

Kerry Properties

How to unwind the deep discount?

Kerry Properties' FY14 results were in line with our expectation. We believe its current deep discount to NAV will unwind upon more active capital management. At 66% discount to NAV, we believe the stock offers attractive value at current levels. We maintain our OW recommendation and a price target of HK\$33.

- How to unwind the deep discount?** Kerry Prop's management sounded unsure why the company is trading at such a deep discount to NAV (66%) and were open to suggestions to unwind the discount. Increasing dividend payment is one of the potential options. In addition, the company's 42% holding in Kerry Logistics, which is worth HK\$8.6bn, is only providing an annual dividend stream of HK\$90m. We believe Kerry Prop's discount to NAV will narrow if the company can recycle this non-core investment into further land bank expansion.
- Expecting pickup in China contracted sales.** Kerry set a contracted sales target of not less than HK\$12bn for 2015 splitting half between Hong Kong and China. After it missed its China contracted sales target in 2014, management is relatively confident that its sales will pick up in 2015 as it will be launching four projects in Hangzhou, Nanjing, Shanghai, and Chengdu, which will also have better margins. YTD contracted sales in China are about HK\$1bn.
- Shifting focus more on Hong Kong development.** Given the rather uncertain outlook in the China property market, Kerry Prop will be shifting its land banking focus to Hong Kong. High-end residential development will remain the company's primary focus, and this is also where its strength lies. For example, if we assume its newly purchased Lung Cheung Road project sells at a similar price as 3 Ede Road, it would get at least 20% margin when in fact the ASP of Ede Road should actually be getting higher when better quality units are sold.
- Shares are oversold.** Kerry Prop is trading at a 66% discount to our estimated NAV of HK\$70.3. Despite the poor market perception, Kerry's operations are moving solidly forward. We believe this value will be unwound either by more corporate actions or further confirmation of its operating progress on improvement in contracted sales in both Hong Kong and China.

Kerry Properties Limited (Reuters: 0683.HK, Bloomberg: 683 HK)

HK\$ in mn, year-end Dec	FY12A	FY13A	FY14A	FY15E	FY16E
Revenue (HK\$ mn)	34,513	33,158	14,664	10,488	19,212
Net Profit (HK\$ mn)	4,696	4,413	4,384	3,725	5,161
Core Profit (HK\$ mn)	4,705	4,413	3,540	3,725	5,161
EPS (HK\$)	3.26	3.06	3.04	2.58	3.57
Core EPS (HK\$)	3.27	3.06	2.45	2.58	3.57
Core EPS growth (%)	29.7%	(6.4%)	(20.0%)	5.2%	38.5%
DPS (HK\$)	0.95	0.90	0.90	0.90	0.90
ROE	7.0%	6.0%	4.5%	4.6%	6.1%
P/E (Core)	7.4	7.9	9.9	9.4	6.8
P/BV (x)	0.5	0.5	0.4	0.4	0.4
BVPS (HK\$)	49.16	52.45	55.42	57.10	59.77
RNAV/Share	-	-	-	70.34	-
Dividend Yield	3.9%	3.7%	3.7%	3.7%	3.7%

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

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

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Overweight

0683.HK, 683 HK

Price: HK\$24.20

Price Target: HK\$33.00

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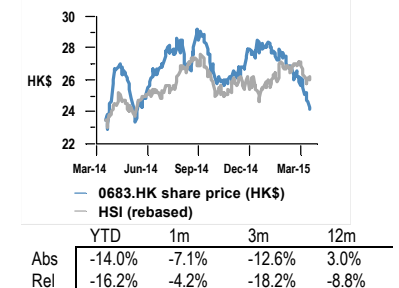
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Price Performance



Company Data	
Shares O/S (mn)	1,444
Market Cap (HK\$ mn)	34,955
Market Cap (\$ mn)	4,503
Price (HK\$)	24.20
Date Of Price	18 Mar 15
Free Float(%)	67.3%
3M - Avg daily vol (mn)	1.72
3M - Avg daily val (HK\$ mn)	46.34
3M - Avg daily val (\$ mn)	6.0
HSI	24,120.08
Exchange Rate	7.76
Price Target End Date	31-Dec-15

