

Industrials  
 Conglomerates  
 Equity – Hong Kong

## Overweight

Target price (HKD)	115.00
Share price (HKD)	102.40
Forecast dividend yield (%)	3.8
Potential return (%)	16.1

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 (%)	-3.2	3.4	18.6
Relative <sup>A</sup> (%)	-0.4	-2.1	6.1

Index<sup>A</sup> HANG SENG INDEX

RIC 0019.HK  
 Bloomberg 19 HK

Market cap (USDm) 11,954  
 Market cap (HKDm) 92,731

Enterprise value (HKDm) 135917  
 Free float (%) 64

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

19 March 2015

Mark Webb\*

Analyst  
 The Hongkong and Shanghai Banking Corporation Limited  
 +852 2996 6574  
 markwebb@hsbc.com.hk

View HSBC Global Research at:  
<http://www.research.hsbc.com>

\*Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/qualified pursuant to FINRA regulations

Issuer of report: The Hongkong and Shanghai Banking Corporation Limited

## Disclaimer & Disclosures

This report must be read with the disclosures and the analyst certifications in the Disclosure appendix, and with the Disclaimer, which forms part of it

# Swire Pacific (19 HK)

OW: Aviation and property remain the focus after soft 2014

- **2014 recurring profit up 11% y-o-y but 10% below forecast. Growth in rents and Cathay partly offset by weak Marine**
- **Guidance generally positive, but upside dominated by property and aviation. Marine facing significant headwinds. 2014e dividend growth highlights confidence in outlook**
- **Maintain OW at an unchanged TP of HKD115, based on a 25% discount to HSBC appraised valuation of HKD154/share**

**2014 recurring net was HKD9,371m (EPS HKD6.23), up 11% y-o-y** and 10% below HSBC's forecast. This recurring figure excludes net one-off gains in 2014 of HKD1.7bn. 2014 DPS was HKD3.90 (HSBC forecast HKD3.65) up 11% y-o-y, reflecting management's confidence in the cashflow generation capabilities of its core businesses. The main drivers of the increase in recurring profit were higher property investment income and an increased contribution from Cathay Pacific, which were partly offset by a decline in contribution from the main marine business, Swire Pacific Offshore (SPO). Aviation and SPO were the main reasons why the result was below forecast.

**The guidance for 2015 was generally positive.** Management expect Cathay Pacific to have one of its better years (see: [Cathay Pacific \(293 HK\): OW: Remains on track for a robust 2015 rebound](#), 18 March 2015). Swire are upbeat on property and expect good growth in its Mainland retail malls, significant property trading profit in 2015e and believe its HK investment properties are well placed in a soft market. Beverages should have an improved performance after a disappointing 2H14. Swire expect good growth in its US beverage business, helped by the full year impact of its new franchise area. Low raw material prices will benefit all its bottling operations. The key risk area is SPO. Low oil prices caused a faster than expected slowdown in 2H14 and are expected to create a difficult 12-18 months for this offshore support vessel business.

**Remain OW at an HKD115 target** which is set at a 25% discount to our unchanged appraised valuation of HKD154/share. At our target, Swire Pacific would trade at 12x 2016e PE, which compares to its last five-year average of 13x. We believe the potential share price upside is supported by a cyclical recovery in its aviation businesses and an attractive 3.8% 2015e dividend yield.

#### 2014 result versus prior year and HSBC forecast

HKDm	2014	2013	Chge %	HSBC 2014e	Diff %	2H14	2H13	Chge %	HSBC 2H14e	Diff %
Property	5,841	5,189	13%	5,887	-1%	2,808	2,860	-2%	2,854	-2%
Aviation	1,822	1,656	10%	2,216	-18%	1,281	1,417	-10%	1,675	-24%
Beverages	776	732	6%	966	-20%	371	446	-17%	561	-34%
Marine	1,060	1,209	-12%	1,359	-22%	411	590	-30%	710	-42%
Other	-128	-303	-58%	-61	na	30	-74	na	97	na
<b>Recurring NP</b>	<b>9,371</b>	<b>8,414</b>	<b>11%</b>	<b>10,367</b>	<b>-10%</b>	<b>4,901</b>	<b>5,239</b>	<b>-6%</b>	<b>5,897</b>	<b>-17%</b>
Rec ex aviation	7,549	6,758	12%	8,151	-7%	3,620	3,822	-5%	4,222	-14%
<b>Recurring EPS (HKD)</b>	<b>6.23</b>	<b>5.59</b>	<b>11%</b>	<b>6.89</b>	<b>-10%</b>	<b>3.26</b>	<b>3.48</b>	<b>-6%</b>	<b>3.92</b>	<b>-17%</b>
DPS (HKD)	3.90	3.50	11%	3.65	7%	2.80	2.50	12%	2.55	10%

