

Great Eagle

Results higher than forecast due to treasury gain

2014 earnings up 14% YoY; raised its final DPS by 9% YoY

Great Eagle reported its core earnings of HK\$1,919m, up 14% YoY, or HK\$2.93, up 11% YoY. Results came to be 11%/16% higher than consensus/UBSe. We attribute the earnings surprise to the gain in security investments and higher than expected interest income. The company retained its core dividend payout at 25% in FY14 (low-end among HK landlords) and the increase in full year DPS of HK\$0.74, up 12% YoY, which is built on the increase in 2014 EPS.

Plan to invest in SE Asia hotels & HK residential with its net cash of HK\$1.7b

Great Eagle held net cash balance of HK\$1.7b as of end-2014, down from HK\$3b at Jun-2014, which is accounting the two listed subsidiaries on the sharing of their net assets. The company is prepared to make more new hotel investments in SE Asia and HK residential. Management indicated that its existing financial can support investment as much as HK\$6-8b.

Delayed China residential projects in Dalian

The company has to delay the residential portion of its Dalian mixed-used project from completion in 2015 to 2016 due to delay in construction progress and slow selling progress. The company has so far only presold 5-6% of total developable GFA since the presale in September 2013. We have factored in the completion delay in our future earnings forecasts.

Valuation: Currently trading at 50% NAV discount

We reiterate our Sell rating with a PT of HK\$24.0 (from HK\$23.64) that is based on a target discount of 60% to its directly held assets and 55% holding discount of CREIT and LHI. Despite the cheap valuation, we are still concerned about the potential investment risk for the company's future investments. We think investors prefer the company improving its dividend payout, rather than retaining its earnings for potential investments.

Equities

Hong Kong
Real Estate

12-month rating **Sell**

12m price target **HK\$24.00**
Prior: HK\$23.64

Price **HK\$26.95**

RIC: 0041.HK **BBG:** 41 HK

Trading data and key metrics

52-wk range HK\$29.95-25.05

Market cap. HK\$17.7bn/US\$2.28bn

Shares o/s 656m (ORD)

Free float 45%

Avg. daily volume ('000) 367

Avg. daily value (m) HK\$9.6

Common s/h equity (12/15E) HK\$52.7bn

P/BV (12/15E) 0.3x

EPS (UBS, diluted) (HK\$)

	From	To	% ch	Cons.
12/15E	2.54	2.54	-0.28	2.75
12/16E	2.65	2.68	1.15	2.94
12/17E	2.81	2.80	-0.34	-

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Highlights (HK\$m)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Net rental income	1,242	883	778	832	908	928	950	969
EBITDA	2,207	2,124	2,385	2,118	2,205	2,298	2,398	2,520
EPS (UBS, HK\$)	2.86	2.63	2.93	2.54	2.68	2.80	2.91	2.93
DPS (HK\$)	0.66	2.16	0.74	0.74	0.74	0.74	0.74	0.74
BVPS (basic, HK\$)	67.74	78.14	78.94	80.34	81.89	83.55	85.32	87.51
NAV per share (UBS, HK\$)	55.80	57.70	52.09	52.09	52.09	52.09	52.09	52.09
Profitability/valuation	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
PE (UBS)	7.6	11.1	9.3	10.6	10.1	9.6	9.2	9.2
EPS (UBS) yield %	13.1	9.0	10.8	9.4	9.9	10.4	10.8	10.9
Net dividend yield %	3.0	7.4	2.7	2.7	2.7	2.7	2.7	2.7
Prem/(disc) to BVPS %	(67.9)	(62.5)	(65.5)	(66.5)	(67.1)	(67.7)	(68.4)	(69.2)
Prem/(disc) to NAV ps %	(61.0)	(49.2)	(47.7)	(48.3)	(48.3)	(48.3)	(48.3)	(48.3)
EV/EBITDA (UBS) x	12.3	17.4	19.1	18.7	17.3	16.5	15.6	14.9

