



## Company Report: Hang Lung Properties (00101 HK)

公司报告: 恒隆地产 (00101 HK)

Johnny Wong 王俊浩

(852) 2509 5348

johnny.wong@gtjas.com.hk

27 February 2019

# Limited Upside Potential, Downgrade to "Neutral"

上行空间有限, 下调至“中性”

- Underlying net profit declined 26.0% yoy in 2018 due to decreasing saleable residential units.** Revenue contributions from property sales dropped 64.1% yoy in 2018, leading to a 16.0% yoy fall in revenue to HKD9,408 million. Property leasing business performed well in 2018. Underlying net profit declined 26.0% yoy to HKD4,093 million in 2018, 5.2% above our expectations.
- HLP divested some non-core investment properties in Hong Kong to supplement the decrease in contribution from development properties,** resulting in HKD96 million in gains on disposal in 2018. Leasing portfolio delivered decent results in both Hong Kong and mainland China. Total leasing revenue increased 3.0% yoy in Hong Kong with a significant 7.3% yoy growth in residential & serviced apartments. Rental growth momentum in mainland China was particularly strong in 2H18 with 6% yoy growth in RMB terms. However, Shenyang Forum 66 still remained the worst performing shopping mall in terms of revenue growth, but there were signs of improvement.
- We maintain our TP at HKD19.60 and revise our investment rating downward to "Neutral".** HLP is unlikely to raise dividend during 2019-2020, but we are expecting a 1 cent increase in DPS in 2021. Our TP represents a 45% discount to the revised 2019 NAV estimate of HKD35.7. Our TP implies 24.3x/ 25.0x/ 23.9x for 2019/ 2020/ 2021 underlying PER and 0.63x/ 0.62x/ 0.62x for 2019/ 2020/ 2021 PBR.
- 由于可销售商品住宅单位减少, 2018年核心净利润同比下降26.0%。** 2018年房地产销售收入贡献同比下降64.1%, 导致收入同比下降16.0%至9,408百万港元。2018年物业租赁业务表现良好。2018年核心净利润同比下跌26.0%至4,093百万港元, 高于我们的预期5.2%。
- 恒隆地产出售部分香港非核心投资物业以补充其发展物业的贡献减少, 2018年的出售收益为9,600万港元。** 香港及中国内地地区的租赁组合业绩亮眼。总租赁收入同比增长3.0%, 住宅及服务式公寓同比增长7.3%。中国内地的租金增长势头在2018年下半年尤其强劲, 按人民币计算, 同比增长6%。然而, 就收入增长而言, 沈阳市府恒隆广场仍然表现最差, 但有迹象显示有所改善。
- 我们维持目标价于19.60港元, 下调投资评级至“中性”。** 恒隆地产不太可能于2019-2020提高派息, 但我们认为公司有可能在2021年增加每股股息1港仙。我们的目标价较修订后的2019年净资产估值35.7港元有45%折让。我们的目标价相当于24.3倍/25.0倍/23.9倍2019/2020/2021年核心市盈率和0.63倍/0.62倍/0.62倍2019/2020/2021年市净率。

Rating:

**Neutral**

Downgraded

评级:

中性 (下调)

6-18m TP 目标价:

**HK\$19.60**

Revised from 原目标价:

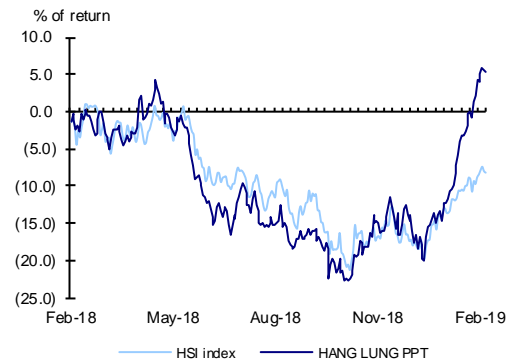
HK\$19.60

Share price 股价:

HK\$19.200

### Stock performance

股价表现



Change in Share Price	1 M	3 M	1 Y
股价变动	1个月	3个月	1年
Abs. % 绝对变动 %	17.6	25.4	0.9
Rel. % to HSI Index 相对恒指变动 %	13.4	16.4	9.1
Avg. share price (HK\$) 平均股价 (港元)	18.0	16.3	16.3

Source: Bloomberg, Guotai Junan International.

Year End	Turnover	Net Profit	EPS	EPS	PER	BPS	PBR	DPS	Yield	ROE
年结	收入	净利	每股净利	每股净利变动	市盈率	每股净资产	市净率	每股股息	股息率	净资产收益率
12/31	(HK\$ m)	(HK\$ m)	(HK\$)	(△%)	(x)	(HK\$)	(x)	(HK\$)	(%)	(%)
2017A	11,199	8,124	1.810	85.3	10.6	30.273	0.6	0.750	3.9	6.1
2018A	9,408	8,078	1.799	(0.6)	10.7	30.585	0.6	0.750	3.9	5.9
2019F	9,846	6,333	1.411	(21.6)	13.6	31.244	0.6	0.750	3.9	4.6
2020F	10,675	4,926	1.097	(22.3)	17.5	31.590	0.6	0.750	3.9	3.5
2021F	11,145	5,238	1.167	6.4	16.5	31.996	0.6	0.760	4.0	3.7

Shares in issue (m) 总股数 (m)	4,497.7	Major shareholder 大股东	CHAN Adriel Wenbwo 58.3%
Market cap. (HK\$ m) 市值 (HK\$ m)	86,355.8	Free float (%) 自由流通比率 (%)	41.7
3 month average vol. 3个月平均成交股数 ('000)	4,156.6	FY19 Net gearing (%) FY19 净负债/股东资金 (%)	18.1
52 Weeks high/low (HK\$) 52周高/低 (HK\$)	19.560 / 13.900	FY19 Est. NAV (HK\$) FY19 每股估值 (港元)	35.7

Source: the Company, Guotai Junan International.

