

# China / Hong Kong Company Update

## Link REIT

Bloomberg: 823 HK EQUITY | Reuters: 0823.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

9 Nov 2023

### BUY

Last Traded Price (8 Nov 2023): HK\$38.40 (HSI: 17,568)  
Price Target 12-mth: HK\$49.80 (30% upside) (Prev HK\$50.35)

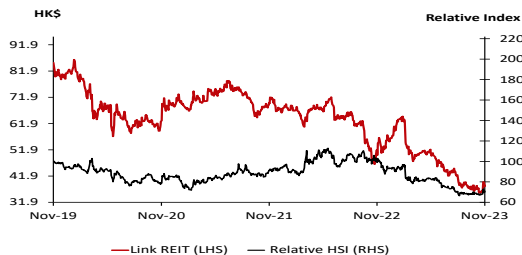
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#### What's New

- 1HFY24 distribution income rose 1.7% to HK\$3.33bn, slightly beating our expectations, mainly due to lower-than-expected finance cost
- Hong Kong retail reversionary growth accelerated to 8.7% in 1HFY24
- Potential unit buyback to lend support to unit price
- Maintain BUY with DDM-based TP of HK\$49.80

#### Price Relative



#### Forecasts and Valuation

FY Mar (HK\$ m)	2022A	2023A	2024F	2025F
Gross Revenue	11,602	12,234	13,529	13,974
Net Property Inc	8,776	9,198	10,129	10,535
Net Profit	6,894	15,451	6,481	6,816
Distribution Inc	6,419	6,311	6,481	6,816
DPU (HK\$)	3.06	2.74	2.53	2.66
DPU Gth (%)	5	(10)	(8)	5
Div Yield (%)	8.0	7.1	6.6	6.9
Gross Gearing (%)	22	24	23	22
Book Value (HK\$)	77.10	73.98	69.62	71.53
P/Book Value (x)	0.5	0.5	0.6	0.5

DPU Rev (%): 0 (1)  
Consensus DPU (HK\$): 2.57 2.71  
Other Broker Recs: B:16 S:0 H:2

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

### Unit buyback to enhance distribution yield

#### Investment Thesis

**A leading and diversified APAC REIT.** Link REIT is the largest listed REIT in Hong Kong and holds mainly neighbourhood malls in Hong Kong, representing >50% of its total portfolio valuation. Since 2015, Link REIT has been exploring acquisition opportunities outside Hong Kong to diversify its earnings base and augment distribution growth. Following the acquisition in Singapore, its total portfolio valuation climbed to c.HK\$240bn as of Sep-23, spanning five regions in APAC. While prolonged interest rate hikes remain a challenge for Link REIT to execute its acquisition growth strategy, it will continue to explore opportunities cautiously, preferably in suburban retail assets across Australia, Singapore, and Hong Kong.

**Hong Kong retail portfolio gaining momentum; China retail portfolio to bottom out.** Reversionary growth at Hong Kong's retail portfolio further accelerated to 8.7% in 1HFY24 from FY23's 7.1%. With a healthy occupancy cost ratio of 12.4%, reversionary growth for the portfolio should maintain at a mid- to high-single-digit for FY24, thus driving rental income in the near term. Meanwhile, rental reversion for China's retail portfolio stayed in the negative territory at 5.2% in 1HFY24, and is expected to level-off by end of FY24. Contribution from the newly renovated Link Plaza Tianhe in Guangzhou should add momentum to its earnings recovery.

**Potential unit buyback to boost sentiment towards the counter.** Subject to market condition and regulatory requirement, Link REIT will conduct unit buyback, which could enhance its distribution yield and thus driving its unit price performance.

**BUY with a DDM-based TP of HK\$49.80.** Link REIT offers distribution yields of 6.6-6.9% for FY24-25. This translates into a yield spread of 2.1-2.4%, slightly above with its 10-year average of 2.0%. Our target price is based on a Discounted Dividend Model (DDM) using a discount rate of 7.4%

#### Key Risks to Our View:

Any derailment in the Hong Kong retail market recovery should be a drag on its rental income. A prolonged interest rate upcycle would adversely affect its distribution and valuation.

