

# CK Asset Holdings Ltd (1113.HK)

## Earnings Review: In line with expectations: Keeping the course under a new steward

Neutral

**1113.HK** | 12m Price Target: **HK\$82.40** | Price: **HK\$70.00** | Upside: **17.7%**

CK Asset reported an in-line FY17 underlying profit with an 11% yoy DPS hike, with growth driven by investments in new business areas. Mr. Ka-shing Li announced plans to retire and that his son, Mr. Victor Li, shall succeed as Chairman, in addition to his present role as Managing Director of CK Asset. We see higher earnings visibility and stability post active M&A. Management reiterated their focus to upkeep the strategy of achieving sustainable growth through quality asset investments worldwide, which should drive CK Asset's dividend distribution capability. We revise our earnings estimates and 12m TP post results; details and our takeaways from the briefing within. Maintain Neutral.

### CKA reports in-line underlying profit with 11% yoy DPS growth

- CK Asset reported HK\$20.3bn FY2017 underlying profit, up 13% yoy, in line with our forecasts, with additional contributions from investments in new business areas more than offsetting the 8% decline in property sales (attr. EBIT).
- Underlying EPS grew 16% yoy to HK\$5.44, faster than profit (HK\$m) growth at 13%, as a result of sizable share buybacks at HK\$8.7bn worth of shares since 2016.
- Final DPS grew 11% yoy, in line with the interim DPS growth rate at end-2H17 (HK\$1.28), sending full year DPS to HK\$1.70.
- BVPS at HK\$78.85, up 11.6% yoy, of which certain announced disposals (e.g. Century Link and The Center) were yet to be recognized as of Dec-2017, in addition hotels/serviced apartments were at depreciated costs and HK Central office portfolio was at c.4.75% cap rate.
- Mr. Ka-shing Li, announced plans to step down as Chairman and to retire from the position of Executive Director at the forthcoming AGM (i.e., May 10), but will serve as Senior Advisor

### Justin Kwok, CFA

+852-2978-0481 | justin.kwok@gs.com  
Goldman Sachs (Asia) L.L.C.

### Colin Yao

+65-6654-5426 | colin.yao@gs.com  
Goldman Sachs (Singapore) Pte

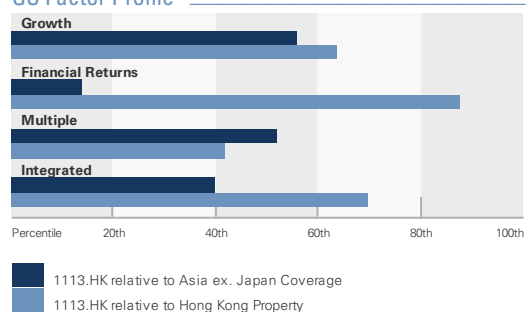
### Key Data

Market cap: HK\$270.2bn / \$34.4bn  
Enterprise value: HK\$298.7bn / \$38.1bn  
3m ADTV: HK\$410.1mn / \$52.4mn  
Hong Kong  
Hong Kong Property  
M&A Rank: 3

### GS Forecast

	12/17	12/18E	12/19E	12/20E
<b>Revenue (HK\$ mn) New</b>	<b>57,546.0</b>	<b>66,013.5</b>	<b>81,932.2</b>	<b>96,839.2</b>
Revenue (HK\$ mn) Old	75,681.7	65,071.6	68,026.2	-
EBITDA (HK\$ mn)	26,725.0	27,217.0	32,835.9	31,830.5
<b>EPS (HK\$) New</b>	<b>8.07</b>	<b>7.09</b>	<b>6.68</b>	<b>6.76</b>
EPS (HK\$) Old	5.44	6.15	6.76	-
P/E (X)	7.5	9.9	10.5	10.4
P/B (X)	0.7	0.8	0.8	0.7
Dividend yield (%)	2.8	2.7	2.9	3.4
FCF yield (%)	19.9	(2.0)	11.1	18.0
	<b>6/17</b>	<b>12/17</b>	--	--
EPS (HK\$)	3.82	4.25	-	-

### GS Factor Profile



Source: Company data, Goldman Sachs Research estimates. See disclosures for details.