**Underlying net profit declined 26.0% yoy in 2018 as saleable residential units shrank.** As expected, revenue contributions from property sales dropped 64.1% yoy in 2018, leading to a 16.0% yoy fall in revenue to HKD9,408 million. HLP's revenue in 2018 was 3.1% below our previous estimates due to the fact HLP did not sell any units of the 23-28 Blue Pool Road project in 2H18 (we previously expected that they would sell 1 unit in 2H18). Property leasing business performed well in 2018. In particular, leasing revenue from the mainland China portfolio recorded a 7.2% (4.3% in RMB terms) yoy increase in 2018 even when Shanghai Grand Gateway 66 was in the progress of asset enhancement. Operating profit margin of HLP's leasing business improved 2.5 ppts to 64.5% in mainland China and 0.2 ppts to 84.4% in Hong Kong, respectively, in 2018. Underlying net profit declined 26.0% yoy to HKD4,093 million in 2018, which was 5.2% above our expectations.

**Table-1: Key Operation Figures of HLP**

Name	Revenue			Segmental Operating Profit			Segmental Operating Profit Margin		
	2017	2018	yoy Change	2017	2018	yoy Change	2017	2018	yoy Change
Property Leasing									
-Mainland China	3,958	4,244	7.2%	2,454	2,739	11.6%	62.0%	64.5%	2.5ppts
-Hong Kong	3,821	3,937	3.0%	3,218	3,321	3.2%	84.2%	84.4%	0.2ppts
Property Sales	3,420	1,227	-64.1%	2,238	762	-66.0%	65.4%	62.1%	-3.3ppts
<b>Total</b>	<b>11,199</b>	<b>9,408</b>	<b>-16.0%</b>	<b>7,910</b>	<b>6,822</b>	<b>-13.8%</b>	<b>70.6%</b>	<b>72.5%</b>	<b>1.9ppts</b>

Source: the Company, Guotai Junan International.

**Saleable residential properties have almost been depleted.** HLP sold 3 semi-detached houses at 23-39 Blue Pool Road and 9 units of the Long Beach in 2018, with an operating profit margin of 62.1% in 2018. As of 31 December 2018, there were only 13 residential units for sale, which are worth approximately HKD4.3 billion according to our estimate. HLP disposed of some of its non-core investment properties in Hong Kong to supplement the decrease in contribution from development properties, which achieved HKD96 million in gains on disposal in 2018. HLP will replenish its saleable resources through serviced apartment construction in mainland China. According to the management, among the projects under development (approx. 27 million sq.ft. in GFA), roughly 1/3 has been planned for serviced apartments construction and they are all saleable. The first serviced apartment project for sale is expected to be completed in 2022 at their Wuhan Heartland 66 property, followed by other serviced apartment projects in Wuxi, Kunming and Shenyang.

**Table-2: HLP's Unsold Properties for Sale as at 31 December 2018**

Project Name	No. of units
The Long Beach	1
23-39 Blue Pool Road	12
<b>Total</b>	<b>13</b>

Source: the Company.

**Leasing portfolio delivered promising results in both Hong Kong and mainland China.** Total leasing revenue increased 3.0% yoy in Hong Kong with a significant 7.3% yoy growth rate in residential & serviced apartments. In mainland China, rental growth momentum was particularly strong in 2H18 with 6% yoy growth in RMB terms (vs. 2% in 1H18). Similar trends were found within and outside Shanghai, which recorded 5% yoy growth (vs. 1% in 1H18) and 9% yoy growth (vs. 5% in 1H18) in 2H18, respectively, in RMB terms.

**Shenyang Forum 66 remained the worst performing shopping mall in terms of revenue growth, but there were signs of improvement.** Leasing revenue of Shenyang Forum 66 shopping mall decreased 11% yoy in 2018 (narrowed from 16% yoy decrease in 1H18) as HLP tried to reshuffle tenants. Given HLP's efforts, occupancy rate of the shopping mall increased by 10 ppts yoy to 93% (1H18: 83%) by the end of 2018. The decrease in retail sales in the shopping mall also narrowed from 2% yoy in 1H18 to 1% yoy in 2018. Together with improvement in the shopping mall's operations statistics, we expect that the opening of Conrad hotel, which is expected to open in 2H19, will bring further footfall into the shopping mall.

**Table-3: Breakdown of HLP's Leasing Revenue and Occupancy Rate in Hong Kong**

Name	Revenue (HKD million)			Occupancy Rate		
	2017	2018	yoy Change	2017	2018	yoy Change
Commercial	2,261	2,326	2.9%	96%	95%	-1ppts
Office and Industrial/Offices	1,257	1,286	2.3%	95%	94%	-1ppts
Residential & Serviced Apartments	303	325	7.3%	80%	85%	-1ppts
<b>Total</b>	<b>3,821</b>	<b>3,937</b>	<b>3.0%</b>	n.a.	n.a.	n.a.

