HK Property Market

Fasten the seat belt

We initiate coverage on HK property sector with Outperform Rating. Although there may be short-term uncertainties due to COVID-19 and weak employment market, we are bullish on its long-term development because of low interest rate, supplies shortage, influx of capital from mainlanders and strong pent-up demand. We initiate four HK leading property companies, HLD, SHKP, NWD and CK Asset (the Big Four). All of them have BUY rating.

- **Short-term threat.** CCL Index gained by 2.3% in 1Q21 because vaccination started in HK in Feb 2021. However, we believe HK property market is fragile in 1H21 due to weak employment environment and uncertain COVID-19 situation. Despite that, the pent-up demand is strong, reflected by the recent primary and secondary property sales. We doubt bottom may be seen in 1Q21 if the outbreak or labour market does not further deteriorate in the coming future.

- **Long-term gain.** In the long run, HK property market will benefit from low interest rate environment, limited housing supply and strong pent-up demand. Furthermore, HK economic outlook ties with China economy. Our economist forecasts China real GDP to grow by 8.2% in 2021. It will support HK property market long-term development. We expect annual performance of HK property market will outpace inflation.

- **Forecast around 8% rise in HK property price in 2021.** CCL Index gained 2.3% to 180 in 1Q21. It may become weak in 1H21 but rebound in 2H21 due to vaccination of majority people in HK. Furthermore, we expect a new round of purchasing power from mainlanders if China-HK border reopens once COVID-19 outbreak is under control. We forecast CCL Index to gain 8% to 190.3 as at end-21.

- **CK Asset is our top pick.** SHKP is the leading player with 18.6% market share in HK primary property market. It always enjoys premium over other players, no matter in property selling price or stock valuation. However, we like CK Asset most among the Big Four. We believe CK Asset is a good trend catcher in property market. Furthermore, the Company owns many hidden jewels in its landbank, such as hotel conversion and pub property asset. In addition, CK Asset has proposed HK$19.4bn share buy-back plan that will strongly support its share price. We also give a higher valuation for NWD (TP at mean + 1 S.D.) because of strong stewardship of Adrian Cheng.

- **Key risks:** 1) Changes in global and local economic, political and social conditions; 2) COVID-19 pandemic; 3) Government policy; and 4) Interest rate.

Valuation Table

Company	Ticker	Last price (HK$)	Mkt cap (HK$mn)	Rating	TP (HK$)	Fiscal year ended	P/E FY1	P/E FY2	P/B FY1	P/B FY2
SHKP	16 HK	119.4	345,995	BUY	137.7	06/2020	12.8	10.8	0.59	0.57
CK ASSET	1113 HK	47.75	176,360	BUY	66.5	12/2020	7.7	6.9	0.48	0.45
HLD	12 HK	35.15	170,175	BUY	40.5	12/2020	11.4	10.1	0.51	0.50
NWD	17 HK	42.6	108,162	BUY	49.3	06/2020	33.5	17.6	0.48	0.48
SINO LAND	83 HK	11.1	81,327	Not Rated	N.A.	06/2020	8.4	9.7	N.A.	N.A.
SWIRE PPT	1972 HK	23.4	136,890	Not Rated	N.A.	12/2020	18.3	17.0	N.A.	N.A.
KERRY PPT	683 HK	25.4	36,995	Not Rated	N.A.	12/2020	7.5	7.5	N.A.	N.A.
WHARF	4 HK	23.0	70,236	Not Rated	N.A.	12/2020	12.3	11.8	N.A.	N.A.

Source: Company data, CMBIS estimates for rated companies, others by Bloomberg consensus

OUTPERFORM (Initiation)

HK Property Sector

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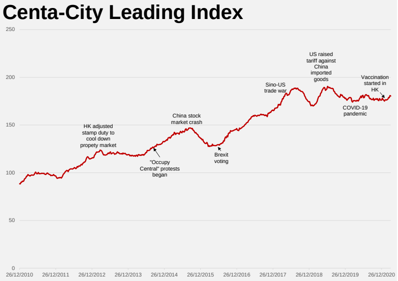
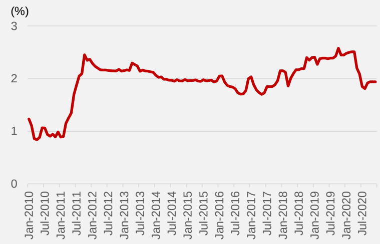
Centa-City Leading Index



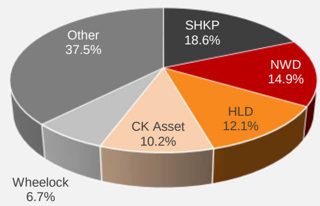
Source: Centaline Property, CMBIS

HK MReferral Mortgage Rate



Source: Bloomberg, MReferral, CMBIS

HK primary property market share in 2020



Source: Centaline Property, CMBIS

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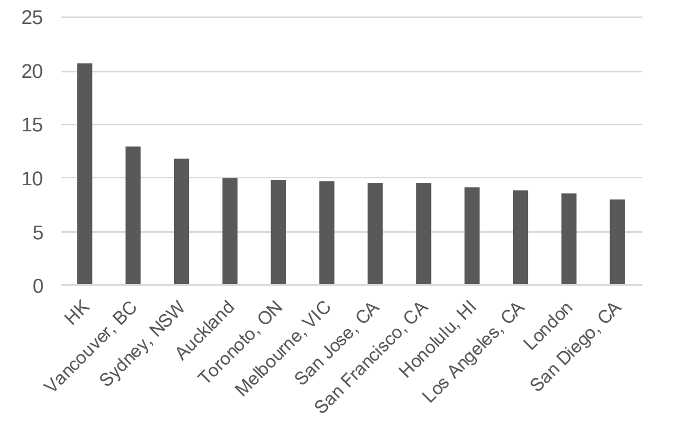
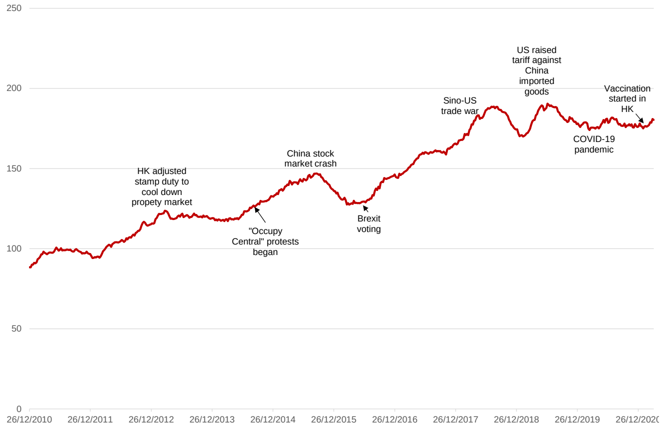


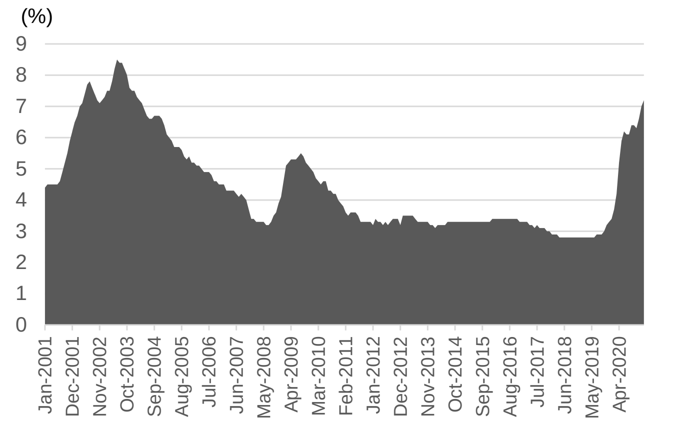
Source: Urban Reform Institute, CMBIS

Figure 2: Centa-City Leading Index in last 12 years



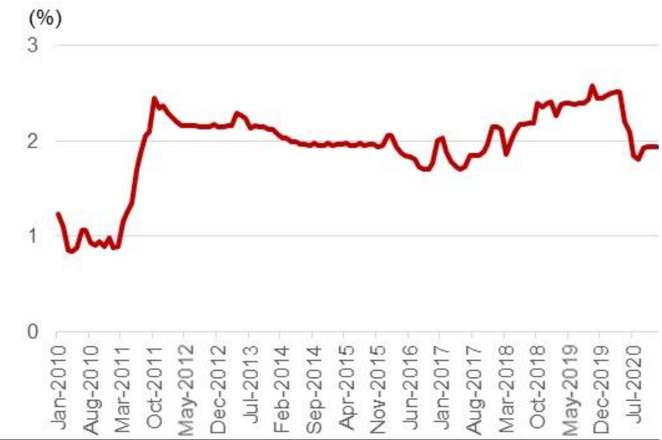
Source: Centaline Property, CMBIS

Figure 3: HK unemployment rate



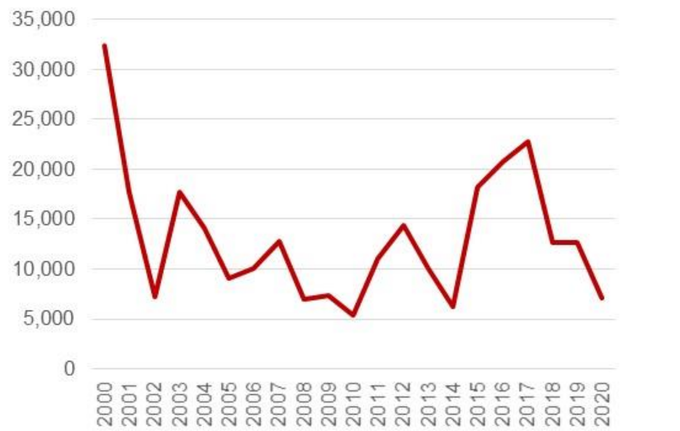
Source: HK Census & Statistics Department, CMBIS

Figure 4: HK MReferral mortgage rate



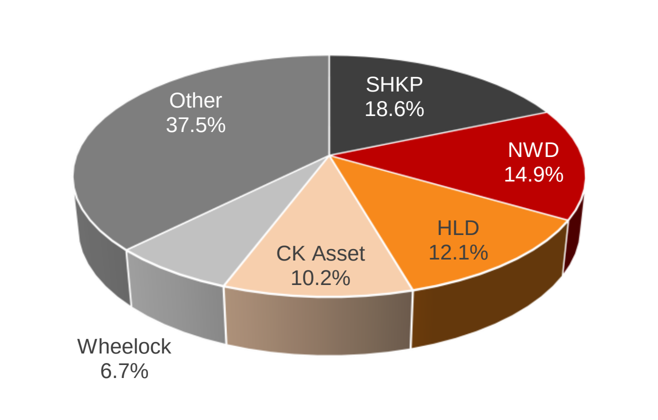
Source: Bloomberg, MReferral, CMBIS

Figure 5: Commencement of domestic units



Source: HK Building Department, CMBIS

Figure 6: Market share in HK property primary market in 2020



Source: Centaline Property, CMBIS

Industry overview

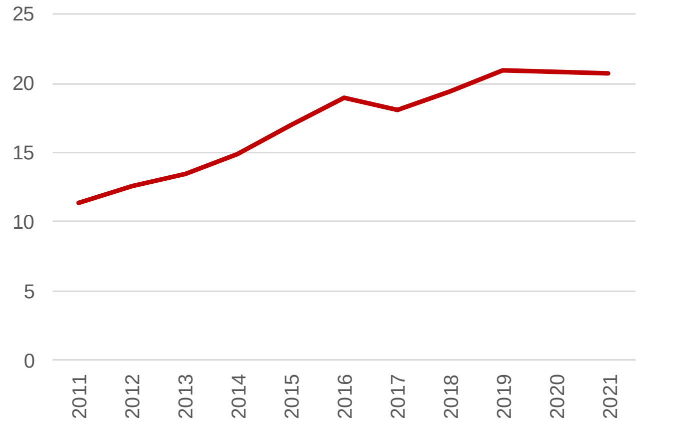
HK property price tops the world

Recently, CK Asset has sold its apartment in 21 Borrett Road at ASP of HK$136,000 per sq ft or in total consideration of HK$459mn. This is the record of the highest ASP of apartment in Asia.

In fact, HK property price always tops the global list. According to Demographia International Housing Affordability, HK had been ranking as the most expensive housing market in the world since 2011. Its latest report (2021 version) revealed that HK properties are severely unaffordable with median multiple (median house price divided by median household income) of 20.7x. In other words, HK people saved 20.7 years of their income to buy a property there. Furthermore, median multiple of HK properties is in upward trend. It increased from 11.4x in 2011 to 20.7x in 2021.

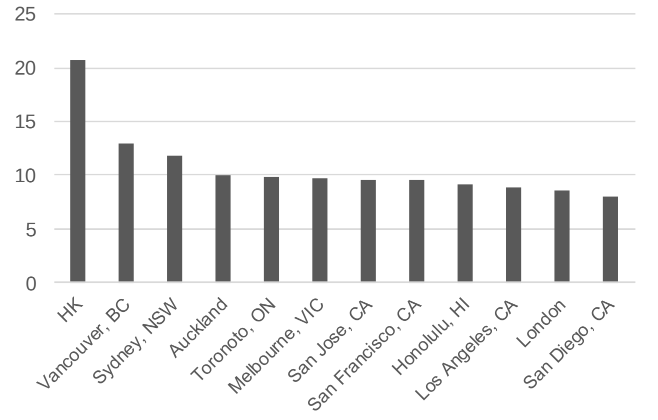
According to Demographia International Housing Affordability, there are 36 severely unaffordable major housing markets in 2021. The least affordable is HK with 20.7 median multiple. The second one is Vancouver with 13.0 median multiple, 7.7 years less than HK. Other cities with more than 10 median multiple include Sydney (11.8) and Auckland (10.0).

Figure 7: HK median multiple (median house price divided by median household income)



Source: Urban Reform Institute, CMBIS

Figure 8: 2021 Demographia International Housing Affordability



Source: Urban Reform Institute, CMBIS

COVID-19 threatened the upside trend

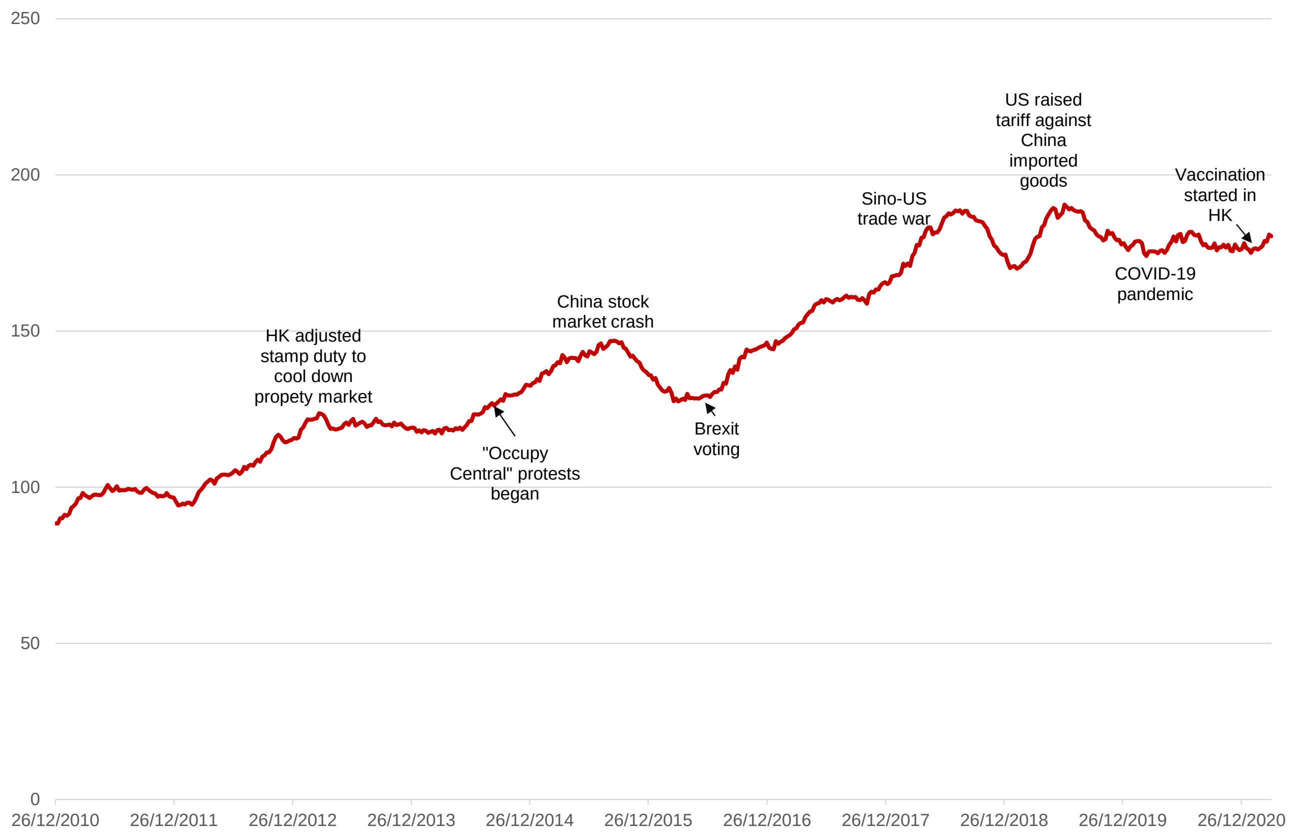
Housing is always an issue in Hong Kong. Around 7.5mn residents in Hong Kong are living in 1,104 sq km territory, of which most of them are hilly land.

HK property market experienced an 11-year up cycle. After suffering financial tsunami in 2008, HK property market had started to pick up again since 2009. Centa-City Leading Index (CCL Index) lost 15.2% in 2008 and then recorded annual positive return from 2009 to 2019. CCL Index surged by 210% from 2008 to 2020, representing a CAGR of 9.9% in last 12 years.

We believe the super cycle of HK property market was attributed by the mass capital liquidity, low interest rate environment and limited housing supply in Hong Kong. Furthermore, sustainable economic growth in China also drove some demand from China to Hong Kong. However, HK economic activities started to slow down due to COVID-19 and social unrest activities in 2019. Real GDP recorded a negative growth of 1.2% in 2019 and further deteriorated to 6.1% in 2020. HK has experienced six conservative recessions in last six quarters. Furthermore, HK unemployment rate reached 6.6% in Dec 2020, compared with 3.3% in Dec 2019. In addition, the recent increase of brain drain has imposed pressure on HK property market. As a result, uptrend of HK property market halted in 2020 and CCL Index recorded a decline of 1.1% in 2020.

However, there may have light at the end of the tunnel. HK has started COVID-19 vaccination since Feb 2021. Market sentiment was improved. Properties in the primary market were sold well that drove secondary market performance. CCL Index rebounded 2.3% in 1Q21.

Figure 9: 12-year trend of CCL Index



Source: Centaline Property, CMBIS

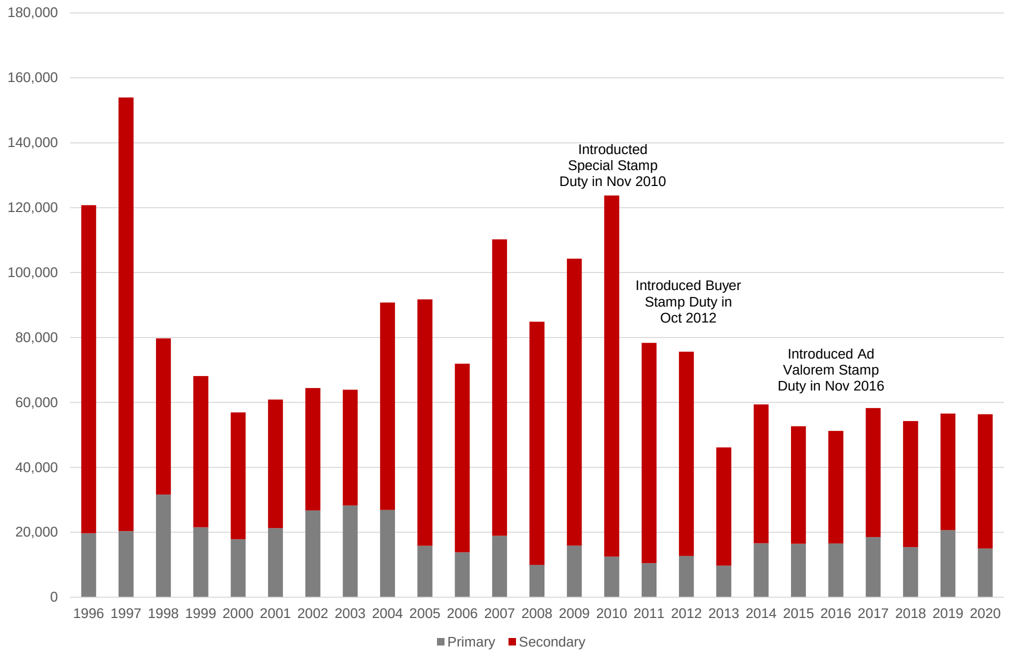
Extra stamp duty reduced desire of home buying

HK property price was surging last decade. In order to control the property bubble, HK government introduced many policies, such as in taxation or mortgage policy tightening, to cool down the market.

In the last decade, most of HK property buyers adopted Hibor based mortgage facilities that interest rate was linked with 1-month Hibor. Hong Kong dollar is pegged with the U.S. dollar. Most of the time, mortgage rate was below 3% or even lower that simulated people buying houses. Since it is business activities, HK government or HK Monetary Authority (HKMA) do not have any control on the mortgage rate. However, HKMA asked banks in HK to adjust loan to value ratio and conduct stress test for the borrowers in order to avoid or reduce financial or systemic risks arising from the property market.

On the other hand, HK government introduced new taxation policies to cool down property market. In Nov 2010, HK government introduced special stamp duty (SSD) to limit the holding period of property purchase or avoid short period of speculation activities. If the property was acquired between 20 Nov 2010 and 26 Oct 2012, its disposal within 24 months is liable to SSD. The holding period was extended to 36 months if the property was acquired on or after 27 Oct 2012. We found that number of residential property transactions had shrunk since 2010 and further since 2012. Including primary and secondary markets, annual number of residential properties transactions in HK fell below 60,000 cases last eight years. In 2012 and 2016, HK government further introduced Buyer Stamp Duty and Ad Valorem Stamp Duty to cool down HK property market, respectively.

Figure 10: HK residential property transaction volume



Source: Land Registry, Centaline Property, CMBIS

Uncertian economic outlook shadows future demand

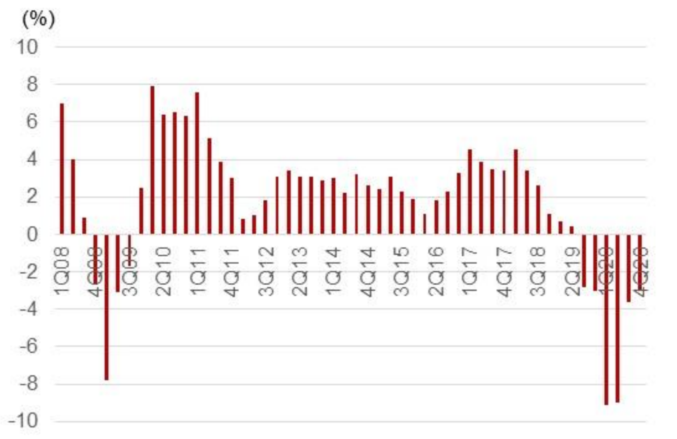
■ **Negative economy growths in six consecutive quarters**

Due to the social unrest and COVID-19, HK economy has suffered from recession since 3Q19. Some business activities almost froze in 2020, such as tourist, restaurant, cinema, fitting center, airline, etc. HK GDP shrank 3.0% in 4Q20. HK Census and Statistics Department also revealed that HK GDP retreated by 6.1% in 2020. Now, Hong Kong is still struggling against COVID-19. Though vaccination has already started, the impact from COVID-19 to HK economy may sustain in 1H21, so economic outlook is still uncertain. If COVID-19 vaccine is effective and widely adopted in Hong Kong, we expect Hong Kong economy will start to recover in 2H21 but uncertainties and challenges still exist depending on the pandemic situation and pace of recovery in other major economies. We expect HK GDP to grow around 4-5% this year.

■ **Job market weakened the demand, too**

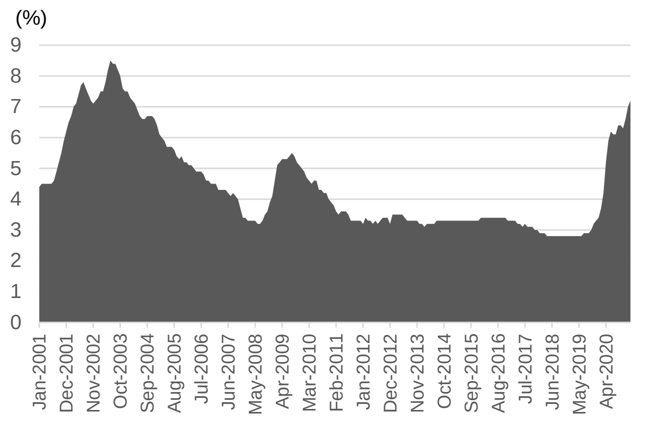
Following the weak economy, labour market is also fragile. HK unemployment rate escalated to 7.2% in Feb 2021, the highest since Apr 2004. The number of unemployed persons in HK amounted to 261,600 in Feb 2021. HK unemployment rate may further skyrocket in coming months. After Cathay Pacific (293 HK) shut down Dragon Air operation in 4Q20, some expatriate air crews or pilots sold their houses or apartments with discounted value after layoff. They might return to their homelands afterwards. We see the rising unemployment would bring a lot of pressure on the property market. Traditionally, many small enterprises, such as restaurants, may close down their operations after Chinese New Year when the economy is under pressure. As a result, we expect unemployment rate continues to stay at the plateau next few months.

Figure 11: HK GDP Growth



Source: HK Census & Statistics Department, CMBIS

Figure 12: HK Unemployment Rate



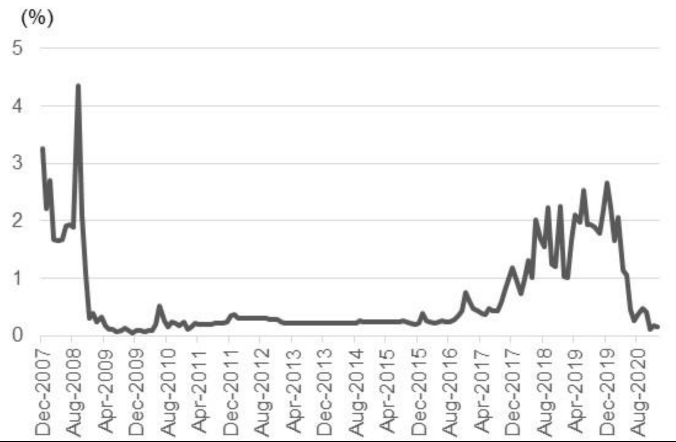
Source: HK Census & Statistics Department, CMBIS

Mortgage policy still favour to the market

■ Low interest rate environment may last for three years

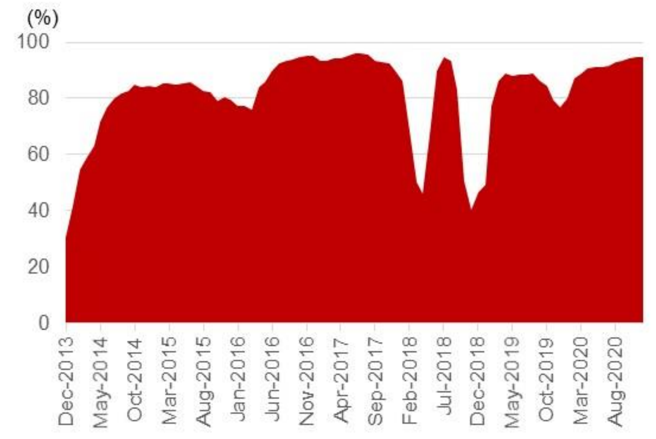
HK dollars are pegged with the US dollars, so does interest rate. US Federal Reserve officials expect to maintain interest rates near zero for years, at least till 2023 to back up economic recovery due to the impact from pandemic. Therefore, we expect Hong Kong would have low interest rate environment next few years, at least till 2023. In fact, 1-month Hibor stayed around 0.129% in Mar 2021. Furthermore, substantial HK property buyers are using Hibor-based mortgage facilities. According to HK Monetary Authority, about 94.6% of new mortgage loans approval used Hibor-based facilities in Dec 2020. So we perceive that HK property owners will benefit from low interest rate environment at least next three years.