Source: Company and HSBC estimates

## Overweight, target price HKD115

Our appraised valuation of Swire Pacific is HKD154/share and is based on our valuation of each business from which we deduct the holding company 2015e net debt. Swire Properties, Cathay Pacific and HAECO's appraised value is set at one year-forward target price for each stock. We value Marine Services and Swire Beverages based on listed comparables at consensus target prices. Our target price of HKD115/share is set at a 25% discount to our appraised value of HKD154. At our target price, Swire Pacific would trade at just under 12x 2016e PE, versus its last five-year average of 13x.

#### HSBC appraised valuation of Swire Pacific

HKDm	EV	Net debt	Equity	HKD/share	% Equity	Assumptions
Swire Props	174,838	-34,766	140,072	93	61%	Target price of HKD29.2
Cathay Pac	37,352		37,352	25	16%	Target price of HKD21.1 (1.25x one-year forward BV which is the average since 2000)
HAECO	13,082	-1,605	11,476	8	5%	Target price of HKD92
<b>Listed total</b>	<b>225,272</b>	<b>-36,371</b>	<b>188,901</b>	<b>126</b>	<b>82%</b>	
Marine	30,704	-9,342	21,362	14	9%	12x PE - Offshore rig support 2016e average
Beverages	21,180		21,180	14	9%	18x PE - 2016e Coca-Cola bottler average
Other	9,200		9,200	6	4%	Mainly OPUS HK directly owned by Swire Pac
Head office debt		-9,620	-9,620	-6	-4%	
<b>Unlisted total</b>	<b>61,084</b>	<b>-18,961</b>	<b>42,122</b>	<b>28</b>	<b>18%</b>	
<b>Total</b>	<b>286,356</b>	<b>-55,333</b>	<b>231,023</b>	<b>154</b>	<b>100%</b>	
<b>Target (25% Disc.)</b>			<b>173,267</b>	<b>115</b>		

Source: HSBC estimates

Under our research model, for stocks without a volatility indicator, the Neutral band is 5ppts above and below the hurdle rate for Hong Kong stocks of 8.5%. Our target price implies a potential return of 16.1% (including a 2015e dividend yield of 3.8%), above the Neutral band; therefore, we reiterate our Overweight rating on the stock. Potential return equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated. **Key downside risks:** a faster-than-expected rise in the HK dollar 10-year interest rate; further appreciation of the HK dollar relative to other Asian currencies and a collapse in pricing in the offshore support vessel market.

#### Swire Properties (1972 HK, OW, HKD23.55) covered by Perveen Wong, +852 2996 6571, The Hongkong and Shanghai Banking Corporation Limited

Perveen Wong has an Overweight rating and a target price of HKD29.2 on Swire Properties. This is based on a 30% discount to the forward NAV estimate of HKD41.6. Among the HK landlords, she prefers Swire Properties, offering attractive valuation (41% NAV discount). **Downside risks** include lower-than-expected rental achieved by Swire Properties' assets (see [Swire Properties \(1972 HK\): OW: FY14 results in-line](#) 19 March 2015). Under our research model, for stocks without a volatility indicator, the Neutral band is 5ppts above and below the hurdle rate for Hong Kong stocks of 8.5%. Her target price implies a potential return of 26.6% (including a 2015e dividend yield of 2.6%), above the Neutral band; therefore, she rates Swire Properties OW.

# Disclosure appendix

## Analyst Certification

The following analyst(s), economist(s), and/or strategist(s) who is(are) primarily responsible for this report, certifies(y) that the opinion(s) on the subject security(ies) or issuer(s) and/or any other views or forecasts expressed herein accurately reflect their personal view(s) and that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report: Mark Webb and Perveen Wong

## Important disclosures

### Equities: Stock ratings and basis for financial analysis

HSBC believes that investors utilise various disciplines and investment horizons when making investment decisions, which depend largely on individual circumstances such as the investor's existing holdings, risk tolerance and other considerations. Given these differences, HSBC has two principal aims in its equity research: 1) to identify long-term investment opportunities based on particular themes or ideas that may affect the future earnings or cash flows of companies on a 12 month time horizon; and 2) from time to time to identify short-term investment opportunities that are derived from fundamental, quantitative, technical or event-driven techniques on a 0-3 month time horizon and which may differ from our long-term investment rating. HSBC has assigned ratings for its long-term investment opportunities as described below.