Source: the Company, Guotai Junan International.

**Table-4: Breakdown of HLP's Leasing Revenue and Occupancy Rate of Shopping malls in Mainland China**

Name	Leasing Revenue (RMB million)			Occupancy Rate		
	2017	2018	yoy Change	2017	2018	yoy Change
Shanghai Grand Gateway 66	883	803	-9.1%	77%*	79%*	2ppts
Shanghai Plaza 66	830	932	12.3%	96%	99%	3ppts
Shenyang Palace 66	155	162	4.5%	90%	88%	-2ppts
Shenyang Forum 66	111	99	-10.8%	83%	93%	10ppts
Jinan Parc 66	271	292	7.7%	94%	96%	2ppts
Wuxi Center 66	142	169	19.0%	87%	89%	2ppts
Tianjin Riverside 66	181	179	-1.1%	89%	90%	1ppts
Dalian Olympia 66	99	119	20.2%	71%	79%	8ppts
<b>Total</b>	<b>2,672</b>	<b>2,755</b>	<b>3.1%</b>	n.a.	n.a.	n.a.

Source: the Company, Guotai Junan International.

Note: \*under asset enhancement.

**Table-5: Breakdown of HLP's Occupancy Rates of Offices in mainland China**

Name	Leasing Revenue (RMB million)			Occupancy Rate		
	2017	2018	yoy Change	2017	2018	yoy Change
Shanghai Plaza 66	579	622	7.4%	89%	95%	6ppts
Shenyang Forum 66	102	117	14.7%	80%	88%	8ppts
Wuxi Center 66	77	83	7.8%	87%	86%	-1ppts
<b>Total</b>	<b>758</b>	<b>822</b>	<b>8.4%</b>	n.a.	n.a.	n.a.

Source: the Company, Guotai Junan International.

**We revise our revenue forecast upward to reflect better-than-expected rental growth in mainland China.** We reiterate our view that the downturn in second-tier city retail markets has ended. Although the RMB depreciated significantly against the HKD last year, a rebound has been seen starting December 2018, which is favorable to HLP as the Company derived 52% of revenue from mainland China. We expect HLP's leasing revenue from mainland China to increase by 11.4%/ 17.1%/ 6.7% to HKD4,729 million/ HKD5,536 million/ HKD5,909 million in 2019-2021, respectively.

**Table-6: Revision of Estimates**

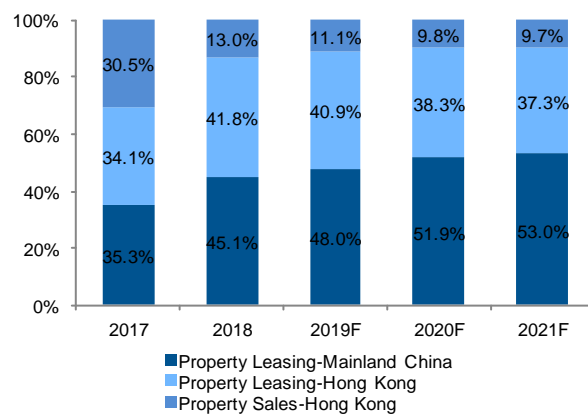
Items, HKD million	Revised Estimates			Original Estimates		Changes	
	2019F	2020F	2021F*	2019F	2020F	2019F	2020F
Total Revenue	9,846	10,675	11,145	9,607	10,494	2.5%	1.7%
-Property Leasing	8,755	9,626	10,064	8,589	9,444	1.9%	1.9%
-Property Sales	1,092	1,049	1,081	1,019	1,049	7.1%	0.0%
Gross Profit	7,050	7,523	7,874	6,862	7,386	2.7%	1.9%
Net interest income	(1,136)	(1,706)	(1,825)	(1,189)	(1,761)	-4.5%	-3.1%
Net Profit	6,333	4,926	5,238	4,982	4,949	27.1%	-0.5%
Underlying Net Profit	3,644	3,533	3,689	3,638	3,570	0.2%	-1.0%
Gross Margin (%)	71.6	70.5	70.6	71.4	70.4	0.2ppts	0.1ppts
Net Profit Margin (%)	64.3	46.1	47.0	51.9	47.2	12.4ppts	-1.1ppts
Underlying Net Margin (%)	37.0	33.1	33.1	37.9	34.0	-0.9ppts	-0.9ppts
ROA (Underlying) (%)	1.9	1.8	1.8	1.8	1.7	0.1ppts	0.1ppts
ROE (Underlying) (%)	2.6	2.5	2.6	2.6	2.5	0.0ppts	0.0ppts
Net Gearing Ratio (%)	18.1	20.8	21.8	14.5	15.2	3.6ppts	5.6ppts

Source: Guotai Junan International.

Note: \*We initiated estimates for 2021F in this report.

