

## Sun Hung Kai Properties

### Increasing market share to weather short-term headwinds

We expect to see short-term selling pressure for SHKP upon the latest property cooling measures. That said, the underlying business of SHKP remains solid, and we remain positive on the longer-term profitability of the company. Maintain OW with a Dec-15 price target of HK\$134.

- **Core profit below expectations.** SHKP reported 1HFY15 underlying profit at HK\$8,463 mn, down 20% Y/Y and 11% below our expectations. This is mainly due to slower-than-expected China property sales, which we have also seen for other HK developers, such as Cheung Kong. Despite lower earnings, the company maintained its interim dividend at HK\$0.95/share.
- **FY15 sales target remains unchanged.** Even though SHKP has already achieved its sales target in HK (HK\$25 bn), given the weaker sales in China and the new mortgage tightening measures in HK just announced, we believe it is sensible to keep the sales target unchanged.
- **Gearing up fast asset turnover mode.** We estimate that the company acquired a total of 5.6 mn sf in HK for some HK\$12 bn to provide over 7,100 units. This is 38% of the government's annual supply target of 18,800 units. The company will adopt a high asset turnover model in HK, with over 3 mn sf of residential properties per annum to be completed in FY16 and FY17. Rising production volume should help maintain its ROE going forward.
- **Strong financial position for more land acquisitions.** The exercise of bonus warrants generated about HK\$10 bn for SHKP and it expects to receive another HK\$12.2 bn over the next 14 months when the remaining warrants are fully exercised. Together with strong property sales, the net gearing level was lowered to 13.8% in December 2014. The company still has a strong appetite for more land acquisitions in HK.
- **Cushion from solid rental income growth.** Despite headwinds in the residential market from the recent policy measures, rental income could provide a downside cushion to earnings. Net rental income grew 8% Y/Y to HK\$7.4 bn in 1HFY15. Office and retail properties in HK recorded rental reversion of some 20-25% upon renewal. Together with asset enhancements and new investment properties, we believe rental income growth remains solid in the next 2-3 years.

#### Sun Hung Kai Properties (Reuters: 0016.HK, Bloomberg: 16 HK)

HK\$ in mn, year-end Jun	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue (HK\$ mn)	53,793	75,100	69,998	90,097	100,321
Net Profit (HK\$ mn)	18,619	21,415	22,145	24,092	24,587
Core Profit (HK\$ mn)	18,619	21,415	22,145	24,092	24,587
EPS (HK\$)	7.05	7.95	7.98	8.52	8.70
Core EPS (HK\$)	7.05	7.95	7.98	8.52	8.70
Core EPS growth (%)	(15.7%)	12.8%	0.3%	6.8%	2.1%
DPS (HK\$)	3.35	3.35	3.35	3.35	3.35
ROE	5.1%	5.3%	5.1%	5.3%	5.2%
P/E (Core)	17.2	15.3	15.2	14.3	14.0
P/BV (x)	0.8	0.8	0.8	0.7	0.7
BVPS (HK\$)	144.48	152.21	157.65	164.33	171.07
RNAV/Share			183.28	-	-
Dividend Yield	2.8%	2.8%	2.8%	2.8%	2.8%

Source: Company data, Bloomberg, J.P. Morgan estimates.

## Overweight

0016.HK, 16 HK

Price: HK\$121.60

▼ Price Target: HK\$134.00

Previous: HK\$135.00

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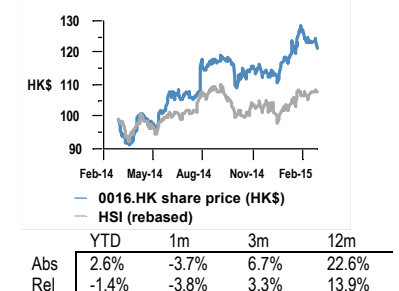
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#### Price Performance



Company Data	
Shares O/S (mn)	2,726
Market Cap (HK\$ mn)	331,426
Market Cap (\$ mn)	42,734
Price (HK\$)	121.60
Date Of Price	27 Feb 15
Free Float(%)	56.7%
3M - Avg daily vol (mn)	3.92
3M - Avg daily val (HK\$ mn)	469.71
3M - Avg daily val (\$ mn)	60.6
HSI	24,823.29
Exchange Rate	7.76
Price Target End Date	31-Dec-15
Price Target (HK\$)	134.00

#### See page 11 for analyst certification and important disclosures, including non-US analyst disclosures.

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Key catalyst for the stock price:	Upside risks to our view:	Downside risks to our view & PT:
<ul style="list-style-type: none"> <li>Acquisition of Xujiahui site in Shanghai is a mid- to long-term catalyst</li> <li>Upcoming large-scale primary launches in HK</li> <li>Completion of new investment properties in HK and China</li> </ul>	<ul style="list-style-type: none"> <li>Higher-than-expected property sales in HK and China</li> <li>Higher-than-expected office rental growth in Hong Kong</li> <li>Better-than-expected performance of SHKP's decentralized malls in HK</li> </ul>	<ul style="list-style-type: none"> <li>Slowdown in home sales</li> <li>Slowdown of rental growth off a higher base</li> </ul>

