

HK Property

1 March 2018

Sino Land (83 HK)

1HFY18 review; same old happy problem

- ⊕ **Earnings led by mainland project disposal:** 1HFY18 headline core profit tripled YoY to HK\$8.7bn. Excluding the disposal gain from Chengdu/Chongqing projects, adjusted core profit dropped 7.5% YoY to HK\$2.5bn, in line with our estimate. Book value increased to HK\$21.38/share as of December 2017 (June 2017: HK\$20.32).
- ⊕ **Lack of major projects:** 1HFY18 property profit dropped 36.2% YoY, given the decline in property sales. Nevertheless, this should be well expected by the market, in our view, given the company's cautious landbanking in previous years and its sluggish property sales in 2017. 1HFY18 booking mainly came from The Spectra.
- ⊕ **Mild rental growth:** 1HFY18 net rental income rose only 1.8% YoY, with rental reversion only at mid/high single digits. Property value also rose only 1.7% over the past six months. We expect rental growth to remain mild in the next 1-2 years, given the high base from previous leases.
- ⊕ **Special dividend following asset disposal:** On top of the interim DPS of HK\$0.13 (flat YoY), the company declared a special dividend of HK\$0.45, in view of the disposal gain from Chengdu Palazzo. Net cash remained high at HK\$21.1bn, or HK\$3.7/share, as of December 2017, even after the three major land purchases in Hong Kong. We believe how to better deploy the capital remains the same happy problem for the company.
- ⊕ **Eye on upcoming new launch in Kwun Tong:** The company targets to launch three new projects in 2018, including its Kwun Tong redevelopment project (1,999 units), which could take place as soon as 1H18. We maintain our view that this project will help return the company's property sales to HK\$10bn-15bn/year, assuming the sales to be split across 2018-19.
- ⊕ **Maintain Neutral:** We see the special dividend as a mild positive, as it only accounts for 14% of net cash, or 3.2% of last closing price. We believe faster asset turnover in both HK and mainland will be more effective in narrowing the NAV discount (currently 37%). In addition, we believe the results have not yet convinced the market on the NAV upside from the newly acquired projects in Hong Kong, given their high land costs. We maintain our **Neutral** rating and target price of HK\$15.30, based on a 30% discount to our NAV estimate of HK\$21.90.

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Rating System

Analyst Stock Ratings:

Buy: The stock's total return is expected to **exceed** that of the corresponding industry over the next 12 months.

Neutral: The stock's total return is expected to be **in line with** that of the corresponding industry over the next 12 months.

Sell: The stock's total return is expected to be **below** that of the corresponding industry over the next 12 months.

Not-Rated: The analyst **does not have conviction** regarding the outlook of the stock's total return relative to that of the corresponding industry over the next 12 months.

Analyst Industry Views:

Outperform: The analyst expects the industry coverage universe to be **attractive** relative to the relevant broad market benchmark over the next 12 months.

Market perform: The analyst expects the industry coverage universe to be **in line with** the relevant broad market benchmark over the next 12 months.

Underperform: The analyst expects the industry coverage universe to be **unattractive** relative to the relevant broad market benchmark over the next 12 months.

Broad market benchmark for Hong Kong is **the Hang Seng Composite Index**, for China A-shares is the **MSCI China A Index**, for US-listed Chinese companies is **S&P US Listed China 50 (USD) Index**.

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