

RESULTS FLASH

WHARF HOLDINGS 4 HK

HONG KONG / REAL ESTATE

BUY

TARGET PRICE HKD65.00
UP/DOWNSIDE +28.1%
CLOSE HKD50.75

HOW WE DIFFER FROM CONSENSUS		MARKET RECS	
TARGET PRICE (%)	0.2	POSITIVE	10
EPS 2014 (%)	(3.7)	NEUTRAL	9
EPS 2015 (%)	(2.1)	NEGATIVE	1

HK retail & China sales still growing

■ Earnings miss but DPS increases to a new high

Underlying profit dropped 7% y-y to HKD10.5b, 7% below our estimate and 10% below the Bloomberg consensus estimate. The decline was mainly due to a significant fall of operating margin from China development properties, from 22.4% in 2013 to 10.8% in 2014. On a positive note, its full-year DPS rose 6.5% y-y to HKD1.81 and its BVPS rose 8.3% h-h to HKD100.82 without changes in cap rates.

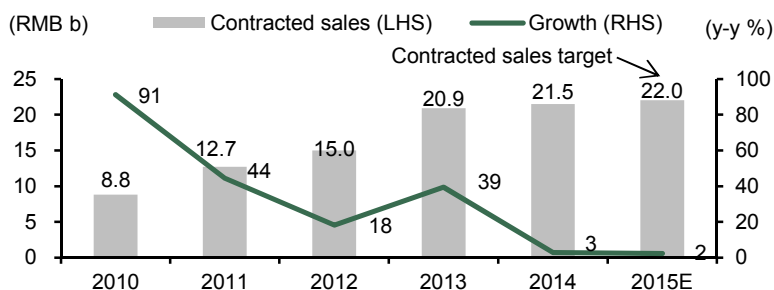
■ Expecting mild growth from HK retail sales & China resi sales

Although retail sales of its malls at Harbour City and Times Square dropped by 4.6% and 9.7% y-y in Jan 2015, management mentioned that retail sales rose about 3% y-y in Feb according to preliminary data. It expects retail sales of its malls in HK to achieve single-digit growth in 2015. In China, Wharf sold RMB21.5b in 2014 and less than RMB2b in Jan-Feb 2015. It therefore expects relatively mild growth in 2015, with a China sales target of RMB22b.

■ BUY with a TP of HKD65.0

We are positive on Wharf's leasing performance for its malls in HK given its strong capability in retail leasing and healthy demand for retailers in prime malls. At the same time, incremental easing measures with Wharf's sellable resource of 2.8m sqm of GFA should support its China resi sales. Other potential catalysts are launches of Mount Nicholson (19 villas and 48 apartment units) at the Peak and Peninsula East (256 units) in Yau Tong this year; and any increase of its stake in Wharf by Wheelock (20 HK). We have a BUY rating and TP of HKD65.0 on a 35% discount to our FY15E NAV of HKD100.0.

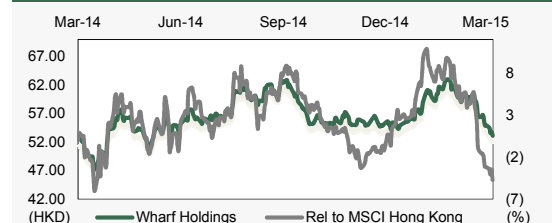
Contracted sales in China



Sources: Wharf; BNP Paribas estimates

KEY STOCK DATA

YE Dec (HKD m)	2013A	2014E	2015E	2016E
Revenue	31,887	36,121	46,834	49,439
Rec. net profit	11,298	11,289	13,070	15,231
Recurring EPS (HKD)	3.64	3.64	4.31	5.03
EPS growth (%)	2.3	(0.1)	18.4	16.5
Recurring P/E (x)	13.9	13.9	11.8	10.1
Dividend yield (%)	3.3	3.4	3.6	4.3
EV/EBITDA (x)	12.6	12.4	10.6	9.4
Price/book (x)	0.6	0.5	0.5	0.5
Net debt/Equity (%)	20.4	18.2	18.1	19.5
ROE (%)	4.3	4.1	4.6	5.2



