

Hong Kong

# Property - Overall

## Takeaways from marketing trips in HK, SG

### Highlighted Companies

**CK Asset Holdings Limited**  
ADD, TP HK\$48.80, HK\$35.30 close

CK Asset Holdings' 1.4% net gearing at end-Jun 2023 should help it replenish its landbank and undertake M&As at 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\$38.30 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\$71.5 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 SHKP's abundant saleable resources.

- Investors agreed that 200bp interest rate cuts by the US Fed over 2024-25F will help reduce borrowers' interest burden and drive transactions in HK.
- There were divergent views on HK's retail outlook in 2024F. But all agree that a decline in 10-year US Treasury yields will benefit yield plays (e.g. Link).
- A few property stocks we cover could be at risk of 2023F dividend cuts, some investors say. Reiterate sector Neutral. Top picks: SHKP, CK Asset, Link.

### Rate cuts in 2024-25F to help lower homebuyers' interest burden

We hosted marketing trips for the HK property sector in HK and Singapore over the past few weeks. Although investors now hold a more cautious view of the sector than a year ago, they generally believe that a total of 200bp cuts in the US Fed Fund Rate over 2024-25F is likely, which in turn will help reduce the interest burden of residential mortgage loan borrowers in HK and invigorate property transactions. While they acknowledge the urgency for the HKSAR Government (HKSARG) to replenish talent in HK via various visas, including the recently launched Top Talent Pass Scheme (TTPS), their main concern lies mostly with the incoming talents' difficulty in finding suitable employment.

### Diverging views of the HK retail outlook

Investors were not in agreement on HK's retail outlook in 2024F. While some were positive on the retail sales rebound after HK's borders fully reopened in 1Q23, others cited the city's slower-than-expected recovery which they argued was partly due to outbound consumption of HK residents in mainland China or overseas after border re-opening. Nevertheless, all investors agreed that continued declines in US 10-year treasury yields will benefit yield plays, such as Link REIT, in terms of share price performance.

### Some stocks risk lower 2023F dividends

Investors worry that should the 2023F underlying profits for some of the property counters we cover decline more than market consensus, there is a risk of dividends being cut in a bid to preserve cash and avoid net gearing rising further. Investors believe that Kerry Prop and Hysan are the most likely property stocks in our universe to cut their DPS for 2023F.

### Reiterate sector Neutral; top picks: SHKP, CK Asset, Link

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. Key sector downside risks: higher-than-expected HIBOR, low property sell-through rates, and unexpected DPS/DPU cuts. Please refer to Page 4 for upside risks.

### Summary Valuation Metrics

P/E (x)	Dec-23F	Dec-24F	Dec-25F
CK Asset Holdings Limited	6.70	7.13	5.09
Link REIT	10.35	14.27	13.62
Sun Hung Kai Properties Ltd	8.53	8.08	7.78
P/BV (x)	Dec-23F	Dec-24F	Dec-25F
CK Asset Holdings Limited	0.33	0.32	0.31
Link REIT	0.51	0.51	0.51
Sun Hung Kai Properties Ltd	0.34	0.33	0.33
Dividend Yield	Dec-23F	Dec-24F	Dec-25F
CK Asset Holdings Limited	6.46%	6.46%	6.74%
Link REIT	6.86%	7.01%	7.34%
Sun Hung Kai Properties Ltd	6.43%	6.18%	6.42%

