

# 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

12 Aug 2022

## BUY

Last Traded Price (11 Aug 2022): HK\$18.80 (HSI : 20,082)  
Price Target 12-mth: HK\$24.95 (33% upside) (Prev HK\$25.35)

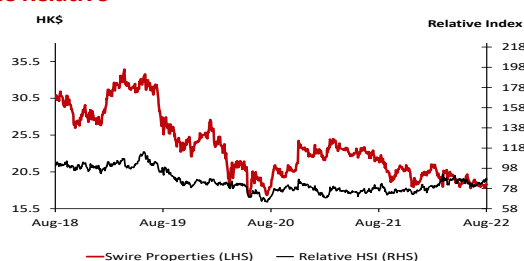
### Analyst

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### What's New

- Underlying interim profit fell 8% due to lower asset disposal gains
- Interim DPS, however, rose 3%
- Stepping up new investments in Hong Kong/China
- BUY with HK\$24.95 TP

### Price Relative



### Forecasts and Valuation

| FY Dec (HK\$ m)           | 2020A  | 2021A  | 2022F  | 2023F  |
|---------------------------|--------|--------|--------|--------|
| Turnover                  | 13,308 | 15,891 | 13,931 | 13,951 |
| EBITDA                    | 8,404  | 8,824  | 8,223  | 8,469  |
| Pre-tax Profit            | 14,312 | 11,009 | 8,755  | 8,732  |
| Underlying Profit         | 12,679 | 9,541  | 7,423  | 7,368  |
| Underlying Profit Gth (%) | (47.5) | (24.7) | (22.2) | (0.7)  |
| EPS (HK\$)                | 2.17   | 1.63   | 1.27   | 1.26   |
| EPS Gth (%)               | (47.5) | (24.7) | (22.2) | (0.7)  |
| PE (X)                    | 8.7    | 11.5   | 14.8   | 14.9   |
| P/Cash Flow (X)           | 14.6   | 15.6   | 51.0   | 17.4   |
| EV/EBITDA (X)             | 15.3   | 14.6   | 15.6   | 15.2   |
| DPS (HK\$)                | 0.91   | 0.95   | 0.99   | 1.03   |
| Div Yield (%)             | 4.8    | 5.1    | 5.3    | 5.5    |
| Net Gearing (%)           | 2      | 4      | 6      | 7      |
| ROE (%)                   | 4.4    | 3.3    | 2.5    | 2.5    |
| Est. NAV (HK\$):          |        |        | 50.1   | 49.9   |
| Disc. to NAV (%)          |        |        | (62)   | (62)   |

Earnings Rev (%): 4 1  
Consensus EPS (HK\$): 1.34 1.39  
Other Broker Recs: B:10 S:2 H:1

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

## Building for a better future.

### Investment Thesis

**BUY with HK\$24.95 TP.** The stock is trading at a 62% discount to our appraised current NAV, with an estimated dividend yield of 5.3% for FY22. The valuation is appealing from a historical perspective. Swire Properties has been stepping up its new investments in Hong Kong and China, which should bolster the company's profit outlook. This should in turn translate to a higher stock 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 it secured a site in Xi'an for a retail-led mixed-use development. Contributions from these investments should underpin Swire Properties' long-term earnings growth, allowing the company to deliver sustainable dividend growth.

**Resilient rental earnings.** While the COVID impact continues to filter through the retail portfolio in Hong Kong, contributions from newly built Taikoo Li Qiantan and Taikoo Li Sanlitun West support the company's China retail income. The pre-commitment rate of the soon-to-be-completed Two Taikoo Place is approaching 50%, which should add to the company's rental earnings growth.

### 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 about 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)   | 109,980 / 14,020 |
| Major Shareholders (%)  |                  |
| Swire Pacific Ltd   | 82.0             |
| Free Float (%)  | 18.0             |
| 3m Avg. Daily Val. (US\$m)  | 5.68             |
| GICS Industry: Real Estate / Real Estate Management & Development |                  |



Watchlist the stock on Insights Direct to receive prompt updates



## Swire Properties

### WHAT'S NEW

#### Resilient rental income

Swire Properties' 1H22 underlying profit was 8% lower, at HK\$4.14bn, due to smaller gains on the disposal of investment properties. Excluding profit from divestment, the company's core underlying earnings would have fallen slightly by 2% to HK\$3.64bn, in line with our forecast. Yet, its first interim DPS rose 3% to HK\$0.32.

Total attributable rental income was largely flat at HK\$7.18m. Lower retail revenue from Hong Kong was offset by higher income from China malls.