Figure 13: 1-month Hibor



Source: Bloomberg, CMBIS

Figure 14: % of new Hibor-based mortgage

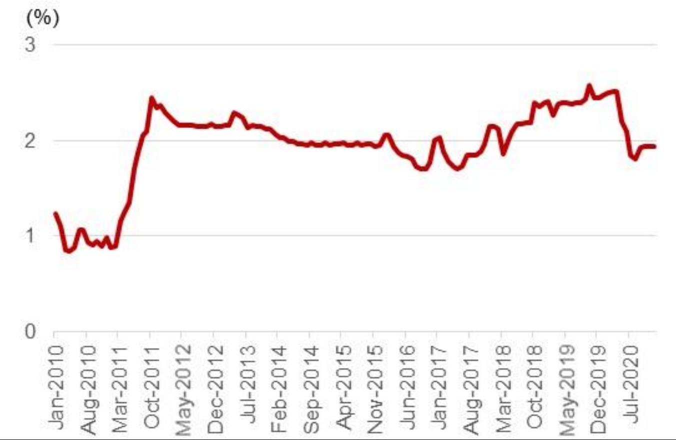


Source: HKMA, Bloomberg, CMBIS

■ HK mortgage rate sustains at low level

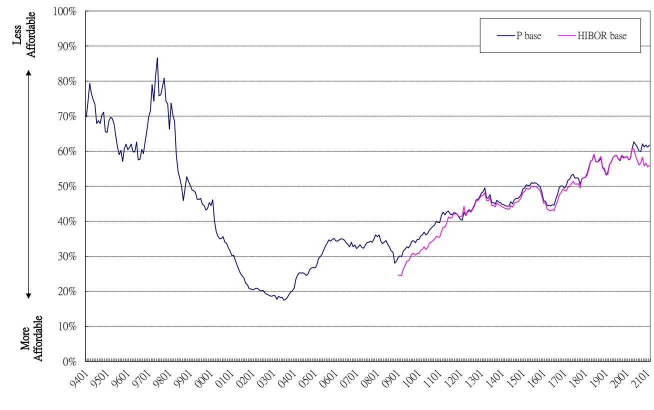
Banks in HK believe mortgage lending is low risk business. According to MReferral, HK mortgage rate declined from 2.45% in Dec 2019 to 1.94% in Dec 2020. In other words, every HK$1mn borrowing needs to have HK$5,030 monthly installment for a tenure of 20 years. According to Centaline Property Agency, affordability ratio stood at 61.7% for Prime-based mortgage and 56.0% for Hibor-based mortgage for all household as at Feb 2021 (i.e. unit size of 400 sq ft, 60% loan-to-value ratio, 20-year mortgage period, based on Centa-City (small/medium units) Leading Index's adjusted unit price and medium household income). It seems property market in HK is still healthy compared with 97 period with 86.6% affordability ratio. However, there is risk that average household income may drag down in the future because of the fragile employment market. This may adversely affect affordability ratio in the future.

Figure 15: HK MReferral mortgage rate



Source: Bloomberg, MReferral, CMBIS

Figure 16: Affordability ratio



Source: Centaline Property Agency

- **Lower down payment by Mortgage Insurance Programme**

HK Chief Executive, Mrs. Carrie Lam Cheng Yuet-ngor, adjusted Mortgage Insurance Programme in her 2019/20 policy address in Oct 2019. HK raised the cap on the value of the properties under the Mortgage Insurance Programme of the HKMC Insurance Limited. For a first-time home buyer (i.e. a person without any residential property in Hong Kong at the time of application), the cap on the value of a property eligible for a mortgage loan of maximum cover of 90% loan-to-value (LTV) ratio is raised from the HK$4mn to HK$8mn. For a property eligible for a mortgage loan of maximum cover of 80% LTV ratio (which may include a mortgage loan for self-occupied “flat for flat”), the cap on its value is raised from HK$6mn to HK$10mn. As a result, demand for properties with value less than HK$10mn, especially the mass market one, was increased.

Limited supply is another cushion

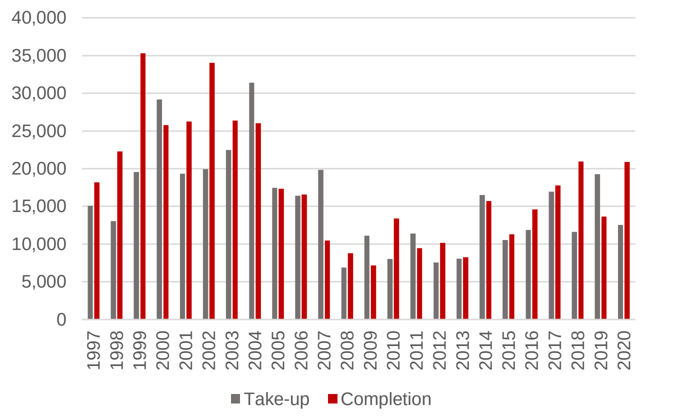
■ Slight supply shortage in 2019 and 2020

Land is scarce resource in HK. HK government is planning to increase land supply in the future. House completion declined from 20,968 units in 2018 to 13,600 units in 2019 and is rebounded to 20,890 units in 2020. From 2014 to 2019, annual take-up was around 10,000 to 16,000 units. HK government estimated that about 92,000 residential units will be launched for sales in the primary market next three to four years. Furthermore, it planned to develop lands in Northeast New Territories, Tung Chung, Siu Ho Wan, Fanling Golf Course. For the medium- and long-term housing supply, HK government is studying the Lantau Tomorrow Vision, which involves artificial islands in the Central Waters near Lantau Island with the reclamation of 1,000 hectares and the provision of related strategic transport infrastructure.

According to HK Building Department, commencement of building for domestic units declined from 22,726 units in 2017 to 12,676 units in 2018 and 12,693 units in 2019 and further to 7,128 units in 2020. As a result, we expect supply shortage will be sustained in 2021 and further pressure in 2022 and 2023. Centaline Property Agency predicted that about 15,854 residential units are completed in 2021 based on 71 property projects scheduled to be completed in 2021.

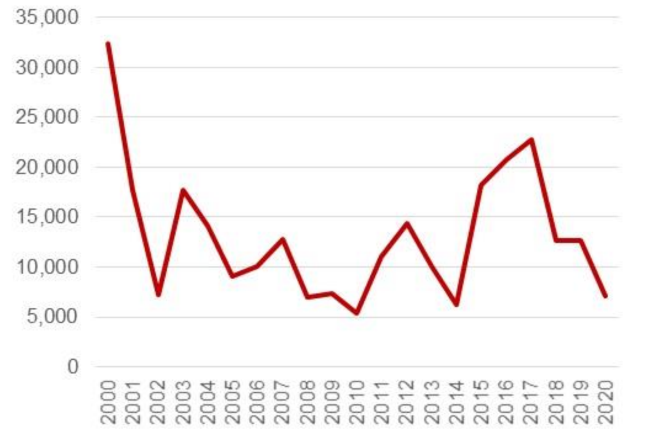
Furthermore, HK Financial Secretary, Mr. Paul Chan Mo-po, revealed the land supply in coming years in its 2021/22 Budget Speech. HK Government will launch 15 plots of residential land and 3 plots of commercial land in 2021/22 that will supply 6,000 residential units and 0.48mn sq m commercial properties in the future. Including land sale programme, railway property development projects and private development/redevelopment projects, he forecasted there would be 16,500 residential units new supply in 2021/22. Meanwhile, HK government will examine the feasibility of rezoning five commercial sites in Kowloon East for residential use, which will provide about 5,800 residential units in the future. It will also review about 40 "Government, Institution or Community" sites with joint use potential and put forward development proposals this year. Overall, he estimated annual private housing supply will be more than 18,000 units from 2021 to 2026.

Figure 17: Completion and take-up



Source: Rating and valuation Department, CMBIS

Figure 18: Commencement of domestic units



Source: HK Building Department, CMBIS

- **Raise public housing in new housing supply from 60% to 70%**

HK government decided to change the public/private split of new housing supply from 60/40 to 70/30 in 2018. Based on "Long Term Housing Strategy Annual Progress Report 2020" published in Dec 2020, total housing supply target for the 10-year period from 2021-22 to 2030-31 is 428,000 units, of which public/private split is 70/30. In other words, HK government forecasted private housing supply will reach 129,000 units next 10 years. We may expect private housing shortage after four years.

Mr. Paul Chan also projected 101,400 units of public housing supply from 2021 to 2026, comprising more than 70,000 public rental housing/Green Form Subsidised Home Ownership Scheme units and more than 30,000 subsidised sale units.

Full vaccination coverage would attract buyers from China

- **Brain drain is a short term threat**

The UK government unveiled a new immigration visa to HK residents who own BNO passports in Jan 2021. It is still difficult to predict how many HK residents emigrate through this scheme in the future. However, local newspaper reported that some local home owners are willing to sell their houses at a discount price before their departure from HK. The Times (UK newspaper) has reported that more than 35,000 Hong Kong people have applied for the UK's visa route as at mid-Apr. So we see there will be a threat to HK property market if a huge amount of people leave HK.

British government estimates that about 123,000 HK people may move to the UK in 2021. However, situation in the UK is not so well. On the one hand, Brexit made trade barriers between the UK and European Union. On the other hand, the pandemic lockdown limits business and economic activities. The UK economy might contract in 1Q21 and the median GDP in the UK is forecasted to decline by 2.3% in 1Q21. Due to this double hits, we expect HK people emigration to the UK is limited. As a result, impact to HK property market by UK's new immigration rule is limited.

- **China buyers will re-enter after epidemic is over**

In the past decade, one of HK property drivers is the influx of buyers from mainland. Due to COVID-19, less or almost none of mainlanders visited HK in 2020. HK government has already started vaccination scheme since early 2021. If the pandemic is contained, both HK and China government may consider allowing travelling to HK without quarantine. If it happens, we believe mainland buyers can alleviate the pressure from property sales by the emigrants.

Shenzhen is adjacent to HK. Shenzhen property market was booming last few years. Average selling price of properties in Nanshan District of Shenzhen city reached RMB200,000 per sq m (equivalent to HK$22,000 per sq ft). So Shenzhen citizens are capable to purchase HK properties. Furthermore, "Restriction on Purchase" is imposed on the Shenzhen property market. It may shift some purchasing power from Shenzhen to HK once border between Shenzhen and HK reopens. However, non-permanent HK residents are required to pay 30% of purchasing price as stamp duty when buying HK property. So mainlanders will also consider HK property market if they would like to allocate their assets overseas.

Consolidate in 1H21 and recover in 2H21

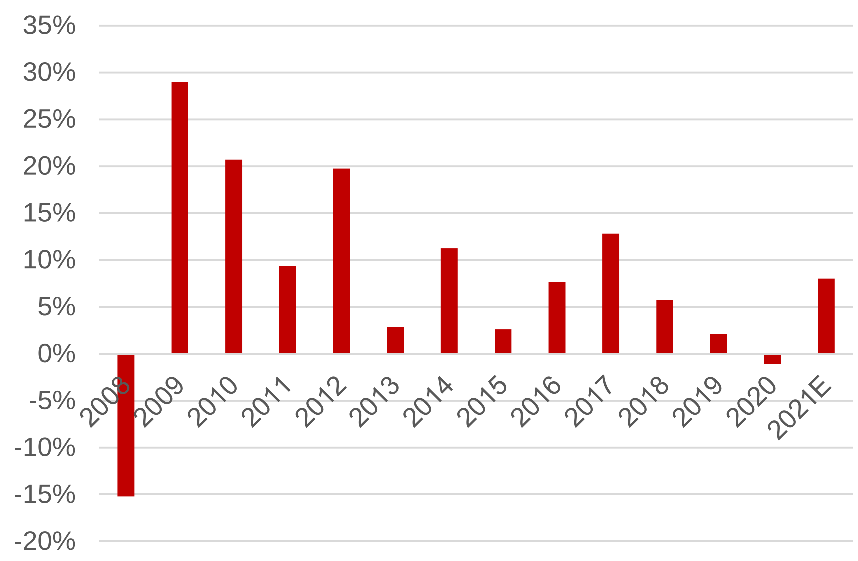
■ Brain drain and high unemployment may shadow market in 1H21

Although CCL Index expanded by 2.3% in 1Q21, we are cautious to HK property market in the short term. First, unemployment rate reached 7.2% in Feb 2021. However, we don't think it already peaked in Feb 2021. Business operating environment is still difficult now. As a result, we are not optimistic to labour market in coming months. We are afraid HK unemployment may further edge upwards to 7.4% or higher. Some may argue that major purchasing power of HK property market is not from the mass but from the wealthy families. However, market sentiment will become weak when unemployment number breaks the record. Most of the property buyers will prefer wait and see. Transaction volume will become thin and a few below market transaction may drag down average selling price during this period.

■ Rebound after vaccination

HK Government started vaccination scheme in Feb 2021. So our daily life will resume normal after vaccination. However, full scale of vaccination for HK people may take six months. We expect HK economic activities as well as HK property market will recover in 2H21. We forecast HK economy will grow by 2-4% in 2021, and CCL Index will regain about 8% in 2021 and reach 190.3 at the end of 2021, close to the peak of 190.5 as at Jun 2019.

Figure 19: Annual change of CCL Index



Source: Centaline Property Agency, CMBIS estimates

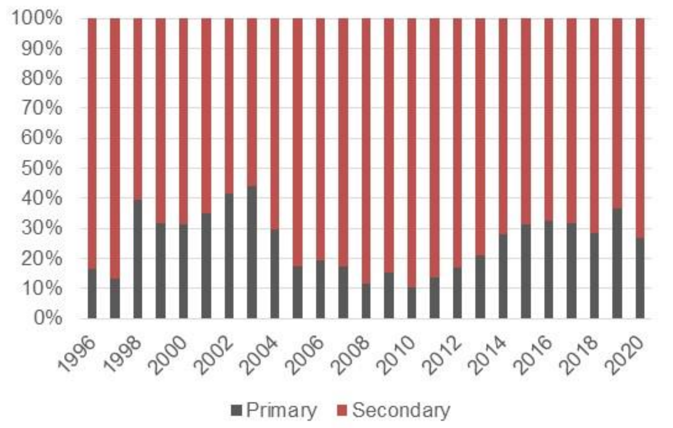
Major players in HK

Many players have more than 50 years of history

HK property market is well established and mature. Secondary market represented the majority transactions in HK. In the past 25 years, transactions in the secondary market accounted for 74% on average of total property transactions in HK. It is because more than 2mn residential units, including private and government subsidies were converted to private ones in HK. It is reasonable that around 40,000 annual property transactions (or between 60-80%) came from secondary market in the past eight years.

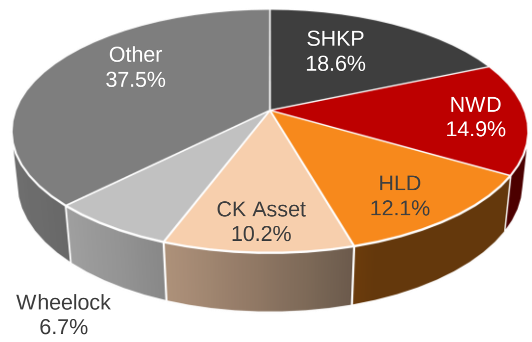
On the other hand, HK local developers, especially the Big Four, dominate HK property market. According to Centaline Property Agency, SHKP (16 HK), New World Development (17 HK), Henderson Land (12 HK) and CK Asset (1113 HK) accounted for 18.6%, 14.9%, 12.1% and 10.2% of primary property transactions in 2020, respectively, in terms of unit sold. Although we saw some China background developers, such as Evergrande (3333 HK), Vanke (2202 HK), Poly Property (119 HK) and COLI (688 HK), are taking part in HK property market, their influence is limited at the current stage.

Figure 20: Breakdown between primary and secondary markets



Source: Rating and Valuation Department, CMBIS

Figure 21: 2020 Market share of major developers in the primary market



Source: Centaline Property, CMBIS

- **SHKP is the market leader in HK**

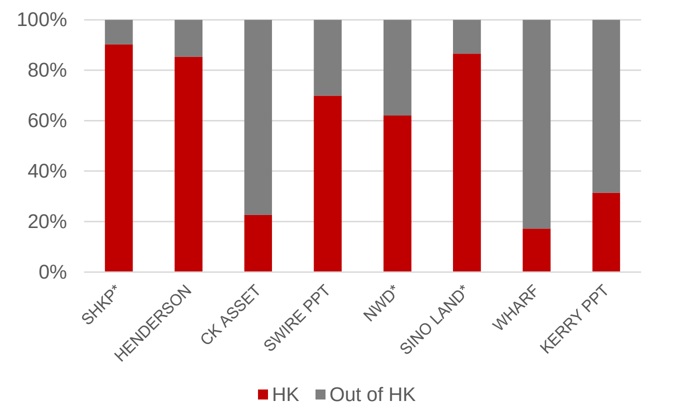
SHKP is the largest developer in HK. It accounted for 18.6% of property sales in HK primary market in 2020. In terms of market cap, revenue and net profit, SHKP is also the largest one in HK. Its market cap is HK$322bn. Furthermore, its revenue and net profit amounted to HK$85bn and HK$45bn for the 12 months ended 30 Jun 2020. SHKP participates in all spectrum of property market in HK, such as residential, office, retail, industrial. It develops luxury houses in the Peak or Southern District, such as Central Peak in Stubbs Road. It also develops mass housing in New Territories, such as Wetland Seasons Park in Tin Shui Wai.

■ **Focus in HK but diversification in business development**

HK developers are more conservative. They prefer to invest in HK although they would invest overseas. Except Wharf (4 HK) and Kerry Properties (683 HK), most of the local developers had more than 60% of income generated from HK in the last fiscal year. Although HK government implements some policies to control developers in HK, its influence and impact are less than those in China. Therefore, HK property development business generates higher profit margin.

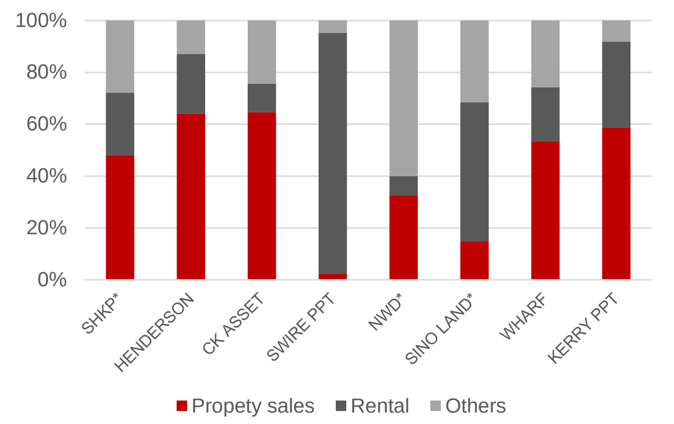
On the other hand, majority of HK developers have long history. Besides property development or property investment businesses, they participate in other business. For example, SHKP has also invested in telecommunication, information technology, transportation, logistic businesses. SHKP generated about 28% of revenue from non-property related businesses in FY20. Most of Chinese developers earned more than 95% of income from property development. However, some HK developers earned less than 50% of income from property development, but substantially income from property investment, such as Swire or Sino Land (83 HK). Overall speaking, HK developers have diversified their income source but significant income (about 80%) comes from property related businesses, including property sales, property investment and hotel business.

Figure 22: Revenue geographical breakdown in FY20



Source: Company data, Bloomberg, CMBIS
*Fiscal year ended at Jun

Figure 23: Business segments breakdown in FY20



Source: Company data, Bloomberg, CMBIS
*Fiscal year ended at Jun

■ **Landbank**

Landbank is an important asset and benchmark for property companies' valuation. Property companies would revaluate investment properties every year, no matter whether they are completed or under development. On the other hand, properties for sales will be recognized in the book value. If value of properties for sales is below the book, property companies will make provision to reflect the latest situation.

Among eight major developers in HK, CK Asset owned largest amount of landbank of 132mn sq ft as of 31 Dec 2020. However, about 26mn sq ft of investment properties in the UK are pub operations. Excluding this properties under pub operations, SHKP owned the largest landbank as well as the largest amount of investment properties among eight local developers. In fact, SHKP received about HK$20bn of rental income in FY20, which was also the highest in terms of amount in local developers.

Figure 24: Landbank comparison among HK major developers

(mn sq ft) As at	CK Asset Dec-20	SHKP Dec-20	HLD Dec-20	NWD Dec-20	Swire Ppt Dec-20	Sino Land Dec-20	Wharf Dec-20	Kerry Ppt Dec-20
In HK								
Under development	5.00	22.30	14.40	4.46	0.70	6.20	2.98	1.61
Investment properties	21.00	33.70	10.00	4.89	13.80	10.00	0.67	4.17
Sub-total	26.00	56.00	24.40	9.35	14.50	16.20	3.65	5.78
In Mainland China								
Under development	71.00	50.60	30.10	37.46	0.00	3.90	30.46	21.32
Investment properties	2.90	16.30	7.90	28.63	11.10	1.00	19.43	14.04
Sub-total	73.90	66.90	38.00	66.09	11.10	4.90	49.89	35.36
Overseas								
Under development	4.00	0.00	0.00	0.00	2.90	0.00	0.00	4.05
Investment properties	28.30	0.00	0.00	0.00	2.40	0.90	0.00	2.37
Sub-total	32.30	0.00	0.00	0.00	5.30	0.90	0.00	6.42
Total	**132.20**	**122.90**	**62.40**	**75.44**	**30.90**	**22.00**	**53.54**	**47.56**
Farmland in HK	N.A.	N.A.	44.40	16.46	N.A.	N.A.	N.A.	N.A.
Value in balance sheet (HK$mn)								
Investment properties	128,683	388,315	186,593	190,917	267,003	62,429	78,151	83,824
Property for sales	121,737	193,182	100,924	81,222	4,738	31,675	42,396	36,054
Total assets	520,703	779,489	461,087	616,490	337,387	188,363	254,095	195,769
% of total assets								
Investment properties	24.7%	49.8%	40.5%	31.0%	79.1%	33.1%	30.8%	42.8%
Property for sales	23.4%	24.8%	21.9%	13.2%	1.4%	16.8%	16.7%	18.4%

Source: Company data, CMBIS

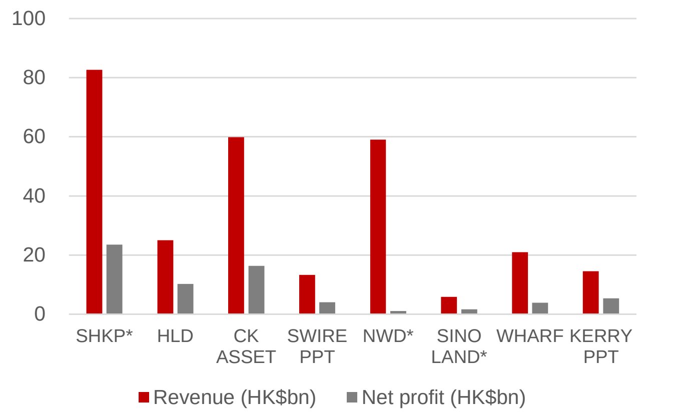
■ Higher margin but lower tax rate

HK developers enjoy higher profit margin in HK property business. Most of HK developers had more than 50% gross profit margin in FY0. Firstly, property development business has a sound gross profit margin because there is no price control in HK. Secondly, property investment business has more than 90% gross profit margin and HK developers have higher income contribution from property investment business. As a result, these two factors result in higher gross profit margin.

HK developers not only enjoy higher gross profit margin, but also attractive tax rates. Generally speaking, effective tax rate of most HK developers was around 20% in FY0, except NWD (17 HK), Wharf and Kerry Properties. NWD reduced HK property development earnings in FY20 because of lack of project completion in HK. In contrast, NWD increased tax payment in China, especially land appreciation tax (LAT), in FY20. Hence its effective tax rate increased to 69.7% in FY20 from 25.7% in FY19.

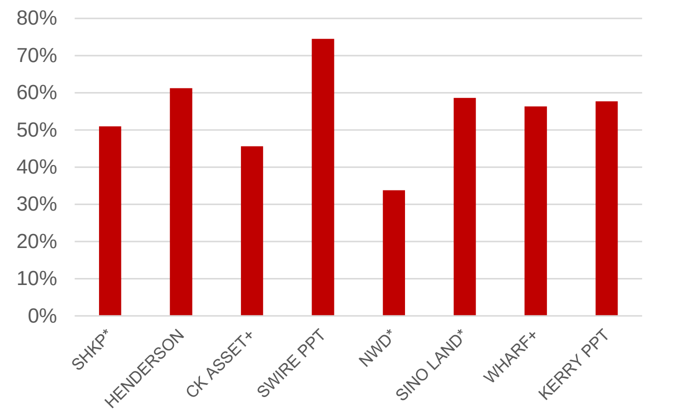
In FY20, SHKP posted the highest net profit among local property companies. SHKP recorded net profit of HK$44.9bn in FY20, outperforming other players. The least earners are Swire Properties and Wharf, which earned HK$4.10bn and HK$3.86bn, respectively, in FY20.

Figure 25: Revenue and net profit in FY20



Source: Company data, Bloomberg, CMBIS
* Fiscal year ended at Jun

Figure 26: GPM of HK developers in FY20



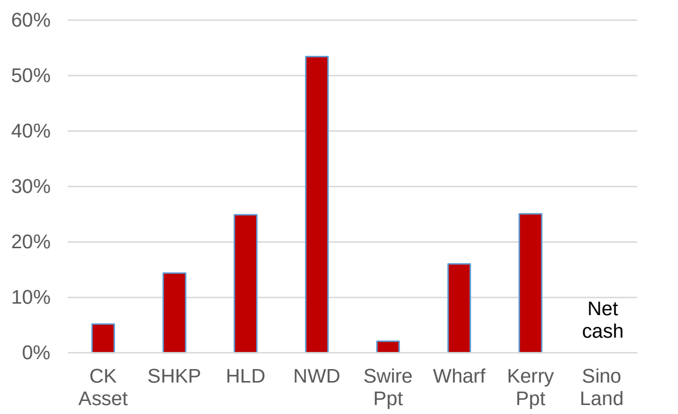
Source: Company data, Bloomberg, CMBIS
* Fiscal year ended at Jun

■ **Healthy balance sheet**

Different from mainland property developers, HK developers are more conservative. It may be because HK developers have operated more than half a century and experienced many economic cycles.

