



Company Report: Hang Lung Properties (00101 HK)

公司报告: 恒隆地产 (00101 HK)

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19 September 2018

Downturn in Tier-2 City Retail Markets Has Ended

二线城市零售市场的冬季已经结束

- We believe that the downside risk of further RMB depreciation is limited** as the market generally expects that the USD/ RMB exchange rate will not breach the threshold of RMB7 per USD1 (or 2% further decrease of RMB against HKD). **2018 Interim results update:** Hang Lung Properties' underlying net profit decreased 23.7% yoy in 1H18 due to a contraction in property sales. Property leasing revenue in 1H18 increased 7.4% yoy to HKD4,118 million while property sales revenue declined by 59.1% yoy to HKD1,032 million.
- We revise our revenue forecast slightly downwards for 2018-2020 to reflect RMB depreciation.** Solid performance of the leasing portfolio in mainland China makes us believe that the retail market downturn in tier-2 cities has ended. However, recent RMB depreciation has basically erased the increase in 1H18. We revise our average selling price assumptions downward in the 23-39 Blue Pool Road project by 2% and at Long Beach by 13% to reflect the lower-than-expected gross margin in property sales.
- We slightly reduce our TP at HKD19.60 but raise our investment rating to "Buy".** Little surprise from HLP's 2018 interim result. Although we reiterate our view that HLP is unlikely to raise dividend during 2018-2020, the current 5.0% dividend yield is very attractive to long-term investors. Investors may also expect to see dividend hikes from 2021. Our target price represents a 45% discount to the revised 2018 NAV estimate of HKD35.6. Our TP implies 22.6x/ 24.2x/ 24.6x for 2018/ 2019/ 2020 underlying PER and 0.63x/ 0.62x /0.62x for 2018 /2019/ 2020 PBR.
- 我们认为人民币进一步贬值的下行风险有限**, 因为市场普遍预期美元兑人民币不会突破7 (或人民币兑港元进一步下跌2%) 的关口。**2018年中期业绩更新:** 恒隆地产2018年上半年的核心股东净利同比下跌23.7%, 主要由于房地产销售收缩所致。物业租赁收入同比增长7.4%至41.18亿港元, 而物业销售收入则同比下跌59.1%至10.32亿港元。
- 我们略微下调2018-2020年的收入预测, 以反映人民币贬值影响。** 中国大陆租赁业务的稳健表现让我们相信二线城市零售市场的冬季已经结束。然而, 近期人民币贬值已基本抹去了上半年的增长。我们分别下调蓝塘道23-39号项目和浪澄湾项目的平均销售价格假设2%和13%, 以反映低于我们预期的物业销售毛利率。
- 我们略微下调目标价至19.60港元, 但上调投资评级至“买入”。** 恒隆地产2018年中期业绩并没有太大惊喜。我们重申我们的观点: 公司不太可能在2018-2020期间提高股息, 但现时5.0%的股息率对长期投资者而言非常吸引。我们认为投资者可以预期公司在2021年后提高股息。我们的目标价较修订后的2018年净资产价值估计值35.6港元有45%折让。我们的目标价相当于22.6倍/24.2倍/24.6倍2018/2019/2020年核心市盈率 and 0.63倍/0.62倍/0.62倍2018/2019/2020年市净率。

Rating:

Buy

Upgraded

评级:

买入 (上调)

6-18m TP 目标价:

HK\$19.60

Revised from 原目标价:

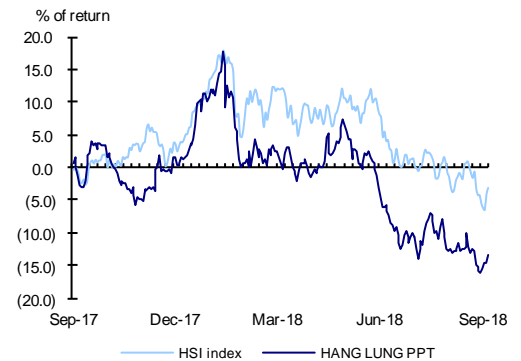
HK\$19.91

Share price 股价:

HK\$15.100

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 %	(3.5)	(11.8)	(18.4)
Rel. % to HS Index 相对恒指变动 %	(2.7)	(0.8)	(14.2)
Avg. Share price(HK\$) 平均股价 (港元)	15.9	17.2	17.9

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\$)	(%)	(%)
2016A	13,059	6,195	1.378	41.0	11.0	28.144	0.5	0.750	5.0	4.8
2017A	11,199	8,124	1.806	31.1	8.4	30.273	0.5	0.750	5.0	6.2
2018F	9,705	6,650	1.481	(18.0)	10.2	31.003	0.5	0.750	5.0	4.8
2019F	9,607	4,982	1.110	(25.1)	13.6	31.362	0.5	0.750	5.0	3.6
2020F	10,494	4,949	1.102	(0.7)	13.7	31.714	0.5	0.750	5.0	3.5
Shares in issue (m) 总股数 (m)				4,497.7		Major shareholder 大股东		CHAN Adriel Wenbwo	57.82%	
Market cap. (HK\$ m) 市值 (HK\$ m)				67,645.4		Free float (%) 自由流通比率 (%)				42.2
3 month average vol. 3个月平均成交股数 ('000)				4,156.6		FY18 Net gearing (%) FY18 净负债/股东资金 (%)				8.3
52 Weeks high/low (HK\$) 52周高/低 (HK\$)				21.650 / 14.620		FY18 Est. NAV (HK\$) FY18 每股估值 (港元)				35.6

Source: the Company, Guotai Junan International.