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of HK\$26.95 on 05 Mar 2015 22:26 HKT

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Investment Thesis

Great Eagle

Investment case

Great Eagle is relatively exposed to global economic activity due to its overseas hotel portfolio. We think Mainland visitors will support its hotels in Hong Kong. We have a Sell rating on Great Eagle due to concern over the investment risk relating to the potential new acquisitions in HK and China post the spinoff of Langham Hospitality. Management indicated that it might gear up to 30-40% on the company level to invest in more development projects. Our PT of HK\$24.0 is based on a target NAV discount of 60% of its directly held assets and 55% holding discount of CREIT and LHI.

Upside scenario

We estimate Champion REIT and Langham Hospitality Investments contribute to a total of 55% of Great Eagle's gross asset value and our upside scenario is HK\$3.58/share. Incorporating the above assumptions and apply a tighter holding company discount of 45% (from 55%), we estimate the valuation could be HK\$28.1/share.

Downside scenario

If global economic recovery is weaker than our expectations, we believe the growth of hotel revenue per available room (RevPar) could be 10% below our expectations. In addition, we incorporate Champion REIT's downside scenario of HK\$2.85/share, the NAV estimate of Great Eagle will be HK\$55.2/share and hence the valuation could fall to HK\$22.0/share

Upcoming catalysts

Latest asking rents and occupancy updates of Citibank Plaza; Mainland China visitor arrivals to Hong Kong; Potential new acquisition of hotel sites in Hong Kong and mixed-use development projects in China.

12-month rating

Sell

12m price target

HK\$24.00

Business description

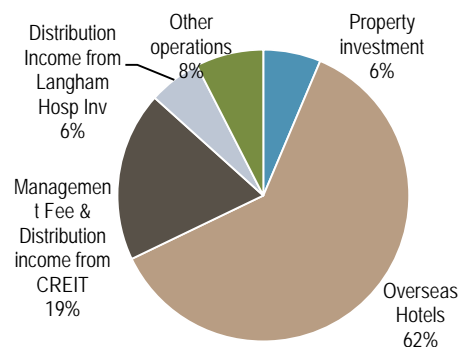
Great Eagle's main businesses are in property investment and development, hotels and property management. Great Eagle directly owns Great Eagle Centre, and holds Citibank Plaza and Langham Place through a majority stake in Champion REIT. Great Eagle also owns three hotels in Hong Kong through Langham Hospitality Investments, and around 4,500 rooms in 10 overseas hotels under the Langham brand.

Industry outlook

Hong Kong office take-up in 2013 has been worse than our expectations due to the lack of demand. That said, we believe the limited new supply in HK offices supported rents and hence significant downside risks for rents from current level are unlikely. We forecast the Central office rental to remain soft and decline by 0-5%, reflecting the potentially tighter HK liquidity and possibly more volatile financial markets after US QE tapering, which may affect tenant demand in Hong Kong, particularly from the financial services sector.

The growth of overnight tourist arrivals to Hong Kong have slowed since 2012 and we believe the growth momentum will continue to moderate. That said, as new hotel supply remains tight in the near term, we expect HK hotel operators could still record mild growth YoY in room rates.

Revenues by business segments (2015E)



Source: UBS estimates

EBIT by product segment

	2013	2014	2015E	2016E	2017E
HK leasing	154	162	162	162	162
US leasing	55	101	95	96	96
Hotels	680	510	561	641	660
Champion REIT	1,033	1,027	948	1,003	1,052
Langham Hospitality	189	306	333	340	363
Others	112	173	206	211	216
Total	2,224	2,280	2,306	2,454	2,549

