

Hopewell Holdings (54.HK)

Wan Chai Landlord & Chinese Highway Developer

Hong Kong | Property | Company report

16 February 2017

Investment Summary

- Expanding portfolio of investment properties at the heart of Wan Chai, bringing stable cash flow to the companies
- Stable cash flow from Hopewell Highway Infrastructure, which has an 100% dividend payout ratio
- Stable and high dividend yield

Neutral

CMP: HKD 27.50
(Closing price as at 14 Feb 2017)
TARGET: HKD 27.70 (+0.73%)

Business Overview

Decades of experience in property sector in Hong Kong: Hopewell Holdings primarily engages in the property investment and development business in both Hong Kong and China. Main property construction projects in the past include Telford Gardens and Healthy Gardens in Hong Kong. Hopewell Holdings is also a large landlord in Wan Chai and the majority of its investment properties, such as Hopewell Centre, and Wu Chung House are located in Wan Chai. In fact, the properties developed by Hopewell Holdings, either for leasing purposes or for selling purposes, are concentrated at the heart of Wan Chai, creating an integrated complex of residential, retail, commercial and hotels. This creates an ecosystem and synergy among the properties via a diversified portfolio of shops, restaurants, commercial and residential properties.

COMPANY DATA

O/S SHARES (MN) :	870
MARKET CAP (HKDMN) :	23,921
52 - WK HI/LO (HKD):	29.20 / 21.80

SHARE HOLDING PATTERN , %

Wu Ying Sheung Gordon	28.07
First Eagle Investment Management, LLC	5.01

PRICE PERFORMANCE , %

	1M	3M	1Y
Hopewell Holdings	0.92	0.00	22.77
HSI	3.53	6.43	24.67

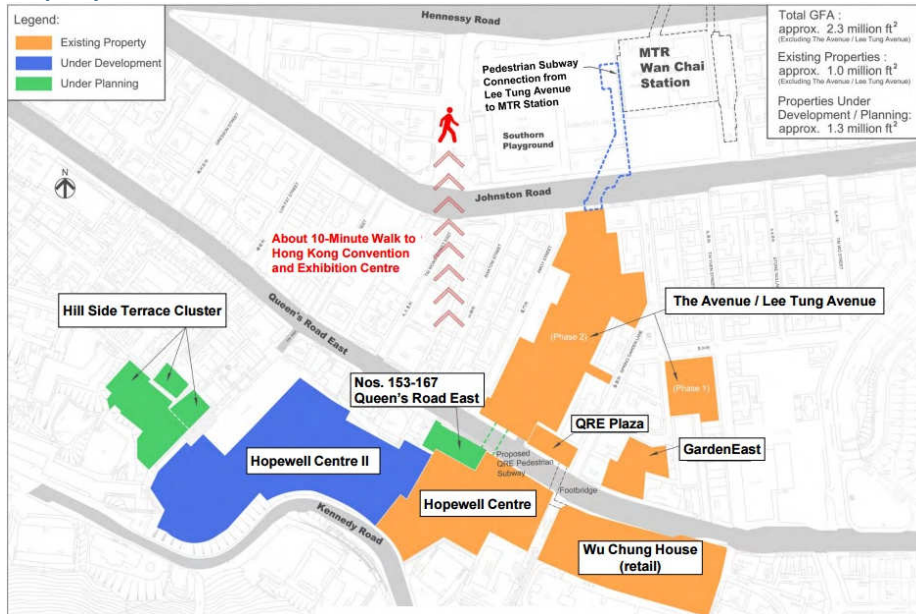
The following map shows the location of properties of the company in Wan Chai:

PRICE VS. HSI



Source: Phillip Securities (HK) Research

Property Portfolio in Wan Chai



Source: Company Presentation, Hopewell Holdings

KEY FINANCIALS

HKD mn	FY15	FY16	FY17E	FY18E
Net Sales	1,865	1,850	2,388	2,285
Net Profit	3,079	2,994	2,014	1,901
EPS, HKD	3.2500	3.1700	2.3156	2.1863
PER, x	8.51	8.63	11.96	12.67
BVPS, HKD	52.2345	53.4714	55.7870	57.9733
P/BV, x	0.53	0.51	0.50	0.48
ROE, %	6.2	5.9	8.4	7.9

Source: Company reports, Phillip Securities Est.

Research Analyst
John Wong
+852 2277 6527
johnycwong@phillip.com.hk

Growth potential from its investment properties: The revenue generated by investment property segment has increased 3% despite there is a drop in the occupancy rate in both Hopewell Centre and KITEC E-Max. The increase is mainly caused by the additional revenue brought by Lee Tung Avenue, which Hopewell Holdings holds 60% via a joint venture with Sino Land.

