

China / Hong Kong Company Update

CK Asset Holdings

Bloomberg: 1113 HK Equity | Reuters: 1113.HK

Refer to important disclosures at the end of this report

7 Feb 2024

BUY

Last Traded Price (6 Feb 2024): HK\$35.70 (HSI : 16,137)
Price Target 12-mth: HK\$47.30 (32% upside) (Prev HK\$56.40)

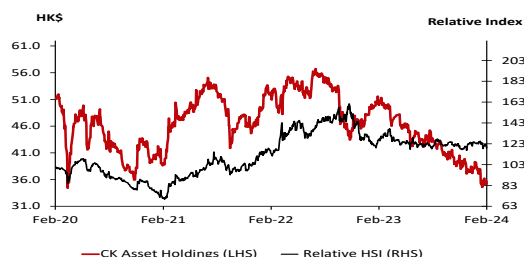
Analyst

Jeff Yau, CFA +852 36684180 jeff_yau@dbs.com
Percy Leung +852 36684165 percyleung@dbs.com
Cherie Wong cheriesumwai@dbs.com

What's New

- The Coast Line in Yau Tong is virtually sold out with estimated pre-tax margins of c.25%
- Fresh rental contribution from recent acquisition of Civitas Social Housing
- Gearing up to 20% implies the company would have debt headroom of c.HK\$70bn for new acquisitions
- BUY with HK\$47.3 TP

Price Relative



Forecasts and Valuation

FY Dec (HK\$ m)	2022A	2023F	2024F	2025F
Turnover	56,341	45,401	48,050	56,399
EBITDA	23,971	17,747	19,949	21,174
Pre-tax Profit	24,739	21,076	20,984	22,219
Net Profit	21,683	17,953	17,667	18,757
Net Profit Gth (%)	2.1	(17.2)	(1.6)	6.2
EPS (HK\$)	5.98	5.03	4.98	5.29
EPS Gth (%)	3.5	(15.8)	(1.0)	6.2
PE (X)	6.0	7.1	7.2	6.8
P/Cash Flow (X)	11.3	nm	64.8	32.1
EV/EBITDA (X)	6.1	8.2	7.3	6.9
DPS (HK\$)	2.28	2.28	2.28	2.28
Div Yield (%)	6.4	6.4	6.4	6.4
Net Gearing (%)	CASH	1	2	2
ROE (%)	5.8	4.7	4.5	4.6
Est. NAV (HK\$):			116.4	118.2
Disc. to NAV (%)			(69)	(70)
Earnings Rev (%)		(7)	(10)	New
Consensus EPS (HK\$):		4.98	5.18	6.11
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

Well grounded.

Investment Thesis

A savvy investor. Cheung Kong Asset Holdings (CKAH) has consistently created shareholder value by monetising those maturing assets and recycling capital into new investments with more promising growth prospects. Proceeds from selling aircraft leasing business and 5 Broadgate in London have been redeployed into land banking in Hong Kong and acquisition of Civitas Social Housing PLC (Civitas) in UK. This has laid down a solid foundation for earnings growth in the medium term. Elsewhere, the company has diversified its recurrent earnings base, with contributions stemming from pub and infrastructure operations, as well as rental and hotel businesses.

Improving recurring income stream. The newly acquired Civitas Social Housing saw fresh rental contributions in FY23 which should grow steadily in the years ahead. This should not only enhance the company's rental income but also diversify its earnings base geographically. Hotel and serviced suite operations are staging decent post-pandemic earnings recovery, supporting growing recurring earnings base. The launch of The Coast Line in Yau Tong was greeted with overwhelming response, enabling CKAH to lock in development profit of c.HK\$1.5bn.

Value-accretive investments to drive long-term earnings growth and share price appreciation. With low gearing, CKAH is well positioned to pursue more value-accretive investments to drive earnings growth. This should justify a higher stock valuation. Share purchase should not only signal strong embedded value but also support its share price.

BUY with HK\$47.3 TP. Trading at a 69% discount to our appraised current NAV, c.2SD below its average discount of 51%, the stock is attractively valued from a historical perspective. Our TP is based on a 60% discount to our Dec-2024 NAV estimate.

Key Risks to Our View:

Weaker residential demand in Hong Kong/China could pressure CKAH's earnings and valuations.

