

30 May 2018

Hong Kong

EQUITIES

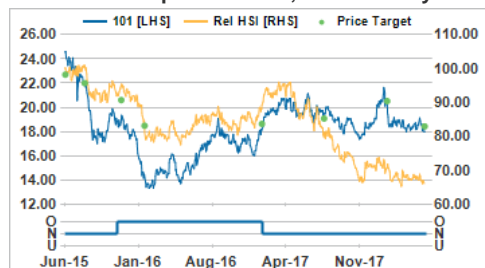
101 HK Neutral
Price (at 06:50, 30 May 2018 GMT) HK\$17.96

Valuation	HK\$	33.32
- DCF (WACC 7.7%, beta 1.1, ERP 6.0%, RFR 1.5%)		
12-month target	HK\$	18.43
Upside/Downside	%	+2.6
12-month TSR	%	+6.8
Volatility Index		Low
GICS sector		Real Estate
Market cap	HK\$m	80,779
Market cap	US\$m	10,296
Free float	%	42
30-day avg turnover	US\$m	7.8
Number shares on issue	m	4,498

Investment fundamentals

Year end 31 Dec		2017A	2018E	2019E	2020E
Revenue	m	11,199	10,721	11,107	9,449
EBIT	m	7,330	7,452	7,704	6,020
EBIT growth	%	-11.8	1.7	3.4	-21.9
Reported profit	m	8,124	7,089	5,807	4,480
Adjusted profit	m	5,530	7,089	5,807	4,480
EPS rep	HK\$	1.81	1.58	1.29	1.00
EPS rep growth	%	31.1	-12.7	-18.1	-22.9
EPS adj	HK\$	1.23	1.58	1.29	1.00
EPS adj growth	%	-12.8	28.2	-18.1	-22.9
PER rep	x	9.9	11.4	13.9	18.0
PER adj	x	14.6	11.4	13.9	18.0
Total DPS	HK\$	0.75	0.75	0.75	0.75
Total DPS growth	%	0.1	0.0	0.0	0.0
Total div yield	%	4.2	4.2	4.2	4.2
ROA	%	4.1	4.0	4.1	3.1
ROE	%	4.2	5.1	4.1	3.1
EV/EBITDA	x	11.2	9.3	10.7	13.6
Net debt/equity	%	1.9	4.4	0.8	-1.5
P/BV	x	0.6	0.6	0.6	0.6

101 HK rel HSI performance, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, May 2018

(all figures in HKD unless noted)

Analysts

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Hang Lung Properties

Wait with patience

Key points

- Acquired a land king in Hangzhou with good growth potential
- Large cost leads to slim yield, and long investment period impacts NAV
- Benefit from strong retail sales but renovations temporarily hurt

Event

- We believe the acquisition of the new land king gives the company a good opportunity to ride on the strong retail growth and development of a quasi tier-1 city. We believe the Hangzhou mall can charge the highest unit rental at Rmb700 psm/mth among Hang Lung's mainland shopping malls except for Shanghai projects, which are charging more than Rmb1,500. However, as it will take six years to complete in 2024 and total investment cost could be as high as Rmb19bn with a 4-5% gross yield, the acquisition should negatively impact the earnings, cash flow and NAV in recent years. Some previous projects have had a long development cycle for five to nine years and experienced disappointing rentals. But the dividend should not be impacted as it is based on rental income of existing investment properties.

Impact

- We estimate the unleveraged gross rental yield on cost at 3%, slightly lower than management's forecast of 4-5%, which may be lower than other existing malls. In 2014, the yield on cost was 44% for Shanghai projects, 9% for Wuxi Center, 9-10% for Shenyang Forum, 7-8% for Jinan Parc and 5% for Shenyang Palace.
- Hang Lung's project will join the competition in Hangzhou, and it targets to compete with the mall with the highest sales in Hangzhou. The high-end malls in the Wulin district include Hangzhou Tower which opened in 1988, Wulin Intime and Kerry Centre. Hangzhou Tower's retail sales achieved Rmb7.76bn in 2017, up 17.5% YoY, ranked in the top five in China. And total retail sales in Hangzhou amounted to Rmb571.7bn, up by 10.5%. We see the potential market of high-end malls, as Hangzhou's GDP exceeded Nanjin in 2017 and it became one of the top 10 cities in China. However only one shopping mall from Hangzhou joined the top 20 malls in China, vs four malls from Nanjing.
- Both Hong Kong and China have strong retail sales growth YTD 2018. China retail sales have increased ~10% and Hong Kong by 14% in 1Q18, led by the luxury segment. We believe Hang Lung can benefit from the strong retail market. However, the renovations in Peak Galleria in HK and Grand Gateway in Shanghai will impact the earnings temporarily.

