Wharf REIC (1997 HK)

Major landlord to gain from retail sales recovery

- We forecast Hong Kong (HK) retail sales to grow 17% YoY in 2023 on rising Mainland visitation, which in turn will support a higher retail rent rates for Wharf REIC (the Group)
- During the tourism boom in 2012-19, growth in the Group's retail rental revenue was 8ppt higher than the increase in HK retail sales on average
- We expect the Group's core profit to grow from HK$ 6.0bn in 2022E to HK$ 8.0bn in 2024E, implying a CAGR of 15%, thanks to higher rent rate and efficiency
- Initiate **BUY** with TP of HK$ 53.70 based on a 40% discount to NAV

Border reopening. We expect a significant rebound in HK retail in 2023 on the back of rising tourist visitation. Based on our estimates, Mainland visitors accounted for 30% of total HK retail spending during the tourism up-cycle in 2018. To be conservative, for 2023E, we assume these visitors to account for 12% of total HK retail market; this will drive up HK retail sales by 17% YoY this year. Wharf REIC, as the leading retail landlord in HK, will be one of the biggest beneficiaries of border reopening and rebound in HK retail market.

An outperformer during the boom cycle. In 1H22, Hong Kong retail sales were down 3% YoY. Aggregate retail revenue growth of the three malls under the Group (Harbour City, Times Square, and Plaza Hollywood) was -4%, mainly due to high exposure to luxury retail and tourism-centric operations. During the tourism boom in 2012-19, Wharf REIC's retail revenue growth exceeded HK retail sales growth by 8ppt on average; in the pandemic-induced bust in 2020-1H22, decline in the Group's retail rental revenue was 6ppt deeper than that in the city's retail sales. Based on the positive outlook on increased cross-border traffic, we expect the Group's retail rental revenue growth to be higher than the city's retail sales growth.

Core profit to expand at 15% CAGR over 2022E-24E. We expect revenue to increase at 9% CAGR in 2022E-24E on positive rental revenue growth upon tenancy renewal as well as higher turnover rent prompted by retail sales recovery. In particular, we expect retail rental income to expand at 15% CAGR in 2022-24E; in contrast, office rental will be up by only 1% for the same period as recovery in the segment has been muted so far. Based on the growing revenue and margin, we forecast core profit to increase from HK$ 6.0bn in 2022E to HK$ 8.0bn in 2024E, representing a 15% CAGR in 2022E-24E.

Initiate BUY with TP of HK$ 53.70. Our valuation is based on the discount-to-NAV method. End-2023E NAV is HK$ 272 bn, or HK$ 89.45 share. Our TP at HK$ 53.70 is based on a 40% discount to our NAV estimates and implies 24.4 x 2023E P/E and 0.81x 2023E P/B.

Results and Valuations

FY ended Dec 31	2020A	2021A	2022E	2023E	2024E
Revenue (HK$ mn)	15,515	16,043	13,678	14,716	16,261
Chg (%,YoY)	*(3.3)*	*3.4*	*(14.7)*	*7.6*	*10.5*
Core profit (HK$ mn)[1]	7,477	6,518	6,044	6,690	8,043
Chg (%,YoY)	*(23.6)*	*(12.8)*	*(7.3)*	*10.7*	*20.2*
Core EPS (HK$)	2.46	2.15	1.99	2.20	2.65
Chg (%,YoY)	*(23.6)*	*(12.8)*	*(7.3)*	*10.7*	*20.2*
BVPS (HK$)	*67.4*	*67.9*	*65.1*	*65.9*	*67.0*
Chg (%,YoY)	*(5.4)*	*0.8*	*(4.2)*	*1.4*	*1.6*
P/E (x)	17.9	20.6	22.2	20.0	16.7
P/B (x)	0.66	0.65	0.68	0.67	0.66
Core ROE (%)	3.7	3.2	3.1	3.3	4.0
Core ROA (%)	2.7	2.4	2.3	2.5	3.1
DPS (HK$)	1.47	1.31	1.19	1.32	1.59
Yield (%)	3.33	2.97	2.71	2.99	3.60
Net gearing (%)	24.8	22.5	21.1	19.5	18.0

[1]Core profit= Net profit attributable to equity shareholders, excluding investment property revaluation deficit, impairment provision on hotel properties and mark-to-market and exchange gain/loss on certain financial instruments
Source(s): The Company, ABCI Securities estimates

Company Report
Initiation
Feb 14, 2023
Rating: BUY
TP: HK$53.70

Analyst: Kenneth Tung
Tel: (852) 2147 8311
kennethtung@abci.com.hk

Share price (HK$)	44.15
Est. share price return	21.6%
Est. dividend yield	2.7%
Est. total return	24.3%
Previous Rating &TP	NA
Previous Report Date	NA

Source(s): Bloomberg, ABCI Securities estimates

Key data

52Wk H/L(HK$)	30.45/47.8
Issued shares (mn)	3,036
Market cap (HK$ mn)	134,039
3-mth Avg daily turnover (HK$ mn)	159.46
Major shareholder(s) (%):	
Wheelock and Company Limited	49.98%

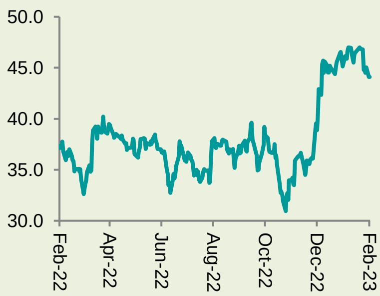
Source(s): Bloomberg , ABCI Securities

Share Performance (%)

	Absolute	Relative*
1-mth	(2.3)	(3.4)
3-mth	29.7	1.8
6-mth	16.7	11.6

*Relative to HSI
Source(s): Bloomberg, ABCI Securities

Share performance (HK$)



Source(s): Bloomberg, ABCI Securities

Contents

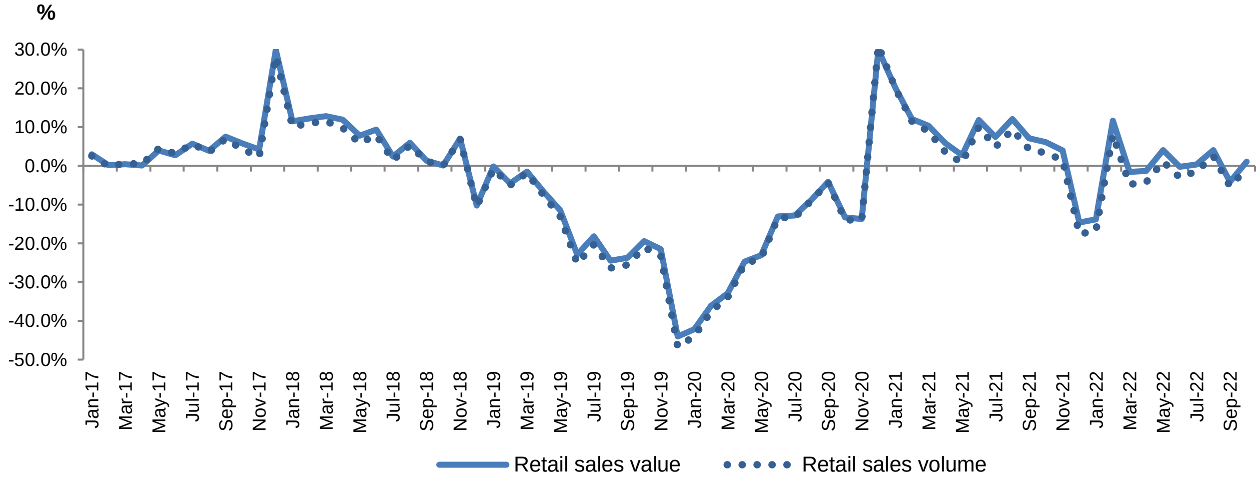
A Hong Kong (HK) retail sector recovery play

■ Border reopening

The start of 2023 marked a drastic turn in COVID policy. On Jan 9, 2023, HK introduced a 50,000 daily quarantine-free quota for travellers entering from Mainland through land checkpoints. Following the removal of entry quotas and PCR test requirement on Feb 6, the border has been fully reopened and recorded 280k of inbound and outbound visitations on the day. Going forward, We believe HK tourism will further improve on the back of ramp-up of more frequent flight and high-speed rail schedules.

