

China / Hong Kong Company Update

Sino Land

Bloomberg: 83 HK EQUITY | Reuters: 0083.HK

Refer to important disclosures at the end of this report

4 Jan 2024

BUY

Last Traded Price (3 Jan 2024): HK\$8.28 (HSI : 16,646)
Price Target 12-mth: HK\$10.78 (30% upside) (Prev HK\$11.22)

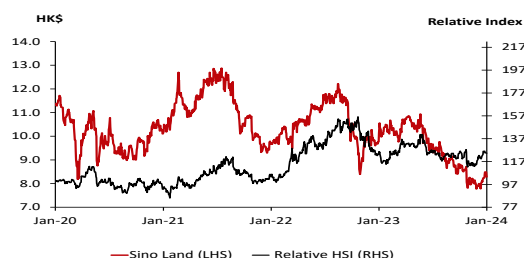
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What's New

- Clinched three residential lots via public tender at favourable prices
- Strong financials enable more value-accretive acquisitions
- New rental footage to beef up recurring income
- Prime beneficiary of falling land prices; BUY with HK\$10.78 TP

Price Relative



Forecasts and Valuation

| FY (un (HK\$ m) | 2022A | 2023A | 2024F | 2025F |
|---------------------------|--------|--------|--------|--------|
| Turnover | 15,554 | 11,881 | 8,698 | 11,517 |
| EBITDA | 7,545 | 4,487 | 3,360 | 4,546 |
| Pre-tax Profit | 8,118 | 7,000 | 6,364 | 6,888 |
| Underlying Profit | 6,531 | 6,088 | 5,503 | 5,920 |
| Underlying Profit Gth (%) | (36.7) | (6.8) | (9.6) | 7.6 |
| EPS (HK\$) | 0.87 | 0.77 | 0.64 | 0.69 |
| EPS Gth (%) | (39.4) | (11.4) | (15.9) | 7.6 |
| PE (X) | 9.6 | 10.8 | 12.8 | 11.9 |
| P/Cash Flow (X) | 9.1 | 33.6 | 51.9 | 21.6 |
| EV/EBITDA (X) | 3.9 | 6.6 | 8.8 | 6.5 |
| DPS (HK\$) | 0.57 | 0.58 | 0.59 | 0.60 |
| Div Yield (%) | 6.9 | 7.0 | 7.1 | 7.2 |
| Net Gearing (%) | CASH | CASH | CASH | CASH |
| ROE (%) | 4.2 | 3.8 | 3.4 | 3.6 |
| Est. NAV (HK\$): | | | 21.4 | 21.5 |
| Disc. to NAV (%) | | | (61) | (62) |

Earnings Rev (%): (1) (1)
Consensus EPS (HK\$): 0.69 0.78
Other Broker Recs: B:10 S:0 H:3
Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

Promising future begins today.

Investment Thesis

Quality developer with robust balance sheet strength. Sino Land is well known for developing quality residential projects conveniently located in city centers or adjacent to transportation hubs. Its projects often command high marketability and are well sought after by homebuyers. As of Jun-23, Sino Land sits on a net cash balance of c.HK\$42bn. With such strong financials, Sino Land is capable of growing dividends and embarking on more value accretive acquisitions.

Sowed seeds for promising development earnings in the future.

Since Sep-23, Sino Land has acquired three residential sites via public tenders through consortium or on its own. With favourable land costs, these projects should offer decent pre-tax margin of >35% to Sino Land when completed. This points to a promising earning outlook over the medium term. Sino Land is also expanding its investment property portfolio with the addition of new rental properties. This points to growing rental contributions in the years ahead.

Value-accretive land banking to support higher long-term valuations.

Impeccable balance sheet allows Sino Land to pursue more value accretive land acquisitions. This should brighten the company's earnings growth prospects and hence lead to higher valuations.

BUY with HK\$10.78 TP. The stock is trading at a 61% discount to our assessed current NAV, or c.77% discount excluding its net cash holdings. Our TP is based on target discount of 50% to our Dec-2024 NAV estimate.

Key Risks to Our View:

Any prolonged property demand weakness could drag its earnings and share price performance.

At A Glance

| | |
|---|----------------|
| Issued Capital (m shrs) | 8,532 |
| Mkt Cap (HKm/US\$m) | 70,645 / 9,049 |
| Major Shareholders (%) | |
| Tsim Sha Tsui Properties Ltd | 55.7 |
| Free Float (%) | 44.3 |
| 3m Avg. Daily Val. (US\$m) | 6.0 |
| GICS Industry: Real Estate / Real Estate Management & Development | |

Sino Land

WHAT'S NEW

Embarked on new round of value-accretive land acquisitions

In recent months, Sino Land has been stepping up its land bank replenishment, capitalising on softening land prices. This lays down good foundation for the company's future development earnings growth.

