



Rating  
**Hold**

Asia  
Hong Kong

Property

Company  
**Hang Lung  
Properties**

Reuters 0101.HK	Bloomberg 101 HK	Exchange HSI	Ticker 0101
ADR Ticker HLPY	ISIN US41043M1045		

Date  
30 July 2018

Forecast Change

Price at 30 Jul 2018 (HKD)	16.58
Price target - 12mth (HKD)	17.50
52-week range (HKD)	21.65 - 15.32
HANG SENG INDEX	28,804

## 1H18 results confirm further improvement in China to take time

### Further operational improvement in China takes time; maintaining Hold

While 1H18 core net profit was below our expectation, overall China operations continued to steadily improve sequentially, reaffirming our view that the worst is over in the China operations. However, performance in some malls was still adversely impacted by tenant reshuffling over the period, highlighting that more time is likely needed for further improvement to materialize. While the current valuation is at steeper discount than the historical average, we see few imminent catalysts on the back of the rather sharp depreciation in the Rmb recently, which may hit HLP's financial performance in 2H18. Maintain Hold.

### 1H18 core profit -24% YoY to HK\$2,319mn; slightly misses our expectation

HLP's revenue fell 19% YoY to HK\$5,150mn, dragged by a 59% YoY decline in property development revenue to HK\$1,032mn due to fewer bookings. On the other hand, property leasing revenue rose 7% YoY to HK\$4,118m (11% YoY growth in China/3% YoY growth in HK). Excluding the impact of Rmb appreciation over the period, China rental revenue rose 2% YoY in Rmb terms or 5% YoY by excluding areas closed for renovation. Meanwhile, development property margin contracted to 55% (65% in 1H17) and the rental margin was flat at 76%. Meanwhile, underlying profit fell 24% YoY to HK\$2,319mn, below our expectation. An interim dividend of HK\$0.17/shr was declared (flat YoY).

### China portfolio saw mixed performance but steadily improving overall

Rental revenue from the eight malls in China rose by 2% YoY to Rmb1,367mn, with Shanghai Plaza 66 the strongest performer (revenue +13%/retail sales +15%). Performance in other malls was mixed, Shanghai Grand Gateway 66 was hit by renovation (revenue -9%/retail sales -5%) with the others as follows: Shenyang Palace 66 (revenue stayed flat/retail sales -1%), Jinan Parc 66 (revenue +6%/retail sales +20%), Shenyang Forum 66 (revenue -16%/retail sales -2%), Wuxi Center 66 (revenue +18%/retail sales +15%), Tianjin Riverside 66 (revenue flat/retail sales -11%) and Dalian Olympia 66 (revenue +10%/retail sales +45%).

### Target price at 40% discount to our revised NAV estimate of HK\$29.1/share

We base our HK\$17.5/share TP on a 40% discount to our revised NAV of HK\$29.1/share as at end-2018. Our target discount is appropriate to reflect the current point in the market cycle, and it is in line with peers under our coverage, in our view. Our estimates include our latest prices and rent assumptions. Upside/downside risks relates to economic fluctuations, policy loosening/tightening and liquidity change. See page 4.

#### Forecasts And Ratios

Year End Dec 31	2016A	2017A	2018E	2019E	2020E
Sales (HKDm)	13,059.0	11,199.0	9,475.0	9,526.0	9,843.7
EBITDA (HKDm)	8,574.0	7,922.0	6,841.8	6,646.6	6,807.1
DB EPS FD (HKD)	1.41	1.23	1.06	1.01	0.99
PER (x)	11.3	15.6	15.7	16.5	16.8
DPS (net) (HKD)	0.75	0.75	0.75	0.75	0.75
Yield (net) (%)	4.7	3.9	4.5	4.5	4.5

Source: Deutsche Bank estimates, company data

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#### Key changes

TP	18.00 to 17.50	↓	-2.8%
Op prof margin (FYE)	72.2 to 71.8	↓	-0.6%
Net profit (FYE)	4,780.6 to 4,804.1	↑	0.5%