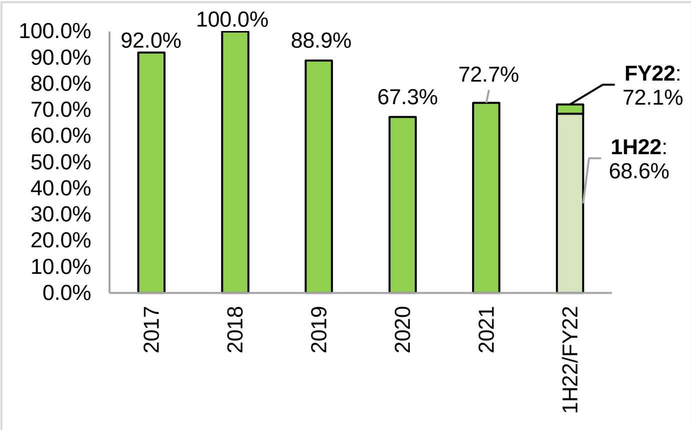
We should see a significant rebound in HK retail market in 2023 on the back of rising tourist visitation. Based on our estimates, Mainland visitors accounted for 30% of total HK retail spending during the tourism boom in 2018. To be conservative, we expect Mainland visitors to take up 12% of total HK retail spending for 2023E; a recovery of such extent will drive up HK retail sales by 17% YoY for 2023E (vs -1%YoY for 2022), reach 84.4% of 2018 previous peak level (2022: 72.1% of 2018 level). As a leading retail landlord in HK, we believe Wharf REIC will benefit immensely form the border reopening and the rebound in HK retail market.

Exhibit 1: Monthly HK retail sales and volume (YoY growth)



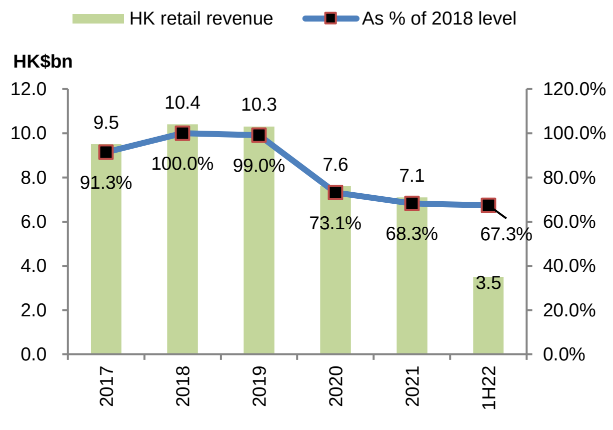
Source(s): Census and statistics department, ABCI Securities

Exhibit 2: HK retail sales value (2018=100)



* 1H18 figure is used as base for 1H22 figures
Source(s): Census and statistics department, ABCI Securities

Exhibit 3: Wharf REIC's HK retail rental revenue

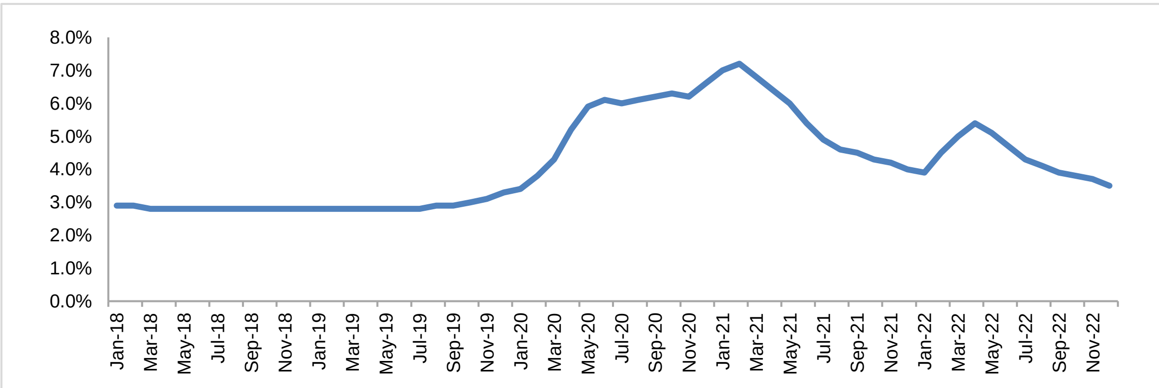


* 1H18 figure is used as base for 1H22 figures
Source(s): The Company, ABCI Securities

- **Improved domestic consumption**

Border reopening supports tourist spending and props up local economic outlook. Hong Kong's unemployment rate had been declining for eight months in 2022, hitting 3.5% in Dec. We believe better salary outlook and economic prospects will propel domestic consumption.

Exhibit 4: Unemployment rate in HK



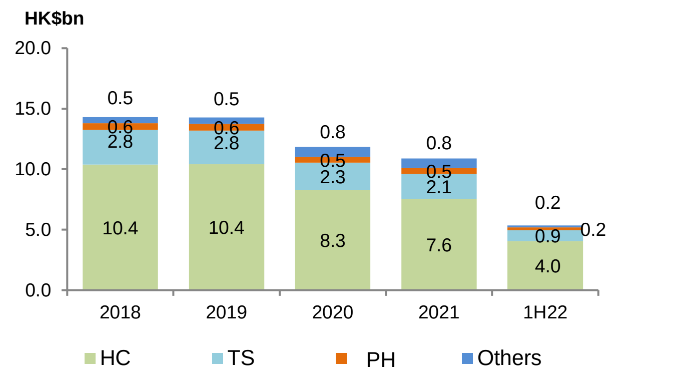
Source(s): Census and statistics department, ABCI Securities

Company Overview

Wharf REIC is one of the largest landlords in Hong Kong holding a portfolio of six premier quality assets, which include Harbour City (HC), Times Square (TS), Wheelock House, Crawford House, The Murray, Hong Kong ("The Murray"), and Plaza Hollywood (PH), and two prime commercial properties, Wheelock Place and Scotts Square mall, in Singapore. Listed in 2017 by the way of spin-off from Wharf Holdings (4 HK) via distribution in-specie, Wharf REIC is now a Hang Seng Index constituent stock on the Hong Kong Stock Exchange. Wharf REIC is considered to be a HK retail proxy since retail rental revenue accounted for 65% of total HK rental revenue in 1H22.