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Neutral

## CK Asset Holdings Ltd (1113.HK)

Rating since Feb 5, 2018

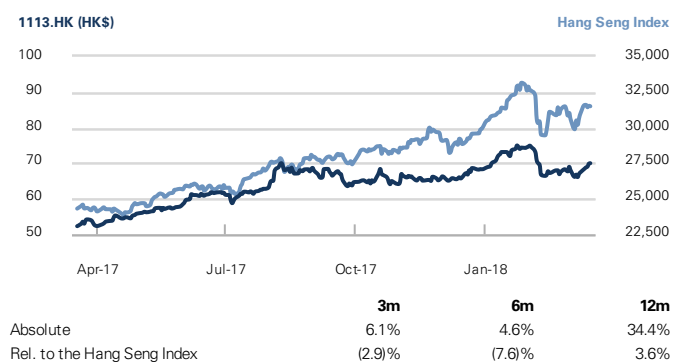
## Ratios &amp; Valuation

	12/17	12/18E	12/19E	12/20E
P/E (X)	7.5	9.9	10.5	10.4
P/B (X)	0.7	0.8	0.8	0.7
FCF yield (%)	19.9	(2.0)	11.1	18.0
EV/EBITDA (X)	9.3	11.0	8.6	7.7
CROCI (%)	10.0	4.9	6.0	5.8
ROE (%)	10.4	8.5	7.6	7.3
Net debt/equity (%)	5.5	10.2	4.1	(6.2)
Interest cover (X)	20.6	19.5	32.2	84.4
Days inventory outst, sales	866.2	758.1	560.7	373.9
Receivable days	60.7	35.8	28.8	24.4
Days payable outstanding	586.3	453.2	220.6	118.2
DuPont ROE (%)	9.6	8.1	7.2	6.9
Turnover (X)	0.1	0.1	0.2	0.2
Leverage (X)	1.5	1.4	1.2	1.2

## Growth &amp; Margins (%)

	12/17	12/18E	12/19E	12/20E
Total revenue growth	(17.0)	14.7	24.1	18.2
EBITDA growth	(0.4)	1.8	20.6	(3.1)
EPS growth	58.1	(11.1)	(5.8)	1.3
DPS growth	11.1	9.4	8.6	17.2
EBIT margin	43.7	38.8	38.1	31.2
EBITDA margin	46.4	41.2	40.1	32.9
Net income margin	51.7	39.7	30.1	25.8

## Price Performance



Source: FactSet. Price as of 16 Mar 2018 close.

## Income Statement (HK\$ mn)

	12/17	12/18E	12/19E	12/20E
Total revenue	57,546.0	66,013.5	81,932.2	96,839.2
Cost of goods sold	(28,814.0)	(37,458.5)	(48,025.9)	(63,884.8)
SG&A	(2,007.0)	(1,338.0)	(1,070.4)	(1,123.9)
R&D	-	-	-	-
Other operating inc./exp.)	-	-	-	-
ESO expense	-	-	-	-
<b>EBITDA</b>	<b>26,725.0</b>	<b>27,217.0</b>	<b>32,835.9</b>	<b>31,830.5</b>
Depreciation & amortization	(1,573.0)	(1,588.7)	(1,604.6)	(1,620.7)
<b>EBIT</b>	<b>25,152.0</b>	<b>25,628.3</b>	<b>31,231.2</b>	<b>30,209.8</b>
Net interest inc./exp.)	350.0	98.4	57.7	863.5
Income/(loss) from associates	2,388.8	5,200.5	5,434.9	5,668.5
<b>Pre-tax profit</b>	<b>37,778.8</b>	<b>37,127.2</b>	<b>36,723.8</b>	<b>36,741.8</b>
Provision for taxes	(7,239.0)	(10,186.5)	(10,929.9)	(11,233.3)
Minority interest	(763.0)	(724.8)	(1,110.9)	(504.9)
Preferred dividends	-	-	-	-
<b>Net inc. (pre-exceptionals)</b>	<b>29,776.8</b>	<b>26,215.9</b>	<b>24,683.0</b>	<b>25,003.6</b>
Post-tax exceptionals	-	-	-	-
<b>Net inc. (post-exceptionals)</b>	<b>29,776.8</b>	<b>26,215.9</b>	<b>24,683.0</b>	<b>25,003.6</b>
<b>EPS (basic, pre-exception) (HK\$)</b>	<b>7.98</b>	<b>7.09</b>	<b>6.68</b>	<b>6.76</b>
<b>EPS (diluted, pre-exception) (HK\$)</b>	<b>7.98</b>	<b>7.02</b>	<b>6.61</b>	<b>6.70</b>
<b>EPS (basic, post-exception) (HK\$)</b>	<b>7.98</b>	<b>7.09</b>	<b>6.68</b>	<b>6.76</b>
<b>EPS (diluted, post-exception) (HK\$)</b>	<b>7.98</b>	<b>7.02</b>	<b>6.61</b>	<b>6.70</b>
<b>EPS (diluted, excl. ESO) (HK\$)</b>	--	--	--	--
DPS (HK\$)	1.70	1.86	2.02	2.37

