

China / Hong Kong Company Update

Sino Land

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DBS Group Research . Equity

23 Feb 2024

BUY

Last Traded Price (22 Feb 2024): HK\$8.31 (HSI: 16,743)

Price Target 12-mth: HK\$10.78 (30% upside)

Analyst

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What's New

- 1HFY24 underlying earnings grew 5% to HK\$2.94bn, 13% above our estimate, due to stronger-than-expected interest income
- Rich pipeline of new project launches in 2024
- Net cash holding increased slightly to HK\$43.3bn in Dec-23
- BUY for impeccable balance sheet strength with TP of HK\$10.78

Price Relative



Forecasts and Valuation

FY (Jun (HK\$ m))	2022A	2023A	2024F	2025F
Turnover	15,554	11,881	8,194	11,585
EBITDA	7,545	4,487	2,853	4,396
Pre-tax Profit	8,118	7,000	6,273	6,881
Underlying Profit	6,531	6,088	5,507	5,937
Underlying Profit Gth (%)	(36.7)	(6.8)	(9.6)	7.8
EPS (HK\$)	0.87	0.77	0.66	0.70
EPS Gth (%)	(39.4)	(11.4)	(14.3)	5.9
PE (X)	9.6	10.8	12.6	11.9
P/Cash Flow (X)	9.1	33.7	103.1	22.7
EV/EBITDA (X)	3.8	6.3	9.9	6.4
DPS (HK\$)	0.57	0.58	0.59	0.60
Div Yield (%)	6.9	7.0	7.1	7.2
Net Gearing (%)	CASH	CASH	CASH	CASH
ROE (%)	4.2	3.8	3.4	3.6
Est. NAV (HK\$):			21.2	21.5
Disc. to NAV (%)			(61)	(61)

Earnings Rev (%): 0
 Consensus EPS (HK\$): 0.72
 Other Broker Recs: B:11 S:0 H:2

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

Strong financials, attractive valuations

Investment Thesis

Quality developer with impeccable balance sheet strength. Sino Land is well known for developing quality residential projects conveniently located in city centres or adjacent to transportation hubs. Its projects often command high marketability and are sought after by homebuyers. As of Dec-23, Sino Land sits on a net cash balance of HK\$43.3bn, and therefore is well poised to grow dividends and pursue more value accretive acquisitions.

Investing for better future. Since Sep-23, Sino Land has acquired three residential sites via public tenders – through consortiums or on its own. With favourable land costs, these residential developments should provide Sino Land with a decent pre-tax margin of >35% upon completion. This should brighten the company's earnings outlook over the medium term. Sino Land is also expanding its investment property portfolio with the addition of new rental properties including Landmark South and One North, leading to rising rental contributions.

Value-accretive land acquisitions to support higher long-term valuations. Robust balance sheet strength puts Sino Land in an advantageous position to pursue more value accretive land acquisitions. This should underpin the company's long-term earnings growth prospects, which in turn enhance the stock's valuations.

BUY with HK\$10.78 TP. The stock, trading at 61% discount to our assessed current NAV, or c.80% discount excluding its net cash holdings, is attractively valued from the historical viewpoint. Our TP is based on a target discount of 50% to our Dec-24 NAV estimate.

Key Risks to Our View:

Any prolonged property demand weakness could drag its earnings and thus share price performance.

At A Glance

Issued Capital (m shrs)	8,531
Mkt Cap (HKm/US\$m)	70,893 / 9,063
Major Shareholders (%)	
Tsim Sha Tsui Properties Ltd	55.7
Free Float (%)	44.3
3m Avg. Daily Val. (US\$m)	6.0
GICS Industry: Real Estate / Real Estate Management & Development	

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WHAT'S NEW

Benefitting from increased interest income

Lifted by stronger interest income. Sino Land's 1HFY24 underlying earnings grew 5% to HK\$2.94bn. The increase in interest income resulting from HIBOR hikes more than offset the shortfall in development earnings. Interim DPS remained stable at HK\$0.15.

Narrower margins dragged development income. Including joint ventures, development profit was 24% lower at HK\$845m. Major projects booked included La Marina, St. George's Mansions, Grand Victoria, and One SOHO. Operating margins narrowed to 12.7% from 1HFY23's 28.4%. Sino Land consortium sold an additional 36 units at La Marina after lowering prices in Nov -23. La Marina is now c.90% sold. About 75% of the units at Grand Victoria have been sold since its initial launch in 2021. Sales at the newly completed 60%-owned One SOHO have been improving. As of Dec-23, Sino Land had a net order book of HK\$9.4bn, of which HK\$2.2bn would be booked in 2HFY24.

