

China / Hong Kong

Flash Note

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DBS Group Research . Equity

2 Aug 2019

CK Asset Holdings (1113 HK) : **BUY**

Mkt. Cap: US\$26,996m | **3m Avg. Daily Val:** US\$46.1m

Last Traded Price (1 Aug 2019): HK\$57.20

Price Target 12-mth: HK\$69.05 (20.7% upside) (Prev HK\$69.70)

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Quality play in these uncertain times

- **Excluding gains from investment property revaluation and disposals, 1H19 underlying grew 16% to HK\$14bn**
- **Near-term development earnings are well secured**
- **Recurring earnings going from strength to strength**
- **BUY with HK\$69.05 TP**

Forecasts and Valuation

FY Dec (HK\$ m)	2017A	2018A	2019F	2020F
Turnover	57,546	50,368	78,071	50,970
EBITDA	29,665	25,587	41,459	30,108
Pre-tax Profit	38,127	49,175	41,626	30,044
Underlying Profit	20,320	35,962	31,601	23,085
EPS (HK\$)	5.44	9.73	8.56	6.25
EPS Gth (%)	15.5	78.7	(12.1)	(26.9)
PE (X)	10.5	5.9	6.7	9.2
P/Cash Flow (X)	3.9	12.3	6.0	33.0
EV/EBITDA (X)	7.4	8.6	5.3	7.3
DPS (HK cts)	1.70	1.90	2.04	2.15
Div Yield (%)	3.0	3.3	3.6	3.8
Net Gearing (%)	6	4	CASH	1
ROE (%)	10.7	13.0	9.4	6.5
Est. NAV (HK\$):			118.0	118.2
Disc. to NAV (%)			(52)	(52)
Earnings Rev (%):			10	(1)
Consensus EPS (HK\$):			7.97	6.8
Other Broker Recs:		B: 4	S: 0	H: 3

Source: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

What's New

Cheung Kong Asset Holdings'(CKAH) 1H19 net profit fell 39% to HK\$15.1bn. Excluding property revaluation and gains on disposal of investment properties, the company's underlying profit would have increased 16% to HK\$14bn. Interim DPS rose 11% to HK\$0.52.

Development earnings more than tripled to HK\$7.53bn, thanks to significantly higher contributions from Hong Kong. Major contributors included Ocean Pride, 90 Repulse Bay Road and Zumurud in Hong Kong, and Laguna Verona in Dongguan.

In 1H19, CKAH achieved contracted sales of HK\$3bn in Hong Kong, mainly from inventory sales as the company did not launch any new projects during the period. In China, the company attained contracted sales of HK\$7bn. As of Jun-19, property sales contracted but not yet unrecognised was high at HK\$53.5bn, with HK\$39.7bn from Hong Kong and HK\$10.9bn from China. About HK\$40bn of the contracted sales is expected to be recognised in 2H19. This points to high near-term development visibility.

Rental earnings fell modestly by 3% to HK\$3.76bn mainly due to the shortfall led by the disposal of The Center and commencement of the Hutchison House redevelopment. The shortfall, however, was partially offset by contributions from the commercial property at 5 Broadgate in London that was acquired in Jun-18. The soon-to-be-completed OP Mall in Tsuen Wan should augment the company's rental income growth in the year ahead.



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Profit contributions from hotel and serviced suite operations was marginally higher at HK\$876m due to the absence of loss from Bahamas Grand Lucayan that was sold in 2018. The new 840-room Hotel Alexandra in North Point is scheduled to have a soft opening in early 2020. This, coupled with the completion of Harbour Grand Kowloon Extension, should enhance its hotel portfolio.

Profit from aircraft leasing grew 20% to HK\$717m as the company acquired some more aircraft. Earnings from infrastructure and utility asset operations jumped 15% to HK\$2.54bn led by contributions from infrastructure businesses acquired from Cheung Kong Hutchison Holdings in 2H18. Overall, recurring earnings grew 6% to HK\$7.89bn, accounting for 51% of total EBIT.

In 2H19, CKAH plans to launch Seaside Sonata in Sham Shui Po and the Borrett Road luxury development in Mid-levels. Seaside Sonata, a joint venture with Urban Renewal Authority, will offer 876 units upon scheduled completion in 2020. Newly built Borrett Road project contains 181 apartments and will be available for sale after interior fitting out is completed. Elsewhere, CKAH is applying for pre-sale

consent for Lohas Park Package 8 which will be released into the market in late 2019 or early 2020.

