

China / Hong Kong Company Update

Swire Properties

Bloomberg: 1972 HK Equity | Reuters: 1972.HK

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DBS Group Research . Equity

18 Jan 2024

BUY

Last Traded Price (17 Jan 2024): HK\$14.96 (HSI : 15,277)
Price Target 12-mth: HK\$19.64 (31% upside) (Prev HK\$22.15)

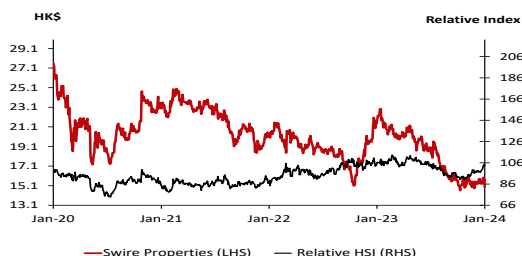
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What's New

- Substantial gains from office disposal at One Island East
- Negative rental reversion is working its way through Hong Kong office portfolio
- Rising contribution from retail malls in China and Hong Kong
- Stock offers good long-term value, BUY with HK\$19.64 TP

Price Relative



Forecasts and Valuation

FY Dec (HK\$ m)	2022A	2023F	2024F	2025F
Turnover	13,826	15,065	15,336	16,070
EBITDA	7,994	8,881	9,043	9,491
Pre-tax Profit	9,887	12,827	8,653	9,287
Underlying Profit	8,706	11,282	7,123	7,671
Underlying Profit Gth (%)	(8.7)	29.6	(36.9)	7.7
EPS (HK\$)	1.49	1.93	1.22	1.31
EPS Gth (%)	(8.7)	29.6	(36.9)	7.7
PE (X)	10.1	7.8	12.3	11.4
P/Cash Flow (X)	13.8	10.9	10.2	9.4
EV/EBITDA (X)	15.0	13.5	13.3	12.6
DPS (HK\$)	1.00	1.04	1.09	1.14
Div Yield (%)	6.7	7.0	7.3	7.6
Net Gearing (%)	7	13	13	13
ROE (%)	3.0	3.9	2.5	2.6
Est. NAV (HK\$):			49.7	49.1
Disc. to NAV (%)			(70)	(70)

Earnings Rev (%)		38	(9)	New
Consensus EPS (HK\$):		1.51	1.38	1.62
Other Broker Recs:		B: 11	S: 2	H: 4

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

Fitter and stronger.

Investment Thesis

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

Decent gains from office disposal. In Nov-23, Swire Properties agreed to sell a total of twelve floors at One Island East in Quarry Bay to Securities and Futures Commission (SFC) for HK\$5.4bn or c.HK\$18,200psf. Exit yield is estimated at 3.3% which is attractive. This divestment is estimated to yield decent gains of HK\$4.36bn, of which c.HK\$3.3bn would be recognized in 2H23. More importantly, the proceeds can be used to fund new investments with better prospects.

Good long-term value underpinned by new investments. Swire Properties is making good progress in executing its HK\$100bn investment plan. This should underpin the company's profit and dividend growth over the medium-to-long run, which should justify a higher stock valuation.

BUY with HK\$19.64 TP. The stock is trading at a 70% discount to our assessed current NAV, 2SD below its 10-year average of 47%. Our TP is based on target discount of 60% to our Dec-24 NAV estimate.

Key Risks to Our View:

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

Increased economic uncertainty could lead to capitalization rate expansion, which would impact the stock's valuation.

At A Glance

Issued Capital (m shrs)	5,850
Mkt Cap (HKm/US\$m)	92,313 / 11,795
Major Shareholders (%)	
Swire Pacific Ltd	82.0
Free Float (%)	18.0
3m Avg. Daily Val. (US\$m)	4.9
GICS Industry: Real Estate / Real Estate Management & Development	

Swire Properties

WHAT'S NEW

Decent disposal gains to lift bottom-line earnings

Swire Properties expects its underlying profit for FY23 to be c.30% higher primarily due to decent gains on sale of office floors at One Island East. In Nov-23, Swire Properties agreed to sell twelve office floors at One Island East in Quarry Bay to Securities and Futures Commission (SFC) for HK\$5.4bn or c.HK\$18,200psf. These comprise 42-54/F, excluding 49/F which is used a refugee floor and kept unoccupied, with GFA of 296,000sf. SFC is the existing tenant of 45-54/F and the transaction of these floors was completed in Dec-23. Disposal of 42/F, 43/F and 44/F will be completed in 2028, 2026 and 2027 respectively. This divestment is estimated to generate total gains of HK\$4.36bn, of which c.HK\$3.3bn was in 2H23.