Earnings and target price revision

- We lower our TP by 10% and earnings by 0.8-4.9% for 2018-20, as we add the new project in Hangzhou and increase Hong Kong rental assumptions.

Price catalyst

- 12-month price target: HK\$18.43 based on a Sum of Parts methodology.
- Catalyst: non-core HK IP disposal, performance improvement of China malls.

Action and recommendation

- Maintain Neutral. Hang Lung Properties is trading at a 0.60x FY17 BV.

Hangzhou is a new city for Hang Lung. The acquisition is consistent with management's strategy to build high-end properties in tier one and two cities in China. After the acquisition, Hang Lung will have 11 projects in nine cities in mainland China. Hangzhou Tower is the one with the highest sales. It will also be the main competitor of Hang Lung's Hangzhou project, as both malls have high-end positioning and are closely located.

Fig 1 Retail sales for several shopping malls in Hangzhou

Project name	GFA (k sqm)	Retail sales (Rmb bn)			Growth 17 vs 16	
		2015	2016	2017		
Hangzhou Tower	杭州大厦	180	5.7	6.6	7.8	17.6%
Hubin Intime in77	湖滨银泰 in77	300	2.8	3.3	3.7	12.1%
Wulin Intime Department Store	武林银泰总店	87	4.0	3.8	3.5	-7.4%
MIXc	万象城	174	2.3	2.7	3.2	17.2%
Western Hangzhou Intime City	城西银泰城	400	2.0	2.4	2.7	12.5%
Xiasha Bailian Outlets Plaza	下沙百联奥特莱斯	110	1.6	1.7	2.2	25.0%
Xixi In City	西溪印象城	210	1.5	1.7	1.7	2.4%

The figures are from public websites, not confirmed by corporates.
Source: iziRetail, Macquarie Research, May 2018

Fig 2 Hang Lung shopping malls in Mainland China and some malls in Hangzhou

Project name	Location	Retail GFA k sqm	Estimated Rent Rmb psm/mth	Open year
Plaza 66	Shanghai	54	3,000	2006
Grand Gateway 66	Shanghai	120	1,560	2006
Hangzhou new project	Hangzhou	87	700	2024
Spring City 66	Kunming	158	333	2019
Heartland 66	Wuhan	177	333	2019
Parc 66	Jinan	171	320	2011
Palace 66	Shenyang	109	300	2010
Center 66	Wuxi	118	266	2013
Riverside 66	Tianjin	153	260	2014
Forum 66	Shenyang	102	240	2012
Olympia 66	Dalian	222	130	2015
MIXc - CRland	Hangzhou	189	400	2010
Kerry Center	Hangzhou	101	300	2016

Source: Macquarie Research, May 2018

The site is located in a traditional CBD in Hangzhou. The site area is 44.8k sqm, GFA is 194k sqm, land cost is Rmb55.3kpsm. The project cannot be sold on a strata title basis. Retail should be larger than 45% of total GFA. Hang Lung will build one shopping mall and several office towers on the site. The height limit is 150m; 120m for two towers and 90m for others.

We assume retail rental at Rmb700 psm/mth, and office rental at Rmb300 psm/mth. If we use a 4% cap rate on 2027 NPI, the value would be Rmb9.6bn, which would be Rmb9.4bn or HK\$2.5 per share lower than total capex of Rmb19bn. As our model uses the cost as NAV for property under development, our NAV hasn't captured the negative NAV impact from this project.

Fig 3 Hangzhou project forecasts (Rmb'm)

Total capex		2024	2025	2026	2027	Value (NPI / 4% net cap rate)
19,000	Revenue	130	543	569	595	9,593
	NPI	-	248	310	384	

Source: Company data, Macquarie Research, May 2018

What has changed?

We raise our NAV estimate by 5% and Revenue by 0.1%-0.8% in 2018-2020 mainly due to higher rental growth assumptions of Hong Kong retail. We lower our TP by 10% and earnings by 1-5% mainly due to the addition of the new project and higher net interest expense.

- Due to a more bullish view on retail, we raise our assumptions of rental growth for high-end destination malls from 2.5% to 5.0% each year from 2019 to 2021 and increase the rental growth for low-end destination malls and high-end neighbourhood malls from 2.5% to 5.0% in 2019. We increase our forecast of Central office rent growth from 2.5% to 5% in 2018.
- We add the new project in Hangzhou in our model for land parcels.

