building which was acquired for HK\$1.39bn back in 2017. Superstructure works are now underway with

project completion targeted for 2024. Total GFA is 276,000sf.

East 350



Source: DBS

Chinachem Group secured a commercial site in Tung Chung via a government for HK\$2.78bn in Mar-22 after defeating four other developers. This translated into an accommodation value of HK\$2,202psf, which lies at low end of market consensus. The site was first offered for tender in Oct-20 but was finally withdrawn as the bids submitted by three developers or developing consortiums failed to meet the government's expectations. The site is located close to the future Tung Chung East Station, about a 20–25-minute walk from Citygate. The project will provide total GFA of 1.26msf. In order to increase the attractiveness of this site after the tender withdrawal, the government is allowing up to 30% of total GFA to be used for retail and F&B purpose. Besides, the winning developer is allowed to build a data centre within the project.

Re-launch of the tender of Artist Square Towers with revised development terms. After more than four months after the tender was closed in Feb-22, the West Kowloon Cultural District Authority (WKCDA) has decided not to accept any bid for Artist Square Towers project. Located in West Kowloon Cultural District, this harbourfront project includes three commercial towers, mainly for office use. Total GFA is 0.7msf which includes 0.67msf for office purpose with the balance for retail/F&B/entertainment.

HK Property Sector (Office and Retail)

Originally, the winning developer would have been granted development and operation rights for 34 years under the “Build, Operate and Transfer” model. In return, the winning developer would pay rental to WKCDA in two phases and share rental income on a monthly basis with WKCDA after the project is completed.

In an attempt to make the project more attractive, the authority will revise the terms. The successful tenderer will be given development and operation rights for 48 years. WKCDA plans to re-launch the tender this year.

HK Property Sector (Office and Retail)

Major Office Supply

Project	Location	Location	GFA (sf)	Developers
2022				
Two Taikoo Place	Quarry Bay	HK	1,000,000	Swire Props
222-228 Wanchai Road	Wan Chai	HK	118,478	SHKP
Landmark South	Wong Chuk Hang	HK	205,310	Sino Land/Empire Group
23 Wong Chuk Hang Road	Wong Chuk Hang	HK	107,220	Rykadan Capital
Airside	Kai Tak	Kln	1,200,000	Nan Fung Group
34 Chong Yip Street/368 Kwun Tong Road	Kwun Tong	Kln	250,000	Billion Development
41 King Yip Street	Kwun Tong	Kln	316,500	Private Developer
888 Lai Chi Kok Road	Cheung Sha Wan	Kln	492,333	New World Development
1 Sha Tsui Road	Tsuen Wan	NT	498,000	Billion Development
One North	Yuen Long	NT	383,167	Sino Land
11 Skies	Chek Lap Kok	NT	562,311	New World Development
2023				
Cheung Kong Center II	Central	HK	493,500	CK Asset Holdings
The Henderson	Central	HK	465,000	Henderson Land
46-56 Queen's Road East	Wan Chai	HK	218,000	Swire Props
228 Electric Road	North Point	Hk	105,000	Hang Lung
24 Wong Chuk Hang Road	Wong Chuk Hang	HK	293,900	Private Developer
36 Wong Chuk Hang Road	Wong Chuk Hang	HK	273,600	Empire Group
63 Wong Chuk Hang Road	Wong Chuk Hang	HK	163,500	Empire Group
NKIL 6572	Cheung Sha Wan	Kln	353,064	New World Development
98 How Ming Street	Kwun Tong	Kln	649,573	SHKP/Transportation International
2024				
Tak Shing House redevelopment	Central	HK	140,000	Private developer
NKIL 6607	Kai Tak	Kln	174,293	Far East Consotium
NKIL 6505	Cheung Sha Wan	Kln	960,148	New World Development
First Group Centre redevelopment	Kowloon Bay	Kln	219,000	First Group
7 Lai Yip Street	Kwun Tong	Kln	159,000	Able Engineering Holdings
East 350 (Maxwell Industrial Building redevelopment)	Kwun Tong	Kln	230,160	Law's Group
2025 and beyond				
Gage Street/Graham Street redevelopment Site C	Central	HK	310,000	Wing Tai Props/CSI Props
IL 9088	Central	HK	660,000	Henderson Land
Excelsior Hotel redevelopment	Causeway Bay	HK	683,508	Mandarin Oriental
IL8945	Causeway Bay	HK	947,898	Hysan Development/Chinachem Group
Redevelopment of Wa Hah Factory Building/Zung Fu Industrial	Quarry Bay	HK	779,000	Swire Props
32 Hung To Road	Kwun Tong	Kln	141,200	Private developer
KIL 11262	West Kowloon	Kln	2,564,444	SHKP
Goldin Financial Global Square Redevelopment	Kowloon Bay	Kln	360,000	Goldin Financial
LN4354 in DD124	Tin Shui Wai	NT	406,000	SHKP
KCTL45*	Tung Chung	NT	441,467	Chinachem Group

* assumed 35% of total GFA is earmarked for office development

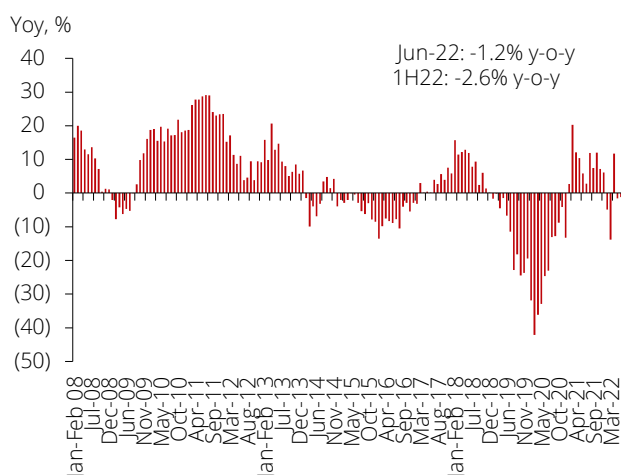
Source: DBS HK, Lands Department, Local Press

HK Property Sector (Office and Retail)

Retail

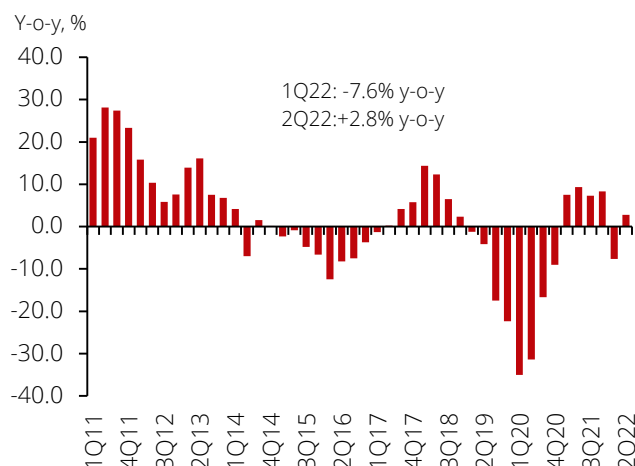
Most stringent rules ever introduced in response to COVID resurgence. A sharp resurgence of local COVID cases in early 2022 had prompted the Hong Kong government to impose the most stringent social distancing measures ever. Since Jan-22, the government had banned catering services after 6pm, with the maximum number of people per table limited to 6 for daytime dine-in services. Entertainment centres, gyms, beauty parlors, pubs and bars were also subjected to mandatory closure and restrictions. As the number of COVID cases rose, the maximum number of people per table was further reduced to 2 in Feb-22, with the dinner ban at 6pm remaining in force. Mandatory closures were further extended to hair salons and religious premises. The fast spreading Omicron variant had also led to high infections among retail operators, resulting in temporary shop closures or shorter opening hours. Against this backdrop, footfall at retail malls reduced substantially and overall retail sales in Hong Kong dropped 7.6% to HK\$82.9bn in 1Q22.

Monthly retail sales growth



Source: CEIC

Quarterly retail sales growth

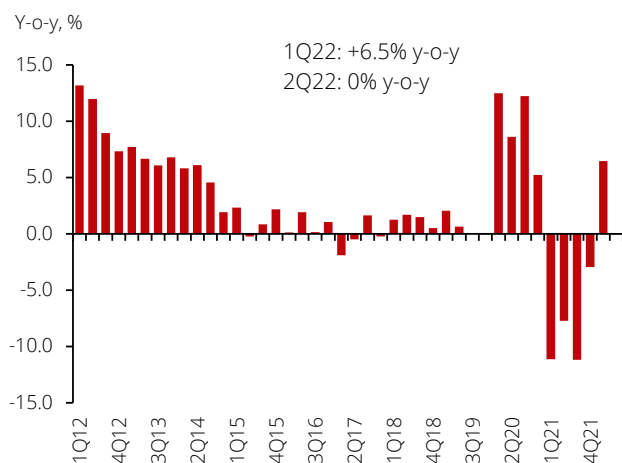


Source: CEIC

Discretionary spending saw deep cuts while supermarkets benefitted. The fifth wave of the pandemic has taken a toll on the retail market, especially on discretionary items. Fashion was the worst performing trade. In Feb-22, sales of fashion items tumbled 38.6% y-o-y, and fell further by 41.4% in Mar-22, bringing the total drop in sales to 23.6% in 1Q22. Meanwhile, sales of jewellery items fell >30% for two consecutive months in Feb-22 and Mar-22. This brought jewellery sales to HK\$7.7bn in 1Q22, down 20.3% y-o-y. Sales of other discretionary items, including consumer durable goods and department store goods, also retreated by 13.1% and 12.6% in 1Q22 respectively. On the other hand, grocery demand was robust because of dining restrictions, and supermarket sales outperformed by growing 6.5% in 1Q22.

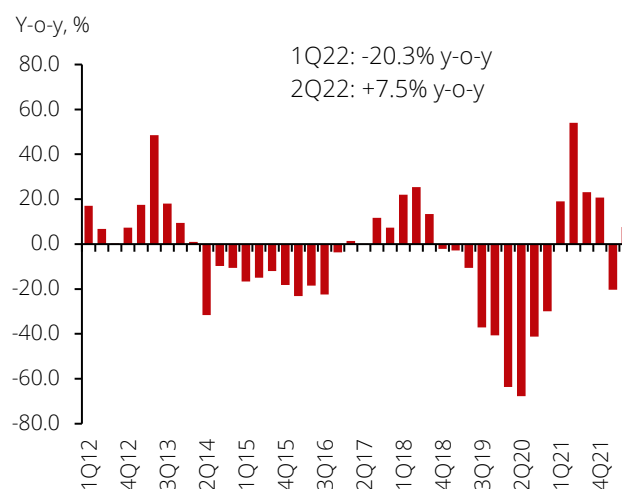
HK Property Sector (Office and Retail)

Quarterly retail sales growth – Supermarkets



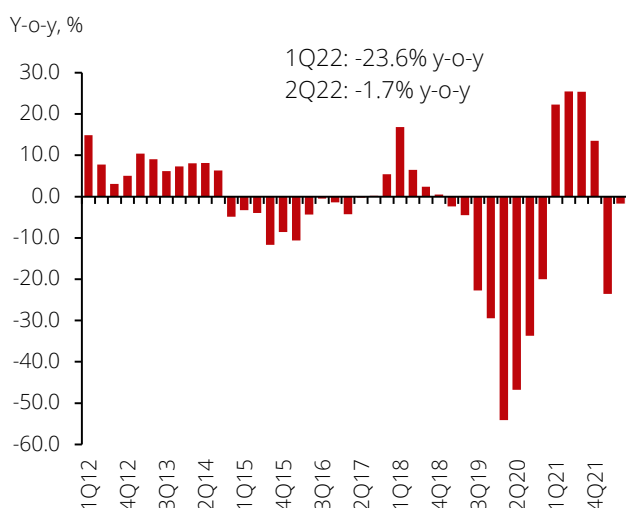
Source: CEIC

Quarterly retail sales growth – Luxury items



Source: CEIC

Quarterly retail sales growth – Fashion

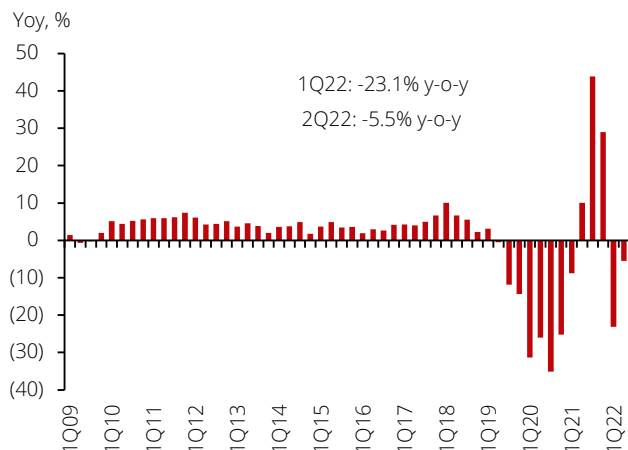


Source: CEIC

Restaurants suffered. Battered by strict social distancing measures and severe pandemic situation, total restaurant receipts sank 23.1% to HK\$15.2bn in 1Q22, the lowest ever since the outbreak of COVID-19 and 52% lower than the pre-COVID level in 1Q19. Bars and Chinese restaurants, the most vulnerable to mandatory closure and maximum people per table restrictions, took the hardest hit. Businesses of the two categories dived 33-35% y-o-y in 1Q22. Sales receipts of non-Chinese restaurants were broadly in line with the sector. Meanwhile, fast food outlets fared better with receipts falling by 11% during the period. All these pointed to lower turnover rents for retail landlords.

HK Property Sector (Office and Retail)

Quarterly growth of restaurant receipts



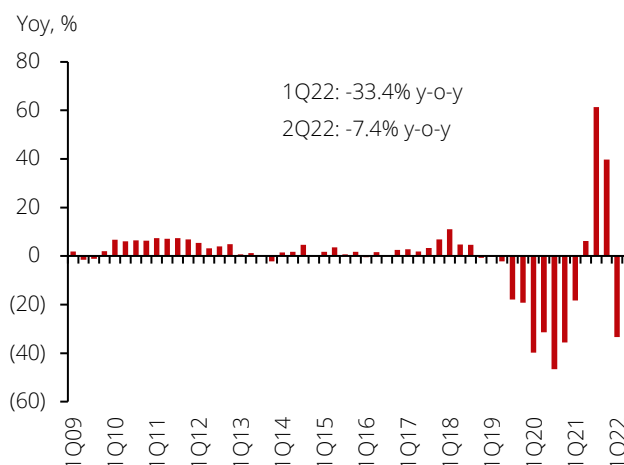
Source: CEIC

Inflection point reached. With COVID cases peaking out in Mar-22, the government announced the easing of social distancing measures in three phases in early Apr-22. Effective late Apr-22, the first phase allowed catering businesses to operate till 10pm from the previous 6pm, and the maximum number of people per table was increased to four. Fitness centres and beauty parlors, which were forced to shut down earlier, were allowed to reopen in this phase. The second phase took effect in early May-22, with bars and pubs, party rooms and karaoke establishments resuming operations. Restrictions on dinner ban was further lifted to midnight and the maximum number of people per table rose to 8. The last phase, which is pending the pandemic situation in Hong Kong, will remove all restrictions on catering services and scheduled premises including places for amusement/public entertainment, clubs, event and religious premises.

F&B business on the road to recovery. On the back of gradual easing of social distancing measures since late Apr-22, decline in total restaurant receipts narrowed to 5.5% in 2Q22. If compared to 2Q20, the number was 3.9% higher. Thanks to pent-up demand upon the lifting of mandatory closure requirement and restrictions on number of people per table, Chinese restaurants and bars saw significant improvement with sales decline improved to 7.4% and 14.9% in 2Q22, versus 1Q22's 33.4% and 33.8%. Turnover from non-Chinese restaurants dropped 5.8% in the same quarter (1Q22: -23.7%) while that of fast food shops fell by a

mere 2.4% (1Q22: -11.3%). Overall, total restaurant receipts fell 13.6% in 1H22, moderating from 1Q22's 23.1%.

