

HK Property	Last Close	Target Price	Upside	20 March 2018
	HK\$69.60	HK\$78.20↑	+12.4%	

## CK Asset (1113 HK)

### FY17 earnings in line; even stronger FY18 secured

- FY17 results in line:** FY17 reported core profit rose 13% YoY to HK\$20.3bn. Core profit would be HK\$19.2bn if excluding fair value gain, in line with our forecast. Rental income, hotels and non-property formed a solid recurring income base, accounting for 42% of EBIT (2016: 33%). FY17 DPS rose 11.1% YoY to HK\$1.70.
- Non-property earnings to double in 2018E:** Aircraft leasing and utility contributed HK\$2.95bn EBIT in 2017. As of December 2017, the company had a fleet of 86 aircraft, and has committed another 56 aircraft, representing a CAGR of 14% if spread across a 4-year pipeline. On the other hand, the three newly acquired utility businesses (Duet, Reliance and ista) had only 2-7 months' contribution in 2017. We estimate their full 12-month contribution to add another HK\$2.8bn to 2018E EBIT. Therefore, we expect earnings momentum from non-property businesses to remain strong and double in 2018E.
- Property profit to rebound in 18E/19E:** HK property profit dropped 31% YoY in 2017, with the absence of major projects. Nevertheless, contracted sales were up to HK\$50bn, led by the buoyant sales at Ocean Pride I&II. We estimate over 40% EBIT margin at this project. Therefore, we expect HK property profit to rebound by 9%/36% YoY in 18E/19E, respectively. In addition, 2018 is a harvest year, when the company will book as much as HK\$18bn gain from the disposal of The Center and Shanghai Century Link by our estimate. Including the two disposals, we estimate 2018E core profit would jump to HK\$35.8bn, or +76% YoY.
- Huge war chest to build recurring income:** We expect the growth in non-property earnings will help to fill the gap, when property profit slows down after 2020E, as landbanks in HK and mainland of the company are running down. More importantly, we estimate the company will return to net cash following the disposal of the two investment properties. This could potentially lift core profit by another HK\$3bn, assuming reinvesting at a net yield of 5% and leveraging up to 20% net gearing. Therefore, we remain positive on the company's growth prospects. We raise our NAV to HK\$104.30 (from HK\$98.50), mainly to reflect the higher-than-expected return from infrastructure projects. We raise our target price to HK\$78.20 (from HK\$73.90), based on 25% target NAV discount. Maintain **Buy**.

### Stock Rating

**BUY**

### 1-year stock performance



Source: Bloomberg

### Stock data

52w high (HK\$)	75.30
52w low (HK\$)	52.10
Market cap (HK\$ m)	257,345.90
Avg daily vol (m)	6.10
YTD change (%)	1.90
200d MA (HK\$)	66.26

Source: Bloomberg

### Alfred Lau, CFA, FRM

alfred.lau@bocomgroup.com

(852) 3766 1807

### Financial highlights

Y/E 31 Dec	2016	2017	2018E	2019E	2020E
Revenue (HK\$ m)	69,910	63,780	60,743	65,780	69,818
YoY growth (%)	18.9	(8.8)	(4.8)	8.9	4.8
Core profit (HK\$ m)	18,032	20,320	19,722	21,309	21,462
Core EPS (HK\$)	4.68	5.29	5.32	5.75	5.79
YoY growth (%)	15.9	13.0	0.6	8.0	0.7
Previous EPS (HK\$)			5.14	4.80	-
Change (%)			3.5	19.7	-
P/E (x)	14.9	13.2	13.3	12.4	12.3
BVPS (HK\$)	70.66	78.63	86.48	90.15	93.65
P/B (x)	0.99	0.89	0.80	0.77	0.74
Dividend yield (%)	2.20	2.44	2.73	3.02	3.30

Source: Company data, BOCOM Int'l estimates

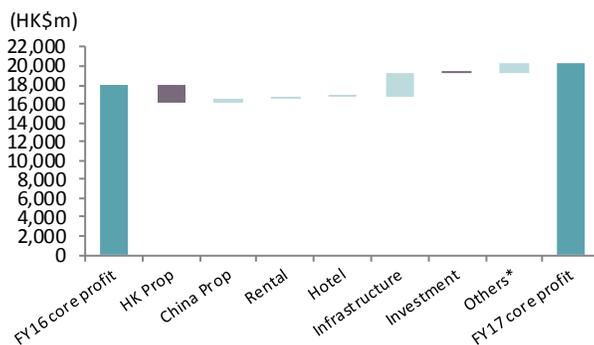
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**Figure 1: FY17 results summary**