Fig 4 Changes versus consensus (HK\$ m)

	Price target HK\$	NAV HK\$	Revenue			Underlying profits*		
			2018E	2019E	2020E	2018E	2019E	2020E
Macq new	18.43	33.32	10,721	11,107	9,449	7,089	5,807	4,480
Macq old	20.52	31.60	10,714	11,060	9,373	7,150	5,977	4,711
Difference (%)	-10.2%	5.4%	0.1%	0.4%	0.8%	-0.8%	-2.8%	-4.9%
Consensus			9,878	10,062	10,306	4,716	4,604	4,634
Difference (%)			8.5%	10.4%	-8.3%	50.3%	26.1%	-3.3%

* Adjusted for revaluation gains of investment properties and net of deferred tax.

Source: Bloomberg, Macquarie Research, May 2018

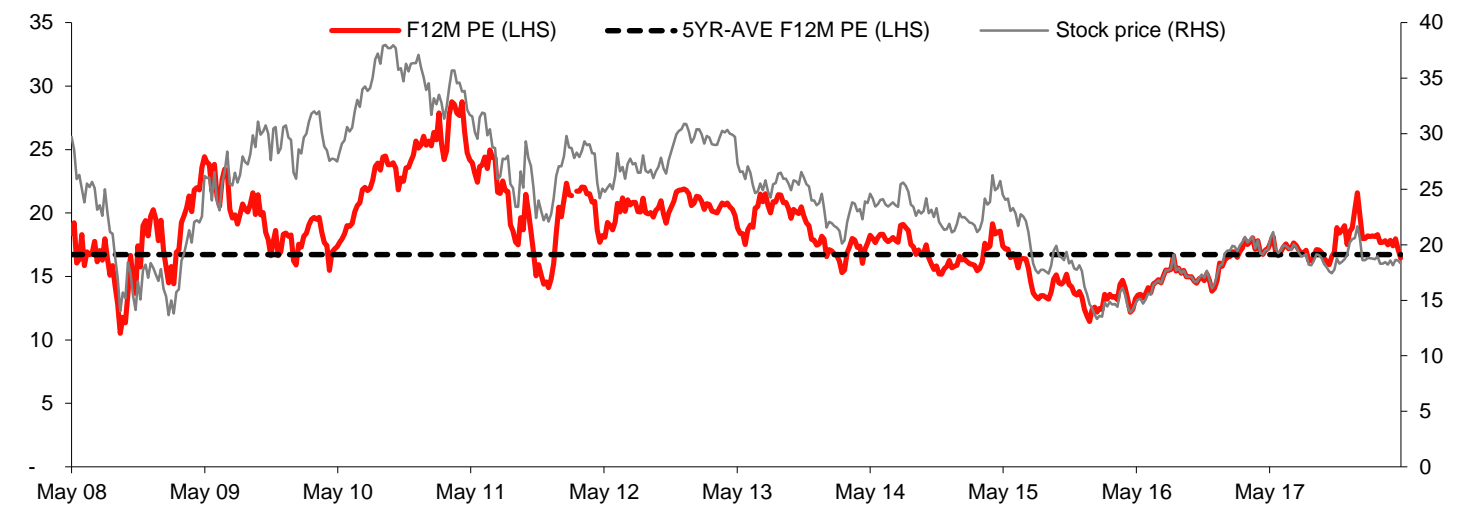
Fig 5 Financial summary (HK\$ m)

Summary	2016	2017	2018E	2019E	2020E	2016H1	2016H2	2017H1	2017H2
Revenue	13,059	11,199	10,721	11,107	9,449	6,311	6,748	6,358	4,841
Cost of sales	(4,140)	(3,289)	(2,660)	(2,764)	(2,757)	(1,991)	(2,149)	(1,817)	(1,472)
Gross profit	8,919	7,910	8,061	8,343	6,691	4,320	4,599	4,541	3,369
Adjusted net profit	6,341	5,530	7,089	5,807	4,480	3,167	3,174	3,040	2,490
Dividends	3,373	3,373	3,373	3,373	3,373	765	2,608	765	2,608
Gross margin	68%	71%	75%	75%	71%	68%	68%	71%	70%
Underlying profit margin	47%	73%	66%	52%	47%	47%	47%	60%	51%
Financial stability									
Net gearing*	2%	2%	5%	1%	-2%	2%	2%	1%	2%
Interest coverage	6.3	5.9	6.3	6.5	5.1	6.3	6.3	6.7	4.9
Associates/Net profit	1%	1%	21%	1%	1%	1%	1%	1%	2%
SGA/Revenue	5%	5%	6%	6%	7%	5%	4%	5%	6%
Tax/Pre-tax income	17%	14%	20%	20%	20%	17%	17%	15%	12%
Net operating cash flow	6,341	8,365	10,487	6,744	4,634	1,966	4,375	4,806	3,559
Net investing cash flow	720	(5,349)	(10,798)	1,769	2,230	1,090	(370)	(2,945)	(2,404)
Net financing cash flow	(8,746)	(5,554)	(3,373)	(3,373)	(3,373)	(4,061)	(4,685)	(3,156)	(2,398)

