

Hong Kong

Neutral (no change)

Highlighted Companies

CK Asset Holdings Limited
ADD, TP HK\$48.80, HK\$37.30 close

CK Asset Holdings' 1.4% net gearing at end-Jun 2023 should help it replenish its landbank and undertake M&As at a low cost amid the slowdown in the global economy, as well as enable flexible capital management activities, such as share buybacks, in our view.

Link REIT
ADD, TP HK\$51.50, HK\$42.50 close

Link REIT is a direct beneficiary of the declining US 10-year Treasury yield, as well as a mass-market-focused HK retail play in 2024F. Its 6.3% FY3/24F DPU yield is attractive, in our view.

Sun Hung Kai Properties Ltd
ADD, TP HK\$101.1, HK\$79.2 close

Sun Hung Kai Properties (SHKP) is a leader in both development properties (DP) and investment properties (IP) in HK, in our view. It has a contracted sales target of HK\$33bn for HK DP in FY6/24F, supported by its abundant saleable resources.

Summary Valuation Metrics

| P/E (x) | Dec-23F | Dec-24F | Dec-25F |
|-----------------------------|---------|---------|---------|
| CK Asset Holdings Limited | 7.08 | 7.53 | 5.37 |
| Link REIT | 11.49 | 15.83 | 15.11 |
| Sun Hung Kai Properties Ltd | 9.45 | 8.95 | 8.62 |
| P/BV (x) | Dec-23F | Dec-24F | Dec-25F |
| CK Asset Holdings Limited | 0.35 | 0.34 | 0.33 |
| Link REIT | 0.57 | 0.57 | 0.56 |
| Sun Hung Kai Properties Ltd | 0.38 | 0.37 | 0.36 |
| Dividend Yield | Dec-23F | Dec-24F | Dec-25F |
| CK Asset Holdings Limited | 6.11% | 6.11% | 6.38% |
| Link REIT | 6.18% | 6.32% | 6.62% |
| Sun Hung Kai Properties Ltd | 5.80% | 5.58% | 5.80% |

Analyst(s)



Raymond CHENG, CFA
T (852) 2539 1324
E raymond.cheng@cgs-cimb.com

Will CHU, CFA
T (852) 2539 1327
E will.chu@cgs-cimb.com

Steven MAK
T (852) 2539 1328
E steven.mak@cgs-cimb.com

Property - Overall

Direct beneficiary of US rate cuts ahead

- We expect HK property share prices to rebound in 2024F as US cuts the Fed Funds Rate over the next three years.
- We are not as bearish as our analyst peers on HK home prices. We project a 3% decline in prices in 2024F, vs. double-digit decline forecasts by our peers.
- Lower interest rates, narrowing negative carry and demand from mainland Chinese buyers support our constructive view on the HK residential market.
- Reiterate sector Neutral on HK Property; positive on residential segment and negative on office segment. Top picks: SHKP, CK Asset and Link REIT.

US rate cuts could bode well for sector performance

Dragged by higher-than-expected US interest rate hikes in 2023, HK property share prices fell by 26% on average in 2023, underperforming the Hang Seng Index by 12% pts. As the US will likely enter a rate cut cycle over the next three years (US Federal Reserve projects 250bp Fed Funds Rate cuts by Dec 2026), we expect the share prices of HK property stocks to reverse their weak trends. As such, we recommend buying HK developers to capitalise on this potential favourable change in short-term rates.

We are not as bearish as our peers on HK home prices

In contrast to our investment house peers who expect HK home prices to fall in the double digits in 2024F, we remain constructive on HK home prices due to 1) the start of a US rate cut cycle this year which would boost property sales, 2) HKSAR Government's (HKSARG) relaxation of harsh measures (e.g. stamp duties) and promotion of talent schemes, driving additional housing demand, and 3) further increase in residential rents in 2024F (+6% in 10M2023), leading to more home purchases from leasing (narrowing negative carry). We expect home prices in HK to fall by just 3% in 2024F, followed by a 2% gain in 2025F.

Huge residential demand potential from mainland Chinese

We estimate there are more than 300k inbound talents (mostly mainland Chinese) residing in HK, some of whom may be interested in buying flats following the HKSARG's new measures. Assuming that just 10-15% of them buy a flat, this translates to total private home demand of 30k units (Fig 19), or more than two years' primary home sales in HK.

Cautiously optimistic on retail; still challenging for office rental

We are cautiously optimistic on HK retail in 2024F. Although we expect a slow recovery in the economy, a rebound in visitor arrivals in HK could support retail sales (3% growth in 2024F). We, however, maintain our negative view on office rental in 2024F due to increasing supply and high vacancies – we expect Grade A office rents to fall by 5%.

Maintain sector Neutral; top picks: SHKP, CK Asset, Link REIT

We reiterate our Neutral sector rating for HK property but are constructive on the residential segment. We recommend investors stick to defensive developers, such as SHKP and CKA, on the back of their strong balance sheets and ability to tap into HK's land market at low land costs over the next 12 months. For landlords, we prefer Link REIT for the declining 10-year US Treasury yield and conservative consumption by local shoppers. Key sector downside risks: higher-than-expected HIBOR, low property sell-through rates, and unexpected DPS/DPU cuts. Please refer to P.5 for upside and downside risks.

Figure 1: CGS-CIMB's key forecasts for HK property over 2023-25F

| | 2022 | 2023F | 2024F | 2025F |
|---|------------|-------|-------|-------|
| Secondary residential price yoy % | -15% | -6% | -3% | +2% |
| Primary transactions (# of units) yoy % | -47% | +14% | +15% | +5% |
| Secondary transactions (# of units) yoy % | -39% | -5% | +10% | +5% |
| Central office rent | -4% | -5% | -5% | 0% |
| Wan Chai/HK East/TST office rent | (-8)-(-3)% | -5% | -5% | 0% |
| Kowloon East office rent | -3% | -5% | -5% | 0% |
| HK Grade A office vacancy (%) | 12.1% | 13.0% | 14.0% | 14.0% |
| Shopping mall rent yoy % | (-5)-(+3)% | 0-5% | 0-3% | 0-3% |
| HK total retail sales value yoy (%) | +1% | +16% | +3% | +3% |

SOURCES: SOURCES: CGS-CIMB RESEARCH ESTIMATES, CENTALINE PROPERTY, RATING AND VALUATION DEPT (RVD), KNIGHT FRANK (KF), JONES LANG LASALLE (JLL), CENSUS AND STATISTICS DEPT (C&SD)

Table of Contents

| | |
|--|----|
| Sector summary | 4 |
| High interest rates dampened sector share price performance in 2023... > | 4 |
| ...but signs emerging of a bottoming out > | 4 |
| Valuation methodology > | 5 |
| Sector top picks: SHKP, CK Asset, Link REIT > | 5 |
| Key sector risks > | 6 |
| Residential: prices bottoming out with underlying demand from mainland Chinese buyers | 7 |
| Prices to bottom out in 2H24F > | 7 |
| To see stronger rebound in primary transactions than in secondary market > | 9 |
| Supply: to see mild improvement in inventory level in 2024F after developers' destocking > | 10 |
| Demand: new residents an emerging driver for HK property market > | 11 |
| Impact of supportive policies more pronounced in 2H24F > | 12 |
| Affordability improving after price correction > | 13 |
| Large projects from large-sized developers tend to have higher sell-through rates > | 14 |
| Retail: shift in consumption behaviour..... | 15 |
| Shift in local consumption and change in visitors' consumption behaviour led to slower retail sales recovery > | 15 |
| We reduce our 2024F retail sales forecast > | 16 |
| Mass market retail boasts the most positive rental reversion outlook > | 16 |
| Outlook for office space is still challenging..... | 17 |
| Higher vacancies and lower rents unavoidable amid weak demand > | 17 |
| Proceeds from opportunistic disposals drive lower interest expense > | 18 |
| Appendix | 19 |
| (1) Economic and monetary indicators > | 19 |
| (2) Discounts to NAV charts > | 20 |
| Champion REIT..... | 21 |
| CK Asset Holdings Limited..... | 26 |
| Hang Lung Properties Ltd | 31 |
| Henderson Land Development..... | 36 |
| Hongkong Land Holdings Ltd..... | 41 |
| Hysan Development..... | 46 |
| Kerry Properties | 51 |
| Link REIT | 56 |
| Midland Holdings Ltd..... | 60 |
| New World Development..... | 65 |
| Sino Land Co Ltd | 70 |
| Sun Hung Kai Properties Ltd..... | 75 |
| Swire Properties Ltd..... | 80 |
| Wharf Holdings Ltd..... | 85 |
| Wharf REIC..... | 90 |

Figure 2: HK Property valuation summary

| Short Name | Ticker | CP (HK\$) | TP (HK\$) | Rating | Mkt cap (US\$ m) | NAV/sh (HK\$) | Disc. to NAV (%) | Upside (%) | P/E (x) | | | | P/BV (x) | | | Div yield (%) | | | Net Gearing (%) | | |
|-------------------------------------|---------|--------------|--------------|--------|---------------------|------------------|---------------------|---------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|---------------|------------|------------|-----------------|-----------|-----------|
| | | | | | | | | | 2022 | 2023F | 2024F | 2025F | 2022 | 2023F | 2024F | 2022 | 2023F | 2024F | 2022 | 2023F | 2024F |
| CK Asset | 1113 HK | 37.30 | 48.80 | ADD | 16,927 | 97.6 | 62 | 31 | 6.0 | 7.1 | 7.5 | 5.4 | 0.35 | 0.35 | 0.34 | 6.1 | 6.1 | 6.1 | Net cash | Net cash | Net cash |
| HLD | 12 HK | 22.50 | 25.10 | ADD | 13,929 | 45.6 | 51 | 12 | 11.3 | 10.8 | 10.2 | 10.1 | 0.33 | 0.33 | 0.33 | 8.0 | 8.0 | 8.0 | 40 | 40 | 40 |
| Kerry Prop | 683 HK | 13.32 | 15.60 | ADD | 2,472 | 51.9 | 74 | 17 | 4.3 | 6.6 | 6.5 | 5.4 | 0.18 | 0.18 | 0.17 | 10.1 | 10.1 | 10.1 | 34 | 38 | 43 |
| NWD | 17 HK | 10.98 | 13.70 | ADD | 3,533 | 45.7 | 76 | 25 | 5.9 | 15.6 | 13.8 | 8.3 | 0.13 | 0.14 | 0.15 | 18.8 | 6.9 | 21.4 | 48 | 50 | 48 |
| SHKP | 16 HK | 79.20 | 101.10 | ADD | 29,347 | 183.8 | 57 | 28 | 8.0 | 9.6 | 9.3 | 8.7 | 0.38 | 0.38 | 0.37 | 6.3 | 6.3 | 5.4 | 18 | 18 | 16 |
| Sino | 83 HK | 8.19 | 9.50 | ADD | 8,935 | 19.0 | 57 | 16 | 10.7 | 11.5 | 13.4 | 12.4 | 0.40 | 0.41 | 0.44 | 7.0 | 7.1 | 7.1 | Net cash | Net cash | Net cash |
| Wharf Holdings | 4 HK | 22.45 | 21.60 | HOLD | 8,773 | 48.0 | 53 | (4) | 226.4 | 17.9 | 15.7 | 14.2 | 0.45 | 0.46 | 0.44 | 1.8 | 1.8 | 1.9 | 3 | 11 | 10 |
| HLP | 101 HK | 10.32 | 12.60 | ADD | 5,937 | 28.1 | 63 | 22 | 11.1 | 10.7 | 9.8 | 9.3 | 0.35 | 0.34 | 0.34 | 7.6 | 7.6 | 7.6 | 28 | 31 | 32 |
| HKL* | HKL SP | 3.45 | 3.60 | HOLD | 7,615 | 10.2 | 66 | 4 | 9.8 | 11.3 | 11.3 | 10.0 | 0.23 | 0.23 | 0.22 | 6.4 | 6.4 | 6.4 | 17 | 20 | 18 |
| Hysan | 14 HK | 14.54 | 18.60 | ADD | 1,909 | 53.2 | 73 | 28 | 8.9 | 9.2 | 8.3 | 8.1 | 0.19 | 0.18 | 0.18 | 9.9 | 9.9 | 9.9 | 22 | 22 | 22 |
| Swire Prop | 1972 HK | 15.34 | 18.00 | HOLD | 11,475 | 39.9 | 62 | 17 | 10.3 | 7.9 | 11.1 | 10.3 | 0.31 | 0.31 | 0.31 | 6.5 | 6.7 | 6.9 | 6 | 8 | 9 |
| Wharf REIC | 1997 HK | 23.60 | 30.30 | ADD | 9,163 | 60.5 | 61 | 28 | 11.6 | 11.5 | 10.4 | 9.7 | 0.38 | 0.37 | 0.37 | 5.6 | 5.6 | 6.1 | 23 | 19 | 18 |
| Champion REIT | 2778 HK | 2.21 | 2.09 | REDUCE | 1,688 | 5.48 | 60 | (5) | 10.2 | 11.4 | 11.6 | 11.4 | 0.28 | 0.28 | 0.27 | 8.9 | 7.9 | 7.7 | 29 | 28 | 26 |
| Link REIT | 823 HK | 42.50 | 51.50 | ADD | 13,923 | 68.8 | 38 | 21 | 15.8 | 7.0 | 16.4 | 15.8 | 0.55 | 0.57 | 0.57 | 7.2 | 6.5 | 6.1 | 27 | 26 | 26 |
| Midland | 1200 HK | 0.49 | 0.73 | ADD | 45 | NA | NA | 49 | NA | NA | 12.7 | NA | 0.51 | 0.53 | 0.51 | 0.0 | 0.0 | 0.0 | Net cash | Net cash | Net cash |
| Developers | | | | | | | 61 | 18 | 38.9 | 11.3 | 10.9 | 9.2 | 0.32 | 0.32 | 0.32 | 8.3 | 6.6 | 8.6 | 24 | 26 | 26 |
| Landlords & REITs | | | | | | | 60 | 17 | 11.1 | 9.9 | 11.3 | 10.7 | 0.33 | 0.33 | 0.32 | 7.4 | 7.2 | 7.2 | 22 | 22 | 22 |
| Simple average (ex. Midland) | | | | | | | 61 | 17 | 25.0 | 10.6 | 11.1 | 9.9 | 0.32 | 0.32 | 0.32 | 7.9 | 6.9 | 7.9 | 23 | 24 | 24 |

Share price data as of 10 January 2024; * HKL data stated in US\$
SOURCES: CGS-CIMB RESEARCH ESTIMATES, BLOOMBERG, COMPANY REPORTS

Direct beneficiary of US rate cuts ahead

Sector summary

High interest rates dampened sector share price performance in 2023... ➤

HK property stocks fell by an average of 26% (excluding dividends) in 2023, deeper than the 14% decline for the Hang Seng Index (HSI). The sector's 30% average decline since the US Federal Reserve's (US Fed) first policy rate hike in Mar 2022 was also weaker than the HSI's 21% contraction in the same period. We attribute the sector's poor share price performance to 1) "higher for longer" interest rate stance maintained by the US Fed to combat inflation in the US, which pushed up borrowing costs in US\$ and HK\$ for HK developers and landlords alike; 2) slower-than-expected recovery in HK's residential property sales and retail sales amid an environment of rising borrowing costs; and 3) an increase in the 10-year US Treasury yield, the benchmark for valuing sector yield plays (landlords and REITs).

...but signs emerging of a bottoming out ➤

However, we expect the sector to gain traction in 2024F on the back of 1) clear signs that US interest rates are topping out, with the US Federal Reserve Open Market Committee (FOMC) projecting a high probability of a 75bp cut in the US Fed Funds Target Rate in 2024F followed by another 100bp cut in 2025F (Fig 10), likely leading to a decline in borrowing costs (especially floating rate borrowings) for HK developers and landlords in 2024-25F; and 2) a downtrend in the 10-year US Treasury yield, the benchmark rate for valuing yield plays, based on our estimates.

Figure 3: Share price performance of HK property stocks in 2023 and since US's first rate hike in this interest rate cycle (beginning 17 Mar 2022)

| Share price in HK\$ | | | | | End-2023 share price % chg vs | | |
|------------------------------------|------------------|--------------|-----------|-----------|-------------------------------|--------------|-------------|
| Company | Bloomberg Ticker | #17 Mar 2022 | End-2022 | End-2023 | Company | #17 Mar 2022 | End-2022 |
| CK Asset | 1113 HK | 50.55 | 48.05 | 39.20 | CK Asset | -22% | -18% |
| HLD | 12 HK | 33.25 | 27.25 | 24.05 | HLD | -28% | -12% |
| Kerry Prop | 683 HK | 21.95 | 17.00 | 14.28 | Kerry Prop | -35% | -16% |
| NWD | 17 HK | 30.45 | 22.00 | 12.12 | NWD | -60% | -45% |
| SHKP | 16 HK | 93.10 | 106.80 | 84.45 | SHKP | -9% | -21% |
| Sino | 83 HK | 10.08 | 9.76 | 8.49 | Sino | -16% | -13% |
| Wharf Holdings | 4 HK | 25.40 | 22.95 | 25.15 | Wharf Holdings | -1% | 10% |
| HLP | 101 HK | 15.36 | 15.26 | 10.88 | HLP | -29% | -29% |
| HKL* | HKL SP | 4.91 | 4.60 | 3.48 | HKL* | -29% | -24% |
| Hysan | 14 HK | 22.45 | 25.30 | 15.50 | Hysan | -31% | -39% |
| Swire Prop | 1972 HK | 19.92 | 19.84 | 15.80 | Swire Prop | -21% | -20% |
| Wharf REIC | 1997 HK | 37.40 | 45.50 | 26.40 | Wharf REIC | -29% | -42% |
| Champion REIT | 2778 HK | 3.64 | 3.08 | 2.45 | Champion REIT | -33% | -20% |
| Link REIT | 823 HK | 65.55 | 57.30 | 43.85 | Link REIT | -33% | -23% |
| Midland | 1200 HK | 0.89 | 0.79 | 0.49 | Midland | -45% | -38% |
| HS Index | HSI | 21,501.23 | 19,781.41 | 17,047.39 | HS Index | -21% | -14% |
| Overall average[^] | | | | | | -30% | -26% |
| Developers[^] | | | | | | -28% | -21% |
| Landlords | | | | | | -29% | -28% |

*HKL price in US\$, other stocks in HK\$; share price and index performances exclude dividend returns

#17 Mar 2022 is the day the US Fed first hiked the Fed Funds Target Rate in the current interest rate cycle

[^]Excludes Wharf Holdings in overall average and developers calculations as its exceptional share price performance was likely driven by stock-specific factors

SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Valuation methodology >

We value non-REIT plays using the discount-to-NAV approach. In particular:

- we value their development property (DP) businesses using discounted cash flows (DCF), where we discount projected cash flows (i.e. property sales and construction capex) by a weighted average cost of capital (WACC; 8-9% for HK DP projects);
- we value their investment property (IP) projects using the income capitalisation approach, where we discount the projected gross rental incomes (GRI) of the IPs they hold by certain capitalisation rates (4.5-6% for residential, office and retail IPs in HK).

Meanwhile, we value REITs using a 1-year forward target yield approach, where we derive a target spread over a target yield for the 10-year US Treasury (benchmark), taking into account the prevailing 10-year US Treasury yield and the idiosyncratic risk of the REITs.

Sector top picks: SHKP, CK Asset, Link REIT >

Except for Wharf Holdings and Link REIT, we cut our TPs for HK developers and landlords/REITs by 5-30% as we lift our target discounts to NAV due to the weak capital market outlook in 2024F for HK property stocks.

While we reiterate our Neutral call on the HK property sector, we continue to prefer developers to landlords as 1) we believe residential property prices will stabilise in 2H24F as US rate cuts are approaching (Fig 10), shoring up potential homebuyers' confidence that property prices will bottom; 2) the negative cost of carry of owning residential properties should narrow on a further increase in rental yield in 2024F (Fig 9); and 3) the HKSAR Government (HKSARG) has announced several supportive policies for residential property transactions (e.g. lower stamp duties) to boost first-time home purchase and investment demand, which could lead to better sales performance for developers.

Our sector top picks for developers are SHKP and CK Asset. We like SHKP for 1) its ability to achieve high sell-through rates for large-scale residential projects (e.g. Silicon Hill/University Hill, Novo Land and Yoho West), even amid the downcycle of the property market, thanks to its successful pricing strategies; 2) solid recurring income from IPs and hotels located in HK and China as well as from telecommunications operations (73%-owned subsidiary Smartone); and 3) its balance sheet, one of the strongest in the sector, with a below-sector-average net gearing (net-debt-to-total-equity of below 20% in the past 25 years). Meanwhile, we like CK Asset for 1) its aggressive residential property pricing strategies that has allowed it to achieve exceptionally high sell-through rates for mass market projects, maintaining healthy operating cash flow for the firm as a whole; 2) sizeable and diversified recurring income streams from the IP, hotel, utility and infrastructure businesses, which has helped diversify business risks associated with property sales in China and HK; and 3) its low net gearing (see-through gearing 10%), which we believe is an indication of a large war chest for potential M&A and land acquisitions.

We like Link REIT the most among landlords and REITs. We believe Link REIT is a direct beneficiary of potential US rate cuts in 2024F on the back of a decline in the 10-year US Treasury yield (our benchmark for valuing REITs) since Oct 2023. Also, against the backdrop of a slower-than-expected recovery in HK's economy, local shoppers are more conservative when it comes to expenditure and thus landlords that focus on the non-discretionary trade channel, like Link REIT, stand to gain as retail sales pick up in 2024F, in our view.

Figure 4: Summary of NAV, target discount, TP and rating changes

| Short Name | Ticker | NAV/share (HK\$) | | | Target discount (%) | | | Target price (HK\$) | | | CP (HK\$) | Upside (%) | Rating | |
|------------------------------|---------|------------------|-------|-------|---------------------|-----------|----------|---------------------|--------|-------|--------------|---------------|--------|--------|
| | | Old | New | Chg % | Old | New | Chg %/pt | Old | New | Chg % | | | Old | New |
| CK Asset | 1113 HK | 102.9 | 97.6 | -5% | 50 | 50 | 0 | 51.50 | 48.80 | -5% | 37.30 | 31 | ADD | ADD |
| HLD | 12 HK | 48.1 | 45.6 | -5% | 45 | 45 | 0 | 26.50 | 25.10 | -5% | 22.50 | 12 | ADD | ADD |
| Kerry Prop | 683 HK | 59.9 | 51.9 | -13% | 70 | 70 | 0 | 18.00 | 15.60 | -13% | 13.32 | 17 | ADD | ADD |
| NWD | 17 HK | 54.7 | 45.7 | -16% | 60 | 70 | 10 | 19.30 | 13.70 | -29% | 10.98 | 25 | ADD | ADD |
| SHKP | 16 HK | 185.2 | 183.8 | -1% | 40 | 45 | 5 | 111.10 | 101.10 | -9% | 79.20 | 28 | ADD | ADD |
| Sino | 83 HK | 19.5 | 19.0 | -3% | 40 | 50 | 10 | 11.70 | 9.50 | -19% | 8.19 | 16 | ADD | ADD |
| Wharf Holdings | 4 HK | 43.7 | 48.0 | 10% | 55 | 55 | 0 | 19.70 | 21.60 | 10% | 22.45 | (4) | HOLD | HOLD |
| HLP | 101 HK | 28.8 | 28.1 | -2% | 50 | 55 | 5 | 14.40 | 12.60 | -13% | 10.32 | 22 | ADD | ADD |
| HKL* | HKL SP | 10.1 | 10.2 | 1% | 60 | 65 | 5 | 4.00 | 3.60 | -10% | 3.43 | 5 | HOLD | HOLD |
| Hysan | 14 HK | 55.2 | 53.2 | -4% | 60 | 65 | 5 | 22.10 | 18.60 | -16% | 14.54 | 28 | ADD | ADD |
| Swire Prop | 1972 HK | 36.6 | 39.9 | 9% | 45 | 55 | 10 | 20.10 | 18.00 | -10% | 15.34 | 17 | HOLD | HOLD |
| Wharf REIC | 1997 HK | 62.2 | 60.5 | -3% | 30 | 50 | 20 | 43.50 | 30.30 | -30% | 23.60 | 28 | ADD | ADD |
| Champion REIT | 2778 HK | 5.66 | 5.48 | -3% | 57 | 62 | 5 | 2.41 | 2.09 | -13% | 2.21 | (5) | REDUCE | REDUCE |
| Link REIT | 823 HK | 68.6 | 68.8 | 0% | 37 | 25 | (12) | 43.10 | 51.50 | 19% | 42.50 | 21 | ADD | ADD |
| Midland | 1200 HK | NA | NA | NA | NA | NA | NA | 0.96 | 0.73 | -24% | 0.49 | 49 | ADD | ADD |
| Developers | | | | | 51 | 55 | | | | | | 18 | | |
| Landlords & REITs | | | | | 48 | 54 | | | | | | 17 | | |
| Simple average | | | | | 50 | 54 | | | | | | 17 | | |

Share price data as of 10 January 2024; * HKL data stated in US\$
SOURCES: CGS-CIMB RESEARCH ESTIMATES, BLOOMBERG, COMPANY REPORTS

Key sector risks ►

Key sector upside risks are:

- Further lowering of transaction costs levied on residential properties (e.g. relaxation of stamp duties), which could lead to higher primary property transactions for developers.
- Higher-than-expected visitor arrivals in HK, which could propel retail sales and retail rents.
- Successful disposal of non-core assets, which could help improve company cash flow and lower net gearing.

Key sector downside risks are:

- Further increase in interest rates in the US or HK, which could lead to higher-than-expected interest expenses for highly geared developers and higher cap rates for IP held by these stocks.
- Prolonged low economic growth in HK and China.
- Impairment provisions for property projects.
- Unexpected DPS or DPU cuts (implying declines in payout ratios).

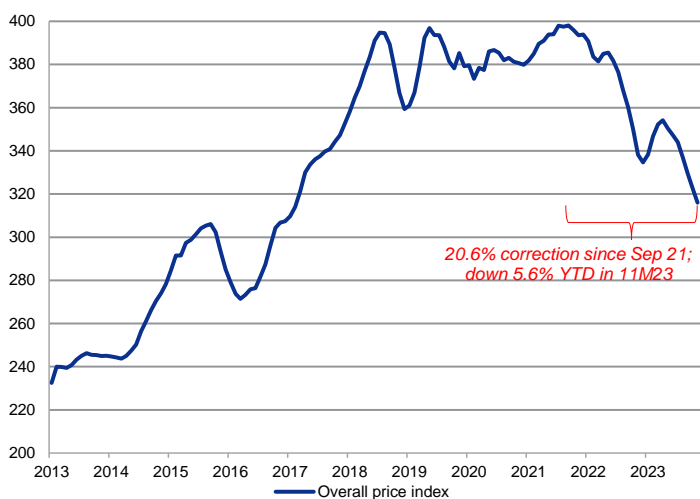
Residential: prices bottoming out with underlying demand from mainland Chinese buyers

Prices to bottom out in 2H24F ➤

HK's private home prices were down 5.6% in 11M23 and 20.6% from the all-time high attained in Sep 2021, according to the HKSARG's Rating and Valuation Department (RVD). The rebound in private home prices, fuelled by the reopening of HK's borders in 1Q23, was short-lived against a "higher for longer" interest rate environment; new mortgage rates offered by banks in HK increased from 3.5% as at end-2022 to 4.125% as at end-Nov 2023, especially after major banks in HK (e.g. HSBC, Standard Chartered Bank (HK) and Bank of China (HK)) raised mortgage rate caps by 50bp in Sep 2023.

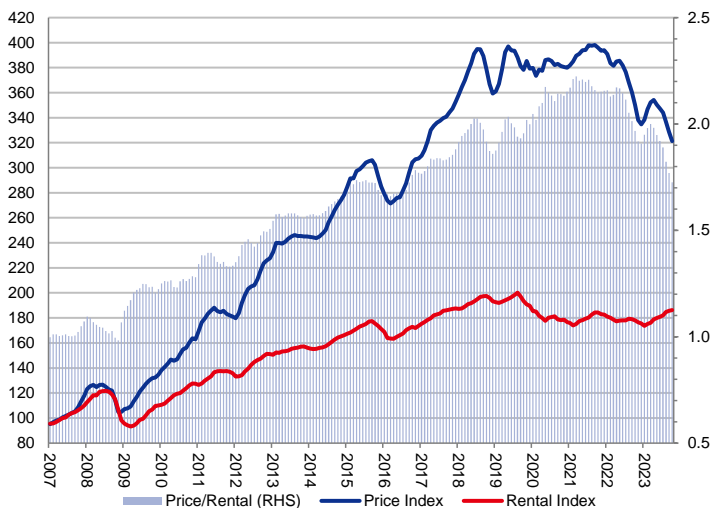
We believe private home prices slid 6% in 2023F while 2024F will likely produce a softer 3% decline (normal case scenario, Fig 7), with reference to RVD's home price index. Nevertheless, we expect home prices to bottom out in 2H24F. We are of the view that mortgage rates could top out in 1H2024F, followed by a ~50bp cut in the prevailing HK\$ Prime Rate-based mortgage rates (i.e. from 4.125% currently to 3.625%) on the heels of a 75bp cut by the US Fed to the Fed Funds Target Rate in 2024F, as projected by the FOMC on 13 Dec 2023. Hence, we expect the cost of carry (gross rental yield less effective mortgage rate) of mass market residential properties to improve markedly from -1.2% at end-Oct 2023 to -0.2% in 4Q24F on the back of our forecast that rental yield will rise from 2.9% in Oct 2023 to 3.4% in 4Q24F given the further hike in private home rents (up 6.4% in 11M23) and a softer decline in private home price in 2024F compared to 2023F. We see private home prices gaining 2% in 2025F (normal case scenario, Fig 7) on the back of a 100bp cut in the US Fed Funds Rate in the same year, as projected by the FOMC on 13 Dec 2023.

Figure 5: Secondary private home price index since 2013 (RVD)



SOURCES: CGS-CIMB RESEARCH, RATING AND VALUATION DEPT (RVD)

Figure 6: HK's private residential home prices and rents have shown a rare case of divergence since 2023



Price Index and Rental Index from RVD; Index base year: 1999; base = 100
SOURCES: CGS-CIMB RESEARCH, RATING AND VALUATION DEPT (RVD)

Figure 7: Our HK private home price forecast for 2023F-2025F

| | Normal Case | Bull Case | Bear Case |
|-------|-------------|-----------|-----------|
| 2023F | -6% | -6% | -6% |
| 2024F | -3% | 2% | -9% |
| 2025F | 2% | 5% | 0% |

Private home price benchmark is based on RVD private residential index
SOURCES: CGS-CIMB RESEARCH ESTIMATES, RVD

Figure 8: Cost of carry (gross rental yield less effective mortgage rate) since 1997

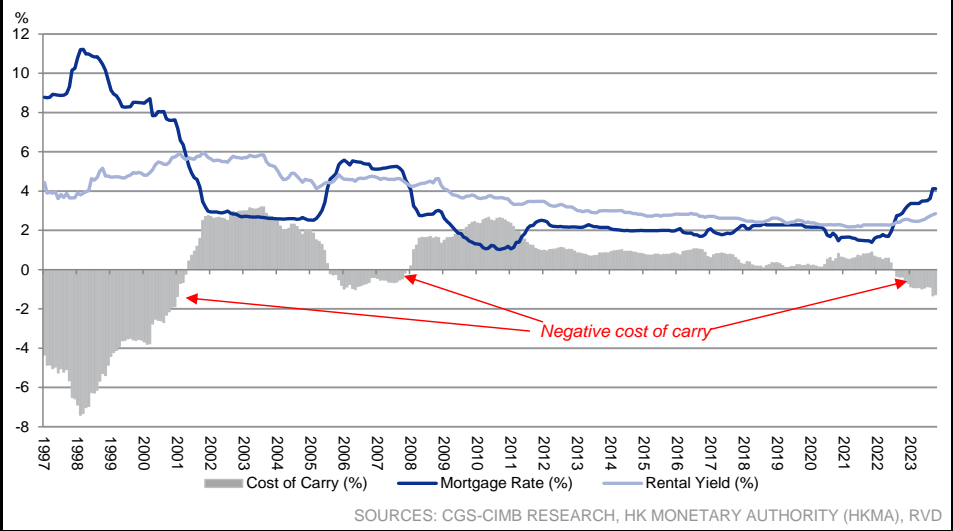


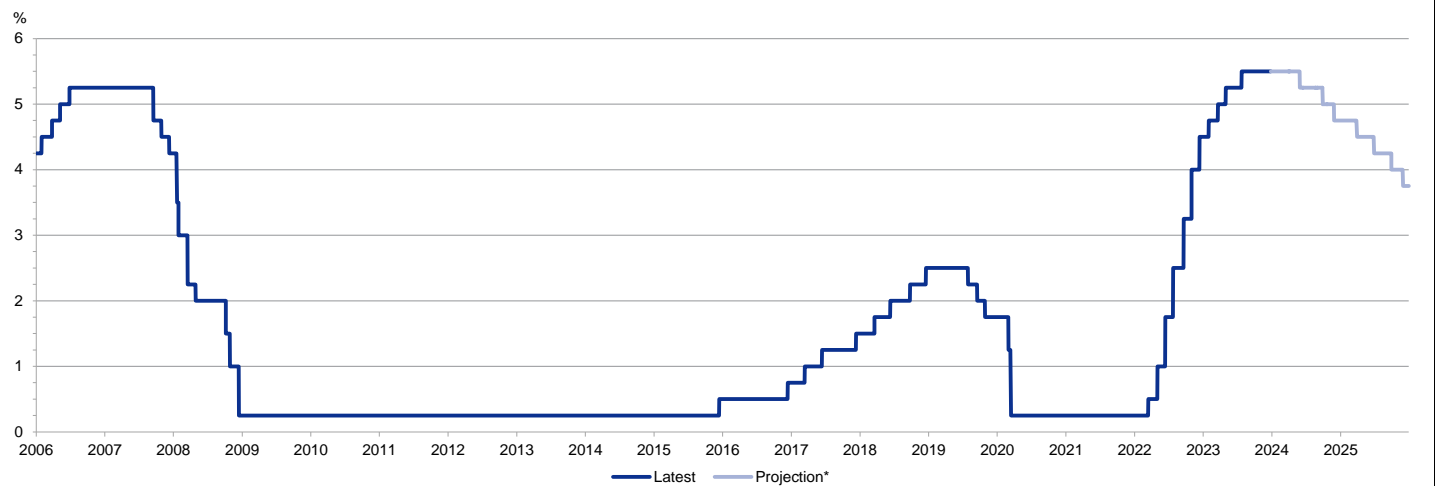
Figure 9: Cost of carry projection for private homes, from Oct 2023 to end-2024F

| | Rent | Value | Gross rental yield (%) | Mortgage rate (%) | Cost of carry (%) |
|-------|------|-------|------------------------|-------------------|-------------------|
| Old* | 2.92 | 100 | 2.9% | 4.125% | -1.21% |
| % Chg | 8% | -8% | 0.5% | -0.500% | 0.99% |
| New | 3.14 | 92 | 3.4% | 3.625% | -0.21% |

*We estimate average rental yield in HK in Oct 2023 to be 2.92%, based on RVD figures for different sizes of private homes
We assume 75bp cuts in US Fed Funds Rate and 50bp cut in effective mortgage rates in HK in 2024F

SOURCES: CGS-CIMB RESEARCH ESTIMATES, RVD, US FOMC PROJECTION

Figure 10: US Fed Funds Target Rate (upper bound), with FOMC projections up to end-2025F

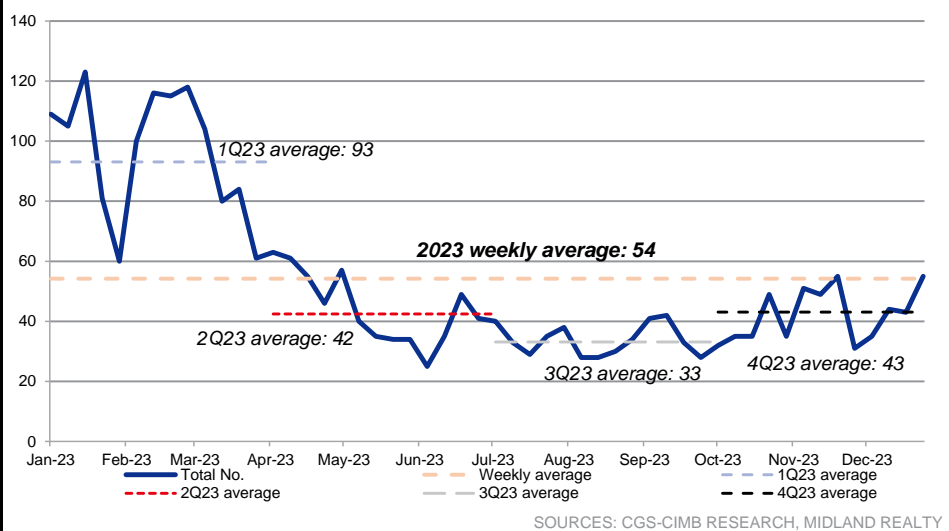


To see stronger rebound in primary transactions than in secondary market ➤

Transactions in the secondary market have turned sour since Apr 2023, with declines in weekly secondary transactions at 35 major private housing estates, as tracked by Midland Realty, in 2Q-4Q23 compared to 1Q23 (Fig 11). The weekly average of secondary transactions in 35 major private housing estates tracked by Midland was 54; however, each of the 2Q-4Q23 weekly averages were below the 1Q23 weekly average (93).

We expect monthly private residential transactions (primary plus secondary) to rise to 3,700 in 2024F (2024F total: 44,470) vs. 2,800 monthly average of transactions for the six months before the Policy Address 2023 (i.e. May-Oct 2023). As we believe the HIBOR will likely decline in 2H24F given that the US Fed is expected to cut Fed Funds rates in 2024F, we expect residential property transactions to expand more significantly in 2H24F. In particular, we expect growth in property transactions in 2024F to be driven by an increase in transactions in the primary market, with developers likely to set attractive ASPs (i.e. pricing new flats on par with or at a discount to prevailing secondary ASPs) in a bid to attract potential homebuyers and lower their inventory levels (including both completed flats and flats pending completion but available for pre-sale).

Figure 11: Weekly secondary transactions at 35 major private housing estates in 2023



SOURCES: CGS-CIMB RESEARCH, MIDLAND REALTY

Figure 12: Annual primary transactions, 2009-2025F

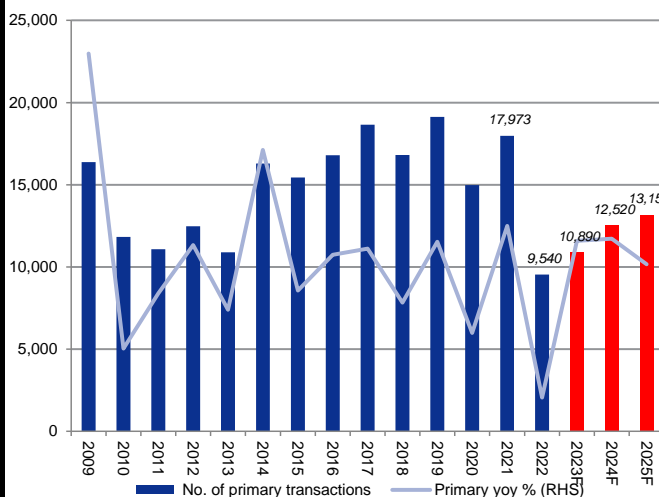
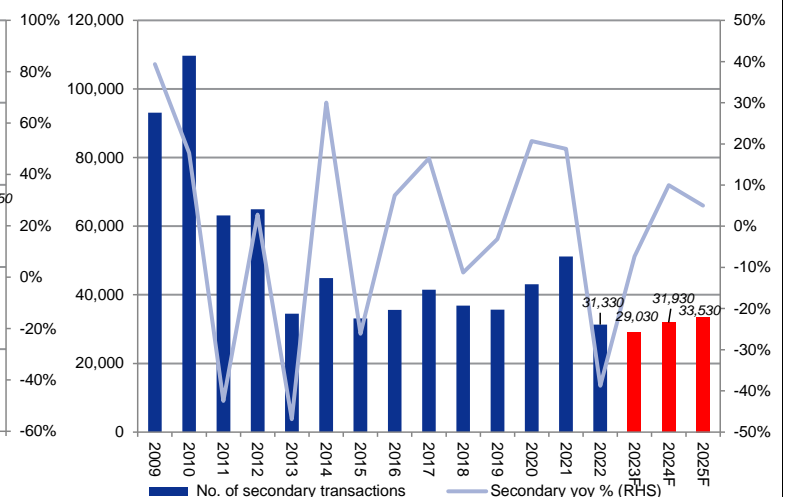


Figure 13: Annual secondary transactions, 2009-2025F



SOURCES: CGS-CIMB RESEARCH ESTIMATES, LAND REGISTRY, CENTALINE PROPERTY

SOURCES: CGS-CIMB RESEARCH ESTIMATES, LAND REGISTRY, CENTALINE PROPERTY

Figure 14: Our forecast revisions for HK private residential transactions in 2023-25F

| | 2023F | | | 2024F | | | 2025F |
|-------------------------------|--------|--------|------|--------|--------|------|--------|
| | Old | New | Chg | Old | New | Chg | New |
| No. of primary transactions | 12,730 | 10,900 | -14% | 13,490 | 12,540 | -7% | 13,170 |
| No. of secondary transactions | 34,210 | 29,030 | -15% | 35,920 | 31,930 | -11% | 33,530 |
| Total No. of transactions | 46,940 | 39,930 | -15% | 49,410 | 44,470 | -10% | 46,700 |

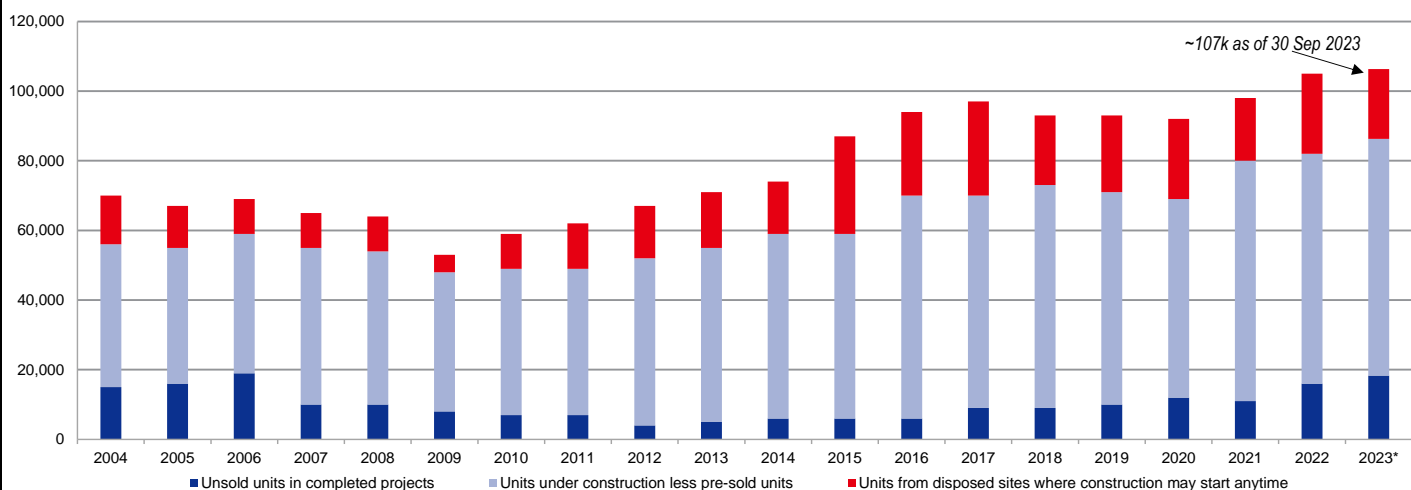
SOURCES: CGS-CIMB RESEARCH ESTIMATES, LAND REGISTRY, CENTALINE PROPERTY

Supply: to see mild improvement in inventory level in 2024F after developers' destocking ➤

The number of private housing units available in the primary market in the next three to four years will amount to 107k, according to the Housing Bureau's projection as of 30 Sep 2023. The sustained increase in potential private housing supply since 2020 was primarily due to inventories (unsold units) of completed residential projects, which amounted to 18.3k as of 30 Sep 2023, as developers were unable to hold large-scale pre-sales activities for their projects during the Covid-19 pandemic.

We believe HK developers, in particular, those with high levels of gearing, will focus on destocking in the near term and thus remain very selective and cautious about open market land acquisitions in 2024F. We estimate new private housing supply in the HKSARG's fiscal year 2023/24F to come to only c.6k, below its estimate of 20.55k published in early-2023 and c.7k below its long-term annual private housing supply target of 13.2k, as stipulated in the Housing Bureau's latest Long Term Housing Strategy (LTHS) progress report dated Oct 2023 (Fig 16). Meanwhile, as we expect a stronger yoy rebound in primary transactions than in secondary transactions in 2024F, as discussed above, the inventory issue in the primary market is likely to improve briefly in 2024F, with the number of private housing units available for sale in the next 3-4 years falling to c.100k at end-2024F (Fig 15), according to the Housing Bureau.

Figure 15: Year-end private housing units available for sale in the next 3-4 years, projected by the Housing Bureau



*AS OF 30 SEPTEMBER. SOURCES: CGS-CIMB RESEARCH, HOUSING BUREAU

Figure 16: HKSARG's estimates for new supply of private housing (no. of units)

| Fiscal year | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24F (govt est.) | 2023/24F (our est.) |
|---|---------------|---------------|----------------|----------------|---------------|---------------|---------------|-------------------------|------------------------|
| Government land sale | 14,510 | 5,840 | 6,460 | 6,280 | 4,400 | 3,410 | 5,180 | 9,120 | 1,900 |
| Railway property development | 1,800 | 2,600 | 4,550 | 2,800 | 4,350 | 550 | 1,600 | 4,530 | 0 |
| Projects of the Urban Renewal Authority (URA) | 310 | 280 | 680 | 180 | 0 | 3,170 | 910 | 2,200 | 1,100 |
| Land conversion | 1,000 | 15,240 | 1,030 | 1,260 | 2,970 | 11,820 | 4,520 | 2,600 | 1,900 |
| Redevelopment | 2,520 | 1,540 | 1,820 | 1,670 | 1,300 | 1,650 | 3,840 | 2,100 | 1,050 |
| Actual supply | 20,140 | 25,500 | 14,540 | 12,190 | 13,020 | 20,600 | 16,050 | 20,550 | 5,950 |
| Private supply target | 18,000 | 18,000 | 18,000 | 13,500 | 12,900 | 12,900 | 12,900 | 13,200 | 13,200 |
| Surplus/(shortfall) | 2,140 | 7,500 | (3,460) | (1,310) | 120 | 7,700 | 3,150 | 7,350 | (7,250) |

SOURCES: CGS-CIMB RESEARCH ESTIMATES, LANDS DEPARTMENT

Demand: new residents an emerging driver for HK property market ➤

HK's population as of end-Jun 2023 rose from the end-2021 low by almost 100k, based on statistics from the Immigration Department (IMMD) of the HKSARG, thanks to HKSARG's partial relaxation of Covid-19-related quarantine measures in 2H22, triggering an inflow of new talent with employment visas. The Labour and Welfare Bureau (LWB) also mentioned in Dec 2023 that over 81k individuals with employment visas arrived in HK in 11M2023, far above HKSARG's annual target of 35k.

We estimate the total number of visas approved by HKSARG in 2023F was as high as 128k, almost double the average annual figure for 2017-2019. We believe the Top Talent Pass Scheme (TTPS) launched in late-2022 will be a major contributor to the jump in the total number of visas having been approved by HKSARG compared to the pre-Covid-19 years. We also expect the HKSARG to approve not less than 100k visas for various talent admission schemes in 2024F so as to replenish the talent gaps across different sectors in HK.

Assuming the number of employment visas approved by HKSARG totalled 523k for 2018-2025F, we project private housing purchase demand of 30.5k over 2024-2028F from visa holders who intend to become HK permanent residents (HKPR); HKPRs are eligible for much lower stamp duties for residential property transactions compared to non-HKPRs, and we estimate this segment of buyers to account for 27% of the annual average primary transactions achieved in the 2010-2019 period (Fig 19).