### Analyst(s)

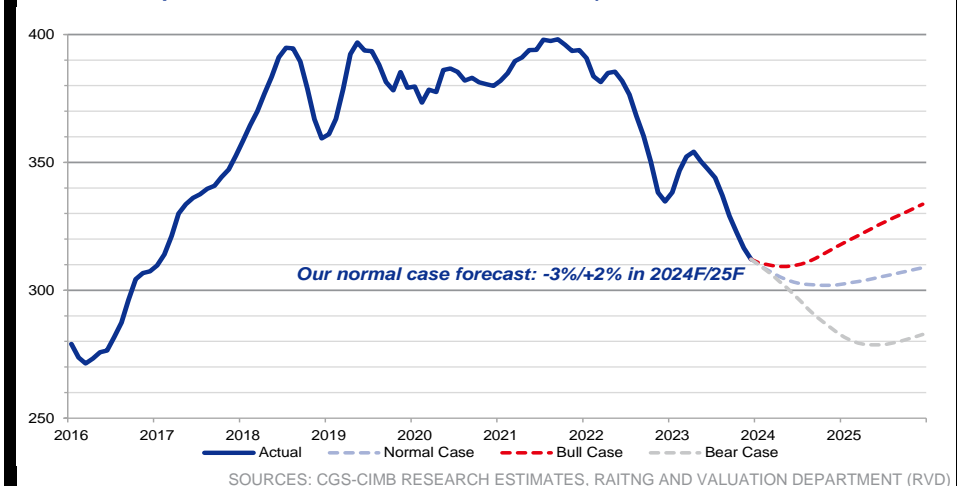


**Raymond CHENG, CFA**  
T (852) 2539 1324  
E raymond.cheng@cgs-cimb.com

**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

Figure 1: Our forecast of residential property prices over 2024-25F (Index: Rating and Valuation Department Private Residential Price Index)



**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	2023F	2024F	2025F	2023F	2024F	2025F	2023F	2024F	2025F
CK Asset	1113 HK	35.40	48.8	ADD	16,063	97.6	64	38	5.7	6.7	7.1	5.1	0.33	0.32	0.31	6.4	6.4	6.7	Net cash	Net cash	Net cash
HLD	12 HK	20.90	25.1	ADD	12,938	45.6	54	20	10.5	10.0	9.5	9.4	0.31	0.31	0.30	8.6	8.6	8.6	40	40	37
Kerry Prop	683 HK	12.72	15.6	ADD	2,361	51.9	75	23	4.1	6.3	6.2	5.1	0.17	0.17	0.16	10.6	10.6	10.6	38	43	40
NWD	17 HK	9.64	13.7	ADD	3,102	45.7	79	42	5.2	13.7	12.1	7.3	0.12	0.14	0.13	7.9	24.4	8.9	50	48	48
SHKP	16 HK	72.35	101.1	ADD	26,808	183.8	61	40	7.3	8.8	8.5	7.9	0.35	0.34	0.33	6.8	5.9	6.3	18	16	12
Sino	83 HK	7.93	9.5	ADD	8,651	19.0	58	20	10.4	11.1	13.0	12.0	0.40	0.42	0.43	7.3	7.3	7.4	Net cash	Net cash	Net cash
Wharf Holdings	4 HK	25.55	21.6	HOLD	9,984	48.0	47	(15)	257.7	20.4	17.8	16.2	0.52	0.50	0.49	1.6	1.7	1.8	11	10	6
HLP	101 HK	8.67	12.6	ADD	4,988	27.9	69	45	9.3	9.4	8.2	8.0	0.29	0.29	0.28	9.0	9.0	9.0	32	33	30
HKL*	HKL SP	3.19	3.6	HOLD	7,041	10.2	69	13	9.1	10.4	10.5	9.2	0.22	0.21	0.19	6.9	6.9	7.2	20	18	14
Hysan	14 HK	13.30	18.6	ADD	1,747	53.2	75	40	8.1	8.4	7.6	7.4	0.17	0.17	0.17	10.8	10.8	10.9	22	22	22
Swire Prop	1972 HK	14.92	18.0	HOLD	11,161	39.9	63	21	10.0	7.7	10.8	10.0	0.30	0.30	0.30	6.9	7.1	7.3	8	9	8
Wharf REIC	1997 HK	24.80	30.3	ADD	9,628	60.5	59	22	12.2	12.1	11.0	10.2	0.39	0.39	0.38	5.3	5.8	6.2	19	18	17
Champion REIT	2778 HK	1.82	2.09	REDUCE	1,390	5.46	67	15	8.4	9.4	9.6	9.4	0.23	0.22	0.22	9.5	9.3	9.4	28	26	24
Link REIT	823 HK	38.40	51.5	ADD	12,645	68.8	44	34	14.3	6.4	14.9	14.3	0.52	0.51	0.51	7.1	6.8	7.0	26	26	25
Midland	1200 HK	0.55	0.73	ADD	50	NA	NA	33	NA	NA	14.2	NA	0.60	0.58	0.52	0.0	0.0	0.0	Net cash	Net cash	Net cash
<b>Developers</b>							<b>63</b>	<b>24</b>	<b>43.0</b>	<b>11.0</b>	<b>10.6</b>	<b>9.0</b>	<b>0.31</b>	<b>0.31</b>	<b>0.31</b>	<b>7.0</b>	<b>9.3</b>	<b>7.2</b>	<b>26</b>	<b>26</b>	<b>24</b>
<b>Landlords &amp; REITs</b>							<b>64</b>	<b>27</b>	<b>10.2</b>	<b>9.1</b>	<b>10.4</b>	<b>9.8</b>	<b>0.30</b>	<b>0.30</b>	<b>0.29</b>	<b>7.9</b>	<b>8.0</b>	<b>8.2</b>	<b>22</b>	<b>22</b>	<b>20</b>
<b>Simple average (ex. Midland)</b>							<b>63</b>	<b>25</b>	<b>26.6</b>	<b>10.1</b>	<b>10.5</b>	<b>9.4</b>	<b>0.31</b>	<b>0.31</b>	<b>0.30</b>	<b>7.5</b>	<b>8.6</b>	<b>7.7</b>	<b>24</b>	<b>24</b>	<b>22</b>