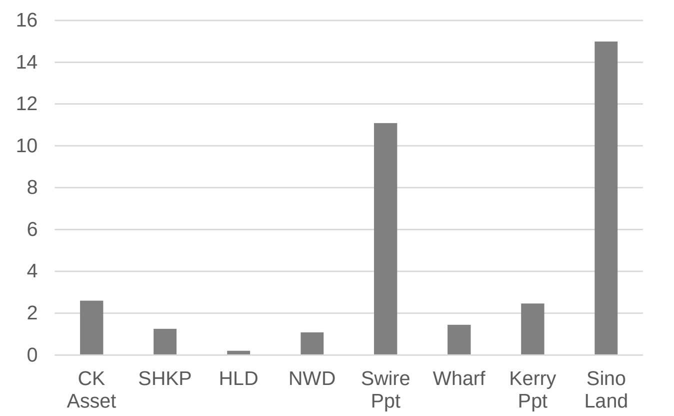
We select eight major HK developers, including the Big Four. NWD had the highest net gearing ratio of 53.5% as of 31 Dec 2020. Other developers maintained less than 25% net gearing ratio, eve Sino Land was net cash as of 31 Dec 2020. Compared with China developers, most of their net gearing ratio was around 60-80% as of 31 Dec 2020. We think HK developers are financial safe. Looking at other factor of cash to short-term debt, Sino Land and Swire Properties were more than 10x as of 31 Dec 2020. Only HLD stayed below 1x but we believe it was still financial safe. It is because HLD has been Hang Seng Index constituent stock for more than 30 years and has long-term relationship with major banks in HK. In addition, it owns HK & China Gas (3 HK), which is a utility company in HK and cash cow to HLD.

Figure 27: Net gearing ratio of HK developers as at end-20



Source: Company data, CMBIS

Figure 28: Cash/short-term debt of HK developers as at end-20



Source: Company data, CMBIS

■ The Big Four developers

We expect HK property market will recover from the COVID-19 outbreak and social unrest event. As a result, investors may turn their eyes back to property companies following the booming property market. In fact, their valuations commenced to shrink since 2019.

We believe HK property companies are under-valued now because of the impact from COVID-19 outbreak and social unrest event. Their valuations are below 10-year average. They will pick up in the coming years, at least reverse to mean level.

Among the Big Four we have rating, we prefer CK Asset most. Its valuation is most attractive at 0.48x forward P/B or 7.7x forward P/E. In addition, it has many hidden assets, such as hotels and pub properties that can be converted to the properties for sales, which can further boost earnings and NAV. In addition, CK Asset has proposed HK$19.4bn share buy-back plan that will strongly support its share price.

Figure 29: Valuation table

		Last price	Mkt cap		TP	Fiscal year	P/E		P/B	
Company	Ticker	(HK$)	(HK$mn)	Rating	(HK$)	ended	FY1	FY2	FY1	FY2
SHKP	16 HK	119.4	345,995	BUY	137.7	06/2020	12.8	10.8	0.59	0.57
CK ASSET	1113 HK	47.75	176,360	BUY	66.5	12/2020	7.7	6.9	0.48	0.45
HLD	12 HK	35.15	170,175	BUY	40.5	12/2020	11.4	10.1	0.51	0.50
NWD	17 HK	42.6	108,162	BUY	49.3	06/2020	33.5	17.6	0.48	0.48
SINO LAND	83 HK	11.1	81,327	Not Rated	N.A.	06/2020	8.4	9.7	N.A.	N.A.
SWIRE PPT	1972 HK	23.4	136,890	Not Rated	N.A.	12/2020	18.3	17.0	N.A.	N.A.
KERRY PPT	683 HK	25.4	36,995	Not Rated	N.A.	12/2020	7.5	7.5	N.A.	N.A.
WHARF	4 HK	23.0	70,236	Not Rated	N.A.	12/2020	12.3	11.8	N.A.	N.A.

Source: Company data, CMBIS estimates for rated companies, Other estimates by Bloomberg consensus

Risk Factors

Changes in global and local economic, political and social conditions

Any change in global and local economic, political and social conditions will impact HK properties market. Besides the impact from COVID-19 pandemic, any trade conflicts between China and the US may drag down HK economic activities. Furthermore, HK social unrest activities in 2019 threatened business and economic activities in HK and discouraged mainland travelers from visiting HK. In contrast, a stable economic, political and social environment would benefit long-term development of HK property market.

COVID-19 pandemic

COVID-19 has introduced many market volatility and uncertainty. Many business activities, services and travels in HK or between HK and some countries are suspended. Measures imposed by HK government in response to COVID-19 include work-from-home arrangements for certain government departments, and suspension of public gatherings, services and events. If COVID-19 outbreak persists, HK economy may be adversely affected, which in turn affects purchasing power of HK people or HK property market finally.

Government policy

Due to limited resources, property market is always bound or driven by government policies. In the last decade, HK Government imposed a series of stamp duty policies to control property market transactions. In addition, HK Monetary Authority gives the mortgage guidance to banks. Any change in mortgage policies will have severe impact to property buyers or developers.

Interest rate

HK interest rate or mortgage rate have been at historical low level for long period of time. Although there is no immediate threat of rate hike, recent rebound of the US 10-year government bond yield rate to 1.7% may trigger rate hike fear. Chance of rate hike is higher than that of rate cut because current US Fed fund rate stands at 0-0.25%. Any consistent rate hike action will hammer the property market performance.

Henderson Land (12 HK)

Active in urban redevelopment

We initiate Henderson Land (HLD) with BUY and TP at HK$40.5. HLD actively develops small scale property projects in HK. Being a blue chip company, it also owns HK & China Gas. HLD mainly obtains land by urban redevelopment program and farmland conversion. We forecast net profit to be HK$14.9bn, HK$16.8bn and HK$18.3bn in 2021-23, respectively. Our TP of HK$40.5 represents 0.59x FY21E P/B or its 10-year average.

- **Major player in HK urban redevelopment program.** HLD has a good track record in HK urban redevelopment program. Currently, it has a landbank of 24.4mn sq ft in HK, comprising 14.4mn sq ft of development properties and 10.0mn sq ft investment properties. Recently, HLD successfully converted 1.0mn sq ft mega-project in Hung Hom by unifying ownership. Furthermore, it owns 44.4mn sq ft farmland, which can be applied for usage conversion. Its new headquarters (Murray Road project) will be completed in 2023 that will further boost rental income.
- **Dual strategies for China development.** HLD will expand its office portfolio in China for long-term investment purpose. Secondly, it develops residential and mixed-use property projects, independently or jointly with local mainland developers in major, leading tier-two cities and cities in the Greater Bay Area. As of Dec 2020, HLD owned 30.1mn sq ft attributable GFA under development and 7.9mn sq ft attributable GFA of investment properties in Mainland China.
- **Owning four HK listed companies.** HLD directly owns 69.3% stake of Henderson Investment (97 HK), 41.5% stake of HK & China Gas (3 HK), 33.4% stake of HK Ferry (50 HK) and 50.0% stake of Miramir Hotel (71 HK). In addition, HK& China Gas has a 68.21% stake in Towngas China (1083 HK). HK & China gas is the only gas company in HK and it is a blue chip stock too. Due to its monopoly nature, it can provide stable cash flow to HLD.
- **Flat core earnings estimates in 2021.** We forecast revenue and net profit to stay flat at HK$25.9bn and HK$14.9bn in 2021, respectively, due to lack of en-bloc sales. With more projects completion, we estimate net profit to grow by 13.1% to HK$16.8bn in 2022 and 8.4% to HK$18.3bn in 2023.
- **Key risks: 1)** Government's policies on property market; **2)** Uncertainty in land conversion; **3)** Interest rate hike; **4)** COVID-19.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (HK$ mn)	24,184	25,020	25,948	29,481	31,912
Net income (HK$ mn)	16,994	10,192	14,876	16,831	18,253
EPS (HK$)	3.51	2.11	3.07	3.48	3.77
YoY growth (%)	-45.5	-40.0	46.0	13.1	8.4
Consensus EPS (HK$)	N/A	N/A	2.87	3.10	3.19
P/E (x)	10.0	16.7	11.4	10.1	9.3
P/B (x)	0.5	0.5	0.5	0.5	0.5
Yield (%)	5.1	5.1	5.1	5.5	6.0
ROE (%)	5.3	3.1	4.5	4.9	5.2
Net gearing (%)	24.4	24.2	25.2	25.0	23.8

Source: Company data, Bloomberg, CMBIS estimates

BUY (Initiation)

Target Price	**HK$40.5**
Up/Downside	**+15.2%**
Current Price	**HK$35.15**

HK Property Sector

Samson Man, CFA
(852) 3900 0853
samsonman@cmbi.com.hk

Stock Data

Mkt Cap (HK$ mn)	170,175
Avg 3 mths t/o (HK$ mn)	115
52w High/Low (HK$)	36.0/26.05
Total Issued Shares (mn)	4,841

Source: Bloomberg

Shareholding Structure

Lee Shau Kee	72.82%
Freeflow	27.18%

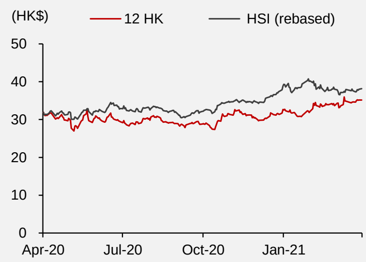
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	2.8%	4.3%
3-mth	10.9%	10.5%
6-mth	22.5%	3.1%
12-mth	9.0%	-8.3%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

Investment Thesis

Active in HK urban redevelopment

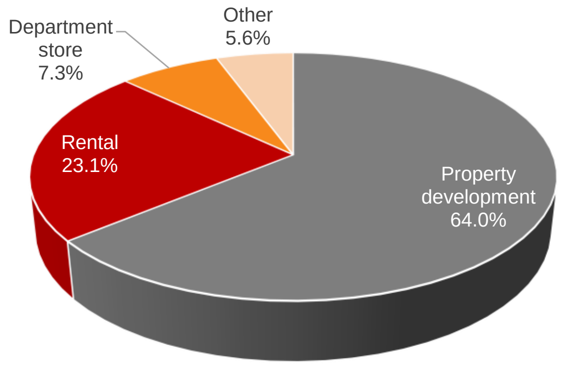
Henderson Land is one of the well-established property developers in HK. Its founder, Mr. Lee Shau Kee (or Uncle Four) jointly started property development business with SHKP founder, Mr. Kwok Tak Seng. Henderson Land was founded by Mr. Lee Shau Kee in 1976 and became listed company in 1981. Mr. Lee retired in 2019 and remains as an Executive Director of the Company. His sons, Mr. Lee Ka Kit and Mr. Lee Ka Shing, succeeded as Chairman and Managing Director of HLD in 2019.

HLD is a major property developer in HK. Its business strategy is to focus on the unban redevelopment projects in the HK city centre and owns office buildings in the major cities of China for investment purpose. In addition, HLD is the controlling shareholder of The Hong Kong and China Gas (3 HK), which is the only gas company in HK.

2% core earnings growth in 2020

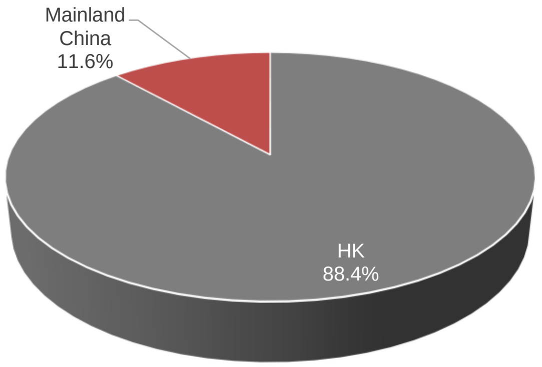
Revenue slightly gained by 3.5% to HK$25,020mn in 2020. Revenue from property development, rental income, department store and other accounted for 64.0%, 23.1%, 7.3% and 5.6% of total revenue in 2020, respectively. Revenue mix in 2020 was similar to that in 2019. HLD sold a site in Wo Shang Wai (WSW) to Evergande (3333 HK) in the amount of HK$4.7bn and recorded pre-tax profit of HK$3.6bn in 2020. However, the Company recorded HK$2.4bn of loss in fair value change in investment properties revaluation. As a result, net profit declined by 40.0% to HK$10,192mn. Excluding revaluation loss, core earnings increased by 1.8% to HK$14.9bn in 2020.

Figure 30: Revenue breakdown in 2020



Source: Company data, CMBIS

Figure 31: Revenue from property development breakdown in 2020



Source: Company data, CMBIS

HK property business

HLD currently has a landbank of 24.4mn sq ft in HK, comprising properties for development/ unsold completed properties of 14.4mn sq ft and completed investment properties (including hotel) of 10.0mn sq ft.

HLD mainly acquires land bank by two ways. First, it acquires old tenement buildings for redevelopment. HLD has recently completed the acquisition of all projects in Hung Hom along Gillies Avenue South, Baker Street, Whampoa Street and Bulkeley Street by way of the "Land (Compulsory Sale for Redevelopment) Ordinance". This Hung Hom mega-project will be developed into a 1.0mn sq ft eco-friendly community. The first phase of this development is expected to be launched for sales in 2021. In addition to those already unitizing 100% ownership, HLD owns 3.66mn sq ft of old tenement buildings for urban redevelopment plans with over 80% ownership in 23 projects. Total land cost of these projects is estimated to be about HK$33.2bn. Furthermore, the acquisition of another 28 projects with ownership between 20% and 80% is underway with a total estimated attributed GFA of about 0.64mn sq ft.

Second, it applies for land-use conversion of its farmland to residential or mix usage. In Dec 2017, HLD finalized with HK government on converting farmland in "North East New Territories New Development Areas" to residential development. The land premium amounted to HK$2,541mn and these farmlands will be converted to five residential towers providing 1,576 units with 0.61mn sq ft GFA. As at Dec 2020, HLD owned about 44.4mn sq ft farmland in HK, representing the largest holding among all property developers in HK.

In some occasions, it also participates in land auction or bidding. The Company owns 1.9mn sq ft GFA residential projects in Kai Tak Area through two wholly-owned subsidiaries and four JV companies. In addition, the Company is waiting for HK government's review regarding land premium of Yau Tong Bay project which is 22.8% owned by HLD and provides about 0.9mn sq ft attributable GFA to the Company.

Figure 32: HLD Land bank in Tai Tak Area

Project	Interest	Usage	Total GFA (sq ft)	Attributable GFA (sq ft)	Land premium (HK$mn)	AV (HK$/sq ft)
Two Kai Tak Kowloon Sites (NKIL No. 6565 and NKIL No. 6562)	100%	R/C	1,052,569	1,052,569	15,958	15,161
Kai Tak NKIL No. 6574, 4B-3	29%	R	574,614	168,362	8,334	14,504
Kai Tak NKIL No. 6576, 4B-1	30%	R	722,060	216,618	9,893	13,702
Kai Tak NKIL No. 6552, 4C-2	18%	R/C	641,172	115,411	12,589	19,634
Kai Tak NKIL No. 6574, 4B-6	30%	R/C	1,205,050	361,515	15,953	13,239
Total			4,195,466	1,914,475	62,728	14,951

Source: Company data, CMBIS

In 2021, HLD plans to launch around 8,100 residential units in 3.19mn sq ft GFA (3,900 units or 1.46mn sq ft GFA in 2020), of which 6,971 are new units. Furthermore, it will also launch about 0.24mn sq ft GFA of industrial/office properties for sales in 2021. We expect there will be prospective property sales outlook in 2021.

Figure 33: HLD launching plan in HK in 2021

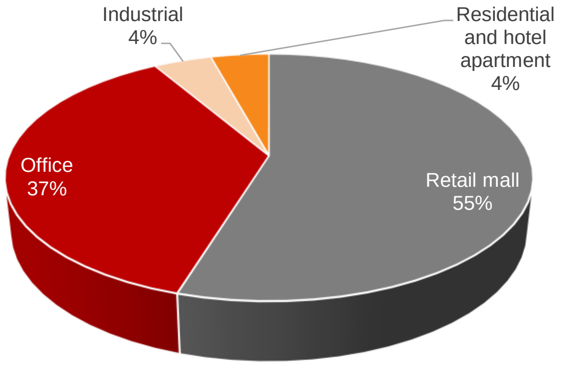
Project	Interest	Usage	Total GFA (sq ft)	Attributable GFA (sq ft)	No. of residential units	Completion Timing
The Royale (Ph 3), Tuen Mun	17%	R	169,090	28,255	557	1H22
The Hampstead Reach, Yuen Long	100%	R	28,706	28,706	16	Completed
71 Main Street, Ap Lei Chau	100%	R/C	36,207	36,207	138	2H22
1 Shau Kei Wan Road, Quarry Bay	100%	R	128,821	128,821	420	1H23
New Kowloon Inland Lot No. 6565, Kai Tak	100%	R/C	630,351	630,351	1,184	1H22/2H22
Fanling Sheung Shui Town Lot 262	100%	R	612,477	612,477	1,576	1H22
New Kowloon Inland Lot No. 6562, Kai Tak	100%	R	397,967	397,967	740	2H22
73 Caine Road, Mid-Level	100%	R/C	55,782	55,782	187	1H22
30-34 Gillies Avunue South, Hung Hom	100%	R/C	98,812	98,812	330	1H23
25-29 Kok Cheung Street, Mong Kok	100%	R/C	202,148	202,148	616	1H23
New Kowllon Inland Lot No. 6574, Kai Tak	29%	R	574,614	168,362	1,207	2,023
Unsold inventories	Various	Various	N.A.	798,732	1,209	Various
Total				3,186,620	8,180	

Source: Company data, CMBIS

Gross rental income of HK investment properties (including shares of associates and JV) tumbled by 7.4% YoY to HK$6,774mn in 2021 because of poor retail market in HK as well as impact from rental concession. HLD offered rent concessions ranging from 20% to 70% to certain distressed tenants in its shopping malls. So net rental income in HK also fell 11% to HK$5.0bn in 2020. As at Dec 2020, the average occupancy rate was 94%, of which office performance remained resilient.

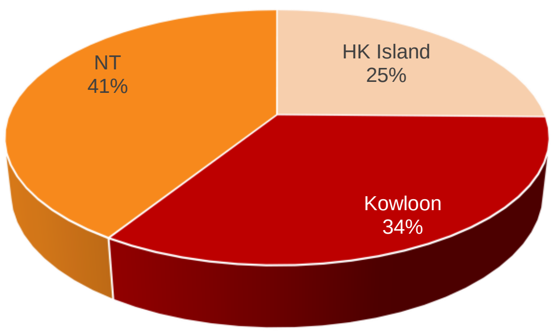
In 2020, a new office and mixed-used building in Wanchai (208 Johnston) was completed and bought in another 64,920 sq ft leasable GFA to HLD. As of Dec 2020, HLD owned about 9.5mn sq ft of leasable GFA in HK, including 40.77% interest in the International Finance Centre project. Currently, Murray Road project is under construction and is expected to be completed in 2023. After its completion, total leasable GFA in HK will reach 10.0mn sq ft.

Figure 34: HLD investment property by type in HK



Source: Company data, CMBIS

Figure 35: HLD investment property by geographical area in HK



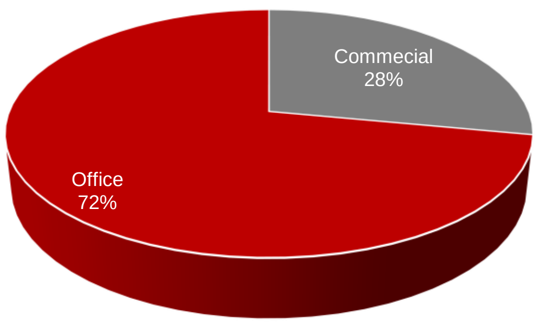
Source: Company data, CMBIS

■ China property business

HLD recorded attributed contracted sales amount of RMB6,390mn in 2020, down 23% YoY and attributed contracted sales area of 4.0mn sq ft, down 23% YoY. The slower sales was affected by the pandemic and some construction delays. In 2020, eight residential property projects in China with 5.32mn sq ft (2.38mn sq ft in 2019) attributable GFA were completed. As a result, revenue from properties sales in China increased by 44% to HK$1,862mn in 2020. In 2021, nine residential projects with total attributable GFA of 5.99mn sq ft are expected to be completed.

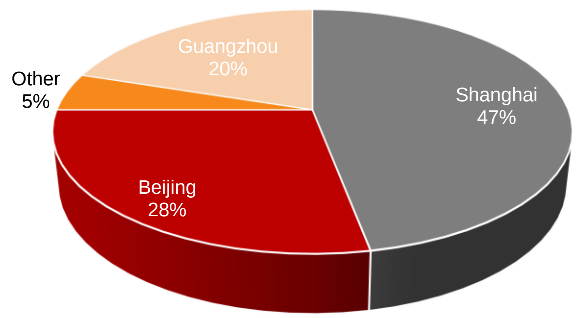
As of Dec 2020, HLD owned 30.1mn sq ft attributable GFA under development, of which 73% or 21.89mn sq ft were for residential usage. Furthermore, it also owned 7.9mn sq ft attributable GFA of investment properties. On the one hand, rental income in China was also affected by rental concession. On the other hand, a 2% RMB depreciation weakened its rental performance. HLD recorded a 1% decline of gross rental income to HK$1,829mn in 2020. Office towers at Lumina Guangzhou (attributed leasable GFA 0.97mn sq ft), Hengxu Hui in Shanghai (attributed leasable GFA 0.14mn sq ft) and Chengdu ICC shopping mall were completed in 2020. In addition, shopping malls in Lumina Guangzhou and Lumina Shanghai (Phase I and II) are expected to be completed in 2021. These will contribute additional 3.76mn sq ft leasable GFA to the Company in 2021 and future rental growth.

Figure 36: HLD investment property by type in China



Source: Company data, CMBIS

Figure 37: HLD investment property by geographical area in China



Source: Company data, CMBIS

HLD adopts the following strategy for its Mainland China property business.

1) Property Investment: HLD focuses on the development of Grade-A office buildings. It will continue to expend its portfolio of quality property investments at reasonable costs in the core areas of major cities.
2) Property Development: HLD continues to develop residential and mixed-use property projects in major, leading tier-two cities and cities in the Greater Bay Area. It will continue to co-operate with mainland property developers to form JV to develop projects.

Other businesses

HLD directly owns four HK listed companies, namely Henderson Investment, HK & China Gas, HK Ferry and Miramir Hotel. In addition, HK& China Gas had a 68.21% stake in Towngas China.

Figure 38: Major investments as the listed companies

Company	Ticker	Mkt cap (HK$mn)	Interest (%)	Business
Henderson Investment	97 HK	1,265	69.27%	Retail business in HK
HK & China Gas	3 HK	222,141	41.53%	Production & distribution of gas in HK & China
Miramar Hotel	71 HK	10,848	50.00%	Property investment, hotel & travel business
HK Ferry	50 HK	2,163	33.41%	Property development & investment
Towngas China*	1083 HK	11,371	28.33%	Construction & operation of piped city-gas project in China

Source: Company data, CMBIS
* Towngas China is 68.21% owned by HK& China Gas

- **Henderson Investment (97 HK, 69.27% stake)**

Currently, Henderson Investment operates six department stores with the brand of Citistore and three department stores cum supermarkets or supermarket with the brand of APITA or UNY. Revenue and net profit of Henderson Investment gained by 7.1% to HK$1,829mn and 105% to HK$127mn in 2020, respectively. The sound results were mainly explained by saving from rent concession, HK government's wage subsidies and one-off negative factors in 2019 (social unrest and closing costs of a store).

Henderson Investment plans to close Citistore Tai Kok Tsui shop in 2021. However, it is looking for opening new household specialty stores and strengthening online businesses for Citistore and UNY.

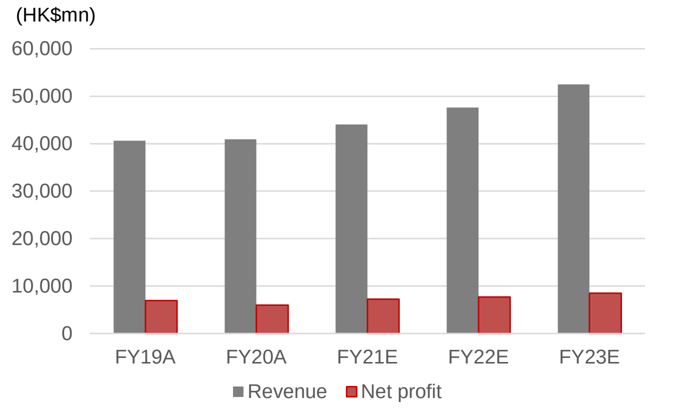
- **HK & China Gas (3 HK, 41.53% stake)**

Net profit of HK & China Gas lost 13.8% to HK$6,007mn in 2020. Excluding change of revaluation for investment properties, core profit declined by 4% to HK$6,484mn in 2020. Total volume of gas sales in HK declined 2.7% to 27,947mn MJ in 2020. Number of customers in HK gained by about 10,000 to 1.94mn at the end-20.

HK& China Gas holds about 68.21% of Towngas China. Net profit of Towngas China posted 11% gain to HK$1,447mn in 2020. Towngas China invested in five new projects in 2020, three are centralized heating projects and two are shale gas projects. At the end-20, inclusive of Towngas China, HK & China Gas had a total of 282 city-gas projects on the Mainland China, up nine projects from a year ago.

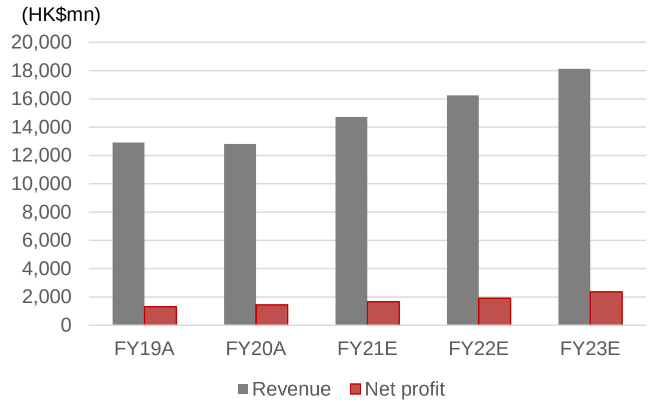
According to Bloomberg, market consensus forecasts net profit of HK & China Gas to increase by 20.4% to HK$7,233mn in 2021 and 6.2% to HK$7,681mn in 2022.

Figure 39: Revenue & net profit of HK & China Gas



Source: Company data, Bloomberg estimates, CMBIS

Figure 40: Revenue & net profit of Towngas China



Source: Company data, Bloomberg estimates, CMBIS

- **HK Ferry (50 HK, 33.41% stake)**

Due to the lack of property sales income, net profit of HK Ferry shrank 80.5% to HK$26.6mn in 2020. Gross rental income of HK Ferry amounted to HK$103mn in 2020. Except The Spectacle, investment properties recorded a 91%+ occupancy rate. HK Ferry is undergoing two property development projects. The Royale is a 50%/50% JV project with Empire Group. Phase 1 and Phase 2 of The Royale were launched for sales and received satisfactory response. Phase 3 will be launched this year. Total GFA of The Royale is 0.66mn sq ft. In Jun 2018, HK Ferry was awarded the redevelopment contract for the Sham Shui Po project by the Urban Renewal Authority. Total GFA of this project is 0.14mn sq ft. HK Ferry will be entitled to the residential GFA of 97,845 sq ft. This project is expected to be completed in 2023.