Based on disposal price and total net rental income of HK\$178m in FY22, the exit yield is estimated at 3.3%. Overall, we see the deal as positive to Swire Properties. The exit yield, though slightly higher than those for Cityplaza One in 2020 & Cityplaza Three and Cityplaza Four in 2018, remains attractive considering the current high funding cost.

Elsewhere, Swire Properties sold c.690 parking spaces in the Taikoo Shing residential development for c.HK\$1bn in 2023. This brought total number of car parking spaces sold to >2,140 thus far.

Disposal proceeds could be used to fund new investments with better growth prospects. This enables Swire Properties to execute its HK\$100bn investment plan without over-stretching its balance sheet.

In Sep-23, Swire Properties entered into an agreement to acquire a 40% interest in Yangjing and New Bund plots in Shanghai for Rmb9.7bn. Construction works of New Bund mixed-use development is currently underway. Response to the pre-sale of the residential portion has been encouraging. About 80% of total units has been sold.

The Pacific Place and Taikoo Place portfolios recorded negative office reversionary growth of 13% and 8% respectively in 9M23. One Island East/One Taikoo Place fared better than other Taikoo Place office towers with mild negative rental reversion of 3%. Going forward, office rental reversion should remain in the negative territory.

The Pacific Place portfolio's office occupancy stayed firm at 97% in Sep-23. Excluding the newly built Two Taikoo Place where the commitment rate remained unchanged at 56% since Mar-23, the

overall office occupancy of Taikoo Place portfolio fell 2ppts q-o-q to 92% in Sep-23. Elsewhere, commitment rate at Six Pacific Place has improved to c.30%.

Thanks to the revival of tourist spending amid the re-opening of the border with Mainland China, tenants' sales at both The Mall, Pacific Place, and the Citygate Outlets rebounded 50.1% and 51.2% respectively in 9M23, which compared favourably with the overall retail sales growth in the corresponding period. Of particular note, tenants' 9M23 sales at The Mall, Pacific Place exceeded the pre-COVID level by 9.4%. On the other hand, tenants' sales at Cityplaza grew only 8.8% in 9M23 and was 11.6% lower than pre-COVID levels. With healthy occupancy cost ratio in the teens, retail reversionary growth should turn positive.

In China, retail tenants' sales growth remained positive but moderated amid sluggish economic outlook, excluding Taikoo Li Chengdu. Overall, their tenants' sales are >50% higher than in 2019. Retail reversionary growth was positive. Due to tenant upgrade, Taikoo Li Chengdu's tenants' sales growth accelerated to 36.1% in 9M23, from 1H23's 27.2%. Swire Properties is also upgrading the tenant mix at Taikoo Li Sanlitun North and HKRI Taikoo Hui. Despite the rent void led by renovation, this initiative should unlock the earnings potential of these malls.

