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EAST ASIA SECURITIES COMPANY LIMITED
9/F, 10 Des Voeux Road Central, Hong Kong.
Dealing: 2308 8200 Research: 3608 8096 Facsimile: 3608 6113

HONG KONG RESEARCH

Analyst: Carmen Wong

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SUN HUNG KAI PROPERTIES LIMITED (新鴻基地產)

Sector	:	Property developer
HKSE Code	:	00016
HSI	:	24,702.78 (03/03/2015)
Market Price	:	HK$122.30 (03/03/2015)
Shares Issued	:	2,834.86 million
Mkt. Cap.	:	HK$346,703 million
52 weeks Hi/ Lo	:	HK$129.40 / HK$90.35

Chairmen & Managing Director : Kwok Ping-luen, Raymond

SUMMARY OF THE INTERIM RESULTS FOR THE SIX MONTHS ENDED 31ST DECEMBER 2014

Interim Results Highlights

	1HFY15 HK$ million	1HFY14 HK$ million	*y-o-y Change*
• Turnover	32,093	32,506	*(1.3%)*
• Operating profit before change in fair value of investment properties	10,446	12,502	*(16.4%)*
• Increase in fair value of investment properties	6,934	8,689	*(20.2%)*
• Share of results of associates and jointly-controlled entities	2,529	3,071	*(17.6%)*
• Increase in fair value of investment properties held by associates and jointly controlled entities	1,422	1,355	*4.9%*
• **Net profit**	**15,696**	**19,027**	***(17.5%)***
• **Underlying net profit (excluding fair value changes on investment properties net of deferred tax)**	**8,463**	**10,644**	***(20.5%)***
	HK$	HK$	
• Earnings per share – Basic	5.71	7.12	*(19.8%)*
• Underlying earnings per share	3.08	3.98	*(22.6%)*
• Dividend per share – Interim	0.95	0.95	*Unchanged*

- Sun Hung Kai Properties ("SHKP" or the "Group") reported a net profit of HK$15.70 billion for the six months ended 31st December 2014, a decrease of 17.5% from a year ago. Excluding revaluation gain on investment properties (net of deferred tax), its underlying profit declined 20.5% year-on-year to HK$8.46 billion, missing market estimates on lower-than-expected development profit from China.

- Turnover edged down by 1.3% year-on-year to HK$32.09 billion, dragged by weak property sales in Hong Kong and China. Earnings per share were HK$5.71 per share, down 19.8% year-on-year.

- Its financial position remained robust. As at 31st December 2014, net debt to equity ratio slipped from 15.7% as at 30th June 2014 to 13.8%, with net debt down from HK$65.2 billion as of June 2014 to HK$59.7 billion as of December 2014.

- Despite a drop in profitability, the Group proposed a flattish interim dividend of HK$0.95 per share, same as that for 1HFY14. Payout ratio improved from 13.3% in 1HFY14 to 16.6% in 1HFY15 accordingly.

- In 1HFY15, SHKP added 3 new sites in Hong Kong, contributing attributable gross floor area (GFA) of 2.735 million square feet (1HFY14: 1.11 million square feet). At end of December 2014, its total land bank in Hong Kong reached 49.5 million square feet (at end of June 2014: 46.9 million square feet), in addition to over 27 million square feet of agricultural land. In China, attributable land bank totalled 81.6 million square feet, compared to 84.3 million square feet at end of June 2014.

Business Highlights

Breakdown of turnover by activities (including associates and jointly controlled entities)

HK$ million	**1HFY15**	**%**	**1HFY14**	**%**	***y-o-y Change***
Property sales					
Hong Kong	5,359	14.4%	6,491	17.1%	*(17.4%)*
Mainland China	4,227	11.4%	7,189	19.0%	*(41.2%)*
	9,586	25.8%	13,680	36.1%	*(29.9%)*
Rental income					
Hong Kong	7,655	20.6%	7,198	19.0%	*6.3%*
Mainland China	1,631	4.4%	1,537	4.1%	*6.1%*
Singapore	349	0.9%	343	0.9%	*1.7%*
	9,635	25.9%	9,078	23.9%	*6.1%*
Hotel operation	2,547	6.8%	2,339	6.2%	*8.9%*
Telecommunications	8,673	23.3%	6,531	17.2%	*32.8%*
Other businesses	6,769	18.2%	6,290	16.6%	*7.6%*
Total	**37,210**	**100.0%**	**37,918**	**100.0%**	*(1.9%)*