Downside risk of further devaluation of RMB is limited. The RMB suffered from a 7% devaluation against the HKD since June 2018, alongside intensified Sino-US trade tension. However, we believe that the downside risk of further RMB depreciation is limited as the market generally expects that the USD/ RMB exchange rate will not breach the threshold of RMB7 per USD1 (or 2% further decrease of RMB against HKD). General real estate market conditions in Hong Kong and in Shanghai, where 75% of Hang Lung Properties' (00101 HK, "HLP" or the "Company") leasing revenue originates from, remain largely stable. In essence, average overall office rent and retail rent price in Hong Kong are still exhibiting rising trend over the first 7 months of 2018, which increased by 3.5% and 0.9%, respectively, according to rental indices released by the Rating and Valuation Department. While in Shanghai, average daily ground floor rent marginally declined by 0.2% hoh to RMB34.0 per sq.m., and average daily Grade-A office rent in CBD edged up by 1.3% hoh to RMB10.36 per sq.m., according to Colliers' report. In our view, the stable real estate market in the two locations served as a solid base to support HLP's fundamentals.

Underlying net profit dove 23.7% yoy in 1H18 due to the contraction in property sales. HLP recorded 19.0% decrease in revenue in 1H18. Property leasing revenue increased 7.4% yoy to HKD4,118 million, in which mainland China property leasing revenue and Hong Kong property leasing revenue edged up 11.4% yoy and 3.2% yoy, respectively. If we look at mainland China portfolio rental growth in RMB terms, the yoy growth rate was reduced to 2.4%, which is still encouraging when compared to stagnant growth last year. Property sales revenue declined by 59.1% yoy to HKD1,032 million. Gross margin of property leasing business improved 1.3 ppts yoy to 66.7% in mainland China, but dropped 0.4 ppts yoy to 85.8% in Hong Kong. Overall gross profit fell 18.9% yoy to HKD3,682 million, while underlying net profit to shareholders decreased 23.7% yoy to HKD2,319 million, mainly due to the contraction in property sales.

Only 8 units of residential properties were sold in 1H18 with an overall profit margin of 54.7%. There were only 8 units of residential properties sold in 1H18, with 5 units coming from the Long Beach (1H17: 197 units) and 3 units (1H17: nil) from the 23-39 Blue Pool Road project. Therefore, property sales revenue declined by 59.1% yoy to HKD1,032 million. At present, we expect that 1 semi-detached house in the 23-39 Blue Pool Road project and the remaining 5 units at the Long Beach will be sold in 2H18. Contribution from the property sales segment is expected to be limited in 2018-2020 due to exhausting inventories. The management noted that service apartment portions of the Wuxi Center 66 project and the Wuhan Heartland 66 project are scheduled to be completed in roughly 5 years, and they are planned for sale.

Table-1: HLP's Unsold Properties for Sale as at 30 June 2018

Project Name	No. of units
The Long Beach	5
23-39 Blue Pool Road	12
Total	17

Source: the Company.

Leasing portfolio in Hong Kong delivered solid growth in 1H18. Total rental revenue from the leasing portfolio in Hong Kong edged up 3.2% yoy to HKD1,947 million in 1H18. Gross margin of the leasing portfolio in Hong Kong declined slightly by 0.4 ppts to 85.8%. Benefitting from strong retail sales growth in Hong Kong and the completion of the asset enhancement program of Kingston in Causeway Bay, HLP's commercial portfolio in Hong Kong scored 3.3% yoy growth in revenue with 97% occupancy rate in 1H18, up 4 ppts yoy. 60% of total leasable area at Peak Galleria is currently closed for its phase 1 renovation program and the area will re-open in phases from 2019. HLP's office portfolio in Hong Kong achieved 2.6% yoy growth with 94% occupancy rate. Revenue from residential and serviced apartments increased 5.5% yoy to HKD154 million, mainly attributable to higher occupancy at Kornhill Apartments and The Summit.

Table-2: Breakdown of HLP's Occupancy Rates in Hong Kong

Name	2013	2014	2015	2016	2017	1H17	1H18	Change (1H18 to 1H17)
Commercial	98%	98%	98%	95%	96%	93%	97%	4ppts
Office and Industrial/Offices	96%	94%	95%	91%	95%	95%	94%	-1ppts
Residential	74%	73%	75%	76%	80%	74%	75%	1ppts

Source: the Company, Guotai Junan International.

