

# China / Hong Kong Company Guide

# HKR International Ltd

Version 1 | Bloomberg: 480 HK Equity | Reuters: 0480.HK

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DBS Group Research . Equity

4 Jun 2020

## BUY (Initiating Coverage)

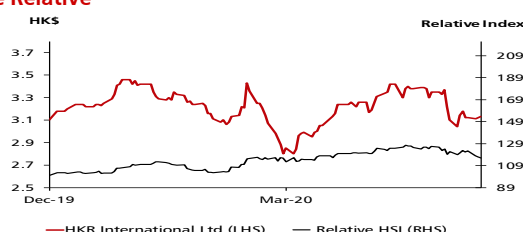
Last Traded Price ( 2 Jun 2020):HK\$3.12(HSI : 23,996)

Price Target 12-mth:HK\$4.09 (31.1% upside)

### Analyst

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### Price Relative



### Forecasts and Valuation

FY Mar (HK\$ m)	2019A	2020F	2021F	2022F
Turnover	3,844	4,281	4,721	4,329
EBITDA	1,003	1,705	1,776	1,428
Pre-tax Profit	2,731	1,671	1,720	1,371
Net Profit	2,207	896	900	836
EPS (HK\$)	1.49	0.60	0.61	0.56
EPS Gth (%)	(4.3)	(59.4)	0.5	(7.2)
PE (X)	2.1	5.2	5.1	5.5
P/Cash Flow (X)	5.3	1.9	2.8	3.0
EV/EBITDA (X)	11.3	6.7	6.4	7.9
DPS (HK\$)	0.10	0.10	0.10	0.10
Div Yield (%)	3.2	3.2	3.2	3.2
Net Gearing (%)	19	17	17	15
ROE (%)	10.4	4.1	4.0	3.7
Est. NAV (HK\$):			17.2	16.4
Disc. to NAV (%)			(82)	(81)

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

## Rediscovering a hidden gem.

- HKRI Taikoo Hui in Shanghai is a crown jewel, supporting its long-term share price appreciation
- Low-cost land reserve in Discovery Bay, a well-regarded residential community, provides good investment returns
- The stock is undervalued, trading at 82% discount to our assessed current NAV
- Initiating coverage with BUY rating and TP of HK\$4.09

**Initiating coverage with BUY rating and target price of HK\$4.09.** HKR International is trading at 82% discount to our appraised current NAV, slightly wider than those for other small-to-mid cap property developers. The stock is undervalued in view of its asset quality and financial strength. The realisation of the value of its upmarket residential developments in Hong Kong should provide upside on stock. Steadily growing contributions from HKRI Taikoo Hui in Shanghai and CDW Building in Hong Kong should underpin its long-term share price appreciation.

**HKRI Taikoo Hui is a crown jewel.** With total GFA of 3.5msf, this strategically located mixed-use development in Shanghai has ramped up nicely since its completion in 2016-17. HKR intends to further optimise the retail trade mix by recruiting more higher yielding luxury brands over time. This should allow the mall to tap on growing domestic consumption of luxury goods. Despite the temporary business disruption led by the COVID-19 outbreak, this property complex is set to be HKR's major growth catalyst in the medium term.

**Low-cost land reserve in Discovery Bay, a well-regarded residential community, provides good investment returns.** After years of effort, HKR has transformed Discovery Bay into a fully integrated resort-style residential community which should ensure good marketability for its projects there. The company is currently selling Poggibonsi and IL PICCO in Discovery Bay which unlocks its NAV. With a low-cost land reserve in Discovery Bay, HKR should earn better margins than its peers which rely on competitive public tenders for land banking.

### Valuation:

Our target price is based on target discount of 75% to our Jun-2021 NAV estimate

### Key Risks to Our View:

Any deterioration in residential demand in Hong Kong led by the prolonged economic downturn would impact the company's project sales and its earnings.

If the retail market recovery in China is derailed, the mall performance of HKRI Taikoo Hui in Shanghai would be affected.

### At A Glance

Issued Capital (m shrs)	1,485
Mkt Cap (HK\$m/US\$m)	4,633 / 596
Major Shareholders (%)	
CCM Trust (Cayman) Ltd.	43.2
LBJ Regents Limited	6.8
Free Float (%)	50.0
3m Avg. Daily Val. (US\$m)	0.13
GICS Industry: Real Estate / Real Estate Management & Development	



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## HKR International Ltd

### Investment Summary

**Initiating coverage on HKR International (HKR) with BUY rating and target price of HK\$4.09.** HKR is a niche player in Hong Kong's residential market with Discovery Bay on Lantau as its flagship project. The company also has exposure to the commercial property market in Hong Kong and Shanghai through CDW Building in Tsuen Wan and HKRI Taikoo Hui in Jing'an.

**Transforming Discovery Bay into a residential community.** With efforts spanning over the past four decades, HKR has transformed Discovery Bay into a fully-integrated resort-style community which is home to c.20,000 people. This should ensure good marketability for its future residential projects there. Coupled with low land costs, HKR is able to recognise better margins than its peers.

**Better risk/reward profile through joint ventures.** HKR is engaged in various joint venture property projects including La Cresta in Kau To (with Nan Fung), Tai Po residential development (with Hysan Development) and HKRI Taikoo Hui (with Swire Properties). These joint venture arrangements should enable HKR to participate in larger scale projects without stretching its balance sheet and taking on excessive investment risks. This points to a better risk/reward profile.

**HKRI Taikoo in Shanghai is a crown jewel.** Equally owned with Swire Properties, HKRI Taikoo Hui in Shanghai makes up c.37% of HKR's gross asset value. With total GFA of 3.5msf, HKRI Taikoo Hui is strategically located in Jing'an district with excellent transportation connections. Opened for business in 2016/17, operations at this office-cum-retail-cum-hotel property complex has been ramping up nicely. While the COVID-19 outbreak has led to short-term business disruption, this mixed-use development is set to be the major growth catalyst for HKR in the medium term.

**Rediscovering hidden treasure.** Under the government's revitalisation scheme for industrial properties, HKR has converted the use of CDW Building in Tsuen Wan from industrial into office/retail following the extensive renovation in 2015-17 without any land premium payment. Given its close proximity to Tsuen Wan MTR Station, HKR has successfully introduced new quality tenants, and IKEA is a case in point. This points to significant uplift in rental earnings and property value.

**Well poised to undertake value-accretive land banking.** With current gearing estimated at <20%, HKR is well positioned to replenish its development land bank for future growth in Hong Kong and China when opportunity knocks.

**Too much value to ignore.** The stock is trading at 82% discount to our appraised current NAV, slightly wider than those for other small-to-mid cap property developers. Such a low valuation is unjustified in view of its asset quality and financial strength and should support its share price.

**Investors are paying for HKRI Taikoo Hui in Shanghai only.** We value its stake in HKRI Taikoo Hui in Shanghai at HK\$12.7bn. Adjusting for the company's total attributable net debt, this prime asset represents c.85% of its market capitalisation. This means investors are paying only for this mixed-use development with other assets given close to free.

**Catalysts ahead.** Continued sales of Poggibonsi and IL PICCO in Discovery Bay should help unlock the stock's NAV, providing share price upside in the near term. HKRI Taikoo Hui in Shanghai and CDW Building in Hong Kong provide the company with steadily growing recurring income, thus pointing to better earnings quality. This should underpin its long-term share price appreciation.

**Potential share price upside of 31%.** By assigning a target discount of 75% to our Jun-2021 NAV estimate, we set our target price at HK\$4.09, which suggests 31% upside from the current level.

**Key investment risks.** Development profits plays a crucial role in determining HKR's future earnings. Any deterioration in residential demand in Hong Kong led by the prolonged economic downturn would impact the sale progress of its upmarket projects in Discovery Bay. Any unfavourable housing policy change in China could drag the take-up rates of its development projects in China. These would adversely affect the company's earnings. Should the retail market recovery in China after the COVID-19 outbreak subsides be derailed, the mall performance of HKRI Taikoo Hui in Shanghai would be impacted.

## HKR International Ltd

### Valuation & Peers Comparison

Based on sum-of-parts valuation, we estimate HKR's current NAV at HK\$25.5bn or HK\$17.17/sh.

We apply the discounted cash flow model to value development properties in Hong Kong and China, and income capitalisation approach for investment properties. HKR's four hotels in Hong Kong, Thailand and Shanghai are valued based on market comparables. Certain overseas development sites are valued at costs. Its other businesses, such as services and healthcare, are valued by assigning 10x PE to their FY20F earnings.

Completed investment properties is HKR's largest asset class, taking up 70% of the company's gross asset value (GAV). This is followed by development properties at 17% and hotel properties at 7%. The remainder (6%) is from overseas projects and other investments.

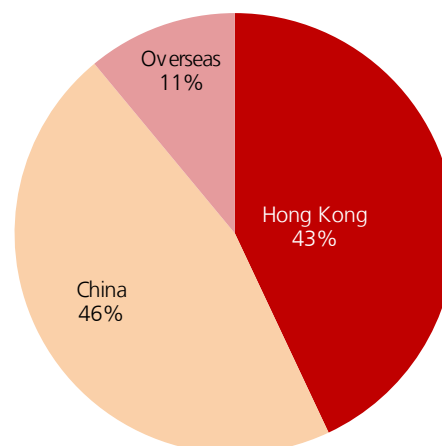
#### Breakdown of estimated current NAV

	HK\$m	% of GAV
Investment Properties - Hong Kong	10,999	32
Investment Properties - China	12,120	35
Investment Properties - Overseas	987	3
Development Properties - Hong Kong	2,944	9
Development Properties - China	2,658	8
Hotel Business	2,382	7
Others	2,154	6
<b>Gross asset value</b>	<b>34,245</b>	<b>100</b>
Net debt	(8,746)	
<b>Net asset value (NAV)</b>	<b>25,499</b>	
<b>NAV (HK\$)</b>	<b>17.17</b>	

Source: DBS HK

In terms of geographic location, China (mainly Shanghai) assets comprise 46% of the company's GAV, while Hong Kong assets are at 43%. Together, they represent close to 90% of HKR's assets. Other assets (11%) are mostly in Thailand (Bangkok) and Japan (Tokyo).

