

FIG
Real Estate
Equity – Hong Kong

Overweight

Target price (HKD)	29.20
Share price (HKD)	23.55
Forecast dividend yield (%)	2.6
Potential return (%)	26.6

Note: Potential return equals the percentage difference between the current share price and the target price, plus the forecast dividend yield

Performance	1M	3M	12M
Absolute (%)	-6.7	2.6	15.2
Relative ^A (%)	-4.0	-2.9	3.0

Index^A HANG SENG INDEX

RIC 1972.HK
 Bloomberg 1972 HK

Market cap (USDm) 17,760
 Market cap (HKDm) 137,768

Enterprise value (HKDm) 153904
 Free float (%) 2

Note: (V) = volatile (please see disclosure appendix)

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Swire Properties (1972 HK)

OW: FY14 results in-line

- ▶ **FY14 underlying earnings up 13% y-o-y**
- ▶ **Solid rental growth and strong property sales in HK drove FY14 earnings**
- ▶ **Reiterate OW with unchanged target price of HKD29.2**

FY14 earnings are in-line. Swire Properties reported FY14 underlying earnings of HKD7,152m, up 13% y-o-y and largely in line with ours and consensus estimates. The y-o-y increase in underlying earnings was driven by higher contributions from property trading and net rental growth of 8% y-o-y. Swire Properties declared a second interim DPS of HKD0.44, bringing FY14 DPS to HKD0.66, up 10% y-o-y. FY14 DPS implies a payout ratio of 54%, compared to FY13's 55%. Book NAV rose 3% h-o-h to HKD35.5 as of end-2014, although there appeared to be a tiny revaluation loss (consolidated) of HKD400m, or -0.2% h-o-h in 2H14 based on our estimates. Gearing was largely flat h-o-h at 16.3% as of end-2014.

Solid rental growth. Gross rental grew 7% y-o-y. By asset class, rental grew for retail (+8% y-o-y), followed by residential (+7% y-o-y) and office (+6% y-o-y). Rental margin came in at 76%, lower than 78% in 1H14 but in line with 76% in FY13 and our assumption. China gross rental saw a faster growth of 17% y-o-y and accounted for 18% of total in FY14, up from 17% in FY13.

Strong residential sales. Operating profits from property trading rose 14% y-o-y with sales recognized from more projects in HK (four in FY14 vs two in FY13). In FY14, property sales were recognized for Mount Parker Residences (82 of 92 total units), Dunbar Place (52 of 53 total units), ARGENTA (15 of 30 total units) and AZURA (3 of 126 total units). Development margin (consolidated) came in at 31%, compared to 1H14's 30% and FY13's 47% as well as our assumed 36%.

We have an OW rating and a target price of HKD29.2. Our TP (unchanged) is based on a 30% discount to forward NAV of HKD41.6. Our target discount is based on 0.5 standard deviations below the historical average discount, benchmarking against Hongkong Land's NAV discount history given the short trading history of Swire Properties stock. With Swire Properties' stock trading at a 43% NAV discount (vs. HK landlords' 36% on current average), we believe the SPL stock offers a favourable risk-reward profile. The company's diverse office portfolio in HK (45% GAV) and expansionary growth should help drive NAV growth in the medium term. Catalysts include improved performance at Pacific Place. Key downside risks include: (1) lower-than-expected rental achieved; and (2) rising US long-term bond yield trends which could lead to upward pressure on commercial cap rates in HK.

Swire Properties FY14 comparison table

Year to December (HKDm)	FY13	FY14	y-o-y	FY14e	Diff (%)
Profit & loss					
Revenue					
Office	5,386	5,707	6%	5,540	3%
Retail	3,961	4,260	8%	4,335	-2%
Residential	329	353	7%	351	1%
Gross rental income	9,676	10,320	7%	10,225	1%
Property trading	2,207	3,842	74%	4,077	-6%
Hotel	942	1,089	16%	1,030	6%
Other property income	110	136	24%	116	18%
Total revenue	12,935	15,387	19%	15,448	0%
Total operating costs	(4,691)	(6,407)	37%	(6,244)	3%
EBITDA	8,635	9,340	8%	9,618	-3%
Depreciation and amortisation	(391)	(360)	-8%	(414)	-13%
Operating profits					
Property investment	7,317	7,878	8%	7,732	2%
Property trading	1,035	1,180	14%	1,456	-19%
Hotels	(65)	(22)	-66%	61	-136%
Other operating profits	(43)	(56)	30%	(45)	24%
Total operating profits	8,244	8,980	9%	9,204	-2%
Total non-recurring items	6,933	2,968	-57%	72	n.a
Net finance charges	(1,447)	(1,227)	-15%	(1,466)	-16%
Total share of JCE/associates	269	648	141%	551	18%
Pre-tax profits	13,999	11,369	-19%	8,360	36%
Total tax	(1,344)	(1,646)	22%	(1,003)	64%
After-tax profits	12,655	9,723	-23%	7,358	32%
Minority interests	(130)	(207)	59%	(179)	16%
Net profit to shareholders	12,525	9,516	-24%	7,179	33%
Non-recurring items					
Revaluation	(7,017)	(3,148)			n.a
Deferred tax	573	710			n.a
Other adjustment	267	74			n.a
Underlying Net Profit	6,348	7,152	13%	7,179	0%
Per share calculations					
Weighted avg shares (m)	5,850	5,850		5,850	
EPS	2.14	1.63	-24%	1.23	33%
Underlying EPS	1.09	1.22	13%	1.23	0%
DPS	0.60	0.66	10%	0.61	8%
Dividend payout (based on underlying EPS)	55%	54%		50%	

Source: Company data, HSBC estimates

Disclosure appendix

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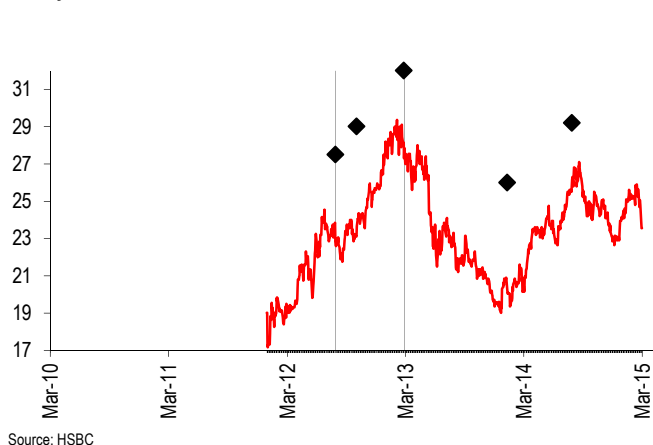
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Share price and rating changes for long-term investment opportunities

Swire Properties (1972.HK) Share Price performance HKD Vs HSBC rating history



Source: HSBC

Recommendation & price target history

From	To	Date
Overweight (V)	Overweight (V)	14 August 2012
Overweight (V)	Overweight	14 March 2013
Target Price	Value	Date
Price 1	27.50	14 August 2012
Price 2	29.00	19 October 2012
Price 3	32.00	14 March 2013
Price 4	26.00	27 January 2014
Price 5	29.20	14 August 2014

Source: HSBC

HSBC & Analyst disclosures

Disclosure checklist

Company	Ticker	Recent price	Price Date	Disclosure
SWIRE PROPERTIES	1972.HK	23.55	18-Mar-2015	4, 5, 6, 7

Source: HSBC

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