**Figure-1: HLP's Segmental Revenue**

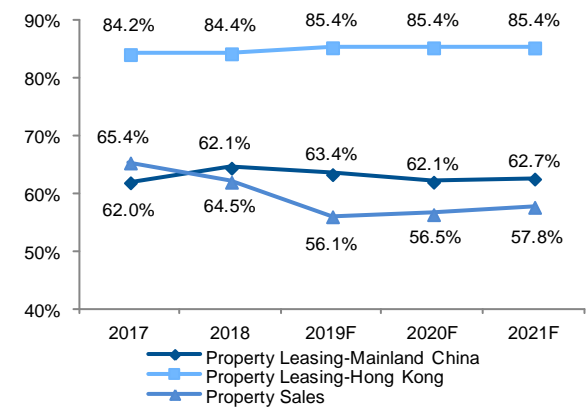

Source: the Company, Guotai Junan International.

**Figure-2: HLP's Segmental Revenue (%)**


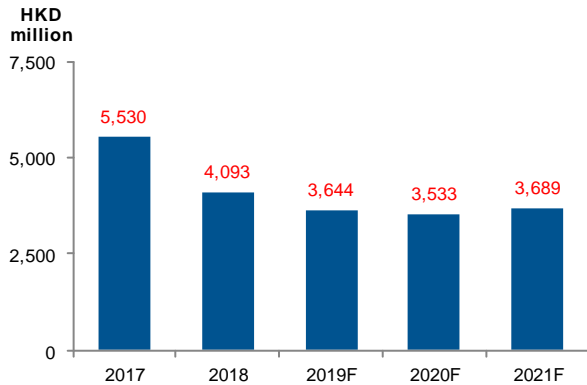
Source: the Company, Guotai Junan International.

**Figure-3: HLP's Segmental Gross Profit**

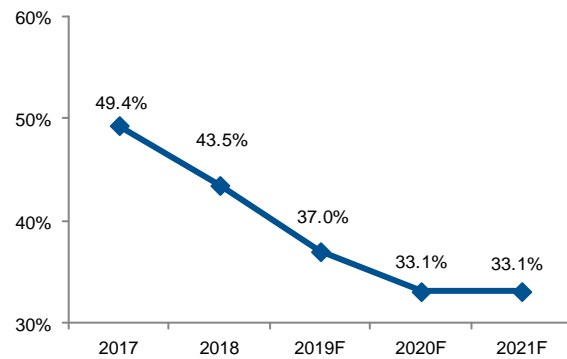

Source: the Company, Guotai Junan International.

**Figure-4: HLP's Segmental Gross Margin**


Source: the Company, Guotai Junan International.

**Figure-5: HLP's Underlying Net Profit**


Source: the Company, Guotai Junan International.

**Figure-6: HLP's Underlying Net Margin**


Source: the Company, Guotai Junan International.

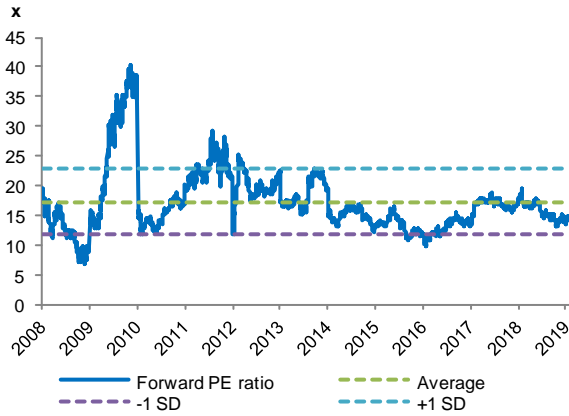
**We maintain our TP at HKD19.60 and revise our investment rating downward to "Neutral".** We reiterate our view that HLP is unlikely to raise dividend during 2019-2020 given its high capital requirement on both capex and land cost payment for the Hangzhou project. Given the current project pipeline, we expect that HLP's capex for investment properties will decrease significantly to HKD1.8 billion in 2021, while the construction of the saleable serviced apartment would be financed by pre-sales in 2021 (the first serviced apartment for sale is scheduled to be completed in 2022). Since there will be a GFA of 333,700 sq.m. of shopping mall, 381,000 sq.m. of office spaces, 315 rooms in the Conrad hotel opening during 2019 and 2020 in mainland China, 2021 will be a harvest year of the Company. Therefore, we believe that HLP may raise DPS by 1 cent in 2021 to HKD0.76. We maintain our TP at HKD19.60, which represents a 45% discount to the revised 2019 NAV estimate of HKD35.7. Given HLP's current stock price, we believe that there is limited upside potential for investors. We, therefore, revise our investment rating on HLP downward to "Neutral". Our TP implies 24.2x/ 25.0x/ 23.9x for 2019/ 2020/ 2021 underlying PER and 0.63x/ 0.62x/ 0.61x for 2019/ 2020/ 2021 PBR.

