



Flash Note: Hang Lung Properties (00101 HK)

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Updates on the Hangzhou Business Commercial Project

杭州业务商业项目资料更新

- Further to the announcement of the project release on 28 May, Hang Lung Properties (00101 HK, "HLP") held a conference call on 29 May with investors to dispatch more information on the project. HLP clarified that the GFA of the project released on 28 May, which was 194,100.91 sq.m., did not include the GFA of the potential construction of basement areas. After adding back basement areas, the total GFA of the project came to over 200,000 sq.m., rendering lower land cost per GFA than the previously expected figure of about RMB55,285/sq.m.
- HLP expects the initial rental yield of the project to lie between 4% and 5%. The management further disclosed that roughly 45% of the project GFA will be assigned for retail space, and the rest will be designated to office space. HLP revealed that the average daily rent amount of comparable grade A office spaces in Hangzhou is about RMB10/sq.m., while comparable daily retail rent amount is about RMB30/sq.m. In terms of positioning for this project, HLP aims to build a high-end shopping mall with grade A office spaces, which is not surprising as the Company's existing projects in other cities follows the same positioning. HLP believes that Hangzhou Tower is the closest comparable project to the future shopping mall in the city.
- HLP expects major capex for the project to occur in 2022-2024, not including land cost payable to the Hangzhou government. As disclosed on 28 May, the total development cost of the project is expected to be about RMB19 billion, including land cost of RMB10.73 billion. The land cost will be paid in 3 installments with about RMB5.4 billion due in 2018 and another RMB5.4 billion due in 2019. HLP expects to receive the plot of land from the Hangzhou government in 2019; the project is expected to be completed in 2024. In other words, HLP's capex guidance (HKD4-5 billion) remains more or less unchanged for 2018 and 2019.
- HLP's updates are basically in line with our expectations, published in our morning note on 29 May, in which we expect a 40-60 split of GFA between retail space and office space; we have derived a project gross rental yield of 4.6% given our relatively conservative daily rental assumptions of RMB5.0/sq.m. and RMB27.1/sq.m. for office and retail, respectively. We would like to reiterate our view that the land acquisition is fairly priced, but it is definitely not a bargain. Also, we believe that the land cost payment will raise HLP's net gearing, and hence result in higher interest payment for its debt. HLP pledged that its dividend payout capability would not be affected by the acquisition alone and the management was quite optimistic towards rental growth in 2019 and 2020 as some investment properties currently under construction will be completed during the two years. However, we are less optimistic towards rental growth in 2019 and 2020, seeing the longer-than-expected ramp-up period of Dalian Olympia 66, which has been reflected in our rather conservative rental growth assumptions used in our previous report published on 31 January. As of now, we maintain our "Accumulate" rating for HLP, but may slightly revise our TP in the next report. Our current TP for the Company is HKD22.22.

- 继5月28日发布项目公告后，恒隆地产（00101 HK）于5月29日召开投资者电话会议发布更多关于该项目的信息。恒隆地产澄清，5月28日公布的项目总建筑面积为194,100.91平方米，但并没有包括地库的建筑面积。加上地库面积后，该项目的总建筑面积将超过20万平方米，使每平方米的土地成本低于此前预期的约人民币55,285元/平方米。
- 恒隆地产预计该项目的初始租金收益率在4%至5%之间。管理层进一步透露，约45%的项目总建筑面积将被分配到零售区域，其余的将被用作办公空间。恒隆地产透露，杭州的可比甲级写字楼的平均租金约为每日人民币10元/平方米，而可比的零售空间租金约为每日人民币30元/平方米。就定位而言，恒隆地产计划打造一个拥有甲级写字楼的高端购物中心项目，这一点并不令人意外，因为公司目前在其它城市的项目沿用同样的定位。恒隆地产认为杭州大厦与该未来的购物中心的定位最为接近。
- 除支付给杭州市政府的土地成本之外，恒隆地产预计该项目的主要资本开支将于2022-2024年产生。如5月28日的公告所披露，预计该项目的总开发成本约为人民币190亿元，其中土地成本为107.3亿元。土地成本将分三次支付，2018年支付人民币54亿元，剩余的人民币54亿元将于2019年支付。预计恒隆地产将于2019年从杭州市政府接收该地块，且预计该项目将于2024年完工。换言之，2018年和2019年恒隆地产的资本支出指引（40亿港元至50亿港元）大致保持不变。
- 我们从恒隆地产获得的最新信息基本符合我们5月29日早晨的预测，我们预测零售区域和办公空间之间的建筑面积分别为项目建筑面积的40%和60%，基于我们较为保守的写字楼和零售租金分别为每日人民币5.0元/平方米和每日人民币27.1元/平方米的假设，我们得出该项目的总租金收益率为4.6%。我们重申我们的观点，即该地块价格合理，但绝对不算便宜。此外，我们认为土地成本的支付将提高恒隆地产的净负债比率，并因此提高债务的利息支付。恒隆地产承诺单独收购不会影响其派息能力，由于部分在建投资物业将于两年内完工，管理层对2019年和2020年的租金增长前景相当乐观。然而，由于大连恒隆广场的起步期较预期长，我们对公司的租金收入增长未如管理层般乐观，而该观点亦已反映在我们于1月31日公布的上一份报告相对保守的租金增长假设中。我们目前维持对恒隆地产“收集”的投资评级，但可能将在下一份报告中小幅修改我们的目标价。我们对公司当前的目标价为22.22港元。

Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Buy	买入	Relative Performance > 15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	收集	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	减持	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	卖出	Relative Performance < -15%; or the fundamental outlook of the company or sector is unfavorable.

Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Outperform	跑赢大市	Relative Performance > 5%; or the fundamental outlook of the sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	跑输大市	Relative Performance < -5%; Or the fundamental outlook of the sector is unfavorable.

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