Attributable income from the Hong Kong retail portfolio declined 9%, reflecting the adverse impacts of the resurgence of COVID and amortisation of rental concessions given in earlier years. In a response to the Omicron variant outbreak at the beginning of the year, Swire Properties offered rental concessions to affected tenants. With the easing of social distancing protocols since Apr 22, tenants' business has been on the path to recovery. In 1H22, tenant sales at Pacific Place Mall and Citygate Outlet Mall fell 1.6% and 1.8%, respectively (1Q22: -9.1% and -21.3%). This compared favourably with the overall retail market, which recorded a 2.6% drop in sales value in the corresponding period. On the other hand, retail sales of Cityplaza were 4.9% lower in 1H22.

The China retail portfolio showed a growth of 9% in attributable income to HK\$2.31bn (or 7% if disregarding amortised rental concessions and currency movements). This was mainly fueled by new contributions from Taikoo Li Qiantan in Shanghai and Taikoo Li Sanlitun West in Beijing, which opened for business in 2H21. Excluding these two newly opened malls, total attributable retail sales fell 19% in 1H22. Due to lockdowns and other pandemic-led restrictions, tenant sales at HKRI Taikoo Hui in Shanghai tumbled 53%, while that of Taikoo Li Sanlitun and INDIGO in Beijing fell 26% and 25%, respectively. Taikoo Hui in Guangzhou and Sino-Ocean Taikoo Li Chengdu were less impacted, with modest retail sales drops of 7% and 8%, respectively.

Office income from Hong Kong remained broadly stable at HK\$3bn. While Pacific Place Office suffered from negative reversionary growth, positive reversion was seen at some of the Taikoo Place properties.

Swire Properties is in acquisition mode. After securing a site in Xi'an for a retail-led mixed-use development, the

company acquired a residential/retail site in Wan Chai in Jul-22. In Mar 22, the company acquired an additional 6.67% stake in Citygate development, bringing its stake to 26.67%.

Contributions from these investments should propel Swire Properties' long-term earnings growth, allowing the company to deliver mid-single digit dividend growth.

To expand its hotel management business, Swire Properties announced two new, third-party-owned hotels under The House Collective brand in Tokyo and Shenzhen.

To leverage on its premium residential brands, the company is looking to build a residential presence in Singapore, Bangkok, Jakarta, and Ho Chi Minh City.

Net debt rose to HK\$15.5bn in Jun 22 from Dec 21's HK\$10.3bn, mainly due to the acquisition of the Taikoo Li Xian site, construction expenses incurred for investment, and development properties in Hong Kong. This was despite taking into account the proceeds from the divestment of carparks in Taikoo Shing and the Fort Lauderdale site in Florida. Despite higher net debt, the company's gearing remained comfortable at 5%. Even after allowing for the recent acquisition of the Wan Chai site, Swire Properties remains financially sound for pursuing new investment to bolster its long-term growth. Moreover, the company intends to sell the remaining 1,100 carpark slots at the Taikoo Shing residential development, and the capital generated will be recycled for new investment. This enables the company to pursue acquisition-led growth without stretching its balance sheet.

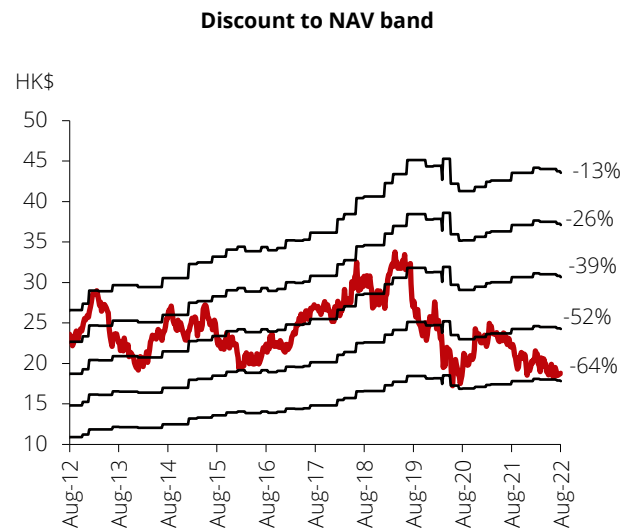
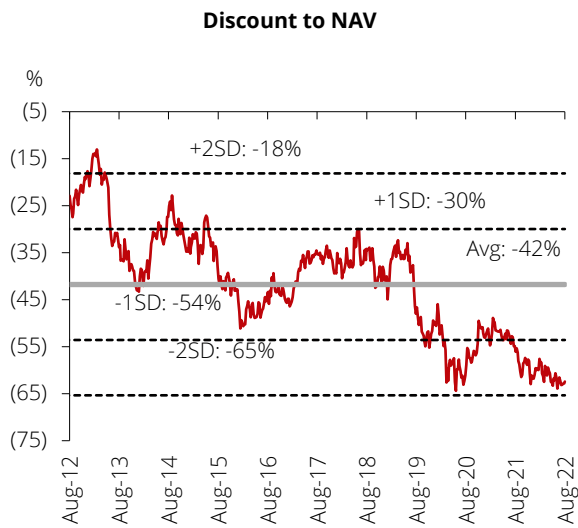
Trading 62% below our appraised current NAV, the stock is attractively valued. The company has embarked on its ambitious investment plan, which should set the stage for consistent earnings and dividend growth. This should justify a higher stock valuation over the long term. Reiterate BUY with HK\$24.95 TP, based on a 50% discount to our Jun 2023 NAV estimate.