Source: Deutsche Bank

#### Price/price relative



Performance (%)	1m	3m	12m
Absolute	2.5	-11.1	-15.1
HANG SENG INDEX	-0.5	-6.5	6.8

Source: Deutsche Bank



Figure 1: Summary of 1H18 results

For period of (HK\$m)	1H18A	1H17A	YoY	Remarks
Property Development	1,032	2,523	(59%)	- Dragged by fewer bookings of development sales in Hong Kong
Property Investment	4,118	3,835	7%	- Rental revenue from China portfolio up 11% YoY in HK\$ terms but up 2% in RMB terms. 32% of Shanghai Grand Gateway 66 was temporarily void for asset upgrading (leading to its revenue down 9% YoY and mall occupancy at 68% vs 77% at end-FY17). - For Hong Kong portfolio, rental revenue from retail, office and residential are up 3%, 3% and 5% YoY respectively.
<b>Revenue</b>	<b>5,150</b>	<b>6,358</b>	<b>(19%)</b>	
Property Development	565	1,642	(66%)	
Property Investment	3,117	2,899	8%	
Unallocated operating costs	(292)	(293)	(0%)	
<b>Operating Profit</b>	<b>3,390</b>	<b>4,248</b>	<b>(20%)</b>	
Net Finance Income/(Costs)	(286)	(310)	(8%)	
Revaluation gain/loss	2,456	737	233%	- Boosted by gain of HK\$2,216m from Hong Kong, and HK\$240m from China portfolio.
Other net income	70	70	0%	
Share of JCEs and Associates	54	28	93%	
<b>Profit before Tax</b>	<b>5,684</b>	<b>4,773</b>	<b>19%</b>	
Income Tax	(736)	(734)	0%	
<b>Profit after Tax</b>	<b>4,948</b>	<b>4,039</b>	<b>23%</b>	
Minorities	(259)	(209)	24%	
<b>Net Profit</b>	<b>4,689</b>	<b>3,830</b>	<b>22%</b>	
EPS	1.04	0.85	22%	
<b>Core Net Profit</b>	<b>2,319</b>	<b>3,040</b>	<b>(24%)</b>	- Dragged by lower contribution from property development
<b>Core EPS</b>	<b>0.52</b>	<b>0.68</b>	<b>(24%)</b>	
Interim DPS	0.17	0.17	0%	- Interim dividend is kept unchanged.

Source: Company data, Deutsche Bank



Figure 2: Balance sheet

(HK\$m)	1H18A	2017A
As at	30-Jun	31-Dec
Cash and cash equivalents	14,735	18,401
Trade and other receivables	1,754	2,036
Inventories	1,262	1,612
Other assets	77	214
<b>Total current assets</b>	<b>17,828</b>	<b>22,263</b>
Investment properties	136,433	134,444
Other Fixed assets	26,315	21,812
Interest in Jointly controlled entities	1,309	1,277
Other non-current assets	87	85
Bank deposits	3,051	3,705
<b>Total Non-current assets</b>	<b>167,195</b>	<b>161,323</b>
<b>Total assets</b>	<b>185,023</b>	<b>183,586</b>
Trade payables	6,079	6,673
Current portion of long-term bank borrowings	3,151	2,112
Taxation payable	517	483
Other current liabilities	22	21
<b>Total current liabilities</b>	<b>9,769</b>	<b>9,289</b>
Bank loans	22,383	22,708
Deferred tax liabilities	9,026	9,025
Other non-current liabilities	314	319
<b>Total non-current liabilities</b>	<b>31,723</b>	<b>32,052</b>
<b>Total liabilities</b>	<b>41,492</b>	<b>41,341</b>
<b>Net assets</b>	<b>143,531</b>	<b>142,245</b>
Shareholders' equity	137,593	136,158
Minority interests	5,938	6,087
<b>Total equity</b>	<b>143,531</b>	<b>142,245</b>
<b>Net debt to shareholders' equity</b>	<b>5.6%</b>	<b>2.0%</b>

Source: Company data, Deutsche Bank



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## Valuation

Our estimated NAV for HLP is calculated through a sum-of-the-parts valuation. For development properties, we apply a DCF to estimate the value of the projects by taking the estimated cash inflows from property sales minus the outstanding costs, including any outstanding land costs, construction costs, and related income taxes and LAT for each of the China development projects. For the investment properties, we use the income capitalisation approach, taking the estimated rental revenues of the investment properties and dividing this figure by the estimated cap rates. Our estimated rents and cap rates differ between the various types of properties and their locations.

Our target price is based on a 40% discount to our latest NAV. Our target discount is appropriate to reflect the current point in the market cycle, and it is in line with peers under our coverage, in our view.