Key catalyst for the stock price:	Upside risks to our view:	Downside risks to our view & PT:
<ul style="list-style-type: none"> • Good sell-through rates for its development projects • Opening of Tianjin Kerry Centre and other investment properties in China 	<ul style="list-style-type: none"> • Better-than-expected HK residential sales • Better-than-expected China projects delivery • Better-than-expected rental income from China investment properties 	<ul style="list-style-type: none"> • Slower-than-expected residential sales progress • Construction slippage of its mixed-use projects in China • Interest rate hike

Key financial metrics	FY13A	FY14A	FY15E	FY16E
Revenues (HK\$)	33,158	14,664	10,488	19,212
Revenue growth (%)	-4%	-56%	-28%	83%
EBITDA (HK\$)	6,883	5,776	4,504	7,362
EBITDA margin (%)	21%	39%	43%	38%
Tax rate (%)	26%	21%	17%	22%
Net profit (HK\$)	4,413	4,384	3,725	5,161
EPS (HK\$)	3.06	3.04	2.58	3.57
EPS growth (%)	-6%	-1%	-15%	39%
DPS (HK\$)	0.90	0.90	0.90	0.90
BVPS (HK\$)	52.45	55.42	57.10	59.77
Operating cash flow (HK\$ mn)	(1,525)	3,680	2,590	7,031
Free cash flow (HK\$ mn)	(7,341)	878	(154)	4,293
Interest cover (X)	25.9	22.3	14.6	22.0
Net margin (%)	13%	30%	36%	27%
Sales/assets (X)	0.24	0.10	0.07	0.13
Debt/equity (%)	38.4%	35.8%	34.7%	36.0%
Net debt/equity (%)	25.8%	23.9%	25.8%	23.8%
ROE (%)	6.0%	4.5%	4.6%	6.1%

Key model assumptions	FY15E
HK residential price chg	0%
HK office rental chg	2-5%
HK retail rental chg	3%
HK office cap rate	5.25%
HK retail cap rate	5.75%
Shanghai office cap rate	7.25-8%
Shanghai retail cap rate	8-8.75%

Source: Company, J.P. Morgan estimates.

Sensitivity analysis	NAV	EPS
Sensitivity to	Dec-15	FY15E
5% chg in HK residential price	1.5%	2.9%
5% chg in China office rent	0.5%	0.2%
50 bps chg in HK cap rate	4.4%	n/a
50 bps chg in China cap rate	4.6%	n/a

Source: J.P. Morgan estimates.

Comparative metrics

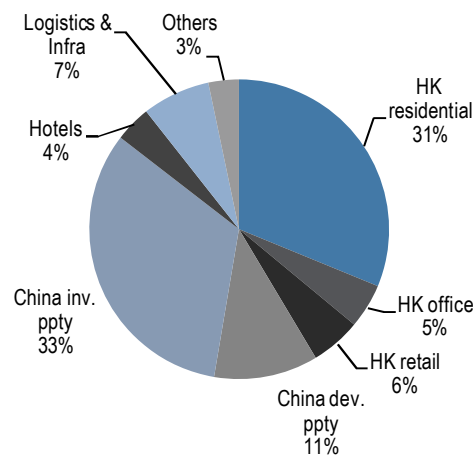
	CMP LC	Mkt Cap HK\$Bn	P/E		NAV discount	P/BV		YTD Stock perf.
			FY14E	FY15E	Dec-15	FY14E	FY15E	
Cheung Kong	151.50	350.90	13.5	11.3	-21%	0.91	0.88	16%
Henderson Land	50.65	151.97	15.5	15.6	-39%	0.67	0.64	-7%
SHKP	116.00	333.15	14.6	14.5	-37%	0.76	0.74	-2%
New World Development	8.84	78.62	9.6	11.7	-56%	0.48	0.48	-1%
Sino Land	11.70	70.95	19.3	12.4	-44%	0.62	0.61	-7%
Kerry Properties	24.20	34.97	9.9	9.4	-66%	0.44	0.42	-14%
Wheelock & Co	37.65	76.50	9.4	8.2	-21%	0.40	0.39	4%
Wharf Holdings	50.75	153.82	14.7	13.0	-44%	0.50	0.49	-9%
Hang Lung Prop	21.60	96.88	9.7	16.0	-38%	0.73	0.72	-1%

Source: Bloomberg, Company and J.P. Morgan estimates. Prices are as of 18 March 2015

Valuation and price target basis

Our price target of HK\$33 is based on 53% discount to our Dec 2015 NAV, 1 standard deviation below the long-term average discount.

