



Rating
Buy

Asia
Hong Kong

Property
Property

Company
**Hang Lung
Properties**

Reuters 0101.HK	Bloomberg 101 HK	Exchange HKG	Ticker 0101
ADR Ticker HLPY	ISIN US41043M1045		

Date
11 March 2015

Company Update

Price at 11 Mar 2015 (HKD)	21.95
Price target - 12mth (HKD)	29.22
52-week range (HKD)	25.95 - 20.10
HANG SENG INDEX	23,897

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Delivering solid growth despite tough macro environments

Maintaining Buy, new TP HK\$29.22; stable growth despite tough environments

Despite the challenging economic and operating environment for investment properties in both mainland China and HK, HLP has continued to deliver stable and solid growth, outperforming the physical markets where HLP operates. This reflects HLP's strong management execution. At the same, its strong financial position (net cash at end-2014) presents strong defensive qualities, and its balanced portfolio also helps to cushion volatilities in the China and HK economies. We also see undemanding current valuations (44% NAV discount) as presenting good opportunities for a long-term investment.

Achieving good rental growth in both China and HK

In 2014, HLP achieved rental growth of 11% in China and 6% in HK (6% for HK retail portfolio and 7% for HK office portfolio). Also, rental margins have remained steady – 77% overall, 84% for HK, and 77% for China. Occupancy rates also remained high at 98% for HK retail, 94% for HK offices, 97% for Plaza 66 retail, 96% for Plaza 66 offices, and 99% for Grand Gateway retail. In addition, occupancy rates at the non-Shanghai malls have continued to improve, to 85-91% at end-2014. Despite our assumed rental declines for 2015-2016 and no major improvements in macro environments, we still expect HLP to achieve overall rental income growth of 3-9% p.a. in 2015-17.

Very strong financial positions – back to net cash position

At end-2014, HLP had net cash of HK\$4.8bn, and HLP now has one of the strongest financial positions among all the listed HK and China property companies. In our view, this strong financial position should present robust defensiveness and allow HLP to buy new projects at lower prices in both China and HK if the macro deteriorates further, presenting potential NAV growth.

Undemanding valuations at 44% NAV discount

Our new TP of HK\$29.22 is based on 40% discount to our estimated NAV of HK\$38.96, revised down from HK\$42.23, mainly as we factored in bigger rental declines for HLP's investment properties in 2015 and 2016. While HLP is affected by the current structural adjustments in the Chinese economy, given its prime-location, high-quality investment properties, strong financial positions, and execution ability, we expect it to deliver stable near-term growth, which should accelerate again as China's economic reform progresses. Key risks: unexpected economic and policy volatility.

Forecasts And Ratios

Year End Dec 31	2013A	2014A	2015E	2016E	2017E
Sales (HKDm)	9,138.0	17,030.0	11,339.9	10,740.7	11,887.1
EBITDA (HKDm)	6,268.0	12,399.0	8,174.3	7,673.9	8,283.9
Reported NPAT (HKDm)	7,212.0	11,704.0	6,070.5	5,636.1	5,757.8
DB EPS FD (HKD)	1.19	2.33	1.35	1.26	1.28
DB EPS arowth (%)	-	94.8	-41.9	-7.2	2.2
PER (x)	22.9	9.9	16.2	17.5	17.1
EV/EBITDA (x)	20.8	8.4	13.1	14.3	13.7
Yield (net) (%)	2.7	3.3	3.5	3.6	3.6

Source: Deutsche Bank estimates, company data

Key changes

Price target	31.67 to 29.22	↓	-7.7%
Sales (FYE)	11,907 to 11,340	↓	-4.8%
Op prof margin (FYE)	71.4 to 71.8	↑	0.5%
Net profit (FYE)	6,149.2 to 6,070.5	↓	-1.3%

Source: Deutsche Bank

Price/price relative



Performance (%)	1m	3m	12m
Absolute	-0.2	1.4	4.8
HANG SENG INDEX	-1.7	2.5	7.3

Source: Deutsche Bank

Deutsche Bank AG/Hong Kong

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Model updated: 11 March 2015