Figure 17: Year-end total population of HK

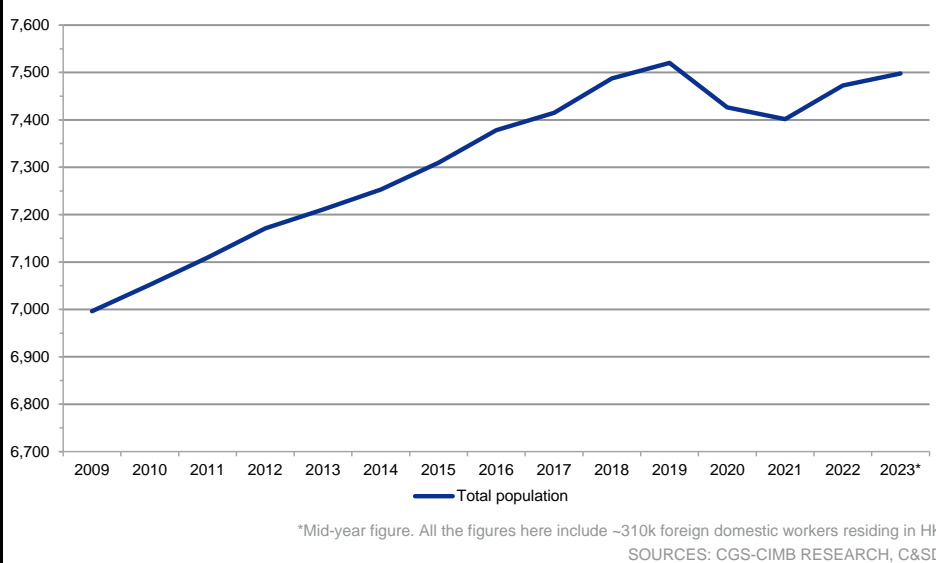


Figure 18: Visas granted by HKSARG to foreigners to work in HK in 2017-2023F

| Scheme Name (English) | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 6M23 | 2023F | Total |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|----------------|
| General Employment Policy (GEP) | 39,952 | 41,592 | 41,289 | 14,617 | 13,821 | 13,495 | 11,432 | 28,600 | 193,366 |
| Admission Scheme for Mainland Talents and Professionals (ASMTTP) | 12,381 | 13,768 | 14,053 | 6,995 | 9,065 | 11,768 | 7,801 | 15,600 | 83,630 |
| Quality Migrant Admission Scheme (QMAS) | 411 | 555 | 874 | 1,709 | 2,004 | 2,845 | 7,022 | 14,000 | 22,398 |
| Immigration Arrangements for Non-local Graduates (IANG) | 9,331 | 10,150 | 10,799 | 7,154 | 7,259 | 10,391 | 8,317 | 16,600 | 71,684 |
| Technology Talent Admission Scheme (TechTAS) | | 24 | 75 | 116 | 60 | 60 | 64 | 100 | 435 |
| Admission Scheme for the Second Generation of Chinese Hong Kong Permanent Residents | 80 | 71 | 55 | 37 | 39 | 56 | 44 | 100 | 438 |
| Top Talent Pass Scheme (TTPS) | | | | | | | 26,000 | 53,000 | 53,000 |
| Total | 62,155 | 66,160 | 67,145 | 30,628 | 32,248 | 38,615 | 60,680 | 128,000 | 424,951 |

2023F figures are based on CGS-CIMB's projections
SOURCES: CGS-CIMB RESEARCH ESTIMATES, IMMIGRATION DEPT (IMMD), LABOUR BUREAU, MINGPAO NEWS, HK ECONOMIC JOURNAL (HKEJ)

Figure 19: Potential annual private housing demand from talent who intend to become HK permanent residents (HKPR)

| | |
|---|---------------|
| Talent (visa) inflow in 2018-2025F | 305,250 |
| % of visa holders intending to become HKPR | 20% |
| % of these intended to buy first homes in HK | 50% |
| No. of years that their purchase will be spread over | 4 |
| Private housing purchase demand from new HKPR in 2024-2028 (units) | 30,525 |
| % of buyers opting for primary market purchase | 67% |
| Annual primary home purchase demand from new HKPR | 4,070 |
| As a % of annual primary transactions^A | 27% |

^AAverage annual primary transactions in 2010-2019 was 14,900
SOURCES: CGS-CIMB RESEARCH ESTIMATES, C&SD, IMDD

Impact of supportive policies more pronounced in 2H24F ►

Since late-2019, the HKSARG and the Hong Kong Monetary Authority (HKMA) have launched several rounds of relaxation measures, such as stamp duty cuts or waivers and increases in LTV ratios for residential property financing by banks, in order to remove the obstacles to buying flats for HK residents (Fig 20). In the most recent instance, we saw more aggressive steps taken by the HKSARG, with long-awaited stamp duty cuts or waivers (including for buyer stamp duty (BSD)], special stamp duty (SSD) and ad valorem stamp duty (AVD) for purchases by non-HKPRs or non-first-time buyers) announced in the Policy Address 2023. The impact of the new measures has so far been limited due to the prevalent high mortgage financing costs -- 132 applications for waiver of extra stamp duty from inbound talents were received by the HKSARG in the first month after the announcement of the new measures, according to Secretary for Housing Winnie Ho's response to a Legislative Council enquiry on 27 Nov 2023. Nevertheless, as the chances of mortgage rate cuts are higher in 2H24F than in 1H24F, we expect the positive impact of stamp duty cuts or waivers on private property transactions in HK to be more significant in 2H24F.

Figure 20: Major property sales-related policies announced since 2019

| Date | Property measures |
|-----------|--|
| 25-Oct-23 | Revised stamp duty measures to invigorate property transactions in HK Buyer stamp duty (BSD) rate for non-HKPR buyers and second-home purchases reduced from 15% to 7.5%. Special Stamp Duty (SSD) for holding periods between two and three years upon disposal waived. Extra ad valorem stamp duty (AVD) and BSD for non-HKPR visa holders who are first-time homebuyers waived at the time of purchase, so that they follow the AVD rates for HKPR first-time homebuyers (i.e. rates are capped at 4.25% of residential property value). The waiver of the two stamp duties is subject to their obtaining permanent residency (PR) status in HK. |
| 6-Jul-23 | HKMA relaxes bank mortgage financing policies and loan-to-value (LTV) cap for MIP loans for higher priced flats (i) For residential mortgage loans (RML) granted by banks in HK without a mortgage insurance plan (MIP) from HK Mortgage Corporation (HKMC) – the LTV ratios have been raised to 70% for flats valued up to HK\$15m and to 60% for flats valued up to HK\$30m. (ii) For RMLs granted by banks in HK with a MIP – the LTV ratios have been raised to 80% for flats valued up to HK\$15m (loan amount up to HK\$12m), to 70-80% for flats valued up to HK\$17.15m (loan amount up to HK\$12m), and to 70% for flats valued up to HK\$30m (loan amount up to HK\$21m). (iii) HKMC will provide first-time homebuyers with a special premium concession for flats valued up to HK\$15m, by waiving the premium on the insurance coverage for the RML portion not more than 5% above the maximum LTV ratio for banks (i.e. zero premium for RML with 70-75% LTV ratio). (iv) LTV ratios for non-residential properties raised from 50% to 60%. |
| 22-Feb-23 | Reduction of ad valorem Stamp Duty (AVD) for first-time HKPR buyers First-time homebuyers of private residential properties priced HK\$2m-10.08m are eligible for HK\$5k-67.5k lower AVD. |
| 19-Oct-22 | Partial refund of stamp duties for non-HKPR homebuyers Non-HKPR homebuyers holding employment visas can have their BSD fully refunded and AVD partially refunded (i.e. tax rate down from 15% to max. 4.25%) after they obtain HKPR status. This is applicable to their first home purchase (S&P agreement signed on or after 19 Oct 2022). |
| 23-Sep-22 | Relaxation of stress test requirement by HKMA The interest rate stress testing requirement is lowered from 300bp to 200bp with immediate effect, and applicable to mortgage loans for all types of properties. |
| 23-Feb-22 | HKMC raises the MIP loan cap to HK\$9.6m and the cap for property value to HK\$19.2m Max LTV ratio after the revision as follows: 50-80% (loan capped at HK\$9.6m) for property valued >HK\$12m and <=HK\$19.2m (not required to be first-time homebuyer) 80% for property valued >HK\$11.25m and <=HK\$12m (not required to be first-time homebuyer) 80-90% (loan capped at HK\$9m) for property valued >HK\$10m and <HK\$11.25m (first-time homebuyer only) 90% for property valued between HK\$4m and HK\$10m (first-time homebuyer only) MIP coverage (completed flats only) remains unchanged. |
| 16-Oct-19 | HKMC raises the MIP loan cap to HK\$7.2m and the cap for property value to HK\$10m Max LTV ratio after the revision as follows: 80% for property valued >HK\$6m and <=HK\$10m (not required to be first-time homebuyer) 80-90% (loan capped at HK\$7.2m) for property valued >HK\$8m and <HK\$9m (first-time homebuyer only) 90% for property valued between HK\$4m and HK\$8m (first-time homebuyer only) MIP is also revised to cover completed flats only. |

SOURCES: CGS-CIMB RESEARCH, INLAND REVENUE DEPT (IRD), HKMA, HKMC, MINGPAO NEWS, HK ECONOMIC JOURNAL (HKEJ)

Affordability improving after price correction >

After a 20% home price decline and a marginal increase in average household income, according to data from the HKSARG's Census & Statistics Department (C&SD) in the past two years, we estimate the price-to-income ratio (the ratio of private home price to median private housing household income) declined from 20.2x in mid-2021 to 15.8x at end-Sep 2023, the lowest since 1H2016. Meanwhile, according to the C&SD, the affordability ratio (monthly mortgage repayment amount dividend by median private housing household monthly income) as of end-Sep 2023 stood at 50%, only slightly above the long-run average of 46% and much lower than the peak of 85% attained in 1997, an indication that the monthly mortgage repayment for private housing is now considered affordable for an average household in HK after the price correction in the past two years. As a result, we see very low chances of a drastic decline in home price from the current level triggered by large-scale defaults on mortgage loans followed by foreclosure and discounted sale of flats by banks.

Figure 21: Ratio of private home price to incomes since 1991

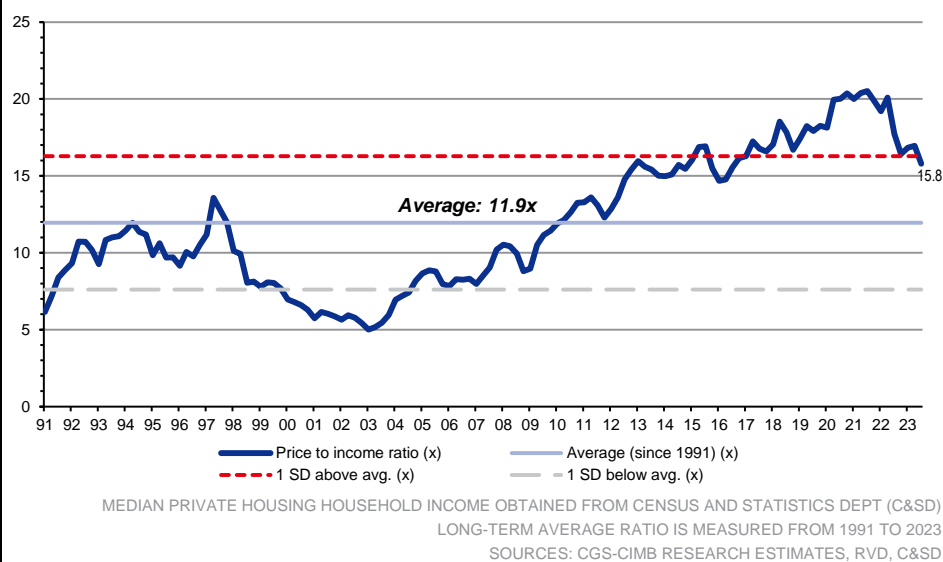
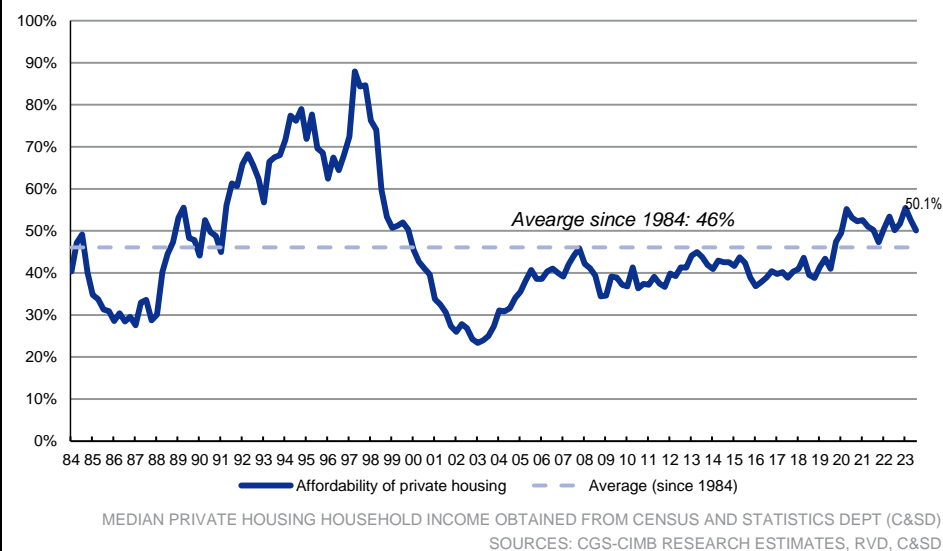


Figure 22: Affordability ratio (monthly mortgage repayment to median private housing household monthly income) since 1984



Large projects from large-sized developers tend to have higher sell-through rates ➤

The sell-through rates of primary projects first launched in or after Jun 2023 have varied. Large projects (offering more than 600 flats in a single project), except for KT Marina 1 and La Montagne, recorded sell-through rates higher than 80%. Specifically, SHKP's Yoho West and CK Asset's The Coast Line were successful in capturing home purchasing demand, with exceptionally high sell-through rates of 86% and 98% respectively. In contrast, projects developed by mid- to small-sized developers generally had poor sell-through rates of 17-63%. We argue that large-sized developers have generally stronger balance sheets and higher credit ratings, thus enjoying lower bank borrowing rates. As a result, they are able to offer more attractive discounts on primary projects to lure potential property buyers.

Figure 23: Primary sales performance of residential projects launched before Policy Address 2023

| Project Name | District | Developer | Total No. of Flats of Project | No. of Flats Launched | No. of Flats Sold | Sell-through Rate (%)* | First Launch in |
|------------------------|----------------|-----------------------------|-------------------------------|-----------------------|-------------------|------------------------|-----------------|
| Novo Land Phase 2A | Tuen Mun | SHKP | 929 | 597 | 493 | 83% | Jun-23 |
| The Grands | To Kwa Wan | Grand Ming | 76 | 60 | 44 | 73% | Jun-23 |
| Henley Park | Kai Tak | HLD | 740 | 341 | 273 | 80% | Jul-23 |
| High Park I | Hung Shui Kiu | Asia Standard | 623 | 200 | 72 | 36% | Jul-23 |
| La Montagne | Wong Chuk Hang | Sino, Kerry, Swire, MTRC | 800 | 110 | 51 | 46% | Jul-23 |
| Baker Circle Greenwich | Hung Hom | HLD | 278 | 181 | 111 | 61% | Aug-23 |
| The Coast Line | Yau Tong | CKA | 886 | 886 | 865 | 98% | Aug-23 |
| Villa Garda III | Tsuen Kwan O | Sino, K. Wah, CM Land, MTRC | 644 | 303 | 147 | 49% | Aug-23 |
| Sutton | Kowloon City | K&K Properties | 92 | 41 | 26 | 63% | Sep-23 |
| MORI | Tuen Mun | Road King, SZ Investment | 693 | 210 | 40 | 19% | Sep-23 |
| Victoria Coast | Pok Fu Lam | Chinachem | 118 | 14 | 5 | 36% | Sep-23 |
| Total | | | 5,879 | 2,943 | 2,127 | 72% | |

SALES PERFORMANCE AS OF 24 NOV 2023
SOURCES: CGS-CIMB RESEARCH, MIDLNAD REALTY, CENTALINE, RICACORP, MINGPAO NEWS

Figure 24: Primary sales performance of residential projects launched after Policy Address 2023

| Project Name | District | Developer | Total No. of Flats of Project | No. of Flats Launched | No. of Flats Sold | Sell-through Rate (%)* | First Launch in |
|-----------------|----------------|------------------------|-------------------------------|-----------------------|-------------------|------------------------|-----------------|
| Southsky | Aberdeen | Emperor | 110 | 91 | 43 | 47% | Oct-23 |
| KT Marina 1 | Kai Tak | COLI, K. Wah, Wheelock | 1,017 | 326 | 57 | 17% | Nov-23 |
| Garden Crescent | Ho Man Tin | Easyknit | 56 | 30 | 7 | 23% | Nov-23 |
| The Paddington | Cheung Sha Wan | HLD | 492 | 68 | 12 | 18% | Nov-23 |
| Yoho West | Tin Shui Wai | SHKP, MTRC | 1,393 | 1,231 | 1,058 | 86% | Nov-23 |
| Total | | | 3,068 | 1,746 | 1,177 | 67% | |

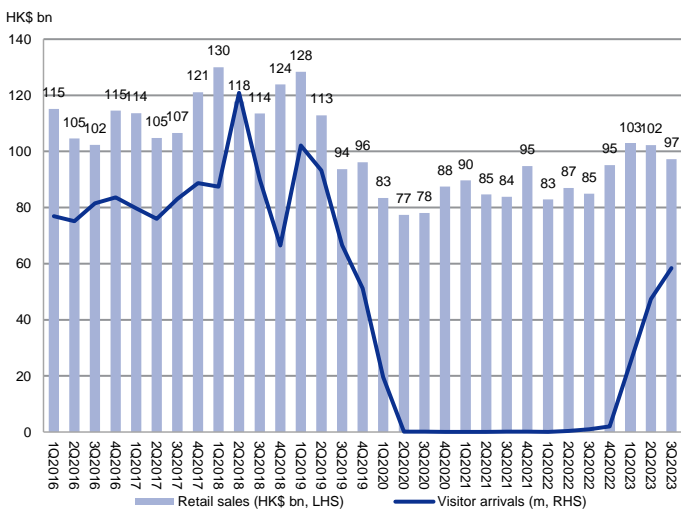
SALES PERFORMANCE AS OF 22 DEC 2023
SOURCES: CGS-CIMB RESEARCH, MIDLNAD REALTY, CENTALINE, RICACORP, MINGPAO NEWS

Retail: shift in consumption behaviour

Shift in local consumption and change in visitors' consumption behaviour led to slower retail sales recovery ►

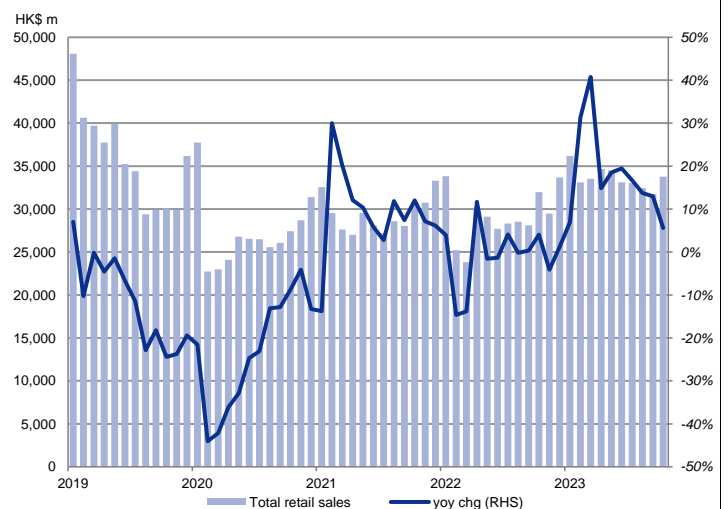
HK's retail sales rose 17.2% yoy in 10M23 but that in Oct 2023 alone rose by only 5.6% yoy (Fig 26) versus market expectations of over 10% yoy. In our view, the weak yoy recovery in retail sales was due to 1) the shift in a portion of local consumption to overseas and nearby cities in the Greater Bay Area (GBA) in China compared to 2022, when the city was still under partial lockdown; and 2) lower-than-expected tourist expenditure per capita compared to pre-Covid-19 years, as short-haul travellers from nearby cities in the GBA, who are currently the dominant component of inbound visitors to HK, tend to spend less than long-haul travellers. We estimate that, in 3Q23, tourists' per capita expenditure in HK was HK\$1,157, 28% lower than the average of HK\$1,600 in the third quarter of each year of 2014-18 (Fig 27). On the other hand, visitor arrival figures are on the way to recovery to pre-Covid-19 levels; the monthly average visitor arrivals (staying overnight in HK) in May-Oct 2023 stood at 2.4m or 69% of the monthly average in 2017-18.

Figure 25: Quarterly visitor arrivals to HK and quarterly retail sales since 2016



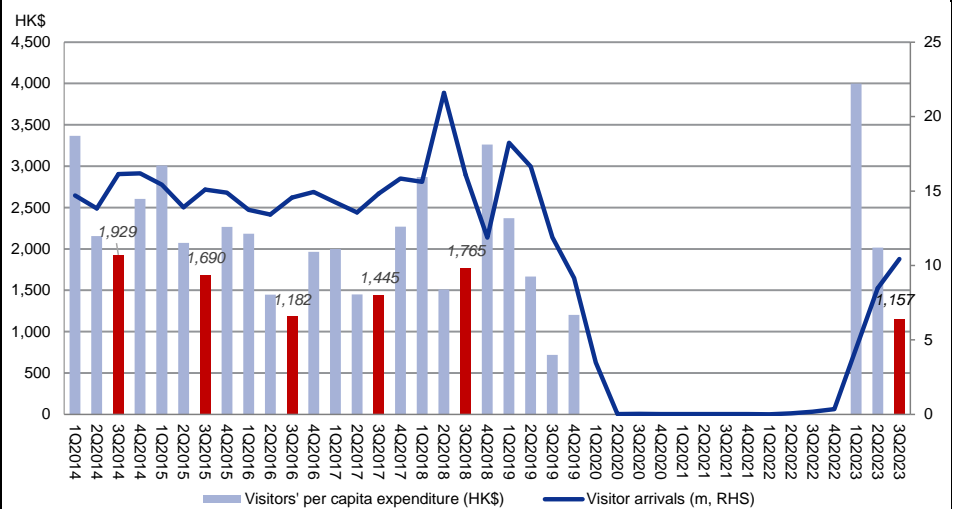
SOURCES: CGS-CIMB RESEARCH, HK TOURISM BOARD (HKTB), C&SD

Figure 26: HK's monthly retail sales as of Oct 2023



SOURCES: CGS-CIMB RESEARCH, C&SD

Figure 27: Quarterly visitor arrivals and expenditure per capita (our estimates)

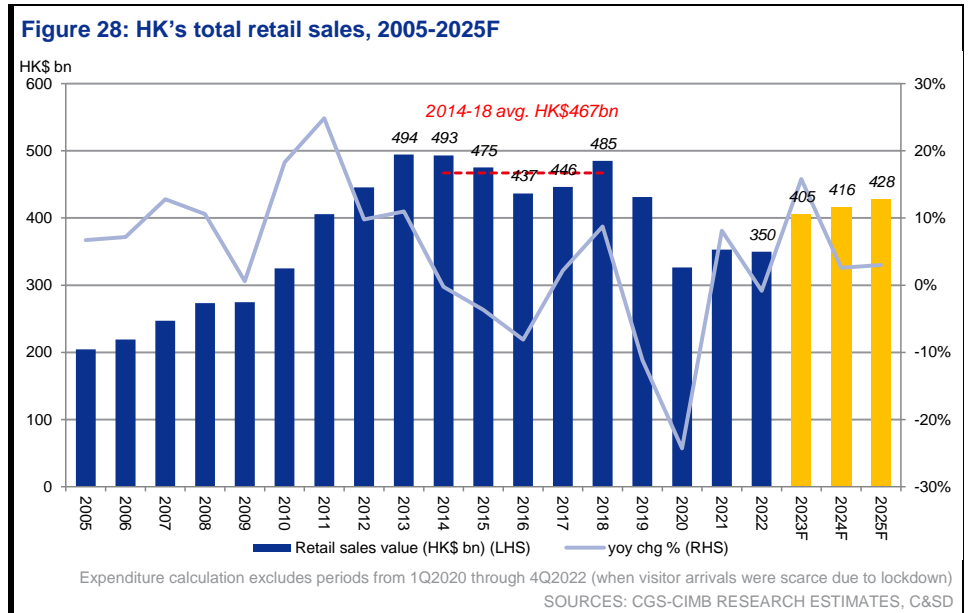


Expenditure calculation excludes periods from 1Q2020 through 4Q2022 (when visitor arrivals were scarce due to lockdown)

SOURCES: CGS-CIMB RESEARCH ESTIMATES, HK TOURISM BOARD, C&SD

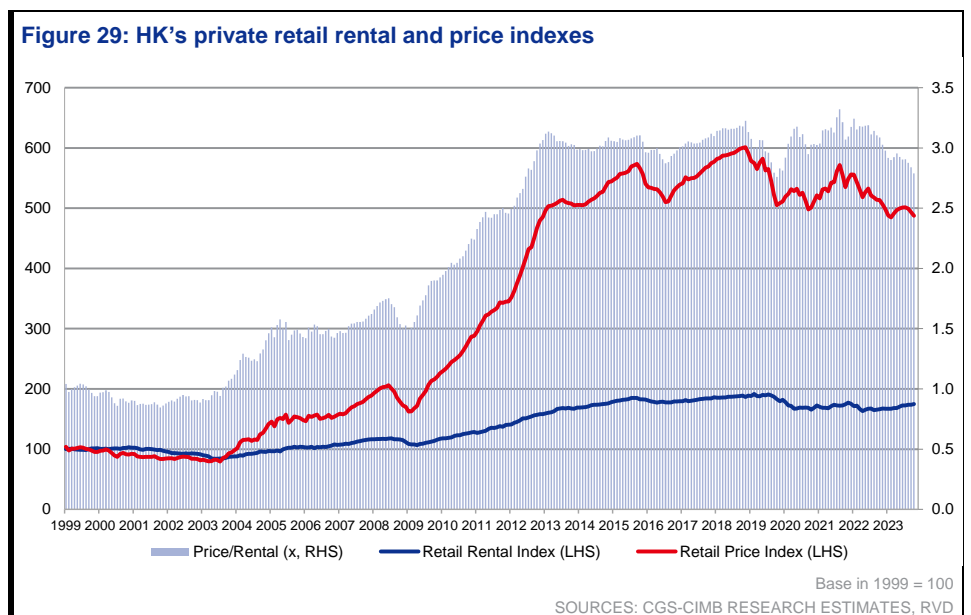
We reduce our 2024F retail sales forecast >

In view of a slower-than-expected sales recovery, we revise our projection for HK's yoy retail sales growth down to 16% from 20% previously for 2023F and forecast 3%/3% yoy growth in 2024F/25F (5% previously). In other words, we believe HK's retail sales in 2024F and 2025F will recover to 90% of the annual average retail sales for 2014-18 (HK\$467bn).



Mass market retail boasts the most positive rental reversion outlook >

Most of the landlords we cover struggled to achieve flattish or mildly positive rental reversions for their retail tenants in 1H23. While we expect rental reversions to stay flattish for the mid- to high-end retail-focused landlords in 2024F due to a weaker-than-expected growth outlook for HK retail, we believe that mass-market-focused retail landlords (e.g. Link REIT) will stand out with the most positive rental reversions, driven by the non-discretionary nature of sales as well as the continued cost-push inflation impact on the goods sold in the mass market segment.

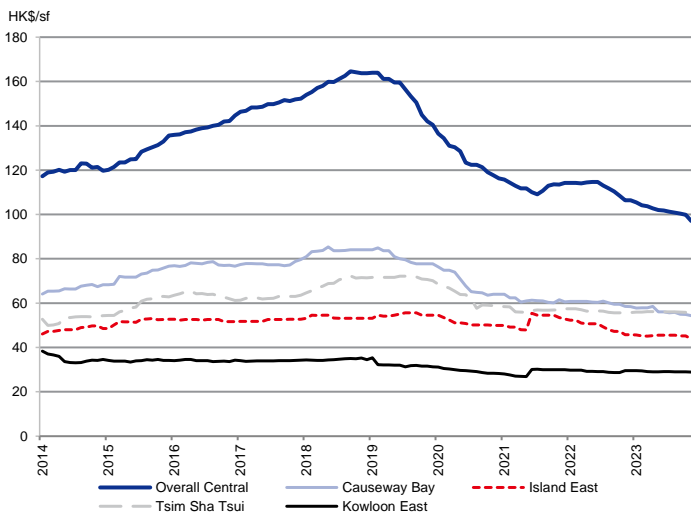


Outlook for office space is still challenging

Higher vacancies and lower rents unavoidable amid weak demand ➤

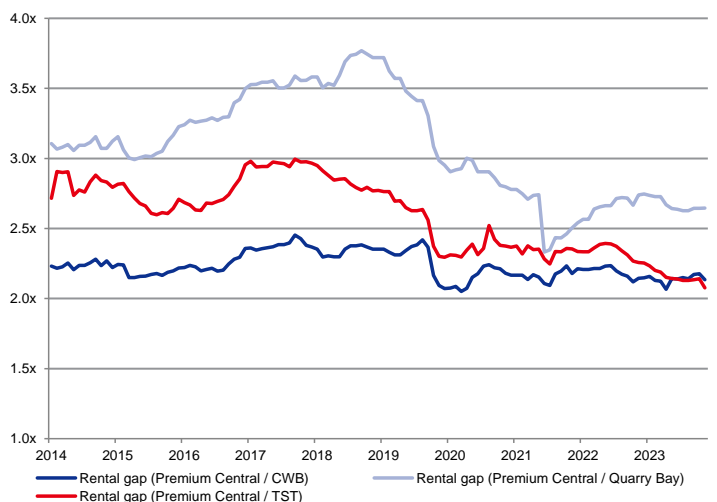
HK's office rental market in 2024F will remain plagued by an increase in new office space supply (completions in 2022-24F totalling c.8m sf, Fig 33) and weak take-up due to low leasing demand from Chinese companies as well as multinational corporations (MNCs). We estimate HK's Grade-A office vacancy inched up 0.9% pt in 2023F to 13% from end-Nov 2023's 12.9% (Fig 32) and project a 1% pt increase yoy in 2024F to 14%; the increase in vacancy in 2024F will likely be contributed by new completions in 2024F (Fig 33). Meanwhile, we project a 5% decline in Grade A office rents in 2024F, after a 5% contraction across key business districts in 2023F, as we expect office landlords to lower monthly rents to retain existing office tenants and offer capital expenditure subsidies (ranging from HK\$2k/sf to HK\$4k/sf) to secure new office tenants.

Figure 30: Grade-A office rents in key business districts of HK, 2014-2023



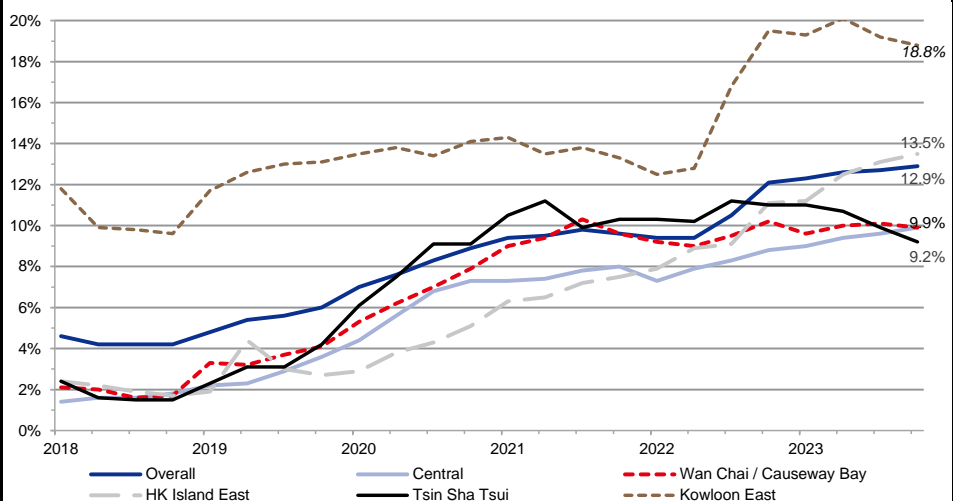
SOURCES: CGS-CIMB RESEARCH, KNIGHT FRANK

Figure 31: Grade-A office rental gap (ratio of premium central rents to decentralised business district rents)



SOURCES: CGS-CIMB RESEARCH, KNIGHT FRANK

Figure 32: Grade-A office vacancy in different business districts



SOURCES: CGS-CIMB RESEARCH, JLL

Figure 33: Key Grade-A office tower completions in 2022-2024F

| Building name | Landlord | Location | Office GFA (sf)^ | Non-office GFA (sf)^ | Total GFA (sf)^ |
|-----------------------------------|-----------------------------|----------------|------------------|----------------------|-------------------|
| Completion in 2022 | | | | | |
| Boton Technology Innovation Tower | Billion (partial ownership) | Kwun Tong | 227,000 | 15,000 | 242,000 |
| Landmark South | Sino Land / Empire Group | Wong Chuk Hang | 218,000 | 39,000 | 257,000 |
| NCB Innovation Centre | NWD (partial ownership) | Lai Chi Kok | 539,000 | 0 | 539,000 |
| One North | Sino Land | Yuen Long | 445,000 | 113,000 | 558,000 |
| Two Taikoo Place | Swire Prop | Quarry Bay | 1,000,000 | 0 | 1,000,000 |
| Total | | | 2,429,000 | 167,000 | 2,596,000 |
| Completion in 2023 | | | | | |
| 11 SKIES | NWD | Chek Lap Kok | 570,000 | 3,206,000 | 3,800,000 |
| AIRSIDE | Nan Fung | Kai Tak | 1,200,000 | 700,000 | 1,900,000 |
| Plaza 228 | SHKP | Wan Chai | 124,000 | 9,000 | 133,000 |
| Six Pacific Place (Six PP) | Swire Prop | Wan Chai | 223,000 | 0 | 223,000 |
| The Milleniy | SHKP / Transport Int'l | Kwun Tong | 650,000 | 500,000 | 1,150,000 |
| Total | | | 2,767,000 | 4,415,000 | 7,206,000 |
| 2024 | | | | | |
| Cheung Kong Center II | CK Asset | Central | 550,000 | 7,000 | 557,000 |
| Portas (83 King Lam Street) | NWD | Cheung Sha Wan | 1,200,000 | 0 | 1,200,000 |
| NKIL 6572, Wing Hong Street | NWD / Ares SSG | Cheung Sha Wan | 420,000 | 0 | 420,000 |
| The Henderson | HLD | Central | 450,000 | 15,000 | 465,000 |
| Total | | | 2,620,000 | 22,000 | 2,642,000 |
| Grand Total | | | 7,816,000 | 4,604,000 | 12,444,000 |

^100% stake basis
SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Proceeds from opportunistic disposals drive lower interest expense ➤

Amid low demand for office space take-up, some office landlords have recently taken the opportunity to dispose of, in part or in full, the office towers they own (equivalent cap rates: 3-4%, lower than the prevailing US 10-year Treasury yield) and therefore book a gain on disposal of assets. We expect the landlords to use most of the proceeds from these opportunistic disposals to repay HK\$/US\$ floating rate debts to reduce interest expense, rather than distribute them as special dividends.

Figure 34: Recent sizable office transactions

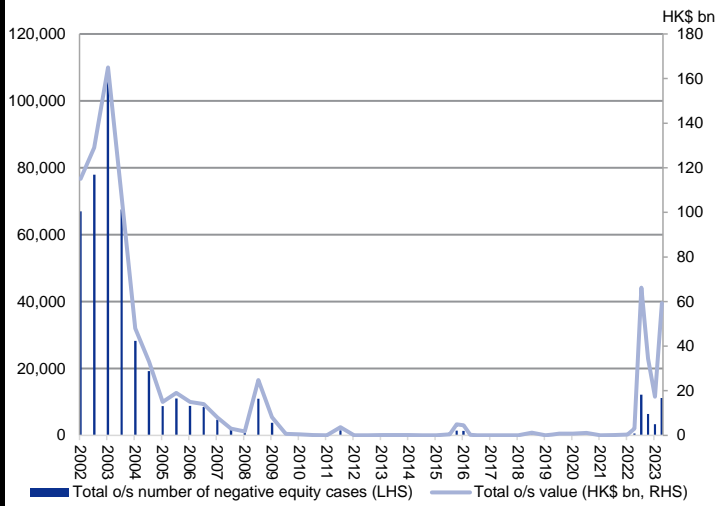
| Building name | Seller | Buyer | GFA (sf) | Transaction Price (HK\$ m) | Price per sf (HK\$/sf) | Expected date of completion |
|--------------------------------|------------|---|----------|----------------------------|------------------------|-----------------------------|
| Nine floors of One Island East | Swire Prop | Securities and Futures Commission (SFC) | 189,000 | 4,058 | 21,473 | 29-Dec-23 |
| Harbour East | HLD | Li Ning Co Ltd (2331 HK, Add) | 144,000 | 2,208 | 15,333 | 28-Jan-24 |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, MING PAO, HK ECONOMIC JOURNAL (HKEJ)

Appendix

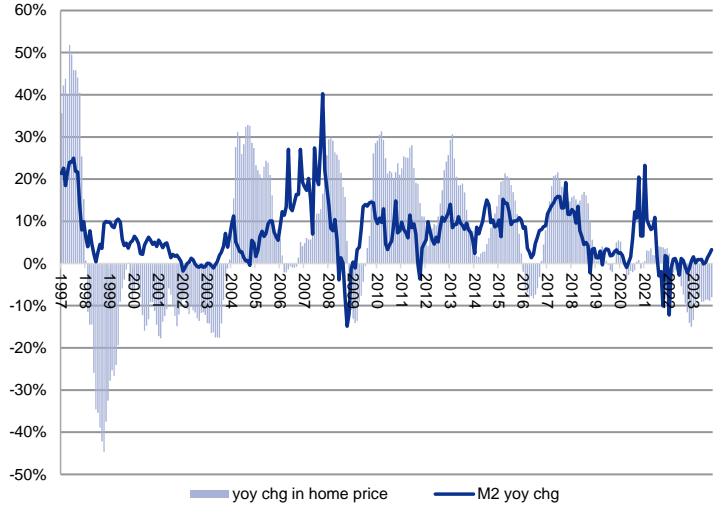
(1) Economic and monetary indicators ▶

Figure 35: Residential mortgage loans (RML) in negative equity



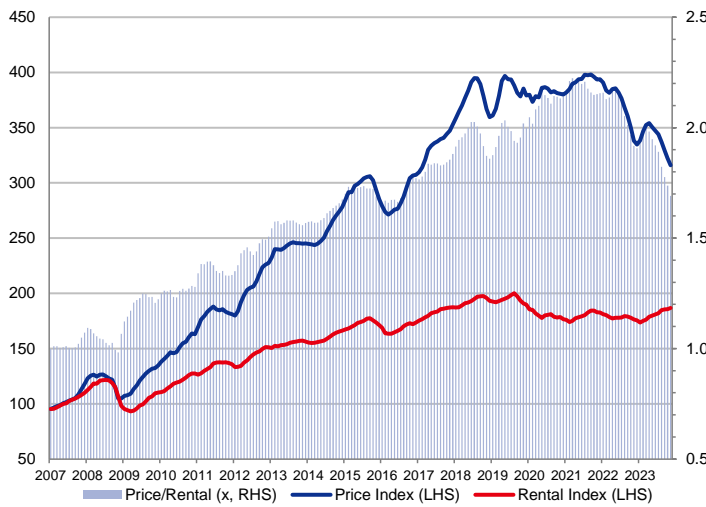
SOURCES: CGS-CIMB RESEARCH, HK MONETARY AUTHORITY (HKMA)

Figure 36: Private home price yoy chg vs. HK\$ M2 yoy chg



SOURCES: CGS-CIMB RESEARCH, HKMA, RVD

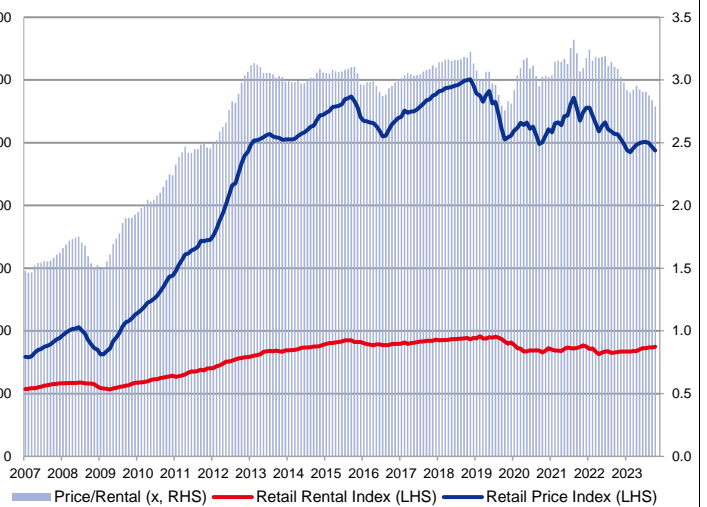
Figure 37: HK's private residential rental and price indexes



Base in 1999 = 100

SOURCES: CGS-CIMB RESEARCH ESTIMATES, RVD

Figure 38: HK's private retail rental and price indexes

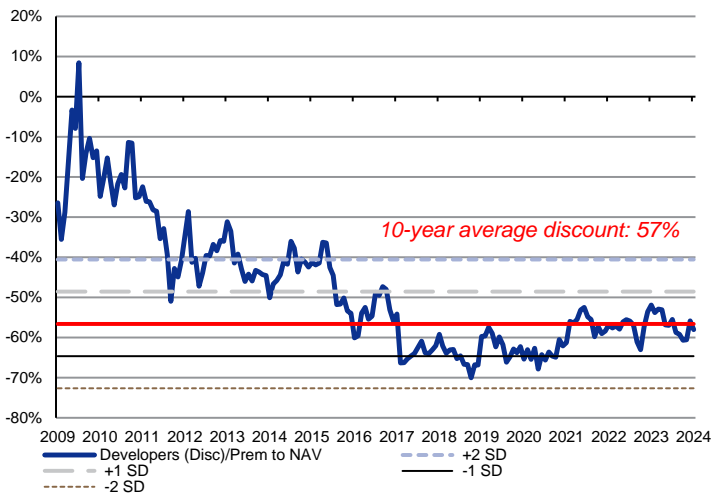


Base in 1999 = 100

SOURCES: CGS-CIMB RESEARCH ESTIMATES, RVD

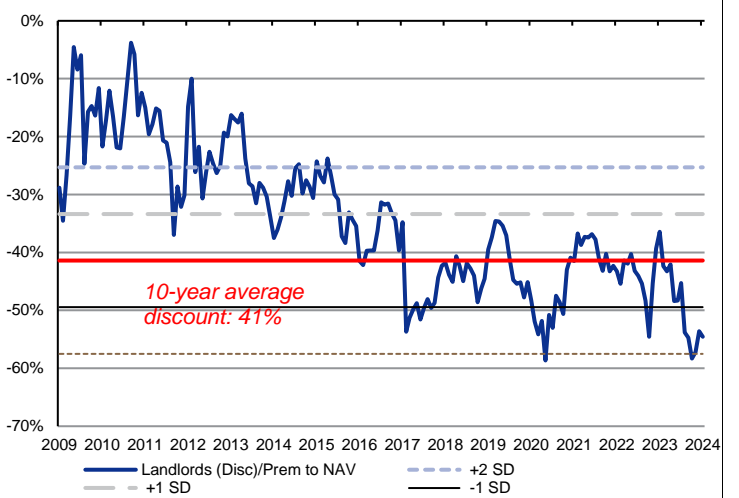
(2) Discounts to NAV charts ▶

Figure 39: HK developers' discount to NAV



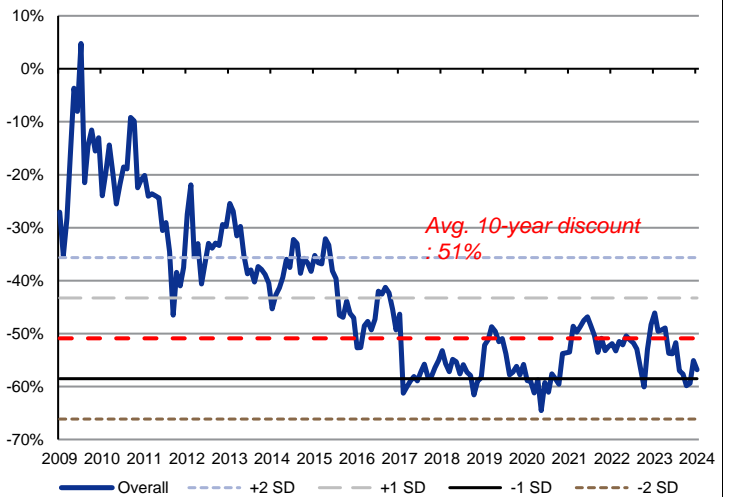
SOURCES: CGS-CIMB RESEARCH ESTIMATES, BLOOMBERG

Figure 40: HK landlords' discount to NAV



SOURCES: CGS-CIMB RESEARCH ESTIMATES, BLOOMBERG

Figure 41: HK Property sector's discount to NAV



SOURCES: CGS-CIMB RESEARCH ESTIMATES, BLOOMBERG

Hong Kong

REDUCE (no change)

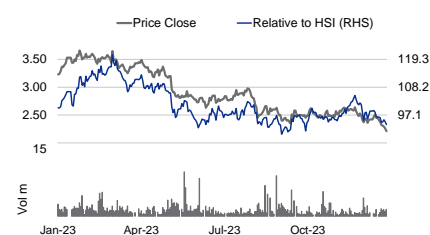
Consensus ratings*: Buy 2 Hold 1 Sell 7

| | |
|-------------------------|---------------------------|
| Current price: | HK\$2.21 |
| Target price: | HK\$2.09 |
| Previous target: | HK\$2.41 |
| Up/downside: | -5.4% |
| CGS-CIMB / Consensus: | -3.4% |
| Reuters: | 2778.HK |
| Bloomberg: | 2778 HK |
| Market cap: | US\$1,688m HK\$13,202m |
| Average daily turnover: | US\$0.33m HK\$2.62m |
| Current shares o/s: | 6,014m |
| Free float: | 31.2% |

*Source: Bloomberg

Key changes in this note

- FY24F/25F DPU cut by 2%/4%.



Source: Bloomberg

| Price performance | 1M | 3M | 12M |
|-------------------|-------|-------|-------|
| Absolute (%) | -12.3 | -10.9 | -30.5 |
| Relative (%) | -10.8 | -2 | -6 |

Major shareholders

| | % held |
|---------------------|--------|
| Great Eagle (41 HK) | 68.8 |

Analyst(s)

Raymond CHENG, CFA

T (852) 2539 1324

E raymond.cheng@cgs-cimb.com

Steven MAK

T (852) 2539 1328

E steven.mak@cgs-cimb.com

Will CHU, CFA

T (852) 2539 1327

E will.chu@cgs-cimb.com

Champion REIT

Negative office outlook could drag DPU

- We expect DPU to drop by 11%/3% in FY23F/24F due to lower spot rent assumptions for both office and retail portfolios.
- With the large office supply in Central, we expect CREIT to lower the spot rent of office portfolios in order to fill the vacancy.
- We revise the rental growth rate downwards slightly to low-single-digit over 2024-25 as weak sales recovery could hinder LOM's retail sales growth.
- We cut our TP to HK\$2.09, on lower DPU in FY24-25F with a higher FY24F target yield of 8.1%. Reiterate Reduce.

Expect DPU to decrease by 11% in FY23F and 3% in FY24F

We lower our spot rent assumptions for Champion REIT's (CREIT) office and retail portfolio in FY24F-25F due to weak office outlook and slower-than-expected retail sales recovery in HK. Hence, we expect net property income (NPI) to decline 1% to HK\$2,001m in FY23F, 2% to HK\$1,954m and 1% to HK\$1,929m in FY25F. We also expect DPU to fall 11% in FY23F and 3% in FY24F and edge up by 1% in FY25F.

Expect lower rent to fill up the 3GR office vacancy in 2024-25

Three Garden Road (3GR) Office's vacancy decreased from 82.7% as of 31 Dec 2022 to 82.2% on 30 Jun 2023. We expect 3GR vacancy rate to be under large pressure in 2024F due to two new Grade A office buildings in Central, the Henderson and the Cheung Kong Center II. Hence, we expect CREIT to lower the spot rent in FY24F-25F in order to retain existing tenants and attract new cooperates to fill up vacancies.

Weaker retail sales recovery could drag retail rental growth

HK retail sales growth slowed from 1H23 to 3Q23 and should dip further in FY24F due to 1) a higher base in 2023, 2) sluggish local consumption, and 3) weaker-than-expected consumption per visitor. Therefore, we expect Longham Place Mall (LOM) retail sales to grow at a slower pace in FY24F and we trim our rental growth rate assumption to low single digits over 2024F-25F.

Reiterate Reduce rating with a lower TP of HK\$2.09

We cut our FY24F-25F DPU by 2-4%, primarily to reflect the lower office and retail spot rent assumptions. We also cut our TP for CREIT to HK\$2.09, now based on an 8.1% FY24F DPU yield (7.2% previously – the widening of the yield spread is mainly due to the higher of 5-year average yield spread). Reiterate Reduce on a decline in DPU due to weak office outlook. We estimate that CREIT has 69% gross asset value (GAV) exposure to the HK office space in FY24F, the highest among HK property stocks we cover. De-rating catalysts include higher-than-expected office vacancies, and weaker-than-expected rental reversions. Key upside risks: stronger-than-expected retail sales in LPM, and lower-than-expected borrowing costs.