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	(15.8)	(7.5)	1.8
Relative to country (%)	(9.5)	(6.3)	(3.6)
Mkt cap (USD m)	19,802		
3m avg daily turnover (USD m)	30.4		
Free float (%)	45		
Major shareholder	Wheelock and Company Limited (55%)		
12m high/low (HKD)	63.00/47.20		
3m historic vol. (%)	19.6		
ADR ticker	-		
ADR closing price (USD)	-		
Issued shares (m)	3,030		

Sources: Bloomberg consensus; BNP Paribas estimates



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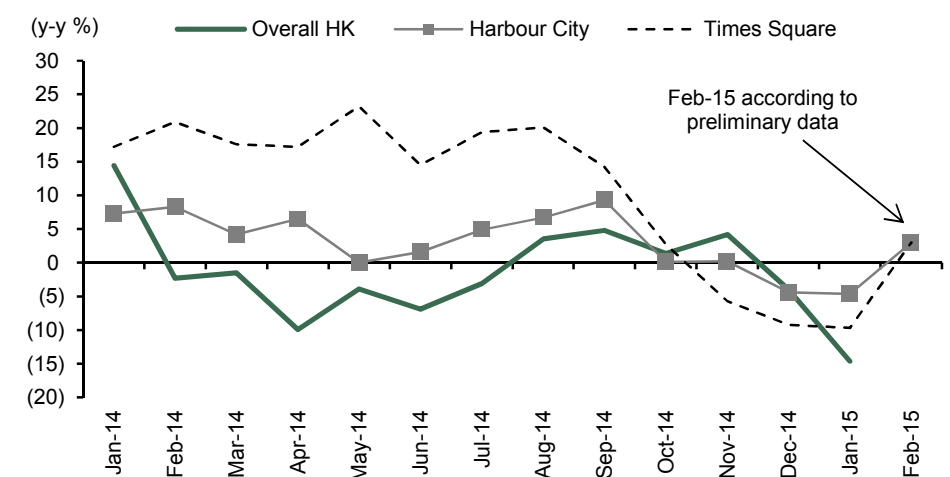
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EXHIBIT 1: Summary of annual results in 2014

	2014 (HKD m)	2013 (HKD m)	Growth (y-y %)	Remark
Revenue				
Harbour City - Retail	5,674	4,909	15.6	Retail sales rose 3.4% y-y in 2014
Harbour City - Office	2,121	1,885	12.5	Occupancy rate increased from 95% to 98% during 2014
Times Square - Retail	1,883	1,492	26.2	Retail sales rose 11% y-y in 2014
Times Square - Office	661	604	9.4	Occupancy rate increased from 95% to 98% during 2014
Others HK investment properties	1,074	982	9.4	
HK investment properties - total	11,413	9,872	15.6	
China investment properties	1,984	1,261	57.3	Gross rental revenue of Chengdu IFS mall was RMB483m in 2014 and expects to grow by 24% y-y to RMB600m in 2015
Hotels	1,600	1,526	4.8	
HK development properties	113	72	56.9	
China development properties	15,426	11,442	34.8	1.66m sqm of GFA were completed and recognized in 2014
Logistics	3,319	3,226	2.9	
Communications, media and entertainment	3,616	3,789	(4.6)	
Others	665	699	(4.9)	
Total revenue	38,136	31,887	19.6	
Operating profit				
HK investment properties	9,905	8,507	16.4	Operating margin improved from 86.2% in 2013 to 86.8% in 2014
China investment properties	991	761	30.2	Operating margin dropped from 60.3% in 2013 to 49.9% in 2014 mainly due to completion of new project in Chengdu
Hotels	387	404	(4.2)	
HK development properties	93	68	36.8	
China development properties	1,669	2,565	(34.9)	Operating margin dropped from 16.1% in 1H14 to 8.1% in 2H14
Logistics	1,051	974	7.9	
Communications, media and entertainment	211	212	(0.5)	
Others	(24)	(211)	na	
Total operating profit	14,283	13,280	7.6	
Underlying net profit	10,474	11,298	(7.3)	Earnings breakdown in 2014: HK & China IP = HKD7.6b (+16% y-y); China DP = HKD1.4b (-59% y-y); Others = HKD1.5b (+15% y-y)
Underlying EPS (HKD)	3.46	3.73	(7.2)	
Full-year DPS (HKD)	1.81	1.70	6.5	Dividend payout ratio increased from 45.6% in 2013 to 52.3% in 2014
Book value per share (HKD)	100.82	93.08 (end-1H14)	8.3 (h-h)	Cap rates remained unchanged
Net gearing (%)	18.90	20.6 (end-1H14)	(1.7)ppt (h-h)	