In Sep-23, Sino Land teamed up with China Overseas Land, Great Eagle and Chinese Estates to secure a residential/retail site in Kai Tak through a government tender for HK\$5.35bn. This translated into an accommodation value of HK\$5,392psf on GFA basis, which is 12% lower than that of a neighbouring site that Cheung Kong Asset Holdings secured in Dec-22. Located close to Sung Wong Toi MTR Station, the project will provide total GFA of 992,270sf upon completion. This is split into 856,236sf for residential use and 136,034sf for retail purposes. About 1,325 residential units are expected to be built on the site. Including construction and interest costs, we estimate total development cost at c.HK\$12,300psf on saleable area basis. Based on the current selling prices in the area, we project the residential portion could offer pre-tax profit margin of >35%. Sino Land has a 50% stake in this development while China Overseas Land, Great Eagle and Chinese Estates own 20%, 20% and 10% interest respectively.

In Dec-23, Sino Land, through a consortium with China Merchants Land and Great Eagle, clinched the URA's Shing Tak Street/Ma Tau Chung Road redevelopment project with winning bid of HK\$1.934bn. Taking into account the gross floor area for the three reserved flats for URA and related construction costs, the accommodation value works out to be HK\$4,694psf, below market estimate. The site is about an eight-minute walk from Sung Wong Toi MTR Station. When completed, this redevelopment project will offer 640 units with total GFA of 414,928sf. Adding construction and financing costs, we estimate total development costs to be c.HK\$11,200psf on saleable area basis. Pre-tax development margins should exceed 35%. If total sales revenue exceeds HK\$8.25bn, URA would share 40% of the surplus revenue.

Moreover, Sino Land won the tender of a residential lot in Cheung Sha on Lantau Island for c.HK\$204m or HK\$2,492psf. The site is close to Whitesands that was developed by Swire Properties. It is earmarked for low-density residential development, providing total GFA of 81,806psf. Based on our estimated all-in cost of HK\$7,800psf, we project this luxury resort type development offers pre-tax profit margins of c.50%.

Sitting on strong net cash holding of HK\$42bn in Jun-23, Sino Land sees no difficulty in funding these land acquisitions. In our view, Sino Land is well placed to pursue more value-accretive land purchases to take advantage of the correction in land prices. This

should in turn brighten the company's growth prospects in the medium term.

In addition to offering new projects including Villa Garda III and La Montagne for pre-sale, the company has re-launched completed units at La Marina in Wong Chuk Hang and One SOHO in Mongkok for sale in 2H23.

In 2024, Sino Land plans to launch Grand Mayfair III in Yuen Tong, Yau Long Ventilation Building project and One Central Place in Central.

Leasing of newly built investment properties is making good progress. MTRC committed office space of 134,000sf at One North. This office/commercial development in Yuen Long is currently 40% committed. If fully leased, One North should yield an annual rental income of c.HK\$100m. Elsewhere, Landmark South in Wong Chuk Hang is >50% let. Backed by contributions from new rental properties, Sino Land's gross rental receipts should rise 2% in FY24. This is despite the office income shortfall led by negative reversionary growth.

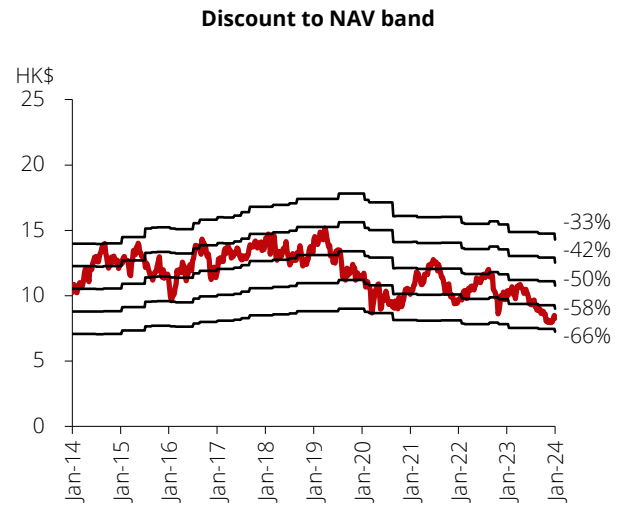
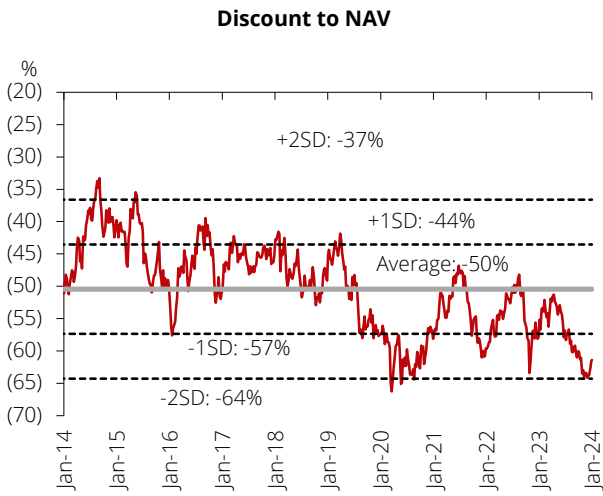
In the previous three months, shares of Sino Land fell 5%. Meanwhile, the stock is trading 61% below our appraised current NAV. Excluding its net cash holding, the remaining stub is trading at a 77% discount. Key investment appeal lies in its impeccable balance sheet strength. This places the company in an advantageous position to pursue more value-accretive land banking to underpin its long-term growth. By applying target discount of 50% to our Dec-24 NAV estimate, we set our TP at HK\$10.78 and hence our BUY call.

