中 信 証 券 國 際
CITIC Securities International

Hong Kong Property Developers

Blessing in disguise

OUTPERFORM (Initiation)

Investment Highlights

- We expect the Hong Kong residential property prices to remain soft on the back of less favorable demand and supply outlook. However, given the ultra-low interest rate environment and more solid economic base, Hong Kong residential property market should be more resilient this time. With less severe de-leveraging and de-stocking pressure in the secondary market, we forecast a moderate 5-7% decline in the secondary market transaction prices over the next 6-12 months. Once the domestic economic growth picks-up and the accumulated pent-up demand from 2011 starts unlocking, we believe the market will head to a gradual recovery in 2013E.

- Despite the potential downside to residential property prices over the next 6-12 months, we believe the property developers deserve better valuation due to the improvement in their operating environment. With abundant land supply from the government resulting in land price retreat, developers are now capable of replenishing land bank at more attractive profit margins. Consequently, we expect the developers with solid financial position to achieve sustainable growth and deliver better return on equity despite the softening in housing prices.

- We initiate coverage on the Hong Kong property developers with an OUTPERFORM rating. While we expect the physical property prices to consolidate with a downward bias, we are positive towards developers' share price performance due to their improving operating environment. In terms of valuation, the sector is now trading at an average discount of 33% to appraised NAV. With rather resilient property prices and opportunity to replenish cheaper land banks, we expect the sector to command a valuation closer to their long term historical average at 18%.

- Among the major property developers, we prefer Sino Land and SHK Properties given their high earnings visibility and their ability to replenish land bank to sustain long-term earnings. We initiate coverage on SHK Properties with an OVERWEIGHT rating and reiterate our OVERWEIGHT rating for Sino Land. We also initiate coverage on Cheung Kong and Henderson Land with an OVERWEIGHT and HOLD rating, respectively.

CSI Research Department

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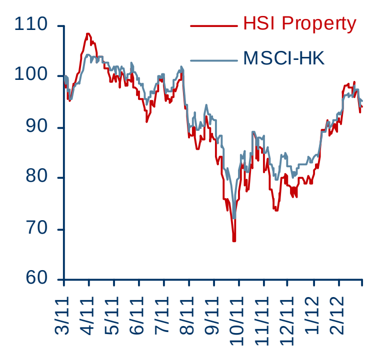
Share performance

	Price (HK$)*	5D chg (%)	YTD chg (%)
Cheung Kong (1.HK)	108.40	(2.1)	16.2
Henderson Land (12.HK)	46.25	(2.4)	19.0
SHK Properties (16.HK)	115.40	(3.0)	17.7
Sino Land (83.HK)	13.46	(4.3)	21.2

Prices as of 12 Mar 2012

MSCI-HK vs. HSI Property



Source: Bloomberg, CSI

Valuation and recommendation summary

Company	Stock code	Share price (HK$)	Rating	Current NAV est. (HK$/sh)	12 month forward NAV (HK$/sh)	Target disc. (%)	Target Price (HK$)	Upside (%)	PER (%) FY12E	PER (%) FY13E	Yield (%) FY12E	Yield (%) FY13E	P/B (x) FY12E	P/B (x) FY13E
Cheung Kong	1 HK	108.40	O	157.95	170.88	(28.5)	122.16	12.7	11.3	10.4	3.2	3.3	0.78	0.73
Henderson Land	12 HK	46.25	H	90.43	87.62	(45.0)	48.19	4.2	15.2	15.0	2.6	3.0	0.61	0.60
SHK Properties*	16 HK	115.40	O	159.09	163.72	(20.0)	130.98	13.5	13.7	13.5	3.0	3.1	0.91	0.86
Sino Land	83 HK	13.46	O	18.94	19.63	(20.0)	15.70	16.6	14.2	14.1	3.6	3.6	0.92	0.90

Source: Company, CSI ** SHK Properties has fiscal year ended 30 Jun*

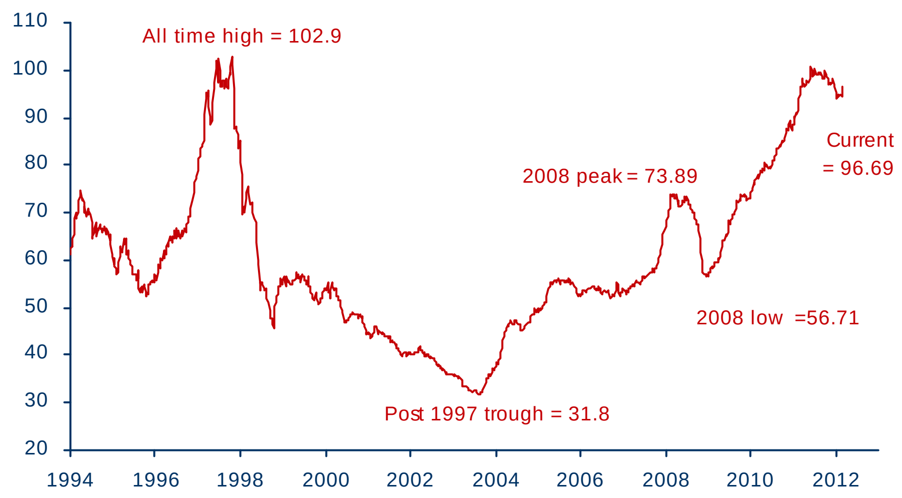
RESIDENTIAL PROPERTY PRICES TO DECLINE 5-7%

Demand will remain subdued on tight policies and deteriorating macro factors

Demand will continue to be curbed by anti-speculative measures

In the past two years, the Hong Kong SAR government implemented various measures, aiming to cool the residential property demand. The key measures to curb demand include the lowering of mortgage loan to value ratio and the introduction of the punitive Special Stamp Duty (SSD) in Nov 2010 to dampen the speculative activity and short-term investment demand. These restrictive measures together with the simultaneous increase in land supply began to impact the market from mid 2011. Accordingly, the average secondary residential unit transaction prices has retreated about 4% from the peak in mid-2011 as reflected in the Centa-City Leading Index (CCL). Over the next 6-12 months, we believe that the government will not make further changes to these policies in order to consolidate the desired result.

Fig. 1: Centa-City Leading Index (CCL)



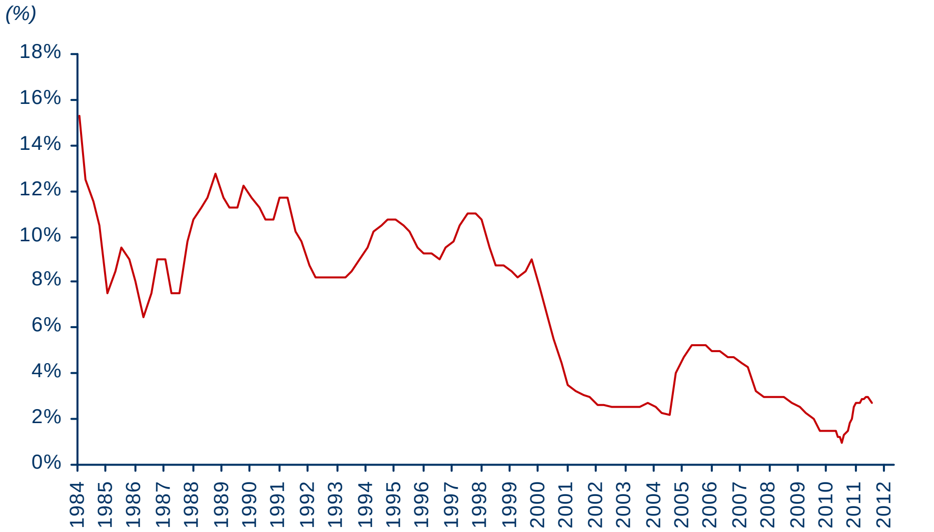
Source: Centaline Property

In terms of the mortgage rates, the sustained decline in benchmark interest rates since 2009 and the narrowing of the mortgage rates spread effected a plunge in effective mortgage rates between 2009 and early 2011 from 3% to as low as about 1%. In our view, this is one major factor driving the demand for residential properties. However, we saw effective mortgage rates reversing its downtrend during 2011 as banks started widening the interest margin for mortgage loans. This is at the backdrop of dwindling Hong Kong dollars deposits in the territory and on the other hand, strong loan demand from both local and mainland enterprises.

Effective mortgage rates likely to stay at current levels

While there were no material changes to the extremely low benchmark interest rates, i.e. Hong Kong inter-bank lending rates, the banks hiked effective mortgage rates to near 3% as at end 2011. Although, there are recent signs of effective mortgage rates retreating with improvement in Hong Kong dollar liquidity, our Hong Kong banking analyst believes that effective mortgage rates will continue to stay at these levels, if not will rise further over the next 12 months.

Fig. 2: Effective mortgage rates

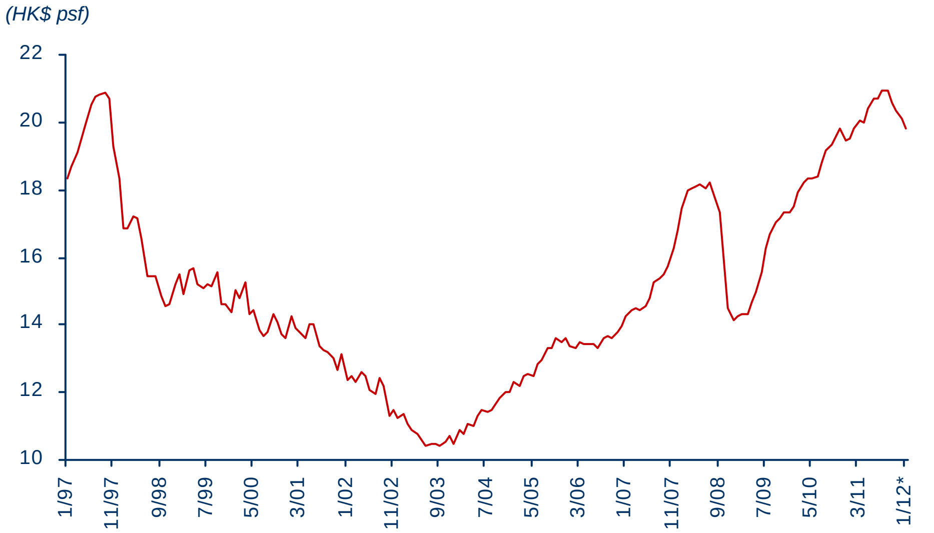


Source: HKMA, CSI

Slowing economy and softening rental rates will weigh on the end-user demand

Higher effective mortgage rates together with the slowing economy and uptick in unemployment rate would further curtail potential end-user and trade-up demand, in our view. Finally, the rising trend in residential rental rates has reversed with more units available for leasing and genuine demand for accommodation easing on deteriorating business conditions. We believe that the deterioration in rental yields and decline in rental rates would discourage purchase of residential properties to a certain extent.

Fig. 3: Domestic housing rental rates



Source: Midland Holdings

Overall, we expect the demand for residential properties to remain weak over the next 6-12 months. In particular, demand from speculators and short term investors will continue to be subdued due to the SSD, softening price trend and unfavorable mortgage loan policy. In recent years, mainland Chinese buyers have become a key source of demand, especially for the mid-to-high end residential units in the primary market. The gradual relaxation of China's monetary policies this year could buoy demand again and provide better support for the mid-to-high residential segment.

More flexible land supply policy driving housing supply

Tight housing supply situation will improve or even reverse in the coming years

With the residential property price rally sustaining from 2003, developers have become more aggressive in replenishing their land bank through government auctions, tenders, farmland conversion and urban redevelopment, especially from 2009 onward. As a result, we expect the supply shortage that prevailed in the past few years to improve or even reverse as developers have commenced construction of lot more projects in the past 1-2 years. Accordingly, we expect the developers to make more new projects available for pre-sale from this year onwards.

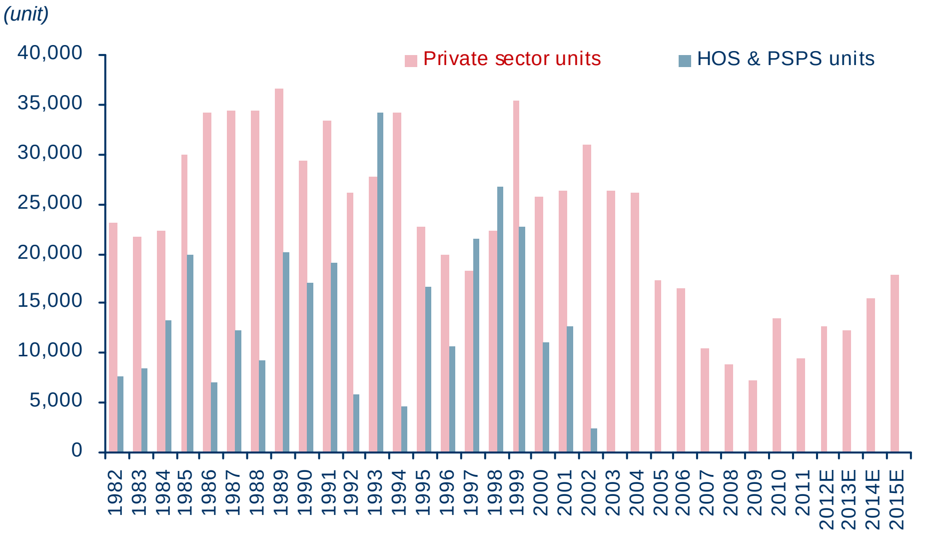
Supply of small sized units is going to increase rapidly

Between 2003 and 2009, the government suspended the scheduled land auction/tender in order to stabilize the residential property market. During this period, developers relied primarily on the land application system to replenish the land bank. As a result, the government was rather passive in regulating the land and housing supply. In view of the surge in residential property prices from 2009, the government decided to resume the scheduled land auction and tender from 2010 onwards to ensure sufficient land supply in the market. Furthermore, it coordinated with URA and MTRC to tender pending projects at a faster pace. For some sites, the government also includes condition of building small sized units to ensure sufficient supply to satisfy the demand from first time buyers.