Mainland China retail portfolio performed well in 1H18, with the exception of Shenyang Palace 66 shopping mall. HLP's 8 shopping malls in mainland China received RMB1,367 million in rent during 1H18, which is equivalent to a 2% yoy increase to retail rent received last year. Shanghai Plaza 66 shopping mall performed very well in 1H18 after its major asset enhancement program was completed last year. Rental revenue from shopping malls swelled 13% yoy, with an 8 ppt increase in occupancy. Retail sales increased 15% yoy. Shanghai Grand Gateway shopping mall, where 32% of leasable area was closed for renovation at the end of June this year, recorded a 9% yoy decrease in rent. If we exclude closed areas, rental revenue of the shopping mall actually edged up by 1% on a like-on-like basis. Shopping malls in second-tier cities were able to at least maintain the same amount in rental revenue received the previous year, with one exception being the Shenyang Forum 66 shopping mall. Although the occupancy rate increased 10 ppts yoy to 87%, retail rental revenue from Shenyang Forum 66 still dropped 16% yoy in 1H18. According to our estimation, these figures imply that the average monthly rent amount in Shenyang Forum 66 shopping mall retreated 26.0% yoy. The management emphasized that the worse-than-expected performance in Shenyang Forum 66 was mainly due to major tenant reshuffling, which may take 2-3 years to complete. Shenyang Palace 66, HLP's other shopping mall in Shenyang, was able to hold up retail rental revenue even when occupancy rate decreased by 1 ppt yoy during the same period. We believe that the divergence is more of an internal problem in Shenyang Forum 66 shopping mall rather than a general downturn in the retail market in the city. Tianjin Riverside 66 suffered from an 11% yoy decrease in retail sales in 1H18, although rental revenue from shopping remained flat. The management explained that the decrease in retail sales was caused by a major tenant reshuffling process after completion of the first lease term. The negative impact from this tenant reshuffling should be temporary, in our view.

Table-3: Breakdown of HLP's Occupancy Rates and Retail Sales Growth of Shopping Malls in mainland China

Name	2014	2015	2016	2017	1H17	1H18	Change (1H18 to 1H17)	Retail Sales yoy Growth in 1H18
Shanghai Plaza 66	96%	97%	93%	96%	89%	97%	8ppts	15%
Shanghai Grand Gateway 66	99%	97%	96%	77%	81%	68%*	-13ppts	-5%#
Shenyang Palace 66	85%	90%	93%	90%	88%	87%	-1ppts	1%
Shenyang Forum 66	93%	87%	84%	83%	77%	87%	10ppts	-2%
Jinan Parc 66	82%	88%	91%	94%	92%	94%	2ppts	20%
Wuxi Center 66	91%	72%	80%	87%	84%	87%	3ppts	15%
Tianjin Riverside 66	84%	86%	82%	89%	87%	86%	-1ppts	-11%
Dalian Olympia 66	N/A	54%	66%	71%	64%	75%	11ppts	45%

Source: the Company, Guotai Junan International.

Note: *about 32% of leasable area was closed for renovation.

#Excluding the area closed for renovation.

Office rental revenue grew fast in second-tier cities in mainland China. Overall office rental revenue in mainland China increased 3% to RMB397 million. Office rental revenue at Shanghai Plaza 66 fell 1% yoy to RMB299 million, even though occupancy rate climbed 8 ppts yoy to 94%. HLP's office rent from second-tier city portfolios, namely the office towers at Shenyang Forum 66 and Wuxi Center 66, achieved 20% yoy growth and a 13% yoy growth, respectively, in 1H18. Occupancy rates at Shenyang Forum 66 and Wuxi Center 66 advanced 16 ppts yoy and 14 ppts yoy during the period, respectively.

Table-4: Breakdown of HLP's Occupancy Rates of Offices in mainland China

Name	2014	2015	2016	2017	1H17	1H18	Change (1H18 to 1H17)
Shanghai Plaza 66	91%	98%	95%	89%	86%	94%	8ppts
Shenyang Forum 66	N/A	42%	58%	80%	69%	85%	16ppts
Wuxi Center 66	29%	70%	65%	87%	77%	91%	14ppts

Source: the Company, Guotai Junan International.

We revise our revenue forecast downward slightly during 2018-2020 to reflect RMB depreciation. Solid performance of the leasing portfolio in mainland China makes us believe that the downturn in second-tier city retail markets has ended. However, recent RMB depreciation has basically erased the increase in RMB during 1H18, which means that leasing revenue is unlikely to see double-digit yoy growth in 2H18 from the mainland China portfolio created by RMB appreciation in 1H18. Hence, we have reduced HKD/ RMB assumptions from 0.85 to 0.87 in 2018, and from 0.85 to 0.875 in 2019 and 2020. In RMB terms, we expect rental revenue from mainland China to increase by 3.9%/ 9.7%/ 17.4% to RMB3,632 million/ RMB3,983 million/ RMB4,675 million in 2018-2020, respectively. We revise our average selling price assumptions downward for the 23-39 Blue Pool Road project and at the Long Beach by 2% and 13%, respectively, due to slightly lower-than-expected gross margin achieved in property sales (1H18: 54.7%) during the interim period.

Table-5: Revision of Estimates

Items, HKD million	Revised Estimates			Original Estimates			Changes		
	2018F	2019F	2020F	2018F	2019F	2020F	2018F	2019F	2020F
Total Revenue	9,705	9,607	10,494	9,835	9,683	10,544	-1.3%	-0.8%	-0.5%
-Property Leasing	8,114	8,589	9,444	8,176	8,644	9,474	-0.8%	-0.6%	-0.3%
-Property Sales	1,592	1,019	1,049	1,659	1,038	1,070	-4.1%	-1.9%	-1.9%
Gross Profit	6,917	6,862	7,386	7,173	6,992	7,501	-3.6%	-1.9%	-1.5%
Net interest income	(850)	(1,189)	(1,761)	(858)	(1,345)	(1,832)	-1.0%	-11.6%	-3.9%
Net Profit	6,650	4,982	4,949	5,371	4,937	4,941	23.8%	0.9%	0.2%
Underlying Net Profit	3,890	3,638	3,570	4,368	3,593	3,581	-10.9%	1.3%	-0.3%
Gross Margin (%)	71.3	71.4	70.4	72.9	72.2	71.1	-1.6ppts	-0.8ppts	-0.7ppts
Net Profit Margin (%)	68.5	51.9	47.2	54.6	51.0	46.9	13.9ppts	0.9ppts	0.3ppts
Underlying Net Margin (%)	40.1	37.9	34.0	44.4	37.1	34.0	-4.3ppts	0.8ppts	0.0ppts
ROA (Underlying) (%)	2.0	1.8	1.7	2.2	1.7	1.7	-0.2ppts	0.1ppts	0.0ppts
ROE (Underlying) (%)	2.8	2.6	2.5	3.1	2.6	2.5	-0.3ppts	0.0ppts	0.0ppts
Net Gearing Ratio (%)	8.3	14.5	15.2	7.5	14.0	14.8	0.8ppts	0.5ppts	0.4ppts

