

# Swire Properties

Bloomberg: 1972 HK Equity | Reuters: 1972.HK

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DBS Group Research . Equity

18 Oct 2023

## BUY

Last Traded Price (17 Oct 2023): HK\$15.64 (HSI : 17,773)  
Price Target 12-mth: HK\$22.15 (42% upside) (Prev HK\$24.10)

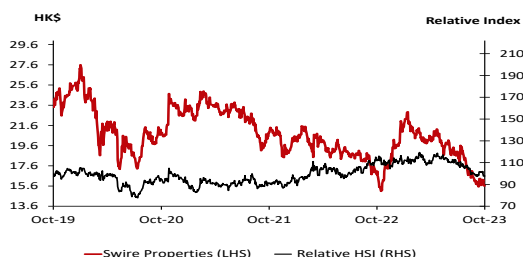
### Analyst

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### What's New

- Commenced the redevelopment of Zung Fu Industrial Building and Wah Ha Factory Building in Quarry Bay
- Acquiring stakes in Yangjing and New Bund plots in Shanghai
- Gearing should remain comfortable following the recent acquisition in Shanghai
- BUY with HK\$22.15 TP

### Price Relative



### Forecasts and Valuation

| FY Dec (HK\$ m)           | 2021A  | 2022A  | 2023F  | 2024F  |
|---------------------------|--------|--------|--------|--------|
| Turnover                  | 16,318 | 13,826 | 15,071 | 15,812 |
| EBITDA                    | 8,819  | 7,994  | 9,035  | 9,547  |
| Pre-tax Profit            | 11,002 | 9,887  | 9,746  | 9,444  |
| Underlying Profit         | 9,532  | 8,706  | 8,160  | 7,795  |
| Underlying Profit Gth (%) | (24.8) | (8.7)  | (6.3)  | (4.5)  |
| EPS (HK\$)                | 1.63   | 1.49   | 1.39   | 1.33   |
| EPS Gth (%)               | (24.8) | (8.7)  | (6.3)  | (4.5)  |
| PE (X)                    | 9.6    | 10.5   | 11.2   | 11.7   |
| P/Cash Flow (X)           | 13.0   | 14.4   | 11.2   | 10.0   |
| EV/EBITDA (X)             | 14.1   | 15.5   | 13.7   | 13.0   |
| DPS (HK\$)                | 0.95   | 1.00   | 1.03   | 1.07   |
| Div Yield (%)             | 6.1    | 6.4    | 6.6    | 6.8    |
| Net Gearing (%)           | 4      | 7      | 14     | 14     |
| ROE (%)                   | 3.3    | 3.0    | 2.8    | 2.7    |
| Est. NAV (HK\$):          |        |        | 49.5   | 49.2   |
| Disc. to NAV (%)          |        |        | (68)   | (68)   |

Earnings Rev (%): Nil  
Consensus EPS (HK\$): Nil  
Other Broker Recs: B:9 S:1 H:5

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

## Growing footprint in a dynamic cityscape

### Investment Thesis

**Building for a better future.** Swire Properties has a proven track record of creating long-term value by developing and managing property complexes which transform the surrounding areas. Additionally, the company is expanding its China investment portfolio in tier 1 and emerging tier 1 cities, with emphasis on retail-led mixed-use developments, leveraging on its widely recognised Taikoo Hui and Taikoo Li brands.

**New footage to boost rental.** In Sep-23, Swire Properties entered into an agreement to acquire a 40% interest in Yangjing and New Bund plots in Shanghai for Rmb9.7bn. This marks the company's ninth and tenth large-scale investment in China. These projects would further enhance rental income from China. A successful acquisition of the Queensway Plaza site via government tender would generate strong synergetic benefits with its existing Pacific Place portfolio and also boost its rental income.

**Consistent earnings growth to drive long-term valuation.** Swire Properties is making good progress in executing its HK\$100bn investment plan. This has laid down a solid foundation for earnings and dividend growth in the medium to long term, which in turn should justify a higher stock valuation.

**BUY with HK\$22.15 TP.** The stock is trading at a 68% discount to our assessed current NAV, which is attractive vs. its 10-year average of 46%. Our TP is based on a wider target discount of 55% to our Jun-24 NAV estimate.

### Key Risks to Our View:

Any further deterioration in leasing demand for office properties in Hong Kong could drag its earnings and share price performance.

Economic uncertainty could lead to capitalisation rate expansion, which would adversely impact the stock's valuation.