Running the numbers

Asia

Hong Kong

Property

Hang Lung Properties

Reuters: 0101.HK

Bloomberg: 101 HK

Buy

Price (11 Mar 15) HKD 21.95

Target Price HKD 29.22

52 Week range HKD 20.10 - 25.95

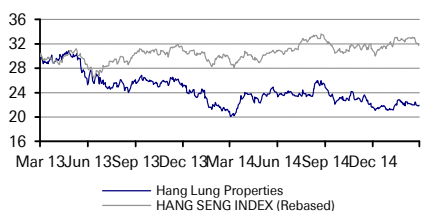
Market Cap (m) HKDm 98,160

USDm 12,652

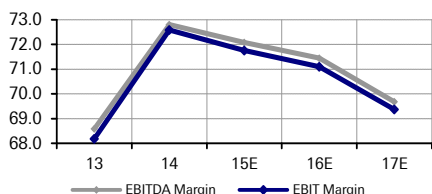
Company Profile

Hang Lung Properties Limited, through its subsidiaries, invests in, develops, and manages properties. The Company also manages parking lots.

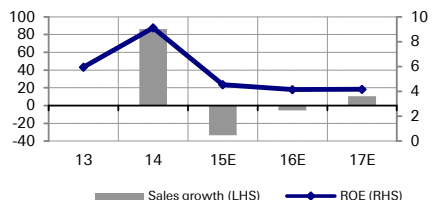
Price Performance



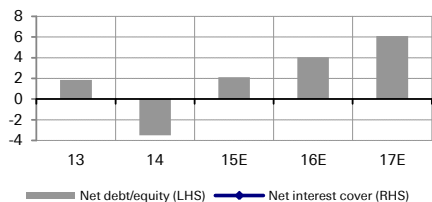
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Dec

Financial Summary

	2013	2014	2015E	2016E	2017E
DB EPS (HKD)	1.19	2.33	1.35	1.26	1.28
Reported EPS (HKD)	1.61	2.61	1.35	1.26	1.28
DPS (HKD)	0.75	0.76	0.77	0.78	0.79
BVPS (HKD)	27.8	29.5	30.1	30.6	31.1
Weighted average shares (m)	4,478	4,479	4,485	4,485	4,485
Average market cap (HKDm)	122,397	103,521	98,160	98,160	98,160
Enterprise value (HKDm)	130,408	104,138	106,903	110,003	113,344

Valuation Metrics

P/E (DB) (x)	22.9	9.9	16.2	17.5	17.1
P/E (Reported) (x)	17.0	8.8	16.2	17.5	17.1
P/BV (x)	0.88	0.74	0.73	0.72	0.71
FCF Yield (%)	nm	19.8	nm	1.0	0.8
Dividend Yield (%)	2.7	3.3	3.5	3.6	3.6
EV/Sales (x)	14.3	6.1	9.4	10.2	9.5
EV/EBITDA (x)	20.8	8.4	13.1	14.3	13.7
EV/EBIT (x)	20.9	8.4	13.1	14.4	13.7

Income Statement (HKDm)

Sales revenue	9,138	17,030	11,340	10,741	11,887
Gross profit	7,788	14,748	10,013	9,471	10,250
EBITDA	6,268	12,399	8,174	7,674	8,284
Depreciation	37	37	37	37	37
Amortisation	0	0	0	0	0
EBIT	6,231	12,362	8,137	7,637	8,247
Net interest income/(expense)	395	253	214	144	78
Associates/affiliates	96	75	75	75	75
Exceptionals/extraordinary	0	0	0	0	0
Other pre-tax income/(expense)	2,482	1,705	0	0	0
Profit before tax	9,204	14,395	8,427	7,856	8,400
Income tax expense	1,447	2,242	1,685	1,571	2,015
Minorities	545	449	671	649	626
Other post-tax income/(expense)	0	0	0	0	0
Net profit	7,212	11,704	6,070	5,636	5,758
DB adjustments (including dilution)	-1,862	-1,279	0	0	0
DB Net profit	5,351	10,425	6,070	5,636	5,758