**Swire Properties**

**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

### Result Summary

| FY Dec (HK\$m)                                      | 1H21         | 1H22         | Chg (%)    | Comments   |
|---|--------------|--------------|------------|--|
| Property Investment                                 | 6,197        | 6,003        | -3         | 1H22: increased contribution from China retail portfolio was partly offset by lower Hong Kong retail rental income |
| Property trading                                    | 2,394        | 383          | -84        | 1H21: derived from sales recognition of EDEN in Singapore and Reach and Rise in U.S.A                              |
| Hotels  | 427          | 262          | -39        | 1H22: suffered from COVID-19 and associated travel restrictions in Hong Kong and China                             |
| Rendering of other services                         | 50           | 50           | 0          |  |
| <b>Turnover</b>                                     | <b>9,068</b> | <b>6,698</b> | <b>-26</b> |  |
| Property Investment                                 | 4,983        | 4,799        | -4         |  |
| Property trading                                    | 579          | 228          | -61        |  |
| Hotels  | -6           | -72          | 1,100      |  |
| Rendering of other services                         | 50           | 50           | 0          |  |
| <b>Gross profit</b>                                 | <b>5,606</b> | <b>5,005</b> | <b>-11</b> |  |
| Administrative expenses                             | -871         | -828         | -5         |  |
| Other operating expenses                            | -101         | -107         | 6          |  |
| Other net (losses)/gains                            | 358          | 89           | -75        | 1H22: included gain on sale of investment properties of HK\$27m (1H21:HK\$302m)                                    |
| Change in fair value of investment properties       | -2,525       | 701          | n.a.       |  |
| <b>Operating profit</b>                             | <b>2,467</b> | <b>4,860</b> | <b>97</b>  |  |
| Net finance charges                                 | -215         | -79          | -63        |  |
| Share of profits from associated companies and JCEs | 817          | 473          | -42        |  |
| Taxation  | -979         | -817         | -17        |  |
| <b>Profit after tax</b>                             | <b>2,090</b> | <b>4,437</b> | <b>112</b> |  |
| Minority Interest                                   | -106         | -118         | 11         |  |
| <b>Net Profit</b>                                   | <b>1,984</b> | <b>4,319</b> | <b>118</b> |  |
| <b>Underlying profit</b>                            | <b>4,513</b> | <b>4,140</b> | <b>-8</b>  | 1H22: fewer carpark sales in Taikoo Shing residential development  |
| <b>Adjusted underlying profit</b>                   | <b>3,716</b> | <b>3,643</b> | <b>-2</b>  |  |
| Underlying EPS (HK\$)                               | 0.77         | 0.71         | -8         |  |
| Interim DPS (HK\$)                                  | 0.31         | 0.32         | 3          |  |

Source: Swire Properties

## 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         |
|--------------------------|---------------|---------------|---------------|---------------|---------------|
| <b>Revenues (HK\$ m)</b> |               |               |               |               |               |
| Property Investment      | 12,409        | 12,355        | 12,554        | 12,323        | 12,799        |
| Property trading         | 516           | 312           | 2,443         | 983           | 277           |
| Hotels                   | 1,296         | 641           | 894           | 625           | 875           |
| <b>Total</b>             | <b>14,221</b> | <b>13,308</b> | <b>15,891</b> | <b>13,931</b> | <b>13,951</b> |