Company Background

Sino Land is engaged in property development and investment in Hong Kong and China. As of Jun-23, Sino Land has a development land bank of 4.8m sf in GFA, split into 2.3m sf in China, 2.1m sf in Hong Kong, and 0.4m sf in Singapore. It also owns an investment property and hotel portfolio of 12.9m sf in GFA, mainly in Hong Kong.

Sino Land

Discount to NAV



Source: Bloomberg Finance L.P., DBS HK

Sino Land

Key Assumptions (%)

| | 2024F | 2025F |
|--------------------------------------|-------|-------|
| Residential price - HK | (8) | 0 |
| Office rental - HK | (5) | 0 |
| Retail rental (Shopping Centre) - HK | 5 | 5 |

Source: DBS HK

Segmental Breakdown (HK\$ m)

| FY Jun | 2021A | 2022A | 2023A | 2024F | 2025F |
|--|---------------|---------------|---------------|--------------|---------------|
| Revenues (HK\$ m) | | | | | |
| Property sales | 20,224 | 11,130 | 6,996 | 3,630 | 6,233 |
| Property rental | 2,819 | 2,738 | 2,746 | 2,836 | 2,973 |
| Hotel operations | 263 | 452 | 877 | 947 | 1,002 |
| Property management and other services | 1,152 | 1,148 | 1,176 | 1,199 | 1,223 |
| Investments in securities | 20 | 27 | 38 | 38 | 38 |
| Financing | 68 | 60 | 48 | 48 | 48 |
| Total | 24,545 | 15,554 | 11,881 | 8,698 | 11,517 |

Source: DBS HK

Income Statement (HK\$ m)

| FY Jun | 2021A | 2022A | 2023A | 2024F | 2025F |
|--------------------------|---------------|--------------|--------------|--------------|--------------|
| Turnover | 24,545 | 15,554 | 11,881 | 8,698 | 11,517 |
| EBITDA | 12,830 | 7,545 | 4,487 | 3,360 | 4,546 |
| Depr / Amort | (186) | (181) | (198) | (206) | (214) |
| EBIT | 12,644 | 7,364 | 4,289 | 3,154 | 4,332 |
| Associates Inc | 459 | 424 | 1,289 | 1,170 | 1,021 |
| Interest (Exp)/Inc | 525 | 306 | 1,347 | 2,040 | 1,535 |
| Exceptionals | 27 | 24 | 76 | 0 | 0 |
| Pre-tax Profit | 13,654 | 8,118 | 7,000 | 6,364 | 6,888 |
| Tax | (2,504) | (1,352) | (864) | (857) | (968) |
| Minority Interest | (834) | (236) | (47) | (4) | 0 |
| Underlying Profit | 10,316 | 6,531 | 6,088 | 5,503 | 5,920 |
| Sales Gth (%) | 317 | (37) | (24) | (27) | 32 |
| Net Profit Gth (%) | 126 | (37) | (7) | (10) | 8 |
| EBITDA Margins (%) | 52 | 49 | 38 | 39 | 39 |
| EBIT Margin (%) | 52 | 47 | 36 | 36 | 38 |
| Tax Rate (%) | 18 | 17 | 12 | 13 | 14 |