Developers will adjust their pre-sale strategy to facilitate the sale of more units

As the government adopted flexible land supply policy, property developers acquired more land banks in the past 2 years. Over the next 3-4 years, we expect to see a sustained increase in housing completion and new projects ready for sale. With a lift in the annual land supply and steady increase in the number of primary market units available for sale, we believe that most developers will accordingly adjust their pre-sale strategy.

Fig. 4: Historic and forecast housing completion – private sector



Source: Rating and Valuation Department, CSI
HOS: Home ownership Scheme
PSPS: Private Sector Participation Scheme

From profit maximization to ….

In the past few years, the priority for developers was to maximize profit margin by achieving the highest ASP and volume was always a second priority. This was due to the uncertainties encountered by the developers in land bank replenishment. Most developers are not sure whether they can replenish land bank in profitable manner once they sell their projects. As new supply remains tight and demand improves, the residential property prices naturally trend upwards. Therefore, most developers prefer to sell their projects at a slower pace in a bid to achieve higher prices.

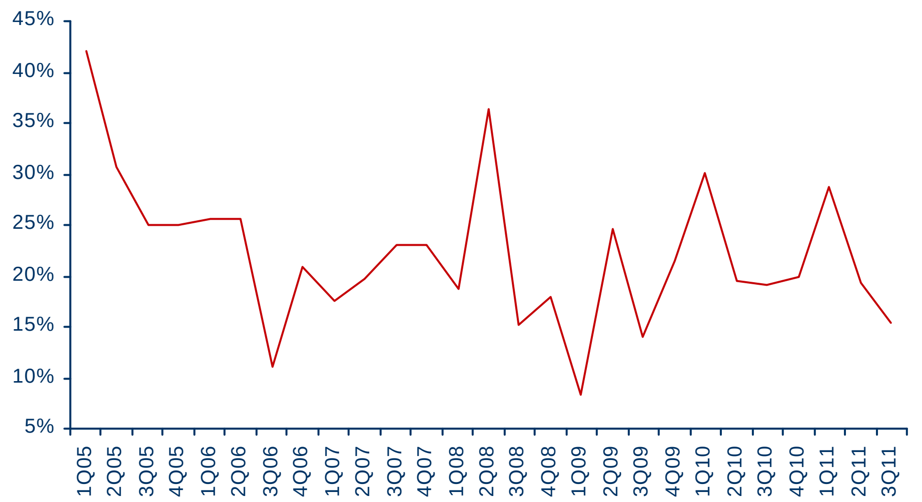
… cash flow maximization

Under the new land supply policy, we believe that property developers will prioritize sales volume over the average selling price. In other words, developers will accelerate the pace of pre-selling the new projects in-order to lock in more cash flow and better sale prices. First, it will generate and help lock-in stronger cash-flow for land bank replenishment and construction expenditure. Second, the increase in supply may limit the upside to property prices and it is more prudent to pre-sell the projects at an earlier stage to maximize profits.

Faster pace of pre-sales means less aggressive pricing

All in all, we expect the developers to target more units for pre-sale in the coming few years. This together with the weakening demand and urge for faster sales would imply less aggressive pricing for primary market projects. One of the trends we expect to witness is the shrinking price premium of primary markets over the secondary market transactions. Having said that, the actual pace of developers' pre-sales and the resulting price pressure will ultimately depend on the amount of land supply provided by the government in the coming years.

Fig. 5: Premium of primary over secondary market units



Source: Midland Holdings

Table 1: Pipeline of major residential projects by developers in 2012E

Project	Location	Developers	No. of unit	Expected completion	Time of launch	Est. ASP (HK$/sf)
Park Summit, KIL 11192	Tai Kok Tsui	Sino Land	464	2013E	2Q12E	8,000
Discovery Bay, Lot 385 in DD352	Lantau	HKR/CITIC	164	2011	2Q12E	7,000
STTL 519, Che Kung Miu Station	Shatin	New World	981	2012E	2Q12E	8,500
Park Haven, Haven Street	Causeway Bay	Soundwill	190	2013E	2Q12E	20,000
West Rail Tuen Mun Station Phase 1	Tuen Mun	SHKP/MTRC	1,075	2012E	2Q12E	7,000
Lot 2099 in DD109, Ha Ko Po Tsuen	Yuen Long	SHKP	800	2012E	2Q12E	6,500
TKOTL 90, Area 85	Tseung Kwan O	Cheung Kong	1,777	2013E	2Q12E	6,500
Providence Bay Site A, TPTL 187	Tai Po	Sino Land/K Wah/Nan Fung/Wing Tai	196	2013E	3Q12E	11,500
Lok Wo Sha, STTL 502	Ma On Shan	Henderson Land/New World	928	2013E	3Q12E	6,000
10 Yim Po Fong Street	Mongkok	Kowloon Development	298	2012E	3Q12E	15,000
Heya Green, Po On Road	Sham Shui Po	Hong Kong Housing Society	327	2013E	3Q12E	7,000
Fanling Sheung Shui 177	Sheung Shui	Henderson Land/New World	728	2013E	3Q12E	5,500
TKOTL 70, Area 86 (package 3)	Tseung Kwan O	Cheung Kong	1,648	2013E	3Q12E	6,500
30-38 Po Tuck Street and Clarence Terrace	Western	Henderson Land	140	2013E	4Q12E	15,000
Providence Bay Site C, TPTL 188	Tai Po	Sino Land/K Wah/Nan Fung/Wing Tai	557	2013E	4Q12E	11,500
YLTL 526 in DD116, Tai Tong	Yuen Long	Henderson Land/New World	2,582	2013E	4Q12E	5,500
TPTL 183 Fung Yuen	Tai Po	Cheung Kong	800	2013E	4Q12E	7,000
Other projects			2,048			
Total			**15,703**			

Source: Lands Department, CSI

But downside to transaction prices will be limited

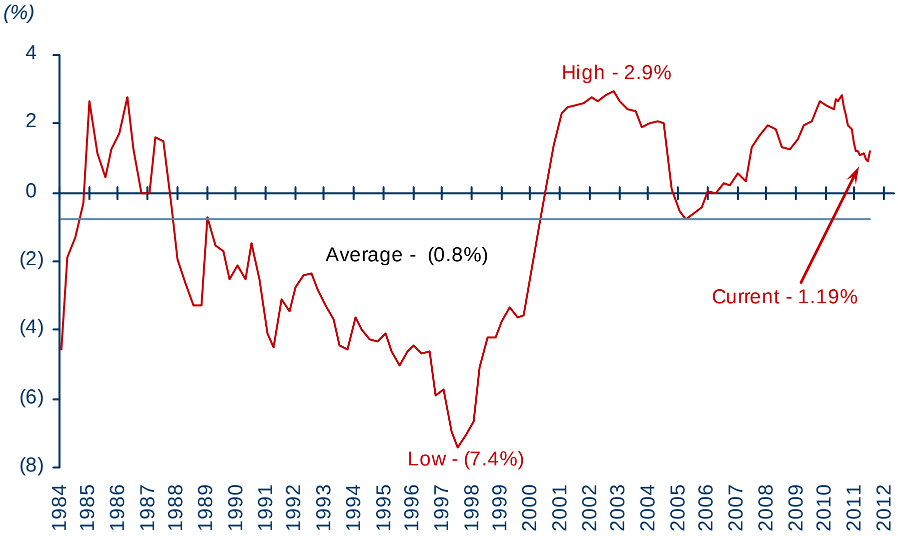
De-leveraging and de-stocking pressure not severe in the secondary market

Given the prevailing extremely low interest rate environment, Hong Kong residential property market should be more resilient this time due to less severe de-leveraging and de-stocking pressure in the secondary market. Although, we expect the demand for residential properties in Hong Kong to remain subdued and primary market supply to increase, we are only modestly negative towards residential property prices. Unlike the previous major downturn in residential property markets during 1998-2002, we do not anticipate huge supply from the secondary market to compete with the primary market this time around. We expect the secondary market supply to remain tight as there is little incentive for existing property owners to off-load their properties unless we see very sharp rise in interest rates and/or a more severe and prolonged economic downturn in Hong Kong.

In the first place, existing property owners enjoy extremely low mortgage rates due to the prolonged ultra-low interest rates policy in the US. According to the latest FOMC comment, the Fed will maintain its ultra-low interest rates until the end of 2014E. Furthermore, there are signs indicating that effective mortgage rates are peaking with the moderate improvement in Hong Kong dollar deposits and banks competing for mortgage businesses.

As such, net rental yield (gross rental yield net of cost of mortgage) is still favorable to property owners. Meanwhile, existing property owners are discouraged to sell their properties as the cost of next purchase will be extremely high given the Special Stamp Duty (SSD) levy, reduced mortgage lending ratio and higher effective mortgage rates. Overall, we believe that the majority of property owners will hold on to their properties even if residential property price were to soften.

Fig. 6: Rental yield and mortgage rate gap



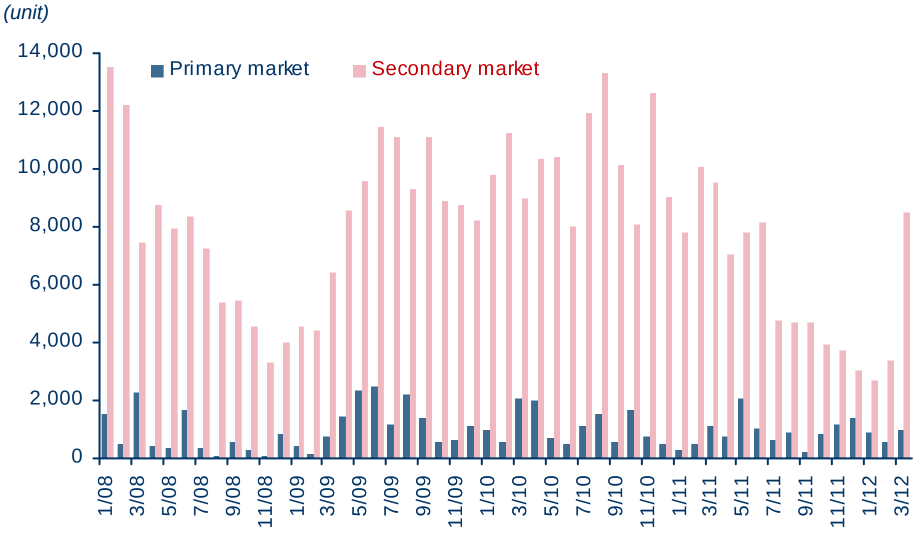
Source: Centaline Properties, Midland Holdings and CSI

While this means transaction volume in the secondary market will shrink severely, property developers may not have to undercut the secondary market as much as in the previous down cycle in order to off-load their projects in the pipeline. Between 2009 and 2011, Hong Kong residential property prices rose 77% on the back of buoyant demand and very tight supply in the primary market. Although the residential property price has gone up 10% YoY in 2011, the momentum has definitely slowed down. Since its peak in Jun 2011, average transaction price according to the Centa-Leading Index has declined 6.5% for the rest of 2011.

5-7% price decline in 2012E and modest recovery expected in 2013E

This year, we expect the Hong Kong residential property prices to decline further 5-7% due to weak demand and on the expectation of primary market supply increase over the next few years. Longer term, we expect the market to head to a modest recovery in 2013E as domestic economic growth picks up again and the accumulated pent-up demand from 2011 starts to unlock.

Fig. 7: Primary and secondary market monthly transaction volume



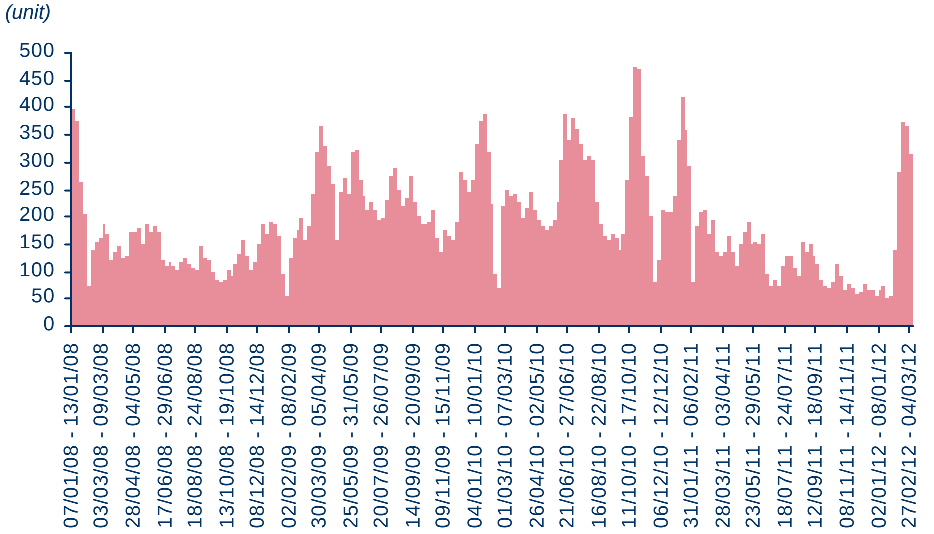
Source: Land Registry

Post Chinese New Year recovery unlikely to sustain

Pent-up demand unleashing boosted market activity in both primary and secondary markets

After the Chinese New Year, we witnessed a sharp rebound in secondary market transaction volumes as huge pent-up demand built up since late 2010 was unlocked by the strong global equity market performance. In our view, this is a technical rebound triggered by the relief from improving outlook of euro debt crisis and global economies. We expect these pent-up demand to gradually exhaust in the coming months and monthly transaction volume will once again return to a more modest level of around 4,000-5,000 units per month achieved in 2H11 from about 8,000 units to be registered in Mar 2010E.