#### At A Glance

Issued Capital (m shrs)	2,562
Mkt Cap (HKm/US\$m)	98,381 / 12,589
Major Shareholders (%)	
BlackRock Inc	9.0
Free Float (%)	100.0
3m Avg. Daily Val. (US\$m)	34.2
GICS Industry: Real Estate / Equity Real Estate Investment	

## Link REIT

### WHAT'S NEW

#### Recovery of Hong Kong retail and carpark portfolio well on track

Link REIT's 1HFY24 distribution income rose marginally by 1.7% to HK\$3.33bn, as higher rental earnings were largely offset by increased finance cost. The result was slightly ahead of our estimate, primarily due to lower-than-expected finance cost. With a 22% increase in outstanding units following the rights issue in Mar-23, and new units being issued under the distribution reinvestment scheme, interim DPU fell 16% y-o-y to HK\$1.30.

Total revenue grew 11.3% to HK\$6.73bn, mainly boosted by maiden contribution from the Singapore retail portfolio acquired in Mar-23 and higher contribution from the Hong Kong portfolio. This was despite the drag from China's retail and office portfolio and the impact from foreign currency depreciation.

Rental receipts from the Hong Kong retail portfolio went up 2.4% to HK\$3.73bn, primarily thanks to a solid reversionary growth of 8.7% during the period under review. (FY23: 7.1%) Market and cooked food stalls continued to outperform by staging an 11.3% (FY23: 15.1%) rental growth on renewals. Meanwhile, on the back of an improved leasing sentiment upon border reopening and local economic recovery, reversionary growth for general retail shops accelerated to 8.1% in 1HFY24 from FY23's 5.7%, with that of education/welfare tenants standing at 3.2% (FY23: 1.2%). This brought the average monthly unit rent 0.8% higher h-o-h to HK\$64.3psf as of Sep-23, broadly on-par with that as of Mar-20. The portfolio maintained a record-high occupancy of 98% as of Sep-23.

While tenant sales at Link REIT's Hong Kong retail portfolio has exceeded the pre-COVID level in FY23, it has gained further momentum by rising 3.1% y-o-y in 1HFY24. Food and beverage sector led the sales growth by climbing 9% during this period. This was followed by a 4.7% rise in sales from general retail tenants. On the other hand, with the resumption of dining activities, supermarket sales saw a 4.8% decline y-o-y. Overall, occupancy cost ratio stood healthy at 12.4% in 1HFY24 (FY23: 12.5%). This should continue to underpin a mid- to high-single-digit reversionary growth for the portfolio in FY24.

Total revenue from car parks and related businesses rose 5.2% to HK\$1.24bn, mainly led by a respective growth of 4.5% and 7.5% in monthly and hourly carpark income due to the carpark tariff increment. Meanwhile, the two carpark/car service centres and godown buildings in Hung Hom and Chai Wan delivered stable revenues of HK\$103m in 1HFY24. The 60%-owned office building in Kowloon East, The Quayside, contributed a rental income of HK\$150m in 1HFY24 (1HFY23: HK\$147m). Occupancy of the property dropped to 86.1% in Sep-23 from Mar-23's 98.2% due to

the exit of two tenants, but it is expected to recover back to 98.2% upon the commencement of new leases from replacement tenants.

Contribution from the China portfolio fell 6% to HK\$742m, mainly due to Rmb depreciation. Excluding the effect from exchange rate, total revenue would have been relatively flat as shortfall from retail and office portfolio was offset by higher contribution from logistics assets. Due to a softer recovery in the China retail market, rental reversion for the China retail portfolio, including the minority-owned Qibao Vanke Plaza, stayed in the negative territory of 5.2% in 1HFY24. It is expected to level out by the end of FY24. The portfolio was 95.8% let as of Sep-23 (Mar-23: 95.2%). With the ongoing pressure in the China office market, occupancy at Link Square in Shanghai softened to 91.5% in Sep-23 from Mar-23's 95.5%, with rental decline upon renewal standing at 7.5% in 1HFY24. The logistics portfolio saw a healthy occupancy of 95% as of Sep-23.