Key financial metrics	FY13A	FY14A	FY15E	FY16E
Revenues (HK\$)	53,793	75,100	69,998	90,097
Revenue growth (%)	-21%	40%	-7%	29%
EBITDA (HK\$)	22,595	27,593	29,149	30,291
EBITDA margin (%)	42%	37%	42%	34%
Tax rate (%)	13%	17%	16%	16%
Net profit (HK\$)	18,619	21,415	22,145	24,092
EPS (HK\$)	7.05	7.95	7.98	8.52
EPS growth (%)	-16%	13%	0%	7%
DPS (HK\$)	3.35	3.35	3.35	3.35
BVPS (HK\$)	144.48	152.21	157.65	164.33
Operating cash flow (HK\$ mn)	32,590	20,518	25,829	26,616
Free cash flow (HK\$ mn)	12,224	(13,611)	17,710	18,550
Interest cover (X)	12.0	13.5	13.0	13.2
Net margin (%)	35%	29%	32%	27%
Sales/assets (X)	0.11	0.14	0.12	0.15
Debt/equity (%)	16.5%	20.0%	17.5%	16.3%
Net debt/equity (%)	12.3%	15.5%	13.2%	11.4%
ROE (%)	5.1%	5.3%	5.1%	5.3%

Key model assumptions	FY15E
HK residential price chg	-10%
HK office rental chg	5%
HK retail rental chg	4%
HK office cap rate	5.5-5.75%
HK retail cap rate	5.5-5.75%
Shanghai office cap rate	6.75-7.75%
Shanghai retail cap rate	6.75-8.25%

Source: Company, J.P. Morgan estimates.

Sensitivity analysis	NAV Dec-15	EPS FY15E
Sensitivity to		
5% chg in HK residential price	1.3%	3.6%
5% chg in HK office rent	0.8%	0.4%
50 bps chg in HK cap rate	4.3%	n/a
50 bps chg in China cap rate	0.2%	n/a

Source: J.P. Morgan estimates.

#### Comparative metrics

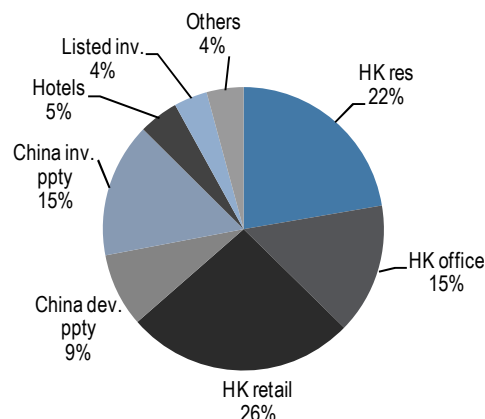
	CMP LC	Mkt Cap HK\$Bn	P/E		NAV discount Dec-15	P/BV		YTD Stock perf.
			FY14E	FY15E		FY14E	FY15E	
Cheung Kong	153.50	355.53	13.7	11.5	-20%	0.92	0.89	18%
Henderson Land	53.00	159.02	16.2	16.3	-36%	0.70	0.67	-2%
SHKP	121.60	343.66	15.3	15.2	-34%	0.80	0.77	3%
Sino Land	12.68	76.89	20.9	13.4	-40%	0.67	0.66	1%
Kerry Properties	25.90	37.42	9.3	9.9	-63%	0.47	0.46	-8%
Wheelock & Co	41.60	84.52	9.5	7.4	-27%	0.49	0.46	15%
Wharf Holdings	56.55	171.40	14.8	14.1	-40%	0.61	0.59	1%
Hang Lung Prop	22.00	98.68	9.8	16.3	-37%	0.74	0.73	1%

Source: Bloomberg, Company and J.P. Morgan estimates. Prices are as of 27 February 2015

#### Valuation and price target basis

Our Dec-15 PT is based on 27% discount to Dec-15 NAV, which is 0.5 SD below the long-term average.

#### NAV breakdown (Dec-15E)



Source: Bloomberg, Company and J.P. Morgan estimates.

#### JPM vs. consensus, change in estimates

EPS	FY15E	FY16E
JPM old	8.13	8.41
JPM new	7.98	8.52
% chg	-2%	1%
Consensus	7.78	8.45

Source: Bloomberg, Company and J.P. Morgan estimates.

## 1HFY15 results below expectations

SHKP reported 1HFY15 underlying profit of HK\$8,463 mn, down 20% Y/Y and 11% below our expectations. This is due mainly to slower-than-expected China property sales, which we have also seen for other HK developers such as Cheung Kong. Despite lower earnings, the company maintained its interim dividend at HK\$0.95/share. With strong property sales and the exercise of bonus warrants during the period, net gearing edged down from 15.7% in June 2014 to 13.8% in Dec 2014.