**Table-7: HLP's 2019 NAV Breakdown**

NAV Summary	HKD million
Hong Kong Development Properties	3,087
China Development Properties	3,453
	<u>6,540</u>
<b>Investment Properties - Hong Kong</b>	
Commercial	47,678
Office and Industrial / Offices	25,147
Residential & Serviced Apartments	9,610
Car Parking Spaces	1,415
Subtotal	<u>83,851</u>
<b>Investment Properties – mainland China</b>	
Commercial	58,915
Office	22,455
Car Parking Spaces	329
Projects under Development	14,053
Subtotal	<u>95,753</u>
Gross Asset Value	186,144
Net Debt	<u>(25,380)</u>
NAV	160,764
Number of Shares (million)	4,498
NAV per Share (HKD)	<u>35.7</u>

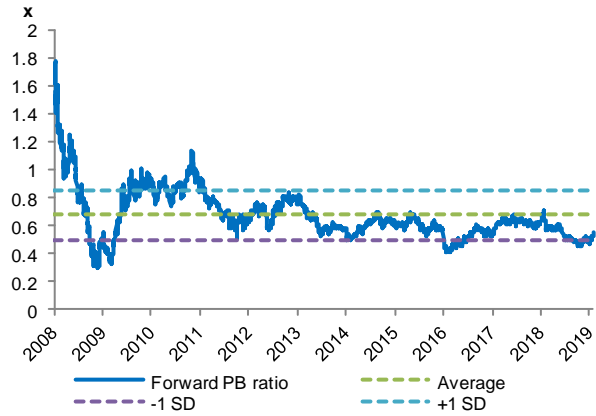
Source: Guotai Junan International.

**Figure-7: HLP's 12 Month Forward PE ratio**



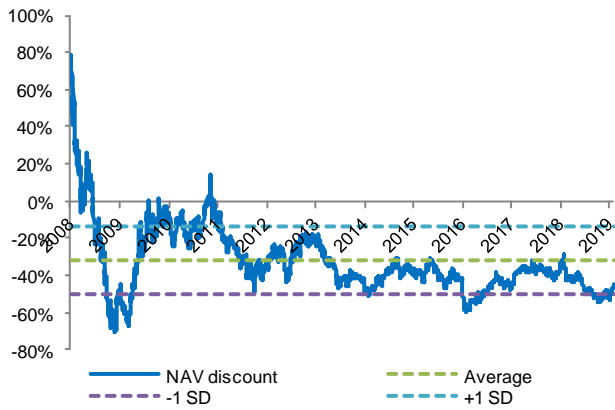
Source: Bloomberg, Guotai Junan International.

**Figure-8: HLP's 12 Month Forward PB ratio**



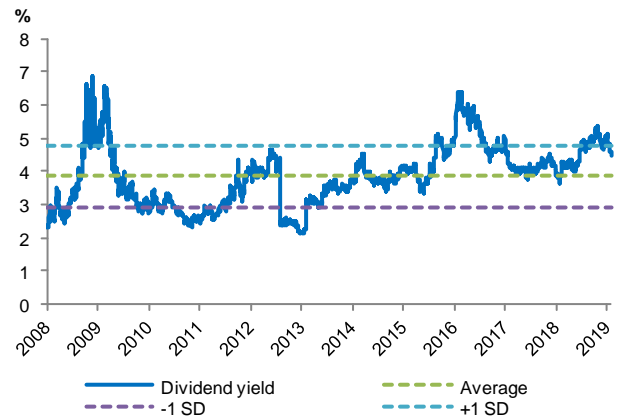
Source: the Company, Guotai Junan International.

**Figure-9: HLP's NAV Discount**



Source: Bloomberg, Guotai Junan International.

**Figure-10: HLP's Dividend Yield**



Source: the Company, Guotai Junan International.

