

EARNINGS REVIEW

Shun Tak Holdings (0242.HK)

Neutral

Equity Research

Above expectations: strong 2014 may not be easily repeated in 2015

What surprised us

Shun Tak reported FY2014 underlying profit at HK\$2.6bn, up 5.6X yoy from a low base, driven mainly by booking of Nova Park (Nova City Ph4 and 80% sold) and Chatham Gate, in addition to higher income from STDM and improved transportation segment, vs GSe HK\$1.4bn. In view of a strong yet lumpy profit recognition, management has declared a special DPS of HK¢14.5, sending full-year DPS to HK¢21.5. Management hopes to resume a regular dividend (nil in 2013) and in 2014 the payout was c.25%.

Key takeaways from briefing: (1) Property sales: sales at Nova Park

(another 5% of the units were sold ytd) to be key contributors in 2015, in addition to launching the 5 houses at Chung Hom Kok. (2) Harbour Miles: management believes more time is needed for the government to finalize the area's master plan, while they have extended the long-stop date for land acquisition for another 2 years. (3) M&A: with an improved balance sheet, management hopes to invest in new projects and is evaluating opportunities in different formats (greenfield or completed rental/hotel projects) and locations (China/ Southeast Asia/ Europe).

What to do with the stock

Management gave a conservative outlook, in our view, amid weak China macro and setbacks in the Macau gaming market, which may affect its sales pace and rental reversion. We expect near-term earnings will hinge on the pace of Nova Park's inventory sales, with most other projects scheduled for completion from 2017E+. We revise our 2015-16E EPS by up to 5% and introduce FY17E EPS of HK\$0.46 on our latest assumptions for development projects and SJM estimates, with a new 12mo 2015E NAV-based TP of HK\$4.45 (from HK\$4.35). Risks: approval of Harbour Miles; slow inventory sales.

Shun Tak Holdings FY2014 results highlight

(HK\$m)	2013	2,014	YoY%	1H14	2H14	HoH%
Adjusted EBITDA	976	3,580	267%	1,081	2,499	131%
Underlying earnings	389	2,577	562%	534	2,043	283%
DPS (HK¢)	-	21.5	NM	5.0	16.5	NM

Source: Company data, Goldman Sachs Global Investment Research.

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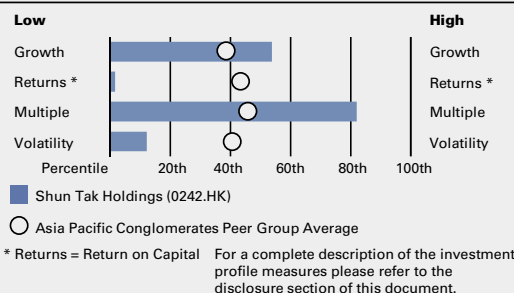
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Coverage View: Neutral

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Investment Profile



Key data	Current
Price (HK\$)	3.43
12 month price target (HK\$)	4.45
Market cap (HK\$ mn / US\$ mn)	6,941.3 / 895.0
Foreign ownership (%)	--

	12/14	12/15E	12/16E	12/17E
EPS (HK\$) New	1.47	0.33	0.34	0.46
EPS revision (%)	216.9	5.4	1.8	--
EPS growth (%)	212.9	(77.3)	3.0	34.4
EPS (dil) (HK\$) New	1.42	0.32	0.33	0.44
P/E (X)	2.8	10.3	10.0	7.4
P/B (X)	0.5	0.4	0.4	0.4
EV/EBITDA (X)	4.2	14.8	12.9	22.5
Dividend yield (%)	4.1	1.1	1.1	1.5
ROE (%)	18.7	3.8	3.8	5.0
CROCI (%)	8.2	(15.2)	(3.0)	(7.0)

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	(4.2)	(13.8)	(19.5)
Rel. to MSCI Hong Kong	(8.4)	(16.8)	(28.1)

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 3/26/2015 close.

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Shun Tak Holdings: Summary Financials