Table 1: SHKP - FY15 interim results summary

	1HFY14	1HFY15	Y/Y (%)	Comment	1HFY15E	Var (%)
Property development	11,937	8,320	-30%	Mainly contributed from One Harbour Square, Deauville and Mount One in HK as well as Forest Hills, Shanghai Arch and Park Royale in China	6,643	25
Property investment	7,342	7,822	7%	Positive rental reversion and high rents for new leases	7,767	1
Hotels	1,998	2,186	9%	Average occupancy of the four Royal brand hotels at 95%	1,936	13
Telecom	6,531	8,673	33%		6,628	31
Other business	4,698	5,092	8%		4,491	13
<b>Turnover</b>	<b>32,647</b>	<b>32,223</b>	<b>-1%</b>		<b>27,596</b>	<b>17</b>
Property development	4,993	2,288	-54%	HK margin at 32%; China margin at 20%	2,858	-20
Property investment	5,472	5,966	9%	China margin improved from 70% to 76%	5,917	1
Telecom	431	628	46%		449	40
Hotels	538	601	12%	Improved room rates and higher occupancies	526	14
Other business	1,231	1,335	8%		1,202	11
Other income	980	657	-33%		861	-24
Unallocated administrative expenses	(608)	(608)	0%		(675)	-10
<b>EBIT</b>	<b>13,037</b>	<b>10,867</b>	<b>-17%</b>		<b>11,138</b>	<b>-2</b>
Net interest expense	(960)	(1,122)	17%		(1,040)	8
Operating profit	<b>12,077</b>	<b>9,745</b>	<b>-19%</b>		<b>10,099</b>	<b>-4</b>
Exceptional Items	0	0	NA		0	NA
Profit from assoc/JCE	1,502	1,286	-14%	Drop in China property sales contribution	1,497	-14
Profit before tax	13,579	11,031	-19%		11,596	-5
Taxation	(2,608)	(1,794)	-31%		(1,842)	-3
Profit after tax	10,971	9,237	-16%		9,754	-5
Minority interest	(327)	(774)	137%		(210)	268
<b>Underlying net profit (excl reval)</b>	<b>10,644</b>	<b>8,463</b>	<b>-20%</b>		<b>9,544</b>	<b>-11</b>
<b>Core net profit</b>	<b>10,644</b>	<b>8,463</b>	<b>-20%</b>		<b>9,544</b>	<b>-11</b>
EPS - Reported (HK\$)	3.98	3.08	-23%		3.44	-11
EPS - Core (HK\$)	3.98	3.08	-23%		3.44	-11
DPS (HK\$)	0.95	0.95	0%		0.95	0
<b>EBIT margin</b>						
Property development	42%	28%	-14%		43%	-16%
Property investment	75%	76%	2%		76%	0%
Hotels	27%	27%	1%		27%	0%
Telecom	7%	7%	1%		7%	0%
Other business	26%	26%	0%		27%	-1%
Payout ratio	24%	31%	7%		28%	3%
Effective tax rate	22%	18%	-3%		18%	0%
Net debt (HK\$MM)	51,986	59,658	15%			
Net book value per share	148.9	153.4	3%			
Net gearing (%)	12.9%	13.8%	1%	Dropped from 15.7% in Jun-14 mainly due to strong property sales and exercise of bonus warrants		
Shareholders funds (HK\$MM)	402,589	433,141	8%			

Source: Company, J.P. Morgan estimates

## Overall sales target of HK\$32 bn remains unchanged

During the FY14 results briefing, the company set the FY15 sales target at HK\$32 bn (HK: HK\$25 bn; China: HK\$7 bn). Given the strong take-up for its residential projects in Hong Kong, the company has already achieved its sales target of HK\$25 bn now after launching Century Link in Tung Chung in January. However, SHKP did not revise the sales target during the interim results. We believe this could be due to: 1) slow China property sales in 1HFY15 at only HK\$2.7 bn and 2) new mortgage tightening measures announced by the HKMA.

With the upcoming launch pipeline in HK including remaining units at The Cullinan as well as the Ho Man Tin project, we believe sales contribution in HK can fill the gap even if China property sales remain weak and the overall sales target of HK\$32 bn is achievable.

Table 2: Potential upcoming launches in Hong Kong

Project	Location	SHKP's stake	GFA (sf)	No. of units
The Cullinan (remaining units)	West Kowloon	100%	210,000	129
Ho Man Tin Ph1	Ho Man Tin	100%	401,000	256
Yuen Long TL 507 Ph1	Yuen Long	100%	801,000	1,100
Tseung Kwan O TL 118	Tseung Kwan O	100%	483,000	630
Acappella Ph1, Sha Po	Yuen Long	100%	700,000	1,027
<b>Total</b>			<b>2,595,000</b>	<b>3,142</b>

Source: Company data, HKET, J.P. Morgan estimates.