(HK\$ m)	FY16	FY17	% YoY	Remarks
- HK property sales	7,108	4,889	-31.2	HK prop revenue: HK\$12.8bn, -38% YoY; with no major completion in 2017
- Mainland property sales	10,635	11,106	+4.4	4% above our forecast, due to higher margin
- HK rental	6,290	6,304	+0.2	
- Mainland rental	398	503	+26.4	
- Hotel	1,509	1,572	+4.2	
- Aircraft leasing	84	984	NM	HK\$2.1bn in EBITDA
- Energy and infra	-	1,969	NM	2-7mth contribution from the new projects, est. HK\$4.8bn annualized EBIT
- Others	287	854	+197.6	
Investment & other income	347	1,390	+300.6	Including HK\$529m fair value gain from REITs; cash dividend from REITs was HK\$863m, -1% YoY
<b>EBIT</b>	<b>26,658</b>	<b>29,571</b>	<b>+10.9</b>	
IP reval gain	1,265	9,539	+654.1	
Net finance cost	(645)	(2,026)	+214.1	Increased borrowings following the acquisition of infrastructure
Others	(28)	1,296	NM	Including HK\$591m fair value gain from investments
Tax	(7,441)	(7,492)	+0.7	
Non-controlling interests	(394)	(763)	+93.7	
<b>Net profit</b>	<b>19,415</b>	<b>30,125</b>	<b>+55.2</b>	
<b>Core profit</b>	<b>18,032</b>	<b>20,320</b>	<b>+12.7</b>	<b>Core profit rose 6.5% YoY to HK\$19.2bn, adjusted for other fair value gain</b>
Core EPS (HK\$)	4.68	5.29	+13.1	
DPS (HK\$)	1.53	1.70	+11.1	
- payout (%)	32.7	32.2	-0.6ppt	
HK property margin (%)	34.0	38.2	+4.2ppt	
Mainland property margin (%)	29.6	37.6	+8.0ppt	
Overall rental margin (%)	91.3	91.1	-0.2ppt	
Hotel margin (%)	31.1	32.8	+1.7ppt	
BVPS (HK\$)	70.04	78.63	+12.3	
Net gearing (%)	2.8	9.9	+7.1ppt	Est. 2.5% net cash including the cash proceeds from disposal of The Center

Source: Company data, BOCOM Int'l

**Figure 2: Core profit movement**

Source: Company data, BOCOM Int'l

\* Including HK\$1.1bn fair value gain from investment

**Figure 3: Contribution from new infrastructure projects**

(HK\$ m)	Aircraft leasing (subsidiary and JV)	DUET Group (40% JV)	Reliance Group (75% JV)*	ista Group (65% JV)	2017 total
Contribution in 2017	12 months	7 months	5 months	2 months	
Revenue	2,192	2,823	1,565	1,095	7,675
EBIT	984	1,264	440	265	2,953
EBIT margin (%)	44.9	44.8	28.1	24.2	38.5
Annualized EBIT	984	2,167	1,003	1,590	5,744
Pro-rata equity consideration	21,000	17,300	12,700	26,100	77,100
Annualized EBIT yield on equity (%)**	4.7	12.5	7.9	6.1	7.5

Source: Company data, BOCOM Int'l

\* Sold 25% stake to CKI in September

\*\* Before taking into accounting for existing debt

**Figure 4: Net gearing**

(HK\$ m)	Dec 2017	Estimated pro-forma, after completion of The Center sales
Total borrowings	71,992	71,992
Cash	54,917	91,097
Net debt/(cash)	17,075	(19,105)
Perpetual bond	11,670	11,670
Shareholders' fund	291,552	303,152
Net gearing (%)	9.9	(2.5)

Source: Company, BOCOM Int'l estimates

**Figure 5: Earnings revision**

	Old	New	% chg
FY18E Core profit (HK\$ m)	19,058	19,722*	3.5
FY19E Core profit (HK\$ m)	17,807	21,309	19.7
FY20E Core profit (HK\$ m)	-	21,462	NA
FY18E Core EPS (HK\$)	5.14	5.32*	3.5
FY19E Core EPS (HK\$)	4.80	5.75	19.7
FY20E Core EPS (HK\$)	-	5.79	NA
FY18E DPS (HK\$)	1.70	1.90	11.8
FY19E DPS (HK\$)	1.80	2.10	16.7
FY20E DPS (HK\$)	-	2.10	NA

Source: BOCOM Int'l estimates

\* HK\$35.8bn and HK\$9.66, respectively, if including the disposal gain from Shanghai Century Link and The Center

**Figure 6: NAV summary**

	NAV (HK\$)	% of GAV	NAV per share
HK property	59,189	12.2	16.0
HK IP	115,671	23.8	31.2
Mainland property	59,489	12.2	16.0
Mainland IP	5,509	1.1	1.5
Hotel & SA	53,713	11.0	14.5
Aircraft, Energy & Infra	82,618	17.0	22.3
Others	19,587	4.0	5.3
Cash	91,097	18.7	24.6
<b>GAV</b>	<b>486,874</b>	<b>100.0</b>	<b>131.3</b>
Total borrowings	(71,992)		(19.4)
Other liabilities	(28,170)		(7.6)
<b>NAV</b>	<b>386,712</b>		<b>104.3</b>
<b>NAV per share</b>	<b>104.30</b>		
Target discount (%)	25		
Target price (HK\$)	78.20		

Source: Bloomberg, BOCOM Int'l estimates

## BOCOM International

10/F, Man Yee Building, 68 Des Voeux Road Central, Central, Hong Kong  
Main: (852) 3766 1899 Fax: (852) 2107 4662

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**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**.

20 March 2018

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