Rich project launch pipeline. In 2024, Sino Land plans to offer One Central Place in Central, Grand Mayfair III in Yuen Long, Lohas Park Package 13 in Tseung Kwan O, and Yau Tong Ventilation Building project, in addition to continued sales at La Montagne and Villa Garda III.

New footage to augment rental income. Gross rental receipts rose 3% to HK\$1.78bn, aided by fresh contributions from new investment properties including Landmark South, One North, and 38 Wing Kei Road (an industrial building in Kwai Chung) and The Koko in Shenzhen. Increased retail turnover rents and reduced amortised rental concession also contributed to modest retail income growth. However, due to increased leasing expenses incurred for new projects and higher repair and maintenance costs, net rental revenue was marginally lower at HK\$1.47bn. Overall portfolio occupancy stood at 90.8% in 1HFY24 (1HFY23: 91.1%). Office reversion growth remains in the negative territory, with average occupancy sliding 0.7ppts to 86.6% in 1HFY24. Retail portfolio occupancy fell to 93.4% from 1HFY23's 94.9% due to discontinuation of a show flat at Olympian City 2 since Jul-23. Excluding this impact, retail portfolio would have seen largely stable occupancy. Residential portfolio was the bright spot, with occupancy jumping 7.8ppts to 87.9%.

Hotel recovery on track. Hotel earnings further improved 10% to HK\$254m, thanks to improved contributions from Conrad Hong Kong. RevPAR of "Fullerton" branded hotels in Singapore and Sydney have exceeded pre-pandemic levels.

On acquisition mode. Since Sep-23, Sino Land acquired three residential or residential/retail sites in Kai Tak, Kowloon City, and Cheung Sha via public tenders – through consortiums or on its own. These projects will altogether provide total attributable GFA of 0.81msf when completed. Based on current selling prices, they should offer a decent profit margin of >35% given favourable land costs.

Impeccable balance sheet for more land acquisitions. Despite a string of land purchases, Sino Land's net cash holding rose slightly to HK\$43.3bn in Dec-23 from Jun-23's HK\$42bn, thanks to receipts of property sales and increase in interest income. This puts the company at an advantageous position to explore land acquisitions amid falling land prices.

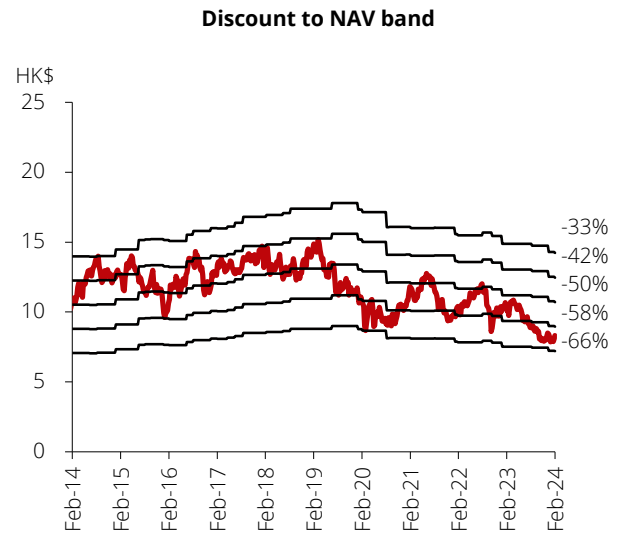
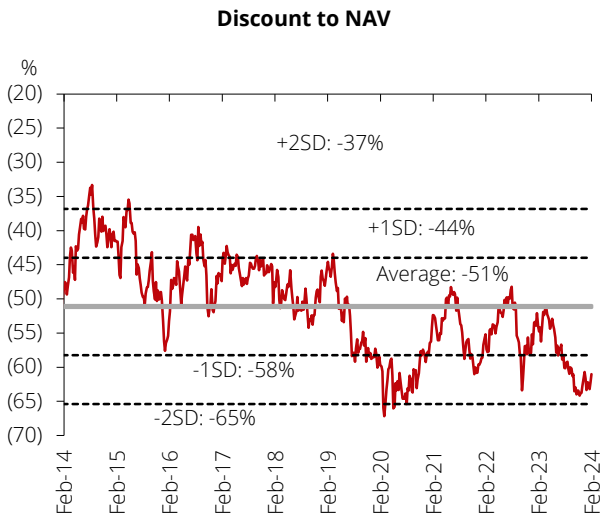
BUY with HK\$10.78 TP. In the past six months, Sino Land shares have fallen by 6%. Meanwhile, the stock is trading 61% below our appraised current NAV. Excluding its net cash holding, the remaining stub is trading at an 80% discount, which sounds enticing. Major investment appeal lies with its robust balance sheet strength, allowing the company to pursue value-accretive acquisitions for long-term growth. Based on target discount of 50% to our Dec-24 NAV estimate, we set our TP at HK\$10.78. Reiterate BUY.