Fig. 8: Weekend transactions for 10 major housing estates



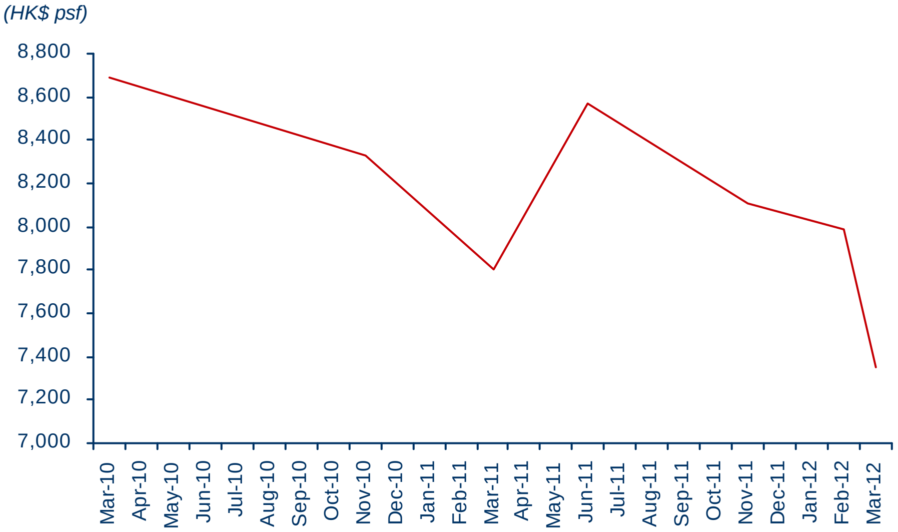
Source: Midland Holdings

Developers adopt conservative pricing strategy to accelerate pre-sales

In the primary market, developers have also accelerated their new project launches. As developers are adopting conservative pricing strategy, we have noticed strong take-up for the new projects. Despite the strong demand, developers have not raised selling prices significantly due to fear of dampening demand. Over the past few weeks, some of the new launches such as Festival City 3 in Shatin by Cheung Kong, Baker Residence in Hunghom by Sino Land, the Green in Sheung Shui by China Overseas Land and the Ana Capri in Ma Wan by SHK Properties achieved very strong sales. With the exception of the Green by China Overseas Land, all the other new launches were priced very close to the prevailing secondary market transaction prices.

We believe that major developers are also trying to off-load their projects faster anticipating further weakening in the residential property market. As we expect the number of primary market units for sale to increase considerably in the coming years, major developers will continue to adopt very conservative pricing strategy to secure stronger sales proceeds for land bank replenishment. For example, Cheung Kong has been pricing the remaining units in Festival City Phase 3, at lower and lower prices to sustain the sales momentum.

Fig. 9: Pricing of first batch units for Festival City Phase 1-3 (after discounts)



Source: HKEJ, CSI

Government is likely to escalate anti-speculation measures if residential property prices rise again

With the gradual liquidity easing in China and further potential quantitative easing in the US, we believe that the Hong Kong SAR government will continue to adopt cautious view of the property market to pre-empt the resurgence of an asset bubble. Therefore, we do not rule out the possibility that the government will take further action if there are strong signs suggesting residential property prices are rising again. Apart from the further mortgage loan tightening and other punitive measures, the government may also increase its quarterly land supply target to further suppress land prices. Against this backdrop, a sustainable demand recovery seems very unlikely, especially in the mass residential segment as more potential buyers become cautious about further tightening measures.

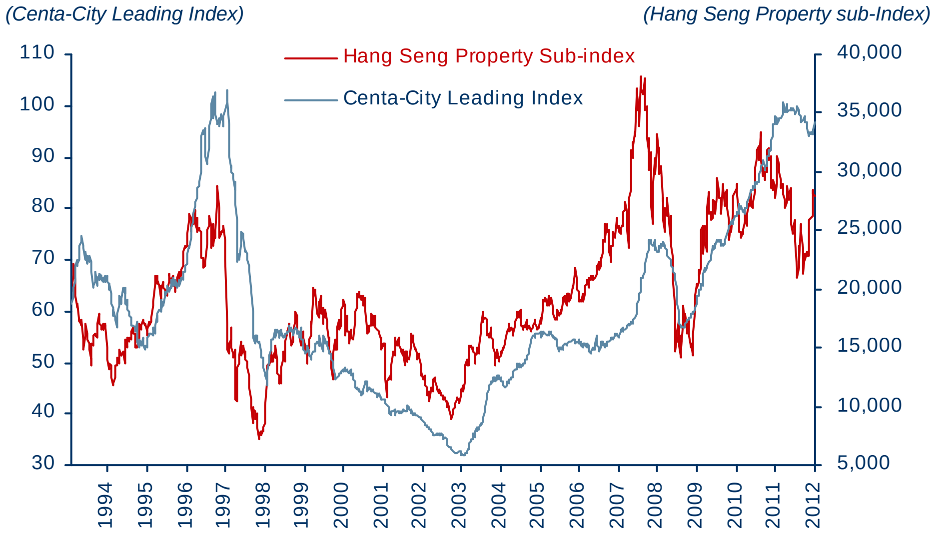
PROPERTY DEVELOPERS DESERVE HIGHER RATING

While the performance of Hong Kong residential property prices has been very encouraging in the past 3 years, surging 70%-plus, Hong Kong property developer stocks has not tracked the property market performance. Since Nov 2010, when the government began to introduce various measures and policies to stabilize the residential property market, property developer stocks have significantly lagged behind the property price increases.

Property share prices diverging from residential property prices

It is also interesting to note that property developer share prices are now still some 30-40% lower than their peaks in 2007, although residential property prices are 30% higher the previous peak in 2008. The divergence between residential property prices and property stock prices between 2007 and 2011 not only reflects investors' negative view of the residential property market but also a de-rating of the property developer's stocks, in our view. Compared to 2007/08, most property developers have seen improving earnings and higher appraised NAV due to higher profit margins on property sales, higher rental income and appreciation of their investment properties.

Fig. 10: Hang Seng Property Sub-index versus Centa-City Leading Index



Source: Centaline Property, CSI

Limited land supply resulting in a de-rating of the property developer stocks

What we note here is a de-rating in property developer stocks since 2007-08. The divergence between fundamentals and share price suggests that the market is not convinced about the sustainability of their earnings and NAV. We believe that this is primarily attributed to the restrictive land supply policy of the government, which cap the size of the primary residential market. With limited land supply and rising property prices, property developers are replenishing land bank at higher prices and hence higher risks.

With more land supply, property developers can secure more land for development

As the government starts increasing land supply through scheduled auction and tender, we believe property developers will grow their businesses due to more abundant land available for development and hence more opportunity for them to generate profits. Between 2006 and 2011, the average completed annual private housing amounted to just around 11,100 units which are substantially below the average 28,000 units during the 1982-2002 periods. With increase in the land supply, major property developers will be able to secure more projects and therefore, we are anticipating annual housing completion to increase considerably over the next few years to an estimated 18,000 to 20,000 units, or over 70% increase.

Expect land cost to decline and profit margin to narrow moderately

Impact of the increase in land and housing supply on property developers will be two-fold. The increase in land supply will translate into lower land cost as competition among developers will ease considering the limited financial resources of private developers. This is likely to impact the developers positively as they can replenish the land bank at a lower cost and achieve higher profit margins. On the flip side, it is also likely that property prices in the segments with additional future supply will yield to more downward pressure if demand does not increase accordingly. If this happens, there will be potential negative impacts on developers' profit margins.

Developers have already adopted conservative stance to protect profit margins

Based on the responses and land prices paid for the mass-end residential projects in the suburban areas in the past two years, we conclude that most developers have already turned cautious towards this segment. With the exception of high-end development projects in the urban area or residential projects in traditional luxury locations, major developers have adopted more conservative pricing for the low-end residential projects in the suburban areas anticipating potential downside for future sale prices of these units. As such, we do not believe that developers will suffer much from margin squeeze. In the high-end/luxury segment, the supply increase will be more moderate given the scarcity of developable land in the urban areas. We therefore expect fairly steady pricing for units in these segments given sustained demand from Mainland Chinese buyers.

Property developers deserve a more sustainable re-rating in this environment

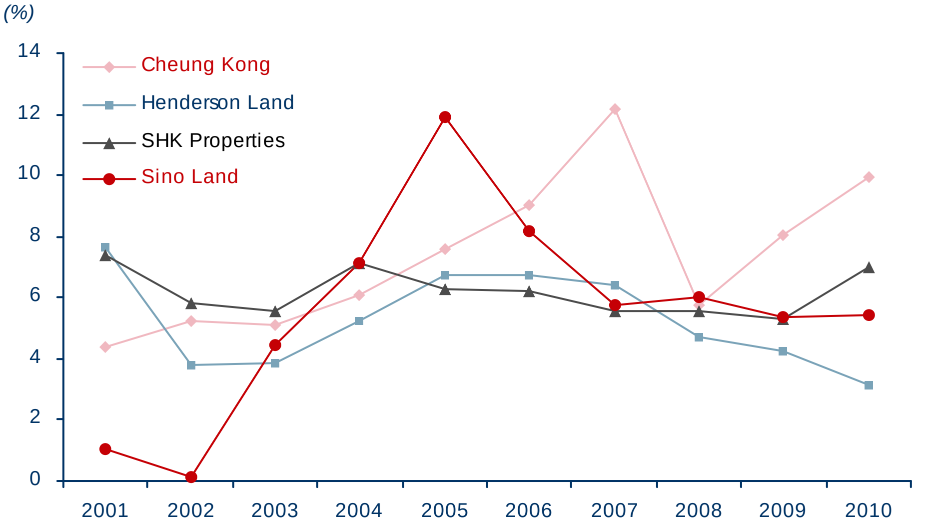
Overall, we are not concerned about a significant decline in developers' profit margins. On the positive side, the increase in land supply will benefit developers with solid balance sheets and strong project execution skills as they are able to secure more potential projects for development. As such, we believe developers will achieve higher profitability by boosting annual housing production and therefore, higher asset turnover and return on shareholders' equity. With improvement in earnings from steady margins and stable volume growth, we believe property developers deserve a more sustainable re-rating over the medium term.

