

COMPANY UPDATE

LINK REIT (823 HK)

Acquiring Remaining 50% Stake In Qibao Vanke Plaza At Bargain Price

LINK REIT announced the acquisition of a 50% stake in Qibao Plaza from Vanke on 9 Feb 24. The agreed property value is 24% lower than the latest market valuation and implies an NPI yield of over 6.5%. We estimate an 0.74% accretion to FY25 DPU. Higher gearing and allocation to mainland China are justified by good valuation. Maintain BUY. Target price: HK\$50.70.

WHAT'S NEW

- LINK REIT announced the acquisition of the remaining 50% stake in Qibao Vanke Plaza on 9 Feb 24. Management hosted a conference call regarding the acquisition.

ESSENTIALS

- A bargain deal funded mainly with offshore HK\$.** Link REIT announced the acquisition of the remaining 50% stake in Shanghai Qibao Vanke Plaza. The agreed property value at acquisition is Rmb5.2b, which: a) is 24% lower than the latest market valuation; and b) implies an NPI yield of over 6.5%. As a comparison, when LINK REIT acquired the first 50% stake of Qibao Vanke Plaza in Feb 21, the NPI yield was around 4.5%. Considering that: a) the property's operation has improved during 2021-23; and b) China's interest rate is declining, we think the latest acquisition is a bargain deal. However, it is noteworthy that the acquisition will mainly be funded with offshore HK\$.
- Qibao Vanke Plaza is a high-quality asset in mainland China** with: a) occupancy rate at 94.5% as of Jan 24; b) rental reversion at 11.2% in 2023, c) occupancy cost below 20% and improving; d) revenue and net profit of the property increasing by 16.9%/54.3% respectively during 2021-23; e) no need for major asset enhancement initiative; and f) LINK REIT's management expecting high single digit rental reversion in the future, which will drive 2-3% NPI growth.

KEY INFORMATION OF QIBAO VANKE PLAZA

(Rmbm)	Revenue	Net profit	Occupancy rate	Date of acquisition	Market valuation	Agreed property value at acquisition
2021	430.0	106.9	97.8%	Feb 2021^	6580.0	6400.0
2023	502.5	164.9	94.5%	Feb 2024	7060.0	5200.0

Source: LINK REIT, UOB Kay Hian. ^ LINK REIT acquired the first 50% stake in Feb 2021

STOCK IMPACT

- Impact on LINK REIT.** Considering the NPI yield at acquisition (>6.5%) is higher than onshore funding cost of 4%, we expect the deal will increase FY25 DPU by 0.74%. The deal also leads to higher pro-forma net gearing of 20.4% (vs 18.0% before) and higher allocation to mainland China of 14.4% (vs 13.3% before). Management guided to cap allocation to mainland China at +/-15%. Lastly, a sell-down adjustment was applied, that If LINK REIT sells all or part of the interests in Qibao Vanke Plaza within 12 months post the completion date of the deal, Vanke will share part of the profit above Rmb5.2b.

KEY FINANCIALS

Year to 31 Mar (HK\$m)	2022	2023	2024F	2025F	2026F
Net turnover	11,602	12,234	13,225	13,975	14,737
EBITDA	8,348	8,634	9,287	9,814	10,349
Operating profit	8,264	8,545	9,191	9,713	10,242
Net profit (rep./act.)	6,894	15,451	6,582	7,096	7,710
Net profit (adj.)	6,479	6,134	6,582	7,096	7,710
EPU (HK\$ cent)	307.0	240.2	254.8	271.5	291.8
DPU (HK\$ cent)	305.7	274.3	254.8	271.5	291.8
PE (x)	12.5	15.9	15.0	14.1	13.1
P/B (x)	0.5	0.5	0.5	0.5	0.6
DPU Yld (%)	8.0	7.2	6.7	7.1	7.6
Net margin (%)	59.4	126.3	49.8	50.8	52.3
Net debt/(cash) to equity (%)	28.9	27.0	28.5	28.6	28.6
Interest cover (x)	9.2	5.2	5.2	5.8	6.9
ROE (%)	4.3	8.8	3.6	4.0	4.3
Consensus DPU (HK\$ cent)	n.a.	n.a.	258.1	270.8	286.5
UOBKH/Consensus (x)	-	-	1.02	1.02	1.02

Source: LINK REIT, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK\$38.30
Target Price	HK\$50.70
Upside	+32.4%

COMPANY DESCRIPTION

Link REIT is the first REIT in Hong Kong and currently the largest in Asia in terms of market capitalisation. Spanning Hong Kong, Beijing, Shanghai, Shenzhen, Guangzhou, Sydney and London, its portfolio comprises mostly retail and office properties.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	823 HK
Shares issued (m):	2,561.9
Market cap (HK\$m):	98,630.68
Market cap (US\$m):	12,726.54
3-mth avg daily t'over (US\$m):	42.8

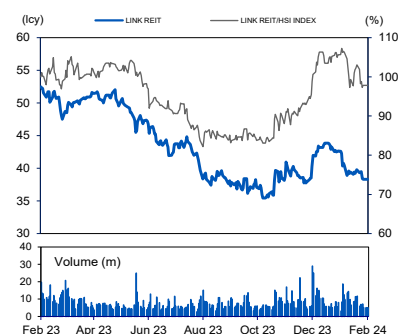
Price Performance (%)

52-week high/low	HK\$53.74/HK\$34.90			
1mth	3mth	6mth	1yr	YTD
(10.2)	(1.2)	(0.1)	(27.0)	(12.7)

Major Shareholders

	%
-	-
-	-
-	-
FY24 NAV/Share (HK\$)	69.25
FY24 Net Debt/Share (HK\$)	19.74

PRICE CHART



Source: Bloomberg

ANALYST(S)

Liu Jieqi
+852 2826 1392
jieqi.liu@uobkayhian.com.hk

Damon Shen
+86 21 54047225 ext.820
damon.shen@uobkayhian.com

EARNINGS REVISION/RISK

- We keep our DPU forecast unchanged.