NAV breakdown (Dec-15E)



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

JPM vs. consensus, change in estimates

EPS	FY15E	FY16E
JPM old	2.53	2.64
JPM new	2.58	3.57
% chg	2%	35%
Consensus	2.55	2.79

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

FY14 results in line with expectation

Kerry reported FY14 underlying profit of HK\$4,384 mn, down 1% Y/Y but 2% ahead of our estimate. One of the key highlights from the results is the increase in final dividend by HK\$0.05/shr, helping to maintain the full-year dividend at HK\$0.9/shr (implying a 3.7% dividend yield). While profit was largely maintained, it was supported by the net gain on sale of investment properties of HK\$889 mn recorded during the year, which mainly came from the disposal of Lions Rise Mall to Link REIT.

On the operational front, occupancy of key investment properties in China, such as Jing An Kerry Centre Ph II, Shenzhen Kerry Plaza Ph I and II and Beijing Kerry Centre, generally improved. This helped to raise the rental margin from 69% in 2013 to 79%.

Development properties

FY15 contracted sales target of not less than HK\$12 bn

Kerry set the contracted sales target for FY14 at HK\$12 bn last year with HK\$6.5 bn from HK. The company ended up achieving HK\$14.7 bn in total where HK beat the target while China was below the target. For FY15, Kerry set its contracted sales target to be no less than HK\$12 bn where HK and China will each contribute half of the target.

Table 1: Contracted sales for FY14 and FY15 (target vs actual)

in HK\$ bn	FY14 target	FY14 actual	FY15 target	FY15 YTD
HK	6.5	11.1	6.0	1.0
China	5.5	3.6	6.0	1.0
Total	12.0	14.7	12.0	2.0

Source: Company data.

Sales target in HK not difficult to achieve

Kerry currently plans to launch the So Kwun Wat project in 2H15. The project is next to the Harrow International School Hong Kong and is expected to receive satisfactory interest from buyers. It is a 100%-owned large-scale project with no less than 1,100 units. This will be the key project to drive contracted sales in HK this year, and we expect to see decent take-up.

That said, Kerry in fact has already recorded contracted sales of HK\$1 bn in HK YTD. This includes the house at Ede Road selling at HK\$82,000 psf. Together with the remaining inventory at Dragons Range, 3 Ede Road, and 8 LaSalle, we believe the sales target of HK\$6 bn is not difficult to achieve at all.

Table 2: Existing projects for sale in 2015

	Kerry's interest (%)	Total units	Units launched in 2014	Units sold in 2014	Remaining units after 2014
Dragons Range	40%	973	668	573	400
1 & 3 Ede Road	100%	41	30	29	12
8 La Salle	100%	56	56	35	21
				Total	433

Source: Company data.

New launches in China better received by market

After it missed its China contracted sales target in 2014, management is relatively confident that its sales will pick up in 2015 as it will be launching four projects in Hangzhou, Nanjing, Shanghai, and Chengdu, which will also generate better margins. YTD contracted sales in China are about HK\$1 bn.

Table 3: China contracted sales breakdown by project for FY14

Name	Product type	Attributable Contracted Sales RMB'M	Attributable GFA Sold s.m	Avg. Selling Price achieved RMB psm	KPL's interest
KEY PROJECTS SOLD					
1 Putian Arcadia Court	R	570	60,000	9,500	60%
2 Shenyang Arcadia Court & Enterprise Square	R / O	505	28,000	18,000	60%
3 Chengdu Arcadia Court Ph 1	R	326	34,000	9,700	55%
4 Hangzhou Parkview	R / C	260	18,000	15,000	100%
5 Tianjin Arcadia Court	R	238	9,800	24,000	49%
6 Ningbo Berylville	R	190	5,000	39,000	50%
7 Changsha Arcadia Court Ph 1 & 2	R	161	22,000	7,000	100%
8 Nanchang Arcadia Court	R	165	8,000	21,000	80%

Source: Company data.