Quarterly growth of restaurant receipts – Chinese restaurants



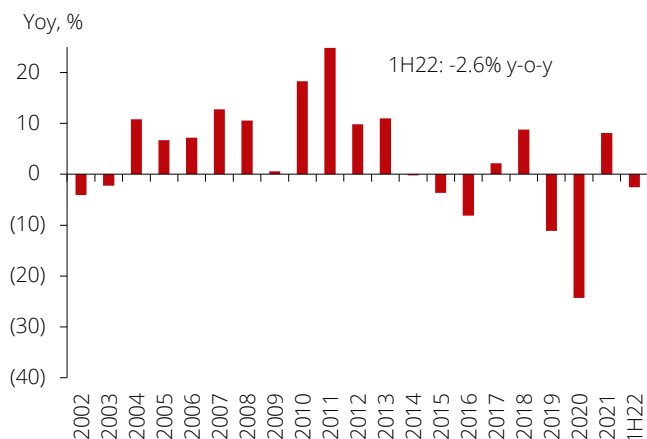
Source: CEIC

New round of consumption vouchers to boost sentiment.

Financial Secretary, Paul Chan, had proposed to distribute a new round of consumption vouchers in his Budget Plan that was announced in Feb-22. Each Hong Kong resident aged 18 or above is eligible to receive HK\$10,000 consumption vouchers, doubling the value in 2021. This would inject a total of c.HK\$66.4bn into the retail market, representing c.19% of Hong Kong's total retail sales in 2021. Disbursed in two phases, the first batch worth HK\$5,000 was distributed in Apr-22.

This, coupled with gradual easing of social distancing measures, has underpinned domestic consumption recovery. In 2Q22, total retail sales grew 2.8% y-o-y. A strong rebound was particularly seen in jewellery and luxury items, with sales increasing 3.4% y-o-y in the same quarter, versus a 20.3% fall in 1Q22. Sales in other discretionary trades, including consumer durable goods and department store items, rose by 1.6% and 0.6% respectively in 2Q22, recovering from 1Q22's fall of 13.1% and 12.6%. Overall, total retail sales in Hong Kong fell 2.6% to HK\$170bn in 1H22, narrowing from 1Q22's 7.6%.

Annual retail sales growth



Source: CEIC

Lower rental reliefs this round. While the Hong Kong government had implemented the toughest pandemic measures ever, total retail sales in 1Q22 was just 1% below that of 1Q20. This was despite the high base in Jan-20 which was partly contributed by tourist spending when border restrictions were not in place. Coupled with lower base rents due to falling rents over the past two years, the rental concessions this round were much lower compared to 2020. As a case in point, Link REIT announced a new round of its tenant support scheme amounting to HK\$120m in Feb-22. The scheme was then upsized to c.HK\$220m in Jun-22. Back in 2020, Link REIT utilized c.HK\$500m for rental support. Other major landlords, including Fortune REIT, Hysan Development and Wharf REIC, also recorded lower rental concessions this time.

Enactment of rental enforcement moratorium. In view of the sluggish retail scene, the Hong Kong government has proposed a rental enforcement moratorium in Feb-22. Effective from 1 May, the ordinance provides three months "protection period" to specified tenants until the end of July. During the period, landlords are barred from terminating contracts or taking legal actions against tenants who failed to meet rental payments between 1 Jan 22 to 31 July 22. Eligible tenants include all retail shops and those impacted by mandatory closure requirement. However, the protection does not apply to tenants entering a new tenancy agreement with landlords, including rental concessions during the protection period. At the end, most tenants

prefer to benefit from rental concessions, instead of suspending rental payments. The improved retail market since Apr-22 has substantially alleviated tenant's cash flow burden and enhanced landlords' rental collection. Fortune REIT saw its rental collection rate recover to >90%. Overall, the impact of rental enforcement moratorium on landlords was limited.

Stable occupancy, improving reversionary trend. Despite the retail market turmoil in 1Q22, occupancy of major shopping malls remained firm as landlords were granted rental relief measures to secure tenants. In Central, the luxury retail portfolio held by Hongkong Land remained virtually fully let as of Jun-22. According to Jones Lang LaSalle, retail rents at high street shops dropped 9.8% y-o-y in 1H22 while that of prime shopping centres dropped 4.8%. Meanwhile, negative reversionary growth continued to work its way through retail landlords' portfolio, leading to lower passing rents. For example, excluding the impact of rental relief, average passing rents of Hongkong Land's luxury retail portfolio stood at HK\$191psf in 1H22, down from 1H21's HK\$203psf and 2H21's HK\$201psf. However, the rental decline on renewals has been narrowing. Hysan Development should see its retail reversionary growth turning less negative at c.11-12%. Rental decline upon renewals at Fortune REIT's portfolio should also narrow to 2-3% from 2H21's 4-5%. This should signal early signs of recovery in retail reversionary growth.

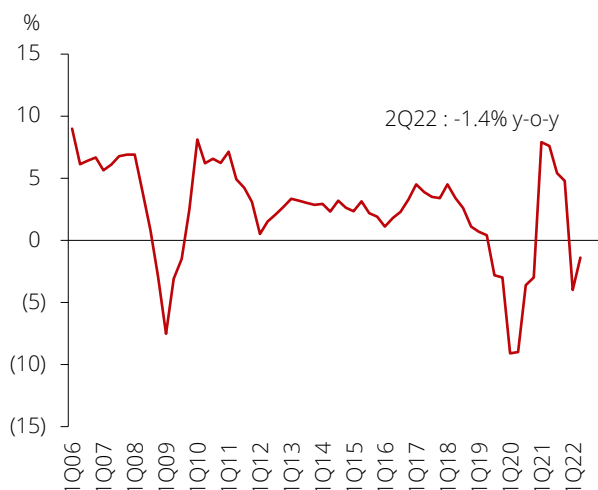
Leasing activities picking up. In 1Q22, retail leasing market was subdued as the lingering pandemic has weakened sentiment and made inspections difficult. There were leasing activities by supermarket tenants or overseas discount stores who took advantage of softer rents to expand their presence in Hong Kong. Marking its tenth store in Hong Kong, the Japanese discount store operator, Don Don Donki, took up 25,000sf retail space at The Whampoa in Hung Hom. This came after opening a store at Amoy Plaza in Jan-22. Another Japanese discount store, Matsukiyo, made its debut in Hong Kong by setting up a 3,500sf store at APM in Kwun Tong in May-22. This was followed by the second store at New Town Plaza in Shatin in the same month, spanning a retail space of 5,000sf across two floors. DS Groceries also opened a 5,185sf store in downtown Mongkok. Gradual lifting of social distancing measures has improved the business outlook of F&B operators. Leasing demand from F&B trades have rebounded strongly since Apr-22. Sentiment from discretionary trades also improved. IKEA is set to open a 15,000sf store at K11 ArtMall in Tsim

HK Property Sector (Office and Retail)

Sha Tsui, marking its fifth store in Hong Kong. International fashion retailers, Cotton On and Bauhaus, also reportedly leased high street shops in Central and Tsim Sha Tsui respectively. Luxury brand, Longines, reportedly leased a 1,600sf street shop at Holiday Inn in Tsim Sha Tsui.

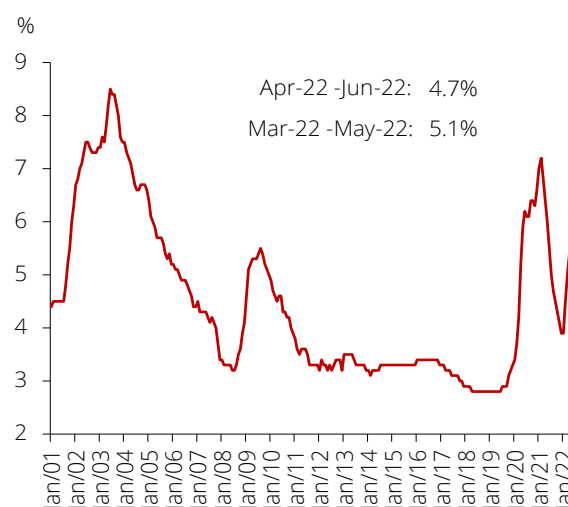
Domestic consumption recovery set to continue. Hong Kong economy contracted 1.4% y-o-y in 2Q22. On q-o-q basis, the number was 0.9% higher thanks to an improved pandemic situation. Meanwhile, the unemployment rate in Jun-22 retreated to 4.7% from a peak of 5.4% in Apr-22. Domestic economic recovery and an improved unemployment rate should underpin domestic consumption in near term. Distribution of the remaining batch of electronic consumption vouchers in Aug-22 should give an additional boost. All considered, we estimate total retail sales to be broadly stable for the full year of 2022. On the rental front, we forecast retail rents to grow by 3-5% in the next twelve months on the back of stronger leasing demand in 2H22.

Hong Kong GDP growth



Source: CEIC

Unemployment rate



Source: CEIC

Neighborhood malls seeing interest... In Jun-22, China Resources Enterprises agreed to acquire a suburban mall in Tai Po, Wan Tau Tong Square, for HK\$1.36bn or HK\$17,662psf from a private investor. This marks the largest transaction of a standalone retail asset since the disposal of Provident Square Mall in North Point by Fortune REIT in Dec-17. This investor acquired the property from Link REIT back in 2016 for HK\$810m and spent HK\$40m on upgrading this mall. Situated in the Wan Tau Tong Estate and adjacent to Tai Po Market MTR station, the property offers a total retail space of 77,000sf and includes 414 parking spaces. Currently, the mall is fully occupied with tenants in essential trades serving the daily needs of residents nearby. Initial gross yield for the acquisition is estimated at 3.5%. This demonstrates there is interest in defensive profile of community malls, despite retail slump over the past few years.

Wan Tau Tong Square



Source: DBSHK

... while tender of Stanley Plaza has been withdrawn. In Jul-22, Link REIT scrapped its plan to sell Stanley Plaza as the

bid failed to meet its expectations. This retail property was first put on the market in Feb-22. The stringent border restrictions in Hong Kong barred potential overseas buyers from travelling to Hong Kong to conduct site inspections, thus preventing Link REIT from securing the most competitive price for the property. With an internal floor area of 98,382sf and 411 carparks, Stanley Plaza is a major shopping and leisure attraction for both tourists and residents from the neighbourhood.

Anderson Road retail site up for tender. In late Jul-22, the government had put a retail site on Anderson Road in Kwun Tong for tender which will close on 26 Aug. Situated in the Sau Mau Ping area, this retail development should offer total GFA of 139,242sf upon completion. We believe this mall will mainly host non-discretionary trades to serve primarily residents living in nearby public housing estates, including On Tai Estate, On Tat Estate and Sau Mau Pin Estate, and private residential developments such as Mount Anderson. We believe that this site should attract interest.

Share Price Performance – Property Investors

Name	Ticker	1M (%)	3M (%)	YTD (%)	2021 (%)
Hang Lung Props	101 HK	(7.1)	(9.1)	(15.6)	(21.6)
HK Land @	HKL SP	1.4	9.1	(0.8)	25.9
Hysan Dev	14 HK	2.3	2.1	-	(15.3)
Swire Props	1972 HK	(3.1)	(4.6)	(5.8)	(13.3)
Wharf REIC	1997 HK	0.4	(5.3)	(9.0)	(1.9)
Market cap wt.		(2.1)	(4.8)	(8.4)	(10.9)
Hang Seng Index		(7.6)	(3.3)	(13.8)	(14.1)
Hang Seng Prop Index		(12.6)	(15.4)	(14.9)	(7.9)

@ Denominated in US\$

* Closing prices at 4 Aug, 2022

Source: Bloomberg Finance L.P.

YTD, share prices of property investors fell 8% on a weighted average basis. Within the sector, Hongkong Land and Hysan Development were broadly stable, outperforming the Hang Seng Index by 13-14ppts, supported by share buybacks. On the other hand, Hang Lung Properties fell 16% YTD due to the removal from FTSE EPRA Index and the recurring COVID outbreaks in China. Wharf REIC was dragged by delayed re-opening of the border with Mainland China with share price 9% lower during the same period.

Meanwhile, property investors are trading at discounts of 43-65% to their respective current NAVs, or 56% on a weighted average basis. The sector valuation is by no means expensive. Share repurchase has signalled strong embedded value of Hongkong Land and Hysan Development, supporting their share price performance. We also like Swire Properties, which offers good long-term value led by its value-accretive investments.

Swire Properties has been stepping up new investments. After securing a site in Xian for retail-led mixed-use development, the company acquired a residential/retail site in Wan Chai and has invested in a new hotel in Tokyo. Contributions from these investments should underpin the company's long-term earnings growth, enabling the company to deliver mid-single digit dividend growth. On the other hand, negative reversionary growth is working its way through most of office properties in Hong Kong but portfolio

occupancy stays firm. Retail income is dragged by rental concessions as well as negative rental reversion. On the other hand, contributions from newly built Taikoo Li Qiantan and Taikoo Li Sanlitun West should partially make up the shortfall. The stock is trading 63% below our assessed current NAV. BUY with HK\$25.35 TP.

Vacancy of **Hongkong Land's** Central office portfolio remained stable at 5.4% (or 5.1% on a committed basis) in Jun-22 but reversionary growth was still negative. On the other hand, its Singapore portfolio is benefitting from continued positive rental reversion. Due to lockdown restrictions in China, construction has been impacted, especially in Shanghai. This would result in some slippage of development profit booking which in turn will weigh on the company's profits in FY22. While the current share repurchase program is ending soon, Hongkong Land has budgeted another US\$500m for further share buybacks till the end of 2023. This should provide strong support to its share price. The stock is trading at a 55% discount to our assessed current NAV. BUY with US\$6.14 TP.

With gradual relaxation of the pandemic-led restrictions and distribution of consumption vouchers, **Hysan Development's** retail tenants' sales have been improving with rental decline on renewals narrowing to 11-12%. Office leasing is challenging with portfolio occupancy softer. Rental reversion is turning more negative. Residential reversionary growth remains negative at >10% due to subdued demand from expatriates. Hysan Development plans to launch Villa Lucca in Tai Po, a joint venture with HKR International, soon. This luxury development should spice up the company's earnings. Continued share buyback has lent solid support to its share price. The stock is trading at a 65% discount to our appraised current NAV. BUY with HK\$30.25 TP.

With easing social distancing protocols, **Wharf REIC's** mall operations are on the road to recovery with better shopper traffic and tenants' sales. Marketing expenses in 1H22 was substantially lower, partly reflecting retail tenants' reduced reliance on supportive measures. Taking advantage of softer rents in recent years, several international brands have been expanding their footprint at Harbour City. Following the strong correction over the past few years, retail rents have exhibited signs of stabilization with reversionary growth turning less negative. Office rent reversion remain under pressure, and hotel operations, which target mainly local staycation demand, were hit by the fifth wave of COVID

HK Property Sector (Office and Retail)

outbreak. The stock is trading at 43% discount to our appraised current NAV. BUY with HK\$42 TP.

Hang Lung Properties' malls in Shanghai and Shenyang were seriously affected by COVID-led lockdowns and containment measures. On the other hand, luxury malls outside these two cities posted respectable retail sales growth in 1H22. After re-opening for business in late May, two luxury malls in Shanghai have seen their retail sales gradually recovering to 2021 levels. The company has commenced pre-sale marketing activities of Heartland Residences in Wuhan

which will go on sale once opportunity avails. Apartment sales should spice up the company's earnings and, more importantly, free up the capital to fund the project developments in China. Trading at 63% discount to our estimated NAV, the counter is inexpensive. BUY with HK\$17.2 TP.

