

China / Hong Kong

Flash Note

Refer to important disclosures at the end of this report

DBS Group Research . Equity

13 Sep 2019

Sun Hung Kai Properties (16 HK) : BUY

Mkt. Cap: US\$43,285m | **3m Avg. Daily Val:** US\$87.7m

Last Traded Price (12 Sep 2019): HK\$116.90

Price Target 12-mth: HK\$135.6 (16.0% upside) (Prev HK\$143.1)

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Resilient performance

- **FY19 underlying profit rose 6.6% to HK\$32.4bn, in line with our forecast**
- **Steady project launch pipeline to drive development income**
- **Beefing up rental property portfolio in Hong Kong and China**
- **Buy with HK\$ 135.6 TP**

Forecasts and Valuation

FY Jun (HK\$ m)	2018A	2019A	2020F	2021F
Turnover	85,644	85,302	97,677	100,727
EBITDA	37,460	40,019	41,162	45,143
Pre-tax Profit	37,938	40,065	40,702	44,492
Underlying Profit	30,398	32,398	32,700	35,549
EPS (HK\$)	10.49	11.18	11.28	12.27
EPS Gth (%)	17.0	6.6	0.9	8.7
PE (X)	11.1	10.5	10.4	9.5
P/Cash Flow (X)	32.8	26.4	9.6	17.1
EV/EBITDA (X)	11.1	10.4	10.1	9.2
DPS (HK\$)	4.65	4.95	5.05	5.25
Div Yield (%)	4.0	4.2	4.3	4.5
Net Gearing (%)	12	13	11	12
ROE (%)	5.8	5.8	5.6	5.9
Est. NAV (HK\$):			246.8	246.5
Disc. to NAV (%)			(53)	(53)
Earnings Rev (%):			(3)	New
Consensus EPS (HK\$):			12.27	12.89
Other Broker Recs:		B: 14	S: 1	H: 2

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

Company Guide



Summary of our point of view, and highlights the relevant data points, which are actively tracked

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What's New

Sun Hung Kai Properties' (SHKP) FY19 underlying profits grew 6.6% to HK\$32.4bn aided by stronger development and rental earnings. The results were in line with our forecast. Final DPS rose 7.2% to HK\$3.70. This brought total DPS for FY19 to HK\$4.95, representing 6.5% y-o-y growth and 44% of its underlying EPS.

Including those from associates and joint ventures, development earnings were 15% higher at HK\$18.7bn, including HK\$2.3bn from China projects. Key earnings contributors came from Cullinan West I & II, St Barths, Park YOHO Milano, Lime Gala, and Victoria Harbour Ph 1. Inventory sales at Ultima and Grand YOHO also contributed to the higher development income. Operating profit margin expanded to 45.3% in FY19 from 38.8% in FY18.

Gross and net rental billings rose 5.9% and 5.5% to HK\$25.1bn and HK\$19.7bn respectively led by positive rental reversions for office and retail properties in Hong Kong and Shanghai, and increased contributions from newly built properties such as One ITC in Shanghai.

In FY19, SHKP achieved total contracted sales of HK\$65bn. Contracted sales achieved in Hong Kong was HK\$59.7bn, 40% above its sales target of HK\$42.5bn. About half was derived from selling Cullinan West, St. Martin and Ultima. In China, the company generated sales of Rmb4.6bn (c.HK\$5.3bn) in the same period, 25% above its sales target of HK\$4.25bn. For FY20, SHKP targets to sell HK\$47.5bn worth of properties comprising HK\$40bn in Hong Kong and HK\$7.5bn in China.



Live more, Bank less

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As of Jun-19, SHKP's net order book stood at HK\$51.9bn, comprising HK\$47.2bn from Hong Kong and HK\$4.7bn from China.

SHKP is currently offering Cullinan West III at Nam Cheong Station for sale. In the next nine months, SHKP plans to launch Central Peak Ph 1 (luxury development on Stubbs Road), and various residential projects in Tuen Mun, Sha Tin, and Tin Shui Wai. An industrial building in Tsuen Wan is also slated for pre-sale.

SHKP is expanding its investment property portfolio which should add momentum to rental income expansion in the years ahead. In Hong Kong, the almost fully-let V Walk at Nam Cheong Station became operational in Jul-19. Retail facilities at Harbour North will gradually open for business in 2H19. In China, office tenants are gradually moving into the recently completed Nanjing One IFC. The shopping mall at One ITC in Shanghai is scheduled to open in 4Q19.

In FY19, SHKP replenished its land bank in Hong Kong with c.3.1m sf in attributable GFA spread over seven projects. Recently, SHKP converted a piece of agricultural land in Shek Wu Wai (Yuen Long) into residential use after paying the land premium of HK\$2.1bn. This project will provide GFA of 0.49m sf upon completion. SHKP has also inked a

lease modification agreement with the government to redevelop an industrial building in Tsuen Wan into residential units covering GFA of 168,000sf.