Cash Flow (HKDm)

Cash flow from operations	5,761	20,464	3,713	5,533	6,528
Net Capex	-9,852	0	-7,758	-4,531	-5,745
Free cash flow	-4,091	20,464	-4,045	1,002	784
Equity raised/(bought back)	0	0	0	0	0
Dividends paid	-3,436	-3,314	-3,811	-3,843	-3,874
Net inc/(dec) in borrowings	5,060	119	-2,503	-1,235	-658
Other investing/financing cash flows	498	0	0	0	0
Net cash flow	-1,969	17,269	-10,360	-4,076	-3,749
Change in working capital	-363	6,285	-2,231	-150	287

Balance Sheet (HKDm)

Cash and other liquid assets	34,321	39,946	29,586	25,510	21,762
Tangible fixed assets	138,354	146,048	154,374	159,450	165,727
Goodwill/intangible assets	0	0	0	0	0
Associates/investments	1,038	1,211	1,211	1,211	1,211
Other assets	8,567	5,974	5,401	5,282	5,511
Total assets	182,280	193,179	190,573	191,452	194,210
Interest bearing debt	36,737	35,098	32,595	31,360	30,702
Other liabilities	14,376	19,078	16,045	15,718	16,624
Total liabilities	51,113	54,176	48,640	47,078	47,325
Shareholders' equity	124,534	132,327	134,989	137,171	139,430
Minorities	6,633	6,676	6,944	7,204	7,454
Total shareholders' equity	131,167	139,003	141,933	144,375	146,885
Net debt	2,416	-4,848	3,009	5,850	8,940

Key Company Metrics

Sales growth (%)	nm	86.4	-33.4	-5.3	10.7
DB EPS growth (%)	na	94.8	-41.9	-7.2	2.2
EBITDA Margin (%)	68.6	72.8	72.1	71.4	69.7
EBIT Margin (%)	68.2	72.6	71.8	71.1	69.4
Payout ratio (%)	46.6	29.1	56.9	62.1	61.5
ROE (%)	5.9	9.1	4.5	4.1	4.2
Capex/sales (%)	108.2	0.0	68.4	42.2	48.3
Capex/depreciation (x)	267.2	0.0	209.7	122.5	155.3
Net debt/equity (%)	1.8	-3.5	2.1	4.1	6.1
Net interest cover (x)	nm	nm	nm	nm	nm

Source: Company data, Deutsche Bank estimates

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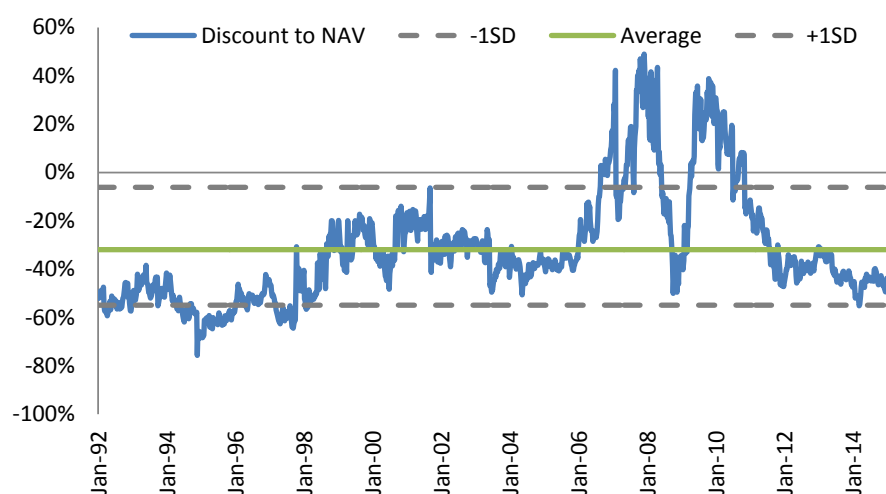


Strong defensive qualities with stable growth

Maintaining Buy, new TP HK\$29.22; stable growth despite tough environments

Despite the challenging economic and operating environment for investment properties in both mainland China and HK, HLP has continued to deliver stable and solid growth, outperforming the physical markets where HLP operates. This reflects HLP's strong management execution. At the same, its strong financial position (net cash at end-2014) presents strong defensive qualities, and its balanced portfolio also helps to cushion volatilities in the China and HK economies. We also see undemanding current valuations (44% NAV discount) as presenting good opportunities for a long-term investment.

