



Rating
Hold

Asia
Hong Kong
Property

Company
Sino Land Co

Reuters 0083.HK	Bloomberg 83 HK	Exchange HSI	Ticker 0083
ADR Ticker SNLAY	ISIN US8293443086		

Date
28 February 2018

Results

Price at 28 Feb 2018 (HKD)	13.84
Price target - 12mth (HKD)	14.20
52-week range (HKD)	14.72 - 12.60
HANG SENG INDEX	31,269

Special dividend an upside surprise in 1H18; Maintaining Hold on valuation

Maintaining Hold on valuation and a lack of near-term catalyst; TP HK\$14.2

In our view, Sino-Land is well-positioned (financially strong even after the recent acquisitions) to make more NAV-accretive acquisitions at a time where competition from Mainland developers is less intense, so there are better chances to acquire projects at more reasonable prices. However, the Hong Kong property sector is facing macro headwinds in light of the upcoming rate hike cycle and rising supply, and the current valuation is close to our assessed fair value. Hence, we maintain our Hold rating, with a target price of HK\$14.2.

1H18 underlying profit +12% YoY to HK\$3,083m; beating our expectations

Sino-Land reported 1H18 underlying profit of HK\$3,083m (exclusive of a one-off disposal gain from the sale of 80% interest in The Palazzo in Chengdu), implying a 12.3% YoY growth, beating our expectations on lower taxation. While interim dividend remained flat at HK\$0.13/share in 1H18, the company announced a special dividend of HK\$0.45/share in view of the disposal gain.

Stable growth in investment property portfolio

The investment property portfolio registered stable growth in 1H18, with gross rental revenue (including associates and JVs) rising 2.1% YoY to HK\$2,000m. Meanwhile, net rental income rose 1.8% YoY to HK\$1,747m. Overall occupancy for the portfolio stood at 96% (97% in 1H17). As of end-17, Sino-Land had approximately 11.9m sf attributable GFA of investment properties and hotels in Hong Kong, China, Singapore and Sydney, of which the largest segment exposure is commercial (retail and office) at 62%.

Total landbank stood at 22.3m sf post disposal of The Palazzo in Chengdu

As of end-17, Sino-Land had total attributable landbank of 22.3m sf in HK, China and Sydney (down from 32.8m sf as of mid-17 prior to the disposal), of which 38% is residential, 39% is commercial, 11% industrial, 7% being carpark and the rest being hotels, with 9.7m sf currently under development. Following the disposal of The Palazzo in Chengdu, Sino-Land has three projects in China with a total GFA of 4.5m sf. In 1H18, Sino-Land acquired five residential projects in HK totaling approximately 1m sf in attributable GFA.

Strong financial position even after numerous acquisitions recently

As of end-17, Sino-Land had net cash of HK\$21,090m (comprising cash balance of HK\$23,031m and total borrowings of HK\$1,941m), markedly below net cash of HK\$27,221m as of mid-17 due to the many acquisitions made over the period. In our view, Sino-Land's financial position remains strong even after the acquisitions, and it is still well-positioned to undertake more projects ahead. Moreover, the company is due to receive 20% of the sales proceeds of The Palazzo Chengdu disposal, amounting to Rmb1.7bn, in Feb-18.

Target price of HK\$14.2 is based on sum-of-the parts approach

Our target price is based on a sum-of-the-parts, which implies a 2018 core PE of 20x. We believe applying a 5-7x PE to HK property development and a 34% target discount to our estimated value on the respective investment property portfolio is appropriate in an ex-growth market. Risks: government policy, sales momentum and interest rate trend.