Revenue from the overseas portfolio jumped more than three-folds to HK\$861m, mainly boosted by the maiden contribution from the Singapore retail portfolio, which was virtually fully let as of Sep-23. Benefitted from expansion demand, occupancy of the 50%-owned Australia retail portfolio improved further to 98.1% as of Sep-23 from Mar-23's 96.9%. Average occupancy of the overseas office portfolio also climbed from c.90% in Mar-23 to 95.1% in Sep-23.

Overall NPI margin fell to 75.3% in 1HFY24 from 1HFY23's 75.9%, mainly due to higher repair and maintenance resulting from increase in minimum wage and extreme weather events during the year and increased utility cost. Hence, net property income rose 10.4% to HK\$5.06bn.

The first phase of asset enhancement work at Link Plaza Tianhe was completed and it soft reopened in Sep-23. With a total capex of c.Rmb300m, the project has achieved an ROI of c.12%. This should add momentum to the earnings recovery of the China retail portfolio. Meanwhile, renovation work at the Tung Tau Market was completed during the period under review. It achieved a ROI of 15.9% with an incurred capex of HK\$28m. Facelift at Kai Tin, Butterfly, Kin Sang, Fu Shin, Sau Mau Ping, and Lei Yue Mun are well underway with a total budgeted capex of HK\$378m.

Finance cost surged 67.2% to HK\$1.01bn, mainly due to a higher average debt level and borrowing cost of 3.74% (1HFY23: 2.5%). Following the debt repayment in early FY24, total borrowings lowered to HK\$59.7bn as of Sep-23 (Mar-23: HK\$65.7bn). Net

**Link REIT**

debt further improved to HK\$46.6bn in Sep-23 from Mar-23's HK\$48.4bn. However, due to lower portfolio valuation primarily led by cap rate expansion, net gearing increased slightly to 18.0% in Sep-23 from Mar-23's 17.8%. We believe Link REIT is financially sound for pursuing its diversification strategy. Under the prolonged interest rate hike environment, the bid-ask price between buyers and sellers is starting to narrow, especially in Australia. Link REIT will continue to explore acquisition opportunities prudently, with its primary focus on suburban retail assets in Australia, Singapore, and Hong Kong. Portion of fixed rate debt increased to 69.8% as of Sep-23, from Mar -23's 56.8%.

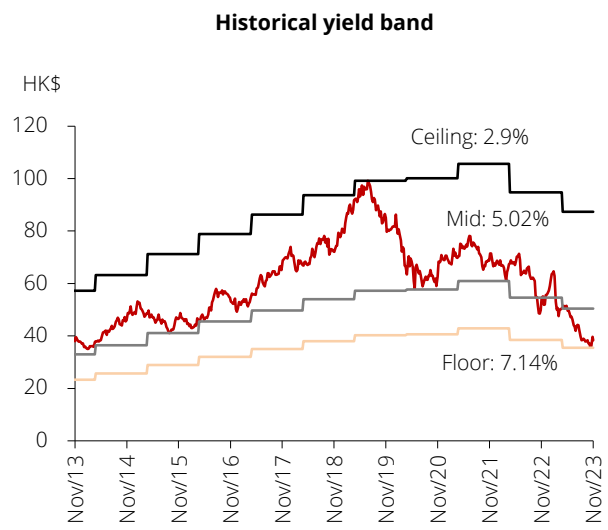
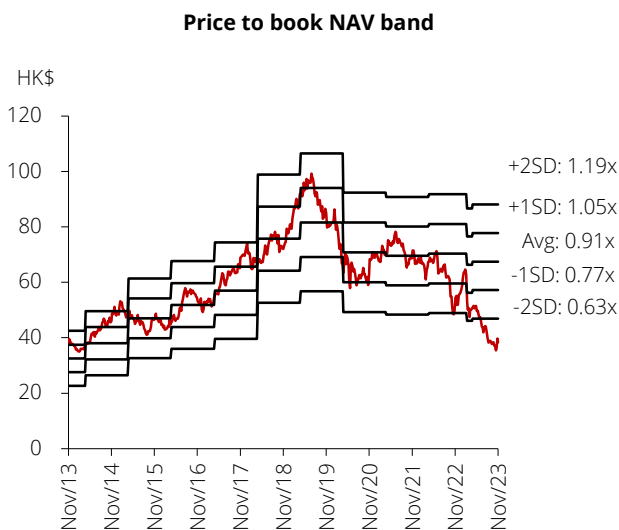
Link REIT offers a distribution yield of 6.6-6.9% for FY24-25. This translates into a yield spread of 2.1-2.4%, slightly above with its 10-year average of 2.0%. Hong Kong retail portfolio should see higher earnings contributions as underpinned by solid reversionary growth. China retail portfolio is bottoming out with negative reversionary growth expected to level off by end of FY24. This, coupled with the contribution from newly renovated Link Plaza Tianhe, should further propel its earnings recovery. Any potential