Company Background

Sino Land is engaged in property development and investment in Hong Kong and China. As of Dec-23, Sino Land had a development land bank of 5.7m sf in GFA, split into 2.7m sf in Hong Kong, 2m sf in China, and 0.4m sf in Singapore. It also owns an investment property and hotel portfolio of 13.1m sf in GFA, mainly in Hong Kong.

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Discount to NAV



Source: Bloomberg Finance L.P., DBS HK

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Result Summary

FY Jun (HK\$m)	1HFY23	1HFY24	% Chg	Comments
Turnover	6,383	4,923	-23	1HFY24: Due to lower income from property sales
Property sales	1,197	339	-72	1HFY24: mainly from ONE SOHO in Mongkok and St. George's Mansions in Ho Man Tin
Property rental	1,165	1,143	-2	1HFY24: due to increase in leasing expenses incurred for new projects, along with higher repair and maintenance expenses
Property management and other services	123	120	-3	
Hotel operations	206	189	-8	
Investments in securities	9	17	79	
Financing	23	36	54	
Other income and other gains or losses	9	89	871	
Administrative expenses and other operating expenses	-523	-506	-3	
Increase in fair value of investment properties	-14	18	<i>n.a.</i>	
Change in fair value of financial assets at FVTPL	4	1	-67	
Gain on disposal of investment properties	0	0	75	
Finance income, net	580	1,147	98	
Share of results of associates and joint ventures	136	365	169	
- Property sales	-64	518	<i>n.a.</i>	1HFY24: mainly from La Marina & Grand Victoria in Hong Kong and The Palazzo in Chengdu
- Property rental	327	336	3	
- Property management and other services	8	7	-16	
- Hotel operations	23	64	176	
- Investments in securities	0	0	0	
- Financing	4	4	-0	
- Other income and other gains or losses	346	-106	<i>n.a.</i>	
- Administrative expenses and other operating expenses	-151	-143	-6	
- Increase in fair value of investment properties	-342	-161	-53	
- Finance costs, net	-29	135	<i>n.a.</i>	
- Income tax expense	14	-288	<i>n.a.</i>	
Profit before taxation	2,914	2,959	2	
Taxation	-454	-330	-27	1HFY24: included LAT of HK\$11.4m (1HFY23: HK\$32.6m)
Non-controlling interests	-0	-13	2,696	
Net profit	2,460	2,616	6	
Underlying profit	2,802	2,945	5	

Source: Sino Land

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Key Assumptions (%)

	2024F	2025F
Residential price - HK	(8)	0
Office rental - HK	(5)	(5)
Retail rental (Shopping Centre) - HK	5	5

Source: DBS HK

Segmental Breakdown (HK\$ m)

FY Jun	2021A	2022A	2023A	2024F	2025F
Revenues (HK\$ m)					
Property sales	20,224	11,130	6,996	3,104	6,233
Property rental	2,819	2,738	2,746	2,800	2,940
Hotel operations	263	452	877	939	1,006
Property management and other services	1,152	1,148	1,176	1,229	1,284
Investments in securities	20	27	38	50	50
Financing	68	60	48	72	72
Total	24,545	15,554	11,881	8,194	11,585

Source: DBS HK

Income Statement (HK\$ m)

FY Jun	2021A	2022A	2023A	2024F	2025F
Turnover	24,545	15,554	11,881	8,194	11,585
EBITDA	12,830	7,545	4,487	2,853	4,396
Depr / Amort	(186)	(181)	(198)	(206)	(214)
EBIT	12,644	7,364	4,289	2,647	4,182
Associates Inc	459	424	1,289	1,476	1,164
Interest (Exp)/Inc	525	306	1,347	2,150	1,535
Exceptionals	27	24	76	0	0
Pre-tax Profit	13,654	8,118	7,000	6,273	6,881
Tax	(2,504)	(1,352)	(864)	(744)	(943)
Minority Interest	(834)	(236)	(47)	(23)	0
Underlying Profit	10,316	6,531	6,088	5,507	5,937
Sales Gth (%)	317	(37)	(24)	(31)	41
Net Profit Gth (%)	126	(37)	(7)	(10)	8
EBITDA Margins (%)	52	49	38	35	38
EBIT Margin (%)	52	47	36	32	36
Tax Rate (%)	18	17	12	12	14

Source: DBS HK

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Balance Sheet (HK\$ m)