This report addresses only the long-term investment opportunities of the companies referred to in the report. As and when HSBC publishes a short-term trading idea the stocks to which these relate are identified on the website at [www.hsbcnet.com/research](http://www.hsbcnet.com/research). Details of these short-term investment opportunities can be found under the Reports section of this website.

HSBC believes an investor's decision to buy or sell a stock should depend on individual circumstances such as the investor's existing holdings and other considerations. Different securities firms use a variety of ratings terms as well as different rating systems to describe their recommendations. Investors should carefully read the definitions of the ratings used in each research report. In addition, because research reports contain more complete information concerning the analysts' views, investors should carefully read the entire research report and should not infer its contents from the rating. In any case, ratings should not be used or relied on in isolation as investment advice.

## Rating definitions for long-term investment opportunities

### Stock ratings

HSBC assigns ratings to its stocks in this sector on the following basis:

For each stock we set a required rate of return calculated from the cost of equity for that stock's domestic or, as appropriate, regional market established by our strategy team. The price target for a stock represents the value the analyst expects the stock to reach over our performance horizon. The performance horizon is 12 months. For a stock to be classified as Overweight, the potential return, which equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated, must exceed the required return by at least 5 percentage points over the next 12 months (or 10 percentage points for a stock classified as Volatile\*). For a stock to be classified as Underweight, the stock must be expected to underperform its required return by at least 5 percentage points over the next 12 months (or 10 percentage points for a stock classified as Volatile\*). Stocks between these bands are classified as Neutral.

Our ratings are re-calibrated against these bands at the time of any 'material change' (initiation of coverage, change of volatility status or change in price target). Notwithstanding this, and although ratings are subject to ongoing management review, expected returns will be permitted to move outside the bands as a result of normal share price fluctuations without necessarily triggering a rating change.

\*A stock will be classified as volatile if its historical volatility has exceeded 40%, if the stock has been listed for less than 12 months (unless it is in an industry or sector where volatility is low) or if the analyst expects significant volatility. However, stocks which we do not consider volatile may in fact also behave in such a way. Historical volatility is defined as the past month's average of the daily 365-day moving average volatilities. In order to avoid misleadingly frequent changes in rating, however, volatility has to move 2.5 percentage points past the 40% benchmark in either direction for a stock's status to change.

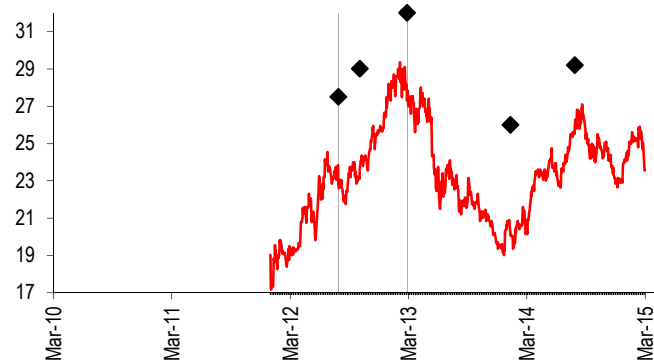
## Rating distribution for long-term investment opportunities

As of 19 March 2015, the distribution of all ratings published is as follows:

Overweight (Buy)	41%	(30% of these provided with Investment Banking Services)
Neutral (Hold)	40%	(28% of these provided with Investment Banking Services)
Underweight (Sell)	19%	(20% of these provided with Investment Banking Services)

## Share price and rating changes for long-term investment opportunities

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



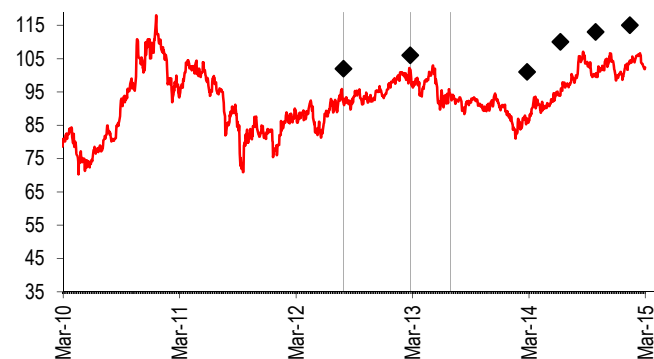
Source: HSBC

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

Swire Pacific (0019.HK) Share Price performance HKD Vs HSBC rating history



Source: HSBC

Recommendation & price target history

From	To	Date
Overweight	Overweight	14 August 2012
Overweight	Neutral	12 March 2013
Neutral	Overweight	16 July 2013
Target Price	Value	Date
Price 1	102.00	14 August 2012
Price 2	106.00	12 March 2013
Price 3	101.00	13 March 2014
Price 4	110.00	26 June 2014
Price 5	113.00	14 October 2014
Price 6	115.00	29 January 2015