Financial Summary

| | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|--------------------------------|---------|---------|---------|---------|---------|
| Gross Property Revenue (HK\$m) | 2,769 | 2,625 | 2,605 | 2,565 | 2,550 |
| Net Property Income (HK\$m) | 2,197 | 2,031 | 2,001 | 1,954 | 1,929 |
| Net Profit (HK\$m) | 1,503 | 1,298 | 1,158 | 1,137 | 1,156 |
| Distributable Profit (HK\$m) | (1,353) | (1,168) | (1,042) | (1,023) | (1,041) |
| DPS (HK\$) | 0.23 | 0.20 | 0.17 | 0.17 | 0.17 |
| Dividend Yield | 10.3% | 8.9% | 7.9% | 7.7% | 7.7% |
| Asset Leverage | 22.5% | 22.3% | 22.0% | 21.8% | 21.6% |
| BVPS (HK\$) | 8.23 | 7.91 | 8.00 | 8.09 | 8.17 |
| P/BV (x) | 0.27 | 0.28 | 0.28 | 0.27 | 0.27 |
| Recurring ROE | 3.01% | 2.70% | 2.43% | 2.35% | 2.35% |
| % Change In DPS Estimates | | | (0.06%) | (1.86%) | (3.55%) |
| DPS/Consensus DPS (x) | | | 1.04 | 1.01 | 0.95 |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 1: NAV breakdown (end-FY24F)

| | HK\$ m | HK\$/share | % of GAV |
|------------------------------|---------------|-------------|---------------|
| Three Garden Road | 24,685 | 4.10 | 54.1% |
| Langham Place Office | 6,380 | 1.06 | 14.0% |
| Langham Place Mall | 13,483 | 2.24 | 29.5% |
| Overseas properties | 821 | 0.13 | 1.8% |
| Property GAV | 45,369 | 7.54 | 99.4% |
| Add: liquid investments | 290 | 0.05 | 0.6% |
| Total GAV | 45,659 | 7.59 | 100.0% |
| Less: net debt | (12,676) | (2.11) | |
| Net Asset Value (NAV) | 32,983 | 5.48 | |

SOURCES: CGS-CIMB RESEARCH ESTIMATES

Figure 2: Summary of TP change


| | Old | New | Chg % or %pt |
|-------------------------|--------------|--------------|---------------|
| Benchmark yield (%)* | 4.00% | 3.90% | -0.1% |
| Yield spread: | | | |
| 5-year average | 3.20% | 4.19% | 1.0% |
| Target yield (%) | 7.20% | 8.09% | 0.9% |
| FY23F DPU (HK\$) | 0.1737 | 0.1692 | -2.6% |
| TP (HK\$) | 2.41 | 2.09 | -13.3% |

*BENCHMARK = US 10-YEAR TREASURY
SOURCES: CGS-CIMB RESEARCH ESTIMATES

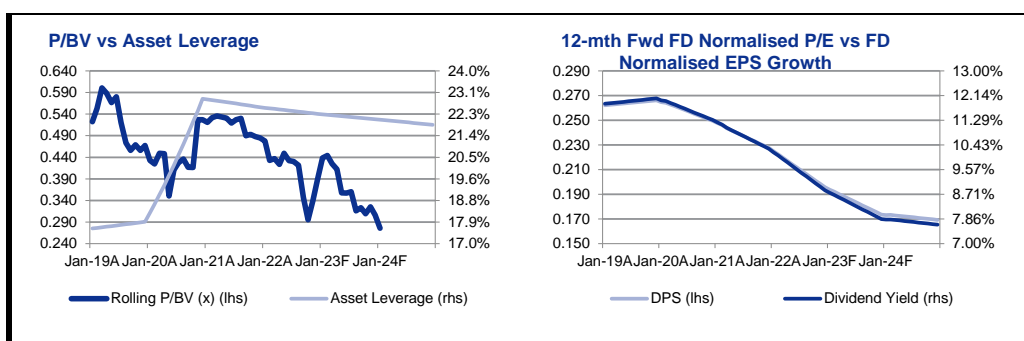
Figure 3: Earnings revisions

| HK\$ m | 2023F | | | 2024F | | | 2025F | | |
|----------------------|--------|--------|-------|--------|--------|-------|--------|--------|-------|
| | Old | New | % chg | Old | New | % chg | Old | New | % chg |
| Net Property Income | 2,001 | 2,001 | 0% | 1,980 | 1,954 | -1% | 1,980 | 1,929 | -3% |
| Distributable Income | 1,158 | 1,158 | 0% | 1,158 | 1,137 | -2% | 1,198 | 1,156 | -4% |
| DPU (HK\$) | 0.1737 | 0.1736 | 0% | 0.1725 | 0.1693 | -2% | 0.1773 | 0.1710 | -4% |

SOURCES: CGS-CIMB RESEARCH ESTIMATES

|  | | Refinitiv ESG Scores | | | | | |
|---|---|----------------------|-------------------------|--------------------|------------------------------|-------------------------|-----------------------------|
| | | B- | A+ | B- | B+ | A- | D |
| | | ESG Score | ESG Controversies Score | ESG Combined Score | ESG Environment Pillar Score | ESG Social Pillar Score | ESG Government Pillar Score |
| <p>ESG in a nutshell</p> <p>Champion REIT (CREIT) has assessed sustainability risks and opportunities for the trust and integrates sustainability into every facet of its operations through long-term strategies. To ensure robust governance, the REIT's Sustainability Working Group reports quarterly to the board on its ESG progress, including stakeholder engagement, risk identification and the benchmarking of industry standards. CREIT has established long-term goals in alignment with nine of the United Nations SDGs in 2019.</p> | | | | | | | |
| Keep your eye on | Implications | | | | | | |
| We see no ESG issues for CREIT that we are concerned about. | N/A. | | | | | | |
| ESG highlights | Implications | | | | | | |
| In FY21, CREIT established a climate risk and resilience policy and installed more solar panels and electric vehicles charging stations at its properties. | CREIT has demonstrated its commitment towards ESG issues over the past few years. We believe greater progress in ESG could support a further re-rating of its share price. | | | | | | |
| Trends | Implications | | | | | | |
| The trust has set 14 ESG targets under the 2030 blueprint, including: i) reducing carbon intensity by 42% and water consumption intensity by 25% (baseline: 2011 and 2014, respectively), ii) increasing average employees' training time by 50%, and iii) increasing volunteer service hours by 25%. | We have not applied any ESG premium/discount in our fundamental valuations. We believe that CREIT will continually improve on the different aspects of ESG, which could attract greater interest among ESG-focused investors. | | | | | | |
| SOURCES: CGS-CIMB RESEARCH, REFINITIV | | | | | | | |

BY THE NUMBERS



Profit & Loss

| (HK\$m) | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|-------------------------------|----------------|----------------|----------------|----------------|----------------|
| Rental Revenues | 2,417 | 2,286 | 2,280 | 2,242 | 2,224 |
| Other Revenues | 352 | 339 | 325 | 323 | 326 |
| Gross Property Revenue | 2,769 | 2,625 | 2,605 | 2,565 | 2,550 |
| Total Property Expenses | (572) | (595) | (605) | (611) | (620) |
| Net Property Income | 2,197 | 2,031 | 2,001 | 1,954 | 1,929 |
| General And Admin. Expenses | | | | | |
| Management Fees | (133) | (123) | (120) | (117) | (116) |
| Trustee's Fees | (24) | (27) | (19) | (19) | (20) |
| Other Operating Expenses | | | | | |
| EBITDA | 1,639 | 1,463 | 1,293 | 1,263 | 1,275 |
| Depreciation And Amortisation | | | | | |
| EBIT | 1,639 | 1,463 | 1,293 | 1,263 | 1,275 |
| Net Interest Income | (319) | (391) | (533) | (514) | (468) |
| Associates' Profit | | | | | |
| Other Income/(Expenses) | 0 | 0 | 0 | 0 | 0 |
| Exceptional Items | | | | | |
| Pre-tax Profit | 1,721 | 1,489 | 1,328 | 1,303 | 1,326 |
| Taxation | (218) | (191) | (170) | (167) | (170) |
| Minority Interests | | | | | |
| Preferred Dividends | | | | | |
| Net Profit | 1,503 | 1,298 | 1,158 | 1,137 | 1,156 |
| Distributable Profit | (1,353) | (1,168) | (1,042) | (1,023) | (1,041) |

Cash Flow

| (HK\$m) | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|---------------------------------|----------------|----------------|----------------|----------------|----------------|
| Pre-tax Profit | 1,721 | 1,489 | 1,328 | 1,303 | 1,326 |
| Depreciation And Non-cash Adj. | 319 | 391 | 533 | 514 | 468 |
| Change In Working Capital | 136 | (112) | (50) | (50) | (50) |
| Tax Paid | (269) | (100) | (170) | (167) | (170) |
| Others | (84) | (141) | 568 | 554 | 519 |
| Cashflow From Operations | 1,823 | 1,528 | 2,210 | 2,155 | 2,093 |
| Capex | (27) | (8) | (60) | (60) | (60) |
| Net Investments And Sale Of FA | | | | | |
| Other Investing Cashflow | | | | | |
| Cash Flow From Investing | (27) | (8) | (60) | (60) | (60) |
| Debt Raised/(repaid) | (1,170) | (771) | 0 | 0 | 0 |
| Equity Raised/(Repaid) | 0 | 0 | 0 | 0 | 0 |
| Dividends Paid | (1,463) | (1,276) | (1,090) | (998) | (1,032) |
| Cash Interest And Others | (319) | (391) | (533) | (514) | (468) |
| Cash Flow From Financing | (2,953) | (2,438) | (1,624) | (1,512) | (1,500) |
| Total Cash Generated | (1,157) | (918) | 526 | 583 | 533 |
| Free Cashflow To Firm | 1,877 | 1,546 | 2,184 | 2,135 | 2,084 |
| Free Cashflow To Equity | 306 | 357 | 1,616 | 1,581 | 1,565 |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd
Balance Sheet

| (HK\$m) | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|
| Total Investments | 65,609 | 63,794 | 63,854 | 63,914 | 63,974 |
| Intangible Assets | 0 | 0 | 0 | 0 | 0 |
| Other Long-term Assets | 317 | 364 | 364 | 364 | 364 |
| Total Non-current Assets | 65,926 | 64,158 | 64,218 | 64,278 | 64,338 |
| Total Cash And Equivalents | 1,629 | 735 | 1,261 | 1,844 | 2,377 |
| Inventories | | | | | |
| Trade Debtors | | | | | |
| Other Current Assets | 318 | 336 | 386 | 436 | 486 |
| Total Current Assets | 1,947 | 1,071 | 1,646 | 2,279 | 2,862 |
| Trade Creditors | | | | | |
| Short-term Debt | 2,026 | 4,244 | 4,244 | 4,244 | 4,244 |
| Other Current Liabilities | 2,892 | 2,698 | 2,528 | 2,361 | 2,192 |
| Total Current Liabilities | 4,918 | 6,941 | 6,772 | 6,605 | 6,435 |
| Long-term Borrowings | 13,262 | 10,276 | 10,276 | 10,276 | 10,276 |
| Other Long-term Liabilities | 730 | 784 | 784 | 784 | 784 |
| Total Non-current Liabilities | 13,992 | 11,060 | 11,060 | 11,060 | 11,060 |
| Shareholders' Equity | 48,963 | 47,228 | 48,033 | 48,893 | 49,706 |
| Minority Interests | 0 | 0 | 0 | 0 | 0 |
| Preferred Shareholders Funds | | | | | |
| Total Equity | 48,963 | 47,228 | 48,033 | 48,893 | 49,706 |

Key Ratios

| | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|-------------------------------|---------|---------|---------|---------|---------|
| Gross Property Revenue Growth | (5.17%) | (5.20%) | (0.76%) | (1.56%) | (0.58%) |
| NPI Growth | (6.39%) | (7.57%) | (1.47%) | (2.35%) | (1.24%) |
| Net Property Income Margin | 79.3% | 77.3% | 76.8% | 76.2% | 75.7% |
| DPS Growth | (8.9%) | (14.0%) | (11.2%) | (2.5%) | 1.0% |
| Gross Interest Cover | N/A | N/A | N/A | N/A | N/A |
| Effective Tax Rate | 12.7% | 12.8% | 12.8% | 12.8% | 12.8% |
| Net Dividend Payout Ratio | 90.0% | 90.0% | 90.0% | 90.0% | 90.0% |
| Current Ratio | 0.40 | 0.15 | 0.24 | 0.35 | 0.44 |
| Quick Ratio | 0.40 | 0.15 | 0.24 | 0.35 | 0.44 |
| Cash Ratio | 0.33 | 0.11 | 0.19 | 0.28 | 0.37 |
| Return On Average Assets | 2.15% | 1.95% | 1.77% | 1.72% | 1.73% |

Key Drivers

| | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|---|---------|---------|---------|---------|---------|
| Total rental income (HK\$ m) | 2,416.9 | 2,286.0 | 2,280.1 | 2,241.7 | 2,224.1 |
| Carpark income (HK\$ m) | 47.3 | 43.6 | 39.6 | 41.7 | 44.1 |
| Rental related income (HK\$ m) | 30.8 | 29.3 | 29.4 | 30.2 | 31.2 |
| Building management fee income (HK\$ m) | 274.2 | 266.4 | 256.2 | 250.9 | 250.3 |
| Net property income (HK\$ m) | 2,197.0 | 2,030.6 | 2,000.7 | 1,953.6 | 1,929.4 |
| FY payout ratio (%) | 90.0% | 90.0% | 90.0% | 90.0% | 90.0% |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Hong Kong

ADD (no change)

Consensus ratings*: Buy 10 Hold 3 Sell 0

| | |
|-------------------------|--------------|
| Current price: | HK\$37.30 |
| Target price: | HK\$48.80 |
| Previous target: | HK\$51.50 |
| Up/downside: | 30.8% |
| CGS-CIMB / Consensus: | 4.2% |
| Reuters: | 1113.HK |
| Bloomberg: | 1113 HK |
| Market cap: | US\$16,927m |
| | HK\$132,373m |
| Average daily turnover: | US\$16.80m |
| | HK\$131.2m |
| Current shares o/s: | 3,605m |
| Free float: | 53.2% |

*Source: Bloomberg

Key changes in this note

- ▶ FY23F EPS increased by 0.5%.
- ▶ FY24F EPS decreased by 0.8%.
- ▶ FY25F EPS decreased by 0.8%.



Source: Bloomberg

| Price performance | 1M | 3M | 12M |
|-------------------|------|------|-------|
| Absolute (%) | -0.4 | -9.1 | -24.9 |
| Relative (%) | 1.1 | -0.2 | -0.4 |

| Major shareholders | % held |
|----------------------|--------|
| Li Ka-shing's family | 46.8 |

Analyst(s)



Raymond CHENG, CFA

T (852) 2539 1324
E raymond.cheng@cgs-cimb.com

Will CHU, CFA

T (852) 2539 1327
E will.chu@cgs-cimb.com

Steven MAK

T (852) 2539 1328
E steven.mak@cgs-cimb.com

CK Asset Holdings Limited

Sufficiently diversified

- We believe CKA's sector outperformance since Mar 2022 will continue in 2024F, thanks to its strong balance sheet and aggressive sales strategy.
- Its recurring income from overseas projects partially diversify business risks in HK and China, in our view.
- NAV-accretive M&A and land acquisitions, and share buybacks are re-rating catalysts for CKA. Reiterate Add; TP lowered to HK\$48.8 (50% disc. to NAV).

We expect share price outperformance to continue in 2024F

CK Asset (CKA) has outperformed the HK Property sector between 17 Mar 2022 (the first Fed Funds Target Rate hike by US Federal Reserve in current rate hike cycle) and end-2023: its share price was down 22% vs. 30% decline for HK Property overall. We believe its share price outperformance was due to 1) relatively few new land bank acquisitions in HK in 2020-21 when HK's residential property prices peaked, paving the way for more resilient profit margins for development property (DP) sales than its peers in coming years; 2) recurring income from overseas utility and infrastructure projects partially diversifying business risks in HK and China; 3) successful asset disposals (e.g. aircraft leasing business and 5 Broadgate office tower in 1H22) helped maintain a low net gearing (see-through gearing ~10% as at end-Jun 23). In 2024F, we expect its share price outperformance to continue due to its strong war chest for M&As and land acquisitions at attractive costs, as well as its aggressive DP sales strategy to achieve high sell-through rates.

We expect Stable DPS despite tweaks in FY23-25F EPS

We lift our FY23F EPS by 0.5% and cut FY24-25F EPS by 0.8% to factor in delays in DP sales bookings in HK and China, as well as slightly lower revenue growth from hotel and utility businesses due to softer economic outlook. Nevertheless, we believe CKA will maintain its DPS at HK\$2.28 in FY23-24F (6% dividend yield) on the back of its strong balance sheet.

Reiterate Add and one of our sector favourites

We cut our TP for CKA to HK\$48.8, still based on a 50% discount to NAV, after lowering its NAV (rolled over to end-FY24F) by 7% due to lower values for DP, hotel and utility businesses. Reiterate Add on CKA, which remains one of our sector favourites due to its diversified and recurring revenue sources and its ability to tap the land market in HK at attractive prices in the downcycle of HK's property market. Key downside risks: stronger-than-expected ASP cuts for DP in HK and China, lower-than-expected growth in investment property (IP) and hotel businesses, and exceptional volatility in exchange rates (e.g. GBP, CA\$) to which CKA has non-trivial exposure. Re-rating catalysts: NAV-accretive M&As and land acquisitions, and share buybacks.

Financial Summary

| | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|--------------------------------|---------|---------|---------|---------|---------|
| Total Net Revenues (HK\$m) | 62,094 | 56,341 | 54,428 | 53,509 | 62,089 |
| Operating EBITDA (HK\$m) | 25,613 | 16,660 | 16,250 | 16,250 | 18,880 |
| Net Profit (HK\$m) | 21,620 | 21,683 | 18,775 | 17,570 | 24,633 |
| Core EPS (HK\$) | 5.78 | 6.03 | 5.27 | 4.95 | 6.94 |
| Core EPS Growth | 10.3% | 4.5% | (12.7%) | (6.0%) | 40.2% |
| FD Core P/E (x) | 6.44 | 6.17 | 7.11 | 7.53 | 5.37 |
| DPS (HK\$) | 2.20 | 2.28 | 2.28 | 2.28 | 2.38 |
| Dividend Yield | 5.90% | 6.11% | 6.11% | 6.11% | 6.38% |
| EV/EBITDA (x) | 7.24 | 8.11 | 8.89 | 8.79 | 7.14 |
| P/FCFE (x) | 4.65 | 19.44 | 28.60 | 16.88 | 8.86 |
| Net Gearing | 8.57% | (3.22%) | (0.65%) | (0.91%) | (2.75%) |
| P/BV (x) | 0.37 | 0.35 | 0.35 | 0.34 | 0.33 |
| ROE | 5.85% | 5.83% | 4.92% | 4.53% | 6.17% |
| % Change In Core EPS Estimates | | | 0.54% | (0.75%) | (0.75%) |
| EPS/Consensus EPS (x) | | | 1.06 | 0.95 | 1.13 |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 1: Earnings revisions

| HK\$ m | 2023F | | | 2024F | | | 2025F | | |
|-----------------|--------|--------|-------|--------|--------|-------|--------|--------|-------|
| | Old | New | % chg | Old | New | % chg | Old | New | % chg |
| Core net profit | 18,896 | 18,775 | -1% | 17,983 | 17,570 | -2% | 25,213 | 24,633 | -2% |
| EPS (HK\$) | 5.24 | 5.27 | 1% | 4.99 | 4.95 | -1% | 6.99 | 6.94 | -1% |
| DPS (HK\$) | 2.28 | 2.28 | 0% | 2.34 | 2.28 | -3% | 2.44 | 2.38 | -2% |

SOURCES: CGS-CIMB RESEARCH ESTIMATES

Figure 2: NAV breakdown (end-FY24F)

| | HK\$ m | HK\$/sh | % of GAV |
|----------------------------------|----------------|--------------|--------------|
| Development properties | 155,970 | 43.9 | 41.5 |
| - HK | 74,860 | 21.1 | 19.9 |
| - China | 59,298 | 16.7 | 15.8 |
| - Other countries | 21,813 | 6.1 | 5.8 |
| Investment properties | 122,905 | 34.6 | 32.7 |
| - HK | 106,692 | 30.1 | 28.4 |
| - China and other countries | 16,212 | 4.6 | 4.3 |
| Hotel / service suites | 35,903 | 10.1 | 9.6 |
| - HK | 33,693 | 9.5 | 9.0 |
| - China and other countries | 2,210 | 0.6 | 0.6 |
| Interests in REITs | 4,953 | 1.4 | 1.3 |
| - Fortune REIT | 2,636 | 0.7 | 0.7 |
| - Prosperity REIT | 359 | 0.1 | 0.1 |
| - Hui Xian REIT | 1,958 | 0.6 | 0.5 |
| Non-property investments* | 56,055 | 15.8 | 14.9 |
| GAV | 375,786 | 105.9 | 100.0 |
| Less: net debt (consol. + JV) | (29,248) | (8.2) | |
| NAV | 346,538 | 97.6 | |


* Non-property investments include utility and infrastructure projects (e.g. DUET, Reliance Home Comfort, ista Group, UK Power Networks, Northumbrian Water) and pub operations (namely, Greene King)

SOURCES: CGS-CIMB RESEARCH ESTIMATES

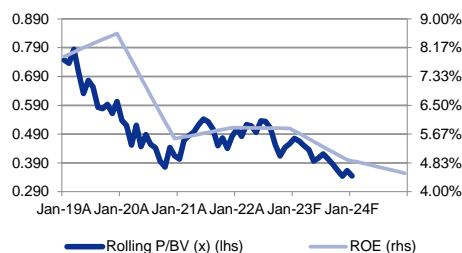
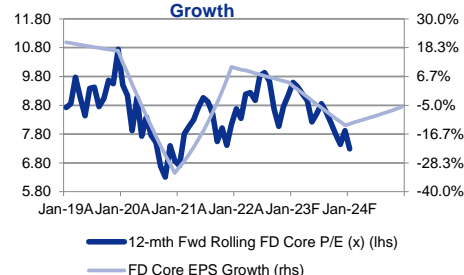
Figure 3: Summary of NAV and TP changes

| | Old | New | Chg % |
|---------------------|-------|------|-------|
| NAV (HK\$) | 104.5 | 97.6 | -7% |
| Target discount (%) | 50% | 50% | 0% pt |
| Target price (HK\$) | 52.3 | 48.8 | -7% |

SOURCES: CGS-CIMB RESEARCH ESTIMATES

|  | | Refinitiv ESG Scores | | | | | |
|--|---|----------------------|-------------------------|--------------------|------------------------------|-------------------------|-----------------------------|
| | | B+ | A+ | B+ | A | A- | C |
| | | ESG Score | ESG Controversies Score | ESG Combined Score | ESG Environment Pillar Score | ESG Social Pillar Score | ESG Government Pillar Score |
| ESG in a nutshell | | | | | | | |
| <p>We think CK Asset (CKA) has shown its commitment towards ESG by reducing its emissions, encouraging equality in the workplace, and investment in talent training and retention. CKA set up its sustainability committee in 2020. Management said that for the long term, it will continually review and strengthen its sustainability governance practices to ensure CKA's continual contribution to the sustainable growth of the society.</p> | | | | | | | |
| Keep your eye on | Implications | | | | | | |
| We see no ESG issues for CKA which we are concerned about. | There are no relevant ESG issues that could impact our valuation for CKA. | | | | | | |
| ESG highlights | Implications | | | | | | |
| In 2021, CKA's aggregate amount of sustainability-linked loans with financial institutions reached HK\$5.5bn. Greene King, CKA's wholly-owned pub operations unit in the UK, won the Judges' Choice Talent Acquisition Team of the Year Award in the TALiNT International Annual Recruitment Awards 2021 – a demonstration of CKA's commitment to talent acquisition and management. | We believe further progress on ESG could support a further re-rating of its shares. | | | | | | |
| Trends | Implications | | | | | | |
| CKA's board-level Sustainability Committee has committed to reduce the group's electricity consumption by 11%, water consumption by 5%, waste by 11%, and carbon emissions by 9% by 2030, with 2021 as the baseline. | We have not applied any premium/discount for ESG in our fundamental valuation of CKA. We believe CKA will continually improve on the different areas of ESG, thereby attracting greater interest among ESG-focused investors. | | | | | | |

SOURCES: CGS-CIMB RESEARCH, REFINITIV

BY THE NUMBERS
P/BV vs ROE

12-mth Fwd FD Core P/E vs FD Core EPS Growth

Profit & Loss

| (HK\$m) | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|---|----------------|----------------|----------------|----------------|----------------|
| Total Net Revenues | 62,094 | 56,341 | 54,428 | 53,509 | 62,089 |
| Gross Profit | 34,854 | 29,691 | 28,598 | 28,598 | 33,227 |
| Operating EBITDA | 25,613 | 16,660 | 16,250 | 16,250 | 18,880 |
| Depreciation And Amortisation | 0 | 0 | 0 | 0 | 0 |
| Operating EBIT | 25,613 | 16,660 | 16,250 | 16,250 | 18,880 |
| Financial Income/(Expense) | (968) | (991) | (1,051) | (995) | (928) |
| Pretax Income/(Loss) from Assoc. | 3,924 | 4,015 | 5,281 | 5,580 | 10,239 |
| Non-Operating Income/(Expense) | 2,286 | 5,055 | 2,640 | 920 | 920 |
| Profit Before Tax (pre-EI) | 30,839 | 24,950 | 23,119 | 21,754 | 29,110 |
| Exceptional Items | | | | | |
| Pre-tax Profit | 30,855 | 24,739 | 23,119 | 21,754 | 29,110 |
| Taxation | (8,533) | (2,860) | (3,975) | (3,826) | (4,177) |
| Exceptional Income - post-tax | | | | | |
| Profit After Tax | 22,322 | 21,879 | 19,145 | 17,928 | 24,933 |
| Minority Interests | (702) | (196) | (370) | (358) | (300) |
| Pref. & Special Div | 0 | 0 | 0 | 0 | 0 |
| FX Gain/(Loss) - post tax | | | | | |
| Other Adjustments - post-tax | | | | | |
| Net Profit | 21,620 | 21,683 | 18,775 | 17,570 | 24,633 |
| Recurring Net Profit | 21,241 | 21,894 | 18,775 | 17,570 | 24,633 |
| Fully Diluted Recurring Net Profit | 21,241 | 21,894 | 18,775 | 17,570 | 24,633 |

Cash Flow

| (HK\$m) | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|------------------------------------|----------------|-----------------|----------------|-----------------|-----------------|
| EBITDA | 25,613 | 16,660 | 16,250 | 16,250 | 18,880 |
| Cash Flow from Inv. & Assoc. | 0 | 0 | 0 | 0 | 0 |
| Change In Working Capital | 781 | (11,248) | (727) | 5,966 | 10,710 |
| Straight Line Adjustment | | | | | |
| (Incr)/Decr in Total Provisions | | | | | |
| Other Non-Cash (Income)/Expense | 3,590 | 2,297 | 1,513 | (207) | (208) |
| Other Operating Cashflow | | | | | |
| Net Interest (Paid)/Received | 553 | 619 | 1,405 | 1,461 | 1,528 |
| Tax Paid | (7,079) | (3,591) | (3,975) | (3,826) | (4,177) |
| Cashflow From Operations | 23,458 | 4,737 | 14,466 | 19,643 | 26,733 |
| Capex | (5,811) | (6,937) | (5,000) | (5,000) | (5,000) |
| Disposals Of FAs/subsidiaries | | | | | |
| Disposals of Investment Properties | | | | | |
| Acq. Of Subsidiaries/investments | | | | | |
| Other Investing Cashflow | 2,040 | 54,404 | (4,800) | (4,800) | (4,800) |
| Cash Flow From Investing | (3,771) | 47,467 | (9,800) | (9,800) | (9,800) |
| Debt Raised/(repaid) | 9,722 | (45,251) | 0 | (2,000) | (2,000) |
| Proceeds From Issue Of Shares | | | | | |
| Shares Repurchased | | | | | |
| Dividends Paid | (6,886) | (8,080) | (8,123) | (8,091) | (8,446) |
| Preferred Dividends | | | | | |
| Other Financing Cashflow | (596) | (536) | (370) | (358) | (300) |
| Cash Flow From Financing | 2,240 | (53,867) | (8,493) | (10,449) | (10,746) |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd
Balance Sheet

| (HK\$m) | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Total Cash And Equivalents | 63,365 | 61,198 | 51,108 | 50,218 | 56,121 |
| Properties Under Development | 127,482 | 136,446 | 147,954 | 159,033 | 153,718 |
| Total Debtors | 11,526 | 12,235 | 12,235 | 12,235 | 12,235 |
| Inventories | | | | | |
| Total Other Current Assets | 31,748 | 0 | 0 | 0 | 0 |
| Total Current Assets | 234,121 | 209,879 | 211,297 | 221,486 | 222,074 |
| Fixed Assets | 76,444 | 70,267 | 73,222 | 76,177 | 79,132 |
| Total Investments | 232,234 | 217,365 | 227,446 | 237,826 | 252,865 |
| Intangible Assets | 0 | 0 | 0 | 0 | 0 |
| Total Other Non-Current Assets | 13,912 | 17,310 | 17,310 | 17,310 | 17,310 |
| Total Non-current Assets | 322,590 | 304,942 | 317,978 | 331,313 | 349,307 |
| Short-term Debt | 28,812 | 2,435 | 2,435 | 2,435 | 2,435 |
| Current Portion of Long-Term Debt | | | | | |
| Total Creditors | 44,707 | 47,519 | 58,300 | 75,345 | 80,740 |
| Other Current Liabilities | 4,996 | 5,026 | 5,026 | 5,026 | 5,026 |
| Total Current Liabilities | 78,515 | 54,980 | 65,761 | 82,806 | 88,201 |
| Total Long-term Debt | 67,656 | 46,102 | 46,102 | 44,102 | 42,102 |
| Hybrid Debt - Debt Component | | | | | |
| Total Other Non-Current Liabilities | 24,265 | 20,032 | 20,032 | 20,032 | 20,032 |
| Total Non-current Liabilities | 91,921 | 66,134 | 66,134 | 64,134 | 62,134 |
| Total Provisions | 0 | 0 | 0 | 0 | 0 |
| Total Liabilities | 170,436 | 121,114 | 131,895 | 146,940 | 150,335 |
| Shareholders' Equity | 371,228 | 379,631 | 383,303 | 391,783 | 406,970 |
| Minority Interests | 15,047 | 14,076 | 14,076 | 14,076 | 14,076 |
| Total Equity | 386,275 | 393,707 | 397,379 | 405,859 | 421,046 |

Key Ratios

| | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|---------------------------|---------|---------|---------|---------|---------|
| Revenue Growth | 3.8% | (9.3%) | (3.4%) | (1.7%) | 16.0% |
| Operating EBITDA Growth | 8.5% | (34.1%) | (3.7%) | (0.0%) | 16.2% |
| Operating EBITDA Margin | 41.2% | 29.9% | 29.9% | 30.4% | 30.4% |
| Net Cash Per Share (HK\$) | (9.09) | 3.51 | 0.72 | 1.04 | 3.26 |
| BVPS (HK\$) | 101.9 | 105.3 | 108.0 | 110.4 | 114.7 |
| Gross Interest Cover | 21.42 | 12.66 | 8.50 | 8.98 | 11.19 |
| Effective Tax Rate | 27.7% | 11.6% | 17.2% | 17.6% | 14.3% |
| Net Dividend Payout Ratio | 37.1% | 37.5% | 43.3% | 46.1% | 34.3% |
| Accounts Receivables Days | 67.61 | 76.97 | 82.05 | 83.69 | 71.93 |
| Inventory Days | - | - | - | - | - |
| Accounts Payables Days | 591.9 | 631.6 | 747.7 | 981.8 | 986.9 |
| ROIC (%) | 10.8% | 6.7% | 7.4% | 7.2% | 8.5% |
| ROCE (%) | 5.65% | 4.09% | 3.82% | 3.78% | 4.27% |
| Return On Average Assets | 4.29% | 4.28% | 3.84% | 3.47% | 4.57% |

Key Drivers

| | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|--|----------|----------|----------|----------|----------|
| Property sales (subsid. + JV) (HK\$ m) | 37,798.0 | 25,756.0 | 20,239.3 | 17,882.3 | 40,214.3 |
| Property investment (subsid. + JV) (HK\$ m) | 6,693.0 | 5,843.0 | 6,609.0 | 7,089.4 | 7,274.9 |
| Infrastructure (subsid. + JV) (HK\$ m) | 20,867.0 | 22,889.0 | 23,048.2 | 23,854.9 | 24,689.8 |
| Hotels and other ops (subsid. + JV) (HK\$ m) | 17,883.0 | 25,063.0 | 27,855.1 | 29,731.7 | 31,456.8 |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Hong Kong

ADD (no change)

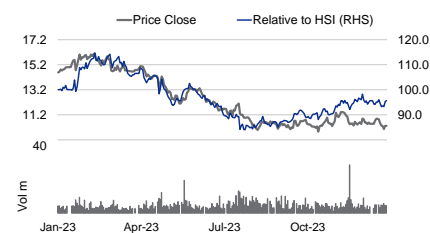
Consensus ratings*: Buy 15 Hold 2 Sell 0

| | |
|-------------------------|---------------------------|
| Current price: | HK\$10.32 |
| Target price: | HK\$12.60 |
| Previous target: | HK\$14.40 |
| Up/downside: | 22.1% |
| CGS-CIMB / Consensus: | 5.7% |
| Reuters: | 0101.HK |
| Bloomberg: | 101 HK |
| Market cap: | US\$5,937m HK\$46,432m |
| Average daily turnover: | US\$6.35m HK\$49.61m |
| Current shares o/s: | 4,499m |
| Free float: | 39.9% |

*Source: Bloomberg

Key changes in this note

- ▶ FY23F EPS decreased by 2%.
- ▶ FY24F EPS decreased by 5%.
- ▶ FY25F EPS decreased by 6%.



Source: Bloomberg

| Price performance | 1M | 3M | 12M |
|-------------------|-----|------|-------|
| Absolute (%) | -1 | -3.6 | -31.5 |
| Relative (%) | 0.5 | 5.3 | -7 |

| Major shareholders | % held |
|--------------------|--------|
| Hang Lung Group | 60.1 |

Hang Lung Properties Ltd

China rental as a growth driver unaffected

- We expect China rental to remain a key growth driver for HLP in FY24-25F, supported by luxury retail in Shanghai and a new mall in Hangzhou.
- We believe it can maintain an absolute DPS of HK\$0.78 in FY23-24F (payout ratio 70-80%), thanks to its recurring income from investment properties.
- Reiterate Add with a lower TP of HK\$12.6 (55% discount to NAV).

China rental a key growth driver in FY24-25F

Hang Lung Prop's (HLP) share price declined by 29% vs. a 30% decline for the HK Property sector between 17 Mar 2022 (the first policy rate hike by the US Federal Reserve in this interest rate hike cycle) and end-2023. We attribute its relative performance to the market's concerns over its rising net gearing (31% at end-2023F, per our estimate) as well as the growth outlook for China's luxury retail market. Looking ahead, we expect its retail rental growth to be more resilient in Shanghai than in other non-Tier 1 cities in China, given the different pace of post-pandemic economic recovery in different cities. As a result, we project 3-4% p.a. growth in China's rental income in FY23-24F. We believe the commencement of operations at its Westlake 66 mall in Hangzhou could be a key rental growth driver for HLP in FY25F.

EPS revisions

In view of the weaker-than-expected recovery of property markets in China and HK, we assume slower sales of its development property (DP) assets in China (Hang Lung Residences) and HK (e.g. The Aperture, scheduled for completion in FY24F). This, together with softer FY24-25F rental growth assumptions in HK rental, results in our 2-6% FY23-25F EPS cuts.

Reiterate Add with a wider target discount to NAV

We cut FY24F NAV by 2% to HK\$28.1 after revising rental and DP sales assumptions, and widen our target discount to NAV by 5% pt to 55% to factor in a slower-than-expected deleveraging schedule amid a higher-for-longer interest rate environment. Hence, we cut TP for HLP by 13% to HK\$12.6. Reiterate Add; we believe that HLP can maintain an absolute DPS of HK\$0.78 in FY23-24F (payout ratio: 70-80%) due to its solid recurring cash flow from China and HK investment properties (IP). Key downside risks include higher-than-expected borrowing costs, extended delay in DP sales, and unexpected DPS cuts. Potential rerating catalysts are stronger-than-expected retail sales and rental reversions in China, successful asset disposals, and higher-than-expected DP sales margins.

Analyst(s)

Raymond CHENG, CFA

 T (852) 2539 1324
 E raymond.cheng@cgs-cimb.com

Will CHU, CFA

 T (852) 2539 1327
 E will.chu@cgs-cimb.com

Steven MAK

 T (852) 2539 1328
 E steven.mak@cgs-cimb.com

Financial Summary

| | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|--------------------------------|---------|---------|---------|---------|---------|
| Total Net Revenues (HK\$m) | 10,321 | 10,347 | 10,285 | 12,033 | 13,172 |
| Operating EBITDA (HK\$m) | 7,231 | 6,234 | 6,657 | 7,137 | 7,461 |
| Net Profit (HK\$m) | 3,860 | 3,812 | 4,229 | 4,604 | 4,852 |
| Core EPS (HK\$) | 0.97 | 0.93 | 0.97 | 1.05 | 1.11 |
| Core EPS Growth | 3.89% | (3.82%) | 3.60% | 8.67% | 5.32% |
| FD Core P/E (x) | 10.64 | 11.06 | 10.67 | 9.82 | 9.33 |
| DPS (HK\$) | 0.78 | 0.78 | 0.78 | 0.78 | 0.80 |
| Dividend Yield | 7.56% | 7.56% | 7.56% | 7.56% | 7.75% |
| EV/EBITDA (x) | 13.91 | 14.61 | 15.13 | 14.47 | 13.96 |
| P/FCFE (x) | 6.44 | 27.70 | 18.07 | 10.46 | 18.07 |
| Net Gearing | 24.4% | 28.1% | 31.4% | 32.1% | 31.1% |
| P/BV (x) | 0.33 | 0.35 | 0.34 | 0.34 | 0.33 |
| ROE | 3.12% | 3.05% | 3.24% | 3.47% | 3.55% |
| % Change In Core EPS Estimates | | | (2.17%) | (5.38%) | (6.18%) |
| EPS/Consensus EPS (x) | | | 0.95 | 0.87 | 0.86 |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 1: Earnings revisions

| HK\$ m | 2023F | | | 2024F | | | 2025F | | |
|-----------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | Old | New | % chg | Old | New | % chg | Old | New | % chg |
| Core net profit | 4,447 | 4,350 | -2% | 4,996 | 4,727 | -5% | 5,307 | 4,979 | -6% |
| EPS (HK\$) | 0.99 | 0.97 | -2% | 1.11 | 1.05 | -5% | 1.18 | 1.11 | -6% |
| DPS (HK\$) | 0.78 | 0.78 | 0% | 0.78 | 0.78 | 0% | 0.80 | 0.80 | 0% |

SOURCES: CGS-CIMB RESEARCH ESTIMATES

Figure 2: NAV breakdown (end-FY24F)


| | HK\$ m | HK\$/share | % of GAV |
|-----------------------------------|----------------|-------------|--------------|
| HK investment properties (IP) | 63,888 | 14.2 | 36.7 |
| HK development properties (DP) | 4,865 | 1.1 | 2.8 |
| China IP - completed | 90,816 | 20.2 | 52.2 |
| China DP and IP under development | 14,422 | 3.2 | 8.3 |
| Gross asset value (GAV) | 173,992 | 38.7 | 100.0 |
| Less: net cash / (debt) | (47,628) | (10.6) | |
| NAV | 126,364 | 28.1 | |

SOURCES: CGS-CIMB RESEARCH ESTIMATES

Figure 3: Summary of NAV and TP changes

| | Old | New | Chg |
|----------------------------|-------------|-------------|-------------|
| NAV (HK\$) | 28.8 | 28.1 | -2% |
| Target discount | 50% | 55% | 5% pt |
| Target price (HK\$) | 14.4 | 12.6 | -13% |

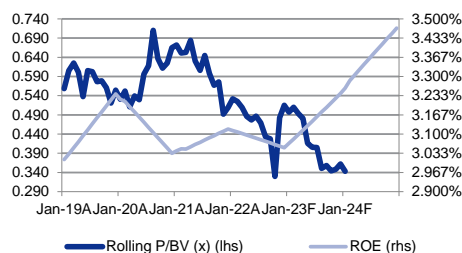
SOURCES: CGS-CIMB RESEARCH ESTIMATES

|  | | Refinitiv ESG Scores | | | | | |
|---|--|----------------------|-------------------------|--------------------|------------------------------|-------------------------|-----------------------------|
| ESG in a nutshell | | B- | A+ | B- | B+ | B- | C- |
| | | ESG Score | ESG Controversies Score | ESG Combined Score | ESG Environment Pillar Score | ESG Social Pillar Score | ESG Government Pillar Score |
| <p>In late 2020, Hang Lung Prop (HLP) announced a set of sustainability goals and targets across several areas to be achieved by 2030. In order to achieve these goals, HLP endorsed 35 strategic ESG key performance indicators (KPIs) for 2021 under five categories, namely climate resilience, resource management, well-being, sustainable transactions and other major ESG initiatives.</p> | | | | | | | |
| Keep your eye on | Implications | | | | | | |
| We see no ESG issues for HLP which we are concerned about. | N/A | | | | | | |
| ESG highlights | Implications | | | | | | |
| On 17 May 2022, HLP published its Sustainability Report 2021, in which it shared the 28 Strategic ESG KPIs it aims to achieve by 2030, and climate-related disclosures in line with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD). | HLP has demonstrated its commitment towards ESG issues. We believe further progress on ESG could support a further re-rating of its shares. | | | | | | |
| Trends | Implications | | | | | | |
| HLP has set ambitious decarbonisation targets for 2025 and 2030, with the goal of reaching net-zero emissions by 2050. | We have not applied any premium/discount for ESG in our fundamental valuations of HLP. We believe HLP will continually improve on the different areas of ESG, thereby attracting greater interest among ESG-focused investors. | | | | | | |

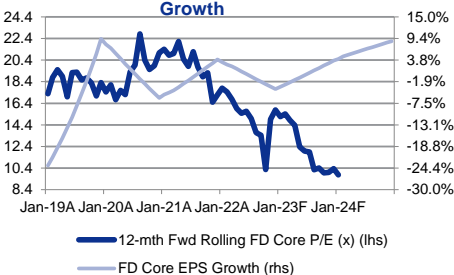
SOURCES: CGS-CIMB RESEARCH, REFINITIV

BY THE NUMBERS

P/BV vs ROE



12-mth Fwd FD Core P/E vs FD Core EPS Growth



Profit & Loss

| (HK\$m) | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|---|----------------|----------------|----------------|----------------|----------------|
| Total Net Revenues | 10,321 | 10,347 | 10,285 | 12,033 | 13,172 |
| Gross Profit | 7,371 | 7,253 | 7,445 | 7,943 | 8,288 |
| Operating EBITDA | 7,231 | 6,234 | 6,657 | 7,137 | 7,461 |
| Depreciation And Amortisation | 0 | 0 | 0 | 0 | 0 |
| Operating EBIT | 7,231 | 6,234 | 6,657 | 7,137 | 7,461 |
| Financial Income/(Expense) | (414) | (449) | (552) | (583) | (583) |
| Pretax Income/(Loss) from Assoc. | 8 | 24 | 122 | 123 | 127 |
| Non-Operating Income/(Expense) | 55 | 17 | 0 | 0 | 0 |
| Profit Before Tax (pre-EI) | 6,428 | 6,195 | 6,348 | 6,801 | 7,131 |
| Exceptional Items | | | | | |
| Pre-tax Profit | 6,880 | 5,826 | 6,227 | 6,677 | 7,005 |
| Taxation | (2,083) | (1,453) | (1,396) | (1,478) | (1,559) |
| Exceptional Income - post-tax | | | | | |
| Profit After Tax | 4,797 | 4,373 | 4,831 | 5,199 | 5,446 |
| Minority Interests | (937) | (561) | (603) | (595) | (594) |
| Pref. & Special Div | 0 | 0 | 0 | 0 | 0 |
| FX Gain/(Loss) - post tax | | | | | |
| Other Adjustments - post-tax | 0 | 0 | 0 | 0 | 0 |
| Net Profit | 3,860 | 3,812 | 4,229 | 4,604 | 4,852 |
| Recurring Net Profit | 4,365 | 4,199 | 4,350 | 4,727 | 4,979 |
| Fully Diluted Recurring Net Profit | 4,365 | 4,199 | 4,350 | 4,727 | 4,979 |

Cash Flow

| (HK\$m) | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|------------------------------------|----------------|----------------|----------------|----------------|----------------|
| EBITDA | 7,231 | 6,234 | 6,657 | 7,137 | 7,461 |
| Cash Flow from Inv. & Assoc. | | | | | |
| Change In Working Capital | (2,685) | (1,834) | (2,518) | 344 | (579) |
| Straight Line Adjustment | | | | | |
| (Incr)/Decr in Total Provisions | | | | | |
| Other Non-Cash (Income)/Expense | | | | | |
| Other Operating Cashflow | (345) | 1,469 | 1,634 | 1,723 | 1,723 |
| Net Interest (Paid)/Received | (1,333) | (1,449) | (1,867) | (1,983) | (1,976) |
| Tax Paid | (1,469) | (1,453) | (1,396) | (1,478) | (1,559) |
| Cashflow From Operations | 1,399 | 2,967 | 2,511 | 5,743 | 5,070 |
| Capex | (2,716) | (3,894) | (4,138) | (3,807) | (1,502) |
| Disposals Of FAs/subsidiaries | | | | | |
| Disposals of Investment Properties | | | | | |
| Acq. Of Subsidiaries/investments | | | | | |
| Other Investing Cashflow | 1,214 | 2,774 | 0 | 1 | 2 |
| Cash Flow From Investing | (1,502) | (1,120) | (4,138) | (3,806) | (1,500) |
| Debt Raised/(repaid) | 7,314 | (171) | 4,196 | 2,500 | (1,000) |
| Proceeds From Issue Of Shares | 29 | 0 | 0 | 0 | 0 |
| Shares Repurchased | | | | | |
| Dividends Paid | (3,463) | (3,509) | (3,509) | (3,509) | (3,554) |
| Preferred Dividends | | | | | |
| Other Financing Cashflow | (493) | (293) | (314) | (311) | (310) |
| Cash Flow From Financing | 3,387 | (3,973) | 372 | (1,320) | (4,864) |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

| (HK\$m) | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Total Cash And Equivalents | 8,515 | 5,229 | 3,974 | 4,592 | 3,297 |
| Properties Under Development | 10,790 | 11,668 | 11,668 | 10,541 | 8,860 |
| Total Debtors | 3,499 | 3,560 | 3,394 | 3,971 | 4,347 |
| Inventories | | | | | |
| Total Other Current Assets | 0 | 0 | 0 | 0 | 0 |
| Total Current Assets | 22,804 | 20,457 | 19,037 | 19,104 | 16,504 |
| Fixed Assets | 290 | 320 | 330 | 339 | 350 |
| Total Investments | 201,064 | 191,771 | 196,928 | 202,116 | 207,407 |
| Intangible Assets | 0 | 0 | 0 | 0 | 0 |
| Total Other Non-Current Assets | 77 | 140 | 140 | 140 | 140 |
| Total Non-current Assets | 201,431 | 192,231 | 197,398 | 202,596 | 207,897 |
| Short-term Debt | 8,084 | 4,533 | 8,128 | 6,934 | 22,561 |
| Current Portion of Long-Term Debt | | | | | |
| Total Creditors | 0 | 0 | 0 | 0 | 0 |
| Other Current Liabilities | 11,423 | 10,290 | 7,550 | 7,260 | 5,314 |
| Total Current Liabilities | 19,507 | 14,823 | 15,678 | 14,194 | 27,875 |
| Total Long-term Debt | 37,611 | 40,991 | 41,592 | 45,286 | 28,659 |
| Hybrid Debt - Debt Component | | | | | |
| Total Other Non-Current Liabilities | 305 | 266 | 244 | 223 | 204 |
| Total Non-current Liabilities | 37,916 | 41,257 | 41,836 | 45,509 | 28,863 |
| Total Provisions | 14,428 | 13,462 | 13,462 | 13,461 | 13,461 |
| Total Liabilities | 71,851 | 69,542 | 70,975 | 73,164 | 70,199 |
| Shareholders' Equity | 141,719 | 133,381 | 135,092 | 137,572 | 142,646 |
| Minority Interests | 10,665 | 9,765 | 10,368 | 10,963 | 11,556 |
| Total Equity | 152,384 | 143,146 | 145,459 | 148,535 | 154,202 |

Key Ratios

| | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|---------------------------|---------|---------|---------|---------|---------|
| Revenue Growth | 15.0% | 0.3% | (0.6%) | 17.0% | 9.5% |
| Operating EBITDA Growth | 13.9% | (2.6%) | 2.7% | 7.1% | 4.5% |
| Operating EBITDA Margin | 65.7% | 63.8% | 65.9% | 60.3% | 57.6% |
| Net Cash Per Share (HK\$) | (8.26) | (8.96) | (10.17) | (10.59) | (10.65) |
| BVPS (HK\$) | 31.50 | 29.65 | 30.03 | 30.58 | 31.70 |
| Gross Interest Cover | 4.56 | 4.37 | 3.46 | 3.51 | 3.68 |
| Effective Tax Rate | 30.3% | 24.9% | 22.4% | 22.1% | 22.3% |
| Net Dividend Payout Ratio | 103% | 84% | 81% | 74% | 72% |
| Accounts Receivables Days | 123.7 | 124.5 | 123.4 | 112.0 | 115.2 |
| Inventory Days | - | - | - | - | - |
| Accounts Payables Days | - | - | - | - | - |
| ROIC (%) | 2000% | 171% | 105% | 76% | 82% |
| ROCE (%) | 3.33% | 3.22% | 3.35% | 3.48% | 3.54% |
| Return On Average Assets | 2.15% | 2.34% | 2.52% | 2.65% | 2.72% |

Key Drivers

| | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|---|---------|---------|---------|---------|---------|
| Revenue growth - HK property leasing (%) | -6.9% | -3.0% | -0.1% | -0.1% | 1.5% |
| Revenue growth - China property leasing (%) | 31.5% | -2.7% | 3.8% | 3.3% | 8.0% |
| Overall gross margin (%) | 71.4% | 70.1% | 72.4% | 66.0% | 62.9% |
| HK rental margin (%) | 81.9% | 79.7% | 80.7% | 81.2% | 81.7% |
| China rental margin (%) | 67.6% | 67.4% | 68.5% | 67.6% | 66.8% |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Hong Kong

ADD (no change)

Consensus ratings*: Buy 8 Hold 5 Sell 3

| | |
|-------------------------|-----------------------------|
| Current price: | HK\$22.50 |
| Target price: | HK\$25.10 |
| Previous target: | HK\$26.50 |
| Up/downside: | 11.6% |
| CGS-CIMB / Consensus: | 10.1% |
| Reuters: | 0012.HK |
| Bloomberg: | 12 HK |
| Market cap: | US\$13,929m HK\$108,931m |
| Average daily turnover: | US\$7.80m HK\$60.98m |
| Current shares o/s: | 4,841m |
| Free float: | 27.2% |

*Source: Bloomberg

Key changes in this note

- ▶ FY23F EPS decreased by 3%.
- ▶ FY24F EPS decreased by 7%.
- ▶ FY25F EPS decreased by 10%.