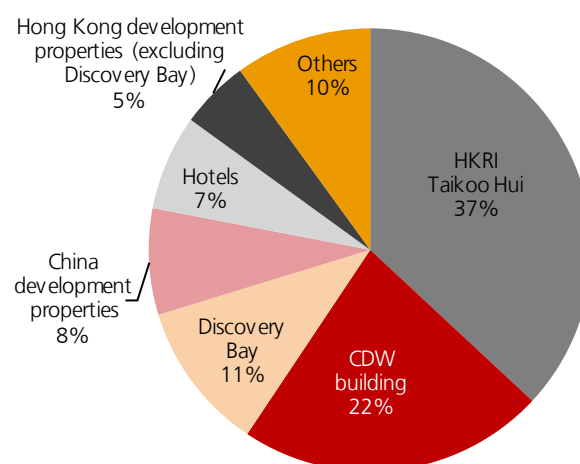
### Breakdown of GAV by geography



Source: DBS HK

HKRI Taikoo Hui in Shanghai and CDW Building in Tsuen Wan are HKR's largest assets. They make up 37% and 22% of the company's GAV respectively. Flagship project, Discovery Bay, accounts for 11% of GAV.

#### Breakdown of GAV by asset



Source: DBS HK

Given the company's strong exposure to China's commercial sector through HKRI Taikoo Hui, our analysis suggests that every 10% appreciation in office and retail prices in Shanghai would both add 2.3% to its NAV. In Hong Kong, every 10% rise in residential and office prices would both lead to NAV growth of 2.2%.

## HKR International Ltd

### Share Price performance - HKR



Source: Bloomberg Finance L.P.

Between 2015 and 2017, HKR's shares traded between HK\$2.81 and HK\$4.29 before surging to a 10-year high of HK\$4.84 in Sep-17 immediately after the announcement of a HK\$750m disposal of an office floor at Shun Tak Centre in Sheung Wan.

### Share price performance – property developers

Name		1M	3M	6M	12M
Developers	Ticker	(%)	(%)	(%)	(%)
CK Asset Holdings	1113 HK	(8.5)	(9.6)	(16.0)	(23.3)
CSI Properties	497 HK	(9.6)	(11.3)	(14.6)	(39.0)
Far East Consortium	35 HK	(11.0)	(29.3)	(33.5)	(27.8)
Great Eagle	41 HK	(16.0)	(19.7)	(28.4)	(46.1)
Henderson Land	12 HK	(2.2)	(17.7)	(21.6)	(27.0)
K Wah Int'l	173 HK	(2.4)	(10.7)	(21.8)	(25.7)
Kerry Props	683 HK	2.5	(6.7)	(17.1)	(29.3)
Lai Sun Dev	488 HK	(4.7)	(14.3)	(24.7)	(31.5)
MTR Corp	66 HK	(5.3)	(9.2)	(10.9)	(18.4)
New World Dev	17 HK	(4.9)	(14.9)	(17.5)	(27.9)
Sino Land	83 HK	(7.6)	(9.7)	(16.9)	(24.0)
SHKP	16 HK	(6.2)	(11.7)	(15.1)	(22.1)
Tai Cheung	88 HK	(2.5)	(15.4)	(20.3)	(37.4)
Wharf	4 HK	3.2	(15.9)	(23.4)	(28.9)
Wheelock & Co	20 HK	0.7	(10.1)	14.2	7.1
Wing Tai Props	369 HK	(9.6)	(14.5)	(12.2)	(25.6)
HKR International	480 HK	(5.5)	(0.6)	(3.4)	(19.4)
<b>Market cap wt.</b>		<b>(4.7)</b>	<b>(11.7)</b>	<b>(13.7)</b>	<b>(21.2)</b>
Hang Seng Index		1.6	(8.7)	(9.3)	(10.8)
Hang Seng Prop. Index		(2.8)	(10.4)	(14.8)	(20.9)

Source: Bloomberg Finance L.P.

Between Sep-17 and Mar-19, its share price traded between HK\$3.62 and HK\$4.80. After hitting a recent high of HK\$4.61 in Apr-19, HKR's share price has drifted down. With the political protest in HK since Jul-19, its share price has corrected by 17% in 2H19.

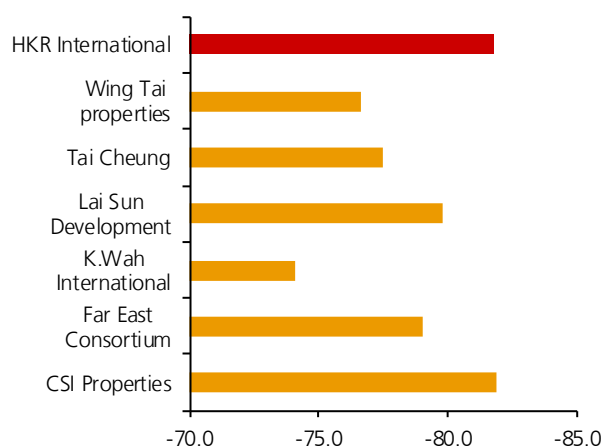
With the global outbreak of COVID-19 in Mar-20, its share price has dropped to hit a low of HK\$2.80. Since then, its share price has rebounded by 11.4%. YTD, HKR's share price has dropped by 3.7%, outperforming the Hang Seng Index by 11pts and other property developers.

On a longer-term horizon, HKR's share price has fallen by 23% over the past five years, underperforming the broad market by 10pts

Trading at steep discount of 82% to our appraised current NAV, the stock is attractively valued in view of the company's solid financials and asset quality. The valuation is also slightly better than those of other small-to-mid cap property plays. Adjusting for the company's total attributable net debt, its stake in HKRI Taikoo Hui represents c.85% of its market capitalisation. This means investors are paying only for this mixed-use development with other assets given close to free.

Continued sales of Poggibonsi and IL PICCO in Discovery Bay should continue unlock the company's NAV, serving as a share price catalyst in near term. HKRI Taikoo Hui should see steadily growing contributions and provide an impetus for its long-term share price appreciation. Therefore, we initiate our coverage on HKR with a BUY rating. Our TP of HK\$4.09 is derived based on target discount of 75% to our Jun-2021 NAV estimate. This suggests 31% upside potential from the current level.

### Peer comparison - Discount to current NAV estimate



Source: Bloomberg Finance L.P., DBS HK

**HKR International Ltd**

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**Key Risks**

**Derailment in China's retail market recovery would be negative.** Retail consumption is now on a recovery path in China as the COVID-19 outbreak shows signs of stabilisation. Any threats to hinder the retail market recovery would impact the mall's performance of HKRI Taikoo Hui in Shanghai and the company's rental earnings.

**Weakening residential demand to dent home sales.** Any prolonged economic downturn brought on by the COVID-19 pandemic and resurfacing of social unrest could dampen residential demand, especially for upmarket projects, in Hong Kong. This would cast a shadow over the take-up rates of HKR's residential developments in Hong Kong and hence its bottom-line earnings.

**Softened office demand to drag rental income.** Increased global market uncertainty could slow business expansion which in turn would lead to subdued office demand. This

could affect office income from HKRI Taikoo Hui in Shanghai and CDW Building in Hong Kong.

**Structural changes in hotel market landscape.** The COVID-19 pandemic may lead to structural changes in the global tourism industry. This would have knock-on effects on the hotel sector. With four hotels in Hong Kong, Shanghai and Thailand, HKR's earnings could be impacted.

**Change in housing policy in China.** Any unfavourable change in housing policy in China, Jiaying in particular, would adversely affect HKR's residential sales earnings.

**Capitalisation rate expansion to lower valuation of investment properties.** Any capitalisation rate expansion led by unexpected interest rate hikes and increased economic risk would lower the valuation of HKR's investment properties and drag its stock valuation.

## HKR International Ltd

### SWOT Analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• <b>Low-cost land reserve in Discovery Bay.</b> HKR boasts of a low-cost land bank for development in Discovery Bay. This enables the company to earn better margins than its peers which rely on competitive public tenders for land banking.</li> <li>• <b>Expertise in community building allows better project marketability.</b> HKR is well experienced in community building. With its efforts throughout the years, the company has transformed Discovery Bay into a fully integrated resort-style residential community which is favoured by home buyers, expatriates in particular. This should contribute to better marketability of future projects there.</li> <li>• <b>Growing recurring income, improving earnings quality.</b> Two major investment properties, CDW Building in Hong Kong and HKRI Taikoo Hui in Shanghai, provide the company with steadily growing recurring income, thus pointing to better earnings quality.</li> <li>• <b>Reputable project partners.</b> HKR participates in major property projects through joint ventures. Its project partners include renowned landlords and developers such as Swire Properties, Hysan Development and Nan Fung. This arrangement not only reduces the investment risk but also ensures the success of the projects.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Earnings volatility.</b> HKR derives a meaningful portion of earnings from property development. Development profit used to be volatile in nature as recognition was dependent on sales progress and the timing of project handover. This could in turn lead to the fluctuation in the company's earnings.</li> <li>• <b>Low trading liquidity.</b> With market capitalisation of just HK\$4.63bn, HKR's daily trading turnover is low at HK\$1.5m over the past six months. This makes it challenging to attract an institutional following, which may hamper the stock from achieving better valuations.</li> <li>• <b>Project concentration risks.</b> In Hong Kong, HKR's residential projects are primarily in Discovery Bay. In China, its residential developments are concentrated in Jiaxing. CDW Building and HKRI Taikoo Hui altogether contribute most of its rental earnings</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>• <b>Tap the growing domestic consumption of luxury goods in China.</b> The company intends to further optimise the trade mix at HKRI Taikoo Hui in Shanghai by recruiting more higher yielding luxury brand tenants over time. This should allow the mall to tap on the repatriation of luxury spending among Mainland shoppers.</li> <li>• <b>Poised for value-accretive acquisitions.</b> With comfortable gearing, HKR is well placed to pursue land banking in Hong Kong and China to drive future growth</li> <li>• <b>Better transportation infrastructure on Lantau.</b> The Lantau Tomorrow vision, if it materialises, should lead to better transportation accessibility to Lantau Island. Discovery Bay, where HKR's land bank is concentrated, should stand to benefit.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Derailment of China's retail consumption recovery.</b> If the retail market recovery in China is derailed, this would impact the mall's performance of HKRI Taikoo Hui and the company's rental earnings.</li> <li>• <b>Uncertainty in residential demand in Hong Kong.</b> Any prolonged economic downturn could negatively affect residential demand and home prices in Hong Kong. This would pose a threat on the company's earnings and valuation.</li> <li>• <b>Unfavourable housing policy change in China.</b> Any unfavourable property policy change in China would undermine the company's profitability.</li> <li>• <b>Softening office demand.</b> Any softening in office demand led by slowing global economy would be a drag on income from CDW Building in Hong Kong and HKRI Taikoo Hui in Shanghai.</li> </ul>