Table 2: Land bank acquired by major developers in the past two years

Site	Location	Use	GFA (sf)	Land price (HK$m)	AV (HK$/sf)	Date	Buyer (s)
Tseung Kwan O Area 66B	Tseung Kwan O	Residential	662,000	3,370	5,091	Feb-10	SHK Properties
STTL 502, Lok Wo Sha (land conversion)	Ma On Shan	Residential	2,929,824	9,597	3,276	Feb-10	Henderson Land/New World
Junction of Ma Sik Road and Sha Tau Kok Road	Fanling	Residential	563,320	1,330	2,361	Apr-10	Hong Kong Ferry
Yuen Long Town Lot 507 (land conversion)	Yuen Long	Residential	1,848,000	7,103	3,063	Mar-10	SHK Properties
YLTL526 in DD116, Tai Tong (land conversion)	Yuen Long	Residential	1,301,222	2,335	1,794	Apr-10	Henderson Land/New World
Area 55B, Tung Chung	Lantau	Residential	1,410,085	3,420	2,425	May-10	Nan Fung
Junction of Fat Kwong Street and Chung Hau Street	Homantin	Residential	869,000	10,900	12,543	Jun-10	SHK Properties
Mount Nicholson Road	The Peak	Residential	324,000	10,400	32,099	Jul-10	Wharf Holdings/New World
Lot 5371 in DD116, Ha Yau Tin (land conversion)	Yuen Long	Residential	233,000	564	2,422	Jul-10	SHK Properties
204 Argyle Street	Kowloon City	Residential	394,125	4,100	10,403	Aug-10	Cheung Kong
Hunghom Bay Reclamation	Hunghom	Residential	365,751	3,510	9,597	Aug-10	Cheung Kong
1 Ede Road	Kowloon Tong	Residential	77,468	1,285	16,587	Aug-10	Kerry Properties
Junction of Fan Leng Lau Road, Wo Muk Road and Luen Hing St.	Fanling	Residential	140,000	459	3,279	Sep-10	SHK Properties
3 & 5 Ede Road	Kowloon Tong	Residential	113,956	1,630	14,304	Sep-10	Nan Fung
Inverness Road	Kowloon Tong	Residential	227,337	2,170	9,545	Nov-10	Chinachem
TKOTL 11111 (land conversion)	Tseung Kwan O	Residential	1,048,024	1,574	1,502	Dec-10	Cheung Kong
Yuen Long On Ning Road, Tai Kiu Road & On Lok Road	Yuen Long	Residential	663,892	2,410	3,630	Mar-11	Cheung Kong
Ex-Ko Shan Road Customs & Excise Service Married Quarters	Hung Hom	Residential	153,459	1,525	9,937	Apr-11	Nan Fung
Ngau Tam Mei, off San Tam Road, near Maple Gardens	Yuen Long	Residential	101,526	662	6,520	May-11	Cheung Kong
IL 8963, Stubbs Road	Stubbs Road	Residential	180,753	4,490	24,841	May-11	SHK Properties
62 Begonia Road, Yau Yat Chuen, NKIL 6498	Kowloon Tong	Residential	49,889	579	11,606	May-11	China Overseas
IL 8949, 21-25 Borret Road	Mid-Levels West	Residential	435,296	11,650	26,763	Jun-11	Cheung Kong
Ping Kwai Road, Ping Shan, Yuen Long	Yuen Long	Residential	49,033	300	6,118	Jun-11	Cheung Kong
5-23 Lee Kung Street, Hung Hom	Hung Hom	Residential	104,865	801	7,638	Jun-11	Cheung Kong
Junction of Bulkley Street and Gillies Avenue South, Hung Hom	Hung Hom	Residential	55,701	406	7,294	Jun-11	Wing Tai
Area 55A, Tung Chung	Lantau	Residential	1,367,025	3,770	2,758	Jul-11	SHK Properties
Wai Yip Street/Shun Yip Street/Hoi Bun Road	Kwun Tong	Office	914,892	3,528	3,856	Jul-11	Wheelock Properties
Junction of Hung Luen Road and Kin Wan Street, KIL 11111	Hunghom	Commercial	589,777	4,028	6,830	Aug-11	Wheelock Properties
Shatin Area 56A, Kau To (Site A)	Shatin	Residential	1,031,415	5,500	5,332	Aug-11	Sino Land/Kerry/Manhattan
Ex-Government Supplies Depot, Oil Street	North Point	Mixed-use	755,633	6,267	8,294	Aug-11	Cheung Kong
Lot 1927 in DD107 (land conversion)	Yuen Long	Residential	2,333,000	7,021	3,009	Aug-11	SHK Properties
Tan Kwai Tsuen, Hung Shui Kiu, Lot 4309 in DD124	Yuen Long	Residential	120,471	361	2,997	Sep-11	Paliburg/Century City
Tseung Kwan O Area 66A	Tseung Kwan O	Residential	793,309	3,120	3,933	Sep-11	SHK Properties
Nam Cheong Station (MTRC tender)	Sham Shui Po	Residential	2,608,763	11,800	4,523	Oct-11	SHK Properties
Lot 898 in DD227 (land conversion)	Sai Kung	Residential	1,078,553	6,640	6,156	Oct-11	New World
Near 35 South Bay Road, RBL 1168	Repulse Bay	Residential	12,962	499	38,488	Dec-11	Ultra Well
Tseung Kwan O Area 66B2	Tseung Kwan O	Residential	488,180	1,860	3,810	Jan-12	Nan Fung
Tsuen Wan West Rail Cityview (West Rail tender)	Tsuen Wan	Residential	832,315	2,600	3,124	Jan-12	Chinachem
TMTL 423, Area 48, Castle Peak Road, So Kwun Wat	Tuen Mun	Residential	939,600	2,739	2,915	Feb-12	Kerry Properties
Lot no. 676 in DD Peng Lai Road	Peng Chau	Residential	36,831	19	516	Feb-12	Sino Land
Total				**146,323**			

Source: Lands Department, CSI
AV: Accommodation Value

Fig. 11: Historic ROE of major property developers



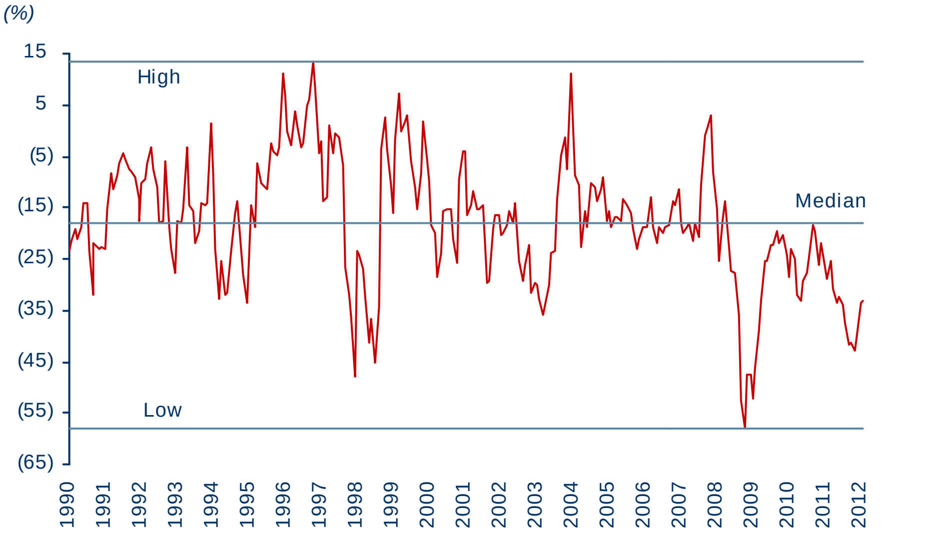
Source: Company annual reports, CSI

VALUATION

Hong Kong property developers have under performed the overall stock market since 3Q11 on the fear of a sharp decline in residential property prices and concern over the euro sovereign debt crisis. With the contagion effect of the debt crisis (potential default of debt issued by some European countries), investors have turned more negative to demand for properties, especially residential units and financing costs. In Sep 2011, share price of property developers plunged sharply to discount a major decline in residential property prices after the strong rally since early 2009. At the trough of the market in early Oct 2011, property developers traded at 40-50% discount to their NAVs versus historic trough valuation of 58% discount.

Share prices of property developers in 3Q11 discounted a sharp fall in residential property prices

Fig. 12: Property sector average NAV discount trend



Source: CSI

Share price performance since then has improved substantially due to favourable outcome of the euro debt crisis, expected QE3 and reversal of China's credit tightening. The strong performance of property developers was further catalyzed by the sharp recovery in both primary and secondary market transaction volumes after Chinese New Year as buyers returned to the market after taking a prolonged wait-and-see attitude since mid 2011.

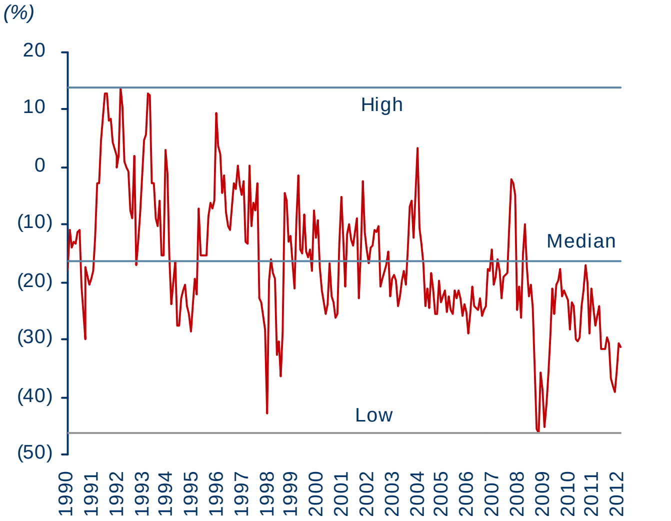
Share price performance improved substantially in the past few months as sentiment turned less negative

Since the trough in early Oct 2011, major property developer stocks have surged 27-42% and outperformed Hang Seng Index by 7-22% as the investors turned more positive towards the residential property market outlook in view of the sharp rebound in transaction volume and favorable outcome of the Greece government debt issue.

After this strong rebound, the sector now trades at 33% discount to NAV, still below their historical average NAV discount at 18%. As we expect further downside to residential property prices, the sector is unlikely to see any NAV upside across the board with the exception of some developers with strong financial position and ability to replenish their land bank at favorable prices. We believe these developers will achieve faster NAV appreciation than peers and yet do not require further equity funding.

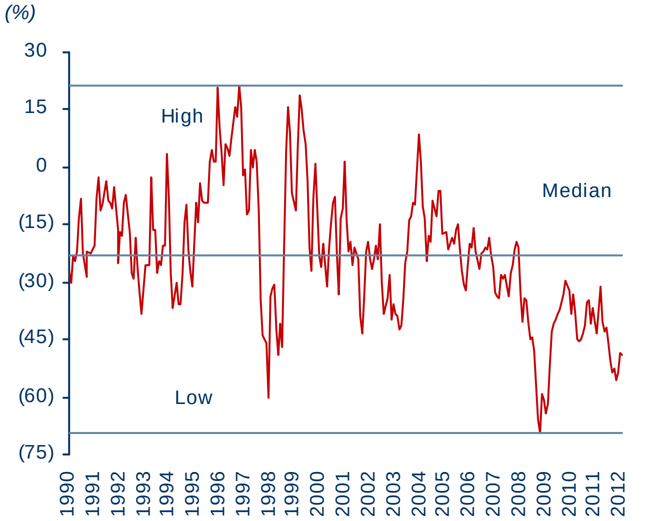
More NAV upside only for those developers capable of replenishing land bank

Fig. 13: Cheung Kong - historic NAV discount trend



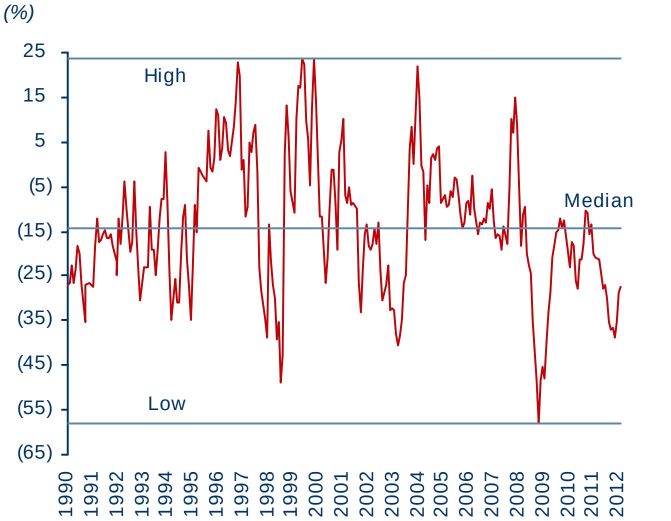
Source: CSI

Fig. 14: Henderson Land - historic NAV discount trend



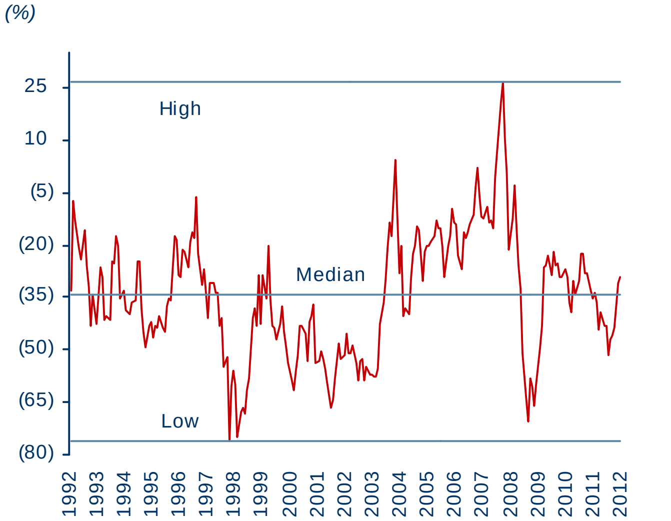
Source: CSI

Fig. 15: SHK Properties - historic NAV discount trend



Source: CSI

Fig. 16: Sino Land - historic NAV discount trend



Source: CSI

…and with retail/high-end residential properties exposure

In terms of potential NAV changes, we are likely to see NAV upside for developers with good quality retail properties and high-end residential properties against those with grade 'A' office properties and mass residential projects. As for location, property developers with more exposure to residential projects in the Shatin, Tsuen Wan, Tuen Mun and Tseung Kwan O districts may succumb to potential NAV downside as land and sale prices in these areas may decline on the back of increasing land and housing supply. Meanwhile, property developers with stronger balance sheets and relatively less residential land bank in Hong Kong would be better positioned to replenish cheaper land bank from now on and therefore, should be able to achieve faster NAV growth versus peers.

INITIATE SECTOR COVERAGE WITH OUTPERFORM SECTOR RATING

Developers should benefit from increasing housing supply

In our view, the Hong Kong property developers will re-rate as they now enjoy volume growth though at the expense of a more modest profit margin. As we expect the annual housing completion to increase from the current 11,000 units to 18,000-20,000 units over the next few years, we believe most developers will roll out rich project pipeline. On the other hand, we also believe that overall demand will pick-up again over the medium to longer term due to demolition of aging properties in the urban areas and the influx of young professionals from China and overseas. Other segments like large size, luxury and houses will benefit as supply remains tight amid limited land supply. This should benefit developers with strong expertise in building luxury units including Kerry Properties, SHKP and Sino Land, in our view.