Net debt rose to HK\$73bn in Jun-19 from Dec-18's HK\$64.4bn driven by land acquisitions, which led to an increase in the net gearing ratio to 12.9% compared to 11.8% in Dec-18. Despite slightly higher gearing, SHKP's financial position remains strong. In FY19, the company issued bonds with maturities of 5, 7 and 10 years and arranged a five-year syndicated loan facility of HK\$20bn. In addition, SHKP issued a 2-year Panda bond of Rmb1.2bn in China. As of Jun-19, 38% of total borrowings were on fixed rate basis. With cash and bank balance of HK\$22bn, SHKP should see no difficulty in funding the latest acquisitions in Hangzhou.

The stock is now trading at 53% discount to our appraised current NAV with dividend yield of 4.3% for FY20. From a historical viewpoint, its valuation is undemanding. This should help cushion further downside risk. BUY with TP of HK\$135.6, premised on 45% discount to our Jun-20 NAV estimate. The ongoing protests should dictate the near-term share price performance of property stocks including SHKP.

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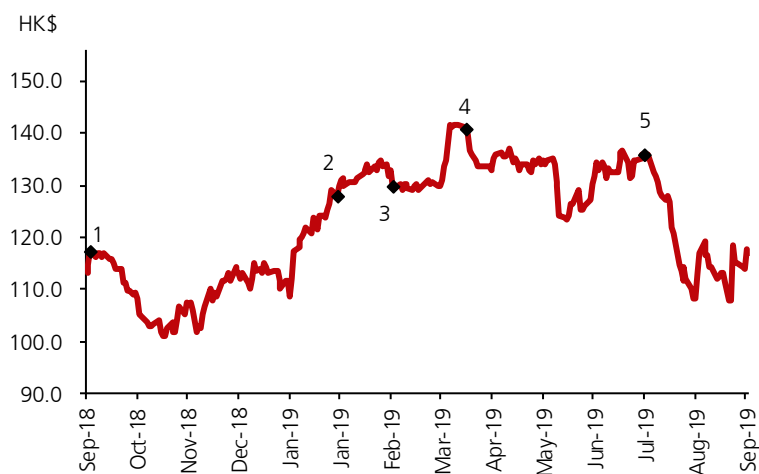
Results Summary

FY Jun (HK\$m)	FY18	FY19	% Chg	Comments
Turnover	85,644	85,302	(0)	
Property sales	15,342	17,477	14	FY19: Mainly from Cullinan West II, Lima Gala, St. Barths, PARK YOHO Milano and Victoria Harbour
Property rental	15,222	16,051	5	FY19: Attributed to positive rental reversion and contributions by new Mainland investment properties
Hotel operation	1,227	1,180	(4)	FY19: Resulting from the impact of start-up costs for Hotel VIC and market softening in 2HFY19
Telecommunications	847	823	(3)	FY19: Led by lower service and handset revenues amid intense market competition
Transportation, infrastructure and logistics	1,379	1,341	(3)	FY19: Dragged by increased operating costs and impact from Sino-US trade tensions
Other businesses	1,786	1,951	9	
Other net income	1,156	740	(36)	
Unallocated administrative expenses	(1,506)	(1,705)	13	
Operating profit before change in fair value of investment properties	35,453	37,858	7	
Increase in fair value of investment properties	15,772	12,535	(21)	
Finance costs	(1,985)	(2,446)	23	
Finance income	368	395	7	
Associates and jointly controlled entities	9,748	6,141	(37)	
- Property sales	919	1,220	33	
- Property rental	3,425	3,627	6	
- Hotel operation	243	253	4	
- Transportation, infrastructure and logistics	409	409	0	
- Other businesses	67	56	(16)	
- Other net income	157	30	(81)	
- Net finance costs	(475)	(497)	5	
- Increase in fair value of investment properties	6,252	2,418	(61)	
- Taxation	(1,249)	(1,375)	10	
Profit before taxation	59,356	54,483	(8)	
Taxation	(8,402)	(8,474)	1	
Perpetual capital securities holders	(174)	(171)	(2)	
Non-controlling interests	(829)	(926)	12	
Net profit	49,951	44,912	(10)	
Underlying profit	30,398	32,398	7	FY19: Driven by higher profit contributions from property sales and rental income
Underlying EPS (HK\$)	10.49	11.18	7	
Interim DPS (HK\$)	1.20	1.25	4	
Final DPS (HK\$)	3.45	3.70	7	
Total DPS (HK\$)	4.65	4.95	6	

Source: Sun Hung Kai Properties

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Target Price & Ratings History



Source: DBS HK

Analyst: Jeff YAU CFA,
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Jason Lam

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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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