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Price/price relative



Performance (%)	1m	3m	12m
Absolute	-4.0	-2.1	2.4
HANG SENG INDEX	-4.9	7.2	31.7

Source: Deutsche Bank



Figure 1: Summary of 2017/18 interim results

For period ended 31-Dec	1H17A	1H18A	YoY	Remarks
Property sales	8,278.9	1,303.0	(84%)	- Driven by sales bookings of The Spectra, Botanica Bay, Dragons Range, Providence Bay, Marinella, and Dynasty Park
Property rentals	1,520.3	1,554.9	2%	- Overall occupancy at ~96% (97% in 1H17)
Hotel	432.9	467.2	8%	
Building management and services	571.8	540.1	(6%)	
Investment in securities	51.9	35.8	(31%)	
Financing	8.5	26.9	216%	
Total Revenue	10,864.3	3,927.9	(64%)	
Property sales	2,156.6	556.8	(74%)	
Property rentals	1,315.1	1,339.6	2%	
Hotel	169.6	176.4	4%	
Building management and services	135.3	131.4	(3%)	
Investment in securities	51.9	35.8	(31%)	
Financing	8.5	26.9	216%	
Unallocated corporate expenses	(706.5)	(527.8)	(25%)	
Other income	54.8	596.8	nm	- Boosted by HK\$542m gain on disposal of an associate
Total operating profit	3,185.4	2,335.8	(27%)	
Finance income	219.1	240.1	10%	
Finance costs	(95.5)	(43.4)	(55%)	
Net finance income/(costs)	123.6	196.7	59%	
Revaluation gains/(losses)	585.8	434.3	(26%)	
Others One-off items	142.3	7,016.5	nm	- Boosted by HK\$7bn gain on 80% disposal of Palazzo project
Total share of JCEs and associates	774.1	1,436.2	86%	
Profit before tax	4,811.2	11,419.5	137%	
Tax	(690.0)	(1,159.8)	68%	
Profit after tax	4,121.2	10,259.7	149%	
Minorities	(681.0)	(21.6)	(97%)	
Net profit	3,440.2	10,238.1	198%	
Core net profit	2,746.0	8,735.6	218%	- Boosted by disposal gains
Core net profit (excl the disposal gain)	2,746.0	3,082.6	12%	- Higher than our expectations on lower taxation
Core EPS (HK\$)	0.44	1.38	210%	
Interim DPS (HK\$)	0.13	0.13	-	- Interim dividend kept unchanged
Special DPS (HK\$)	-	0.45	nm	- Special dividend declared in view of the gain arising from the 80% disposal of Palazzo project

Source: Deutsche Bank, company data



Figure 2: Balance sheet

As of (HK\$m)	30-Jun-2017	31-Dec-2017
Investment properties	61,361	62,149
Hotel property	1,927	1,959
Property plant and equipment	209	223
Long term loans receivable	1,836	1,844
Prepaid lease payments - non current	1,126	1,150
Interests in associates	16,531	19,331
Jointly controlled entity	3,208	3,406
Available for sale investments	963	1,052
Advances to associates	7,143	5,918
Advances to investee companies	15	13
Total Non-current assets	94,319	97,046
Properties under development	23,589	22,183
Stocks of unsold properties	1,267	1,276
Hotel inventories	21	21
Prepaid lease payments- current	20	20
Amounts due from associates	272	335
Amounts due from a JV	705	10,139
Accounts and other receivables	1,361	3,368
Trading securities	10	11
Restricted bank deposits	1,926	1,333
Cash and cash equivalents	31,217	21,698
Current portion of long term loans receivable	65	74
Taxation recoverable/ others	282	2
Amount due from a non-controlling interest	213	207
Total Current assets	60,947	60,669
Accounts and other payables	12,527	8,764
Amounts due to associates	1,647	2,154
Amounts due to non-controlling interests	56	42
Taxation payable	1,945	1,942
Other borrowings	3,875	-
Total current liabilities	20,051	12,902
Long term bank borrowings	2,046	1,942
Deferred taxation	2,161	2,251
Advances from associates	1,025	1,079
Advances from minority shareholders	657	690
Total non-current liabilities	5,890	5,962
Net assets	129,325	138,851
Share capital	40,591	42,398
Retained earnings	87,763	95,469
Shareholders' equity	128,354	137,867
Minority interests	971	984
Total equity	129,325	138,851

Source: Deutsche Bank, company data



Model updated: 28 February 2018

Running the numbers

Asia

Hong Kong

Property

Sino Land Co

Reuters: 0083.HK

Bloomberg: 83 HK

Hold

Price (28 Feb 18) HKD 13.84

Target Price HKD 14.20

52 Week range HKD 12.60 - 14.72

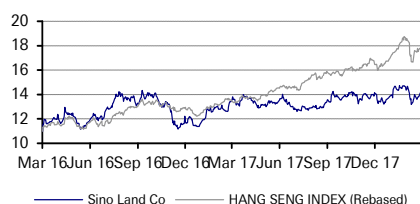
Market Cap (m) HKDm 87,408

USDm 11,169

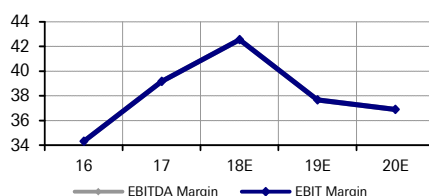
Company Profile

Sino Land Company Limited, through its subsidiaries, develops and invests in real estate, trades and invests in securities, and provides financing and management services. The Company also operates hotels.