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## Risks

### Macro risks

- Government property tightening measures might be stricter than expected
- Unexpected economic fluctuations in the Chinese economy

### Company-specific risks (downside)

- Competition from other commercial properties in mainland China
- Potential delays in completion of new properties in China
- Execution in new cities in mainland China not fully proven

### Company-specific risks (upside)

- A prolonged low interest rate environment
- Disposal of key assets at low cap rates



Model updated: 30 July 2018

Running the numbers

Asia  
Hong Kong  
Property

Hang Lung Properties

Reuters: 0101.HK Bloomberg: 101 HK

Hold

Price (30 Jul 18) HKD 16.58  
Target Price HKD 17.50  
52 Week range HKD 15.32 - 21.65  
Market Cap (m) HKDm 74,570  
USDm 9,502

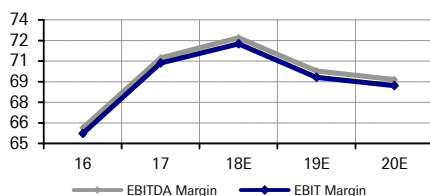
Company Profile

Hang Lung Properties Limited, through its subsidiaries, invests in, develops and manages properties. The company also manages parking lots.

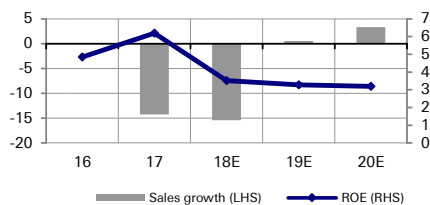
Price Performance



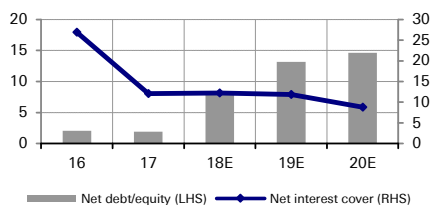
Margin Trends



Growth & Profitability



Solvency



Fiscal year end 31-Dec

Financial Summary

	2016	2017	2018E	2019E	2020E
DB EPS (HKD)	1.41	1.23	1.06	1.01	0.99
Reported EPS (HKD)	1.38	1.81	1.07	1.01	0.99
DPS (HKD)	0.75	0.75	0.75	0.75	0.75
BVPS (HKD)	28.1	30.3	30.6	30.8	31.1
Weighted average shares (m)	4,497	4,498	4,498	4,498	4,498
Average market cap (HKDm)	71,793	86,310	74,570	74,570	74,570
Enterprise value (HKDm)	78,879	93,770	90,979	98,925	101,471

Valuation Metrics

P/E (DB) (x)	11.3	15.6	15.7	16.5	16.8
P/E (Reported) (x)	11.6	10.6	15.5	16.5	16.8
P/BV (x)	0.58	0.63	0.54	0.54	0.53
FCF Yield (%)	5.0	4.3	nm	nm	2.0
Dividend Yield (%)	4.7	3.9	4.5	4.5	4.5
EV/Sales (x)	6.0	8.4	9.6	10.4	10.3
EV/EBITDA (x)	9.2	11.8	13.3	14.9	14.9
EV/EBIT (x)	9.3	11.9	13.4	15.0	15.0

Income Statement (HKDm)

Sales revenue	13,059	11,199	9,475	9,526	9,844
Gross profit	10,279	9,073	8,009	7,899	8,106
EBITDA	8,574	7,922	6,842	6,647	6,807
Depreciation	54	43	43	43	43
Amortisation	0	0	0	0	0
EBIT	8,520	7,879	6,799	6,604	6,764
Net interest income/(expense)	-317	-654	-557	-555	-768
Associates/affiliates	62	78	100	100	100
Exceptionals/extraordinary	0	0	0	0	0
Other pre-tax income/(expense)	-286	2,599	70	0	0
Profit before tax	7,979	9,902	6,411	6,149	6,096
Income tax expense	1,372	1,352	1,046	1,015	1,006
Minorities	412	426	561	603	649
Other post-tax income/(expense)	0	0	0	0	0
Net profit	6,195	8,124	4,804	4,531	4,441
DB adjustments (including dilution)	146	-2,594	-58	0	0
DB Net profit	6,341	5,530	4,746	4,531	4,441

Cash Flow (HKDm)