SHKP highlighted that it will proactively and selectively seek opportunities for non-core asset disposals. We believe car parking spaces and non-core retail properties could be some possible options. In fact, the company has already disposed of some parking spaces at its JV project, The Belcher's, in 2H14 where some were priced at HK\$2.9-3.3 mn. It has also attempted to put some of its non-core retail properties up for sale previously, according to HKET.

## The most active land buyer in Hong Kong

SHKP has been very active in replenishing its landbank in Hong Kong since 2014. We estimate that the company has acquired a total of 5.6 mn sf for some HK\$12 bn (HK\$2,118 psf on average) to provide over 7,100 units. This is 38% of the government's annual supply target of 18,800 units. Including the newly acquired Tin Wing Light Rail Station site, SHKP's landbank under development will be about 21.8 mn sf. This is sufficient for development for the next five years at least, in our view. That said, we believe the company will continue to look for opportunities to further replenish landbank in HK given its strong property sales.

Table 3: Land acquisitions in Hong Kong since 2014

Projects	Location	Total GFA (sqf)	Est. No. of units	Land sale date	Price (HK\$m)	Price (HK\$psf)	Remarks
TMTL 509, Leung Tak Street, Area 2	Tuen Mun	167,260	290	Feb-14	430	2,571	
STTL 581, Whitehead, Ma On Shan	Ma On Shan	430,556	538	Mar-14	1,826	4,241	
TSWTL 33, Tin Shui Wai Area 112	Tin Shui Wai	1,219,012	1,330	Jul-14	2,221	1,822	
TSWTL 34, Tin Shui Wai Area 115	Tin Shui Wai	1,039,793	1,140	Jul-14	1,968	1,893	
TMTL 515 at King Sau Lane, Area 4, Tuen Mun	Tuen Mun	475,678	735	Nov-14	1,051	2,209	
Lohas Park Ph4 (MTRC)	Tseung Kwan O	1,316,459	1,600	Apr-14	2,710	2,059	
Tin Wing Light Rail Station (MTRC)	Tin Shui Wai	982,280	1,500	Feb-15	1,719	1,750	Estimated land cost
<b>Total</b>		<b>5,631,037</b>	<b>7,133</b>		<b>11,925</b>	<b>2,118</b>	

Source: HKET, Lands Department, J.P. Morgan estimates.

SHKP will continue to focus on HK and China property markets. As we expected, it will adopt a high asset turnover model in HK with over 3 mn sf of residential properties per annum to be completed in FY16 and FY17. The rising production volume should help maintain its ROE going forward. The company will pursue profit margin for luxury projects and volume for mass-end projects.

### Strong appetite for more land acquisitions

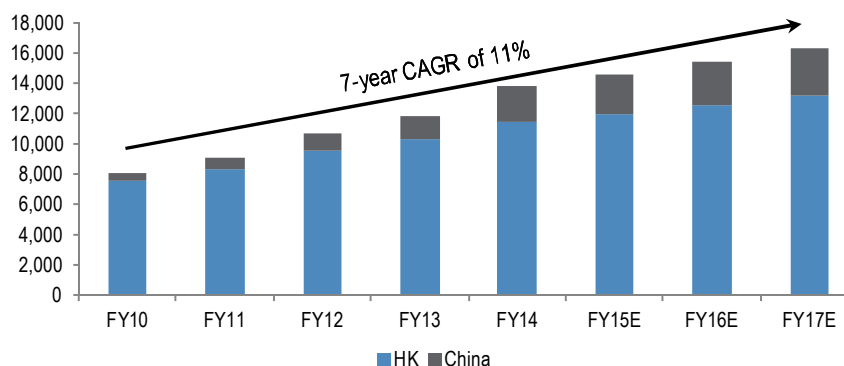
Since the issue of bonus warrants last year, SHKP received about HK\$10 bn from the exercise of warrants and expects to receive another HK\$12.2 bn over the next 14 months when the remaining warrants are fully exercised. Together with the strong property sales, net gearing levels were lowered to 13.8% in December 2014.

That said, the company expects to continue replenishing its landbank in HK and the Xujiahui development in Shanghai will also take up capital. It will maintain its dividend policy with a 40-50% payout ratio.

### Rental growth momentum stays intact

Net rental income (including associates and JCEs) grew 8% Y/Y to HK\$7.4 bn. In particular, China showed a 14% Y/Y increase to HK\$1.6 bn, accounting for 16% of overall rental income. According to SHKP, office and retail properties in HK recorded rental reversion of some 20-25% upon renewal and tenant sales growth at its major malls in Hong Kong outperformed the market during the reporting period.

Figure 1: Net rental income for HK and China (HK\$ mn)



Source: J.P. Morgan estimates, Company data

Despite the solid rental growth, SHKP is active in maintaining the competitiveness of its investment properties. The asset enhancement at MOKO (formerly Grand Century Place) at Mongkok is close to completion and over 90% of tenants opened for business. The company also plans to renovate Metroplaza in Kwai Fong.