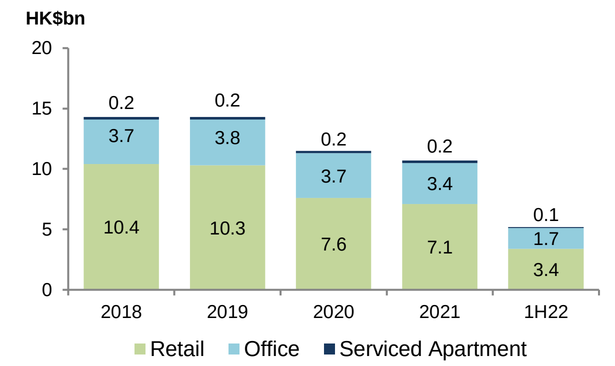
Wharf REIC is now 48.98% owned by Wheelock and Company Limited, which is also the holding company of a Wharf Holdings (4 HK), which mainly engages in residential property development and rental properties in China, and the unlisted company Wheelock Properties, a HK residential developer. Wharf REIC also owns 71.53% stake in Harbour Centre Development Limited (51 HK), which mainly operates the hotels portfolio of Wharf REIC, including Marco Polo HK and The Murray.

Exhibit 5: Wharf REIC's rental revenue by property



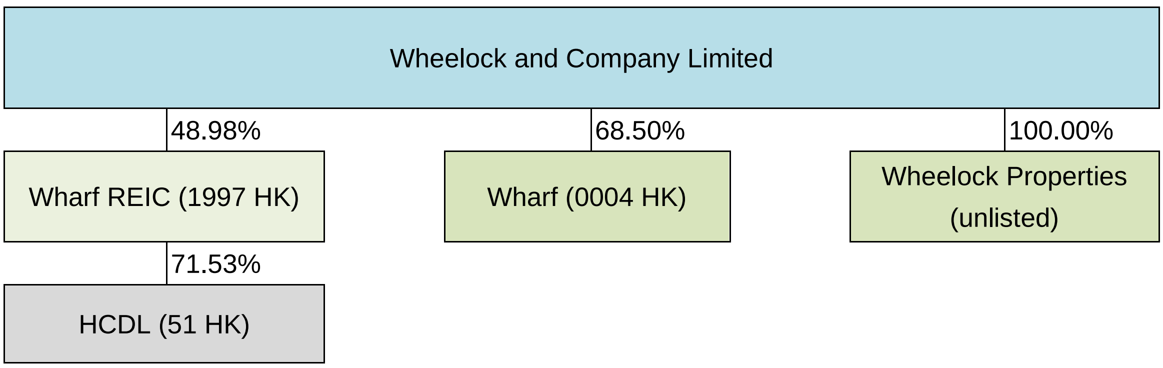
*Others include Singapore portfolio
Source(s): The Company, ABCI Securities

Exhibit 6: Wharf REIC's HK rental revenue by property use



Source(s): The Company, ABCI Securities

Exhibit 7: Group structure



Source(s): The Company, ABCI Securities

Retail Rental: An outperformer during up-cycle

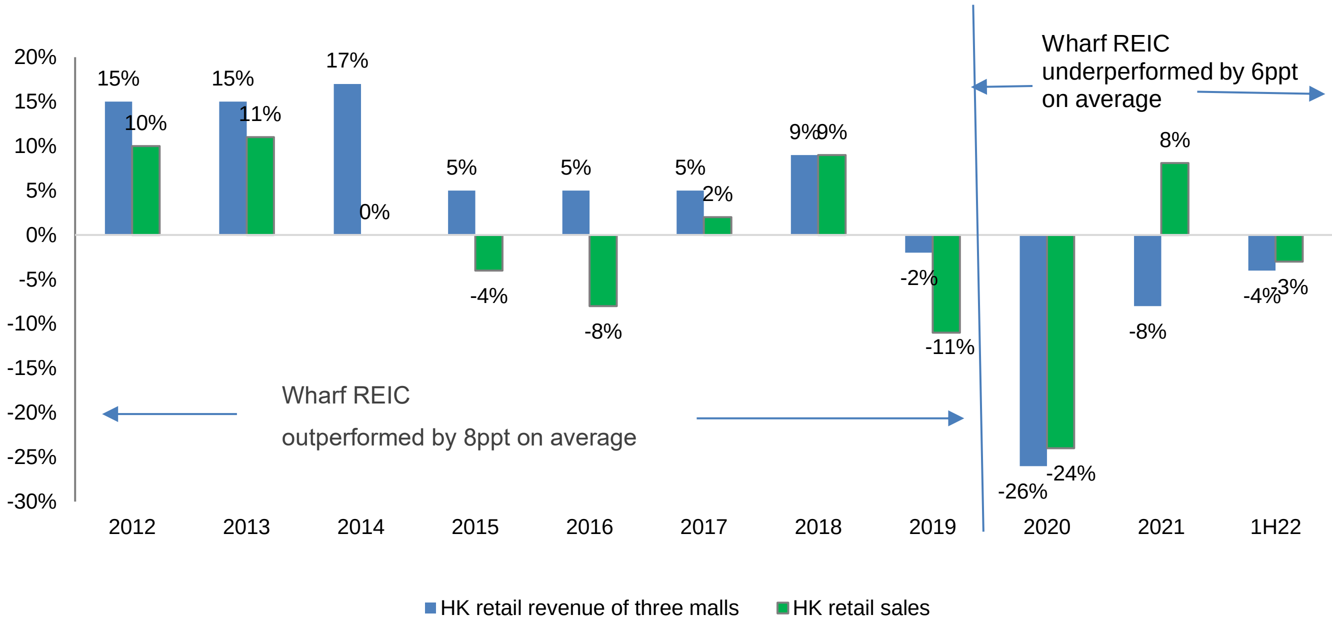
Situated in prominent high fashion retail frontage on Canton Road, Harbour City (HC) houses more than 500 diverse tenants to form a critical mass in attracting consumers. With a stringent tenant selection process, occupancy remained at 93% at end-Jun 2022 and retail rental revenue rose 1%YoY.

On the other hand, retail performance was more challenging for Times Square (TS). Times Square's retail occupancy stayed healthy at 93% as of Jun 2022, but retail revenue dropped 22%YoY in 1H22.

Located in the interchange station for Kwun Tong Line and Tuen Ma Line and an integrated public transport hub for the Kowloon East CBD2, Plaza Hollywood (PH) secured a healthy footfall as a regional mall; its retail revenue was flat YoY in 1H22 .

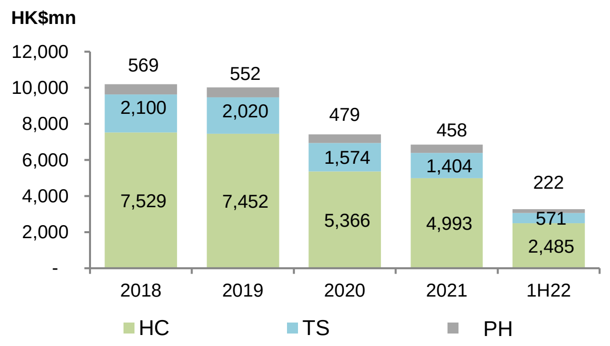
The aggregate retail rental revenue growth of the HC, TS and PH was down 4% YoY in 1H22, compared to the HK retails sales that fell 3% YoY for the same period. Retail rental revenue of these three malls account for 42.7% and 52.8% of total revenue in 2021 and 1H22. The relatively weaker retail rental revenue in the three malls mentioned was caused by their high exposure to the luxury retail and tourism-centric operations. During the tourism up-cycle in 2012-19, Wharf REIC's retail rental revenue growth exceeded HK retail sales by 8ppt on average; in the down-cycle in 2020-1H22, decline in the Group's retail rental revenue was 6ppt deeper than that of drop in the city's retail sales. Going forward, as cross-border visitation improves, we expect retail rental revenue of Wharf REIC to increase more than the city's retail sales on a YoY basis.