Cash flow from operations	6,287	7,918	5,372	5,787	5,382
Net Capex	-2,666	-4,216	-10,387	-9,757	-3,905
Free cash flow	3,621	3,702	-5,015	-3,970	1,477
Equity raised/(bought back)	0	0	0	0	0
Dividends paid	-3,702	-3,685	-3,710	-3,735	-3,763
Net inc/(dec) in borrowings	-5,051	-3,245	1,848	3,786	3,449
Other investing/financing cash flows	-1,743	899	0	0	0
Net cash flow	-6,875	-2,329	-6,876	-3,919	1,163
Change in working capital	-729	2,792	282	824	465

Balance Sheet (HKDm)

Cash and other liquid assets	24,325	22,106	15,230	11,311	12,473
Tangible fixed assets	143,030	156,256	167,003	176,915	180,989
Goodwill/intangible assets	0	0	0	0	0
Associates/investments	1,251	1,362	1,362	1,362	1,362
Other assets	6,301	3,862	2,757	2,156	1,704
Total assets	174,907	183,586	186,352	191,744	196,528
Interest bearing debt	27,082	24,841	26,689	30,475	33,924
Other liabilities	15,680	16,500	15,762	15,969	15,978
Total liabilities	42,762	41,341	42,451	46,445	49,902
Shareholders' equity	126,565	136,158	137,589	138,747	139,814
Minorities	5,580	6,087	6,311	6,553	6,812
Total shareholders' equity	132,145	142,245	143,900	145,299	146,626
Net debt	2,757	2,735	11,460	19,165	21,451

Key Company Metrics

Sales growth (%)	nm	-14.2	-15.4	0.5	3.3
DB EPS growth (%)	na	-12.8	-14.2	-4.5	-2.0
EBITDA Margin (%)	65.7	70.7	72.2	69.8	69.2
EBIT Margin (%)	65.2	70.4	71.8	69.3	68.7
Payout ratio (%)	54.4	41.5	70.2	74.4	76.0
ROE (%)	4.8	6.2	3.5	3.3	3.2
Capex/sales (%)	20.5	42.6	111.9	102.4	39.7
Capex/depreciation (x)	49.6	111.1	246.5	226.9	90.8
Net debt/equity (%)	2.1	1.9	8.0	13.2	14.6
Net interest cover (x)	26.9	12.0	12.2	11.9	8.8

Source: Company data, Deutsche Bank estimates

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# Appendix 1

## Important Disclosures

\*Other information available upon request

### Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Hang Lung Properties	0101.HK	16.58 (HKD) 30 Jul 18	NA

Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg and other vendors. Other information is sourced from Deutsche Bank, subject companies, and other sources. For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at <https://research.db.com/Research/Disclosures/CompanySearch>. Aside from within this report, important conflict disclosures can also be found at <https://research.db.com/Research/Topics/Equities?topicId=RB0002> under the "Disclosures Lookup" and "Legal" tabs. Investors are strongly encouraged to review this information before investing.

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### Historical recommendations and target price: Hang Lung Properties (0101.HK)

(as of 7/30/2018)



#### Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

#### Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

\*New Recommendation Structure as of September 9, 2002

\*\*Analyst is no longer at Deutsche Bank

1. 13/09/2016: Downgrade to Hold, Target Price Change HKD16.60 Jason Ching	3. 30/01/2018: Hold, Target Price Change HKD18.10 Jason Ching
2. 26/01/2017: Hold, Target Price Change HKD16.50 Jason Ching	4. 27/07/2018: Hold, Target Price Change HKD18.00 Jason Ching



### Equity rating key

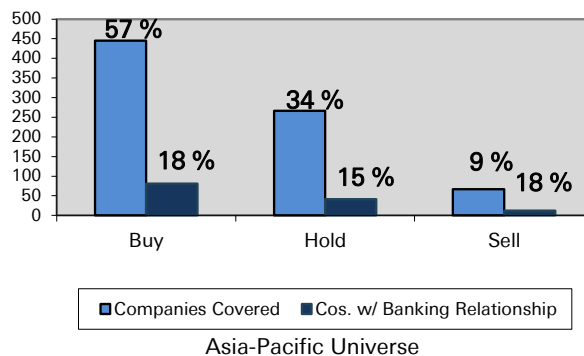
**Buy:** Based on a current 12-month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield), we recommend that investors buy the stock.

**Sell:** Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock

**Hold:** We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

Newly issued research recommendations and target prices supersede previously published research.

### Equity rating dispersion and banking relationships





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