In Mar-19, CKAH converted its industrial site in Yau Tong into residential use after paying the land premium of HK\$2.2bn (or HK\$5,283psf). This residential project will provide GFA of 0.42msf upon completion.

In Jun-19, CKAH had net debt of HK\$1.8bn. This put its gearing at 0.5%. Even allowing for off-balance sheet debt, the company's gearing would have been 9.5%. With solid balance sheet and steadily growing recurring income, CKAH is well positioned to gear up for pursuing more value-accretive acquisitions.

The stock is now trading at 52% discount to our appraised current NAV. Valuation is inexpensive. The company sees steady growth in recurring earnings derived from a wide array of local and overseas businesses. This makes it a good defensive play in the prevailing volatile market. BUY with HK\$69.05 TP. This is derived by assigning 50% discount to our Jun-2020 property valuations.

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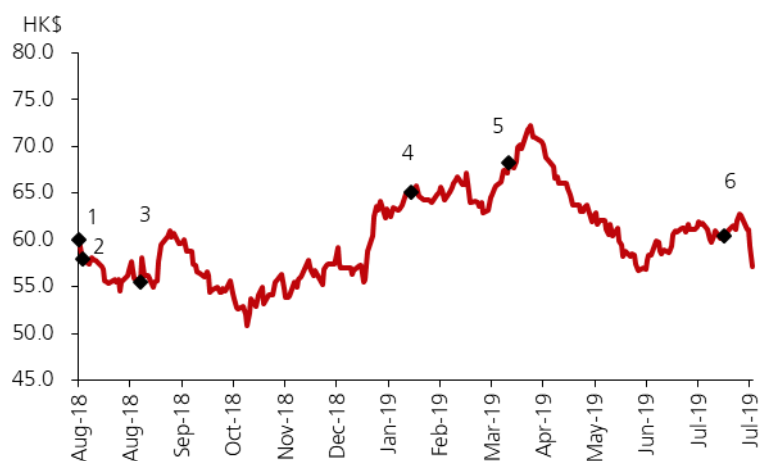
Results Summary

FY Dec (HK\$m)	1H18	1H19	% Chg	Comments
Turnover	24,118	34,008	41	
Segment contribution				
Property sales	2,234	7,530	237	1H19: mainly driven by the booking of Ocean Pride and Ocean Supreme (HK\$4,123bn), 90 Repulse Bay Road (HK\$977m) and Zumurud (HK\$887m)
Property rental	3,584	3,567	(0)	1H19: mainly from Cheung Kong Center (HK\$816m), Wonderful World of Whampoa (HK\$438m), Hutchison Logistic Center (HK\$301m) and 1881 Heritage (HK\$300m)
Hotel and serviced suites	870	876	1	1H19: mainly led by the absence of loss from Bahamas Grand Lucayan sold in 2018
Property and project management	182	183	1	
Aircraft leasing	596	717	20	1H19: Led by an expanded aircraft portfolio of 134 aircrafts (1H18: 121 aircrafts), and a higher margin of 46.1% (1H18: 43%) on the recognition of disposal gain from the sale of interest in a JV
Energy and infrastructure	2,205	2,542	15	1H19: mainly led by initial profit contributions from economic benefits acquired from CKH
Interests in real estate investment trusts	354	322	(9)	
Interest and other finance costs	(1,239)	(1,204)	(3)	1H19: HK\$624m of interest costs incurred were attributable to the JV level (1H18: HK\$638m), majority of which were incurred under infrastructure and utility asset operations
Increase in fair value of investment properties				
- Subsidiaries	832	1,002	20	1H19: fair value gain driven mostly from Cheung Kong Center
- Jointly controlled entities	9	-	(100)	
Surplus on disposal of investment properties	11,781	-	(100)	1H18: mainly led by the disposal of The Center completed in May-18
Profit on disposal of a property development JV	6,989	-	(100)	1H18: derived from the disposal of Century Link in Shanghai completed in Jan-18
Others	138	3,125	2,164	
Taxation	(3,226)	(2,936)	(9)	
Non controlling interest	(556)	(596)	7	
Net profit	24,753	15,128	(39)	
Profit before investment property revaluation and disposal	12,068	14,045	16	
Interim DPS (HK\$)	0.47	0.52	11	

Source: CK Asset Holdings

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Target Price & Ratings History



Source: DBS HK

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

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

**Share price appreciation + dividends*

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