Source: DBS HK

## HKR International Ltd

### Critical Factors

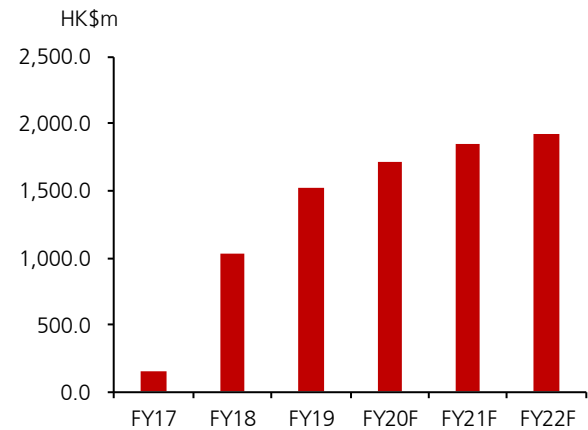
**HKRI Taikoo Hui is a crown jewel.** HKR derives c.37% of its gross asset value from 50%-owned HKRI Taikoo Hui in Shanghai. Hence, the prospects of this mixed-use development play a crucial role in determining the company's growth as well as the stock's share price appreciation over the long run. Situated in Shanghai Jing'an District, this landmark project comprises a premium shopping mall, two Grade A office towers, two boutique hotels, and a serviced apartment building with total GFA of c.3.5msf. Retail sales at the mall jumped 72.6% in 2019 before the COVID-19 outbreak in Jan-20. This should underpin healthy reversionary growth. In addition, the company intends to further optimise the retail trade mix by recruiting more high-yielding luxury brands. This should put it in an advantageous position to tap on the repatriation of luxury spending among Mainland consumers. Despite the temporary disruption led by the COVID-19 pandemic, we see substantial scope of retail income expansion in future years. Office towers are home to financial and professional service providers, domestic law firms, and retailers. The diversified high-quality tenant base should offer solid office income. Furthermore, limited new office supply in Jing'an should lend good rental support. Moreover, offices and hotels provide a flow of desirable shoppers to the mall. All of these point to balanced and quality earnings growth for HKRI Taikoo Hui in the years ahead.

### HKRI Taikoo Hui



Source: DBS HK

### Income from HKRI Taikoo Hui



Source: Company & DBS HK

**Well-regarded residential community in Discovery Bay enhances marketability of projects there.** With efforts spanning over the past four decades, HKR has transformed Discovery Bay into a fully-integrated residential community which is favoured by homebuyers, especially those seeking lifestyle accommodation. This should ensure good marketability of future residential projects in Discovery Bay. Currently, HKR is selling Poggibonsi and IL PICCO there, which offer different types of products to cater to various needs of home buyers. Continued sales of these two developments should help unlock its NAV, providing upside on stock. HKR is also in negotiation with the government to convert other sites in Discovery Bay into residential use. This could lay down the foundation for future development earnings growth.

## HKR International Ltd

### Poggibonsi



Source: DBS HK

**CDW Building is a cash cow.** In an attempt to realise the full potential of conveniently located CDW Building in Tsuen Wan, HKR converted this industrial building to office/retail use under the government's revitalisation scheme for industrial properties, following the completion of refurbishment and conversion works in mid-2017. The usage conversion for the entire property has rejuvenated this aging property and prompts significant rental income upside. We estimate CDW Building currently brings in annual rental income of c.HK\$300m p.a., which is more than 50% higher compared to pre-usage conversion. This makes it a cash cow for HKR, leading to better earnings quality. This usage conversion also serves as a testimony of the company's ability to create shareholders' value through better deployment of its property assets which should be positive for its long-term valuations.

### CDW Building



Source: DBS HK

**Value unlocking to drive share price.** HKR's share price reacted positively when the company sold an office floor at Shun Tak Centre for HK\$750m in Sep-17. Any initiative to unlock the strong embedded value of its prime assets could prompt a re-rating of the stock.

**HKR International Ltd****Financials**

HKR's 1HFY20 net profit came in at HK\$939.2m, down 8% y-o-y partly due to higher financing costs. Despite lower earnings, interim DPS was 25% y-o-y higher at HK\$0.05.

Including associates and joint ventures, profit (after tax) from property development rose by a modest 3% to HK\$321m thanks to improved contributions from La Cresta in Kau To, a 50/50 joint venture with Nan Fung Group. During the period, profits of 12 units at this completed upmarket project were recognised with net margin of c.22%. In Mainland China, Oasis One in Hangzhou recognised profits on 203 sold units during the period. The balance came from City One in Jiaxing and Elite House in Shanghai.

Gross rental receipts rose 18% to HK\$248m, led by increased contributions from CDW Building in Tsuen Wan. This flagship property saw improvement in the overall occupancy to 96% with the retail podium fully let. Occupancies at the 50% owned DB Plaza and DB North Plaza were 88% and 94% as of Sep -19. In Aug -19, HKR acquired a residential building in Kowloon Tong to further expand its rental portfolio. The property achieved an average occupancy of c.44% and made maiden contribution in 1HFY20.

Income contribution from HKRI Taikoo Hui, 50%-owned signature mixed-use project in Shanghai, increased significantly. The two office towers, HKRI Centres One and Two, were virtually fully let. The premium mall was 98% committed as of Sep -19 and registered 69% growth in retail sales in 1H19.

HKR obtained the occupation permit of Riveria One in Jiaxing, a high-end project adjacent to City One, in Jan-19. About 98% of 632 released units were sold as of Sep-19. Profit will be recognised starting from 2HFY20 upon the handover of units.

For FY20, we estimate HKR posts net profit of HK\$896m with improved development earnings, mainly from China and increased rental earnings from Hong Kong.

In Mar-19, HKR launched its residential development in Discovery Bay, Poggibonsi, for sale. This upmarket development comprises 196 units in three mid-rise blocks with a total GFA of 186,000sf. Initial market response has been satisfactory despite the social unrest. Since its initial launch, HKR has sold 89 units, c.45% of total, for >HK\$1.1bn. We estimate the project should yield a pre-tax attributable profit of c.HK\$510m if fully sold, based on an ASP of HK\$16,500psf. Occupancy permit was obtained in Apr-19. Handover of units to homebuyers are currently underway. Poggibonsi should provide the mainstay of development income for HKR in FY21 and FY22.

Aided by pre-sales of Poggibonsi in Hong Kong and Riviera One in Jiaxing, we estimate HKR has locked in c.65% of our projected attributable pre-tax development earnings for FY21. This points to high visibility of near-term earnings.

Elsewhere, HKR sold one house at IL PICCO in Discovery Bay in Feb-20. IL PICCO offers 21 luxury houses featured with extensive private gardens. The low-rise residential development in Tai Po, a 40/60 jv with Hysan Development, is expected to go on sale in 2021. In China, two residential projects in Jiaxing, Creekside One and Mansion One, are also in the pipeline. Profit contributions from these projects should kick in from FY22 onwards.

**HKR International Ltd****Environment, Social & Governance (ESG)**

ESG reporting is raised to evaluate the sustainability of the company. Since FY16, HKR publishes ESG reports yearly to provide transparency on their efforts in enhancing environmental, social and governance aspects.

**Environmental**

HKR emphasizes sustainable long-term planning and environmental stewardship. S.A.V.E. directives were set to promote green measures in its management in Discovery Bay namely, Sustainability (S), Apply technology (A), Value limited resources (V) and Educate the community (E). At HKRI Taikoo Hui, its flagship project in Shanghai, smart lighting systems and reclaimed water systems are installed to reduce electric consumption and optimize water use. Low-emitting materials and PM2.5 air filtration systems are also used to reduce air particles. In FY19, the company's electricity consumption in Hong Kong reduced by 5.6% as compared to FY18. Furthermore, 180 tonnes of paper and 16 tonnes of metal cans were recycled in FY19 under the "3R" principle followed by the company.

**Social**

HKR was awarded the "10 years Plus Caring Company" Logo by the Hong Kong Council of Social Service. HKRI Care & Share, the Group's volunteer team, has accumulated 2,074 service hours in FY19 by actively engaging in volunteering events with NGOs and other external parties. HKR leased out 20,000 sf of office space at CDW Building to Hong Kong Cyberport Management Company Limited at one-third of the market rent to set up its first off-site Smart-Space office, Smart-Space 8. The site was officially opened in Jul-18 to support technology development and encourage youth entrepreneurship. In terms of cultural, the company has made effort on the preservation of Cha House, a century-old historical building in HKRI Taikoo Hui in Shanghai, and organizing weekly Cantonese Opera Training Programme. In-kind sponsorships and donations of the company were up 9% y-o-y in FY19.

