

Hong Kong

**Neutral** (no change)

**Highlighted Companies**

**CK Asset Holdings Limited**  
ADD, TP HK\$48.80, HK\$36.00 close

CK Asset Holdings's 1.4% net gearing at end-Jun 2023 should help it replenish its land bank and undertake M&A at low cost amid a 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\$38.60 close

Link REIT is a direct beneficiary of the declining US 10-year Treasury yield, as well as being a mass-market-focused HK retail play in 2024F. Its 6.7% FY3/24F DPU yield is attractive, in our view.

**Sun Hung Kai Properties Ltd**  
ADD, TP HK\$101.1, HK\$73.0 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	6.83	7.27	5.19
Link REIT	10.43	14.38	13.72
Sun Hung Kai Properties Ltd	8.71	8.25	7.94

P/BV (x)	Dec-23F	Dec-24F	Dec-25F
CK Asset Holdings Limited	0.33	0.33	0.31
Link REIT	0.52	0.51	0.51
Sun Hung Kai Properties Ltd	0.35	0.34	0.33

Dividend Yield	Dec-23F	Dec-24F	Dec-25F
CK Asset Holdings Limited	6.33%	6.33%	6.61%
Link REIT	6.81%	6.95%	7.29%
Sun Hung Kai Properties Ltd	6.30%	6.05%	6.29%

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# Property - Overall

## Low investor expectations for upcoming results

- We expect seven of the 12 property companies we cover to post yoy declines in underlying profits in the upcoming release of their annual or interim results.
- We expect most companies to maintain their DPS unchanged, but a few are likely to see rather stretched dividend payout ratios.
- Current valuations (57% discount to NAV) are among the lowest since 1991, in our view, implying low investor expectations for the sector's profit outlook.

### Expect yoy declines in underlying profit for seven companies

Most of the HK property stocks we cover are set to announce their annual or interim results within the next six weeks. Please refer to Figs. 3 and 4 for a summary of our underlying profit estimates for these companies. We expect seven of the 12 companies to report yoy declines in underlying profit on the back of yoy surges in interest expenses (e.g. higher HIBOR) and lower profit margins from sales of development properties (DP). On the other hand, we expect 1) Wharf HL to report a significant jump in underlying profit in FY23F on the back of a yoy decline in impairment provisions; and 2) Swire Prop to report a 31% yoy increase in underlying profit in FY23F following the disposal of several floors of One Island East (OIE) office tower to Securities and Futures Commission (SFC) and the disposal of car parking spaces at Taikoo Shing.

### Most companies likely to maintain their dividends, with risks

We expect nine of the 12 companies to maintain or raise their DPS. Having said that, a few of these companies appear to have rather stretched dividend payout ratios (>70%), in our view, and as such, there could be a risk of dividend cuts should their underlying profits miss Bloomberg consensus or should they tighten their payout ratios in a bid to conserve cash. On the other hand, we believe the market has already priced in a not-more-than-20% yoy decline in DPS/DPU for SHKP, NWD and Champion REIT.

### Impairment provision risks should not be ignored

Impairment provisions should not be ignored by investors, in our view. Wharf HL and HKL have made, or will make, impairment provisions in FY23F for their DP projects in China. In general, we believe companies with significant exposure to China DP or the Kai Tai new area for HK DP face a higher risk of impairment provisions in FY23F, in particular for the land parcels acquired in 2018-21 when land costs in HK and China peaked – this is one of the key downside risks to their FY23F underlying profits, in our view.

### Valuations imply very low investor profit outlook expectations

HK property trades at a 57% discount (market-cap-weighted) to one-year forward NAV (2 s.d. below 10-year average), one of the lowest levels since 1991 (Fig. 5), reflecting investors' low expectations for the sector's profit outlook. Reiterate sector Neutral rating; key sector top picks: SHKP, CK Asset, Link. Key sector downside risks: low project sell-through rates and unexpected DPS/DPU cuts. Successful disposals of non-core assets are key upside risks for the sector.