Source: Company data, UBS estimates

Figure 1: Great Eagle FY14 results analysis

	FY14A HK\$m	FY14E HK\$m	FY13A HK\$m	Actual vs Forecast	YoY
Property investment	417	332	334	26%	25%
HK & Overseas Hotels	3,361	3,210	3,481	5%	-3%
Management Fee & Distribution income from CREIT	1,027	981	1,033	5%	-1%
Distribution Income from Langham Hosp Inv	306	303	189	NA	NA
Other operations	483	393	381	23%	27%
Total Revenue	5,594	5,218	5,419	7%	3%
Property investment	263	213	210	24%	25%
Hotels	515	540	673	-5%	-24%
Management Fee & Distribution income from CREIT	1,027	981	1,033	5%	-1%
Distribution Income from Langham Hosp Inv	306	303	189	NA	NA
Other operations	196	149	145	31%	35%
Total Operating Profit	2,307	2,185	2,249	6%	3%
Other corporate expenses/income	(407)	(281)	(281)	45%	45%
Gain on securities investment and other income	195	-	23	N/A	737%
Depreciation & amortisation (excl. hotel & leasehold land)	(143)	(122)	(122)	17%	17%
Finance costs	(166)	(150)	(126)	11%	32%
Interest income	291	150	132	94%	120%
Share of associates & JV	(27)	(3)	(26)	NA	NA
Profits before tax	2,049	1,780	1,850	15%	11%
Taxation	(127)	(160)	(169)	-21%	-25%
Minority interests	(3)	-	(2)	NA	63%
Underlying net profit	1,919	1,619	1,680	19%	14%
Underlying EPS (HK\$)	2.93	2.53	2.63	16%	11%
Interim DPS (HK\$)	0.27	0.23	0.23	17%	17%
Final DPS (HK\$)	0.47	0.43	0.43	9%	9%
Interim special DPS (HK\$)	0.00	0.00	1.00	NA	NA
Final special DPS (HK\$)	0.00	0.00	0.50	NA	NA
Full-year DPS (HK\$)	0.74	0.66	2.16	12%	-66%
Payout ratio (based on underlying EPS)	25%	26%	82%		