* net gearing is based on shareholders' equity and treating perpetual securities (if applicable) as debts

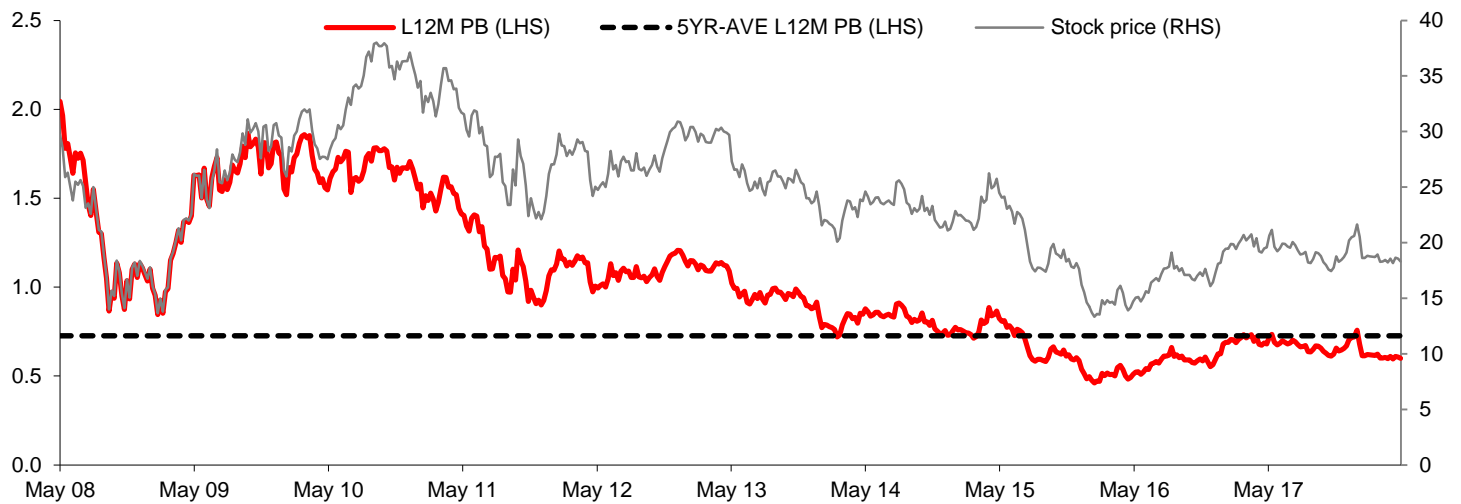
Source: Company data, Macquarie Research, May 2018

Fig 6 Consensus 12mth forward PER for HLUN latest price = 18.32*; PE = 16.5 (5-yr average = 16.7);



