

HK Property	Last Close	Target Price	Upside
	HK\$98.90	HK\$124.50	+25.9%

19 March 2018

CKH (1 HK)

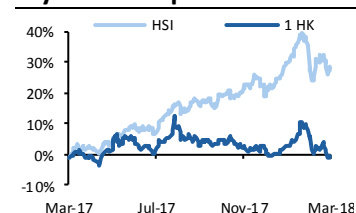
FY17 results in line; growth sustained

- ⊕ **Solid 2017:** FY17 reported EBITDA rose 10% YoY to HK\$104.3bn. Adjusted for one-offs, EBITDA was HK\$100.4bn, on 28% YoY growth in 3 Group's EBITDA. Reported core profit rose 6% YoY to HK\$35.1bn. Adjusted for deferred tax and other one-offs, core profit was HK\$33.9bn, in line with consensus/our forecast. 2H17 DPS was HK\$2.07 (FY17: HK\$2.85); FY17 dividend yield came to 2.9%, based on last close.
- ⊕ **Synergy from merger:** 3 Italy's EBITDA jumped by HK\$5.1bn, on full-year contribution from Wind Tre merger, in line with our forecast. EBITDA margin grew from 27% to 43%, given higher operating efficiency. EBITDA from the rest of 3 Group was flattish YoY. While we expect the growth from 3 Group to moderate in 2018, management expects another €270m (attributable: ~HK\$1.3bn) interest savings following Wind Tre's refinancing, which will come below the EBITDA line.
- ⊕ **Benefiting from oil price recovery:** Adjusted for disposal gain in 2016, Husky's EBITDA surged 88% YoY to HK\$9.0bn in FY17 (+22% HoH in 2H17), helped by oil price recovery. With YTD Brent average at US\$63/bbl, 21% above 2017 level, we expect extra HK\$1bn EBITDA contribution (+11% YoY) from the segment in 2018.
- ⊕ **Next growth driver:** We see infrastructure as another key earnings driver in 2018E. We estimate the newly-acquired DUET, Reliance and ista combined for HK\$2.3bn addition to 2017 EBITDA, with annualized investment yield at 8.6% on average. With their full-year contributions, we expect HK\$1.8bn addition to 2018 infrastructure EBITDA. While management highlighted new technology investment, we believe it is still early to monetize it. On the other hand, we expect a steady 2-3% YoY growth for remaining segments, similar to 2017.
- ⊕ **Little impact from chairman change:** Victor Li will become group chairman after Li Kashing retires by mid-May. We see muted impact from the change, as Victor Li has >30 years' experience with the group, and the rest of the management team also stays, at least for now. We maintain our view that CKH will see steady growth in both earnings and dividend. Reaffirm **Buy** and TP of HK\$124.50, based on a 20% discount (unchanged) to NAV of HK\$155.70.

Stock Rating

BUY

1-year stock performance



Source: Bloomberg

Stock data

52w high (HK\$)	108.90
52w low (HK\$)	93.05
Market cap (HK\$ m)	381,331
Avg daily vol (m)	6.20
YTD change (%)	0.76
200d MA (HK\$)	99.91

Source: Bloomberg

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Financial highlights

Y/E 31 Dec	2015	2016	2017	2018E	2019E
Revenue (HK\$ m)	396,087	372,686	414,837	440,342	451,869
YoY growth (%)	(2.2)	(5.9)	11.3	6.1	2.6
Core profit (HK\$ m)	32,128	33,308	33,899	34,822	35,345
Core EPS (HK\$)	8.32	8.63	8.79	9.03	9.16
YoY growth (%)	35.8	3.7	1.9	2.7	1.4
P/E (x)	11.9	11.5	11.3	11.0	10.8
BVPS (HK\$)	101.9	102.2	111.5	115.6	121.7
P/B (x)	0.97	0.97	0.89	0.86	0.81
Dividend yield (%)	2.58	2.71	2.88	2.88	2.93

Source: Company data, BOCOM Int'l estimates

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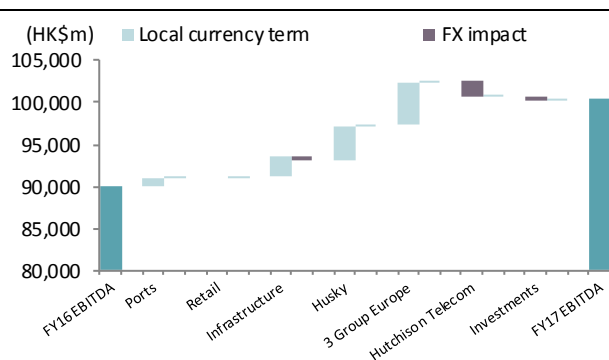
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Figure 1: FY17 results summary

(HK\$ m)	FY16	FY17 local currency term	% YoY (local currency term)	FY17 FX impact	FY17 EBITDA	% YoY
	10,571	10,458	113	117	(3.7)	+7.9%
	1,458	-	1,458	1,253	16.4	+1.6%
Ports and related services	11,639	12,544	+7.8%	19	12,563	+6.1%
Retail	14,567	14,567	-	231	14,798	+88.5%
Infrastructure	31,128	33,539	+7.7%	(506)	33,033	+28.5%
Husky Energy*	4,771	8,735	+83.1%	257	8,992	-41.7%
3 Group Europe	18,944	24,053	+27.0%	284	24,337	-6.0%
HTHK&HAT	4,905	2,852	-41.9%	9	2,861	+11.5%
Finance & Investments and Others	4,058	3,659	-9.8%	155	3,814	+7.9%
Comparable EBITDA	90,012	99,949	+11.0%	449	100,398	+1.6%
Disposal and other gain	4,513				3,956	-12.3%
Depreciation and amortization	(31,406)				(36,762)	+17.1%
Finance costs	(13,278)				(18,024)	+35.7%
Tax	(8,016)				(6,055)	-24.5%
MI / PCS	(8,817)				(8,413)	-4.6%
Core profit	33,008				35,100*	+6.3%

Source: Company data, BOCOM Int'l

* Core profit rose 2.7% YoY to HK\$33.9bn, if adjusted for deferred tax and other one-off items

Figure 2: Movement in EBITDA

Source: Company data, BOCOM Int'l

Figure 3: NAV summary

	NAV (HK\$ m)	% of GAV	NAV per share (HK\$)
Ports	102,305	15.4	26.5
Retail	174,599	26.4	45.3
CKI & Utility	174,256	26.3	45.2
Husky	67,685	10.2	17.5
3 Group Europe	127,573	19.3	33.1
Finance, investments & others	16,060	2.4	4.2
Segment net assets	662,479	100.0	171.7
Adjusted corporate borrowings	(61,965)		(16.1)
NAV	600,514		155.7
NAV per share (HK\$)	155.70		
Target discount (%)	20		
Target price (HK\$)	124.50		

Source: Bloomberg, BOCOM Int'l estimates

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CKH (1 HK)



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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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