unit buyback in the near term should enhance its distribution yield and boost sentiment towards the counter. Maintain BUY with a DDM-based TP of HK\$49.80.

**Company Background**

Link REIT is the largest listed REIT in Hong Kong. Its portfolio comprises mainly retail properties located adjacent to public housing estates and has a 60% stake in The Quayside in Kwun Tong. In China, Link REIT holds a portfolio of neighborhood malls in first-tier cities mainly Beijing, Guangzhou, Shanghai and Shenzhen, an office property in Shanghai and logistics assets in GBA and YRD region. Since 2020, Link REIT has been diversifying its portfolio through different regions. The REIT acquired two overseas office assets in 2020, namely 100 Market Street in Sydney and The Cabot in London. In Nov-21, Link REIT acquired 50% interest in three retail properties in Sydney, marking its first venture in the Australian retail market. In Mar-23, Link REIT ventured into the Singapore retail market by acquiring the Mercatus portfolio.

**Price to book NAV band and historical yield band**



Source: Bloomberg Finance L.P. DBS HK

## Link REIT

### Result Summary

FY Mar (HK\$m)	1HFY23	1HFY24	% Chg	Comments
<b>Rentals</b>				
Rental income from HK retail and office properties	3,241	3,332	3	1HFY24: mainly led by a solid reversionary growth of 8.7% from Hong Kong retail portfolio
Rental income from HK carparks and related business	1,177	1,234	5	1HFY24: due to consistent improvements in both monthly and hourly car park income
Rental income from Mainland China retail, office and logistics properties	644	594	(8)	1HFY24: due to Rmb depreciation, negative rental reversion and lower occupancy at retail and office portfolio, partly offset by higher contribution from logistics assets
Rental income from Overseas retail and office properties	195	673	245	1HFY24: mainly due to fresh contributions from Singapore
Other revenue	785	892	14	
<b>Revenues</b>	<b>6,042</b>	<b>6,725</b>	<b>11</b>	
Property operating expenses	(1,455)	(1,662)	14	
<b>Net property income</b>	<b>4,587</b>	<b>5,063</b>	<b>10</b>	1HFY24: NPI margins declined slightly to 75.3% from 1HFY23's
General and administrative expenses	(328)	(383)	17	
Change in fair values of investment properties	10,853	(6,632)	<i>n.a.</i>	1HFY24: mainly due to cap rate expansion and currency fluctuations
<b>Operating profit</b>	<b>15,112</b>	<b>(1,952)</b>	<i>n.a.</i>	
Interest income	37	274	641	1HFY24: mainly due to higher cash balance
Finance cost on interest bearing liabilities	(604)	(1,010)	67	1HFY24: mainly due to new Singapore dollar denominated loan to fund the acquisition of Singapore retail portfolio
Share of net profit of a joint venture	160	(392)	<i>n.a.</i>	
<b>Profit before taxation and transactions with unitholders</b>	<b>14,705</b>	<b>(3,080)</b>	<i>n.a.</i>	
Taxation	(688)	(570)	(17)	
<b>Profit for the year, before transactions with unitholders</b>	<b>14,017</b>	<b>(3,650)</b>	<i>n.a.</i>	
Non-controlling interest	(24)	276	<i>n.a.</i>	
<b>Profit for the year, before transactions with unitholders attributable to Unitholders</b>	<b>13,993</b>	<b>(3,374)</b>	<i>n.a.</i>	
Adjustments:				
Change in fair values of investment properties	(10,879)	6,844	<i>n.a.</i>	
Change in fair values of derivative components of convertible bonds	0	(156)	<i>n.a.</i>	
Deferred taxation on change in fair values of investment properties attributable to unitholders	84	(42)	<i>n.a.</i>	
Change in fair values of financial instruments	(70)	(24)	(66)	
Depreciation and amortization of real estate and related assets	30	28	(7)	
Other non-cash income	119	57	(52)	
<b>Total distributable income</b>	<b>3,277</b>	<b>3,333</b>	<b>2</b>	
Interim DPU (HK\$)	155.51	130.08	(16)	