**Governance**

HKR's Board of Directors comprises four Executive Directors and seven Non-executive Directors of whom four are Independent Non-executive Directors which account more than one-third of the Board. Sustainability Policy is established to provide guidance for the development and implementation of the company's sustainability strategies. Regarding human capital investments, HKR organizes summer internships yearly for talent recruitment and provides external and in-house trainings for staffs. HKR closely monitors its value chain by gathering customers' feedback through service hotlines and suggestion boxes. Monitoring and control mechanisms are integrated into daily practices and procedures to prevent forms of malpractice. There were no cases of non-compliance

with laws and regulations related to bribery, extortion, fraud, money laundering and personal data privacy in FY19.

## HKR International Ltd

### Company Background

**Corporate History.** The family of Dr CHA Chi Ming, the late founder and chairman of the Group, acquired equity interest in Hong Kong Resort Company (the registered owner and developer of Discovery Bay) in 1977. After undergoing a series of Group restructuring, HKR International (HKR) was formed and listed on The Stock Exchange of Hong Kong in 1989.

Discovery Bay was the Group's first development project. With continued effort over the four decades, HKR has turned Discovery Bay into a fully-integrated community comprising garden houses, low-, mid-, and high-rise residential development, a 27-hole golf course, a marina, two recreational club, a resort hotel, two retail arcades and two international school with total GFA of c.11msf, housing a population of c.20,000.

#### Discovery Bay



Source: DBS HK

HKR focuses on upmarket residential projects in Hong Kong. The company completed La Cresta in Kau To in 2018 and Poggibonsi in Discovery Bay in 2019. Currently, HKR is developing IL PICCO, a luxury house project in Discovery Bay, and co-develop a low-density luxury residential project in Tai Po with Hysan Development (14.HK).

In Jun-12, HKR made its maiden foray into China residential market with the purchase of a residential lot in Jiaxing. Since then, HKR has completed three residential developments (City One, Riviera One and Oasis One) in Jiaxing and Hangzhou. Currently, the company are developing three residential projects in China which will provide combined GFA of 125,450sm or 1.35msf upon completion. All of these developments are in Jiaxing. Overall, HKR's development property business in China focuses on the Yangtze River Delta.

HKR boasts an investment property portfolio of 3.1msf in GFA, mainly in Hong Kong and China. CDW Building in Tsuen

Wan and HKRI Taikoo Hui in Shanghai are the company's flagship rental properties. Acquired from the Cha Family in 2006, CDW Building was converted into commercial use with 0.98msf GFA, following the revamp in 2015-17, under the government's revitalisation scheme for industrial properties. Completed in 2016-17, HKRI Taikoo Hui is a mixed-use development equally owned with Swire Properties. It comprises two Grade A office towers, a premium retail mall, and two hotel and serviced apartment towers with c.3.5msf GFA. The revamped CDW Building and sizeable HKRI Taikoo Hui are generating steadily increasing rental income, making up the bulk of the company's rental billing.

Its rental portfolio also includes two shopping malls, DB Plaza and DB North Plaza, in Discovery Bay which serves the daily need of residents there. Construction of the new DB Plaza extension is currently underway. In Aug-19, HKR enlarged its investment property portfolio with the purchase of Wellegan Villa, a residential tower in Kowloon City. Elsewhere, the company has a small rental portfolio, mainly residential units, in Tokyo.

#### DB Plaza



Source: DBS HK

**HKR International Ltd**

**DB North Plaza**



Source: DBS HK

**Auberge Discovery Bay**



Source: DBS HK

**New DB Plaza extension**



Source: DBS HK

Besides The Sukhothai Shanghai and Middle House within HKRI Taikoo Hui, the company also owns and manages Auberge Discovery Bay Hong Kong and The Sukhothai Bangkok which offers 261 and 210 guest rooms respectively .

HKR diversified its property businesses outside Hong Kong and China. The company has once ventured in the property market of Singapore and now holds development sites in Thailand and Japan.

HKR operates transportation services and provides property management services in Discovery Bay which makes it a better community.

**Ferry Operations**



Source: DBS HK

HKR is also engaged in healthcare business through GenRx Healthcare which provides healthcare services across Hong Kong, Macau and Manila in the Philippines. In 2019, GenRx acquired Humprey & Partners Medical Services Limited which operates a medical network of >250 affiliated clinics providing general practitioners and specialist services.

## HKR International Ltd

### Management profile

#### Key Management Team

Management	Current Appointment	Age	Previous Experience
CHA Mou Sing, Payson	Chairman	77	<p>Appointed as Executive Director and the Chairman in 1989 and 2007 respectively. Chairman of the Nomination Committee and Corporate Governance Committee and a director of some subsidiaries of the Company.</p> <p>Over 50 years extensive experience in property development and investment. Chairman and Non-executive Director of Hanison Construction Holdings Limited and Million Hope Industries Holdings Limited. Executive Chairman of Mingly Corporation.</p> <p>Independent Non-executive Director of New World Development Company Limited, Eagle Asset Management (CP) Limited being manager of Champion Real Estate Investment Trust and Hongkong International Theme Parks Limited.</p> <p>Member of One Country Two Systems Research Institute Limited. Governing board member of China-United States Exchange Foundation. Board member of the Real Estate Developers Association of Hong Kong. Director of CCM Trust (Cayman) Limited and LBJ Regents Limited, both are substantial shareholders of HKRI.</p> <p>A sibling to Ms Madeline WONG, Mr Victor CHA and Mr Johnson CHA.</p>
CHA Mou Zing, Victor	Deputy Chairman Managing Director	70	<p>Appointed as Executive Director, the Managing Director and the Deputy Chairman in 1989, 2001 and 2007 respectively.</p> <p>Member of the Remuneration Committee and director of some subsidiaries of the Company. Over 35 years extensive experience in real estate development and textile manufacturing. Alternate Independent Non-executive Director of New World Development Company Limited and Non-Executive Director of of Mingly Corporation.</p> <p>Chairman of each of the Hong Kong-Japan Business Co-operation Committee of Hong Kong Trade Development Council and Hong Kong Arts Festival Society Limited.</p> <p>Member of the board of trustees of The Better Hong Kong Foundation.</p> <p>A sibling to Ms Madeline WONG, Mr Payson CHA and Mr Johnson CHA.</p>
CHUNG Sam Tin, Abraham	Executive Director	74	<p>Appointed as Executive Director in 1994. The head of finance and group operations. Certified public accountant and fellow member of the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the Institute of Chartered Accountants in England and Wales. Over 45 years extensive experience in financial management and property development in Hong Kong.</p>
TANG Moon Wah	Executive Director	66	<p>Appointed Executive Director in December 2004. The Country Head of Greater China (Hong Kong and the People's Republic of China) and the Head of Group Projects.</p> <p>Over 40 years extensive experience in property development. Member of The Hong Kong Institute of Architects. Has been the Authorised Person and Registered Architect since 1982 and 1991 respectively.</p>
Ronald Joseph ARCULLI	Non-executive Director	81	<p>Joined the Board in 1989 and was re-designated as Non-executive Director in June 2005. Senior partner of King &amp; Wood Mallesons. Independent Non-executive Director of Hang Lung Properties Limited. Non-executive Director of Sino Hotels (Holdings) Limited, Sino Land Company Limited, Tsim Sha Tsui Properties Limited and HK Electric Investments Manager Limited. Chairman of FWD Group.</p> <p>An honourable fellow of Hong Kong Securities and Investment Institute</p>
CHA Mou Daid, Johnson	Non-executive Director	68	<p>Joined the Board in 1989 and was re-designated as Non-executive Director in December 2004. Nearly 40 years extensive experience in venture capital and investment management. Director of C.M. Capital Advisors (HK) Limited. Non-executive Director of Hanison Construction Holdings Limited, Mingly Corporation and China International Capital Corporation Limited. Independent non-executive director of Shanghai Commercial Bank Limited. Director of LBJ Regents Limited.</p> <p>A sibling to Ms Madeline WONG, Mr Payson CHA and Mr Victor CHA.</p>

Source: Company

**HKR International Ltd**
**Key Management Team (continued)**

Management	Current Appointment	Age	Previous Experience
WONG CHA May Lung, Madeline	Non-executive Director	80	<p>Joined the Board in 1989 and was re-designated as Non-executive Director in December 2004. Member of the Corporate Governance Committee and a director of some subsidiaries of the Company.</p> <p>Deputy Chairman of Mingly Corporation.</p> <p>Director of CCM Trust (Cayman) Limited and LBJ Regents Limited.</p> <p>A sibling to Mr Payson CHA, Mr Victor CHA and Mr Johnson CHA.</p>
CHEUNG Wing Lam, Linus	Independent Non-executive Director	72	<p>Joined the Board in January 2006 and was re-designated as Independent Non-executive Director in March 2012.</p> <p>The Chairman of the Remuneration Committee and a member of the Audit Committee of the Company.</p> <p>Independent Non-executive Director of China Unicom (Hong Kong) Limited.</p> <p>The board of directors of Sotheby's.</p> <p>Chief executive of Hong Kong Telecommunications Limited from 1994 to 2000.</p> <p>Deputy chairman of PCCW Limited from August 2000 to February 2004.</p>
FAN Hung Ling, Henry	Independent Non-executive Director	72	<p>Appointed as Independent Non-executive Director in November 2017.</p> <p>Member of Remuneration Committee and Corporate Governance Committee of the Company.</p> <p>Over 30 years' experience in business management.</p> <p>Independent Non-executive Director of Sun Hung Kai Properties Limited.</p> <p>Director and then Managing Director of CITIC Pacific Limited from 1990 and 1992 respectively to 2009.</p> <p>Deputy Chairman of Cathay Pacific Airways Limited from 1997 to 2009.</p> <p>Member of the Chief Executive's Council of Advisers on Innovation and Strategic Development, board of the Financial Services Development Council, the West Kowloon Cultural District Authority and the Hospital Authority.</p> <p>Non-official member of the Executive Council of Hong Kong, Chairman of the Mandatory Provident Fund Schemes Authority, Non-executive Director of Securities and Futures Commission of Hong Kong and Independent Non-executive Director of Hong Kong Exchanges and Clearing Limited.</p> <p>Attorney-at-Law in the State of California, U.S.A. and Barrister-at-Law in Hong Kong and England and Wales.</p>
HO Pak Ching, Loretta	Independent Non-executive Director	73	<p>Appointed as Executive Director in 1994 and redesignated as Non-executive Director and Independent Non-executive Director in April 2008 and April 2010 respectively.</p> <p>Member of both the Audit Committee and Nomination Committee of the Company.</p> <p>Over 45 years extensive experience in property development, property investment and management.</p>
TANG Kwai Chang	Independent Non-executive Director	67	<p>Appointed as Independent Non-executive Director in September 2014.</p> <p>The Chairman of the Audit Committee and a member of Nomination Committee and Corporate Governance Committee of the Company.</p> <p>Was a partner of Deloitte Touche Tohmatsu ("Deloitte") with extensive experience in auditing and audit risk management, Vice Chairman of Deloitte China and board member of Deloitte Global when he retired in May 2013.</p> <p>Independent Non-executive Director of Bank of Communications (Hong Kong) Limited, Baosteel Resources Company Limited and Baosteel Resources International Company Limited, Tsit Wing International Holdings Limited and Foxconn Interconnect Technology Limited.</p> <p>Member of both the Association of Chartered Certified Accountants and the HKICPA.</p> <p>Court member of the Hong Kong Baptist University, a member of the disciplinary panel of the HKICPA and a convener of Financial Reporting Review Panel of the Financial Reporting Council.</p>