At A Glance

Issued Capital (m shrs)	3,549
Mkt Cap (HKm/US\$m)	126,699 / 16,196
Major Shareholders (%)	
Li (Ka Shing)	30.6
Li Ka Shing Foundation	10.3
Free Float (%)	59.1
3m Avg. Daily Val. (US\$m)	18.9
GICS Industry: Real Estate / Real Estate Management & Development	

CK Asset Holdings

WHAT'S NEW

Strong war chest for acquisition-led growth

Cheung Kong Asset Holdings (CKAH) generated contracted sales of c.H\$18bn in 11M23. About HK\$9bn came from Hong Kong Holdings with the balance mainly from China. The Coast Line in Yau Tong is the key contributor. In Aug-23, CKAH launched The Coast Line on the Yau Tong harbourfront for pre-sale. Market response has been very encouraging with 99% of total 886 units being snapped up for c.HK\$6bn within a short period of time. The company converted the site into residential use from industrial in 2019 after paying land premium of HK\$2.2bn or HK\$5,283psf on GFA basis. Based on our estimated all-in cost of HK\$11,900psf and average selling price of HK\$15,600psf, we estimate The Coast Line still offers decent pre-tax margins of c.25%.

Meanwhile, CKAH has just obtained pre-consent for Wong Chuk Hang Station package 3 which will provide 1,200 units in four residential towers. If fully sold, this development should yield total sales revenue of c.HK\$24bn.

CKAH has forfeited deposits with estimated gain of c.HK\$1.8bn to be booked in 2H23 after the buyer Sino Suisse Capital failed to proceed with the transaction of 21 Borrett Road in mid-23.

Cheung Kong Center I was about 20% vacant with negative reversionary growth to continue. Near-term focus remains on pre-leasing of soon-to-be completed Cheung Kong Center II which is challenging. CKAH intends to revamp the trade mix of 1881 Heritage with the recruitment of more eateries. The Whampoa sees slightly positive rental reversion while the virtually fully let Hutchison Logistics Centre offers steady rental income. Newly acquired Civitas Social Housing started to provide fresh contributions in FY23 which should grow steadily in the years ahead. This acquisition not only enhances the rental revenue but also diversifies its income base geographically.

Daily hotels stage post-pandemic recovery with occupancy returning to >80%. Serviced suites continued to deliver steady performance. Overall, we estimate earnings from hotel and serviced suite division to more than double to HK\$1.4bn in FY23.

Sales volume at Greene King has recovered to c.90% of pre-COVID level. However, cost pressure remains with no meaningful margin improvement.

In 2H23, CKAH bought back 14.5m shares for HK\$611m or HK\$42.25/sh on average. This not only signalled its strong embedded value but also lent support to its share price.

Gearing is estimated to be in the low single-digit. Should CKAH gear up to 20%, the company would have debt headroom of c.HK\$70bn for land banking.

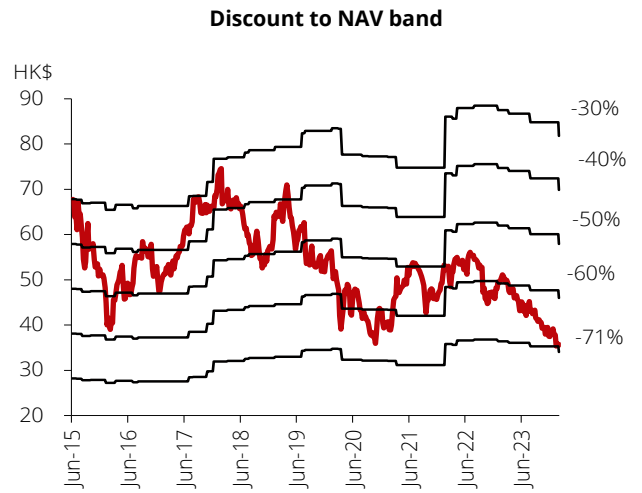
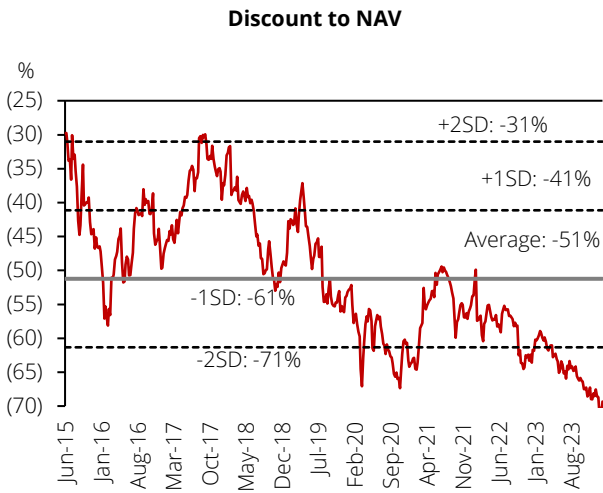
Meanwhile, the stock is trading at a 69% discount to our appraised current NAV, c.2SD below its average discount of 51%. Share repurchase should limit the downside risk on the stock. Robust balance sheet should enable the company to pursue value-accretive acquisitions to create shareholders' value. Based on a target discount of 60% to our Dec-24 NAV estimate, we set our TP at HK\$47.3, and hence maintain our BUY call.