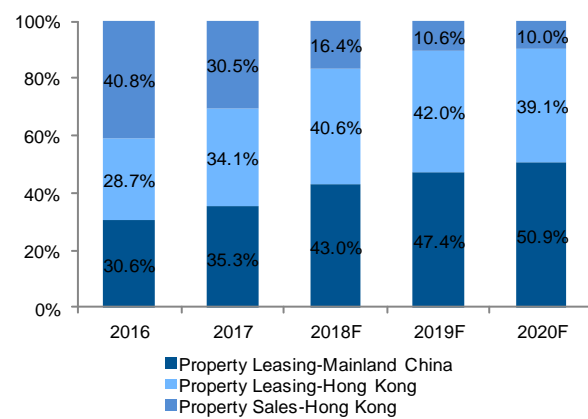
Source: Guotai Junan International.

Figure-1: HLP's Segmental Revenue



Source: the Company, Guotai Junan International.

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



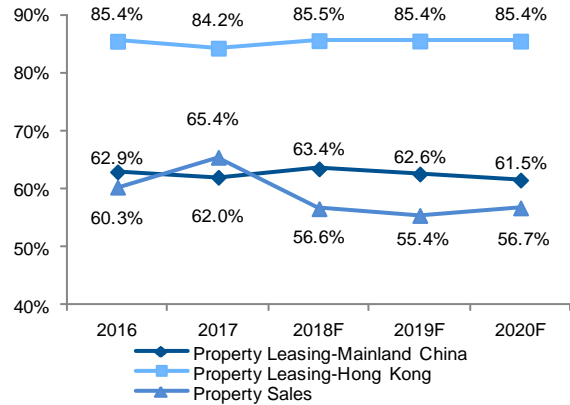
Source: the Company, Guotai Junan International.

Figure-3: HLP's Segmental Gross Profit



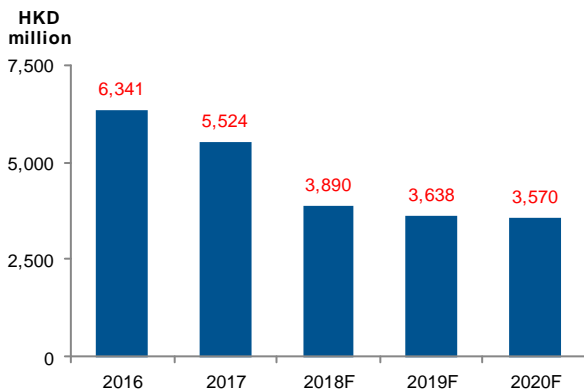
Source: the Company, Guotai Junan International.

Figure-4: HLP's Segmental Gross Margin



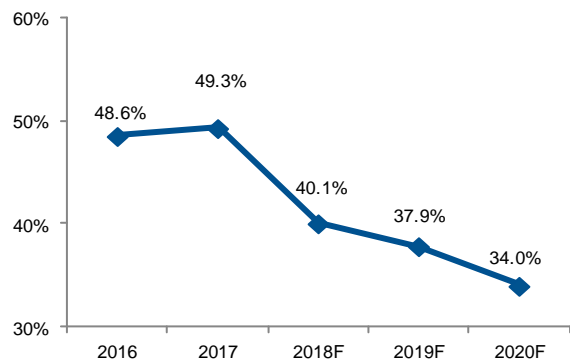
Source: the Company, Guotai Junan International.

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 slightly reduce our TP to HKD19.60 and upgrade our investment rating on HLP to "Buy". There is not much surprise from HLP's 2018 interim result. HLP has a GFA of 26.9 million sq.ft. of projects under development, which implies that the Company's portfolio in mainland China will double in size upon the completion of the projects currently under development. Since the Kunming Spring City 66 shopping mall (scheduled opening in mid-2019) and the Wuhan Heartland 66 shopping mall (scheduled to open in 2020) are sizable in terms of GFA, we expect that it will take HLP a few years to ramp up those projects. We feel more optimistic towards the two shopping malls as we believe that the downturn in the mainland China retail market is over. We reiterate our view that HLP is unlikely to raise dividend during 2018-2020 given its high capital requirement on both capex and land cost payment for the Hangzhou project. Investors may expect to see dividend hikes in 2021 when the new projects start to contribute to a higher degree to HLP's underlying net profit. We expect HLP to maintain its dividend per share at HKD0.75 in 2018-2020, which is equivalent to a dividend yield of 5.0% given the current stock price at HKD15.10. Considering HLP's financial strength and future growth prospects, we believe that HLP is a good buy for long-term investors at the current stock price. We slightly reduce our TP from HKD19.91 to HKD19.60 to mainly reflect a change in HKD/ RMB assumptions from 0.85 to 0.87 in 2018. Our TP represents a 45% discount to the revised 2018 NAV estimate of HKD35.6. Our TP also implies a 29.8% upside from the current stock price and we therefore upgrade our investment rating on HLP to "Buy". Our TP implies 22.6x/ 24.2x/ 24.6x for 2018/ 2019/ 2020 underlying PER and 0.63x/ 0.62x/ 0.62x for 2018/ 2019/ 2020 PBR. Major risks for HLP include further RMB depreciation and economic downturn in mainland China.

