

COMPANY RESULTS

Sun Hung Kai Properties (16 HK)

1HFY24: Underlying Profit/DPS Down By 5.9%/24% Yoy; Accelerating Sales And Capital Recycling In 2024

SHKP's underlying net profit declined by 5.9% yoy to HK\$8,906m, dragged by contraction of property development profits and higher finance cost. Interim DPS is HK\$0.95/share, down by 24% yoy. Investment portfolio remains resilient with 21.4% yoy growth in rental of mainland malls. Management expects that removing cooling measures will first drive luxury home sales, thus benefiting SHKP. Maintain BUY with unchanged target price of HK\$105.05.

1HFY23 RESULTS

Year to 30 Jun (HK\$m)	1HFY23	2HFY23	1HFY24	hoh	yoy
Revenue	27,428	43,767	27,542	-37.1%	0.4%
Underlying profit	9,465	14,420	8,906	-38.2%	-5.9%
IP revaluation (net of tax)	-348	-245	13	n/m	n/m
Attributable Net profit	8,410	15,497	9,145	-41.0%	8.7%
EPS (HK\$)	3.27	4.97	3.07	-38.2%	-6.1%
DPS (HK\$)	1.25	3.70	0.95	-74.3%	-24.0%
Profit by segment:					
HK DP	1,200	7,274	1,235	-83.0%	2.9%
PRC DP	2,166	659	805	22.2%	-62.8%
HK IP	6,393	6,856	6,574	-4.1%	2.8%
PRC IP	2,218	2,430	2,473	1.8%	11.5%
Singapore IP	276	288	279	-3.1%	1.1%
Hotel	-63	224	430	92.0%	782.5%
Other businesses	2428	2,340	2,552	9.1%	5.1%

Source: SHKP UOB Kay Hian

RESULTS

• **Underlying profit down by 5.9% yoy; Interim DPS down by 24.0% yoy.** Sun Hung Kai Properties' (SHKP) 1HFY24 underlying profit (excluding fair value changes on investment properties) declined by 5.9% yoy to HK\$8.9b, mainly dragged by lower profit margin of the Hong Kong property development segment and 60% yoy contraction of revenue of the PRC property development segment. Finance cost grew by 47% yoy to HK\$3.1b, with an average funding cost of 4.5%. SHKP declared an interim DPS of HK\$0.95/share, declining by 24% yoy, implying a payout ratio of 31% (vs 38% for 1HFY23).

KEY FINANCIALS

Year to 30 Jun (HK\$m)	2022	2023	2024F	2025F	2026F
Net turnover	77,747.0	71,195.0	77,003.3	81,661.9	83,310.1
EBITDA	38,804.2	33,259.3	35,239.0	38,041.6	42,539.8
Operating profit	33,362.0	27,545.0	29,239.0	31,741.6	35,924.8
Net profit (rep./act.)	25,560.0	23,907.0	23,532.7	24,646.1	27,954.7
Net profit (adj.)	28,729.0	23,907.0	23,532.7	24,646.1	27,954.7
EPS (HK\$ cent)	991.4	825.0	812.1	850.5	964.7
PE (x)	7.9	9.5	9.6	9.2	8.1
P/B (x)	0.4	0.4	0.4	0.4	0.4
EV/EBITDA (x)	8.9	10.4	9.8	9.1	8.1
Dividend yield (%)	6.3	6.3	5.2	5.5	6.2
Net margin (%)	32.9	33.6	30.6	30.2	33.6
Net debt/(cash) to equity (%)	17.4	18.2	18.7	20.2	21.6
Interest cover (x)	22.2	13.3	13.3	13.0	13.3
ROE (%)	4.3	4.0	3.9	4.0	4.4
Consensus net profit	-	-	24,551	26,399	27,488
UOBKH/Consensus (x)	-	-	0.96	0.93	1.02

Source: Sun Hung Kai Properties, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK\$78.00
Target Price	HK\$105.05
Upside	+34.7%

COMPANY DESCRIPTION

Sun Hung Kai Properties, through its subsidiaries, develops and invests in properties. The company also operates hotels, manages properties, car parking, and transportation infrastructure. In addition, Sun Hung Kai operates logistics business, construction.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	16 HK
Shares issued (m):	2,897.8
Market cap (HK\$m):	226,026.9
Market cap (US\$m):	28,877.8
3-mth avg daily t'over (US\$m):	36.7