Hong Kong investment properties

Gross profit from HK investment properties was down 11% Y/Y to HK\$663 mn, mainly due to the renovation of Branksome Grande in mid-levels, which commenced in 2Q14. The renovation is expected to complete in 4Q15.

MegaBox and Enterprise Square 5 remained one of the key investment properties for Kerry in Hong Kong. The average passing rent per leased GFA for the mall and office in FY14 were HK\$25 psf and HK\$26 psf. Even though the overall office occupancy dropped to 95% as of end of 2014 due to change of tenants, the occupancy improved back to 98% in January 2015 as new tenants filled the space.

China investment properties

Gross profit from China rental jumped more than we expected by 117% Y/Y to HK\$1.8 bn in 2014, mainly due to the full-year contribution of Jing An Kerry Centre in Shanghai. Other than that, the general improvement in occupancy of the key

investment properties also helped to drive up rental income. Gross margin therefore increased from 69% to 79% in FY14, and Kerry believes this is the normal margin level for completed investment properties, which can be maintained unless new properties start operating.

Table 4: General improvement in occupancy for major investment properties and hotels in China

Major PRC investment properties Occupancy rate			Major hotel properties Average occupancy rates	
	FY2014	FY2013		
1 Beijing Kerry Centre **	95%	95%	1 Kerry Hotel, Beijing	74% 56%
2 Jing An Kerry Centre Ph 1	90%	73%**	2 Jing An Shangri-La Hotel, Shanghai	65% 37%
3 Jing An Kerry Centre Ph 2 *	90%	53%	3 Shangri-La Hotel, Shenyang	44% 24%
4 Kerry Parkside Shanghai Pudong *	96%	97%	4 Kerry Hotel, Pudong Shanghai	66% 58%
5 Shenzhen Kerry Plaza Ph 1	98%	97%		
6 Shenzhen Kerry Plaza Ph 2	98%	83%		

* Excluding hotel

^ Excluded serviced apartments as it was under renovation during 2013. Renovation completed and leasing resumed in April 2014

** Excluding retail podium where renovation was completed in 4Q 2013

Source: Company data.

Attractive yield on cost for existing properties

Given the lower cost base and satisfactory performance, yields on cost for the four key properties in China are promising with all staying above 10%. The Jing An Kerry Centre Ph 1 and 2 in Shanghai (Ph2 completed in 2013) generated total annual rental revenue of HK\$1 bn with a yield on cost of 13% at 90% occupancy in 2014. Other properties are generating even higher yield on cost. We believe this is one of the strengths and bright spots Kerry possesses.

Table 5: Attractive yield on cost for key China investment properties

	Full completion	Occupancy	2014 yield on cost
Beijing Kerry Centre*	1998	95%	16%
Jing An Kerry Centre Ph1 & 2*	2013	90%	13%
Kerry Parkside, Pudong*	2011	96%	17%
Shenzhen Kerry Plaza Ph1 & 2	2012	98%	18%

Source: Company data.

Upcoming in the pipeline—Tianjin Kerry Centre

Riverview Place, the mall at Tianjin Kerry Centre, will be the next key opening of investment properties in China. The 82,000 sqm retail mall is 86% committed as of Feb 2015 and is expected to open in 1H15. The retail mix is quite diverse with 22% for fashion and accessories, 26% for F&B, 30% for entertainment & supermarket, as well as 12% for kids and family. Even though rental level and initial yield may not be attractive, we believe this will bring in additional recurrent income for the company.