Stronger cash flow required to cope with higher asset turnover

To achieve higher asset turnover and return on equities, property developers will need to build a larger land bank to cope with higher housing unit production. As a result, developers will need to commit more capital for land acquisition and construction expenditure. In the past few years, we have seen most developers enjoying relatively low gearing as property sales proceeds exceeded capital expenditure requirement for land bank acquisition.

Developers will accelerate their pre-sale schedule

In the coming years, we expect the reverse to happen, i.e. developers' net gearing to exceed, given higher inventory and construction cost. At the same time, we will also see developers accelerating their pre-sale schedule to balance their cash out-flow and this requires strong project execution and sales/marketing capabilities. Therefore, we expect the developers with solid balance sheet and recurring income together with strong project execution capability to have advantage over others. We prefer SHK Properties and Sino Land from this perspective.

SHK Properties and Sino Land are our top picks

Based on the fundamentals, our top picks within the Hong Kong property developer sector are SHK Properties (16 HK; OVERWEIGHT; HK$115.40) among the large cap stocks and Sino Land (83 HK; OVERWEIGHT; HK$13.46) within the mid-cap universe. We like the two stocks given their rich pre-sale pipeline, superior products, strong property sales execution, and the ability to replenish good quality land bank at reasonable prices.

With the majority of their earnings derived from commercial property rental and residential sales in Hong Kong, we believe that the two companies offer relatively good earnings visibility as we forecast a relatively stable property market. As for both Sino Land and SHK Properties, we are confident that pending-sales of their various new projects will be well received at premier pricing and thereby, helping them garner further profit for the next few financial years. We also expect SHK Properties' longer term prospects to be encouraging given its good quality property exposure in various tier-one/two China cities such as Shanghai, Guangzhou, Chengdu, Suzhou and Hangzhou.

As for Sino Land, development profit from its Hong Kong residential projects remains the key growth driver while the rental income and hotel operations will improve steadily generating solid recurrent cash flow to the company. The company has been extremely cautious and selective in replenishing its land bank in the past two years. Consequently, it has built up a relatively strong financial position which will allow more aggressive bidding in the coming years amid a gradual decline in land prices due to the increase in land supply from the Hong Kong government.

Cheung Kong has multiple share price drivers

Cheung Kong (1 HK; OVERWEIGHT; HK$108.40) has a more diversified earnings and geographic exposure than its peers as the company holds 50% stake in Hutchison Whampoa (13 HK; NR; HK$80.85) with varied businesses interests across the globe. In the past two years, the company aggressively replenished its land bank in Hong Kong, which should allow it to sustain development activities beyond 2014. This together with its steadily growing rental and hotel operating income should provide encouraging earnings. Nevertheless, the overall performance of Cheung Kong would also rely heavily on the prospects of Hutchison Whampoa, whose European telecom operations have been turning around since last year in terms of profit achieved.

Henderson Land is under capitalized

Henderson Land (12 HK; HOLD; HK$46.25) is our least favored developer stock in view of its under-capitalized balance sheet, poor performance of its China property assets and relatively weak project execution. In our view, a significant portion of Henderson Land's capital has been tied up with its substantial China land bank, which failed to generate any reasonable return over the past decade. In Hong Kong, the company's active involvement in the redevelopment of old urban properties and farmland conversion would require substantial capital expenditure. With relatively high net gearing of near 20%, the company may need to raise more equity funding to sustain the business, in our view. Given these negative attributes, we expect the stock to trade at lower valuation compared to its peers.

Table 3: Property developer summary of valuation and recommendation

Company	Stock code	Share price (HK$)	Rating	Current NAV est. (HK$/sh)	12 month forward NAV (HK$/sh)	Target disc. (%)	Target Price (HK$)	Upside (%)	PER (%) FY12E	PER (%) FY13E	Yield (%) FY12E	Yield (%) FY13E	P/B (x) FY12E	P/B (x) FY13E
Cheung Kong	1 HK	108.40	O	157.95	170.88	(28.5)	122.16	12.7	11.3	10.4	3.2	3.3	0.78	0.73
Henderson Land	12 HK	46.25	H	90.43	87.62	(45.0)	48.19	4.2	15.2	15.0	2.6	3.0	0.61	0.60
SHK Properties*	16 HK	115.40	O	159.09	163.72	(20.0)	130.98	13.5	13.7	13.5	3.0	3.1	0.91	0.86
Sino Land	83 HK	13.46	O	18.94	19.63	(20.0)	15.70	16.6	14.2	14.1	3.6	3.6	0.92	0.90

Source: Company, CSI ** SHK Properties has fiscal year ended 30 Jun*

Company Section

13 March 2012

Company Research • Real Estate Sector

CITIC Securities International 中信証券國際

Cheung Kong (00001.HK)

Growing its global presence

OVERWEIGHT (Initiation)

Share Price：HK$108.40

Target Price：HK$122.16

Investment Highlights

- **Rich residential project pipeline in Hong Kong/China.** In Hong Kong, Cheung Kong (CKH) has accumulated a rich residential project pipeline in the past few years, which should help sustain development profit for the company over the next few years. Apart from Hong Kong, CKH has also built up a sizeable land bank in China. Acquired at relatively low cost in the past decade, its land bank in China should generate attractive return over the next 5-7 years as China's economy continues to achieve steady growth.
- **Non-property/overseas investments through Hutchison and other affiliates.** Apart from HK/China properties, the company also owns 50% stake in Hutchison (13 HK; NR; HK$80.85), which covers a wide range of global businesses. In 2011, CKH also invested HK$11.2b for a 40% stake in Northumbrian Water in the UK, together with its affiliates CKI (1038 HK; NR; HK$48) and LKS Foundation. With such a business portfolio, we believe CKH's share price will be the least sensitive to the Hong Kong property market compared to its peers.
- **Significant China property and hotel portfolio value to be unlocked.** Besides residential development, CKH has also built up a sizeable hotel/commercial property portfolio in China, generating very solid recurring income. We believe that the majority of these assets are now contributing steady recurring income, and will generate substantial cash flow and value to shareholders when they are spun-off or disposed.
- **We initiate coverage on the stock with an OVERWEIGHT rating.** We estimate CKH's appraised NAV at HK$157.95 based on Hutchison's current share price. Based on a target discount of 28.5% on its 12 month forward NAV at HK$170.88, we set CKH's target price at HK$122.16, implying upside potential of 12.7% and hence, we have an OVERWEIGHT rating on the stock.

Investment Summary

FY-end Dec	2009	2010	2011E	2012E	2013E
Turnover (HK$ mn)	24,293	32,863	34,803	43,142	43,569
Chg (%)	*47.8*	*35.3*	*5.9*	*24.0*	*1.0*
Net profit (HK$ mn)	19,618	26,478	42,923	22,237	24,136
Chg (%)	*50.6*	*35.0*	*62.1*	*(48.2)*	*8.5*
EPS (HK$)	8.47	11.43	18.53	9.60	10.42
Chg (%)	*50.6*	*35.0*	*62.1*	*(48.2)*	*8.5*
PER (x)	12.8	9.5	5.8	11.3	10.4
DPS (HK$)	2.70	2.95	3.33	3.46	3.58
Yield (%)	2.49	2.72	3.07	3.19	3.30
BV/share (HK$)	104.96	114.71	132.85	139.69	147.85
PBV (X)	1.03	0.94	0.82	0.78	0.73

Source: Company, CSI

CSI Research Department

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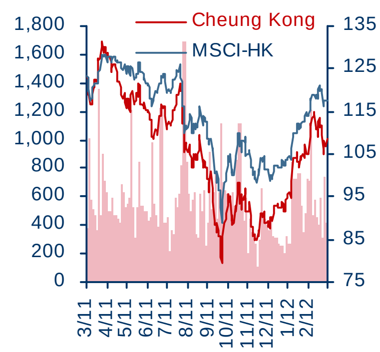
Price Chart



Source: Bloomberg, CSI

Latest Key Data

MSCI-HK	10,523
FF no of shares (mn)	1,314
FF (%)	56.73
FF market cap (HK$ mn)	142,433
52-week high/low (HK$)	131.5/79.55
12M daily turnover (HK$ mn)	485
12M volatility (%)	32
RoE avg 2011-13E (%)	9.3
P/B 2012E (x)	0.8
Net debt/equity 2012E (%)	7.7

Performance (%)

	1M	YTD	12M
Absolute	3.4	17.3	(12.0)
Rel. to MSCI-HK	0.3	1.7	(7.8)

Major Shareholder (%)

Li Ka Shing & family	43.27%

Auditor

DELOITTE TOUCHE TOHMATSU

IMPORTANT DISCLOSURE AT THE END OF THIS REPORT

VALUATION / FINANCIALS

Hong Kong properties and hotel operations still the key earnings contributors

CKH's core property development businesses will contribute steady earnings growth, given a sizeable land bank in Hong Kong and improving earnings from property investment and hotel operations. In the short-to-medium term, CKH's Hong Kong projects will continue to be the key earnings contributor. However, in the longer term we believe its China residential land bank will become the key earnings driver as there is more room for expansion in that vast market.

Hutchison has been contributing steady cash flow to Cheung Kong despite its earnings volatility

Despite its earnings volatility, Hutchison Whampoa has generated steady cash flow, in terms of dividends to CKH, over the past decade. With the turnaround of its telecom and steady port, retail and energy operations, Hutchison is poised to deliver more encouraging earnings and, hence, stronger cash flow to CKH over the next few years. In 2012E and 2013E, we forecast CKH's ex-Hutchison underlying earnings at HK$10,032mn and HK$10,083mn respectively, down from HK$14,808m in 2011E due to decline in development profit from its Hong Kong projects and asset disposal gains.

Divesting assets to enhance ROE and unlock shareholders' value

Besides the profit contribution from its core businesses and Hutchison, the company registered substantial gains from the spin-off and disposal of its assets such as the Beijing Oriental Plaza to the Huixian REIT (87001 HK; BUY; Rmb4.05) and Hutchison's port businesses to Hutchison Port Holdings Trust (HPHT SP; NR; S$0.77) in the last financial year. In our view, CKH still holds various assets including investment properties and hotels which can be spun-off or disposed to unlock shareholders' value. Therefore, we believe that the company's headline earnings in the coming years will continue to surprise the market on the upside.

Net gearing rising to finance land bank acquisitions and strategic investment

CKH has maintained a very solid balance sheet in the past few years with its last reported net gearing at 3.6% as at 30 Jun, 2011. With more aggressive land bank acquisitions and investment in the UK water company, we expect the company's net gearing to have risen to over 7% by end 2011E from 4.5% as at end 2010. Given the relatively low gearing, we believe that the company is capable of capturing any major investment opportunities that will help sustain its longer-term earnings growth.

Initiate coverage with OVERWEIGHT rating

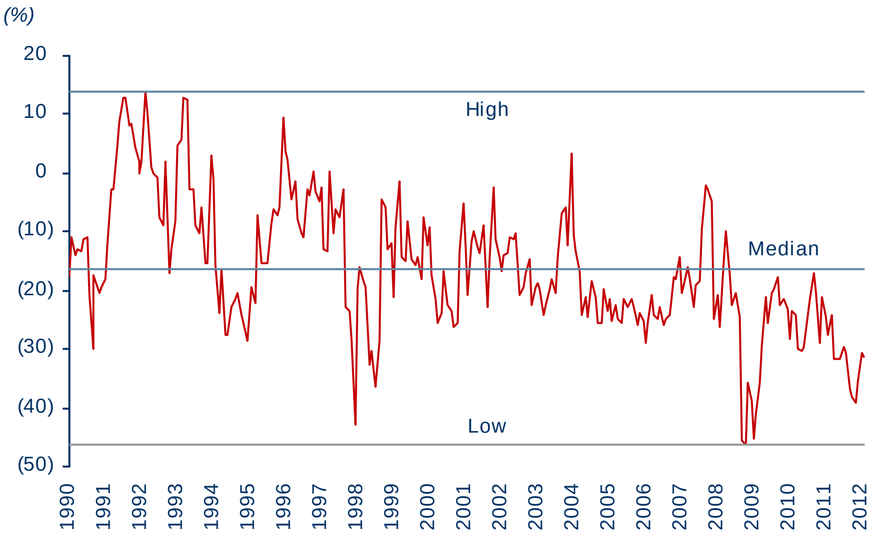
We estimate CKH's current and forward NAV at HK$157.95 and HK$170.88 respectively. Our current and forward valuations for Hutchison are based on its market capitalization at current closing price and Bloomberg consensus price target, respectively. Historically, CKH has traded between a 14% premium to 46% discount to its NAV. We are setting CKH's target discount at 28.5%, which is below its historic average NAV discount of 16% as the near term outlook of Hutchison is less rosy and NAV upside for its Hong Kong properties is capped. With a target price of HK$122.16, we initiate coverage on CKH with an OVERWEIGHT rating. Our forward NAV for the company assumes a 10% decline in the selling price for its future residential projects and Bloomberg consensus price target of HK$90/share for Hutchison Whampoa.