Property sales

- Including associates and jointly controlled entities, revenue from Hong Kong property sales tumbled by 17.4% year-on-year. Major projects booked during 1HFY15 included i) One Harbour Square in Kwun Tong, ii) Deauville in Tsuen Wan West, iii) Mount One in Fanling and iv) Twelve Peaks in the Mid-Levels. Additionally, development margin contracted by 15.7 percentage points year-on-year to 31.6% in 1HFY15. Nevertheless, SHKP achieved strong contracted sales of around HK$16 billion in 1HFY15, representing 64% of its annual sales target of HK$25 billion for FY2015.
- In China, revenue from property sales (including associates and jointly controlled entities) fell sharply (-41.2%) year-on-year to HK$4,227 million, with development margin down from 35.6% in 1HFY14 to 14.1%. Major projects booked included i) Shanghai Arch Phase 1, ii) Forest Hills Phase 1A in Guangzhou and iii) Park Royale Phase 1A and 1B in Guangzhou. SHKP achieved contracted sales of about HK$2.7 billion in attributable terms in 1HFY15, against its FY2015 sales target of HK$7.0 billion. Major projects sold included i) Shanghai Arch Phase 1, ii) Oriental Bund in Foshan and iii) Shanghai Cullinan project.

Property investment

- Revenue from property investment in Hong Kong grew steadily by 6.3% year-on-year to HK$7,655 million, driven by positive rental reversions and higher rents for new leases. In particular, gross rental income of retail portfolio and office portfolio climbed by 6.7% and 5.7% year-on-year respectively. Overall occupancy rate stayed high at 95%, same as that at end of June 2014.
- In China, revenue from property investment projects increased by 6.1% year-on-year to HK$1,631 million in 1HFY15, on the back of positive rental reversions with high occupancy.

Hotel operations

- Although some of its hotels were negatively affected by the Occupy Movement in 4Q14, its hotel operations still showed solid revenue growth of 8.9% year-on-year to HK$2,547 million, thanks to stable average room rates and high occupancy during 1HFY15.

Telecommunications

- Revenue of SmarTone (315.HK) surged by 32.8% year-on-year to HK$8,673 million in 1HFY15, driven by higher handset and accessary sales (+58% year-on-year). Net profit increased by 50% from a year ago to HK$466 million.

Outlook & Prospects

- ***Strong contracted sales in Hong Kong beating annual sales target***. SHKP achieved contracted sales of HK$9 billion during the first 2 months of 2HFY15. Together with the contracted sales recorded in 1HFY15, total contracted sales reached HK$25 billion, beating its sales target for the full financial year. Nevertheless, Management maintained its contracted sales target of HK$32 billion for both Hong Kong and China in FY2015. Its upcoming launches in Hong Kong will include a variety of projects, targeting luxury as well as mass market segments, such as i) The Cullinan in West Kowloon, ii) Ho Man Tin Phase 1, iii) Yuen Long Town project and iv) Tsueng Kwan O Town Lot No. 118 project.
- ***Property sales in China may gradually see improvement***. Management expected property sales in China would see improvement in 2015, backed by the relaxation on mortgages and home buyer restrictions as well as the recent monetary easing measures. Major upcoming launches include i) Guangzhou Commerce Centre, ii) Oriental Bund in Foshan and iii) Shanghai Cullinan project.
- ***Solid rental income growth from investment properties.*** Rental income growth in Hong Kong will continue to be driven by positive rental reversions and contribution from new retail projects. New retail projects in the pipeline include i) YOHO Midtown mall in Yuen Long (to be opened in late 2015), ii) PopWalk in Tseung Kwan O (in early 2016), iii) a waterfront retail project in North Point and iv) a new shopping mall at Nam Cheong Station.

  In China, the Group will continue to see solid rental income growth, on the back of its strong market presence in Shanghai as well as contribution from new investment properties. Upcoming projects in the pipeline include i) Shanghai Two ICC offices (to be completed in 2015), ii) Parc Central in Guangzhou (in 2015), iii) Tianhui Plaza in Guangzhou (in 2016) and iv) the large-scale Xujiahui Centre in Shanghai (in 2017).
- ***Valuation***: SHKP shares are trading at an attractive valuation of 0.79x FY2015E P/B (versus historical average of 1.2x) and 39% discount to FY2015E NAV (versus historical average of 18%). In view of i) its attractive valuation, ii) the removal of overhang after the court cases of the Group and iii) strong contracted sales in Hong Kong, we recommend “Buy” on SHKP.

Recommendation: Buy

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