**Figure 1: Risks of DPS cuts and impairment provisions for HK property**

Company	Bberg Ticker	Risk for DPS/DPU cut? (Low/Medium/High)	Risk for DP impairment provisions? (Low/Medium/High)
CK Asset	1113 HK	Low	Low
HLD	12 HK	Medium	Medium
Kerry	683 HK	Medium	Medium
Wharf HL	4 HK	Low	High
Wharf REIC	1997 HK	Medium	Low
Swire Prop	1972 HK	Low	Low
HKL^	HKL SP	Low	High
Hysan	14 HK	Medium	Low
Champion REIT	2778 HK	High	Low
SHKP	16 HK	High	Low
NWD	17 HK	High	Medium
Sino Land	83 HK	Low	Low

SOURCES: CGSI RESEARCH ESTIMATES, COMPANY REPORTS

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	36.00	48.8	ADD	16,337	97.6	63	36	5.8	6.8	7.3	5.2	0.33	0.33	0.31	6.3	6.3	6.6	Net cash	Net cash	Net cash
HLD	12 HK	21.50	25.1	ADD	13,311	45.6	53	17	10.8	10.3	9.8	9.7	0.32	0.31	0.31	8.4	8.4	8.4	40	40	37
Kerry Prop	683 HK	13.08	15.6	ADD	2,428	51.9	75	19	4.2	6.4	6.4	5.3	0.17	0.17	0.17	10.3	10.3	10.3	38	43	40
NWD	17 HK	9.62	13.7	ADD	3,096	45.7	79	42	5.1	13.7	12.1	7.2	0.12	0.14	0.13	7.9	24.4	8.9	50	48	48
SHKP	16 HK	73.00	101.1	ADD	27,051	183.8	60	38	7.4	8.9	8.6	8.0	0.35	0.35	0.34	6.8	5.8	6.2	18	16	12
Sino	83 HK	8.10	9.5	ADD	8,837	19.0	57	17	10.6	11.4	13.3	12.3	0.41	0.43	0.43	7.2	7.2	7.3	Net cash	Net cash	Net cash
Wharf Holdings	4 HK	26.30	21.6	HOLD	10,278	48.0	45	(18)	265.3	21.0	18.3	16.7	0.54	0.51	0.50	1.5	1.6	1.8	11	10	6
HLP	101 HK	8.42	12.6	ADD	4,845	27.9	70	50	9.0	9.2	8.0	7.8	0.29	0.28	0.28	9.3	9.3	9.3	32	33	30
HKL*	HKL SP	3.18	3.6	HOLD	7,019	10.2	69	13	9.0	10.4	10.5	9.2	0.22	0.21	0.19	6.9	6.9	7.2	20	18	14
Hysan	14 HK	13.74	18.6	ADD	1,805	53.2	74	35	8.4	8.7	7.9	7.6	0.17	0.17	0.17	10.5	10.5	10.6	22	22	22
Swire Prop	1972 HK	15.34	18.0	HOLD	11,476	39.9	62	17	10.3	7.9	11.1	10.3	0.31	0.31	0.31	6.7	6.9	7.1	8	9	8
Wharf REIC	1997 HK	25.60	30.3	ADD	9,940	60.5	58	18	12.6	12.5	11.3	10.6	0.40	0.40	0.39	5.1	5.6	6.0	19	18	17
Champion REIT	2778 HK	1.76	2.09	REDUCE	1,344	5.46	68	19	8.1	9.1	9.2	9.1	0.22	0.22	0.22	9.9	9.6	9.7	28	26	24
Link REIT	823 HK	38.60	51.5	ADD	12,712	68.8	44	33	14.4	6.4	15.0	14.4	0.52	0.52	0.51	7.1	6.7	7.0	26	26	25
Midland	1200 HK	0.65	0.73	ADD	60	NA	NA	12	NA	NA	16.8	6.0	0.71	0.68	0.61	0.0	0.0	0.0	Net cash	Net cash	Net cash
<b>Developers</b>							<b>62</b>	<b>22</b>	<b>44.2</b>	<b>11.2</b>	<b>10.8</b>	<b>9.2</b>	<b>0.32</b>	<b>0.32</b>	<b>0.31</b>	<b>6.9</b>	<b>9.2</b>	<b>7.1</b>	<b>26</b>	<b>26</b>	<b>24</b>
<b>Landlords &amp; REITs</b>							<b>63</b>	<b>27</b>	<b>10.3</b>	<b>9.2</b>	<b>10.4</b>	<b>9.9</b>	<b>0.30</b>	<b>0.30</b>	<b>0.30</b>	<b>7.9</b>	<b>7.9</b>	<b>8.1</b>	<b>22</b>	<b>22</b>	<b>20</b>
<b>Simple average (ex. Midland)</b>							<b>63</b>	<b>24</b>	<b>27.2</b>	<b>10.2</b>	<b>10.6</b>	<b>9.5</b>	<b>0.31</b>	<b>0.31</b>	<b>0.30</b>	<b>7.4</b>	<b>8.5</b>	<b>7.6</b>	<b>24</b>	<b>24</b>	<b>22</b>