Source: Bloomberg

| Price performance | 1M | 3M | 12M |
|-------------------|-----|------|-------|
| Absolute (%) | 5.9 | 8.4 | -19.7 |
| Relative (%) | 7.4 | 17.3 | 4.8 |

| Major shareholders | % held |
|-----------------------------|--------|
| Lee Shau-kee's family trust | 72.8 |

Henderson Land Development

Destocking, disposals to drive share price

- We believe the key share price drivers for HLD in 2024F could come from continued destocking and opportunities for asset disposals.
- HLD targets an effective rent premium of ~10% over its IFC office building for The Henderson, on the back of rent stabilisation over the next several years.
- Reiterate Add on HLD with a lower TP of HK\$25.1 (45% discount to NAV).

Destocking and disposals key share price drivers in 2024F

Between 17 Mar 2022 (first rate hike by US Federal Reserve in the current interest rate cycle) and end-2023, HLD's share price was down 28%, largely in line with the sector's average decline of 30% in the same period. We believe that HLD's share price in 2024F will be primarily driven by 1) continued destocking of development property (DP) contracted sales in urban districts (e.g. Kai Tak, Hung Hom and Tai Kok Tsui), 2) potential asset disposals, including non-core office towers (e.g. Harbour East, confirmed to be sold to Li Ning (2331 HK, Add)) and farm land for resumption by the HKSAR Government, to improve its cash flow and thus reduce its interest expense.

The Henderson – close to 50% pre-leasing rate

HLD's new Grade A office tower in Central, The Henderson, is scheduled to complete construction in 1H24. HLD has secured four multinational corporations (MNC) as tenants for The Henderson, with a pre-leasing rate of c.50% as of Oct 2023. We estimate an initial effective rent of HK\$100-120/sf for The Henderson, and HLD targets to achieve an effective rent premium of ~10% over its International Financial Centre (IFC) office building as it expects rents to stabilise over the next several years.

Reiterate Add with a slightly lower TP

We cut FY23-25F EPS by 3-10% to reflect lower property sales booking assumptions after mild ASP cuts and slower growth in rental income from investment properties (IP). We cut our NAV for HLD by 5% to HK\$46.2 on the back of lower ASP for DP and lower capital values for IP by assuming lower IP rental growth in FY24F. As a result, we cut our TP for HLD to HK\$25.1 after applying an unchanged 45% discount to NAV. Reiterate Add on HLD, in view of its readily available saleable resources (DP) in HK and solid recurring income from investment properties (IP), hotel and HK and China Gas (3 HK, NR), and stable annual DPS of HK\$1.8. Key downside risks: lower DP sell-through rates, delayed project completions, and unexpected DPS cuts. Re-rating catalysts include more asset disposals and stronger-than-expected rental reversions for IP.

Analyst(s)



Raymond CHENG, CFA
T (852) 2539 1324
E raymond.cheng@cgs-cimb.com

Will CHU, CFA
T (852) 2539 1327
E will.chu@cgs-cimb.com

Steven MAK
T (852) 2539 1328
E steven.mak@cgs-cimb.com

Financial Summary

| | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|--------------------------------|---------|---------|---------|---------|---------|
| Total Net Revenues (HK\$m) | 23,527 | 25,551 | 30,259 | 26,023 | 29,689 |
| Operating EBITDA (HK\$m) | 9,952 | 7,332 | 10,124 | 9,870 | 10,010 |
| Net Profit (HK\$m) | 13,195 | 9,239 | 10,094 | 10,668 | 10,734 |
| Core EPS (HK\$) | 2.81 | 1.99 | 2.08 | 2.20 | 2.22 |
| Core EPS Growth | (8.6%) | (29.3%) | 4.8% | 5.7% | 0.6% |
| FD Core P/E (x) | 8.00 | 11.31 | 10.79 | 10.21 | 10.15 |
| DPS (HK\$) | 1.80 | 1.80 | 1.80 | 1.80 | 1.80 |
| Dividend Yield | 8.00% | 8.00% | 8.00% | 8.00% | 8.00% |
| EV/EBITDA (x) | 11.23 | 14.41 | 10.90 | 10.95 | 10.02 |
| P/FCFE (x) | NA | 49.74 | 13.75 | 81.45 | 8.58 |
| Net Gearing | 42.5% | 40.3% | 40.2% | 39.6% | 37.4% |
| P/BV (x) | 0.33 | 0.33 | 0.33 | 0.33 | 0.33 |
| ROE | 4.11% | 2.90% | 3.07% | 3.23% | 3.23% |
| % Change In Core EPS Estimates | | | (3.45%) | (7.45%) | (9.52%) |
| EPS/Consensus EPS (x) | | | 0.90 | 0.95 | 0.88 |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 1: Earnings revisions

| HK\$ m | 2023F | | | 2024F | | | 2025F | | |
|-----------------|--------|--------|-------|--------|--------|-------|--------|--------|-------|
| | Old | New | % chg | Old | New | % chg | Old | New | % chg |
| Core net profit | 10,455 | 10,094 | -3% | 11,527 | 10,668 | -7% | 11,864 | 10,734 | -10% |
| EPS (HK\$) | 2.16 | 2.08 | -3% | 2.38 | 2.20 | -7% | 2.45 | 2.22 | -10% |
| DPS (HK\$) | 1.80 | 1.80 | 0% | 1.80 | 1.80 | 0% | 1.80 | 1.80 | 0% |

SOURCES: CGS-CIMB RESEARCH ESTIMATES

Figure 2: NAV breakdown (end-FY24F)


| | HK\$ m | HK\$/sh | % of GAV |
|--|----------------|-------------|--------------|
| HK DP | 54,690 | 11.3 | 15.5 |
| <i>Mass residential</i> | 21,368 | 4.4 | 6.1 |
| <i>Luxury residential</i> | 31,665 | 6.5 | 9.0 |
| <i>Retail</i> | 1,657 | 0.3 | 0.5 |
| HK IP | 180,901 | 37.4 | 51.4 |
| <i>Office</i> | 61,847 | 12.8 | 17.6 |
| <i>Retail</i> | 110,402 | 22.8 | 31.4 |
| <i>Residential</i> | 6,677 | 1.4 | 1.9 |
| <i>Others</i> | 1,976 | 0.4 | 0.6 |
| Listed investments at MV* | 52,082 | 10.8 | 14.8 |
| China DP and IP | 54,051 | 11.2 | 15.4 |
| Value of undeveloped farmland reserves | 10,194 | 2.1 | 2.9 |
| Gross Asset Value (GAV) | 351,918 | 72.7 | 100.0 |
| Less: net debt | (131,188) | (27.1) | |
| NAV | 220,730 | 45.6 | |

SOURCES: CGS-CIMB RESEARCH ESTIMATES

Figure 3: Summary of NAV and TP changes

| | Old | New | Chg % |
|---------------------|------|------|-------|
| NAV (HK\$) | 48.1 | 45.6 | -5% |
| Target discount (%) | 45% | 45% | 0%pt |
| TP (HK\$) | 26.5 | 25.1 | -5% |

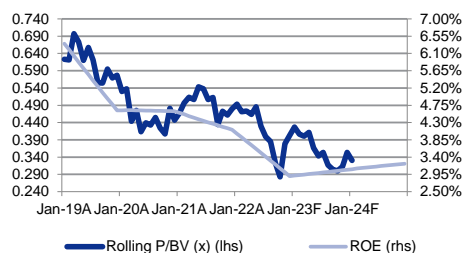
SOURCES: CGS-CIMB RESEARCH ESTIMATES

|  | | Refinitiv ESG Scores | | | | | |
|---|---|----------------------|-------------------------|--------------------|------------------------------|-------------------------|-----------------------------|
| | | B- | A+ | B- | B+ | B+ | D |
| | | ESG Score | ESG Controversies Score | ESG Combined Score | ESG Environment Pillar Score | ESG Social Pillar Score | ESG Government Pillar Score |
| ESG in a nutshell <p>Henderson Land Development (HLD) is committed to embedding sustainability as an integral part of its businesses and it aspires to remain a market leader by maximising long-term economic value while creating a positive social and environmental impact. It scored BB in its MSCI ESG rating. In the long run, HLD aims to enhance sustainability in the following four areas: building a green portfolio, shaping a smarter future, creating a caring culture in the workplace and endeavouring to build more cohesive communities.</p> | | | | | | | |
| Keep your eye on | Implications | | | | | | |
| We see no ESG issues for HLD that we are concerned about. | N/A | | | | | | |
| ESG highlights | Implications | | | | | | |
| In 2023, HLD was awarded “Developer of the Year – Hong Kong” by Real Estate Asia Awards. | HLD has demonstrated its commitment towards ESG issues over the past few years. We believe further progress on ESG could support a re-rating of its shares. | | | | | | |
| Trends | Implications | | | | | | |
| HLD’s 2030 Sustainability Vision has four primary drivers: Green for Planet, Innovation for Future, Value for People and Endeavour for Community, which align with HLD’s commitments to the SDGs. | We have not applied any premium/discount for ESG to our fundamental valuations. We believe HLD will continually improve on the different areas of ESG, thereby attracting greater interest among ESG-focused investors. | | | | | | |

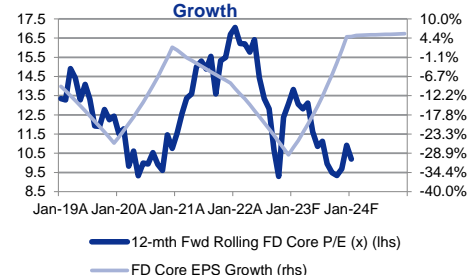
SOURCES: CGS-CIMB RESEARCH, REFINITIV

BY THE NUMBERS

P/BV vs ROE



12-mth Fwd FD Core P/E vs FD Core EPS Growth



Profit & Loss

| (HK\$m) | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|---|----------------|----------------|----------------|----------------|----------------|
| Total Net Revenues | 23,527 | 25,551 | 30,259 | 26,023 | 29,689 |
| Gross Profit | 12,082 | 10,372 | 13,598 | 13,257 | 13,445 |
| Operating EBITDA | 9,952 | 7,332 | 10,124 | 9,870 | 10,010 |
| Depreciation And Amortisation | 0 | 0 | 0 | 0 | 0 |
| Operating EBIT | 9,952 | 7,332 | 10,124 | 9,870 | 10,010 |
| Financial Income/(Expense) | (491) | (1,033) | (1,823) | (1,663) | (1,532) |
| Pretax Income/(Loss) from Assoc. | 3,965 | 4,837 | 3,970 | 4,497 | 4,626 |
| Non-Operating Income/(Expense) | 1,853 | (429) | 0 | 0 | 0 |
| Profit Before Tax (pre-EI) | 15,708 | 11,097 | 12,271 | 12,703 | 13,104 |
| Exceptional Items | | | | | |
| Pre-tax Profit | 15,279 | 10,707 | 12,271 | 12,703 | 13,104 |
| Taxation | (1,952) | (1,210) | (1,949) | (1,804) | (1,833) |
| Exceptional Income - post-tax | | | | | |
| Profit After Tax | 13,327 | 9,497 | 10,322 | 10,899 | 11,271 |
| Minority Interests | (132) | (258) | (228) | (231) | (537) |
| Prof. & Special Div | 0 | 0 | 0 | 0 | 0 |
| FX Gain/(Loss) - post tax | | | | | |
| Other Adjustments - post-tax | | | | | |
| Net Profit | 13,195 | 9,239 | 10,094 | 10,668 | 10,734 |
| Recurring Net Profit | 13,624 | 9,629 | 10,094 | 10,668 | 10,734 |
| Fully Diluted Recurring Net Profit | 13,624 | 9,629 | 10,094 | 10,668 | 10,734 |

Cash Flow

| (HK\$m) | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|------------------------------------|-----------------|----------------|----------------|-----------------|-----------------|
| EBITDA | 9,952 | 7,332 | 10,124 | 9,870 | 10,010 |
| Cash Flow from Inv. & Assoc. | | | | | |
| Change In Working Capital | (6,323) | 230 | (336) | 522 | 5,612 |
| Straight Line Adjustment | | | | | |
| (Incr)/Decr in Total Provisions | | | | | |
| Other Non-Cash (Income)/Expense | | | | | |
| Other Operating Cashflow | (1,294) | 2,717 | 5,394 | 5,070 | 4,447 |
| Net Interest (Paid)/Received | (766) | (3,446) | (6,638) | (6,124) | (5,339) |
| Tax Paid | (2,263) | (1,210) | (1,949) | (1,804) | (1,833) |
| Cashflow From Operations | (694) | 5,623 | 6,595 | 7,533 | 12,897 |
| Capex | 0 | 0 | 0 | 0 | 0 |
| Disposals Of FAs/subsidiaries | (54,169) | 0 | (1,000) | (1,000) | (1,000) |
| Disposals of Investment Properties | | | | | |
| Acq. Of Subsidiaries/investments | | | | | |
| Other Investing Cashflow | 3,945 | 3,628 | 2,977 | 3,373 | 3,469 |
| Cash Flow From Investing | (50,224) | 3,628 | 1,977 | 2,373 | 2,469 |
| Debt Raised/(repaid) | 12,951 | (7,061) | (653) | (8,568) | (2,666) |
| Proceeds From Issue Of Shares | | | | | |
| Shares Repurchased | | | | | |
| Dividends Paid | (8,954) | (8,714) | (8,714) | (8,714) | (8,714) |
| Preferred Dividends | | | | | |
| Other Financing Cashflow | 49,613 | 6,873 | 2,854 | 0 | 0 |
| Cash Flow From Financing | 53,610 | (8,902) | (6,513) | (17,282) | (11,380) |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

| (HK\$m) | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Total Cash And Equivalents | 10,947 | 11,295 | 13,355 | 5,979 | 9,965 |
| Properties Under Development | 109,180 | 97,258 | 97,258 | 97,258 | 97,258 |
| Total Debtors | 18,249 | 15,812 | 15,327 | 16,079 | 24,162 |
| Inventories | | | | | |
| Total Other Current Assets | 1,169 | 765 | 765 | 765 | 765 |
| Total Current Assets | 139,545 | 125,130 | 126,706 | 120,081 | 132,149 |
| Fixed Assets | 0 | 0 | 0 | 0 | 0 |
| Total Investments | 410,759 | 404,660 | 406,073 | 407,588 | 409,105 |
| Intangible Assets | 0 | 0 | 0 | 0 | 0 |
| Total Other Non-Current Assets | 0 | 0 | 0 | 0 | 0 |
| Total Non-current Assets | 410,759 | 404,660 | 406,073 | 407,588 | 409,105 |
| Short-term Debt | 31,784 | 30,653 | 23,568 | 6,666 | 4,444 |
| Current Portion of Long-Term Debt | | | | | |
| Total Creditors | 26,514 | 24,368 | 23,547 | 24,820 | 38,515 |
| Other Current Liabilities | 4,949 | 5,453 | 5,453 | 5,453 | 5,453 |
| Total Current Liabilities | 63,247 | 60,474 | 52,568 | 36,939 | 48,412 |
| Total Long-term Debt | 121,665 | 112,881 | 122,167 | 130,501 | 130,057 |
| Hybrid Debt - Debt Component | | | | | |
| Total Other Non-Current Liabilities | 30,372 | 28,487 | 28,715 | 28,946 | 29,482 |
| Total Non-current Liabilities | 152,037 | 141,368 | 150,882 | 159,447 | 159,539 |
| Total Provisions | 0 | 0 | 0 | 0 | 0 |
| Total Liabilities | 215,284 | 201,842 | 203,450 | 196,386 | 207,951 |
| Shareholders' Equity | 335,020 | 327,948 | 329,328 | 331,283 | 333,303 |
| Minority Interests | | | | | |
| Total Equity | 335,020 | 327,948 | 329,328 | 331,283 | 333,303 |

Key Ratios

| | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|---------------------------|---------|---------|---------|---------|---------|
| Revenue Growth | (6.0%) | 8.6% | 18.4% | (14.0%) | 14.1% |
| Operating EBITDA Growth | (23.2%) | (25.6%) | 31.1% | (2.5%) | 1.4% |
| Operating EBITDA Margin | 44.1% | 30.2% | 33.5% | 37.9% | 33.7% |
| Net Cash Per Share (HK\$) | (29.44) | (27.32) | (27.34) | (27.10) | (25.72) |
| BVPS (HK\$) | 69.20 | 67.74 | 68.03 | 68.43 | 68.85 |
| Gross Interest Cover | 4.96 | 2.12 | 1.47 | 1.55 | 1.84 |
| Effective Tax Rate | 12.8% | 11.3% | 15.9% | 14.2% | 14.0% |
| Net Dividend Payout Ratio | 64.0% | 90.5% | 86.3% | 81.7% | 81.2% |
| Accounts Receivables Days | 274.6 | 243.3 | 187.8 | 220.9 | 247.4 |
| Inventory Days | - | - | - | - | - |
| Accounts Payables Days | 752.6 | 611.8 | 524.8 | 693.3 | 711.6 |
| ROIC (%) | 9.2% | 6.6% | 10.1% | 9.8% | 10.0% |
| ROCE (%) | 2.32% | 1.65% | 2.19% | 2.14% | 2.16% |
| Return On Average Assets | 2.80% | 1.99% | 2.23% | 2.32% | 2.35% |

Key Drivers

| | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|--------------------------------------|----------|----------|----------|----------|----------|
| Property sales - HK (HK\$ m) | 10,805.0 | 14,119.0 | 17,116.4 | 12,563.4 | 15,448.1 |
| Property sales - China (HK\$ m) | 1,825.0 | 516.0 | 2,071.1 | 2,071.1 | 2,458.8 |
| Property investment - HK (HK\$ m) | 4,462.0 | 4,710.0 | 4,316.7 | 4,479.9 | 4,630.0 |
| Property investment - China (HK\$ m) | 2,043.0 | 2,021.0 | 2,444.2 | 2,469.1 | 2,578.9 |
| OPM - property sales (%) | 37.0% | 20.0% | 24.6% | 29.2% | 23.5% |
| OPM - property investment (%) | 69.3% | 71.8% | 72.2% | 72.8% | 72.8% |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Singapore

HOLD (no change)

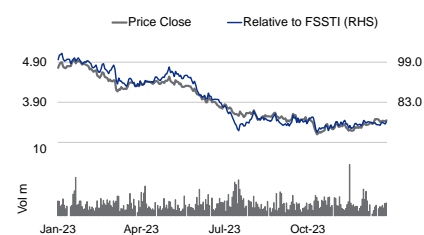
Consensus ratings*: Buy 4 Hold 5 Sell 4

| | |
|-------------------------|------------|
| Current price: | US\$3.45 |
| Target price: | US\$3.60 |
| Previous target: | US\$4.00 |
| Up/downside: | 4.3% |
| CGS-CIMB / Consensus: | -7.2% |
| Reuters: | HKLD.SI |
| Bloomberg: | HKL SP |
| Market cap: | US\$7,615m |
| Average daily turnover: | US\$5.72m |
| Current shares o/s: | 2,215m |
| Free float: | 47.9% |

*Source: Bloomberg

Key changes in this note

- FY23F/24F/25F EPS cut by 14%/14%/16% respectively



Source: Bloomberg

| Price performance | 1M | 3M | 12M |
|-------------------|-----|------|-------|
| Absolute (%) | 5.2 | -0.6 | -27.5 |
| Relative (%) | 3 | 0 | -24.9 |

| Major shareholders | % held |
|--------------------|--------|
| Jardine Matheson | 52.1 |

Hongkong Land Holdings Ltd

Lacks short-term growth drivers

- We expect Hongkong Land (HKL) to see lower spot rents in FY24F-25F due to the new supply of office space in Central.
- We believe management is switching its growth driver in China to IP, whose LFA should triple between 2023 and 2028F, as guided by management.
- We cut our FY23F-25F EPS by 14-16% for lower spot rent assumptions. Reiterate Hold with a lower TP of HK\$3.6 based on a 65% discount to NAV.

Challenging HK office outlook could hurt profits in FY24-25F

HKL's vacancy rate stood at 6.9% in 1H23, up from 4.9% at end-2022. We expect the negative rental reversion to continue into FY24F amid an oversupply of office space in Central, which will drag down the performance of its HK office portfolio. In contrast, we expect its Singapore office space to continue to perform well, with positive rental reversions and lower vacancy rates thanks to the Singapore government's effective policies.

Turning its growth driver in China from DP to IP

Due to the weak property market in China, we expect HKL to cut selling prices in FY23-25F to boost sales, which will lower the margins of its DP business. Nevertheless, we notice that HKL has been shifting its growth driver in China to retail investment properties (IP), with plans to triple its retail leasable floor area (LFA) to 530k sqm by 2028F, from 2023. This should drive recurring income growth and reduce its reliance on China DP profits in the long term, in our view. However, HKL's profits in the near term are unlikely to benefit from this shift.

Reiterate Hold with a lower TP of HK\$3.60

We cut our FY23F-25F EPS forecasts by 14-16% due to lower spot rent assumptions of the HK office portfolio and weaker ASP assumptions for its China DP business. As a consequence, we cut our TP to HK\$3.6, based on a 65% target discount to NAV (widened from 60% to reflect the weaker office rental outlook in HK). Reiterate Hold. Key downside risks include higher-than-expected vacancies for HK office space and slower-than-expected recovery of DP sales in China. Earlier-than-expected recovery of HK office passing rents and lower-than-expected borrowing costs are key upside risks for HKL.

Analyst(s)

Raymond CHENG, CFA

 T (852) 2539 1324
 E raymond.cheng@cgs-cimb.com

Steven MAK

 T (852) 2539 1328
 E steven.mak@cgs-cimb.com

Will CHU, CFA

 T (852) 2539 1327
 E will.chu@cgs-cimb.com

Financial Summary

| | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|--------------------------------|---------|---------|---------|---------|---------|
| Total Net Revenues (US\$m) | 2,384 | 2,244 | 1,716 | 1,870 | 1,929 |
| Operating EBITDA (US\$m) | (371.8) | 272.6 | 798.1 | 817.3 | 808.0 |
| Net Profit (US\$m) | (349.2) | 202.7 | 674.4 | 671.1 | 763.6 |
| Core EPS (US\$) | 0.41 | 0.34 | 0.30 | 0.30 | 0.34 |
| Core EPS Growth | 0.5% | (17.0%) | (11.8%) | (0.2%) | 13.8% |
| FD Core P/E (x) | 8.27 | 10.06 | 11.36 | 11.38 | 10.01 |
| DPS (US\$) | 0.22 | 0.22 | 0.22 | 0.22 | 0.23 |
| Dividend Yield | 6.38% | 6.38% | 6.38% | 6.38% | 6.67% |
| EV/EBITDA (x) | 3.87 | 4.73 | 5.10 | 3.94 | 2.12 |
| P/FCFE (x) | 47.27 | 13.64 | NA | 22.93 | 9.94 |
| Net Gearing | 14.7% | 17.5% | 20.2% | 18.3% | 14.3% |
| P/BV (x) | 0.23 | 0.23 | 0.23 | 0.22 | 0.21 |
| ROE | 2.75% | 2.29% | 2.05% | 2.02% | 2.16% |
| % Change In Core EPS Estimates | | | (13.5%) | (14.5%) | (16.4%) |
| EPS/Consensus EPS (x) | | | 0.84 | 0.78 | 0.83 |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 1: NAV breakdown (end-FY24F)

| | US\$ m | US\$/share | % GAV |
|-----------------------------|---------------|-------------|---------------|
| HK Central office portfolio | 12,130 | 5.5 | 39.9% |
| HK Central retail portfolio | 2,731 | 1.2 | 9.0% |
| Other HK portfolio | 47 | 0.0 | 0.2% |
| China IP | 3,327 | 1.5 | 11.0% |
| SG IP | 3,666 | 1.7 | 12.1% |
| Other Asean IP and hotels | 589 | 0.3 | 1.9% |
| SG and Asean DP | 0 | 0.0 | 0.0% |
| China DP | 7,889 | 3.6 | 26.0% |
| GAV - total | 30,379 | 13.8 | 100.0% |
| Less: net debt | (6,233) | (2.8) | |
| NAV | 24,146 | 10.9 | |
| Target discount (%) | | 65% | |
| TP (US\$) | | 3.6 | |

SOURCES: CGS-CIMB RESEARCH ESTIMATES

Figure 2: Earning revisions


| US\$ m | 2023F | | | 2024F | | | 2025F | | |
|-----------------|-------|------|-------|-------|------|-------|-------|------|-------|
| | Old | New | % chg | Old | New | % chg | Old | New | % chg |
| Core net profit | 780 | 674 | -14% | 785 | 671 | -14% | 914 | 764 | -16% |
| EPS (US\$) | 0.35 | 0.30 | -14% | 0.35 | 0.30 | -14% | 0.41 | 0.34 | -16% |
| DPS (US\$) | 0.22 | 0.22 | 0% | 0.22 | 0.22 | 0% | 0.23 | 0.23 | 0% |

SOURCES: CGS-CIMB RESEARCH ESTIMATES

Figure 3: Summary of TP and NAV changes

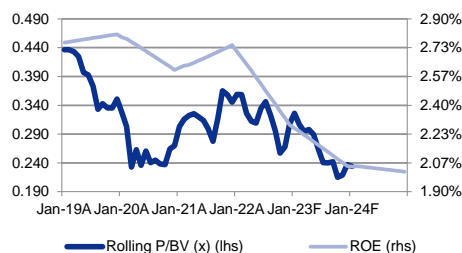
| | Old | New | Chg |
|---------------------|------|-------|-------|
| NAV (US\$) | 9.90 | 10.20 | 3% |
| Target discount | 60% | 65% | 5% pt |
| Target price (US\$) | 4.00 | 3.60 | -10% |

SOURCES: CGS-CIMB RESEARCH ESTIMATES

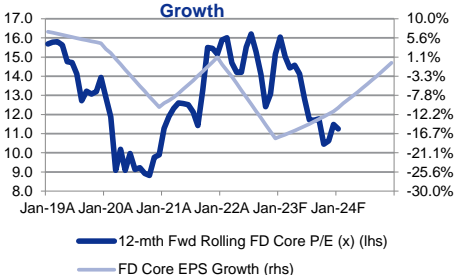
| ESG in a nutshell | | Refinitiv ESG Scores | | | | | |
|--|---|--|--|-----------------------------------|---|--|--|
|  | | C+ | A+ | C+ | C+ | B | D+ |
| | | <small>ESG Score</small> | <small>ESG Controversies Score</small> | <small>ESG Combined Score</small> | <small>ESG Environment Pillar Score</small> | <small>ESG Social Pillar Score</small> | <small>ESG Government Pillar Score</small> |
| <p>Hongkong Land Holdings Ltd (HKL) has been a landlord and developer of premium properties for more than 130 years. It strives to set an example of good corporate citizenship by having a well-designed sustainability strategy and governance structure and adopting global best practices. To help address global challenges, HKL has aligned its sustainability strategy with the United Nations Sustainable Development Goals (UNSDGs) and integrated them into its businesses and operations.</p> | | | | | | | |
| <p>Keep your eye on</p> <p>We see no ESG issues for HKL which we are concerned about.</p> | <p>Implications</p> <p>N/A.</p> | | | | | | |
| <p>ESG highlights</p> <p>In 2022, HKL's HERE2HELP volunteering team achieved over 5,500 hours of volunteer services and served more than 50,000 people in need. It also succeeded in increasing the aggregate facility amount for its sustainability-linked loans from US\$1.9bn at end-2021 to US\$2.2bn at end-2022.</p> | <p>Implications</p> <p>HKL has demonstrated its commitment towards ESG issues over the past few years. We believe that further progress in ESG could support a re-rating of its shares.</p> | | | | | | |
| <p>Trends</p> <p>HKL has developed sustainability action plans and targets including: 1) reducing its energy consumption and carbon emissions of its HK Central portfolio by 37% and 55%, respectively, by 2030 (base year: 2008); 2) recycling 25% of the waste generated by its existing properties by 2030 (base year: 2008); 3) developing health and wellbeing policy for employees; and 4) disclosing employee diversity metrics.</p> | <p>Implications</p> <p>We have not applied any premium/discount for ESG in our fundamental valuations of HKL. We believe that HKL will continually improve in the different areas of ESG, thereby attracting greater interest among ESG-focused investors.</p> | | | | | | |
| | | <small>SOURCES: CGS-CIMB RESEARCH, REFINITIV</small> | | | | | |

BY THE NUMBERS

P/BV vs ROE



12-mth Fwd FD Core P/E vs FD Core EPS Growth



Profit & Loss

| (US\$m) | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|---|--------------|--------------|--------------|--------------|--------------|
| Total Net Revenues | 2,384 | 2,244 | 1,716 | 1,870 | 1,929 |
| Gross Profit | 1,100 | 1,021 | 1,030 | 996 | 988 |
| Operating EBITDA | (372) | 273 | 798 | 817 | 808 |
| Depreciation And Amortisation | 0 | 0 | 0 | 0 | 0 |
| Operating EBIT | (372) | 273 | 798 | 817 | 808 |
| Financial Income/(Expense) | (155) | (168) | (261) | (256) | (243) |
| Pretax Income/(Loss) from Assoc. | 356 | 229 | 276 | 254 | 350 |
| Non-Operating Income/(Expense) | 0 | 0 | 0 | 0 | 0 |
| Profit Before Tax (pre-EI) | 1,144 | 907 | 813 | 815 | 916 |
| Exceptional Items | | | | | |
| Pre-tax Profit | (171) | 334 | 813 | 815 | 916 |
| Taxation | (179) | (132) | (124) | (122) | (124) |
| Exceptional Income - post-tax | | | | | |
| Profit After Tax | (350) | 202 | 690 | 693 | 792 |
| Minority Interests | 1 | 1 | (15) | (21) | (28) |
| Pref. & Special Div | 0 | 0 | 0 | 0 | 0 |
| FX Gain/(Loss) - post tax | | | | | |
| Other Adjustments - post-tax | | | | | |
| Net Profit | (349) | 203 | 674 | 671 | 764 |
| Recurring Net Profit | 966 | 776 | 674 | 671 | 764 |
| Fully Diluted Recurring Net Profit | 966 | 776 | 674 | 671 | 764 |

Cash Flow

| (US\$m) | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|------------------------------------|--------------|--------------|--------------|--------------|----------------|
| EBITDA | (372) | 273 | 798 | 817 | 808 |
| Cash Flow from Inv. & Assoc. | | | | | |
| Change In Working Capital | (306) | 78 | (558) | 385 | 955 |
| Straight Line Adjustment | | | | | |
| (Incr)/Decr in Total Provisions | | | | | |
| Other Non-Cash (Income)/Expense | | | | | |
| Other Operating Cashflow | 1,536 | 815 | 251 | 263 | 275 |
| Net Interest (Paid)/Received | (173) | (183) | (261) | (256) | (243) |
| Tax Paid | (157) | (125) | (126) | (123) | (123) |
| Cashflow From Operations | 529 | 858 | 105 | 1,086 | 1,671 |
| Capex | (432) | (727) | (316) | (253) | (202) |
| Disposals Of FAs/subsidiaries | | | | | |
| Disposals of Investment Properties | | | | | |
| Acq. Of Subsidiaries/investments | | | | | |
| Other Investing Cashflow | 0 | 0 | 0 | 0 | 0 |
| Cash Flow From Investing | (432) | (727) | (316) | (253) | (202) |
| Debt Raised/(repaid) | 73 | 441 | 200 | (500) | (700) |
| Proceeds From Issue Of Shares | (192) | (352) | (56) | 0 | 0 |
| Shares Repurchased | | | | | |
| Dividends Paid | (510) | (504) | (494) | (488) | (487) |
| Preferred Dividends | | | | | |
| Other Financing Cashflow | 0 | 0 | 0 | 0 | 0 |
| Cash Flow From Financing | (629) | (416) | (350) | (988) | (1,187) |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

| (US\$m) | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|--------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Total Cash And Equivalents | 1,480 | 1,173 | 612 | 457 | 739 |
| Properties Under Development | 2,971 | 2,911 | 4,042 | 4,482 | 4,499 |
| Total Debtors | 1,029 | 539 | 566 | 595 | 624 |
| Inventories | | | | | |
| Total Other Current Assets | 28 | 63 | 63 | 63 | 63 |
| Total Current Assets | 5,508 | 4,686 | 5,283 | 5,597 | 5,925 |
| Fixed Assets | 0 | 0 | 0 | 0 | 0 |
| Total Investments | 38,116 | 37,670 | 36,798 | 37,507 | 39,097 |
| Intangible Assets | 0 | 0 | 0 | 0 | 0 |
| Total Other Non-Current Assets | 239 | 241 | 241 | 241 | 241 |
| Total Non-current Assets | 38,355 | 37,911 | 37,038 | 37,748 | 39,338 |
| Short-term Debt | 865 | 419 | 419 | 419 | 419 |
| Current Portion of Long-Term Debt | | | | | |
| Total Creditors | 2,195 | 1,667 | 1,667 | 1,667 | 1,667 |
| Other Current Liabilities | 203 | 329 | 106 | 105 | 104 |
| Total Current Liabilities | 3,263 | 2,415 | 2,192 | 2,191 | 2,190 |
| Total Long-term Debt | 5,718 | 6,571 | 6,771 | 6,271 | 5,571 |
| Hybrid Debt - Debt Component | | | | | |
| Total Other Non-Current Liabilities | 36 | 26 | 26 | 26 | 26 |
| Total Non-current Liabilities | 5,754 | 6,598 | 6,798 | 6,298 | 5,598 |
| Total Provisions | 228 | 257 | 750 | 750 | 750 |
| Total Liabilities | 9,244 | 9,270 | 9,739 | 9,239 | 8,537 |
| Shareholders' Equity | 34,584 | 33,303 | 32,543 | 34,045 | 36,637 |
| Minority Interests | 34 | 24 | 39 | 61 | 89 |
| Total Equity | 34,618 | 33,327 | 32,582 | 34,106 | 36,725 |

Key Ratios

| | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|---------------------------|---------|---------|---------|---------|---------|
| Revenue Growth | 13.9% | (5.9%) | (23.5%) | 9.0% | 3.2% |
| Operating EBITDA Growth | (1.6%) | (10.3%) | (5.7%) | 2.4% | (1.1%) |
| Operating EBITDA Margin | 39.6% | 37.7% | 46.5% | 43.7% | 41.9% |
| Net Cash Per Share (US\$) | (2.22) | (2.61) | (2.97) | (2.81) | (2.37) |
| BVPS (US\$) | 15.05 | 14.95 | 14.69 | 15.37 | 16.54 |
| Gross Interest Cover | 4.25 | 3.60 | 2.39 | 2.72 | 3.03 |
| Effective Tax Rate | 0.0% | 39.5% | 15.2% | 15.0% | 13.5% |
| Net Dividend Payout Ratio | 52.9% | 64.6% | 72.5% | 72.6% | 63.8% |
| Accounts Receivables Days | 161.6 | 127.6 | 117.6 | 113.6 | 115.3 |
| Inventory Days | - | - | - | - | - |
| Accounts Payables Days | 535.4 | 575.9 | 887.4 | 698.3 | 646.3 |
| ROIC (%) | 51.3% | 37.8% | 37.9% | 21.7% | 18.7% |
| ROCE (%) | 2.41% | 2.23% | 2.15% | 2.10% | 1.96% |
| Return On Average Assets | 2.49% | 2.12% | 2.14% | 2.12% | 2.24% |

Key Drivers

| | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|--|---------|---------|---------|---------|---------|
| Gross rental income (US\$ m) | 1,129.0 | 1,118.4 | 1,132.3 | 1,111.6 | 1,110.7 |
| Property sales booked (US\$ m) | 1,255.3 | 1,126.0 | 583.7 | 758.3 | 818.6 |
| Rental income GPM (%) | 78.4% | 76.9% | 77.9% | 78.9% | 79.4% |
| Property sales GPM (%) | 17.2% | 14.2% | 25.3% | 15.7% | 12.9% |
| Underlying payout ratio on rental profit (%) | 69.3% | 69.0% | 66.3% | 66.5% | 69.1% |
| Net gearing (%) | 14.8% | 17.5% | 20.2% | 18.3% | 14.3% |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Hong Kong

ADD (no change)

Consensus ratings*: Buy 12 Hold 0 Sell 0

| | |
|-------------------------|---------------------------|
| Current price: | HK\$14.54 |
| Target price: | HK\$18.60 |
| Previous target: | HK\$22.10 |
| Up/downside: | 27.9% |
| CGS-CIMB / Consensus: | -6.6% |
| Reuters: | 0014.HK |
| Bloomberg: | 14 HK |
| Market cap: | US\$1,909m HK\$14,933m |
| Average daily turnover: | US\$1.77m HK\$13.86m |
| Current shares o/s: | 1,027m |
| Free float: | 45.0% |

*Source: Bloomberg

Key changes in this note

► FY23F/24F/25F EPS cut by 5%/8%/13%.



Source: Bloomberg

| Price performance | 1M | 3M | 12M |
|-------------------|------|------|-------|
| Absolute (%) | -1.5 | -3.7 | -42.5 |
| Relative (%) | 0 | 5.2 | -18 |

Major shareholders

| | % held |
|------------------------------------|--------|
| Lee Hysan family | 41.9 |
| Silchester International Investors | 8.1 |
| First Eagle Investment Management | 5.1 |

Analyst(s)



Will CHU, CFA

T (852) 2539 1327
E will.chu@cgs-cimb.com

Steven MAK

T (852) 2539 1328
E steven.mak@cgs-cimb.com

Raymond CHENG, CFA

T (852) 2539 1324
E raymond.cheng@cgs-cimb.com

Hysan Development

Underlying profit likely bottomed in FY23F

- We believe Hysan's underlying profit bottomed out in FY23F, thanks to a rebound in retail revenue after completion of its AEI.
- With a high occupancy cost of 15% and the completion of its AEI in Hysan Place and Lee Garden One, we believe Hysan has room to increase rents in FY24F.
- We believe its office portfolio is likely to see negative rental reversions in FY24F-25F due to oversupply of office space, dragging FY24F-25F net profit.
- We cut TP to HK\$18.6, based on a 65% discount to NAV, to reflect a challenging office outlook. Reiterate Add amid a recovery in tourist numbers.

Underlying net profit likely bottomed in FY23F

To reflect a more challenging office environment in HK, we revise down our office spot rent assumptions for FY23F-25F. Hence, we cut Hysan Development's underlying net profit forecasts by 5-13% over FY23F-25F. We now expect its underlying profit to drop by 3% to HK\$1,629m in FY23F and then rebound by 10%/3% to HK\$1,794m/1,849m in FY24F-25F, mainly thanks to an expected rebound in retail revenue.

Retail revenue should gradually recover

We expect Hysan's retail revenue to decline 10% in FY23F, mainly due to ongoing asset enhancement initiatives (AEI) at c.11% of Hysan's retail area in Hysan Place and Lee Garden One, while its retail occupancy maintained at a high level of 98% in 1H23. We expect retail revenue to grow by 8% in FY24F, with low single-digit growth in spot rent, thanks to the completion of its AEI and positive rental reversions of renovated areas (managements guided for completion of AEI in 1Q24F). Also, overall occupancy cost was at 15% in 1H23, which provides room for Hysan to increase rents further, in our view.

Negative rental reversion in office portfolio drags profits

1H23 revenue from office rental (accounting for 45% of total 1H23 revenue) declined 8% yoy, on an 89% occupancy rate, down 1% pt hoh. We expect negative rental reversion to continue in FY24F-25F, with the oversupply of office space in HK due to the recent completion of two Grade A office buildings in Central.

Reiterate Add, with a lower TP of HK\$18.6

We cut FY23F-25F EPS by 5-13% and lower TP to HK\$18.6, based on a 65% target discount to NAV (widened from 60% to reflect the challenging office environment in FY24-25F). Reiterate Add amid the recovery in visitor numbers which should lead to a gradual recovery in retail revenues. Potential catalysts are stronger-than-expected retail sales and rental reversions. Key downside risks include higher-than-expected vacancies for its HK office space, and lower-than-expected portfolio occupancies.

Financial Summary

| | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|--------------------------------|---------|---------|---------|---------|---------|
| Total Net Revenues (HK\$m) | 3,608 | 3,460 | 3,305 | 3,480 | 3,560 |
| Operating EBITDA (HK\$m) | 2,115 | (652) | 2,441 | 2,593 | 2,657 |
| Net Profit (HK\$m) | 1,842 | (707) | 2,078 | 2,244 | 2,299 |
| Core EPS (HK\$) | 1.80 | 1.63 | 1.59 | 1.75 | 1.80 |
| Core EPS Growth | (11.0%) | (9.5%) | (2.7%) | 10.2% | 3.1% |
| FD Core P/E (x) | 8.06 | 8.93 | 9.17 | 8.32 | 8.07 |
| DPS (HK\$) | 1.44 | 1.44 | 1.44 | 1.44 | 1.45 |
| Dividend Yield | 9.90% | 9.90% | 9.90% | 9.90% | 9.97% |
| EV/EBITDA (x) | 7.04 | 10.55 | 10.76 | 9.79 | 9.19 |
| P/FCFE (x) | NA | NA | 6.11 | 7.90 | 6.74 |
| Net Gearing | 10.5% | 22.2% | 22.2% | 22.1% | 21.8% |
| P/BV (x) | 0.18 | 0.19 | 0.18 | 0.18 | 0.18 |
| ROE | 2.22% | 2.04% | 2.02% | 2.20% | 2.25% |
| % Change In Core EPS Estimates | | | (4.6%) | (7.5%) | (12.5%) |
| EPS/Consensus EPS (x) | | | 1.16 | 1.08 | 1.00 |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 1: NAV breakdown, as at end-FY24F

| | HK\$ m | HK\$/share | % of GAV |
|--------------------------------|---------------|-------------|-------------|
| HKIP | 54,258 | 52.8 | 64% |
| Office | 22,831 | 22.2 | 27% |
| Retail | 26,313 | 25.6 | 31% |
| Luxury residential | 4,283 | 4.2 | 5% |
| Car parks | 831 | 0.8 | 1% |
| CNIP | 10,066 | 9.8 | 12% |
| HKDP and other assets | 20,032 | 19.5 | 24% |
| Gross asset value (GAV) | 84,356 | 82.1 | 100% |
| Less: net debt & PCS | (29,700) | (28.9) | |
| Net asset value (NAV) | 54,656 | 53.2 | |
| Target discount | | 65% | |
| Target price (HK\$) | | 18.6 | |

SOURCES: CGS-CIMB RESEARCH ESTIMATES

Figure 2: Earning revisions


| Core net profit | 2023F | | | 2024F | | | 2025F | | |
|-----------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | Old | New | % chg | Old | New | % chg | Old | New | % chg |
| Core net profit | 1,707 | 1,629 | -5% | 1,941 | 1,794 | -8% | 2,114 | 1,849 | -13% |
| EPS (HK\$) | 1.66 | 1.59 | -5% | 1.89 | 1.75 | -8% | 2.06 | 1.80 | -13% |
| DPS (HK\$) | 1.44 | 1.44 | 0% | 1.44 | 1.44 | 0% | 1.45 | 1.45 | 0% |

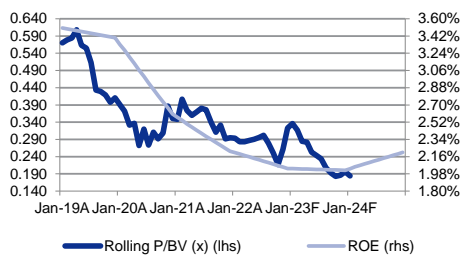
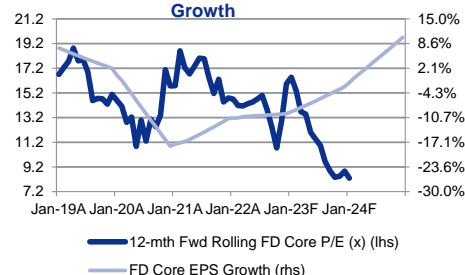
SOURCES: CGS-CIMB RESEARCH ESTIMATES

Figure 3: Summary of TP and NAV changes

| | Old | New | Chg % |
|---------------------|------|------|-------|
| NAV (HK\$) | 55.2 | 53.2 | -4% |
| Target discount | 60% | 65% | 5% |
| Target price (HK\$) | 22.1 | 18.6 | -16% |

SOURCES: CGS-CIMB RESEARCH ESTIMATES

| Refinitiv ESG Scores | | | | | | | |
|--|---|--------------------------|------------------------------------|------------------------------|------------------------------------|------------------------------|-----------------------------------|
| <p>ESG in a nutshell</p>  | <table border="1"> <tr> <td>A- ESG Score</td> <td>A+ ESG Controversies Score</td> <td>A- ESG Combined Score</td> <td>A- ESG Environment Pillar Score</td> <td>A ESG Social Pillar Score</td> <td>A- ESG Government Pillar Score</td> </tr> </table> | A- ESG Score | A+ ESG Controversies Score | A- ESG Combined Score | A- ESG Environment Pillar Score | A ESG Social Pillar Score | A- ESG Government Pillar Score |
| A- ESG Score | A+ ESG Controversies Score | A- ESG Combined Score | A- ESG Environment Pillar Score | A ESG Social Pillar Score | A- ESG Government Pillar Score | | |
| <p>We think Hysan has shown its commitment towards ESG by regularly reviewing its strategy and business operations, and continuing to support and align with the nine United Nations Sustainable Development Goals (“SDGs”). Hysan received an A- rating in its MSCI ESG Ratings assessment in 2023.</p> | | | | | | | |
| <p>Keep your eye on</p> <p>We see no ESG issues for Hysan that we are concerned about.</p> | <p>Implications</p> <p>N/A</p> | | | | | | |
| <p>ESG highlights</p> <p>Hysan kick-started its renewable energy project and began installing solar panel systems across its portfolio, starting with the rooftop of Hysan Place. Also, Hysan has engaged over 50,000 stakeholders both locally and internationally through 18 major physical and virtual engagement events, as well as partnerships with non-governmental organisations.</p> | <p>Implications</p> <p>Hysan has demonstrated its commitment towards ESG issues over the past few years. We believe further progress on ESG could support a further re-rating of its shares.</p> | | | | | | |
| <p>Trends</p> <p>In the medium term, Hysan aims: to i) reduce 20% of purchased electricity by 2024F (base year: 2005), ii) reduce 20% of carbon intensity in its daily operations by 2024F (base year: 2005) iii) deliver a 30% increase in total number of training hours to employees (base year: 2020).</p> | <p>Implications</p> <p>We have not applied any premium/discount for ESG in our fundamental valuations of Hysan. We believe Hysan will continually improve in different areas of ESG, thereby attracting greater interest among ESG-focused investors.</p> | | | | | | |
| <p><small>SOURCES: CGS-CIMB RESEARCH, REFINITIV</small></p> | | | | | | | |

BY THE NUMBERS
P/BV vs ROE

12-mth Fwd FD Core P/E vs FD Core EPS Growth

Profit & Loss

| (HK\$m) | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|---|--------------|--------------|--------------|--------------|--------------|
| Total Net Revenues | 3,608 | 3,460 | 3,305 | 3,480 | 3,560 |
| Gross Profit | 3,109 | 2,893 | 2,783 | 2,945 | 3,020 |
| Operating EBITDA | 2,115 | (652) | 2,441 | 2,593 | 2,657 |
| Depreciation And Amortisation | 0 | 0 | 0 | 0 | 0 |
| Operating EBIT | 2,115 | (652) | 2,441 | 2,593 | 2,657 |
| Financial Income/(Expense) | (393) | (423) | (492) | (468) | (447) |
| Pretax Income/(Loss) from Assoc. | 455 | 222 | 296 | 311 | 294 |
| Non-Operating Income/(Expense) | 84 | 246 | 248 | 248 | 248 |
| Profit Before Tax (pre-EI) | 2,981 | 2,606 | 2,493 | 2,684 | 2,752 |
| Exceptional Items | | | | | |
| Pre-tax Profit | 2,261 | (607) | 2,493 | 2,684 | 2,752 |
| Taxation | (358) | (342) | (337) | (364) | (377) |
| Exceptional Income - post-tax | | | | | |
| Profit After Tax | 1,903 | (949) | 2,156 | 2,320 | 2,375 |
| Minority Interests | (61) | 242 | (78) | (76) | (76) |
| Pref. & Special Div | 0 | 0 | 0 | 0 | 0 |
| FX Gain/(Loss) - post tax | | | | | |
| Other Adjustments - post-tax | | | | | |
| Net Profit | 1,842 | (707) | 2,078 | 2,244 | 2,299 |
| Recurring Net Profit | 1,871 | 1,679 | 1,629 | 1,794 | 1,849 |
| Fully Diluted Recurring Net Profit | 1,871 | 1,679 | 1,629 | 1,794 | 1,849 |

Cash Flow

| (HK\$m) | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|------------------------------------|-----------------|----------------|----------------|----------------|----------------|
| EBITDA | 2,115 | (652) | 2,441 | 2,593 | 2,657 |
| Cash Flow from Inv. & Assoc. | | | | | |
| Change In Working Capital | (27) | (9) | 103 | 113 | 124 |
| Straight Line Adjustment | | | | | |
| (Incr)/Decr in Total Provisions | | | | | |
| Other Non-Cash (Income)/Expense | 146 | 45 | 52 | 91 | 95 |
| Other Operating Cashflow | 611 | 3,207 | (18) | (56) | (58) |
| Net Interest (Paid)/Received | (492) | (637) | (492) | (468) | (447) |
| Tax Paid | (369) | (196) | (337) | (364) | (377) |
| Cashflow From Operations | 1,984 | 1,758 | 1,748 | 1,909 | 1,994 |
| Capex | (22,334) | (3,081) | (21) | (23) | (25) |
| Disposals Of FAs/subsidiaries | 0 | 0 | 0 | 0 | 0 |
| Disposals of Investment Properties | | | | | |
| Acq. Of Subsidiaries/investments | (445) | (3,057) | 0 | 0 | 0 |
| Other Investing Cashflow | 7,659 | (2,573) | 248 | 248 | 248 |
| Cash Flow From Investing | (15,120) | (8,711) | 227 | 225 | 223 |
| Debt Raised/(repaid) | 7,507 | 5,117 | 469 | (244) | 0 |
| Proceeds From Issue Of Shares | (145) | (162) | 0 | 0 | 0 |
| Shares Repurchased | | | | | |
| Dividends Paid | (2,077) | (2,051) | (2,040) | (2,040) | (2,040) |
| Preferred Dividends | | | | | |
| Other Financing Cashflow | | | | | |
| Cash Flow From Financing | 5,285 | 2,904 | (1,571) | (2,284) | (2,040) |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd
Balance Sheet

| (HK\$m) | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Total Cash And Equivalents | 9,418 | 8,763 | 9,167 | 9,018 | 9,194 |
| Properties Under Development | | | | | |
| Total Debtors | 0 | 0 | 0 | 0 | 0 |
| Inventories | | | | | |
| Total Other Current Assets | 926 | 577 | 577 | 577 | 577 |
| Total Current Assets | 10,344 | 9,340 | 9,744 | 9,595 | 9,771 |
| Fixed Assets | 472 | 623 | 610 | 598 | 586 |
| Total Investments | 106,557 | 109,202 | 109,498 | 109,809 | 110,103 |
| Intangible Assets | 0 | 0 | 0 | 0 | 0 |
| Total Other Non-Current Assets | 0 | 0 | 0 | 0 | 0 |
| Total Non-current Assets | 107,029 | 109,825 | 110,109 | 110,407 | 110,689 |
| Short-term Debt | 531 | 3,244 | 3,244 | 3,244 | 3,244 |
| Current Portion of Long-Term Debt | | | | | |
| Total Creditors | 820 | 1,026 | 1,129 | 1,241 | 1,366 |
| Other Current Liabilities | 586 | 633 | 633 | 633 | 633 |
| Total Current Liabilities | 1,937 | 4,903 | 5,006 | 5,118 | 5,243 |
| Total Long-term Debt | 18,126 | 24,033 | 24,502 | 24,258 | 24,258 |
| Hybrid Debt - Debt Component | | | | | |
| Total Other Non-Current Liabilities | 9,425 | 6,818 | 6,818 | 6,818 | 6,818 |
| Total Non-current Liabilities | 27,551 | 30,851 | 31,320 | 31,076 | 31,076 |
| Total Provisions | 0 | 0 | 0 | 0 | 0 |
| Total Liabilities | 29,488 | 35,754 | 36,326 | 36,194 | 36,319 |
| Shareholders' Equity | 84,527 | 80,424 | 81,023 | 81,788 | 82,608 |
| Minority Interests | 3,358 | 2,987 | 2,504 | 2,019 | 1,534 |
| Total Equity | 87,885 | 83,411 | 83,527 | 83,807 | 84,142 |

Key Ratios

| | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|---------------------------|---------|----------|---------|---------|---------|
| Revenue Growth | (2.75%) | (4.10%) | (4.48%) | 5.31% | 2.30% |
| Operating EBITDA Growth | (3.96%) | (9.66%) | (4.68%) | 6.21% | 2.48% |
| Operating EBITDA Margin | 78.6% | 74.0% | 73.9% | 74.5% | 74.6% |
| Net Cash Per Share (HK\$) | (8.93) | (18.03) | (18.09) | (18.00) | (17.83) |
| BVPS (HK\$) | 81.73 | 78.31 | 78.89 | 79.64 | 80.44 |
| Gross Interest Cover | 7.21 | 6.05 | 4.96 | 5.54 | 5.94 |
| Effective Tax Rate | 15.8% | 0.0% | 13.5% | 13.6% | 13.7% |
| Net Dividend Payout Ratio | 58.1% | 59.0% | 71.2% | 65.9% | 64.8% |
| Accounts Receivables Days | - | - | - | - | - |
| Inventory Days | - | - | - | - | - |
| Accounts Payables Days | 640.4 | 594.2 | 753.7 | 809.9 | 879.9 |
| ROIC (%) | (1129%) | (32013%) | (532%) | (451%) | (380%) |
| ROCE (%) | 2.75% | 2.59% | 2.42% | 2.55% | 2.61% |
| Return On Average Assets | 2.66% | 2.27% | 2.22% | 2.32% | 2.35% |

Key Drivers

| | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|------------------------------|---------|---------|---------|---------|---------|
| Gross rental income (HK\$ m) | 3,608.0 | 3,460.0 | 3,304.8 | 3,480.4 | 3,560.3 |
| Net rental income (HK\$ m) | 3,109.0 | 2,893.0 | 2,783.1 | 2,944.8 | 3,019.6 |
| Rental margin (%) | 86.2% | 83.6% | 84.2% | 84.6% | 84.8% |
| DPS coverage by rental (%) | 125.1% | 113.2% | 110.1% | 121.3% | 124.2% |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Hong Kong

ADD (no change)

Consensus ratings*: Buy 4 Hold 4 Sell 1

| | |
|-------------------------|-------------|
| Current price: | HK\$13.32 |
| Target price: | HK\$15.60 |
| Previous target: | HK\$18.00 |
| Up/downside: | 17.1% |
| CGS-CIMB / Consensus: | -0.8% |
| Reuters: | 0683.HK |
| Bloomberg: | 683 HK |
| Market cap: | US\$2,472m |
| | HK\$19,331m |
| Average daily turnover: | US\$1.79m |
| | HK\$13.98m |
| Current shares o/s: | 1,451m |
| Free float: | 33.0% |

*Source: Bloomberg

Key changes in this note

- ▶ FY23F EPS reduced by 19%.
- ▶ FY24F EPS reduced by 22%.
- ▶ FY25F EPS reduced by 23%.