Table 1: Estimated current NAV and breakdown

	Appraised market value (HK$ mn)	Per share (HK$)	% of total assets
Development properties			
Hong Kong	80,187	34.62	20.4
Mainland China	54,534	23.55	13.9
Overseas	6,552	2.83	1.7
Investment property			
Hong Kong	25,886	11.18	6.6
Mainland China	12,299	5.31	3.1
Hotel properties	30,957	13.37	7.9
Hutchison Whampoa (50%)	159,665	68.94	40.6
CK Life Science (44%)	2,162	0.93	0.5
Other listed and unlisted investment	20,820	8.99	5.3
Net debt	(27,259)	(11.77)	
Appraised net asset value	**365,803**	**157.95**	

Source: CSI

Fig. 17: Historical trend of discount to current appraised NAV



Source: CSI

Profit & Loss (Consolidated)

FY-end Dec (HK$ mn)	2009	2010	2011E	2012E	2013E
Turnover	**24,293**	**32,863**	**34,803**	**43,142**	**43,569**
Operating activities					
Net rental income	1,062	1,131	1,244	1,393	1,561
Property sales - Hong Kong	5,696	5,802	8,033	4,650	4,439
Property sales - China	2,700	2,600	2,938	3,379	3,953
Property sales - Overseas	0	500	0	480	0
Hotel operation	360	617	710	766	828
Property management	109	115	124	134	145
Investment income	1,272	1,027	850	1,000	1,000
Others	218	2,390	1,731	78	78
Interest income	139	120	100	135	150
Operating profit before interests	**11,556**	**14,302**	**15,730**	**12,015**	**12,154**
Interest expense	(496)	(357)	(718)	(879)	(1,085)
Interest capitalized	263	135	287	352	434
Change in fair value of investment properties	4,550	6,470	1,826	0	0
Operating profit	**15,873**	**20,550**	**17,125**	**11,488**	**11,504**
Share of joint entities and associates					
Property rental	677	686	583	630	680
Hutchison	6,810	10,011	28,115	12,205	14,053
Hotel	157	235	270	297	327
CK Life	85	95	100	105	110
Pre-tax profit	**23,602**	**31,577**	**46,193**	**24,725**	**26,675**
Taxation	(3,562)	(4,776)	(2,909)	(2,082)	(2,085)
Profit after tax	**20,040**	**26,801**	**43,284**	**22,643**	**24,590**
Minority interests	(422)	(323)	(362)	(405)	(454)
Profit attributable to shareholders	**19,618**	**26,478**	**42,923**	**22,237**	**24,136**

Cash Flow Statement (Consolidated)

FY-end Dec (HK$ mn)	2009	2010	2011E	2012E	2013E
Profit before taxation	**21,684**	**28,125**	**46,193**	**24,725**	**26,675**
Cash generated from operations	16,010	13,765	6,942	6,495	6,634
Net cash from operating activities	13,759	8,668	118	1,446	1,749
Net cash flow from investing activities	1,675	3,078	(9,652)	(3,300)	(3,300)
Net cash flow before financing	14,124	11,275	(10,252)	(2,733)	(2,635)
Net cash flow from financing	(11,184)	1,978	(3,218)	121	(85)
Increase in cash and cash equivalents	**4,250**	**13,724**	**(12,752)**	**(1,733)**	**(1,635)**
Cash and cash equivalent at the beginning	7,173	11,423	25,147	12,395	10,662
Cash and cash equivalent at end	**11,423**	**25,147**	**12,395**	**10,662**	**9,027**

Source: Cheung Kong. CSI

Balance Sheet (Consolidated)

FY-end Dec (HK$ mn)	2009	2010	2011E	2012E	2013E
Current assets	**79,231**	**93,877**	**92,864**	**102,578**	**112,423**
Cash and cash equivalents	11,423	25,147	12,395	10,662	9,027
Inventories	62,999	65,679	77,597	89,224	100,883
Prepayment and receivables	2,799	2,459	2,280	2,101	1,922
Investments	2,010	592	592	592	592
Fixed assets	**30,129**	**31,569**	**35,128**	**38,864**	**42,787**
Non-current assets	**187,603**	**203,187**	**240,043**	**243,441**	**249,562**
Associates	147,542	154,117	183,627	186,184	191,174
Jointly controlled entities	32,591	39,431	35,497	36,338	37,469
Investments	7,470	9,639	20,919	20,919	20,919
Current liabilities	**22,776**	**34,705**	**34,673**	**34,730**	**34,787**
Short term bank borrowing	7,210	13,127	13,127	13,127	13,127
Creditors and accruals	12,078	18,298	18,354	18,410	18,466
Other borrowings	2,460	2,647	2,647	2,647	2,647
Taxation	1,028	633	545	546	547
Non current liabilities	**31,095**	**28,232**	**25,668**	**26,604**	**27,540**
Long term bank borrowing	25,279	22,027	19,527	20,527	21,527
Deferred taxation	2,011	2,390	2,326	2,262	2,198
Minority interests	3,805	3,815	3,815	3,815	3,815
Net assets	**243,092**	**265,696**	**307,693**	**323,549**	**342,445**
Share capital	1,158	1,158	1,158	1,158	1,158
Share premium	9,331	9,331	9,331	9,331	9,331
Reserves	232,603	255,207	297,205	313,060	331,956
Shareholders' equity	**243,092**	**265,696**	**307,694**	**323,549**	**342,445**

Financial Summary

FY-end Dec	2009	2010	2011E	2012E	2013E
Revenue growth (% YoY)	47.8	35.3	5.9	24.0	1.0
Gross profit growth (% YoY)	45.3	24.3	8.7	(24.9)	0.1
Core profit growth (% YoY)	50.6	35.0	62.1	(48.2)	8.5
Gross margin (%)	65.3	62.5	49.2	26.6	26.4
Core net profit margin (%)	62.0	60.9	118.1	51.5	55.4
Return on equity (%)	8.1	10.0	13.9	6.9	7.0
Return on assets (%)	6.6	8.1	11.7	5.8	6.0
Core EPS (HK$)	8.47	11.43	18.53	9.60	10.42
BVPS (HK$)	104.96	114.71	132.85	139.69	147.85
DPS (HK$)	2.70	2.95	3.33	3.46	3.58
Payout ratio (%)	31.9	25.8	18.0	36.0	34.4
Net debt/equity (%)	9.5	4.5	7.2	7.7	8.1

APPENDIX 1: COMPANY BACKGROUND

Cheung Kong was established by K S Li in 1971 to engage in property development and investment. Listed in 1972, the company acquired a controlling stake in listed Hutchison Whampoa, now a global diversified conglomerate. Between 2004 and 2006, the company, together with Hutchison made a series of land bank acquisitions in major Chinese cities and diversified its land bank exposure to Singapore and the UK. Over the past few years, the company has also built up a sizeable hotel/service apartment portfolio in Hong Kong/China. In October 2011, the company completed the acquisition of a 40% stake in UK water company, Northumbrian for HK$11.2bn, the largest non-property investment outside Hong Kong.

APPENDIX 2: RISK FACTORS

Key risks include a hard landing of the China property market as the Central government’s tightening policies have stronger-than-expected impact on housing prices and a worst than expected global economy negatively affecting Hutchison Whampoa’s businesses.

CITIC 中信証券國際 CITIC Securities International

Henderson Land (00012.HK)

Right track but weak execution

HOLD (Initiation)

Share Price：HK$46.25
Target Price：HK$48.19

Investment Highlights

- **Fund raising need.** Henderson Land had been adopting fairly conservative strategy towards land banking until 2 years ago when it turned a lot more aggressive, especially towards the purchase of old urban buildings and farmland for re-development. In view of the heavy capital expenditure involved and rather weak operating cash flow, the company's balance sheet has deteriorated rapidly in the past few years. In order to sustain future growth prospects, we believe that the company requires more equity capital to finance its development.
- **Potential dilution in earnings and NAV.** As the stock is currently trading well below its end 2010 book value at HK$73.09/share, we believe that any sizeable equity fund-raising activity at current price will dilute its book value and appraised NAV significantly. It will also impact the earnings per share, as the bulk of the money will likely be used for future property acquisitions. We believe this will create a share price overhang in the medium term.
- **Unsatisfactory return from its sizeable land bank in China.** Although the company built up a very sizeable land bank in China, profit contribution from its China projects so far has been very unsatisfactory. Given the substantial tied-up capital and development expenditure incurred, we believe these assets are highly under-utilized and have dragged down the company's overall ROE.
- **Initiate coverage with a HOLD rating.** We believe that Henderson Land will continue to trade at a discounted valuation to its peers given its relatively weak execution and deteriorating financial position. We initiate coverage on the stock with a HOLD rating and a target price of HK$48.19 based on a 45% target discount to its 12 month forward NAV of HK$87.62/share.

Investment Summary

FY-end Dec	2009	2010	2011E	2012E	2013E
Turnover (HK$ mn)	14,695	7,092	14,063	12,721	29,932
Chg (%)	*8.9*	*(51.7)*	*98.3*	*(9.5)*	*135.3*
Net profit (HK$ mn)	6,088	5,042	6,058	7,202	7,307
Chg (%)	*6.7*	*(17.2)*	*20.2*	*18.9*	*1.5*
EPS (HK$)	2.84	2.32	2.63	3.04	3.08
Chg (%)	*2.4*	*(18.3)*	*13.5*	*15.7*	*1.5*
PER (x)	16.3	20.0	17.6	15.2	15.0
DPS (HK$)	1.30	1.00	1.13	1.20	1.37
Yield (%)	2.8	2.2	2.4	2.6	3.0
BV/share (HK$)	66.25	73.09	73.38	75.22	76.93
PBV (x)	0.70	0.63	0.63	0.61	0.60

Source: Company, CSI

CSI Research Department

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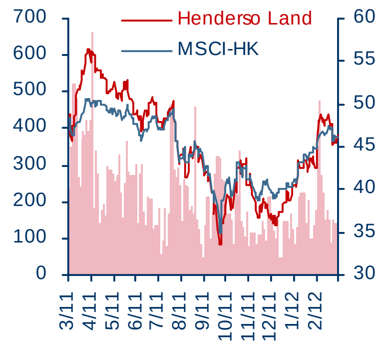
Price Chart

Turnover (HK$ m) *(HK$)*



Source: Bloomberg, CSI

Latest Key Data

MSCI-HK	10,523
FF no of shares (mn)	906
FF (%)	38.23
FF market cap (HK$ mn)	41,885
52-week high/low (HK$)	56.45/33.55
12M daily turnover (HK$ mn)	181
12M volatility (%)	34
RoE avg 2011-13E (%)	3.8
P/B 2012E (x)	0.6
Net debt/equity 2012E (%)	18.5

Performance (%)

	1M	YTD	12M
Absolute	8.8	19.8	(4.5)
Rel. to MSCI-HK	5.6	3.9	0.1

Major Shareholder (%)

Lee Shau Kee	61.77%

Auditor

KPMG

VALUATION / FINANCIALS

A very sizeable land bank in China but generates relatively small profit contribution

The company holds a total land bank of 152mn sq ft in China, one of the largest among the major Hong Kong based property developers. Notwithstanding this, profit contribution from its China properties has been relatively small over the past few years. In 1H11, the company recorded sales (including pre-sales) of HK$903m from properties in China on an attributable basis translating into a 70% YoY increase.

Strategic investments provide steady cash flow

Apart from the recurring income from its rental properties, Henderson Land also holds some strategic investments generating solid earnings and dividend income. Currently, the company holds 40% stake in HK & China Gas (3 HK; NR; HK$19.64) and 44% stake in Miramar Hotels (71 HK; NR; HK$8.50) with an aggregate market capitalization of HK$160bn. We believe that these two investments will continue to contribute solid earnings and cash-flow to the company over the next few years.

Property sales primarily from the sale of inventories

In 1H11, we estimate that the company secured property sales/presales proceeds of near HK$10bn primarily from the sale of the unsold inventories carried-over from the prior years. This, together with the HK$10bn from the chairman's warrant conversion, has helped lower its net gearing from 28.2% at end 2010 to around 19.5% by Jun 2011. That said, we believe that the company will be less competitive in outright acquisition of sizeable and good quality sites from government's land auction and tender process, due to its less solid balance sheet.

Driven by the strong inventory sales, improving rental income and a steady increase in profit contribution from listed associates, HK & China Gas and Miramar Hotel, we expect Henderson Land's 2011E underlying earnings to grow 20% YoY to HK$6,058mn. With several major projects scheduled for completion during 2012-13E, we believe that the company will achieve overall development profit growth. This, together with further rental income improvement, should drive its 2012-13E underlying earnings to increase 20% and 19%, respectively.

May need to raise equity capital to finance development expenditure

In the coming few years, the company plans to spend over HK$15bn for acquiring old buildings and converting its agricultural land in Hong Kong to sustain the development activities beyond 2013E. We believe that the company may need to raise more equity capital to finance its outstanding capital expenditure.