Table 6: Properties under development in China

Name	Location	Type	Stage of Completion	Expected Completion	KPL's Interest (%)	KPL's Attributable GFA (s.f.)	
MIXED USED DEVELOPMENT							
1	Tianjin Kerry Centre	Tianjin	R/C/O/A	Ph 1 – Completion verification in progress	Ph 1 – 2015	49	1,626,531
2	Nanchang Arcadia Court and Hotel Development	Nanchang	R/H/O/C	Ph 1 – Hotel: Interior decoration and mechanical and engineering work in progress Ph 1 – Residential: Structure work and external work in progress	Ph 1 – 2015	80	2,052,110
3	Kerry Central, Hangzhou	Hangzhou	A/C/H/O	Basement construction and superstructure work in progress	2016	75	1,614,156
4	Shenyang Kerry Centre	Shenyang	R/O/C	Ph 1 – Residential: Interior decoration and mechanical and engineering work in progress Ph 2 – Superstructure work in progress	Ph 1 – 2016 Ph 2 – 2018	60	6,273,778
5	Zhengzhou Complex Development	Zhengzhou	R/H/O/C	Schematic design in progress	2018	55	1,293,019
						SUBTOTAL	12,859,594
OTHER INVESTMENT PROPERTIES							
6	Jinan Complex Development	Jinan	O/C/H	Superstructure work in progress	2016	55	664,768
7	Kunming Complex Development	Kunming	H/A	Schematic design in progress	2018	55	442,843
						SUBTOTAL	1,107,611
TOTAL FOR MIXED USE DEVELOPMENT AND OTHER INVESTMENT PROPERTIES							
							13,967,205
FOR SALE PROPERTIES (con't)							
8	Qinhuangdao Habitat	Qinhuangdao	R/C	Ph 1 – Interior decoration & external work, mechanical & engineering work in progress	Phase 1 – In phases between 2015 & 2016	60	2,836,677
9	Yingkou Hyades Residence and Hotel Development	Yingkou	R/H/C	Ph 1 – External work, interior decoration & mechanical & engineering work in progress	Phase 1 – In phases between 2015 & 2016	65	2,796,905
10	The Berylville, Ningbo	Ningbo	R	Ph 1 – Mechanical and engineering work and external work in progress	In phases between 2015 & 2018	50	513,550
11	Jinan Complex Development	Jinan	O/C/H	Superstructure work in progress	2016	55	664,768
12	Putian Arcadia Court and Hotel Development	Putian	R/H/C	Ph 1 – Residential: Superstructure work completed	Phase 1 – In phases from 2016	60	2,396,951
13	Hangzhou Zhijiang Castalia Court	Hangzhou	R/C	Schematic design, piling work and structural work in progress	In phases from 2016	100	2,485,795
14	Changsha Xiangjiang Arcadia Court Phase II and III	Changsha	R/C	Ph 2 – Superstructure work in progress Ph 3 – Schematic design in progress	In phases between 2016 & 2017	100	2,311,806
15	Nanjing Residential Development	Nanjing	R	Superstructure work in progress	2017	100	991,860
16	The Metropolis – Arcadia Court Phase II	Chengdu	R/C	Superstructure work in progress	2017	55	1,184,697
17	Kunming Complex Development	Kunming	H/A	Schematic design in progress	2018	55	442,843
18	The Metropolis – Arcadia Court Phase III	Chengdu	R/C	Schematic design and excavation work in progress	In phases to 2021	55	1,455,653
						SUBTOTAL	21,665,839
AS AT 31 DEC 2014							32,473,323
NEW ACQUISITION IN 2015							
19	Qianhai Project	Shenzhen	A/O/C	Project planning	In phases to 2020	100	2,093,759
GRAND TOTAL							34,567,082

Denotation: R=Residential, O=Office, C=Commercial, A=Apartment, H=Hotel

Source: Company data.

Table 7: Kerry Properties - FY14 results summary (HK\$ m)