Valuation Comparison – Property Investors

Company	Code	FYE	Mkt	Last	12-m	Recom	PE	PE	Jun-23	Disc. to	Yield	Yield
			Cap	Price	target		FY22	FY23	NAV	Jun-23		
			HK\$bn	HK\$	HK\$		x	x	HK\$	%	%	%
Hang Lung Props	101 HK	Dec	61	13.54	17.20	BUY	13.2	11.7	38.2	(65)	5.8	6.0
HK Land @	HKL SP	Dec	12	5.16	6.14	BUY	14.7	12.4	12.3	(58)	4.3	4.3
Hysan Dev	14 HK	Dec	25	24.10	30.25	BUY	11.2	8.5	67.2	(64)	6.0	6.1
Swire Props	1972 HK	Dec	108	18.40	25.35	BUY	15.0	14.7	50.7	(64)	5.4	5.6
Wharf REIC	1997 HK	Dec	109	36.05	42.00	BUY	17.2	15.9	64.6	(44)	3.8	4.1

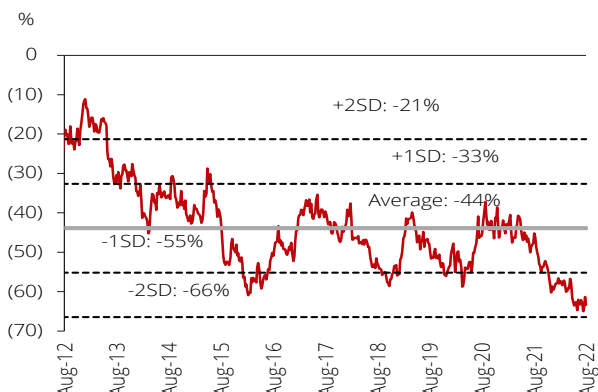
@ Denominated in US\$

*Closing prices at 4 Aug ,2022

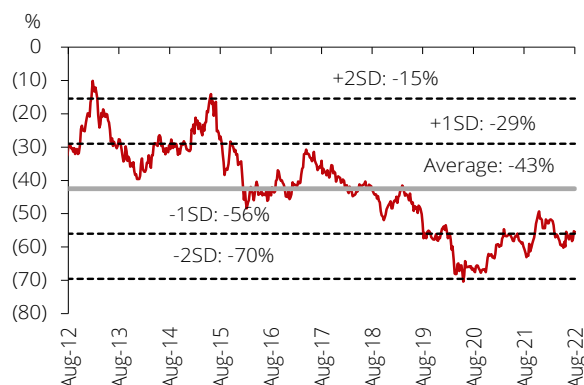
Source: Bloomberg Finance L.P.

HK Property Sector (Office and Retail)

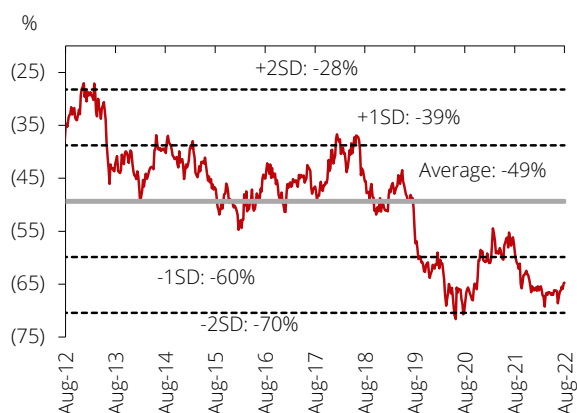
Hang Lung Properties - Discount to NAV



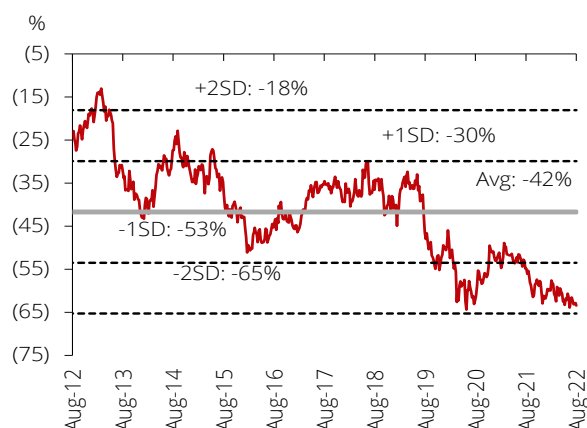
Hongkong Land - Discount to NAV



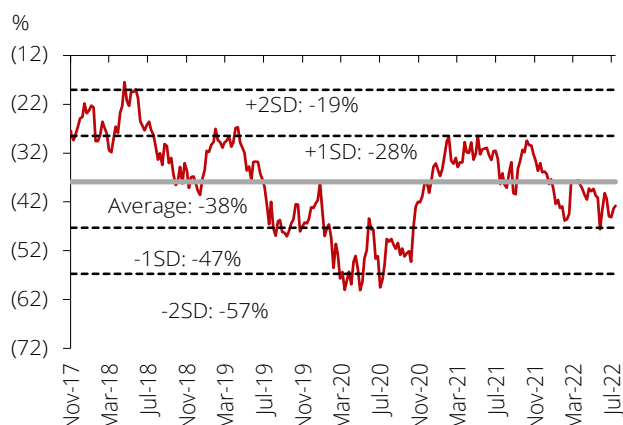
Hysan Development - Discount to NAV



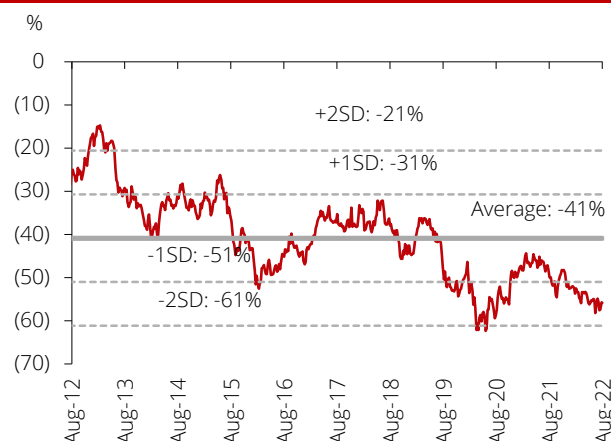
Swire Properties - Discount to NAV



Wharf REIC - Discount to NAV



Property Investors Sector - Discount to NAV

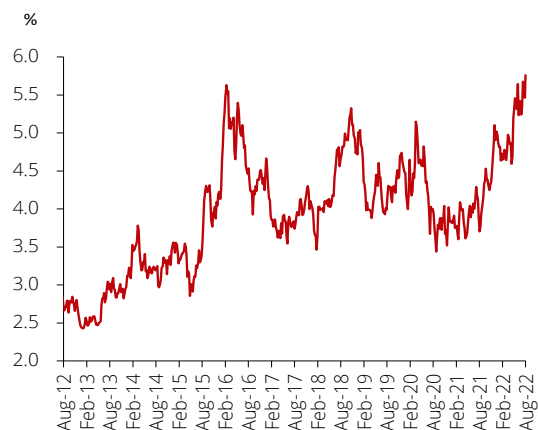


Source: Bloomberg Finance L.P., DBS HK

Source: Bloomberg Finance L.P., DBS HK

HK Property Sector (Office and Retail)

Hang Lung Properties – Historical dividend yield



Hongkong Land – Historical dividend yield



Hysan Development – Historical dividend yield



Swire Properties – Historical dividend yield



Wharf REIC – Historical dividend yield



Source: Bloomberg Finance L.P., DBS HK

HK Property Sector (Office and Retail)

Property Investors – Asset Breakdown

GAV Breakdown (%)	Hang Lung Props	Hongkong Land	Hysan	Swire Props	Wharf REIC
HK	40	51	86	72	92
Residential	9	0	17	6	2
Office	12	44	41	49	32
Retail	18	6	27	11	53
Hotel	0	1	0	3	4
Industrial	0	0	0	0	0
Others	2	0	1	2	0
Farmland	0	0	0	0	0
China	60	32	11	28	0
Overseas	0	17	0	1	3
Listed subsidiaries.	0	0	3	0	6
associates & investments	0	0	0	0	0
Other assets	0	0	0	0	0
Total	100	100	100	100	100

Source: DBS HK

Property Investors – NAV Sensitivity

% increase in NAV if the following prices rise by 10%	Hang Lung Props	Hongkong Land	Hysan	Swire Props	Wharf REIC
Office -HK	1.5%	5.3%	6.1%	5.3%	4.1%
Retail - HK	2.2%	1.1%	3.7%	1.1%	6.7%
Residential - HK	1.0%	0.7%	2.4%	0.7%	0.3%
Hotels - HK	0.0%	0.3%	0.0%	0.3%	0.4%

Source: DBS HK

HK Property Sector (Office and Retail)

Stake change by major shareholders

Hang Lung Properties (101 HK)						
Name of substantial shareholder	No. of shares involved	Buy/Sell	Average price per share (HK\$)	No. of shares interested	% of issued share capital	Date of relevant event
Hang Lung Group	121,000	B	14.7331	2,654,599,240	59	3-May-22

Source: HKEXnews

HK Property Sector (Office and Retail)

Company Share Buybacks

HYSAN DEV (14 HK)

Date	No. of shares	Avg price (HK\$)	Amount (HK\$)
14-Jul-22	150,000	23.58	3,536,700
4-Jul-22	200,000	23.52	4,704,600
20-Jun-22	100,000	22.67	2,266,500
17-Jun-22	200,000	22.71	4,542,000
16-Jun-22	200,000	23.04	4,608,650
14-Jun-22	150,000	23.08	3,462,600
13-Jun-22	100,000	23.11	2,310,750
9-Jun-22	100,000	23.76	2,375,550
8-Jun-22	100,000	23.80	2,379,500
7-Jun-22	150,000	23.83	3,574,000
6-Jun-22	150,000	23.82	3,573,500
2-Jun-22	150,000	23.68	3,552,650
12-May-22	150,000	22.93	3,439,500
11-May-22	100,000	23.04	2,303,650
10-May-22	150,000	22.86	3,429,050
3-May-22	100,000	23.22	2,321,550
27-Apr-22	200,000	23.05	4,610,700
26-Apr-22	100,000	23.22	2,322,000
25-Apr-22	200,000	23.21	4,642,600
22-Apr-22	100,000	23.32	2,331,700
21-Apr-22	150,000	23.32	3,498,400
20-Apr-22	100,000	23.52	2,352,000
19-Apr-22	150,000	23.48	3,522,500
13-Apr-22	100,000	23.28	2,327,500
11-Apr-22	100,000	23.53	2,352,500
7-Apr-22	150,000	23.21	3,481,800
6-Apr-22	150,000	23.36	3,504,700
31-Mar-22	100,000	22.98	2,297,950
28-Mar-22	97,000	23.34	2,264,150
25-Mar-22	100,000	23.38	2,338,300
15-Mar-22	300,000	20.52	6,154,500
14-Mar-22	100,000	21.29	2,128,750
4-Mar-22	53,000	22.99	1,218,650
2-Mar-22	100,000	23.05	2,305,400
1-Mar-22	100,000	22.99	2,299,250
28-Feb-22	250,000	22.96	5,739,550
25-Feb-22	800,000	23.14	18,512,200

Source: HKEXnews

HK Property Sector (Office and Retail)

Company Share Buybacks (continued)

HONGKONG LAND (HKL SP)

Date	No. of shares	Avg price (US\$)	Amount (US\$)
29-Jul-22	300,000	N.A.	N.A.
28-Jul-22	300,000	N.A.	N.A.
27-Jul-22	294,600	N.A.	N.A.
26-Jul-22	300,000	N.A.	N.A.
25-Jul-22	222,000	N.A.	N.A.
22-Jul-22	300,000	N.A.	N.A.
21-Jul-22	300,000	N.A.	N.A.
20-Jul-22	257,000	N.A.	N.A.
19-Jul-22	229,400	N.A.	N.A.
18-Jul-22	294,600	N.A.	N.A.
15-Jul-22	300,000	N.A.	N.A.
14-Jul-22	300,000	N.A.	N.A.
13-Jul-22	300,000	N.A.	N.A.
12-Jul-22	300,000	N.A.	N.A.
8-Jul-22	300,000	N.A.	N.A.
7-Jul-22	300,000	N.A.	N.A.
6-Jul-22	300,000	N.A.	N.A.
5-Jul-22	251,000	N.A.	N.A.
4-Jul-22	300,000	N.A.	N.A.
1-Jul-22	300,000	N.A.	N.A.
29-Jun-22	1,177,000	N.A.	N.A.
28-Jun-22	1,000,000	N.A.	N.A.
16-Jun-22	1,213,100	N.A.	N.A.
14-Jun-22	1,000,000	N.A.	N.A.
13-Jun-22	1,000,000	N.A.	N.A.
10-Jun-22	1,242,000	N.A.	N.A.
9-Jun-22	600,100	N.A.	N.A.
8-Jun-22	1,957,400	N.A.	N.A.
7-Jun-22	740,000	N.A.	N.A.
6-Jun-22	753,000	N.A.	N.A.
3-Jun-22	1,146,000	N.A.	N.A.
2-Jun-22	1,381,000	N.A.	N.A.
1-Jun-22	667,000	N.A.	N.A.
31-May-22	619,000	N.A.	N.A.
30-May-22	593,000	N.A.	N.A.
27-May-22	350,000	N.A.	N.A.
26-May-22	532,100	N.A.	N.A.
25-May-22	475,800	N.A.	N.A.
24-May-22	500,000	N.A.	N.A.
23-May-22	527,800	N.A.	N.A.
20-May-22	585,000	N.A.	N.A.
19-May-22	581,000	N.A.	N.A.
18-May-22	512,400	N.A.	N.A.
17-May-22	550,000	N.A.	N.A.

Source: HKEXnews

HK Property Sector (Office and Retail)

Company Share Buybacks (continued)

HONGKONG LAND (HKL SP)

Date	No. of shares	Avg price (US\$)	Amount (US\$)
13-May-22	545,000	N.A.	N.A.
12-May-22	340,900	N.A.	N.A.
11-May-22	501,000	N.A.	N.A.
10-May-22	401,100	N.A.	N.A.
9-May-22	609,000	N.A.	N.A.
6-May-22	370,000	N.A.	N.A.
5-May-22	545,400	N.A.	N.A.
4-May-22	803,500	N.A.	N.A.
29-Apr-22	601,000	N.A.	N.A.
28-Apr-22	300,000	N.A.	N.A.
27-Apr-22	240,000	N.A.	N.A.
26-Apr-22	300,000	4.646	1,393,800.00
25-Apr-22	359,200	N.A.	N.A.
22-Apr-22	483,300	N.A.	N.A.
21-Apr-22	719,700	N.A.	N.A.
20-Apr-22	393,600	N.A.	N.A.
19-Apr-22	815,600	N.A.	N.A.
18-Apr-22	300,000	N.A.	N.A.
14-Apr-22	567,000	N.A.	N.A.
13-Apr-22	407,700	N.A.	N.A.
12-Apr-22	215,400	N.A.	N.A.
11-Apr-22	281,000	N.A.	N.A.
8-Apr-22	900,000	N.A.	N.A.
7-Apr-22	300,000	N.A.	N.A.
6-Apr-22	300,000	N.A.	N.A.
5-Apr-22	196,000	N.A.	N.A.
4-Apr-22	245,900	N.A.	N.A.
1-Apr-22	300,000	N.A.	N.A.
31-Mar-22	300,000	N.A.	N.A.
30-Mar-22	249,300	N.A.	N.A.
29-Mar-22	300,000	N.A.	N.A.
28-Mar-22	145,000	N.A.	N.A.
25-Mar-22	278,700	N.A.	N.A.
24-Mar-22	300,000	N.A.	N.A.
23-Mar-22	300,000	4.96	1,487,850.00
22-Mar-22	300,000	N.A.	N.A.
21-Mar-22	182,900	N.A.	N.A.
18-Mar-22	388,000	N.A.	N.A.
17-Mar-22	300,000	N.A.	N.A.
14-Mar-22	300,000	N.A.	N.A.
11-Mar-22	496,000	N.A.	N.A.
10-Mar-22	529,700	N.A.	N.A.
9-Mar-22	620,000	N.A.	N.A.
8-Mar-22	598,000	N.A.	N.A.