Source: HSBC

## HSBC & Analyst disclosures

### Disclosure checklist

Company	Ticker	Recent price	Price Date	Disclosure
SWIRE PACIFIC	0019.HK	102.40	18-Mar-2015	4, 5, 6, 7
SWIRE PROPERTIES	1972.HK	23.55	18-Mar-2015	4, 5, 6, 7

Source: HSBC

- 1 HSBC has managed or co-managed a public offering of securities for this company within the past 12 months.
- 2 HSBC expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 3 At the time of publication of this report, HSBC Securities (USA) Inc. is a Market Maker in securities issued by this company.
- 4 As of 28 February 2015 HSBC beneficially owned 1% or more of a class of common equity securities of this company.
- 5 As of 31 January 2015, this company was a client of HSBC or had during the preceding 12 month period been a client of and/or paid compensation to HSBC in respect of investment banking services.
- 6 As of 31 January 2015, this company was a client of HSBC or had during the preceding 12 month period been a client of and/or paid compensation to HSBC in respect of non-investment banking securities-related services.
- 7 As of 31 January 2015, this company was a client of HSBC or had during the preceding 12 month period been a client of and/or paid compensation to HSBC in respect of non-securities services.
- 8 A covering analyst/s has received compensation from this company in the past 12 months.
- 9 A covering analyst/s or a member of his/her household has a financial interest in the securities of this company, as detailed below.
- 10 A covering analyst/s or a member of his/her household is an officer, director or supervisory board member of this company, as detailed below.
- 11 At the time of publication of this report, HSBC is a non-US Market Maker in securities issued by this company and/or in securities in respect of this company

HSBC and its affiliates will from time to time sell to and buy from customers the securities/instruments (including derivatives) of companies covered in HSBC Research on a principal or agency basis.

Analysts, economists, and strategists are paid in part by reference to the profitability of HSBC which includes investment banking revenues.

Whether, or in what time frame, an update of this analysis will be published is not determined in advance.

For disclosures in respect of any company mentioned in this report, please see the most recently published report on that company available at [www.hsbcnet.com/research](http://www.hsbcnet.com/research).

### Additional disclosures

- 1 This report is dated as at 19 March 2015.
- 2 All market data included in this report are dated as at close 18 March 2015, unless otherwise indicated in the report.
- 3 HSBC has procedures in place to identify and manage any potential conflicts of interest that arise in connection with its Research business. HSBC's analysts and its other staff who are involved in the preparation and dissemination of Research operate and have a management reporting line independent of HSBC's Investment Banking business. Information Barrier procedures are in place between the Investment Banking and Research businesses to ensure that any confidential and/or price sensitive information is handled in an appropriate manner.

# Disclaimer

*\* Legal entities as at 30 May 2014*

*'UAE' HSBC Bank Middle East Limited, Dubai; 'HK' The Hongkong and Shanghai Banking Corporation Limited, Hong Kong; 'TW' HSBC Securities (Taiwan) Corporation Limited; 'CA' HSBC Bank Canada, Toronto; HSBC Bank, Paris Branch; HSBC France; 'DE' HSBC Trinkaus & Burkhardt AG, Düsseldorf; 000 HSBC Bank (RR), Moscow; 'IN' HSBC Securities and Capital Markets (India) Private Limited, Mumbai; 'JP' HSBC Securities (Japan) Limited, Tokyo; 'EG' HSBC Securities Egypt SAE, Cairo; 'CN' HSBC Investment Bank Asia Limited, Beijing Representative Office; The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch; The Hongkong and Shanghai Banking Corporation Limited, Seoul Securities Branch; The Hongkong and Shanghai Banking Corporation Limited, Seoul Branch; HSBC Securities (South Africa) (Pty) Ltd, Johannesburg; HSBC Bank plc, London, Madrid, Milan, Stockholm, Tel Aviv; 'US' HSBC Securities (USA) Inc, New York; HSBC Yatirim Menkul Degerler AS, Istanbul; HSBC México, SA, Institución de Banca Múltiple, Grupo Financiero HSBC; HSBC Bank Brasil SA – Banco Múltiplo; HSBC Bank Australia Limited; HSBC Bank Argentina SA; HSBC Saudi Arabia Limited; The Hongkong and Shanghai Banking Corporation Limited, New Zealand Branch incorporated in Hong Kong SAR; The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch*