### At A Glance

|   |                 |
|---|-----------------|
| Issued Capital (m shrs)   | 5,850           |
| Mkt Cap (HKm/US\$m)   | 91,494 / 11,694 |
| Major Shareholders (%)  |                 |
| Swire Pacific Ltd   | 82.0            |
| Free Float (%)  | 18.0            |
| 3m Avg. Daily Val. (US\$m)  | 4.4             |
| GICS Industry: Real Estate / Real Estate Management & Development |                 |

**Swire Properties**

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**WHAT'S NEW****Portfolio expansion to drive long-term growth**

Swire Properties acquired the remaining interests in Zung Fu Industrial Building and Wah Ha Factory Building in Quarry Bay in Mar-22 and Jul-23 respectively. After consolidating its ownership in these two buildings, Swire Properties has commenced demolition works. The two sites will be redeveloped into a predominantly office property with GFA of 779,000sf. Close to Taikoo Station, which is eight stops from Central, this new project should further strengthen the company's Taikoo Place portfolio.

In Sep-23, Swire Properties entered into an agreement to acquire a 40% interest in Yangjing and New Bund plots in Shanghai for Rmb9.7bn. This marked the company's ninth and tenth large-scale investment in China. Co-developed with Lujiazui Group, these two sites will be developed into large-scale mixed-use projects comprising of retail, office and premium residential components. Located along the Huangpu riverfront, the Yangjing plot, which was Taikoo Wharf in the early to mid-1900s, is expected to provide GFA of 0.39msm upon project completion. With total GFA of 0.6msm, the New Bund plot is opposite Taikoo Li Qiantan with synergetic benefits expected upon completion.

Including these two acquisitions, we estimate China assets make up of 31% of its gross worth and will play a crucial role in powering the company's growth. The company should find no difficulty in funding these land acquisitions. We estimate Swire Properties' gearing will rise by c.3.7ppts to c.14% which remains comfortable.

In the recent two years, Swire Properties has been proactively pursuing new investments in China and Hong Kong, leveraging on its expertise in the commercial market. Continued portfolio expansion should underpin the company's long-term rental earnings growth.

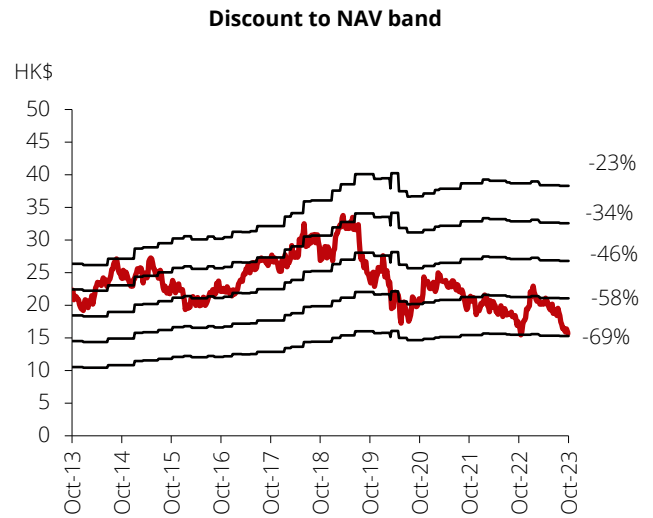
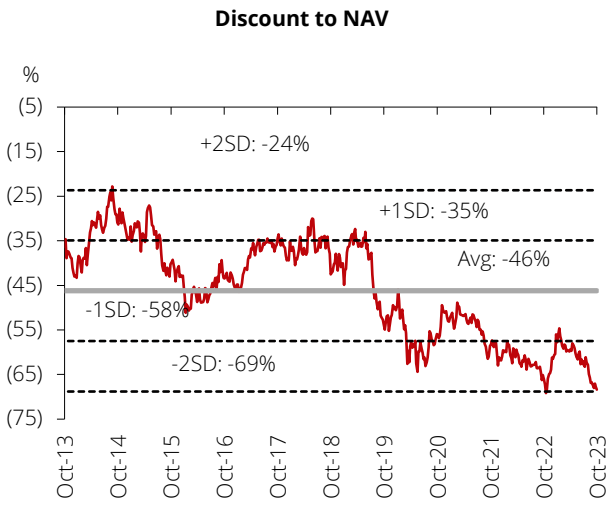
Trading 68% below our assessed current NAV, the stock is attractively valued from a historical view, even after factoring in an extended office market downcycle. Estimated dividend yield for FY23 stands at 6.6% which should increase to 6.8% in FY24. We believe the stock offers good long-term investment value and hence our BUY call. Our TP of HK\$22.15 is based on a target discount of 55% to our Jun-24 NAV estimate.