Share price data as of 8 February 2024; \* HKL data stated in US\$

SOURCES: CGS-CIMB RESEARCH ESTIMATES, BLOOMBERG, COMPANY REPORTS

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## Summary of key points discussed

### **Intrigued by divergence in residential rent and prices >**

Quite a number of investors were, at first, intrigued by the divergence between residential prices (down 6.8% in 2023, Fig 4) and residential rents (up 6.6% in 2023) in HK. This was, as we had explained in our sector preview published on 13 Jan 2024, due to a combination of 1) dwellers preferring to rent rather than buy flats in view of the high mortgage borrowing rate (4.125% for most of the banks in HK currently, vs. 1.55% in 2021), and 2) inflow of talent arising from various visa schemes, such as the Top Talent Pass Scheme (TTPS) launched in late-2022, who will generally seek out flats for rent when they first arrive in HK. As a result, the residential price-to-rent ratio, based on indexes from Rating and Valuation Department (RVD), dropped to a seven-and-a-half year low at 1.67x as at end-2023 (Fig. 3).

### **Most believe 200bp Fed Funds Rate cuts in 2024-25F likely >**

Investors agree that the cost of carry is a crucial factor that drives residential property prices in HK. Even though their expectations of the pace of US Fed Funds Rate cuts by the Federal Reserve (Fed) in the near term differ, most believe that a total of 200bp cuts over 2024-25F is likely, which will help reduce the interest burden on mortgage financing, that is highly linked to the floating rate HIBOR, for homebuyers in HK and could invigorate property transactions in HK.

### **On talent replenishment >**

While investors acknowledge the urgency for the HKSAR Government (HKSARG) in replenishing talent for various sectors in HK, their concerns lie mostly with the incoming talents' potential difficulty in finding employment – talents' skill sets may not match those that HK most urgently needs at the moment. That said, TTPS allows greater flexibility than other visa schemes administered by the Immigration Department (IMMD), in that holders of TTPS visas need not have found jobs in HK prior to their arrival.

Mr. Chris Sun, HKSARG's Secretary for Labour and Welfare, recently said in a reply to an enquiry from HK's Legislative Councillors that as of end-2023, HKSARG had approved 51,000 TTPS applications and 35,000 approved applicants had already brought 35,000 dependents along to HK.

### **Diverging views of the HK retail outlook >**

Investors were not in agreement on HK's retail outlook in 2024F. While some were positive on the retail sales rebound after HK's borders fully reopened in 1Q23, others cited the city's slower-than-expected recovery which they argued was partly due to outbound consumption of HK residents in mainland China or overseas after border re-opening. Nevertheless, all investors agreed that the continued declines in US 10-year treasury yields will benefit yield plays, such as Link REIT, in terms of share price performance.

Latest figures from HKSARG and HK Tourism Board (HKTb) reveal that in 2023, the city recorded 34m inbound visitor arrivals (57% of 2014-18 annual average) and its retail sales amounted to HK\$407bn (87% of 2014-18 annual average).

### **DPS/DPU cuts a key downside risk for some stocks >**

We think a few property stocks we cover appear to have very high dividend yields for 2023F, provided they are able to maintain their DPS from 2022. Nevertheless, some investors are concerned that should these companies' underlying profits for 2023F decline more than market consensus (due to impairment provisions on property projects and lower-than-expected property sales bookings, for example), they also risk cutting dividends in order to preserve cash and avoid net gearing from rising further. Investors believe that Kerry Prop and Hysan are the most likely property stocks in our universe to cut their DPS for 2023F.