Source: HKEXnews

HK Property Sector (Office and Retail)

Company Share Buybacks (continued)

HONGKONG LAND (HKL SP)

Date	No. of shares	Avg price (US\$)	Amount (US\$)
7-Mar-22	515,100	N.A.	N.A.
4-Mar-22	346,000	N.A.	N.A.
3-Mar-22	420,400	N.A.	N.A.
2-Mar-22	568,000	N.A.	N.A.
1-Mar-22	632,000	N.A.	N.A.
28-Feb-22	623,000	N.A.	N.A.
25-Feb-22	439,700	N.A.	N.A.
24-Feb-22	607,000	N.A.	N.A.
23-Feb-22	409,000	N.A.	N.A.
22-Feb-22	287,800	N.A.	N.A.
21-Feb-22	249,000	N.A.	N.A.
18-Feb-22	580,000	N.A.	N.A.
17-Feb-22	560,000	N.A.	N.A.
16-Feb-22	401,000	N.A.	N.A.
15-Feb-22	504,000	N.A.	N.A.
14-Feb-22	496,000	N.A.	N.A.
11-Feb-22	492,000	N.A.	N.A.
10-Feb-22	472,000	N.A.	N.A.
9-Feb-22	408,600	N.A.	N.A.
8-Feb-22	339,800	N.A.	N.A.
7-Feb-22	463,000	N.A.	N.A.
4-Feb-22	461,000	N.A.	N.A.
3-Feb-22	439,000	N.A.	N.A.
28-Jan-22	387,000	N.A.	N.A.
27-Jan-22	344,000	N.A.	N.A.
26-Jan-22	334,000	N.A.	N.A.
25-Jan-22	316,000	N.A.	N.A.
24-Jan-22	297,000	N.A.	N.A.
21-Jan-22	816,800	N.A.	N.A.
20-Jan-22	265,800	N.A.	N.A.
19-Jan-22	210,000	N.A.	N.A.
18-Jan-22	179,000	N.A.	N.A.
17-Jan-22	143,000	N.A.	N.A.
14-Jan-22	206,000	N.A.	N.A.
13-Jan-22	351,200	N.A.	N.A.
12-Jan-22	354,000	N.A.	N.A.
11-Jan-22	300,000	N.A.	N.A.
10-Jan-22	177,000	N.A.	N.A.
7-Jan-22	253,000	N.A.	N.A.
6-Jan-22	246,000	N.A.	N.A.
5-Jan-22	300,000	N.A.	N.A.
4-Jan-22	300,000	N.A.	N.A.
3-Jan-22	135,600	N.A.	N.A.

Source: HKEXnews

China / Hong Kong Company Update

Hang Lung Properties

Bloomberg: 101 HK EQUITY | Reuters: 0101.HK

Refer to important disclosures at the end of this report

5 Aug 2022

BUY

Last Traded Price (4 Aug 2022): HK\$13.54 (HSI : 20,174)
Price Target 12-mth: HK\$17.20 (27% upside)

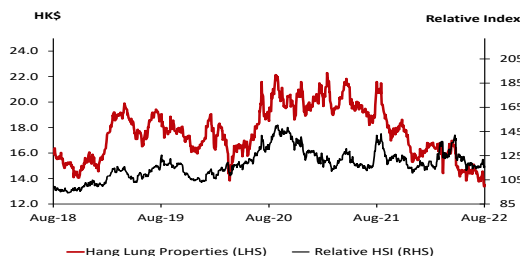
Analyst

Jeff Yau, CFA +36684180 jeff_yau@db.com
Percy Leung percyleung@db.com

What's New

- Resilient luxury good sales in China
- China rental income stable despite the pandemic
- Hong Kong portfolio suffered from negative reversionary growth
- BUY with TP of HK\$17.20

Price Relative



Forecasts and Valuation

FY Dec (HK\$ m)	2020A	2021A	2022F	2023F
Turnover	8,973	10,321	11,158	15,603
EBITDA	6,048	6,895	7,178	8,265
Pre-tax Profit	5,930	6,456	6,655	7,492
Underlying Profit	4,201	4,365	4,597	5,209
Underlying Profit Gth (%)	(6.1)	3.9	5.3	13.3
EPS (HK\$)	0.93	0.97	1.02	1.16
EPS Gth (%)	(6.1)	3.9	5.3	13.3
PE (X)	14.5	14.0	13.2	11.7
P/Cash Flow (X)	12.6	14.5	7.3	6.0
EV/EBITDA (X)	18.4	16.1	15.5	13.4
DPS (HK\$)	0.76	0.78	0.78	0.81
Div Yield (%)	5.6	5.8	5.8	6.0
Net Gearing (%)	23	26	29	31
ROE (%)	3.0	3.1	3.2	3.6
Est. NAV (HK\$):			36.9	38.2
Disc. to NAV (%)			(63)	(65)

Earnings Rev (%): 0 0
Consensus EPS (HK\$): 1.06 1.29
Other Broker Recs: B:13 S:0 H:0

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

Good long-term value

Investment Thesis

BUY with HK\$17.20 TP. The stock is trading at 63% discount to our assessed current NAV. Negatives from recurring COVID outbreaks and lockdowns in China should be priced in. With a portfolio of prime malls in China, the company is well positioned to tap luxury spending.

Resilient luxury good sales in China. Malls in Shanghai and Shenyang were seriously impacted by COVID-led lockdowns and containment measures. Excluding those in Shanghai and Shenyang, five other luxury malls posted c.40% growth in tenants' sales. Two newly re-opened malls in Shanghai saw tenants' sales recovering to c.85% of the 2021 levels in June with further improvement seen in July.

Hong Kong retail portfolio dampened by COVID resurgence. The retail portfolio in Hong Kong was also hit by the fifth wave of the pandemic but rental concessions offered were much lower than in 2020 given deflated retail rents. While retail occupancy stays stable, negative rental reversion is working its way through the portfolio. Office reversionary growth also remains in negative territory.

Valuation:

Our TP for Hang Lung Properties is based on a target discount of 55% to our Jun-2023 NAV estimate.

Where we differ:

We remain positive about the long-term growth prospects of Hang Lung's luxury malls in China, which are well positioned to tap luxury spending.

Key Risks to Our View:

Slower retail market recovery in China could drag the company's earnings growth and share price performance.

Any interest rate hikes could lead to capitalisation rate expansion for rental properties in Hong Kong, and in turn adversely affect their valuation.

Any depreciation in Rmb may negatively impact the valuations and rental contributions from its rental properties in China.

At A Glance

Issued Capital (m shrs)	4,499
Mkt Cap (HKm/US\$m)	60,916 / 7,760
Major Shareholders (%)	
Hang Lung Group Ltd	59.4
Free Float (%)	40.6
3m Avg. Daily Val. (US\$m)	15.1
GICS Industry: Real Estate / Real Estate Management & Development	



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Hang Lung Properties

WHAT'S NEW

Stable China rentals despite the pandemic

Gross rental receipts were stable at HK\$4.99bn in 1H22. China portfolio showed 2% income growth thanks to increased office income. In Rmb terms, office income grew 16% to Rmb547m. This was mainly fueled by increased contributions from Spring City 66 and Heartland 66 where occupancies improved to 79% and 61% in Jun-22 from 71% and 57% in Dec-21 respectively.

Retail income from China was 1% lower at Rmb2.21bn in 1H22. Mall operations in Shanghai and Shenyang were seriously impacted by the lockdowns and other containment measures led by COVID. We note that income from Shanghai Plaza 66 fell 17% as turnover rents tumbled with 38% decline in tenants' sales. Retail income from Forum 66 and Palace 66 in Shenyang were 8-9% lower with tenants' sales falling by 16% and 26% respectively. The shortfall was largely offset by the income growth from luxury malls outside Shanghai and Shenyang which was between 7% and 184%. Opened in Mar-21, Heartland 66 provided full-period income contributions in 1H22. With opening of high-yielding luxury tenants, revenue from Dalian Olympia 66 jumped 67% with tenants' sales more than doubled.

Excluding those in Shanghai and Shenyang, other five luxury malls posted c.40% growth in tenants' sales in 1H22. Overall, reversionary growth of luxury malls remained positive.

The Hong Kong portfolio showed 4% income decline in 1H22 as negative rental reversion was working its way through the office and retail portfolio. The retail portfolio in Hong Kong was also hit by the fifth wave of the pandemic but rental concession offered was much lower than in 2020 gave deflated retail rents. Office income fell 7% partly due to increased vacancy at Standard Chartered Building. This largely offset the income growth in China.

In 1H22, Hang Lung Properties sold three more units at The Aperture in Kowloon Bay. Since its initial launch in 2021, the company has sold 125 units for HK\$1.1bn. This represented 43% of total. Profit will be recognized upon scheduled completion in 2023.

Hang Lung Properties has commenced pre-sale marketing activities of Heartland Residences in Wuhan which will go on public sale when opportunity comes. Heartland Residences contains three towers with >490 units. Construction works

are underway with project completion targeted for 2H23. This would be followed by apartment sales at Spring City 66 and Center 66 in 2023. Apartment sales should spice up the company's earnings and, more importantly, free up the capital to fund the project development in China.

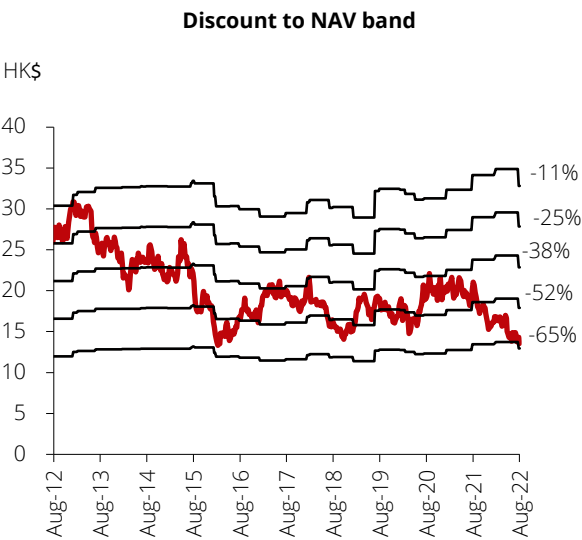
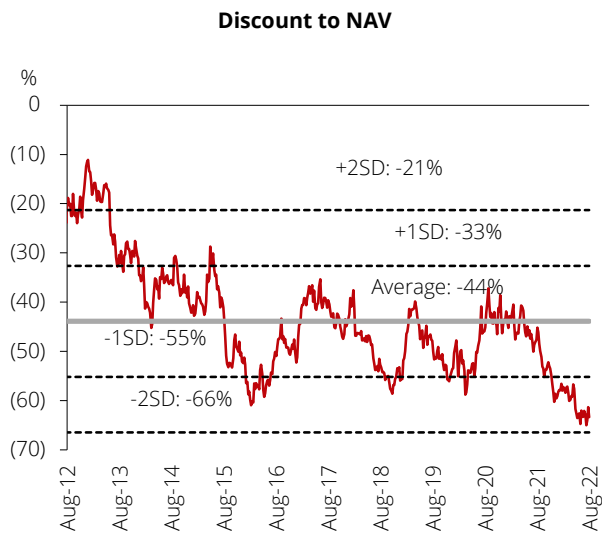
Net debt increased to HK\$39.6bn in Jun-22 from Dec-21's HK\$37.2bn, due to construction expenses incurred in property development in China. This represented 29% of its shareholders' fund. Hedging ratio fell to 41% in Jun-22 from Dec-21's 48% due to redemption of US\$500m MTN in Jun-22. Financial risk remains well managed. Moreover, the planned apartment sales in China should help improve the balance sheet strength.

The stock is trading 63% below our appraised current NAV, with dividend yield of 5.8% for FY22. Performance of two malls in Shanghai has almost returned to 2021 levels after re-opening for business in late May following two-months of lockdowns. Other younger luxury malls in Kunming, Dalian and Wuhan are also well positioned to tap luxury spending. This leads to our positive view on its long-term prospects. Reiterate BUY despite slightly lower TP of HK\$17.20. This is premised on target discount of 55% to our Jun-2023 NAV estimate.

Company Background

Hang Lung Properties develops commercial property complexes in China for long-term investment. As of Jun-22, its completed China portfolio has a GFA of 37.3m sf with another 13.9m sf under development. The company also owns an investment property portfolio with 7m sf in GFA in Hong Kong, comprising mainly office and retail properties.

Discount to NAV



Source: Bloomberg Finance L.P., DBS HK

Hang Lung Properties

Key Assumptions (%)

	2022F	2023F
Office rental - HK	0	(3)
Retail rental (Shopping centre) - HK	0	5

Source: DBS HK

Segmental Breakdown (HK\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenues (HK\$ m)					
Property sales	296	62	0	1,009	5,010
Property leasing	8,556	8,911	10,321	10,149	10,593
Total	8,852	8,973	10,321	11,158	15,603

Source: DBS HK

Income Statement (HK\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Turnover	8,852	8,973	10,321	11,158	15,603
EBITDA	5,953	6,048	6,895	7,178	8,265
Depr / Amort	(50)	(48)	(61)	(61)	(61)
EBIT	5,903	6,000	6,834	7,117	8,204
Associates Inc	47	41	36	38	39
Interest (Exp)/Inc	100	(111)	(414)	(500)	(750)
Exceptionals	0	0	0	0	0
Pre-tax Profit	6,050	5,930	6,456	6,655	7,492
Tax	(1,167)	(1,235)	(1,462)	(1,469)	(1,662)
Non-controlling Interest	(409)	(494)	(629)	(589)	(622)
Underlying Profit	4,474	4,201	4,365	4,597	5,209
Sales Gth (%)	(6)	1	15	8	40
Net Profit Gth (%)	9	(6)	4	5	13
EBITDA Margins (%)	67	67	67	64	53
EBIT Margin (%)	67	67	66	64	53
Tax Rate (%)	19	21	23	22	22

Source: DBS HK

Hang Lung Properties

Balance Sheet (HK\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Fixed Assets	187,370	192,119	200,145	205,902	213,966
Long-term Investments	87	77	78	78	78
Other LT Assets	0	0	0	0	0
Deferred Tax Asset	0	84	77	77	77
Associates/JVs	1,296	1,161	1,131	1,128	1,126
Bank Balance/Cash & Liquid	3,306	6,319	8,515	12,950	11,743
Inventory	5,642	7,988	10,790	10,782	10,331
Debtors	2,279	3,499	3,499	3,399	3,419
Other Non Cash Current	0	69	0	0	0
Total Assets	199,980	211,316	224,235	234,316	240,739
ST Debt	2,694	7,464	8,079	8,079	8,079
Creditors	8,911	10,978	10,895	10,788	10,681
Other Current Liab	832	632	528	628	728
LT Debt	26,979	30,453	37,616	46,616	49,616
Deferred Tax Liabilities	12,459	13,299	14,428	14,428	14,428
Other LT Liabilities	293	302	305	305	305
Non-controlling Interests	9,143	9,893	10,665	10,565	10,465
Shareholder's Equity	138,669	138,295	141,719	142,907	146,437
Total Cap. & Liab.	199,980	211,316	224,235	234,316	240,739
Share Capital (m)	4,498	4,498	4,498	4,498	4,498
Net Cash/(Debt)	(26,367)	(31,598)	(37,180)	(41,745)	(45,952)
Working Capital	(1,210)	(1,199)	3,302	7,636	6,004
Net Gearing (%)	19	23	26	29	31