Figure 1: Hang Lung Properties – discount to NAV



Source: Bloomberg Finance LP, Deutsche Bank

Achieving good rental growth in both China and HK

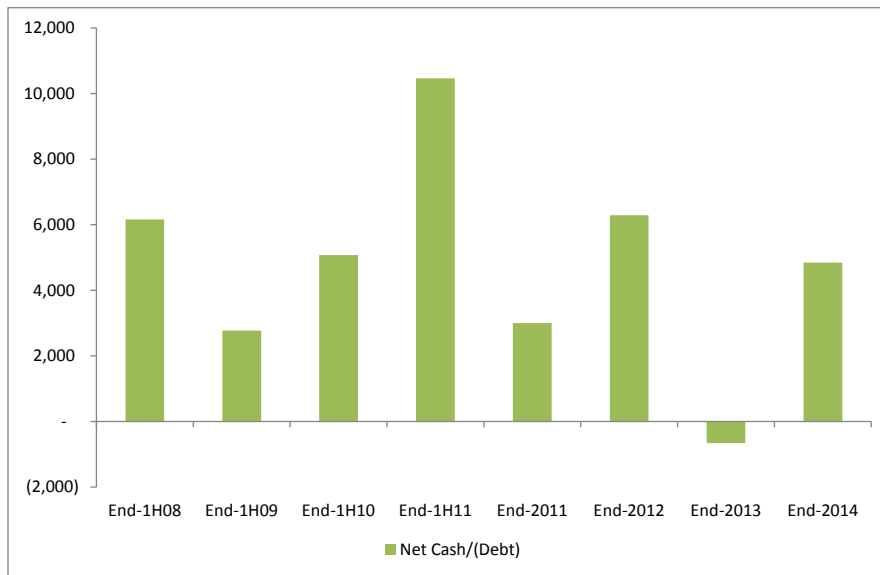
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Very strong financial positions – back to net cash position

At end-2014, HLP had net cash of HK\$4.8bn, and HLP now has one of the strongest financial positions among all the listed HK and China property companies. In our view, this strong financial position should present robust defensiveness and allow HLP to buy new projects at lower prices in both China and HK if the macro deteriorates further, presenting potential NAV growth.



Figure 2: HLP – Strong financial positions



Source: Company, Deutsche Bank



Financial analysis

Earnings and NAV revisions

We have revised down our estimated NAV for HLP from HK\$42.23 to HK\$38.96, mainly as we factored in higher rental declines for HLP's investment properties in 2015 and 2016. As a result, we have revised down our target price for HLP from HK\$31.67 to HK\$29.22. For the same reasons, we have taken down our earnings estimates for 2015 and 2016 by 1.3% and 3%, respectively.

Figure 3: HLP – Income Statement (HK\$m)