Other than asset enhancement, the upcoming new investment properties will also contribute to rental growth. They include YOHO Midtown in Yuen Long and PopWalk in Tseung Kwan O in HK as well as Parc Central and mall at Tianhui Plaza in Guangzhou. Overall, there will be over 1 mn sf of retail space commencing operations before end-2016. We expect all these will help maintain solid rental growth momentum in the next two to three years.

Table 4: Investment property pipeline for the next two years

Project	Location	Type	SHKP's stake (%)	Attr. GFA (sf)	Remarks
<b>Hong Kong</b>					
YOHO Mall	Yuen Long	Retail	100%	471,000	250,000 sf to be opened first in late 2015; remaining by early 2017
PopWalk	Tseung Kwan O	Retail	100%	66,000	Retail podium of The Wings II to opened in early 2016; others for Wings IIIA & IIIB in the pipeline
<b>Sub-total</b>				<b>537,000</b>	
<b>China</b>					
Two ICC	Shanghai	Office	100%	630,000	Pre-leasing underway
Parc Central	Guangzhou	Retail	50%	431,000	To be opened in late 2015
Mall at Tianhui Plaza	Guangzhou	Retail	33%	332,000	To be opened in 2016
<b>Sub-total</b>				<b>1,393,000</b>	
<b>Total</b>				<b>1,930,000</b>	

Source: Company data, J.P. Morgan.

## Earnings and NAV changes

Despite lower contribution from China property sales, the FY15E earnings estimate remains unchanged as it is offset by higher contributions from HK. Our FY16 earnings estimate is adjusted up by 5% in light of the revised selling price and sales progress assumptions.

Dec-15 NAV is revised down slightly by 2% mainly due to the exercise of bonus warrants and change in net debt position. Our Dec-15 price target therefore edged down slightly to HK\$134.

Table 5: Summary of changes to earnings and NAV estimates

	FY15E	FY16E	FY17E
<b>Revenue (HK\$mn)</b>			
Old	71,786	87,846	n/a
New	69,998	90,097	100,321
% change	-2%	3%	n/a
<b>Core net profit (HK\$mn)</b>			
Old	22,156	22,908	n/a
New	22,145	24,092	24,587
% change	0%	5%	n/a
<b>Core EPS (HK\$)</b>			
Old	8.13	8.41	n/a
New	7.98	8.52	8.70
% change	-2%	1%	n/a
<b>DPS (HK\$)</b>			
Old	3.35	3.35	n/a
New	3.35	3.35	3.35
% change	0%	0%	n/a
<b>NAV (HK\$)</b>			
Old	185.4		
New	183.3		
% change	-1.2%		

Source: J.P. Morgan estimates.

## Investment Thesis, Valuation and Risks

### Sun Hung Kai Properties (*Overweight; Price Target: HK\$134.00*)

#### Investment Thesis

We believe one of the hidden jewels of SHKP is its strong rental income momentum. By the time SHKP further completes its new shopping malls in Hong Kong and China, we believe the market perception that SHKP is a developer more than a landlord will start to change. Strong rental momentum should allow the company to sustain a better valuation than its peers, in our view. On the other hand, increasing market share in the HK residential market can drive faster asset turnover and help maintain its ROE going forward.

#### Valuation

Our Dec-15 PT is based on a 27% discount to Dec-15 NAV, which is 0.5 SD below the long-term average.

	Dec-15		% of
	HK\$MM	HK\$/sh	GAV
<b>Hong Kong properties</b>			
Agricultural Land	6,500	2.3	1.1%
<b>Property under development</b>			
Lux Residential	58,131	20.6	9.9%
Mass Residential	49,453	17.5	8.4%
Retail	0	0.0	0.0%
Office	3,076	1.1	0.5%
Ind/others	0	0.0	0.0%
	<b>110,660</b>	<b>39.2</b>	<b>18.8%</b>
<b>Property investment</b>			
Lux Residential	23,749	8.4	4.0%
Office	83,000	29.4	14.1%
Retail	136,793	48.4	23.3%
Industrial	5,386	1.9	0.9%
Office under development	2,045	0.7	0.3%
Retail under development	9,722	3.4	1.7%
Ind/others under development	321	0.1	0.1%
Car Park	7,068	2.5	1.2%
	<b>268,085</b>	<b>94.9</b>	<b>45.6%</b>
Hotel	25,367	9.0	4.3%
<b>HK Properties total</b>	<b>410,612</b>	<b>145.3</b>	<b>70%</b>
<b>China properties</b>			
Development property	49,963	17.7	8.5%
<b>Property investment</b>			
Lux Residential	3,802	1.3	0.6%
Office	32,578	11.5	5.5%
Retail	54,128	19.2	9.2%
	<b>90,509</b>	<b>32.0</b>	<b>15.4%</b>
Hotel	1,477	0.5	0.3%
<b>China properties total</b>	<b>141,949</b>	<b>50.2</b>	<b>24%</b>
<b>Singapore properties</b>			
ION Orchard (Retail)	5,289	1.9	0.9%
<b>Singapore properties total</b>	<b>5,289</b>	<b>1.9</b>	<b>0.9%</b>
<b>Listed investments</b>			
Transport Intl (62 HK)	2,456	0.9	0.4%
SmarTone (315 HK)	10,675	3.8	1.8%
Sunevision (8008 HK)	4,539	1.6	0.8%
Other financial assets	4,080	1.4	0.7%
Loan receivables	801	0.3	0.1%
<b>Listed investment total</b>	<b>22,551</b>	<b>8.0</b>	<b>3.8%</b>
<b>Other business (7x P/E blended)</b>	<b>7,000</b>	<b>2.5</b>	<b>1.2%</b>
<b>Gross Asset Value</b>	<b>587,401</b>	<b>207.8</b>	<b>100%</b>
Net Debt	(55,502)	(19.6)	
Associated debt	(13,920)	(4.9)	
<b>NAV</b>	<b>517,979</b>	<b>183</b>	
Number of shares (MM)	2,826		
<b>NAV per share</b>	<b>183</b>		

