

Shun Tak Holdings (242 HK)

Buy

Target price (HKD)	4.10
Share price (HKD)	3.40
Upside/Downside (%)	20.6

Dec	2014 a	2015 e	2016 e
HSBC EPS	0.85	0.37	0.50
HSBC PE	4.0	9.1	6.8
Performance	1M	3M	12M
Absolute (%)	-5.0	-5.0	-21.1
Relative ^A (%)	-4.1	-9.6	-30.1

27 March 2015

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Buy: Strong 2014 results, mixed outlook

- ▶ **Strong 2014 results driven by property sales**
- ▶ **A mixed outlook; Transportation to benefit from lower fuel costs but Investments and Macau retail sales face pressure**
- ▶ **We establish a Buy rating and set a fair value TP of HKD4.1**

Strong 2014 results. Reported net profit was HKD4.5bn, up 2.2x from 2013. Recurring net profit was HKD2.6bn, up 5.6x y-o-y off a low base, mainly driven by property sales and booking of Nova Park, Chatham Gate and Belcher car parks. Investments EBIT was up 1.2x as there was a larger pass-through of SJM (880 HK, HKD10.2, Hold, TP: HKD10) dividends after an internal restructuring within STDM (Shun Tak holds an effective 6.4% stake of SJM through its STDM stake). Transportation was mixed, with the benefit of lower fuel costs at TurboJet being more than negated by HKD135m of start-up losses and write-down at Jetstar HK. Balance sheet improved to net cash in 2014, resulting in net interest income (from net interest cost in 2013). From the strong results, DPS was raised to HKD0.215 (2013: nil). The result was 53% above our forecast and 39% above consensus.

Mixed outlook. We felt management struck a cautious tone. Weakness in the Macau gaming industry has put pressure on Macau retail sales and SJM dividends. Shun Tak has sold approximately 30 units for Nova Park in 2015 with resilient sales prices and is expected to sell more in 1H15, although the payment period (and thus profit booking) can reach more than two years – given buyers have to pay a 20% deposit we believe cancellation risk should be low. Management guides TurboJet's earnings should improve from lower fuel cost and sales of Chung Hom Kok in Hong Kong should also help earnings. Finally, Management expects HKSAR government's decision on Jetstar's potential licence in HK to conclude in 2015. We change our 2015/2016 earnings forecast by -27%/+46% mainly from a delay in Nova Park's profit booking schedule along with cuts in Transportation and Investments from a poorer outlook, and we introduce 2017e earnings. Given Shun Tak has a flexible dividend policy, we expect DPS to depend on earnings and we forecast 2015e DPS to fall to HKD0.11. We are -10%/+17% versus consensus for 2015e/2016e.

We establish a Buy rating. We apply Sum-of-The-Parts valuation and set a fair value Target Price of HKD4.1 (unchanged). We lower our valuation for Transportation and SJM stake although this is negated by a stronger than previously expected balance sheet. Key downside risks are: (1) a rise in oil prices; (2) a sharp rise in USD interest rates; and (3) a sharp fall in China's GDP growth

Index ^A	HANG SENG INDEX
Index level	24,528
RIC	0242.HK
Bloomberg	242 HK

Source: HSBC

Enterprise value (HKDm)	4,372
Free float (%)	45
Market cap (USDm)	1,334
Market cap (HKDm)	10,344

Source: HSBC

Financials & valuation

Financial statements

Year to	12/2014a	12/2015e	12/2016e	12/2017e
Profit & loss summary (HKDm)				
Revenue	9,539	5,529	5,443	8,347
EBITDA	3,188	1,447	1,830	2,567
Depreciation & amortisation	-153	-202	-205	-209
Operating profit/EBIT	3,034	1,246	1,625	2,358
Net interest	61	61	37	32
PBT	5,669	1,528	2,051	2,615
HSBC PBT	3,290	1,528	2,051	2,615
Taxation	-405	-188	-253	-322
Net profit	4,453	1,133	1,522	1,940
HSBC net profit	2,577	1,133	1,522	1,940

Cash flow summary (HKDm)