## 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.

## Key sector risks >

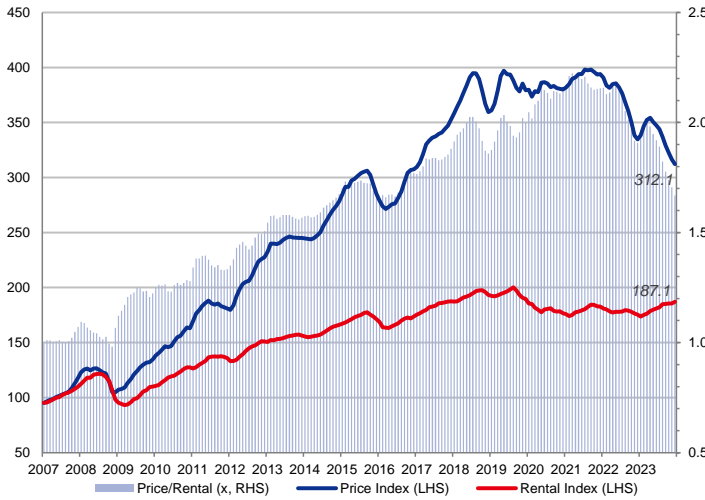
**Key sector upside risks are:**

- 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 flows and lower net gearing.

**Key sector downside risks are:**

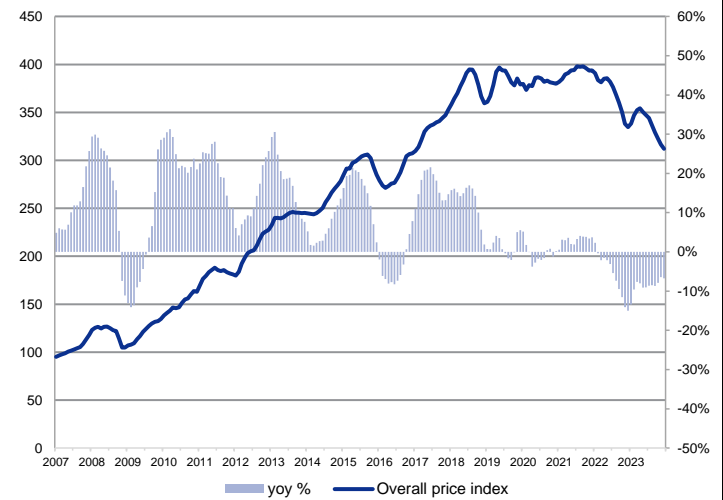
- Further increase in interest rates in the US or HK, which could lead to higher-than-expected interest expenses for highly geared developers and higher cap rates for IP held by these stocks.
- Prolonged low economic growth in HK and China.
- Impairment provisions for property projects.
- Unexpected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

**Figure 3: Residential property prices and rental indexes, up to Dec 2023 (index base = 100 in 1999)**



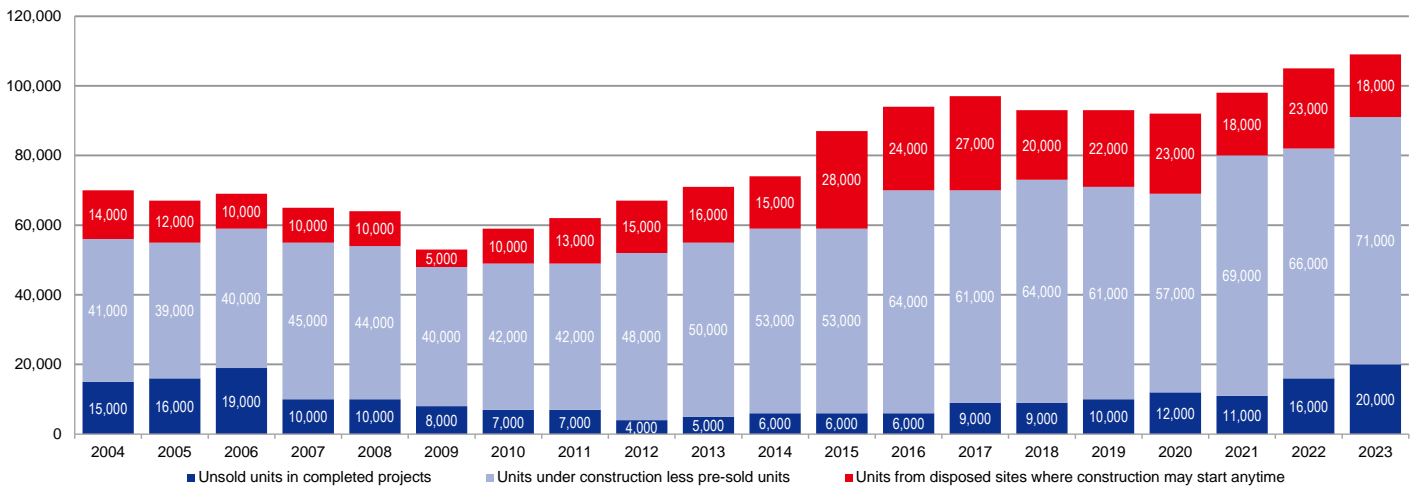
SOURCES: CGS-CIMB RESEARCH, RATING AND VALUATION DEPARTMENT (RVD)