Source: DBS HK

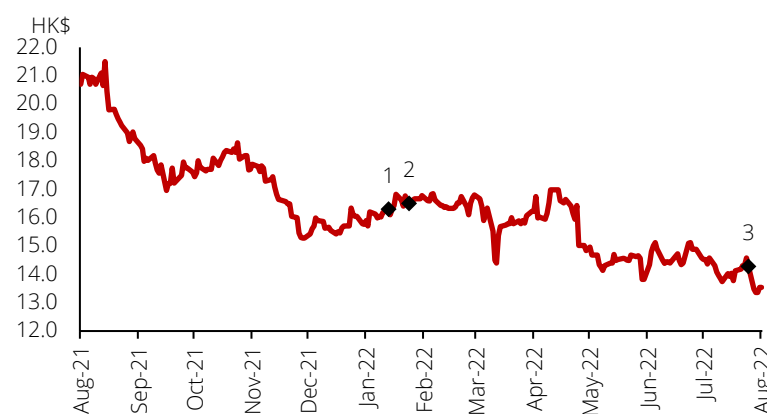
Cash Flow Statement (HK\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
EBIT	5,903	6,000	6,834	7,117	8,204
Tax Paid	(861)	(1,409)	(1,469)	(1,469)	(1,662)
Depr/Amort	50	48	61	61	61
Profit or loss on disposal of FAs/subsidiaries/investment	1	(1)	(16)	0	0
Chg in Wkg.Cap	163	(1,279)	(2,743)	1,158	1,881
Other Non-Cash	63	54	65	0	0
Operating CF	5,319	3,413	2,732	6,867	8,484
Net Capex	(12,050)	(3,101)	(2,716)	(5,818)	(6,350)
Investments	0	0	0	0	0
Associates & JVs	0	0	0	0	0
Associates' Dividends	43	47	38	41	41
Others	2,042	858	1,254	50	50
Investing CF	(9,965)	(2,196)	(1,424)	(5,727)	(6,259)
Net Chg in Debt	2,691	7,455	7,314	9,000	3,000
New Capital	0	0	0	0	0
Dividend	(3,751)	(3,787)	(3,928)	(4,098)	(4,175)
Other Financing CF	(1,422)	(1,363)	(1,410)	(1,607)	(2,257)
Financing CF	(2,482)	2,305	1,976	3,295	(3,432)
Chg in Cash	(7,128)	3,522	3,284	4,435	(1,207)

Source: DBS HK

Hang Lung Properties

Target Price & Ratings History



S.No.	Date	Closing Price	Target Price	Rating
1	17-Jan-22	HK\$16.04	HK\$20.10	BUY
2	28-Jan-22	HK\$16.50	HK\$20.10	BUY
3	29-Jul-22	HK\$14.58	HK\$17.20	BUY

Source: DBS HK

Analyst: Jeff Yau, CFA

Percy Leung

China / Hong Kong Company Update

Hongkong Land

Bloomberg: HKL SP EQUITY | Reuters: HKLD.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

5 Aug 2022

BUY

Last Traded Price (04 Aug 2022): US\$5.16 (STI : 3,270)
Price Target 12-mth: US\$6.14 (19% upside)

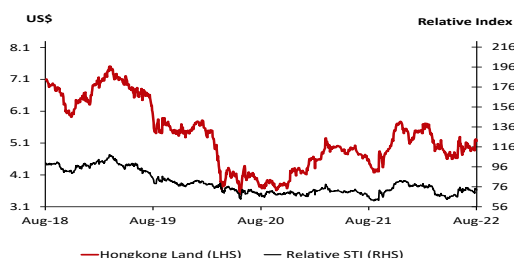
Analyst

Jeff Yau, CFA +852 36684180 jeff_yau@db.com
Percy Leung percy@db.com

What's New

- Announced another round of US\$500m share buyback program
- Negative reversionary growth for Central office portfolio continues but occupancy remains firm
- Construction delays in China is a drag on near-term profit
- BUY with US\$6.14 TP

Price Relative



Forecasts and Valuation

FY Dec (US\$ m)	2020A	2021A	2022F	2023F
Turnover	2,094	2,384	2,062	2,516
EBITDA	974	960	882	999
Pre-tax Profit	1,111	1,144	909	1,118
Underlying Profit	963	966	788	930
Underlying Profit Gth (%)	(10.5)	0.3	(18.4)	18.1
EPS (US\$)	0.41	0.41	0.35	0.42
EPS Gth (%)	(10.5)	0.5	(15.1)	18.1
PE (X)	12.5	12.4	14.7	12.4
P/Cash Flow (X)	9.6	17.5	10.7	9.1
PV/EBITDA (X)	18.1	18.4	20.0	17.7
DPS (US\$)	0.22	0.22	0.22	0.22
Div Yield (%)	4.3	4.3	4.3	4.3
Net Gearing (%)	13	15	17	17
ROE (%)	2.6	2.7	2.3	2.7
Est. NAV (US\$):			11.6	12.3
Disc. to NAV (%)			(55)	(58)

Earnings Rev (%): 0 0
Consensus EPS (US\$): 0.39 0.44
Other Broker Recs: B:8 S:1 H:4

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

New share buyback program to support share price

Investment Thesis

BUY with US\$6.14 TP. The stock is now trading at a 55% discount to our appraised current NAV. The new round of share buyback program should underpin share price appreciation in the near term.

Share buyback program extended. While the current share buyback program is ending soon, Hongkong Land has budgeted another US\$500m for further buybacks which would last until the end of 2023. This should bode well for its near-term share price performance.

Deferral of residential profit booking to weigh on near-term earnings. Impacted by lockdown restrictions in China, construction work at the mixed-use development in Shanghai, Galaxy Midtown, has been disrupted. Project completion is expected to be delayed to early 2023 from end-2022. This would result in some slippage of profit booking in 2H22, which in turn will weigh on the company's underlying profit in FY22.

Valuation:

Our target price (TP) for Hongkong Land is premised on a 50% discount to our Jun-2023 NAV estimates.

Where we differ:

We believe the Hongkong Land's Central office portfolio continues to benefit from "flight-to-quality" demand.

Key Risks to Our View:

Any deterioration in leasing demand for offices in Central could drag earnings. Slow demand could adversely affect residential sales earnings from China. Any cap rate expansion could lead to lower property valuations.

At A Glance

Issued Capital (m shrs)	2,298
Mkt Cap (US\$m)	11,858
Major Shareholders (%)	
Jardine Strategic Holdings Ltd	52.6
Free Float (%)	47.4
3m Avg. Daily Val. (US\$m)	13.9
GICS Industry: Real Estate / Real Estate Management & Development	



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WHAT'S NEW

Share buybacks to continue

While the current share buyback is close to an end, Hongkong Land has earmarked another US\$500m for a new share buyback program which should last until the end of 2023. This should drive its share price performance in the near term.

Gross rental receipts were 3% lower in 1H22 dragged by reduced office and retail income. Reversionary growth for its Central office portfolio remained negative given higher expiring rents. This resulted in average office passing rents falling 5% y-o-y to HK\$112psf. In 2H22, 8% of floor area is scheduled for roll over. With high expiring rents of HK\$136psf, negative rental reversion is set to continue.

Vacancy stood at 5.4% in Jun-22, up slightly from Dec-21's 5.2%. On a committed basis, the office portfolio was 94.9% leased (Dec-21: 95.1%). In response to tightened social distancing measures led by the Omicron variant outbreak at the beginning of the year, the company granted temporary rental relief to affected tenants, F&B tenants in particular. This, coupled with negative base rental reversion, led to average retail passing rents declining by 6.7% y-o-y to HK\$168psf. Excluding the impact of rent relief, average net rents fell 5.9% to HK\$191psf in 1H22. Despite the COVID resurgence, its retail portfolio remained virtually fully let. Impacted by pandemic-related restrictions, tenant sales in WF Central in Beijing and One Central Macau fell 16% and 21% respectively in 1H22.

Its Singapore portfolio fares better with continued positive reversionary growth. As a result, average passing rents rose 2.9% y-o-y to S\$10.5psf. On a committed basis, the portfolio's vacancy rate remained stable at 3% in Jun-22. (Dec-21: 2.9%)

Including contributions from associates and joint ventures, development earnings was 57% higher y-o-y in 1H22 resulting from more sales completions in the period. Due to subdued demand driven by pandemic-led lockdowns and restrictions, Hongkong Land's attributable contracted sales in China tumbled 69% to US\$419m.

Despite weak market sentiment, a consortium in which Hongkong Land has a 34% stake acquired a primarily residential site adjacent to the West Bund project in Shanghai for Rmb4.73bn in 1H22. Scheduled for completion

in 2024, this project will comprise of six residential blocks with >470 units with total GFA of 54,900sm.

As of Jun-22, the company's sold but unrecognized contracted sales stood at US\$2.43bn, of which 39% will be booked in 2H22. But COVID-led lockdowns have disrupted the construction progress of Galaxy Midtown project in Shanghai with project completion expected to be delayed from the end of 2022 into early 2023. This could possibly postpone the profit booking schedule and substantially weigh on the development earnings in near term. Development activities at West Bund mixed-use development has also been suspended for two months.

In Singapore, Hongkong Land's attributable contracted sales amounted to US\$270m, up 57% y-o-y. Launched in May-22, Piccadilly Grand has received strong market response with 75% of total 407 units already sold. Sold but unrecognized sales stood at US\$449m in Jun-22. A consortium in which the company has a 49% interest acquired a residential site in the Tanjong Katong area for S\$768m. Target for completion in 2025, this project is expected to provide 638 units with developable area of 599,000sf.

Net debt increased to US\$6.1bn in Jun-22 from Dec-21's US\$5.1bn due to lower sales proceeds, land premium for recently acquired development sites and share buyback. This translated into gearing of 18%. Allowing for a new round of share buybacks, gearing would rise to c.20%. Financial risk remains manageable. Interest cost for 55% of total debt is at fixed rates with an average hedge tenor of 7.3 years. This helps mitigate the impact of interest rate hikes on earnings.

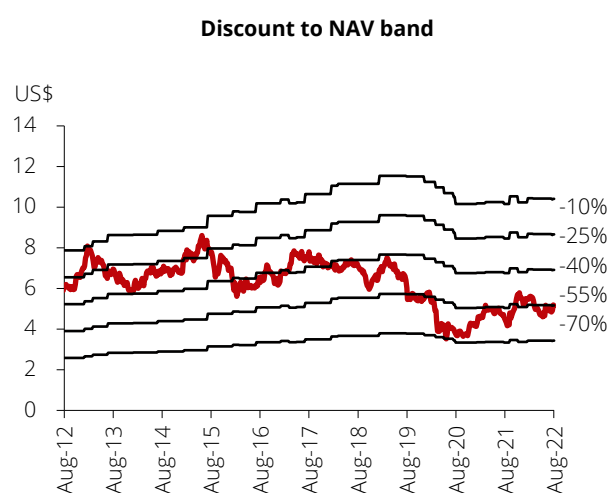
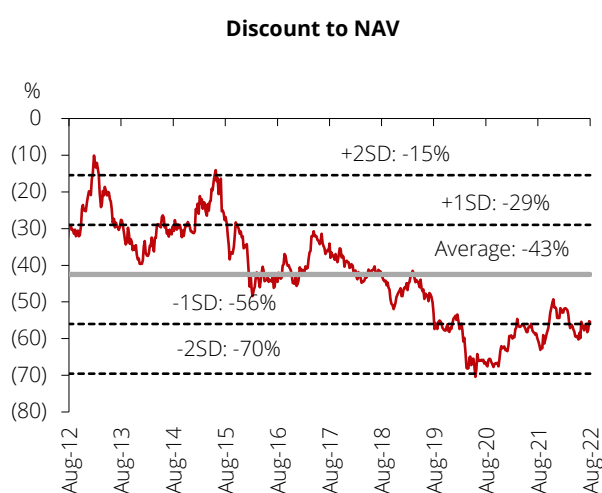
The stock is trading at 55% discount to our appraised current NAV, against its 10-year average of 42%. The current valuation remains undemanding. The extension of share buyback program should prompt share price appreciation in near term. Our TP of US\$6.14 is based on 50% discount to our Jun-2023 NAV estimate. BUY.

Hongkong Land

Company Background

Hongkong Land is one of Asia's leading property investment, management, and development groups. The Group owns and manages a portfolio of prime and luxury retail properties in key Asian cities, principally in Hong Kong and Singapore. In Feb-20, the company secured a mixed-use site in West Bund of Shanghai via a government auction, for Rmb31.05bn.

Discount to NAV



Source: Bloomberg Finance L.P., DBS HK

Key Assumptions (%)

	2022F	2023F
Office rental - HK	0	(3)
Retail rental (Shopping centre) - HK	0	5

Source: DBS HK

Segmental Breakdown (US\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenues (US\$ m)					
Rental income	999	938	947	897	907
Service and mgmt charges	153	148	182	194	214
Sale of trading properties	1,168	1,009	1,255	971	1,394
Total	2,320	2,094	2,384	2,062	2,516

Source: DBS HK

Income Statement (US\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Turnover	2,320	2,094	2,384	2,062	2,516
EBITDA	1,184	974	960	882	999
Depr / Amort	(14)	(15)	(16)	(17)	(17)
EBIT	1,170	959	943	865	982
Associates Inc	273	268	356	234	350
Interest (Exp)/Inc	(121)	(116)	(155)	(190)	(213)
Exceptionals	0	0	0	0	0
Pre-tax Profit	1,322	1,111	1,144	909	1,118
Tax	(247)	(150)	(179)	(122)	(142)
Minority Interest	1	2	1	0	(46)
Underlying Profit	1,076	963	966	788	930
Sales Gth (%)	(13)	(10)	14	(14)	22
Net Profit Gth (%)	4	(11)	0	(18)	18
EBITDA Margins (%)	51	47	40	43	40
EBIT Margin (%)	50	46	40	42	39
Tax Rate (%)	19	13	16	13	13

Source: DBS HK

Balance Sheet (US\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Fixed Assets	33,331	30,221	28,740	28,824	29,411
Long-term Investments	0	0	0	0	0
Other LT Assets	48	43	32	32	32
Deferred Tax Asset	27	36	68	68	68
Associates/JVs	7,226	8,921	9,515	9,734	10,068
Bank Balance/Cash & Liquid	1,424	1,997	1,480	1,080	1,485
Inventory	2,042	1,949	2,971	3,309	2,936
Debtors	1,141	1,082	1,029	1,114	1,214
Other Non Cash Current	20	14	28	28	28
Total Assets	45,259	44,262	43,863	44,189	45,242
ST Debt	715	690	865	650	651
Creditors	1,461	1,572	2,195	2,395	2,295
Other Current Liab	261	153	203	203	203
LT Debt	4,300	5,875	5,718	6,283	6,682
Deferred Tax Liabilities	211	196	228	228	228
Other LT Liabilities	22	38	36	36	36
Minority Interests	43	29	34	29	70
Shareholder's Equity	38,247	35,709	34,584	34,365	35,077
Total Cap. & Liab.	45,259	44,262	43,863	44,189	45,242
Share Capital (m)	2,334	2,334	2,328	2,238	2,238
Net Cash/(Debt)	(3,591)	(4,568)	(5,104)	(5,853)	(5,849)
Working Capital	2,190	2,627	2,245	2,284	2,515
Net Gearing (%)	9	13	15	17	17