Exhibit 8: Wharf REIC's retail revenue of three malls vs. HK retails sales (YoY growth)



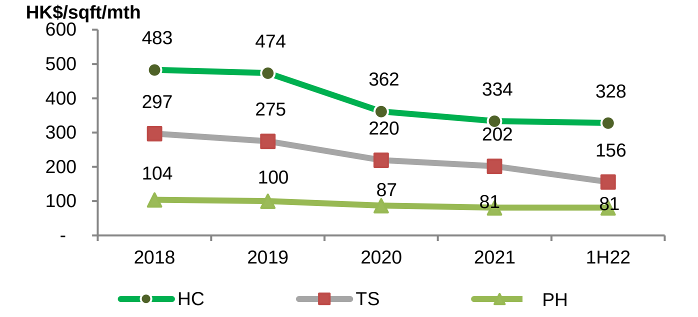
Source(s): The Company, Census and Statistics Department, ABCI Securities

Exhibit 9: Retail rental revenue of HC, TS and PH



Source(s): The Company, ABCI Securities

Exhibit 10: Average retail passing rent of HC, TS and PH



Source(s): The Company, ABCI Securities

Office Rental: Hybrid working and new supply to weigh on office recovery

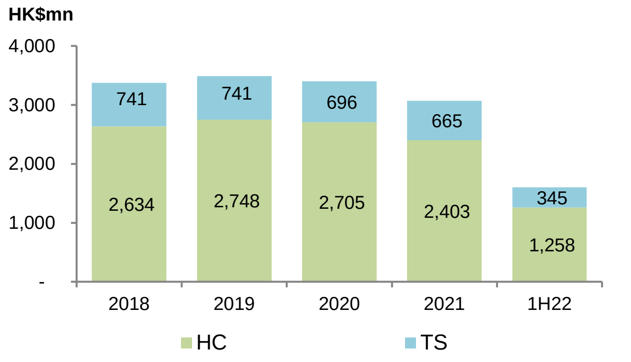
According to Rating and Valuation Department, Grade A office rent in Central/Sheung Wan, Wanchai/ Causeway bay, and Tsim Sha Tsui (TST), as of Dec 2022, was 28%, 21% and 15% below its peak in 2019. Lacklustre office rental in HK's core CBDs in 2020-22 was mainly caused by COVID-induced economic downturn; demand for office space dropped as the need for meetings and conferences reduced on social-distancing measures. Despite the latest removal of COVID measures, we believe two structural trends are limiting rebound in the office rental market.

1) The emergence of hybrid working- according to a survey conducted by PwC in Aug 2022, about 45% of HK's employees are able to perform their duties remotely or from home. For those who can work remotely, 67% currently adopted a hybrid working model;

2) Ample new supply- corporates are relocating their offices to less expensive districts to save cost. In particular, new supply in Kowloon East has dragged down the overall Grade-A office occupancy. According to JLL, Grade A office vacancy rate in Kowloon East was 19.5% (+6.2ppt YoY) as of Dec 2022, vs. 12.1% (+2.5ppt YoY) in the overall Grade A office market.

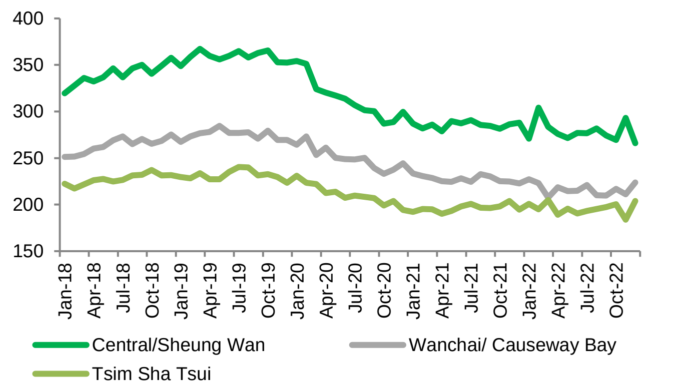
While competition remains intensive due to the abundant new supply, occupancy in HC's office towers (classified as Grade A) remain healthy at 87% (+5ppt YoY) as of Jun 2022 while office rental increase 3% YoY to HK$1,285mn. With a less than 10-min driving distance to the West Kowloon Station, HC's office is set to benefit from increasing cross-border activities. Occupancy in TS's office towers went up 2ppt YoY to 90% as of Jun 2022 with a flattish office rental growth in 1H22 since corporates turned more cost-cautious.

Exhibit 11: Office rental revenue of HC and TS



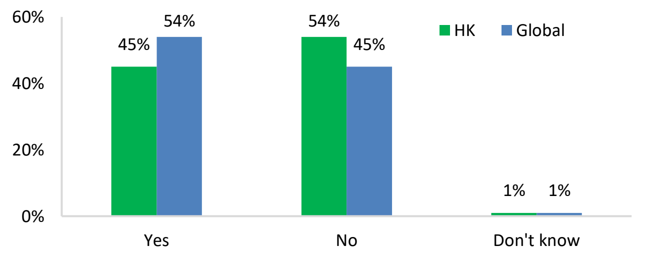
Source(s): The Company, ABCI Securities

Exhibit 12: Grade A office rent in HK (1999=100)



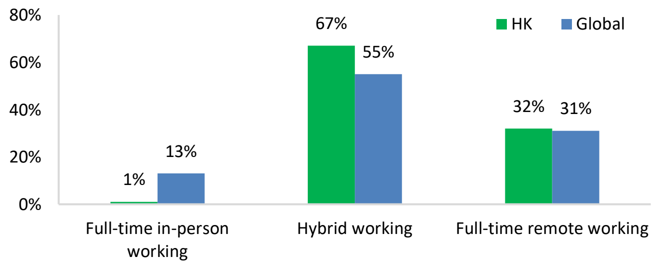
Source(s): Rating and Valuation Department, ABCI Securities

Exhibit 13: Results of hybrid working survey: can your job be done remotely/from home?



Source(s): PwC, ABCI Securities

Exhibit 14: Results of hybrid working survey: How are you currently working, if your job can be done remotely/from home?



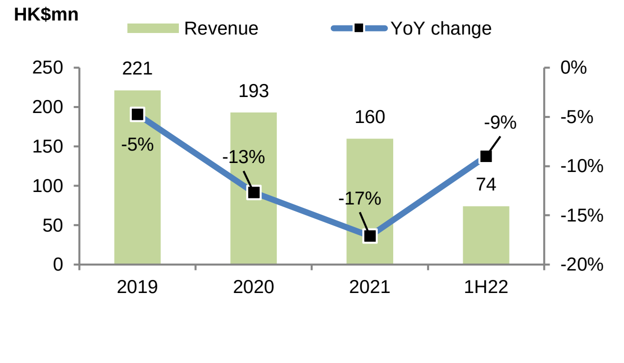
Source(s): PwC, ABCI Securities

Hotels and serviced apartments: Inflow of Mainland tourists to boost demand

Apart from retail and office space, HC also offers service apartments with a GFA of 611k sqft and three hotels (Marco Polo Hongkong, Gateway, and Prince) with aggregate GFA of 1.12mn sqft as of Dec 2021. Wharf REIC also owns the Murray (336k sqft) in Central, which was previously a government building sold at HK$ 4.4bn in 2013. In China, Wharf REIC operates the Niccolo Suzhou. The 233-room Niccolo Suzhou, which opened in Apr 2021 during the pandemic, reported a positive gross operating profit throughout 2021. In 1H22, the lockdown in Suzhou, followed by Shanghai- the hotel's main feeder market, resulted in two consecutive quarters (1Q/2Q22) of gross operating loss for the hotel.