Source: DBS HK

### Income Statement (HK\$ m)

| FY Dec                   | 2019A         | 2020A         | 2021A         | 2022F        | 2023F        |
|--------------------------|---------------|---------------|---------------|--------------|--------------|
| Turnover                 | 14,221        | 13,308        | 15,891        | 13,931       | 13,951       |
| EBITDA                   | 8,733         | 8,404         | 8,824         | 8,223        | 8,469        |
| Depr / Amort             | (405)         | (413)         | (420)         | (441)        | (463)        |
| <b>EBIT</b>              | <b>8,328</b>  | <b>7,991</b>  | <b>8,404</b>  | <b>7,782</b> | <b>8,006</b> |
| Associates Inc           | 997           | 785           | 974           | 843          | 1,026        |
| Interest (Exp)/Inc       | (512)         | (408)         | (328)         | (270)        | (300)        |
| Exceptionals             | 16,519        | 5,944         | 1,959         | 400          | 0            |
| <b>Pre-tax Profit</b>    | <b>25,332</b> | <b>14,312</b> | <b>11,009</b> | <b>8,755</b> | <b>8,732</b> |
| Tax                      | (1,134)       | (1,552)       | (1,359)       | (1,202)      | (1,233)      |
| Minority Interest        | (68)          | (81)          | (109)         | (131)        | (131)        |
| <b>Underlying Profit</b> | <b>24,130</b> | <b>12,679</b> | <b>9,541</b>  | <b>7,423</b> | <b>7,368</b> |
| Sales Gth (%)            | (3)           | (6)           | 19            | (12)         | 0            |
| Net Profit Gth (%)       | 138           | (47)          | (25)          | (22)         | (1)          |
| 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        | 278,934        | 285,324        |
| 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         | 38,614         | 39,332         |
| Bank Balance/Cash & Liquid    | 14,985         | 21,232         | 14,833         | 8,912          | 7,499          |
| Inventory                     | 3,604          | 3,538          | 6,411          | 13,069         | 15,554         |
| Debtors                       | 1,926          | 2,704          | 2,805          | 2,865          | 2,925          |
| Other Non Cash Current        | 120            | 472            | 1,831          | 1,831          | 1,831          |
| <b>Total Assets</b>           | <b>337,864</b> | <b>337,387</b> | <b>340,323</b> | <b>345,600</b> | <b>353,840</b> |
| 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          | 2,034          | 2,064          |
| Shareholder's Equity          | 286,927        | 288,736        | 292,155        | 295,301        | 302,261        |
| <b>Total Cap. &amp; Liab.</b> | <b>337,864</b> | <b>337,387</b> | <b>340,323</b> | <b>345,600</b> | <b>353,840</b> |
| Share Capital (m)             | 5,850          | 5,850          | 5,850          | 5,850          | 5,850          |
| Net Cash/(Debt)               | (15,292)       | (6,605)        | (10,334)       | (18,255)       | (21,168)       |
| Working Capital               | 5,162          | 17,363         | 7,017          | 9,307          | 10,689         |
| Net Gearing (%)               | 5              | 2              | 4              | 6              | 7              |

Source: DBS HK

## Cash Flow Statement (HK\$ m)

| FY Dec  | 2019A          | 2020A          | 2021A          | 2022F          | 2023F          |
|---|----------------|----------------|----------------|----------------|----------------|
| EBIT  | 8,328          | 7,991          | 8,404          | 7,782          | 8,006          |
| Tax Paid  | (586)          | (1,589)        | (1,635)        | (1,202)        | (1,233)        |
| Depr/Amort  | 405            | 413            | 420            | 441            | 463            |
| Profit or loss on disposal of FAs/subsidiaries/investment | (2,338)        | (1,826)        | (1,149)        | (400)          | 0              |
| Chg in Wkg.Cap  | (3,199)        | (1,118)        | (1,926)        | (6,068)        | (2,145)        |
| Other Non-Cash  | 1,765          | 1,598          | 931            | (112)          | (641)          |
| <b>Operating CF</b>                                       | <b>4,375</b>   | <b>5,469</b>   | <b>5,045</b>   | <b>441</b>     | <b>4,449</b>   |
| 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              |
| <b>Investing CF</b>                                       | <b>15,842</b>  | <b>8,416</b>   | <b>(3,196)</b> | <b>(2,646)</b> | <b>(1,412)</b> |
| 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)        |
| <b>Financing CF</b>                                       | <b>(7,324)</b> | <b>(7,813)</b> | <b>(8,371)</b> | <b>(3,716)</b> | <b>(4,450)</b> |
| Chg in Cash   | 12,893         | 6,072          | (6,522)        | (5,921)        | (1,413)        |

Source: DBS HK

**Swire Properties**

**Target Price & Ratings History**



| S.No. | Date      | Closing Price | 12-mth 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

## Swire Properties

DBS HK recommendations are based on an Absolute Total Return\* Rating system, defined as follows:

**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

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

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

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

**SELL** (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

\*Share price appreciation + dividends

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

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**Swire Properties**

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