Table-6: HLP's 2018 NAV Breakdown

NAV Summary	HKD million
Hong Kong Development Properties	3,686
<u>Investment Properties - Hong Kong</u>	
Commercial	47,285
Office and Industrial / Offices	25,171
Residential & Serviced Apartments	8,790
Car Parking Spaces	1,395
Subtotal	82,640
<u>Investment Properties – mainland China</u>	
Commercial	57,141
Office	18,102
Car Parking Spaces	337
Projects under Development	9,997
Subtotal	85,578
Gross Asset Value	171,904
Net Debt	(11,617)
NAV	160,287
Number of Shares (million)	4,498
NAV per Share (HKD)	35.6

Source: Guotai Junan International.

Table-7: HLP's Scheduled Projects Completion in 2019 and 2020

Project Name	City	GFA, sqm			No. of Rooms/Spaces	
		Shopping mall	Office	Serviced Apartment	Hotel	Car Park
Spring City 66	Kunming	156,700	177,600	n.a.	n.a.	2,000
Heartland 66	Wuhan	177,000	151,500	n.a.	n.a.	2,800
Forum 66	Shenyang	n.a.	n.a.	n.a.	315	n.a.
Center 66	Wuxi	n.a.	52,000	n.a.	n.a.	n.a.
Total		333,700	381,100	0	315	4,800

Source: the Company, Guotai Junan International.

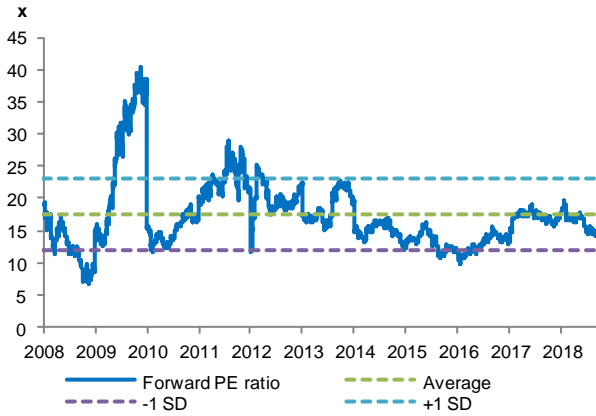
Table-8: HLP's Projects under Development

Project Name	City	GFA, million sq.ft. (Car park included)	Usage	Remarks on Opening Schedule
Spring City 66	Kunming	6.7	M, O, SA	Shopping mall: mid 2019 Remaining portions:2019 onwards
Heartland 66	Wuhan	7.5	M, O, SA	Completion:2020 onwards
Forum 66	Shenyang	7.9	O, H, SA	Conrad Hotel:1H19, Remaining portions:2019 onwards
Center 66	Wuxi	2.2	O, H, SA	Office Tower II:2H19 Service apartment and a boutique hotel under planning
Hangzhou Project	Hangzhou	2.6*	M, O	Completion:2024 onwards
Amoycan Industrial Centre (Redevelopment)	Hong Kong	0.07#	I/O	Under application for Land Compulsory Sale
Total		26.9		
		(+87% from current IP portfolio GFA)		

Source: the Company, Guotai Junan International.

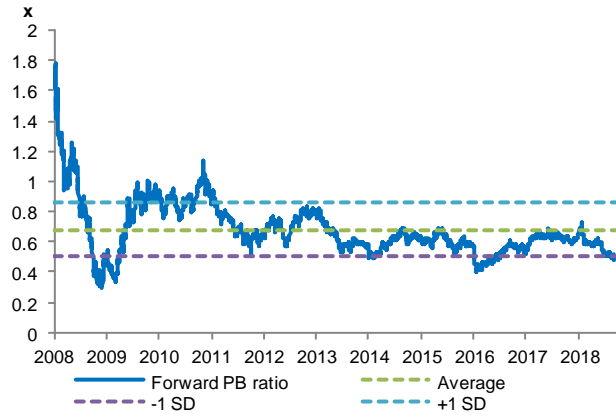
Note: *Excluding GFA of car parks; #Total GFA reported in 2013 Annual Report. GFA upon redevelopment may differ.

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



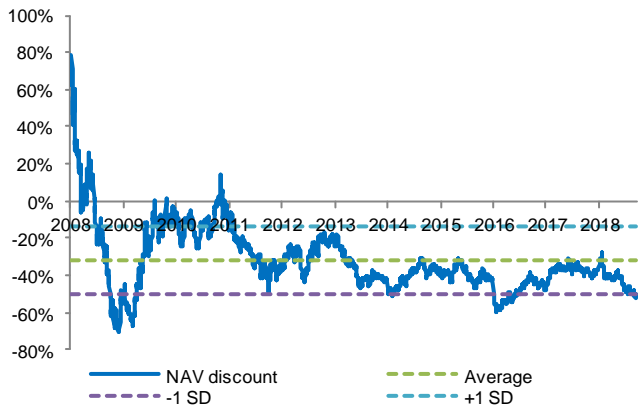
Source: Bloomberg, Guotai Junan International.