Source: Company

## HKR International Ltd

### Key projects

#### Investment properties

#### Hong Kong

#### CDW Building

Situated at the heart of Tsuen Wan, CDW Building comprises an 18-storey office tower and a seven-storey retail podium named 8 1/2. Total GFA is 0.98m sf including 0.71m sf for office use and 0.27m sf for retail purpose. HKR holds 100% of the property.

CDW Building enjoys excellent transportation connectivity. It is linked to Tsuen Wan MTR station through an air-conditioned indoor walkway. It is also located at the junction served by over 30 bus and minibus routes, providing easy access to different parts of the city.

Completed in 1982, the building was initially held for industrial use by China Dyeing Holdings, a textile manufacturing company founded by Mr. Cha Ching Ming. In Jan-06, HKRI acquired this industrial property from the Cha Family for HK\$1.4bn. Since then, CDW Building has been the company's major source of rental income with an occupancy of >90% over the years.

To realise the full potential of CDW Building, the company converted the building from industrial to commercial use under the government's revitalisation scheme for industrial property. Refurbishment works commenced in Apr-15 and was carried out in three phases after conversion approval was obtained from the government. Following the completion of refurbishment and conversion works in mid-2017, the revamped CDW Building was transformed from industrial space into office/retail complex with more diversified office and retail tenants.

### CDW Building



Source: DBS HK

As of Sep-19, CDW Building was 96% let. While retail podium, 8 1/2, is fully leased, office occupancy stood at c. 94%. CDW Building is the home to tenants from various sectors including manufacturing, travel agencies, education, government and professional services. Major office tenants include the Lands Department, Aeon Stores, Fossil Group and Hong Thai Travel Services. A co-working operator by Cyberport, Smart-Space 8, has also taken up 20,000sf office space at CDW building.

The retail podium, 8 1/2, hosts several F&B tenants and well-known brands including Market Place, Physical Fitness and Sinomax. IKEA set up its fourth branch in Hong Kong by taking up 4 storeys with a retail space of 90,000sf at CDW Building.

Overall, we estimate that CDW Building, if fully let, brings in annual rental income of c.HK\$300m p.a.

#### CDW Building Retail tenants



Source: DBS HK

## HKR International Ltd

### China

#### HKRI Taikoo Hui, Shanghai

HKRI Taikoo Hui is the company's flagship mixed-use development jointly held with Swire Properties (1972.HK). Nestled at a prime location in Shanghai Jing'an District, this landmark project comprises a premium shopping mall, two Grade A office towers, two boutique hotels and a serviced apartment building with total GFA of c.3.5msf, creating a new office, shopping and entertainment hub in the city. It also features Cha House, a historic building commemorating the company's late founder, Dr CHA Chi-ming. HKR and Swire Properties each hold a 50% stake in this large-scale mixed-use project.

Jing'an District, one of the central districts in Shanghai, is home to numerous large office buildings, hotels, residential homes and shopping venues. Other key developments in the area include Four Seasons Hotel, Shanghai Exhibition Centre, Shanghai Centre, Shanghai Jing An Kerry Centre and Plaza 66. HKRI Taikoo Hui enjoys excellent transportation links as it sits adjacent to Nanjing Road (West) Station, where three Shanghai Metro lines - line 2, line 12 and line 13 - converge. The project is also located close to two major highways in Shanghai, North-South Elevated Road and Yan'an Elevated Road, connecting North to South and East to West of the city.

The investment was initiated with an agreement entered in Dec-02 between HKR and the authorities of Jing'an District of Shanghai, granting HKR rights to redevelop several adjoining sites in Jing'an district. Resettlement works were conducted in two phases and the first phase commenced in Aug-06. Foundation works commenced at the end of 2011 after completion of resettlement works in Mar-10.

In Dec-06, HKR formed a strategic partnership with Swire Properties by disposing a 50% interest of the project for HK\$1.32bn. Swire Properties is a renowned commercial landlord in Hong Kong with proven track record of running retail-led mixed-use development in China. This joint venture brings substantial synergies to the project and has enhanced the investment value of the development.

In Dec-10, the joint venture secured a 13-year Rmb8bn syndicated loan facility to fund the construction and development of the project.

With total investment close to Rmb17bn, the project took more than 10 years to complete. Occupation permit for Ph 1, which includes the shopping mall and HKRI Centre One (the first office tower), was obtained in Aug-16. In Mar-17, the occupation permit for Phase 2, which covers HKRI Centre Two (the second office tower), was granted.

Multinational and key domestic tenants started to move into HKRI Centre One after it was launched in late 2016. Tenants began taking possession of their respective units in HKRI Centre Two from Apr-17. At end-2017, combined committed occupancy of these two office towers reached 82%. The shopping mall held a soft opening celebration in May-17. In Dec-17, tenants had committed to take 96% of the retail space, of which 86% opened for business.

Two boutique hotels - The Sukhothai Shanghai and The Middle House- and serviced apartment building, The Middle House Residence, had their soft openings in April and May 2018 respectively.

Comprising a total GFA of 1.83msf, the two office towers are the location of choice for various leading financial, legal, technology and retail companies including Alibaba, Bank of China, Blackstone, Clifford Chance, Fidelity, H&M, Jimmy Choo, JLL and Warner Brothers. As of Mar-20, combined occupancies at HKRI Centre One and HKRI Centre Two, albeit softened slightly, remained firm at 98% achieving unit rents ranging from c.RMB350-450psm. We estimate that the office portion generates rental income of >HK\$750m p.a.

#### HKRI Centre One and Two



Source: DBS HK

**HKR International Ltd**

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The 1.2msf retail mall is also popular among retail tenants given its strategic location and substantial footfall. It is a lifestyle destination with around 250 brands and over 45 F&B outlets such as G Givenchy, Lululemon, Tesla, Jade Garden and Din Tai Fung. The first Asian Starbucks Reserve Roastery, the flagship store of NIO and China largest city super store were also set up in the mall. DEVIALET, DMG Transformer and Netease Yanxuan made their Shanghai debut in HKRI Taikoo Hui which was 95% leased as of Mar-19. The mall business has been ramping up well with footfall growing steadily since early 2019. HKRI Taikoo Hui recorded respectable tenants' sales growth of 72.6% in 2019. This should not only lead to increased turnover rents but also underpin healthy reversionary growth. Led by the COVID-19 pandemic, retail tenants' sales fell 30% in 1Q20 but has gradually recovered after the outbreak shows signs of stabilising. Despite the temporary business disruption led by the COVID-19 outbreak, the mall should see bright long-term prospects with continued trade and tenant mix optimisation. We forecast this mall to yield an annual income of c.HK\$700m

Operated by Swire Properties, The Middle House and The Middle House Residences provide 111 hotel rooms and 102 serviced apartments respectively. The 201-room The Sukhothai Shanghai is managed by HKR International. Occupancies and REVPAR are building up gradually before the COVID-19 outbreak. Despite relatively modest profit contributions, the hotel and serviced apartment properties yield synergetic benefits to office and retail portions within the complex.

Overall, we project HKRI Taikoo Hui to generate total attributable rental income of c.HK\$750m p.a. Our analysis shows that HKRI Taikoo Hui in Shanghai, including two hotels, is valued at HK\$25.3bn (or HK\$12.7bn attributable to HKR) before project loan is taken into account.

## HKR International Ltd

### Development properties

#### Hong Kong

##### La Cresta, Kau To

Developed by a consortium equally owned by HKRI and unlisted Nan Fung, La Cresta is a luxury residential development. Completed in 2017, this upmarket development provides 48 apartments in three residential towers and 13 houses with total GFA of 135,000sf. Located in the high-end residential district in Kau To, Shatin, La Cresta enjoys splendid views of the surrounding hills of Ma On Shan and the majestic Tolo Harbour. There is also easy access to the Mainland border as well as the city centre of Hong Kong, major pluses for the project.

The site was secured through a government tender in Aug-13 for HK\$1.22bn or HK\$9,037psf. Adding construction and finance costs, we estimate the breakeven costs at HK\$24,000psf on a saleable area basis.