Company Background

CK Asset Holdings (CKAH) was the property arm of the Cheung Kong Group. The company was spun off as CK Property in 2015 and renamed as CK Asset Holdings in 2017. For its property business, CKAH develops residential properties for sale, holds investment properties for rental, and operates hotels. CKAH also owns c.33%, 27%, and 18% stakes in Hui Xian REIT, Fortune REIT and Prosperity REIT respectively. For its non-property business, CKAH has investments in brewery/pubs, and a portfolio of utilities/infrastructure companies to generate recurring income.

CK Asset Holdings

Discount to NAV



Source: Bloomberg Finance L.P., DBS HK

CK Asset Holdings

Key Assumptions (%)

	2024F	2025F
Residential price - HK	(8)	0
Office rental - HK	(5)	(5)
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 sales	37,760	25,706	11,971	12,104	18,406
Property rental	6,543	5,700	5,776	6,027	6,202
Hotels and serviced suites	2,691	3,214	4,281	5,159	5,562
Property and project management	816	782	759	789	820
Aircraft leasing	0	0	0	0	0
Pub operations	14,284	20,939	22,614	23,971	25,409
Total	62,094	56,341	45,401	48,050	56,399

Source: DBS HK

Income Statement (HK\$ m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Turnover	62,094	56,341	45,401	48,050	56,399
EBITDA	30,940	23,971	17,747	19,949	21,174
Depr / Amort	(3,516)	(2,045)	(2,209)	(2,385)	(2,576)
EBIT	27,424	21,926	15,539	17,564	18,598
Associates Inc	4,006	4,015	4,478	4,640	4,721
Interest (Exp)/Inc	(968)	(991)	(1,200)	(1,220)	(1,100)
Exceptionals	16	(211)	2,259	0	0
Pre-tax Profit	30,478	24,739	21,076	20,984	22,219
Tax	(8,533)	(2,860)	(2,760)	(2,954)	(3,100)
Minority Interest	(464)	87	(80)	(80)	(80)
Holdings of Perpetual	(240)	(283)	(283)	(283)	(283)
Net Profit	21,241	21,683	17,953	17,667	18,757
Sales Gth (%)	4	(9)	(19)	6	17
Net Profit Gth (%)	30	2	(17)	(2)	6
EBITDA Margins (%)	50	43	39	42	38
EBIT Margin (%)	44	39	34	37	33
Tax Rate (%)	28	12	13	14	14

Source: DBS HK

CK Asset Holdings

Balance Sheet (HK\$ m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Fixed Assets	208,768	195,453	199,296	196,911	194,335
Long-term Investments	12,104	10,436	10,436	10,436	10,436
Other LT Assets	6,450	10,149	10,149	10,149	10,149
Intangibles Assets	4,609	4,308	4,308	4,308	4,308
Deferred Tax Asset	2,853	2,853	2,853	2,853	2,853
Associates/JVs	87,806	81,743	81,743	81,743	81,743
Bank Balance/Cash & Liquid	63,365	61,198	42,391	44,594	48,959
Inventory	127,482	136,446	148,979	164,780	179,737
Debtors	11,526	12,235	14,235	14,235	14,235
Other Non Cash Current	31,748	0	0	0	0
Total Assets	556,711	514,821	514,390	530,008	546,755
ST Debt	28,812	2,435	2,435	2,300	2,500
Creditors	24,612	38,304	35,804	35,804	35,804
Other Current Liab	25,091	14,241	10,241	10,241	10,241
LT Debt	67,656	46,102	43,102	49,237	55,038
Deferred Tax Liabilities	15,974	13,940	13,940	13,940	13,940
Other LT Liabilities	8,291	6,092	6,092	6,092	6,092
Perpetual Securities	7,929	7,929	7,929	7,929	7,929
Minority Interests	7,118	6,147	6,227	6,307	6,387
Shareholder's Equity	371,228	379,631	388,620	398,158	408,824
Total Cap. & Liab.	556,711	514,821	514,390	530,008	546,755
Share Capital (m)	3,644	3,605	3,549	3,549	3,549
Net Cash/(Debt)	(33,103)	12,661	(3,146)	(6,943)	(8,579)
Working Capital	155,606	154,899	157,125	175,263	194,386
Net Gearing (%)	9	CASH	1	2	2