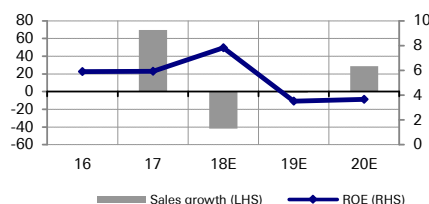
Price Performance



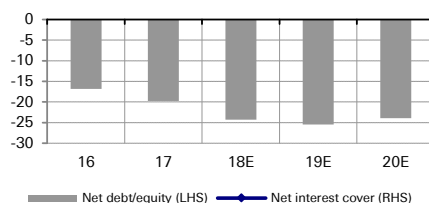
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 30-Jun

Financial Summary

	2016	2017	2018E	2019E	2020E
DB EPS (HKD)	0.87	0.88	1.62	0.74	0.78
Reported EPS (HKD)	1.15	1.17	1.62	0.74	0.78
DPS (HKD)	0.51	0.53	0.98	0.53	0.53
BVPS (HKD)	19.8	20.3	21.0	21.2	21.4
Weighted average shares (m)	6,114	6,231	6,316	6,316	6,316
Average market cap (HKDm)	71,060	81,396	87,408	87,408	87,408
Enterprise value (HKDm)	21,597	26,006	26,406	25,116	28,036

Valuation Metrics

P/E (DB) (x)	13.4	14.9	8.6	18.6	17.7
P/E (Reported) (x)	10.1	11.1	8.6	18.6	17.7
P/BV (x)	0.64	0.63	0.66	0.65	0.65
FCF Yield (%)	12.0	5.5	10.2	3.7	nm
Dividend Yield (%)	4.4	4.1	7.1	3.8	3.8
EV/Sales (x)	2.0	1.4	2.5	2.4	2.1
EV/EBITDA (x)	5.8	3.6	5.8	6.3	5.6
EV/EBIT (x)	5.8	3.6	5.8	6.3	5.6

Income Statement (HKDm)

Sales revenue	10,804	18,334	10,686	10,544	13,566
Gross profit	4,698	8,795	5,018	4,809	6,144
EBITDA	3,709	7,180	4,546	3,973	5,007
Depreciation	1	0	0	0	0
Amortisation	0	0	0	0	0
EBIT	3,708	7,180	4,546	3,973	5,007
Net interest income/(expense)	295	302	226	278	341
Associates/affiliates	1,981	1,710	2,166	1,599	926
Exceptionals/extraordinary	0	0	0	0	0
Other pre-tax income/(expense)	1,769	1,422	7,016	0	0
Profit before tax	7,753	10,614	13,953	5,849	6,274
Income tax expense	594	2,508	3,649	936	1,004
Minorities	69	692	94	225	342
Other post-tax income/(expense)	0	0	0	0	0
Net profit	7,090	7,415	10,211	4,689	4,928
DB adjustments (including dilution)	-1,739	-1,888	0	0	0
DB Net profit	5,351	5,527	10,211	4,689	4,928

Cash Flow (HKDm)

Cash flow from operations	8,743	4,870	8,939	4,112	723
Net Capex	-222	-391	0	-849	-880
Free cash flow	8,521	4,479	8,939	3,263	-157
Equity raised/(bought back)	-47	-8	0	0	0
Dividends paid	-2,123	-1,503	-6,236	-3,460	-3,518
Net inc/(dec) in borrowings	-2,531	1,381	-3,375	-2,046	1
Other investing/financing cash flows	2,463	-1,571	4,215	2,049	2,000
Net cash flow	6,283	2,779	3,543	-194	-1,674
Change in working capital	5,534	-718	-415	2,171	-3,641

Balance Sheet (HKDm)

Cash and other liquid assets	27,442	33,143	36,686	36,492	34,818
Tangible fixed assets	61,398	63,497	61,355	62,221	63,114
Goodwill/intangible assets	0	0	0	0	0
Associates/investments	29,373	30,823	29,607	29,134	28,007
Other assets	30,846	27,804	28,885	28,637	26,982
Total assets	149,058	155,266	156,532	156,485	152,921
Interest bearing debt	6,809	7,604	4,273	2,204	2,152
Other liabilities	19,576	18,336	18,866	19,433	14,170
Total liabilities	26,384	25,941	23,139	21,637	16,322
Shareholders' equity	122,131	128,354	132,376	133,717	135,297
Minorities	543	971	1,018	1,130	1,301
Total shareholders' equity	122,674	129,325	133,394	134,847	136,599
Net debt	-20,633	-25,539	-32,413	-34,287	-32,666