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



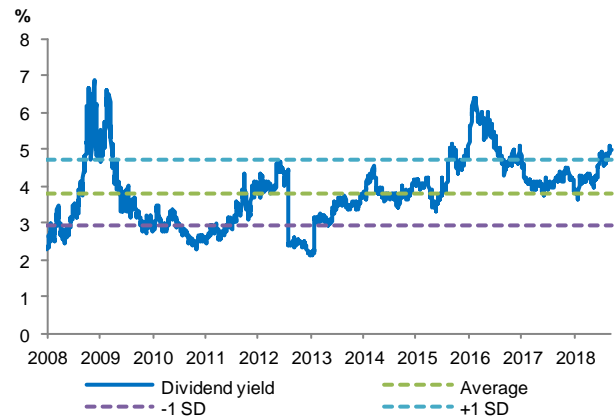
Source: the Company, Guotai Junan International.

Figure-9: HLP's NAV Discount



Source: Bloomberg, Guotai Junan International.

Figure-10: HLP's Dividend Yield



Source: the Company, Guotai Junan International.

Table-9: Peers Comparison

Company	Stock Code	Currency	Last price	Market cap (mn)	PE (fiscal year)				PB (fiscal year)				ROE(%)		D/Y(%)	
					17A	18F	19F	20F	17A	18F	19F	20F	18F	18F		
HK listed local developers																
Wharf Holdings Ltd	4 HK	HKD	22.200	67,646	3.1	9.5	8.9	8.5	0.5	0.5	0.4	0.4	4.9	3.3		
Henderson Land Development	12 HK	HKD	40.200	176,931	5.8	14.2	11.1	11.7	0.6	0.6	0.6	0.6	6.1	4.3		
Hysan Development Co	14 HK	HKD	40.300	42,168	11.6	16.5	15.4	14.6	0.6	0.6	0.6	0.6	3.6	3.6		
Sun Hung Kai Properties	16 HK	HKD	116.800	338,388	8.1	6.8	10.3	9.7	0.7	0.6	0.6	0.6	9.6	3.9		
New World Development	17 HK	HKD	10.360	105,737	13.0	13.1	11.4	10.7	0.5	0.5	0.4	0.4	3.9	4.6		
Wheelock & Co Ltd	20 HK	HKD	48.850	100,013	4.8	7.7	6.8	6.2	0.4	0.4	0.4	0.4	5.4	3.2		
Great Eagle Holdings Ltd	41 HK	HKD	37.700	26,330	2.9	15.3	14.7	n.a.	0.4	n.a.	n.a.	n.a.	2.6	2.1		
Sino Land Co	83 HK	HKD	13.460	88,877	11.3	6.2	17.1	16.2	0.7	0.6	0.6	0.6	10.4	4.2		
Hang Lung Properties Ltd	101 HK	HKD	15.100	67,916	8.3	14.3	15.1	15.0	0.5	0.5	0.5	0.5	3.6	5.0		
Chinese Estates Holdings Ltd	127 HK	HKD	9.300	17,741	4.8	n.a.	n.a.	n.a.	0.5	n.a.	n.a.	n.a.	n.a.	n.a.		
Sunlight Real Estate Invest	435 HK	HKD	5.290	8,703	11.8	6.0	21.2	19.6	0.6	0.6	0.6	0.6	10.0	4.9		
Kerry Properties Ltd	683 HK	HKD	27.650	40,235	4.3	7.7	6.7	6.2	0.4	0.4	0.4	0.4	5.4	4.7		
Fortune Reit	778 HK	HKD	9.300	17,831	5.5	18.1	17.6	16.8	0.7	0.6	0.6	0.6	4.7	5.6		
Link Reit	823 HK	HKD	76.200	160,933	9.6	3.5	28.4	25.6	1.2	0.9	0.9	0.9	30.1	3.7		
Cheung Kong Property Holding	1113 HK	HKD	61.000	225,297	7.6	9.0	8.6	8.7	0.8	0.7	0.7	0.6	10.2	3.2		
Swire Properties Ltd	1972 HK	HKD	30.500	178,425	5.3	20.6	15.9	20.7	0.7	0.7	0.7	0.6	3.3	2.7		
Wharf Real Estate Investment	1997 HK	HKD	54.000	163,956	9.5	17.2	16.1	15.8	0.8	0.8	0.8	0.7	4.6	3.8		
Champion Reit	2778 HK	HKD	5.450	31,867	2.8	20.6	19.3	19.3	0.5	0.5	0.5	0.5	2.4	4.7		
Simple Average					7.5	11.6	14.1	13.7	0.6	0.6	0.6	0.6	7.4	3.9		
Weighted Average					7.8	11.0	13.4	13.4	0.7	0.6	0.6	0.6	8.8	3.7		
HK listed large developers with major revenue from mainland																
Yuexiu Property Co Ltd	123 HK	HKD	1.410	17,486	6.7	5.8	5.1	4.6	0.4	0.4	0.4	0.4	7.3	6.7		
Shui On Land Ltd	272 HK	HKD	1.770	14,270	7.4	5.9	22.1	15.4	0.3	0.3	0.3	0.3	1.9	5.8		
Yuexiu Real Estate Investment	405 HK	HKD	5.130	15,592	9.1	n.a.	22.4	22.4	0.9	1.0	1.0	1.0	4.7	6.6		
Soho China Ltd	410 HK	HKD	3.080	16,015	2.9	35.0	29.3	20.8	0.4	0.4	0.4	0.4	1.3	3.8		
Beijing North Star Co Ltd-H	588 HK	HKD	2.390	12,500	5.0	n.a.	n.a.	n.a.	0.4	n.a.	n.a.	n.a.	n.a.	n.a.		
Shenzhen Investment Ltd	604 HK	HKD	2.380	19,592	3.7	7.2	5.8	5.7	0.5	0.4	0.4	0.4	6.3	6.3		
China Overseas Land & Invest	688 HK	HKD	25.050	274,453	6.7	6.7	5.7	4.9	1.0	0.9	0.8	0.7	14.5	3.7		
Hopson Development Holdings	754 HK	HKD	7.080	15,757	2.7	11.2	11.1	n.a.	0.2	n.a.	n.a.	n.a.	n.a.	2.7		
Shimao Property Holdings Ltd	813 HK	HKD	21.350	71,101	8.0	6.8	5.4	4.3	1.0	1.0	0.9	0.7	14.7	5.7		
China Jinmao Holdings Group	817 HK	HKD	3.760	43,426	8.7	7.4	5.7	4.4	1.0	1.0	0.9	0.8	13.2	5.5		
Longfor Properties	960 HK	HKD	22.300	132,252	8.9	9.0	7.2	5.9	1.6	1.4	1.3	1.2	17.7	4.5		
China Resources Land Ltd	1109 HK	HKD	28.400	196,839	8.6	7.8	6.7	5.8	1.4	1.3	1.1	1.0	16.8	4.2		
Kwg Property Holding Ltd	1813 HK	HKD	7.800	24,747	5.8	4.7	3.6	2.9	0.7	0.7	0.6	0.5	15.5	7.9		
Country Garden Holdings Co	2007 HK	HKD	11.100	240,736	7.8	6.1	4.6	3.9	2.1	1.7	1.3	1.1	30.6	5.7		
Bbmj Corp-H	2009 HK	HKD	2.670	41,281	8.6	5.3	5.1	5.0	0.6	0.4	0.4	0.4	8.5	3.6		
China Vanke Co Ltd-H	2202 HK	HKD	27.000	304,578	9.2	7.5	6.2	5.5	1.9	1.7	1.4	1.2	23.2	4.8		
Guangzhou R&F Properties - H	2777 HK	HKD	14.880	47,949	2.0	4.0	3.3	2.8	0.6	0.6	0.6	0.5	15.9	9.8		
China Evergrande Group	3333 HK	HKD	25.800	336,379	12.2	6.8	5.7	5.2	2.5	2.1	1.8	1.4	35.0	9.1		
Sino-Ocean Group Holding Ltd	3377 HK	HKD	3.670	27,951	4.7	4.9	4.1	3.3	0.5	0.5	0.4	0.4	9.8	8.6		
Agile Group Holdings Ltd	3383 HK	HKD	11.460	44,889	6.4	5.1	4.1	3.3	1.0	0.9	0.8	0.7	18.3	9.3		
Greentown China Holdings	3900 HK	HKD	7.860	17,038	8.8	6.4	6.0	5.7	0.5	0.5	0.5	0.4	7.4	3.1		
Simple Average					6.9	8.1	8.5	6.9	0.9	0.9	0.8	0.7	13.8	5.9		
Weighted Average					8.5	7.1	6.2	5.3	1.6	1.4	1.2	1.0	21.5	5.8		

