

Hong Kong

Neutral (no change)

Highlighted Companies

CK Asset Holdings Limited
ADD, TP HK\$48.80, HK\$36.65 close

CK Asset Holdings's 1.4% net gearing at end-Jun 2023 gives it ample room to take on more debt to replenish its landbank and undertake M&As at low cost, as well as enable flexible capital management activities, such as share buybacks, in our view.

Sino Land Co Ltd
ADD, TP HK\$9.50, HK\$8.47 close

Sino Land's net cash position of HK\$43bn as at end-2023 serves as a strong war chest for land acquisitions at attractive prices, in our view.

Sun Hung Kai Properties Ltd
ADD, TP HK\$97.70, HK\$78.00 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 set a contracted sales target of HK\$33bn for HK DP in FY6/24F, supported by its abundant saleable resources.

Summary Valuation Metrics

P/E (x)	Dec-23F	Dec-24F	Dec-25F
CK Asset Holdings Limited	6.96	7.40	5.28
Sino Land Co Ltd	12.30	13.23	11.62
Sun Hung Kai Properties Ltd	9.65	9.55	9.18
P/BV (x)	Dec-23F	Dec-24F	Dec-25F
CK Asset Holdings Limited	0.34	0.33	0.32
Sino Land Co Ltd	0.44	0.45	0.45
Sun Hung Kai Properties Ltd	0.37	0.37	0.36
Dividend Yield	Dec-23F	Dec-24F	Dec-25F
CK Asset Holdings Limited	6.22%	6.22%	6.49%
Sino Land Co Ltd	6.84%	6.92%	7.03%
Sun Hung Kai Properties Ltd	5.67%	5.16%	5.40%

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Property - Overall

Home prices could register growth in 2024F

- HK government made a surprise move of lifting all harsh measures on the residential market; this could improve sentiment and transactions near term.
- The latest measures will substantially reduce transaction cost of residential property purchases for non-locals, corporates and local second-home buyers.
- We revise up our growth estimates for 2024F to 20% for primary transaction volumes (previously: 15%) and 0-3% for home prices (previously: -3%).
- We turn more optimistic on the residential sector. Our top-picks: SHKP, CK Assets and Sino Land. For beta names, we recommend NWD and HLD.

Harsh measures fully scrapped – a positive surprise

In his HK Budget speech yesterday (28 Feb) HK Financial Secretary Paul Chan surprised the market by announcing the scrapping of all the demand-side management measures (so-called "Harsh measures" relevant to residential properties, i.e., no more new residential stamp duty (NRSD), buyer stamp duty (BSD) and special stamp duty (SSD) for residential property transactions for non-HK permanent residents (HKPR) buyers, corporates and second-home HKPR buyers. Meanwhile, HK Monetary Authority (HKMA) also announced the removal of the stress test requirement for mortgage applicants. These moves exceeded our expectation of a partial relaxation of the harsh measures, and we believe will help improve the homebuyer sentiment markedly in the remainder of the year and help lift property transaction volume as a result.

How much can homebuyers save?

With the removal of the harsh measures, non-HKPR and corporate buyers can save almost 15% of the property price in taxes (based on the transaction price). HKPR second-home buyers will also see taxes reduced to as low as HK\$100 (for property value <HK\$3m) from HK\$225k previously (7.5% tax on property value).

We expect to see transaction volume rebounding near term

We expect these measures to drive a transaction volume recovery and ease price pressure on primary and secondary markets in the next 6-9 months. As we anticipate US rate cuts in 2H24F, we think HK home prices could see positive growth in 2H24F. Specifically, we now expect HK residential property transaction volume to increase 20% in 2024F (15% previously) while home prices stay flat or grow a low single-digit (-3% previously).

Who are the key beneficiaries?

We assess that property agents Midland will benefit the most as we expect to see a transaction volume rebound in near term. We think developers with sufficient inventories will stand to benefit too; these names include SHKP and HLD.