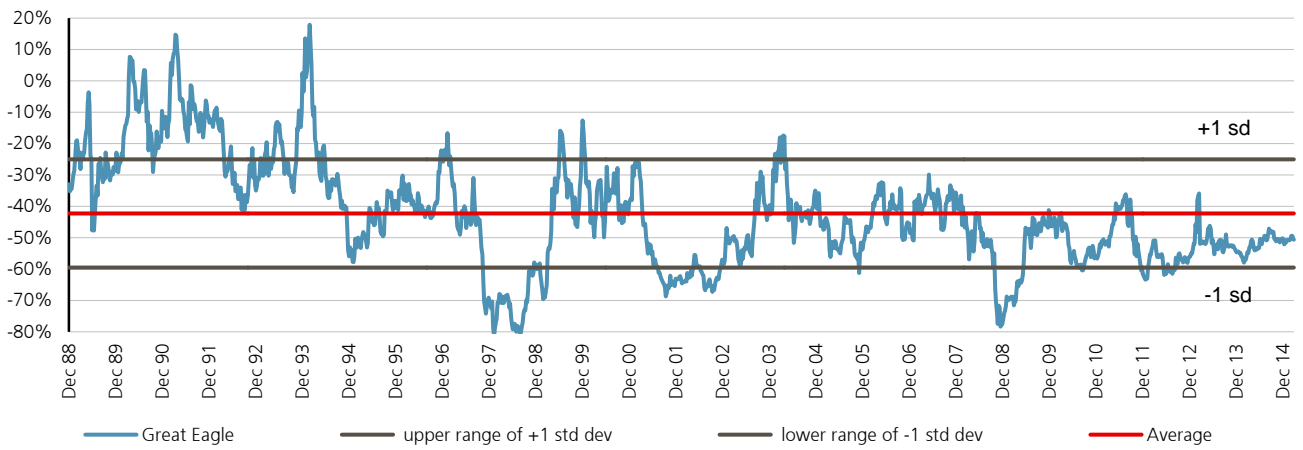
Source: Company data, UBS estimates

Figure 2: Great Eagle's NAV breakdown

	NAV HK\$m	NAV HK\$/sh	% of pre- debt NAV
Investment portfolio			
Hong Kong	3,581	5.5	10%
Retail	616	0.9	2%
Office	2,010	3.1	6%
Residential	955	1.5	3%
US offices	152	0.2	0%
Overseas hotels	4,453	6.8	13%
Development project - Dalian, China	884	1.3	3%
Development project - HK	1,144	1.7	4%
Stakes at Champion REIT	12,965	19.8	37%
Stakes at Langham Hospitality	3,835	5.8	11%
US Office Property Fund with China Orient	1,789	2.7	5%
China Investment Fund with China Orient	778	1.2	2%
Other financial assets	2,032	3.1	6%
Management fee from CREIT (8x EBIT)	2,374	3.6	7%
Management fee from Langham (8x EBIT)	584	0.9	2%
Gross asset value (GAV)	34,572	52.7	100%
Net cash/(debt)	(18,812)	(28.7)	
Less: net cash/(debt) of CREIT	(13,916)	(21.2)	
Less: net cash/(debt) of Langham Hospitality	(5,966)	(9.1)	
Net asset value (NAV)	35,643	54.3	

Source: UBS estimates

Figure 3: Great Eagle's historical discount to NAV chart



Source: Datastream, UBS estimates

Great Eagle (0041.HK)