	For Year Ended Jun 30							For Year Ended Dec 31					
	2006	2007	2008	2009	2010	2011	Jul-Dec 2011	2012	2013	2014	2015E	2016E	2017E
Property Development	1,062	1,386	6,335	10	7,511	3	193	1,274	2,500	9,814	3,471	2,664	3,208
Property Investment	2,595	3,004	3,745	4,162	4,546	5,161	2,876	6,098	6,638	7,216	7,869	8,076	8,680
Total Revenue	3,657	4,389	10,080	4,173	12,057	5,164	3,069	7,372	9,138	17,030	11,340	10,741	11,887
Property Development	294	301	3,552	3	5,256	2	150	846	1,511	7,419	2,547	1,899	2,080
Property Management	-	-	-	-	-	-	-	-	-	-	-	-	-
Property Investment	2,059	2,402	3,046	3,441	3,726	4,194	2,301	4,896	5,326	5,589	6,295	6,461	6,944
Others	64	8	-	-	-	-	-	-	-	-	-	-	-
Unallocated operating costs	(206)	(243)	(361)	(383)	(456)	(512)	(270)	(626)	(606)	(646)	(704)	(723)	(777)
EBIT	2,211	2,468	6,237	3,061	8,526	3,684	2,181	5,116	6,231	12,362	8,137	7,637	8,247
Net financing cost	(163)	(2)	131	88	(12)	138	85	273	395	253	214	144	78
Share results of associates	90	78	129	23	166	98	42	105	96	75	75	75	75
Exceptional item	3,438	5,962	10,182	3,523	21,234	3,349	964	4,675	2,482	1,705	-	-	-
Pre-tax profit	5,577	8,506	16,678	6,695	29,914	7,269	3,272	10,169	9,204	14,395	8,427	7,856	8,400
Income tax	(203)	(278)	(927)	(476)	(1,432)	(698)	(408)	(973)	(1,132)	(2,146)	(1,685)	(1,571)	(1,680)
LAT	-	-	-	-	-	-	-	-	-	-	-	-	(336)
Minority interests	(171)	(732)	(735)	(1,052)	(1,396)	(449)	(220)	(525)	(545)	(449)	(671)	(649)	(626)
Net profit	4,403	6,371	13,159	4,130	22,256	5,792	2,516	8,395	7,212	11,704	6,070	5,636	5,758
Core Net Profit	1,627	2,048	5,123	2,388	6,674	3,280	1,793	4,889	5,351	10,425	6,070	5,636	5,758
Core EPS	0.44	0.51	1.24	0.58	1.61	0.75	0.40	1.09	1.19	2.33	1.35	1.26	1.28

Source: Company, Deutsche Bank estimates

Figure 4: HLP – Balance Sheet (HK\$m)

	For Year Ended Jun 30							For Year Ended Dec 31					
	2006	2007	2008	2009	2010	2011	Jul-Dec 2011	2012	2013E	2014E	2015E	2016E	2017E
Cash and equivalents	5,984	6,994	10,578	8,931	11,535	27,202	23,732	36,025	34,321	39,946	29,586	25,510	21,762
Receivables	1,097	837	1,366	686	1,494	1,983	1,436	1,270	2,865	1,916	2,268	2,148	2,377
Inventories and PUD	10,159	9,542	6,817	7,683	5,855	5,963	6,114	6,109	5,695	4,046	3,122	3,122	3,122
Other current assets	-	-	-	-	-	-	449	452	-	-	-	-	-
Total current assets	17,240	17,372	18,760	17,300	18,884	35,148	31,731	43,856	42,881	45,908	34,976	30,780	27,260
Investment properties	39,590	47,153	59,085	62,766	80,965	85,918	93,610	98,223	107,587	120,137	123,499	127,560	132,581
Fixed assets and land use rights	2,911	4,051	5,759	7,694	15,489	22,593	23,830	24,732	30,767	25,911	30,875	31,890	33,145