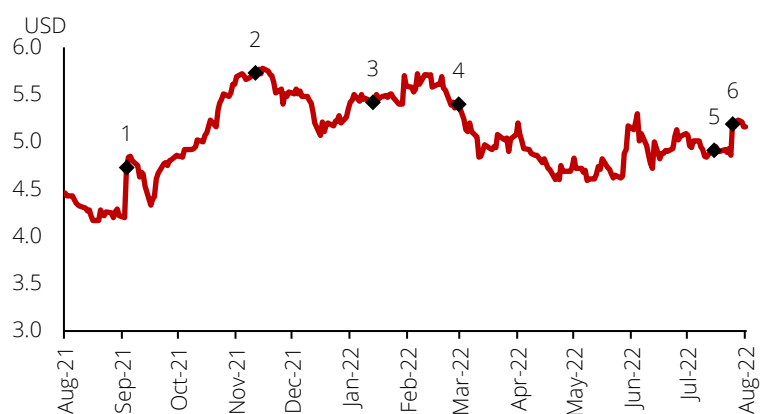
Source: DBS HK

Cash Flow Statement (US\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
EBIT	1,170	959	943	865	982
Tax Paid	(116)	(268)	(157)	(122)	(142)
Depr/Amort	14	15	16	17	17
Chg in Wkg.Cap	(161)	346	(306)	397	494
Other Non-Cash	275	(71)	32	(195)	(219)
Operating CF	1,182	981	529	962	1,132
Net Capex	(170)	(2,015)	(95)	(700)	(330)
Investments	0	0	0	0	0
Associates & JVs	(489)	599	(338)	0	0
Others	0	0	0	0	0
Investing CF	(658)	(1,416)	(432)	(700)	(330)
Net Chg in Debt	25	1,458	76	350	400
New Capital	0	0	(192)	(500)	(300)
Dividend	(511)	(511)	(510)	(512)	(497)
Other Financing CF	(5)	(5)	(3)	0	0
Financing CF	(491)	943	(629)	(662)	(397)
Chg in Cash	33	508	(533)	(400)	405

Source: DBS HK

Target Price & Ratings History



Source: DBS HK

Analyst: Jeff Yau

Percy Leung

China / Hong Kong Company Update

Hysan Development

Bloomberg: 14 HK EQUITY | Reuters: 0014.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

5 Aug 2022

BUY

Last Traded Price (4 Aug 2022): HK\$24.10 (HSI : 20,174)
Price Target 12-mth: HK\$30.25 (26% upside)

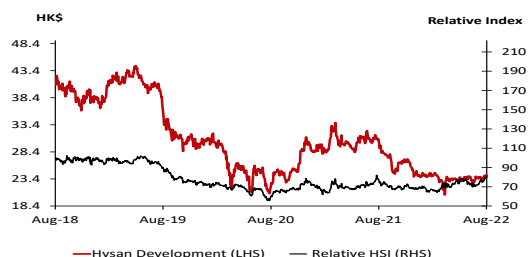
Analyst

Jeff Yau, CFA +852 36684180 jeff_yau@db.com
Percy Leung percy.leung@db.com

What's New

- Retail reversionary growth turning less negative
- Office occupancy has softened
- Villa Lucca sales to spice up earnings
- Maintain BUY with HK\$30.25 TP

Price Relative



Forecasts and Valuation

FY Dec (HK\$ m)	2020A	2021A	2022F	2023F
Turnover	3,710	3,608	3,443	3,611
EBITDA	2,976	2,864	2,697	2,834
Pre-tax Profit	2,885	2,804	2,746	3,450
Underlying Profit	2,398	2,330	2,223	2,912
Underlying Profit Gth (%)	(7.3)	(2.8)	(4.6)	31.0
EPS (HK\$)	2.30	2.24	2.16	2.83
EPS Gth (%)	(7.0)	(2.5)	(3.7)	31.0
PE (X)	10.5	10.7	11.2	8.5
P/Cash Flow (X)	9.1	8.8	9.1	8.6
EV/EBITDA (X)	16.5	17.1	18.2	17.3
DPS (HK\$)	1.44	1.44	1.44	1.48
Div Yield (%)	6.0	6.0	6.0	6.1
Net Gearing (%)	CASH	14	18	13
ROE (%)	3.2	3.2	3.0	3.8
Est. NAV (HK\$):			68.3	67.2
Disc. to NAV (%)			(65)	(64)
Earnings Rev (%):			(10)	0
Consensus EPS (HK\$):			2.19	2.32
Other Broker Recs:		B:7	S:3	H:2

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

Share buyback to support share price.

Investment Thesis

BUY with HK\$30.25 TP. The stock is trading at a 65% discount to our appraised current NAV, c.1.5SD below its 10-year average, and offers dividend yield of 6 % for FY22. Hysan Development is benefitting from domestic consumption recovery. The upcoming launch of Villa Lucca in Tai Po, if greeted with favourable response, could improve sentiment towards the counter. Continued share repurchase should lend support to its share price.

Mixed outlook for retail and office portfolios. With easing of COVID-led restrictions and distribution of consumption vouchers, retail tenants' sales have regained some lost ground. Retail reversionary growth has been turning less negative at 11-12%. Office leasing, however, remains challenging. Occupancy has retreated with widening rental decline upon lease renewals and new lettings.

Villa Lucca sales to spice up earnings. The 60%-owned Villa Lucca in Tai Po is set to go on sale soon. This residential project contains 262 units with 0.5msf GFA. We forecast that a complete sale should yield attributable pre-tax earnings of c.HK\$1.5bn to Hysan.

Valuation:

Our target price for Hysan is premised on a 55% discount to our Jun-2023 NAV estimates.

Where we differ:

We are more positive on the post-COVID recovery of retail consumption once the border re-opens.

Key Risks to Our View:

Any deterioration in leasing demand for office and retail space in Causeway Bay could drag Hysan Development's earnings and share price performance.

Any faster-than-expected interest rate hike should lead to cap rate expansion and adversely affect its valuation.

At A Glance

Issued Capital (m shrs)	1,034
Mkt Cap (HKm/US\$m)	24,919 / 3,175
Major Shareholders (%)	
Lee Hysan Company Ltd	42.1
Silchester International Investors, L.L.P.	8.1
First Eagle Investment Mgt, L.L.C.	5.1
Free Float (%)	44.7
3m Avg. Daily Val. (US\$m)	2.5
GICS Industry: Real Estate / Real Estate Management & Development	



Watchlist the stock on Insights Direct to receive prompt updates



Hysan Development

WHAT'S NEW

Rental income under pressure

Office occupancy has softened from Dec-21's 94%, partly due to the departure of Prudential Assurance at Lee Gardens Two. In 2022, about 32% of the floor area is scheduled for roll over. Office rents in Causeway Bay have remained under pressure. Rental decline on renewals or new lettings has widened to c.15% currently from 8-9% in late 2021. Negative reversionary growth as well as lower occupancy should exert downward pressure on office rental income.

In 4M22, tenants' sales of Hysan Development's retail portfolio fell slightly more than the broad market which registered 3.1% decline in retail sales value amid the COVID resurgence. Rental concessions were granted to affected tenants, especially in the F&B sector which was hard hit by the social distancing measures. However, the magnitude should be significantly lower than in 2020. After easing of social distancing protocols in late Apr, tenants' sales staged a strong recovery. Coupled with the distribution of consumption vouchers, the company's retail sales should gradually regain the lost ground.

Despite the fifth wave of COVID outbreak, retail occupancy should remain largely stable. (Dec-21: 99%). Retail reversionary growth has been turning less negative at around 11-12%. Overall, retail income should remain on a downward trajectory.

In addition, residential reversionary growth remained negative at >10% due to weak demand from expatriates.

Pre-leasing of office portion of newly acquired Lee Garden Shanghai has commenced. We expect this Grade A commercial building to make maiden contribution in late 2022.

Hysan Development plans to launch Villa Lucca in Tai Po soon. This residential development provides 262 units including 41 houses with 0.5msf GFA. Hysan Development has a 60% stake in this project with the balance held by HKR International.

The consortium acquired the two sites where Villa Lucca is built on via government tender for HK\$3.39bn in total in Nov-16. Adding construction and financing costs, we estimate total development costs at HK\$15,700psf on saleable area basis. We forecast that Villa Lucca, if fully

sold, should generate attributable pre-tax profit of c.HK\$1.5bn to Hysan Development.

In Feb-22, Hysan Development acquired a 25% stake in the URA's Bailey Street/Wing Kwong Street project in To Kwa Wan for c.HK\$2bn. The redevelopment is an 8-10-minute walk from both To Kwa Wan MTR Station and Ho Man Tin MTR Station. It will provide total GFA of 0.72msf including 0.6msf for residential use and 0.12msf for retail purpose. About 1,150 units will be built. If sales proceeds exceed HK\$14.8bn, URA will share 20-50% of the excess revenue. The retail arcade will be held for rental for 10 years after project completion. Hysan Development could leverage on its experience in retail leasing when managing the retail arcade.

Overall, such residential investments can serve to diversify Hysan Development's earnings profile, adding spice to its profit growth.

Since Feb-22, Hysan Development has repurchased 5.6m shares for HK\$129m or HK\$23.04/sh on average. The share buyback not only enhances the stock's NAV but also lends solid support to its share price.

We have fine tuned the earnings forecast for FY22 reflecting the change in profit booking for Villa Lucca.

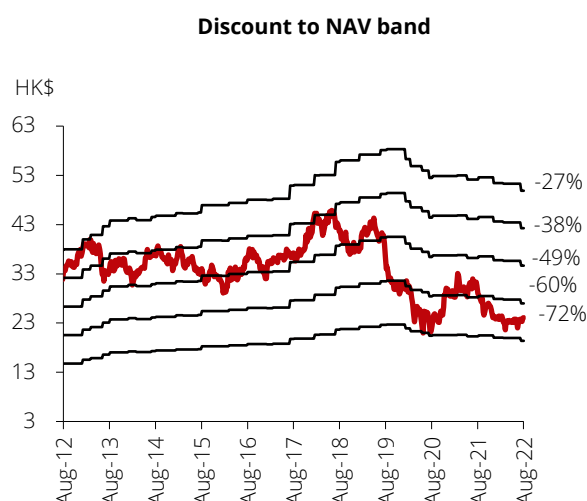
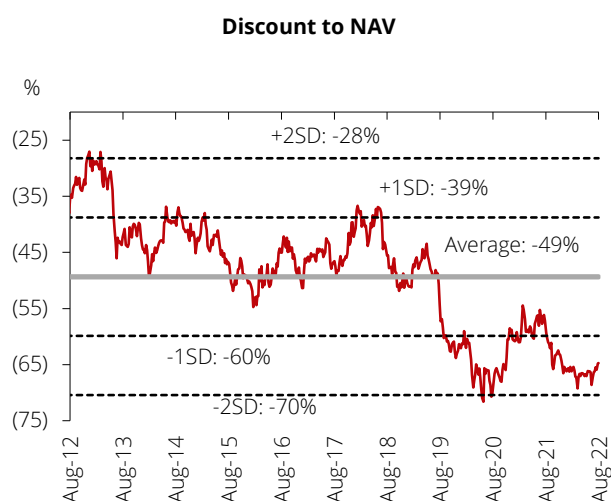
The stock is trading at 65% discount to our appraised current NAV and offers dividend yield of 6% for FY22. Valuation is undemanding from a historical viewpoint. While office and residential leasing remains challenging, retail portfolio should be on the road to recovery. The upcoming launch of Villa Lucca, if greeted with favourable response, could improve sentiment towards the counter. Moreover, ongoing share buybacks should cushion downside on share price. We therefore recommend BUY on Hysan with HK\$30.25 TP. This is premised on a 55% discount to our Jun-2023 NAV estimate.

Hysan Development

Company Background

Hysan Development is a leading commercial landlord with most of its portfolio in Causeway Bay. The company's completed investment property portfolio covers c.4.5m sf of gross floor area (GFA). Hysan Development derives most of its rental income from the retail and office segments with the remaining portion from residential apartments. Key properties include Hysan Place, Lee Theater Plaza, Leighton Centre, Lee Gardens One to Lee Gardens Six, One Hysan Avenue, and Bamboo Grove. In 2021, the company teamed up with Chinachem to secure the Caroline Hill Road commercial site which provides GFA of 1.08msf upon project completion.

Discount to NAV



Source: Bloomberg Finance L.P., DBS HK

Hysan Development

Key Assumptions (%)

	2022F	2023F
Office rental - HK	0	-3
Retail rental (Shopping centre) - HK	0	5

Source: DBS HK

Segmental Breakdown (HK\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenues (HK\$ m)					
Property rental income	3,988	3,710	3,608	3,443	3,611
Total	3,988	3,710	3,608	3,443	3,611

Source: DBS HK

Income Statement (HK\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Turnover	3,988	3,710	3,608	3,443	3,611
EBITDA	3,205	2,976	2,864	2,697	2,834
Depr / Amort	(22)	(24)	(29)	(29)	(29)
EBIT	3,183	2,952	2,835	2,668	2,805
Associates Inc	205	237	283	283	909
Interest (Exp)/Inc	(189)	(304)	(314)	(205)	(265)
Exceptionals	0	0	0	0	0
Pre-tax Profit	3,199	2,885	2,804	2,746	3,450
Tax	(473)	(353)	(358)	(401)	(413)
Minority Interest	(139)	(134)	(116)	(122)	(125)
Holders of Perpetual	0	(288)	(459)	(461)	(461)
Net Profit	2,587	2,110	1,871	1,762	2,451
Underlying Profit	2,587	2,398	2,330	2,223	2,912
Sales Gth (%)	3	(7)	(3)	(5)	5
Net Profit Gth (%)	2	(18)	(11)	(6)	39
EBITDA Margins (%)	80	80	79	78	78
EBIT Margin (%)	80	80	79	77	78
Tax Rate (%)	15	12	13	15	12

Source: DBS HK

Hysan Development

Balance Sheet (HK\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Fixed Assets	79,892	75,827	95,579	99,055	102,534
Long-term Investments	172	454	843	843	843
Other LT Assets	900	1,151	3,624	3,624	3,624
Deferred Tax Asset	0	55	90	90	90
Associates/JVs	6,433	6,866	7,736	8,019	4,813
Bank Balance/Cash & Liquid	9,332	24,935	8,404	7,992	11,915
ST Investments	0	0	171	171	171
Debtors	314	467	887	872	857
Other Non Cash Current	0	0	39	39	39
Total Assets	97,043	109,755	117,373	120,705	124,887
ST Debt	565	0	531	200	200
Creditors	934	931	820	840	860
Other Current Liab	952	621	586	586	586
LT Debt	11,964	18,970	18,126	21,457	21,657
Deferred Tax Liabilities	925	1,004	1,091	1,091	1,091
Other LT Liabilities	731	780	8,334	8,334	8,334
Perpetual Securities	0	10,657	10,657	10,657	10,657
Minority Interests	3,322	3,112	3,358	3,400	3,593
Shareholder's Equity	77,650	73,680	73,870	74,140	77,909
Total Cap. & Liab.	97,043	109,755	117,373	120,705	124,887
Share Capital (m)	1,045	1,042	1,038	1,029	1,029
Net Cash/(Debt)	(3,197)	5,965	(10,253)	(13,665)	(9,942)
Working Capital	7,195	23,850	7,564	7,448	11,336
Net Gearing (%)	4	CASH	14	18	13

Source: DBS HK

Cash Flow Statement (HK\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
EBIT	3,183	2,952	2,835	2,668	2,805
Tax Paid	(98)	(718)	(369)	(401)	(413)
Depr/Amort	22	24	29	29	29
Chg in Wkg.Cap	88	(237)	(27)	35	35
Other Non-Cash	7	19	8	0	0
Operating CF	3,202	2,040	2,476	2,332	2,456
Net Capex	(956)	(913)	(22,334)	(3,015)	0
Investments	(240)	(472)	(1,236)	0	0
Associates & JVs	166	159	(237)	0	4,115
Others	(4,905)	(4,567)	8,760	35	35
Investing CF	(5,935)	(5,793)	(15,047)	(2,980)	4,150
Net Chg in Debt	6,290	6,461	(401)	3,000	200
New Capital	(92)	(96)	(146)	0	0
Dividend	(1,632)	(1,623)	(1,618)	(1,572)	(1,572)
Other Financing CF	(305)	9,803	6,885	(1,191)	(1,311)
Financing CF	4,261	14,545	4,720	237	(2,683)
Chg in Cash	1,528	10,792	(7,851)	(412)	3,923