Source: J.P. Morgan estimates

### Risks to Rating and Price Target

Downside risks to our rating and price target include a slowdown of rental growth off a higher base, a sudden drop in decentralized retail rentals and a slowdown in property sales in HK.



## Sun Hung Kai Properties: Summary of Financials

Income Statement					Cash flow statement				
HK\$ in millions, year end Jun	FY14	FY15E	FY16E	FY17E	HK\$ in millions, year end Jun	FY14	FY15E	FY16E	FY17E
Revenues	75,100	69,998	90,097	100,321	EBIT	25,715	27,271	28,413	28,285
% change Y/Y	39.6%	(6.8%)	28.7%	11.3%	Depr. & amortization	1,878	1,878	1,878	1,878
EBIT	25,715	27,271	28,413	28,285	Change in working capital	(3,286)	1,200	1,200	1,200
% change Y/Y	23.2%	6.1%	4.2%	(0.5%)	Others	511	606	(554)	(1,066)
EBIT Margin	34.2%	39.0%	31.5%	28.2%	Cash flow from operations	20,518	25,829	26,616	26,598
Net Interest	(2,050)	(2,243)	(2,298)	(2,390)	Capex	(36,859)	(10,000)	(10,000)	(10,000)
Earnings before tax	26,644	27,752	29,391	29,625	Disposal/(purchase)	-	-	-	-
% change Y/Y	20.3%	4.2%	5.9%	0.8%	Net Interest	(2,267)	(2,909)	(2,981)	(3,100)
Tax	(4,562)	(4,472)	(4,652)	(4,318)	Free cash flow	(13,611)	17,710	18,550	18,640
as % of EBT	17.1%	16.1%	15.8%	14.6%	Equity raised/(repaid)	34	0	0	0
Net income (reported)	21,415	22,145	24,092	24,587	Debt raised/(repaid)	19,787	(5,000)	(2,000)	(2,000)
% change Y/Y	15.0%	3.4%	8.8%	2.1%	Other	625	0	0	0
Core net profit	21,415	22,145	24,092	24,587	Dividends paid	(4,331)	(9,298)	(9,468)	(9,468)
% change Y/Y	15.0%	3.4%	8.8%	2.1%	Beginning cash	13,989	16,991	17,522	21,669
Shares outstanding	2,725	2,826	2,826	2,826	Ending cash	16,991	17,522	21,669	25,800
EPS (reported) (HK\$)	7.95	7.98	8.52	8.70	DPS (HK\$)	3.35	3.35	3.35	3.35
% change Y/Y	12.8%	0.3%	6.8%	2.1%					
Core EPS (HK\$)	7.95	7.98	8.52	8.70					
% change Y/Y	12.8%	0.3%	6.8%	2.1%					
Balance sheet					Ratio Analysis				
HK\$ in millions, year end Jun	FY14	FY15E	FY16E	FY17E	% , year end Jun	FY14	FY15E	FY16E	FY17E
Cash and cash equivalents	18,528	19,059	23,206	27,337	EBIT margin	34.2%	39.0%	31.5%	28.2%
Accounts receivable	23,693	23,693	23,693	23,693	Net margin	28.5%	31.6%	26.7%	24.5%
Inventories	149,409	149,409	149,409	149,409	SG&A/Sales	-	-	-	-
Others	0	0	0	0	Sales per share growth	36.9%	(9.6%)	26.4%	11.3%
Current assets	192,377	192,908	197,055	201,186	Sales growth	39.6%	(6.8%)	28.7%	11.3%
LT investments	-	-	-	-	Net profit growth	15.0%	3.4%	8.8%	2.1%
Net fixed assets	307,555	336,990	346,990	356,990	EPS growth	12.8%	0.3%	6.8%	2.1%
Total Assets	557,048	590,793	608,879	627,115	Interest coverage (x)	13.5	13.0	13.2	12.6
Liabilities					Net debt to total capital	13.4%	11.7%	10.2%	8.8%
ST loans	9,241	9,241	9,241	9,241	Net debt to equity	15.5%	13.2%	11.4%	9.7%
Payables	30,821	32,021	33,221	34,421	Sales/assets	0.1	0.1	0.2	0.2
Others	6,493	13,276	13,276	13,276	Assets/equity	1.3	1.3	1.3	1.3
Total current liabilities	46,555	54,538	55,738	56,938	ROE	5.3%	5.1%	5.3%	5.2%
Long-term debt	74,490	69,490	67,490	65,490	ROCE	4.5%	4.5%	4.5%	4.4%
Other liabilities	16,314	16,314	16,314	16,314					
Total Liabilities	137,359	140,342	139,542	138,742					
Shareholder's equity	414,783	445,545	464,431	483,467					
BVPS	152.21	157.65	164.33	171.07					

