

China / Hong Kong

Flash Note

Refer to important disclosures at the end of this report

DBS Group Research . Equity

28 Nov 2019

Sun Hung Kai Properties (16 HK) : BUY

Mkt. Cap: US\$42,529m | **3m Avg. Daily Val:** US\$88.2m

Last Traded Price (27 Nov 2019): HK\$114.90

Price Target 12-mth: HK\$137.0 (19.2% upside) (Prev HK\$135.6)

Analyst

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Company Guide

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

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The giant meets its match (again)

- **Won the tender for a sizeable commercial site in West Kowloon**
- **Superbly located project offering strong synergies with SHKP's neighbouring portfolio**
- **This landmark development, if fully let, should produce >HK\$3bn in annual rental income**
- **BUY with HK\$137 TP**

Forecasts and Valuation

FY Jun (HK\$ m)	2018A	2019A	2020F	2021F
Turnover	85.644	85.302	95.324	90.381
EBITDA	37.460	40.019	40.405	43.206
Pre-tax Profit	37.938	40.065	39.930	42.842
Underlying Profit	30.398	32.398	32.072	34.070
EPS (HK\$)	10.49	11.18	11.07	11.76
EPS Gth (%)	17.0	6.6	(1.0)	6.2
PE (X)	10.9	10.3	10.4	9.8
P/Cash Flow (X)	29.8	13.2	nm	30.4
EV/EBITDA (X)	11.0	10.3	10.2	9.5
DPS (HK\$)	4.65	4.95	5.05	5.25
Div Yield (%)	4.0	4.3	4.4	4.6
Net Gearing (%)	12	13	17	20
ROE (%)	5.8	5.8	5.5	5.6
Est. NAV (HK\$):			250.6	249.1
Disc. to NAV (%)			(54)	(54)
Earnings Rev (%):			(2)	(4)
Consensus EPS (HK\$):			11.99	12.71
Other Broker Recs:		B: 15	S: 1	H: 1

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

What's New

Sun Hung Kai Properties (SHKP, 16.HK) has secured a commercial site in West Kowloon through a government tender for a record-breaking HK\$42.23bn after outbidding CK Asset Holdings (1113.HK) and a consortium formed by Chinese Estates (127.HK), Henderson Land (12.HK), Lifestyle International (1212.HK), Sino Land (83.HK), and Wharf REIC (1997.HK). This is the most expensive land parcel sold via tender by the Hong Kong government in terms of total land premium. Based on the maximum GFA of 3.16m sf, the accommodation value works out to be HK\$13,345psf. SHKP intends to invite other long-term strategic investors in this development.

Situated atop the high-speed rail (HSR) Hong Kong West Kowloon Station, this sizeable commercial development offers unrivalled transportation connectivity with major cities in Mainland China via the high-speed rail network. The project also has easy access to the Airport Express, and the West Rail Line.

SHKP will develop this site into several office towers and a premium shopping mall. This should create significant synergies with the company's ICC/Ritz Carlton/W Hotel in the neighborhood. Post development, this would allow SHKP to consolidate its control over the office market in West Kowloon which is set to emerge as a new office hub in the long run. Given its unparalleled transportation accessibility, this office cluster should hold strong appeal to corporates, China-based firms in particular.



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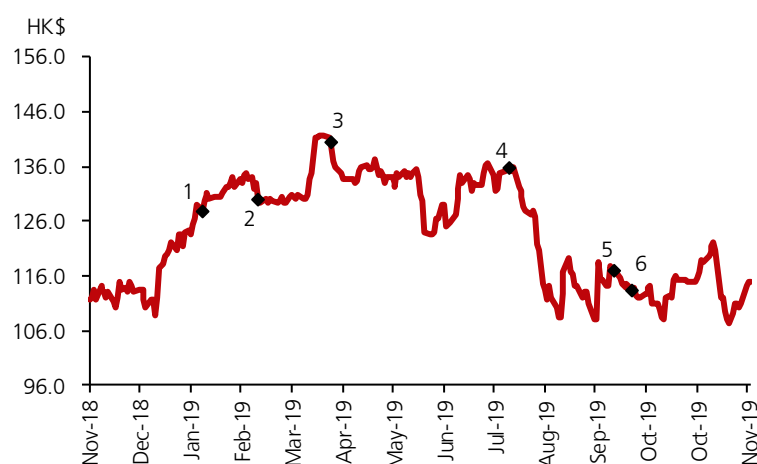
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Including construction and financing costs, we estimate total development costs to be HK\$23,000psf. Based on our assumed average rent of HK\$80psf, we reckon this development, if fully let, will produce annual rental income of >HK\$3bn (c.12% of FY19's gross rental income), giving a boost to the company's recurrent earnings. Initial rental yield is estimated at >4% which is attractive.

Following this site acquisition, we estimate SHKP's gearing will increase by c.7ppts to c.20%. Despite higher gearing, the company's financial risks remain well managed in our opinion, and there should not be excessive concern over its debt load. Our analysis shows that this acquisition should enhance the company's NAV by c.1%.

SHKP shares are trading at a 54% discount to our current assessed NAV and offers 4.4% dividend yield for FY20-21. This landmark acquisition lays down a solid foundation for the company's long-term growth and should be positive to share price performance. Thus, we believe the stock remains a core holding among those investors betting on the Hong Kong property market. Maintain BUY with HK\$137 TP.

Target Price & Ratings History



Source: DBS HK

Analyst: Jeff YAU CFA,
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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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Sources for all charts and tables are DBS HK unless otherwise specified.

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