Source: DBS HK

Hysan Development

Target Price & Ratings History



Source: DBS HK

Analyst: Jeff Yau

Percy Leung

China / Hong Kong Company Update

Swire Properties

Bloomberg: 1972 HK Equity | Reuters: 1972.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

5 Aug 2022

BUY

Last Traded Price (04 Aug 2022): HK\$18.40 (HSI : 20,174)
Price Target 12-mth: HK\$25.35 (38% upside)

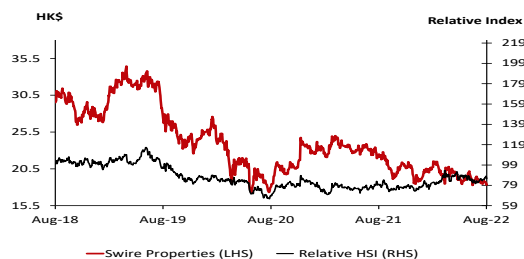
Analyst

Jeff Yau, CFA +852 36684180 | jeff_yau@db.com

What's New

- Negative rental reversion working its way through Pacific Place offices where occupancy remains firm
- Divestment of car parks at the Taikoo Shing residential development to continue
- Recently won the tender for the Wan Chai residential/retail lot after securing Taikoo Li Xi'an project
- Buy with HK\$25.35 TP

Price Relative



Forecasts and Valuation

FY Dec (HK\$ m)	2020A	2021A	2022F	2023F
Turnover	13,308	15,891	13,809	14,184
EBITDA	8,404	8,824	8,148	8,593
Pre-tax Profit	14,312	11,009	8,488	8,668
Underlying Profit	12,679	9,541	7,170	7,301
Underlying Profit Gth (%)	(47.5)	(24.7)	(24.8)	1.8
EPS (HK\$)	2.17	1.63	1.23	1.25
EPS Gth (%)	(47.5)	(24.7)	(24.8)	1.8
PE (X)	8.5	11.3	15.0	14.7
P/Cash Flow (X)	14.3	15.3	30.1	12.7
EV/EBITDA (X)	14.3	13.6	14.7	14.0
DPS (HK\$)	0.91	0.95	0.99	1.03
Div Yield (%)	4.9	5.2	5.4	5.6
Net Gearing (%)	2	4	6	6
ROE (%)	4.4	3.3	2.5	2.5
Est. NAV (HK\$):			50.3	50.7
Disc. to NAV (%)			(63)	(64)

Earnings Rev (%): 0
Consensus EPS (HK\$): 1.35
Other Broker Recs: B:11 S:2 H:1

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

In acquisition mode

Investment Thesis

BUY with HK\$25.35 TP. The stock is trading at a 63% discount to our appraised current NAV, with estimated dividend yield of 5.4% for FY22. Valuation is attractive from a historical perspective. The company has been stepping up new investments in Hong Kong and China which should boost the company's earnings as well as valuation over the long term.

New investment in China and Hong Kong to brighten growth prospects. Swire Properties intends to invest over HK\$100bn in the coming decade. In Jun-22, the company acquired a residential/retail site in Wan Chai via government tender for HK\$1.96bn. This came after securing a site in Xi'an for retail-led mixed-use development. Contributions from these investments should drive Swire Properties' earnings growth allowing the company to deliver mid-single digit dividend growth.

Mild drop in rental earnings. In Hong Kong, negative reversionary growth is working its way through most of office towers given high expiring rents. Yet, the portfolio occupancy remains firm. Retail income is dragged by rental concession as well as negative rental reversion. On the other hand, contributions from newly built Taikoo Li Qiantan and Taikoo Li Sanlitun West should partially make up the shortfall. Overall, rental earnings should fall mildly in FY22.

Valuation:

Our TP for Swire Properties is based on a 50% discount to our Jun-2023 NAV estimate.

Where we differ:

We are more positive on the company's long-term outlook taking into consideration its ambitious investment plan in Hong Kong/China

Key Risks to Our View:

Any further deterioration in leasing demand for office and retail properties in Hong Kong could drag its earnings and share price performance. Economic uncertainty could lead to capitalisation rate expansion, which would in turn adversely impact the stock's valuation.

At A Glance

Issued Capital (m shrs)	5,850
Mkt Cap (HKm/US\$m)	107,640 / 13,712
Major Shareholders (%)	
Swire Pacific Ltd	82.0
Free Float (%)	18.0
3m Avg. Daily Val. (US\$m)	5.8
GICS Industry: Real Estate / Real Estate Management & Development	



Watchlist the stock on Insights Direct to receive prompt updates



WHAT'S NEW

Proactively pursuing new investments in Hong Kong and China

In Jun-22, spot office rents at One and Two Pacific Place were stable at HK\$100-120psf while that of Three Pacific Place rose slightly to HK\$95psf from Mar-22's HK\$90psf. However, rental decline upon lease renewal and new lettings should widen to 15-20% in 2022 from 2021's 4% as the leases up for expiry were signed at the previous market highs three years ago.

Reversionary growth at One Island East and One Taikoo Place are turning neutral. (2021:+10%). Other Taikoo Place office towers should register mildly negative rental reversion in 2022 given high expiring rents. This was despite steady office rents. Office occupancy at Pacific Place and Taikoo Place remained firm at 97% and 96% respectively in Jun-22. Income shortfall led by negative reversionary growth should be partly offset by new contributions from 8 Queen's Road East in Wan Chai.

Flexible and office space provider IWG has agreed to lease 8 Queen's Road East on en bloc basis and will open a "Spaces" centre in July. With total GFA of 81,346sf, this property has been vacant following the departure of WeWork in 2020.

With the gradual relaxation of social distancing measures after the COVID outbreak was brought under control, tenants' sales should see a nice sequential recovery in 2Q22. Overall, tenants' sales at Pacific Place Mall and Citygate Outlet Mall fell 1.6% and 1.8% respectively in 1H22. This compared with the overall retail sales decline of 2.6% during the same period. Cityplaza saw tenants' sales declining 4.9% in the corresponding period.

In China, HKRI Taikoo Hui and Taikoo Li Qiantan was heavily hit due to the lockdowns in Shanghai. Impacts from the COVID resurgence on Sino-Ocean Taikoo Li Chengdu and Taikoo Hui, Guangzhou was less pronounced. Overall, tenants' sales shortfall should translate into lower turnover rents but retail reversionary growth remains positive.

Two Taikoo Place in Quarry Bay is scheduled for completion in 2022. China CITIC Bank has reportedly leased over 150,000sf at Two Taikoo Place, relocating from Devon House nearby. This accounted for almost 20% of its lettable area. Other companies committed to moving into the new tower, include Julius Baer, Amundi, BASF, and Boston Consulting Group. Overall, this soon-to-be-completed office property is close to 50% pre-committed. Elsewhere, 46-56 Queen's Road East in Wan Chai is slated for completion in 2023.

Swire Properties intends to invest over HK\$100bn in the coming decade. In Mar-22, Swire Properties teamed up with Xi'an Cheng Huan Cultural Investment and Development Co. to acquire a site in the downtown Xi'an. Total consideration is Rmb2.6bn and Swire Properties has a 70% stake. With estimated GFA of 2.9msf, this retail-led mixed-use development is adjacent to the Small Wild Goose Pagoda (UNESCO World Heritage Site) and Xi'an Museum. Total investment cost is projected at Rmb10bn. Upon the scheduled completion in 2025, this will become the fourth Taikoo Li built by Swire Properties in China.

In Jun-22, Swire Properties secured a residential/retail site in Wan Chai via government tender for HK\$1.96bn, within market expectations. This translated into accommodation value of HK\$16,888psf. In recent years, the company has proactively replenished its residential land bank in Hong Kong. In 2021, Swire Properties concluded the land premium negotiation for Chai Wan bus depot site.

The Wan Chai site will be redeveloped into a residential/retail tower with total GFA of 116,186sf, which splits into 102,989sf for residential use and 13,197sf for retail purpose. It is about a 10-minute walk from Wan Chai MTR Station.

Adding construction and financing costs, we estimate total development cost at HK\$29,000psf. Swire Properties has strong experience in developing high-end residential projects in Wan Chai. The company is currently developing Eight Star Street which has been largely pre-sold.

In Jul-22, Swire Properties announced to develop its first luxury hotel under the "The House Collective" brand in Tokyo.

In 1H22, Swire Properties consolidated the ownership of Zungfu Industrial Building in Quarry Bay which will be redeveloped with the neighbouring Wah Ha Factory Building. Elsewhere, the company has applied for compulsory auction of two residential properties on Hoi Wan Street in Quarry Bay. The company has been taking initiatives to expand its Taikoo Place portfolio.

To support more acquisitions without stretching its balance sheet, Swire Properties has been realizing the value of non-core assets. In 1H22, the company sold c.130 car parks in the Taikoo Shing residential development and plans to sell the remaining 1100 car parks. This not only spices up the

Swire Properties

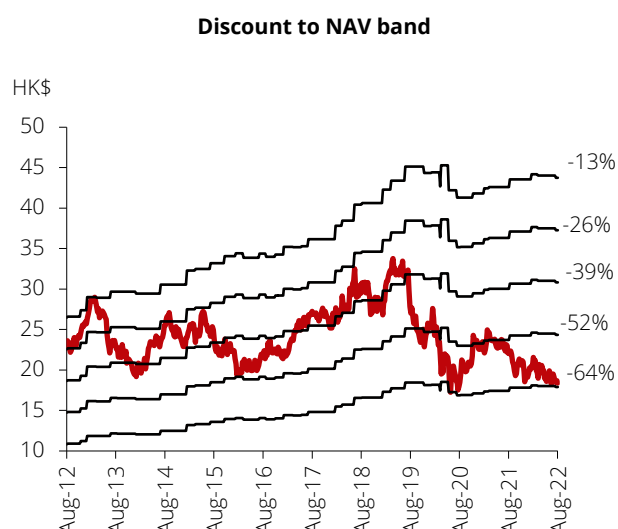
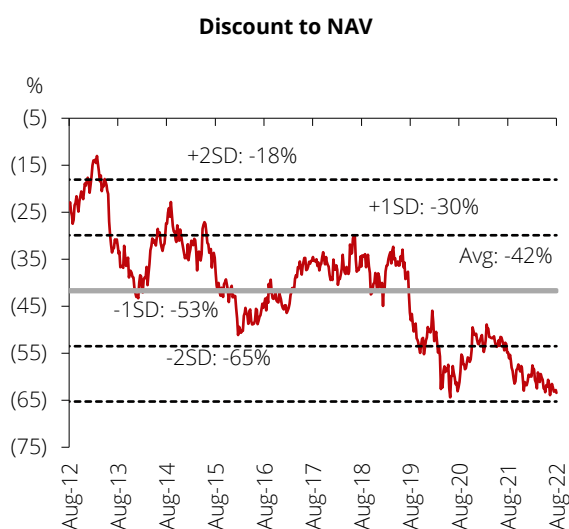
bottom-line earnings but also provides capital for making new investments for long-term growth.

The stock, trading at 63% discount to our assessed current NAV and 5.4% dividend yield for FY22, is attractively valued. The company has been proactively pursuing new investments in China and Hong Kong which should lay down a solid foundation for long-term earnings and dividend growth. This should justify a higher valuation over the long run. By assigning a 50% discount to our Jun-23 NAV estimate, we set our TP at HK\$25.35. BUY.

Company Background

Swire Properties is a major commercial landlord in Hong Kong with a completed investment property portfolio of 12.6m sf. Key properties include Pacific Place, Taikoo Place and Cityplaza. In China, Swire Properties has a variety of retail-led mixed-use developments, including Taikoo Hui Sanlitun and INDIGO in Beijing, Taikoo Hui in Guangzhou, HKRI Taikoo Hui in Shanghai and Sino-Ocean Taikoo Li in Chengdu. The company is the developer of Brickell City Centre in Miami.

Discount to NAV



Source: Bloomberg Finance L.P., DBS HK

Swire Properties

Key Assumptions (%)

	2022F	2023F
Office rental - HK	0	(3)
Retail rental (Shopping centre) - HK	0	5

Source: DBS HK

Segmental Breakdown (HK\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenues (HK\$ m)					
Property Investment	12,409	12,355	12,554	12,561	13,032
Property trading	516	312	2,443	600	277
Hotels	1,296	641	894	649	875
Total	14,221	13,308	15,891	13,809	14,184

Source: DBS HK

Income Statement (HK\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Turnover	14,221	13,308	15,891	13,809	14,184
EBITDA	8,733	8,404	8,824	8,148	8,593
Depr / Amort	(405)	(413)	(420)	(441)	(463)
EBIT	8,328	7,991	8,404	7,707	8,130
Associates Inc	997	785	974	922	1,049
Interest (Exp)/Inc	(512)	(408)	(328)	(400)	(510)
Exceptionals	16,519	5,944	1,959	260	0
Pre-tax Profit	25,332	14,312	11,009	8,488	8,668
Tax	(1,134)	(1,552)	(1,359)	(1,169)	(1,219)
Minority Interest	(68)	(81)	(109)	(149)	(149)
Underlying Profit	24,130	12,679	9,541	7,170	7,301
Sales Gth (%)	(3)	(6)	19	(13)	3
Net Profit Gth (%)	138	(47)	(25)	(25)	2
EBITDA Margins (%)	61	63	56	59	61
EBIT Margin (%)	59	60	53	56	57
Tax Rate (%)	4	11	12	14	14

Source: DBS HK

Swire Properties

Balance Sheet (HK\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Fixed Assets	286,118	275,826	274,989	276,114	282,448
Other LT Assets	258	1,638	1,094	1,094	1,094
Intangibles Assets	199	198	203	203	203
Deferred Tax Asset	79	73	78	78	78
Associates/JVs	30,575	31,706	38,079	38,693	39,433
Bank Balance/Cash & Liquid	14,985	21,232	14,833	10,370	11,054
Inventory	3,604	3,538	6,411	11,439	11,754
Debtors	1,926	2,704	2,805	2,865	2,925
Other Non Cash Current	120	472	1,831	1,831	1,831
Total Assets	337,864	337,387	340,323	342,686	350,820
ST Debt	6,360	1,984	9,049	7,456	7,456
Creditors	8,165	8,023	9,459	9,559	9,309
Other Current Liab	948	576	355	355	355
LT Debt	23,421	25,343	15,601	19,194	20,694
Deferred Tax Liabilities	9,381	10,094	10,847	10,847	10,847
Other LT Liabilities	678	687	854	854	854
Minority Interests	1,984	1,944	2,003	2,052	2,100
Shareholder's Equity	286,927	288,736	292,155	292,370	299,205
Total Cap. & Liab.	337,864	337,387	340,323	342,686	350,820
Share Capital (m)	5,850	5,850	5,850	5,850	5,850
Net Cash/(Debt)	(15,292)	(6,605)	(10,334)	(16,797)	(17,613)
Working Capital	5,162	17,363	7,017	9,134	10,444
Net Gearing (%)	5	2	4	6	6

