

DBS Group Research . Equity

28 Feb 2024

BUY

Last Traded Price (27 Feb 2024): HK\$2.72 (HSI : 16,791)
Price Target 12-mth: HK\$4.10 (51% upside) (Prev HK\$7.3)

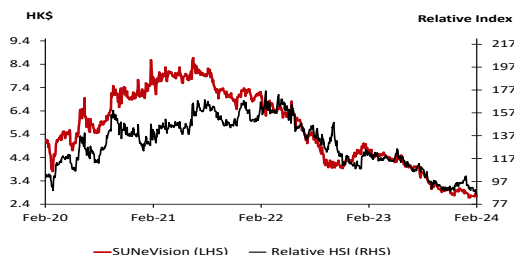
Analyst

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What's New

- 1HFY6/24 EBITDA rose 12%, slightly below market expectations
- MEGA IDC commenced operations, with 60% commitment rate, supporting future revenue growth in coming 2-3 years
- Cut EBITDA forecasts by 13%/11%/7% for FY24/25/26F, mainly on slower move-in and higher operating cost assumptions
- Maintain BUY on attractive dividend yield of 5%; TP of HK\$4.1

Price Relative



Forecasts and Valuation

FY Jun (HK\$m)	2023A	2024F	2025F	2026F
Turnover	2,346	2,732	3,168	3,619
EBITDA	1,675	1,878	2,219	2,553
Pre-tax Profit	1,084	1,082	1,205	1,353
Net Profit	905	904	1,006	1,130
Net Profit Gth (Pre-ex) (%)	6.9	(0.2)	11.3	12.3
EPS (HK\$)	0.22	0.22	0.25	0.28
EPS Gth (%)	7.0	(0.2)	11.3	12.3
Diluted EPS (HK\$)	0.22	0.22	0.25	0.28
DPS (HK\$)	0.11	0.11	0.12	0.14
BV Per Share (HK\$)	1.15	1.26	1.39	1.55
PE (X)	12.2	12.2	11.0	9.8
P/Cash Flow (X)	7.5	6.6	5.5	4.7
P/Free CF (X)	nm	nm	nm	nm
EV/EBITDA (X)	14.5	14.0	12.4	11.2
Net Div Yield (%)	4.1	4.1	4.6	5.1
P/Book Value (X)	2.4	2.2	2.0	1.8
Net Debt/Equity (X)	2.9	3.0	2.9	2.8
ROAE(%)	19.6	18.5	18.7	18.9
EBITDA Rev (%)		(13)	(11)	(7)
Consensus EPS (HK\$)		0.25	0.29	0.34
Other Broker Recs:		B:3	S:0	H:2

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

Extending footprint to ride on rapid digitalisation

Investment Thesis

Market leader in Hong Kong. SUNeVision, owned by Sun Hung Kai Properties, is the biggest carrier-neutral data centre operator in Hong Kong, with a 17% market share in terms of GFA. Its signature data centre, MEGA-i, is one of the leading connectivity hubs in Asia with c.15,000 cross-connects. The company's high connectivity density allows it to command higher-than-market rentals for its data centre facilities.

Limited land supply in Hong Kong for new data centres. Demand for data centres (DC) is expected to grow by 13% p.a. in medium term, led by increasing demand from cloud service providers driven by accelerated cloud adoption and enterprise digitalisation; supply CAGR is expected to be low at c.11% p.a. in 2023-2026.

Capacity increase is the key driver. With the upcoming data center projects, the company will double its total GFA to 2.9m sq. ft and triple total IT capacity to at least 280MW+ by 2026. The capacity expansion will support a y-o-y EBITDA growth of c.15% in the coming three years.

BUY with TP of HK\$4.1. Maintain BUY with a lower TP of HK\$4.1 (lowered from HK\$7.3), based on a 15x FY25F EV/EBITDA (from previously 20x FY24 EV/EBITDA), c.1 SD below its historical average given the worsened market sentiment following its dividend payout cut in Sep 2023.

Key Risks

Excessive data centre supply in Hong Kong. Excessive construction of data centres in the market could lead to pricing pressure.

Slower-than-expected demand. Sluggish demand could be due to changes in the operating environment or market share loss from HK to other data centre locations.

At A Glance

Issued Capital (m shrs)	2,339
Mkt Cap (HKm/US\$m)	6,362 / 813
Major Shareholders (%)	
Sun Hung Kai Properties Ltd	73.9
Free Float (%)	26.1
3m Avg. Daily Val. (US\$m)	0.3
GICS Industry: Information Technology / Software & Services	

SUNeVision

WHAT'S NEW

1HFY6/24 EBITDA grew 12%; MEGA IDC reached satisfactory commitment rate of 60%

1HFY6/24 results highlights

Revenue increased by 16% y-o-y to HK\$1,290m in 1HFY6/24, slightly below market expectations due to slower-than-expected customer move-in.