Price Performance (%)

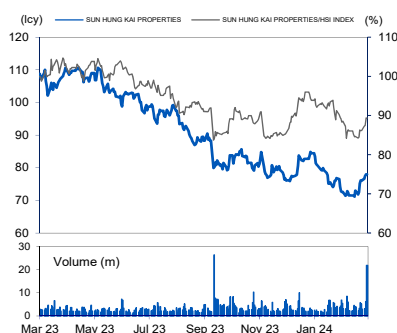
52-week high/low HK\$110.60/HK\$71.15

1mth	3mth	6mth	1yr	YTD
1.6	0.2	(11.4)	(27.2)	(7.6)

Major Shareholders

Major Shareholders	%
The Kwok Family	42.1
FY23 NAV/Share (HK\$)	211.86
FY23 Net Debt/Share (HK\$)	39.64

PRICE CHART



Source: Bloomberg

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- Operational highlights.** Investment portfolio remained resilient, with positive rental reversion in Hong Kong malls and decent office occupancy of 92%. Mainland shopping malls were more buoyant, achieving 18.1%/21.4% yoy growth in gross rental income in HK\$/RMB terms, partly thanks to the low base in 1HFY23 and exit of rental concession. Per Management, Shanghai IFC's tenant sales have reached 2x pre-COVID-19 levels. SHKP successfully converted two farmlands into residential sites.

- Points of concern.** Hong Kong property sales in 1HFY24 were relatively slow. SHKP completed 29%/66% of its sales target. Net gearing rose to 21.2% as of Dec 23, from 18.2% as of Jun 23, partly because over HK\$20b of sales proceeds will be received within the next few months.

STOCK IMPACT

- Removing cooling measures will first drive luxury home sales.** Management expects to see positive effect from the easing of cooling measures, especially for the luxury segment where SHKP has the strongest presence among peers. Besides Cullinan Sky and Cullinan Harbour in Kat Tak, SHKP will also put Dynasty Court Block 3 in the mid-levels on sale as non-core asset disposal, offering additional upside of sales and profit for 2025. However, the late launch of Sai Sha project in 4Q24 may lead to uncertainties of achievement of FY24 sales target (HK\$33b).

- Expecting positive momentum of retail portfolio and stabilisation of funding cost.** Hong Kong's retail portfolio saw positive rental reversion in 1HFY24. SHKP's malls continue to ride on the positive momentum. Average funding cost is expected to stabilise at 4.5% in 2H24, backed by 41% fixed & RMB floating rate debt. Lastly, management is committed to lowering net gearing ratio by end-FY24.

EARNINGS REVISION/RISK

- We keep our earnings forecasts unchanged.**

VALUATION/RECOMMENDATION

- We maintain our BUY rating with an unchanged target price of HK\$105.05.** Our target price is derived from 45% discount to an estimated NAV of HK\$191.01. We believe SHKP will be key beneficiary of the removal of cooling measures on Hong Kong's property market. The current FY24 yield of 5.2% is attractive, considering SHKP's very prudent financial and risk management.

SHARE PRICE CATALYST

- Stronger-than-expected recovery in Hong Kong property market.
- Sizable share purchase by the Kwok family.

LANDBANK OF SHKP (AS OF DEC 23)

(million sq.ft.0)	HK		Mainland	
	Jun-23	Dec-23	Jun-23	Dec-23
Completed properties	36.4	36.6	20.4	20.9
Under development	21.6	22.2	47.1	46.3