Source: Company reports and J.P. Morgan estimates.

**JPM Q-Profile**  
**Sun Hung Kai Properties Limited (HONG KONG / Financials)**  
 As Of: 20-Feb-2015

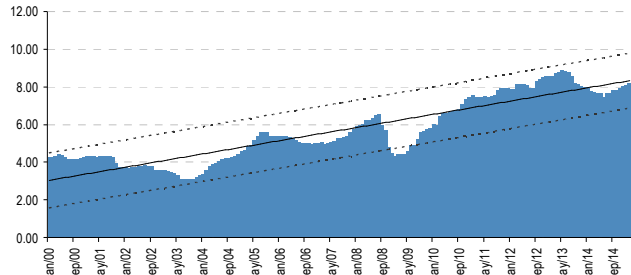
**Global Equity Quantitative Analysis**

Quant\_Strategy@jpmorgan.com

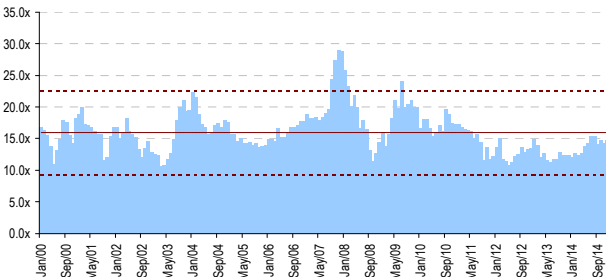
**Local Share Price** **Current: 123.30**



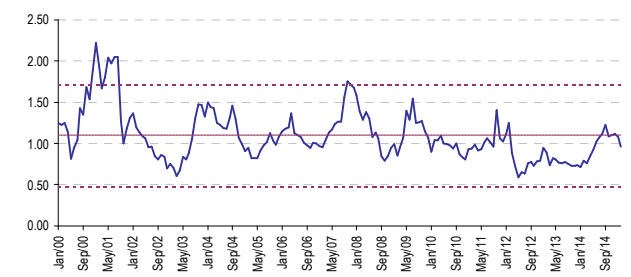
**12 Mth Forward EPS** **Current: 8.17**



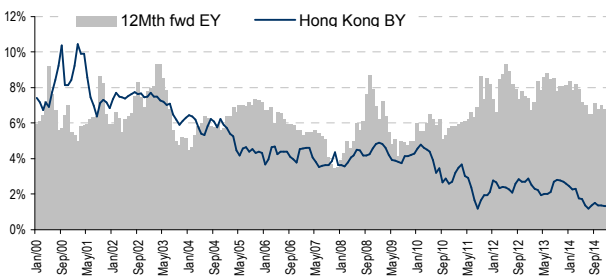
**PE (1Yr Forward)** **Current: 15.1x**



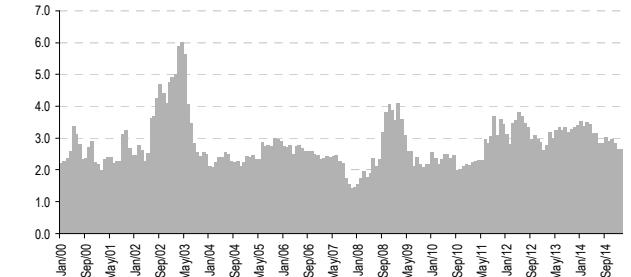
**P/E Relative to Hong Kong Index** **Current: 0.96**



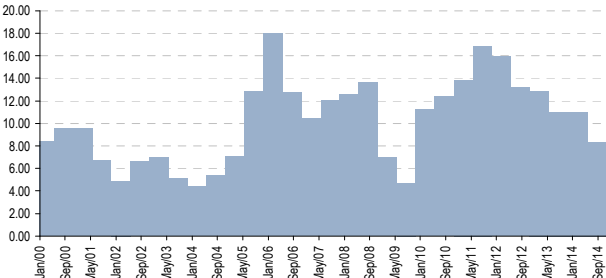
**Earnings Yield (& Local Bond Yield)** **Current: 7%**