Gross profit increased by 8% y-o-y to HK\$683m, with gross margin contracting 4ppts to 53% due to higher depreciation charges and operating costs attributable to initial ramp up of MEGA Gateway.

EBITDA increased by 12% y-o-y to HK\$899m, c.6% behind expectations, with margin dropping 3ppts to 70%.

Finance cost surged by 173% y-o-y to HK\$104m, due to increase in borrowing rates which eroded most of the profit growth.

Net profit increased by 1% y-o-y to HK\$435m, below market expectations due to slower revenue growth and margin contraction.

Outlook

The slightly slower revenue growth of 16% was partly due to delay in move-in schedule of MEGA Gateway. The company strategically retains certain capacity for connectivity customers and aims to replicate MEGA-i connectivity ecosystem to MEGA Gateway.

Looking ahead, the initial phase of MEGA IDC, a 500k sq. ft. facility located in TKO, commenced operations recently, and management shared that the first customer will move-in next month. The facility is 60% committed, with half of the committed capacity set to start billing before June 2024.

EBITDA margin contraction in 1HFY6/24 was due to the initial ramp up of MEGA Gateway, a 200k sq. ft. facility located in Tsuen Wan. The margin will remain under pressure with initial ramp up of MEGA IDC in 2HFY6/24. Thereafter, we expect EBITDA margin to improve by 1.3ppt y-o-y to 70% in FY6/25, following customer move-ins and increasing utilisation.

Management expects capex in 2HFY6/24 will be similar to 1HFY6/24's HK\$1.5bn and will peak in FY6/24 with completion of construction and fit-out in MEGA Gateway and MEGA IDC (phase

1). Therefore, we expect the company's net debt/EBITDA ratio to gradually decrease in the coming 2 years. We also expect finance cost to peak off with a stabilised interest rate environment ahead.

Recommendation and valuation

We were too aggressive on customer move-in in our previous forecasts. We now lower our revenue, and thus cut our EBITDA forecasts by 13%, 11% and 7% for FY6/24, FY6/25, and FY6/26, respectively. We forecast EBITDA will grow by 12%, 18%, and 15% in FY6/24, FY6/25 and FY6/26, respectively.

We remain positive on the company with strong data centre demand from global and Chinese internet companies, and financial institutions. Phase 2 of MEGA IDC will comprise an additional 700k sq. ft. of capacity and is expected to be in service by the end of 2026. Therefore, the company's total capacity will increase to 2.9m sq ft or 280MW by 2026.

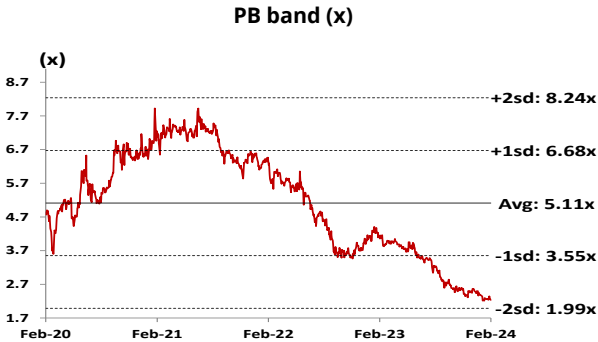
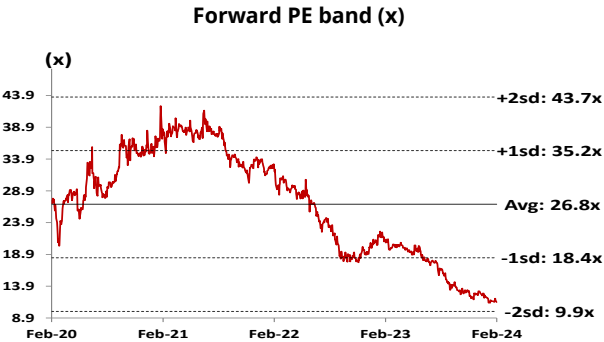
Share price has corrected by c.30% since its announcement of dividend payout reduction to 50% (vs. previous 100%) in Sep 2023. The stock now offers c.5% dividend yield. Maintain BUY with a lower TP of HK\$4.1 (lowered from HK\$7.3), based on a 15x FY25F EV/EBITDA (from previously 20x FY24 EV/EBITDA), c.1 SD below its historical average given the worsened market sentiment following its dividend payout cut in Sep 2023.

Company Background

SUNeVision, owned by Sun Hung Kai Properties, is one of the leading carrier-neutral data centre operators in Hong Kong, with a c.17% market share in terms of GFA. It has five data centres in service, with a total gross floor area (GFA) of 1.4m sq. ft. supported by 388 full-time employees. It also has three data centres coming into service in CY22-23 with a GFA of 0.8m sq. ft. The total planned power capacity was 280MW as of Dec 2021. Its data centre business is operated under the iAdvantage brand.