- **Miramar Hotel (71 HK, 50.002% stake)**

Revenue and net profit of Miramar Hotel tumbled by 57.1% to HK$1,315mn and 76.6% to HK$302mn in 2020. Excluding the change in revaluation for investment properties, core profit reduced by 42% to HK$454mn. Due to impact from COVID-19, hotel, food & beverage and travel business were severely affected.

HLD announced to acquire 103,000 Miramar shares on HK Stock Exchange at average price of HK$15.28 per share on 14 Apr 2021. Then, HLD increased its stake from 49.987% to 50.002%. Miramar became an indirect non fully owned subsidiary of HLD. The financial results of Miramar will be consolidated into the consolidated financial statements of the Group. As of Dec 2020, investment properties and cash on hand amounted to HK$15.3bn and HK$5.05bn respectively, while total debt was HK$3mn. As a result, financial status of HLD will be strengthened after consolidation of Miramar's financial results.

Financial Analysis

Revenue slightly gained by 3.5% to HK$25,020mn in 2020. However, net profit declined by 40.0% to HK$10,192mn in the same period. Excluding revaluation loss, core earnings increased by 1.8% to HK$14.9bn in 2020. As at Dec 2020, about HK$8.04bn properties in HK and HK$10.7bn properties in Mainland China were pre-sold but unbooked.

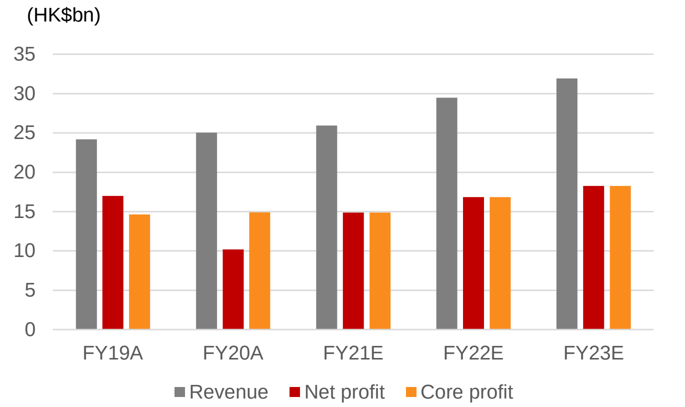
- **Estimate core profit to be flat in 2021**

Without the en-bloc project sales such as Wo Shang Wai in 2020 (HK$4.7bn), we project total revenue slightly to increase by 3.7% to HK$25.9bn in 2021. Gross margin is expected to return to normal stage and we expect it to be 51.1%. Benefited from the recovery of associated companies and JV, we forecast net profit to gain by 46.0% to HK$14.9bn in 2021. There were HK$2.4bn loss in revaluation of investment properties in 2020. We do not factor in any change in investment properties revaluation. We expect core earnings to stay flat at HK$14.9bn in 2021.

- **Estimate net profit to grow by 13% in FY22 and 8% in FY23**

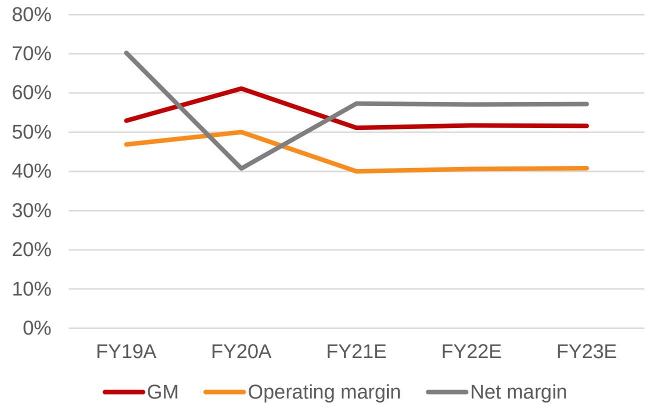
More projects are expected to be completed in 2022 and 2023. We forecast total revenue to grow by 13.6% to HK$29.5bn in 2022 and 8.2% to HK$31.9bn in 2023. We expect GM does not change so much. We forecast gross margin to be 51.7% in 2022 and 51.6% in 2023. As a result, we estimate net profit to grow by 13.1% to HK$16.8bn in 2022 and 8.4% to HK$18.3bn in 2023.

Figure 41: Revenue, net profit and core profit



Source: Company data, CMBIS estimates

Figure 42: GM, operating margin and net margin



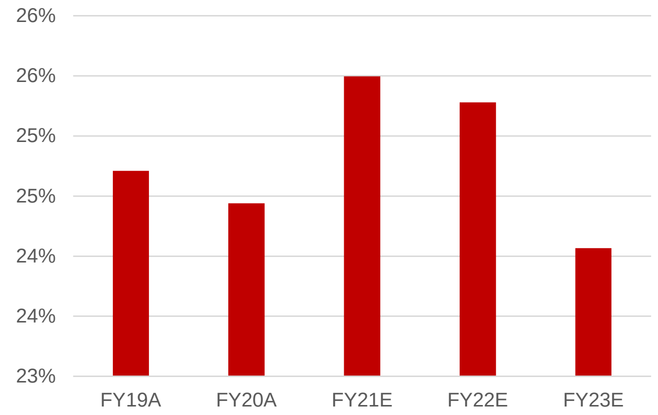
Source: Company data, CMBIS estimates

■ Healthy balance sheet

As of Dec 2020, total debt and cash on hand amounted to HK$87.4bn and HK$7.09bn, respectively. Net gearing was 24.4% as of Dec 2020. We expect HLD to maintain net gearing at the present level at 24-26% next three years.

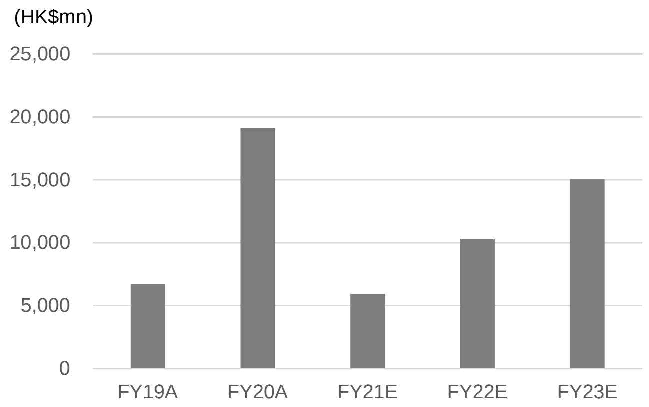
As at Dec 2020, cash to short-term debt stood at low level of 0.24x, compared with 0.41x a year ago. However, we believe financial status of HLD is safe as it is a blue chip developer in HK. The Company has long-term relationship with major banks in HK and easily obtains funding from them. Furthermore, the Company generated positive operating cash flow in 2019 and 2020 and we expect it will sustain next three years.

Figure 43: Net gearing ratio



Source: Company data, CMBIS estimates

Figure 44: Operating cash flow



Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (HK$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	**24,184**	**25,020**	**25,948**	**29,481**	**31,912**
Property development	15,079	16,009	15,980	18,350	19,850
Property investment	6,169	5,777	6,355	7,117	7,544
Others	2,936	3,234	3,613	4,014	4,518
Cost of sales	(11,378)	(9,717)	(12,682)	(14,227)	(15,432)
Gross profit	**12,806**	**15,303**	**13,266**	**15,254**	**16,480**
Other income and gains	1,783	256	486	583	698
Distribution expenses	(1,307)	(1,053)	(1,297)	(1,562)	(1,659)
Administrative expenses	(1,946)	(1,981)	(2,076)	(2,300)	(2,489)
Other expenses	-	-	-	-	-
Operating profit	**11,336**	**12,525**	**10,379**	**11,975**	**13,030**
Finance expenses	(601)	(558)	(590)	(642)	(705)
Associates/JV	5,821	3,160	6,680	7,530	8,145
Exceptional	2,530	(2,413)	-	-	-
Pre-tax profit	**19,086**	**12,714**	**16,469**	**18,863**	**20,470**
Income tax	(2,037)	(2,431)	(1,468)	(1,700)	(1,849)
After-tax profit	17,049	10,283	15,001	17,163	18,621
Minority interest	(55)	(91)	(125)	(332)	(368)
Perpetual	-	-	-	-	-
Net profit	**16,994**	**10,192**	**14,876**	**16,831**	**18,253**
Core profit	**14,640**	**14,899**	**14,876**	**16,831**	**18,253**

Cash flow

YE 31 Dec (HK$ mn)	FY19A	FY20E	FY21E	FY22E	FY23E
Operating profit	11,336	12,525	10,379	11,975	13,030
Depreciation and amortization	377	428	430	435	438
Change in working capital	(1,770)	(227)	(3,694)	(7,840)	(4,140)
Income tax paid	(1,275)	(1,058)	(1,802)	(1,412)	(1,649)
Others	(1,924)	7,445	616	7,157	7,371
CF from operating	**6,744**	**19,113**	**5,928**	**10,315**	**15,050**
Capex	(2,932)	(4,069)	(2,657)	(1,653)	(2,955)
Associates/JV	(4,154)	(6,480)	(119)	(1,800)	(1,200)
Other	3,263	(110)	(136)	(145)	(168)
CF from investing	**(3,823)**	**(10,659)**	**(2,912)**	**(3,598)**	**(4,323)**
Equity raised	-	-	-	-	-
Change of Debts	5,821	(4,233)	6,561	1,970	350
Dividend paid	(8,219)	(7,816)	(7,816)	(7,816)	(8,468)
Other	(3,471)	-	-	-	-
CF from financing	**(5,869)**	**(12,049)**	**(1,255)**	**(5,846)**	**(8,118)**
Net change in cash	(2,948)	(3,595)	1,761	871	2,609
Cash at the beginning	12,899	9,634	5,807	7,336	7,975
Exchange difference	(317)	(232)	(232)	(232)	(232)
Cash at the end	**9,634**	**5,807**	**7,336**	**7,975**	**10,352**
Pledged deposit	2,476	1,281	1,281	1,281	1,281
Cash at BS	12,110	7,088	8,617	9,256	11,633

Balance sheet

YE 31 Dec (HK$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	**326,495**	**336,024**	**338,632**	**342,230**	**346,477**
Fixed asset	389	400	420	438	455
Investment properties	182,963	186,593	188,800	190,000	192,500
Associates/JV	128,401	134,881	135,000	136,800	138,000
Intangible assets	262	262	262	262	262
Other non-current assets	14,480	13,888	14,150	14,730	15,260
Current assets	**128,750**	**125,063**	**132,617**	**140,946**	**147,963**
Cash	12,110	7,088	8,617	9,256	11,633
Account receivable	14,885	15,864	16,200	16,540	16,980
Inventories	100,495	101,059	106,500	113,800	118,000
Other current assets	1,260	1,052	1,300	1,350	1,350
Current liabilities	**59,165**	**54,736**	**62,388**	**64,980**	**65,180**
Borrowings	29,252	29,332	33,000	33,800	32,100
Trade and other payables	12,401	13,717	15,800	15,600	16,100
Contract liabilities	14,897	8,587	10,600	12,400	13,800
Deferred taxation	2,383	2,762	2,650	2,820	2,820
Other current liabilities	232	338	338	360	360
Non-current liabilities	**70,687**	**74,159**	**70,462**	**71,600**	**73,700**
Borrowings	62,400	58,087	60,980	62,150	64,200
Other non-current liabilities	8,287	16,072	9,482	9,450	9,500
Shareholders' equity	**320,851**	**327,607**	**333,769**	**341,886**	**350,700**
Minority interest	4,542	4,585	4,630	4,710	4,860
Perpetual bond	0	0	0	0	0
Total equity	325,393	332,192	338,399	346,596	355,560

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue mix (%)					
Property development	62.4	64.0	61.6	62.2	62.2
Property investment	25.5	23.1	24.5	24.1	23.6
Others	12.1	12.9	13.9	13.6	14.2
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Growth (%)					
Revenue	10.0	3.5	3.7	13.6	8.2
Operating profit	-2.5	10.5	-17.1	15.4	8.8
Net profit	-45.5	-40.0	46.0	13.1	8.4
Profit & loss ratios (%)					
Gross margin	53.0	61.2	51.1	51.7	51.6
Net margin	70.3	40.7	57.3	57.1	57.2
Effective tax rate	10.7	19.1	8.9	9.0	9.0
Balance sheet ratios					
Current ratio (x)	2.2	2.3	2.1	2.2	2.3
Receivable day	224.7	231.4	227.9	204.8	194.2
Net gearing ratio (%)	24.4	24.2	25.2	25.0	23.8
Return (%)					
ROE	5.3	3.1	4.5	4.9	5.2
ROA	3.7	2.2	3.2	3.5	3.7
Per share data (HK$)					
EPS	3.51	2.11	3.07	3.48	3.77
DPS	1.80	1.80	1.80	1.95	2.10
BVPS	66.28	67.67	68.95	70.62	72.44

Source: Company data, CMBIS estimates

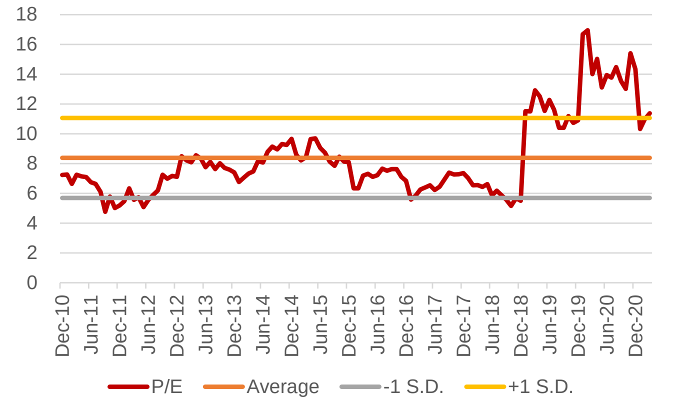
Valuation

Generally speaking, we prefer to use discount to NAV method to measure fair value of property company. Property companies with high quality, such as good corporate governance, high earning visibility, healthy balance sheet, will have less discount to NAV. We are using DCF method for development properties, and cap rate method for investment properties. Then, we deduct net debt position to find out NAV per share.

HK property companies are trading below book more than 10 years. However, they will do the revaluation of investment properties every year. We believe only value of properties under development cannot be fully reflected in the cost method. Since properties under development or properties held for sales only accounted for 21.9% of total assets as of Dec 2020, we believe book value per share is quite close to NAV per share.

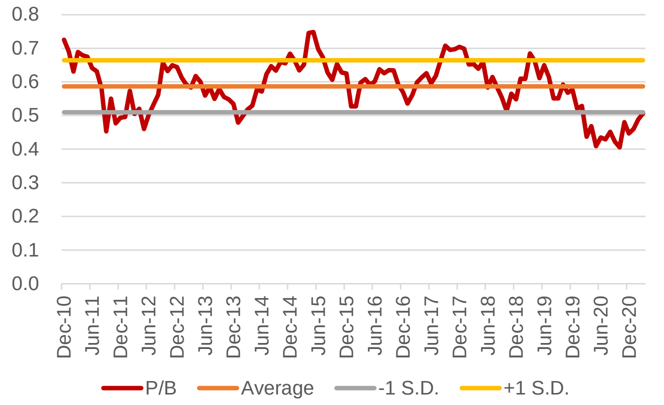
We believe HLD is a relative conservative company among the Big Four. It owns a utility company as its cash cow. It also prefers to take part in urban redevelopment program in HK. However, it has recently obtained some mega projects in HK by urban redevelopment program or converting farmland. Its valuation has opportunity for re-rating. Our Target Price is HK$40.5, equivalent to 0.59x FY21E P/B or its 10-year average.

Figure 45: HLD Forward P/E



Source: Bloomberg, CMBIS estimates

Figure 46: HLD Forward P/B



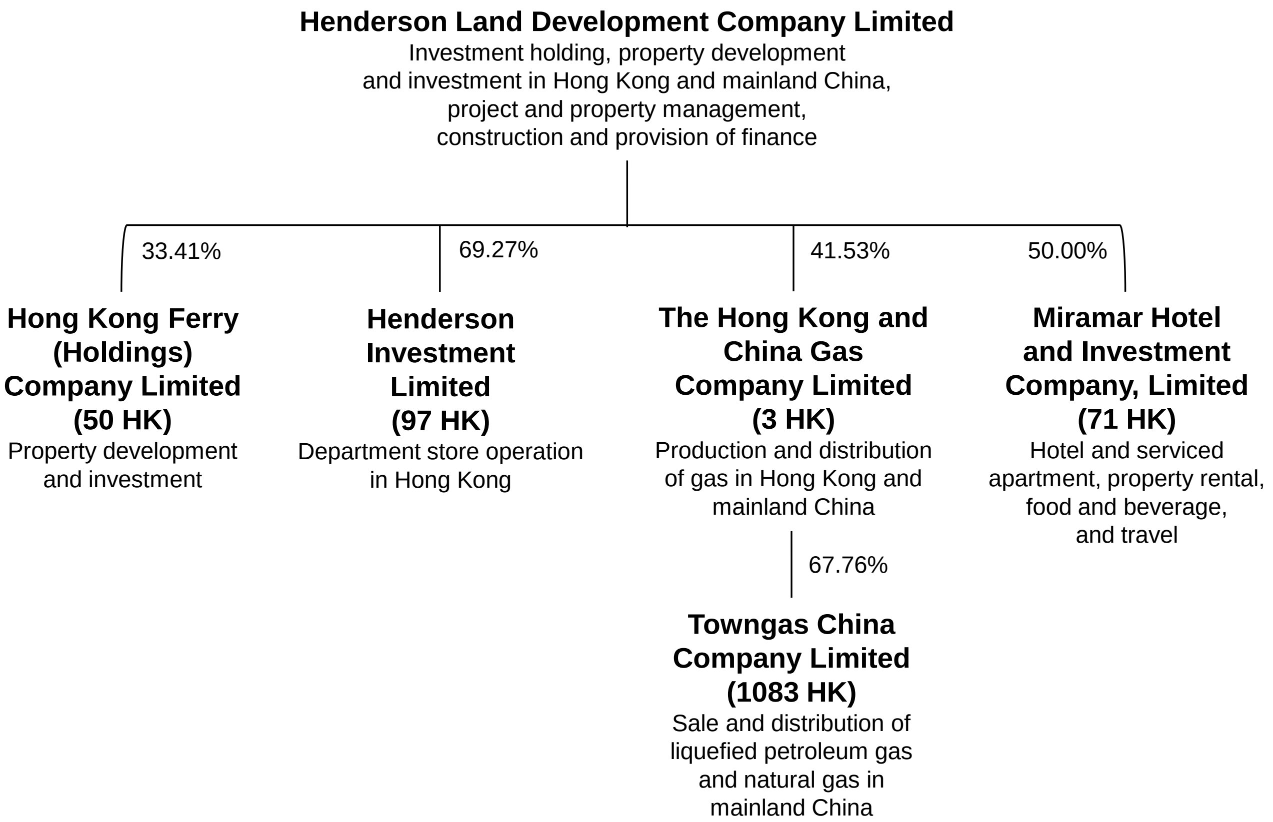
Source: Bloomberg, CMBIS estimates

Company Background

Henderson Land is a leading property group with a focus on HK and Mainland China. Its core businesses comprise property development and property investment. Meanwhile, it has a 69.27% interest in Henderson Investment (97 HK) and three listed associated companies, namely HK & China Gas (3 HK), HK Ferry (50 HK) and Miramar Hotel (71 HK).

It is vertically integrated, with project management, construction, property management, and financial services supporting its core businesses. Henderson Land strives to add value for its shareholders, customers and the community through its commitment to excellence in product quality and service delivery as well as a continuous focus on sustainability and the environment.

Figure 47: Organization structure



Source: Company data, CMBIS

SHKP (16 HK)

Most admirable developer

We initiate SHKP with BUY and TP at HK$137.7, which is equal to 0.68x FY21 P/B. SHKP is a leading developer in HK. It built and owned many high-quality landmark buildings in HK. We forecast net profit to surge by 15% to HK$27.0bn in FY21. It had a healthy balance sheet with 14.4% net gearing as of Dec 2020. Annual rental income is around HK$20bn, which is enough to face any financial obligation.

- **The largest property company in HK.** SHKP owned 22.3mn sq ft properties under development and 33.7mn sq ft of investment properties in HK as of Dec 2020. According to Centaline Property, SHKP captured 18.6% of market share for HK property sales in 2020. Its revenue from property sales and rental income were HK$49bn and HK$20bn in 2020, respectively.
- **123mn sq ft landbank.** Besides 56mn sq ft landbank in HK, SHKP owned 67mn sq ft landbank in Mainland China. Landbank in China comprised 16.3mn sq ft of completed properties and 50.6mn sq ft of properties under development, of which 50% will be developed into residential for sales. Its China landbank is mainly focused on tier 1/2 cities, such as Shanghai, Beijing, Hangzhou, Nanjing.
- **Double benefits for investment properties.** SHKP owns 33.7mn sq ft and 16.3mn sq ft of investment properties in HK and Mainland China. We expect its rental income to grow by 5% to HK$20.9bn in FY21. Huge rental income not only provides a steady income to the Company, but also helps SHKP gain high credit rating, which in turn lower its borrowing cost. Furthermore, it benefits from the asset appreciation for long-term investment.
- **Forecasted net profit to grow 18% in FY22 and 10% in FY23.** We forecast net profit to grow by 18.2% to HK$31.9bn in FY22 and 10.2% to HK$35.2bn in FY23. Valuation is undemanding with 10.9x FY22E P/E and 0.58x FY22E P/B. Average forward P/E and P/B in last 10 years were 8.6x and 0.68x, respectively.
- **Key risks: 1)** Weaker retails sales; **2)** Government's policies on property market; **3)** Interest rate hike; **4)** COVID-19.

Earnings Summary

(YE 30 Jun)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (HK$ mn)	85,302	82,653	87,229	94,795	104,737
Net income (HK$ mn)	44,912	23,521	26,998	31,923	35,163
EPS (HK$)	15.50	8.12	9.32	11.02	12.13
YoY growth (%)	N.A.	-47.6	14.8	18.2	10.2
Consensus EPS (HK$)	N.A.	N.A.	10.57	11.36	11.80
P/E (x)	7.7	14.7	12.8	10.8	9.8
P/B (x)	0.6	0.6	0.6	0.6	0.6
Yield (%)	4.1	4.1	4.1	4.3	4.5
ROE (%)	7.9	4.1	4.6	5.3	5.7
Net gearing (%)	12.8	13.8	14.1	14.8	14.5

Source: Company data, Bloomberg, CMBIS estimates

BUY (Initiation)

Target Price	HK$137.7
Up/Downside	+15.3%
Current Price	HK$119.4

HK Property Sector

Samson Man, CFA
(852) 3900 0853
samsonman@cmbi.com.hk

Stock Data

Mkt Cap (HK$ mn)	345,995
Avg 3 mths t/o (HK$ mn)	479
52w High/Low (HK$)	126.0/87.6
Total Issued Shares (mn)	2,898

Source: Bloomberg

Shareholding Structure

Kwong Siu-hing	26.72%

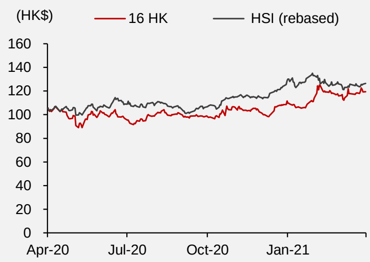
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	1.4%	2.9%
3-mth	10.0%	9.5%
6-mth	21.5%	2.3%
12-mth	9.6%	-7.8%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

Investment Thesis

Well reputation developer in HK

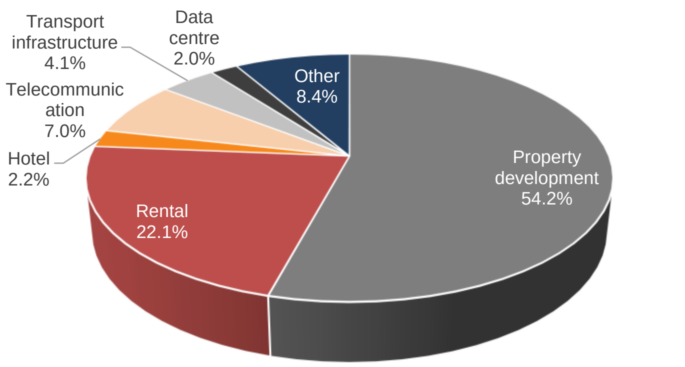
SHKP is engaged in HK property business more than half a century. It captured about 18.6% of market share for HK property sales in 2020, according to Centaline Property Agency. In HK, many landmark buildings are owned or developed by SHKP, such as IFC, ICC, Dynasty Court and Seven Severn. Now, the Company is running by the second generation and third generation is participating in daily operation. We believe its business sustainability is high.

Being a reputable developer in HK, SHKP is famous for its property quality and design. According to some property-related TV programmes, properties developed by SHKP have always scored high mark (most of them have 90+ out of 100) based on the property quality. We believe this is one of the reasons for properties developed by SHKP to have price premium to peers'.

Core earnings surged 30% in 1HFY21

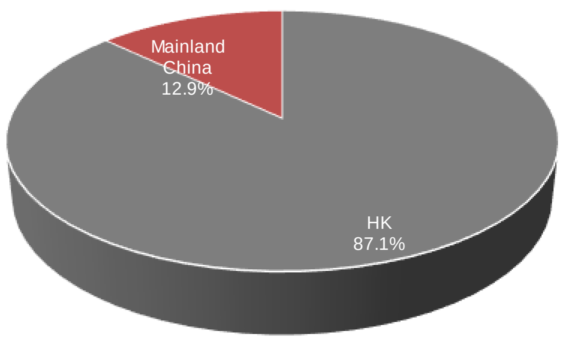
For six months ended 31 Dec 2020, revenue gained by 19.0% to HK$46,070mn but net profit declined by 11.9% to HK$13,578mn. More properties delivery drove revenue from property development, increasing from HK$15,558mn in 1HFY20 to HK$24,964mn in 1HFY21. Rental income retreated by 2.2% to HK$10,190mn in 1HFY21 because of rental concession and slightly negative rental reversion. Gross margin expanded by 2.6ppts to 53.2% in 1HFY21. The better control in SG&A expenses helped margin improvement. SG&A expenses to revenue improved from 9.8% in 1HFY20 to 8.9% in 1HFY21. Although SHKP recorded a HK$3,240mn revaluation loss for investment properties in 1HFY21 (HK$2,500mn revaluation gain for investment properties in 1HFY20), core profit increased by 30.2% to HK$17,482mn in the period.