**Figure 4: Residential property price index and yoy change up to Dec 2023 (index base = 100 in 1999)**



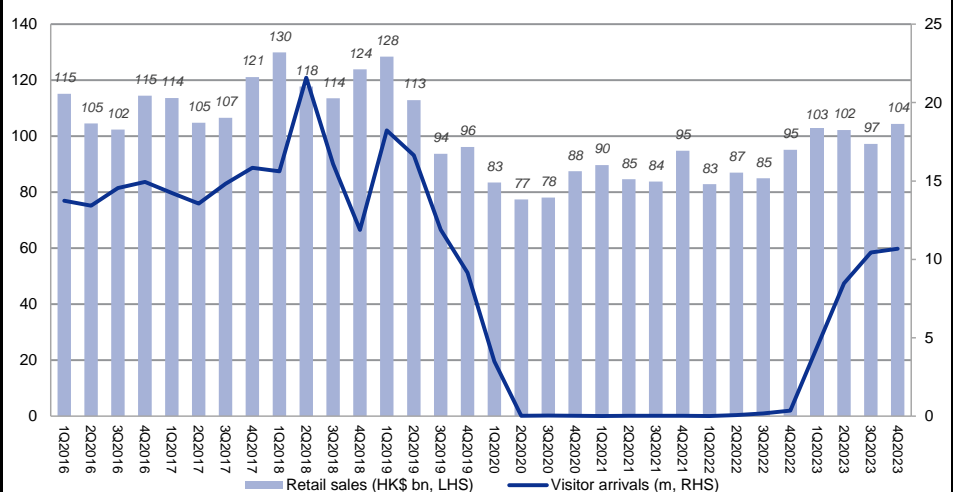
SOURCES: CGS-CIMB RESEARCH, RATING AND VALUATION DEPARTMENT (RVD)

**Figure 5: Year-end private housing units available for sale in the next 3-4 years, projected by the Housing Bureau**



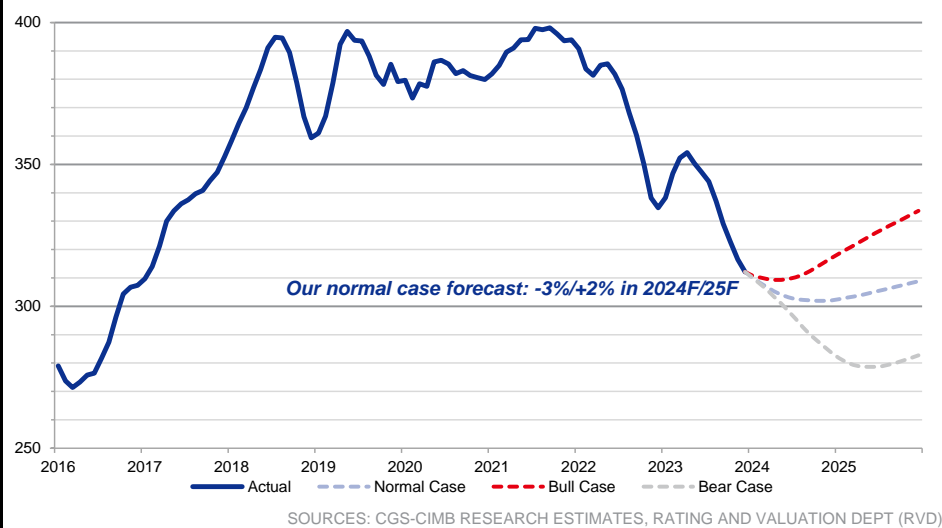
SOURCES: CGS-CIMB RESEARCH, HOUSING BUREAU