Interests in subsidiaries and associate	551	597	697	699	802	991	1,007	1,041	1,030	1,205	1,205	1,205	1,205
Other non-current assets	75	71	40	49	28	32	485	12	15	18	18	18	18
Total non-current assets	43,127	51,872	65,581	71,208	97,284	109,534	118,932	124,008	139,399	147,271	155,597	160,673	166,950
Total assets	60,366	69,244	84,341	88,508	116,168	144,682	150,663	167,864	182,280	193,179	190,573	191,452	194,210
Payables	1,530	1,635	1,726	2,028	3,076	3,430	3,823	4,811	5,977	7,906	5,103	4,833	5,349
Short term debt	-	-	-	1,500	1,480	4,500	4,700	1,113	1,657	5,657	3,348	2,887	2,771
Other current liabilities	332	190	829	831	1,132	1,196	392	392	633	1,581	1,351	1,294	1,684
Total current liabilities	1,862	1,825	2,555	4,359	5,688	9,126	8,915	6,316	8,267	15,144	9,802	9,014	9,804
Long term borrowings	9,954	6,282	5,919	4,661	4,978	12,236	16,034	28,623	33,322	29,441	29,247	28,473	27,931
Other non-current liabilities	4,262	5,300	7,217	8,158	12,876	8,396	8,696	8,947	9,524	9,591	9,591	9,591	9,591
Total non-current liabilities	14,216	11,582	13,136	12,820	17,854	20,632	24,730	37,570	42,846	39,032	38,838	38,064	37,522
Total liabilities	16,077	13,407	15,691	17,178	23,542	29,758	33,645	43,886	51,113	54,176	48,640	47,078	47,325
Minority interests	1,043	1,561	2,274	3,292	4,682	5,205	5,556	6,050	6,633	6,676	6,944	7,204	7,454
Total net asset	43,246	54,277	66,377	68,038	87,944	109,719	111,462	117,928	124,534	132,327	134,989	137,171	139,430
Capital and retained earnings	41,112	52,083	62,876	64,288	83,901	103,173	103,304	109,626	113,621	132,327	134,944	137,081	139,341
Other reserves	2,135	2,194	3,501	3,750	4,043	6,546	8,158	8,302	10,913	-	45	90	90
Shareholders' funds	43,246	54,277	66,377	68,038	87,944	109,719	111,462	117,928	124,534	132,327	134,989	137,171	139,430

Source: Company, Deutsche Bank estimates



Valuations

Our estimated NAV for HLP is HK\$38.96/share

Our estimated NAV for HLP is calculated through a sum-of-the-parts valuation. For the development properties, we apply DCF to estimate the value of the development projects of the company by taking the estimated cash inflows from property sales minus the outstanding costs, including any outstanding land costs, construction costs, and related income taxes and LAT for each of the China development projects. We take into account only the existing landbank, and do not assume any terminal value in the DCF analysis. For the investment properties in HK and China, we use the income capitalization approach, taking the estimated rental revenues of the investment properties and dividing this figure by the estimated cap rates. Our estimated rents and cap rates differ between the various types of properties and their locations.

When arriving at the NAV for the company, we take the aggregate estimated value for the above business segments and add the company's net cash position or subtract its net debt position. Specifically, we make the following assumptions to derive our estimated NAV of HK\$38.96/share:

- 1) Residential prices down 20% in Hong Kong from current levels over next 24 months;
- 2) Rental declines of 5% p.a. in 2015 and 2016 for HLP's investment properties
- 3) Cap rates of 5-6% for HLP's office and retail properties in Hong Kong;
- 4) Cap rates of 6% for HLP's properties in Shanghai, cap rates of 6-8% for properties in Shenyang, Jinan, Wuxi, Tianjin, Dalian, Wuhan and Kunming;
- 5) WACC of 8.4%

As a reference, when determining our target price for Hang Lung Properties, we now apply a 25% discount to our estimated NAV.