**Company Background**

Swire Properties is a major commercial landlord in Hong Kong with a completed investment property portfolio of 13.5m 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.

**Swire Properties**

**Discount to NAV**



Source: Bloomberg Finance L.P., DBS HK

## Swire Properties

### Key Assumptions (%)

|                                      | 2023F | 2024F |
|--------------------------------------|-------|-------|
| Office rental - HK                   | (5)   | (5)   |
| Retail rental (Shopping centre) - HK | 5     | 5     |

Source: DBS HK

### Segmental Breakdown (HK\$ m)

| FY Dec                   | 2020A         | 2021A         | 2022A         | 2023F         | 2024F         |
|--------------------------|---------------|---------------|---------------|---------------|---------------|
| <b>Revenues (HK\$ m)</b> |               |               |               |               |               |
| Property Investment      | 12,355        | 12,981        | 12,340        | 13,973        | 14,563        |
| Property trading         | 312           | 2,443         | 921           | 101           | 67            |
| Hotels                   | 641           | 894           | 565           | 997           | 1,182         |
| <b>Total</b>             | <b>13,308</b> | <b>16,318</b> | <b>13,826</b> | <b>15,071</b> | <b>15,812</b> |

Source: DBS HK

### Income Statement (HK\$ m)

| FY Dec                   | 2020A         | 2021A         | 2022A        | 2023F        | 2024F        |
|--------------------------|---------------|---------------|--------------|--------------|--------------|
| Turnover                 | 13,308        | 16,318        | 13,826       | 15,071       | 15,812       |
| EBITDA                   | 8,404         | 8,819         | 7,994        | 9,035        | 9,547        |
| Depr / Amort             | (413)         | (420)         | (428)        | (449)        | (472)        |
| <b>EBIT</b>              | <b>7,991</b>  | <b>8,399</b>  | <b>7,566</b> | <b>8,586</b> | <b>9,075</b> |
| Associates Inc           | 785           | 972           | 945          | 850          | 878          |
| Interest (Exp)/Inc       | (408)         | (328)         | (138)        | (360)        | (510)        |
| Exceptionals             | 5,944         | 1,959         | 1,514        | 670          | 0            |
| <b>Pre-tax Profit</b>    | <b>14,312</b> | <b>11,002</b> | <b>9,887</b> | <b>9,746</b> | <b>9,444</b> |
| Tax                      | (1,552)       | (1,362)       | (1,078)      | (1,316)      | (1,370)      |
| Minority Interest        | (81)          | (108)         | (103)        | (270)        | (278)        |
| <b>Underlying Profit</b> | <b>12,679</b> | <b>9,532</b>  | <b>8,706</b> | <b>8,160</b> | <b>7,795</b> |
| Sales Gth (%)            | (6)           | 23            | (15)         | 9            | 5            |
| Net Profit Gth (%)       | (47)          | (25)          | (9)          | (6)          | (4)          |
| EBITDA Margins (%)       | 63            | 54            | 58           | 60           | 60           |
| EBIT Margin (%)          | 60            | 51            | 55           | 57           | 57           |
| Tax Rate (%)             | 11            | 12            | 11           | 14           | 15           |