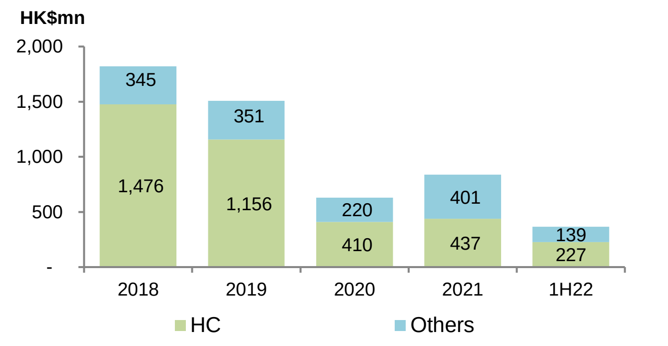
Driven by local staycation demand, occupancy of High Tariff A hotels in HK improved 18ppt YoY to 54% in 1H22, and 3ppt YoY to 57% in 2H22 amid border closure. Nonetheless, the Group's hotel business still registered an operating loss of HK$ 172mn in 1H22 (vs. operating loss of HK$ 208mnn in 1H21) since hotel occupancy in HK was still far below the pre-pandemic level at 87% in 1H19. With the border reopening, we expect hotel business to swing back to profit in 2023.

Exhibit 15: Serviced apartment rental revenue of HC



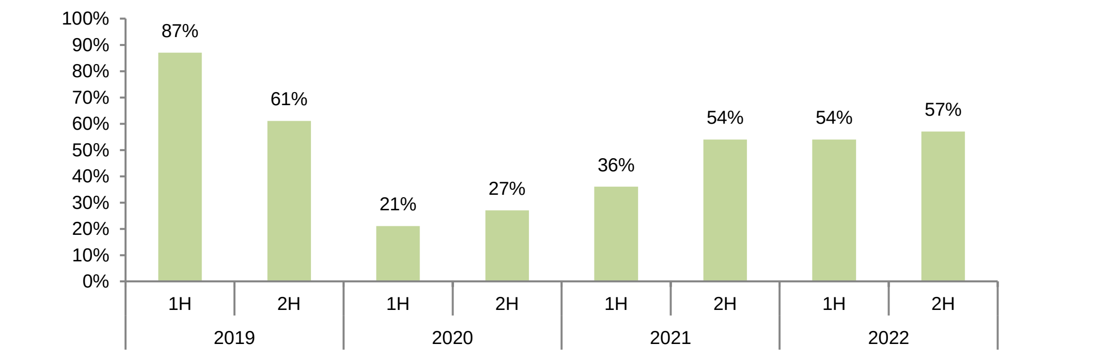
Source(s): The Company, ABCI Securities

Exhibit 16: Hotel and club revenue



Source(s): The Company, ABCI Securities

Exhibit 17: Occupancy of High Tariff A hotels in HK

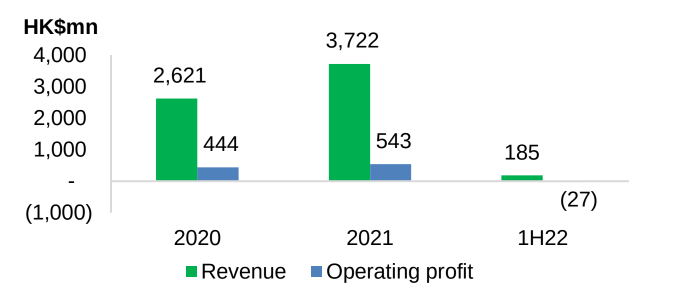


Source(s): Hong Kong Tourism Board, ABCI Securities

Development Properties: Not a major focus

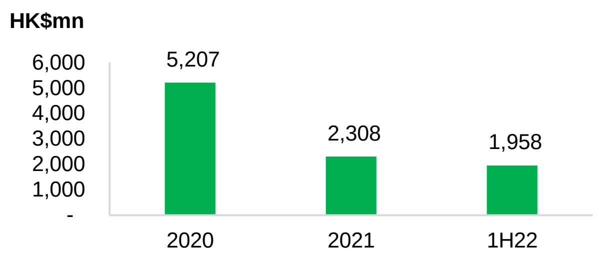
Wharf REIC's sales of properties segment mainly represents its trading property portfolio in China. In particular, Suzhou International Finance Square (80%-owned by HCDL) is the major completed property project for sale with an office GFA of 627k sqft and serviced apartment GFA of 218k sqft as of Dec 2021. Through its subsidiary HCDL, Wharf REIC also owns a 27% stake in Shanghai South Station (Vanke Center Xuhui) with an office GFA of 811k sqft and retail GFA of 164k sqft. As sellable resources deplete given the lack of new projects, the segment's contribution is set to decline in future.

Exhibit 18: Development properties- Revenue and operating profit



Source(s): The Company, ABCI Securities

Exhibit 19: Completed properties for sales on balance sheet



Source(s): The Company, ABCI Securities

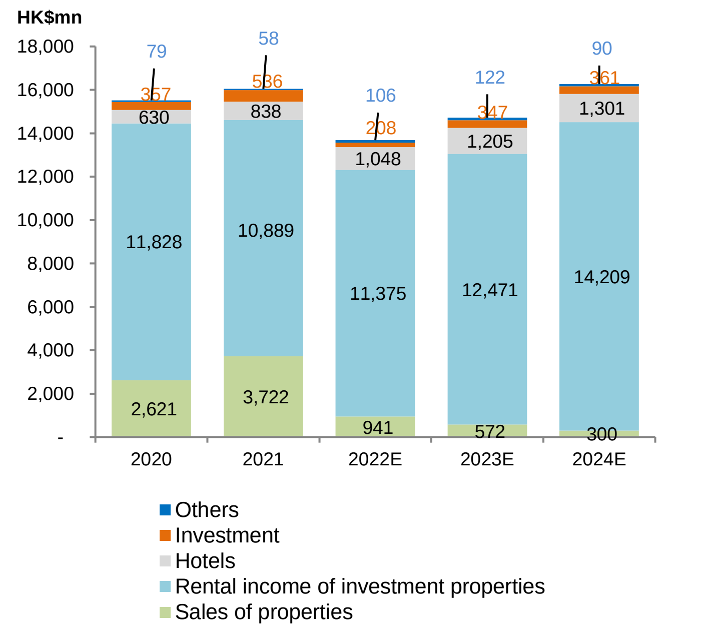
Earnings forecasts

Core profit to expand at 15% CAGR over 2022E-24E

We expect total revenue to grow at 9% CAGR in 2022E-24E on positive rental revenue upon tenancy renewal and higher turnover rent prompted by retail sales recovery. In particular, we anticipate retail rental income to grow at 15% CAGR in 2022-24E; in contrast, office rental will only grow by a tepid 1% during the same period.