Profit model (HK\$ mn)	12/14	12/15E	12/16E	12/17E	Balance sheet (HK\$ mn)	12/14	12/15E	12/16E	12/17E
Total revenue	9,538.6	5,048.9	5,818.9	4,987.5	Cash & equivalents	15,808.6	10,699.3	11,205.0	9,736.9
Cost of goods sold	0.0	0.0	0.0	0.0	Accounts receivable	2,501.0	2,701.0	2,917.1	3,150.5
SG&A	0.0	0.0	0.0	0.0	Inventory	2,090.5	2,090.5	2,090.5	2,090.5
R&D	--	--	--	--	Other current assets	7,931.5	14,423.8	16,955.7	21,003.7
Other operating profit/(expense)	(6,350.5)	(3,841.4)	(4,299.1)	(3,948.6)	Total current assets	28,331.6	29,914.6	33,168.3	35,981.5
EBITDA	3,188.1	1,207.5	1,519.8	1,038.8	Net PP&E	10,231.3	10,104.1	9,971.3	9,832.6
Depreciation & amortization	(154.0)	(161.7)	(169.8)	(178.2)	Net intangibles	37.3	37.3	37.3	37.3
EBIT	3,034.1	1,045.8	1,350.0	860.6	Total investments	8,569.5	8,707.2	8,875.6	9,853.5
Interest income	196.7	382.0	258.5	270.8	Other long-term assets	285.4	285.4	285.4	285.4
Interest expense	(135.4)	(205.6)	(252.9)	(316.0)	Total assets	47,455.1	49,048.6	52,337.9	55,990.4
Income/(loss) from uncons. subs.	1,632.0	116.3	156.2	977.4	Accounts payable	1,802.3	1,892.4	1,987.0	2,086.4
Others	0.0	0.0	0.0	0.0	Short-term debt	2,887.0	2,887.0	2,887.0	2,887.0
Pretax profits	4,727.4	1,338.5	1,511.8	1,792.8	Other current liabilities	1,197.4	1,197.4	1,197.4	1,197.4
Income tax	(405.0)	(183.3)	(203.3)	(122.3)	Total current liabilities	5,886.6	5,976.8	6,071.4	6,170.7
Minorities	(810.9)	(140.6)	(263.0)	(265.8)	Long-term debt	9,442.8	10,442.8	12,442.8	14,442.8
Net income pre-preferred dividends	3,511.5	1,014.6	1,045.5	1,404.7	Other long-term liabilities	1,014.0	1,014.0	1,014.0	1,014.0
Preferred dividends	0.0	0.0	0.0	0.0	Total long-term liabilities	10,456.8	11,456.8	13,456.8	15,456.8
Net income (pre-exceptionals)	3,511.5	1,014.6	1,045.5	1,404.7	Total liabilities	16,343.5	17,433.6	19,528.2	21,627.5
Post-tax exceptionals	941.4	0.0	0.0	0.0	Preferred shares	0.0	0.0	0.0	0.0
Net income	4,452.9	1,014.6	1,045.5	1,404.7	Total common equity	26,412.2	26,775.0	27,706.7	28,994.0
EPS (basic, pre-except) (HK\$)	1.16	0.33	0.34	0.46	Minority interest	4,699.5	4,840.1	5,103.0	5,368.8
EPS (basic, post-except) (HK\$)	1.47	0.33	0.34	0.46	Total liabilities & equity	47,455.1	49,048.6	52,337.9	55,990.4
EPS (diluted, post-except) (HK\$)	1.42	0.32	0.33	0.44	BVPS (HK\$)	8.68	8.80	9.11	9.53
DPS (HK\$)	0.17	0.04	0.04	0.05					
Dividend payout ratio (%)	11.2	11.2	11.2	11.2					
Free cash flow yield (%)	12.6	(35.6)	(8.8)	(21.2)					
Growth & margins (%)	12/14	12/15E	12/16E	12/17E	Ratios	12/14	12/15E	12/16E	12/17E
Sales growth	166.8	(47.1)	15.3	(14.3)	CROCI (%)	8.2	(15.2)	(3.0)	(7.0)
EBITDA growth	475.2	(62.1)	25.9	(31.6)	ROE (%)	18.7	3.8	3.8	5.0
EBIT growth	736.1	(65.5)	29.1	(36.3)	ROA (%)	10.4	2.1	2.1	2.6
Net income growth	216.6	(77.2)	3.0	34.4	ROACE (%)	16.1	3.2	3.7	4.3
EPS growth	212.9	(77.3)	3.0	34.4	Inventory days	NM	NM	NM	NM
Gross margin	100.0	100.0	100.0	100.0	Receivables days	89.4	188.0	176.2	222.0
EBITDA margin	33.4	23.9	26.1	20.8	Payable days	NM	NM	NM	NM
EBIT margin	31.8	20.7	23.2	17.3	Net debt/equity (%)	(13.2)	9.8	14.9	26.2
					Interest cover - EBIT (X)	NM	NM	NM	19.0
Cash flow statement (HK\$ mn)	12/14	12/15E	12/16E	12/17E	Valuation	12/14	12/15E	12/16E	12/17E
Net income pre-preferred dividends	3,511.5	1,014.6	1,045.5	1,404.7	P/E (analyst) (X)	2.8	10.3	10.0	7.4
D&A add-back	154.0	161.7	169.8	178.2	P/B (X)	0.5	0.4	0.4	0.4
Minorities interests add-back	810.9	140.6	263.0	265.8	EV/EBITDA (X)	4.2	14.8	12.9	22.5
Net (inc)/dec working capital	(425.3)	(110.0)	(121.5)	(134.0)	EV/GCI (X)	0.4	0.5	0.5	0.5
Other operating cash flow	(950.4)	(6,608.5)	(2,688.1)	(5,025.4)	Dividend yield (%)	4.1	1.1	1.1	1.5
Cash flow from operations	2,166.2	(5,401.6)	(1,331.3)	(3,310.7)					
Capital expenditures	(32.2)	(34.5)	(36.9)	(39.6)					
Acquisitions	0.0	0.0	0.0	0.0					
Divestitures	2,624.1	0.0	0.0	0.0					
Others	(768.5)	(21.5)	(12.1)	(0.5)					
Cash flow from investments	1,823.4	(55.9)	(49.1)	(40.1)					
Dividends paid (common & pref)	(151.4)	(651.8)	(113.8)	(117.3)					
Inc/(dec) in debt	3,453.4	1,000.0	2,000.0	2,000.0					
Common stock issuance (repurchase)	0.0	0.0	0.0	0.0					
Other financing cash flows	378.6	0.0	0.0	0.0					
Cash flow from financing	3,680.6	348.2	1,886.2	1,882.7					
Total cash flow	7,670.2	(5,109.3)	505.7	(1,468.1)					