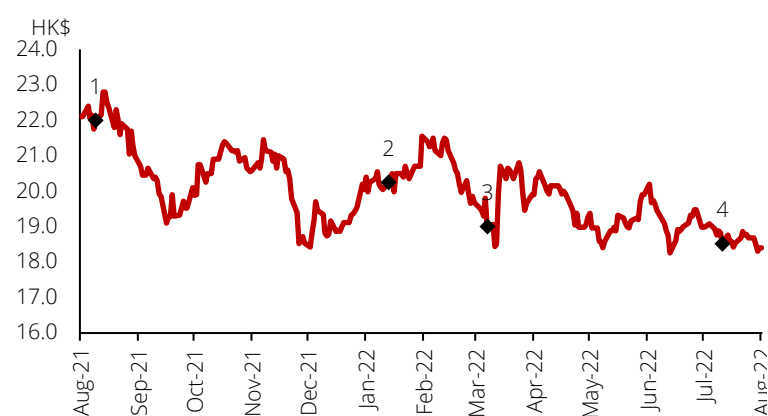
Source: DBS HK

Cash Flow Statement (HK\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
EBIT	8,328	7,991	8,404	7,707	8,130
Tax Paid	(586)	(1,589)	(1,635)	(1,169)	(1,219)
Depr/Amort	405	413	420	441	463
Profit or loss on disposal of FAs/subsidiaries/investment	(2,338)	(1,826)	(1,149)	(260)	0
Chg in Wkg.Cap	(3,199)	(1,118)	(1,926)	(4,568)	(145)
Other Non-Cash	1,765	1,598	931	(252)	(681)
Operating CF	4,375	5,469	5,045	1,899	6,547
Net Capex	15,199	8,109	(70)	(2,646)	(1,412)
Associates & JVs	706	418	(3,681)	0	0
Others	(63)	(111)	555	0	0
Investing CF	15,842	8,416	(3,196)	(2,646)	(1,412)
Net Chg in Debt	(2,235)	(2,488)	(2,856)	2,000	1,500
New Capital	0	0	0	0	0
Dividend	(5,089)	(5,325)	(5,515)	(5,716)	(5,950)
Financing CF	(7,324)	(7,813)	(8,371)	(3,716)	(4,450)
Chg in Cash	12,893	6,072	(6,522)	(4,463)	685

Source: DBS HK

Target Price & Ratings History



S.No.	Date	Closing Price	Target Price	Rating
1	13-Aug-21	HK\$21.75	HK\$29.25	BUY
2	17-Jan-22	HK\$20.20	HK\$25.80	BUY
3	11-Mar-22	HK\$19.80	HK\$25.80	BUY
4	15-Jul-22	HK\$18.82	HK\$25.35	BUY

Source: DBS HK

Analyst: Jeff Yau, CFA

China / Hong Kong Company Update

Wharf REIC

Bloomberg: 1997 HK Equity | Reuters: 1997.HK

Refer to important disclosures at the end of this report

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5 Aug 2022

BUY

Last Traded Price (4 Aug 2022): HK\$36.05 (HSI : 20,174)

Price Target 12-mth: HK\$42.00 (17% upside)

Analyst

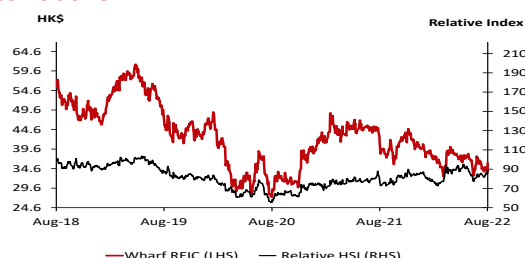
Jeff Yau, CFA +852 36684180 jeff_yau@db.com

Percy Leung percy@db.com

What's New

- Retail reversionary growth turning less negative
- Office occupancy stays stable
- Higher margins underpin rental earnings recovery
- BUY with HK\$42 TP

Price Relative



Forecasts and Valuation

FY Dec (HK\$ m)	2020A	2021A	2022F	2023F
Turnover	15,515	16,043	12,290	12,939
EBITDA	10,243	9,370	8,880	9,955
Pre-tax Profit	8,917	8,328	7,674	8,288
Underlying Profit	7,477	6,518	6,359	6,874
Underlying Profit Gth (%)	(23.6)	(12.8)	(2.4)	8.1
EPS (HK\$)	2.46	2.15	2.09	2.26
EPS Gth (%)	(23.6)	(12.8)	(2.4)	8.1
PE (X)	14.6	16.8	17.2	15.9
P/Cash Flow (X)	12.9	11.7	13.7	12.8
EV/EBITDA (X)	15.7	17.2	18.1	16.2
DPS (HK\$)	1.47	1.31	1.36	1.47
Div Yield (%)	4.1	3.6	3.8	4.1
Net Gearing (%)	25	23	22	20
ROE (%)	3.6	3.2	3.1	3.3
Est. NAV (HK\$):			63.0	64.6
Disc. to NAV (%)			(43)	(44)

Earnings Rev (%)		0	0
Consensus EPS (HK\$):		2.12	2.22
Other Broker Recs:	B:5	S:5	H:4

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

Higher margins a positive surprise

Investment Thesis

BUY with HK\$42 TP. The stock is trading at a 43% discount to our assessed current NAV. Stronger-than-expected margin improvement was a positive surprise to the market. This, coupled with retail market recovery, should boost sentiment towards the counter.

Retail negative rental reversion tapering off. Footfall and tenants' sales at Harbour City and Times Square have improved with the gradual easing of social distancing measures and distribution of consumption vouchers. Meanwhile, following the strong correction over the past few years, retail rents have exhibited signs of stabilization with retail reversionary growth turning less negative. We expect negative rental reversion to continue to taper off on the back of an improving retail scene, and possibly turn positive in 2023.

Margin improvement to propel rental earnings recovery.

While the company continues to offer coupons to stimulate tenant sales, selling and marketing expenses in 1H22 was substantially lower y-o-y, partly reflecting tenants' reduced reliance on supportive measures. This lifted the rental margin to 82.6%, versus 1H21's 78.6%. Sustainable margin improvement should add momentum to its full year rental earnings recovery.

Valuation:

Our target price (TP) for Wharf REIC is based on a 35% discount to our Jun-2023 NAV estimate.

Where we differ:

We are more positive on revival of tourist spending once the border with Mainland China re-opens.

Key Risks to Our View:

Any prolonged border closure could drag the income recovery of Wharf REIC's mall business.

At A Glance

Issued Capital (m shrs)	3,036
Mkt Cap (HKm/US\$m)	109,448 / 13,943
Major Shareholders (%)	
Wheelock And Co Ltd	43.4
Free Float (%)	56.6
3m Avg. Daily Val. (US\$m)	13.74
GICS Industry: Real Estate / Real Estate Management & Development	



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Live more, Bank less

Wharf REIC**WHAT'S NEW****Retail reversionary growth turning less negative**

Faced by fierce competition among the precincts, retail income from Times Square sank 22% in 1H22 partly resulting from negative reversionary growth and rental concessions. Average retail passing fell 28% to HK\$156psf in 1H22. Retail rental income from Harbour City rose 1% despite negative rental reversions. Income from Plaza Hollywood was flat y-o-y. Following the market correction over the past few years, retail rents are stabilising on the back of retail market recovery. Thus, retail reversionary growth has been less negative.

The gradual easing of social distancing measures and distribution of electronic consumption vouchers has underpinned domestic consumption recovery since Apr-22. Footfall and tenants' sales at Harbour City and Times Square have improved. Despite COVID resurgence in early 2022, turnover rent was largely flat at HK\$335m in 1H22.

Wharf REIC has granted rental concessions to tenants in view of the fifth wave of the pandemic but the amount this round is much lower compared to 2020.

Taking advantage of softer rents after the correction in the past two years, several international brands have made their Hong Kong debut at Harbour City. These include Casa Loewe, AMANTE, deLaCour and Sound United. Dior, Piaget and Van Cleef & Arpels will open their new flagship stores at Harbour City in 2H22. As of Jun-22, retail occupancy at both Harbour City and Times Square stood firm at 93%.

Despite negative reversionary growth amid market rental pressure, office income from Harbour City rose 3% in 1H22 while that of Times Square was flattish, thanks to improved occupancy. Times Square remained 90% let as of Jun-22 (Dec-21: 89%). Meanwhile, office occupancy at Harbour City improved to 87% in Jun-22 from Dec-21's 85%.

While Wharf REIC continued to offer coupon redemptions to its customers, selling and marketing expenses was 52% lower at HK\$250m in 1H22, partly reflecting tenants' reduced reliance on supportive measures. This brought the rental margin higher to 82.6% in 1H22 from 1H21's 78.6%. Hence, despite lower rental income, overall rental earnings rose 2.7% to HK\$4.43bn.

Net debt stood at HK\$46.8bn as of Jun-22, down from Dec-21's HK\$47.5bn. This puts its gearing at 23.5%. Interest

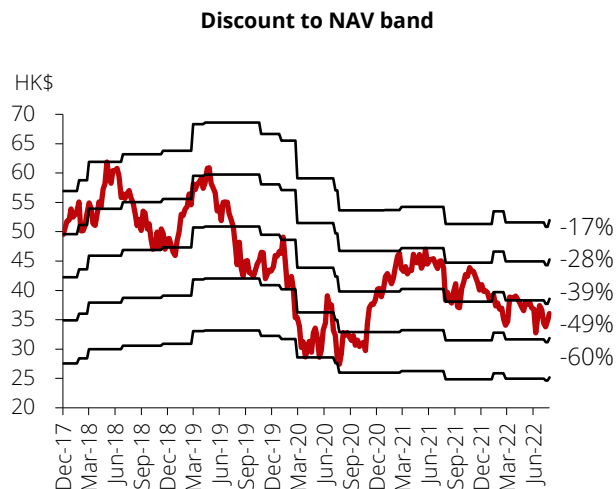
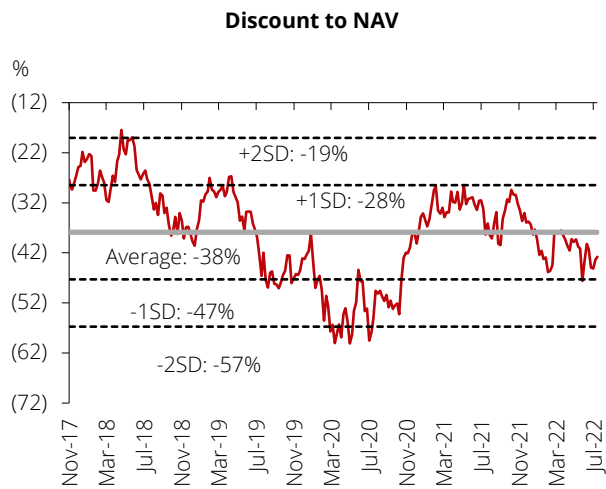
costs for all of its total borrowings are on floating basis as of Jun-22. Therefore, interest expense is expected to rise noticeably in 2H22 with higher interest rates. As of Jun-22, Wharf REIC's equity portfolio was valued at HK\$12.7bn. It comprises mainly blue-chip property stocks.

YTD, share price of Wharf REIC has retreated by 9%. The stock is trading at 43% discount to NAV. The Hong Kong retail market is on the road to recovery led by the revival of domestic consumption. Distribution of the remaining phase of consumption vouchers in Aug-22 should give an additional boost and should improve sentiment towards the stock. While negative rental reversion continues to work its way through its portfolio, rental margin improvement should add momentum to its earnings recovery. Hence, we maintain BUY with TP of HK\$42.

Company Background

Listed in Nov-17 by way of introduction, Wharf REIC is a leading commercial property landlord in Hong Kong which boasts a sizeable completed investment property portfolio. Major rental properties include Harbour City and Times Square. Wharf REIC also owns a 72% stake in Harbour Centre Development.

Discount to NAV



Source: Bloomberg Finance L.P., DBS HK

Wharf REIC

Key Assumptions (%)

	2022F	2023F
Office rental - HK	0	(3)
Retail rental (Shopping centre) - HK	0	5

Source: DBS HK

Segmental Breakdown (HK\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenues (HK\$ m)					
Investment Property	14,230	11,795	10,859	10,626	10,880
Development Property	38	2,621	3,722	135	0
Hotels	1,507	630	838	905	1,434
Others	268	469	624	624	624
Total	16,043	15,515	16,043	12,290	12,939

Source: DBS HK

Income Statement (HK\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Turnover	16,043	15,515	16,043	12,290	12,939
EBITDA	12,977	10,243	9,370	8,880	9,955
Depr / Amort	(290)	(294)	(330)	(280)	(291)
EBIT	12,687	9,949	9,040	8,600	9,664
Associates Inc	76	(75)	0	0	0
Interest (Exp)/Inc	(974)	(957)	(712)	(926)	(1,376)
Exceptionals	0	0	0	0	0
Pre-tax Profit	11,789	8,917	8,328	7,674	8,288
Tax	(1,961)	(1,205)	(1,599)	(1,275)	(1,368)
Minority Interest	(37)	(235)	(211)	(41)	(47)
Underlying Profit	9,791	7,477	6,518	6,359	6,874
Sales Gth (%)	(3)	(3)	3	(23)	5
Net Profit Gth (%)	(3)	(24)	(13)	(2)	8
EBITDA Margins (%)	81	66	58	72	77
EBIT Margin (%)	79	64	56	70	75
Tax Rate (%)	17	14	19	17	17

Source: DBS HK

Wharf REIC

Balance Sheet (HK\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Fixed Assets	267,801	253,173	251,142	248,629	253,410
Long-term Investments	4,065	13,041	13,870	13,870	13,870
Deferred Tax Asset	669	1,334	884	884	884
Associates/JVs	2,853	1,082	983	983	983
Bank Balance/Cash & Liquid	2,907	2,260	1,800	2,654	3,810
Inventory	5,139	5,226	2,325	2,325	2,325
Debtors	885	1,675	1,161	1,141	1,146
Other Non Cash Current	22	123	103	103	103
Total Assets	284,341	277,914	272,268	270,589	276,531
ST Debt	12,300	6,107	4,500	6,000	10,100
Creditors	8,384	8,185	7,717	7,737	7,722
Other Current Liab	6,251	2,810	762	762	762
LT Debt	33,236	48,171	44,834	41,834	36,234
Deferred Tax Liabilities	2,403	2,534	2,599	2,599	2,599
Other LT Liabilities	353	698	980	980	980
Minority Interests	5,250	4,858	4,770	4,714	4,664
Shareholder's Equity	216,164	204,551	206,106	205,963	213,469
Total Cap. & Liab.	284,341	277,914	272,268	270,589	276,531
Share Capital (m)	3,036	3,036	3,036	3,036	3,036
Net Cash/(Debt)	(42,629)	(52,018)	(47,534)	(45,180)	(42,524)
Working Capital	(17,982)	(7,818)	(7,590)	(8,276)	(11,200)
Net Gearing (%)	20	25	23	22	20

Source: DBS HK

Cash Flow Statement (HK\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
EBIT	12,687	9,949	9,040	8,600	9,664
Tax Paid	(1,002)	(3,692)	(1,380)	(1,275)	(1,368)
Depr/Amort	290	294	330	280	291
Chg in Wkg.Cap	1,072	(844)	812	40	(20)
Other Non-Cash	(1,024)	(883)	(834)	(926)	(1,376)
Operating CF	12,023	4,824	7,968	6,720	7,192
Net Capex	(6,505)	(362)	(393)	(200)	(250)
Investments	(1,659)	(7,948)	592	0	0
Associates & JVs	99	178	(1)	0	0
Investing CF	(8,065)	(8,132)	199	(200)	(250)
Net Chg in Debt	3,152	7,824	(4,318)	(1,500)	(1,500)
New Capital	0	0	0	0	0
Dividend	(6,829)	(5,236)	(4,339)	(4,166)	(4,286)
Other Financing CF	0	0	0	0	0
Financing CF	(3,677)	2,588	(8,657)	(5,666)	(5,786)
Chg in Cash	281	(720)	(490)	854	1,156

Source: DBS HK

Wharf REIC

Target Price & Ratings History



S.No.	Date	Closing Price	Target Price	Rating
1	6-Aug-21	HK\$38.80	HK\$37.60	HOLD
2	17-Jan-22	HK\$38.80	HK\$43.60	BUY
3	4-Mar-22	HK\$35.05	HK\$40.70	BUY
4	20-Jul-22	HK\$34.45	HK\$41.10	BUY
5	5-Aug-22	HK\$36.05	HK\$42.00	BUY

Source: DBS HK

Analyst: Jeff Yau, CFA

Percy Leung

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

Completed Date: 5 Aug 2022 15:09:38 (HKT)

Dissemination Date: 5 Aug 2022 17:33:05 (HKT)

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HK Property Sector (Office and Retail)


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