Source: Link REIT

## Link REIT

### Key Assumptions (%)

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

Source: Company, DBS HK

### Segmental Breakdown (HK\$ m)

FY Mar	2021A	2022A	2023A	2024F	2025F
<b>Revenues (HK\$ m)</b>					
Hong Kong retail and office properties	6,294	6,425	6,555	6,713	6,904
Hong Kong car parks and related business	1,883	2,130	2,395	2,496	2,607
Mainland and overseas properties	1,493	1,745	1,743	2,530	2,620
Other revenue	1,074	1,302	1,541	1,790	1,843
<b>Total</b>	<b>10,744</b>	<b>11,602</b>	<b>12,234</b>	<b>13,529</b>	<b>13,974</b>

Source: Company, DBS HK

### Income Statement (HK\$ m)

FY Mar	2021A	2022A	2023A	2024F	2025F
Gross revenue	10,744	11,602	12,234	13,529	13,974
Property expenses	(2,506)	(2,826)	(3,036)	(3,400)	(3,439)
<b>Net Property Income</b>	<b>8,238</b>	<b>8,776</b>	<b>9,198</b>	<b>10,129</b>	<b>10,535</b>
Other expenses	(428)	(512)	(653)	(771)	(798)
Joint ventures	0	364	85	344	353
Interest (Exp)/Inc	(644)	(907)	(1,648)	(1,836)	(1,822)
Exceptionals	(5,322)	415	9,317	0	0
<b>Pre-Tax Profit</b>	<b>1,844</b>	<b>8,136</b>	<b>16,299</b>	<b>7,866</b>	<b>8,269</b>
Tax	(1,092)	(1,229)	(1,006)	(1,306)	(1,373)
Non-Controlling Interests	433	(13)	158	(80)	(80)
<b>Net Profit</b>	<b>1,185</b>	<b>6,894</b>	<b>15,451</b>	<b>6,481</b>	<b>6,816</b>
<b>Distribution income</b>	<b>6,010</b>	<b>6,419</b>	<b>6,311</b>	<b>6,481</b>	<b>6,816</b>
Revenue Gth (%)	0	8	5	11	3
NPI Gth (%)	0	7	5	10	4
Dist. Inc Growth (%)	1	7	(2)	3	5
DPU Growth (%)	1	5	(10)	(8)	5

Source: Company, DBS HK

## Link REIT

## Balance Sheet (HK\$ m)

FY Mar	2021A	2022A	2023A	2024F	2025F
Fixed Assets	200,375	214,009	238,932	228,809	233,920
Other LT Assets	218	414	809	809	809
Intangibles Assets	392	400	387	387	387
Associates/JVs	0	3,756	6,769	7,113	7,466
Bank Balance/Cash & Liquid	2,530	2,949	17,339	7,661	7,688
ST Investments	2,742	2,082	1,188	1,188	1,188
Inventory	0	0	0	0	0
Debtors	1,195	1,384	2,283	2,298	2,313
Other Non Cash Current	2,433	722	212	212	212
<b>Total Assets</b>	<b>209,885</b>	<b>225,716</b>	<b>267,919</b>	<b>248,477</b>	<b>253,983</b>
ST Debt	3,248	5,735	4,133	8,500	11,300
Creditors	2,504	2,700	3,024	3,044	3,064
Other Current Liab	2,893	2,832	3,313	3,343	3,373
LT Debt	35,388	44,010	60,780	47,413	45,113
Deferred Tax Liabilities	3,029	3,348	3,330	3,330	3,330
Other LT Liabilities	4,130	4,101	4,279	4,279	4,279
Non-Controlling Interests	(27)	302	120	200	280
Unitholders' funds	158,720	162,688	188,940	178,368	183,243
<b>Total Capital</b>	<b>209,885</b>	<b>225,716</b>	<b>267,919</b>	<b>248,477</b>	<b>253,983</b>
Share Capital (m)	2,082	2,110	2,554	2,562	2,562
Gross Debt	(38,636)	(49,745)	(64,913)	(55,913)	(56,413)
Working Capital	255	(4,130)	10,552	(3,528)	(6,336)
Book NAV (HK\$)	76.24	77.10	73.98	69.62	71.53
Gross Gearing (%)	18	22	24	23	22