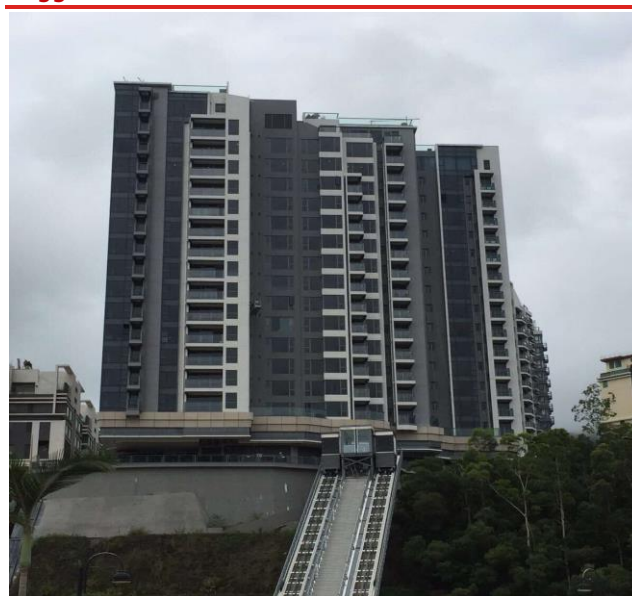
La Cresta was first launched in Oct-17 and market response was keen. So far, 54 units have been sold via tenders for c.HK\$3.3bn in total or ASP of c.HK\$29,000psf on saleable area basis. Profits from the sold units were largely recognised in FY18, FY19 and 1HFY20. Meanwhile, the consortium is offering the remaining seven apartments for sale through tender. Continued sales of La Cresta should help support the company's near-term development income.

##### Poggibonsi, Discovery Bay

Poggibonsi is one of the latest upmarket developments in Discovery Bay, which has long been an international community with residents from different parts of the world. Sitting on a hill above the bays of Yi Pak Wan and Sam Pak Wan, Poggibonsi is surrounded by other high-end residential projects developed by HKR. Overlooks the sea, Poggibonsi has views of Hong Kong Disneyland, IFC and ICC. An adjacent inclined lift links this project to DB North Plaza, Auberger Discovery Bay Hong Kong and an urban taxi stand.

Lying at the east coast of Lantau Island, Poggibonsi is just a 20-minute drive from the Hong Kong International Airport and Hong Kong-Zhuhai-Macau Bridge. This points to good transportation accessibility.

#### Poggibonsi



Source: DBS HK

With total GFA of 187,000sf, Poggibonsi comprises three mid-rise blocks with 196 residential units. It offers a wide array of apartments with unit sizes ranging from 344sf to 1844sf, catering to the needs of different types of homebuyers.

The response to the launch of Poggibonsi was enthusiastic. Since its initial launch in Mar-19, HKRI has sold 89 units for c.HK1.15bn or HK\$16,500psf on average. This represents c.45% of the total units. In Feb-20, a top-floor specialty unit was sold for HK\$36m or HK\$25,263psf, making it the most expensive in terms of both total consideration and unit price.

Occupation permit was obtained in Apr-19. The project is now being handed over to buyers.

We estimate Poggibonsi's all-in development cost at HK\$10,200psf which includes land premium, construction costs and financing costs. This implies pre-tax development margin of >30%. If fully sold, Poggibonsi should yield attributable pre-tax development earnings of c.HK\$510m to HKR and provide the mainstay of its near-term development income.

##### IL PICCO, Discovery Bay

IL PICCO is the latest house development in Discovery Bay. Perched at the peak of Discovery Bay, this low-density development offers 21 two-storey luxury houses with a private garden. Unit sizes range from 2,023sf to 2,171sf. IL PICCO showcases magnificent sea views and the iconic Hong Kong skyline.

## HKR International Ltd

### IL PICCO



Source: DBS HK

HKR offered five houses for sale by tender in Jan-20. This marked the first house project for sale in Discovery Bay since 2002. So far, the company has sold House 3 for HK\$55m or HK\$27,300psf.

Based on our estimated development costs of HK\$11,200psf and assumed ASP of HK\$27,300psf, a complete sale of IL PICCO should generate total pre-tax profit of >HK\$650m. The profit is expected to be progressively booked from FY23 onwards.

#### Tai Po Town Lots Nos.223 and 229

In Nov-16, HKRI teamed up with Hysan Development (14.HK) to acquire two adjoining residential sites in Tai Po via a government tender for a combined development project. Total land premium was HK\$3.393bn, translating into accommodation value of HK\$6,822psf. With total GFA of 0.5msf, the sites are planned for a luxury development, comprising 41 three-storey houses and 14 five-storey low-density apartments. HKR and Hysan Development hold 40% and 60% in this project respectively.

Located on Lo Fai Road, this project is close to several low-rise luxury developments including Casa Marina I & II, Tycoon Place and Forest Hills, and overlooks the Tolo Harbour.

The major design for the project including architecture, structure, building services and typical interior design had been completed by the end of 2019. Foundation and basement works are largely completed. Superstructure works commenced recently, with the entire construction works targeted for completion in 2021.

There has not been any new luxury residential supply coming onstream in the surrounding areas for two decades. Taking into account the site's strategic location and its exclusive

development, we expect this luxury residential project to command an ASP of HK\$18,000psf when offered for sale in 2021/22. Based on our estimated all-in development cost of HK\$15,400psf on saleable area basis, this project, if fully sold, should generate total attributable pre-tax profit of >HK\$450m, and become HKR's major earnings catalyst from FY23 onwards.

### China

#### City One, Jiaxing

City One was the first ever residential developments undertaken by HKR to venture into the city of Jiaxing. Situated in the city's International Business District and close to a wetland park, the site was acquired in Jun-12 for a total consideration of RMB185.5m or Rmb2,235psm. City One is a large-scale luxury development comprising 577 apartment units and 20 villas on total GFA of c.83,000sm.

Construction was completed in Nov-15. Since its presale launch in Jul-14, >99% of total units have been sold and handed over to buyers since Jan 2016.

#### Elite House, Shanghai

In Apr-14, HKR acquired a 30-storey en-bloc residential building in Changning District, Shanghai for Rmb588.2m or c.Rmb27,000psm. Comprising 120 units with a total GFA of c.21,700sm, Elite House was initially held for investment purposes. Average occupancy rate reached c.90% in FY17. The property was then planned for sale. Refurbishment works commenced in the second half of 2017. In early Oct 2017, Elite House was launched for strata title sale and received positive response from the market. Average selling price reached Rmb68,000psm. Sales of the project started to be recognised starting from FY18. As of Sep-19, HKR had sold 66 units at Elite House, representing 55% of the total.

#### Oasis One, Hangzhou

In Jun-15, HKR secured a plot in Zhejiang Hangzhou Future Sci-Tech City for RMB543m or RMB8,815psm which marked its first residential project, Oasis One, in Hangzhou City. Located adjacent to Xixi National Wetland Park, this low-density residential project provides about 350 low-rise apartments and 50 villas on total GFA of 61,600sm.

Construction commenced in May-16 and has since been completed with occupation permit granted in Feb-19. Pre-sales of the first batch of 108 units began in Mar-17 and over 70% of the launched units were sold by the end of the month. As of Sep-19, 312 released units have been sold which represents >75% of the total units of the project. Revenues from the sale of 98 and 203 units were recognised in FY19 and 1HFY20 respectively upon ownership transfer. This should serve as the main earnings contributor in FY20.

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**HKR International Ltd****Riviera One, Jiaxing**

As HKR's second residential project in Jiaxing City, Riviera One sits on a prime location at the centre of the international business district and is in the vicinity of a 53-hectare wetland park. The site was acquired in Jan-16 for Rmb297m (or Rmb2,852psm), and sits just adjacent to its first residential project in Jiaxing, City One. With GFA of 102,000sm, this large-scale luxury project comprises 702 low-rise and high-rise apartment units.

The first batch of units was launched for pre-sale in Jan-18 and market response was overwhelming. As of Sep-19, around 619 units have been sold which represents >88% of the project's total number of units.

Construction commenced in Jul-16, and was completed with occupation permit granted in Jan-19. Sales revenue will be realised upon completion and transfer of ownership. This should contribute to the company's earnings in FY20 and FY21.

**Creekside One, Jiaxing**

HKR acquired the site where Creek One is being built in Feb-18 for Rmb200m or Rmb10,038psm. The site is within the Jiaxing Economic and Technological Development Zone. With GFA of 19,900sm, the site will be developed into a luxury project with low-rise apartment and villas with expected completion in 2021. Foundation works began in Oct-18. Adding construction and financing costs, we estimate total development costs at Rmb18,000psm.

**Mansion One, Jiaxing**

Located in Jiaxing Economic and Technological Development Zone, Mansion One is being developed into a low-rise residential project with GFA of 32,550sm. Construction works commenced in Oct-18 with completion targeted for 2021. The site was purchased for Rmb327m in Dec-17. We estimate all-in cost at Rmb18,000psm

**Lot No.2018-42, Nanhu New District, Jiaxing**

HKR acquired this site for Rmb733m or RMB10,037psm in Jan-19. Including construction and financing costs, we estimate all-in cost at RMB18,000psm. With GFA of 73,000sm, the site is being developed into a deluxe residential project comprising high-rise apartments and villas. Project is scheduled for completion in 2023.