Initiate coverage with HOLD rating

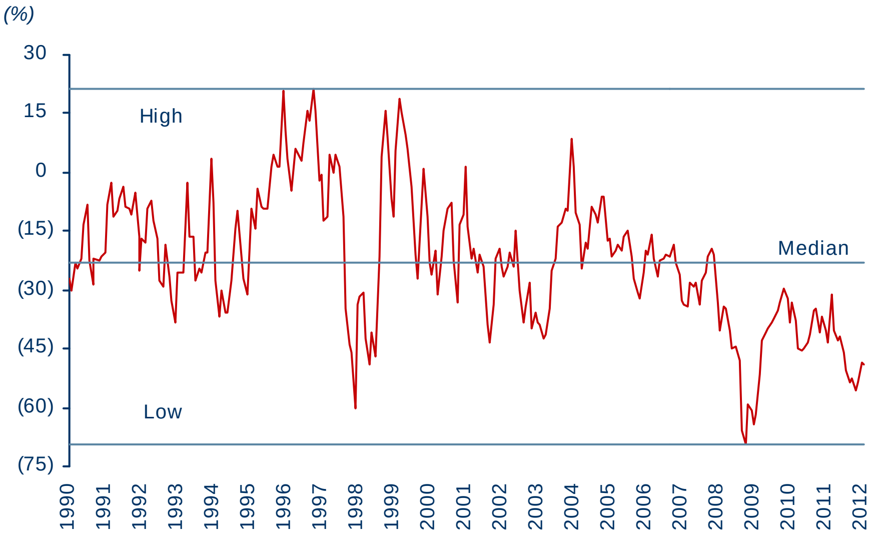
We believe that Henderson Land should trade at a lower valuation versus its peers given the company's relatively weak execution capability and financial position. Nonetheless, the partial warrant conversion by the Chairman in Apr 2011 and the stronger property sales in the past few months should partially alleviate these concerns. We set our target price at HK$48.19 by adopting a target discount of 45% on its 12 month forward NAV at HK$87.62/share. We initiate coverage on the stock with a HOLD rating. Our forward NAV is based on a 10% decline in the average selling price of its residential projects under development and assumes no change in the valuation of its investment properties.

Table 1: Estimated current NAV and breakdown

	Appraised market value (HK$ mn)	Per share (HK$)	% of total assets
Hong Kong development properties			
Properties under development	22,337	9.43	9.1
Properties held for future development	7,189	3.03	2.9
Completed properties for sale	4,614	1.95	1.9
Hong Kong investment properties	73,496	31.03	30.1
Investment properties under development	5,344	2.26	2.2
IFC (34.2%)	21,638	9.14	8.9
China properties			
Completed investment properties	9,692	4.09	4.0
Properties under development	28,599	12.07	11.7
Hotel properties	3,179	1.34	1.3
Other financial assets	3,489	1.47	1.4
Infrastructure investment	759	0.32	0.3
Sunlight REIT	355	0.15	0.1
Listed associates			
HK & China Gas (39.88%)	60,929	25.72	24.9
HK Ferry (31.36%)	721	0.30	0.3
Miramar Hotel (44.21%)	2,133	0.90	0.9
Net debt	(30,287)	(12.79)	
Appraised net asset value	**214,187**	**90.43**	

Source: CSI

Fig. 18: Historical trend of discount to current appraised NAV



Source: CSI

Profit & Loss (Consolidated)

FY-end Dec (HK$ mn)	2009	2010	2011E	2012E	2013E
Turnover	**14,695**	**7,092**	**14,063**	**12,721**	**29,932**
Operating activities -					
Property development - Hong Kong	3,096	(281)	2,184	2,903	2,518
Property development - China	75	70	100	135	169
Rental income	2,621	1,933	2,513	2,639	2,797
Infrastructure	335	271	244	220	198
Construction	(20)	(30)	(35)	10	15
Hotel operations	32	35	36	33	41
Others	458	568	108	108	108
Contribution from operations	6,597	2,566	5,150	6,047	5,845
Interest and other income	250	1,675	250	238	226
Provision on inventories	(107)	(4)	0	0	0
Unallocated operating expenses	(1,536)	(938)	(1,051)	(1,177)	(1,318)
Profit from operations	**5,204**	**3,299**	**4,350**	**5,108**	**4,753**
Interest expenses	(1,912)	(1,441)	(1,473)	(1,346)	(1,486)
Interest capitalized	571	471	486	444	490
Operating profit	**3,863**	**2,329**	**3,362**	**4,206**	**3,757**
Share of profits from					
Listed associates	2,532	1,787	1,966	2,064	2,167
Property development	0	115	106	0	100
Property investment	75	347	382	428	470
Share of jointly controlled entities					
Property investment	1,235	802	898	1,033	1,167
Property development	128	71	0	0	100
Others	36	302	338	379	424
Pre-tax profit	**7,869**	**5,753**	**7,053**	**8,110**	**8,186**
Taxation	(1,003)	(711)	(672)	(841)	(827)
Minority interests	(778)	0	(322)	(66)	(53)
Underlying earnings	**6,088**	**5,042**	**6,058**	**7,202**	**7,307**

Cash Flow Statement (Consolidated)

FY-end Dec (HK$ mn)	2009	2010	2011E	2012E	2013E
Profit from ordinary activities before taxation	**19,116**	**17,239**	**7,053**	**8,110**	**8,186**
Operating profit before changes in working capital	5,124	1,306	4,664	5,233	4,876
Cash generated from operations	(3,574)	(16,625)	10,791	2,359	1,503
Net cash from operating activities	(4,740)	(17,282)	10,278	1,709	871
Cash flow from investing activities	3,833	1,535	(2,286)	(517)	102
Net cash used in financing activities	(4,109)	14,907	(6,472)	(4,890)	(2,166)
Increase/(decrease) in cash & cash equivalents	(5,016)	(840)	1,521	(3,698)	(1,193)
Cash & cash equivalents - beginning of the year	**15,583**	**10,495**	**9,752**	**11,273**	**7,578**
Effect of foreign exchange rate changes	(72)	97	1	2	3
Cash & cash equivalents - end of the year	**10,495**	**9,752**	**11,273**	**7,578**	**6,387**

Source: Henderson Land, CSI

Balance Sheet (Consolidated)

FY-end Dec (HK$ mn)	2009	2010	2011E	2012E	2013E
Non-current assets	**128,849**	**148,257**	**151,747**	**156,513**	**161,004**
Investment properties	69,320	83,188	86,688	88,688	90,688
Other fixed assets	1,484	1,359	1,349	1,340	1,331
Associates & jointly controlled entities	55,454	58,928	58,928	61,703	64,204
Other financial assets	2,591	4,782	4,782	4,782	4,782
Current assets	**65,587**	**82,055**	**81,279**	**80,616**	**82,955**
Inventories	41,561	60,717	58,429	61,429	64,929
Deposits	6,090	6,925	6,925	6,925	6,925
Debtors, prepayments and receivables	7,365	4,497	4,532	4,567	4,602
Cash and cash equivalents	10,571	9,916	11,392	7,695	6,498
Current liabilities	**10,969**	**14,061**	**13,706**	**13,987**	**14,414**
Short term borrowing	4,858	7,516	6,866	6,816	6,916
Deposits	792	1,318	1,328	1,338	1,348
Creditors and accrued expenses	4,606	4,494	4,645	4,797	4,949
Current taxation	713	733	867	1,036	1,201
Long term liabilities	**36,543**	**51,828**	**39,478**	**38,519**	**40,411**
Bank borrowing	31,151	34,123	21,773	20,823	22,723
Derivative financial instruments	557	641	641	641	641
Deferred tax liabilities	2,625	4,088	4,088	4,088	4,088
Amount due to fellow subsidiaries	2,210	12,976	12,976	12,967	12,959
Minority interests	4,676	5,385	6,031	6,453	6,905
Net assets	**142,248**	**159,038**	**173,810**	**178,169**	**182,229**
Share capital	4,294	4,352	4,737	4,737	4,737
Share premium	29,782	31,127	41,916	41,916	41,916
Reserves	108,172	123,559	127,157	131,516	135,576
Shareholders' equity	**142,248**	**159,038**	**173,810**	**178,169**	**182,229**

Financial Summary

FY-end Dec	2009	2010	2011E	2012E	2013E
Revenue growth (% YoY)	8.9	(51.7)	98.3	(9.5)	135.3
Gross profit growth (% YoY)	0.0	(39.7)	44.4	0.3	-0.1
Core profit growth (% YoY)	6.7	(17.2)	20.2	42.8	20.6
Gross margin (%)	26.3	32.8	23.9	33.1	12.6
Core net profit margin (%)	41.4	71.1	43.1	56.6	24.4
Return on equity (%)	3.8	3.2	3.5	4.0	4.0
Return on total assets (%)	3.1	2.2	2.6	3.0	3.0
Core EPS (HK$)	2.84	2.32	2.63	3.04	3.08
BVPS (HK$)	66.25	73.09	73.38	75.22	76.93
DPS (HK$)	1.30	1.00	1.13	1.20	1.37
Payout ratio (%)	45.8	43.2	43.0	39.5	44.4
Net debt/equity (%)	19.5	28.2	17.4	18.5	19.8

APPENDIX 1: COMPANY BACKGROUND

The company was incorporated in 1976 as the property manager and sales agent for its holding company, Henderson Development, founded by group chairman Dr S K Lee. Through a series of acquisitions and asset reshuffles, Henderson Land became a property developer and the holding company of Henderson Investment, Hong Kong and China Gas Company, Hong Kong Ferry and Miramar Hotels. Apart from the property development business in Hong Kong, the company has also been very active in developing residential and commercial properties in China.

APPENDIX 2: RISK FACTORS

Key risks for Henderson Land include a hard landing of the China property market which would slow down the sales and leasing of its completed properties and projects under development. This would negatively impact its cash-flow and balance sheet as the progress of the company's sales activities in China has been very slow. In Hong Kong, a prolonged consolidation of the property market may lengthen the development timeframe for old urban properties and the conversion of its sizeable farmland portfolio. Again, this will put pressure on its balance sheet and cash-flow.

13 March 2012
Company Research • Real Estate Sector

中 信 証 券 國 際
CITIC Securities International

SHK Properties (00016.HK)

Slow but quality growth

OVERWEIGHT (Initiation)

Share Price：HK$115.40

Target Price：HK$130.98

Investment Highlights

- **Steady growth in the next few years.** Benefiting from the steady rental income improvement, we believe SHK Properties will maintain marginal underlying earnings growth during FY12E and FY13E. We forecast 2.9% earnings growth in FY12E YoY and 1% earnings growth in FY13E YoY despite the decline in pre-tax development profit to HK$14.6bn in FY12E and HK$13.4b in FY13E, respectively compared to HK$16.6bn in FY11.

- **Sizeable investment property portfolio and still growing.** SHK Properties holds the largest investment property portfolio among the major listed property companies. The portfolio comprises largely prime office buildings and shopping malls in prime locations. We expect SHK Properties will continue to expand its portfolio in both Hong Kong and China. The portfolio expansion, together with the improving commercial rental market, will help SHK Properties sustain its rental income growth over the medium-to-longer term period.

- **Deserve premium rating due to its strong rental income and quality China exposure.** With improving rental income from property investment and solid development profit from its high-quality residential land bank in Hong Kong and China, SHK properties should command a premium rating over its peers in the short to medium term period. In the long-term, we believe that SHK Properties will have more superior growth prospects given its solid balance sheet and recurring income.

- **Initiate coverage with an OVERWEIGHT rating.** Historically, the stock traded between 24% premium and 58% discount to its NAV. In view of our relatively stable outlook for the residential and commercial property market in Hong Kong, we set a target price of HK$130.98 for SHK properties based on a more aggressive 20% target discount to its 12 month forward NAV at HK$163.72 and rate the stock OVERWEIGHT .

Investment Summary

FY-end Jun	2010	2011	2012E	2013E	2014E
Turnover (HK$ mn)	33,211	62,553	62,267	60,481	65,757
Chg (%)	*(3.0)*	*88.4*	*(0.5)*	*(2.9)*	*8.7*
Net profit (HK$ mn)	13,883	21,479	22,106	22,298	22,313
Chg (%)	*11.8*	*54.7*	*2.9*	*0.9*	*0.1*
EPS (HK$)	5.41	8.36	8.45	8.53	8.53
Chg (%)	*11.8*	*54.4*	*2.9*	*0.9*	*0.1*
PER (x)	21.3	13.8	13.7	13.5	13.5
DPS (HK$)	2.70	3.35	3.45	3.60	3.80
Yield (%)	2.34	2.90	2.99	3.12	3.29
BV/share (HK$)	102.42	119.44	127.30	134.84	142.29
PBV (x)	1.13	0.97	0.91	0.86	0.81

Source: Company, CSI

CSI Research Department

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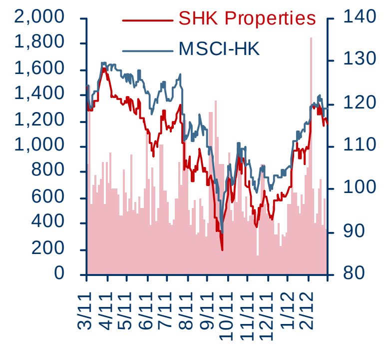
Price Chart

Turnover (HK$ m) *(HK$)*



Source: Bloomberg, CSI

Latest Key Data

MSCI-HK	10,523
FF no of shares (mn)	1,494
FF (%)	57.12
FF market cap (HK$ mn)	172,384
52-week high/low (HK$)	128.6/85.8
12M daily turnover (HK$ mn)	544
12M volatility (%)	28
RoE avg FY11-13E (%)	6.6
P/B FY12E (x)	0.9
Net debt/equity FY12E (%)	18.7

Performance (%)

	1M	YTD	12M
Absolute	5.2	18.5	(7.3)
Rel to MSCI-HK	2.0	2.8	(2.9)

Major Shareholder (%)

Kwong Siu Hing	42.88%

Auditor

DELOITTE TOUCHE TOHMATSU

VALUATION / FINANCIALS

Pursuing steady and sustainable long term growth

In Hong Kong, the company holds 18.8 mn sq ft of properties under development and 27.9 mn sq ft of completed residential, commercial and industrial properties for investment. In addition, SHK Properties also owns 26 mn sq ft of farmland in the New Territories with some in the advanced conversion stage. In China, the company has been expanding its land bank very aggressively in the past few years and now it holds over 78 mn sq ft in attributable GFA for development and 7.5 mn sq ft of completed properties for rental. The company also holds interests in some strategic investments, including a 67% stake in SmarTone (315 HK; NR; HK$17.34), a 33.3% stake in Transports International (62 HK; NR; HK$17.94) and other infrastructure investments.