Source: DBS HK

## Swire Properties

## Balance Sheet (HK\$ m)

| FY Dec                        | 2020A          | 2021A          | 2022A          | 2023F          | 2024F          |
|-------------------------------|----------------|----------------|----------------|----------------|----------------|
| Fixed Assets                  | 275,826        | 274,989        | 278,223        | 287,060        | 289,619        |
| Other LT Assets               | 1,638          | 1,094          | 622            | 622            | 622            |
| Intangibles Assets            | 198            | 203            | 208            | 208            | 208            |
| Deferred Tax Asset            | 73             | 78             | 64             | 64             | 64             |
| Associates/JVs                | 31,706         | 38,015         | 40,335         | 51,925         | 53,143         |
| Bank Balance/Cash & Liquid    | 21,232         | 14,833         | 4,502          | 4,610          | 5,727          |
| Inventory                     | 3,538          | 6,411          | 8,264          | 11,237         | 12,226         |
| Debtors                       | 2,704          | 2,220          | 2,834          | 1,834          | 1,894          |
| Other Non Cash Current        | 472            | 1,831          | 2,110          | 2,110          | 2,110          |
| <b>Total Assets</b>           | <b>337,387</b> | <b>339,674</b> | <b>337,162</b> | <b>359,670</b> | <b>365,614</b> |
| ST Debt                       | 1,984          | 9,049          | 779            | 3,079          | 4,079          |
| Creditors                     | 8,023          | 9,339          | 10,008         | 10,408         | 10,158         |
| Other Current Liab            | 576            | 475            | 199            | 199            | 199            |
| LT Debt                       | 25,343         | 15,601         | 22,135         | 42,235         | 42,735         |
| Deferred Tax Liabilities      | 10,094         | 10,746         | 11,248         | 11,248         | 11,248         |
| Other LT Liabilities          | 687            | 854            | 535            | 535            | 535            |
| Minority Interests            | 1,944          | 1,986          | 3,047          | 3,217          | 3,395          |
| Shareholder's Equity          | 288,736        | 291,624        | 289,211        | 288,749        | 293,265        |
| <b>Total Cap. &amp; Liab.</b> | <b>337,387</b> | <b>339,674</b> | <b>337,162</b> | <b>359,670</b> | <b>365,614</b> |
| Share Capital (m)             | 5,850          | 5,850          | 5,850          | 5,850          | 5,850          |
| Net Cash/(Debt)               | (6,605)        | (10,334)       | (18,947)       | (41,239)       | (41,622)       |
| Working Capital               | 17,363         | 6,432          | 6,724          | 6,104          | 7,521          |
| Net Gearing (%)               | 2              | 4              | 7              | 14             | 14             |

Source: DBS HK

## Cash Flow Statement (HK\$ m)

| FY Dec  | 2020A          | 2021A          | 2022A          | 2023F           | 2024F          |
|---|----------------|----------------|----------------|-----------------|----------------|
| EBIT  | 7,991          | 8,399          | 7,566          | 8,586           | 9,075          |
| Tax Paid  | (1,589)        | (1,635)        | (1,127)        | (1,316)         | (1,370)        |
| Depr/Amort  | 413            | 420            | 428            | 449             | 472            |
| Profit or loss on disposal of FAs/subsidiaries/investment | (1,826)        | (1,149)        | (551)          | (670)           | 0              |
| Chg in Wkg.Cap  | (1,118)        | (1,921)        | (1,844)        | (883)           | (419)          |
| Other Non-Cash  | 1,598          | 931            | 284            | (71)            | (1,080)        |
| <b>Operating CF</b>                                       | <b>5,469</b>   | <b>5,045</b>   | <b>4,756</b>   | <b>6,096</b>    | <b>6,677</b>   |
| Net Capex   | 8,109          | (70)           | (5,560)        | (11,330)        | (226)          |
| Associates & JVs  | 418            | (3,681)        | (2,034)        | (11,049)        | (649)          |
| Others  | (111)          | 555            | (405)          | 0               | 0              |
| <b>Investing CF</b>                                       | <b>8,416</b>   | <b>(3,196)</b> | <b>(7,999)</b> | <b>(22,380)</b> | <b>(875)</b>   |
| Net Chg in Debt   | (2,488)        | (2,856)        | (1,838)        | 22,400          | 1,500          |
| New Capital   | 0              | 0              | 0              | 0               | 0              |
| Dividend  | (5,325)        | (5,515)        | (5,712)        | (6,009)         | (6,184)        |
| Other Financing CF  | 0              | 0              | 1,003          | 0               | 0              |
| <b>Financing CF</b>                                       | <b>(7,813)</b> | <b>(8,371)</b> | <b>(6,547)</b> | <b>16,392</b>   | <b>(4,684)</b> |
| Chg in Cash   | 6,072          | (6,522)        | (9,790)        | 108             | 1,118          |

Source: DBS HK

**Swire Properties**

**Target Price & Ratings 12-mth History**



| S.No. | Date      | Closing Price | Target Price | Rating |
|-------|-----------|---------------|--------------|--------|
| 1     | 11-Jan-23 | HK\$21.30     | HK\$24.95    | BUY    |
| 2     | 10-Mar-23 | HK\$21.00     | HK\$24.95    | BUY    |
| 3     | 20-Mar-23 | HK\$20.15     | HK\$24.95    | BUY    |
| 4     | 11-Aug-23 | HK\$18.14     | HK\$24.10    | BUY    |

Source: DBS HK

Analyst: Jeff Yau

Percy Leung

## 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

Completed Date: 18 Oct 2023 15:00:38 (HKT)

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