Note: Last actual year may include reported and estimated data.
Source: Company data, Goldman Sachs Research estimates.

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Exhibit 1: Shun Tak Holding's 2014 results review

(HK\$m)	2013	2014	YoY%	1H14	2H14	HoH%	Remark
EBIT							
Transportation	165	236	43%	99	137	38%	Cont'd improvement on fare hike and favourable fuel cost
Property	80	2,487	3017%	562	1,924	242%	Mainly Nova Park and Chatham Gate
Hospitality	70	92	31%	42	50	21%	
Investments/ dividends	172	379	120%	216	163	-25%	c.HK\$378mn from STDM dividend, vs HK\$181mn in 2013
Unallocated income/expenses	(124)	(160)	-29%	(106)	(54)	50%	STDM level, but the profitability of latter has improved
Total EBIT	363	3,034	736%	814	2,221	173%	after its internal restructuring and clean-up
Share of associates & JCEs							
Transportation	(24)	(135)	-466%	(52)	(83)	-59%	Turned to loss due to start-up costs at its JetStar JV
Property	959	1,760	84%	551	1,209	119%	Excl. revaluation, One Central mall's rental up 7% yoy
Hospitality	(10)	2	NM	2	(1)	NM	
Investment & others	2	6	156%	4	2	-54%	
Associates/JCEs net profit	927	1,632	76%	505	1,127	123%	
EBIT + associates/JV earnings							
Transportation (incl. airline)	141	101	-28%	47	54	14%	2015E ferry business should con't to improve
Property	1,038	4,246	309%	1,114	3,133	181%	2015E development to come from Nova Park's inventory
Hospitality	60	93	55%	44	49	13%	
Investment/dividends & others	174	385	121%	220	165	-25%	Management guided amid lagged pass-thru, SJM's
Other income & expenses	(124)	(160)	-29%	(106)	(54)	50%	potential lower dividend will impact Shun Tak in 2016E+
Attr operating profit (AOP)	1,290	4,666	262%	1,319	3,347	154%	
AOP, excl reval. surplus	778	3,388	335%	1,003	2,385	138%	
Adjusted EBITDA	976	3,580	267%	1,081	2,499	131%	
Net interest	(57)	61	NM	29	32	9%	Higher proportion of finance costs being capitalized
Non-recurring gains & losses	577	941	63%	264	677	156%	Including property revaluation gain/loss
Pretax Profit	1,810	5,669	213%	1,612	4,056	152%	
Income tax	(92)	(405)	-342%	(147)	(258)	-76%	
Minorities	(312)	(811)	-160%	(364)	(447)	-23%	
Net attributable earnings	1,406	4,453	217%	1,102	3,351	204%	
Underlying earnings	389	2,577	562%	534	2,043	283%	Excluding effect of property revaluation
EPS (HK\$)	0.47	1.47	213%	0.37	1.11	202%	
Underlying EPS (HK\$)	0.13	0.85	555%	0.18	0.67	281%	
DPS (HK\$)	-	0.215	NM	0.050	0.165	230%	2H14 DPS at HK¢ 2, plus special DPS of HK¢14.5

Source: Company data, Goldman Sachs Global Investment Research.

Disclosure Appendix

Reg AC

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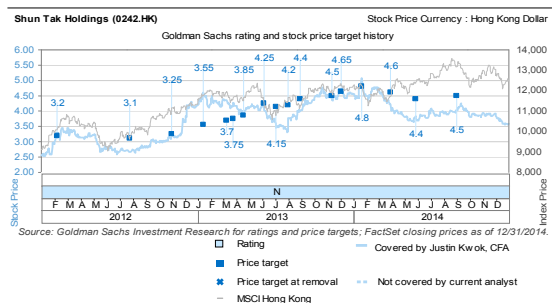
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