Source: DBS HK

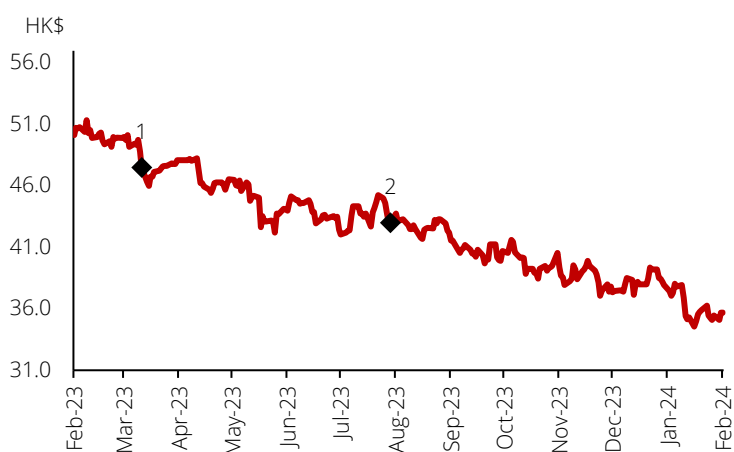
Cash Flow Statement (HK\$ m)

FY Dec	2021A	2022A	2023F	2024F	2025F
EBIT	27,424	21,926	15,539	17,564	18,598
Tax Paid	(7,079)	(3,591)	(2,760)	(2,954)	(3,100)
Depr/Amort	3,516	2,045	2,209	2,385	2,576
Profit or loss on disposal of FAs/subsidiaries/investment	(2,307)	(1,744)	0	0	0
Chg in Wkg.Cap	584	(8,477)	(20,133)	(14,821)	(14,057)
Other Non-Cash	3,220	(3,585)	6,737	4,640	4,721
Operating CF	25,358	6,574	1,592	6,814	8,739
Net Capex	(5,433)	37,475	(4,800)	0	0
Investments	(1,488)	5,098	0	0	0
Associates & JVs	640	4,633	0	0	0
Associates' Dividends	2,424	2,290	0	0	0
Others	86	(2,029)	0	0	0
Investing CF	(3,771)	47,467	(4,800)	0	0
Net Chg in Debt	10,273	(44,907)	(3,000)	6,000	6,001
New Capital	(19,637)	(2,478)	(1,969)	0	0
Dividend	(7,482)	(8,616)	(8,247)	(8,129)	(8,091)
Other Financing CF	(961)	(2,464)	(2,383)	(2,483)	(2,283)
Financing CF	(17,807)	(58,465)	(15,599)	(4,612)	(4,373)
Chg in Cash	3,780	(4,424)	(18,807)	2,202	4,365

Source: DBS HK

CK Asset Holdings

Target Price & Ratings 12-mth History



S.No.	Date	Closing Price	Target Price	Rating
1	17-Mar-23	HK\$48.80	HK\$64.60	BUY
2	4-Aug-23	HK\$43.05	HK\$56.40	BUY

Source: DBS HK

Analyst: Jeff Yau

Percy Leung

Cherie Wong

CK Asset Holdings

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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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DBS Bank (Hong Kong) Limited

 13th Floor One Island East, 18 Westlands Road, Quarry Bay, Hong Kong

Tel: (852) 3668-4181, Fax: (852) 2521-1812

CK Asset Holdings

DBS Regional Research Offices

HONG KONG

DBS Bank (Hong Kong) Ltd

Contact: Dennis Lam

13th Floor One Island East,
18 Westlands Road, Quarry Bay, Hong Kong

Tel: 852 3668 4181

Fax: 852 2521 1812

e-mail: dbsvhk@dbs.com

SINGAPORE

DBS Bank Ltd

Contact: Andy Sim

12 Marina Boulevard,
Marina Bay Financial Centre Tower 3
Singapore 018982

Tel: 65 6878 8888

e-mail: groupresearch@dbs.com

Company Regn. No. 196800306E

INDONESIA

PT DBS Vickers Sekuritas (Indonesia)

Contact: Maynard Priajaya Arif

DBS Bank Tower
Ciputra World 1, 32/F
Jl. Prof. Dr. Satrio Kav. 3-5
Jakarta 12940, Indonesia

Tel: 62 21 3003 4900

Fax: 6221 3003 4943

e-mail: indonesiaresearch@dbs.com

THAILAND

DBS Vickers Securities (Thailand) Co Ltd

Contact: Chanpen Sirithanarattanakul

989 Siam Piwat Tower Building,
9th, 14th-15th Floor

Rama 1 Road, Pathumwan,

Bangkok Thailand 10330

Tel. 66 2 857 7831

Fax: 66 2 658 1269

e-mail: research@th.dbs.com

Company Regn. No 0105539127012

Securities and Exchange Commission, Thailand