VALUATION/RECOMMENDATION

- **Maintain BUY with an unchanged target price of HK\$50.70** that implies 5.0% FY24 dividend yield. Link REIT is currently trading at 6.7% FY24 dividend yield. For the latest acquisition, the higher gearing and higher allocation to mainland China should be justified by reasonable valuation and DPU accretion. However, we think the market still hopes to see a more diversified portfolio of LINK REIT. Thus, we expect the market to pay closer attention to LINK REIT's asset acquisitions. Nevertheless, in 2024, we reiterate our view that early signals of interest rate cuts will be a positive catalyst for LINK REIT.

PROFIT & LOSS

Year to 31 Mar (HK\$m)	2023	2024F	2025F	2026F
Net turnover	12,234.0	13,224.6	13,975.1	14,737.4
EBITDA	8,633.6	9,286.8	9,813.9	10,349.2
Deprec. & amort.	88.6	95.7	101.2	106.7
EBIT	8,545.0	9,191.1	9,712.7	10,242.5
Total other non-operating income	9,317.0	0.0	0.0	0.0
Associate contributions	85.0	150.0	150.0	150.0
Net interest income/(expense)	(1,648.0)	(1,774.8)	(1,680.7)	(1,471.4)
Pre-tax profit	16,299.0	7,566.2	8,181.9	8,921.1
Tax	(1,006.0)	(1,134.9)	(1,227.3)	(1,338.2)
Minorities	158.0	150.0	150.0	150.0
Net profit	15,451.0	6,581.3	7,104.6	7,732.9

CASH FLOW

Year to 31 Mar (HK\$m)	2023	2024F	2025F	2026F
Operating	7,934.6	9,200.4	9,024.9	9,459.1
Pre-tax profit	16,299.0	7,566.2	8,181.9	8,921.1
Tax	(1,006.0)	(1,134.9)	(1,227.3)	(1,338.2)
Deprec. & amort.	88.6	95.7	101.2	106.7
Associates	n.a.	n.a.	n.a.	n.a.
Working capital changes	156.0	806.6	209.3	212.6
Non-cash items	(9,251.0)	92.0	79.0	85.5
Other operating cashflows	1,648.0	1,774.8	1,680.7	1,471.4
Investing	(923.5)	(674.8)	(765.3)	(679.6)
Capex (growth)	(29.5)	(31.9)	(33.7)	(35.6)
Investments	(1,000.0)	(1,000.0)	(1,000.0)	(1,000.0)
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	106.0	357.1	268.5	356.0
Financing	4,197.0	(12,586.3)	(8,802.5)	(9,258.5)
Distribution to unitholders	(6,360.0)	(6,454.3)	(6,853.3)	(7,431.2)
Issue of shares	12,049.0	0.0	0.0	0.0
Proceeds from borrowings	262.0	(4,000.0)	0.0	0.0
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	(1,754.0)	(2,132.0)	(1,949.2)	(1,827.4)
Net cash inflow (outflow)	11,208.1	(4,060.7)	(542.8)	(479.0)

BALANCE SHEET

Year to 31 Mar (HK\$m)	2023	2024F	2025F	2026F
Fixed assets	1,463.0	1,125.1	1,057.7	986.5
Other LT assets	246,622.0	237,642.3	239,642.3	241,642.3
Cash/ST investment	13,987.0	9,926.4	9,383.5	8,904.5
Other current assets	5,847.0	5,141.6	5,231.1	5,322.0
Total assets	267,919.0	253,835.4	255,314.6	256,855.4
ST debt	4,133.0	4,133.0	4,133.0	4,133.0
Other current liabilities	5,618.0	5,719.1	6,018.0	6,321.5
LT debt	60,780.0	56,780.0	56,780.0	56,780.0
Other LT liabilities	8,213.0	8,213.0	8,213.0	8,213.0
Shareholders' equity	188,940.0	178,905.2	180,235.6	181,622.9
Minority interest	120.0	(30.0)	(180.0)	(330.0)
Total liabilities & equity	267,919.0	253,835.4	255,314.6	256,855.4

KEY METRICS

Year to 31 Mar (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	70.6	70.2	70.2	70.2
Pre-tax margin	133.2	57.2	58.5	60.5
Net margin	126.3	49.8	50.8	52.5
ROA	6.3	2.5	2.8	3.0
ROE	8.8	3.6	4.0	4.3
Growth				
Turnover	5.4	8.1	5.7	5.5
EBITDA	3.4	7.6	5.7	5.5
Pre-tax profit	100.3	(53.6)	8.1	9.0
Net profit	124.1	(57.4)	8.0	8.8
Net profit (adj.)	(5.3)	7.3	8.0	8.8
EPU	(21.8)	6.1	6.7	7.6
Leverage				
Debt to total capital	25.6	25.4	25.3	25.1
Debt to equity	34.4	34.0	33.8	33.5
Net debt/(cash) to equity	27.0	28.5	28.6	28.6
Interest cover (x)	5.2	5.2	5.8	7.0