

Wing Tai Properties

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DBS Group Research . Equity

9 Jan 2024

HOLD

Last Traded Price (8 Jan 2024): HK\$2.86 (HSI : 16,224)

Price Target 12-mth: HK\$3.07 (7% upside) (Prev HK\$3.60)

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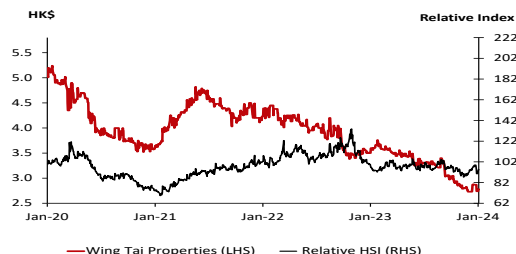
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What's New

- Expediting inventory sales of OMA by the Sea with price incentives
- Sold Central Park in Beijing
- Landmark East records stable occupancy but continues to see negative reversionary growth
- Awaiting catalysts; HOLD with HK\$3.07 TP

Price Relative



Forecasts and Valuation

FY Dec (HK\$ m)	2022A	2023F	2024F	2025F
Turnover	4,097	809	955	927
EBITDA	959	292	269	261
Pre-tax Profit	(152)	246	222	198
Underlying Profit	658	124	101	91
Net Profit	(540)	124	101	91
Underlying Profit Gth (%)	(3.7)	(81.2)	(18.0)	(10.0)
Net Profit Gth (%)	N/A	N/A	(18.0)	(10.0)
EPS (HK\$)	0.49	0.09	0.07	0.07
EPS Gth (%)	(3.7)	(81.2)	(18.0)	(10.0)
PE (X)	5.9	31.4	38.3	42.6
P/Cash Flow (X)	4.6	5.8	17.8	21.1
EV/EBITDA (X)	10.2	33.5	36.3	37.5
DPS (HK\$)	0.27	0.20	0.15	0.15
Div Yield (%)	9.4	7.0	5.2	5.2
Net Gearing (%)	17	18	20	22
ROE (%)	2.5	0.5	0.4	0.4
Est. NAV (HK\$):			15.0	14.6
Disc. to NAV (%)			(81)	(80)

Earnings Rev (%): 4 (8) New

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

Awaiting catalysts to propel re-rating

Investment Thesis

Strong exposure to Kowloon East office sector. Wing Tai Properties derives >40% of its gross asset value from its key investment property, Landmark East in Kwun Tong. With GFA of 1.34msf, this strategically located office landmark produces rental income of c.HK\$400m p.a. Through an equally owned consortium with CSI Properties, the company is developing an office/hotel project in Central. Wing Tai Properties also boasts a commercial portfolio of 0.33msf in London.

Challenges ahead. Landmark East records lower rentals upon renewal and new letting, which should in turn drag rental earnings. With profit from OMA by the Sea substantially recognized, there would be a development earnings gap in FY23-25.

Lackluster office market to drag share price performance. The weak office market should cap income and valuation recovery of its rental flagship, Landmark East, thus weighing on share price performance.

HOLD with HK\$3.07 TP. The stock trades at an 81% discount to our appraised current NAV, against its 10-year average of 72%. Despite the inexpensive valuation, we do not foresee any near-term catalysts. Based on a target discount of 79% (1.5SD below 10-year average) to our Dec-24 NAV estimate, we set our TP at HK\$3.07. Maintain HOLD.

Key Risks to Our View:

Any stronger-than-expected leasing demand for office would boost Wing Tai Properties' earnings and share price.

At A Glance

Issued Capital (m shrs)	1,357
Mkt Cap (HKm/US\$m)	3,773 / 483
Major Shareholders (%)	
Wing Tai Holdings Ltd	34.1
Sun Hung Kai Properties Ltd	13.5
Wing Tai (Cheng) Holdings Ltd.	14.7
Farnham Group Limited	7.5
Free Float (%)	30.2
3m Avg. Daily Val. (US\$m)	0.01
GICS Industry: Real Estate / Real Estate Management & Development	

Wing Tai Properties

WHAT'S NEW

Sold Central Park in Beijing

Wing Tai Properties has sold six units at OMA by the Sea in Tuen Mun for c.HK\$65m since it slashed prices by more than 10% in Dec-23. Completed in 2022, this 70%-owned residential project is 92% sold. Inventory sales of OMA by the Sea should dominate the company's near-term development earnings.

Foundation works of two joint venture residential projects, one in Fanling and the other in Shatin, are underway with project completion expected in 2026.

Occupancy at Landmark East in Kwun Tong remain stable at 90-91% currently, which compares favourably with that of the overall Kowloon East office market. Spot rate is slightly lower at HK\$24-25psf. About 30% of leases are due for expiry in 2024. Reversionary growth is expected to stay mildly negative at 5%. Shui Hing Centre in Kowloon Bay remains 88% let with neutral rental reversion. The company's London commercial portfolio should see largely steady income contribution but lower asset valuation due to cap rate expansion.

