

Analyst: Carmen Wong

**CHEUNG KONG (HOLDINGS) LIMITED** (長江實業)

Sector	: Property developer	Chairman	: Dr. Li Ka-shing
HKSE Code	: 00001	Managing Director and Deputy Chairman	: Li Tzar Kuoi, Victor
Market Price	: HK\$156.40 (02/03/2015)		
HSI	: 24,887.44 (02/03/2015)		
Shares Issued	: 2,316.16 million		
Mkt. Cap.	: HK\$362,248 million		
52 weeks Hi/ Lo	: HK\$156.40/ HK\$112.395		

**SUMMARY OF THE FINAL RESULTS FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER 2014**
**Final Results Highlights**

	<b>2014</b>	<b>2013s</b>	<b>y-o-y</b>
	<b>HK\$ million</b>	<b>HK\$ million</b>	<b>Change</b>
• Turnover (including share of property sales of joint ventures)	31,218	32,314	(3.4%)
• Share of profit of jointly controlled entities	4,666	5,771	(19.1%)
• Property revaluation (net of tax)	5,017	1,801	178.6%
• Operating profit	22,257	21,845	1.9%
• Share of net profit of associates	33,670	15,649	115.2%
• <b>Profit attributable to shareholders</b>	<b>53,869</b>	<b>35,260</b>	<b>52.8%</b>
	<u>HK\$</u>	<u>HK\$</u>	
• Earnings per share	23.26	15.22	52.8%
• Dividend per share – Final	3.016	2.9	4.0%
• Dividend per share – Full year	3.654	3.48	5.0%
• Dividend per share – Special	7.00	--	N/A

- Cheung Kong (“CK” or the “Group”) reported a 52.8% year-on-year increase in net profit to HK\$53.87 billion for the year ended 31<sup>st</sup> December 2014, mainly attributable to the share of disposal gain of HK\$8.02 billion from the separate listing of its Hong Kong electricity business, Power Assets, in January 2014.
- Stripping out the share of results of Hutchison Whampoa, the Group’s net profit slightly increased by 3.1% year-on-year to HK\$20.32 billion. Further excluding revaluation gains of investment properties (+178.6% year-on-year), underlying net profit was down 14.6% year-on-year to HK\$15.30 billion, below consensus estimates primarily due to fewer bookings of property projects in China.
- Earnings per share surged by 52.8% year-on-year to HK\$23.26. CK proposed a final dividend of HK\$3.016 per share (+4.0% year-on-year). Together with an interim dividend of HK\$0.638 per share (+10.0% year-on-year), its full-year dividend totalled HK\$3.654 per share, representing a payout ratio of 15.7% (2013: 22.9%). In addition, the Group distributed a special dividend of HK\$7.00 per share (2013: nil) amid its disposal of 24.95% equity interest in A.S. Watson Holdings Limited to Temasek in April 2014.

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- As at 31<sup>st</sup> December 2014, total borrowings of the Group amounted to HK\$37.9 billion, a decrease of HK\$4.0 billion from the end of 2013. Net debt to net total capital ratio was 1.1%, against 2.3% as at 31<sup>st</sup> December 2013.

**Breakdown of turnover**

(HK\$ million)	2014	%	2013	%	y-o-y Change
Property sales	19,389	62.1%	12,288	38.0%	57.8%
Property rental	1,908	6.1%	1,960	6.1%	(2.7%)
Hotel and serviced suites	2,213	7.1%	2,368	7.3%	(6.5%)
Property and project management	528	1.7%	397	1.2%	33.0%
Aircraft leasing	221	0.7%	0	0.0%	N/A
Group turnover	24,259	77.7%	17,013	52.6%	42.6%
Share of property sales of JVs	6,959	22.3%	15,301	47.4%	(54.5%)
Total turnover	<b>31,218</b>	<b>100.0%</b>	<b>32,314</b>	<b>100.0%</b>	(3.4%)

**Breakdown of operating profits (including share of results of jointly controlled entities)**

(HK\$ million)	2014	%	2013	%	y-o-y Change
Property sales	8,436	60.0%	10,184	66.3%	(17.2%)
Property rental	2,050	14.6%	2,112	13.8%	(2.9%)
Hotel and serviced suites	1,221	8.7%	1,273	8.3%	(4.1%)
Property and project management	214	1.5%	182	1.2%	17.6%
Infrastructure business	1,798	12.8%	1,602	10.4%	12.2%
Aircraft leasing	334	2.4%	0	0.0%	N/A
Total	<b>14,053</b>	<b>100.0%</b>	<b>15,353</b>	<b>100.0%</b>	(8.5%)