Source: Bloomberg, Guotai Junan International.

Financial Statements and Ratios

Income Statement					
Year end 31 Dec (HKD m)	2016A	2017A	2018F	2019F	2020F
-Property leasing	7,737	7,779	8,114	8,589	9,444
-Property sales	5,322	3,420	1,592	1,019	1,049
Total Revenue	13,059	11,199	9,705	9,607	10,494
Direct Cost					
-Property leasing	(2,027)	(2,107)	(2,097)	(2,292)	(2,654)
-Property sales	(2,113)	(1,182)	(691)	(454)	(454)
Total direct costs and operating expenses	(4,140)	(3,289)	(2,788)	(2,746)	(3,108)
Gross profit					
-Property leasing	5,710	5,672	6,017	6,297	6,791
-Property sales	3,209	2,238	901	565	595
Total Gross profit	8,919	7,910	6,917	6,862	7,386
Other net loss	208	549	150	0	0
Administrative expenses	(607)	(580)	(592)	(621)	(640)
Net increase in fair value of investment properties	(286)	2,599	2,759	1,344	1,379
Operating Profit	8,234	10,478	9,235	7,585	8,125
Interest income, net	(317)	(654)	(850)	(1,189)	(1,761)
Share of profits of JV/associates	62	78	101	106	112
Profit Before Tax	7,979	9,902	8,487	6,503	6,476
Income Tax	(1,372)	(1,352)	(1,400)	(1,073)	(1,069)
Profit After Tax	6,607	8,550	7,086	5,430	5,408
Non-controlling Interest	(412)	(426)	(437)	(448)	(459)
Shareholders' Profit / Loss	6,195	8,124	6,650	4,982	4,949
Underlying net profit to equity holders	6,341	5,524	3,890	3,638	3,570
Basic EPS	1.378	1.806	1.481	1.110	1.102
Underlying EPS (HKD)	1.410	1.228	0.867	0.810	0.795
DPS (HKD)	0.750	0.750	0.750	0.750	0.750