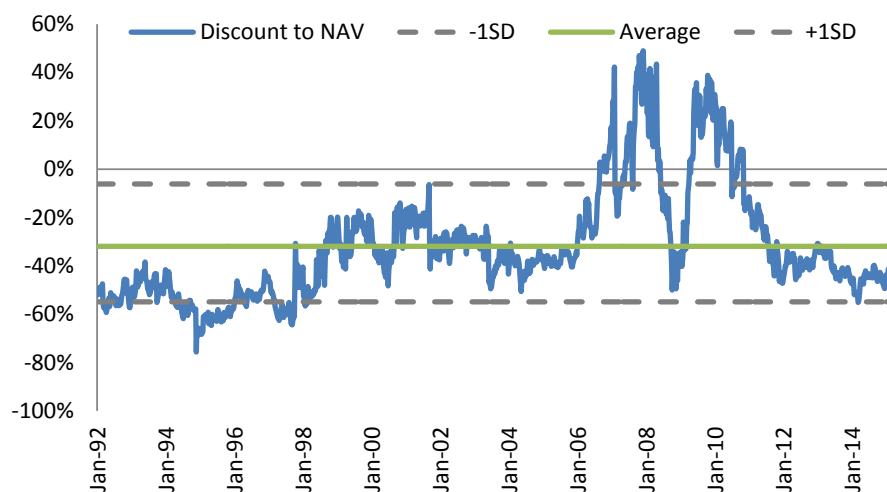
Figure 5: HLP – Estimated NAV

	HK\$m	HK\$/Share	% of NAV	% of GAV
Property Development				
Residential	5,788	1.29	3%	3%
Property Investment				
Residential	14,287	3.19	8%	8%
Office	41,474	9.25	24%	24%
Retail	103,552	23.09	59%	61%
Hotel	1,794	0.40	1%	1%
Others	2,989	0.67	2%	2%
Total Property Investment	164,097	36.59	94%	97%
Gross Asset Value	169,885	37.88	97%	100%
Net Cash/(Debt)	4,848	1.08	3%	
NAV	174,733	38.96	100%	

Source: Deutsche Bank estimates

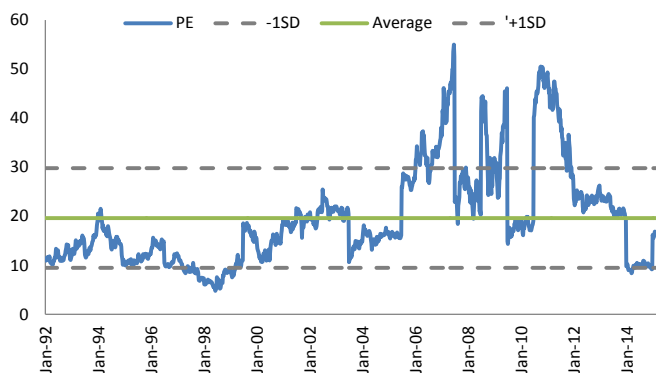


Figure 6: Hang Lung Properties – discount to NAV



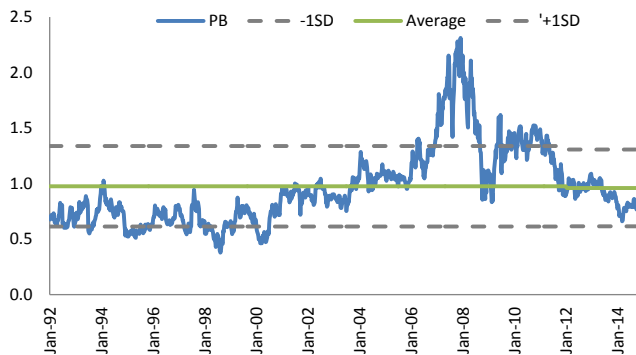
Source: Bloomberg Finance LP, Deutsche Bank

Figure 7: Hang Lung Properties – PE



Source: Bloomberg Finance LP, Deutsche Bank

Figure 8: Hang Lung Properties – PB



Source: Bloomberg Finance LP, Deutsche Bank



Investment risks

Macro risks

Government property tightening measures might be stricter than expected

The China property market is not only dependent on economic conditions and the demand-and-supply balance, but also on government policies. At times when the government is tightening its fiscal and monetary policies, especially via administrative measures, there could be volatile moves in housing transaction volumes, housing prices, land prices, and financing available to developers and homebuyers. If the government property market tightening measures are stricter than expected or if the impact of the measures already introduced is stronger than expected, we could see weaker-than-expected sales and price performance for the property businesses of Chinese property companies, including Hang Lung Properties.

Unexpected economic fluctuations in the Chinese economy

In our view, any weaker-than-expected performance in the Chinese economy would likely result in weaker housing demand, hence affecting Chinese developers' property sales. On the other hand, any overly strong growth in the Chinese economy could raise concerns about overheating and attract tightening measures. Therefore, any unexpected fluctuations in the Chinese economy would likely affect demand and supply in the China property market and the business of China property companies such as Hang Lung Properties.