Source: Bloomberg

| Price performance | 1M | 3M | 12M |
|-------------------|-----|------|-------|
| Absolute (%) | 2.3 | -3.2 | -25.8 |
| Relative (%) | 3.8 | 5.7 | -1.3 |

| Major shareholders | % held |
|--------------------|--------|
| Kerry Holdings | 60.0 |
| Schroders | 7.0 |

Analyst(s)



Will CHU, CFA

T (852) 2539 1327

E will.chu@cgs-cimb.com

Raymond CHENG, CFA

T (852) 2539 1324

E raymond.cheng@cgs-cimb.com

Steven MAK

T (852) 2539 1328

E steven.mak@cgs-cimb.com

Kerry Properties

Focusing on deleveraging in 2024F

- We expect investors to pay attention to Kerry's DP sales performance in HK and China and its plan to deleverage in 2024F.
- We also expect Kerry to maintain its annual DPS at HK\$1.35, translating into a payout ratio of below 70%.
- Reiterate Add, with a lower TP of HK\$15.6 (70% discount to NAV).

Shares underperformed since first US rate hike in 2022

Kerry Properties' share price lost 35% between 17 Mar 2022 (right before the first Fed Funds Rate hike in this rate hike cycle) and end-2023, higher than the 30% average decline for HK's property sector. We attribute its relative underperformance to the sluggish development property (DP) sales performance in HK — five out of 64 units of Mont Verra had been sold as of end-2023, and sales of projects atop MTR Station (e.g. La Marina, La Montagne) were a little slow in 2023 — and investors' concern about its rising net gearing after the acquisition of two Shanghai Huangpu mixed-use development sites. In 2024F, we expect Kerry's shares to be primarily driven by: 1) how well its HK DP sales would recover if we expect a softer yoy decline in HK's residential property price in 2024F than in 2023F, 2) its sales performance of China DP, and 3) its plan to deleverage, e.g. by way of asset disposal, after all payments for acquiring Shanghai Huangpu sites are completed in 1H2024F.

Cutting FY23-25F EPS by 19-23%

We cut FY23-25F EPS by 19-23% to factor in lower DP sales booking from HK and China projects, as well as slightly lower rental income growth in China and HK. Despite EPS cuts, we believe that Kerry would try hard to maintain its annual DPS at HK\$1.35, translating into a payout ratio of below 70% in FY23-24F.

Reiterate Add with a lower TP

We cut our TP for Kerry to HK\$15.6, after trimming NAV by 13% to HK\$51.9 due to a delay in its DP contracted sales schedule and an assumption of higher net debt, based on an unchanged 70% target discount. However, we reiterate our Add rating for Kerry, as we believe that it is able to realise DP sales with satisfactory gross profit margins and maintain a stable DPS. Key downside risks: weaker-than-expected contracted sales and unexpected DPS cuts. Re-rating catalysts: stronger-than-expected rental reversion in investment properties (IP) and an improvement in operating margins for DP sales and hotel operations.

Financial Summary

| | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|--------------------------------|---------|---------|---------|---------|---------|
| Total Net Revenues (HK\$m) | 15,327 | 14,590 | 11,443 | 13,745 | 14,811 |
| Operating EBITDA (HK\$m) | 7,030 | 5,534 | 4,882 | 5,682 | 6,239 |
| Net Profit (HK\$m) | 10,309 | 2,702 | 2,948 | 2,968 | 3,611 |
| Core EPS (HK\$) | 4.30 | 3.11 | 2.03 | 2.04 | 2.49 |
| Core EPS Growth | 48.0% | (27.7%) | (34.7%) | 0.7% | 21.7% |
| FD Core P/E (x) | 3.09 | 4.28 | 6.56 | 6.51 | 5.35 |
| DPS (HK\$) | 3.65 | 1.35 | 1.35 | 1.35 | 1.35 |
| Dividend Yield | 27.4% | 10.1% | 10.1% | 10.1% | 10.1% |
| EV/EBITDA (x) | 3.91 | 8.81 | 11.54 | 11.49 | 10.22 |
| P/FCFE (x) | 3.13 | NA | 3.29 | NA | 9.08 |
| Net Gearing | 15.8% | 33.9% | 38.3% | 43.5% | 40.2% |
| P/BV (x) | 0.17 | 0.18 | 0.18 | 0.17 | 0.17 |
| ROE | 5.53% | 4.01% | 2.70% | 2.69% | 3.24% |
| % Change In Core EPS Estimates | | | (18.9%) | (21.7%) | (22.7%) |
| EPS/Consensus EPS (x) | | | 0.80 | 0.73 | 0.79 |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 1: Earnings revisions

| HK\$ m | 2023F | | | 2024F | | | 2025F | | |
|-----------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | Old | New | % chg | Old | New | % chg | Old | New | % chg |
| Core net profit | 3,634 | 2,948 | -19% | 3,791 | 2,968 | -22% | 4,673 | 3,611 | -23% |
| EPS (HK\$) | 2.50 | 2.03 | -19% | 2.61 | 2.04 | -22% | 3.22 | 2.49 | -23% |
| DPS (HK\$) | 1.35 | 1.35 | 0% | 1.35 | 1.35 | 0% | 1.35 | 1.35 | 0% |

SOURCES: CGS-CIMB RESEARCH ESTIMATES

Figure 2: NAV breakdown (end-FY24F)


| | HK\$ m | HK\$/share | % of GAV |
|---------------------------------------|----------------|-------------|---------------|
| Hong Kong | 49,877 | 34.4 | 37.4% |
| <i>DP</i> | 26,374 | 18.2 | 19.8% |
| <i>IP and hotels</i> | 23,503 | 16.2 | 17.6% |
| China | 78,583 | 54.1 | 59.0% |
| <i>DP</i> | 35,353 | 24.4 | 26.5% |
| <i>IP and hotels</i> | 43,230 | 29.8 | 32.4% |
| Interest in KLN and other investments | 4,817 | 3.3 | 3.6% |
| Gross asset value (GAV) | 133,276 | 91.8 | 100.0% |
| Less: net debt | (57,958) | (39.9) | |
| NAV | 75,319 | 51.9 | |

SOURCES: CGS-CIMB RESEARCH ESTIMATES

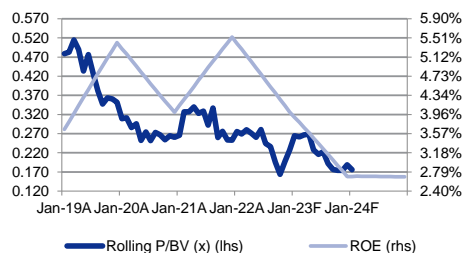
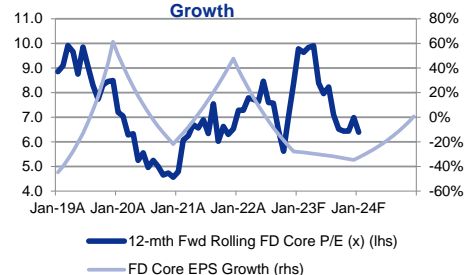
Figure 3: Summary of NAV and TP changes

| | Old | New | Chg % |
|---------------------|------|------|-------|
| NAV (HK\$) | 59.9 | 51.9 | -13% |
| Target discount (%) | 70% | 70% | 0%pt |
| TP (HK\$) | 18.0 | 15.6 | -13% |

SOURCES: CGS-CIMB RESEARCH ESTIMATES

|  | | Refinitiv ESG Scores | | | | | |
|---|---|----------------------|----------------------------------|-----------------------------|---------------------------------------|---------------------------------|--------------------------------------|
| | | A- ESG Score | A+ ESG Controversies Score | A- ESG Combined Score | A+ ESG Environment Pillar Score | A ESG Social Pillar Score | B- ESG Government Pillar Score |
| ESG in a nutshell <p>Kerry Properties scored A- for Refinitiv ESG and A for the MSCI ESG rating in 2022. It sets a clear set of ESG goals named “Sustainability Vision 2030”, focusing on four areas includes Environmental Stewardship, People Health and Wellness, Community Wellness, and Value Chain.</p> | | | | | | | |
| Keep your eye on <p>We see no ESG issues for Kerry that we are concerned about.</p> | Implications <p>N/A</p> | | | | | | |
| ESG highlights <p>In 2022, Hang Seng Corporate Sustainability Index maintained its AA+ rating for Kerry. In the same year, KPL successfully took up HK\$17bn of sustainability-linked loans (SLL).</p> | Implications <p>Kerry has demonstrated its commitment towards ESG issues over the past few years. We believe further progress on ESG could support a re-rating of its shares.</p> | | | | | | |
| Trends <p>Some highlighted targets in “Sustainability Vision 2030” included: 100% of investment properties implementing rainwater harvesting system, maintaining zero discrimination cases in all operations by treating all people fairly, impartially and with dignity and respect, and 100% of contractors/suppliers being governed by sustainable procurement guidelines, which contain mandatory diversity requirements.</p> | Implications <p>We have not applied any premium/discount of ESG in our fundamental valuations. We believe Kerry would continually improve in the different areas of ESG, thereby attracting greater interest among ESG-focused investors.</p> | | | | | | |

SOURCES: CGS-CIMB RESEARCH, REFINITIV

BY THE NUMBERS
P/BV vs ROE

12-mth Fwd FD Core P/E vs FD Core EPS Growth

Profit & Loss

| (HK\$m) | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|---|----------------|----------------|----------------|----------------|----------------|
| Total Net Revenues | 15,327 | 14,590 | 11,443 | 13,745 | 14,811 |
| Gross Profit | 8,743 | 6,985 | 6,321 | 7,036 | 7,626 |
| Operating EBITDA | 7,030 | 5,534 | 4,882 | 5,682 | 6,239 |
| Depreciation And Amortisation | 0 | 0 | 0 | 0 | 0 |
| Operating EBIT | 7,030 | 5,534 | 4,882 | 5,682 | 6,239 |
| Financial Income/(Expense) | (347) | 1 | (201) | (326) | (180) |
| Pretax Income/(Loss) from Assoc. | 3,402 | 1,346 | 1,313 | 910 | 992 |
| Non-Operating Income/(Expense) | 0 | 0 | 0 | 0 | 0 |
| Profit Before Tax (pre-EI) | 10,085 | 6,881 | 5,993 | 6,266 | 7,052 |
| Exceptional Items | | | | | |
| Pre-tax Profit | 10,085 | 6,881 | 5,993 | 6,266 | 7,052 |
| Taxation | (2,936) | (1,693) | (1,530) | (1,680) | (1,783) |
| Exceptional Income - post-tax | | | | | |
| Profit After Tax | 7,149 | 5,187 | 4,464 | 4,586 | 5,269 |
| Minority Interests | (932) | (720) | (1,516) | (1,618) | (1,658) |
| Pref. & Special Div | 0 | 0 | 0 | 0 | 0 |
| FX Gain/(Loss) - post tax | | | | | |
| Other Adjustments - post-tax | 4,092 | (1,765) | 0 | 0 | 0 |
| Net Profit | 10,309 | 2,702 | 2,948 | 2,968 | 3,611 |
| Recurring Net Profit | 6,266 | 4,520 | 2,948 | 2,968 | 3,611 |
| Fully Diluted Recurring Net Profit | 6,266 | 4,520 | 2,948 | 2,968 | 3,611 |

Cash Flow

| (HK\$m) | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|------------------------------------|-----------------|-----------------|----------------|-----------------|----------------|
| EBITDA | 7,030 | 5,534 | 4,882 | 5,682 | 6,239 |
| Cash Flow from Invnt. & Assoc. | | | | | |
| Change In Working Capital | 1,493 | 3,907 | 3,225 | 4,325 | 7,645 |
| Straight Line Adjustment | | | | | |
| (Incr)/Decr in Total Provisions | | | | | |
| Other Non-Cash (Income)/Expense | | | | | |
| Other Operating Cashflow | 407 | (253) | 687 | 756 | 831 |
| Net Interest (Paid)/Received | (294) | (841) | (2,211) | (2,343) | (2,040) |
| Tax Paid | (2,651) | (1,693) | (1,530) | (1,680) | (1,783) |
| Cashflow From Operations | 5,985 | 6,654 | 5,053 | 6,739 | 10,893 |
| Capex | (290) | (28,300) | (10,496) | (12,995) | (6,756) |
| Disposals Of FAs/subsidiaries | 6,522 | 4,614 | 0 | 0 | 0 |
| Disposals of Investment Properties | | | | | |
| Acq. Of Subsidiaries/investments | | | | | |
| Other Investing Cashflow | 1,100 | (3,019) | 1,313 | 910 | 992 |
| Cash Flow From Investing | 7,332 | (26,705) | (9,184) | (12,085) | (5,763) |
| Debt Raised/(repaid) | (7,120) | 20,000 | 10,000 | 0 | (3,000) |
| Proceeds From Issue Of Shares | (40) | 0 | 0 | 0 | 0 |
| Shares Repurchased | | | | | |
| Dividends Paid | (5,316) | (1,962) | (1,959) | (1,959) | (1,959) |
| Preferred Dividends | | | | | |
| Other Financing Cashflow | (641) | (197) | (197) | (197) | (197) |
| Cash Flow From Financing | (13,118) | 17,841 | 7,844 | (2,156) | (5,156) |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

| (HK\$m) | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Total Cash And Equivalents | 16,514 | 11,347 | 15,059 | 7,558 | 7,531 |
| Properties Under Development | 31,169 | 43,145 | 41,930 | 39,622 | 33,837 |
| Total Debtors | 0 | 0 | 0 | 0 | 0 |
| Inventories | | | | | |
| Total Other Current Assets | 921 | 355 | 355 | 355 | 355 |
| Total Current Assets | 48,604 | 54,846 | 57,344 | 47,534 | 41,723 |
| Fixed Assets | 115,985 | 115,026 | 124,836 | 137,075 | 142,999 |
| Total Investments | 31,929 | 29,033 | 29,033 | 29,033 | 29,033 |
| Intangible Assets | 123 | 123 | 123 | 123 | 123 |
| Total Other Non-Current Assets | 0 | 0 | 0 | 0 | 0 |
| Total Non-current Assets | 148,036 | 144,181 | 153,991 | 166,230 | 172,155 |
| Short-term Debt | 5,268 | 5,997 | 5,997 | 5,997 | 5,997 |
| Current Portion of Long-Term Debt | | | | | |
| Total Creditors | 0 | 0 | 0 | 0 | 0 |
| Other Current Liabilities | 13,758 | 10,949 | 10,949 | 10,949 | 10,949 |
| Total Current Liabilities | 19,027 | 16,946 | 16,946 | 16,946 | 16,946 |
| Total Long-term Debt | 32,210 | 46,873 | 56,873 | 56,873 | 53,873 |
| Hybrid Debt - Debt Component | | | | | |
| Total Other Non-Current Liabilities | 2,466 | 2,843 | 2,843 | 2,843 | 2,843 |
| Total Non-current Liabilities | 34,676 | 49,717 | 59,717 | 59,717 | 56,717 |
| Total Provisions | 10,624 | 9,883 | 9,883 | 9,883 | 9,883 |
| Total Liabilities | 64,326 | 76,545 | 86,545 | 86,545 | 83,545 |
| Shareholders' Equity | 116,829 | 108,787 | 109,775 | 110,784 | 112,436 |
| Minority Interests | 15,484 | 13,695 | 15,014 | 16,435 | 17,896 |
| Total Equity | 132,313 | 122,482 | 124,790 | 127,219 | 130,332 |

Key Ratios

| | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|---------------------------|---------|---------|---------|---------|---------|
| Revenue Growth | 5.5% | (4.8%) | (21.6%) | 20.1% | 7.8% |
| Operating EBITDA Growth | 0.4% | (21.3%) | (11.8%) | 16.4% | 9.8% |
| Operating EBITDA Margin | 45.9% | 37.9% | 42.7% | 41.3% | 42.1% |
| Net Cash Per Share (HK\$) | (14.41) | (28.61) | (32.94) | (38.11) | (36.06) |
| BVPS (HK\$) | 80.32 | 74.96 | 75.64 | 76.33 | 77.47 |
| Gross Interest Cover | 6.37 | 3.23 | 1.72 | 2.00 | 2.38 |
| Effective Tax Rate | 29.1% | 24.6% | 25.5% | 26.8% | 25.3% |
| Net Dividend Payout Ratio | 51.6% | 72.6% | 66.5% | 66.0% | 54.3% |
| Accounts Receivables Days | - | - | - | - | - |
| Inventory Days | - | - | - | - | - |
| Accounts Payables Days | - | - | - | - | - |
| ROIC (%) | 4.50% | 3.44% | 2.76% | 3.04% | 3.13% |
| ROCE (%) | 4.22% | 3.35% | 2.88% | 3.11% | 3.41% |
| Return On Average Assets | 5.91% | 1.73% | 2.26% | 2.29% | 2.53% |

Key Drivers

| | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|---------------------------------------|---------|---------|---------|---------|---------|
| Property development revenue (HK\$ m) | 8,371.1 | 8,543.4 | 5,085.0 | 7,111.2 | 7,845.8 |
| Property investment revenue (HK\$ m) | 6,955.7 | 6,047.0 | 6,358.5 | 6,634.2 | 6,965.7 |
| Property development - GPM (%) | 50.7% | 36.6% | 43.0% | 36.5% | 37.2% |
| Property investment - GPM (%) | 64.7% | 63.8% | 65.0% | 67.0% | 67.6% |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Hong Kong

ADD (no change)

Consensus ratings*: Buy 18 Hold 1 Sell 0

| | |
|-------------------------|-----------------------------|
| Current price: | HK\$42.50 |
| Target price: | HK\$51.50 |
| Previous target: | HK\$43.10 |
| Up/downside: | 21.2% |
| CGS-CIMB / Consensus: | 6.6% |
| Reuters: | 0823.HK |
| Bloomberg: | 823 HK |
| Market cap: | US\$13,923m HK\$108,882m |
| Average daily turnover: | US\$40.65m HK\$317.5m |
| Current shares o/s: | 2,554m |
| Free float: | 85.0% |

*Source: Bloomberg

Key changes in this note

▶ No changes.



Source: Bloomberg

| Price performance | 1M | 3M | 12M |
|-------------------|------|------|-------|
| Absolute (%) | 12.1 | 13.3 | -29.1 |
| Relative (%) | 13.6 | 22.2 | -4.6 |

| Major shareholders | % held |
|--------------------|--------|
| BlackRock | 9.1 |
| State Street Corp | 6.0 |

Analyst(s)



Raymond CHENG, CFA
T (852) 2539 1324
E raymond.cheng@cgs-cimb.com

Will CHU, CFA
T (852) 2539 1327
E will.chu@cgs-cimb.com

Steven MAK
T (852) 2539 1328
E steven.mak@cgs-cimb.com

Link REIT

Top pick among landlords

- We expect stable HK retail revenue growth over FY25-26F, thanks to its malls that cater to daily necessities and local consumption.
- We expect China retail rental to recover slowly in FY25-26F due to conservative consumer behaviour.
- Management said it is considering buybacks or M&As following its rights issue completed in FY3/23.
- We raise our TP to HK\$51.5, based on a 5.04% target DPU. Reiterate Add on Link REIT, our top pick among landlord players.

Expect stable NPI and DPU growth over FY3/25F-FY3/26F

We expect NPI to grow at 12% in FY3/24F, thanks to contribution of its newly acquired Singapore asset. Thereafter, we expect stable NPI growth of about 3% in FY3/25F-FY3/26F. We forecast DPU falling by 5% in FY3/24F due to dilution from its right issues, after which a 4-5% growth is expected for FY25F-FY26F.

HK retail to maintain stable positive rental reversion ahead

Link REIT's malls in HK registered a positive rental reversion of 8.5%, along with a 3.1% yoy increase in tenant sales and an all-time high occupancy rate of 98% in 1HFY24. We expect the retail portfolio of Link REIT to maintain positive rental reversions in FY25F-FY26F as most of its malls cater to daily necessities, with customers comprising mainly locals rather than tourists.

China retail rent expected to grow slowly in FY25F-FY26F

Negative rental reversion of 5.2% was recorded at Link REIT's China malls in 1HFY24 amid a soft retail recovery. We expect rental reversion to remain flattish in FY3/24F and grow in the low single digits in FY3/25F-FY3/26F, amid slow recovery in retail sales in China due to conservative consumption behaviour.

Buyback is an option, as are M&As

With some HK\$8.9bn in proceeds from Link REIT's rights issue completed in FY3/23 still unused, management said it is open to considering M&As or unit buybacks. While buybacks at the current unit price (vs. borrowing cost) would lead to a higher BV and provide short-term price support, funds for M&As could drive higher distributable income in the long run, in our view. It could also be exploring options (e.g. finding the right capital partners) to grow its asset-light management business under its Link 3.0 strategy.

Reiterate Add with a higher TP of HK\$51.5

We raise our TP for Link REIT to HK\$52.5, based on a 5.04% target DPU yield (lowered from 6.03% previously). Reiterate Add as: 1) the stock is least affected among its REIT peers by weak tourist spending and office outlook, 2) its DPU is bottoming out, and 3) the 10-year US Treasury yield (benchmark for REIT valuation) appears to have peaked. Potential re-rating catalysts include stronger-than-expected rental reversions. Key downside risks: higher-than-expected borrowing costs and a weaker-than-expected Rmb vs. HK\$.

| Financial Summary | Mar-22A | Mar-23A | Mar-24F | Mar-25F | Mar-26F |
|--------------------------------|---------|---------|---------|---------|---------|
| Gross Property Revenue (HK\$m) | 11,602 | 12,234 | 13,558 | 13,944 | 14,343 |
| Net Property Income (HK\$m) | 8,776 | 9,198 | 10,274 | 10,565 | 10,853 |
| Net Profit (HK\$m) | 6,894 | 15,451 | 6,632 | 6,910 | 7,272 |
| Distributable Profit (HK\$m) | (6,419) | (6,311) | (6,632) | (6,910) | (7,272) |
| DPS (HK\$) | 3.06 | 2.74 | 2.60 | 2.71 | 2.85 |
| Dividend Yield | 7.19% | 6.45% | 6.11% | 6.37% | 6.70% |
| Asset Leverage | 22.1% | 24.3% | 22.9% | 21.6% | 20.2% |
| BVPS (HK\$) | 77.10 | 73.98 | 74.68 | 75.36 | 75.98 |
| P/BV (x) | 0.55 | 0.57 | 0.57 | 0.56 | 0.56 |
| Recurring ROE | 4.29% | 8.79% | 3.49% | 3.61% | 3.76% |
| % Change In DPS Estimates | | | 0% | 0% | 0% |
| DPS/Consensus DPS (x) | | | 1.01 | 1.00 | 0.99 |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 1: NAV breakdown (end-FY24F)

| | HK\$ m | HK\$/unit | % of GAV |
|---|----------------|-------------|-------------|
| HK IP (excl. car parks) | 149,675 | 58.6 | 67% |
| HK car parks | 29,144 | 11.4 | 13% |
| China and overseas IP (incl. car parks) | 42,779 | 16.8 | 19% |
| Total property assets | 222,102 | 87.0 | 100% |
| Less: net debt | (46,459) | (18.2) | |
| NAV | 175,642 | 68.8 | |

SOURCE: CGS-CIMB RESEARCH ESTIMATES

Figure 2: Summary of TP changes

| | Old | New | % or %pt chg |
|-------------------------------|--------------|--------------|--------------|
| 10-year US Treasury yield (%) | 4.50% | 3.90% | -0.6% |
| Target yield spread (%) | 1.53% | 1.14% | -0.4% |
| Target DPU yield (%) | 6.03% | 5.04% | -1.0% |
| FY3/24F DPU (HK\$) | 2.5968 | 2.5968 | 0.0% |
| TP (HK\$) | 43.1 | 51.5 | 19.5% |

SOURCES: CGS-CIMB RESEARCH ESTIMATES, BLOOMBERG

ESG in a nutshell



Refinitiv ESG Scores

| | | | | | |
|-----------|-------------------------|--------------------|------------------------------|-------------------------|-----------------------------|
| A- | A+ | A- | A- | B+ | A |
| ESG Score | ESG Controversies Score | ESG Combined Score | ESG Environment Pillar Score | ESG Social Pillar Score | ESG Government Pillar Score |

Link REIT's vision is to be a world-class real estate investor and manager serving and improving the lives of those around the world. Link REIT has identified three focus areas under the Environmental pillar, including climate and greenhouse gas emissions, green buildings and resource management. For the Social aspect, it will focus on innovation and stakeholder engagement. In terms of Governance, it will focus on accountability and transparency. By setting long-term targets and working on improvements and initiatives under each of the sustainability focus areas, Link REIT strives to realise its vision and have a positive impact on society and the environment.

Keep your eye on

We note no ESG issues that are of concern relating to Link REIT.

Implications

N/A

ESG highlights

As at May 2022, Link REIT has reached 86.5% green building certification coverage, compared with 71.2% in 2021 and aligned itself to the Science Based Targets initiative (SBTi) Net Zero Standard, committing to reach net zero by 2035.

Implications

Link REIT has demonstrated its commitment towards ESG issues over the past few years. We believe that further progress in ESG could support its further re-rating.

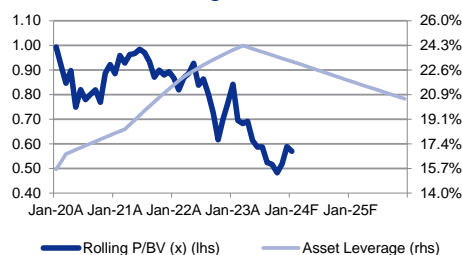
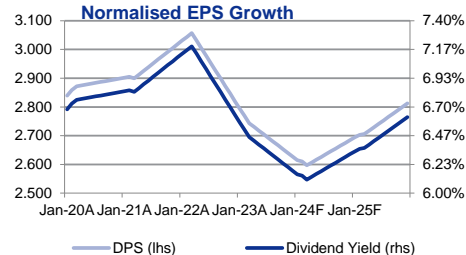
Trends

Link REIT has set up clear targets for the long term. It aims to achieve net zero emissions by 2035.

Implications

We have not applied any premium/discount of ESG in our fundamental valuations of Link REIT. We believe Link REIT will make continuous efforts to improve ESG issues across different areas and it could attract more interest among ESG-focused investors in the future, in our view.

SOURCES: CGS-CIMB RESEARCH, REFINITIV

BY THE NUMBERS
P/BV vs Asset Leverage

12-mth Fwd FD Normalised P/E vs FD Normalised EPS Growth

Profit & Loss

| (HK\$m) | Mar-22A | Mar-23A | Mar-24F | Mar-25F | Mar-26F |
|-------------------------------|----------------|----------------|----------------|----------------|----------------|
| Rental Revenues | 11,602 | 12,234 | 13,558 | 13,944 | 14,343 |
| Other Revenues | | | | | |
| Gross Property Revenue | 11,602 | 12,234 | 13,558 | 13,944 | 14,343 |
| Total Property Expenses | (2,826) | (3,036) | (3,284) | (3,379) | (3,490) |
| Net Property Income | 8,776 | 9,198 | 10,274 | 10,565 | 10,853 |
| General And Admin. Expenses | (412) | (542) | (543) | (559) | (576) |
| Management Fees | | | | | |
| Trustee's Fees | (16) | (17) | (19) | (20) | (20) |
| Other Operating Expenses | | | | | |
| EBITDA | 8,348 | 8,639 | 9,712 | 9,986 | 10,257 |
| Depreciation And Amortisation | (84) | (94) | (102) | (102) | (102) |
| EBIT | 8,264 | 8,545 | 9,610 | 9,884 | 10,156 |
| Net Interest Income | (907) | (1,648) | (2,062) | (2,016) | (1,871) |
| Associates' Profit | 353 | 85 | 389 | 398 | 409 |
| Other Income/(Expenses) | 426 | 9,317 | 0 | 0 | 0 |
| Exceptional Items | | | | | |
| Pre-tax Profit | 8,136 | 16,299 | 7,937 | 8,266 | 8,694 |
| Taxation | (1,229) | (1,006) | (1,191) | (1,240) | (1,304) |
| Minority Interests | (13) | 158 | (115) | (117) | (118) |
| Preferred Dividends | | | | | |
| Net Profit | 6,894 | 15,451 | 6,632 | 6,910 | 7,272 |
| Distributable Profit | (6,419) | (6,311) | (6,632) | (6,910) | (7,272) |

Cash Flow

| (HK\$m) | Mar-22A | Mar-23A | Mar-24F | Mar-25F | Mar-26F |
|---------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Pre-tax Profit | 8,136 | 16,299 | 7,937 | 8,266 | 8,694 |
| Depreciation And Non-cash Adj. | 638 | 1,657 | 1,775 | 1,720 | 1,563 |
| Change In Working Capital | (184) | (3) | 0 | 0 | 0 |
| Tax Paid | (1,468) | (995) | (1,191) | (1,240) | (1,304) |
| Others | (424) | (9,317) | 1,672 | 1,618 | 1,462 |
| Cashflow From Operations | 6,698 | 7,641 | 10,194 | 10,365 | 10,415 |
| Capex | (28) | (62) | (94) | (102) | (102) |
| Net Investments And Sale Of FA | (11,147) | (21,277) | (292) | (292) | (292) |
| Other Investing Cashflow | 477 | (3,420) | 0 | 0 | 0 |
| Cash Flow From Investing | (10,698) | (24,759) | (386) | (394) | (394) |
| Debt Raised/(repaid) | 9,605 | 35,029 | (4,090) | (4,203) | (3,967) |
| Equity Raised/(Repaid) | (82) | (407) | 0 | 0 | 0 |
| Dividends Paid | (4,405) | (4,769) | (6,632) | (6,910) | (7,272) |
| Cash Interest And Others | (864) | (1,461) | (2,062) | (2,016) | (1,871) |
| Cash Flow From Financing | 4,254 | 28,392 | (12,784) | (13,129) | (13,110) |
| Total Cash Generated | 254 | 11,274 | (2,976) | (3,159) | (3,089) |
| Free Cashflow To Firm | (3,884) | (16,993) | 10,104 | 10,185 | 10,183 |
| Free Cashflow To Equity | 4,741 | 16,450 | 3,656 | 3,751 | 4,183 |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd
Balance Sheet

| (HK\$m) | Mar-22A | Mar-23A | Mar-24F | Mar-25F | Mar-26F |
|----------------------------------|----------------|----------------|----------------|----------------|----------------|
| Total Investments | 216,517 | 244,238 | 244,919 | 245,609 | 246,310 |
| Intangible Assets | 400 | 387 | 387 | 387 | 387 |
| Other Long-term Assets | 3,330 | 2,651 | 2,643 | 2,643 | 2,643 |
| Total Non-current Assets | 220,247 | 247,276 | 247,949 | 248,639 | 249,340 |
| Total Cash And Equivalents | 2,779 | 13,987 | 11,011 | 7,852 | 4,763 |
| Inventories | | | | | |
| Trade Debtors | 1,384 | 2,283 | 2,283 | 2,283 | 2,283 |
| Other Current Assets | 1,306 | 4,373 | 4,373 | 4,373 | 4,373 |
| Total Current Assets | 5,469 | 20,643 | 17,667 | 14,508 | 11,419 |
| Trade Creditors | 2,700 | 3,024 | 3,024 | 3,024 | 3,024 |
| Short-term Debt | 5,888 | 4,248 | 8,624 | 10,688 | 12,707 |
| Other Current Liabilities | 2,403 | 2,594 | 2,594 | 2,594 | 2,594 |
| Total Current Liabilities | 10,991 | 9,866 | 14,242 | 16,306 | 18,325 |
| Long-term Borrowings | 44,010 | 60,780 | 52,314 | 46,046 | 40,060 |
| Other Long-term Liabilities | 7,725 | 8,213 | 8,213 | 8,213 | 8,213 |
| Total Non-current Liabilities | 51,735 | 68,993 | 60,527 | 54,259 | 48,273 |
| Shareholders' Equity | 162,688 | 188,940 | 190,727 | 192,462 | 194,042 |
| Minority Interests | 302 | 120 | 120 | 120 | 120 |
| Preferred Shareholders Funds | | | | | |
| Total Equity | 162,990 | 189,060 | 190,847 | 192,582 | 194,162 |

Key Ratios

| | Mar-22A | Mar-23A | Mar-24F | Mar-25F | Mar-26F |
|-------------------------------|---------|---------|---------|---------|---------|
| Gross Property Revenue Growth | 8.0% | 5.4% | 10.8% | 2.8% | 2.9% |
| NPI Growth | 6.5% | 4.8% | 11.7% | 2.8% | 2.7% |
| Net Property Income Margin | 75.6% | 75.2% | 75.8% | 75.8% | 75.7% |
| DPS Growth | 5.4% | (10.3%) | (5.3%) | 4.2% | 5.2% |
| Gross Interest Cover | 8.22 | 4.87 | 4.08 | 4.43 | 5.00 |
| Effective Tax Rate | 15.1% | 6.2% | 15.0% | 15.0% | 15.0% |
| Net Dividend Payout Ratio | 93% | 41% | 100% | 100% | 100% |
| Current Ratio | 0.50 | 2.09 | 1.24 | 0.89 | 0.62 |
| Quick Ratio | 0.50 | 2.09 | 1.24 | 0.89 | 0.62 |
| Cash Ratio | 0.25 | 1.42 | 0.77 | 0.48 | 0.26 |
| Return On Average Assets | 3.17% | 6.26% | 2.49% | 2.61% | 2.78% |

Key Drivers

| | Mar-22A | Mar-23A | Mar-24F | Mar-25F | Mar-26F |
|--|---------|---------|----------|----------|----------|
| Net property income (HK\$ m) | 8,776.0 | 9,198.0 | 10,274.0 | 10,564.8 | 10,853.3 |
| Gen. & admin. expenses as % of revenue (%) | 4.4% | 5.3% | 4.9% | 4.9% | 4.9% |
| Discretionary distribution (HK\$ m) | 147.7 | - | - | - | - |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Hong Kong

ADD (no change)

| | | | |
|-----------------------------------|------------|--------|--------|
| Consensus ratings*: | Buy 1 | Hold 0 | Sell 0 |
| Current price: | HK\$0.49 | | |
| Target price: | HK\$0.73 | | |
| Previous target: | HK\$0.96 | | |
| Up/downside: | 49.0% | | |
| CGS-CIMB / Consensus: | na | | |
| Reuters: | 1200.HK | | |
| Bloomberg: | 1200 HK | | |
| Market cap: | US\$44.93m | | |
| | HK\$351.4m | | |
| Average daily turnover: | US\$0.04m | | |
| | HK\$0.29m | | |
| Current shares o/s: | 717.1m | | |
| Free float: | 49.4% | | |
| <small>*Source: Bloomberg</small> | | | |

Key changes in this note

- EPS to LPS for FY23F.
- FY24F EPS increased by 91%.
- FY25F EPS decreased by 7%.



Source: Bloomberg

| Price performance | 1M | 3M | 12M |
|-------------------|------|-------|-------|
| Absolute (%) | -9.3 | -31 | -39.5 |
| Relative (%) | -7.8 | -22.1 | -15 |

| Major shareholders | % held |
|-------------------------|--------|
| Wong Kin Yip Freddie | 37.6 |
| Sun Life Financial Inc. | 13.1 |

Analyst(s)



Will CHU, CFA

T (852) 2539 1327

E will.chu@cgs-cimb.com

Raymond CHENG, CFA

T (852) 2539 1324

E raymond.cheng@cgs-cimb.com

Steven MAK

T (852) 2539 1328

E steven.mak@cgs-cimb.com

Midland Holdings Ltd

Higher transactions to boost profit recovery

- We estimate Midland was loss-making in FY23F but could turn profitable in FY24F with an increase in property transactions.
- Reiterate Add with a lower TP of HK\$0.73 (0.76x FY24F P/BV, five-year average).

Higher transactions to boost profit recovery in FY24F

We estimate Midland was loss-making in FY23F despite HK\$39m net profit in 1H23. The net loss in 2H23F was driven by lower transaction volume in both primary and secondary markets in HK and lower ASP for secondary transactions (secondary home prices were down 11% hoh in 2H23, based on Midland Property Price Index). In 2024F, we expect HK's home prices to soften by just 3%, with 15% and 10% rebounds in primary and secondary transactions, respectively, as we believe that potential homebuyers will enter the market in anticipation of policy rate cuts by the US Federal Reserve in 2H24F (please refer to our sector report for our detailed forecasts for the HK property market in 2024F). Thus, we expect Midland to see an improvement in net profit by 2H24F at the latest.

EPS revisions

Thus, we now forecast FY23F LPS for the reasons stated above. We lift FY24F EPS by 91% and cut FY25F EPS by 7% as we revise our assumptions on transactions, ASP and commission rebates. Meanwhile, we expect Midland to refrain from DPS payments in FY23-25F in order to shore up its balance sheet strength – its BVPS dropped from HK\$1.65 at end-2021 to HK\$0.95 at end-2022 due to a huge net loss in FY22.

Reiterate Add with a lower target P/BV

We cut our TP for Midland to HK\$0.73, as we trim our target P/BV to 0.76x (five-year average) from 1x (previously 1 s.d. above its five-year average) on the back of a longer-than-expected recovery period for property prices and transactions. Reiterate Add on Midland as we look forward to a net profit recovery starting from FY24F. Potential re-rating catalysts are successful negotiation of lower operating leases (and thus lower operating costs) and an increase in market share in terms of property transactions. Key downside risks include an increase in receivables provisions, legal proceedings, and prolonged decline in property prices.

Financial Summary

| | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|--------------------------------|---------|---------|---------|---------|---------|
| Total Net Revenues (HK\$m) | 6,014 | 3,129 | 4,224 | 4,309 | 4,629 |
| Operating EBITDA (HK\$m) | 151.0 | (572.6) | (41.6) | 24.3 | 82.0 |
| Net Profit (HK\$m) | 100.2 | (534.0) | (27.1) | 27.8 | 77.2 |
| Core EPS (HK\$) | 0.14 | (0.74) | (0.04) | 0.04 | 0.11 |
| Core EPS Growth | (24%) | (633%) | (95%) | | 178% |
| FD Core P/E (x) | 3.51 | NA | NA | 12.66 | 4.55 |
| DPS (HK\$) | - | - | - | - | - |
| Dividend Yield | 0% | 0% | 0% | 0% | 0% |
| EV/EBITDA (x) | (3.09) | NA | NA | 9.00 | 1.93 |
| P/FCFE (x) | 0.30 | NA | NA | NA | 5.79 |
| Net Gearing | (69.0%) | (32.5%) | (22.5%) | (19.4%) | (25.4%) |
| P/BV (x) | 0.30 | 0.51 | 0.53 | 0.51 | 0.46 |
| ROE | 8.8% | (57.1%) | (4.0%) | 4.1% | 10.7% |
| % Change In Core EPS Estimates | | | (565%) | 91% | (7%) |
| EPS/Consensus EPS (x) | | | | | |

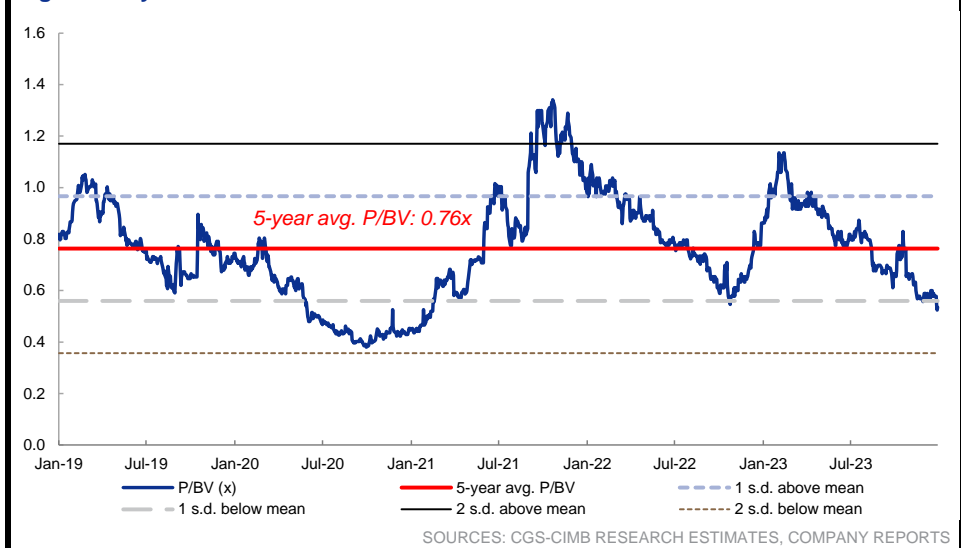
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 1: Midland's half-year P&L summary since 2H21

| HK\$ m | 2H21 | 1H22 | 2H22 | 1H23 | hoh% | yoy% |
|--|--------------|--------------|--------------|--------------|--------------|--------------|
| Residential Property Brokerage | 2,500 | 1,692 | 1,369 | 2,321 | 70% | 37% |
| Industrial & Commercial Property Brokerage | 44 | 13 | 22 | 25 | 15% | 97% |
| Property Leasing | 2 | 1 | 1 | 1 | -7% | -12% |
| Others | 9 | 10 | 8 | 7 | -9% | -25% |
| Revenue | 2,555 | 1,715 | 1,400 | 2,354 | 68% | 37% |
| Other income | 8 | 8 | 5 | 1 | -78% | -87% |
| Staff costs | 1,199 | 1,021 | 852 | 1,111 | 30% | 9% |
| Rebate commissions | 811 | 417 | 342 | 765 | 123% | 83% |
| Advertising & promotion expenses | 59 | 61 | 56 | 52 | -8% | -15% |
| Operating leases charges | 322 | 320 | 322 | 256 | -20% | -20% |
| Impairment of receivables | 78 | -3 | -3 | 2 | -169% | -179% |
| Depreciation & amortisation charges | 26 | 26 | 28 | 25 | -9% | -1% |
| Others | 138 | 129 | 134 | 85 | -36% | -34% |
| Total operating cost | 2,635 | 1,970 | 1,731 | 2,296 | 33% | 17% |
| Operating profit | -72 | -247 | -326 | 59 | -118% | -124% |
| Net finance income | -16 | -13 | -20 | -14 | -29% | 13% |
| Share of results of JVs & assocos | 12 | 8 | 9 | 8 | -16% | -5% |
| Profit before tax | -75 | -252 | -337 | 52 | -115% | -121% |
| Less: tax expense | -1 | 20 | 35 | -13 | -137% | -167% |
| Less: MI | 0 | 0 | 0 | 0 | NA | NA |
| Net profit attributable to shareholders | -76 | -232 | -302 | 39 | -113% | -117% |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 2: 1-year forward P/BV chart



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 3: Earnings revisions


| HK\$ m | 2023F | | | 2024F | | | 2025F | | |
|-----------------|-------|--------|-------|-------|------|-------|-------|------|-------|
| | Old | New | % chg | Old | New | % chg | Old | New | % chg |
| Core net profit | 6 | (27) | -565% | 15 | 28 | 91% | 83 | 77 | -7% |
| EPS (HK\$) | 0.01 | (0.04) | -565% | 0.02 | 0.04 | 91% | 0.12 | 0.11 | -7% |
| DPS (HK\$) | - | - | NA | - | - | NA | - | - | NA |

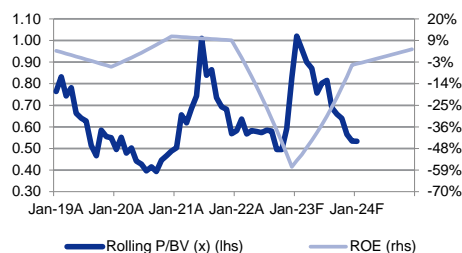
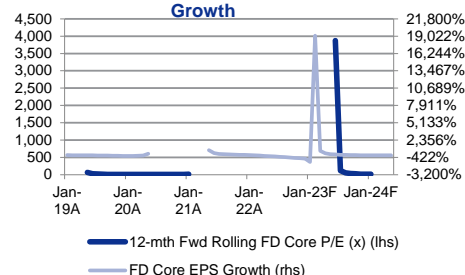
SOURCES: CGS-CIMB RESEARCH ESTIMATES

Figure 4: Summary of TP change

| | Old | New | Chg |
|-------------------------|------|------|------|
| BV* (HK\$) | 0.96 | 0.96 | -1% |
| Target forward P/BV (x) | 1.00 | 0.76 | -24% |
| Target price (HK\$) | 0.96 | 0.73 | -24% |