Cash flow from operations	3,777	4,493	1,798	1,256
Capex	-600	-2,391	-2,150	-952
Cash flow from investment	-2,083	-2,239	-2,080	-877
Dividends	-553	-288	-386	-492
Change in net debt	-5,375	1,977	396	-45
FCF equity	3,684	2,173	-258	425

Balance sheet summary (HKDm)

Intangible fixed assets	0	0	0	0
Tangible fixed assets	9,884	12,072	14,017	14,760
Current assets	29,002	25,589	25,291	23,811
Cash & others	15,809	13,832	13,436	13,481
Total assets	47,455	46,297	48,060	47,391
Operating liabilities	4,014	5,820	6,196	3,772
Gross debt	12,330	12,330	12,330	12,330
Net debt	-3,479	-1,502	-1,106	-1,151
Shareholders funds	26,412	23,981	25,162	26,654
Invested capital	19,063	18,009	19,675	21,318

Ratio, growth and per share analysis

Year to	12/2014a	12/2015e	12/2016e	12/2017e
Y-o-y % change				
Revenue	166.8	-42.0	-1.6	53.4
EBITDA	475.7	-54.6	26.5	40.3
Operating profit	736.1	-58.9	30.4	45.1
PBT	213.2	-73.0	34.3	27.5
HSBC EPS	553.4	-56.1	34.3	27.5
Ratios (%)				
Revenue/IC (x)	0.5	0.3	0.3	0.4
ROIC	14.7	5.9	7.6	10.1
ROE	10.8	4.5	6.2	7.5
ROA	12.1	2.7	3.7	4.7
EBITDA margin	33.4	26.2	33.6	30.8
Operating profit margin	31.8	22.5	29.9	28.3
EBITDA/net interest (x)				
Net debt/equity	-11.2	-5.3	-3.7	-3.7
Net debt/EBITDA (x)	-1.1	-1.0	-0.6	-0.4
CF from operations/net debt				
Per share data (HKD)				
EPS reported (fully diluted)	1.47	0.37	0.50	0.64
HSBC EPS (fully diluted)	0.85	0.37	0.50	0.64
DPS	0.22	0.11	0.15	0.19
Book value	8.70	7.90	8.29	8.78

Valuation data

Year to	12/2014a	12/2015e	12/2016e	12/2017e
EV/sales	1.0	1.8	1.9	1.3
EV/EBITDA	3.1	6.7	5.7	4.2
EV/IC	0.4	0.4	0.4	0.4
PE*	4.7	9.1	6.8	5.3
P/Book value	0.5	0.4	0.4	0.4
FCF yield (%)	15.0	23.3	-0.1	5.2
Dividend yield (%)	5.3	3.3	4.4	5.6

Note: * = Based on HSBC EPS (fully diluted)

Price relative



Source: HSBC

Note: price at close of 25 Mar 2015

2014 earnings driven by higher property sales

1. Shun Tak 2014 results versus 2013 and 2014e

HKDm	2014	2013	Chge	HSBC 2014e	Diff	Reason for YoY change
Properties	2,487	80	3017%	1,619	54%	Bookings of Chatham Gate, Nova Park and car parks
Transport	236	165	43%	324	-27%	Lower fuel price
Hospitality	92	70	31%	82	12%	
Investment	379	172	120%	400	-5%	Higher pass-through of SJM dividends
Others	-160	-124	29%	-160	0%	
EBIT	3,034	363	736%	2,265	34%	
Net interest	61	-57	-208%	-38	-262%	Net cash balance in 2014
AJCE						
Properties	322	350	-8%	429	-25%	
Transportation	-135	-24	466%	-92	47%	Write-down and start-up losses for Jetstar HK
Hospitality	2	-10	-115%	5	-70%	
Investment	6	2	156%	8	-27%	
AJCE	195	319	-39%	350	-44%	
Reval (net of tax)	2,379	1,185	101%	615	287%	
Other non-recur	0	0	na	0	na	
PBT	5,669	1,810	213%	3,192	78%	
Recurring PBT	3,290	625	427%	2,577	28%	
Tax	-405	-92	342%	-378	7%	
MI	-811	-312	160%	-563	44%	
Net profit	4,453	1,406	217%	2,251	98%	
Recurring NP	2,577	389	562%	1,683	53%	

Source: Company data, HSBC estimates

Valuation

We value Shun Tak via sum-of-the-parts and have an NAV of HKD7.45 (unchanged). We continue to apply a 45% NAV discount, and we set a fair value Target Price of HKD4.1 (unchanged). We lower our valuation for Transportation and SJM stake although this is negated by a stronger than previously expected balance sheet. Our fair value target price implies 20.6% upside from the current share price; therefore, we establish a Buy rating on the stock.