Cash Flow Statement					
Year end 31 Dec (HKD m)	2016A	2017A	2018F	2019F	2020F
Profit before taxation	7,979	9,902	8,487	6,503	6,476
Bank interest income	(794)	(548)	(460)	(441)	(418)
Finance costs	1,111	1,202	1,310	1,630	2,179
Tax paid	(1,002)	(1,776)	(1,248)	(1,301)	(934)
Change in working capital	(662)	(306)	(2,446)	(630)	(1,151)
Others	103	83	78	78	78
Cash from Operating Activities	6,735	8,557	5,720	5,839	6,229
Payment for property, plant and equipment	(2,677)	(4,776)	(10,693)	(10,138)	(2,419)
Net sale proceeds from disposal of property, plant and equipment	11	560	200	0	0
Interest received	839	518	460	441	418
(Increase)/Decrease in bank deposits with maturity greater than three months	3,384	(10,677)	11,733	0	0
Others	56	52	50	50	50
Cash from Investing Activities	1,613	(14,323)	1,750	(9,647)	(1,951)
Net increase in bank loans and other borrowings	(5,051)	(3,245)	7,483	7,995	1,679
Interest and other borrowing costs paid	(1,287)	(1,157)	(1,360)	(1,803)	(2,179)
Dividends paid to shareholders	(3,373)	(3,373)	(3,374)	(3,367)	(3,367)
Others	(322)	(312)	(312)	(312)	(312)
Cash from Financing Activities	(10,033)	(8,087)	2,437	2,513	(4,179)
Cash at beg of year in CF	26,870	23,379	10,373	20,686	19,779
Net Changes in Cash	(1,685)	(13,853)	9,907	(1,295)	99
Effect of foreign exchange rate changes	(1,806)	847	406	388	398
Cash at the end of the year in CF	23,379	10,373	20,686	19,779	20,276
Deposits with banks and other FI with maturity over 3 months	946	11,733	0	0	0
Less: Deposits with banks recoverable over 1 year	0	(3,705)	(3,051)	(3,051)	(3,051)
Cash at End of Year	24,325	18,401	17,635	16,728	17,225

Source: the Company, Guotai Junan International.

Balance Sheet					
Year end 31 Dec (HKD m)	2016A	2017A	2018F	2019F	2020F
Investment properties	125,421	134,444	137,903	158,999	160,578
Investment properties under development	17,282	21,592	30,738	21,201	24,054
Deposits with banks	0	3,705	3,051	3,051	3,051
Others	1,588	1,582	1,590	1,589	1,580
Total Non-current Assets	144,291	161,323	173,282	184,840	189,263
Cash & Cash Equivalents	24,325	18,401	17,635	16,728	17,225
Trade and other receivables	3,939	2,036	1,629	1,303	1,042
Properties for sale	2,352	1,612	1,692	1,238	784
Other assets	0	214	0	0	0
Total Current Assets	30,616	22,263	20,956	19,269	19,052
Total Assets	174,907	183,586	194,239	204,109	208,314
Bank loans and other borrowings	568	2,112	2,866	3,793	9,389
Trade and other payables	6,327	6,673	6,308	6,245	6,821
Taxation payable	932	483	449	457	503
Others	0	21	0	0	0
Total Current Liabilities	7,827	9,289	9,623	10,495	16,714
Bank loans and other borrowings	26,514	22,708	29,437	36,505	32,588
Deferred tax liabilities	8,421	9,025	9,115	9,206	9,298
Finance lease obligations	0	319	314	314	314
Total Non-current Liabilities	34,935	32,052	38,866	46,026	42,200
Total Liabilities	42,762	41,341	48,490	56,520	58,914
Share capital	39,912	39,912	39,915	39,915	39,915
Reserves	86,653	96,246	99,529	101,145	102,727
Total Shareholders' Equity	126,565	136,158	139,444	141,060	142,642
Minority Interest	5,580	6,087	6,305	6,529	6,758
Total Equity	132,145	142,245	145,749	147,589	149,400
BPS (HKD)	28.144	30.273	31.003	31.362	31.714

Financial Ratios					
	2016A	2017A	2018A	2019A	2020A
Gross margin (%)	68.3	70.6	71.3	71.4	70.4
Operating margin (%)	63.1	93.6	95.2	79.0	77.4
Underlying operating margin (%)	63.7	65.5	65.2	65.0	64.3
Net margin (%)	47.4	72.5	68.5	51.9	47.2
Underlying net profit margin (%)	48.6	49.3	40.1	37.9	34.0
ROA (%)	3.5	4.5	3.5	2.5	2.4
ROE (%)	4.8	6.2	4.8	3.6	3.5
Dividend payout ratio (%)	54.4	41.5	50.6	67.6	68.0
Dividend payout ratio based on underlying net profit (%)	53.2	61.1	86.5	92.5	94.3
Net gearing ratio (%)	2.2	2.0	8.3	14.5	15.2
Total Debt/Equity	20.5	17.4	22.2	27.3	28.1
ROA (Underlying) (%)	3.6	3.0	2.0	1.8	1.7
ROE (Underlying) (%)	5.0	4.1	2.8	2.6	2.5

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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