SOURCES: CGS-CIMB RESEARCH ESTIMATES

|  ESG in a nutshell | |
|---|--|
| <p>Midland recognises the importance of sustainable development and hence has established a set of policies to embed ESG management into its daily operations. These policies cover ESG aspects, including environmental management, supplier selection, ethical business operations, talent training and community investment. Midland has received many awards related to ESG including “Hong Kong Awards for Environmental Excellence” issued by Hong Kong Green Organisation, “Manpower Developer Award Scheme – Super MD” issued by the Employees Retraining Board and “CLP Smart Energy Award 2020 – Joint Energy Saving Award” issued by CLP Group, etc.</p> | |
| Keep your eye on | Implications |
| There have been no ESG issues for Midland that have come to our attention thus far. | N/A |
| ESG highlights | Implications |
| About 0.1% of the commissions Midland Realty generates from every secondary transaction is donated to the Midland Charitable Foundation, established in 2004, to support charitable organisations for local community development. | Midland has demonstrated its commitment towards ESG issues. We believe that further progress on ESG would support a re-rating of its shares. |
| Trends | Implications |
| Midland will continuously review the relevance of ESG issues to its business operations and stakeholders in order to identify and adjust its ESG plans and policies. | We have not applied any premium/discount for ESG in our fundamental valuations. We believe that Midland will continue improving its performance in the various ESG areas, thereby attracting greater interest among ESG-focused investors. |
| <small>SOURCES: CGS-CIMB RESEARCH, REFINITIV</small> | |

BY THE NUMBERS
P/BV vs ROE

12-mth Fwd FD Core P/E vs FD Core EPS Growth

Profit & Loss

| (HK\$m) | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|---|--------------|--------------|--------------|--------------|--------------|
| Total Net Revenues | 6,014 | 3,129 | 4,224 | 4,309 | 4,629 |
| Gross Profit | 151 | (573) | (42) | 24 | 82 |
| Operating EBITDA | 151 | (573) | (42) | 24 | 82 |
| Depreciation And Amortisation | 0 | 0 | 0 | 0 | 0 |
| Operating EBIT | 151 | (573) | (42) | 24 | 82 |
| Financial Income/(Expense) | (30) | (33) | (8) | (9) | (8) |
| Pretax Income/(Loss) from Assoc. | 23 | 17 | 17 | 18 | 19 |
| Non-Operating Income/(Expense) | 0 | 0 | 0 | 0 | 0 |
| Profit Before Tax (pre-EI) | 144 | (589) | (32) | 33 | 93 |
| Exceptional Items | | | | | |
| Pre-tax Profit | 144 | (589) | (32) | 33 | 93 |
| Taxation | (44) | 55 | 5 | (5) | (15) |
| Exceptional Income - post-tax | | | | | |
| Profit After Tax | 100 | (534) | (27) | 28 | 77 |
| Minority Interests | 0 | 0 | 0 | 0 | 0 |
| Pref. & Special Div | 0 | 0 | 0 | 0 | 0 |
| FX Gain/(Loss) - post tax | | | | | |
| Other Adjustments - post-tax | | | | | |
| Net Profit | 100 | (534) | (27) | 28 | 77 |
| Recurring Net Profit | 100 | (534) | (27) | 28 | 77 |
| Fully Diluted Recurring Net Profit | 100 | (534) | (27) | 28 | 77 |

Cash Flow

| (HK\$m) | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|------------------------------------|----------------|------------------|---------------|---------------|---------------|
| EBITDA | 151.0 | (572.6) | (41.6) | 24.3 | 82.0 |
| Cash Flow from Invnt. & Assoc. | | | | | |
| Change In Working Capital | (18.0) | 10.0 | (100.0) | (50.0) | (25.0) |
| Straight Line Adjustment | | | | | |
| (Incr)/Decr in Total Provisions | | | | | |
| Other Non-Cash (Income)/Expense | | | | | |
| Other Operating Cashflow | 653.8 | 687.5 | 55.7 | 60.0 | 63.9 |
| Net Interest (Paid)/Received | (30.1) | (33.4) | (10.3) | (9.7) | (9.1) |
| Tax Paid | (6.8) | (32.3) | 54.8 | 5.4 | (5.5) |
| Cashflow From Operations | 749.9 | 59.4 | (41.3) | 30.0 | 106.3 |
| Capex | (65.3) | (57.3) | (57.3) | (57.3) | (57.3) |
| Disposals Of FAs/subsidiaries | | | | | |
| Disposals of Investment Properties | | | | | |
| Acq. Of Subsidiaries/investments | | | | | |
| Other Investing Cashflow | 22.8 | 47.3 | 24.1 | 12.1 | 11.8 |
| Cash Flow From Investing | (42.6) | (10.0) | (33.2) | (45.3) | (45.6) |
| Debt Raised/(repaid) | 459.0 | (458.8) | 0.0 | 0.0 | 0.0 |
| Proceeds From Issue Of Shares | (1.4) | 0.0 | 0.0 | 0.0 | 0.0 |
| Shares Repurchased | | | | | |
| Dividends Paid | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Preferred Dividends | | | | | |
| Other Financing Cashflow | (599.9) | (642.2) | 0.0 | 0.0 | 0.0 |
| Cash Flow From Financing | (142.3) | (1,100.9) | 0.0 | 0.0 | 0.0 |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

| (HK\$m) | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|--------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Total Cash And Equivalents | 1,506 | 451 | 376 | 361 | 422 |
| Properties Under Development | | | | | |
| Total Debtors | 3,826 | 2,568 | 2,613 | 2,631 | 2,636 |
| Inventories | | | | | |
| Total Other Current Assets | 0 | 4 | 4 | 4 | 4 |
| Total Current Assets | 5,332 | 3,023 | 2,993 | 2,996 | 3,062 |
| Fixed Assets | 237 | 205 | 219 | 231 | 242 |
| Total Investments | 2 | 1 | 1 | 1 | 1 |
| Intangible Assets | 0 | 0 | 0 | 0 | 0 |
| Total Other Non-Current Assets | 782 | 596 | 575 | 564 | 553 |
| Total Non-current Assets | 1,021 | 803 | 794 | 795 | 795 |
| Short-term Debt | 687 | 55 | 55 | 55 | 55 |
| Current Portion of Long-Term Debt | | | | | |
| Total Creditors | 3,595 | 2,317 | 2,306 | 2,282 | 2,270 |
| Other Current Liabilities | 563 | 398 | 398 | 398 | 398 |
| Total Current Liabilities | 4,844 | 2,770 | 2,759 | 2,735 | 2,723 |
| Total Long-term Debt | 0 | 174 | 174 | 174 | 174 |
| Hybrid Debt - Debt Component | | | | | |
| Total Other Non-Current Liabilities | 322 | 198 | 198 | 198 | 198 |
| Total Non-current Liabilities | 322 | 372 | 372 | 372 | 372 |
| Total Provisions | 0 | 0 | 0 | 0 | 0 |
| Total Liabilities | 5,167 | 3,141 | 3,130 | 3,107 | 3,095 |
| Shareholders' Equity | 1,186 | 684 | 657 | 685 | 762 |
| Minority Interests | 0 | 0 | 0 | 0 | 0 |
| Total Equity | 1,186 | 684 | 657 | 685 | 762 |

Key Ratios

| | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|---------------------------|---------|---------|---------|---------|---------|
| Revenue Growth | 20.5% | (48.1%) | 35.2% | 2.0% | 7.5% |
| Operating EBITDA Growth | (11%) | (479%) | (93%) | N/A | 237% |
| Operating EBITDA Margin | 2.5% | (18.4%) | (1.0%) | 0.6% | 1.8% |
| Net Cash Per Share (HK\$) | 1.14 | 0.31 | 0.21 | 0.18 | 0.27 |
| BVPS (HK\$) | 1.65 | 0.95 | 0.92 | 0.96 | 1.06 |
| Gross Interest Cover | 5.02 | (17.17) | (4.05) | 2.51 | 8.98 |
| Effective Tax Rate | 0% | 0% | 0% | 0% | 0% |
| Net Dividend Payout Ratio | NA | NA | NA | NA | NA |
| Accounts Receivables Days | 215.2 | 374.6 | 224.6 | 223.5 | 208.3 |
| Inventory Days | - | - | - | - | - |
| Accounts Payables Days | 206.3 | 291.5 | 197.8 | 196.0 | 182.7 |
| ROIC (%) | 21.2% | (69.5%) | (5.3%) | 2.9% | 9.1% |
| ROCE (%) | 9.5% | (41.1%) | (4.4%) | 2.8% | 8.7% |
| Return On Average Assets | 3.0% | (11.0%) | (0.7%) | 1.1% | 2.6% |

Key Drivers

| | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|-------------------------------------|----------|----------|----------|----------|----------|
| No. of primary transactions in HK | 17,973.0 | 9,540.0 | 11,000.0 | 12,100.0 | 13,310.0 |
| No. of secondary transactions in HK | 51,165.0 | 31,330.0 | 34,000.0 | 36,380.0 | 38,562.8 |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Hong Kong

ADD (no change)

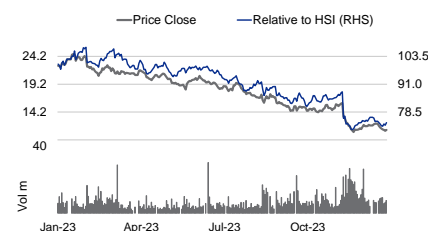
Consensus ratings*: Buy 8 Hold 4 Sell 7

| | |
|-------------------------|-------------|
| Current price: | HK\$10.98 |
| Target price: | HK\$13.70 |
| Previous target: | HK\$19.30 |
| Up/downside: | 24.8% |
| CGS-CIMB / Consensus: | 3.3% |
| Reuters: | 0017.HK |
| Bloomberg: | 17 HK |
| Market cap: | US\$3,533m |
| | HK\$27,633m |
| Average daily turnover: | US\$15.01m |
| | HK\$117.2m |
| Current shares o/s: | 2,517m |
| Free float: | 54.8% |

*Source: Bloomberg

Key changes in this note

- ▶ FY6/24F EPS decreased by 9%.
- ▶ FY6/25F EPS decreased by 10%.
- ▶ FY6/26F EPS decreased by 14%.



Source: Bloomberg

| Price performance | 1M | 3M | 12M |
|-------------------|------|-------|-------|
| Absolute (%) | -0.4 | -27.3 | -51.3 |
| Relative (%) | 1.1 | -18.4 | -26.8 |

| Major shareholders | % held |
|-----------------------------------|--------|
| Chow Tai Fook Enterprises Limited | 45.3 |

New World Development

A pure HK and China-focused property play

- NWD has become a pure property play after the disposal of its shareholding in NWS Holdings.
- We believe that its deleveraging progress and capex control will drive its share price higher in 2024F.
- We also think that NWD will be able to maintain a payout ratio of 50-70% in FY6/25-26F.
- Reiterate Add with a lower TP of HK\$13.7 (70% discount to NAV).

A pure property play after disposal of NWS

Between 17 Mar 2022 (right before the first US Fed Funds Rate hike by Federal Reserve in this interest rate cycle) and end-2023, NWD's share price fallen by 60%, more than the 30% decline for the HK Property sector, largely due to its relatively high indebtedness (net gearing at 48.7% as at end-Jun 2023). After the disposal of its shares in NWS Holdings (659 HK, NR) in late-2023, NWD realised HK\$21.7bn in disposal proceeds and became a pure property play (comprising development properties [DP], investment properties [IP] and hotels) with a focused exposure to assets in HK (47% of gross asset value, GAV) and China (42% of GAV). In the absence of recurring income from NWS, we believe that its deleveraging progress, including debt repurchase and further opportunities of asset disposal (e.g. IP, farmland), as well as its control of capex and administrative expenses, will drive its share price higher. However, its DP sales in HK will likely remain lacklustre in 1H2024F due to the lack of a launch pipeline in the near term.

Reiterate Add with a wider target discount

We cut our FY24-26F EPS by 9-14% and lower our end-FY24F NAV by 5% to HK\$45.7, on account of the delayed booking schedule and lower ASP for DP sales, as well as narrower profit margins for its hotel operations. We also cut NWD's TP to HK\$13.7, after widening the target discount by 10% pts to 70% to account for the investment community's concerns over its roadmap to deleveraging over the next few years. Nevertheless, we reiterate Add for NWD on the market's low expectations, for 1) its potential disposal of non-core assets to raise cash, 2) faster ramp-up of newly-completed IP, which could strengthen its recurring income, and 3) its ability to maintain an underlying payout ratio of 50-70% in FY6/25-26F. Re-rating catalysts include stronger-than-expected DP sales in China and HK and rental reversions for IP. Key downside risks: persistently high interest expenses, deeper-than-expected ASP cuts for DP sales, and deeper-than-expected DPS cuts.

Analyst(s)



Raymond CHENG, CFA
T (852) 2539 1324
E raymond.cheng@cgs-cimb.com

Will CHU, CFA
T (852) 2539 1327
E will.chu@cgs-cimb.com

Steven MAKK
T (852) 2539 1328
E steven.mak@cgs-cimb.com

Financial Summary

| | Jun-22A | Jun-23A | Jun-24F | Jun-25F | Jun-26F |
|--------------------------------|---------|---------|---------|---------|---------|
| Total Net Revenues (HK\$m) | 68,213 | 95,214 | 50,510 | 33,878 | 33,558 |
| Operating EBITDA (HK\$m) | 10,854 | 13,655 | 10,492 | 11,462 | 12,303 |
| Net Profit (HK\$m) | 1,376 | 1,110 | 2,003 | 3,345 | 3,923 |
| Core EPS (HK\$) | 1.87 | 0.70 | 0.80 | 1.33 | 1.56 |
| Core EPS Growth | 1.1% | (62.2%) | 12.9% | 67.0% | 17.3% |
| FD Core P/E (x) | 5.90 | 15.58 | 13.80 | 8.26 | 7.04 |
| DPS (HK\$) | 2.06 | 0.76 | 2.35 | 0.86 | 0.90 |
| Dividend Yield | 18.8% | 6.9% | 21.4% | 7.8% | 8.2% |
| EV/EBITDA (x) | 15.53 | 12.27 | 14.64 | 13.25 | 12.14 |
| P/FCFE (x) | 2.85 | 20.35 | 1.76 | NA | NA |
| Net Gearing | 45.5% | 50.6% | 48.6% | 48.3% | 47.7% |
| P/BV (x) | 0.13 | 0.14 | 0.15 | 0.15 | 0.15 |
| ROE | 2.16% | 0.87% | 1.07% | 1.87% | 2.17% |
| % Change In Core EPS Estimates | | | (9.1%) | (9.6%) | (13.9%) |
| EPS/Consensus EPS (x) | | | 0.95 | 1.27 | 1.19 |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 1: Earnings revisions

| HK\$ m | 2024F | | | 2025F | | | 2026F | | |
|-----------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | Old | New | % chg | Old | New | % chg | Old | New | % chg |
| Core net profit | 2,202 | 2,003 | -9% | 3,700 | 3,345 | -10% | 4,554 | 3,923 | -14% |
| EPS (HK\$) | 0.88 | 0.80 | -9% | 1.47 | 1.33 | -10% | 1.81 | 1.56 | -14% |
| DPS (HK\$) | 2.35 | 2.35 | 0% | 1.00 | 0.86 | -14% | 1.08 | 0.90 | -17% |

SOURCES: CGS-CIMB RESEARCH ESTIMATES

Figure 2: Underlying profits, before and after perpetual securities distributions

| HK\$ m | FY6/23 | FY6/24F | FY6/25F | FY6/26F |
|---|--------------|--------------|--------------|--------------|
| Underlying profit, before PCS distribution | 4,313 | 4,185 | 5,527 | 6,105 |
| Perpetual capital securities (PCS) distribution | (2,540) | (2,182) | (2,182) | (2,182) |
| Underlying profit, after PCS distribution | 1,773 | 2,003 | 3,345 | 3,923 |
| <i>yoy chg - underlying profit before PCS</i> | | -3% | 32% | 10% |
| <i>yoy chg - underlying profit after PCS</i> | | 13% | 67% | 17% |

SOURCES: CGS-CIMB RESEARCH ESTIMATES

Figure 3: NAV breakdown (end-FY24F)


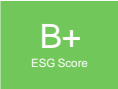
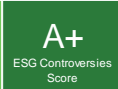
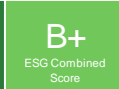



| | HK\$ m | HK\$/share | % of GAV |
|---|----------------|--------------|--------------|
| HK investment properties & hotels | 111,584 | 44.3 | 39.9 |
| HK development properties & farmland | 47,950 | 19.1 | 17.1 |
| China development properties | 69,318 | 27.5 | 24.8 |
| China investment properties | 45,259 | 18.0 | 16.2 |
| China & SE Asia hotels | 4,593 | 1.8 | 1.6 |
| Listed subsidiaries and other investments | 1,012 | 0.4 | 0.4 |
| GAV | 279,716 | 111.1 | 100.0 |
| Less: consolidated net debt | (117,185) | (46.6) | |
| Less: perpetual capital securities (PCS) | (47,439) | (18.9) | |
| Net asset value (NAV) | 115,091 | 45.7 | |

SOURCES: CGS-CIMB RESEARCH ESTIMATES

Figure 4: Summary of NAV and TP changes

| | Old | New | Chg |
|------------------|------|------|-------|
| NAV/share (HK\$) | 48.3 | 45.7 | -5% |
| Target discount | 60% | 70% | 10%pt |
| TP (HK\$) | 19.3 | 13.7 | -29% |

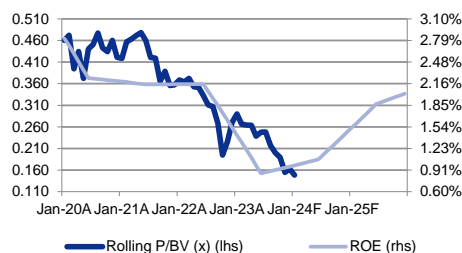
SOURCES: CGS-CIMB RESEARCH ESTIMATES

| Refinitiv ESG Scores | |
|--|--|
|  | |
|       | |
| ESG in a nutshell | |
| <p>New World Development (NWD) has shown its commitment towards ESG in its “Sustainability Vision 2030” with clear targets of a 50% reduction in energy and carbon emissions intensity by 2030 (baseline: 2015), promoting physical and mental health in the company and creating shared value for communities. It also scored BBB in its MSCI ESG rating in FY23.</p> | |
| <p>Keep your eye on</p> <p>In Jul 2021, NWD discovered that the concrete strength at certain sections of the wall base beneath Pavilia Farm III did not to meet the requirements of the approved design. NWD decided to demolish and rebuild the structures concerned, and hence it expects the completion of Pavilia Farm III to be delayed to FY6/25F. NWD offered compensation options to the buyers after the incident.</p> | <p>Implications</p> <p>We believe NWD handled the safety issue at Pavilia Farm III in a responsible manner and believe the impact of the incident on its reputation is limited.</p> |
| <p>ESG highlights</p> <p>Since 2019, NWD has taken the lead in donating some of its farmland reserves to the HKSAR Government and NGOs for transitional housing projects to alleviate the housing cost for families in need and facilitate their upward mobility. Four projects are now in the preliminary planning phases. NWD has also raised more than HK\$39bn of sustainability-linked loans, green bonds and green loans since 2018.</p> | <p>Implications</p> <p>NWD has demonstrated its commitment towards ESG issues over the past few years. We believe further progress on ESG could support a re-rating of its shares.</p> |
| <p>Trends</p> <p>For the long term, NWD is exploring solutions to echo HKSAR’s commitment to net zero carbon by 2050 and Mainland China’s commitment to carbon neutrality by 2060 on top of its own “Sustainability Vision 2030”.</p> | <p>Implications</p> <p>We have not applied any premium/discount for ESG in our fundamental valuations of NWD. We believe NWD will continually improve on the different areas of ESG, thereby attracting greater interest among ESG-focused investors.</p> |

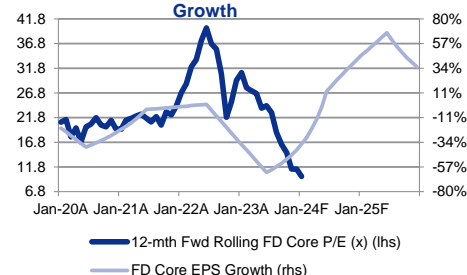
SOURCES: CGS-CIMB RESEARCH, REFINITIV

BY THE NUMBERS

P/BV vs ROE



12-mth Fwd FD Core P/E vs FD Core EPS Growth



Profit & Loss

| (HK\$m) | Jun-22A | Jun-23A | Jun-24F | Jun-25F | Jun-26F |
|---|----------------|----------------|----------------|----------------|----------------|
| Total Net Revenues | 68,213 | 95,214 | 50,510 | 33,878 | 33,558 |
| Gross Profit | 18,246 | 21,450 | 16,481 | 18,004 | 19,325 |
| Operating EBITDA | 10,854 | 13,655 | 10,492 | 11,462 | 12,303 |
| Depreciation And Amortisation | 0 | 0 | 0 | 0 | 0 |
| Operating EBIT | 10,854 | 13,655 | 10,492 | 11,462 | 12,303 |
| Financial Income/(Expense) | (1,380) | (3,811) | (4,221) | (3,209) | (3,076) |
| Pretax Income/(Loss) from Assoc. | 823 | 682 | 1,017 | 1,646 | 2,478 |
| Non-Operating Income/(Expense) | (955) | (221) | 63 | (815) | (1,360) |
| Profit Before Tax (pre-EI) | 9,342 | 10,305 | 7,351 | 9,084 | 10,345 |
| Exceptional Items | | | | | |
| Pre-tax Profit | 9,342 | 10,305 | 7,351 | 9,084 | 10,345 |
| Taxation | (4,913) | (6,015) | (2,504) | (3,509) | (3,991) |
| Exceptional Income - post-tax | | | | | |
| Profit After Tax | 4,429 | 4,290 | 4,847 | 5,575 | 6,354 |
| Minority Interests | (675) | (640) | (662) | (48) | (249) |
| Pref. & Special Div | 0 | 0 | 0 | 0 | 0 |
| FX Gain/(Loss) - post tax | | | | | |
| Other Adjustments - post-tax | (2,377) | (2,540) | (2,182) | (2,182) | (2,182) |
| Net Profit | 1,376 | 1,110 | 2,003 | 3,345 | 3,923 |
| Recurring Net Profit | 4,707 | 1,773 | 2,003 | 3,345 | 3,923 |
| Fully Diluted Recurring Net Profit | 4,707 | 1,773 | 2,003 | 3,345 | 3,923 |

Cash Flow

| (HK\$m) | Jun-22A | Jun-23A | Jun-24F | Jun-25F | Jun-26F |
|------------------------------------|-----------------|----------------|-----------------|-----------------|-----------------|
| EBITDA | 10,854 | 13,655 | 10,492 | 11,462 | 12,303 |
| Cash Flow from Invnt. & Assoc. | | | | | |
| Change In Working Capital | 480 | 3,933 | 1,831 | 1,485 | 1,164 |
| Straight Line Adjustment | | | | | |
| (Incr)/Decr in Total Provisions | | | | | |
| Other Non-Cash (Income)/Expense | | | | | |
| Other Operating Cashflow | 2,452 | (670) | (1,657) | (1,460) | (1,809) |
| Net Interest (Paid)/Received | (2,525) | (5,769) | (9,326) | (8,029) | (7,525) |
| Tax Paid | (6,334) | (5,928) | (1,753) | (2,456) | (2,794) |
| Cashflow From Operations | 4,927 | 5,222 | (412) | 1,001 | 1,339 |
| Capex | (5,551) | (7,228) | (1,807) | 0 | 0 |
| Disposals Of FAs/subsidiaries | 14,366 | 13,077 | 21,800 | 0 | 0 |
| Disposals of Investment Properties | | | | | |
| Acq. Of Subsidiaries/Investments | (21,674) | (10,274) | (1,084) | 0 | 0 |
| Other Investing Cashflow | 2,509 | 1,941 | 2,000 | 2,062 | 2,125 |
| Cash Flow From Investing | (10,350) | (2,484) | 20,909 | 2,062 | 2,125 |
| Debt Raised/(repaid) | 15,154 | (1,380) | (4,757) | (26,815) | (10,630) |
| Proceeds From Issue Of Shares | (958) | 0 | 0 | 0 | 0 |
| Shares Repurchased | | | | | |
| Dividends Paid | (5,184) | (4,933) | (5,914) | (1,913) | (2,215) |
| Preferred Dividends | | | | | |
| Other Financing Cashflow | (5,120) | 1,449 | (1,013) | (973) | (987) |
| Cash Flow From Financing | 3,892 | (4,863) | (11,684) | (29,700) | (13,832) |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

| (HK\$m) | Jun-22A | Jun-23A | Jun-24F | Jun-25F | Jun-26F |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Total Cash And Equivalents | 62,210 | 54,518 | 63,331 | 36,693 | 26,324 |
| Properties Under Development | 83,837 | 77,961 | 77,961 | 77,961 | 77,961 |
| Total Debtors | 32,235 | 23,767 | 30,229 | 28,744 | 27,580 |
| Inventories | 505 | 497 | 0 | 0 | 0 |
| Total Other Current Assets | 14,381 | 15,654 | 15,654 | 15,654 | 15,654 |
| Total Current Assets | 193,168 | 172,398 | 187,175 | 159,052 | 147,520 |
| Fixed Assets | 0 | 0 | 0 | 0 | 0 |
| Total Investments | 315,153 | 311,790 | 311,252 | 314,401 | 318,619 |
| Intangible Assets | 8,395 | 8,375 | 8,375 | 8,375 | 8,375 |
| Total Other Non-Current Assets | 119,168 | 123,920 | 97,403 | 97,901 | 98,414 |
| Total Non-current Assets | 442,716 | 444,085 | 417,030 | 420,678 | 425,408 |
| Short-term Debt | 50,270 | 52,179 | 59,236 | 38,052 | 30,497 |
| Current Portion of Long-Term Debt | | | | | |
| Total Creditors | 40,858 | 28,485 | 36,280 | 36,280 | 36,280 |
| Other Current Liabilities | 81,686 | 98,593 | 98,926 | 99,269 | 99,623 |
| Total Current Liabilities | 172,813 | 179,257 | 194,443 | 173,601 | 166,400 |
| Total Long-term Debt | 143,039 | 138,223 | 126,408 | 120,778 | 117,702 |
| Hybrid Debt - Debt Component | | | | | |
| Total Other Non-Current Liabilities | 31,933 | 30,512 | 31,428 | 32,370 | 33,342 |
| Total Non-current Liabilities | 174,972 | 168,735 | 157,836 | 153,148 | 151,044 |
| Total Provisions | 0 | 0 | 0 | 0 | 0 |
| Total Liabilities | 347,785 | 347,992 | 352,278 | 326,749 | 317,444 |
| Shareholders' Equity | 213,360 | 196,052 | 178,826 | 179,831 | 182,086 |
| Minority Interests | 74,739 | 72,439 | 73,101 | 73,149 | 73,398 |
| Total Equity | 288,099 | 268,491 | 251,927 | 252,980 | 255,485 |

Key Ratios

| | Jun-22A | Jun-23A | Jun-24F | Jun-25F | Jun-26F |
|---------------------------|---------|---------|---------|---------|---------|
| Revenue Growth | (0.0%) | 39.6% | (47.0%) | (32.9%) | (0.9%) |
| Operating EBITDA Growth | 5.9% | 25.8% | (23.2%) | 9.2% | 7.3% |
| Operating EBITDA Margin | 15.9% | 14.3% | 20.8% | 33.8% | 36.7% |
| Net Cash Per Share (HK\$) | (52.09) | (53.99) | (48.60) | (48.53) | (48.43) |
| BVPS (HK\$) | 84.78 | 77.90 | 71.06 | 71.46 | 72.35 |
| Gross Interest Cover | 2.25 | 1.75 | 1.18 | 1.52 | 2.00 |
| Effective Tax Rate | 28.3% | 39.2% | 34.1% | 38.6% | 38.6% |
| Net Dividend Payout Ratio | 114% | 136% | 295% | 65% | 58% |
| Accounts Receivables Days | 179.0 | 107.3 | 195.6 | 317.7 | 306.3 |
| Inventory Days | 4.03 | 2.48 | 2.67 | 0.00 | 0.00 |
| Accounts Payables Days | 293.5 | 171.6 | 348.3 | 834.3 | 930.4 |
| ROIC (%) | 6.0% | 8.4% | 7.1% | 10.1% | 11.0% |
| ROCE (%) | 2.51% | 3.24% | 2.73% | 3.10% | 3.21% |
| Return On Average Assets | 1.01% | 1.31% | 1.01% | 1.03% | 1.17% |

Key Drivers

| | Jun-22A | Jun-23A | Jun-24F | Jun-25F | Jun-26F |
|--------------------------------------|----------|----------|----------|----------|----------|
| Property sales - HK (HK\$ m) | 5,842.8 | 16,754.9 | 4,236.2 | 10,014.4 | 8,690.0 |
| Property sales - China (HK\$ m) | 11,526.8 | 10,553.2 | 13,345.2 | 15,774.5 | 15,872.8 |
| Property investment - HK (HK\$ m) | 2,795.6 | 3,087.0 | 3,177.2 | 3,424.5 | 3,673.1 |
| Property investment - China (HK\$ m) | 2,027.9 | 1,908.7 | 2,188.8 | 2,409.7 | 2,761.2 |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Hong Kong

ADD (no change)

Consensus ratings*: Buy 11 Hold 2 Sell 0

| | |
|-------------------------|-------------|
| Current price: | HK\$8.19 |
| Target price: | HK\$9.50 |
| Previous target: | HK\$11.70 |
| Up/downside: | 16.0% |
| CGS-CIMB / Consensus: | -6.9% |
| Reuters: | 0083.HK |
| Bloomberg: | 83 HK |
| Market cap: | US\$8,935m |
| | HK\$69,873m |
| Average daily turnover: | US\$5.54m |
| | HK\$43.27m |
| Current shares o/s: | 8,172m |
| Free float: | 45.0% |

*Source: Bloomberg

Key changes in this note

- ▶ FY24F EPS decreased by 18%.
- ▶ FY25F EPS decreased by 30%.
- ▶ FY26F EPS increased by 2%.



Source: Bloomberg

| Price performance | 1M | 3M | 12M |
|-------------------|-----|------|-------|
| Absolute (%) | 2.4 | -6.6 | -18.9 |
| Relative (%) | 3.9 | 2.3 | 5.6 |

| Major shareholders | % held |
|--------------------------|--------|
| Tsim Sha Tsui Properties | 55.0 |

Analyst(s)

Will CHU, CFA

T (852) 2539 1327

E will.chu@cgs-cimb.com

Raymond CHENG, CFA

T (852) 2539 1324

E raymond.cheng@cgs-cimb.com

Steven MAK

T (852) 2539 1328

E steven.mak@cgs-cimb.com

Sino Land Co Ltd

Tapping land market more actively than peers

- Sino's share price has been quite resilient since the US Fed's first rate hike in 2022, thanks to its net cash balance of over HK\$40bn at end-Jun 2023.
- Sino will continue to tap into the land market in HK more actively than its peers in 2024F in order to replenish land bank, in our view.
- Reiterate Add with a lower TP of HK\$9.5, based on a 50% discount to NAV.

Resilient share price performance since first US rate hike in 2022

Sino Land's (Sino) share price has been resilient compared to sector peers: share price was down just 16% since 17 Mar 2022 (right before the first rate hike by the US Federal Reserve in its interest rate hike cycle) at end-2023, vs. a 30% decline in HK property sector share prices in the same period. In our view, its relatively resilient share price performance was largely due to its strong balance sheet – it had a huge net cash position of over HK\$40bn at end-Jun 2023, which leads to huge interest income from bank deposits with minimal exposure to property assets in China.

We expect Sino to tap into the land market more actively than peers

We expect Sino to continue to tap into the land market more actively than most other HK developers in 2024F (Sino acquired three parcels in HK in 2023F), as land prices in HK have declined substantially over the past 12 months and as Sino needs to replenish its land bank in HK (majority of development property (DP) projects under development are scheduled for completion in FY6/25F or FY6/26F). In our view, this should bode well for satisfactory profit margins from property sales in several years' time when HK's residential property market recovers.

Reiterate Add with a wider target discount to NAV

We cut our FY24F-25F EPS by 18-30% and lift our FY26F EPS by 2% to factor in a shift in DP sales booking schedule, coupled with ASP cuts, as well as higher number of shares issued after scrip dividends. Meanwhile, we now expect Sino to maintain an unchanged DPS of HK\$0.58 in FY6/24F and raise its DPS briefly in FY25-26F as its underlying profit resumes increasing. We cut our TP to HK\$9.5 after cutting end-FY24F NAV by 3% and widening our target discount by 10% pts to 50% to factor in a longer-than-expected earnings gap due to fewer DP sales bookings. However, we reiterate our Add rating on Sino due to its potential NAV-accretive land acquisitions and its ability to sustain DPS growth.

Key downside risks and re-rating catalysts

Key downside risks: lower-than-expected sell-through rates and deeper ASP cuts for DP sales. Re-rating catalysts: stronger-than-expected rental reversions for investment properties (IP) and margin expansion for DP sales.

Financial Summary

| | Jun-22A | Jun-23A | Jun-24F | Jun-25F | Jun-26F |
|--------------------------------|---------|---------|---------|---------|---------|
| Total Net Revenues (HK\$m) | 15,554 | 11,881 | 10,444 | 9,124 | 13,516 |
| Operating EBITDA (HK\$m) | 8,335 | 5,469 | 4,853 | 4,420 | 5,553 |
| Net Profit (HK\$m) | 5,736 | 5,849 | 5,215 | 5,617 | 7,238 |
| Core EPS (HK\$) | 0.87 | 0.77 | 0.62 | 0.66 | 0.85 |
| Core EPS Growth | (39.4%) | (11.4%) | (19.5%) | 6.6% | 28.9% |
| FD Core P/E (x) | 9.48 | 10.69 | 13.12 | 12.44 | 9.65 |
| DPS (HK\$) | 0.57 | 0.58 | 0.58 | 0.59 | 0.60 |
| Dividend Yield | 6.96% | 7.08% | 7.08% | 7.20% | 7.33% |
| EV/EBITDA (x) | (2.14) | (2.59) | (1.43) | (1.38) | (1.80) |
| P/FCFE (x) | 13.01 | NA | 55.75 | 21.79 | 11.31 |
| Net Gearing | (26.2%) | (25.7%) | (23.8%) | (22.9%) | (23.4%) |
| P/BV (x) | 0.40 | 0.41 | 0.44 | 0.44 | 0.44 |
| ROE | 4.18% | 3.81% | 3.24% | 3.52% | 4.53% |
| % Change In Core EPS Estimates | | | (18.2%) | (29.8%) | 2.2% |
| EPS/Consensus EPS (x) | | | 0.90 | 0.85 | 1.08 |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 1: Earnings revisions

| HK\$ m | 2024F | | | 2025F | | | 2026F | | |
|-----------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | Old | New | % chg | Old | New | % chg | Old | New | % chg |
| Core net profit | 6,171 | 5,215 | -15% | 7,665 | 5,617 | -27% | 6,781 | 7,238 | 7% |
| EPS (HK\$) | 0.76 | 0.62 | -18% | 0.94 | 0.66 | -30% | 0.83 | 0.85 | 2% |
| DPS (HK\$) | 0.59 | 0.58 | -2% | 0.60 | 0.59 | -2% | 0.61 | 0.60 | -2% |

SOURCES: CGS-CIMB RESEARCH ESTIMATES

Figure 2: NAV breakdown at end-FY24F

| | HK\$ m | HK\$/share | % GAV |
|--------------------------------|----------------|-------------|---------------|
| HK DP | 28,326 | 3.3 | 22.9% |
| HK IP | 73,546 | 8.6 | 59.4% |
| Overseas IP | 146 | 0.0 | 0.1% |
| Hotels | 15,853 | 1.9 | 12.8% |
| China DP + IP | 5,164 | 0.6 | 4.2% |
| Investment in securities | 841 | 0.1 | 0.7% |
| Gross asset value (GAV) | 123,876 | 14.5 | 100.0% |
| Add: net (debt)/cash | 38,386 | 4.5 | |
| NAV | 162,262 | 19.0 | |

SOURCES: CGS-CIMB RESEARCH ESTIMATES

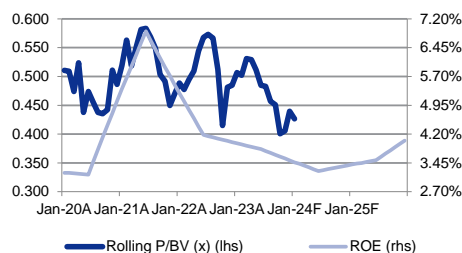
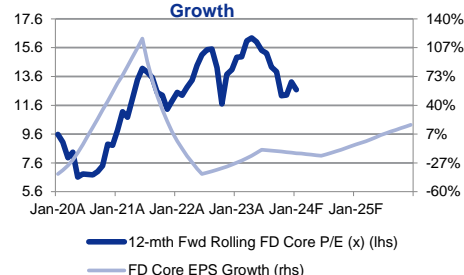
Figure 3: Summary of NAV and TP changes

| | Old | New | Chg % |
|---------------------|-------|-------|--------|
| NAV (HK\$) | 19.50 | 19.00 | -3% |
| Target discount (%) | 40% | 50% | 10% pt |
| TP (HK\$) | 11.70 | 9.50 | -19% |

SOURCES: CGS-CIMB RESEARCH ESTIMATES

| Refinitiv ESG Scores | | | | | | | |
|--|---|-----------------------------|---------------------------------------|----------------------------------|---------------------------------------|----------------------------------|-------------------------------------|
|  | <table border="1"> <tr> <td style="text-align: center;">C+ ESG Score</td> <td style="text-align: center;">A+ ESG Controversies Score</td> <td style="text-align: center;">C+ ESG Combined Score</td> <td style="text-align: center;">B- ESG Environment Pillar Score</td> <td style="text-align: center;">B- ESG Social Pillar Score</td> <td style="text-align: center;">C ESG Government Pillar Score</td> </tr> </table> | C+ ESG Score | A+ ESG Controversies Score | C+ ESG Combined Score | B- ESG Environment Pillar Score | B- ESG Social Pillar Score | C ESG Government Pillar Score |
| C+ ESG Score | A+ ESG Controversies Score | C+ ESG Combined Score | B- ESG Environment Pillar Score | B- ESG Social Pillar Score | C ESG Government Pillar Score | | |
| ESG in a nutshell | | | | | | | |
| <p>We think that Sino Land has shown its commitment towards ESG in its “Sustainability Vision 2030” announced in 2020, in which it sets up clear ESG targets such as 30% reduction of greenhouse gas emissions, increasing by 100% training hours per employee and supporting 150 primary schools by providing wellness education. It received an A rating from MSCI in 2022 and was awarded the ESG Leading Enterprise Award (Category I: Market Capitalisation over HK\$20bn) as well as the Leading Environmental Initiative Award at the ESG Leading Enterprise Awards 2022 jointly organised by the Chinese Edition of Bloomberg Businessweek and Deloitte.</p> | | | | | | | |
| Keep your eye on We do not see any ESG issues for Sino Land that are a cause for concern. | Implications N/A. | | | | | | |
| ESG highlights Sino Land is the first developer in HK to announce a holistic decarbonisation blueprint and conducted ESG and climate risk assessments, covering over 170 of its existing and new buildings. In FY22, Sino Land donated HK\$5m to the Hospital Authority to provide support to paediatric services in public hospitals. | Implications Sino Land has demonstrated its commitment towards ESG issues over the past few years. We believe that progress in ESG could support a further re-rating of its shares. | | | | | | |
| Trends In the long term, Sino Land is committed to supporting the Ten Principles of United Nations Global Compact (UNGC) to “build sustainable communities”, including human rights, labour, environment and anti-corruption. | Implications We have not applied any ESG premium/discount in our fundamental valuations. We believe that Sino Land will continually improve in the different ESG areas, thereby attracting greater interest among ESG-focused investors. | | | | | | |

SOURCES: CGS-CIMB RESEARCH, REFINITIV

BY THE NUMBERS
P/BV vs ROE

12-mth Fwd FD Core P/E vs FD Core EPS Growth

Profit & Loss

| (HK\$m) | Jun-22A | Jun-23A | Jun-24F | Jun-25F | Jun-26F |
|---|----------------|---------------|---------------|--------------|---------------|
| Total Net Revenues | 15,554 | 11,881 | 10,444 | 9,124 | 13,516 |
| Gross Profit | 8,252 | 5,389 | 4,748 | 4,296 | 5,442 |
| Operating EBITDA | 8,335 | 5,469 | 4,853 | 4,420 | 5,553 |
| Depreciation And Amortisation | (181) | (198) | (208) | (218) | (229) |
| Operating EBIT | 8,154 | 5,271 | 4,645 | 4,202 | 5,324 |
| Financial Income/(Expense) | 306 | 1,347 | 1,701 | 1,324 | 960 |
| Pretax Income/(Loss) from Assoc. | 437 | 1,301 | 781 | 1,682 | 2,912 |
| Non-Operating Income/(Expense) | 0 | 0 | 0 | 0 | 0 |
| Profit Before Tax (pre-EI) | 8,897 | 7,919 | 7,127 | 7,208 | 9,196 |
| Exceptional Items | | | | | |
| Pre-tax Profit | 8,897 | 7,919 | 7,127 | 7,208 | 9,196 |
| Taxation | (1,349) | (861) | (582) | (505) | (685) |
| Exceptional Income - post-tax | | | | | |
| Profit After Tax | 7,548 | 7,058 | 6,545 | 6,703 | 8,511 |
| Minority Interests | (229) | (31) | (310) | (36) | (170) |
| Pref. & Special Div | 0 | 0 | 0 | 0 | 0 |
| FX Gain/(Loss) - post tax | | | | | |
| Other Adjustments - post-tax | (1,583) | (1,178) | (1,019) | (1,050) | (1,102) |
| Net Profit | 5,736 | 5,849 | 5,215 | 5,617 | 7,238 |
| Recurring Net Profit | 6,531 | 6,088 | 5,215 | 5,617 | 7,238 |
| Fully Diluted Recurring Net Profit | 6,531 | 6,088 | 5,215 | 5,617 | 7,238 |

Cash Flow

| (HK\$m) | Jun-22A | Jun-23A | Jun-24F | Jun-25F | Jun-26F |
|------------------------------------|----------------|----------------|----------------|----------------|----------------|
| EBITDA | 8,335 | 5,469 | 4,853 | 4,420 | 5,553 |
| Cash Flow from Inv. & Assoc. | | | | | |
| Change In Working Capital | (652) | (2,541) | (3,432) | (1,614) | 394 |
| Straight Line Adjustment | | | | | |
| (Incr)/Decr in Total Provisions | | | | | |
| Other Non-Cash (Income)/Expense | | | | | |
| Other Operating Cashflow | (902) | (1,059) | 724 | 312 | (113) |
| Net Interest (Paid)/Received | 357 | 735 | (42) | (38) | (30) |
| Tax Paid | (315) | (2,446) | (2,112) | (1,149) | (941) |
| Cashflow From Operations | 6,823 | 159 | (10) | 1,931 | 4,864 |
| Capex | (190) | (273) | (110) | (112) | (114) |
| Disposals Of FAs/subsidiaries | 44 | 3 | 0 | 0 | 0 |
| Disposals of Investment Properties | 58 | 3 | 0 | 0 | 0 |
| Acq. Of Subsidiaries/Investments | 106 | 647 | 1,347 | 1,388 | 1,429 |
| Other Investing Cashflow | (26) | 2 | 0 | 0 | 0 |
| Cash Flow From Investing | (8) | 382 | 1,237 | 1,275 | 1,315 |
| Debt Raised/(repaid) | (2,055) | (1,339) | 0 | 0 | 0 |
| Proceeds From Issue Of Shares | 0 | 0 | 0 | 0 | 0 |
| Shares Repurchased | | | | | |
| Dividends Paid | (3,054) | (413) | (4,794) | (4,948) | (5,034) |
| Preferred Dividends | | | | | |
| Other Financing Cashflow | (1,021) | 459 | 0 | 0 | 0 |
| Cash Flow From Financing | (6,130) | (1,293) | (4,794) | (4,948) | (5,034) |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

| (HK\$m) | Jun-22A | Jun-23A | Jun-24F | Jun-25F | Jun-26F |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Total Cash And Equivalents | 44,784 | 43,932 | 40,366 | 38,624 | 39,770 |
| Properties Under Development | 20,377 | 16,381 | 18,199 | 18,016 | 15,609 |
| Total Debtors | 1,445 | 1,867 | 1,707 | 1,682 | 1,752 |
| Inventories | 14 | 9 | 14 | 12 | 12 |
| Total Other Current Assets | 4,806 | 5,454 | 5,454 | 5,454 | 5,454 |
| Total Current Assets | 71,425 | 67,643 | 65,740 | 63,789 | 62,597 |
| Fixed Assets | 1,801 | 1,823 | 1,615 | 1,396 | 1,167 |
| Total Investments | 101,740 | 105,182 | 105,982 | 108,040 | 111,509 |
| Intangible Assets | 0 | 0 | 0 | 0 | 0 |
| Total Other Non-Current Assets | 4,018 | 4,623 | 4,623 | 4,623 | 4,623 |
| Total Non-current Assets | 107,559 | 111,629 | 112,220 | 114,059 | 117,299 |
| Short-term Debt | 2,254 | 1,133 | 1,133 | 1,133 | 1,133 |
| Current Portion of Long-Term Debt | | | | | |
| Total Creditors | 7,952 | 5,927 | 6,105 | 6,288 | 6,477 |
| Other Current Liabilities | 4,899 | 3,843 | 4,424 | 4,930 | 5,615 |
| Total Current Liabilities | 15,105 | 10,902 | 11,662 | 12,350 | 13,224 |
| Total Long-term Debt | 1,010 | 847 | 847 | 847 | 847 |
| Hybrid Debt - Debt Component | | | | | |
| Total Other Non-Current Liabilities | 1,947 | 1,732 | 1,732 | 1,732 | 1,732 |
| Total Non-current Liabilities | 2,957 | 2,580 | 2,580 | 2,580 | 2,580 |
| Total Provisions | 2,694 | 2,684 | 2,684 | 2,684 | 2,684 |
| Total Liabilities | 20,755 | 16,166 | 16,926 | 17,615 | 18,488 |
| Shareholders' Equity | 157,397 | 162,349 | 159,967 | 159,131 | 160,135 |
| Minority Interests | 831 | 756 | 1,067 | 1,102 | 1,272 |
| Total Equity | 158,229 | 163,105 | 161,033 | 160,233 | 161,407 |

Key Ratios

| | Jun-22A | Jun-23A | Jun-24F | Jun-25F | Jun-26F |
|---------------------------|---------|---------|---------|---------|---------|
| Revenue Growth | (36.6%) | (23.6%) | (12.1%) | (12.6%) | 48.1% |
| Operating EBITDA Growth | (38.9%) | (34.4%) | (11.3%) | (8.9%) | 25.6% |
| Operating EBITDA Margin | 53.6% | 46.0% | 46.5% | 48.4% | 41.1% |
| Net Cash Per Share (HK\$) | 5.38 | 5.13 | 4.50 | 4.30 | 4.43 |
| BVPS (HK\$) | 20.39 | 19.87 | 18.75 | 18.65 | 18.77 |
| Gross Interest Cover | 165.7 | 53.2 | 46.9 | 47.2 | 76.8 |
| Effective Tax Rate | 15.2% | 10.9% | 8.2% | 7.0% | 7.4% |
| Net Dividend Payout Ratio | 109% | 76% | 92% | 88% | 70% |
| Accounts Receivables Days | 37.58 | 50.86 | 62.62 | 67.79 | 46.37 |
| Inventory Days | 0.83 | 0.64 | 0.74 | 0.99 | 0.54 |
| Accounts Payables Days | 474.2 | 390.1 | 386.6 | 468.4 | 288.5 |
| ROIC (%) | 39.0% | 26.9% | 22.8% | 19.9% | 26.7% |
| ROCE (%) | 5.16% | 4.01% | 3.83% | 3.37% | 3.82% |
| Return On Average Assets | 3.14% | 2.53% | 2.14% | 2.43% | 3.60% |

Key Drivers

| | Jun-22A | Jun-23A | Jun-24F | Jun-25F | Jun-26F |
|---------------------------------|----------|---------|---------|---------|---------|
| Property development (HK\$ m) | 11,129.7 | 6,996.3 | 4,889.2 | 3,169.6 | 7,311.6 |
| Property investment (HK\$ m) | 2,738.5 | 2,746.4 | 2,939.9 | 3,023.9 | 3,120.2 |
| Overall gross profit margin (%) | 53.1% | 45.4% | 45.5% | 47.1% | 40.3% |
| Dividend coverage by rental (%) | 46.5% | 42.5% | 42.7% | 42.8% | 43.4% |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Hong Kong

ADD (no change)

Consensus ratings*: Buy 11 Hold 5 Sell 1

| | |
|-------------------------|--------------|
| Current price: | HK\$79.20 |
| Target price: | HK\$101.1 |
| Previous target: | HK\$111.1 |
| Up/downside: | 27.7% |
| CGS-CIMB / Consensus: | 6.4% |
| Reuters: | 0016.HK |
| Bloomberg: | 16 HK |
| Market cap: | US\$29,347m |
| | HK\$229,504m |
| Average daily turnover: | US\$31.81m |
| | HK\$248.5m |
| Current shares o/s: | 2,898m |
| Free float: | 52.0% |

*Source: Bloomberg

Key changes in this note

- ▶ FY24F EPS decreased by 4%.
- ▶ FY25F EPS decreased by 2%.
- ▶ FY26F EPS decreased by 7%.



Source: Bloomberg

| Price performance | 1M | 3M | 12M |
|-------------------|-----|------|-------|
| Absolute (%) | 2.6 | -6.8 | -27.1 |
| Relative (%) | 4.1 | 2.1 | -2.6 |

| Major shareholders | % held |
|--------------------|--------|
| Kwok's family | 48.0 |

Analyst(s)

Raymond CHENG, CFA

 T (852) 2539 1324
 E raymond.cheng@cgs-cimb.com

Will CHU, CFA

 T (852) 2539 1327
 E will.chu@cgs-cimb.com

Steven MAK

 T (852) 2539 1328
 E steven.mak@cgs-cimb.com

Sun Hung Kai Properties Ltd

Upbeat sales to drive share outperformance

- We believe SHKP's upbeat sell-through rates for DP projects, coupled with only a slight decline in home prices, support share outperformance in 2024F.
- We are confident SHKP will stick to a dividend payout ratio of 50% in FY24-26F, without triggering adverse impact on its gearing and interest coverage.
- Reiterate SHKP as sector top Add, with a slightly lower TP of HK\$101.1 (now based on 45% discount to NAV).