**Business Highlights****Properties sales**

- Turnover from property sales, including share of property sales from jointly ventures, declined 4.5% year-on-year to HK\$26,348 million, dragged by lower property sales from its joint ventures (-54.5% year-on-year). Property sales mainly comprised of completed residential units in Hong Kong and China including The Beaumont in Tseung Kwan O, One West Kowloon in Lai Chi Kok, Mont Vert Phase I in Taipo as well as Regency Garden Phases 2B and 4 in Shanghai. Development margin contracted by 4.9 percentage points year-on-year to 32.0% in 2014 due to rising construction costs and labour wages.
- For the year ended 31<sup>st</sup> December 2014, CK achieved strong contracted sales of HK\$23 billion (2013: HK\$4.7 billion) in Hong Kong. Meanwhile, contracted sales in China plunged by 51.2% year-on-year to HK\$16 billion in 2014, as the Group delayed the delivery of some of its projects.

**Properties rentals**

- Turnover of property rental dropped 2.7% from a year ago, following the disposal of Kingswood Ginza shopping mall to Fortune Real Estate Investment Trust in the second half of 2013. Operating profit (excluding the share of results of jointly controlled entities) declined by 2.9% year-on-year to HK\$2,050 million. Nonetheless, rental margin continued to stay high at 91.7% in 2014, against 91.3% in 2013.

**Hotel operation**

- Due to fewer overnight Mainland visitors and less spending due to the anti-corruption movement and slower economic growth in China, the tourist industry in Hong Kong has been adversely impacted. Turnover of the Group's hotel operation slipped 6.5% year-on-year to HK\$2,213 million.

Hutchison Whampoa

- Hutchison Whampoa Group, a listed associate of CK, reported a 115.9% year-on-year increase in profit attributable to shareholders for the year ended 31<sup>st</sup> December 2014. Stripping out the after-tax profits of investment property revaluation and disposal of investments, underlying profit attributable to shareholders rose 3.2% year-on-year in 2014.

Outlook & Prospects

- **Solid residential sales pipeline in Hong Kong in 2015.** CK plans to launch a number of residential projects in Hong Kong, providing over 5,000 attributable units. Major new development projects include i) Hemera in Tseung Kwan O (attributable units: 1,648), ii) Beaumont 2 in Tseung Kwan O (872 units), iii) a Yuen Long project (1,129 units), iv) Stars by the Harbour in Hung Hom (321 units) and v) Argyle Street project in Hung Hom (228 units). These new projects together with its inventory may fetch up contracted sales up to HK\$35 billion.
- **China property sales to remain under pressure.** Since CK may not have aggressive price cuts as other developers in the market, the Group may further delay the launch of property projects in China. As guided by Management, property sales contributions for 2015 in China will primarily include i) Upper West Shanghai Phase 1B, ii) Hupan Mingdi in Shanghai, iii) La Grande Ville Phase 3 in Beijing and iv) Emerald City Phases 1 and 2 in Nanjing.
- **Restructuring plan to serve as positive catalyst in the medium term.** CK and Hutchison Whampoa (HWL) will undergo a restructuring plan, at which the former will cease to be the holding company of HWL. Instead, two new companies, namely CK Hutchison Holdings (the new conglomerate company taking over all non-property businesses) and Cheung Kong Property (focusing on the property businesses of both CK and HWL) will be formed. The reorganization is expected to be completed by June 2015 and is seen to be beneficial to CK and HWL, as the restructuring can eliminate the holding company discount as well as provide greater transparency and business coherence. In particular, upon completion of the restructuring, Cheung Kong Property will combine all the property businesses currently held by Cheng Kong and Hutchison, which will strengthen its leading market position and further diversify its portfolio geographically.
- **Mild impact on primary market from the recent tightening measures in Hong Kong.** On 27<sup>th</sup> February 2015, the Hong Kong Monetary Authority announced two new mortgage tightening measures, which included i) lowering the maximum loan-to-value (LTV) ratio for self-use residential properties valued below HK\$ 7 million to 60% (from 60%-70%); ii) lowering the debt servicing ratio of second-time home buyers from the current 50% to 40%; and iii) lowering the maximum LTV ratio under the Mortgage Insurance Programme offered by the Hong Kong Mortgage Corporation Limited by 10 percentage points to 80% (from 90%) unless applicants are first-time buyers for self-use. Nonetheless, the new measures should have relatively mild impact on the primary market, in the light of the pent-up demand and the availability of second mortgages through developers to cover down-payments for the buyers. Hence, La Lumiere project in Hung Hom which is currently launched by the Group has been receiving overwhelming market response.
- **Valuation:** Current valuation of the counter is undemanding, trading at 17.8% discount to 2015E NAV (versus historical average of 15%). In view of its strong balance sheet and positive catalyst from the restructuring plan, we recommend “Buy” for CK. Downside risks include earlier-than-expected interest rate hike, further tightening of government policies and delay in project completions.

**Recommendation: Buy**

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