We reiterate our optimistic view on the residential segment

While many investors are concerned that the scrapping of these measures mean that the government is now less decisive in solving the current residential property market woes, we think it shows the government's proactive attitude and prompt action to avoid further deterioration of the sector. We maintain sector Neutral but are optimistic on the residential segment. SHKP, CK Asset and Sino Land are our preferred strong balance sheet names. For high beta names, we recommend NWD and HLD. Key upside risks include stronger-than-expected transaction volume and higher-than-expected home prices. Lacklustre property sales are a key downside risk.

Figure 1: HK government scraps all harsh measures

Category	Original Measure	New Measure
Bank mortgage financing stress test	200bp above the mortgage rates approved by banks	Cancelled with immediate effect
New Residential Stamp Duty (NRSD)	7.5% for corporations, non-HKPR and HKPR who are not first-time buyers	Cancelled with immediate effect
Buyer Stamp Duty (BSD)	7.5% for corporations and non-HKPR	Cancelled with immediate effect
Special Stamp Duty (SSD)	10-20% for holding period less than 24 months	Cancelled with immediate effect

SOURCES: CGSI RESEARCH, HONG KONG MONETARY AUTHORITY (HKMA)

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	36.65	48.8	ADD	16,616	97.6	62	33	5.9	6.9	7.4	5.3	0.34	0.33	0.32	6.2	6.2	6.5	Net cash	Net cash	Net cash
HLD	12 HK	23.05	25.1	ADD	14,257	45.6	49	9	11.6	11.1	10.5	10.4	0.34	0.34	0.33	7.8	7.8	7.8	40	40	37
Kerry Prop	683 HK	12.90	15.6	ADD	2,392	51.9	75	21	4.1	6.4	6.3	5.2	0.17	0.17	0.17	10.5	10.5	10.5	38	43	40
NWD	17 HK	10.08	13.7	ADD	3,241	45.7	78	36	5.4	14.3	12.7	7.6	0.13	0.14	0.14	7.5	23.3	8.5	50	48	48
SHKP	16 HK	78.00	97.7	ADD	28,877	177.7	56	25	7.9	9.5	9.8	9.3	0.38	0.37	0.36	6.3	5.0	5.3	18	18	15
Sino	83 HK	8.47	9.5	ADD	9,232	19.0	55	12	11.1	11.9	13.3	13.3	0.43	0.45	0.45	6.8	6.8	7.0	Net cash	Net cash	Net cash
Wharf Holdings	4 HK	28.10	21.6	HOLD	10,971	48.0	41	(23)	283.4	22.4	19.6	17.8	0.57	0.55	0.53	1.4	1.5	1.7	11	10	6
HLP	101 HK	8.46	12.6	ADD	4,863	27.9	70	49	9.1	9.2	8.0	7.8	0.29	0.28	0.28	9.2	9.2	9.2	32	33	30
HKL*	HKL SP	3.28	3.6	HOLD	7,240	10.2	68	10	9.3	10.7	10.8	9.5	0.22	0.21	0.20	6.7	6.7	7.0	20	18	14
Hysan	14 HK	12.96	14.9	ADD	1,700	49.8	74	15	7.9	7.1	8.6	8.4	0.17	0.17	0.17	8.3	8.3	8.6	26	26	25
Swire Prop	1972 HK	16.06	18.0	HOLD	12,003	39.9	60	12	10.8	8.2	11.6	10.8	0.32	0.32	0.32	6.4	6.6	6.8	8	9	8
Wharf REIC	1997 HK	26.00	30.3	ADD	10,086	60.5	57	17	12.8	12.7	11.5	10.7	0.41	0.40	0.40	5.0	5.5	5.9	19	18	17
Champion REIT	2778 HK	1.62	1.84	REDUCE	1,236	5.02	68	14	7.5	8.6	9.7	9.8	0.21	0.21	0.20	10.4	9.2	9.1	29	27	25
Link REIT	823 HK	39.00	51.5	ADD	12,818	68.8	43	32	14.6	6.5	15.1	14.5	0.53	0.52	0.52	7.0	6.7	6.9	26	26	25
Midland	1200 HK	0.87	0.73	ADD	80	NA	NA	(16)	NA	NA	22.5	8.1	0.95	0.91	0.82	0.0	0.0	0.0	Net cash	Net cash	Net cash
Developers							60	16	47.1	11.8	11.4	9.8	0.34	0.33	0.33	6.7	8.7	6.7	26	27	24
Landlords & REITs							63	21	10.3	9.0	10.8	10.2	0.31	0.30	0.30	7.6	7.5	7.6	23	22	21
Simple average (ex. Midland)							61	19	28.7	10.4	11.1	10.0	0.32	0.32	0.31	7.1	8.1	7.2	24	24	22
Share price data as of 28 February 2024; * HKL data stated in US\$																					
SOURCES: CGSI RESEARCH ESTIMATES, BLOOMBERG, COMPANY REPORTS																					