Figure 48: Revenue breakdown in 1HFY21



Source: Company data, CMBIS

Figure 49: Revenue from property development breakdown in 1HFY21

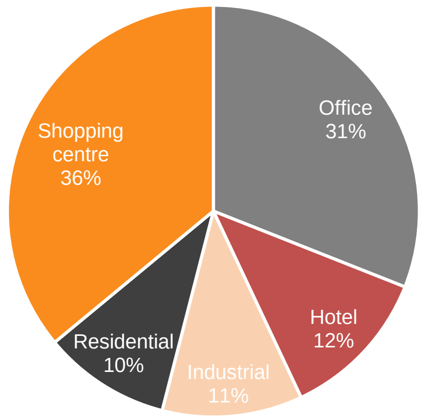


Source: Company data, CMBIS

123mn sq ft landbank

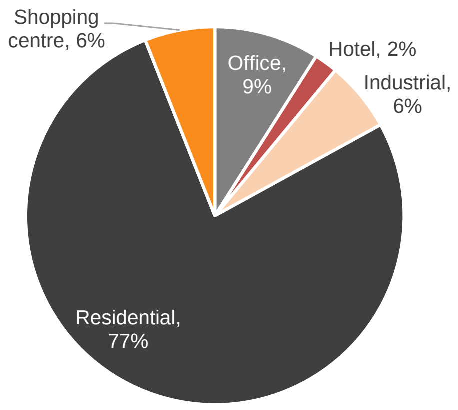
As at Dec 2020, SHKP owned a total landbank of 123mn sq ft, of which 56.0mn sq ft in HK, 66.9mn sq ft in Mainland China. Among 56.0mn sq ft landbank in HK, about 22.3mn sq ft of properties were under development and around 33.7mn sq ft of properties were completed, of which majority of them are for long term investment purpose. Landbank in China comprised 16.3mn sq ft of completed properties and 50.6mn sq ft of properties under development, of which about 50% will be developed into residential for sales.

Figure 50: HK completed properties as at Dec 2020 (33.7mn sq ft)



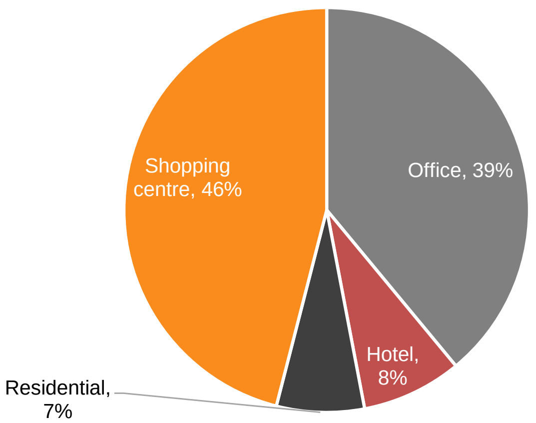
Source: Company data, CMBIS

Figure 51: HK properties under development as at Dec 2020 (22.3mn sq ft)



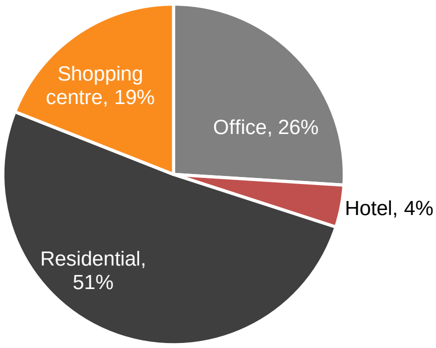
Source: Company data, CMBIS

Figure 52: Mainland China completed properties as at Dec 2020 (16.3mn sq ft)



Source: Company data, CMBIS

Figure 53: Mainland China properties under development as at Dec 2020



Source: Company data, CMBIS

- **Prudent in landbank replenishment**

For six months ended Dec 2020, SHKP only acquired two plots of land in HK, namely a residential site in So Kwun Wat and an industrial site in Tuen Mun. The Company converted a farmland in So Kwun Wat to residential usage. Total GFA amounted to 0.61mn sq ft and SHKP owns 75.2% stake of this site. It will be developed into a mass residential project. SHKP acquired an industrial site in Tuen Mun with 69.9% interest via a private deal. It plans to convert this industrial site into office and retail usage with a planned GFA of 0.77mn sq ft. The Company did not replenish any landbank in Mainland China in 1HFY21.

HK property business

The Company completed attributable GFA of 1.3mn sq ft of HK residential properties in 1HFY21 and plans to complete anther attributable GFA of 0.8mn sq ft of HK residential properties in 2HFY21. For six months ended Dec 2020, contracted sales in HK amounted to HK$11.3bn, compared with HK$17.9bn in the same period of previous year. The slower contracted sales in the period was attributable to the outbreak. Some launching plans were delayed. SHKP will launch about 2.1mn sq ft residential properties and 0.25mn sq ft non-residential properties for sales in the next 9-10 months. Social distancing is still implemented in HK even vaccination commenced in Mar 2021. We are afraid that it is full of challenge for SHKP to achieve its medium-term average annual sales target of HK$40bn in FY21.

Figure 54: SHKP HK completion plan in FY21

Project	Stake (%)	Attributable GFA (sq ft) Residential	Retail	Office	Hotel	Total
Completion in 1HFY21						
Cullinan West III	JV	670,000	0	0	0	670,000
St Martin	100	374,000	0	0	0	374,000
Mount Regency II	100	235,000	0	0	0	235,000
W LUXE	100	0	3,000	171,000	0	174,000
Harbout North	100	0	138,000	0	0	138,000
Sub-total (1HFY21)		1,279,000	141,000	171,000	0	1,591,000
Completion in 2HFY21						
Wetland Season Park	100	423,000	20,000	0	0	443,000
Regency Bay	100	286,000	21,000	0	0	307,000
Central Peak II	100	59,000	0	0	0	59,000
Kwai Chung Town Lot NO 522	100	0	1,000	57,000	0	58,000
The Silveri Hong Kong - Mgallery	20	0	0	0	26,000	26,000
Sub-total (2HFY21)		768,000	42,000	57,000	26,000	893,000
Year total (FY21)		**2,047,000**	**183,000**	**228,000**	**26,000**	**2,484,000**

Source: Company data, CMBIS

Figure 55: SHKP HK contracted sales in 1HFY21

Project	Stake (%)	Attri. sales proceeds (HK$bn)
Wetland Season Park, Tin Shui Wai	100	2.0
Cullinan West, West Kowloon	JV	2.1
Phase 1 of Regency Bay, Tuen Mun	100	1.4
Grand YOHO, Yuen Long	100	1.3
Phase 1 of Central Peak, Mid-level East	100	0.8
Others		3.7
Total		**11.3**

Source: Company data, CMBIS

Gross rental income of HK investment properties (including shares of associates and JV) tumbled by 7.6% YoY to HK$9,181mn in 1HFY21 because social distancing and border lockdown adversely affected retails sales in SHKP's shopping mall, which in turn affected occupancy and rental. Furthermore, rental concessions were fully recognized in the period. Contribution of HK gross rental income by office, shopping centres and others were HK$3,348mn (up 2.0% YoY), HK$4,698mn (down 13.0% YoY) and HK$1,135mn (down 9.7% YoY) respectively in the period. Overall occupancy of HK investment properties retreated to 90% in 1HFY21 from 93% in 1HFY20. SHKP introduced new mobile app, The Point by SHKP, in order to attract foot traffic by reward initiatives, online food pre-ordering, online reservation, free parking, etc. Currently, there are more than one million registrations for The Point by SHKP. Looking forward, SHKP will strengthen its landmark investment properties portfolio by adding 98 How Ming Street (consisting of 0.65mn sq ft office and

0.5mn sq ft shopping mall) and Mega commercial complex atop the High Speed Rail West Kowloon Terminus (consisting of 2.8mn sq ft office and 0.35mn sq ft shopping mall).

China property business

Although COVID-19 slowed down China properties sales in 1Q20, sales momentum had picked up since 2Q20. SHKP achieved RMB3.0bn contracted sales in China in 1HFY21, compared with RMB3.3bn in 1HFY20. In the coming 9-10 months, SHKP will launch about 2.61mn sq ft of properties for sales in China, including new batches of Oriental Bund, remaining towers of Grand Waterfront Phase 3B & 3C and The Woodland Phase 5B. About 3.0mn sq ft of properties were completed in 1HFY21, of which 1.5mn sq ft of Nanjing IFC were retained as investment properties and the remaining 1.5mn sq ft residential properties were delivered to buyers. In 1HFY21, SHKP recognized HK$3,475mn revenue from property sales in China, up 127% YoY, mainly coming from Forest Hills, The Woodland Phase 5A, Park Royale Phase 2B, Oriental Bund and TODTOWN Phase 1. About 0.71mn sq ft of residential/retail properties will be delivered in 2HFY21, including high margin project of Shanghai Arch. Meanwhile, HK$10.8bn China properties had been pre-sold but unbooked as at Dec 2020.

Figure 56: SHKP China completion plan in FY21

	Stake	Attributable GFA (sq ft)				
Project	(%)	Residential	Retail	Office	Hotel	Total
Completion in 1HFY21						
TOPTOWN Phase 1, Shanghai	35	214,000	0	0	0	214,000
Nanjing IFC	100	0	0	1,495,000	0	1,495,000
Oriental Bund, Foshan	50	141,000	0	0	0	141,000
The Woodland Phase 5A, Zhongshan	JV	714,000	59,000	0	0	773,000
Chengdu ICC Phase 2B	40	397,000	0	0	0	397,000
Sub-total (1HFY21)		1,466,000	59,000	1,495,000	0	3,020,000
Completion in 2HFY21						
Shanghai Arch	100	442,000	21,000	0	0	463,000
Lake Geneve, Suzhou	90	246,000	0	0	0	246,000
Sub-total (2HFY21)		688,000	21,000	0	0	709,000
Year total (FY21)		**2,154,000**	**80,000**	**1,495,000**	**0**	**3,729,000**

Source: Company data, CMBIS

Figure 57: SHKP China contracted sales in 1HFY21

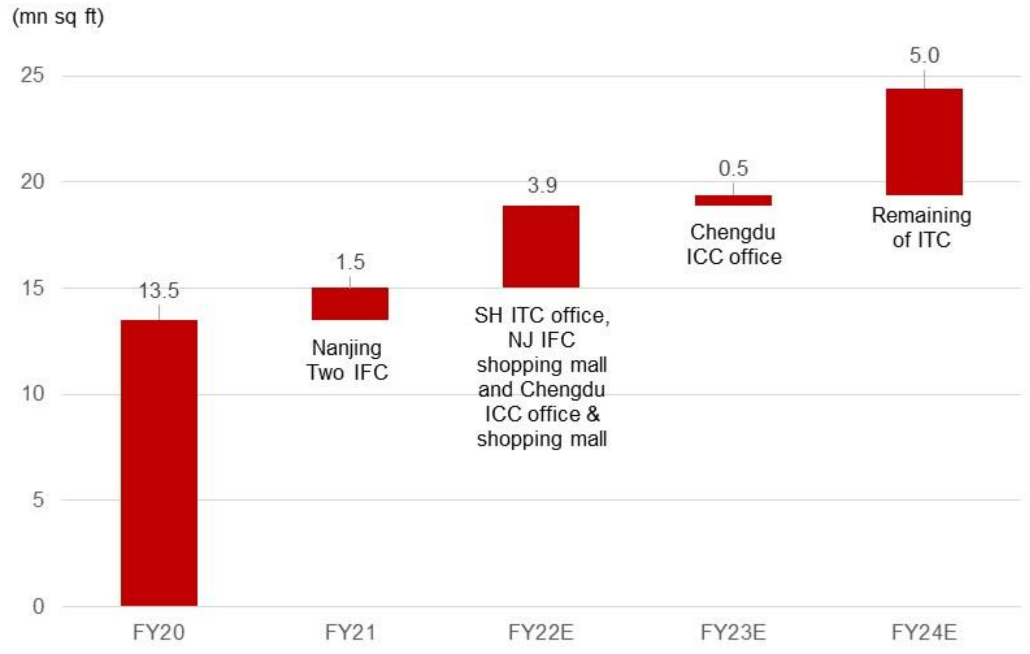
Project	Stake (%)	Attri. sales proceeds (RMBbn)
Oriental Bund, Foshan	50	1.0
Grand Waterfront, Dongguan	100	0.6
Forest Hills, Guangzhou	70	0.5
Phase 2 of Shanghai Arch, Shanghai	100	0.3
Others		0.6
Total		**3.0**

Source: Company data, CMBIS

China retail market has rebounded robustly since 2H20. Gross rental income of China investment properties (including shares of associates and JV) increased by 18.8% YoY to HK$2,866mn in 1HFY21 because of the mainland economy recovery and solid consumer spending. Contribution of China gross rental income by office, shopping centres and others were HK$927mn (up 11.1% YoY), HK$1,784mn (up 25.9% YoY) and HK$155mn (down 4.3% YoY) respectively in the period. SHKP's signature malls in Shanghai and Guangzhou benefited from a demand surge in luxury-end retail sales, especially due to international travel restrictions for mainland citizens. SHKP continues to strengthen its footprint in Shanghai, Nanjing, Guangzhou and Hangzhou.

Offices in the first two phases of ITC in Shanghai were fully leased. Shanghai ITC project will have gradual completions by phases over next few years. 1.16mn sq ft of Shanghai ITC office tower is planned for completion in mid-2022 and its pre-leasing work has commenced. Construction of the remaining parts, including 2.67mn sq ft shopping malls, 2.61mn sq ft office tower and 0.27mn sq ft hotel, is smoothly underway. Nanjing One IFC (0.5mn sq ft office) achieved 75% occupancy rate while Nanjing Two IFC (1.5mn sq ft office) was completed in 1HFY21. Nanjing IFC Mall (1.1mn sq ft) will be completed and opened in 2022. Investment properties in China are expected to reach 24.4mn sq ft by end of FY25.

Figure 58: SHKP China investment property portfolio



Source: Company data, CMBIS

Other businesses

SHKP has a more diversified business operation. Besides property development and investment, it is engaged in telecommunication, transport infrastructure, data centre, department store and other. It is the holding company or has the stake of several listed companies, including Smartone (315 HK), SUNeVision (1686 HK), Transport Int'l (62 HK) and Wing Tai Properties (369 HK). Revenue from hotel, telecommunication, transport infrastructure, data centre and other accounted for 27.8% of total revenue in FY20.

Figure 59: Major investments as the listed companies

Company	Ticker	Stake	Mkt Cap (HK$mn)	Fiscal year ended	Revenue (HK$mn)	Net profit (HK$mn)
SMARTONE TELECOM	315 HK	72%	5,222	Jun-20	6,986	379
SUNEVISION HLDGS	1686 HK	74%	18,620	Jun-20	1,714	783
TRANSPORT INTL	62 HK	40%	7,389	Dec-20	6,191	1,904
WING TAI PROPERT	369 HK	14%	5,880	Dec-20	2,720	(611)

Source: Company data, CMBIS

■ Leading mobile telecom operator in HK

Smartone is a leading telecommunications provider in HK and Macau. It offers voice, multimedia and mobile broadband services, as well as fixed fibre broadband services for both consumer and corporate markets. It has commenced 5G development in HK since May 2020. Its customers totaled 2.8mn as at Dec 2020. For six months ended Dec 2020, revenue of Smartone declined by 23.8% YoY to HK$3,244mn but net profit stayed flat around HK$267mn because of better cost control. Operating profit margin improved from 8.4% in 1HFY20 to 11.7% in 1HFY21.

After the vaccination rolled out globally, Smartone found that there has been an uptake of 5G amongst its customers. It will continue to play its part in building HK as a leading 5G-enabled city.

■ Another form of landlord

SUNeVision is a major data centre operator in HK. It currently has five data centres under operation and two new sites under construction. SUNeVision is serving customers from cloud service providers, new economy players, telcos, Internet Service Providers, large multinationals and local enterprises. For six months ended Dec 2020, revenue and net profit of SUNeVision's continuing operations increased by 12.8% YoY to HK$923mn and 21.2% to HK$389mn.

The world is increasing the demand for high quality data centres. HK is well positioned as the major hubs for international connectivity. SUNeVision is expanding its space and power capacity to meet the increasing demand for data centre services. Two new data centres will be completed in 2020, namely Tsuen Wan TWTL 428 and Phase 1 of Tseung Kwan O TKOTL 131. The completion of both new centres will double SUNeVision GFA to 2.8mn sq ft.

■ Major bus company in HK

Transport International is the owner and operator of HK franchised public bus companies, The Kowloon Motor Bus Company (1933) Limited (KMB) and Long Win Bus Company Limited (LWB). Besides the franchised ones, Transport International is also engaged in non-franchised transport business through Sun Bus Holding Limited and New Hong Kong Bus Company Limited. Sun Bus Holding provides customized transport services while New Hong Kong Bus serves regular commuters and leisure travelers between Lok Ma Chau and Huanggang in Shenzhen.

In addition to HK transportation services, Transport International provides transport services in Shenzhen and Beijing through three associated companies, Shenzhen Bus Group Company Limited (Transport International owns 35% interest), Beijing Beiqi Kowloon Taxi Company Limited (Transport International owns 31.38% interest) and Beijing Beiqi First Company Limited (Transport International owns 31.38% interest).

The increase of work-from-home arrangements during COVID-19 led to a decline in transport demand in 2020. Revenue of Transport International tumbled from HK$4,074mn for six months ended Jun 2019 to HK$3,073mn for six months ended Jun 2020, down 24.6% YoY. Staff cost and depreciation expenses would not be saved a lot even revenue declined. Transport International recorded a loss of HK$51.8mn for six months ended Jun 2020.

Although transportation business suffered from COVID-19, Transport International owns a few pieces of properties that would contribute rental income or development profit. Currently, it owns the Manhattan Mid-town shopping mall with leasable GFA of 50,000 sq ft in Kowloon. In addition, Transport International has a 50% interest in the commercial property project that jointly developed by SHKP.

Financial Analysis

For six months ended 31 Dec 2020, revenue gained by 19.0% to HK$46,070mn but net profit declined by 11.9% to HK$13,578mn. Excluding a HK$3,240mn revaluation loss for investment properties in 1HFY21 (HK$2,500mn revaluation gain for investment properties in 1HFY20), core profit increased by 30.2% to HK$17,482mn in the period.

- **Estimate net profit to increase by 15% to HK$27.0bn in FY21**

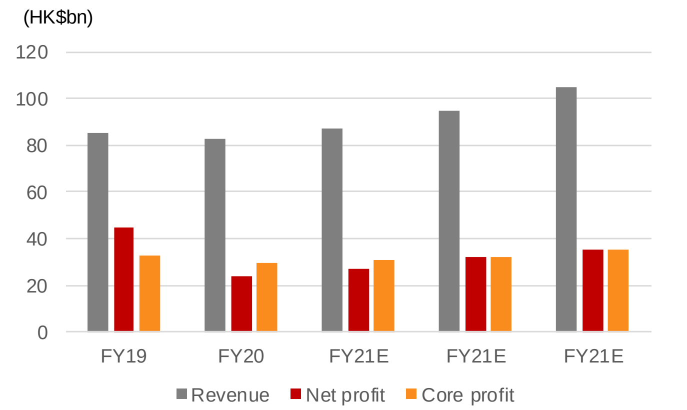
As the completion plan is skewed to 1HFY21, we forecast SHKP to record HK$18,836mn revenue from property development in 2HFY21, compared with HK$24,964mn in 1HFY21. As a result, the aggregative revenue from property development is expected to be HK$43,800mn in FY21, up 10.1% YoY. On the other hand, we forecast total rental income to grow by 5.0% YoY to HK$20,904mn in FY21, mainly driven by investment properties in China. Overall, we estimate total revenue to grow by 5.5% YoY to HK$87,229mn in FY21. We estimate overall gross margin to be 52.2% in FY21, compared with 53.2% in 1HFY21. Given a HK$3,240mn estimated revaluation loss for investment properties in FY21, we forecast net profit to grow by 14.8% to HK$26,998mn in FY21. Excluding revaluation, we forecast core profit to grow by 5.2% to HK$30,902mn in FY21.

- **Estimate net profit to grow by 18% in FY22 and 10% in FY23**

Given about 2.10mn sq ft and 2.25mn sq ft of residential properties in HK and China scheduled to complete in FY22, respectively, we forecast total revenue and net profit to be HK$94,795mn and HK$31,923mn in FY22. We estimate gross margin and net profit margin to be 51.4% and 33.7% in FY22, respectively. The major properties completion in FY22 include Tin Shui Wai Town Lot No. 33 Phase 1 (GFA:0.67mn sq ft), Wetland Seasons Park in Tun Shui Wai (GFA: 0.60mn sq ft), St Michel in Sha Tin (GFA: 0.43mn sq ft), Victoria Harbour in North Point (GFA: 0.26mn sq ft) and Jovo Town in Chengdu (1.24mn sq ft).

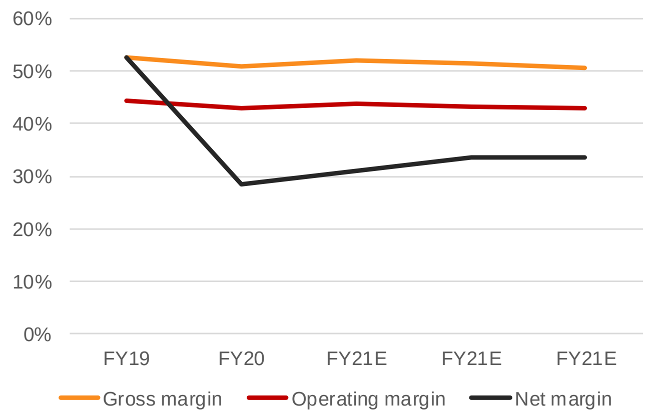
In FY23, about 2.60mn sq ft and 3.33mn sq ft of residential properties in HK and China are scheduled to complete, of which 1.23mn sq ft and 1.64mn sq ft in HK and China will be consolidated into P&L account. We estimate total revenue and net profit to be HK$104,737mn and HK$35,163mn in FY23. We expect gross margin and net profit margin to be 50.8% and 33.6% in FY23, respectively. The major properties completion in FY23 include Tuen Mun Town Lot No. 483 Phase 1 (GFA: 0.74mn sq ft), Tin Shui Wai Town Lot No. 33 subsequent Phases (GFA:0.45mn sq ft), Prince Central in Mong Kok (GFA: 0.04mn sq ft), Yuen Long Station Development (GFA: 1.36mn sq ft, a JV project), Suzhou ICC (0.53mn sq ft) and Grand Waterfront in Dongguan (1.11mn sq ft).

Figure 60: Revenue, net profit and core profit



Source: Company data, CMBIS estimates

Figure 61: GM, operating margin and net margin



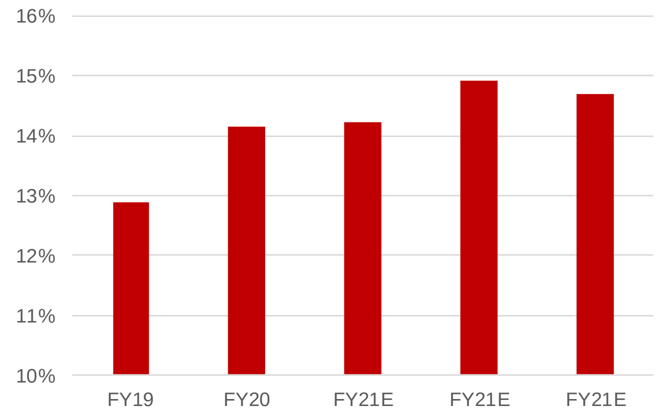
Source: Company data, CMBIS estimates

■ **Healthy balance sheet**

As of Dec 2020, total debt and cash on hand amounted to HK$107.5bn and HK$23.5bn, respectively. Net gearing was only 14.4% as of Dec 2020. SHKP maintained a strong capital base with shareholders' fund of HK$583.3bn as of Dec 2020. The strong financial position enables SHKP to raise long-term financing at competitive price. Among its total debt of HK$107.5bn, about HK$18.7bn or 17.5% of total borrowing are due within one year. Given about HK$23.5bn cash on hand or about HK$20bn annual rental income, SHKP is able to repay short term debt any time. We forecast its net gearing ratio will stay around 14-15% next three years, which implies a low financial risk.

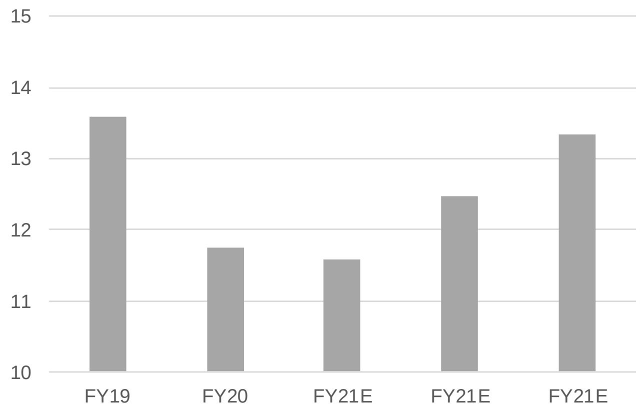
As at Dec 2020, about 72% of SHKP's total borrowings were denominated in HK dollar (after cross currency interest rate swaps) and 9% in the US dollar. The remaining 19% were mostly in RMB and for financing the construction cost of China property projects. In the asset side, about 18% of SHKP's net assets were denominated in RMB as of Dec 2020. In other words, FX risk of RMB debt can be partially hedged naturally.