SUNeVision

Historical PE and PB band



Source: Thomson Reuters, DBS HK

SUNeVision

Key Assumptions

FY Jun	2022A	2023A	2024F	2025F	2026F
Data centre capacity (k sf)	1,609.0	2,309.0	2,309.0	2,309.0	3,019.0
Data centre utilisation (k sf)	1,345.0	1,404.0	1,530.0	1,683.0	1,830.0
Utilisation rate (%)	84.0	61.0	66.0	73.0	61.0
Average annual rent (HK\$/sf)	1,443.0	1,540.0	1,662.0	1,769.0	1,873.0
Gross profit margin (%)	57.6	56.3	53.9	53.2	52.0

Source: Company, DBS HK

Segmental Breakdown (HK\$ m)

FY Jun	2022A	2023A	2024F	2025F	2026F
Revenues (HK\$ m)					
Data centre and IT facilities	1,940	2,161	2,542	2,978	3,429
SMATV, CABD, structural cabling and security systems	145	185	190	190	190
Others	0	0	0	0	0
Total	2,086	2,346	2,732	3,168	3,619

Source: Company, DBS HK

Income Statement (HK\$ m)

FY Jun	2022A	2023A	2024F	2025F	2026F
Revenue	2,086	2,346	2,732	3,168	3,619
Cost of Goods Sold	(884)	(1,025)	(1,260)	(1,483)	(1,736)
Gross Profit	1,201	1,321	1,472	1,685	1,882
Other Opng (Exp)/Inc	(162)	(154)	(157)	(221)	(252)
Operating Profit	1,040	1,167	1,315	1,464	1,630
Other Non Opg (Exp)/Inc	2	20	3	3	3
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(29)	(103)	(236)	(262)	(280)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	1,013	1,084	1,082	1,205	1,353
Tax	(166)	(178)	(179)	(199)	(223)
Minority Interest	0	0	0	0	0
Preference Dividend	0	0	0	0	0
Net Profit	847	905	904	1,006	1,130
Net Profit before Except.	847	905	904	1,006	1,130
EBITDA	1,499	1,675	1,878	2,219	2,553
Growth					
Revenue Gth (%)	11.3	12.5	16.5	15.9	14.2
EBITDA Gth (%)	10.5	11.8	12.1	18.1	15.0
Opg Profit Gth (%)	8.7	12.2	12.7	11.3	11.4
Net Profit Gth (%)	7.5	6.9	(0.2)	11.3	12.3
Margins & Ratio					
Gross Margins (%)	57.6	56.3	53.9	53.2	52.0
Opg Profit Margin (%)	49.9	49.7	48.1	46.2	45.1
Net Profit Margin (%)	40.6	38.6	33.1	31.8	31.2
ROAE (%)	18.8	19.6	18.5	18.7	18.9
ROA (%)	4.9	4.7	4.1	4.2	4.4
ROCE (%)	5.4	5.5	5.5	5.5	5.7
Div Payout Ratio (%)	99.7	50.2	50.0	50.0	50.0
Net Interest Cover (x)	35.7	11.3	5.6	5.6	5.8

Source: Company, DBS HK

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Interim Income Statement (HK\$ m)

FY Jun	1H2022	2H2022	1H2023	2H2023	1H2024
Revenue	995	1,091	1,108	1,238	1,443
Cost of Goods Sold	(410)	(474)	(478)	(548)	(653)
Gross Profit	585	616	631	690	790
Other Oper. (Exp)/Inc	(82)	(79)	(78)	(77)	(85)
Operating Profit	503	537	553	614	705
Other Non Opg (Exp)/Inc	1	1	3	17	(2)
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(13)	(16)	(36)	(67)	(138)
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	490	522	520	564	564
Tax	(80)	(86)	(87)	(91)	(96)
Minority Interest	0	0	0	0	0
Net Profit	410	436	433	472	468
Net profit bef Except.	410	436	433	472	468

Growth

Revenue Gth (%)	7.8	14.7	11.3	13.5	30.2
Opg Profit Gth (%)	7.8	9.7	10.0	14.3	27.4
Net Profit Gth (%)	5.6	9.4	5.6	8.2	8.1

Margins

Gross Margins (%)	58.8	56.5	56.9	55.8	54.7
Opg Profit Margins (%)	50.5	49.2	49.9	49.6	48.8
Net Profit Margins (%)	41.2	40.0	39.1	38.2	32.5

Source: Company, DBS HK

Balance Sheet (HK\$ m)