	12/12	12/13	12/14	12/15E	% ch	12/16E	% ch	12/17E	12/18E	12/19E
Income statement (HK\$m)										
Net rental income	1,242	883	778	832	7.0	908	9.2	928	950	969
Investment income	0	0	0	0	-	0	-	0	0	0
Trading income	0	0	0	0	-	0	-	0	0	0
Associates and other income	1,231	1,497	2,275	1,903	-16.4	1,935	1.7	2,026	2,123	2,193
Total income	2,473	2,379	3,053	2,735	-10.4	2,844	4.0	2,954	3,073	3,161
Interest payable	(108)	(126)	(166)	(183)	-9.8	(164)	10.2	(163)	(171)	(218)
Admin and other	(237)	(281)	(695)	(578)	16.9	(595)	-3.0	(613)	(631)	(650)
Revenue surplus / recurring income	2,128	1,972	2,192	1,975	-9.9	2,085	5.6	2,178	2,271	2,293
Interest capitalised	0	0	0	0	-9.9	0	5.6	0	0	0
Depreciation & amortisation	(135)	(122)	(143)	(151)	5.0	(158)	5.0	(166)	(174)	(183)
Pre-exceptional provisions	0	0	0	0	-	0	-	0	0	0
Profit before tax (UBS)	1,993	1,850	2,049	1,824	-10.9	1,927	5.6	2,012	2,096	2,110
Exceptionals	1,750	527	(28)	(253)	-806.98	(257)	-1.50	(260)	(264)	0
Profit before tax	3,743	2,378	2,021	1,571	-22.2	1,670	6.3	1,752	1,832	2,110
Tax	(190)	(169)	(127)	(161)	-26.5	(169)	-5.5	(177)	(185)	(191)
Profit after tax	3,553	2,209	1,894	1,411	-25.5	1,501	6.4	1,575	1,647	1,919
Minorities	(1)	(2)	(2)	0	-	0	-	0	0	0
Preference dividends	0	0	0	0	-	0	-	0	0	0
Extraordinary items (post-tax)	0	0	0	0	-	0	-	0	0	0
Net earnings (local GAAP)	3,552	2,207	1,891	1,411	-25.4	1,501	6.4	1,575	1,647	1,919
Tax rate (UBS) (%)	9.6	9.1	6.2	8.8	42.0	8.8	-0.1	8.8	8.8	9.0
EBITDA	2,207	2,124	2,385	2,118	2.2	2,205	6.9	2,298	2,398	2,520
EBIT	3,730	4,198	2,248	1,580	-29.7	1,669	5.6	1,743	1,815	2,101
Per share (HK\$)										
EPS (UBS)	2.86	2.63	2.93	2.54	-13.3	2.68	5.6	2.80	2.91	2.93
Net DPS (HK\$)	0.66	2.16	0.74	0.74	0.0	0.74	0.0	0.74	0.74	0.74
BVPS (basic)	67.74	78.14	78.94	80.34	1.8	81.89	1.9	83.55	85.32	87.51
NAV per share	55.80	57.70	52.09	52.09	0.0	52.09	0.0	52.09	52.09	52.09
Cash EPS (UBS)	3.07	2.82	3.15	2.77	-12.1	2.92	5.6	3.05	3.18	3.21
Average shares	631	638	656	656	0.0	656	0.0	656	656	656
Balance sheet (HK\$m)										
Investment properties (book value)	63,630	68,587	69,867	69,888	0.0	69,909	0.0	69,930	69,951	69,972
Development properties (book value)	0	0	0	0	-	0	-	0	0	0
Other fixed assets	12,677	15,771	18,272	18,241	-0.2	18,199	-0.2	18,160	18,121	18,076
Total fixed assets (book value)	76,307	84,358	88,139	88,130	0.0	88,108	0.0	88,089	88,072	88,048
Trading properties (book value)	0	0	0	0	-	0	-	0	0	0
Cash & deposits	4,962	10,712	9,100	8,274	-9.1	8,222	-0.6	8,948	9,802	12,909
Other current assets	646	2,702	4,706	5,093	8.2	5,523	8.4	5,566	5,630	5,630
Total assets (book value)	81,916	97,772	101,945	101,496	-0.4	101,852	0.4	102,603	103,504	106,587
Debt	(16,753)	(26,390)	(27,912)	(26,864)	3.8	(26,476)	1.4	(26,421)	(26,384)	(28,984)
Other liabilities	(3,741)	(4,295)	(4,656)	(5,052)	-8.5	(5,528)	-9.4	(6,003)	(6,549)	(6,551)
Preference shares	0	0	0	0	-	0	-	0	0	0
Minority interests	(18,651)	(17,131)	(17,608)	(16,892)	4.1	(16,146)	4.4	(15,388)	(14,618)	(13,665)
Shareholders equity / NTA	42,771	49,956	51,770	52,687	1.77	53,702	1.93	54,792	55,954	57,388
Surpluses over book value (UBS)	0	0	0	0	-	0	-	0	0	0
S/h equity / NTA (basic)	42,771	49,956	51,770	52,687	1.77	53,702	1.93	54,792	55,954	57,388
S/h equity / NTA (diluted)	42,771	49,956	51,770	52,687	1.8	53,702	1.9	54,792	55,954	57,388
Cash flow (HK\$m)										
EBIT	3,730	4,198	2,248	1,580	-29.7	1,669	5.6	1,743	1,815	2,101
Depreciation & amortisation	373	404	143	151	5.0	158	5.0	166	174	183
Net change in working capital	128	326	(2,557)	85	-	42	-50.6	429	478	0
Net interest	(54)	(294)	(4)	(9)	-125.2	1	-	8	16	9
Tax paid	(89)	(415)	(92)	(236)	-157.0	(166)	29.6	(174)	(182)	(188)
Other (operating)	(2,827)	(1,733)	(335)	(175)	47.9	(149)	14.8	(155)	(141)	(174)
Operating cash flow	1,261	2,486	(596)	1,396	-	1,555	11.4	2,018	2,162	1,930
Net (acquisitions) / capex	(1,315)	(2,387)	(2,517)	(21)	99.2	(21)	0.0	(21)	(21)	(21)
Dividends paid	(350)	(1,395)	(1,559)	(1,201)	23.0	(1,232)	-2.6	(1,244)	(1,255)	(1,439)
Share issues / (buybacks)	1	66	15	0	-	0	-	0	0	0
Net other cash flows	(10,408)	(2,657)	(2)	55	-	15	-72.7	9	(14)	28
Cash flow (inc)/dec in net debt	(10,812)	(3,888)	(4,658)	230	-	318	38.2	763	873	499
Net (debt) / cash	(11,790)	(15,678)	(18,812)	(18,591)	1.18	(18,254)	1.81	(17,473)	(16,581)	(16,074)

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.