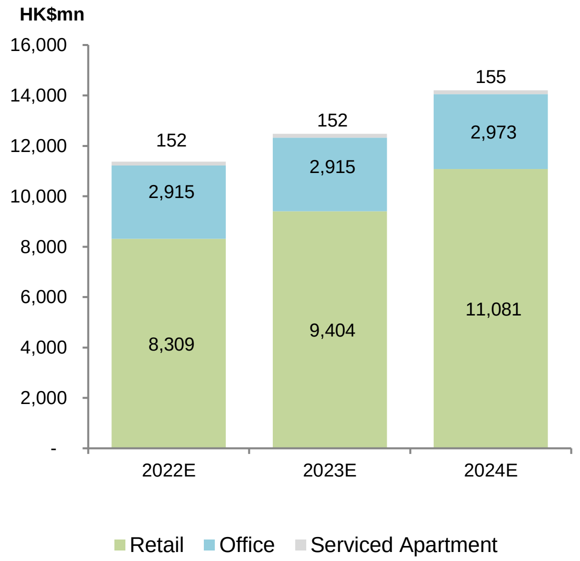
EBIT margin would trend up from 67.9% in 2022E to 74.6% in 2024E while core net margin would rise from 44.2% in 2022E to 49.5% in 2024E, thanks to higher rent rates. On the back of growing revenue and margin, we forecast core profit to increase from HK$ 6.0bn in 2022E to HK$ 8.0bn in 2024E, representing a 15% CAGR in 2022E-24E.

Exhibit 20: Wharf REIC's total revenue breakdown (2018-24E)



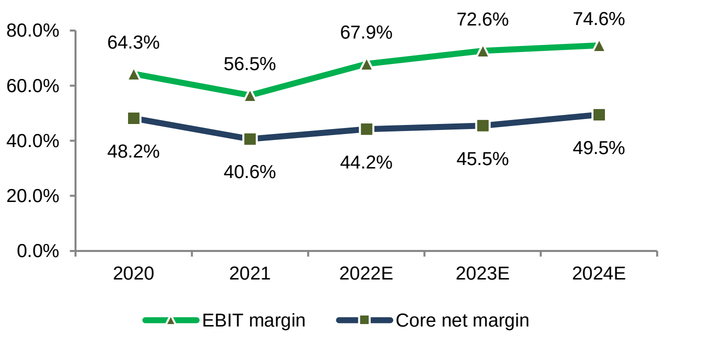
Source(s): The Company, ABCI Securities estimates

Exhibit 21: Wharf REIC's rental revenue breakdown



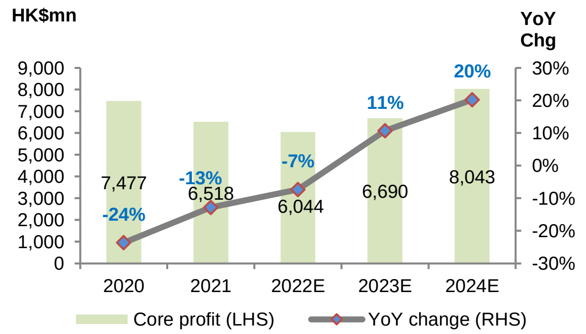
Source(s): The Company, ABCI Securities estimates

Exhibit 22: EBIT and core net margins



Source(s): The Company, ABCI Securities estimates

Exhibit 23: Wharf REIC's core profit and YoY chg

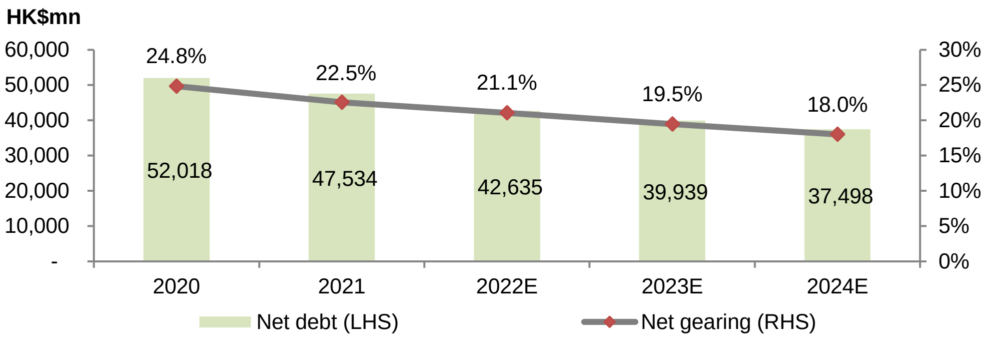


Source(s): The Company, ABCI Securities estimates

Stable net gearing

Wharf REIC's net gearing dropped from 24.8% in 2020 to 22.5% in 2021, but the figure rose slightly to 23.0% as of Jun 2022 as lower fair value of IP resulted in a reported loss and a drop in total equity. According to recent profit warning announcement, Wharf REIC announced that the company will register a net loss as the decline in fair value of IP for full year 2022, was more than double that previously reported in 1H22. We factored in a HK$11bn fair value decline in IP for FY22E. Going forward, we expect fair value of IP to resume a rising trend as retail property prices recover, yet we do not factor in such gains in our 2023-24E forecast. Assuming there would be no fair value gains of IP, a consistent payout ratio of ~60% (underlying profit) supported by the recurrent rental income, and limited capex as there are no major projects under construction, our model forecasts that net gearing would fall from 21.1% in 2022E to 18.0% in 2024E on steady rental cash flow.

Exhibit 24: Net debt and net gearing (2020-24E)



* Net cash= total cash minus gross debt
Source(s): The Company, ABCI Securities estimates

Initiate BUY with TP HK$ 53.70 based on discount to NAV

Our valuation for Wharf REIC is based on the discount-to-NAV method, one of the most widely used valuation metrics for HK Developers and Landlords:

- **Investment properties:** We assign a cap rate of 3.5% on 2023E net rental income. Our estimated IP valuation of HK$ 295bn as of Dec 2023 implies an appreciation of 21%, compared to HK$ 243bn as of Jun 2022.
- **Hotels:** We assign an EV/EBITDA multiple of 5x.
- **Property for sales:** We apply the book value given these China development properties are unlikely to sell at a significant profit margin given the current market situation. Hence, we value those inventories at booked costs.
- **Other long-term investments:** We use book value as they are mark-to-market on balance sheet.

Our end-2023E NAV of HK$ 272bn (HK$ 89.45 /shr) is derived by subtracting 2023E net debt (HK$39.9bn) from the end-2023E GAV of HK$ 311bn. We apply a 40% discount to the 2023E NAV (in-line with HK Landlord/REIT average) to obtain a TP of HK$ 53.70. Our target valuation of 24.4x P/E with a 0.81x PB in 2023E is higher than HK Landlord sector average of 14.1x P/E with a 0.50x PB. Initiate with **BUY**.

Exhibit 25: Discount to NAV Valuation methodology

	GFA	Net assets value		Valuation	Implied value per sqm
	(mn sqft)	(HK$ mn)	% of total	Methodology	(HK$)
Retail	4.1	222,620	71%	3.5% cap rate on 2023E gross rental	53,815
Office	6.1	68,998	22%	3.5% cap rate on 2023E gross rental	11,241
Serviced apartments	1.0	3,598	1%	3.5% cap rate on 2023E gross rental	3,675
Total IP	**11.3**	**295,216**	**95%**		
Hotels	2.2	1,385	0%	5x EV/EBITDA	638
Property of sale		1,062	0%	1x Book value	
Other long term investments		13,870	4%	1x Book value	
Total 2023E GAV		**311,533**	**100%**		
2023E Net cash/ (debt)		(39,939)	-13%		
Total 2023E NAV		**271,594**	**87%**		
No. of share outstanding (diluted)		3,036			
NAV per share (HK$)		**89.45**			
Target discount (%)		40%			
Target Price (HK$)		**53.70**			

