



Sun Hung Kai Properties (16.HK)

29 February 2016

SECTOR: HK Real Estate

HSI: 19,112

PRICE: HK\$86.85

EARNINGS (reported in HK\$m)						KEY DATA	
<i>For the fiscal year ended</i>	2014	2015	2016E	2017E	2018E	Issued Capital (m Shrs)	2,893.4
Turnover	75,100	66,783	97,954	102,334	116,150	Market Cap (HK\$m)	251,291
Operating Profit	24,982	22,778	31,939	30,271	34,277	Avg. 6M Turnover (HK\$m)	422.2
Net Profit	33,520	31,082	29,830	27,906	31,789	52 Week High/Low (HK\$)	137.6 / 79
Net Profit (Underlying)	21,415	19,825	29,830	27,906	31,789	Net Gearing (%)	12.40
Underlying EPS (HK\$)	7.95	7.07	10.34	9.67	11.02	Book Value per Share (HK\$)	157.52
% Change	(18.5%)	(11.1%)	46.2%	(6.5%)	13.9%	Free Float (%)	44.85%
DPS (HK\$)	3.35	3.35	3.75	3.75	3.75	Major Shareholder(s)	Kwok Family (32.93%)
Dividend yield (%)	3.9%	3.9%	4.3%	4.3%	4.3%		Credit Suisse Trust (7.49%)
							HSBC Trustee (Guernsey) (7.43%)
							Walter Kwok (7.3%)

INTERIM RESULTS (reported in HK\$m)				
Period	1H15	1H16	% change	
Turnover	32,093	34,902	8.8%	
Operating Profit	10,446	11,192	7.1%	
Net Profit	15,696	147	(99.1%)	
Net Profit (Underlying)	8,463	9,298	9.9%	
Underlying EPS (HK\$)	3.08	3.23	4.9%	

Note: Differences may arise due to rounding errors

Source: Bloomberg, HKEx, Company data, Platinum estimates

SECTION 1 1H16 Results Briefing

1H16 underlying net profit rose 9.9% YoY to HK\$9.3b.

- Completed GFA from recognised property revenue of Ultima Ph. 1 amounted to 0.4m sq ft in 1H16, while completion in 2H16 is expected to increase meaningfully to 2.7m sq ft. Key projects due for completion are >80% presold, leading to substantial improvements in 2H16 profit and visible FY16 earnings.
- Although management pointed to a completion delay of 3-5 months to FY17 in Grand YOHO due to construction permitting delays, the delivery of notable increase in annual GFA completion to 3m sq ft during FY16-18E is still on track (from 1m sq ft in FY15 to 3.2m, 4.1m and 5.2m sq ft in FY16-18E respectively). We have already moved Grand YOHO into 2017 sales numbers.
- The results do not factor in unsold luxury houses at the Peak and Repulse Bay with lucrative margins of 60-80%, which SHKP will dispose at measured pace. The timing of revenue recognition from such projects, amounting to HK\$10b thus becomes a key swing factor in property sales over coming years.
- Despite adverse currency impacts, rental income in HK and China remains resilient and grew by 8.11% and 7.78% YoY respectively, by virtue of high occupancy and positive rental reversions due to renewals and new leases. Iconic investment in Xujiahui Centre in Shanghai is poised to boost rental income by HK\$3.6b upon full contribution on phased completions from FY2017-FY2023.
- Interim dividend increased 10.5% YoY to HK\$1.05, pointing to management's confidence in future earnings as property sales return to drive earnings growth alongside a continuously growing rental business.
- The Kwok Family has spent HK\$523m on buying stakes in SHKP at an average price of HK\$87.6/shr YTD. It has also spent HK\$533m at an average price of HK\$96.8/shr from September to December in 2015.

Price support from increased family's shareholding