FY Jun	2022A	2023A	2024F	2025F	2026F
Net Fixed Assets	17,276	19,846	22,283	24,028	25,606
Invt in Associates & JVs	0	0	0	0	0
Other LT Assets	62	62	62	62	62
Cash & ST Invt	310	237	220	230	284
Inventory	6	10	10	10	11
Debtors	451	594	623	642	661
Other Current Assets	39	30	30	30	30
Total Assets	18,143	20,778	23,227	25,001	26,653
ST Debt	2,296	0	0	0	0
Creditors	1,075	1,735	1,735	1,735	1,735
Other Current Liab	281	314	314	335	359
LT Debt	9,591	13,536	15,536	16,736	17,736
Other LT Liabilities	308	537	537	537	537
Shareholder's Equity	4,577	4,654	5,103	5,657	6,284
Minority Interests	15	2	2	2	2
Total Cap. & Liab.	18,143	20,778	23,227	25,001	26,653
Non-Cash Wkg. Capital	(860)	(1,416)	(1,386)	(1,387)	(1,392)
Net Cash/(Debt)	(11,577)	(13,298)	(15,316)	(16,506)	(17,452)
Debtors Turn (avg days)	71.2	81.3	81.3	72.9	65.7
Creditors Turn (avg days)	858.4	993.0	908.8	869.0	777.7
Inventory Turn (avg days)	4.7	5.4	5.1	5.1	4.7
Asset Turnover (x)	0.1	0.1	0.1	0.1	0.1
Current Ratio (x)	0.2	0.4	0.4	0.4	0.5
Quick Ratio (x)	0.2	0.4	0.4	0.4	0.5
Net Debt/Equity (X)	2.5	2.9	3.0	2.9	2.8
Net Debt/Equity ex MI (X)	2.5	2.9	3.0	2.9	2.8
Capex to Debt (%)	14.7	14.4	19.3	14.9	14.1
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

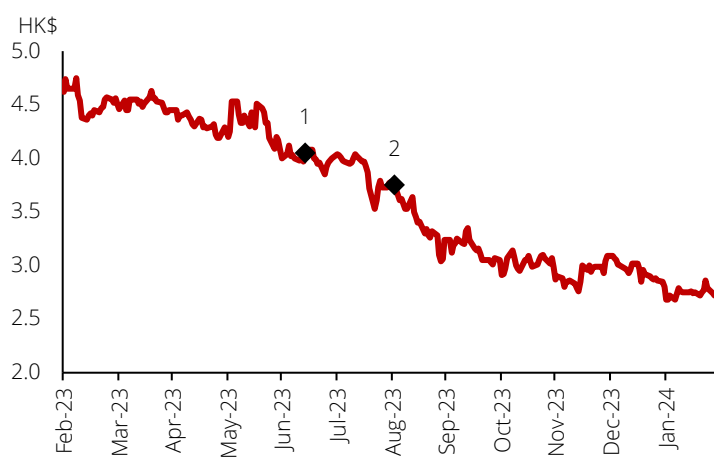
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Cash Flow Statement (HK\$ m)

FY Jun	2022A	2023A	2024F	2025F	2026F
Pre-Tax Profit	1,013	1,084	1,082	1,205	1,353
Dep. & Amort.	459	506	563	755	922
Tax Paid	(114)	(151)	(178)	(179)	(199)
Assoc. & JV Inc/(loss)	0	0	0	0	0
(Pft)/ Loss on disposal of FAs	0	(15)	0	0	0
Chg in Wkg.Cap.	(84)	(71)	(30)	(19)	(20)
Other Operating CF	55	121	236	262	280
Net Operating CF	1,329	1,473	1,673	2,024	2,337
Capital Exp.(net)	(1,745)	(1,946)	(3,000)	(2,500)	(2,500)
Other Invt.(net)	0	0	0	0	0
Invt in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	1	6	4	4	4
Net Investing CF	(1,744)	(1,940)	(2,996)	(2,496)	(2,496)
Div Paid	(787)	(844)	(455)	(452)	(503)
Chg in Gross Debt	1,350	3,960	2,000	1,200	1,000
Capital Issues	0	0	0	0	0
Other Financing CF	(226)	(2,721)	(240)	(266)	(284)
Net Financing CF	337	394	1,306	482	213
Currency Adjustments	0	0	0	0	0
Chg in Cash	(78)	(72)	(18)	10	54
Opg CFPS (HK\$)	0.35	0.38	0.42	0.50	0.58
Free CFPS (HK\$)	(0.10)	(0.12)	(0.33)	(0.12)	(0.04)

Source: Company, DBS HK

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Target Price & Ratings 12-mth History



S.No.	Date	Closing Price	Target Price	Rating
1	13-Jul-23	HK\$3.97	HK\$7.20	BUY
2	1-Sep-23	HK\$3.75	HK\$7.30	BUY

Source: DBS HK

Analyst: Tsz Wang Tam

Andy Yu

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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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