Figure 62: Net gearing ratio



Source: Company data, CMBIS estimates

Figure 63: Interest coverage



Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 30 Jun (HK$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	**85,302**	**82,653**	**87,229**	**94,795**	**104,737**
Property development	38,573	39,765	43,800	48,210	54,320
Property investment	20,590	19,909	20,904	22,577	24,834
Others	26,139	22,979	22,525	24,009	25,582
Cost of sales	(40,455)	(40,517)	(41,696)	(46,071)	(51,530)
Gross profit	**44,847**	**42,136**	**45,534**	**48,725**	**53,206**
Other income and gains	740	831	1,020	850	920
Distribution expenses	(4,791)	(4,560)	(5,059)	(5,119)	(5,446)
Administrative expenses	(2,938)	(2,952)	(3,140)	(3,318)	(3,666)
Other expenses	-	-	-	-	-
Operating profit	**37,858**	**35,455**	**38,354**	**41,138**	**45,014**
Finance expenses	(2,051)	(2,120)	(2,310)	(2,365)	(2,443)
Associates/JV	6,141	1,599	1,850	2,120	2,425
Exceptional	12,535	(4,423)	(3,240)	-	-
Pre-tax profit	**54,483**	**30,511**	**34,655**	**40,893**	**44,996**
Income tax	(8,474)	(6,197)	(7,053)	(8,336)	(9,153)
After-tax profit	46,009	24,314	27,602	32,557	35,843
Minority interest	(926)	(624)	(538)	(634)	(680)
Perpetual	(171)	(169)	(66)	-	-
Net profit	**44,912**	**23,521**	**26,998**	**31,923**	**35,163**
Core profit	**32,398**	**29,368**	**30,902**	**31,923**	**35,163**

Cash flow

YE 30 Jun (HK$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Operating profit	37,858	35,455	38,354	41,138	45,014
Depreciation and amortization	2,912	4,581	3,944	3,922	3,972
Change in working capital	(21,763)	7,543	(4,402)	(8,880)	(6,540)
Income tax paid	(5,539)	(4,518)	(3,965)	(7,616)	(10,573)
Others	6,287	4,807	9,608	(5,524)	(4,892)
CF from operating	**19,755**	**47,868**	**43,540**	**23,040**	**26,981**
Capex	(12,253)	(40,978)	(15,787)	(25,139)	(17,834)
Associates/JV	(391)	(7,250)	(22,018)	2,800	(1,500)
Other	(192)	(839)	(110)	(136)	(136)
CF from investing	**(12,836)**	**(49,067)**	**(37,915)**	**(22,475)**	**(19,470)**
Equity raised	9	1	-	-	-
Change of Debts	4,055	18,191	(3,806)	1,500	1,810
Dividend paid	(14,282)	(15,083)	(12,867)	(13,127)	(13,516)
Other	2,145	8,212	5,420	6,300	4,800
CF from financing	**(8,073)**	**11,321**	**(11,253)**	**(5,327)**	**(6,906)**
Net change in cash	(1,154)	10,122	(5,628)	(4,761)	605
Cash at the beginning	23,035	21,430	31,150	25,122	19,961
Exchange difference	(451)	(402)	(400)	(400)	(400)
Cash at the end	**21,430**	**31,150**	**25,122**	**19,961**	**20,166**
Pledged deposit	608	555	555	555	555
Cash at BS	22,038	31,705	25,677	20,516	20,721

Balance sheet

YE 30 Jun (HK$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	**508,747**	**514,169**	**548,980**	**568,570**	**585,050**
Fixed asset	35,862	40,825	42,800	43,310	43,920
Investment properties	386,612	380,717	392,000	414,020	428,500
Associates/JV	73,751	78,782	100,800	98,000	99,500
Intangible assets	4,445	4,288	3,980	3,720	3,500
Other non-current assets	8,077	9,557	9,400	9,520	9,630
Current assets	**242,415**	**283,662**	**239,777**	**242,136**	**249,371**
Cash	22,038	31,705	25,677	20,516	20,721
Account receivable	22,811	17,029	18,100	18,780	19,320
Inventories	196,463	196,520	195,000	202,000	208,400
Other current assets	1,103	38,408	1,000	840	930
Current liabilities	**65,902**	**97,342**	**83,180**	**86,300**	**90,680**
Borrowings	9,168	26,375	20,000	21,000	22,100
Trade and other payables	28,699	36,851	32,000	30,800	31,200
Contract liabilities	16,983	21,462	18,000	21,200	23,800
Deferred taxation	11,052	12,654	13,180	13,300	13,580
Other current liabilities	0	0	0	0	0
Non-current liabilities	**109,441**	**110,074**	**115,310**	**116,450**	**115,490**
Borrowings	85,838	86,231	88,800	89,300	90,010
Other non-current liabilities	23,603	23,843	26,510	27,150	25,480
Shareholders' equity	**566,405**	**571,813**	**584,467**	**601,756**	**621,851**
Minority interest	5,601	14,789	5,800	6,200	6,400
Perpetual bond	3,813	3,813	0	0	0
Total equity	575,819	590,415	590,267	607,956	628,251

Key ratios

YE 30 Jun	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue mix (%)					
Property development	45.2	48.1	50.2	50.9	51.9
Property investment	24.1	24.1	24.0	23.8	23.7
Others	30.6	27.8	25.8	25.3	24.4
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Growth (%)					
Revenue	-0.4	-3.1	5.5	8.7	10.5
Operating profit	6.8	-6.3	8.2	7.3	9.4
Net profit	-10.1	-47.6	14.8	18.2	10.2
Profit & loss ratios (%)					
Gross margin	52.6	51.0	52.2	51.4	50.8
Net margin	52.7	28.5	31.0	33.7	33.6
Effective tax rate	15.6	20.3	20.4	20.4	20.3
Balance sheet ratios					
Current ratio (x)	3.7	2.9	2.9	2.8	2.8
Receivable day	97.6	75.2	75.7	72.3	67.3
Net gearing ratio (%)	12.8	13.8	14.1	14.8	14.5
Return (%)					
ROE	7.9	4.1	4.6	5.3	5.7
ROA	6.0	2.9	3.4	3.9	4.2
Per share data (HK$)					
EPS	15.50	8.12	9.32	11.02	12.13
DPS	4.95	4.95	4.95	5.15	5.40
BVPS	195.45	197.31	201.69	207.66	214.60

Source: Company data, CMBIS estimates

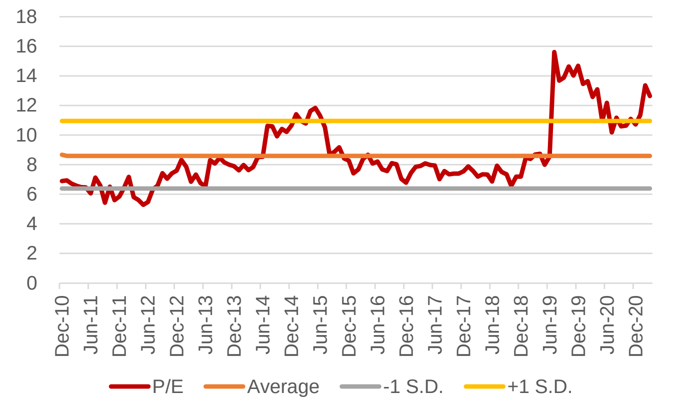
Valuation

Generally speaking, we prefer to use discount to NAV method to measure fair value of property company. Property companies with high quality, such as good corporate governance, high earning visibility, healthy balance sheet, will have less discount to NAV. We are using DCF method for development properties, cap rate method for investment properties. Then, we deduct net debt position to find out NAV per share.

HK property companies are trading below book more than 10 years. However, they will do the revaluation of investment properties every year. We believe only value of properties under development cannot be fully reflected under the cost method. Since properties under development or properties held for sales only accounted for 24.8% of total assets as of Dec 2020, we believe book value per share is quite closed to NAV per share.

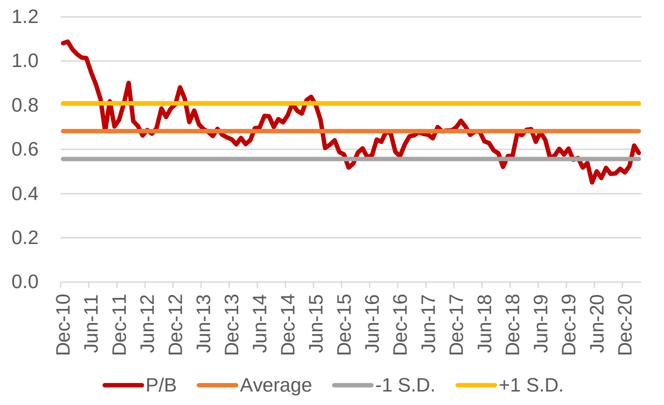
Being a leading developer in HK, SHKP will benefit from the property market recovery. We believe valuation of SHKP will revert to normal. Our TP of SHKP is HK$137.7, which is equivalent to 0.68x FY21E P/B or 10-year average.

Figure 64: SHKP Forward P/E



Source: Bloomberg, CMBIS estimates

Figure 65: SHKP Forward P/B

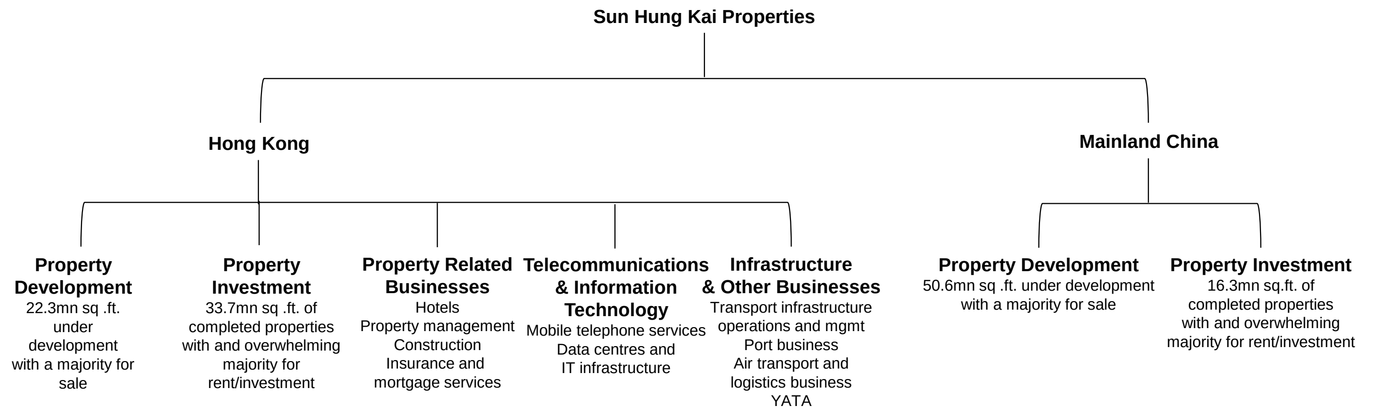


Source: Bloomberg, CMBIS estimates

Company Background

SHKP is a leading property developer in HK. Its property projects are spanned in HK and major cities in China, such as Beijing, Shanghai and Guangzhou. It is committed to developing premium quality residential properties, offices and shopping malls. Its properties for sale alongside its extensive span of investment properties and sizable landbank have laid a solid foundation for long-term development. It also takes part in non-property investments, such as telecommunications, information technology, infrastructure and other businesses, to engender greater synergies with the core business.

Figure 66: Organization structure



Source: Company data, CMBIS

New World Development (17 HK)

K11 = Art + Commerce

We initiate NWD with BUY and TP at HK$49.3, which is equal to 0.55x forward P/B or mean +1 standard deviation in last 10 years. NWD is experiencing rejuvenation after Adrian Cheng took over stewardship. Its investment properties' brand name K11 will be found not only in HK, but also in the major China cities. We forecast net profit to rebound 195% in FY21 and further soar 90% in FY22 and 24% in FY23.

- **Third generation runs a 50-year company.** Andrian Cheng, third generation of Cheng family, was appointed as CEO in May 2020. He has launched New World's The Artisanal Movement since Jan 2015, and is overseeing the large-scale development projects, such as Victoria Dockside and 11 Skies. NWD is experiencing rejuvenation, in terms of branding, property quality and management efficiency.
- **Recent champion on project launch.** NWD had recently launched The Pavilia Farm I and II for sales and received overwhelming responses with HK$23.8bn sales proceeds. On the other hand, K11 MUSEA is the talk of the town. K11 MUSEA offers 1.1mn sq ft shopping space in Tsim Sha Tsui with more than 100 restaurants that a few are Michelin Star. NWD is developing a mega investment project, 11 Skies, which targets 31.6mn GBA customers. As at Dec 2020, NWD had a landbank of total attributable GFA of 9.35mn sq ft and 16.5mn sq ft of farmland in HK.
- **Focus on Greater Bay Area.** Total contracted sales in China amounted to RMB11.2bn in 1HFY21 and completed 62% of full year target. NWD owns 6.14mn sq m landbank in China, of which 2.8mn sq m in Greater Bay Area. Meanwhile, it takes part in six urban redevelopment projects in Shenzhen and Guangzhou that will provide 1.8mn sq m landbank.
- **Strong rebound in FY21.** After earnings retreated in FY20, we expect net profit to rebound by 195% to HK$3.23bn in FY21. As of Dec 2020, about HK$12.5bn and HK$24.2bn of properties sales were locked-up and pending for delivery in FY22 and FY23, respectively. We forecast net profit to grow by 89.7% to HK$6.13bn in FY22 and 24.4% to HK$7.62bn in FY23.
- **Key risks:** 1) Weaker retails sales; 2) Government's policies on property market; 3) Interest rate hike; 4) COVID-19.

Earnings Summary

(YE 30 Jun)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (HK$ mn)	76,764	59,008	70,194	81,025	91,983
Net income (HK$ mn)	18,160	1,096	3,231	6,128	7,621
EPS (HK$)	7.11	0.43	1.27	2.41	3.00
YoY growth (%)	-24.0	-94.0	196.5	89.7	24.4
Consensus EPS (HK$)	N/A	N/A	1.93	3.55	4.27
P/E (x)	6.0	99.3	33.5	17.6	14.2
P/B (x)	0.5	0.5	0.5	0.5	0.5
Yield (%)	4.8	4.8	4.8	4.9	5.9
ROE (%)	8.1	0.5	1.4	2.7	3.3
Net gearing (%)	35.4	47.7	41.4	45.5	50.9

Source: Company data, Bloomberg, CMBIS estimates

BUY (Initiation)

Target Price	**HK$49.3**
Up/Downside	**+15.7%**
Current Price	**HK$42.6**

HK Property Sector

Samson Man, CFA
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Stock Data

Mkt Cap (HK$ mn)	108,162
Avg 3 mths t/o (HK$ mn)	205
52w High/Low (HK$)	43.0/30.6
Total Issued Shares (mn)	2,539

Source: Bloomberg

Shareholding Structure

Cheng Yu Tung Family	44.55%
Freeflow	55.45%

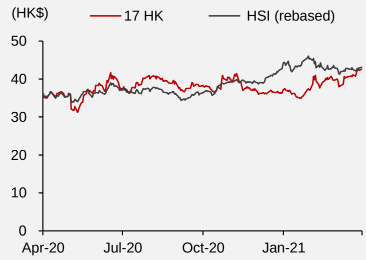
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	6.4%	8.0%
3-mth	16.4%	16.0%
6-mth	11.0%	-6.5%
12-mth	17.1%	-1.5%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

Investment Thesis

Third generation runs a 50-year property company

Entering 50th year of operation, NWD has a new lease of life after leading by third generation of controlling shareholder, Cheng family. Adrian Cheng was promoted to CEO in May 2020. Prior to being CEO, he had worked in the Company for 13 years. He mainly focuses on the strategic direction for the Company's property development and investment activities. He has launched New World's The Artisanal Movement since Jan 2015, and is overseeing the large-scale development projects, such as Victoria Dockside and Skycity. Inspired by his ideas, NWD launched the K11 brand in 2008, which is at the nexus of art and commerce and has since extended K11's reach across retail, hospitality, offices and non-profit art education through K11 Art Foundation and K11 Craft & Guide Foundation.

Core earnings down 5% in 1HFY21

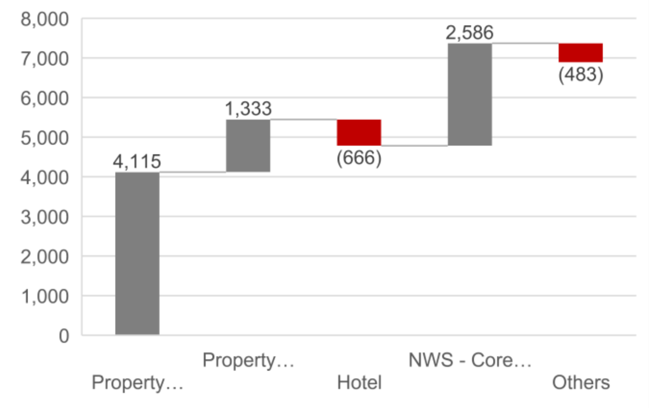
For six months ended 31 Dec 2020, revenue gained by 9.6% to HK$35,577mn but net profit declined by 0.4% to HK$1,013mn. Revenue from property development and rental income gained by 6.7% to HK$12,795mn and 5.8% to H$2,315mn in the period, respectively. The weaker-than-expected results was partly explained by the lower gross margin from non-GBA property projects. Revenue from property development in China increased by 20.6% to HK$10,030mn but segment results declined by 39.5% to HK$4,115mn in the period. Hotel and others recognized segment loss of HK$666mn and HK$483mn in the period, respectively, widened from segment loss of HK$425mn and HK$360mn a year ago. The Company is confident to outlook. First, about HK$30.9bn and RMB10.8bn properties in HK and Mainland China were pre-sold and unbooked as at Dec 2020, respectively. This provided higher earnings visibility in the future. Secondly, the Company continued to unload its non-core businesses. In the period, it disposed non-core assets (HK bus business and Wuhan office project) totaling about HK$5.9bn. In Jan 2021, NWS (659 HK, BUY, 60.86% interest) disposed the main assets of its Environment segment with HK$6.5bn. From Jul 2020 to Jan 2021, NWD completed HK$12.8bn non-core assets disposal and was close to its target of HK$15bn.

Figure 67: Results in 1HFY21

	1HFY21 (HK$mn)	1HFY20 (HK$mn)	Change (%)
Turnover	35,577	32,464	9.6%
Gross Profit	9,315	12,265	-24.1%
Other operating income	1,280	2,776	-53.9%
SG&A expenses	(4,408)	(4,332)	1.8%
Department store's expenses	(644)	(695)	-7.3%
Operating profit	5,542	10,014	-44.7%
Interest Expense	(1,548)	(2,230)	-30.6%
Associated	753	1,244	-39.5%
Exceptional	92	(2,269)	N.A.
Pre-tax Profit	4,839	6,758	-28.4%
Taxation	(2,320)	(3,663)	-36.7%
Minority	(435)	(1,277)	-66.0%
Perpetual securities	(1,071)	(801)	33.7%
Net Profit	1,013	1,017	-0.4%
Core-Earnings	3,719	3,929	-5.4%

Source: Company data, CMBIS

Figure 68: Segment results in 1HFY21 (HK$mn)



Source: Company data, CMBIS

HK property business

In Oct 2020, NWD launched The Pavilia Farm I and II, which is at top of Tai Wai MTR Station, for presales. It received overwhelming responses. Over 2,100 units of The Pavilia Farm I and II were sold with HK$23.8bn sales proceeds. It is one of the hottest property projects in HK. Sales proceeds of this single project exceed NWD's FY21 whole year sales target in HK, which is HK$20bn. Besides The Pavilia Farm, NWD launched Mount Pavilia, Fleur Pavilia and office project at 888 Lai Chi Kok Road for sales. The total contracted sales amounted to HK$26.3bn in 1HFY21. NWD plans to launch The Pavilia Farm III for sales in 2Q21. In addition, an office project in West Kowloon (0.36mn sq ft GFA) is scheduled for sales in FY22.

In Dec 2020, NWD with other developers forming a consortium won a bidding of development project on Wong Chuk Hang MTR Station. Total GFA of this Wong Chuk Hang Phase 5 projects is 0.64mn sq ft and average land premium is HK$10,587 per sq ft. It will provide about 1,050 residential units. Furthermore, NWD completed a re-development project in North Point. North Point State Theatre Building is a large-scale heritage conservation project because of its renowned rooftop parabolic arch and columnless auditorium. It is a residential and commercial JV project and total GFA amounted to 0.45mn sq ft. NWD works with international and local teams of building conservation elites to develop this projects. NWD is also working hard to negotiate with HK authority on the land use conversion of nine farmlands with a total GFA of 1.87mn sq ft in Yuen Long and Fanling.

Although HK retail market suffered from COVID-19, NWD investment properties in HK recorded stellar performance. For six months ended Dec 2020, K11 Art Mall and K11 MUSEA posted a 56% retail sales growth and their occupancy rate stood at 99%. HK rental income increased by 7.1% YoY to HK$1,440mn in the period. NWD is developing a mega investment project, 11 Skies, which targets 31.6mn GBA customers living in Shenzhen, Zhuhai, Zhongshan, Jiangmen and Foshan. It is located near to HK airport. Those customers in GBA cities may reach 11 Skies within 1.5 hours. 11 Skies comprises retail, dining, entertainment and office buildings with total GFA 3.8mn sq ft, of which 2.66mn sq ft is retail & dining space, 0.57mn sq ft is office spaces and 0.57mn sq ft is indoor entertainment centre.

As at Dec 2020, NWD had a landbank of total attributable GFA of 9.35mn sq ft in HK, of which 4.46mn sq ft was for property development and 4.89mn sq ft was for property investment. In addition, NWD had farmland of a total attributable land area of 16.46mn sq ft pending land use conversion.

Figure 69: HK landbank as at Dec 2020

	Property development Total attributable GFA (mn sq ft)	Investment property Total attributable GFA (mn sq ft)	Total attributable GFA (mn sq ft)
HK Island	0.45	0.00	0.45
Kowloon	1.84	1.12	2.96
New Territories	2.17	3.77	5.94
Total	**4.46**	**4.89**	**9.35**

Source: Company data, CMBIS

As at Dec 2020, about HK$30.9bn of HK properties were pre-sold but unrecognized, of which HK$5.4bn, HK$1.7bn and HK$23.8bn properties will be booked in 2HFY21, FY22 and FY23, respectively.

■ China property business

For six months ended Dec 2020, total contracted sales area and amount were 0.38mn sq m and RMB11.2bn, respectively. In terms of sales proceeds, contracted sales in Southern Region accounted for 76.6% of total contracted sales amount that mainly contributed by Lingnan New World in Guangzhou (RMB2.6bn), Shenzhen Prince Bay (RMB2.5bn) and Yicai New World in Guangzhou (RMB1.9bn). As a result, it accomplished about 62% of full year sales target in China in FY21. In 1HFY21, about 0.42mn sq m of properties in China were completed. NWD expects to have 0.55mn sq m of China properties completed in 2HFY21.

Figure 70: China contracted sales in 1HFY21

	Residential		Non-residential	
	GFA (sq m)	Amount (RMB mn)	GFA (sq m)	Amount (RMB mn)
Souther Region	143,400	7,359	57,900	1,219
Central Region	3,100	62	96,800	1,338
Easten Region	0	0	5,400	138
Northern Region	11,400	405	3,900	39
North-eastern Region	56,200	614	1,900	31
Total	**214,100**	**8,440**	**165,900**	**2,765**

Source: Company data, CMBIS

Rental income in China grew by 3.6% YoY to HK$875mn for six months ended Dec 2020. In the period, retail sales surged by 35% YoY across five K11 Art Malls in Shanghai, Wuhan, Guangzhou and Shenyang. Wuhan K11 Art Mall II and Avenue 11 officially commenced operation at the end of 2020. It would create synergy with K11 Select in Guanggu, Wuhan. In the coming years, NWD will commence operation of a series of K11 complexes in China. Many of them are located in Greater Bay Area, such as Prince Bay and Qianhai in Shenzhen as well as Panyu in Guangzhou. Furthermore, other K11 shopping malls and office buildings will open in Beijing, Shanghai, Hangzhou and Ningbo. It will enrich NWD's rental income in China. By end of FY25, GFA of China K11 retail malls will reach 1.3mn sq m, up 2.5x from end of 1HFY21. In Aug 2020, NWD acquired a plot of land in Huaihai Middle Road in Shanghai in the amount of RMB4.1bn. Total GFA of this project is 97,000 sq m. It will consist of an artistic and modern high-end commercial complex and is expected to be completed after FY25.

As at Dec 2020, NWD had a landbank (excluding carpark) with a total GFA of 6.14mn sq m, of which 3.48mn sq m was for residential development. Total GFA of projects in core cities, including Guangzhou, Shenzhen, Foshan, Wuhan, Shanghai, Ningbo, Hangzhou, Beijing and Shenyang, amounted to 5.31mn sq m, of which 51% in Greater Bay Area. NWD is also participating in urban redevelopment projects in Southern China. There are six redevelopment projects in Shenzhen and Guangzhou on hand, which will provide total GFA of 1.8mn sq m.

Figure 71: Landbank in China as at Dec 2020

	Total GFA (excluding carpark) (mn sq m)	Residential Total GFA (mn sq m)
Souther Region	2.73	1.79
Central Region	0.62	0.28
Easten Region	0.90	0.15
Northern Region	0.61	0.25
North-eastern Region	1.29	1.00
Total	**6.14**	**3.48**

Source: Company data, CMBIS

As at Dec 2020, about RMB10.8bn of China properties were pre-sold but unrecognized, of which RMB1.4bn, RMB9.0bn and RMB0.3bn properties will be booked in 2HFY21, FY22 and FY23, respectively.

Other businesses

As of Dec 2020, NWD owned 18 hotel in HK, Mainland China and Southeast Asia. 5-star hotel in HK include Grand Hyatt HK, Rosewood HK. Total number of hotel room amounted to 7,503. Hotel and travel businesses were adversely affected by COVID-19 pandemic. Revenue of hotel business declined by 48.8% YoY to HK$430mn and segment loss amounted to HK$666mn for six months ended Dec 2020.

NWD operates department store business through its 74.99% owned subsidiary, New Word Department Store China (825 HK, NWDS). As of Dec 2020, MWDS operated 29 department stores and shopping malls in China with a total GFA of 1.21mn sq m. Impacted from COVID-19 outbreak in China, NWDS closed one store, Wuhan New World Trendy Plaza, in 1HFY21. Revenue of NWDS declined by 16.9% YoY to HK$1,131mn for six months ended Dec 2020. In addition, NWDS recorded a loss of HK$204mn in the period, compared with profit of HK$142mn in the same period of one year ago.

- **Four core businesses under New World Services (NWS, 659 HK, BUY)**

NWD owns 60.86% stake of NWS. NWS operates four core businesses, including Roads, Aviation, Construction and Insurance. For six months ended Dec 2020, revenue gained by 8% to HK$14,233mn but net profit retreated by 60% to HK$612mn. Details of NWS can be founded by our latest research report (link) prepared by our strategist Daniel So.

- **Target to dispose HK$13-15bn non-core assets in FY21**

In order to enhance efficiency, NWD plans to dispose HK$13-15bn non-core assets in FY21. The disposal would better utilize capital to increase return. From Jul 2020 to Jan 2021, NWD, including its subsidiaries, had already disposed HK$12.8bn assets, such as bus business in HK, office tower in Wuhan and environment asset in China. It is confident to complete asset disposal plan (i.e. HK$13-15bn) before Jun 2021.

Figure 72: Asset disposal in FY21

Date	Disposed asset	stake	Amount
Aug-20	Citybus and NW First Bus	100%	HK$3.2bn
Dec-20	Office Tower in Wuhan Guanggu	100%	RMB1.3bn
Jan-21	Environment asset in China	Various	HK$6.5bn
	Others	-	HK$1.6bn
Total			**HK$12.8bn**

Source: Company data, CMBIS

Financial Analysis

For six months ended 31 Dec 2020, revenue gained by 9.6% to HK$35,577mn but net profit declined by 0.4% to HK$1,013mn. About HK$44bn of properties in HK and China are locked up and pending for delivery in coming 30 months. We are confidential to its earnings growth next three years.

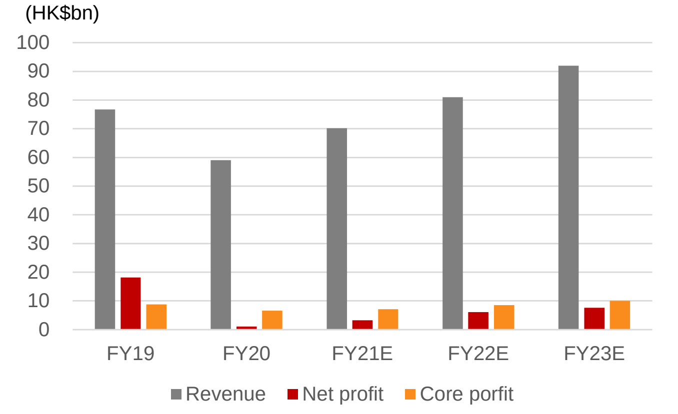
- **Estimate net profit to increase by 195% to HK$3.23bn in FY21**

On the one hand, our strategist Daniel So predicted there will be strong recovery in Roads and full-period contribution by Insurance. As a result, we forecast revenue and net profit for NWS to increase by 14.9% to HK$29,783mn and 17.8x to HK$4,502mn in FY21, respectively. On the other hand, about HK$5.4bn and RMB1.5bn properties in HK and China will be recognized in 2HFY21. We forecast total revenue of NWD to grow by 19.0% to HK$70.2bn in FY21. About 0.19mn sq m of properties in Greater Bay Area and 0.28mn sq ft of HK properties will be completed in 2HFY21. So we expect it will lift gross margin. We forecast gross margin in 2HFY21 to be 37.6%, compared with 26.2% in 1HFY21. So overall gross margin is expected to be 31.8% in FY21, narrowed by 2.0ppts from FY20. At last, we forecast net profit to be HK$3,231mn in FY21, up 195% YoY. Excluding non-current items as well as distribution to perpetual securities, core earnings is expected to grow by 8.0% to HK$7,116mn in FY21.