**Table-8: Peers Comparison**

Company	Stock Code	Currency	Last price	Market cap (mn)	PE (fiscal year)				PB (fiscal year)				ROE(%)		D/Y(%)	
					18A	19F	20F	21F	18A	19F	20F	21F	19F	19F		
<b>HK listed local developers</b>																
Wharf Holdings Ltd	4 HK	HKD	25.350	77,245	11.1	10.2	10.0	5.4	0.5	0.5	0.5	0.5	5.0	3.1		
Henderson Land Development	12 HK	HKD	44.400	195,416	15.2	12.9	13.1	11.1	0.7	0.6	0.6	0.8	5.3	4.1		
Hysan Development Co	14 HK	HKD	41.600	43,534	7.2	16.1	15.4	14.4	0.6	0.6	0.6	0.6	3.6	3.7		
Sun Hung Kai Properties	16 HK	HKD	131.800	381,851	7.6	11.6	10.8	10.4	0.7	0.7	0.7	0.6	6.1	3.8		
New World Development	17 HK	HKD	12.900	131,712	5.5	14.9	13.9	12.7	0.6	0.6	0.6	0.6	4.2	4.0		
Wheelock & Co Ltd	20 HK	HKD	53.200	108,951	8.4	7.5	7.0	n.a.	0.4	0.4	0.4	n.a.	5.8	3.1		
Great Eagle Holdings Ltd	41 HK	HKD	38.850	27,154	14.6	14.0	8.6	n.a.	n.a.	n.a.	n.a.	n.a.	3.1	2.1		
Sino Land Co	83 HK	HKD	14.940	100,996	6.9	19.2	18.4	9.5	0.7	0.7	0.7	0.6	3.6	3.6		
Hang Lung Properties Ltd	101 HK	HKD	19.200	86,356	10.7	20.1	19.2	18.2	0.6	0.6	0.6	0.6	3.2	4.0		
Chinese Estates Holdings Ltd	127 HK	HKD	8.900	16,978	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.		
Sunlight Real Estate Invest	435 HK	HKD	5.830	9,603	6.6	23.3	21.6	19.4	0.6	0.6	0.6	0.6	2.8	4.7		
Kerry Properties Ltd	683 HK	HKD	32.600	47,447	9.6	8.8	8.0	13.5	0.5	0.5	0.4	0.4	5.7	4.2		
Fortune Reit	778 HK	HKD	9.650	18,604	3.1	18.2	17.5	16.8	0.6	0.6	0.6	0.6	3.1	5.5		
Link Reit	823 HK	HKD	88.400	186,464	4.1	32.9	30.0	27.3	1.1	1.0	1.0	1.0	3.2	3.1		
Cheung Kong Property Holding	1113 HK	HKD	65.900	243,395	9.8	9.0	9.5	12.2	0.8	0.7	0.7	0.7	7.9	3.3		
Swire Properties Ltd	1972 HK	HKD	32.050	187,493	21.5	22.3	22.0	23.6	0.7	0.7	0.7	0.7	4.5	2.7		
Wharf Real Estate Investment	1997 HK	HKD	56.850	172,610	17.7	17.3	16.3	15.5	0.8	0.8	0.8	0.8	4.7	3.7		
Champion Reit	2778 HK	HKD	6.330	37,012	4.7	22.1	21.2	20.9	0.6	0.6	0.5	0.5	2.4	4.4		
Simple Average					10.0	16.1	15.1	15.0	0.7	0.6	0.6	0.6	4.5	3.7		
Weighted Average					10.7	15.7	15.0	14.7	0.7	0.7	0.7	0.7	5.1	3.5		
<b>HK listed large developers with major revenue from mainland</b>																
Yuexiu Property Co Ltd	123 HK	HKD	1.660	20,586	7.3	6.1	5.4	n.a.	0.5	0.5	0.5	n.a.	8.6	6.6		
Shui On Land Ltd	272 HK	HKD	2.040	16,447	6.1	8.0	6.8	n.a.	0.3	0.3	0.3	n.a.	4.2	5.2		
Yuexiu Real Estate Investmen	405 HK	HKD	5.350	16,620	15.0	18.7	18.3	n.a.	1.0	1.0	1.0	1.2	8.4	6.5		
Soho China Ltd	410 HK	HKD	3.450	17,938	38.8	35.2	31.4	n.a.	0.5	0.5	0.5	n.a.	1.2	3.2		
Shenzhen Investment Ltd	604 HK	HKD	2.930	24,729	9.6	7.9	7.9	n.a.	0.5	0.5	0.5	n.a.	6.9	6.1		
China Overseas Land & Invest	688 HK	HKD	29.000	317,730	7.9	6.7	5.8	5.6	1.1	1.0	0.8	0.8	15.2	4.0		
Hopson Development Holdings	754 HK	HKD	7.380	16,425	8.4	8.0	7.3	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	3.7		
Shimao Property Holdings Ltd	813 HK	HKD	19.360	63,917	6.0	4.7	3.8	3.2	0.9	0.8	0.7	0.6	17.1	8.1		
China Jinmao Holdings Group	817 HK	HKD	3.940	45,523	7.4	5.8	4.6	n.a.	1.0	0.9	0.8	0.6	15.5	7.1		
Longfor Group Holdings Ltd	960 HK	HKD	23.800	141,450	9.3	7.4	6.2	7.0	1.5	1.3	1.2	1.0	19.3	5.5		
China Resources Land Ltd	1109 HK	HKD	29.850	206,889	8.2	7.1	6.2	5.2	1.3	1.1	1.0	0.9	17.3	4.9		
Yuzhou Properties Co	1628 HK	HKD	3.980	19,105	4.0	3.3	2.8	2.4	0.8	0.7	0.6	0.5	21.9	10.6		
Kwg Group Holdings Ltd	1813 HK	HKD	7.420	23,552	4.5	3.5	2.8	2.3	0.6	0.5	0.5	0.4	16.9	10.2		
Sunac China Holdings Ltd	1918 HK	HKD	33.200	146,600	8.7	5.6	4.5	n.a.	2.3	1.7	1.3	n.a.	31.5	3.5		
Country Garden Holdings Co	2007 HK	HKD	10.700	231,630	5.8	4.5	3.9	4.5	1.5	1.1	0.9	0.9	30.7	7.6		
Bbmj Corp-H	2009 HK	HKD	2.860	44,912	6.1	6.0	5.7	n.a.	0.5	0.4	0.4	n.a.	8.6	3.1		
China Vanke Co Ltd-H	2202 HK	HKD	30.300	356,639	8.3	6.9	6.2	6.0	1.8	1.6	1.3	1.2	23.9	5.0		
Guangzhou R&F Properties - H	2777 HK	HKD	15.060	48,529	4.0	3.3	2.9	2.9	0.6	0.5	0.5	0.5	17.9	12.3		
China Evergrande Group	3333 HK	HKD	24.450	320,855	6.0	5.3	4.9	5.8	1.9	1.6	1.4	1.1	33.5	9.2		
Sino-Ocean Group Holding Ltd	3377 HK	HKD	3.720	28,332	5.0	4.2	3.3	n.a.	0.5	0.4	0.4	0.4	10.6	10.3		
Agile Group Holdings Ltd	3383 HK	HKD	10.260	40,189	4.6	4.0	3.5	3.5	0.8	0.7	0.6	0.6	18.6	11.3		
Greentown China Holdings	3900 HK	HKD	6.760	14,670	5.2	4.6	4.9	n.a.	0.5	0.4	0.4	n.a.	7.5	4.2		
Zhenro Properties Group Ltd	6158 HK	HKD	5.580	23,006	9.3	6.4	4.7	n.a.	1.5	1.1	0.9	n.a.	18.9	3.8		
Simple Average					8.5	7.5	6.7	4.4	1.0	0.9	0.7	0.8	16.1	6.6		
Weighted Average					7.6	6.3	5.5	5.3	1.4	1.2	1.0	0.9	22.2	6.2		

Source: Bloomberg, Guotai Junan International.