Share price data as of 16 February 2024; \* HKL data stated in US\$

SOURCES: CGSI RESEARCH ESTIMATES, BLOOMBERG, COMPANY REPORTS

**Figure 3: Results preview of property companies that will release annual results in Feb-Mar 24**

Company	Bberg Ticker	*Underlying profit (HK\$ m)			DPS/DPU (HK\$)			Risk for DPS/DPU cut? (Low/Medium/High)	Risk for DP impairment provisions? (Low/Medium/High)
		FY22	FY23F	yoy %	FY22	FY23F	yoy %		
CK Asset	1113 HK	21,894	18,775	-14.2%	2.28	2.28	0.0%	Low	Low
HLD	12 HK	9,629	10,094	4.8%	1.80	1.80	0.0%	Medium	Medium
Kerry	683 HK	4,520	2,948	-34.8%	1.35	1.35	0.0%	Medium	Medium
Wharf HL	4 HK	303	3,832	1164.7%	0.40	0.40	0.0%	Low	High
Wharf REIC	1997 HK	6,175	6,215	0.6%	1.31	1.31	0.0%	Medium	Low
Swire Prop	1972 HK	8,706	11,392	30.9%	1.00	1.03	3.0%	Low	Low
HKL <sup>^</sup>	HKL SP	776	674	-13.1%	0.22	0.22	0.0%	Low	High
Hysan	14 HK	1,679	1,629	-3.0%	1.44	1.44	0.0%	Medium	Low
Champion REIT	2778 HK	1,168	1,042	-10.8%	0.20	0.17	-11.2%	High	Low

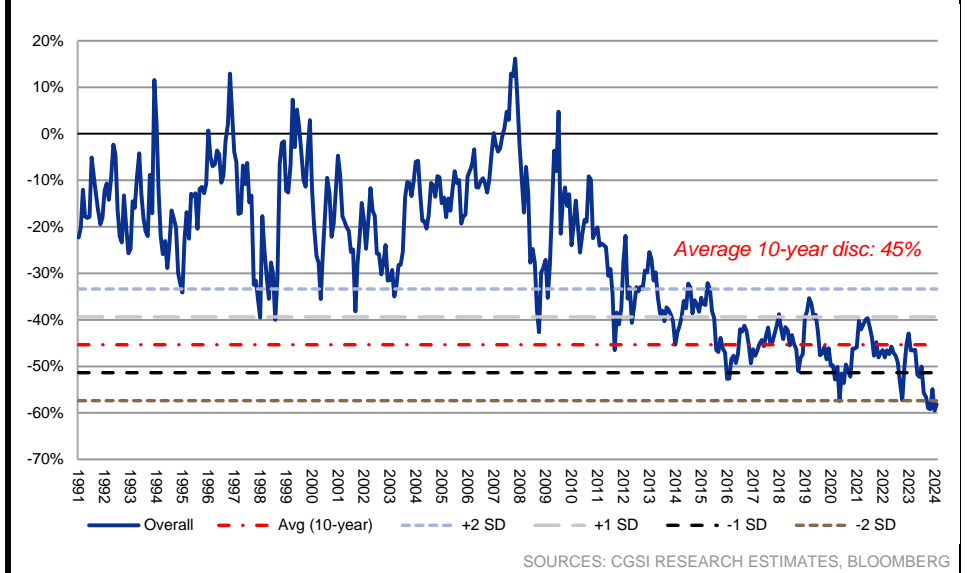
\*After MI and perpetual capital securities (PCS) distribution; Distributable income (DI) for Champion REIT  
<sup>^</sup>HKL in US\$  
SOURCES: CGSI RESEARCH ESTIMATES, COMPANY REPORTS

**Figure 4: Results preview of property companies that will release interim results in Feb-Mar 24**

Company	Bberg Ticker	*Underlying profit (HK\$ m)			DPS/DPU (HK\$)			Risk for DPS/DPU cut? (Low/Medium/High)	Risk for DP impairment provisions? (Low/Medium/High)
		1H23	1H24F	yoy %	1H23	1H24F	yoy %		
SHKP	16 HK	9,465	9,893	4.5%	1.25	1.07	-14.4%	High	Low
NWD	17 HK	2,095	1,200	-42.7%	0.46	0.38	-17.4%	High	Medium
Sino Land	83 HK	2,802	2,608	-6.9%	0.15	0.15	0.0%	Low	Low

\*After MI and perpetual capital securities (PCS) distribution; Distributable income (DI) for Champion REIT  
<sup>^</sup>HKL in US\$  
SOURCES: CGSI RESEARCH ESTIMATES, COMPANY REPORTS

**Figure 5: HK property's discount to NAV since 1991**



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<b>Score Range:</b>	90 - 100	80 – 89	70 - 79	Below 70	No Survey Result
<b>Description:</b>	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.