- **Estimate net profit to grow by 90% in FY22 and 24% in FY23**

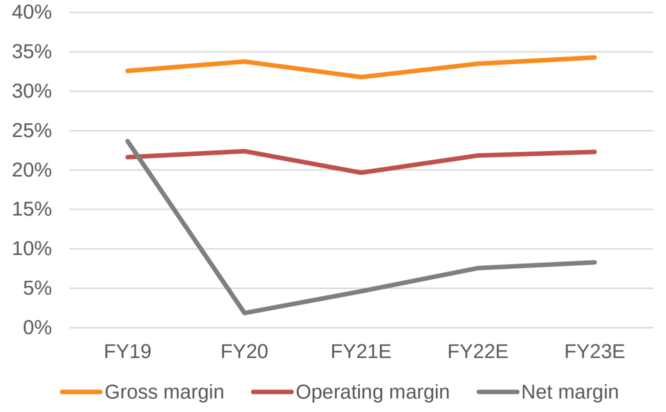
Major delivery in FY22 and FY23 are 888 Lai Chi Kwok Road (0.49mn sq ft) and The Pavilla Farm (1.37mn sq ft), respectively. As of Dec 2020, about HK$12.5bn and HK$24.2bn of properties sales were locked-up and pending for delivery in FY22 and FY23, respectively. We forecast total revenue to be HK$81,025mn in FY22 and HK$91,983mn in FY23. We also expect gross margin to improve from 32.0% in FY21 to 33.5% in FY22 and further to 34.3% in FY23. As a result, we project net profit to grow by 89.7% to HK$6,128mn in FY22 and 24.4% to HK$7,621mn in FY23.

Figure 73: Revenue, net profit and core profit



Source: Company data, CMBIS estimates

Figure 74: GM, operating margin and net margin



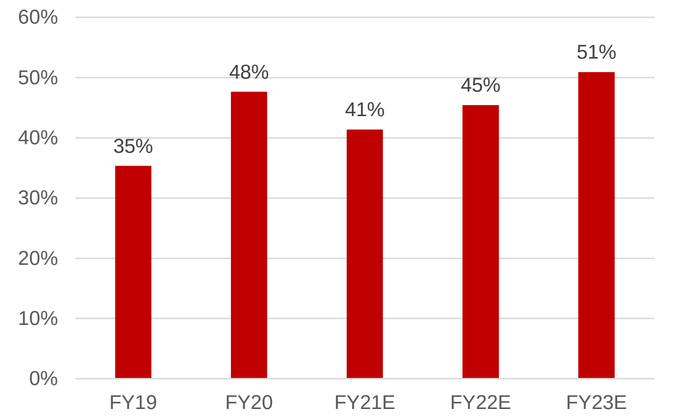
Source: Company data, CMBIS estimates

Gearing a little bit high but still sage

As of Dec 2020, total debt and cash on hand amounted to HK$175.4bn and HK$54.8bn, respectively. Net gearing was only 53.5% as of Dec 2020. Net gearing ratio was higher than other HK developers but below that of China developers. We believe NWD can face any financial demand. Its debt maturity less than 1 year amounted to HK$51.0bn. Its financial resources was HK$102bn, including cash of HK$54.8bn and undrawn banking facilities of HK$47bn. NWD also revealed that all refinancing of borrowing due in FY21 has been arranged. We expect net gearing ratio to stay around 41-51% from FY21-23. On the other hand, we forecast interest coverage ratio to strengthen from 2.3x in FY21 to 2.8x in FY22 and further to 3.1x in FY23. Meanwhile, overall financing cost decreased to 2.93% in 1HFY21 from 4.31% in 1HFY20.

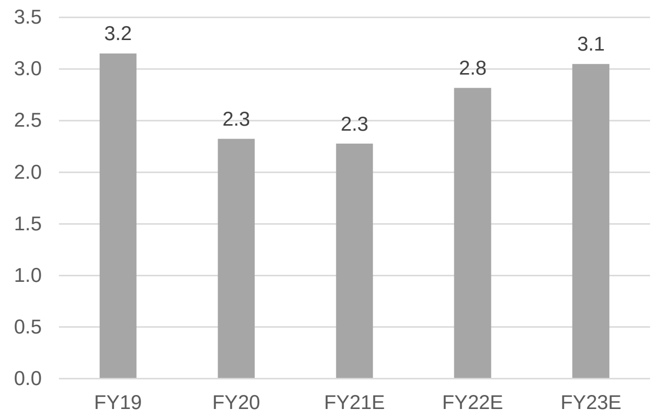
NWD used interest rate swaps, cross currency swaps and foreign exchange forward contracts to hedge part of interest rate and foreign exchange exposure. As of Dec 2020, there was HK$10.46bn outstanding cross currency swaps and foreign exchange forward contracts and HK$16.5bn and US$325mn outstanding derivative instruments.

Figure 75: Net gearing ratio



Source: Company data, CMBIS estimates

Figure 76: Interest coverage



Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 30 Jun (HK$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	**76,764**	**59,008**	**70,194**	**81,025**	**91,983**
Property development	38,512	19,208	24,800	27,600	30,120
Property investment	3,669	4,350	5,002	5,602	6,162
Others	34,583	35,451	40,393	47,823	55,700
Cost of sales	(51,742)	(39,077)	(47,873)	(53,882)	(60,433)
Gross profit	**25,022**	**19,931**	**22,322**	**27,143**	**31,550**
Other income and gains	2,176	3,624	2,455	2,285	2,229
Distribution expenses	(2,161)	(1,937)	(2,246)	(2,836)	(3,219)
Administrative expenses	(6,299)	(7,122)	(7,441)	(7,535)	(8,370)
Other expenses	(2,126)	(1,287)	(1,294)	(1,348)	(1,672)
Operating profit	**16,613**	**13,209**	**13,796**	**17,709**	**20,518**
Finance expenses	(2,473)	(4,838)	(4,290)	(4,279)	(4,465)
Associates/JV	4,683	770	1,080	1,380	1,600
IP revaluation	10,306	1,653	92	-	-
Pre-tax profit	**29,129**	**10,794**	**10,678**	**14,810**	**17,652**
Income tax	(7,490)	(7,528)	(4,319)	(5,372)	(6,421)
After-tax profit	21,639	3,266	6,359	9,438	11,231
Minority interest	(2,676)	(482)	(878)	(910)	(1,210)
Perpetual	(803)	(1,688)	(2,250)	(2,400)	(2,400)
Net profit	**18,160**	**1,096**	**3,231**	**6,128**	**7,621**
Core profit*	**8,814**	**6,589**	**7,116**	**8,528**	**10,021**

Cash flow

YE 30 Jun (HK$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Operating profit	16,613	13,209	13,796	17,709	20,518
Depreciation and amortization	2,461	3,688	3,968	4,220	4,247
Change in working capital	(4,765)	(15,414)	(10,543)	(10,010)	(6,250)
Income tax paid	(5,182)	(8,799)	(4,282)	(4,722)	(5,791)
Others	(2,117)	(2,975)	23,228	4,049	(9,838)
CF from operating	**7,011**	**(10,290)**	**26,167**	**11,245**	**2,885**
Capex	(18,986)	(21,247)	(18,880)	(11,296)	(8,100)
Associates/JV	(161)	4,491	4,957	(3,600)	(2,600)
Other	(9)	(319)	(110)	(136)	(136)
CF from investing	**(19,156)**	**(17,074)**	**(14,033)**	**(15,032)**	**(10,836)**
Equity raised	27	(264)	(378)	-	-
Change of Debts	13,585	28,308	(11,389)	10,500	5,600
Dividend paid	(6,207)	(6,370)	(4,648)	(4,737)	(4,896)
Other	5,289	6,860	-	-	-
CF from financing	**12,694**	**28,533**	**(16,415)**	**5,763**	**704**
Net change in cash	549	1,169	(4,282)	1,977	(7,247)
Cash at the beginning	62,597	62,390	63,317	59,046	61,033
Exchange difference	(756)	(242)	10	10	10
Cash at the end	**62,390**	**63,317**	**59,046**	**61,033**	**53,796**
Pledged deposit	1,342	4,118	4,118	4,118	4,118
Cash at BS	63,732	67,436	63,164	65,151	57,914

Balance sheet

YE 30 Jun (HK$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	**353,120**	**417,924**	**427,300**	**435,240**	**449,860**
Fixed asset	31,024	30,100	22,300	24,000	26,100
Investment properties	173,327	169,718	194,000	201,000	204,300
Associates/JV	76,197	64,157	59,200	62,800	65,400
Intangible assets	13,438	22,433	23,200	22,100	21,400
Other non-current assets	59,135	131,517	128,600	125,340	132,660
Current assets	**150,165**	**182,272**	**189,664**	**202,751**	**202,264**
Cash	63,732	67,436	63,164	65,151	57,914
Account receivable	25,722	35,189	36,000	42,000	45,000
Inventories	58,081	67,067	78,000	83,100	86,800
Other current assets	2,630	12,581	12,500	12,500	12,550
Current liabilities	**101,257**	**152,609**	**153,000**	**162,300**	**169,070**
Borrowings	41,776	56,601	50,000	52,000	54,100
Trade and other payables	38,200	40,569	41,770	42,860	43,310
Contract liabilities	10,553	13,533	16,330	18,540	21,190
Deferred taxation	10,641	11,067	11,800	12,100	12,350
Other current liabilities	87	30,840	33,100	36,800	38,120
Non-current liabilities	**126,664**	**167,841**	**163,950**	**174,200**	**178,880**
Borrowings	114,559	134,788	130,000	138,500	142,000
Other non-current liabilities	12,105	33,054	33,950	35,700	36,880
Shareholders' equity	**223,865**	**213,023**	**226,284**	**227,131**	**229,294**
Minority interest	29,995	29,630	31,200	31,800	32,300
Perpetual bond	21,506	37,092	42,530	42,560	42,580
Total equity	275,365	279,745	300,014	301,491	304,174

Key ratios

YE 30 Jun	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue mix (%)					
Property development	50.2	32.6	35.3	34.1	32.7
Property investment	4.8	7.4	7.1	6.9	6.7
Others	45.1	60.1	57.5	59.0	60.6
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Growth (%)					
Revenue	26.5	-23.1	19.0	15.4	13.5
Operating profit	-2.8	-20.5	4.4	28.4	15.9
Net profit	-22.2	-94.0	194.8	89.7	24.4
Profit & loss ratios (%)					
Gross margin	32.6	33.8	31.8	33.5	34.3
Operating margin	21.6	22.4	19.7	21.9	22.3
Net margin	23.7	1.9	4.6	7.6	8.3
Effective tax rate	25.7	69.7	40.4	36.3	36.4
Balance sheet ratios					
Current ratio (x)	1.5	1.2	1.2	1.2	1.1
Receivable day	122.3	217.7	187.2	189.2	178.6
Net gearing ratio (%)	35.4	47.7	41.4	45.5	50.9
Return (%)					
ROE	8.1	0.5	1.4	2.7	3.3
ROA	3.6	0.2	0.5	1.0	1.2
Per share data (HK$)					
EPS	7.11	0.43	1.27	2.41	3.00
DPS	2.04	2.04	2.04	2.10	2.50
BVPS	87.59	83.57	89.13	89.46	90.31

Source: Company data, CMBIS estimates
*NWD includes distribution of perpetual securities in its core earnings

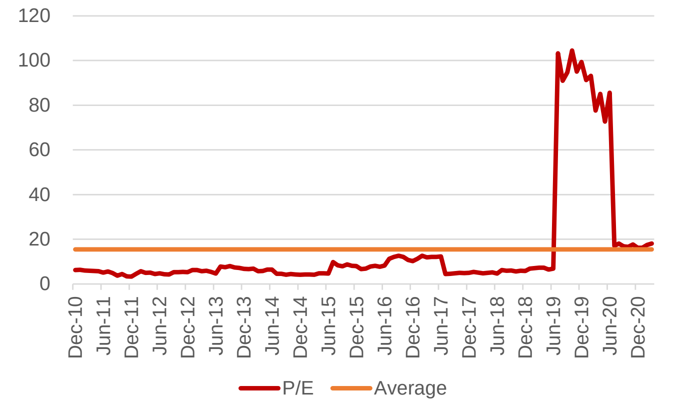
Valuation

Generally speaking, we prefer to use discount to NAV method to measure fair value of property company. Property companies with high quality, such as good corporate governance, high earning visibility, healthy balance sheet, will have less discount to NAV. We are using DCF method for development properties, cap rate method for investment properties. Then, we deduct net debt position to find out NAV per share.

HK property companies are trading below book more than 10 years. However, they will do the revaluation of investment properties every year. We believe only value of properties under development cannot be fully reflected under the cost method. Since properties under development or properties held for sales only accounted for 13.2% of total assets as of Dec 2020, we believe book value per share is quite closed to NAV per share.

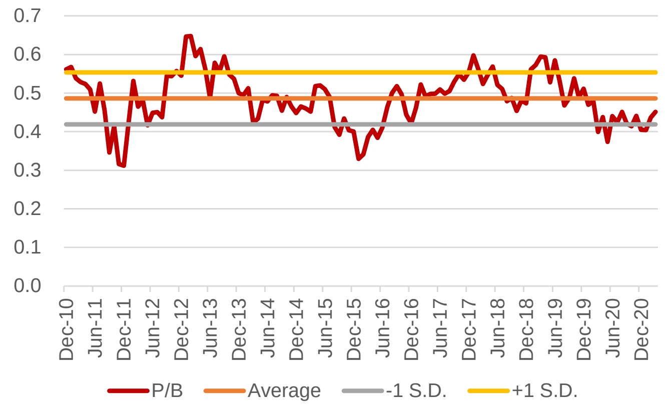
After Adrian Cheng took stewardship, we believe NWD is upgrading, no matter product quality, corporate governance and financial stability. There is a chance of re-rating. In the last 10 years, average and standard deviation of forward P/B were 0.49x and 0.07x, respectively. We believe NWD is deserved to be valuated with mean plus one standard deviation of forward P/B (i.e. 0.55x). Our Target Price is HK$49.3, equivalent to 0.55x FY21E P/B.

Figure 77: NWD Forward P/E



Source: Bloomberg, CMBIS estimates

Figure 78: NWD Forward P/B



Source: Bloomberg, CMBIS estimates

Company Background

Core business of NWD include investment in property and property development, and investment in and/or operation of roads, commercial aircraft leasing, construction, insurance, hotels and other strategic businesses. Its operations in Greater China, especially the Greater Bay Area, had a total asset value of approximately HK$600bn as at Jun 2020. The Group's two listed subsidiary companies are NWS Holdings Limited and New World Department Store China Limited

New World's brand personality is best defined by "The Artisanal Movement", a cultural vision, a philosophy for living. In the age of machines, NWD wants to celebrate something more human and kindle the artisan spirit. Through Collect, Connect, Collide, "The Artisanal Movement" becomes an incubator for ideas, and a channel for audiences to experience them.

Figure 79: Organization structure

Source: Company data, CMBIS

招銀国际 CMB INTERNATIONAL
招商银行全资附属机构 A Wholly Owned Subsidiary Of China Merchants Bank

CK Asset (1113 HK)

Excellence in trend catching

We initiate CK Asset with BUY rating and TP at HK$66.5. CK Asset is excellent at its macro trend catching as well as its selling strategy. Through recent possible acquisition and share buy-back plan, Li Family increases its stake to the Company. Our TP of HK$66.5 is based on 0.67x FY21E P/B or its average since Jun 2015.

- **Increased HK$17bn investment in utility businesses.** CK Asset proposed to acquire part of interest of four utility companies from LKS Fund on 18 Mar 2021. Total considerations amounted to H$K17bn. The acquisition is funded by new share issuance to seller. In addition, CK Asset also revealed a plan of share buy-back proposal. Once the plan is settled, Li Family will increase his stake in CK Asset from current 35.99% to 41.3%-45.6%.
- **A good trend catcher.** Although Mr. KS Li retired from the Chairman in 2018, he continues to act as Senior Advisor of the Company. Mr. KS Li has a good record to catch mega trend in half a century. We believe investing in CK Asset would have free rider advantage of Mr. KS Li's advice.
- **Hidden Jewel in landbank.** As at Dec 2020, CK Asset owned a total landbank of 132mn sq ft, of which 26mn sq ft in HK, 74mn sq ft in Mainland China and 32mn sq ft overseas. In fact, there are many hidden jewels in its landbank. Firstly, there are 15,000 rooms of hotel and serviced suite properties. The Company can apply to convert them into residential units for sales. In Dec 2020 and Feb 2021, it obtained approval to rebuild hotel properties in Tin Shui Wai and Ma On Shan. Secondly, Greene King owned 26mn sq ft of properties in the UK, which has valuation of only £3bn. There may be huge revaluation gain when we do the valuation again now. It may go higher if there are appropriate projects for redevelopment.
- **Expect 20% CAGR of earnings in 2020-23.** Although net profit tumbled by 44% to HK$16.3bn in 2020, we are confident to its future performance because HK$41.3bn pre-sales amount are unbooked. We forecast net profit of HK$22.8bn, HK$25.4bn and HK$27.9bn in 2021-23, respectively. We estimate BVPS to be HK$100.34 as at Dec 2021. Our TP is HK$66.8, equivalent to 0.67x 2021E P/B.
- **Key risks:** 1) Possible acquisition is voted down; 2) Interest rate hike; 3) UK economy; 4) Government's policies on property market; 5) COVID-19.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (HK$ mn)	82,382	59,825	71,566	79,787	87,610
Net profit (HK$ mn)	29,134	16,332	22,822	25,407	27,859
EPS (HK$)	7.89	4.42	6.18	6.88	7.54
YoY growth (%)	-27.3	-44.0	39.7	11.3	9.7
Consensus EPS (HK$)	N.A.	N.A.	5.93	6.46	6.47
P/E (x)	6.1	10.8	7.7	6.9	6.3
P/B (x)	0.5	0.5	0.5	0.5	0.4
Yield (%)	4.4	3.8	4.2	4.5	4.8
ROE (%)	8.5	4.6	6.2	6.5	6.8
Net gearing (%)	5.5	5.0	1.8	0.4	Net Cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Initiation)

Target Price	**HK$66.5**
Up/Downside	**+39.3%**
Current Price	**HK$47.75**

HK Property Sector

Samson Man, CFA
(852) 3900 0853
samsonman@cmbi.com.hk

Stock Data

Mkt Cap (HK$ mn)	176,360
Avg 3 mths t/o (HK$ mn)	429
52w High/Low (HK$)	50.55/35.65
Total Issued Shares (mn)	3,693

Source: Bloomberg

Shareholding Structure

Li Ka-Shing Family	35.99%
Freeflow	63.56%

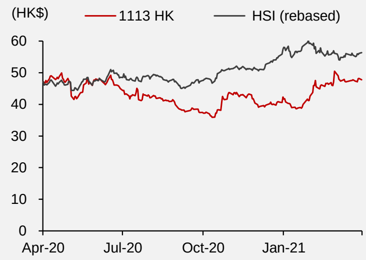
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	2.4%	4.0%
3-mth	18.7%	18.3%
6-mth	28.9%	8.5%
12-mth	0.8%	-15.1%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

Investment Thesis

A good trend catcher

Mr. KS Li has been in the industry for more than 50 years. He is excellent in the trend catching. CK Asset sold The Centre (office building in HK) in 2018. It is a strategic move. The Company is financially fit enough to face HK social unrest in 2019 and COVID-19 pandemic in 2020.

Although Mr. KS Li retired from the Chairman in 2018, he continues to act as Senior Advisor of the Company and advises his son, Mr. Victor Li (now Chairman). Both of them lead the Company to achieve a long-term sustainable growth business model. CK Asset is engaged in the businesses of property development and investment, hotel and serviced suite operation, property and project management, aircraft leasing, pub operation and investment in infrastructure and utility asset operation.

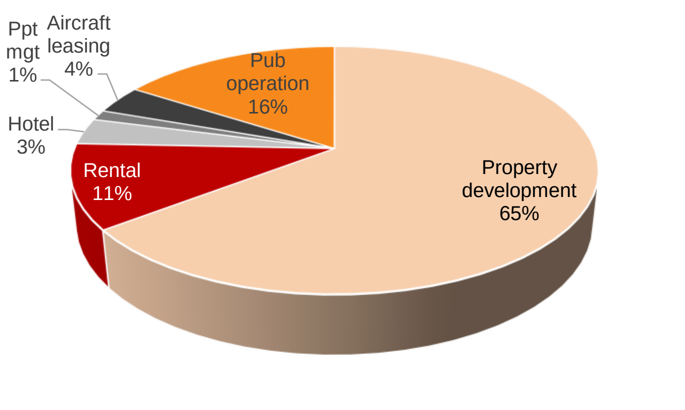
Recently, CK Asset acquired a site of land in Kai Tak area by tendering. Total consideration is HK$10.28bn in Feb 2021. It is a good signal for HK property market in the future.

Core earnings fell 33% in FY20

For twelve months ended 31 Dec 2020, CK Asset recorded a 7% growth in the revenue to HK$59.8bn and a 44% decline to HK$16.3bn in net profit. Excluding a HK$1.07bn loss fair value change in REITs investment, HK$945mn loss in fair value change of investment properties and HK$995mn impairment in pub property asset, core profit tumbled by 33% to HK$19.3bn in 2020.

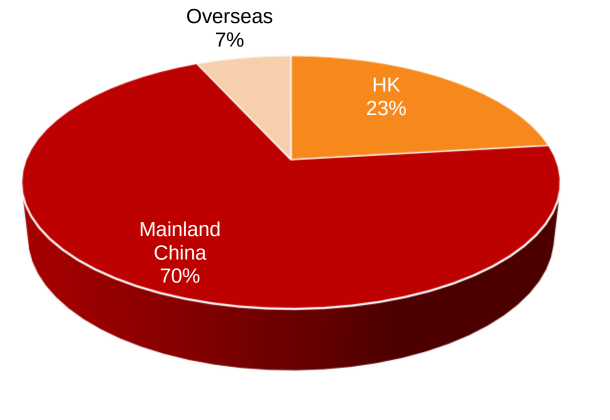
Earnings decline in 2020 was attributed to impact from COVID-19. Firstly, hotel business and pub operation suffered from decline of customers visit. Border was closed in COVID-19 period. Therefore, it adversely affected occupancy of all HK hotels. Occupancy rate of CK Asset's hotels was 20% on average in 2020. As a result, revenue and profit contribution from hotel and serviced suite operation tumbled by 51% to HK$2,055mn and 81% to HK$260mn in 2020. Meanwhile, pubs in the UK were closed in 2Q20 due to lockdown. CK Asset also booked HK$995mn impairment of fixed assets. So pub operation posted a HK$3,462mn loss in 2020.

Figure 80: Revenue breakdown in 2020



Source: Company data, CMBIS

Figure 81: Revenue from property development breakdown in 2020



Source: Company data, CMBIS

144mn sq ft landbank

As at Dec 2020, CK Asset owned a total landbank of 132mn sq ft, of which 26mn sq ft in HK, 74mn sq ft in Mainland China and 32mn sq ft overseas. The Company plans to have 8.78mn sq ft of properties completed in 2021, of which 1.64mn sq ft in HK and 7.14mn sq ft in Mainland China.

Figure 82: Landbank as at 31 Dec 2020

	HK (mn sq ft)	Mainland China (mn sq ft)	Overseas (mn sq ft)	Total (mn sq ft)
Properties under development	5	71	4	80
Investment properties	13	2	2	17
Hotels and serviced suites	8	1	0	9
Pub properties	0	0	26	26
Total	**26**	**74**	**32**	**132**

Source: Company data, CMBIS

■ Replenish landbank again

In May 2020, the Company was awarded a government tender for a site at Anderson Road, Kwun Tong. Total GFA and land premium amounted to 1.09mn sq ft and HK$4,951mn, respectively. Accommodation value (AV) was HK$4,542 per sq ft. The lower AV was partially attributed to providing not less than 1,000 units for the Start Homes Pilot Project. In Feb 2021, the Company further acquired a site through government tender in HK. It bought a site in Kai Tak Area 4E Site 2. Total GFA and land premium amounted to 0.65mn sq ft and HK$10,280mn, respectively. AV was HK$15,861 per sq ft. Higher AV in Kai Tak site is because of sea view as well as close vicinity to Kai Tak MTR station.

■ Convert serviced suite to residential

The Company owned about 15,000 rooms of hotel and serviced suite properties, most of them are in HK. This may become the jewel in the crown. In Dec 2020, CK Asset obtained approval from HK Government to rebuild its hotel in Tin Shui Wai to residential property, which will provide more than 5,000 units. In Feb 2021, CK Asset obtained approval to convert its serviced suites in Ma On Shan to residential usage. There are 831 suites in Ma On Shan serviced suites. The Company may convert 637 suites to residential usage and maintain the remaining 194 suites for rental purpose. Or the Company may rebuild Ma On Shan serviced suite to a new mixed usage project which will provide 758 residential units in the future. Lastly, it also applies to rebuild serviced suite in Hung Hom. If it successfully converts these hotels or serviced suites to residential units, it will enhance NAV or earnings.

■ Asset of British pub is a hidden treasury

Greene King is not only a pub business. It also involves some interests in the property market. CK Asset acquired Greene King in Oct 2019. According to Greene King latest audit report, it owned about £3bn land and properties as at Apr 2020. We believe these would be a hidden treasury because £3bn land and properties were classified as property, plant and equipment in Greene King’s balance sheet and were valued as at 20 Dec 2003. After more than 18 years, there may be huge revaluation gain when we do the valuation again now. It may go higher if there are appropriate projects for redevelopment.

■ REIT is an asset light business

CK Asset is managing three REIT, namely Hui Xian REIT (87001 HK), Fortune REIT (778 HK) and Prosperity REIT (808 HK). These REITs own property projects developed by CK Asset and were separated listing. These three REITs aggregately own 16.1mn sq ft investment properties in HK and mainland China. In 2020, CK Asset received about HK$535mn cash payout from these three REITs.

Figure 83: REIT portfolio as at 31 Dec 2020

	Hui Xian REIT	Fortune REIT	Prosperity REIT
Ticker	87001 HK	778 HK	808 HK
Interest	32.5%	26.9%	18.0%
Market cap (HK$mn)	12,920	14,440	3,700
Yield	4.8%	6.4%	7.4%
AUM (mn sq ft)	11.8	3.0	1.3

Source: Company data, CMBIS

Other businesses

Besides property and pub businesses, CK Asset is also engaged in some businesses with stable income sources, such as aircraft leasing, infrastructure and utility asset operation.