## Balance Sheet (HK\$ mn)

	12/17	12/18E	12/19E	12/20E
Cash & cash equivalents	54,917.0	38,835.2	26,242.9	47,510.9
Accounts receivable	6,472.0	6,472.0	6,472.0	6,472.0
Inventory	135,589.0	138,628.5	113,097.3	85,300.3
Other current assets	0.0	0.0	-	-
<b>Total current assets</b>	<b>196,978.0</b>	<b>183,935.7</b>	<b>145,812.2</b>	<b>139,283.2</b>
Net PP&E	171,335.0	170,807.2	170,295.3	169,800.1
Net intangibles	-	-	-	-
Total investments	79,401.0	88,601.5	98,036.4	107,704.9
Other long-term assets	5,625.0	5,625.0	5,625.0	5,625.0
<b>Total assets</b>	<b>453,339.0</b>	<b>448,969.4</b>	<b>419,768.8</b>	<b>422,413.2</b>
Accounts payable	55,638.0	37,372.3	20,686.7	20,686.7
Short-term debt	14,342.0	15,942.0	242.0	942.0
Other current liabilities	3,426.0	2,941.0	3,183.5	3,062.3
<b>Total current liabilities</b>	<b>73,406.0</b>	<b>56,255.3</b>	<b>24,112.2</b>	<b>24,691.0</b>
Long-term debt	57,650.0	56,050.0	40,150.0	24,250.0
Other long-term liabilities	13,103.0	13,103.0	13,103.0	13,103.0
Total long-term liabilities	70,753.0	69,153.0	53,253.0	37,353.0
<b>Total liabilities</b>	<b>144,159.0</b>	<b>125,408.3</b>	<b>77,365.2</b>	<b>62,044.0</b>
<b>Preferred shares</b>	--	--	--	--
<b>Total common equity</b>	<b>303,222.0</b>	<b>316,878.3</b>	<b>334,609.9</b>	<b>352,070.7</b>
<b>Minority interest</b>	<b>5,958.0</b>	<b>6,682.8</b>	<b>7,793.7</b>	<b>8,298.6</b>
<b>Total liabilities &amp; equity</b>	<b>453,339.0</b>	<b>448,969.4</b>	<b>419,768.8</b>	<b>422,413.2</b>
<b>Net debt, adjusted</b>	<b>17,075.0</b>	<b>33,156.8</b>	<b>14,149.1</b>	<b>(22,318.9)</b>
Average capital employed	305,052.0	341,486.4	356,635.3	347,301.5
RNAV	402,750.5	406,287.5	-	-
BVPS (HK\$)	82.01	85.70	90.50	95.22