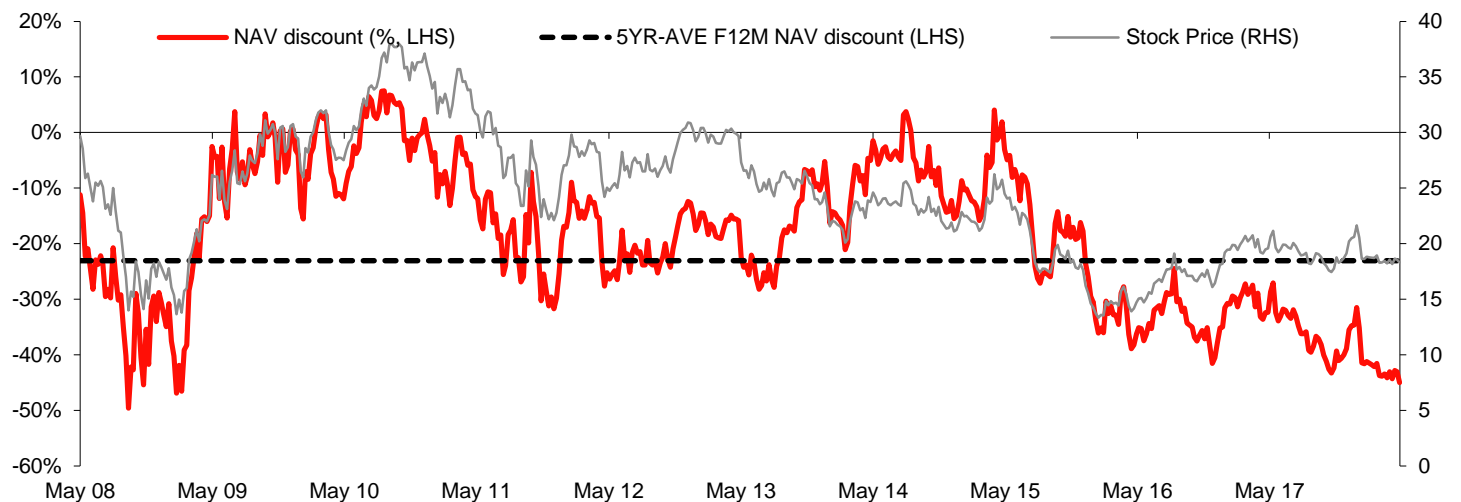
Source: FactSet, Macquarie Research, May 2018

Fig 7 P/BV for HLUN: PB=0.60 (5-yr average = 0.73);



Source: FactSet, Macquarie Research, May 2018

Fig 8 NAV discount for HLUN: NAV discount = -45% (5-yr average = -23%)



Source: FactSet, Macquarie Research, May 2018

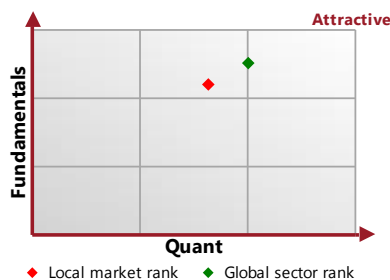
Macquarie Quant View

The quant model currently holds a marginally positive view on Hang Lung Properties. The strongest style exposure is Valuations, indicating this stock is under-priced in the market relative to its peers. The weakest style exposure is Growth, indicating this stock has weak historic and/or forecast growth. Growth metrics focus on both top and bottom line items.

331/994

Global rank in Real Estate

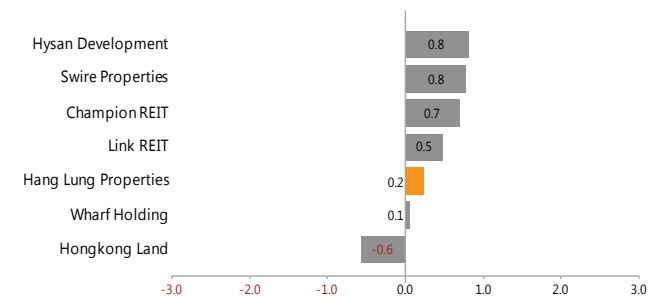
% of BUY recommendations: 55% (6/11)
 Number of Price Target downgrades: 0
 Number of Price Target upgrades: 2



Displays where the company's ranked based on the fundamental consensus Price Target and Macquarie's Quantitative Alpha model.
 Two rankings: Local market (Hong Kong) and Global sector (Real Estate)

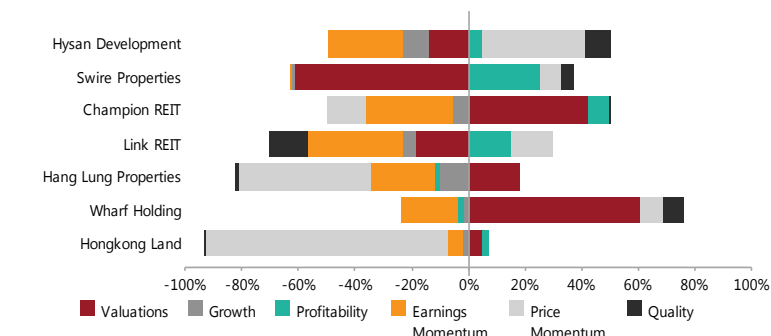
Macquarie Alpha Model ranking

A list of comparable companies and their Macquarie Alpha model score (higher is better).