Great Eagle (0041.HK)

Valuation	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
PE (UBS) x	7.6	11.1	9.3	10.6	10.1	9.6	9.2	9.2
EV/EBIT (core) x	13.2	18.6	20.6	20.3	18.8	17.8	16.9	16.2
EV/EBITDA (core) x	12.3	17.4	19.1	18.7	17.3	16.5	15.6	14.9
P/CEPS (UBS) x	7.1	10.4	8.7	9.7	9.2	8.8	8.5	8.4
CEPS yield (UBS) %	14.1	9.6	11.6	10.3	10.8	11.3	11.8	11.9
Net dividend yield %	3.0	7.4	2.7	2.7	2.7	2.7	2.7	2.7
Net property yield %	2.4	2.4	2.5	2.5	2.6	2.6	2.6	2.6
BVPS (basic, HK\$)	67.74	78.14	78.94	80.34	81.89	83.55	85.32	87.51
NAV per share (HK\$)	55.80	57.70	52.09	52.09	52.09	52.09	52.09	52.09
Prem/(disc) to BVPS %	(67.9)	(62.5)	(65.5)	(66.5)	(67.1)	(67.7)	(68.4)	(69.2)
Prem/(disc) to NAV per share %	(61.0)	(49.2)	(47.7)	(48.3)	(48.3)	(48.3)	(48.3)	(48.3)
Enterprise value (HK\$m)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Market cap.	13,675	18,609	17,400	17,674	17,674	17,674	17,674	17,674
Net debt (cash)	11,790	15,678	18,812	18,701	18,254	17,864	17,418	17,164
Buy out of minorities	0	0	0	0	0	0	0	0
Pension obligations/other	0	0	0	0	0	0	0	0
Total enterprise value	25,465	34,286	36,212	36,375	35,928	35,538	35,092	34,838
Non core assets	0	0	0	0	0	0	0	0
Core enterprise value	25,465	34,286	36,212	36,375	35,928	35,538	35,092	34,838
Growth (%)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Recurring income (UBS, pre-tax)	7.5	(7.3)	11.1	(9.9)	5.6	4.5	4.2	1.0
CEPS (UBS)	6.9	(8.0)	11.4	(12.1)	5.6	4.5	4.2	0.8
BVPS (basic)	26.9	15.4	1.0	1.8	1.9	2.0	2.1	2.6
NAV per share	3.5	3.4	(9.7)	0.0	0.0	0.0	0.0	0.0
EBITDA (core)	0.6	(4.7)	(3.5)	2.2	6.9	4.1	4.0	3.8
DPS	8.2	NM	(65.7)	0.0	0.0	0.0	0.0	0.0
Profitability	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
ROE %	4.7	3.6	3.8	3.2	3.3	3.4	3.5	3.4
Interest cover x	19.5	15.7	13.3	11.0	12.7	13.3	13.3	10.7
Dividend cover x	8.5	1.6	3.9	2.9	3.1	3.2	3.4	4.0
Cash earnings (UBS) dividend cover x	4.6	1.3	4.3	3.7	3.9	4.1	4.3	4.3
Productivity (%)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Pre-exceptional tax rate	9.6	9.1	6.2	8.8	8.8	8.8	8.8	9.0
Net debt/revalued net assets	28	31	36	35	34	32	30	28
Net debt/(revalued gross assets-cash)	15	18	20	20	19	19	18	17
Net debt/EV	46.3	45.7	52.0	51.1	50.8	49.2	47.3	46.1
EBITDA/interest expense x	20.5	16.9	14.3	11.6	13.4	14.1	14.0	11.5
Net debt/EBITDA x	5.3	7.4	7.9	8.8	8.3	7.6	6.9	6.4
Investment properties by location %	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Japan	0	0	0	0	0	0	0	-
Asia (including Australia)	0	0	0	0	0	0	0	-
Europe	0	0	0	0	0	0	0	-
North America	0	0	0	0	0	0	0	-
South America	0	0	0	0	0	0	0	-
Other	0	0	0	0	0	0	0	-
Total	0	0	0	0	0	0	0	-
Investment properties by sector %	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Offices	0	0	0	0	0	0	0	-
Retail	0	0	0	0	0	0	0	-
Industrials	0	0	0	0	0	0	0	-
Hotels	0	0	0	0	0	0	0	-
Other	0	0	0	0	0	0	0	-
Total commercial	0	0	0	0	0	0	0	0
Residential	2	-	-	-	-	-	-	-
Total	2	-	-	-	-	-	-	-