■ Lease 125 aircraft

As at Dec 2020, CK Asset owned 120 narrow body aircraft and 5 wide body aircraft with an average age of 6.8 years. Average remaining lease term was 4.5 years. Global airline industry is seriously hit by COVID-19 pandemic. Airline companies lack cash and have limited flights under operation. So they prefer to lease aircraft than owning them in order to save cash flow. Aircraft leasing industry will have huge business opportunities.

CK Asset recorded a HK$1,119mn operating income from aircraft leasing business in 2020, including a gain of HK$201mn on disposal of aircraft and after provisions of HK$136mn and HK$70mn for aircraft impairment and lease receivable, respectively, compared with HK$1,515mn operating income in 2019. It had committed to acquire 20 aircraft with HK$9.6bn.

■ Infrastructure and utility asset operation

The Company participates in many investments in infrastructure and utility asset operation. Major investments in infrastructure and utility asset operation include 40% interest in CK William JV, 75% interest in CKP (Canada) JV and 65% interest in Sarvana JV. All of their business are located outside Asia, such as in Australia, the US, Canada, the UK and Europe. Therefore, some business risk can be reduced or diversified. Besides these major investments, CK Asset has the economic benefits in six oversea companies.

Figure 84: Investment in infrastructure and utility asset operation

	Investment	Principal activity	Interest
1	CK William JV	An owner and operator of energy utility assets in Australia, the US, Canada and the UK	40%
2	CKP (Canada) JV	A building equipment and service provider under the consumer brand identity of "Reliance Home Comfort" in Canada	75%
3	Sarvana JV	A fully integrated energy management service provider operated by ista Group in Europe	65%
4	Park'N Fly	An off-airport car park provider in Canada	20%
5	UK Rails	A rolling stock operating company in the UK	20%
6	Northumbrian Water	A regulated water and sewerage company in England and Wales	16%
7	Dutch Enviro Energy	An energy-from-waste company in the Netherlands	14%
8	Wales & West Gas Networks	A gas distributor that serves Wales and the South West of England	12%
9	Australina Gas Networks	A distributor of natural gas in Australia	11%

Source: Company data, CMBIS

After its FY20 results announcement on 18 Mar 2021, CK Asset disclosed the plan of increasing its stakes in several infrastructure and utility asset operations. It will acquire parts of interest in four companies from LKS Fund in the amount of HK$17bn, which is financed by issue of new shares.

Proposed acquisition and share buy-back plan

CK Asset proposed to acquire part of interest of four utility companies from LKS Fund on 18 Mar 2021. Total considerations amounted to H$K17bn. The acquisition is funded by new share issuance to seller. In addition, CK Asset also revealed a plan of share buy-back proposal. Completion of the proposed acquisition is conditional upon, among other things, the proposed acquisition, the specific mandate, the share buy-back offer and the whitewash waiver being approved by independent shareholders at the EGM.

- **The proposed acquisition and the issue of new shares**

On 18 Mar 2021, CK Asset announced to acquire four investment holding companies that own different interest of four different utility companies that include:

1) 20% shareholding interest in UK Power Networks, which is one of the UK's largest power distributors comprising three regional networks with a distribution area that covers London, the south east and the east of England; and non-regulated business comprising commercial contracts to distribute electricity to a number of private owned sites;
2) 20% shareholding interest in Northumbrian Water, which is one of the 10 regulated water and sewerage companies in England and Wales, and supplies water and sewerage services in the north east of England and supplies water services to the south east of England;
3) 10% shareholding interest in Wales & West Utilities, which principally operates a gas distribution network that serves Wales and the south west of England; and
4) 10% shareholding interest in Dutch Environ Energy, which owns the largest energy-from waste player in the Netherlands, AVR-Afvalwerking B.V., which in turn operates five waste treatment plants in Rozenburg and Duiven as well as four transfer stations.

After the completion of acquisition, the economic interests owned by CK Asset to UK Power Networks, Northumbrian Water, Wales & West Utilities and Dutch Environ Energy will be increased to 20%, 36%, 22% and 24% from 0%, 16%, 12% and 14%, respectively. The acquisitions aims to strengthen CK Asset's recurrent cash flow and income. UK Power Networks, Northumbrian Water and Wales & West Utilities are regulated infrastructure assets in the UK and Dutch Enviro Energy owns a long-term contracted cash flow producing business. The seller (LKS Fund) will ensure that cash distributions of four investment holding companies from the above four utility companies will not be less than HK$910mn in aggregate in each year of 2021 and 2022. CK Asset will issue 333,333,333 shares at a price of HK$51 per share to the seller. The newly issued shares represented 9.03% of existing shares or 8.28% of enlarged shares. It is expected the proposed acquisition will be completed around the end of Jun 2021.

- **Share buy-back proposal**

Secondly, CK Asset proposed to buy-back for cancellation up to the maximum number of shares, which is the same as the number of newly issued shares (i.e. 333,333,333 shares). But the Company announced to strengthen its share buy-back plan on 14 Apr 2021. It will increase the buy-back shares from 333,333,333 shares to 380,000,000 shares at the same offer price of HK$51 per share (revised share buy-back offer). As a result, total consideration of share buy-back proposal will increase to HK$19.38bn. The share buy-back proposal will be implemented through (i) the share buy-back offer to all qualifying shareholders with the offer price of HK$51.0 per share and (ii) possible subsequent on-market share buy-backs to eliminate all or part of the shortfall at a price not exceeding the offer price following the completion of the share buy-back offer.

- **Application for the whitewash waiver**

On 18 Mar 2021, the controlling shareholder (including LKS Fund) directly and/or indirectly holds an aggregate 1,329.4mn shares, representing about 35.99% of the total issued shares. Following the allotment and issue of new shares, the controlling shareholder will own 1,662.7mn shares in aggregate, representing about 45.6% of the total issued shares after enlarging capital and share buy-back offer. The controlling shareholder has confirmed that it will not accept the share buy-back offer in respect of any shares held by itself. As the implementation of the proposed acquisition and the revised share buy-back offer will increase the controlling shareholder's aggregate holding of voting rights by more than 2%. In the absence of the whitewash waiver, LKS Fund would make a mandatory general offer for all the outstanding shares. As a result, the controlling shareholder will apply for the whitewash waiver pursuant to Note 1 of the Notes on dispensation from Rule 26 of the Takeovers Code.

- **Establishment of independent board committee and appointment of the independent financial adviser**

The independent board committee has been formed to advise the independent shareholders on the proposed acquisition and the whitewash waiver. CK Asset also appointed independent financial adviser to advise the independent board committee and the independent shareholders as to the fairness and reasonableness of the terms of proposal acquisitions and as to voting by the independent shareholders.

- **Conditions to completion**

The EGM is expected to be held on or around 13 May 2021. Furthermore, the proposed acquisitions are expected to be completed around the end of Jun 2021. Completion of the proposed acquisition is conditional upon the fulfilment of the following conditions precedent:

1) The proposed acquisition and the specific mandate for the issue of the new shares having been approved by more than 50% of the votes cast by the independent shareholders at the EGM;
2) The whitewash waiver has been approved by at least 75% of the votes cast by the independent shareholders at the EGM;
3) The whitewash waiver is granted by Hong Kong SFC;
4) No regulatory authority under any applicable foreign investment regulation has objected to, or take any action that would prevent closing in relation to, the increase in the percentage ownership of the controlling shareholder as a result of the proposed acquisition and share buy-back offer;
5) All of the condition to the share buyback offer have been satisfied.

If the above conditions are not fulfilled or waived (as applicable) by 31 Aug 2021 (or such other date as may be agreed in writing between CK Asset and LKS Fund), the proposed acquisition shall automatically terminate and the proposal (including the share buy-back offer) will lapse.

- **Proposed dividend of CK Asset for 2021 and 2022**

Following receipt of the cash distributions by the four utility companies, CK Asset will distribute such amount in full to its shareholders. Subject to completion of the proposed acquisition, CK Asset will pay a dividend in 2021 and 2022, which will not be less than an amount equal to the sum of (i) the total dividend paid by CK Asset in 2020 and (ii) the cash distributions received by the four utility companies (or at least the guarantee amount by LKS Fund, i.e. HK$910mn) in the respective year in 2021 and 2022.

- **Completion of transaction and revised share buy-back offer**

If ECM passes the proposed acquisitions and revised share buy-back offer is completely executed, the stake owned by the controlling shareholder will be increased from 35.99% before the proposed acquisitions to 45.60% after the completion of revised share buy-back offer.

Assuming the revised share buy-back offer is completed in full, number of outstanding shares will be reduced from 3,693.4mn shares before proposed acquisitions to 3,646.7mn. Since the offer price of HK$51 per share is below book value of HK$96.02 per share, book value per share and EPS will be enhanced after full completion of revised share buy-back offer. It will offer greater financial accretion and return on capital.

Financial Analysis

Although net profit tumbled by 44% to HK$16.3bn in 2020, we are confident to its future performance because HK$41.3bn pre-sales amount are unbooked. Hotel business continues to be under pressure in 2021 but its impact to bottom line is limited.

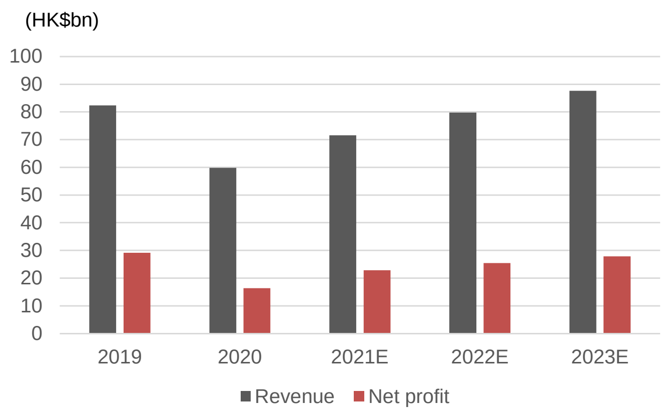
- **Estimate net profit to decline by 40% to HK$22.8bn in 2021**

As of Dec 2020, about HK$32.1bn properties were pre-sold and pending for delivery in 2021. Furthermore, it plans to have 8.78mn sq ft of properties completed in 2021, of which 1.64mn sq ft in HK and 7.14mn sq ft in Mainland China. We forecast revenue from property development to expand by 20.3% to HK$46,500mn in 2021. We further forecast rental income to enlarge by 6.0% to HK$6,997mn in 2021. Finally, we estimate total revenue to increase by 19.6% to HK$71,566mn in 2021, and net profit to advance 39.7% to HK$22,822mn in 2021.

- **Estimate net profit to increase by a CAGR of 11% from 2021 to 2023**

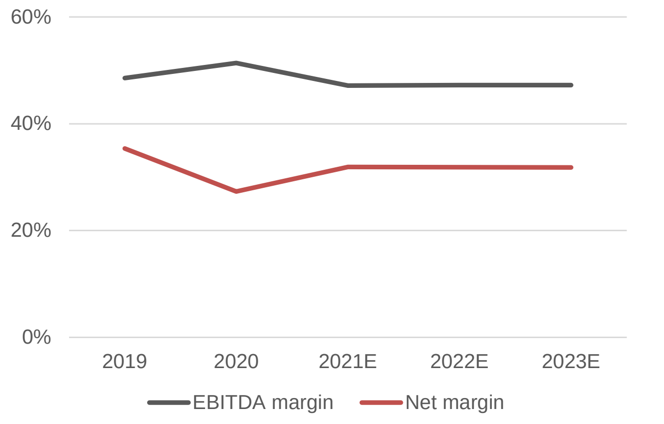
About HK$9.1bn of properties sales were locked up for delivery after 2021 as of Dec 2020. Meanwhile, the Company speeds up pre-sales job. CK Asset continues to launch Sea to Sky, Seaside Sonata and El Futuroin HK for sales as well as projects in China. Furthermore, hotel, aircraft leasing and pub operation businesses starts to recover following COVID-19 vaccine implantation. We expect total revenue to increase by 11.5% to HK$79,787mn in 2022 and 9.8% to HK$87,610mn in 2023. Profitability is expected to improve after pandemic because of operation leverage. We forecast net profit to advance by 11.3% to HK$25,407mn in 2022 and 9.7% to HK$27,859mn in 2023

Figure 85: Revenue and net profit



Source: Company data, CMBIS estimates

Figure 86: EBITDA and net margin



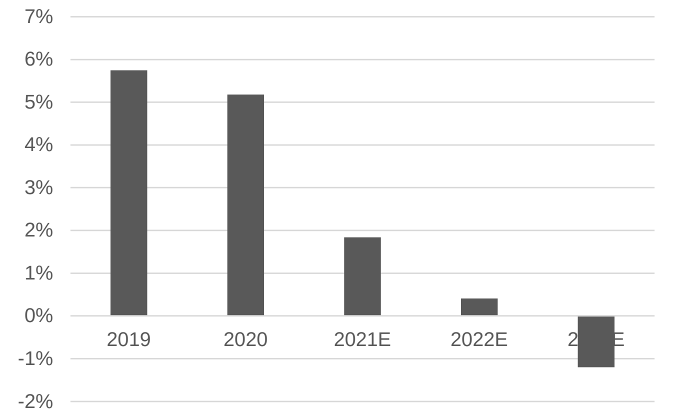
Source: Company data, CMBIS estimates

■ **Healthy balance sheet**

As of Dec 2020, total debt and cash on hand amounted to HK$77.9bn and HK$59.5bn, respectively. Net gearing was only 5.2% as of Dec 2020. Leverage was low and stayed at healthy level. The Company has good financial discipline to maintain healthy balance sheet. Its net gearing ratio has kept single digit level since 2015. In the coming months, CK Asset will spend HK$19.4bn for share buy-back once the proposed acquisition is completed. We still believe the Company is financial healthy and has strong war chest for future development.

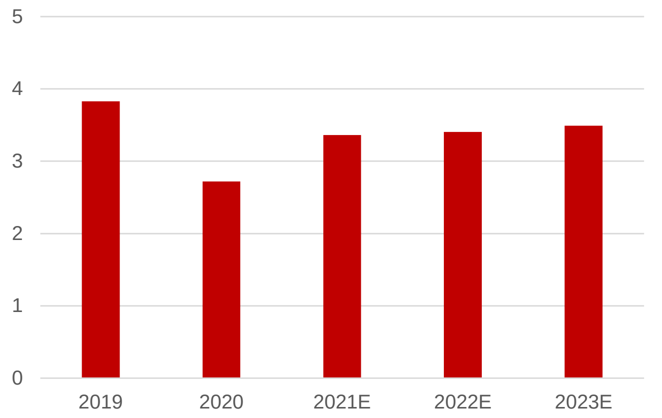
Due to business diversification, about 55% of CK Asset's borrowings were in HK$ and US$ as of Dec 2020. The remaining borrowings were in RMB, AUD and GBP that had been arranged for investments and operations on the Mainland, in Australia and in the United Kingdom, respectively. It maintains a conservative approach on foreign exchange management and adopts hedging instruments including swaps and forwards used in the management of exposure to foreign exchange rate and interest rate fluctuations.

Figure 87: Net gearing ratio



Source: Company data, CMBIS estimates

Figure 88: Current ratio



Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (HK$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	**82,382**	**59,825**	**71,566**	**79,787**	**87,610**
Property development	64,099	38,653	46,500	52,640	58,110
Property investment	7,302	6,603	6,997	7,278	7,828
Others	10,981	14,569	18,068	19,868	21,672
Other operating income	7,278	4,156	6,480	7,180	7,870
Property and related costs	(42,546)	(19,612)	(28,392)	(31,839)	(34,947)
Pub and related costs	(1,763)	(5,853)	(7,310)	(7,651)	(8,016)
Salaries and related costs	(4,452)	(6,973)	(7,810)	(8,903)	
Other expenses	(896)	(804)	(787)	(878)	(964)
Depreciation	(2,192)	(3,445)	(2,238)	(2,268)	(2,312)
EBIT	**37,811**	**27,294**	**31,510**	**35,427**	**39,092**
Finance expenses	(1,291)	(1,689)	(1,171)	(1,103)	(1,100)
Associates/JV	762	707	812	883	750
Exceptional	228	(1,106)	-	-	-
Pre-tax profit	**37,510**	**25,206**	**31,150**	**35,208**	**38,742**
Income tax	(7,464)	(7,417)	(6,978)	(8,581)	(9,498)
After-tax profit	30,046	17,789	24,172	26,627	29,244
Minority interest	(371)	(957)	(850)	(720)	(885)
Perpetual	(541)	(500)	(500)	(500)	(500)
Net profit	**29,134**	**16,332**	**22,822**	**25,407**	**27,859**
Core profit*	**28,644**	**19,339**	**22,822**	**25,407**	**27,859**

Cash flow

YE 31 Dec (HK$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E
EBIT	37,811	27,294	31,510	35,427	39,092
Depreciation and amortization	2,192	3,445	2,238	2,268	2,312
Change in working	26,900	(3,225)	(1,485)	(9,250)	(4,450)
Income tax paid	(4,520)	(8,278)	(5,903)	(7,871)	(8,768)
Others	(20,468)	5,061	(6,176)	(304)	(1,674)
CF from operating	**41,915**	**24,297**	**20,184**	**20,271**	**26,512**
Capex	(27,962)	(8,840)	(5,254)	(6,668)	(8,712)
Associates/JV	1,773	818	2,844	(1,500)	(4,000)
Other	11,347	758	(136)	(136)	(136)
CF from investing	**(14,842)**	**(7,264)**	**(2,546)**	**(8,304)**	**(12,848)**
Equity raised	-	-	-	-	-
Change of Debts	(11,953)	(3,596)	(7,593)	(3,800)	3,500
Dividend paid	(7,742)	(7,283)	(6,162)	(6,792)	(7,222)
Other	(3,052)	(8,501)	-	-	-
CF from financing	**(22,747)**	**(19,380)**	**(13,755)**	**(10,592)**	**(3,722)**
Net change in cash	4,326	(2,347)	3,883	1,375	9,942
Cash at the beginning	55,417	59,441	58,214	62,177	63,602
Exchange difference	(302)	1,120	80	50	50
Cash at the end	**59,441**	**58,214**	**62,177**	**63,602**	**73,594**
Pledged deposit	863	1,305	1,305	1,305	1,305
Cash at BS	60,304	59,519	63,482	64,907	74,899

Balance sheet

YE 31 Dec (HK$ mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	**317,542**	**327,968**	**328,370**	**334,510**	**345,385**
Fixed asset	97,519	95,101	95,800	96,200	96,600
Investment properties	119,832	128,683	131,000	135,000	141,000
Associates/JV	66,371	69,544	66,700	68,200	72,200
Intangible assets	6,492	6,655	6,000	6,000	6,000
Other non-current assets	27,328	27,985	28,870	29,110	29,585
Current assets	**190,515**	**192,735**	**201,182**	**213,257**	**229,099**
Cash	60,304	59,519	63,482	64,907	74,899
Account receivable	6,754	10,414	8,500	8,850	9,200
Inventories	121,930	121,737	128,000	138,000	143,200
Other current assets	1,527	1,065	1,200	1,500	1,800
Current liabilities	**49,758**	**70,823**	**59,810**	**62,620**	**65,630**
Borrowings	6,841	22,887	9,100	8,500	8,800
Trade and other payables	21,970	21,336	24,200	25,300	26,400
Contract liabilities	15,459	22,303	22,000	24,000	25,180
Deferred taxation	5,488	4,297	4,510	4,820	5,250
Other current liabilities	0	0	0	0	0
Non-current liabilities	**97,067**	**82,662**	**86,600**	**83,920**	**87,620**
Borrowings	73,241	55,006	61,200	58,000	61,200
Other non-current liabilities	23,826	27,656	25,400	25,920	26,420
Shareholders' equity	**344,253**	**354,639**	**370,592**	**388,427**	**408,234**
Minority interest	5,309	6,379	6,350	6,600	6,800
Perpetual bond	11,670	6,200	6,200	6,200	6,200
Total equity	361,232	367,218	383,142	401,227	421,234

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue mix (%)					
Property development	77.8	64.6	65.0	66.0	66.3
Property investment	8.9	11.0	9.8	9.1	8.9
Others	13.3	24.4	25.2	24.9	24.7
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Growth (%)					
Revenue	63.6	-27.4	19.6	11.5	9.8
EBIT	-17.1	-27.8	15.4	12.4	10.3
Net profit	-27.4	-43.9	39.7	11.3	9.7
Profit & loss ratios (%)					
EBIT margin	45.9	45.6	44.0	44.4	44.6
Net margin	35.4	27.3	31.9	31.8	31.8
Effective tax rate	19.9	29.4	22.4	24.4	24.5
Balance sheet ratios					
Current ratio (x)	3.8	2.7	3.4	3.4	3.5
Receivable day	29.9	63.5	43.4	40.5	38.3
Net gearing ratio (%)	5.5	5.0	1.8	0.4	-1.2
Return (%)					
ROE	8.5	4.6	6.2	6.5	6.8
ROA	5.7	3.1	4.3	4.6	4.8
Per share data (HK$)					
EPS	7.89	4.42	6.18	6.88	7.54
DPS	2.10	1.80	2.00	2.15	2.28
BVPS	93.21	96.02	100.34	105.17	110.53

Source: Company data, CMBIS estimates
*Core profit, a non-IFRS measure, represents profit before taking into account (i) change in fair values of Fortune REIT, Prosperity REIT and investment properties; and (ii) pub property asset impairment. 2019 core profit has been restated to conform with current year measurement

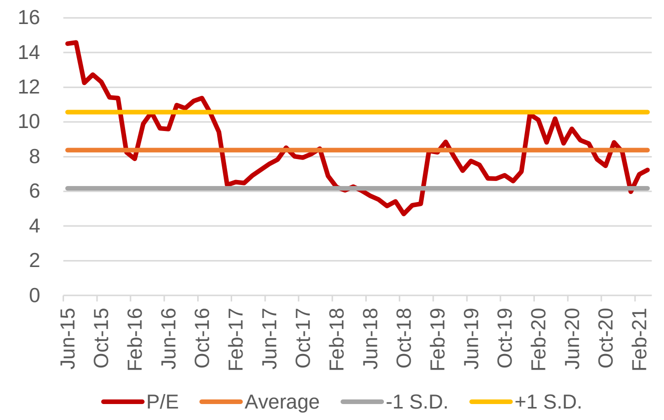
Valuation

Generally speaking, we prefer to use discount to NAV method to measure fair value of property company. Property companies with high quality, such as good corporate governance, high earning visibility, healthy balance sheet, will have less discount to NAV. We are using DCF method for development properties, cap rate method for investment properties. Then, we deduct net debt position to find out NAV per share.

HK property companies are trading below book more than 10 years. However, they will do the revaluation of investment properties every year. We believe only value of properties under development cannot be fully reflected under the cost method. Since properties under development or properties held for sales only accounted for 23.4% of total assets as of Dec 2020, we believe book value per share is quite closed to NAV per share.

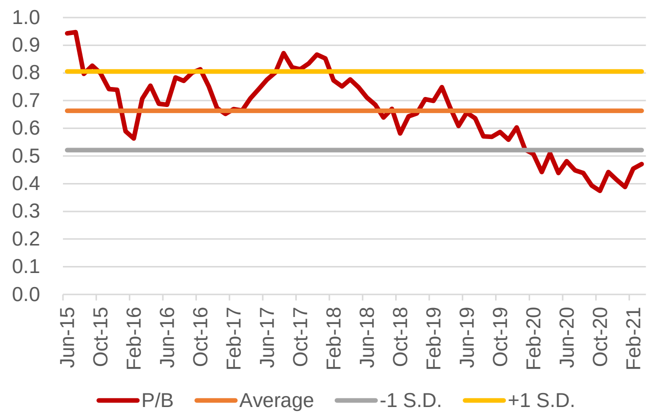
Mr Li Ka Shing restructured his property and non-property businesses in mid-2015. He grouped all property business in CK Asset. So we only have its valuation multiple in last six years. From Jun 2015 to Feb 2021, average and standard deviation of P/B were 0.66x and 0.14x, respectively. Through the recent possible acquisition and share buy-back plan, we expect valuation of CK Asset will revert to normal in the future. Our Target Price is HK$66.5, representing 0.66x 2021E P/B (or average since Jun 2015). We initiate CK Asset with BUY recommendation.

Figure 89: CK Asset forward P/E



Source: Bloomberg, CMBIS estimates

Figure 90: CK Asset forward P/B

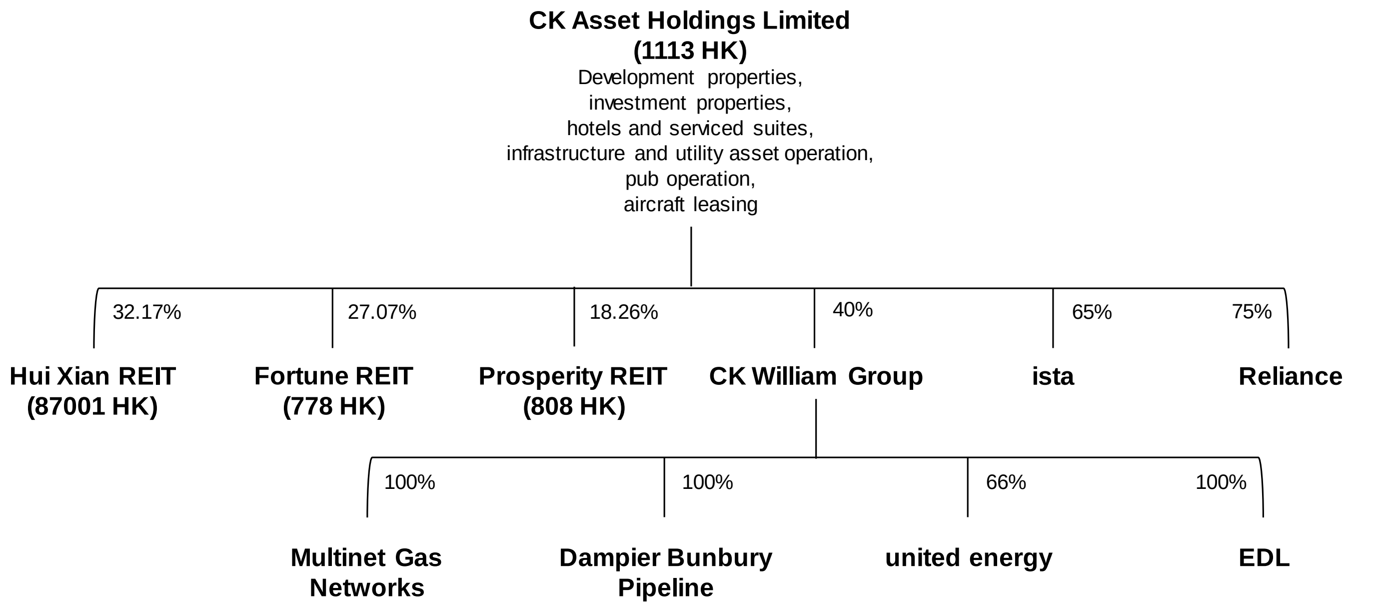


Source: Bloomberg, CMBIS estimates

Company Background

CK Asset is a leading multinational corporation committed to achieving long-term sustainable growth through continual strengthening of its existing property businesses and steady enhancement of its recurrent income base via a prudent global investment strategy. It has diverse capabilities with activities encompassing property development and investment, hotel and serviced suite operation, property and project management, aircraft leasing, pub operation and investment in infrastructure and utility asset operation. Furthermore, CK Asset owns interests in three listed real estate investment trusts.

Figure 91: Organization structure



Source: Company data, CMBIS

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