## Cash Flow (HK\$ mn)

	12/17	12/18E	12/19E	12/20E
Net income	29,776.8	26,215.9	24,683.0	25,003.6
D&A add-back	1,573.0	1,588.7	1,604.6	1,620.7
Minority interest add-back	763.0	724.8	1,110.9	504.9
Net (inc)/dec working capital	26,857.0	(21,305.2)	8,845.6	27,797.0
Other operating cash flow	(655.8)	(11,400.5)	(5,434.9)	(5,668.5)
<b>Cash flow from operations</b>	<b>58,314.0</b>	<b>(4,176.2)</b>	<b>30,809.2</b>	<b>49,257.7</b>
Capital expenditures	(12,334.0)	(1,060.9)	(1,092.7)	(1,125.5)
Acquisitions	-	-	-	-
Divestitures	-	-	-	-
Others	(59,618.6)	(4,000.0)	(4,000.0)	(4,000.0)
<b>Cash flow from investing</b>	<b>(71,952.6)</b>	<b>(5,060.9)</b>	<b>(5,092.7)</b>	<b>(5,125.5)</b>
Dividends paid (common & pref)	(5,950.5)	(6,359.7)	(6,951.3)	(7,542.9)
Inc/(dec) in debt	1,800.0	0.0	(31,600.0)	(15,200.0)
Other financing cash flows	10,105.1	(485.0)	242.5	(121.2)
<b>Cash flow from financing</b>	<b>5,954.6</b>	<b>(6,844.7)</b>	<b>(38,308.8)</b>	<b>(22,864.1)</b>
<b>Total cash flow</b>	<b>(7,684.0)</b>	<b>(16,081.8)</b>	<b>(12,592.3)</b>	<b>21,268.0</b>
Free cash flow	45,980.0	(5,237.1)	29,716.5	48,132.2

Source: Company data, Goldman Sachs Research estimates.

to the company. The Board proposed and has elected, Mr. Victor Li, eldest son of Mr. Ka-shing Li, to succeed as Chairman whilst continuing his present role as Managing Director.

### Key takeaways from the analyst briefing

- **Focus on quality assets to drive growth:** Mr. Victor Li commented that management plans to maintain CK group's track record, upon his succession, in finding quality assets to drive growth, and sees relatively more attractive risk/reward propositions in new business areas than land purchases, at prevailing pricing.
- **Earnings visibility:** management see a much higher earnings visibility and stability with its recurring income base (i.e., rentals, hotels, aircraft leasing, infrastructure and utility asset operation, etc.) contributing HK\$12bn attr. EBIT in 2017, up 38% yoy, and accounting for 42% of total company revenue. If we were to annualize the contributions from new investments during the year, the aforesaid would be HK\$14bn, up 61% yoy, and at 46% of total company revenue, all else equal.
- **Capital management:** DPS grew 11% yoy, putting the payout ratio at c.30%; management noted that they see the need to retain resources for further M&A, while continuing to be opportunistic in share buyback operations.

### What to do with the stock:

- We revise up our 2018E EPS by 15% on the back of factoring in the announced HK\$6.2bn disposal gain from Century Link which management confirmed was completed in Jan 2018. We fine-tune our 2019E EPS by -1%, and introduce our 2020E EPS. On results, our 12-month NAV-based TP rises to HK\$82.4 (from HK\$80.50), set at unchanged target 25% discount.
- Based on announced details to date, we calculate The Center disposal could add 5% to NAV upon completion (still pending with 10% deposit on hand at the moment), and in line with its current growth strategy, we expect the company to pursue acquisition events going forward rather than disposals, in an effort to boost recurring income and thus drive future dividend hikes (for more details please refer to CK Asset: Down to Neutral post outperformance; likely to focus more on acquisitions than disposals in near term, dated Feb 5, 2018). Maintain Neutral.

### Risks:

- Downside: Worse-than-expected conditions for asset monetization and/or M&A, abrupt economic downturn, and interest rate hikes.
- Upside: Accretive M&A to drive growth in recurring income.