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.

Forecast returns

Forecast price appreciation	-10.9%
Forecast dividend yield	2.7%
Forecast stock return	-8.2%
Market return assumption	6.6%
Forecast excess return	-14.8%

Statement of Risk

Great Eagle is primarily exposed to global luxury hotels and HK office. Success of both sectors depends on the global economic outlook. Any deferrals of a full recovery of the global economy would pose risks to our forecast. Given the nature of hotel business, any sudden deterioration in operating environment (e.g. political instability, SARS, Avian Flu, etc) will have immediate impact on profits.

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12-Month Rating	Definition	Coverage ¹	IB Services ²
Buy	FSR is > 6% above the MRA.	47%	37%
Neutral	FSR is between -6% and 6% of the MRA.	42%	32%
Sell	FSR is > 6% below the MRA.	11%	21%
Short-Term Rating	Definition	Coverage ³	IB Services ⁴
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%

Source: UBS. Rating allocations are as of 31 December 2014.

1:Percentage of companies under coverage globally within the 12-month rating category. 2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

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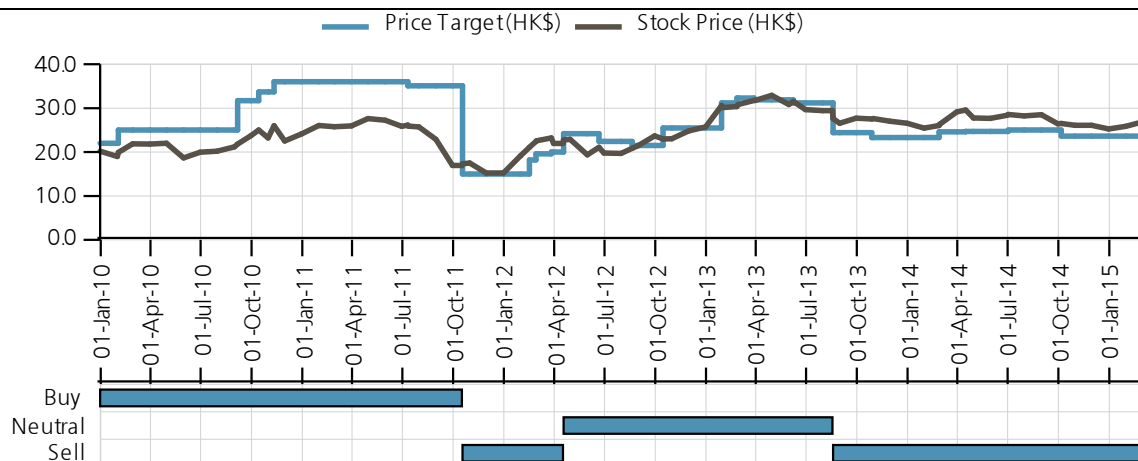
Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
Great Eagle	0041.HK	Sell	N/A	HK\$26.95	05 Mar 2015

Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

Great Eagle (HK\$)



Source: UBS; as of 05 Mar 2015

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