FY12E and FY13E underlying earnings growth will be very modest

Capitalizing on the buoyant residential property market in Hong Kong, the company successfully launched and pre-sold several major projects at premium pricing, which should help it secure steady development profit for FY12E and FY13E. Meanwhile, the recovery of the grade-A office rental market and the sustained improvement in retail rentals should allow the company to achieve solid rental income growth during the next few years, given its high-quality commercial property portfolio in Hong Kong. We forecast underlying earnings of HK$22,106mn and HK$22,298mn for the company in FY12E and FY13E respectively, representing YoY growth of 3% and 1%, respectively.

Good quality residential and commercial developments in China to fuel long term growth

The prospects of SHK Properties in China are equally promising on the back of steady housing and commercial rental markets in the mainland. With a fast-expanding land bank in good locations, we expect the company to achieve encouraging property sales and development profit in China, which should help sustain its long term profit growth. Meanwhile, some of its investment properties in China have matured and should start contributing positively to the company's rental income in the next few years.

Healthy financial position despite aggressive land banking

Against this backdrop, we expect the company to achieve steady and sustainable earnings growth over the medium term. The company has been prudently managing its balance sheet. Despite aggressive land bank acquisition in China and Hong Kong, SHK Properties has maintained a very healthy financial position, with net gearing at 16.5% as of 31 Dec 2011.

Initiate coverage with OVERWEIGHT rating

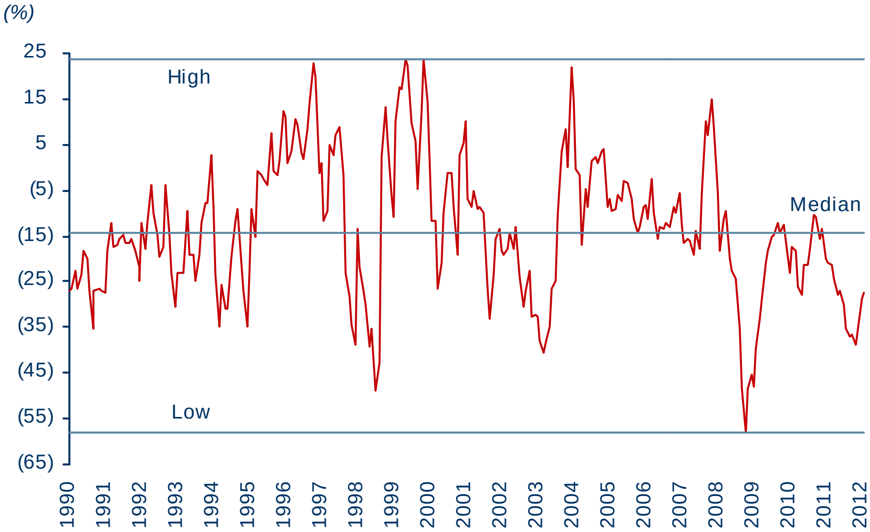
With a high-quality investment property portfolio and a rich residential project pipeline, we believe SHK Properties' premium rating to its peers is justified. We estimate its current and 12-month forward NAV at HK$159.09 and HK$163.72/share, respectively. Based on a 20% discount to its forward NAV, we derive our HK$130.98 target price for SHK Properties, implying upside potential of 13.5%. We initiate coverage on the stock with an OVERWEIGHT rating. Over the long-term, we expect SHK Properties to sustain its earnings growth through its foray into the vast China market and expanding recurring income derived from its high-quality Hong Kong and China investment property portfolio. Our forward NAV is based on a moderate 5% increase in the valuation of its investment properties and assumes no change to the average selling price of its residential projects.

Table 3: Estimated current NAV and breakdown

	Appraised market value (HK$ mn)	Per share (HK$)	% of total assets
Development properties			
Properties under development	93,783	35.86	19.6
Properties held for future development	15,991	6.12	3.3
Investment properties - completed	126,691	48.45	26.5
Investment properties under construction	12,176	4.66	2.5
International Finance Center (47.5%)	31,626	12.09	6.6
Union Square, Kowloon Station	47,926	18.33	10.0
Hotel properties	7,518	2.87	1.6
SunEvision (84.3%)	1,760	0.67	0.4
Smartone (66.99%)	11,448	4.38	2.4
China properties - investment	55,369	21.17	11.6
China properties - for sale	54,577	20.87	11.4
Interests in associated companies	14,867	5.69	3.1
Other listed/unlisted investment	4,404	1.68	0.9
Net debt	(62,123)	(23.76)	
Appraised net asset value	**416,013**	**159.09**	

Source: CSI

Fig. 19: Historical trend of discount to current appraised NAV



Source: CSI

Profit & Loss (Consolidated)

FY-end Jun (HK$ mn)	2010	2011	2012E	2013E	2014E
Turnover	**33,211**	**62,553**	**62,267**	**60,481**	**65,757**
Operating activities:					
Property sales - Hong Kong	5,485	10,756	13,293	10,370	4,824
Property sales - China		888	968	2,138	5,887
Rental income	6,559	7,405	8,442	9,624	11,163
Hotel operations	238	362	434	500	624
Telecom	327	967	1,102	1,213	1,370
Other business	1,475	1,698	1,783	1,836	1,873
Other income	663	574	603	639	703
Unallocated expenses	(905)	(1,284)	(1,348)	(1,416)	(1,479)
Operating profit before interests	**13,842**	**21,366**	**25,277**	**24,904**	**24,967**
Interest income	31	62	81	83	97
Interest paid	(903)	(1,327)	(1,832)	(2,057)	(2,203)
Interest capitalized	233	232	366	411	441
Net finance cost	(639)	(1,033)	(1,385)	(1,562)	(1,666)
Operating profit	**13,203**	**20,333**	**23,892**	**23,342**	**23,301**
Share of associates &	2,059	6,365	2,705	3,568	3,732
Pre-tax profit	**15,262**	**26,698**	**26,597**	**26,910**	**27,033**
Taxation	(781)	(4,528)	(4,062)	(4,201)	(4,311)
Minority interests	(598)	(691)	(429)	(410)	(409)
Profit attributable to shareholders	**13,883**	**21,479**	**22,106**	**22,298**	**22,313**

Cash Flow Statement (Consolidated)

FY-end Jun (HK$ mn)	2010	2011	2012E	2013E	2014E
Operating cash flow	**9,340**	**11,870**	**4,610**	**14,744**	**14,819**
Dividend received	2,257	1,055	1,055	1,055	1,055
Tax paid	(1,386)	(1,134)	(1,134)	(1,134)	(1,134)
Cash flow from operations	**10,211**	**11,791**	**4,531**	**14,665**	**14,740**
Decrease/(increase)in investments	(607)	(1,647)	850	(550)	(550)
Net interest in associates & jointly controlled entities	(673)	(8,000)	(350)	1,000	1,000
Purchase of fixed assets	(2,773)	(8,500)	(4,000)	(5,000)	(5,000)
Other investing cash flow	(2,482)	416	16	166	166
Cash flow from investment	**6,535)**	**(17,731)**	**(3,484)**	**(4,384)**	**(4,384)**
Increase/(decrease) in bank borrowing	3,169	15,444	10,000	1,000	4,000
Dividend paid	(5,943)	(7,220)	(8,650)	(9,035)	(9,292)
Interest paid	(780)	(1,890)	(1,983)	(2,230)	(2,389)
Other financing cash flow	(20)	-	-	-	-
Cash flow from financing activities	**(3,574)**	**6,334**	**(633)**	**(10,265)**	**(7,681)**
Change in cash and cash equivalents	**102**	**394**	**414**	**16**	**2,674**
Cash balance at the beginning of year	**7,649**	**7,772**	**8,201**	**8,652**	**8,705**
Effect of foreign exchange	21	35	36	37	38
Cash balance at the end of year	**7,772**	**8,201**	**8,652**	**8,705**	**11,418**

Source: SHK Properties, CSI

Balance Sheet (Consolidated)

FY-end Jun (HK$ mn)	2010	2011	2012E	2013E	2014E
Non-current assets	**244,909**	**281,380**	**298,000**	**309,526**	**321,263**
Fixed assets	204,160	230,759	247,779	259,805	272,042
Associates	3,111	3,249	3,424	2,924	2,424
Jointly controlled entities	29,381	38,686	38,861	38,361	37,861
Investments	3,554	3,362	2,512	3,062	3,612
Loans receivable	346	275	375	325	275
Intangible assets	4,357	5,049	5,049	5,049	5,049
Current assets	**110,037**	**131,817**	**153,749**	**164,552**	**178,259**
Properties pending development for sale	28,890	39,978	39,978	39,978	39,978
Properties under development	42,489	45,868	65,868	77,868	89,868
Completed properties for sale	13,544	13,016	11,714	10,543	9,488
Trade and other receivables	16,060	23,932	26,819	26,845	27,000
Marketable securities	850	1,126	1,058	990	922
Bank balances and deposits	8,204	7,898	8,312	8,329	11,003
Current liabilities	**(44,867)**	**(38,800)**	**(46,968)**	**(49,042)**	**(51,425)**
Bank and other borrowings	(11,262)	(9,682)	(14,682)	(14,662)	(14,582)
Trade and other payables	(17,667)	(20,452)	(20,692)	(19,719)	(19,005)
Deposits received on sale of properties	(10,672)	(3,525)	(3,525)	(3,525)	(3,525)
Taxation	(5,266)	(5,141)	(8,069)	(11,136)	(14,313)
Net current assets	**65,170**	**93,017**	**106,781**	**115,509**	**126,834**
Total assets less liabilities	**310,079**	**374,397**	**404,782**	**425,035**	**448,097**
Non-current liabilities	(46,858)	(67,432)	(71,902)	(72,418)	(76,020)
Bank and other borrowings	(34,126)	(50,753)	(55,753)	(56,773)	(60,853)
Deferred taxation	(7,189)	(10,610)	(10,080)	(9,576)	(9,098)
Other long-term liabilities	(739)	(839)	(839)	(839)	(839)
Minority interests	(4,804)	5,230)	(5,230)	(5,230)	(5,230)
Net assets	**263,221**	**306,965**	**332,880**	**352,617**	**372,077**

Financial Summary

FY-end Jun	2010	2011	2012E	2013E	2014E
Revenue growth (% YoY)	(3.0)	88.4	(0.5)	(2.9)	8.7
Gross profit growth (% YoY)	(1.4)	54.0	17.5	(2.3)	(0.2)
Core profit growth (% YoY)	11.8	54.7	2.9	0.9	0.1
Gross margin (%)	39.8	32.5	38.4	38.6	35.4
Core net profit margin (%)	41.8	34.3	35.5	36.9	33.9
Return on equity (%)	5.3	7.0	6.6	6.3	6.0
Return on assets (%)	3.9	5.2	4.9	4.7	4.5
Core EPS (HK$)	5.41	8.36	8.45	8.53	8.53
BVPS (HK$)	102.42	119.44	127.30	134.84	142.29
DPS (HK$)	2.70	3.35	3.45	3.60	3.80
Payout ratio (%)	49.9	40.1	40.8	42.2	44.5
Net debt/equity (%)	14.1	17.1	18.7	17.9	17.3

APPENDIX 1: COMPANY BACKGROUND

SHK Properties is Hong Kong's largest property company with one of the largest investment property portfolios and development land banks in Hong Kong/China. Over the past 20 years, the company has built a reputable brand for its residential projects, thereby achieving a premium pricing over most of its peers. On property investment, it currently owns and operates about 28 mn sq ft of residential, office, retail and industrial properties in prime and highly populated districts, such as Mongkok, Causeway Bay, Shatin and Central.

APPENDIX 2: RISK FACTORS

Key risks are a hard landing of the China real estate market; and an economic downturn in China negatively affecting the spending power of mainland visitors in Hong Kong. A hard landing of the China real estate market will impact the future earnings contribution from its China property projects and jeopardize the rental income derived from its shopping malls in Hong Kong.

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Performance of stock or sector relative to MSCI-China over next 6 months after research publications

	Rating	**Remark**
Stock rating	Buy	Relative performance over MSCI-China Index >20%
	Overweight	Relative performance over MSCI-China Index 5% ~ 20%
	Hold	Relative performance over MSCI-China Index -10% ~ 5%
	Sell	Relative performance over MSCI-China Index > -10%
	NR	Not rated
Sector rating	Outperform	Relative performance over MSCI-China Index >10%
	Neutral	Relative performance over MSCI-China Index -10% ~10%
	Underperform	Relative performance over MSCI-China Index > -10%

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