Source(s): ABCI Securities estimates

Exhibit 26: Valuation of HK Landlord/REIT and Developers

		Ticker	Mkt Cap HK$ (bn) (HKD bn)	Share Price (HK$)	Discount to NAV	Valuation								
						P/E			P/B			Yield (%)		
						2021A	2022E*	2023E*	2021A	2022E*	2023E*	2021A	2022E*	2023E*
	HK Landlord/REIT													
1	Wharf REIC	1997 HK	134.0	44.15	-50%	20.6	20.4	19.5	0.67	0.65	0.64	3.0	3.1	3.2
2	Swire Properties	1972 HK	126.1	21.55	-53%	13.2	16.0	15.5	0.43	0.43	0.42	4.4	4.6	4.7
3	Hang Lung Properties	101 HK	71.9	15.98	-45%	16.5	17.1	12.8	0.54	0.53	0.52	4.9	4.9	5.0
4	Hysan	14 HK	27.6	26.90	-62%	11.9	14.2	12.8	0.38	0.38	0.36	5.4	5.4	5.4
5	Link REIT	823 HK	133.7	62.80	-10%	22.2	20.8	20.2	0.78	0.79	0.79	4.9	5.0	4.9
	HK Developer													
6	SHKP	16 HK	324.6	112.0	-48%	10.9	11.3	10.7	0.54	0.52	0.51	4.4	4.4	4.4
7	CK Assets	1113 HK	182.6	50.80	-57%	9.5	8.5	8.8	0.49	0.48	0.46	4.3	4.5	4.5
8	Sino Land	83 HK	86.1	10.68	-57%	8.3	13.2	13.2	0.52	0.50	0.49	5.3	5.3	5.5
9	New World	17 HK	60.3	23.95	-61%	8.7	8.5	10.9	0.28	0.28	0.28	8.6	8.7	8.2
	HK Property Avg				**-49%**	**13.5**	**14.5**	**13.8**	**0.52**	**0.51**	**0.50**	**5.0**	**5.1**	**5.1**
	- HK Landlord/REIT				**-44%**	**13.7**	**14.8**	**14.1**	**0.51**	**0.51**	**0.50**	**5.1**	**5.2**	**5.2**
	- HK Developer				**-55%**	**9.3**	**10.4**	**10.9**	**0.46**	**0.45**	**0.44**	**5.7**	**5.7**	**5.7**

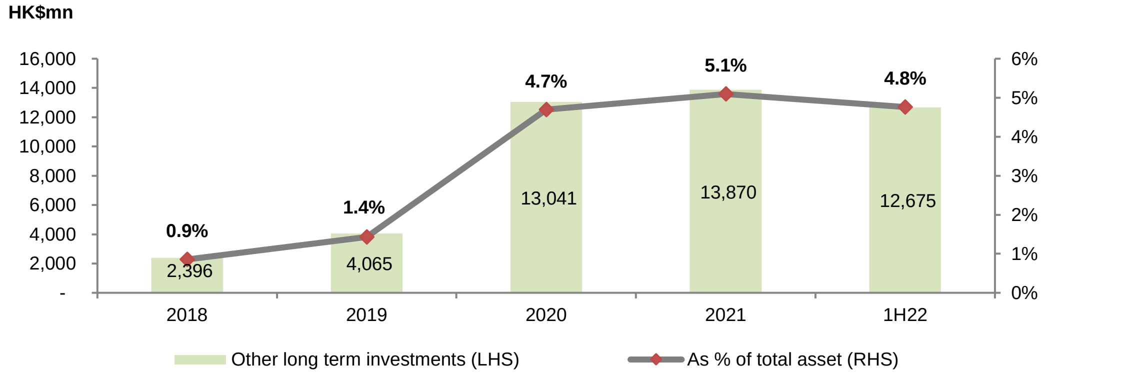
*Bloomberg's consensus forecast
Source(s): Bloomberg, ABCI Securities

Risk factors

Significant mark-to-market securities portfolio

As of Jun 30, 2022, Wharf REIC's "Other long-term investments balance" was HK$ 12,675mn (-8.6% HoH), equivalent to ~4.8% of total assets. The balance was measured at fair value through other comprehensive income. According to its 2021 annual report, these investments are 32% listed in HK and 68% listed outside HK, and 97% are related to the property industry. Although any changes in fair value of these investments would only be reflected in comprehensive income, depreciation in market value could result in a falling book value and push up gearing.

Exhibit 27: Other long-term investments



Source(s): The Company, ABCI Securities

Rising finance cost on US rate hike

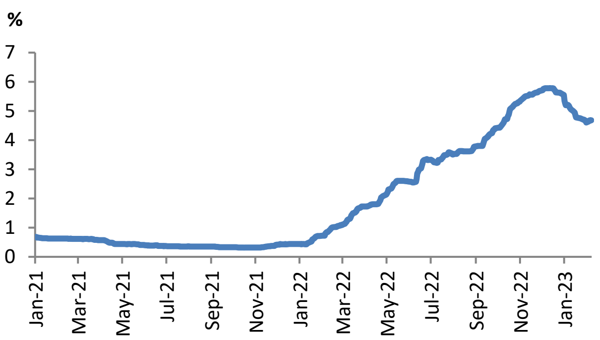
Based on the sensitivity analysis performed as at Dec 31, 2021, it was estimated that a general increase/decrease of 1% in interest rates, with all other variables held constant, would have decreased/increased the Group's post-tax profit and total equity by HK$ 376 mn. This reflects a significant exposure to floating rate borrowings. In our model, we assume the average borrowing rate to increase by 260 bps in 2022E and 160 bps in 2023E as HIBOR rises.

Exhibit 28: Total borrowing by currency

	2021	2020
	HK$mn	HK$mn
HKD	43,557	47,841
SGD	4,368	3,237
USD	1,209	1,833
GBP	-	1,057
RMB	200	310
Total borrowings	**49,334**	**54,278**

Source(s): The Company, ABCI Securities

Exhibit 29: 12-month HIBOR



Source(s): Bloomberg, ABCI Securities

- **Lack of new project pipeline.** Wharf REIC does not have any major properties under construction. Future growth will mostly be driven by higher rent rate and efficiency, while limited land and construction capex also support a healthier balance sheet than landlords with a more aggressive expansion plan.

- **Profit warning for 2022.** According to recent profit warning announcement, Wharf REIC announced that the company will register a net loss as the decline in fair value of IP for FY22, was more than double that previously reported in 1H22. However, excluding such non-cash revaluation loss, we forecast core net profit would only decline 7%YoY to HK$6bn in 2022.