## Exhibit 1: CKA FY17 Results Review (in HK\$mn)

	2016	2017	yoy %	2H16	1H17	2H17	yoy %	hoh %	Remarks(FY17)
<b>Revenue by principal activities (attr. basis)</b>	<b>69,910</b>	<b>63,780</b>	<b>-8.8%</b>	<b>42,347</b>	<b>29,863</b>	<b>26,983</b>	<b>-32%</b>	<b>-3%</b>	
Property sales	56,804	42,551	-24.6%	35,508	21,831	21,020	-41%	-4%	HK sales mainly from Stars by the Harbour, Yucce Square, and The Zumurud
Hong Kong	20,882	12,792	-38.7%	12,219	7,535	5,257	-57%	-30%	Mainland sales mainly from La Grande Villes(Beijing), Cape Coral(Guangzhou), The Harbourfront (Qingdao), Millennium Waterfront (Wuhan), Laguna Verona (Dongguan), Hupan Mingdi(Shanghai), and The Greenwich (Xian)
Mainland	35,914	29,555	-17.7%	23,286	14,292	15,263	-34%	7%	
Singapore and others	8	504	6200.0%	3	4	500	16567%	12400%	
Property rental	7,430	7,830	5.4%	3,760	3,889	3,941	5%	1%	
Hotel and serviced suit operation	4,850	4,798	-1.1%	2,555	2,228	2,570	1%	15%	Two hotels disposed to Hui Xian REIT in 1H2017
Property and project management	620	626	1.0%	318	309	317	0%	3%	
Aircraft leasing	206	2,192	964.1%	206	1,057	1,135	n.a.	7%	Owned a total of 86 aircrafts and was committed to acquiring another 59 aircraft
Energy and infrastructure assets		5,483			549	4,934	n.a.	n.a.	Contribution from DUET Group, Reliance, and Ista
<b>Profit by principal activities (attr. basis)</b>	<b>26,311</b>	<b>28,181</b>	<b>7.1%</b>	<b>15,326</b>	<b>14,313</b>	<b>13,868</b>	<b>-10%</b>	<b>-3%</b>	
Property sales	17,667	16,251	-8.0%	10,811	9,132	7,119	-34%	-22%	
Hong Kong	7,108	4,889	-31.2%	3,644	3,018	1,871	-49%	-38%	HK property sales GP margin at 38% vs. 34% in 2016
Mainland	10,635	11,106	4.4%	7,204	6,136	4,970	-31%	-19%	CN property sales GP margin at 38% vs. 30% in 2016
Overseas/others	(76)	256	NM	(37)	(22)	278	-851%	-1364%	
Property rental	6,784	7,130	5.1%	3,421	3,594	3,536	3%	-2%	Property rental margin at 91.1% in 1H2017 vs. 91.3% in 2016.
Hong Kong	6,290	6,304	88.4%	3,175	3,205	3,099	-2%	-3%	HK/CN/Overseas: 88.4%/7.1%/4.5% of rental income
Mainland	398	503	26.4%	189	226	277	47%	23%	
Overseas/others	96	323	NM	57	163	160	181%	-2%	Bought a retail portfolio in UK back in late 2016
Hotel and serviced suit operation	1,509	1,572	4.2%	876	685	887	1%	29%	Margin at 32.8% vs. 31.1% in 2016.
Property and project management	267	275	3.0%	134	138	137	2%	-1%	
Aircraft leasing	84	984	1071.4%	84	517	467	n.a.	-10%	
Energy and infrastructure assets		1,969			247	1,722	n.a.	n.a.	
Interests in real estate investment trusts	347	1,390	300.6%	135	393	997	639%	154%	REITs' cash div. at HK\$863mn from Hui Xian REIT, Fortune REIT, and Prosperity REIT
<b>EBIT</b>	<b>26,658</b>	<b>29,571</b>	<b>10.9%</b>	<b>15,461</b>	<b>14,706</b>	<b>14,865</b>	<b>-4%</b>	<b>1%</b>	
Interest and other finance costs	(645)	(1,222)	89.5%	(327)	(699)	(523)	60%	-25%	Net gearing ratio (net debt to shareholders' equity) at 5.9% vs. 0.8% as at Jun 17
Increase in fair value of investment properties	1,265	9,539	n.a.	1,034	4,837	4,702	355%	n.a.	
Profit on disposal of joint ventures	-	363	n.a.	-	363	-	n.a.	n.a.	Gain from disposal of Harbour Plaza Chongqing and Sheraton Chengdu Lido Hotel
Others	(28)	129	NM	(63)	46	83	-232%	80%	
<b>Profit before tax</b>	<b>27,250</b>	<b>38,380</b>	<b>40.8%</b>	<b>16,105</b>	<b>19,253</b>	<b>19,127</b>	<b>19%</b>	<b>-1%</b>	
Taxation	(7,441)	(7,492)	0.7%	(5,075)	(4,645)	(2,847)	-44%	-39%	
Profit attributable to non-controlling interests	(394)	(763)	93.7%	(221)	(198)	(565)	156%	185%	
<b>Profit attributable to shareholders</b>	<b>19,415</b>	<b>30,125</b>	<b>55.2%</b>	<b>10,809</b>	<b>14,410</b>	<b>15,715</b>	<b>45%</b>	<b>9%</b>	
<b>Underlying profit</b>	<b>18,032</b>	<b>20,320</b>	<b>12.7%</b>	<b>9,693</b>	<b>9,480</b>	<b>10,840</b>	<b>12%</b>	<b>14%</b>	Excl. property revaluation
EPS (HK\$)	5.05	8.07	59.9%	2.81	3.82	4.25	51%	11%	
<b>Underlying EPS (HK\$)</b>	<b>4.69</b>	<b>5.44</b>	<b>16.2%</b>	<b>2.52</b>	<b>2.52</b>	<b>2.93</b>	<b>17%</b>	<b>16%</b>	
DPS (HK\$)	1.53	1.70	11.1%	1.15	0.42	1.28	11%	n.a.	
Reported BVPS (HK\$)	70.66	78.85	11.6%	70.66	74.54	78.85	12%	6%	