Le Cap/La Vetta in Kau To and Lanson Place Waterfront Suites in Sai Wan Ho contribute steady income on stable occupancy. We do not rule out the possibility of the company monetising these residential developments when opportunities avail in the future.

In 2H23, Wing Tai Properties disposed of 33 residential units at Central Park in Beijing for c.HK\$400m with estimated after-tax profit of c.HK\$40m. We see the disposal as positive to the company as this property has been suffering from deteriorating occupancy in recent years.

Superstructure works of Gage Street/Graham Street redevelopment, a 50/50 JV with CSI Properties, are well underway. The office tower and hotel building are scheduled for completion in late 2025 and 2026 respectively.

With capex budget of c.HK\$200m, renovation works at Lanson Place Causeway Bay hotel is scheduled to be completed in Mar-24. This would boost its competitiveness making it better positioned to tap the recovering demand from tourists following the border re-opening.

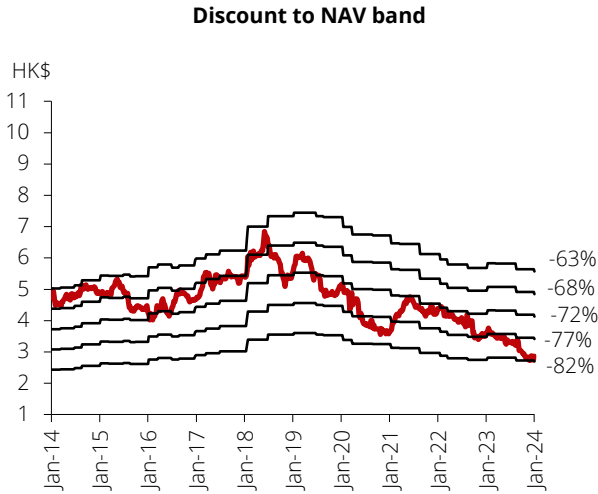
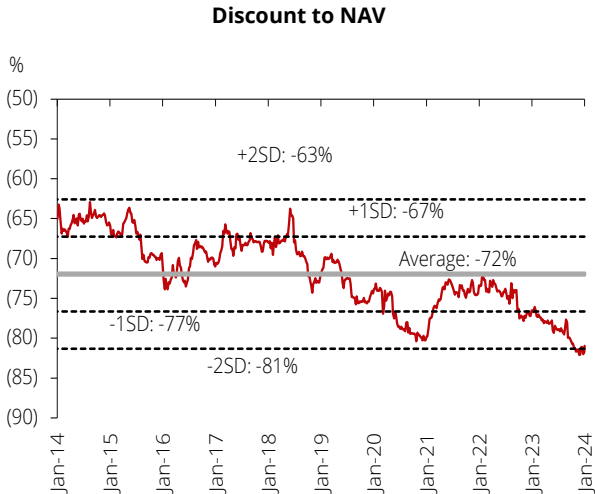
The stock is trading at an 81% discount to our assessed current NAV, against its 10-year average of 72%. While the current valuation is inexpensive from a historical perspective, we do not foresee any near-term catalysts that would narrow the discount to NAV. Maintain HOLD with TP of HK\$3.07. This is based on target discount of 79% (1.5SD below its 10-year average) to our Dec-24 NAV estimate.

Company Background

Wing Tai Properties is primarily a Hong Kong property developer and investor with a strong focus on quality. It also has seven commercial properties in Central London. The company is c.50% held by Wing Tai Holdings and the Cheng family and 13.6% by Sun Hung Kai Properties.

Wing Tai Properties

Discount to NAV



Source: Bloomberg Finance L.P., DBS HK

Wing Tai Properties

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 Dec	2021A	2022A	2023F	2024F	2025F
Revenues (HK\$ m)					
Property development	2,701	3,343	149	228	152
Property investment and management	597	589	566	541	531
Hospitality investment and management	69	105	37	130	188
Investing	56	60	57	57	57
Total	3,423	4,097	809	955	927

Source: DBS HK

Income Statement (HK\$ m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Turnover	3,423	4,097	809	955	927
EBITDA	1,369	959	292	269	261
Depr / Amort	(17)	(9)	(9)	(9)	(10)
EBIT	1,352	950	283	260	251
Associates Inc	245	(48)	58	58	57
Interest (Exp)/Inc	(99)	(84)	(95)	(95)	(110)
Exceptionals	(452)	(971)	0	0	0
Pre-tax Profit	1,045	(152)	246	222	198
Tax	(128)	(172)	(47)	(43)	(41)
Minority Interest	2	(152)	(10)	(13)	0
Holders of Perpetual	(66)	(64)	(66)	(66)	(66)
Net Profit	854	(540)	124	101	91
Underlying Profit	683	658	124	101	91
Sales Gth (%)	23	20	(80)	18	(3)
Net Profit Gth (%)	N/A	N/A	N/A	(18)	(10)
EBITDA Margins (%)	40	23	36	28	28
EBIT Margin (%)	39	23	35	27	27
Tax Rate (%)	12	N/A	19	19	21