Higher sell-through rates to support share outperformance in 2024F

SHKP outperformed the HK Property sector with only a 9% share price decline vs. 30% decline for HK Property overall between 17 Mar 2022 (the first interest rate hike by US Federal Reserve in the current interest rate hike cycle) and end-Dec 2023. We expect SHKP's outperformance vs. the HK Property sector to continue in 2024F. Upbeat sell-through rates for its large residential development property (DP) projects, such as Novo Land and Yoho West, are a testament of its successful pricing and marketing strategies in 2023, in our view. As we project HK's home prices to drop only 3% in 2024F and bottom out soon, we expect SHKP to adopt similar pricing strategies for its DP projects in 2024F in an attempt to meet its FY6/24F contracted sales target of HK\$33bn in HK.

EPS cuts to reflect lower DP price and rental growth assumptions

We cut FY24-26F EPS by 2-7% to factor in 1) lower DP sales booking due to mild ASP cuts for SHKP's contracted sales of DP projects since 2HCY23, 2) slightly lower rental growth assumptions in HK in FY24-26F. We are confident SHKP will stick to a dividend payout ratio of 50% in FY24-26F, at the top range of its 40-50% guidance, without triggering adverse impact on its net gearing and interest coverage ratio.

Mild TP cut; reiterate sector top Add

We trim SHKP's NAV by just 1% to HK\$183.8 to factor in mild price cuts in its DP business, and widen our target discount to NAV by 5% pts to 45% to factor in slightly weaker investment sentiment for HK developers. Hence, we cut our TP for SHKP by 9% to HK\$101.1. SHKP is still our sector top Add for 1) its ability execute property sales in this market downcycle, 2) its strong recurring income from investment properties (IP) and hotels to mitigate the cash flow volatility in DP sales, 3) its below sector-average net gearing (below 20% in the past 25 years), which translates to a strong war chest for land acquisitions at attractive prices. Key downside risks: deeper-than-expected ASP cuts for upcoming DP sales, delayed project launches, and higher-than-expected borrowing costs. Re-rating catalysts include stronger-than-expected contracted sales for DP, stronger-than-expected rental reversions for IP.

Financial Summary

| | Jun-22A | Jun-23A | Jun-24F | Jun-25F | Jun-26F |
|--------------------------------|---------|---------|---------|---------|---------|
| Total Net Revenues (HK\$m) | 77,747 | 71,195 | 80,124 | 83,153 | 88,845 |
| Operating EBITDA (HK\$m) | 33,362 | 27,545 | 29,698 | 29,512 | 31,903 |
| Net Profit (HK\$m) | 25,560 | 23,907 | 24,732 | 26,455 | 26,794 |
| Core EPS (HK\$) | 9.91 | 8.24 | 8.53 | 9.13 | 9.25 |
| Core EPS Growth | (3.8%) | (16.9%) | 3.5% | 7.0% | 1.3% |
| FD Core P/E (x) | 7.99 | 9.61 | 9.28 | 8.68 | 8.57 |
| DPS (HK\$) | 4.95 | 4.95 | 4.26 | 4.56 | 4.62 |
| Dividend Yield | 6.25% | 6.25% | 5.38% | 5.76% | 5.83% |
| EV/EBITDA (x) | 7.12 | 8.81 | 7.98 | 7.41 | 6.12 |
| P/FCFE (x) | 12.90 | 20.22 | 12.57 | 12.48 | 8.94 |
| Net Gearing | 17.2% | 18.1% | 17.0% | 14.1% | 10.4% |
| P/BV (x) | 0.38 | 0.38 | 0.37 | 0.37 | 0.36 |
| ROE | 4.81% | 3.97% | 4.07% | 4.27% | 4.23% |
| % Change In Core EPS Estimates | | | (3.96%) | (1.79%) | (6.59%) |
| EPS/Consensus EPS (x) | | | 0.98 | 1.00 | 0.94 |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 1: Earnings revisions

| HK\$ m | 2024F | | | 2025F | | | 2026F | | |
|-----------------|--------|--------|-------|--------|--------|-------|--------|--------|-------|
| | Old | New | % chg | Old | New | % chg | Old | New | % chg |
| Core net profit | 25,751 | 24,732 | -4% | 26,939 | 26,455 | -2% | 28,684 | 26,794 | -7% |
| EPS (HK\$) | 8.89 | 8.53 | -4% | 9.30 | 9.13 | -2% | 9.90 | 9.25 | -7% |
| DPS (HK\$) | 4.44 | 4.26 | -4% | 4.65 | 4.56 | -2% | 4.95 | 4.62 | -7% |

SOURCE: CGS-CIMB RESEARCH ESTIMATES

Figure 2: NAV breakdown (end-FY24F)


| | HK\$ m | HK\$/share | % of GAV |
|---|----------------|--------------|----------|
| HK DP | 116,024 | 40.0 | 18.0% |
| HK IP | 377,165 | 130.2 | 58.5% |
| China IP | 96,009 | 33.1 | 14.9% |
| China DP | 23,010 | 7.9 | 3.6% |
| Others (incl. hotels and listed/unlisted investments) | 32,868 | 11.3 | 5.1% |
| Gross Asset Value (GAV) | 645,076 | 222.6 | 100.0% |
| Less: net debt (consol. + JV) | (112,373) | (38.8) | |
| Net Asset Value (NAV) | 532,703 | 183.8 | |

SOURCE: CGS-CIMB RESEARCH ESTIMATES

Figure 3: Summary of NAV and TP changes

| | Old | New | Chg % |
|-----------------|-------|-------|--------|
| NAV (HK\$) | 185.2 | 183.8 | -1% |
| Discount to NAV | 40% | 45% | 5% pts |
| TP (HK\$) | 111.1 | 101.1 | -9% |

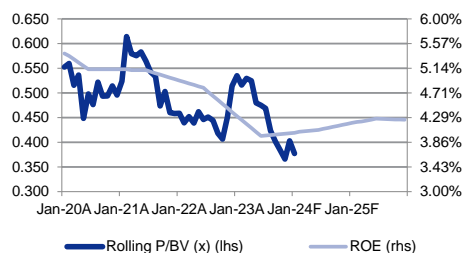
SOURCE: CGS-CIMB RESEARCH ESTIMATES

|  | | Refinitiv ESG Scores | | | | | |
|---|---------------------|---|-------------------------|--------------------|------------------------------|-------------------------|-----------------------------|
| | | B- | A+ | B- | A- | B+ | D+ |
| | | ESG Score | ESG Controversies Score | ESG Combined Score | ESG Environment Pillar Score | ESG Social Pillar Score | ESG Government Pillar Score |
| ESG in a nutshell | | <p>Sun Hung Kai Properties (SHKP) has integrated Environmental, Social and Governance (ESG) factors into its decision-making process. To support its long-term development, SHKP has established robust corporate governance through relevant strategies and policies. It is committed to actively engaging stakeholders through different channels of communication while its Sustainability Steering Committee closely monitors the progress of its sustainability strategies. SHKP's sustainability strategy is built on five priority pillars: the environment, people, customers, supply chain, and community.</p> | | | | | |
| Keep your eye on | Implications | <p>We see no ESG issues for SHKP with which we are concerned.</p> | | | | | |
| ESG highlights | Implications | <p>SHKP-initiated transitional housing, United Court, was officially opened in Jun 2022. SHKP has also installed solar panels at different types of properties it manages or owns in the city.</p> | | | | | |
| Trends | Implications | <p>SHKP has set a couple of ESG targets. It aims to reduce direct and indirect greenhouse gas emissions/electricity consumption/water use of its major investment properties by 25%/13%/5% before FY6/30 (baseline: FY6/20). Also, SHKP targets to achieve an annual diversion rate of at least 70% of construction waste in HK construction projects.</p> | | | | | |

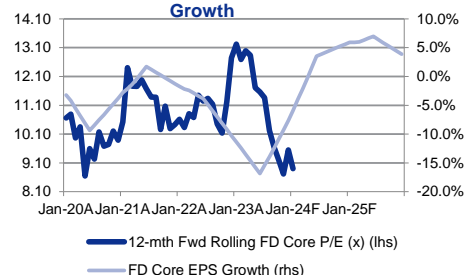
SOURCES: CGS-CIMB RESEARCH, REFINITIV

BY THE NUMBERS

P/BV vs ROE



12-mth Fwd FD Core P/E vs FD Core EPS Growth



Profit & Loss

| (HK\$m) | Jun-22A | Jun-23A | Jun-24F | Jun-25F | Jun-26F |
|---|----------------|----------------|----------------|----------------|----------------|
| Total Net Revenues | 77,747 | 71,195 | 80,124 | 83,153 | 88,845 |
| Gross Profit | 39,841 | 34,458 | 37,151 | 36,918 | 39,910 |
| Operating EBITDA | 33,362 | 27,545 | 29,698 | 29,512 | 31,903 |
| Depreciation And Amortisation | 0 | 0 | 0 | 0 | 0 |
| Operating EBIT | 33,362 | 27,545 | 29,698 | 29,512 | 31,903 |
| Financial Income/(Expense) | (1,747) | (2,499) | (2,831) | (2,338) | (1,726) |
| Pretax Income/(Loss) from Assoc. | 3,148 | 3,677 | 5,176 | 7,123 | 4,666 |
| Non-Operating Income/(Expense) | 267 | 199 | 199 | 199 | 199 |
| Profit Before Tax (pre-EI) | 35,030 | 28,922 | 32,242 | 34,496 | 35,042 |
| Exceptional Items | | | | | |
| Pre-tax Profit | 35,030 | 28,922 | 32,242 | 34,496 | 35,042 |
| Taxation | (5,728) | (4,379) | (6,296) | (6,834) | (7,097) |
| Exceptional Income - post-tax | | | | | |
| Profit After Tax | 29,302 | 24,543 | 25,946 | 27,663 | 27,945 |
| Minority Interests | (573) | (658) | (1,214) | (1,207) | (1,151) |
| Prof. & Special Div | 0 | 0 | 0 | 0 | 0 |
| FX Gain/(Loss) - post tax | | | | | |
| Other Adjustments - post-tax | (3,169) | 22 | 0 | 0 | 0 |
| Net Profit | 25,560 | 23,907 | 24,732 | 26,455 | 26,794 |
| Recurring Net Profit | 28,729 | 23,885 | 24,732 | 26,455 | 26,794 |
| Fully Diluted Recurring Net Profit | 28,729 | 23,885 | 24,732 | 26,455 | 26,794 |

Cash Flow

| (HK\$m) | Jun-22A | Jun-23A | Jun-24F | Jun-25F | Jun-26F |
|------------------------------------|----------------|-----------------|-----------------|-----------------|-----------------|
| EBITDA | 33,362 | 27,545 | 29,698 | 29,512 | 31,903 |
| Cash Flow from Invnt. & Assoc. | | | | | |
| Change In Working Capital | (15,342) | 1,565 | 7,800 | 16,800 | 22,165 |
| Straight Line Adjustment | | | | | |
| (Incr)/Decr in Total Provisions | | | | | |
| Other Non-Cash (Income)/Expense | 10,361 | 8,521 | 7,442 | 8,416 | 7,187 |
| Other Operating Cashflow | | | | | |
| Net Interest (Paid)/Received | (2,603) | (3,950) | (4,648) | (3,759) | (2,756) |
| Tax Paid | (7,217) | (7,526) | (6,296) | (6,834) | (7,097) |
| Cashflow From Operations | 18,561 | 26,155 | 33,996 | 44,134 | 51,402 |
| Capex | (13,164) | (15,450) | (15,854) | (15,854) | (15,854) |
| Disposals Of FAs/subsidiaries | 3,672 | (607) | 0 | 0 | 0 |
| Disposals of Investment Properties | | | | | |
| Acq. Of Subsidiaries/investments | 0 | 0 | 0 | 0 | 0 |
| Other Investing Cashflow | (40) | (1) | 110 | 110 | 110 |
| Cash Flow From Investing | (9,532) | (16,058) | (15,744) | (15,744) | (15,744) |
| Debt Raised/(repaid) | 8,767 | 1,254 | 0 | (10,000) | (10,000) |
| Proceeds From Issue Of Shares | (15) | 4 | 0 | 0 | 0 |
| Shares Repurchased | | | | | |
| Dividends Paid | (14,841) | (14,958) | (13,851) | (12,576) | (13,272) |
| Preferred Dividends | | | | | |
| Other Financing Cashflow | (2,780) | 40 | 0 | 0 | 0 |
| Cash Flow From Financing | (8,869) | (13,660) | (13,851) | (22,576) | (23,272) |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

| (HK\$m) | Jun-22A | Jun-23A | Jun-24F | Jun-25F | Jun-26F |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Total Cash And Equivalents | 20,323 | 15,280 | 19,680 | 25,494 | 37,880 |
| Properties Under Development | 207,614 | 212,136 | 207,058 | 195,240 | 174,520 |
| Total Debtors | 21,015 | 14,757 | 14,757 | 14,757 | 14,757 |
| Inventories | | | | | |
| Total Other Current Assets | 698 | 610 | 610 | 610 | 610 |
| Total Current Assets | 249,650 | 242,783 | 242,106 | 236,101 | 227,767 |
| Fixed Assets | 5,815 | 5,079 | 5,079 | 5,079 | 5,079 |
| Total Investments | 552,102 | 558,129 | 573,623 | 589,695 | 604,147 |
| Intangible Assets | 0 | 0 | 0 | 0 | 0 |
| Total Other Non-Current Assets | 0 | 0 | 0 | 0 | 0 |
| Total Non-current Assets | 557,917 | 563,208 | 578,702 | 594,774 | 609,226 |
| Short-term Debt | 15,857 | 7,508 | 31,999 | 14,399 | 12,546 |
| Current Portion of Long-Term Debt | | | | | |
| Total Creditors | 33,243 | 36,450 | 39,172 | 44,153 | 45,598 |
| Other Current Liabilities | | | | | |
| Total Current Liabilities | 49,100 | 43,958 | 71,171 | 58,552 | 58,144 |
| Total Long-term Debt | 109,074 | 117,545 | 93,054 | 100,654 | 92,507 |
| Hybrid Debt - Debt Component | | | | | |
| Total Other Non-Current Liabilities | 29,373 | 28,236 | 28,236 | 28,236 | 28,236 |
| Total Non-current Liabilities | 138,447 | 145,781 | 121,290 | 128,890 | 120,743 |
| Total Provisions | 13,276 | 9,456 | 9,456 | 9,456 | 9,456 |
| Total Liabilities | 200,823 | 199,195 | 201,917 | 196,898 | 188,343 |
| Shareholders' Equity | 601,946 | 602,055 | 612,936 | 626,815 | 640,336 |
| Minority Interests | 4,798 | 4,741 | 5,955 | 7,162 | 8,313 |
| Total Equity | 606,744 | 606,796 | 618,891 | 633,977 | 648,650 |

Key Ratios

| | Jun-22A | Jun-23A | Jun-24F | Jun-25F | Jun-26F |
|---------------------------|---------|---------|---------|---------|---------|
| Revenue Growth | (8.8%) | (8.4%) | 12.5% | 3.8% | 6.8% |
| Operating EBITDA Growth | (10.4%) | (17.4%) | 7.8% | (0.6%) | 8.1% |
| Operating EBITDA Margin | 42.9% | 38.7% | 37.1% | 35.5% | 35.9% |
| Net Cash Per Share (HK\$) | (36.10) | (37.88) | (36.36) | (30.91) | (23.18) |
| BVPS (HK\$) | 207.7 | 207.8 | 211.5 | 216.3 | 221.0 |
| Gross Interest Cover | 11.22 | 5.94 | 5.80 | 6.83 | 9.32 |
| Effective Tax Rate | 16.4% | 15.1% | 19.5% | 19.8% | 20.3% |
| Net Dividend Payout Ratio | 56.1% | 60.0% | 49.9% | 49.9% | 50.0% |
| Accounts Receivables Days | 92.46 | 91.70 | 67.41 | 64.78 | 60.63 |
| Inventory Days | - | - | - | - | - |
| Accounts Payables Days | 281.2 | 310.4 | 276.4 | 258.7 | 246.9 |
| ROIC (%) | 14.8% | 11.4% | 12.6% | 13.1% | 15.5% |
| ROCE (%) | 4.57% | 3.78% | 4.04% | 3.98% | 4.28% |
| Return On Average Assets | 3.44% | 3.30% | 3.48% | 3.59% | 3.52% |

Key Drivers

| | Jun-22A | Jun-23A | Jun-24F | Jun-25F | Jun-26F |
|--|----------|----------|----------|----------|----------|
| Contracted property sales in HK (HK\$ m) | 29,600.0 | 33,000.0 | 32,926.9 | 34,529.0 | 30,031.7 |
| Revenue from DP (HK\$ m) | 33,312.0 | 26,183.0 | 33,621.5 | 34,958.2 | 38,848.3 |
| Revenue from IP (HK\$ m) | 20,438.0 | 19,747.0 | 20,632.6 | 21,884.7 | 23,323.5 |
| Operating profit margin (%) | 42.9% | 38.7% | 37.1% | 35.5% | 35.9% |
| Operating profit margin - DP (%) | 45.0% | 36.8% | 29.7% | 23.6% | 23.6% |
| Operating profit margin - IP (%) | 77.4% | 75.7% | 77.2% | 77.5% | 77.8% |
| Effective tax rate (%) | 16.5% | 15.2% | 15.9% | 15.9% | 15.9% |
| Payout ratio on underlying profit (%) | 49.9% | 60.1% | 50.0% | 50.0% | 50.0% |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Hong Kong

HOLD (no change)

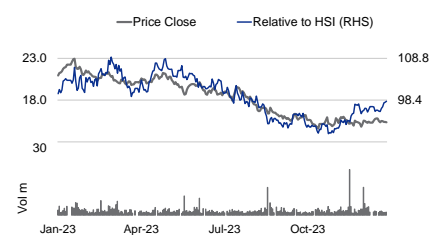
Consensus ratings*: Buy 11 Hold 5 Sell 1

| | |
|-------------------------|-------------|
| Current price: | HK\$15.34 |
| Target price: | HK\$18.00 |
| Previous target: | HK\$20.10 |
| Up/downside: | 17.3% |
| CGS-CIMB / Consensus: | -12.1% |
| Reuters: | 1972.HK |
| Bloomberg: | 1972 HK |
| Market cap: | US\$11,475m |
| | HK\$89,739m |
| Average daily turnover: | US\$4.56m |
| | HK\$35.59m |
| Current shares o/s: | 5,850m |
| Free float: | 18.0% |

*Source: Bloomberg

Key changes in this note

- FY23F EPS increased by 40%.
- FY24F EPS decreased by 1%.
- FY25F EPS decreased by 4%.



Source: Bloomberg

| Price performance | 1M | 3M | 12M |
|-------------------|------|------|------|
| Absolute (%) | -0.1 | -5.6 | -28 |
| Relative (%) | 1.4 | 3.3 | -3.5 |

| Major shareholders | % held |
|--------------------|--------|
| Swire Pacific | 82.0 |

Analyst(s)

Will CHU, CFA

T (852) 2539 1327

E will.chu@cgs-cimb.com

Raymond CHENG, CFA

T (852) 2539 1324

E raymond.cheng@cgs-cimb.com

Steven MAK

T (852) 2539 1328

E steven.mak@cgs-cimb.com

Swire Properties Ltd

DPS growth cushions impact from HK office

- We expect Swire's FY23F EPS to jump 31% yoy, due to disposal of nine floors of One Island East office space and some Taikoo Shing parking lots.
- We think that its HK office portfolio is likely to be a drag on its growth outlook in 2024F, on the back of market-wide increase in vacancies.
- Reiterate Hold with a lower TP of HK\$18 (55% discount to NAV). Its growing DPS (3% p.a. in FY23-25F, our estimate) cushions share price downside.

Jump in FY23F underlying profit driven by disposals

We expect Swire's underlying net profit (including disposals) to rise by 31% yoy in FY23F to HK\$11.4bn. This is driven by gains from disposal totalling HK\$3.8bn, which stemmed from the disposal of: 1) nine floors of One Island East (OIE) office space to Securities and Futures Commission (SFC), completed in Dec 2023, and 2) some Taikoo Shing parking lots. Although we do not expect Swire to pay special DPS or repurchase its shares with proceeds from the disposal, we expect Swire to continue to honour its commitment to mid-single-digit growth in regular DPS. We project DPS to grow by 3% growth p.a. in FY23-25F.

HK office exposure a drag on FY24F growth outlook

HK's market-wide Grade A office vacancy stood at 12.9% at end-Nov 2023 (source: JLL); we expect the figure to rise to 14% at end-2024F, on the back of new completions and weak take-up (refer to our sector report for details). Meanwhile, we expect slow ramp-up for Swire's recently completed and newly completed office towers (i.e. Two Taikoo Place and Six Pacific Place), together with little pressure on average rents of its HK office portfolio in FY24F due to higher Grade A office vacancies.

Reiterate Hold with a wider target discount to NAV

We lift our FY23F EPS by 40% to account for the gain on disposal of OIE office space. We also trim our FY24-25F EPS by 1-4% on lower rental growth assumptions in HK and China investment properties (IP). We project 5-6% yoy growth in FY23-24F recurring underlying net profit and 3% growth in FY25F recurring underlying net profit (Fig. 1) on the basis of a sustainable increase in Swire's revenue from IP and hotels. We cut our TP for Swire to HK\$18, after: 1) raising its NAV (rolled over by one year to end-2024F) by 10% upon updating its project launch pipeline, and 2) widening target discount by 10% pts to 55% to account for a prolonged weakness in the office rental market, to which Swire has substantial exposure. Reiterate Hold; although its HK office portfolio is clearly a drag on its profit outlook, its growing DPS (6.9% FY24F dividend yield) should cushion share price downside. Key downside risks: more severe-than-expected decline in HK office spot rents and occupancy of Swire's office portfolio. Key upside risks include stronger-than-expected recovery of China retail rental and higher-than-expected sell-through rates of its development property (DP) projects in HK.

Financial Summary

| | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|--------------------------------|---------|---------|---------|---------|---------|
| Total Net Revenues (HK\$m) | 15,891 | 13,826 | 14,648 | 14,914 | 15,130 |
| Operating EBITDA (HK\$m) | 7,839 | 9,024 | 8,400 | 8,738 | 8,981 |
| Net Profit (HK\$m) | 9,541 | 8,706 | 11,392 | 8,076 | 8,690 |
| Core EPS (HK\$) | 1.63 | 1.49 | 1.95 | 1.38 | 1.49 |
| Core EPS Growth | (24.7%) | (8.8%) | 30.9% | (29.1%) | 7.6% |
| FD Core P/E (x) | 9.41 | 10.31 | 7.88 | 11.11 | 10.33 |
| DPS (HK\$) | 0.95 | 1.00 | 1.03 | 1.06 | 1.09 |
| Dividend Yield | 6.19% | 6.52% | 6.71% | 6.91% | 7.11% |
| EV/EBITDA (x) | 10.38 | 13.53 | 13.80 | 13.54 | 13.07 |
| P/FCFE (x) | NA | 22.38 | 11.30 | 13.37 | 17.76 |
| Net Gearing | 3.52% | 6.48% | 7.97% | 8.71% | 8.31% |
| P/BV (x) | 0.31 | 0.31 | 0.31 | 0.31 | 0.31 |
| ROE | 3.28% | 3.00% | 3.93% | 2.77% | 2.97% |
| % Change In Core EPS Estimates | | | 40.2% | (1.2%) | (3.7%) |
| EPS/Consensus EPS (x) | | | 1.35 | 1.00 | 0.91 |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 1: Underlying net profit (recurring and non-recurring) forecasts

| HK\$ m | 2021 | 2022 | 2023F | 2024F | 2025F |
|--|--------------|--------------|---------------|--------------|--------------|
| Underlying net profit (non-recurring) | 9,541 | 8,706 | 11,392 | 8,076 | 8,690 |
| <i>yoy chg</i> | | (8.8%) | 30.9% | (29.1%) | 7.6% |
| Underlying net profit (recurring)* | 7,152 | 7,176 | 7,564 | 8,004 | 8,257 |
| <i>yoy chg</i> | | 0.3% | 5.4% | 5.8% | 3.2% |

*Excluding disposal gains and profit from development properties (DP)
 SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 2: Earnings revisions

| HK\$ m | 2023F | | | 2024F | | | 2025F | | |
|-----------------|-------|--------|-------|-------|-------|-------|-------|-------|-------|
| | Old | New | % chg | Old | New | % chg | Old | New | % chg |
| Core net profit | 8,126 | 11,392 | 40% | 8,170 | 8,076 | -1% | 9,021 | 8,690 | -4% |
| EPS (HK\$) | 1.39 | 1.95 | 40% | 1.40 | 1.38 | -1% | 1.54 | 1.49 | -4% |
| DPS (HK\$) | 1.04 | 1.03 | -1% | 1.08 | 1.06 | -2% | 1.12 | 1.09 | -3% |

SOURCES: CGS-CIMB RESEARCH ESTIMATES

Figure 3: NAV breakdown (end-2024F)

| | HK\$ m | HK\$/share | % GAV |
|--------------------------------|----------------|-------------|---------------|
| Hong Kong IP and hotels | 160,580 | 27.4 | 60.4% |
| China IP and hotels | 68,008 | 11.6 | 25.6% |
| Overseas IP and hotels | 13,454 | 2.3 | 5.1% |
| Hong Kong trading properties | 19,115 | 3.3 | 7.2% |
| Overseas trading properties | 4,737 | 0.8 | 1.8% |
| Gross Asset Value (GAV) | 265,894 | 45.5 | 100.0% |
| Less: net debt | (32,738) | (5.6) | |
| Net Asset Value (NAV) | 233,156 | 39.9 | |


Net debt includes attributable net debt at JV and associate levels

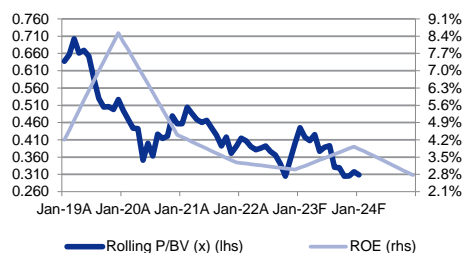
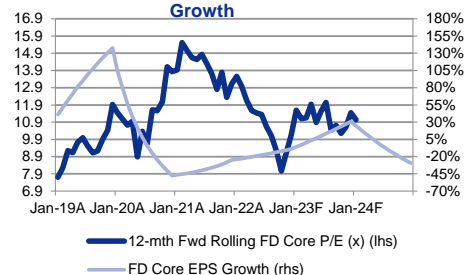
SOURCES: CGS-CIMB RESEARCH ESTIMATES

Figure 4: Summary of NAV and TP changes

| | Old | New | Chg % |
|---------------------|------|------|-------|
| NAV (HK\$) | 36.5 | 39.9 | 9% |
| Target discount | 45% | 55% | 10%pt |
| Target price (HK\$) | 20.1 | 18.0 | -10% |

SOURCES: CGS-CIMB RESEARCH ESTIMATES

| ESG in a nutshell | | Refinitiv ESG Scores | | | | | |
|--|---|-----------------------------|--------------------------------------|--------------------------------|--|--------------------------------------|--|
|  | | B ESG Score | A+ ESG Controversies Score | B ESG Combined Score | A ESG Environment Pillar Score | A- ESG Social Pillar Score | D+ ESG Government Pillar Score |
| <p>Swire Properties Ltd has scored AAA for its MSCI ESG rating since 2018. We think Swire's commitment to ESG is evident in its SD 2030 Strategy introduced in 2016, in which it aims to be the leading sustainable development player in the industry by 2030. Its SD 2030 Strategy is built on five strategic pillars: Places, People, Partners, Performance (Environment) and Performance (Economic).</p> | | | | | | | |
| Keep your eye on | Implications | | | | | | |
| We see no ESG issues for Swire that we are concerned about. | N/A. | | | | | | |
| ESG highlights | Implications | | | | | | |
| Swire achieved a 23% decline in absolute carbon emissions in 2021 against a 2019 baseline and a 35% decline in electricity use intensity in 2021 vs. 2008. | Swire has demonstrated its commitment towards ESG issues. We believe that further progress in ESG could support a further re-rating of its share price. | | | | | | |
| Trends | Implications | | | | | | |
| Some of its SD 2030 Strategy targets are: maintaining gender pay ratio (female to male) at 1:1; reducing carbon intensity/electricity use intensity/water intensity of its HK portfolio by 52%/42.5%/10% before 2030/2030/2025 (baseline: 2016); and obtaining a minimum of 80% of bond and loan facilities from green financing in 2030. | We have not applied any premium/discount for ESG in our fundamental valuations. We believe that Swire will continually improve in the different ESG areas, thereby attracting greater interest among ESG-focused investors. | | | | | | |
| SOURCES: CGS-CIMB RESEARCH, REFINITIV | | | | | | | |

BY THE NUMBERS
P/BV vs ROE

12-mth Fwd FD Core P/E vs FD Core EPS Growth

Profit & Loss

| (HK\$m) | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|---|----------------|----------------|----------------|----------------|----------------|
| Total Net Revenues | 15,891 | 13,826 | 14,648 | 14,914 | 15,130 |
| Gross Profit | 10,522 | 9,523 | 9,728 | 10,120 | 10,401 |
| Operating EBITDA | 7,839 | 9,024 | 8,400 | 8,738 | 8,981 |
| Depreciation And Amortisation | 0 | 0 | 0 | 0 | 0 |
| Operating EBIT | 7,839 | 9,024 | 8,400 | 8,738 | 8,981 |
| Financial Income/(Expense) | (377) | (187) | (504) | (556) | (537) |
| Pretax Income/(Loss) from Assoc. | 1,788 | 1,455 | 1,029 | 1,268 | 1,664 |
| Non-Operating Income/(Expense) | 0 | 0 | 0 | 0 | 0 |
| Profit Before Tax (pre-EI) | 11,197 | 9,491 | 8,924 | 9,450 | 10,107 |
| Exceptional Items | | | | | |
| Pre-tax Profit | 9,250 | 10,292 | 8,924 | 9,450 | 10,107 |
| Taxation | (1,961) | (2,065) | (1,073) | (1,112) | (1,148) |
| Exceptional Income - post-tax | | | | | |
| Profit After Tax | 7,289 | 8,227 | 7,851 | 8,338 | 8,960 |
| Minority Interests | (168) | (247) | (252) | (262) | (270) |
| Pref. & Special Div | 0 | 0 | 0 | 0 | 0 |
| FX Gain/(Loss) - post tax | | | | | |
| Other Adjustments - post-tax | 2,420 | 726 | 3,794 | 0 | 0 |
| Net Profit | 9,541 | 8,706 | 11,392 | 8,076 | 8,690 |
| Recurring Net Profit | 9,541 | 8,706 | 11,392 | 8,076 | 8,690 |
| Fully Diluted Recurring Net Profit | 9,541 | 8,706 | 11,392 | 8,076 | 8,690 |

Cash Flow

| (HK\$m) | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|------------------------------------|----------------|----------------|----------------|----------------|----------------|
| EBITDA | 7,839 | 9,024 | 8,400 | 8,738 | 8,981 |
| Cash Flow from Inv. & Assoc. | | | | | |
| Change In Working Capital | (1,926) | (1,154) | (1,460) | (1,595) | 996 |
| Straight Line Adjustment | | | | | |
| (Incr)/Decr in Total Provisions | | | | | |
| Other Non-Cash (Income)/Expense | | | | | |
| Other Operating Cashflow | (832) | 7,486 | 545 | 549 | 527 |
| Net Interest (Paid)/Received | (348) | (449) | 10 | 78 | 295 |
| Tax Paid | (1,635) | (1,127) | (1,073) | (1,112) | (1,148) |
| Cashflow From Operations | 3,098 | 13,780 | 6,421 | 6,658 | 9,651 |
| Capex | (4,040) | (7,229) | (7,609) | (1,463) | (1,228) |
| Disposals Of FAs/subsidiaries | 3,970 | 1,669 | 4,050 | 0 | 0 |
| Disposals of Investment Properties | | | | | |
| Acq. Of Subsidiaries/investments | | | | | |
| Other Investing Cashflow | (3,126) | (2,439) | (1,220) | (610) | (305) |
| Cash Flow From Investing | (3,196) | (7,999) | (4,779) | (2,073) | (1,533) |
| Debt Raised/(repaid) | (2,784) | (1,772) | 6,300 | 2,125 | (3,065) |
| Proceeds From Issue Of Shares | | | | | |
| Shares Repurchased | | | | | |
| Dividends Paid | (5,383) | (5,616) | (6,026) | (6,201) | (6,377) |
| Preferred Dividends | | | | | |
| Other Financing Cashflow | (204) | 841 | (162) | (162) | (162) |
| Cash Flow From Financing | (8,371) | (6,547) | 113 | (4,238) | (9,604) |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

| (HK\$m) | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Total Cash And Equivalents | 14,833 | 4,502 | 5,716 | 5,522 | 3,495 |
| Properties Under Development | 8,222 | 10,374 | 11,940 | 14,401 | 16,350 |
| Total Debtors | 2,805 | 2,834 | 3,002 | 3,057 | 3,101 |
| Inventories | | | | | |
| Total Other Current Assets | 20 | 0 | 0 | 0 | 0 |
| Total Current Assets | 25,880 | 17,710 | 20,658 | 22,980 | 22,946 |
| Fixed Assets | 4,588 | 4,373 | 4,063 | 3,768 | 3,516 |
| Total Investments | 309,855 | 315,079 | 320,137 | 322,590 | 324,680 |
| Intangible Assets | 0 | 0 | 0 | 0 | 0 |
| Total Other Non-Current Assets | 0 | 0 | 0 | 0 | 0 |
| Total Non-current Assets | 314,443 | 319,452 | 324,200 | 326,358 | 328,196 |
| Short-term Debt | 9,056 | 779 | 1,875 | 5,065 | 3,714 |
| Current Portion of Long-Term Debt | | | | | |
| Total Creditors | 9,459 | 10,022 | 10,296 | 11,216 | 14,205 |
| Other Current Liabilities | 348 | 185 | 185 | 185 | 185 |
| Total Current Liabilities | 18,863 | 10,986 | 12,356 | 16,466 | 18,105 |
| Total Long-term Debt | 16,118 | 22,670 | 27,260 | 26,195 | 24,481 |
| Hybrid Debt - Debt Component | | | | | |
| Total Other Non-Current Liabilities | 337 | 0 | 0 | 0 | 0 |
| Total Non-current Liabilities | 16,455 | 22,670 | 27,260 | 26,195 | 24,481 |
| Total Provisions | 10,847 | 11,248 | 11,248 | 11,248 | 11,248 |
| Total Liabilities | 46,165 | 44,904 | 50,864 | 53,909 | 53,833 |
| Shareholders' Equity | 292,155 | 289,211 | 290,791 | 292,058 | 293,765 |
| Minority Interests | 2,003 | 3,047 | 3,203 | 3,370 | 3,544 |
| Total Equity | 294,158 | 292,258 | 293,994 | 295,428 | 297,308 |

Key Ratios

| | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|---------------------------|---------|---------|---------|---------|---------|
| Revenue Growth | 19.4% | (13.0%) | 5.9% | 1.8% | 1.4% |
| Operating EBITDA Growth | (1.9%) | (16.0%) | 2.1% | 4.0% | 2.8% |
| Operating EBITDA Margin | 61.6% | 59.5% | 57.3% | 58.6% | 59.4% |
| Net Cash Per Share (HK\$) | (1.77) | (3.24) | (4.00) | (4.40) | (4.22) |
| BVPS (HK\$) | 49.94 | 49.44 | 49.71 | 49.92 | 50.22 |
| Gross Interest Cover | 10.31 | 8.99 | 6.13 | 5.67 | 6.03 |
| Effective Tax Rate | 21.2% | 20.1% | 12.0% | 11.8% | 11.4% |
| Net Dividend Payout Ratio | 48.4% | 74.0% | 52.9% | 76.8% | 73.4% |
| Accounts Receivables Days | 63.27 | 74.43 | 72.72 | 74.35 | 74.28 |
| Inventory Days | - | - | - | - | - |
| Accounts Payables Days | 594.2 | 826.2 | 753.7 | 821.3 | 981.1 |
| ROIC (%) | 223% | 118% | 95% | 86% | 76% |
| ROCE (%) | 3.04% | 2.56% | 2.56% | 2.63% | 2.69% |
| Return On Average Assets | 3.53% | 2.45% | 3.54% | 2.54% | 2.69% |

Key Drivers

| | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|--|---------|---------|---------|---------|---------|
| Revenue from IP - HK (HK\$ m) | 8,213.9 | 7,990.1 | 8,321.2 | 8,371.1 | 8,435.8 |
| Revenue from IP - China (HK\$ m) | 3,561.1 | 3,319.1 | 4,373.7 | 4,416.6 | 4,434.2 |
| Revenue from IP - Overseas (HK\$ m) | 677.0 | 916.8 | 732.3 | 776.2 | 821.0 |
| Revenue from property trading (HK\$ m) | 2,443.0 | 921.0 | 140.2 | 220.8 | 255.2 |
| Revenue from hotels (HK\$ m) | 894.0 | 565.0 | 952.2 | 1,000.0 | 1,053.9 |
| Rental EBIT margin (%) | 75.4% | 67.0% | 62.0% | 63.0% | 64.0% |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Hong Kong

HOLD (no change)

Consensus ratings*: Buy 2 Hold 6 Sell 3

| | |
|-------------------------|-------------|
| Current price: | HK\$22.45 |
| Target price: | HK\$21.60 |
| Previous target: | HK\$19.70 |
| Up/downside: | -3.8% |
| CGS-CIMB / Consensus: | 3.1% |
| Reuters: | 0004.HK |
| Bloomberg: | 4 HK |
| Market cap: | US\$8,773m |
| | HK\$68,608m |
| Average daily turnover: | US\$10.97m |
| | HK\$85.71m |
| Current shares o/s: | 3,056m |
| Free float: | 31.5% |

*Source: Bloomberg

Key changes in this note

- FY23F EPS decreased by 0.3%
- FY24F EPS decreased by 4%.
- FY25F EPS decreased by 7%.



Source: Bloomberg

| Price performance | 1M | 3M | 12M |
|-------------------|------|------|------|
| Absolute (%) | -3.5 | 17.2 | 3.2 |
| Relative (%) | -2 | 26.1 | 27.7 |

| Major shareholders | % held |
|--------------------|--------|
| Whelock & Co | 68.5 |

Analyst(s)

Will CHU, CFA

T (852) 2539 1327

E will.chu@cgs-cimb.com

Raymond CHENG, CFA

T (852) 2539 1324

E raymond.cheng@cgs-cimb.com

Steven MAK

T (852) 2539 1328

E steven.mak@cgs-cimb.com

Wharf Holdings Ltd

Asset restructuring unlikely in near term

- We do expect WHL to restructure its assets in the near term.
- We expect its impairment provisions on development property (DP) assets to gradually decline in the coming fiscal years.
- Reiterate Hold, with a higher TP of HK\$21.6 (55% discount to NAV).

Asset restructuring unlikely in near term

Wharf Holdings' (WHL) share price outperformed the HK Property sector, falling only 1% vs. the average 30% decline for the sector between 17 Mar 2022 (right before the first hike by the US Federal Reserve in this rate hike cycle) and end-2023. We believe that WHL's strong balance sheet (net cash of HK\$30bn at end-Jun 2023, if its HK\$45bn listed equity investment is deemed cash), with minimal interest expenses, led to its share price outperformance. While we believe that WHL could benefit from restructuring its assets to increase its exposure to property projects rather than listed equities, we think it is unlikely in the near term, as 1) WHL's listed equity portfolio appears to be performing well and WHL management has no incentive to liquidate it, and 2) uncertainties in HK and China land markets are still high, and WHL has no urgent need to acquire new land bank by liquidating its investment portfolio.

Impairment provisions should decline in coming years

A swing factor in WHL's net profit since 2019 is its impairment provisions for DP assets; from 1H19 to 1H23, it made provisions amounting to HK\$17.6bn for China and HK DP (Fig 1), leading to depressed levels of underlying profit. On the back of the challenges facing China's property market — in particular the high levels of inventory and uncompleted projects nationwide — we believe impairment provisions for WHL's DP assets would still be required in FY24-25F, albeit at a smaller amount than previous fiscal years as the property price decline slows.

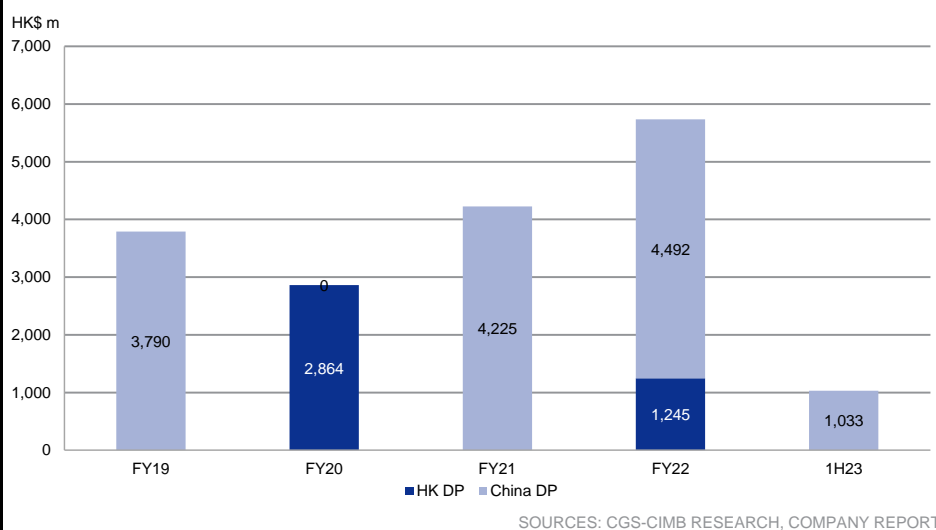
Mild EPS cuts; reiterate Hold with a higher TP

While we project flattish to very low growth in WHL's rental reversions for its China investment properties (IP), we expect its DP impairment provisions to drag profit recovery. Hence, we cut our FY23-25F EPS by 0.3-7%. Also, we think DPS growth is more likely in FY24F than in FY23F, on the back of a further decline in DP impairment provisions. Despite our provision assumptions, we lift WHL's NAV/share (rolled over by a year to end-FY24F) by 10% to HK\$48 as we lift our valuation for its investment portfolio (HK\$50bn, including unlisted equities). Hence, our TP for WHL rises to HK\$21.6, still based on a 55% discount to NAV. Reiterate Hold; we believe its share price already reflects a scenario of slow recovery in DP assets vs. a strong balance sheet (net gearing 10% at end-Jun 2023, even if investment portfolio is not deemed cash). Key downside risks: impairment provisions for DP assets and investment portfolio. Key upside risks: higher-than-expected sell-through rates for DP projects and an unexpected increase in DPS.