**Financial Statements and Ratios**

Income Statement						Balance Sheet					
Year end 31 Dec (HKD m)	2017A	2018A	2019F	2020F	2021F	Year end 31 Dec (HKD m)	2017A	2018A	2019F	2020F	2021F
-Property leasing	7,779	8,181	8,755	9,626	10,064	IP	134,444	136,676	154,916	166,744	168,293
-Property sales	3,420	1,227	1,092	1,049	1,081	IP under development	21,592	31,186	27,473	21,208	23,051
Total Revenue	11,199	9,408	9,846	10,675	11,145	Deposits with banks	3,705	1,853	1,853	1,853	1,853
						Others	1,582	1,639	1,595	1,586	1,568
Direct Cost						Total Non-current Assets	161,323	171,354	185,836	191,392	194,765
-Property leasing	(2,107)	(2,121)	(2,318)	(2,695)	(2,815)	Cash & Cash Equivalents	18,401	10,510	5,996	3,918	2,254
-Property sales	(1,182)	(465)	(479)	(457)	(457)	Trade and other receivables	2,036	2,046	1,790	1,941	2,026
Total direct costs and operating expenses	(3,289)	(2,586)	(2,797)	(3,152)	(3,271)	Properties for sale	1,612	2,442	2,838	3,835	4,833
						Other assets	214	101	0	0	0
Gross profit						Total Current Assets	22,263	15,099	10,623	9,694	9,113
-Property leasing	5,672	6,060	6,437	6,930	7,249	Total Assets	183,586	186,453	196,460	201,086	203,879
-Property sales	2,238	762	613	593	624	Bank loans and other borrowings	2,112	2,414	2,945	8,391	8,425
Total Gross profit	7,910	6,822	7,050	7,523	7,874	Trade and other payables	6,673	5,974	6,400	6,939	7,244
						Taxation payable	483	533	473	518	547
Other net gain/(loss)	549	93	11	0	0	Others	21	25	0	0	0
Administrative expenses	(580)	(637)	(669)	(689)	(710)	Total Current Liabilities	9,289	8,946	9,818	15,847	16,217
Net increase in fair value of IP	2,599	4,170	2,689	1,393	1,549	Bank loans and other borrowings	22,708	24,839	30,284	26,929	27,124
Operating Profit	10,478	10,448	9,081	8,227	8,713	Deferred tax liabilities	9,025	8,776	9,206	9,298	9,391
						Finance lease obligations	319	298	298	298	298
Interest income, net	(654)	(624)	(1,136)	(1,706)	(1,825)	Total Non-current Liabilities	32,052	33,913	39,788	36,525	36,814
Share of profits of JV/associates	78	97	102	107	112	Total Liabilities	41,341	42,859	49,606	52,372	53,030
Profit Before Tax	9,902	9,921	8,047	6,628	7,001	Share capital	39,912	39,915	39,915	39,915	39,915
Income Tax	(1,352)	(1,269)	(1,125)	(1,099)	(1,145)	Reserves	96,246	97,646	100,612	102,170	103,996
Profit After Tax	8,550	8,652	6,922	5,529	5,856	Total Shareholders' Equity	136,158	137,561	140,527	142,085	143,911
Non-controlling Interest	(426)	(574)	(588)	(603)	(618)	Minority Interest	6,087	6,033	6,327	6,629	6,938
Shareholders' Profit / Loss	8,124	8,078	6,333	4,926	5,238	Total Equity	142,245	143,594	146,854	148,714	150,848
Underlying net profit to equity holders	5,530	4,093	3,644	3,533	3,689	BPS (HKD)	30.273	30.585	31.244	31.590	31.996
Basic EPS	1.810	1.799	1.411	1.097	1.167						
Underlying EPS (HKD)	1.232	0.912	0.812	0.787	0.822						
DPS (HKD)	0.750	0.750	0.750	0.750	0.760						