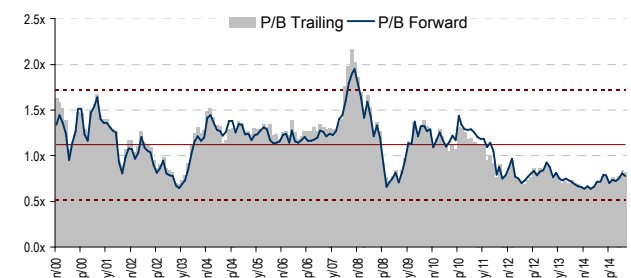
**Dividend Yield (Trailing)** **Current: 2.65**



**ROE (Trailing)** **Current: 8.37**



**Price/Book (Value)** **Current: 0.8x**



**Summary**

<b>Sun Hung Kai Properties Limited</b>						<b>As Of:</b> 20-Feb-15					
<b>HONG KONG</b>						<b>Local Price:</b> 123.30					
<b>FINANCIALS</b>						<b>EPS:</b> 8.17					
	<b>Latest</b>	<b>Min</b>	<b>Max</b>	<b>Median</b>	<b>Average</b>	<b>2 S.D.+</b>	<b>2 S.D. -</b>	<b>% to Min</b>	<b>% to Max</b>	<b>% to Med</b>	<b>% to Avg</b>
12mth Forward PE	15.08x	10.74	28.95	15.67	16.00	22.68	9.31	-29%	92%	4%	6%
P/BV (Trailing)	0.81	0.64	2.17	1.17	1.12	1.72	0.52	-21%	167%	45%	39%
Dividend Yield (Trailing)	2.65x	1.43	6.01	2.61	2.82	4.33	1.30	-46%	127%	-2%	6%
ROE (Trailing)	8.37	4.45	18.01	10.44	10.16	17.57	2.75	-47%	115%	25%	21%

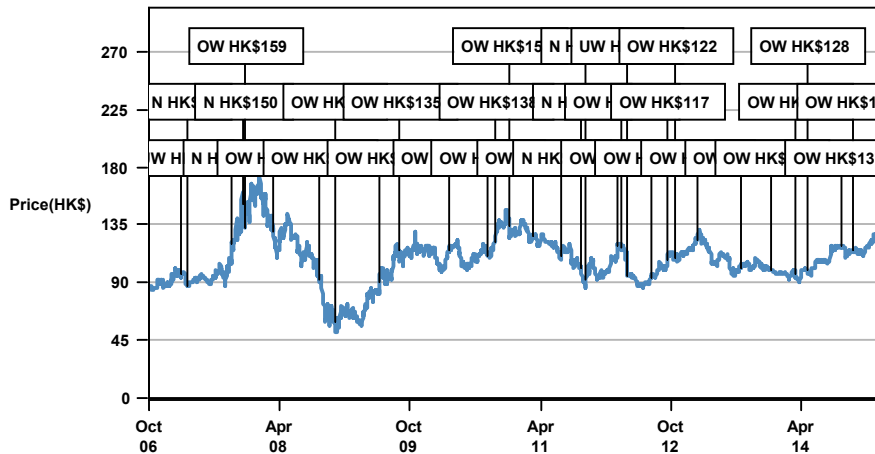
Source: Bloomberg, Reuters Global Fundamentals, IBES CONSENSUS, JPMorgan Quantitative & Derivative Strategy

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Sun Hung Kai Properties (0016.HK, 16 HK) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.  
Initiated coverage Feb 16, 2007.

Date	Rating	Share Price (HK\$)	Price Target (HK\$)
16-Feb-07	UW	97.25	98.00
08-Mar-07	N	87.10	97.00
13-Sep-07	N	119.40	130.00
30-Oct-07	N	150.50	150.00
07-Nov-07	OW	132.80	159.00
06-Mar-08	OW	130.10	153.00
12-Sep-08	OW	91.30	120.00
17-Nov-08	OW	58.80	70.00
26-May-09	OW	90.90	96.00
12-Aug-09	OW	114.80	135.00
12-Mar-10	OW	116.10	140.00
16-Aug-10	OW	110.00	126.00
21-Sep-10	OW	122.10	138.00
21-Nov-10	OW	134.20	155.00
01-Mar-11	OW	125.80	154.00
26-Jun-11	N	111.30	114.00
16-Sep-11	N	100.90	106.00
07-Oct-11	N	92.30	99.00
16-Feb-12	OW	118.70	135.00
29-Feb-12	OW	117.40	138.00
02-Apr-12	UW	94.40	100.00
10-Jul-12	OW	92.85	109.00
14-Sep-12	OW	107.10	117.00
16-Oct-12	OW	109.00	122.00
17-Jan-13	OW	123.30	131.00
22-Jul-13	OW	102.10	128.00
26-Nov-13	OW	99.05	111.00
03-Mar-14	OW	96.65	113.00
22-Apr-14	OW	99.70	128.00
15-Sep-14	OW	117.90	137.00
30-Oct-14	OW	115.40	135.00

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IB clients*	56%	49%	33%
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IB clients*	75%	67%	52%

\*Percentage of investment banking clients in each rating category.

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