## HKR International Ltd

### CRITICAL FACTORS TO WATCH

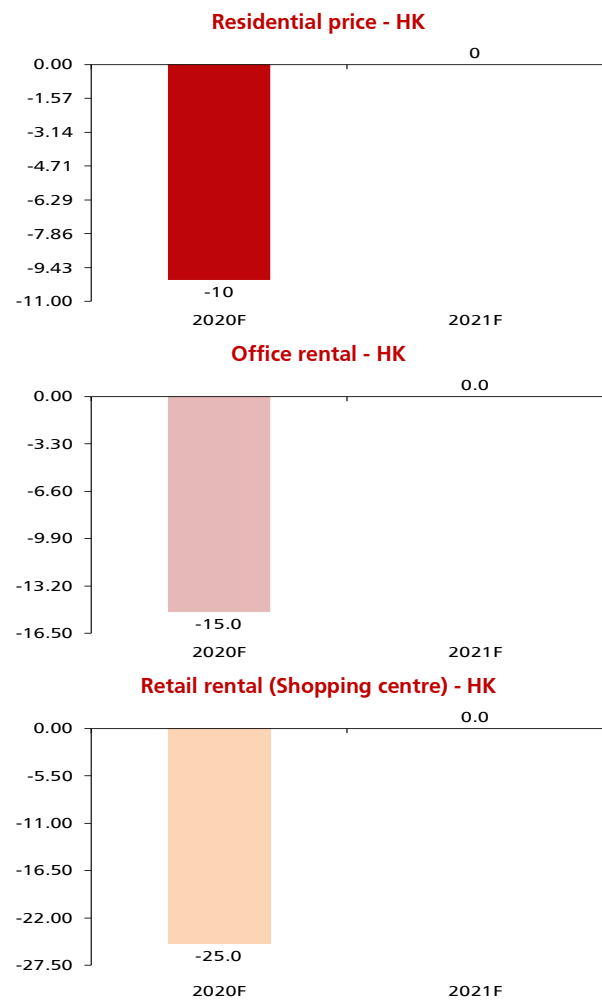
#### Critical Factors

**Multiple engines.** HKR derives c.37% and c.22% of its gross asset value from 50%-owned HKRI Taikoo Hui in Shanghai and CDW Building in Hong Kong. Hence, the prospects of these two key investment properties play a crucial role in determining the company's growth as well as the stock's share price appreciation over the long run. Any initiatives to unlock the value of these two assets could drive the share prices.

**HKRI Taikoo Hui - a crown jewel.** Situated in Shanghai Jing'an District, this landmark project comprises a premium shopping mall, two Grade A office towers, two boutique hotels, and a serviced apartment building with total GFA of c.3.5msf. Retail sales at the mall jumped 72.6% in 2019 before the COVID-19 outbreak in Jan-20. This should underpin healthy reversionary growth. The company intends to further optimise the retail trade mix by recruiting more luxury brands. This should put in an advantageous position to tap on the repatriation of luxury spending among Mainland consumers. Despite the temporary disruption led by the COVID-19 pandemic, we see substantial scope of retail income expansion in future years. Office towers are home to financial and professional service providers, domestic law firms, and retailers. The diversified high-quality tenant base should offer solid office income. All of these point to balanced and quality earnings growth for HKRI Taikoo Hui in the years ahead.

**CDW Building - a cash cow.** In an attempt to realise the full potential of conveniently located CDW Building in Tsuen Wan, HKR converted this industrial building to office/retail use under the government's revitalisation scheme for industrial properties, following the completion of refurbishment and conversion works in mid-2017. The usage conversion for the entire property has rejuvenated this aging property providing significant rental income upside. We estimate CDW Building currently brings in annual rental income of c.HK\$300m p.a., which is more than 50% higher compared to pre-usage conversion. This makes it a cash cow for HKR, leading to better earnings quality.

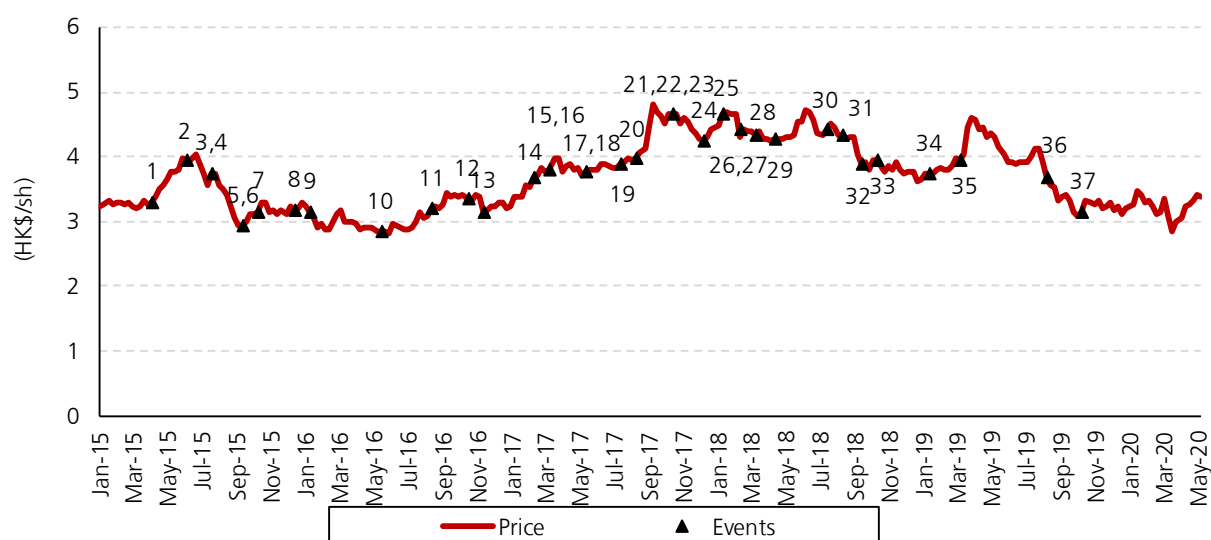
**Well-regarded residential community in Discovery Bay enhances marketability of projects there.** With over four decades of efforts, HKR has turned Discovery Bay into a renowned residential community, which is popular among expatriates seeking lifestyle accommodation. This should ensure good marketability of future residential projects there. Currently, HKR is selling Poggibonsi and IL PICCO there, which offer different types of products to cater to various needs of home buyers. Continued sales of these two developments should help unlock its NAV, providing upside on stock. HKR is also in negotiation with the government to convert other sites in Discovery Bay into residential use. This could lay down the foundation for future development earnings growth. Any favourable land premium deal could prompt the stock re-rating.



Source: Company, DBS HK

## HKR International Ltd

### HKR share price VS. key events



#### # Event

- 1 Relunched the sales of the remaining units of DAN6 at Fui Yiu Kok Street, Tsuen Wan
- 2 Acquired a residential site in Zhejiang Hangzhou Future Sci-Tech City with GFA of 61,600 square metres at a consideration of HK\$678.8m.
- 3 Completed the disposal of 60% interest in CentreHollywood, located at No.151 Hollywood Road, by a non-wholly owned subsidiary of the Company at a total consideration of HK\$549.7m.
- 4 Disposed various land lots in Demarcation District No.129, Lau Fau Shan, Yuen Long at a total consideration of HK\$710.0 million
- 5 Signed an HK\$8bn 5-year syndicated loan with revolving credit facilities.
- 6 Acquired Souei Park Harajuku in Tokyo, a 22-unit en-bloc residential apartment, at a total consideration of HK\$86.2m.
- 7 Acquired Park Building located at No.476 Castle Peak Road, Cheung Sha Wan at a total consideration of HK\$998m.
- 8 Acquired 10 plots of land located at Yannawa District, Bangkok, Thailand for HK\$604.1m. (Rama 3 Road Project)
- 9 Acquired a residential site in Jiaxing Economic Development Zone Yaojiadang Area, Zhejiang Province at a consideration of HK\$352m. (Riveria One)
- 10 Launched the sales of Proud Roppongi, a premium residential project in Tokyo.
- 11 Obtained occupation permit for the retail mall and HKRI Centre One of HKRI Taikoo Hui, Shanghai, tenants have begun to take possession and fit-out works began in late Sep-16
- 12 Launched the sales of 2GETHER, residential project in Tuen Mun
- 13 Acquired two plots of land in Tai Po in a jv with Hysan Development at HK\$3,393m.
- 14 Acquired Veneo Minami-Azabu, an en-bloc residential apartment building in Minato, Tokyo at HK\$88.9m
- 15 Launched presales of first-batch units of Oasis One
- 16 An occupation permit for HKRI Centre Two of HKRI Taikoo Hui was granted
- 17 Completion of CDW Building refurbishment works
- 18 HKRI Taikoo Hui shopping mall opened
- 19 Acquired a 15-storey residential building located in Minato-ku, Tokyo, Japan for HK\$243.4m
- 20 Disposal of the 22nd Floor, China Merchants Tower, Shun Tak Centre for HK\$750m

## HKR International Ltd

### HKR share price VS. key events (continued)

21	Launched the sales of Elite House, Shanghai
22	Launched the sale of La Cresta, residential project in Sha Tin
23	Full opening of 8 1/2 Shopping Mall at CDW Building
24	Acquired a land plot in the Jiaxing Economic and Technological Development Zone (No. 2017-28) with GFA of 33,000 sm for RMB327m (Mansion One)
25	Launched presales of Riviera One
26	Acquired a residential site in the Jiaxing Economic and Technological Development Zone (No. 2017-34) with GFA of 19,900 sm for RMB200m (Creekside One)
27	Acquired three plots of land located at Ramintra Road, Bangkok, Thailand at HK\$323.5m with GFA of 56,500 sm
28	Sold Kap Pin Long Project, to be handed over in second half of 2018
29	Soft opening of The Sukhothai Shanghai hotel
30	Launched the third batch of Oasis One
31	Launched the second batch of Riviera One
32	Ownership transfer of Kap Pin Long Project
33	Hotel Nikko Tianjin of The Exchange, Tianjin closed business and will be converted into residential rental apartment
34	Acquired a land plot in Nanhu New District (No. 2018-42) in Jiaxing city, Zhejiang Province with GFA of c.786,000sf at HK\$854.4m
35	Launched Poggibonsi, luxurious residential project in Discovery Bay, for sale
36	Acquired an en bloc 18-storey residential building, Wellgan Villa at Kowloon Tong, for HK\$760m
37	Riviera One and Oasis One launched new batches of units for sale

Source: Bloomberg Finance L.P., HKR International, DBS HK

## HKR International Ltd

### Balance Sheet:

Net debt stood at HK\$4.1bn as of Sep-19. Aided by an increase in shareholders' fund led by higher valuation of investment properties, gearing reduced to 18.7% in Sep-19 from Mar-19's 19.1%. About 75% of HKR's total borrowings of HK\$6.77bn will mature before end Sep-20. The bulk was related to a syndicated loan due in Sep-20. Given its low gearing, there is huge room for HKR to further leverage when land acquisition opportunities rise. Elsewhere, HKR had attributable off-balance sheet net debt of HK\$3.68bn for HKRI Taikoo Hui and attributable project loan of HK\$737m for Tai Po residential project as of Sep-19.