Source: SHKP, UOB Kay Hian

PROFIT & LOSS

Year to 30 Jun (HK\$m)	2023	2024F	2025F	2026F
Net turnover	71,195.0	77,003.3	81,661.9	83,310.1
EBITDA	33,259.3	35,239.0	38,041.6	42,539.8
Deprec. & amort.	5,714.3	6,000.0	6,300.0	6,615.0
EBIT	27,545.0	29,239.0	31,741.6	35,924.8
Total other non-operating income	(593.0)	0.0	0.0	0.0
Associate contributions	4,069.0	3,501.6	2,837.9	3,073.9
Net interest income/(expense)	(2,499.0)	(2,653.1)	(2,923.8)	(3,194.3)
Pre-tax profit	28,522.0	30,087.6	31,655.7	35,804.4
Tax	(3,947.0)	(5,848.9)	(6,339.9)	(7,200.7)
Minorities	(668.0)	(706.0)	(669.7)	(649.0)
Net profit	23,907.0	23,532.7	24,646.1	27,954.7
Net profit (adj.)	23,907.0	23,532.7	24,646.1	27,954.7

BALANCE SHEET

Year to 30 Jun (HK\$m)	2023	2024F	2025F	2026F
Fixed assets	450,727.0	457,085.4	463,561.7	470,161.9
Other LT assets	112,481.0	114,633.8	116,834.9	119,085.7
Cash/ST investment	15,280.0	22,080.9	22,477.1	22,894.9
Other current assets	227,503.0	242,348.2	258,232.0	275,227.0
Total assets	805,991.0	836,148.3	861,105.8	887,369.5
ST debt	7,508.0	21,857.0	27,857.0	33,857.0
Other current liabilities	45,906.0	51,713.0	51,677.7	51,315.1
LT debt	117,545.0	115,074.0	121,074.0	127,074.0
Other LT liabilities	28,236.0	28,236.0	28,236.0	28,236.0
Shareholders' equity	602,055.0	613,821.3	626,144.4	640,121.7
Minority interest	4,741.0	5,447.0	6,116.7	6,765.7
Total liabilities & equity	805,991.0	836,148.3	861,105.8	887,369.5

CASH FLOW

Year to 30 Jun (HK\$m)	2023	2024F	2025F	2026F
Operating	28,387.3	12,665.1	13,527.5	15,643.9
Pre-tax profit	27,545.0	29,239.0	31,741.6	35,924.8
Tax	(3,947.0)	(5,848.9)	(6,339.9)	(7,200.7)
Deprec. & amort.	5,714.3	6,000.0	6,300.0	6,615.0
Working capital changes	775.0	(14,606.6)	(15,633.3)	(16,732.0)
Non-cash items	0.0	0.0	0.0	0.0
Other operating cashflows	(1,700.0)	(2,118.3)	(2,540.9)	(2,963.2)
Investing	(12,223.3)	(12,388.9)	(12,808.3)	(13,248.7)
Capex (growth)	(13,350.3)	(12,358.4)	(12,776.3)	(13,215.1)
Investments	1,127.0	(30.5)	(32.0)	(33.6)
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
Financing	(14,222.0)	111.7	(323.0)	(1,977.4)
Dividend payments	(14,344.0)	(11,766.3)	(12,323.0)	(13,977.4)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	122.0	11,878.0	12,000.0	12,000.0
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	0.0	0.0	0.0	0.0
Net cash inflow (outflow)	1,942.0	387.9	396.2	417.9
Beginning cash & cash equivalent	19,751.0	21,693.0	22,080.9	22,477.1
Changes due to forex impact	0.0	0.0	0.0	0.0
Ending cash & cash equivalent	21,693.0	22,080.9	22,477.1	22,894.9

KEY METRICS

Year to 30 Jun (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	46.7	45.8	46.6	51.1
Pre-tax margin	40.1	39.1	38.8	43.0
Net margin	33.6	30.6	30.2	33.6
ROA	3.0	2.9	2.9	3.2
ROE	4.0	3.9	4.0	4.4
Growth				
Turnover	(8.4)	8.2	6.0	2.0
EBITDA	(14.3)	6.0	8.0	11.8
Pre-tax profit	(10.3)	5.5	5.2	13.1
Net profit	(6.5)	(1.6)	4.7	13.4
Net profit (adj.)	(16.8)	(1.6)	4.7	13.4
EPS	(16.8)	(1.6)	4.7	13.4
Leverage				
Debt to total capital	17.1	18.1	19.1	19.9
Debt to equity	20.8	22.3	23.8	25.1
Net debt/(cash) to equity	18.2	18.7	20.2	21.6
Interest cover (x)	13.3	13.3	13.0	13.3

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