Source: Wharf; BNP Paribas

EXHIBIT 2: Retail sales growth of Wharf's malls vs overall HK



Sources: Wharf Holdings; Census and Statistics Department, BNP Paribas

Financial statements

Wharf Holdings

Profit and Loss (HKD m) Year Ending Dec	2012A	2013A	2014E	2015E	2016E
Revenue	30,856	31,887	36,121	46,834	49,439
Cost of sales ex depreciation	(6,916)	(8,387)	(12,158)	(20,637)	(19,593)
Gross profit ex depreciation	23,940	23,500	23,963	26,197	29,846
Other operating income	0	0	0	0	0
Operating costs	(8,340)	(8,775)	(7,706)	(7,701)	(8,096)
Operating EBITDA	15,600	14,725	16,257	18,496	21,750
Depreciation	(1,430)	(1,445)	(1,725)	(1,725)	(1,725)
Goodwill amortisation	0	0	0	0	0
Operating EBIT	14,170	13,280	14,532	16,770	20,024
Net financing costs	(939)	(552)	(1,271)	(1,699)	(2,081)
Associates	2,114	2,716	1,324	1,860	1,575
Recurring non operating income	0	0	0	0	0
Non recurring items	37,234	19,016	0	0	0
Profit before tax	52,579	34,460	14,584	16,931	19,519
Tax	(4,215)	(4,328)	(3,049)	(3,595)	(4,000)
Profit after tax	48,364	30,132	11,535	13,337	15,519
Minority interests	(1,101)	(752)	(246)	(267)	(289)
Preferred dividends	0	0	0	0	0
Other items	1,011	934	0	0	0
Reported net profit	48,274	30,314	11,289	13,070	15,231
Non recurring items & goodwill (net)	(37,234)	(19,016)	0	0	0
Recurring net profit	11,040	11,298	11,289	13,070	15,231
Per share (HKD)					
Recurring EPS *	3.56	3.64	3.64	4.31	5.03
Reported EPS	15.94	10.00	3.73	4.31	5.03
DPS	1.65	1.70	1.75	1.85	2.20
Growth					
Revenue (%)	28.5	3.3	13.3	29.7	5.6
Operating EBITDA (%)	22.0	(5.6)	10.4	13.8	17.6
Operating EBIT (%)	24.4	(6.3)	9.4	15.4	19.4
Recurring EPS (%)	33.4	2.3	(0.1)	18.4	16.5
Reported EPS (%)	42.2	(37.2)	(62.8)	15.8	16.5
Operating performance					
Gross margin inc depreciation (%)	73.0	69.2	61.6	52.3	56.9
Operating EBITDA margin (%)	50.6	46.2	45.0	39.5	44.0
Operating EBIT margin (%)	45.9	41.6	40.2	35.8	40.5
Net margin (%)	35.8	35.4	31.3	27.9	30.8
Effective tax rate (%)	8.0	12.6	20.9	21.2	20.5
Dividend payout on recurring profit (%)	46.3	46.6	48.0	42.9	43.8
Interest cover (x)	17.3	29.0	12.5	11.0	10.4
Operating ROIC (%)	4.6	3.8	3.9	4.5	5.0
ROIC (%)	4.6	4.0	3.7	4.3	4.7
ROE (%)	4.9	4.3	4.1	4.6	5.2
ROA (%)	3.8	3.2	3.0	3.4	3.9
*Pre exceptional, pre-goodwill and fully diluted					
Revenue By Division (HKD m)					
Property Rental	9,880	11,133	13,155	14,577	15,518
Property Sales	12,207	11,514	14,321	22,926	24,214
Others	8,769	9,240	8,645	9,331	9,707