**Figure 6: HK's quarterly retail sales and visitor arrivals since 2016 (up to 4Q23)**



SOURCES: CGS-CIMB RESEARCH, CENSUS AND STATISTICS DEPT (C&SD)

**Figure 7: Our forecast of residential property prices over 2024-25F (Index: Rating and Valuation Department Private Residential Price Index)**



**Figure 8: Residential property market-related policies since 2019**

Date	Measures
16-Oct-19	<p><b>HK Mortgage Corporation (HKMC) raises the cap for Mortgage Insurance Plan (MIP)-backed loan to HK\$7.2m and the cap for property value to HK\$10m</b></p> <p>Max. loan-to-value (LTV) ratio after the revision as below:</p> <ul style="list-style-type: none"> <li>80% for property value &gt;HK\$6m and &lt;=HK\$10m (first-time homebuyer not required)</li> <li>80-90% (loan capped at HK\$7.2m) for property value &gt;HK\$8m and &lt;HK\$9m (first-time homebuyer required)</li> <li>90% for property value &gt;HK\$4m and &lt;=HK\$8m (first-time homebuyer required)</li> </ul> <p>MIP is also revised to cover completed flats only.</p>
23-Feb-22	<p><b>HKMC raises the cap for MIP-backed loan to HK\$9.6m and the cap for property value to HK\$19.2m</b></p> <p>Max LTV ratio after the revision as below:</p> <ul style="list-style-type: none"> <li>50-80% (loan capped at HK\$9.6m) for property value &gt;HK\$12m and &lt;=HK\$19.2m (first-time homebuyer not required)</li> <li>80% for property value &gt;HK\$11.25m and &lt;=HK\$12m (first-time homebuyer not required)</li> <li>80-90% (loan capped at HK\$9m) for property value &gt;HK\$10m and &lt;HK\$11.25m (first-time homebuyer required)</li> <li>90% for property value &lt;=HK\$10m (first-time homebuyer required)</li> </ul> <p>MIP's coverage (completed flats only) remains unchanged.</p>
23-Sep-22	<p><b>Relaxation of stress test requirement by HKMA</b></p> <p>The interest rate stress testing requirement is lowered from 300bp to 200bp with immediate effect, and is applicable to mortgage loans for all types of properties.</p>
19-Oct-22	<p><b>Partial refund of stamp duties for non-HKPR homebuyers</b></p> <p>Non-HKPR homebuyers holding employment visas can have their BSD fully refunded and AVD partially refunded (i.e., AVD rate down from 15% to max. 4.25%) after they obtain HKPR status. This is applicable to their first home purchase (S&amp;P agreement signed on or after 19 Oct 2022).</p>
22-Feb-23	<p><b>Reduction of AVD for first-time HKPR buyers</b></p> <p>First-time homebuyers of private residential properties priced HK\$2m-10.08m are eligible for HK\$5k-67.5k lower AVD.</p>
6-Jul-23	<p><b>HKMA relaxes bank mortgage financing policies and loan-to-value (LTV) cap for MIP loans for higher priced flats</b></p> <ul style="list-style-type: none"> <li>(i) For residential mortgage loans (RML) granted by banks in HK without a mortgage insurance plan (MIP) from 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.</li> <li>(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).</li> <li>(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).</li> <li>(iv) LTV ratios for non-residential properties are raised from 50% to 60%.</li> </ul>
25-Oct-23	<p><b>Revised stamp duty measures to invigorate property transactions in HK</b></p> <p>Buyer stamp duty (BSD) rate for non-HKPR buyers and second-home purchases is reduced from 15% to 7.5%.</p> <p>Special Stamp Duty (SSD) for a holding period between two and three years upon disposal is waived.</p> <p>Extra AVD and BSD for non-HKPR visa holders who are first-time homebuyers are 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 the permanent residency (PR) status in HK.</p>

SOURCES: CGS-CIMB RESEARCH, HOUSING BUREAU, HKMA

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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%

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### 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.*

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

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