Source: DBS HK

Wing Tai Properties

Balance Sheet (HK\$ m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Fixed Assets	21,844	20,531	19,783	19,595	19,603
Long-term Investments	1,004	1,235	1,235	1,235	1,235
Other LT Assets	684	557	557	557	557
Intangibles Assets	0	0	0	0	0
Deferred Tax Asset	18	8	8	8	8
Associates/JVs	5,471	5,385	5,592	5,650	5,707
Bank Balance/Cash & Liquid	1,466	2,241	2,547	2,417	2,433
ST Investments	349	274	274	274	274
Inventory	5,702	3,739	3,912	4,308	4,615
Debtors	265	194	114	114	114
Other Non Cash Current	1,938	1,336	1,336	1,336	1,336
Total Assets	38,739	35,499	35,357	35,494	35,882
ST Debt	3,458	2,551	1,198	800	800
Creditors	3,152	883	1,083	1,133	1,133
Other Current Liab	196	171	171	171	171
LT Debt	3,346	4,177	5,830	6,628	7,128
Deferred Tax Liabilities	385	379	379	379	379
Other LT Liabilities	35	11	11	11	11
Perpetual Securities	1,513	1,491	1,491	1,491	1,491
Minority Interests	(1)	151	161	174	174
Shareholder's Equity	26,653	25,685	25,033	24,707	24,594
Total Cap. & Liab.	38,739	35,499	35,357	35,494	35,882
Share Capital (m)	1,355	1,356	1,357	1,357	1,357
Net Cash/(Debt)	(5,339)	(4,487)	(4,481)	(5,010)	(5,495)
Working Capital	2,912	4,179	5,730	6,345	6,667
Net Gearing (%)	20	17	18	20	22

Source: DBS HK

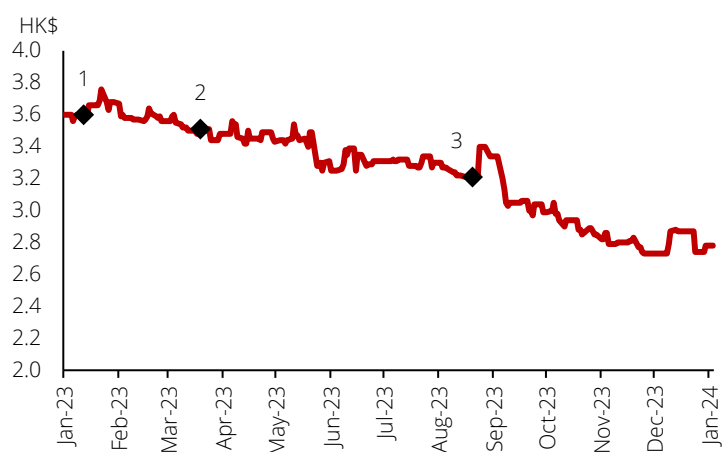
Cash Flow Statement (HK\$ m)

FY Dec	2021A	2022A	2023F	2024F	2025F
EBIT	1,352	950	283	260	251
Tax Paid	(46)	(51)	(47)	(43)	(41)
Depr/Amort	17	9	9	9	10
Profit or loss on disposal of FAs/subsidiaries/investment	(472)	(1)	0	0	0
Chg in Wkg.Cap	(2,120)	(362)	273	(162)	(156)
Other Non-Cash	(65)	24	(260)	(280)	(260)
Operating CF	(1,334)	569	258	(215)	(197)
Net Capex	738	525	330	(18)	(18)
Investments	(722)	(722)	0	0	0
Associates & JVs	51	(109)	(150)	0	0
Associates' Dividends	0	4	0	0	0
Others	(193)	(134)	0	0	0
Investing CF	(126)	(435)	180	(18)	(18)
Net Chg in Debt	2,805	990	300	400	500
New Capital	0	0	0	0	0
Dividend	(366)	(366)	(366)	(231)	(204)
Other Financing CF	(454)	(1,110)	(66)	(66)	(66)
Financing CF	1,985	(486)	(132)	104	231
Chg in Cash	525	(352)	306	(130)	16

Source: DBS HK

Wing Tai Properties

Target Price & Ratings 12-mth History



S.No.	Date	Closing Price	Target Price	Rating
1	17-Jan-23	HK\$3.60	HK\$3.84	HOLD
2	24-Mar-23	HK\$3.48	HK\$3.84	HOLD
3	25-Aug-23	HK\$3.21	HK\$3.60	HOLD

Source: DBS HK

Analyst: Jeff Yau

Wing Tai Properties

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

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

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

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

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

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

*Share price appreciation + dividends

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