Sources: Wharf Holdings; BNP Paribas estimates

Financial statements

Wharf Holdings

Cash Flow (HKD m) Year Ending Dec	2012A	2013A	2014E	2015E	2016E
Recurring net profit	11,040	11,298	11,289	13,070	15,231
Depreciation	1,430	1,445	1,725	1,725	1,725
Associates & minorities	(1,692)	(1,631)	180	(126)	387
Other non-cash items	4,711	3,972	4,566	5,560	6,369
Recurring cash flow	15,489	15,084	17,761	20,229	23,713
Change in working capital	(721)	2,438	(1,830)	(10,487)	(16,846)
Capex - maintenance	0	0	0	0	0
Capex - new investment	(13,522)	(14,036)	(4,056)	(3,409)	(4,801)
Free cash flow to equity	1,246	3,486	11,875	6,333	2,065
Net acquisitions & disposals	(5,125)	745	0	0	0
Dividends paid	(3,483)	(5,150)	(5,303)	(5,454)	(5,909)
Non recurring cash flows	(4,458)	(427)	(1,363)	(1,776)	(2,189)
Net cash flow	(11,820)	(1,346)	5,210	(897)	(6,032)
Equity finance	0	48	0	0	0
Debt finance	(2,350)	8,105	(94)	(102)	0
Movement in cash	(14,170)	6,807	5,116	(999)	(6,032)
Per share (HKD)					
Recurring cash flow per share	5.11	4.98	5.86	6.68	7.83
FCF to equity per share	0.41	1.15	3.92	2.09	0.68
Balance Sheet (HKD m) Year Ending Dec	2012A	2013A	2014E	2015E	2016E
Working capital assets	54,195	58,586	63,480	70,572	77,364
Working capital liabilities	(27,650)	(37,243)	(41,769)	(40,099)	(31,963)
Net working capital	26,545	21,343	21,711	30,473	45,401
Tangible fixed assets	251,392	285,258	287,680	289,440	292,624
Operating invested capital	277,937	306,601	309,390	319,913	338,025
Goodwill	297	297	297	297	297
Other intangible assets	109	137	137	137	137
Investments	43,091	45,500	45,320	45,446	45,059
Other assets	1,119	759	759	759	759
Invested capital	322,553	353,294	355,903	366,553	384,277
Cash & equivalents	(18,795)	(24,515)	(29,631)	(28,632)	(22,600)
Short term debt	5,330	9,502	9,502	9,502	9,502
Long term debt *	69,090	73,085	73,085	73,085	73,085
Net debt	55,625	58,072	52,956	53,955	59,987
Deferred tax	7,827	9,630	11,216	13,087	15,168
Other liabilities	2,195	1,337	1,337	1,337	1,337
Total equity	248,501	275,557	281,544	289,159	298,481
Minority interests	8,405	8,698	8,850	9,015	9,303
Invested capital	322,553	353,294	355,903	366,553	384,277
* includes convertibles and preferred stock which is being treated as debt					
Per share (HKD)					
Book value per share	82.03	90.94	92.91	95.43	98.50
Tangible book value per share	81.90	90.80	92.77	95.28	98.36
Financial strength					
Net debt/equity (%)	21.7	20.4	18.2	18.1	19.5
Net debt/total assets (%)	15.1	14.0	12.4	12.4	13.7
Current ratio (x)	2.2	1.8	1.8	2.0	2.4
CF interest cover (x)	16.7	32.7	13.5	6.7	4.3
Valuation	2012A	2013A	2014E	2015E	2016E
Recurring P/E (x) *	14.2	13.9	13.9	11.8	10.1
Recurring P/E @ target price (x) *	18.2	17.8	17.8	15.1	12.9
Reported P/E (x)	3.2	5.1	13.6	11.8	10.1
Dividend yield (%)	3.3	3.3	3.4	3.6	4.3
P/CF (x)	9.9	10.2	8.7	7.6	6.5
P/FCF (x)	123.4	44.1	12.9	24.3	74.5
Price/book (x)	0.6	0.6	0.5	0.5	0.5
Price/tangible book (x)	0.6	0.6	0.5	0.5	0.5
EV/EBITDA (x) **	11.9	12.6	12.4	10.6	9.4
EV/EBITDA @ target price (x) **	14.4	15.0	14.9	12.7	11.3
EV/invested capital (x)	0.7	0.6	0.6	0.6	0.6
* Pre exceptional, pre-goodwill and fully diluted ** EBITDA includes associate income and recurring non-operating income					