Company-specific risks

Competition from other commercial properties in mainland China

While Hang Lung Properties has a strong track record of operating commercial properties in mainland China and its commercial properties are of high quality and in prime locations, there still exist competitive threats from other existing commercial property players in the Chinese property market, and from potential new entrants into the market in the future. Any stronger-than-expected competition from other players might result in lower-than expected rentals and occupancies for the commercial properties of HLP in China.

Potential delays in completion of new properties in China

HLP is planning to complete at least one new commercial property project in China each year from now until 2018. The completion of these projects could be affected by unexpected changes in contractors, labor, weather and other technical conditions, and the potential delays would likely affect the timing of the contributions of the income streams from those properties.

Execution in new cities in mainland China not fully proven

While HLP has a strong track record of operating in the Shanghai and HK commercial property markets, its operational capabilities in the new 10 cities have not been totally established yet. Weaker-than-expected operating performances in these cities might result in downside to our estimated earnings and NAV.



Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Hang Lung Properties	0101.HK	21.85 (HKD) 11 Mar 15	NA

*Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies.

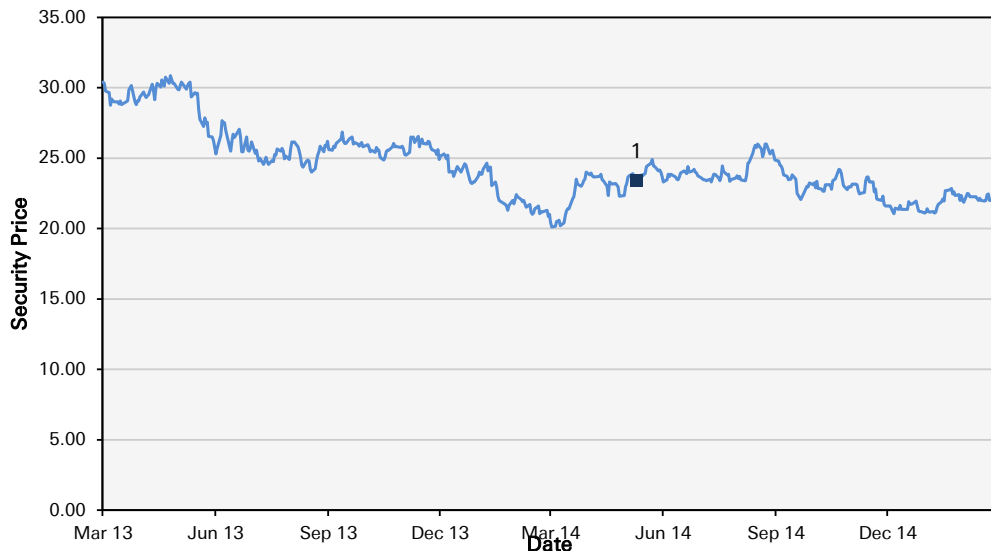
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Historical recommendations and target price: Hang Lung Properties (0101.HK)

(as of 3/11/2015)



Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

*New Recommendation Structure as of September 9,2002

1. 22/05/2014: Buy, Target Price Change HKD31.67



Equity rating key

Buy: Based on a current 12-month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield), we recommend that investors buy the stock.

Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock.

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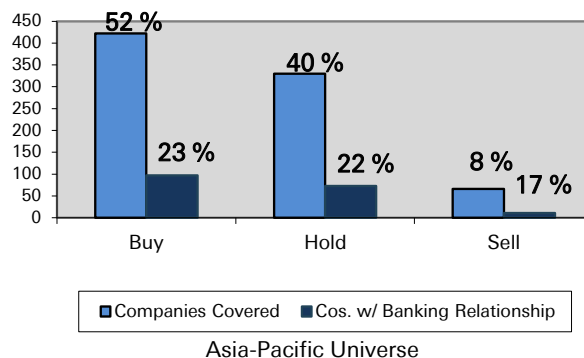
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Equity rating dispersion and banking relationships





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