Source: Company data, Goldman Sachs Global Investment Research

# Disclosure Appendix

## Reg AC

I, Justin Kwok, CFA, hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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**Growth** is based on a stock's forward-looking sales growth, EBITDA growth and EPS growth (for financial stocks, only EPS and sales growth), with a higher percentile indicating a higher growth company. **Financial Returns** is based on a stock's forward-looking ROE, ROCE and CROCI (for financial stocks, only ROE), with a higher percentile indicating a company with higher financial returns. **Multiple** is based on a stock's forward-looking P/E, P/B, price/dividend (P/D), EV/EBITDA, EV/FCF and EV/Debt Adjusted Cash Flow (DACF) (for financial stocks, only P/E, P/B and P/D), with a higher percentile indicating a stock trading at a higher multiple. The **Integrated** percentile is calculated as the average of the Growth percentile, Financial Returns percentile and (100% - Multiple percentile).

Financial Returns and Multiple use the Goldman Sachs analyst forecasts at the fiscal year-end at least three quarters in the future. Growth uses inputs for the fiscal year at least seven quarters in the future compared with the year at least three quarters in the future (on a per-share basis for all metrics).

For a more detailed description of how we calculate the GS Factor Profile, please contact your GS representative.

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Across our global coverage, we examine stocks using an M&A framework, considering both qualitative factors and quantitative factors (which may vary across sectors and regions) to incorporate the potential that certain companies could be acquired. We then assign a M&A rank as a means of scoring companies under our rated coverage from 1 to 3, with 1 representing high (30%-50%) probability of the company becoming an acquisition target, 2 representing medium (15%-30%) probability and 3 representing low (0%-15%) probability. For companies ranked 1 or 2, in line with our standard departmental guidelines we incorporate an M&A component into our target price. M&A rank of 3 is considered immaterial and therefore does not factor into our price target, and may or may not be discussed in research.

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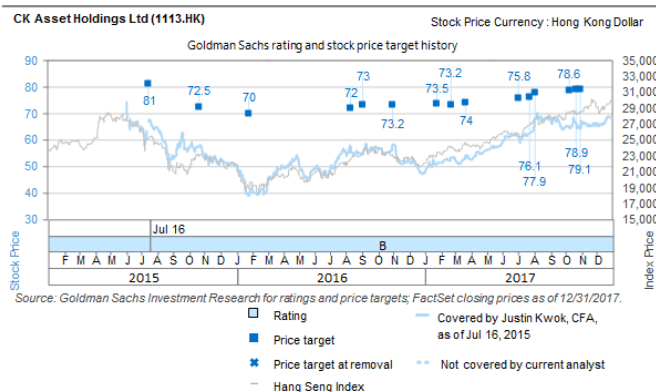
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