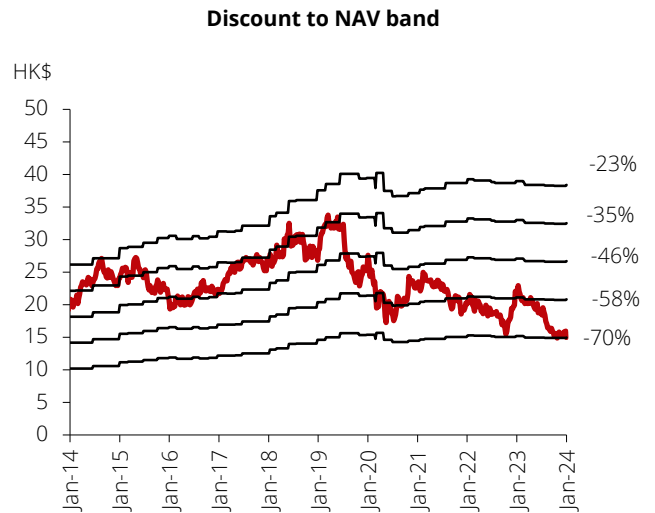
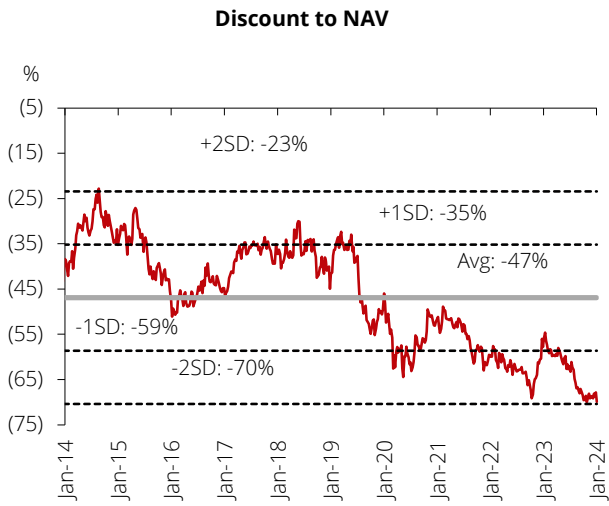
The stock is trading 70% below our assessed current NAV, near the low end of its historical trading range. Estimated dividend yield stands at 7% for FY23 and 7.3% for FY24. Valuation is appealing. Portfolio expansion should brighten its long-term growth prospects, thus justifying higher valuations. BUY with HK\$19.64 TP, based on target discount of 60% to our Dec-24 NAV estimate.

Company Background

Swire Properties is a major commercial landlord in Hong Kong with a completed investment property portfolio of 13.5m sf. Key properties include Pacific Place, Taikoo Place, and Cityplaza. In China, Swire Properties has a variety of retail-led mixed-use developments, including Taikoo Hui Sanlitun and INDIGO in Beijing, Taikoo Hui in Guangzhou, HKRI Taikoo Hui in Shanghai, and Sino-Ocean Taikoo Li in Chengdu. The company is the developer of Brickell City Centre in Miami.

Swire Properties

Discount to NAV



Source: Bloomberg Finance L.P., DBS HK

Swire Properties

Key Assumptions (%)

	2024F	2025F
Office rental - HK	(5)	0
Retail rental (Shopping centre) - HK	5	5

Source: DBS HK

Segmental Breakdown (HK\$ m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Revenues (HK\$ m)					
Property Investment	12,981	12,340	13,933	14,178	14,869
Property trading	2,443	921	135	42	0
Hotels	894	565	997	1,116	1,201
Total	16,318	13,826	15,065	15,336	16,070

Source: DBS HK

Income Statement (HK\$ m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Turnover	16,318	13,826	15,065	15,336	16,070
EBITDA	8,819	7,994	8,881	9,043	9,491
Depr / Amort	(420)	(428)	(449)	(472)	(495)
EBIT	8,399	7,566	8,432	8,571	8,995
Associates Inc	972	945	830	822	971
Interest (Exp)/Inc	(328)	(138)	(465)	(740)	(680)
Exceptionals	1,959	1,514	4,030	0	0
Pre-tax Profit	11,002	9,887	12,827	8,653	9,287
Tax	(1,362)	(1,078)	(1,275)	(1,253)	(1,330)
Minority Interest	(108)	(103)	(270)	(278)	(286)
Underlying Profit	9,532	8,706	11,282	7,123	7,671
Sales Gth (%)	23	(15)	9	2	5
Net Profit Gth (%)	(25)	(9)	30	(37)	8
EBITDA Margins (%)	54	58	59	59	59
EBIT Margin (%)	51	55	56	56	56
Tax Rate (%)	12	11	10	14	14