**Issuer of report**

**The Hongkong and Shanghai Banking Corporation Limited**

Level 19, 1 Queen's Road Central  
Hong Kong SAR

Telephone: +852 2843 9111

Fax: +852 2596 0200

Website: [www.research.hsbc.com](http://www.research.hsbc.com)

This document has been issued by The Hongkong and Shanghai Banking Corporation Limited ("HSBC") in the conduct of its Hong Kong regulated business for the information of its institutional and professional investor (as defined by Securities and Future Ordinance (Chapter 571)) customers; it is not intended for and should not be distributed to retail customers in Hong Kong. The Hongkong and Shanghai Banking Corporation Limited is regulated by the Hong Kong Monetary Authority. All enquires by recipients in Hong Kong must be directed to your HSBC contact in Hong Kong. If it is received by a customer of an affiliate of HSBC, its provision to the recipient is subject to the terms of business in place between the recipient and such affiliate. This document is not and should not be construed as an offer to sell or the solicitation of an offer to purchase or subscribe for any investment. HSBC has based this document on information obtained from sources it believes to be reliable but which it has not independently verified; HSBC makes no guarantee, representation or warranty and accepts no responsibility or liability as to its accuracy or completeness. Expressions of opinion are those of the Research Division of HSBC only and are subject to change without notice. HSBC and its affiliates and/or their officers, directors and employees may have positions in any securities mentioned in this document (or in any related investment) and may from time to time add to or dispose of any such securities (or investment). HSBC and its affiliates may act as market maker or have assumed an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis and may also perform or seek to perform investment banking or underwriting services for or relating to those companies.

HSBC Securities (USA) Inc. accepts responsibility for the content of this research report prepared by its non-US foreign affiliate. All U.S. persons receiving and/or accessing this report and wishing to effect transactions in any security discussed herein should do so with HSBC Securities (USA) Inc. in the United States and not with its non-US foreign affiliate, the issuer of this report.

In the UK this report may only be distributed to persons of a kind described in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005. The protections afforded by the UK regulatory regime are available only to those dealing with a representative of HSBC Bank plc in the UK. In Singapore, this publication is distributed by The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch for the general information of institutional investors or other persons specified in Sections 274 and 304 of the Securities and Futures Act (Chapter 289) ("SFA") and accredited investors and other persons in accordance with the conditions specified in Sections 275 and 305 of the SFA. This publication is not a prospectus as defined in the SFA. It may not be further distributed in whole or in part for any purpose. The Hongkong and Shanghai Banking Corporation Limited Singapore Branch is regulated by the Monetary Authority of Singapore. Recipients in Singapore should contact a "Hongkong and Shanghai Banking Corporation Limited, Singapore Branch" representative in respect of any matters arising from, or in connection with this report. In Australia, this publication has been distributed by The Hongkong and Shanghai Banking Corporation Limited (ABN 65 117 925 970, AFSL 301737) for the general information of its "wholesale" customers (as defined in the Corporations Act 2001). Where distributed to retail customers, this research is distributed by HSBC Bank Australia Limited (AFSL No. 232595). These respective entities make no representations that the products or services mentioned in this document are available to persons in Australia or are necessarily suitable for any particular person or appropriate in accordance with local law. No consideration has been given to the particular investment objectives, financial situation or particular needs of any recipient. This publication is distributed in New Zealand by The Hongkong and Shanghai Banking Corporation Limited, New Zealand Branch incorporated in Hong Kong SAR.

In Japan, this publication has been distributed by HSBC Securities (Japan) Limited. It may not be further distributed in whole or in part for any purpose. In Korea, this publication is distributed by The Hongkong and Shanghai Banking Corporation Limited, Seoul Securities Branch ("HBAP SLS") for the general information of professional investors specified in Article 9 of the Financial Investment Services and Capital Markets Act ("FSCMA"). This publication is not a prospectus as defined in the FSCMA. It may not be further distributed in whole or in part for any purpose. HBAP SLS is regulated by the Financial Services Commission and the Financial Supervisory Service of Korea.

In Canada, this document has been distributed by HSBC Bank Canada and/or its affiliates. Where this document contains market updates/overviews, or similar materials (collectively deemed "Commentary" in Canada although other affiliate jurisdictions may term "Commentary" as either "macro-research" or "research"), the Commentary is not an offer to sell, or a solicitation of an offer to sell or subscribe for, any financial product or instrument (including, without limitation, any currencies, securities, commodities or other financial instruments).

© Copyright 2015, The Hongkong and Shanghai Banking Corporation Limited, ALL RIGHTS RESERVED. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, on any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of The Hongkong and Shanghai Banking Corporation Limited. MICA (P) 157/06/2014, MICA (P) 136/02/2015 and MICA (P) 041/01/2015