Source: DBS HK

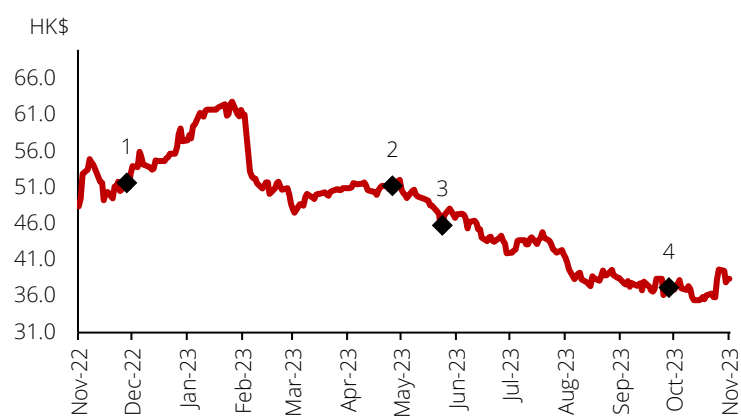
## Cash Flow Statement (HK\$ m)

FY Mar	2021A	2022A	2023A	2024F	2025F
Pre-Tax Income	1,844	8,136	16,299	7,866	8,269
Associates' Profits	0	(364)	(85)	(344)	(353)
Tax Paid	(737)	(1,456)	(901)	(1,306)	(1,373)
Depr/Amort	75	75	62	62	62
Disposal of FAs/Subsidiaries	0	0	0	0	0
Chg in Wkg.Cap.	(70)	(174)	(65)	35	35
Other Non-Cash	5,966	481	(7,669)	1,836	1,822
<b>Operational CF</b>	<b>7,078</b>	<b>6,698</b>	<b>7,641</b>	<b>8,150</b>	<b>8,462</b>
Net Capex	(8,375)	(9,896)	(19,391)	(625)	(625)
Net change in asso/jv	0	(947)	(3,065)	0	0
Net Change in Investments	0	647	881	0	0
Assoc, MI, Invsmt	(2,167)	(386)	(3,059)	525	350
<b>Investment CF</b>	<b>(10,542)</b>	<b>(10,582)</b>	<b>(24,634)</b>	<b>(100)</b>	<b>(275)</b>
Net Chg in Debt	3,169	9,576	16,193	(9,000)	500
New issues/Unit Buyback	(379)	(82)	18,406	0	0
Distribution Paid	(3,966)	(4,405)	(5,050)	(6,367)	(6,488)
Other Financing CF	(884)	(951)	(1,282)	(2,361)	(2,172)
<b>Financing CF</b>	<b>(2,060)</b>	<b>4,138</b>	<b>28,267</b>	<b>(17,728)</b>	<b>(8,160)</b>
Chg in Cash	(5,524)	254	11,274	(9,678)	27

Source: Company, DBS HK

**Link REIT**

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



S.No.	Date	Closing Price	Target Price	Rating
1	6-Dec-22	HK\$52.60	HK\$65.00	BUY
2	4-May-23	HK\$50.75	HK\$59.10	BUY
3	1-Jun-23	HK\$45.50	HK\$57.30	BUY
4	6-Oct-23	HK\$36.65	HK\$50.35	BUY

Source: DBS HK

Analyst: Percy Leung  
 Jeff Yau  
 Cherie Wong

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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**Link REIT**

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**Link REIT**

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