Sources: Wharf Holdings; BNP Paribas estimates

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APPENDIX

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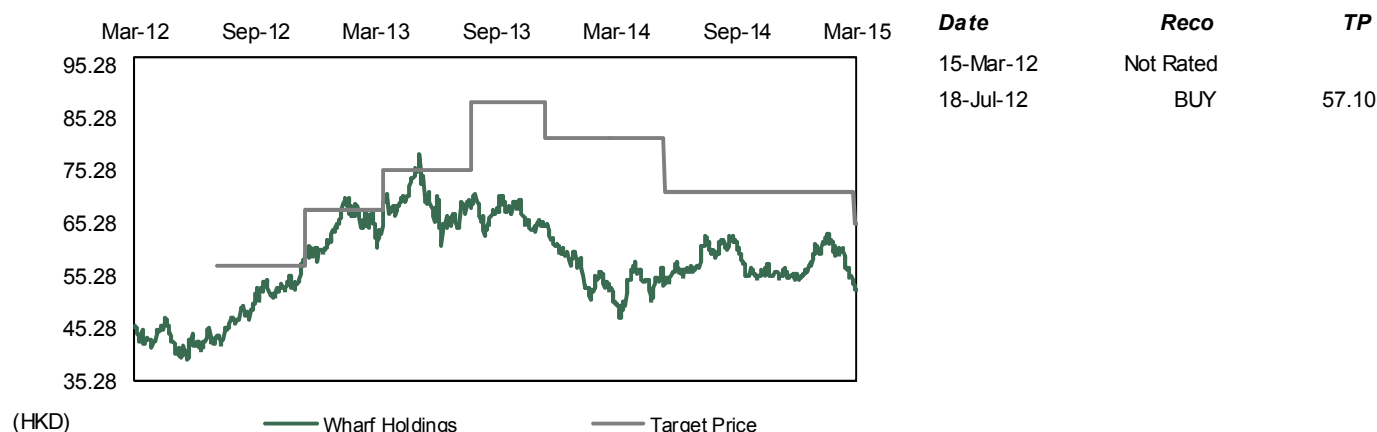
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History of change in investment rating and/or target price

Wharf Holdings (4 HK)



Wee Liat Lee started covering this stock from 18-Jul-2012

Price and TP are in local currency

Valuation and risks: Key downside risk to our NAV-based target price is a faster-than-expected US interest rate hike, lifting the cap rates for investment properties.

Source: Bloomberg, BNP Paribas

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