Financial Summary

| | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|--------------------------------|---------|---------|---------|---------|---------|
| Total Net Revenues (HK\$m) | 22,378 | 18,064 | 17,998 | 19,012 | 21,756 |
| Operating EBITDA (HK\$m) | 8,536 | 6,603 | 7,120 | 7,201 | 6,892 |
| Net Profit (HK\$m) | 3,596 | 595 | 3,832 | 4,382 | 4,820 |
| Core EPS (HK\$) | 1.19 | 0.10 | 1.25 | 1.43 | 1.58 |
| Core EPS Growth | 18% | (92%) | 1165% | 14% | 10% |
| FD Core P/E (x) | 18.8 | 226.4 | 17.9 | 15.7 | 14.2 |
| DPS (HK\$) | 0.40 | 0.40 | 0.40 | 0.43 | 0.47 |
| Dividend Yield | 1.78% | 1.78% | 1.78% | 1.92% | 2.09% |
| EV/EBITDA (x) | 5.89 | 7.15 | 8.54 | 8.01 | 7.51 |
| P/FCFE (x) | NA | NA | 20.03 | 37.60 | 8.23 |
| Net Gearing | 7.9% | 3.4% | 10.5% | 10.0% | 5.6% |
| P/BV (x) | 0.42 | 0.45 | 0.46 | 0.44 | 0.43 |
| ROE | 2.27% | 0.19% | 2.54% | 2.85% | 3.03% |
| % Change In Core EPS Estimates | | | (0.33%) | (3.55%) | (6.64%) |
| EPS/Consensus EPS (x) | | | 1.00 | 0.96 | 0.90 |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 1: WHL's impairment provisions on DP assets

Figure 2: Earnings revisions

| HK\$ m | 2023F | | | 2024F | | | 2025F | | |
|-----------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | Old | New | % chg | Old | New | % chg | Old | New | % chg |
| Core net profit | 3,845 | 3,832 | -0.3% | 4,543 | 4,382 | -4% | 5,163 | 4,820 | -7% |
| EPS (HK\$) | 1.26 | 1.25 | -0.3% | 1.49 | 1.43 | -4% | 1.69 | 1.58 | -7% |
| DPS (HK\$) | 0.40 | 0.40 | 0% | 0.44 | 0.43 | -2% | 0.50 | 0.47 | -6% |

SOURCES: CGS-CIMB RESEARCH ESTIMATES

Figure 3: NAV breakdown (end-FY24F)


| | HK\$ m | HK\$/share | % of GAV |
|---------------------------------------|----------------|-------------|--------------|
| HK IP | 1,034 | 0.3 | 0.6 |
| HK DP | 41,120 | 13.5 | 25.2 |
| China IP | 53,435 | 17.5 | 32.8 |
| China DP | 12,257 | 4.0 | 7.5 |
| Hotels, ports and equity investments* | 55,010 | 18.0 | 33.8 |
| Gross Asset Value (GAV) | 162,857 | 53.3 | 100.0 |
| Less: net debt | (16,062) | (5.3) | |
| Net Asset Value (NAV) | 146,795 | 48.0 | |

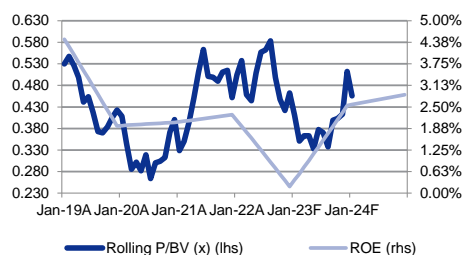
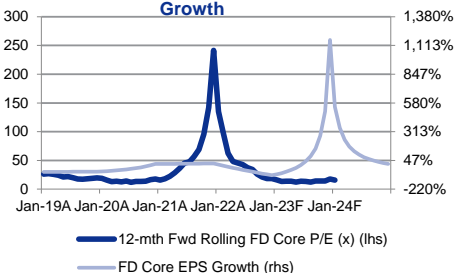
*Including investment in Greentown China (3900 HK, Add)
 SOURCES: CGS-CIMB RESEARCH ESTIMATES

Figure 4: Summary of NAV and TP changes

| | Old | New | Chg% |
|---------------------|------|------|-------|
| NAV (HK\$) | 43.7 | 48.0 | 10% |
| Target discount (%) | 55% | 55% | 0% pt |
| TP (HK\$) | 19.7 | 21.6 | 10% |

SOURCES: CGS-CIMB RESEARCH ESTIMATES

| ESG in a nutshell | | Refinitiv ESG Scores | | | | | |
|---|--|-----------------------------|--------------------------------------|---------------------------------|---|--------------------------------------|--|
|  | | B+ ESG Score | A+ ESG Controversies Score | B+ ESG Combined Score | A- ESG Environment Pillar Score | A- ESG Social Pillar Score | C+ ESG Government Pillar Score |
| <p>Wharf Holdings Ltd (WHL) is committed to ESG in reducing emissions, encouraging work-life balance, talent management and charity donation. WHL is also committed to supporting the global movement of United Nations Sustainable Development Goals (UNSDGs) and it has identified 11 of the 17 SDGs to align with, hoping to contribute to a better world.</p> | | | | | | | |
| Keep your eye on | Implications | | | | | | |
| We see no ESG issues for WHL to be concerned about. | N/A | | | | | | |
| ESG highlights | Implications | | | | | | |
| WHL achieved a 25% reduction in greenhouse gas (GHG) emissions (Scope 1 & 2) intensity in FY22, compared to FY17 baseline. It also provided a total 140,000 hours of training to its employees in FY22. | We believe further progress on WHL's ESG could support a re-rating of its share price. | | | | | | |
| Trends | Implications | | | | | | |
| WHL has established targets for several environmental aspects it can improve on by 2030, with 2017 as the base year. It actively monitors its operations' environmental performance and targets 25% and 20% reduction in its GHG intensity and Mainland China Investment Properties' electricity intensity, respectively, between 2017 and 2030. | We have not applied any premium/discount for ESG in our fundamental valuations of WHL. We believe WHL will continually improve in different areas of ESG, thereby attracting greater interest among ESG-focused investors. | | | | | | |
| SOURCES: CGS-CIMB RESEARCH, REFINITIV | | | | | | | |

BY THE NUMBERS
P/BV vs ROE

12-mth Fwd FD Core P/E vs FD Core EPS Growth

Profit & Loss

| (HK\$m) | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|---|----------------|----------------|----------------|----------------|----------------|
| Total Net Revenues | 22,378 | 18,064 | 17,998 | 19,012 | 21,756 |
| Gross Profit | 11,314 | 8,843 | 9,536 | 9,644 | 9,230 |
| Operating EBITDA | 8,536 | 6,603 | 7,120 | 7,201 | 6,892 |
| Depreciation And Amortisation | 0 | 0 | 0 | 0 | 0 |
| Operating EBIT | 8,536 | 6,603 | 7,120 | 7,201 | 6,892 |
| Financial Income/(Expense) | (316) | (354) | (656) | (706) | (635) |
| Pretax Income/(Loss) from Assoc. | 968 | (100) | 860 | 701 | 700 |
| Non-Operating Income/(Expense) | 0 | 0 | 0 | 0 | 0 |
| Profit Before Tax (pre-EI) | 9,188 | 6,149 | 7,324 | 7,196 | 6,957 |
| Exceptional Items | (2,245) | (4,935) | (2,468) | (1,481) | (888) |
| Pre-tax Profit | 6,943 | 1,214 | 4,857 | 5,716 | 6,069 |
| Taxation | (2,046) | (1,466) | (1,212) | (1,217) | (1,174) |
| Exceptional Income - post-tax | | | | | |
| Profit After Tax | 4,897 | (252) | 3,645 | 4,499 | 4,895 |
| Minority Interests | (1,301) | 847 | 187 | (117) | (75) |
| Pref. & Special Div | 0 | 0 | 0 | 0 | 0 |
| FX Gain/(Loss) - post tax | | | | | |
| Other Adjustments - post-tax | 0 | 0 | 0 | 0 | 0 |
| Net Profit | 3,596 | 595 | 3,832 | 4,382 | 4,820 |
| Recurring Net Profit | 3,646 | 303 | 3,832 | 4,382 | 4,820 |
| Fully Diluted Recurring Net Profit | 3,646 | 303 | 3,832 | 4,382 | 4,820 |

Cash Flow

| (HK\$m) | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|------------------------------------|----------------|-----------------|----------------|----------------|----------------|
| EBITDA | 8,536 | 6,603 | 7,120 | 7,201 | 6,892 |
| Cash Flow from Inv. & Assoc. | 964 | 370 | 860 | 701 | 700 |
| Change In Working Capital | (3,981) | 1,551 | (6,725) | (2,715) | 3,971 |
| Straight Line Adjustment | | | | | |
| (Incr)/Decr in Total Provisions | | | | | |
| Other Non-Cash (Income)/Expense | (1,002) | (1,462) | (1,660) | (1,699) | (1,676) |
| Other Operating Cashflow | | | | | |
| Net Interest (Paid)/Received | (494) | (132) | 1,742 | 1,753 | 1,825 |
| Tax Paid | (2,800) | (2,084) | (1,212) | (1,217) | (1,174) |
| Cashflow From Operations | 1,223 | 4,846 | 126 | 4,025 | 10,538 |
| Capex | (1,000) | (1,015) | (2,700) | (2,200) | (2,200) |
| Disposals Of FAs/subsidiaries | | | | | |
| Disposals of Investment Properties | | | | | |
| Acq. Of Subsidiaries/investments | | | | | |
| Other Investing Cashflow | | | | | |
| Cash Flow From Investing | (1,000) | (1,015) | (2,700) | (2,200) | (2,200) |
| Debt Raised/(repaid) | (5,516) | (16,078) | 6,000 | 0 | 0 |
| Proceeds From Issue Of Shares | | | | | |
| Shares Repurchased | | | | | |
| Dividends Paid | (1,932) | (1,429) | (1,035) | (1,431) | (1,512) |
| Preferred Dividends | | | | | |
| Other Financing Cashflow | | | | | |
| Cash Flow From Financing | (7,448) | (17,507) | 4,965 | (1,431) | (1,512) |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

| (HK\$m) | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Total Cash And Equivalents | 23,559 | 14,648 | 9,539 | 9,932 | 16,759 |
| Properties Under Development | 48,485 | 42,986 | 48,237 | 51,075 | 47,676 |
| Total Debtors | 1,886 | 1,755 | 1,755 | 1,755 | 1,755 |
| Inventories | | | | | |
| Total Other Current Assets | 248 | 69 | 69 | 69 | 69 |
| Total Current Assets | 74,178 | 59,458 | 59,599 | 62,832 | 66,259 |
| Fixed Assets | 0 | 0 | 0 | 0 | 0 |
| Total Investments | 178,253 | 161,079 | 166,340 | 167,780 | 169,196 |
| Intangible Assets | 298 | 298 | 298 | 298 | 298 |
| Total Other Non-Current Assets | 971 | 910 | 910 | 910 | 910 |
| Total Non-current Assets | 179,522 | 162,287 | 167,548 | 168,988 | 170,404 |
| Short-term Debt | 3,664 | 2,399 | 2,399 | 2,399 | 2,399 |
| Current Portion of Long-Term Debt | | | | | |
| Total Creditors | 31,458 | 28,674 | 27,199 | 27,323 | 27,895 |
| Other Current Liabilities | 3,451 | 2,345 | 2,345 | 2,345 | 2,345 |
| Total Current Liabilities | 38,573 | 33,418 | 31,943 | 32,067 | 32,639 |
| Total Long-term Debt | 33,117 | 17,595 | 23,595 | 23,595 | 23,595 |
| Hybrid Debt - Debt Component | | | | | |
| Total Other Non-Current Liabilities | 15,633 | 15,025 | 15,025 | 15,025 | 15,025 |
| Total Non-current Liabilities | 48,750 | 32,620 | 38,620 | 38,620 | 38,620 |
| Total Provisions | 0 | 0 | 0 | 0 | 0 |
| Total Liabilities | 87,323 | 66,038 | 70,563 | 70,687 | 71,259 |
| Shareholders' Equity | 162,020 | 151,585 | 149,995 | 157,263 | 160,646 |
| Minority Interests | 4,357 | 4,122 | 6,590 | 3,870 | 4,758 |
| Total Equity | 166,377 | 155,707 | 156,584 | 161,133 | 165,405 |

Key Ratios

| | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|---------------------------|---------|---------|---------|---------|---------|
| Revenue Growth | 7.4% | (26.0%) | 3.4% | 6.7% | 19.0% |
| Operating EBITDA Growth | (23.1%) | (22.6%) | 7.8% | 1.1% | (4.3%) |
| Operating EBITDA Margin | 49.8% | 52.0% | 54.2% | 51.4% | 41.3% |
| Net Cash Per Share (HK\$) | (4.33) | (1.75) | (5.38) | (5.26) | (3.02) |
| BVPS (HK\$) | 53.02 | 49.60 | 49.08 | 51.46 | 52.57 |
| Gross Interest Cover | 9.89 | 9.31 | 5.96 | 5.60 | 5.96 |
| Effective Tax Rate | 29% | 121% | 25% | 21% | 19% |
| Net Dividend Payout Ratio | 20.9% | 22.1% | 19.4% | 22.4% | 25.2% |
| Accounts Receivables Days | 43.04 | 52.31 | 48.79 | 45.86 | 38.42 |
| Inventory Days | - | - | - | - | - |
| Accounts Payables Days | 1,012 | 1,190 | 1,205 | 1,065 | 805 |
| ROIC (%) | 72.0% | 38.9% | 47.5% | 33.1% | 28.2% |
| ROCE (%) | 4.18% | 3.49% | 3.97% | 3.90% | 3.64% |
| Return On Average Assets | 2.94% | 2.12% | 3.02% | 2.91% | 2.74% |

Key Drivers

| | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|--|----------|---------|---------|---------|----------|
| Property investment revenue (HK\$ m) | 5,964.0 | 5,240.0 | 6,057.7 | 6,013.0 | 6,037.3 |
| Property development revenue (HK\$ m) | 11,193.0 | 7,462.0 | 7,071.0 | 7,994.6 | 10,637.4 |
| Logistics revenue (HK\$ m) | 3,002.0 | 2,964.0 | 2,470.7 | 2,544.8 | 2,621.1 |
| Investments and other revenue (HK\$ m) | 2,219.0 | 2,398.0 | 2,398.5 | 2,459.7 | 2,459.7 |
| DP operating margin (%) | 26.3% | 12.5% | 16.5% | 15.0% | 8.2% |
| IP operating margin (%) | 65.4% | 66.7% | 67.7% | 68.7% | 69.2% |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Hong Kong

ADD (no change)

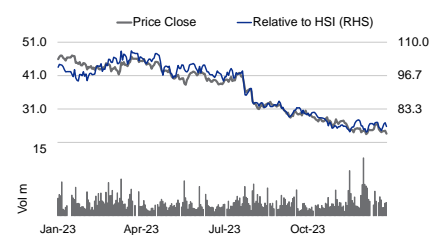
Consensus ratings*: Buy 11 Hold 4 Sell 2

| | |
|-------------------------|-------------|
| Current price: | HK\$23.60 |
| Target price: | HK\$30.30 |
| Previous target: | HK\$43.50 |
| Up/downside: | 28.4% |
| CGS-CIMB / Consensus: | -5.4% |
| Reuters: | 1997.HK |
| Bloomberg: | 1997 HK |
| Market cap: | US\$9,163m |
| | HK\$71,655m |
| Average daily turnover: | US\$10.07m |
| | HK\$78.64m |
| Current shares o/s: | 3,036m |
| Free float: | 51.0% |

*Source: Bloomberg

Key changes in this note

- FY23F/24F/25F EPS cut by 3%/4%/6% respectively.



Source: Bloomberg

| Price performance | 1M | 3M | 12M |
|-------------------|------|-------|-------|
| Absolute (%) | -6.5 | -21.2 | -48.6 |
| Relative (%) | -5 | -12.3 | -24.1 |

| Major shareholders | % held |
|----------------------------|--------|
| Wheelock & Company Limited | 49.0 |

Analyst(s)



Raymond CHENG, CFA
 T (852) 2539 1324
 E raymond.cheng@cgs-cimb.com

Steven MAK
 T (852) 2539 1328
 E steven.mak@cgs-cimb.com

Will CHU, CFA
 T (852) 2539 1327
 E will.chu@cgs-cimb.com

Wharf REIC

Luxury retail sales need more time to recover

- We expect rental at HC and TS malls to grow at a slower pace in 2024F as mainland Chinese visitors to HK start prioritising sightseeing over shopping.
- We expect new office supply in Central to put pressure on its office spot rents in 2024-25F. However, finance costs will be lower thanks to potential rate cuts.
- Reiterate Add with a lower TP of HK\$30.3, on FY23-25F EPS cuts and 50% discount to NAV. Reiterate Add amid ongoing recovery in visitor numbers.

Luxury retail sales need time to return to pre-Covid levels

Mainland Chinese visitors to HK now appear to be prioritising sightseeing over buying luxury goods due to a weakening Rmb and weaker China economy, in our view. As such, we think HK luxury retail sales will take longer to recover to pre-Covid levels. Therefore, we expect rental income, as well as rental growth, of Harbour City (HC) mall and Times Square (TS) mall to grow at a slower-than-expected pace in 2024F and 2025F on the back of a continued recovery in HK visitor arrivals, offset by lower consumption per visitor.

Office rental also under pressure in 2024F and 2025F

1H23 revenue from the HC and TS office space fell by 8% and 14% yoy, respectively, with occupancy rates of 88% and 87% (HC was unchanged, TS fell slightly from end-Dec 22 rates). We believe negative rental reversions are likely to continue into 2024-25F due to new office space supply in Central and decentralised business districts. Management said Wharf REIC aims to increase its market share in office rental and improve occupancies by renovating its office space and offering tenants more flexible lease terms.

Financing cost likely peaked in 2023

We expect borrowing rates to fall after the US Federal Reserve announced a likely 75bp cut in the Fed Funds Target Rate for 2024F (FOMC median projection as of 13 Dec 2023). Therefore, we think finance costs likely peaked in 2023 and will gradually decline in 2024-25F, which will help improve underlying profit.

Expect underlying profit to grow 1%/10%/7% in FY23F/24F/25F

With lower spot rent assumptions for both the retail and office portfolios, we cut the underlying profits of Wharf REIC in FY23-25F by 3-6%. We expect the underlying profits of Wharf REIC to grow by 1%/10%/7% to HK\$6,215/6,684/7,359m in FY23F/24F/25F.

Reiterate Add rating with a lower TP of HK\$30.3

We lower our FY23F/24F/25F EPS forecasts by 3%/4%/6% and widen our target discount by 20% pts to 50% to reflect 1) a weaker-than-expected retail sales recovery, and 2) weaker office outlook. As a result, we cut our TP by 30% to HK\$30.3. However, we reiterate Add amid ongoing recovery in visitor numbers. Key downside risks include 1) higher-than-expected interest expense and lower-than-expected portfolio occupancies dragging net profit, and 2) lower-than-expected visitor arrivals from mainland China amid a rapid depreciation of the Rmb against HK\$ and weakening Chian economy. Higher-than-expected turnover rent and a turnaround in rental reversion trends at its IP are potential re-rating catalysts.

Financial Summary

| | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|--------------------------------|---------|---------|---------|---------|---------|
| Total Net Revenues (HK\$m) | 16,043 | 12,459 | 13,151 | 13,724 | 14,305 |
| Operating EBITDA (HK\$m) | 9,394 | (5,910) | 9,791 | 10,311 | 10,742 |
| Net Profit (HK\$m) | 6,518 | (8,856) | 6,215 | 6,864 | 7,359 |
| Core EPS (HK\$) | 2.15 | 2.03 | 2.05 | 2.26 | 2.42 |
| Core EPS Growth | (12.8%) | (5.3%) | 0.6% | 10.4% | 7.2% |
| FD Core P/E (x) | 10.99 | 11.60 | 11.53 | 10.44 | 9.74 |
| DPS (HK\$) | 1.31 | 1.31 | 1.31 | 1.44 | 1.54 |
| Dividend Yield | 5.55% | 5.55% | 5.55% | 6.10% | 6.53% |
| EV/EBITDA (x) | 13.09 | 13.21 | 11.62 | 10.84 | 10.19 |
| P/FCFE (x) | 18.62 | 19.08 | 12.89 | 16.19 | 14.28 |
| Net Gearing | 22.5% | 23.2% | 19.5% | 18.2% | 16.9% |
| P/BV (x) | 0.35 | 0.38 | 0.37 | 0.37 | 0.36 |
| ROE | 3.17% | 3.11% | 3.25% | 3.54% | 3.75% |
| % Change In Core EPS Estimates | | | (2.52%) | (4.39%) | (6.08%) |
| EPS/Consensus EPS (x) | | | 0.98 | 0.96 | 0.92 |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 1: NAV breakdown at end-FY24F

| | HK\$m | HK\$/shr | % of GAV |
|---|----------------|-------------|--------------|
| HK Office | 61,443 | 20.2 | 27.9 |
| HK Retail | 123,995 | 40.8 | 56.3 |
| HK Residential | 7,869 | 2.6 | 3.6 |
| China IP | 1,162 | 0.4 | 0.5 |
| Overseas IP | 4,782 | 1.6 | 2.2 |
| HK and China Hotels | 12,303 | 4.1 | 5.6 |
| Development property (DP) and Investments | 8,540 | 2.8 | 3.9 |
| Gross Asset Value | 220,095 | 72.5 | 100.0 |
| Less: net debt | (36,397) | (12.0) | |
| Net Asset Value (NAV) | 183,698 | 60.5 | |

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 2: Earning revisions


| HK\$ m | 2023F | | | 2024F | | | 2025F | | |
|-----------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | Old | New | % chg | Old | New | % chg | Old | New | % chg |
| Core net profit | 6,375 | 6,215 | -3% | 7,179 | 6,864 | -4% | 7,836 | 7,359 | -6% |
| EPS (HK\$) | 2.10 | 2.05 | -3% | 2.36 | 2.26 | -4% | 2.58 | 2.42 | -6% |
| DPS (HK\$) | 1.33 | 1.31 | -2% | 1.49 | 1.44 | -3% | 1.62 | 1.54 | -5% |

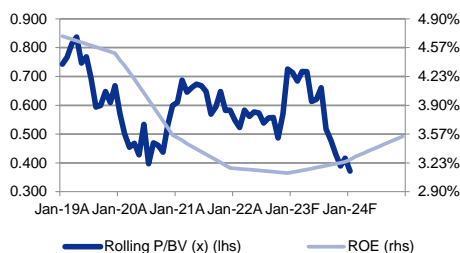
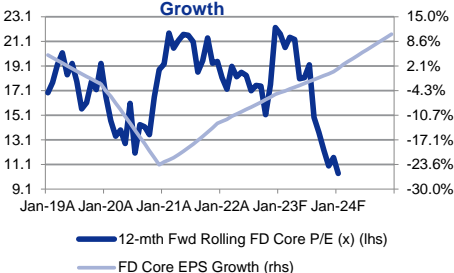
SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 3: Summary of TP and NAV changes

| | Old | New | Chg % |
|---------------------|------|------|--------|
| NAV (HK\$) | 62.1 | 60.5 | -3% |
| Discount to NAV (%) | 30% | 50% | 20% pt |
| TP (HK\$) | 43.5 | 30.3 | -30% |

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

|  | | Refinitiv ESG Scores | | | | | |
|--|---|--------------------------|--|-----------------------------------|---|--|--|
| ESG in a nutshell | | B+ | A+ | B+ | B+ | A | B |
| | | <small>ESG Score</small> | <small>ESG Controversies Score</small> | <small>ESG Combined Score</small> | <small>ESG Environment Pillar Score</small> | <small>ESG Social Pillar Score</small> | <small>ESG Government Pillar Score</small> |
| <p>Wharf REIC is committed to supporting the global movement of United Nation's Sustainable Development Goals (UNSDGs) to build a sustainable future. It has aligned its operations with 11 of the 17 UNSDGs including education, clean water and energy, reducing emissions, etc., and devoted its resources to deliver long-term positive value.</p> | | | | | | | |
| <p>Keep your eye on</p> <p>We see no ESG issues for Wharf REIC which we are concerned about.</p> | <p>Implications</p> <p>N/A</p> | | | | | | |
| <p>ESG highlights</p> <p>In FY21, Wharf REIC achieved 17% and 9% yoy reductions in its total GHG emissions and air emissions, respectively, compared with FY19 levels. It also provided 84,730 training hours to employees in FY21.</p> | <p>Implications</p> <p>Wharf REIC has demonstrated its commitment towards ESG issues over the past few years. We believe further progress on ESG could support a further re-rating of its share price.</p> | | | | | | |
| <p>Trends</p> <p>In the long run, Wharf REIC targets 30% and 27% reductions in greenhouse gas emissions and electricity intensity, respectively, at its investment properties by 2030 (baseline: 2014).</p> | <p>Implications</p> <p>We have not applied any premium/discount of ESG in our fundamental valuations of Wharf REIC. We believe Wharf REIC will continually improve in the different areas of ESG, thereby attracting greater interest among ESG-focused investors.</p> | | | | | | |
| <small>SOURCES: CGS-CIMB RESEARCH, REFINITIV</small> | | | | | | | |

BY THE NUMBERS
P/BV vs ROE

12-mth Fwd FD Core P/E vs FD Core EPS Growth

Profit & Loss

| (HK\$m) | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|---|----------------|----------------|----------------|----------------|----------------|
| Total Net Revenues | 16,043 | 12,459 | 13,151 | 13,724 | 14,305 |
| Gross Profit | 10,705 | 9,978 | 10,711 | 11,280 | 11,751 |
| Operating EBITDA | 9,394 | (5,910) | 9,791 | 10,311 | 10,742 |
| Depreciation And Amortisation | (330) | (280) | (308) | (323) | (340) |
| Operating EBIT | 9,064 | (6,190) | 9,483 | 9,988 | 10,402 |
| Financial Income/(Expense) | (760) | (1,861) | (2,282) | (1,994) | (1,800) |
| Pretax Income/(Loss) from Assoc. | (125) | (68) | (68) | (68) | (68) |
| Non-Operating Income/(Expense) | 62 | 426 | 512 | 512 | 512 |
| Profit Before Tax (pre-EI) | 8,241 | 7,338 | 7,645 | 8,438 | 9,047 |
| Exceptional Items | | | | | |
| Pre-tax Profit | 8,241 | (7,693) | 7,645 | 8,438 | 9,047 |
| Taxation | (1,599) | (1,368) | (1,390) | (1,528) | (1,638) |
| Exceptional Income - post-tax | | | | | |
| Profit After Tax | 6,642 | (9,061) | 6,255 | 6,910 | 7,409 |
| Minority Interests | (124) | 205 | (40) | (46) | (49) |
| Prof. & Special Div | 0 | 0 | 0 | 0 | 0 |
| FX Gain/(Loss) - post tax | | | | | |
| Other Adjustments - post-tax | | | | | |
| Net Profit | 6,518 | (8,856) | 6,215 | 6,864 | 7,359 |
| Recurring Net Profit | 6,518 | 6,175 | 6,215 | 6,864 | 7,359 |
| Fully Diluted Recurring Net Profit | 6,518 | 6,175 | 6,215 | 6,864 | 7,359 |

Cash Flow

| (HK\$m) | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|------------------------------------|----------------|----------------|----------------|----------------|----------------|
| EBITDA | 9,394 | (5,910) | 9,791 | 10,311 | 10,742 |
| Cash Flow from Inv. & Assoc. | | | | | |
| Change In Working Capital | 812 | (121) | 498 | 194 | 271 |
| Straight Line Adjustment | | | | | |
| (Incr)/Decr in Total Provisions | | | | | |
| Other Non-Cash (Income)/Expense | | | | | |
| Other Operating Cashflow | (93) | 14,996 | (68) | (68) | (68) |
| Net Interest (Paid)/Received | (765) | (1,080) | (1,770) | (1,482) | (1,288) |
| Tax Paid | (1,380) | (1,197) | (1,390) | (1,528) | (1,638) |
| Cashflow From Operations | 7,968 | 6,688 | 7,061 | 7,427 | 8,019 |
| Capex | (393) | (204) | (1,000) | (1,000) | (1,000) |
| Disposals Of FAs/subsidiaries | | | | | |
| Disposals of Investment Properties | | | | | |
| Acq. Of Subsidiaries/investments | | | | | |
| Other Investing Cashflow | 592 | (1,954) | 4,700 | 0 | 0 |
| Cash Flow From Investing | 199 | (2,158) | 3,700 | (1,000) | (1,000) |
| Debt Raised/(repaid) | (4,318) | (775) | (5,200) | (2,000) | (2,000) |
| Proceeds From Issue Of Shares | 0 | 0 | 0 | 0 | 0 |
| Shares Repurchased | | | | | |
| Dividends Paid | (4,339) | (4,127) | (3,977) | (4,372) | (4,676) |
| Preferred Dividends | | | | | |
| Other Financing Cashflow | 0 | 0 | (40) | (46) | (49) |
| Cash Flow From Financing | (8,657) | (4,902) | (9,218) | (6,418) | (6,725) |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

| (HK\$m) | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Total Cash And Equivalents | 1,800 | 1,340 | 2,883 | 2,892 | 3,186 |
| Properties Under Development | 2,308 | 2,115 | 2,115 | 2,115 | 2,115 |
| Total Debtors | 1,161 | 1,338 | 1,338 | 1,338 | 1,338 |
| Inventories | 17 | 16 | 16 | 16 | 16 |
| Total Other Current Assets | 103 | 7 | 7 | 7 | 7 |
| Total Current Assets | 5,389 | 4,816 | 6,359 | 6,368 | 6,662 |
| Fixed Assets | 7,794 | 7,315 | 7,507 | 7,684 | 7,844 |
| Total Investments | 244,331 | 229,394 | 229,894 | 230,394 | 230,894 |
| Intangible Assets | 0 | 0 | 0 | 0 | 0 |
| Total Other Non-Current Assets | 14,754 | 13,724 | 9,024 | 9,024 | 9,024 |
| Total Non-current Assets | 266,879 | 250,433 | 246,425 | 247,102 | 247,762 |
| Short-term Debt | 4,500 | 3,580 | 3,580 | 3,580 | 3,580 |
| Current Portion of Long-Term Debt | | | | | |
| Total Creditors | 7,961 | 7,034 | 7,532 | 7,726 | 7,996 |
| Other Current Liabilities | 518 | 714 | 714 | 714 | 714 |
| Total Current Liabilities | 12,979 | 11,328 | 11,826 | 12,020 | 12,290 |
| Total Long-term Debt | 44,834 | 42,909 | 37,709 | 35,709 | 33,709 |
| Hybrid Debt - Debt Component | | | | | |
| Total Other Non-Current Liabilities | 980 | 3,416 | 3,416 | 3,416 | 3,416 |
| Total Non-current Liabilities | 45,814 | 46,325 | 41,125 | 39,125 | 37,125 |
| Total Provisions | 2,599 | 2,715 | 2,715 | 2,715 | 2,715 |
| Total Liabilities | 61,392 | 60,368 | 55,666 | 53,860 | 52,130 |
| Shareholders' Equity | 206,106 | 190,364 | 192,601 | 195,093 | 197,777 |
| Minority Interests | 4,770 | 4,517 | 4,517 | 4,517 | 4,517 |
| Total Equity | 210,876 | 194,881 | 197,118 | 199,610 | 202,294 |

Key Ratios

| | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|---------------------------|---------|---------|---------|---------|---------|
| Revenue Growth | 3.4% | (22.3%) | 5.6% | 4.4% | 4.2% |
| Operating EBITDA Growth | (8.50%) | (2.91%) | 7.35% | 5.31% | 4.18% |
| Operating EBITDA Margin | 58.6% | 73.2% | 74.5% | 75.1% | 75.1% |
| Net Cash Per Share (HK\$) | (15.66) | (14.87) | (12.65) | (11.99) | (11.23) |
| BVPS (HK\$) | 67.88 | 62.70 | 63.43 | 64.26 | 65.14 |
| Gross Interest Cover | 11.93 | 4.75 | 4.16 | 5.01 | 5.78 |
| Effective Tax Rate | 19.4% | 0.0% | 18.2% | 18.1% | 18.1% |
| Net Dividend Payout Ratio | 61.0% | 64.4% | 64.0% | 63.7% | 63.5% |
| Accounts Receivables Days | 32.26 | 36.61 | 37.14 | 35.68 | 34.14 |
| Inventory Days | 1.23 | 2.43 | 2.39 | 2.40 | 2.29 |
| Accounts Payables Days | 544 | 1,069 | 1,019 | 1,020 | 974 |
| ROIC (%) | 41.8% | 41.8% | 47.2% | 70.9% | 74.0% |
| ROCE (%) | 3.46% | 3.53% | 3.95% | 4.19% | 4.35% |
| Return On Average Assets | 2.65% | 2.85% | 3.21% | 3.39% | 3.51% |

Key Drivers

| | Dec-21A | Dec-22A | Dec-23F | Dec-24F | Dec-25F |
|--|---------|---------|---------|---------|---------|
| Retail rental revenue (HK\$ m) | 7,244.5 | 6,943.5 | 7,567.9 | 7,830.5 | 8,043.2 |
| Office rental revenue (HK\$ m) | 3,528.2 | 3,622.8 | 3,320.3 | 3,317.3 | 3,376.1 |
| Hotel and serviced apt. revenue (HK\$ m) | 954.3 | 1,027.7 | 1,635.2 | 1,872.3 | 2,041.5 |
| Other revenues (HK\$ m) | 4,316.0 | 865.0 | 627.4 | 703.4 | 844.3 |
| Overall GPM (%) | 66.7% | 80.1% | 81.5% | 82.2% | 82.1% |

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

DISCLAIMER

The content of this report (including the views and opinions expressed therein, and the information comprised therein) has been prepared by and belongs to CGS-CIMB. Reports relating to a specific geographical area are produced and distributed by the corresponding CGS-CIMB entity as listed in the table below.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation.

By accepting this report, the recipient hereof represents and warrants that he is entitled to receive such report in accordance with the restrictions set forth below and agrees to be bound by the limitations contained herein (including the “Restrictions on Distributions” set out below). Any failure to comply with these limitations may constitute a violation of law. This publication is being supplied to you strictly on the basis that it will remain confidential. No part of this report may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means; or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of CGS-CIMB.

The information contained in this research report is prepared from data believed to be correct and reliable at the time of issue of this report. CGS-CIMB may or may not issue regular reports on the subject matter of this report at any frequency and may cease to do so or change the periodicity of reports at any time. CGS-CIMB has no obligation to update this report in the event of a material change to the information contained in this report. CGS-CIMB does not accept any obligation to (i) check or ensure that the contents of this report remain current, reliable or relevant, (ii) ensure that the content of this report constitutes all the information a prospective investor may require, (iii) ensure the adequacy, accuracy, completeness, reliability or fairness of any views, opinions and information, and accordingly, CGS-CIMB, its affiliates and related persons including CGS International Holdings Limited (“CGSIHL”) and CIMB Group Sdn. Bhd. (“CIMBG”) and their respective related corporations (and their respective directors, associates, connected persons and/or employees) shall not be liable in any manner whatsoever for any consequences (including but not limited to any direct, indirect or consequential losses, loss of profits and damages) of any reliance thereon or usage thereof. In particular, CGS-CIMB disclaims all responsibility and liability for the views and opinions set out in this report.

Unless otherwise specified, this report is based upon sources which CGS-CIMB considers to be reasonable. Such sources will, unless otherwise specified, for market data, be market data and prices available from the main stock exchange or market where the relevant security is listed, or, where appropriate, any other market. Information on the accounts and business of company(ies) will generally be based on published statements of the company(ies), information disseminated by regulatory information services, other publicly available information and information resulting from our research.

Whilst every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Past performance is not a reliable indicator of future performance. The value of investments may go down as well as up and those investing may, depending on the investments in question, lose more than the initial investment. No report shall constitute an offer or an invitation by or on behalf of CGS-CIMB or any of its affiliates (including CGSIHL, CIMBG and their respective related corporations) to any person to buy or sell any investments.

CGS-CIMB, its affiliates and related corporations (including CGSIHL, CIMBG and their respective related corporations) and/or their respective directors, associates, connected parties and/or employees may own or have positions in securities of the company(ies) covered in this research report or any securities related thereto and may from time to time add to or dispose of, or may be materially interested in, any such securities. Further, CGS-CIMB, its affiliates and their respective related corporations (including CGSIHL, CIMBG and their respective related corporations) do and seek to do business with the company(ies) covered in this research report and may from time to time act as market maker or have assumed an underwriting commitment in securities of such company(ies), may sell them to or buy them from customers on a principal basis and may also perform or seek to perform significant investment banking, advisory, underwriting or placement services for or relating to such company(ies) as well as solicit such investment, advisory or other services from any entity mentioned in this report.

CGS-CIMB or its affiliates (including CGSIHL, CIMBG and their respective related corporations) may enter into an agreement with the company(ies) covered in this report relating to the production of research reports. CGS-CIMB may disclose the contents of this report to the company(ies) covered by it and may have amended the contents of this report following such disclosure.

The analyst responsible for the production of this report hereby certifies that the views expressed herein accurately and exclusively reflect his or her personal views and opinions about any and all of the issuers or securities analysed in this report and were prepared independently and autonomously. No part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations(s) or view(s) in this report. The analyst(s) who prepared this research report is prohibited from receiving any compensation, incentive or bonus based on specific investment banking transactions or for providing a specific recommendation for, or view of, a particular company. Information barriers and other arrangements may be established where necessary to prevent conflicts of interests arising. However, the analyst(s) may receive compensation that is based on his/their coverage of company(ies) in the performance of his/their duties or the performance of his/their recommendations and the research personnel involved in the preparation of this report may also participate in the solicitation of the businesses as described above. In reviewing this research report, an investor should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the duties of confidentiality, available on request.

Reports relating to a specific geographical area are produced by the corresponding CGS-CIMB entity as listed in the table below. The term “CGS-CIMB” shall denote, where appropriate, the relevant entity distributing or disseminating the report in the particular jurisdiction referenced below, or, in every other case except as otherwise stated herein, CGS-CIMB Securities International Pte. Ltd. and its affiliates, subsidiaries and related corporations.

| Country | CGS-CIMB Entity | Regulated by |
|-------------|---|---|
| Hong Kong | CGS-CIMB Securities (Hong Kong) Limited | Securities and Futures Commission Hong Kong |
| Indonesia | PT CGS-CIMB Sekuritas Indonesia | Financial Services Authority of Indonesia |
| Malaysia | CGS-CIMB Securities Sdn. Bhd. | Securities Commission Malaysia |
| Singapore | CGS-CIMB Securities (Singapore) Pte. Ltd. | Monetary Authority of Singapore |
| South Korea | CGS-CIMB Securities (Hong Kong) Limited, Korea Branch | Financial Services Commission and Financial Supervisory Service |
| Thailand | CGS-CIMB Securities (Thailand) Co. Ltd. | Securities and Exchange Commission Thailand |

Other Significant Financial Interests:

(i) As of January 10, 2024 CGS-CIMB has a proprietary position in the securities (which may include but not be limited to shares, warrants, call warrants and/or any other derivatives) in the following company or companies covered or recommended in this report:

(a) Hongkong Land Holdings Ltd

(ii) Analyst Disclosure: As of January 11, 2024, the analyst(s) who prepared this report, and the associate(s), has / have an interest in the securities (which may include but not be limited to shares, warrants, call warrants and/or any other derivatives) in the following company or companies covered or recommended in this report:

(a) -

This report does not purport to contain all the information that a prospective investor may require. Neither CGS-CIMB nor any of its affiliates (including CGSIHL, CIMBG and their related corporations) make any guarantee, representation or warranty, express or implied, as to the adequacy, accuracy, completeness, reliability or fairness of any such information and opinion contained in this report. Neither CGS-CIMB nor any of its affiliates nor their related persons (including CGSIHL, CIMBG and their related corporations) shall be liable in any manner whatsoever for any consequences (including but not limited to any direct, indirect or consequential losses, loss of profits and damages) of any reliance thereon or usage thereof.

This report is general in nature and has been prepared for information purposes only. It is intended for circulation amongst CGS-CIMB's clients generally and does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. The information and opinions in this report are not and should not be construed or considered as an offer, recommendation or solicitation to buy or sell the subject securities, related investments or other financial instruments or any derivative instrument, or any rights pertaining thereto.

Investors are advised to make their own independent evaluation of the information contained in this research report, consider their own individual investment objectives, financial situation and particular needs and consult their own professional and financial advisers as to the legal, business, financial, tax and other aspects before participating in any transaction in respect of the securities of company(ies) covered in this research report.

The securities of such company(ies) may not be eligible for sale in all jurisdictions or to all categories of investors.

Restrictions on Distributions

Australia: Despite anything in this report to the contrary, this research is provided in Australia by CGS-CIMB Securities (Singapore) Pte. Ltd. and CGS-CIMB Securities (Hong Kong) Limited. This research is only available in Australia to persons who are "wholesale clients" (within the meaning of the Corporations Act 2001 (Cth) and is supplied solely for the use of such wholesale clients and shall not be distributed or passed on to any other person. You represent and warrant that if you are in Australia, you are a "wholesale client". This research is of a general nature only and has been prepared without taking into account the objectives, financial situation or needs of the individual recipient. CGS-CIMB Securities (Singapore) Pte. Ltd. and CGS-CIMB Securities (Hong Kong) Limited do not hold, and are not required to hold an Australian financial services license. CGS-CIMB Securities (Singapore) Pte. Ltd. and CGS-CIMB Securities (Hong Kong) Limited rely on "passporting" exemptions for entities appropriately licensed by the Monetary Authority of Singapore (under ASIC Class Order 03/1102) and the Securities and Futures Commission in Hong Kong (under ASIC Class Order 03/1103).

Canada: This research report has not been prepared in accordance with the disclosure requirements of Dealer Member Rule 3400 – Research Restrictions and Disclosure Requirements of the Investment Industry Regulatory Organization of Canada. For any research report distributed by CIBC, further disclosures related to CIBC conflicts of interest can be found at <https://researchcentral.cibcwm.com>.

China: For the purpose of this report, the People's Republic of China ("PRC") does not include the Hong Kong Special Administrative Region, the Macau Special Administrative Region or Taiwan. The distributor of this report has not been approved or licensed by the China Securities Regulatory Commission or any other relevant regulatory authority or governmental agency in the PRC. This report contains only marketing information. The distribution of this report is not an offer to buy or sell to any person within or outside PRC or a solicitation to any person within or outside of PRC to buy or sell any instruments described herein. This report is being issued outside the PRC to a limited number of institutional investors and may not be provided to any person other than the original recipient and may not be reproduced or used for any other purpose.

France: Only qualified investors within the meaning of French law shall have access to this report. This report shall not be considered as an offer to subscribe to, or used in connection with, any offer for subscription or sale or marketing or direct or indirect distribution of financial instruments and it is not intended as a solicitation for the purchase of any financial instrument.

Germany: This report is only directed at persons who are professional investors as defined in sec 31a(2) of the German Securities Trading Act (WpHG). This publication constitutes research of a non-binding nature on the market situation and the investment instruments cited here at the time of the publication of the information.

The current prices/yields in this issue are based upon closing prices from Bloomberg as of the day preceding publication. Please note that neither the German Federal Financial Supervisory Agency (BaFin), nor any other supervisory authority exercises any control over the content of this report.

Hong Kong: This report is issued and distributed in Hong Kong by CGS-CIMB Securities (Hong Kong) Limited ("CHK") which is licensed in Hong Kong by the Securities and Futures Commission for Type 1 (dealing in securities) and Type 4 (advising on securities) activities. Any investors wishing to purchase or otherwise deal in the securities covered in this report should contact the Head of Sales at CGS-CIMB Securities (Hong Kong) Limited. The views and opinions in this research report are our own as of the date hereof and are subject to change. If the Financial Services and Markets Act of the United Kingdom or the rules of the Financial Conduct Authority apply to a recipient, our obligations owed to such recipient therein are unaffected. CHK has no obligation to update its opinion or the information in this research report.

This publication is strictly confidential and is for private circulation only to clients of CHK.

CHK does not make a market on other securities mentioned in the report.

None of the analyst(s) or the associates serve as an officer of the listed corporation mentioned in this report.

CIMB does not have an officer serving in any of the listed corporation mentioned in this report

CIMB does not receive any compensation or other benefits from any of the listed corporation mentioned, relating to the production of research reports.

Indonesia: This report is issued and distributed by PT CGS-CIMB Sekuritas Indonesia (“CGS-CIMB Indonesia”). The views and opinions in this research report are our own as of the date hereof and are subject to change. CGS-CIMB Indonesia has no obligation to update its opinion or the information in this research report. This report is for private circulation only to clients of CGS-CIMB Indonesia. Neither this report nor any copy hereof may be distributed in Indonesia or to any Indonesian citizens wherever they are domiciled or to Indonesian residents except in compliance with applicable Indonesian capital market laws and regulations.

This research report is not an offer of securities in Indonesia. The securities referred to in this research report have not been registered with the Financial Services Authority (Otoritas Jasa Keuangan) pursuant to relevant capital market laws and regulations, and may not be offered or sold within the territory of the Republic of Indonesia or to Indonesian citizens through a public offering or in circumstances which constitute an offer within the meaning of the Indonesian capital market law and regulations.

Ireland: CGS-CIMB is not an investment firm authorised in the Republic of Ireland and no part of this document should be construed as CGS-CIMB acting as, or otherwise claiming or representing to be, an investment firm authorised in the Republic of Ireland.

Malaysia: This report is distributed in Malaysia by CGS-CIMB Securities Sdn. Bhd. (“CGS-CIMB Malaysia”) solely for the benefit of and for the exclusive use of our clients. Recipients of this report are to contact CGS-CIMB Malaysia, at Level 29, Menara Aras Raya, No. 11, Jalan Raja Laut, 50350 Kuala Lumpur, Malaysia, in respect of any matters arising from or in connection with this report. CGS-CIMB Malaysia has no obligation to update, revise or reaffirm its opinion or the information in this research report after the date of this report.

New Zealand: In New Zealand, this report is for distribution only to persons who are wholesale clients pursuant to section 5C of the Financial Advisers Act 2008.

Singapore: This report is issued and distributed by CGS-CIMB Securities (Singapore) Pte Ltd (“CGS-CIMB Singapore”). CGS-CIMB Singapore is a capital markets services licensee under the Securities and Futures Act 2001. Accordingly, it is exempted from the requirement to hold a financial adviser’s licence under the Financial Advisers Act, 2001 (“FAA”) for advising on investment products, by issuing or promulgating research analyses or research reports, whether in electronic, print or other form. CGS-CIMB Singapore is subject to the applicable rules under the FAA unless it is able to avail itself to any prescribed exemptions.

Recipients of this report are to contact CGS-CIMB Singapore, 10 Marina Boulevard, Marina Bay Financial Centre Tower 2, #09-01, Singapore 018983 in respect of any matters arising from, or in connection with this report. CGS-CIMB Singapore has no obligation to update its opinion or the information in this research report. This publication is strictly confidential and is for private circulation only. If you have not been sent this report by CGS-CIMB Singapore directly, you may not rely, use or disclose to anyone else this report or its contents.

If the recipient of this research report is not an accredited investor, expert investor or institutional investor, CGS-CIMB Singapore accepts legal responsibility for the contents of the report without any disclaimer limiting or otherwise curtailing such legal responsibility. If the recipient is an accredited investor, expert investor or institutional investor, the recipient is deemed to acknowledge that CGS-CIMB Singapore is exempt from certain requirements under the FAA and its attendant regulations, and as such, is exempt from complying with the following:

- (a) Section 34 of the FAA (obligation to disclose product information);
- (b) Section 36 (duty not to make recommendation with respect to any investment product without having a reasonable basis where you may be reasonably expected to rely on the recommendation) of the FAA;
- (c) MAS Notice on Information to Clients and Product Information Disclosure [Notice No. FAA-N03];
- (d) MAS Notice on Recommendation on Investment Products [Notice No. FAA-N16];
- (e) Section 45 (obligation on disclosure of interest in specified products), and
- (f) any other laws, regulations, notices, directive, guidelines, circulars and practice notes which are relates to the above, to the extent permitted by applicable laws, as may be amended from time to time, and any other laws, regulations, notices, directive, guidelines, circulars, and practice notes as we may notify you from time to time. In addition, the recipient who is an accredited investor, expert investor or institutional investor acknowledges that as CGS-CIMB Singapore is exempt from Section 36 of the FAA, the recipient will also not be able to file a civil claim against CGS-CIMB Singapore for any loss or damage arising from the recipient’s reliance on any recommendation made by CGS-CIMB Singapore which would otherwise be a right that is available to the recipient under Section 36 of the FAA .

CGS-CIMB Singapore, its affiliates and related corporations, their directors, associates, connected parties and/or employees may own or have positions in specified products of the company(ies) covered in this research report or any specified products related thereto and may from time to time add to or dispose of, or may be materially interested in, any such specified products. Further, CGS-CIMB Singapore, its affiliates and its related corporations do and seek to do business with the company(ies) covered in this research report and may from time to time act as market maker or have assumed an underwriting commitment in specified products of such company(ies), may sell them to or buy them from customers on a principal basis and may also perform or seek to perform significant investment banking, advisory, underwriting or placement services for or relating to such company(ies) as well as solicit such investment, advisory or other services from any entity mentioned in this report.

CGS-CIMB Singapore does not make a market on other specified products mentioned in the report.

South Korea: This report is issued and distributed in South Korea by CGS-CIMB Securities (Hong Kong) Limited, Korea Branch (“CGS-CIMB Korea”) which is licensed as a cash equity broker, and regulated by the Financial Services Commission and Financial Supervisory Service of Korea. In South Korea, this report is for distribution only to professional investors under Article 9(5) of the Financial Investment Services and Capital Market Act of Korea (“FSCMA”).

Spain: This document is a research report and it is addressed to institutional investors only. The research report is of a general nature and not personalised and does not constitute investment advice so, as the case may be, the recipient must seek proper advice before adopting any investment

decision. This document does not constitute a public offering of securities.

CGS-CIMB is not registered with the Spanish Comision Nacional del Mercado de Valores to provide investment services.

Sweden: This report contains only marketing information and has not been approved by the Swedish Financial Supervisory Authority. The distribution of this report is not an offer to sell to any person in Sweden or a solicitation to any person in Sweden to buy any instruments described herein and may not be forwarded to the public in Sweden.

Switzerland: This report has not been prepared in accordance with the recognized self-regulatory minimal standards for research reports of banks issued by the Swiss Bankers' Association (Directives on the Independence of Financial Research).

Thailand: This report is issued and distributed by CGS-CIMB Securities (Thailand) Co. Ltd. ("CGS-CIMB Thailand") based upon sources believed to be reliable (but their accuracy, completeness or correctness is not guaranteed). The statements or expressions of opinion herein were arrived at after due and careful consideration for use as information for investment. Such opinions are subject to change without notice and CGS-CIMB Thailand has no obligation to update its opinion or the information in this research report.

Corporate Governance Report (CGR): ([Thai CGR and Anti-Corruption of Thai Listed Companies - Click here](#))

The disclosure of the survey result of the Thai Institute of Directors Association ("IOD") regarding corporate governance is made pursuant to the policy of the Office of the Securities and Exchange Commission. The survey of the IOD is based on the information of a company listed on the Stock Exchange of Thailand and the Market for Alternative Investment disclosed to the public and able to be accessed by a general public investor. The result, therefore, is from the perspective of a third party. It is not an evaluation of operation and is not based on inside information.

The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. CGS-CIMB Thailand does not confirm nor certify the accuracy of such survey result.

| | | | | | |
|---------------------|-----------|-----------|---------|----------|------------------|
| Score Range: | 90 - 100 | 80 – 89 | 70 - 79 | Below 70 | No Survey Result |
| Description: | Excellent | Very Good | Good | N/A | N/A |

United Arab Emirates: The distributor of this report has not been approved or licensed by the UAE Central Bank or any other relevant licensing authorities or governmental agencies in the United Arab Emirates. This report is strictly private and confidential and has not been reviewed by, deposited or registered with UAE Central Bank or any other licensing authority or governmental agencies in the United Arab Emirates. This report is being issued outside the United Arab Emirates to a limited number of institutional investors and must not be provided to any person other than the original recipient and may not be reproduced or used for any other purpose. Further, the information contained in this report is not intended to lead to the sale of investments under any subscription agreement or the conclusion of any other contract of whatsoever nature within the territory of the United Arab Emirates.

United Kingdom and European Economic Area (EEA): In the United Kingdom and European Economic Area, this material is also being distributed by CGS-CIMB Securities (UK) Limited ("CGS-CIMB UK"). CGS-CIMB UK is authorized and regulated by the Financial Conduct Authority and its registered office is at 53 New Broad Street, London EC2M 1JJ. The material distributed by CGS-CIMB UK has been prepared in accordance with CGS-CIMB's policies for managing conflicts of interest arising as a result of publication and distribution of this material. This material is for distribution only to, and is solely directed at, selected persons on the basis that those persons: (a) are eligible counterparties and professional clients of CGS-CIMB UK; (b) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the "Order"), (c) fall within Article 49(2)(a) to (d) ("high net worth companies, unincorporated associations etc") of the Order; (d) are outside the United Kingdom subject to relevant regulation in each jurisdiction, material(all such persons together being referred to as "relevant persons"). This material is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this material relates is available only to relevant persons and will be engaged in only with relevant persons.

This material is categorised as non-independent for the purposes of CGS-CIMB UK and therefore does not provide an impartial or objective assessment of the subject matter and does not constitute independent research. Consequently, this material has not been prepared in accordance with legal requirements designed to promote the independence of research and will not be subject to any prohibition on dealing ahead of the dissemination of research. Therefore, this material is considered a marketing communication.

United States: This research report is distributed in the United States of America by CGS-CIMB Securities (USA) Inc, a U.S. registered broker-dealer and an affiliate of CGS-CIMB Securities Sdn. Bhd., CGS-CIMB Securities (Singapore) Pte Ltd, PT CGS-CIMB Sekuritas Indonesia, CGS-CIMB Securities (Thailand) Co. Ltd and CGS-CIMB Securities (Hong Kong) Limited and is distributed solely to persons who qualify as "U.S. Institutional Investors" as defined in Rule 15a-6 under the Securities and Exchange Act of 1934. This communication is only for Institutional Investors whose ordinary business activities involve investing in shares, bonds, and associated securities and/or derivative securities and who have professional experience in such investments. Any person who is not a U.S. Institutional Investor or Major Institutional Investor must not rely on this communication. The delivery of this research report to any person in the United States of America is not a recommendation to effect any transactions in the securities discussed herein, or an endorsement of any opinion expressed herein. CGS-CIMB Securities (USA) Inc, is a FINRA/SIPC member and takes responsibility for the content of this report. For further information or to place an order in any of the above-mentioned securities please contact a registered representative of CGS-CIMB Securities (USA) Inc.

CGS-CIMB Securities (USA) Inc. does not make a market on other securities mentioned in the report.

CGS-CIMB Securities (USA) Inc. has not managed or co-managed a public offering of any of the securities mentioned in the past 12 months.

CGS-CIMB Securities (USA) Inc. has not received compensation for investment banking services from any of the company mentioned in the past 12 months.

CGS-CIMB Securities (USA) Inc. neither expects to receive nor intends to seek compensation for investment banking services from any of the company mentioned within the next 3 months.

United States Third-Party Disclaimer: If this report is distributed in the United States of America by Raymond James & Associates, Inc ("RJA"), this report is third-party research prepared for and distributed in the United States of America by RJA pursuant to an arrangement between RJA and CGS-CIMB Securities International Pte. Ltd. ("CGS-CIMB"). CGS-CIMB is not an affiliate of RJA. This report is distributed solely to persons who qualify as "U.S. Institutional Investors" or as "Major U.S. Institutional Investors" as defined in Rule 15a-6 under the Securities and Exchange Act of 1934, as

amended. This communication is only for U.S. Institutional Investors or Major U.S. Institutional Investor whose ordinary business activities involve investing in shares, bonds, and associated securities and/or derivative securities and who have professional experience in such investments. Any person who is not a U.S. Institutional Investor or Major U.S. Institutional Investor must not rely on this communication. The delivery of this report to any person in the U.S. is not a recommendation to effect any transactions in the securities discussed herein, or an endorsement of any opinion expressed herein. If you are receiving this report in the U.S. from RJA, a FINRA/SIPC member, it takes responsibility for the content of this report. For further information or to place an order in any of the above-mentioned securities please contact a registered representative of CGS-CIMB Securities (USA) Inc. or RJA. <https://raymondjames.com/InternationalEquityDisclosures>

Other jurisdictions: In any other jurisdictions, except if otherwise restricted by laws or regulations, this report is only for distribution to professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions.

| Distribution of stock ratings and investment banking clients for quarter ended on 31 December 2023 | | |
|--|-------------------------|--------------------------------|
| 636 companies under coverage for quarter ended on 31 December 2023 | | |
| | Rating Distribution (%) | Investment Banking clients (%) |
| Add | 67.5% | 1.3% |
| Hold | 22.5% | 0.0% |
| Reduce | 10.1% | 0.2% |

Recommendation Framework

Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.