### Share Price Drivers:

Continued sales at Poggibonsi and IL PICCO in Discovery Bay should help unlock its NAV, thus narrowing its discount to NAV. Bright prospects of HKRI Taikoo Hui in Shanghai, a mixed-use property complex equally owned with Swire Properties, should underpin its long-term share price appreciation.

### Key Risks:

Any slower recovery in retail consumption in China would affect the mall's performance of HKRI Taikoo Hui in Shanghai.

Any deterioration in residential demand in Hong Kong led by prolonged economic downturn could drag the company's earnings and share price performance.

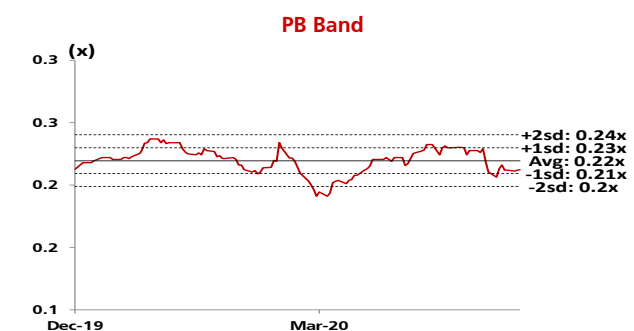
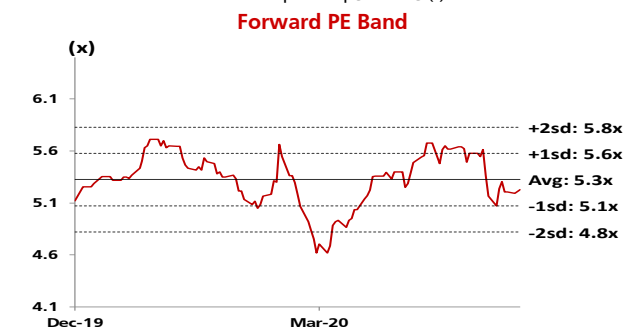
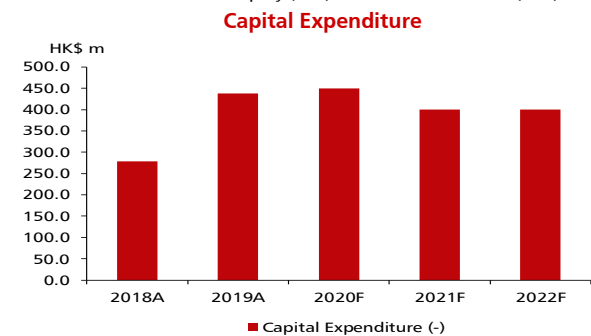
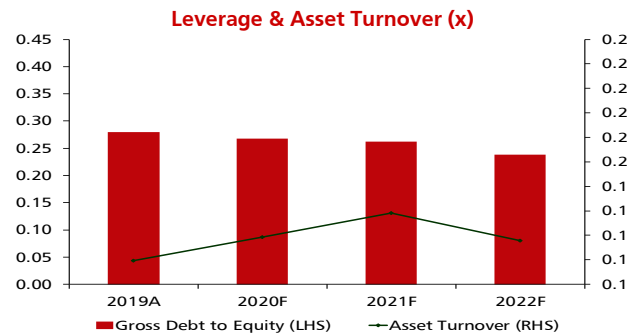
Any unfavourable change in housing policy in Hong Kong and China could trigger a sector wide re-rating or de-rating.

### Environmental, Social, Governance:

HKR prioritises sustainability and environmental stewardship. Environmental initiatives are implemented throughout its developments to reduce electricity consumption, greenhouse gas emissions and water usage. At HKRI Taikoo Hui, smart lighting systems and reclaimed water systems are installed to optimise water use and save electricity. In terms of community caring, HKR has actively participated in volunteering events and accumulated 2,074 service hours in FY19. Independent Non-executive Directors account for more than one-third of the Board of HKR. A Sustainability Policy is established to provide guidance for the development and implementation of the company's sustainability strategies.

### Company Background

Listed in 1989, HKR International is engaged primarily in property development and investment in Hong Kong, China and Asia. Throughout the years, the company has transformed Discovery Bay into a fully-integrated residential community. HKR also owns an investment property portfolio with major rental properties including CDW Building in Tsuen Wan and HKRI Taikoo Hui in Shanghai. HKR also provides healthcare services.



Source: Company, DBS HK

## HKR International Ltd

### Key Assumptions (%)

	2020F	2021F
Residential price - HK	(10.0)	0.0
Office rental - HK	(15.0)	0.0
Retail rental (Shopping centre) - HK	(25.0)	0.0

Source: Company, DBS HK

### Segmental Breakdown (HK\$ m)

FY Mar	2018A	2019A	2020F	2021F	2022F
<b>Revenues (HK\$ m)</b>					
Property development	750	2,297	2,776	3,260	2,771
Property leasing	412	460	524	542	546
Hotel management	313	329	233	172	242
Others	747	758	748	747	770
<b>Total</b>	<b>2,222</b>	<b>3,844</b>	<b>4,281</b>	<b>4,721</b>	<b>4,329</b>

Source: Company, DBS HK

### Income Statement (HK\$ m)

FY Mar	2018A	2019A	2020F	2021F	2022F
Turnover	2,222	3,844	4,281	4,721	4,329
EBITDA	1,013	1,003	1,705	1,776	1,428
Depr / Amort	(161)	(165)	(182)	(200)	(220)
<b>EBIT</b>	<b>852</b>	<b>838</b>	<b>1,524</b>	<b>1,576</b>	<b>1,208</b>
Associates Inc	48	947	326	311	294
Interest (Exp)/Inc	(152)	(171)	(179)	(167)	(131)
Exceptional	1,889	1,117	0	0	0
<b>Pre-tax Profit</b>	<b>2,637</b>	<b>2,731</b>	<b>1,671</b>	<b>1,720</b>	<b>1,371</b>
Tax	(201)	(326)	(755)	(499)	(379)
Minority Interest	(132)	(198)	(20)	(320)	(156)
<b>Net Profit</b>	<b>2,305</b>	<b>2,207</b>	<b>896</b>	<b>900</b>	<b>836</b>
Sales Gth (%)		73	11	10	(8)
Net Profit Gth (%)		(4)	(59)	0	(7)
EBITDA Margins (%)	46	26	40	38	33
EBIT Margin (%)	38	22	36	33	28
Tax Rate (%)	8	12	45	29	28

Source: DBS HK

**HKR International Ltd**
**Balance Sheet (HK\$ m)**

<b>FY Mar</b>	<b>2018A</b>	<b>2019A</b>	<b>2020F</b>	<b>2021F</b>	<b>2022F</b>
Fixed Assets	13,568	14,797	15,575	15,513	15,434
Other LT Assets	9,472	9,443	9,899	10,330	10,723
Cash & ST Invt	2,942	2,639	2,864	2,875	2,627
Other Current Assets	8,654	8,579	8,018	8,048	7,929
<b>Total Assets</b>	<b>34,637</b>	<b>35,457</b>	<b>36,356</b>	<b>36,766</b>	<b>36,714</b>
ST Debt	1,058	906	5,216	500	800
Other Current Liab	3,399	3,095	3,395	3,315	3,335
LT Debt	6,528	5,780	1,371	6,087	5,287
Other LT Liabilities	1,495	1,753	1,753	1,753	1,753
Minority Interests	2,440	2,622	2,822	2,822	2,822
Shareholder's Equity	19,718	21,300	21,799	22,289	22,717
<b>Total Cap. &amp; Liab.</b>	<b>34,637</b>	<b>35,457</b>	<b>36,356</b>	<b>36,766</b>	<b>36,714</b>
Share Capital (m)	1,485	1,485	1,485	1,485	1,485
Net Cash/(Debt)	(4,644)	(4,048)	(3,723)	(3,711)	(3,460)
Working Capital	7,139	7,216	2,270	7,108	6,421
Net Gearing (%)	24	19	17	17	15

Source: DBS HK

**Cash Flow Statement (HK\$ m)**

<b>FY Mar</b>	<b>2018A</b>	<b>2019A</b>	<b>2020F</b>	<b>2021F</b>	<b>2022F</b>
EBIT	852	838	1,524	1,576	1,208
Tax Paid	(141)	(227)	(755)	(499)	(379)
Depr/Amort	161	165	182	200	220
Chg in Wkg.Cap	40	(124)	761	(110)	139
Other Non-Cash	(538)	0	0	0	0
<b>Operating CF</b>	<b>374</b>	<b>653</b>	<b>1,712</b>	<b>1,167</b>	<b>1,188</b>
Net Capex	(278)	(438)	(450)	(400)	(400)
Assoc, MI, Invsmt	755	666	(789)	(120)	(100)
<b>Investing CF</b>	<b>477</b>	<b>228</b>	<b>(1,239)</b>	<b>(520)</b>	<b>(500)</b>
Net Chg in Debt	(327)	(817)	(100)	0	(500)
Dividend	(195)	(171)	(169)	(468)	(304)
Other Financing CF	(104)	(123)	21	(167)	(131)
<b>Financing CF</b>	<b>(627)</b>	<b>(1,112)</b>	<b>(248)</b>	<b>(636)</b>	<b>(936)</b>
Chg in Cash	224	(230)	225	11	(248)

Source: DBS HK

## HKR International Ltd

DBS HK recommendations are based on an Absolute Total Return\* Rating system, defined as follows:

**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*

Completed Date: 4 Jun 2020 21:45:25 (HKT)

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