Source: DBS HK

Sino Land

Balance Sheet (HK\$ m)

| FY Jun | 2021A | 2022A | 2023A | 2024F | 2025F |
|-------------------------------|----------------|----------------|----------------|----------------|----------------|
| Fixed Assets | 64,349 | 63,591 | 67,829 | 69,279 | 70,758 |
| Long-term Investments | 893 | 997 | 1,192 | 1,192 | 1,192 |
| Other LT Assets | 3,478 | 4,018 | 4,623 | 4,623 | 4,623 |
| Associates/JVs | 38,188 | 38,953 | 37,983 | 38,510 | 41,911 |
| Bank Balance/Cash & Liquid | 44,134 | 44,784 | 43,932 | 43,254 | 39,518 |
| ST Investments | 10 | 8 | 8 | 8 | 8 |
| Inventory | 23,162 | 20,390 | 16,390 | 18,408 | 19,693 |
| Debtors | 1,670 | 1,364 | 1,757 | 1,787 | 1,817 |
| Other Non Cash Current | 5,833 | 4,878 | 5,555 | 5,555 | 5,555 |
| Total Assets | 181,715 | 178,984 | 179,271 | 182,617 | 185,078 |
| ST Debt | 2,845 | 2,254 | 1,133 | 2,000 | 2,000 |
| Creditors | 5,120 | 5,335 | 5,059 | 5,039 | 5,019 |
| Other Current Liab | 10,001 | 7,516 | 4,711 | 4,711 | 4,711 |
| LT Debt | 2,406 | 997 | 832 | 965 | 965 |
| Deferred Tax Liabilities | 2,647 | 2,694 | 2,684 | 2,684 | 2,684 |
| Other LT Liabilities | 1,888 | 1,960 | 1,748 | 1,748 | 1,748 |
| Minority Interests | 1,649 | 831 | 756 | 756 | 756 |
| Shareholder's Equity | 155,160 | 157,397 | 162,349 | 164,714 | 167,195 |
| Total Cap. & Liab. | 181,715 | 178,984 | 179,271 | 182,617 | 185,078 |
| Share Capital (m) | 7,396 | 7,718 | 8,172 | 8,532 | 8,532 |
| Net Cash/(Debt) | 38,883 | 41,534 | 41,968 | 40,290 | 36,554 |
| Working Capital | 56,843 | 56,320 | 56,740 | 57,263 | 54,862 |
| Net Gearing (%) | CASH | CASH | CASH | CASH | CASH |

Source: DBS HK

Cash Flow Statement (HK\$ m)

| FY Jun | 2021A | 2022A | 2023A | 2024F | 2025F |
|--|----------------|-----------------|----------------|----------------|----------------|
| EBIT | 12,644 | 7,364 | 4,289 | 3,154 | 4,332 |
| Tax Paid | (689) | (398) | (2,532) | (857) | (968) |
| Depr/Amort | 186 | 181 | 198 | 206 | 214 |
| Profit or loss on disposal of FAs/subsidiaries/investment | 484 | (52) | (25) | 0 | 0 |
| Chg in Wkg.Cap | (10,423) | (652) | (2,541) | (1,998) | (1,275) |
| Other Non-Cash | 16 | 24 | 35 | 0 | 0 |
| Operating CF | 2,218 | 6,466 | (576) | 504 | 2,303 |
| Net Capex | (88) | (132) | (267) | (100) | (100) |
| Investments | (104) | (64) | (188) | 0 | 0 |
| Associates & JVs | (1,718) | 1,623 | 261 | (526) | (3,402) |
| Associates' Dividends | 1,413 | 520 | 1,347 | 1,170 | 1,021 |
| Others | 4,742 | (13,143) | (2,925) | 2,100 | 1,600 |
| Investing CF | 4,245 | (11,197) | (1,771) | 2,644 | (880) |
| Net Chg in Debt | 0 | (2,000) | (1,289) | 1,000 | 0 |
| New Capital | 0 | 0 | 0 | 0 | 0 |
| Dividend | (531) | (4,101) | (519) | (4,696) | (5,034) |
| Other Financing CF | (625) | (69) | 398 | (130) | (125) |
| Financing CF | (1,156) | (6,170) | (1,410) | (3,826) | (5,159) |
| Chg in Cash | 5,307 | (10,901) | (3,757) | (678) | (3,736) |

Source: DBS HK

Sino Land

Target Price & Ratings 12-mth History



| S.No. | Date | Closing Price | Target Price | Rating |
|-------|-----------|---------------|--------------|--------|
| 1 | 20-Jan-23 | HK\$10.22 | HK\$12.52 | BUY |
| 2 | 22-Feb-23 | HK\$10.34 | HK\$12.52 | BUY |
| 3 | 30-Aug-23 | HK\$8.97 | HK\$11.22 | BUY |

Source: DBS HK

Analyst: Jeff Yau

Percy Leung

Cherie Wong

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

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

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

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

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

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

*Share price appreciation + dividends

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