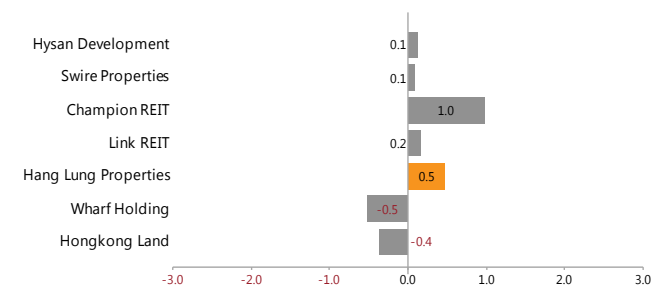
Factors driving the Alpha Model

For the comparable firms this chart shows the key underlying styles and their contribution to the current overall Alpha score.



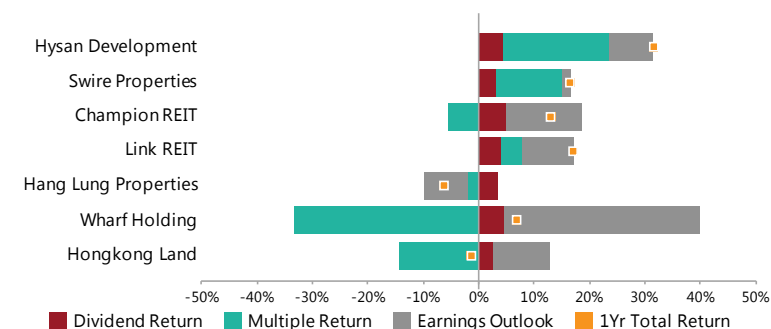
Macquarie Earnings Sentiment Indicator

The Macquarie Sentiment Indicator is an enhanced earnings revisions signal that favours analysts who have more timely and higher conviction revisions. Current score shown below.



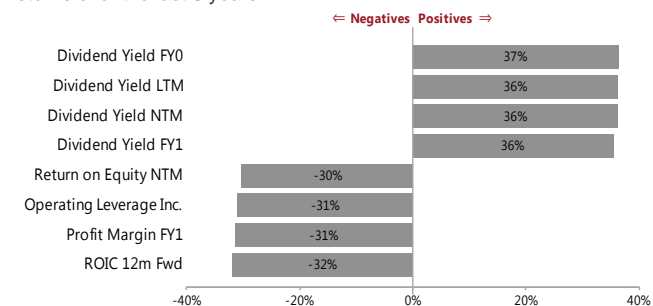
Drivers of Stock Return

Breakdown of 1 year total return (local currency) into returns from dividends, changes in forward earnings estimates and the resulting change in earnings multiple.



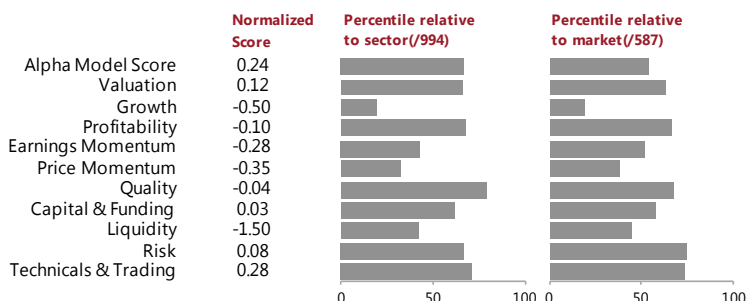
What drove this Company in the last 5 years

Which factor score has had the greatest correlation with the company's returns over the last 5 years.



How it looks on the Alpha model

A more granular view of the underlying style scores that drive the alpha (higher is better) and the percentile rank relative to the sector and market.



Source (all charts): FactSet, Thomson Reuters, and Macquarie Research. For more details on the Macquarie Alpha model or for more customised analysis and screens, please contact the Macquarie Global Quantitative/Custom Products Group (cpq@macquarie.com)

Hang Lung Properties (101 HK, Neutral, Target Price: HK\$18.43)