	2013	1H14	2H14	2014	Y/Y chg	FY14E	Var (%)
Turnover	33,158	6,174	8,490	14,664	(56)	12,176	20
Net rental income - HK	745	337	326	663	(11)	712	(7)
Profit from sales of HK properties	2,836	1,782	1,118	2,900	2	2,807	3
Logistics	2,897	0	0	0	(100)	0	n/m
Hotel	(12)	49	16	65	(634)	133	(52)
Net rental income - China	841	815	1,006	1,821	117	1,667	9
Profit from sales of PRC properties	1,647	252	507	759	(54)	668	14
Dividend income	88	45	46	91	4	90	2
Others	(2,742)	(612)	(553)	(1,165)	(58)	(1,249)	(7)
Operating profit	6,300	2,667	2,467	5,135	(19)	4,828	6
Net interest	(266)	(181)	(79)	(259)	(2)	(274)	(5)
Exceptional items	0	7	837	845	n/m	695	n/m
Associated companies	571	462	407	869	52	1,169	(26)
Profit before taxation	6,605	2,956	3,632	6,589	(0)	6,418	3
Taxation	(1,689)	(679)	(675)	(1,354)	(20)	(1,184)	14
Minority interests	(504)	(473)	(377)	(850)	69	(942)	(10)
Net profit - ex revaluation	4,413	1,804	2,580	4,384	(1)	4,291	2
Core net profit	4,413	1,797	1,743	3,540	(20)	3,596	(2)
EPS (HK\$)	3.06	1.25	1.79	3.04	(1)	2.97	2
DPS (HK\$)	0.90	0.30	0.60	0.90	0	0.85	6
Payout ratio	29%	24%	34%	30%	n/m	29%	n/m
Net gearing	31%	32%	29%	29%	n/m		
Effective tax rate	28%	27%	28%	28%	n/m		
NBV (HK\$)	52.45	52.63	55.42	55.42	6		

Source: Company, J.P. Morgan estimates

Change in earnings and NAV estimates

We are raising our FY15 and FY16 earnings estimates by 2% and 36%, respectively. The more prominent revision for FY16 was mainly due to profit booking of the So Kwun Wat project as we now take the expected completion of the company (4Q16) as our assumption. That said, this is partially offset by lower profit contribution from China development properties. We are raising our DPS estimates for FY15-16 by 6% as we assume flat dividend payments.

Table 8: Summary on earnings and NAV change

	FY15E	FY16E
Old Earnings (HK\$m)	3,647	3,806
New Earnings (HK\$m)	3,725	5,161
% change	2%	36%
Old EPS (HK\$)	2.53	2.64
New EPS (HK\$)	2.58	3.57
% change	2%	35%
Old DPS (HK\$)	0.85	0.85
New DPS (HK\$)	0.90	0.90
% change	6%	6%
Old NAV (HK\$)	70.8	
New NAV (HK\$)	70.3	
% change	-1%	

Source: J.P. Morgan estimates.

Investment Thesis, Valuation and Risks

Kerry Properties (Overweight; Price Target: HK\$33.00)

Investment Thesis

While China contracted sales remain relatively slow, Kerry has exceeded its sales target in Hong Kong for FY14. The company has also managed to attain decent yield on cost for its investment property portfolio in China, and we believe the market has not been paying much attention to this. Even though the China property development business remains challenging, as the market has not ascribed any value to this business, we believe this will not derail the re-rating story of Kerry Properties.

Valuation

Our Dec 2015 PT of HK\$33 is based on a 53% target discount to NAV, which is 1SD below the long-term average discount to NAV of 36%.

	Dec-15 HK\$MM	HK\$/sh	% of GAV
Hong Kong & Macau properties			
Property under development			
Lux Residential	20,586	14.2	16.4%
Mass Residential	6,522	4.5	5.2%
	27,108	18.8	21.6%
Property investment			
Lux Residential	12,128	8.4	9.6%
Office	6,024	4.2	4.8%
Retail	6,783	4.7	5.4%
Car Park	488	0.3	0.4%
	25,423	17.6	20.2%
Hotel	328	0.2	0.3%
HK Properties total	52,859	36.6	42.1%
China properties			
Property under development			
Residential	12,338	8.5	9.8%
Commercial	1,833	1.3	1.5%
	14,172	9.8	11.3%
Property investment			
Existing	31,953	22.1	25.4%
Under development	9,248	6.4	7.4%
	41,201	28.5	32.8%
Existing hotel	4,613	3.2	3.7%
China properties total	59,986	41.5	47.7%
Overseas properties total	1,816	1.3	1.4%
Total properties	114,662	79.4	91.2%
Logistics network			
Logistics and distribution	8,649	6.0	6.9%
Total logistics network	8,649	6.0	6.9%
Infrastructure			
Western Harbour Crossing (15%)	511	0.4	0.4%
Total infrastructure	511	0.4	0.4%
Available for sale investments	1,863	1.3	1.4%
Gross Asset Value	125,684	87.0	92.8%
Net Debt	(20,847)	-14.4	
Associated debt	(3,208)	-2.2	
NAV	101,629	70.3	
Number of shares (MM)	1,445		
NAV per share	70.3		