Key Company Metrics

Sales growth (%)	nm	69.7	-41.7	-1.3	28.7
DB EPS growth (%)	na	0.8	84.8	-54.1	5.1
EBITDA Margin (%)	34.3	39.2	42.5	37.7	36.9
EBIT Margin (%)	34.3	39.2	42.5	37.7	36.9
Payout ratio (%)	44.0	44.5	60.6	71.4	67.9
ROE (%)	5.9	5.9	7.8	3.5	3.7
Capex/sales (%)	2.1	2.1	0.0	8.1	6.5
Capex/depreciation (x)	276.9	nm	nm	nm	nm
Net debt/equity (%)	-16.8	-19.7	-24.3	-25.4	-23.9
Net interest cover (x)	nm	nm	nm	nm	nm

Source: Company data, Deutsche Bank estimates



Appendix 1

Important Disclosures

*Other information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Sino Land Co	0083.HK	13.84 (HKD) 28 Feb 18	NA

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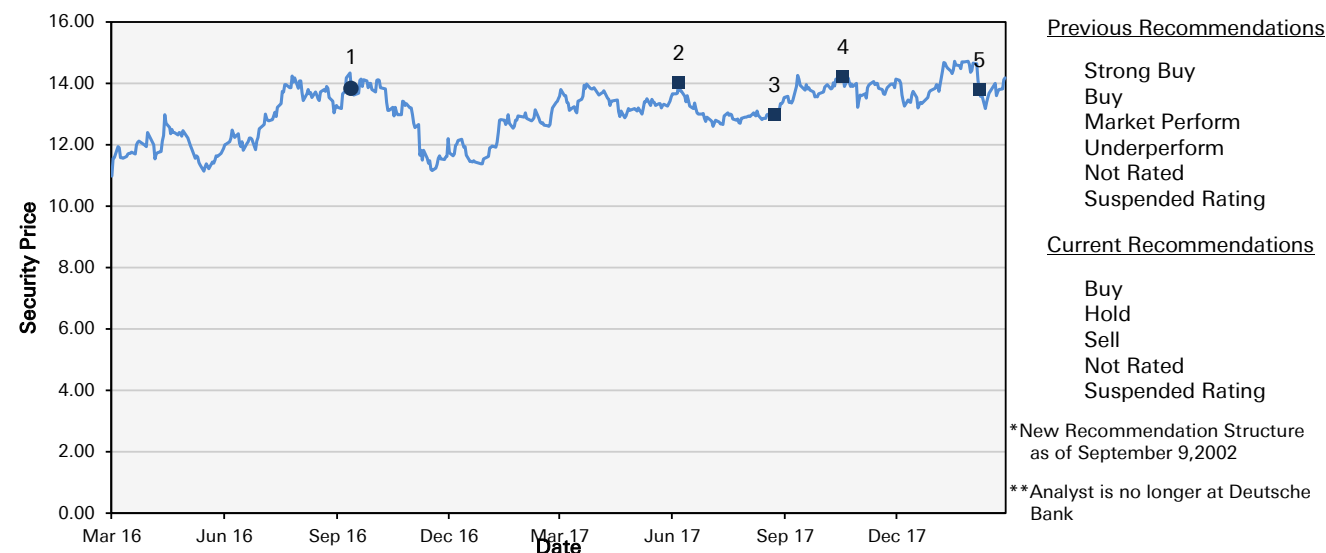
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Historical recommendations and target price: Sino Land Co (0083.HK)

(as of 2/28/2018)



1. 13/09/2016:	Downgrade to Hold, Target Price Change HKD14.10	4. 19/10/2017:	Hold, Target Price Change HKD14.40	Jason Ching
2. 07/06/2017:	Hold, Target Price Change HKD14.30	5. 07/02/2018:	Hold, Target Price Change HKD14.20	Jason Ching
3. 24/08/2017:	Hold, Target Price Change HKD14.50			Jason Ching



Equity rating key

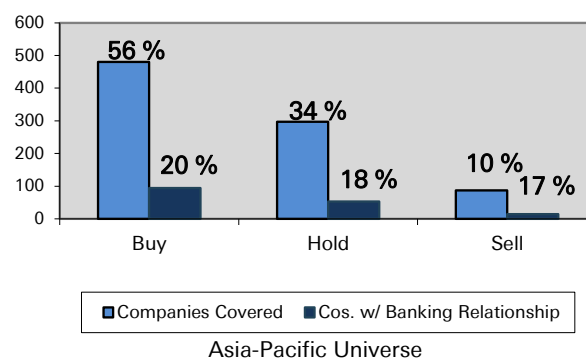
Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield) , we recommend that investors buy the stock.

Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock

Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

Newly issued research recommendations and target prices supersede previously published research.

Equity rating dispersion and banking relationships





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