Interim Results					Profit & Loss						
	2H/17A	1H/18E	2H/18E	1H/19E		2017A	2018E	2019E	2020E		
Net Property Income	m	3,944	4,030	4,030	4,228	Net Property Income	m	7,779	8,059	8,456	9,449
Development Income	m	897	1,331	1,331	1,325	Development Income	m	3,420	2,661	2,651	0
Other Revenue	m	0	0	0	0	Other Revenue	m	0	0	0	0
Total Revenue	m	4,841	5,360	5,360	5,553	Total Revenue	m	11,199	10,721	11,107	9,449
Management Fees	m	0	0	0	0	Management Fees	m	0	0	0	0
Other Expenses	m	0	0	0	0	Other Expenses	m	0	0	0	0
EBITDA	m	3,029	4,005	3,490	4,123	EBITDA	m	7,373	7,495	7,747	6,063
Dep & Amortisation	m	17	26	17	26	Dep & Amortisation	m	43	43	43	43
EBIT	m	3,012	3,979	3,473	4,097	EBIT	m	7,330	7,452	7,704	6,020
Net Interest Income	m	-344	-273	-273	-280	Net Interest Income	m	-654	-547	-560	-470
Associates	m	50	747	747	26	Associates	m	78	1,495	52	54
Exceptionals	m	1,862	0	0	0	Exceptionals	m	2,599	0	0	0
Other Pre-Tax Income	m	549	275	275	275	Other Pre-Tax Income	m	549	549	549	549
Pre-Tax Profit	m	5,129	4,727	4,222	4,118	Pre-Tax Profit	m	9,902	8,949	7,745	6,153
Tax Expense	m	-618	-796	-695	-818	Tax Expense	m	-1,352	-1,491	-1,539	-1,220
Net Profit	m	4,511	3,931	3,527	3,300	Net Profit	m	8,550	7,458	6,206	4,933
Minority Interests	m	-217	-184	-184	-200	Minority Interests	m	-426	-369	-399	-453
Reported Earnings	m	4,294	3,747	3,342	3,100	Reported Earnings	m	8,124	7,089	5,807	4,480
Adjusted Earnings	m	2,490	3,747	3,342	3,100	Adjusted Earnings	m	5,530	7,089	5,807	4,480
EPS (rep)		0.95	0.83	0.74	0.69	EPS (rep)		1.81	1.58	1.29	1.00
EPS (adj)		0.55	0.83	0.74	0.69	EPS (adj)		1.23	1.58	1.29	1.00
EPS Growth yoy (adj)	%	-21.6	23.3	34.2	-17.3	EPS Growth (adj)	%	-12.8	28.2	-18.1	-22.9
						PE (rep)	x	9.9	11.4	13.9	18.0
						PE (adj)	x	14.6	11.4	13.9	18.0
EBITDA Margins	%	62.6	74.7	65.1	74.3	Total DPS		0.75	0.75	0.75	0.75
EBIT Margins	%	62.2	74.2	64.8	73.8	Total Div Yield	%	4.2	4.2	4.2	4.2
Earnings Split	%	45.0	52.9	47.1	53.4	Basic Shares Outstanding	m	4,498	4,498	4,498	4,498
Revenue Growth	%	-28.3	-15.7	10.7	3.6	Diluted Shares Outstanding	m	4,498	4,498	4,498	4,498
EBIT Growth	%	-27.2	-7.9	15.3	3.0						
Profit & Loss Ratios					Cashflow Analysis						
	2017A	2018E	2019E	2020E		2017A	2018E	2019E	2020E		
Revenue Growth	%	-14.2	-4.3	3.6	-14.9	EBITDA	m	7,373	7,495	7,747	6,063
EBITDA Growth	%	-11.9	1.7	3.4	-21.7	Tax Paid	m	738	1,491	1,539	1,220
EBIT Growth	%	-11.8	1.7	3.4	-21.9	Chg in Working Capital	m	886	712	-1,921	-2,142
EBITDA Margins	%	65.8	69.9	69.7	64.2	Net Interest Paid	m	-710	-706	-672	-561
EBIT Margins	%	65.5	69.5	69.4	63.7	Other	m	78	1,495	52	54
Net Profit Margins	%	49.4	66.1	52.3	47.4	Operating Cashflow	m	8,365	10,487	6,744	4,634
Payout Ratio	%	61.0	47.6	58.1	75.3	Acquisitions	m	-6,535	-10,755	1,812	2,273
EV/EBITDA	x	11.2	9.3	10.7	13.6	Capex	m	0	0	0	0
EV/EBIT	x	11.3	9.3	10.8	13.7	Asset Sales	m	1,186	-43	-43	-43
						Other	m	0	0	0	0
Balance Sheet Ratios					Investing Cashflow	m	-5,349	-10,798	1,769	2,230	
ROE	%	4.2	5.1	4.1	3.1	Dividend (Ordinary)	m	-3,373	-3,373	-3,373	-3,373
ROA	%	4.1	4.0	4.1	3.1	Equity Raised	m	0	0	0	0
ROIC	%	4.7	4.3	4.0	3.2	Debt Movements	m	-2,262	0	0	0
Net Debt/Equity	%	1.9	4.4	0.8	-1.5	Other	m	-3,305	0	0	0
Interest Cover	x	11.2	13.6	13.8	12.8	Financing Cashflow	m	-8,940	-3,373	-3,373	-3,373
Price/Book	x	0.6	0.6	0.6	0.6						
Book Value per Share		30.3	31.1	31.6	31.9	Net Chg in Cash/Debt	m	-5,924	-3,684	5,140	3,491
						Free Cashflow	m	8,365	10,487	6,744	4,634
						Balance Sheet					
							2017A	2018E	2019E	2020E	
						Cash	m	22,106	18,422	23,562	27,053
						Receivables	m	2,036	2,036	2,036	2,036
						Inventories	m	1,826	1,348	901	925
						Investments	m	156,036	165,414	163,601	161,328
						Fixed Assets	m	220	220	220	220
						Intangibles	m	0	0	0	0
						Other Assets	m	1,362	1,240	1,240	1,240
						Total Assets	m	183,586	188,679	191,560	192,801
						Payables	m	7,013	7,013	7,013	7,013
						Short Term Debt	m	2,112	2,112	2,112	2,112
						Long Term Debt	m	22,708	22,708	22,708	22,708
						Provisions	m	9,508	10,516	10,564	10,245
						Other Liabilities	m	0	0	0	0
						Total Liabilities	m	41,341	42,349	42,397	42,078
						Shareholders' Funds	m	136,158	139,874	142,308	143,415
						Minority Interests	m	6,087	6,456	6,855	7,308
						Total S/H Equity	m	142,245	146,330	149,163	150,723
						Total Liab & S/H Funds	m	183,586	188,679	191,560	192,801