Source: J.P. Morgan estimates

Risks to Rating and Price Target

Downside risks to our OW rating and price target include worse-than-expected Hong Kong and China residential sales, worse-than-expected China project delivery, lower-than-expected yield from new investment properties in China, and interest rate hikes.

Kerry Properties: Summary of Financials

Income Statement					Cash flow statement				
HK\$ in millions, year end Dec	FY13	FY14	FY15E	FY16E	HK\$ in millions, year end Dec	FY13	FY14	FY15E	FY16E
Revenues	33,158	14,664	10,488	19,212	EBIT	6,300	5,135	3,798	6,586
% change Y/Y	(3.9%)	(55.8%)	(28.5%)	83.2%	Depr. & amortization	583	641	706	776
EBIT	6,300	5,135	3,798	6,586	Change in working capital	(7,552)	(600)	(1,128)	1,089
% change Y/Y	(5.3%)	(18.5%)	(26.0%)	73.4%	Others	(1,125)	(2,036)	(1,802)	(1,522)
EBIT Margin	19.0%	35.0%	36.2%	34.3%	Cash flow from operations	(1,525)	3,680	2,590	7,031
Net Interest	(266)	(259)	(309)	(335)	Capex	(6,178)	(3,000)	(3,000)	(3,000)
Earnings before tax	6,605	6,589	5,268	7,501	Disposal/(purchase)	-	-	-	-
% change Y/Y	(2.5%)	(0.3%)	(20.1%)	42.4%	Net Interest	(1,001)	(930)	(1,044)	(1,108)
Tax	(1,689)	(1,354)	(907)	(1,625)	Free cash flow	(7,341)	878	(154)	4,293
as % of EBT	25.6%	20.6%	17.2%	21.7%	Equity raised/(repaid)	102	0	0	0
Net income (reported)	4,413	4,384	3,725	5,161	Debt raised/(repaid)	0	0	1,000	0
% change Y/Y	(6.0%)	(0.7%)	(15.0%)	38.5%	Other	6,363	0	(1,000)	1,000
Core net profit	4,413	3,540	3,725	5,161	Dividends paid	(1,832)	(1,300)	(1,300)	(1,300)
% change Y/Y	(6.2%)	(19.8%)	5.2%	38.5%	Beginning cash	14,155	11,072	10,452	8,742
Shares outstanding	1,444	1,445	1,445	1,445	Ending cash	11,072	10,452	8,742	12,472
EPS (reported) (HK\$)	3.06	3.04	2.58	3.57	DPS (HK\$)	0.90	0.90	0.90	0.90
% change Y/Y	(6.2%)	(0.9%)	(15.1%)	38.5%					
Core EPS (HK\$)	3.06	2.45	2.58	3.57					
% change Y/Y	(6.4%)	(20.0%)	5.2%	38.5%					
Balance sheet					Ratio Analysis				
HK\$ in millions, year end Dec	FY13	FY14	FY15E	FY16E	%, year end Dec	FY13	FY14	FY15E	FY16E
Cash and cash equivalents	11,494	11,391	8,742	12,472	EBIT margin	19.0%	35.0%	36.2%	34.3%
Accounts receivable	2,669	3,681	4,808	3,719	Net margin	13.3%	24.1%	35.5%	26.9%
Inventories	4,000	3,589	3,589	3,589	SG&A/Sales	-	-	-	-
Others	6,973	8,329	8,329	8,329	Sales per share growth	(4.1%)	(55.9%)	(28.5%)	83.2%
Current assets	25,319	27,180	25,658	28,299	Sales growth	(3.9%)	(55.8%)	(28.5%)	83.2%
LT investments	20,438	21,355	21,355	21,355	Net profit growth	(6.2%)	(19.8%)	5.2%	38.5%
Net fixed assets	96,632	96,898	100,674	104,589	EPS growth	(6.4%)	(20.0%)	5.2%	38.5%
Total Assets	142,389	145,432	147,686	154,242	Interest coverage (x)	25.9	22.3	14.6	22.0
Liabilities					Net debt to total capital	20.5%	19.3%	20.5%	19.2%
ST loans	3,965	3,092	3,092	3,092	Net debt to equity	25.8%	23.9%	25.8%	23.8%
Payables	7,765	7,527	7,527	7,527	Sales/assets	0.2	0.1	0.1	0.1
Others	2,871	1,844	1,844	1,844	Assets/equity	1.9	1.8	1.8	1.8
Total current liabilities	14,601	12,463	12,463	12,463	ROE	6.0%	4.5%	4.6%	6.1%
Long-term debt	31,011	31,147	30,974	33,670	ROCE	4.4%	3.5%	2.7%	4.3%
Other liabilities	5,630	6,062	6,062	6,062					
Total Liabilities	51,242	49,672	49,499	52,195					
Shareholder's equity	75,755	80,079	82,506	86,366					
BVPS	52.45	55.42	57.10	59.77					