Financial statements

Consolidated income statement (2020A-2024E)

FY Ended Dec 31 (HK$ mn)	2020A	2021A	2022E	2023E	2024E
Revenue	**15,515**	**16,043**	**13,678**	**14,716**	**16,261**
Cost of sales	(4,378)	(5,338)	(3,225)	(2,770)	(2,698)
Gross Profit	**11,137**	**10,705**	**10,453**	**11,946**	**13,562**
Selling and marketing expenses	(565)	(1,089)	(528)	(580)	(679)
Administrative and corporate expenses	(305)	(222)	(278)	(305)	(357)
Depreciation and amortisation	(294)	(330)	(356)	(374)	(393)
EBIT	**9,973**	**9,064**	**9,291**	**10,686**	**12,133**
Finance cost	(1,407)	(760)	(1,896)	(2,516)	(2,328)
Share of profit of associates	(75)	(125)	4	5	3
Other income/ (expenses)	(1,459)	62	-	-	-
Fair value gain of investment properties	(13,965)	(2,203)	(11,000)	-	-
Disposal/one-off items	-	-	-	-	-
Profit before tax	**(6,933)**	**6,038**	**(3,601)**	**8,175**	**9,809**
Tax	(1,205)	(1,599)	(1,297)	(1,433)	(1,720)
Profit after tax	**(8,138)**	**4,439**	**(4,899)**	**6,742**	**8,089**
Minority interest	284	(48)	(58)	(53)	(46)
Reported net profit	**(7,854)**	**4,391**	**(4,956)**	**6,690**	**8,043**
*Less: Exceptional non-cash items**	*15,331*	*2,127*	*11,000*	*(0)*	*(0)*
Core net profit	**7,477**	**6,518**	**6,044**	**6,690**	**8,043**
Per share					
Reported EPS (HK$)	(2.59)	1.45	(1.63)	2.20	2.65
Core EPS (HK$)	2.46	2.15	1.99	2.20	2.65
DPS (HK$)	1.47	1.31	1.19	1.32	1.59
Payout ratio (%)	60%	61%	60%	60%	60%
BVPS (HK$)	67.37	67.88	65.06	65.94	67.00
Growth %					
Revenue	-3.3%	3.4%	-14.7%	7.6%	10.5%
Gross Profit	-18.2%	-3.9%	-2.4%	14.3%	13.5%
EBIT	-21.5%	-9.1%	2.5%	15.0%	13.5%
Underlying net profit	-23.6%	-12.8%	-7.3%	10.7%	20.2%
Margin %					
Gross margin	71.8%	66.7%	76.4%	81.2%	83.4%
EBIT margin	64.3%	56.5%	67.9%	72.6%	74.6%
Core net margin	48.2%	40.6%	44.2%	45.5%	49.5%
Revenue breakdown					
- Sales of properties	2,621	3,722	941	572	300
- Rental income of investment properties	11,828	10,889	11,375	12,471	14,209
- Hotels	630	838	1,048	1,205	1,301
- Investment	357	536	208	347	361
- Others	79	58	106	122	90
Total	**15,515**	**16,043**	**13,678**	**14,716**	**16,261**

* Mainly represents investment property revaluation deficit, impairment provision on hotel properties and mark-to-market and exchange gain/loss on certain financial instrument

Source(s): The Company, ABCI Securities estimates

Consolidated balance sheet (2020A-2024E)

As of Dec 31 (HK$ mn)	2020A	2021A	2022E	2023E	2024E
Current assets	**9,284**	**5,389**	**6,508**	**4,237**	**4,363**
Bank balances and cash	2,260	1,800	3,699	1,895	2,236
Restricted cash	0	0	0	0	0
Trade and other receivables	1,675	1,161	1,161	1,161	1,161
Properties for sales	5,207	2,308	1,528	1,062	846
Other current assets	142	120	120	120	120
Non-current assets	**268,630**	**266,879**	**257,026**	**258,157**	**259,267**
Hotel and club properties, plant and equipment	7,700	7,794	7,938	8,063	8,170
Investment properties	245,473	243,348	233,348	234,348	235,348
Investment in Associate and JCE	1,082	983	987	992	995
Other non-current assets	14,375	14,754	14,754	14,754	14,754
Total Assets	**277,914**	**272,268**	**263,534**	**262,395**	**263,630**
Current Liabilities	**17,102**	**12,979**	**15,820**	**16,502**	**16,625**
Short term borrowings	6,107	4,500	4,500	4,500	4,500
Trade and other payables	8,185	7,717	7,717	7,717	7,717
Pre-sales deposits	2,044	244	3,085	3,767	3,890
Other current assets	766	518	518	518	518
Non-current liabilities	**51,403**	**48,413**	**45,413**	**40,913**	**38,813**
Long term borrowings	48,171	44,834	41,834	37,334	35,234
Other non-current assets	3,232	3,579	3,579	3,579	3,579
Total Liabilities	**68,505**	**61,392**	**61,233**	**57,415**	**55,438**
Net Assets	**209,409**	**210,876**	**202,301**	**204,979**	**208,193**
Shareholders' Equity	**204,551**	**206,106**	**197,524**	**200,199**	**203,417**
Minority Interest	4,858	4,770	4,778	4,780	4,776
Total Equity	**209,409**	**210,876**	**202,301**	**204,979**	**208,193**
Key ratio					
Gross debt (HK$mn)	54,278	49,334	46,334	41,834	39,734
Net debt (HK$mn)	52,018	47,534	42,635	39,939	37,498
Net gearing (%)	24.8%	22.5%	21.1%	19.5%	18.0%

Source(s): The Company, ABCI Securities estimates

Consolidated cash flow statement (2020A-2024E)

As of Dec 31 (HK$ mn)	2020A	2021A	2022E	2023E	2024E
Operating Cash flow	**4,824**	**7,968**	**10,075**	**8,260**	**8,817**
Purchase of PP&E	(173)	(196)	(500)	(500)	(500)
Addition of Investment Properties	(189)	(197)	(1,000)	(1,000)	(1,000)
Purchase of other long term investments	(9,462)	(128)	-	-	-
Disposal of other long term investments	1,514	720	-	-	-
Others	178	-	-	-	-
Investing Cash flow	**(8,132)**	**199**	**(1,500)**	**(1,500)**	**(1,500)**
Debt raised	20,649	25,967	7,000	10,500	4,900
Debt repaid	(12,825)	(30,285)	(10,000)	(15,000)	(7,000)
Equity raised	0	0	0	0	0
Dividend to shareholders	(5,192)	(4,129)	(3,626)	(4,014)	(4,826)
Others	29	(180)	(50)	(50)	(50)
Financing Cash flow	**2,661**	**(8,627)**	**(6,676)**	**(8,564)**	**(6,976)**
Net cash inflow/ (outflow)	**(647)**	**(460)**	**1,899**	**(1,804)**	**341**
Cash- beginning	2,907	2,260	1,800	3,699	1,895
Cash- year-end	**2,260**	**1,800**	**3,699**	**1,895**	**2,236**

Source(s): The Company, ABCI Securities estimates

Disclosures

Analyst Certification

I, Tung Yiu Kei Kenneth, being the person primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject Company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates have no financial interests in relation to the listed Company (ies) covered in this report, and I and/or my associates do not serve as officer(s) of the listed Company (ies) covered in this report.

Definition of equity rating

Rating	Definition
Buy	Stock return rate≥ Market return rate (~9%)
Hold	- Market return rate (~-9%) ≤ Stock return rate < Market return rate (~+9%)
Sell	Stock return < - Market return (~-9%)

Notes: Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months
Market return rate: average market return rate since 2006 (For reference: HSI total return index 2006-22 averaged at 8.4%)

Disclosures of Interests

ABCI Securities Company Limited and/or its affiliates may pursue financial interests to the companies mentioned in the report.

Disclaimers

This report is for our clients only and is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either expresses or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein. This report should not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas as a result of using different assumptions and criteria. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. ABCI Securities Company Limited is under no obligation to update or keep current the information contained herein. ABCI Securities Company Limited relies on information barriers to control the flow of information contained in one or more areas within ABCI Securities Company Limited, into other areas, units, Groups or affiliates of ABCI Securities Company Limited. The compensation of the analyst who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of ABCI Securities Company Limited as a whole, of which investment banking, sales and trading are a part. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. The price and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither ABCI Securities Company Limited nor any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. Additional information will be made available upon request.

Office address: ABCI Securities Company Limited, 13/F Fairmont House,
8 Cotton Tree Drive, Central, Hong Kong.
Tel: (852) 2868 2183