FY Jun	2021A	2022A	2023A	2024F	2025F
Fixed Assets	64,349	63,591	67,829	69,279	70,758
Long-term Investments	893	997	1,192	1,192	1,192
Other LT Assets	3,478	4,018	4,623	4,623	4,623
Associates/JVs	38,188	38,953	37,983	36,042	39,444
Bank Balance/Cash & Liquid	44,134	44,784	43,932	45,579	41,928
ST Investments	10	8	8	8	8
Inventory	23,162	20,390	16,390	18,578	19,863
Debtors	1,670	1,364	1,757	1,787	1,817
Other Non Cash Current	5,833	4,878	5,555	5,555	5,555
Total Assets	181,715	178,984	179,271	182,644	185,189
ST Debt	2,845	2,254	1,133	2,000	2,000
Creditors	5,120	5,335	5,059	5,039	5,019
Other Current Liab	10,001	7,516	4,711	4,711	4,711
LT Debt	2,406	997	832	965	965
Deferred Tax Liabilities	2,647	2,694	2,684	2,684	2,684
Other LT Liabilities	1,888	1,960	1,748	1,748	1,748
Minority Interests	1,649	831	756	756	756
Shareholder's Equity	155,160	157,397	162,349	164,741	167,306
Total Cap. & Liab.	181,715	178,984	179,271	182,644	185,189
Share Capital (m)	7,396	7,718	8,172	8,532	8,532
Net Cash/(Debt)	38,883	41,534	41,968	42,615	38,963
Working Capital	56,843	56,320	56,740	59,758	57,441
Net Gearing (%)	CASH	CASH	CASH	CASH	CASH

Source: DBS HK

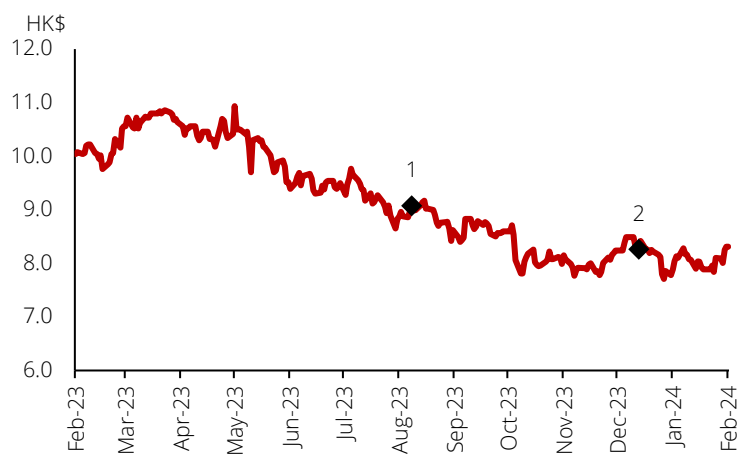
Cash Flow Statement (HK\$ m)

FY Jun	2021A	2022A	2023A	2024F	2025F
EBIT	12,644	7,364	4,289	2,647	4,182
Tax Paid	(689)	(398)	(2,532)	(744)	(943)
Depr/Amort	186	181	198	206	214
Profit or loss on disposal of FAs/subsidiaries/investment	484	(52)	(25)	0	0
Chg in Wkg.Cap	(10,423)	(652)	(2,541)	(2,178)	(1,275)
Other Non-Cash	16	24	35	0	0
Operating CF	2,218	6,466	(576)	(68)	2,178
Net Capex	(88)	(132)	(267)	(100)	(100)
Investments	(104)	(64)	(188)	0	0
Associates & JVs	(1,718)	1,623	261	1,942	(3,402)
Associates' Dividends	1,413	520	1,347	1,476	1,164
Others	4,742	(13,143)	(2,925)	2,200	1,600
Investing CF	4,245	(11,197)	(1,771)	5,518	(738)
Net Chg in Debt	0	(2,000)	(1,289)	1,000	0
New Capital	0	0	0	0	0
Dividend	(531)	(4,101)	(519)	(4,692)	(4,967)
Other Financing CF	(625)	(69)	398	(110)	(125)
Financing CF	(1,156)	(6,170)	(1,410)	(3,802)	(5,092)
Chg in Cash	5,307	(10,901)	(3,757)	1,647	(3,652)

Source: DBS HK

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Target Price & Ratings 12-mth History



S.No.	Date	Closing Price	Target Price	Rating
1	30-Aug-23	HK\$8.97	HK\$11.22	BUY
2	4-Jan-24	HK\$8.28	HK\$10.78	BUY

Source: DBS HK

Analyst: Jeff Yau, CFA
 Percy Leung
 Cherie Wong

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STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

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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