All figures in HKD unless noted.

Source: Company data, Macquarie Research, May 2018

Important disclosures:

Recommendation definitions

Macquarie - Australia/New Zealand

Outperform – return >3% in excess of benchmark return
 Neutral – return within 3% of benchmark return
 Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield

Macquarie – Asia/Europe

Outperform – expected return >+10%
 Neutral – expected return from -10% to +10%
 Underperform – expected return <-10%

Macquarie – South Africa

Outperform – expected return >+10%
 Neutral – expected return from -10% to +10%
 Underperform – expected return <-10%

Macquarie - Canada

Outperform – return >5% in excess of benchmark return
 Neutral – return within 5% of benchmark return
 Underperform – return >5% below benchmark return

Macquarie - USA

Outperform (Buy) – return >5% in excess of Russell 3000 index return
 Neutral (Hold) – return within 5% of Russell 3000 index return
 Underperform (Sell) – return >5% below Russell 3000 index return

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high-highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low-medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.

* Applicable to Asia/Australian/NZ/Canada stocks only

Recommendations – 12 months

Note: Quant recommendations may differ from Fundamental Analyst recommendations

Financial definitions

All "Adjusted" data items have had the following adjustments made:

Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
 Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / epowa*

ROA = adjusted ebit / average total assets

ROA Banks/Insurance = adjusted net profit / average total assets

ROE = adjusted net profit / average shareholders funds

Gross cashflow = adjusted net profit + depreciation

*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 31 March 2018

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	54.38%	58.90%	48.35%	43.91%	69.03%	45.26%	(for global coverage by Macquarie, 3.69% of stocks followed are investment banking clients)
Neutral	32.48%	27.88%	34.07%	48.73%	21.29%	38.95%	(for global coverage by Macquarie, 3.07% of stocks followed are investment banking clients)
Underperform	13.14%	13.21%	17.58%	7.37%	9.68%	15.79%	(for global coverage by Macquarie, 0.39% of stocks followed are investment banking clients)

101 HK vs HSI, & rec history



(all figures in HKD currency unless noted)

Note: Recommendation timeline – if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, May 2018

12-month target price methodology

101 HK: HK\$18.43 based on a Sum of Parts methodology

Company-specific disclosures:

101 HK: Macquarie Capital Limited makes a market in the securities of Hang Lung Properties Ltd.

Important disclosure information regarding the subject companies covered in this report is available at www.macquarie.com/research/disclosures.

Date	Stock Code (BBG code)	Recommendation	Target Price
30-May-2018	101 HK	Neutral	HK\$18.43
05-Feb-2018	101 HK	Neutral	HK\$20.52
28-Jul-2017	101 HK	Neutral	HK\$19.08
20-Jan-2017	101 HK	Neutral	HK\$18.64
29-Jan-2016	101 HK	Outperform	HK\$18.49
19-Nov-2015	101 HK	Outperform	HK\$20.60
07-Nov-2015	101 HK	Outperform	HK\$22.00
31-Jul-2015	101 HK	Neutral	HK\$22.00
02-Jun-2015	101 HK	Neutral	HK\$22.70

Target price risk disclosures:

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