Source: DBS HK

Swire Properties

Balance Sheet (HK\$ m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Fixed Assets	274,989	278,223	284,498	284,253	286,763
Other LT Assets	1,094	622	622	622	622
Intangibles Assets	203	208	208	208	208
Deferred Tax Asset	78	64	64	64	64
Associates/JVs	38,015	40,335	51,905	53,067	53,728
Bank Balance/Cash & Liquid	14,833	4,502	6,164	6,469	6,553
Inventory	6,411	8,264	11,222	12,349	13,305
Debtors	2,220	2,834	1,834	1,894	1,864
Other Non Cash Current	1,831	2,110	2,110	2,110	2,110
Total Assets	339,674	337,162	358,628	361,036	365,216
ST Debt	9,049	779	3,079	4,079	4,079
Creditors	9,339	10,008	10,408	10,158	10,138
Other Current Liab	475	199	199	199	199
LT Debt	15,601	22,135	39,835	40,335	40,335
Deferred Tax Liabilities	10,746	11,248	11,248	11,248	11,248
Other LT Liabilities	854	535	535	535	535
Minority Interests	1,986	3,047	3,217	3,394	3,580
Shareholder's Equity	291,624	289,211	290,107	291,087	295,102
Total Cap. & Liab.	339,674	337,162	358,628	361,036	365,216
Share Capital (m)	5,850	5,850	5,850	5,850	5,850
Net Cash/(Debt)	(10,334)	(18,947)	(37,285)	(38,480)	(38,396)
Working Capital	6,432	6,724	7,644	8,386	9,415
Net Gearing (%)	4	7	13	13	13

Source: DBS HK

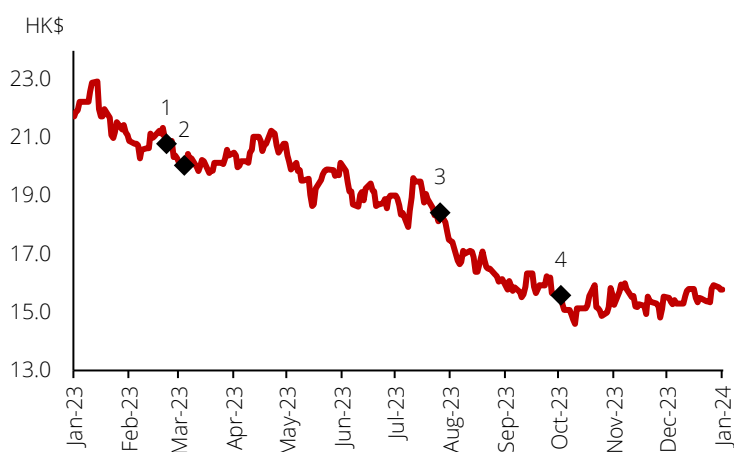
Cash Flow Statement (HK\$ m)

FY Dec	2021A	2022A	2023F	2024F	2025F
EBIT	8,399	7,566	8,432	8,571	8,995
Tax Paid	(1,635)	(1,127)	(1,275)	(1,253)	(1,330)
Depr/Amort	420	428	449	472	495
Profit or loss on disposal of FAs/subsidiaries/investment	(1,149)	(551)	(4,030)	0	0
Chg in Wkg.Cap	(1,921)	(1,844)	(858)	(437)	(146)
Other Non-Cash	931	284	3,174	(1,430)	(1,170)
Operating CF	5,045	4,756	5,892	5,923	6,844
Net Capex	(70)	(5,560)	(7,172)	(226)	(226)
Associates & JVs	(3,681)	(2,034)	(11,049)	(649)	0
Others	555	(405)	0	0	0
Investing CF	(3,196)	(7,999)	(18,222)	(875)	(226)
Net Chg in Debt	(2,856)	(1,838)	20,000	1,500	0
New Capital	0	0	0	0	0
Dividend	(5,515)	(5,712)	(6,009)	(6,243)	(6,535)
Other Financing CF	0	1,003	0	0	0
Financing CF	(8,371)	(6,547)	13,992	(4,743)	(6,535)
Chg in Cash	(6,522)	(9,790)	1,662	305	83

Source: DBS HK

Swire Properties

Target Price & Ratings 12-mth History



S.No.	Date	Closing Price	Target Price	Rating
1	10-Mar-23	HK\$21.00	HK\$24.95	BUY
2	20-Mar-23	HK\$20.15	HK\$24.95	BUY
3	11-Aug-23	HK\$18.14	HK\$24.10	BUY
4	18-Oct-23	HK\$15.64	HK\$22.15	BUY

Source: DBS HK

Analyst: Jeff Yau, CFA

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Swire Properties

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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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Swire Properties

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