Cash Flow Statement					
Year end 31 Dec (HKD m)	2017A	2018F	2019F	2020F	2021F
Profit before taxation	9,902	9,921	8,047	6,628	7,001
Bank interest income	(548)	(445)	(263)	(150)	(98)
Finance costs	1,202	1,069	1,399	1,856	1,923
Tax paid	(1,776)	(1,503)	(753)	(989)	(977)
Increase in fair value of IP	(2,599)	(4,170)	(2,689)	(1,393)	(1,549)
Increase in trade and other receivables	2,000	689	(170)	(689)	(391)
Others	376	(1,113)	(320)	(839)	(925)
Cash from Operating Activities	8,557	4,448	5,250	4,424	4,983
Payment for IP and PPE	(4,776)	(10,612)	(9,653)	(3,538)	(1,843)
Net sale proceeds from disposal of IP and PPE	560	200	0	0	0
Interest received	518	445	263	150	98
(Increase)/Decrease in bank deposits with maturity greater than three months	(10,677)	11,733	0	0	0
Others	52	(1,900)	(1,193)	217	389
Cash from Investing Activities	(14,323)	(134)	(10,583)	(3,171)	(1,356)
Net increase in bank loans and other borrowings	(3,245)	2,433	5,975	2,091	230
Interest and other borrowing costs paid	(1,157)	(1,320)	(1,630)	(1,856)	(1,923)
Dividends paid to shareholders	(3,373)	(3,368)	(3,368)	(3,368)	(3,368)
Others	(312)	(312)	(312)	(312)	(312)
Cash from Financing Activities	(8,087)	(2,566)	665	(3,444)	(5,372)
Cash at beg of year in CF	23,379	10,373	12,363	7,849	5,771
Net Changes in Cash	(13,853)	1,747	(4,668)	(2,190)	(1,744)
Effect of foreign exchange rate changes	847	242	154	113	81
Cash at the end of the year in CF	10,373	12,363	7,849	5,771	4,107
Deposits with banks and other FI with maturity over 3 months	11,733	0	0	0	0
Less: Deposits with banks recoverable over 1 year	(3,705)	(1,853)	(1,853)	(1,853)	(1,853)
Cash at End of Year	18,401	10,510	5,996	3,918	2,254

Financial Ratios					
	2017A	2018A	2019F	2020F	2021F
Gross margin (%)	70.6	72.5	71.6	70.5	70.6
Operating margin (%)	93.6	111.1	92.2	77.1	78.2
Underlying operating margin (%)	65.5	65.7	64.8	64.0	64.3
Net margin (%)	72.5	85.9	64.3	46.1	47.0
Underlying net profit margin (%)	49.4	43.5	37.0	33.1	33.1
ROA (%)	4.5	4.4	3.3	2.5	2.6
ROE (%)	6.2	5.9	4.6	3.5	3.7
Dividend payout ratio (%)	41.4	41.7	53.2	68.4	65.1
Dividend payout ratio based on underlying net profit (%)	60.9	82.3	92.4	95.3	92.5
Net gearing ratio (%)	2.0	10.8	18.1	20.8	21.8
Total Debt/Equity	17.4	19.0	22.6	23.8	23.6
ROA (Underlying) (%)	3.0	2.2	1.9	1.8	1.8
ROE (Underlying) (%)	4.1	3.0	2.6	2.5	2.6

Source: the Company, Guotai Junan International.



### 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.

### DISCLOSURE OF INTERESTS

- (1) The Analysts and their associates do not serve as an officer of the issuer mentioned in this Research Report.
- (2) The Analysts and their associates do not have any financial interests in relation to the issuer mentioned in this Research Report.
- (3) Except for KAISA GROUP (01638 HK), GUOTAI JUNAN I (01788 HK), BINHAI INVESTMENT (02886 HK), VALUE A SHARE (03095 HK), CAM SC SMALLCAP (03157 HK), HAITIANTIAN (08227 HK), CSOP MSCI-R (CNY) (83149 HK), Guotai Junan and its group companies do not hold equal to or more than 1% of the market capitalization of the issuer mentioned in this Research Report.
- (4) Guotai Junan and its group companies have not had investment banking relationships with the issuer mentioned in this Research Report within the preceding 12 months.
- (5) Guotai Junan and its group companies are not making a market in the securities in respect of the issuer mentioned in this Research Report.
- (6) Guotai Junan and its group companies have not employed an individual serving as an officer of the issuer mentioned in this Research Report. There is no officer of the issuer mentioned in this Research Report associated with Guotai Junan and its group companies.

### DISCLAIMER

This Research Report does not constitute an invitation or offer to acquire, purchase or subscribe for securities by Guotai Junan Securities (Hong Kong) Limited ("Guotai Junan"). Guotai Junan and its group companies may do business that relates to companies covered in research reports, including investment banking, investment services, etc. (for example, the placing agent, lead manager, sponsor, underwriter or invest proprietarily).

Any opinions expressed in this report may differ or be contrary to opinions or investment strategies expressed orally or in written form by sales persons, dealers and other professional executives of Guotai Junan group of companies. Any opinions expressed in this report may differ or be contrary to opinions or investment decisions made by the asset management and investment banking groups of Guotai Junan.

Though best effort has been made to ensure the accuracy of the information and data contained in this Research Report, Guotai Junan does not guarantee the accuracy and completeness of the information and data herein. This Research Report may contain some forward-looking estimates and forecasts derived from the assumptions of the future political and economic conditions with inherently unpredictable and mutable situation, so uncertainty may contain. Investors should understand and comprehend the investment objectives and its related risks, and where necessary consult their own financial advisers prior to any investment decision.

This Research Report is not directed at, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any jurisdiction where such distribution, publication, availability or use would be contrary to applicable law or regulation or which would subject Guotai Junan and its group companies to any registration or licensing requirement within such jurisdiction.

© 2019 Guotai Junan Securities (Hong Kong) Limited. All Rights Reserved.  
 27/F., Low Block, Grand Millennium Plaza, 181 Queen's Road Central, Hong Kong.  
 Tel.: (852) 2509-9118 Fax: (852) 2509-7793  
 Website: www.gtja.com.hk