2. HSBC appraised value

HKDm	EV	Net debt	Equity value	HKD / share	% Equity	Pre-disc 2015e PE	Post-disc 2015e PE*	Assumptions
Dev prop	10,105	1,041	11,146	3.67	49%	29.3	16.1	DCF @ 12% WACC and Cost excluding Harbour Mile 5.0-7.5% net cap rate on EBIT
Inv prop	7,946	481	8,427	2.77	37%	33.0	18.1	
Transport	1,046	80	1,126	0.37	5%	5.4	3.0	5x 2015e PE
Others	1,926	-	1,926	0.63	9%	6.7	3.7	SJM stake at target price of HKD10.0 (from HKD11.1) less Head Office cost at 10x PE
Total	21,024	1,602	22,626	7.45	100%	20.0	11.0	

Note: * Given a significant portion of Shun Tak's NAV is from properties, we argue it should be considered a pure-play company and it is more appropriate to consider the post-discount PE in our analysis, in line with other property companies.

Source: HSBC estimates. SJM is covered by Analyst Charlene Liu* (+852 2822 4398, charlenerliu@hsbc.com.hk, The Hongkong and Shanghai Banking Corporation Limited)

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Key downside risks are: (1) a rise in oil prices which will affect the earnings and valuation of its ferry operations; (2) a sharp rise in USD interest rates which will affect the valuation of its investment properties; and (3) a sharp fall in China's GDP growth will affect retail sales in Shun Tak's malls and demand for its development properties

SJM (880 HK, HKD10.22, Hold, TP: HKD10)

SJM is covered by Charlene Liu. Charlene's target price of HKD10 is based on: (1) Grand Lisboa at 5x FY15e EBITDA; (2) self-promoted casinos at 4x FY15e EBITDA; (3) satellite casinos at 4x FY15e EBITDA; and (4) Lisboa Palace at 9x EBITDA on a 10% return on invested capital after subtracting out outstanding capex. She then discounts the NAV back three years at 10% pa, on the assumptions that the project will open I 2017 with its full year operations in 2018.

Upside risks include: (1) earlier and more-than-expected macro easing in China, (2) earlier opening in Cotai project and (3) market share gain upon yield enhancement or more aggressive promotion.

Downside risks include: (1) China macro slowdown, (2) substantial delay in its Cotai project, (3) regulatory risks, especially from China, and (4) loss of market share due to competition

Disclosure appendix

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From 23rd March 2015 HSBC has assigned ratings on the following basis:

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Our ratings are re-calibrated against these bands at the time of any 'material change' (initiation or resumption of coverage, change in target price or estimates).

Upside/Downside is the percentage difference between the target price and the share price.

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past month's average of the daily 365-day moving average volatilities. In order to avoid misleadingly frequent changes in rating, however, volatility had 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

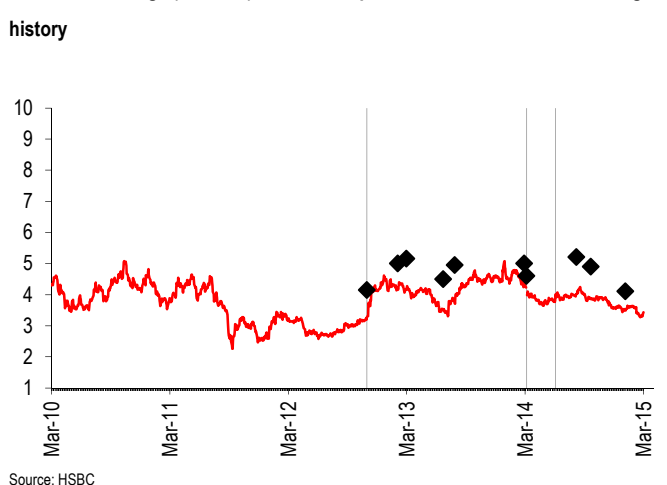
As of 26 March 2015, the distribution of all ratings published is as follows:

Buy	41%	(30% of these provided with Investment Banking Services)
Hold	39%	(27% of these provided with Investment Banking Services)
Sell	20%	(20% of these provided with Investment Banking Services)

For the purposes of the distribution above the following mapping structure is used during the transition from the previous to current rating models: under our previous model, Overweight = Buy, Neutral = Hold and Underweight = Sell; under our current model Buy = Buy, Hold = Hold and Reduce = Sell. For rating definitions under both models, please see "Stock ratings and basis for financial analysis" above.

Share price and rating changes for long-term investment opportunities

Shun Tak Holdings (0242.HK) Share Price performance HKD Vs HSBC rating history

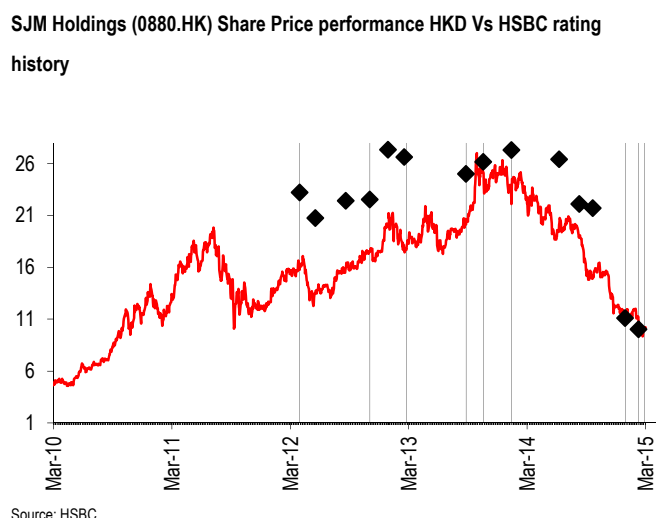


Source: HSBC

Recommendation & price target history

From	To	Date
N/A	Overweight	22 November 2012
Overweight	Neutral	30 March 2014
Neutral	Overweight	26 June 2014
Target Price	Value	Date
Price 1	4.15	22 November 2012
Price 2	5.00	26 February 2013
Price 3	5.15	25 March 2013
Price 4	4.50	16 July 2013
Price 5	4.95	21 August 2013
Price 6	5.00	23 March 2014
Price 7	4.60	30 March 2014
Price 8	5.20	31 August 2014
Price 9	4.90	14 October 2014
Price 10	4.10	29 January 2015

Source: HSBC



Recommendation & price target history		
From	To	Date
N/A	Overweight (V)	23 April 2012
Overweight (V)	Overweight	25 November 2012
Overweight	N/A	18 March 2013
N/A	Overweight	18 September 2013
Overweight	Neutral	11 November 2013
Neutral	Overweight	05 February 2014
Overweight	Neutral	22 January 2015
Neutral	Underweight	04 March 2015
Underweight	Hold	23 March 2015
Target Price	Value	Date
Price 1	23.20	23 April 2012
Price 2	20.74	10 June 2012
Price 3	22.39	12 September 2012
Price 4	22.51	25 November 2012
Price 5	27.33	20 January 2013
Price 6	26.62	12 March 2013
Price 7	N/A	18 March 2013
Price 8	25.00	18 September 2013
Price 9	26.15	11 November 2013
Price 10	27.30	05 February 2014
Price 11	26.40	03 July 2014
Price 12	22.10	03 September 2014
Price 13	21.70	14 October 2014
Price 14	11.10	22 January 2015
Price 15	10.00	04 March 2015

Source: HSBC

HSBC & Analyst disclosures

Disclosure checklist

Company	Ticker	Recent price	Price Date	Disclosure
SHUN TAK HOLDINGS	0242.HK	3.43	26-Mar-2015	6
SJM HOLDINGS LTD.	0880.HK	10.22	26-Mar-2015	7, 11

Source: HSBC

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