Summary of new measures

Property financing by banks in HK ➤

Effective 28 Feb 2024, applicable to provisional sales and purchase (S&P) agreements signed on 28 Feb 2024 or after,

- For self-use residential properties, the loan-to-value (LTV) ratio for flats valued at HK\$30m or below is raised to 70%, and the LTV ratio raised to 60% for flats valued at HK\$35m or above.
- LTV ratio for non-residential properties is raised from 60% to 70%.
- In relation to net worth-based mortgage loan assessment, for both residential and non-residential properties, the LTV ratio is raised from 50% to 60%.
- Interest rate stress testing requirements are scrapped. Previously, 200bp was applied to the mortgage finance rate to assess the borrowers' debt servicing ability.
- For property developers, the overall financing cap is raised from 50% of the expected value of completed properties to 60%, within which 1) the financing cap for the value of the property site is raised from 40% to 50% and 2) the financing cap for the construction cost is raised from 80% to 100%. In other words, developers can now borrow up to 50% of their land cost and 100% of construction cost – back to the pre-2017 levels as quoted by HKMA.

Figure 3: Loan-to-value (LTV) ratio caps for residential mortgage loans (RML) from HK banks, effective 28 Feb 2024

Property value	Owner-occupied: self-use without MIP		Non-self-use	
	Before	After	Before	After
Not higher than HK\$15m	70%	70%	50%	60%
Above HK\$15m and up to HK\$17.5m	60%	70%	50%	60%
Above HK\$17.5m and up to HK\$30m	60%	70%	50%	60%
Above HK\$30m and up to HK\$35m	50-60%	60-70%	50%	60%
Above HK\$35m and up to HK\$36m	50-60%	60%	50%	60%
Above HK\$36m	50%	60%	50%	60%

MIP = Mortgage Insurance Plan administered by HK Mortgage Corporation (HKMC)
The ratios above refer to debt servicing ratio (DSR)-based lending where borrowers have no other outstanding mortgages
SOURCES: CGSI RESEARCH, HK MONETARY AUTHORITY (HKMA), HKMC

Stamp duties for residential property transactions ➤

With the scrapping of the extra stamp duties, HK permanent residents (HKPR), non-HKPR and corporations alike are to pay only up to 4.25% of the property value as Ad Valorem Stamp Duty (AVD) for a property transaction, irrespective of how many residential units they are holding at the time of such a property transaction. Previously, HKPR buying second homes, non-HKPR and corporations had to pay up to 7.5-15% of the property value as extra stamp duties.

Figure 4: Extra stamp duties for residential property transactions

Category	Existing Measure	New Measure
New Residential Stamp Duty (NRSD) / Ad Valorem Stamp Duty (AVD)	7.5% for corporations, non-HKPR and HKPR who are not first-time buyers	Cancelled with immediate effect
Buyer Stamp Duty (BSD)	7.5% for corporations and non-HKPR	Cancelled with immediate effect
Special Stamp Duty (SSD)	10-20% for holding period less than 24 months	Cancelled with immediate effect

SOURCES: CGSI RESEARCH, INLAND REVENUE DEPARTMENT (IRD) OF HKSAR GOVT

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Description:	Excellent	Very Good	Good	N/A	N/A

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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%

Recommendation Framework

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.

Sector Ratings

Definition:

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

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.