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

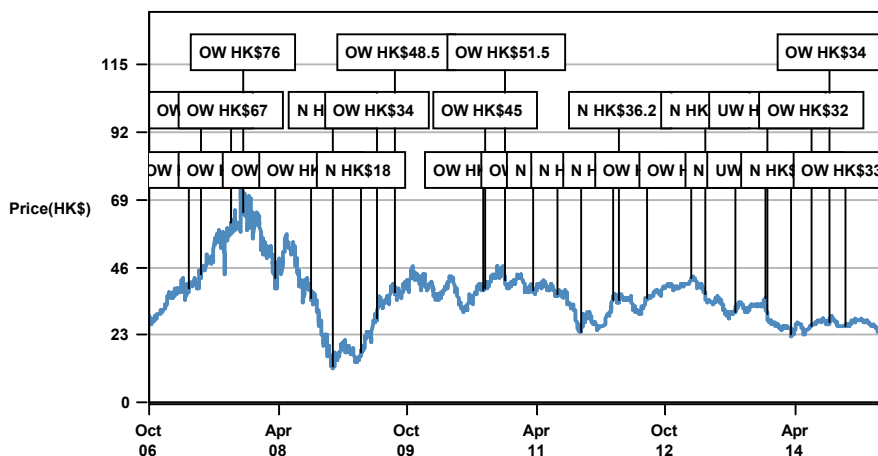
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Kerry Properties (0683.HK, 683 HK) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage Mar 23, 2007.

Date	Rating	Share Price (HK\$)	Price Target (HK\$)
23-Mar-07	OW	39.20	45.00
09-May-07	OW	43.50	50.00
16-Sep-07	OW	61.25	65.00
17-Sep-07	OW	61.25	67.00
07-Nov-07	OW	64.65	76.00
20-Mar-08	OW	41.95	50.00
20-Aug-08	OW	35.20	40.00
17-Nov-08	N	12.30	15.00
19-Mar-09	N	16.80	18.00
26-May-09	OW	28.85	34.00
12-Aug-09	OW	37.70	48.50
16-Aug-10	OW	38.05	43.50
27-Aug-10	OW	38.65	45.00
21-Nov-10	OW	41.90	51.50
18-Mar-11	OW	38.10	51.00
26-Jun-11	N	36.70	35.60
07-Oct-11	N	24.00	25.30
16-Feb-12	N	35.10	37.30
15-Mar-12	N	35.00	36.20
09-Jul-12	OW	35.35	41.00
17-Jan-13	OW	42.50	42.00
15-Mar-13	N	36.70	35.00
22-Jul-13	N	30.95	34.50
26-Nov-13	UW	35.30	31.50
02-Dec-13	UW	29.85	29.80
17-Mar-14	N	23.25	26.40
04-Jun-14	OW	25.70	32.00
21-Aug-14	OW	27.60	34.00
30-Oct-14	OW	26.00	33.00

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