The following is the summary of occupancy rate:

	<i>GFA</i>		<i>Occupancy Rate</i>		
	<i>(Sq. Ft)</i>	<i>1H FY2014</i>	<i>1H FY2015</i>	<i>1H FY2016</i>	<i>1H FY2017</i>
<i>Hopewell Centre</i>	840,000	97%	96%	94%	87%
<i>KITEC Office</i>	1,775,000	94%	95%	95%	95%
<i>KITEC E-Max</i> (E-Max + Office)		87%	87%	88%	83%
<i>Panda Place</i>	229,000	99%	92%	97%	98%
<i>QRE Plaza</i>	77,000	96%	88%	100%	99%
<i>Lee Tung Avenue</i>	26,000	N/A	N/A	N/A	96%
<i>Garden East</i>	96,500	95%	96%	87%	94%

Source: Company Reports, Hopewell Holdings

The decrease in occupancy rate for Hopewell Centre and KITEC E-Max is caused by the tenant reshuffling. In particular, KITEC E-Max has introduced popular brands into the shopping mall gradually in 2016 and by 2018, the fashion outlet will have an additional GFA of 100,000 square foot, subject to government approval. Moreover, according to the interim report, the tenancy agreement with a tenant in the auto mall has been renewed and the rent has more than doubled. We expect KITEC E-Max's occupancy rate to go back up in short term and larger revenue to be obtained from the mall in the future.

The company currently has several investment properties project located at prime locations under development, with some of the land acquired decades ago. Summaries are as follow:

	<i>Completion Date</i>	<i>GFA (Sq. Ft)</i>
<i>Hopewell Centre II - Office</i>	2019	36,600
<i>Hopewell Centre II - Retail</i>	2019	298,000
<i>153-167 Queen's Road East</i>	2021	90,000
<i>Hill Side Terrace Cluster</i>	Under Planning	130,000

Source: Company Reports, Hopewell Holdings

After the completion of the above properties, the total GFA of the investment properties will increase from the current 3.5 million square foot to 4.8 million square foot, an increase of 37.1%. We expect that there will be substantial increase in rental income, because the properties are located at prime location, and will be the main driver of growth in the future.

Prosperous Redevelopment Project in Wan Chai

Hill Side Terrace Cluster: Hill Side Terrace Cluster is one of the most valuable projects held by Hopewell Holdings. The company has started acquiring the properties in this project since 1980s and the latest acquisition was performed in 2014. The company currently plans to restore Nam Koo Terrace, a Grade I Historic Building, on the site, and construct a residential building. The development plan has been submitted to Town Planning Board.

	<i>Acquisition Year</i>	<i>Site Area (Sq. M.)</i>
<i>1-3 Hill Side Terrace</i>	1981	516
<i>1A Hill Side Terrace</i>	1988	585
<i>Nam Koo Terrace</i>	1988	685
<i>Miu Kang Terrace</i>	2014	342
<i>Schooner Street Site</i>	2014	270

Source: Company Reports, Hopewell Holdings

The book value of the cluster, as at 31/12/2016, is approximately HK\$600Mn. Since some of the properties were acquired in 1980s, we expect the future residential building to provide sizable revenue and cash flow, relative to acquisition cost, to the company.

Hopewell Centre II: A conference hotel with 1,024 rooms will be built with large exhibition and conference facilities. Along with the hotel, offices and retail spaces will be built and the aggregate GFA will be 101,600 square metres. Moreover, the company is experienced in hotel operations, as evident by the consistent high occupancy rate achieved by the Panda Hotel and the recorded high occupancy rate of 97% first achieved in FY2016. The following is the average occupancy rate achieved by the Panda Hotel across years:

	<i>FY2013</i>	<i>FY2014</i>	<i>FY2015</i>	<i>FY2016</i>	<i>1H FY2017</i>
<i>Occupancy Rate</i>	93%	93%	94%	97%	97%
<i>Number of Rooms</i>			911 rooms		
<i>GFA</i>			440,000 square foot		

Source: Company Reports, Hopewell Holdings

The target customer of the Hopewell Centre II conference hotel will be more diversified than that of the Panda Hotel and the target customer will not just the tourists from China, but the business travelers and corporate customers using the conference facilities from all around the world. The target hotel rating for the conference hotel is also expected to be comparable to the top tier hotels located at Central and Admiralty. Hence, the hotel will be able to charge higher room rate because of its location and the built in facilities, bringing stable and sizable cash flow and revenue to the company.

Development in China

Hopewell New Town: This development project is located at Huadu District in Guangzhou and is a composite development project consisting of houses, apartments, and commercial area, with a plot ratio GFA of 1.1 million square metres and 0.45 million square metres for the carpark. As at 31/12/2016, about 453,200 square metres of the GFA have been sold and recognised.

In 1H FY2017, the company has already achieved the sales target of Hopewell New Town of CNY600Mn. Currently, the company expects to recognize CNY700Mn of sales in FY2017 because of the good sales achieved in 2016. Starting from 2Q2017, the company will start the pre-sales for FY2018. The following is the company's sales targets:

	<i>FY2016</i>	<i>FY2017</i>	<i>FY2018</i>
<i>Sales Target</i>	85,000 square metres	>43,000 square metres	
<i>Recognition Target</i>	CNY256Mn	CNY600Mn	CNY500Mn
<i>Status</i>	Recognised	Completed	--

Source: Company Reports, Hopewell Holdings

Besides, the company is investigating the option to develop a commercial area of 150,000 square metres of GFA in Hopewell New Town. With the new MTR Route 9 expected to be opened in 2017 and an exit being constructed near Hopewell New Town, both the potential commercial district and the residential district of Hopewell New Town will benefit from the more convenient transportation infrastructure and we expect that Hopewell will have more pricing power in its sales in the future.

High Dividend Payout Infrastructure Segment

Pearl River Delta highway builder and manager: Hopewell Holdings has a 66.7% owned highway infrastructure construction and management business and is also listed in the Hong Kong Stock Exchange. The highways are located at the coast of Pearl River Delta and connect major cities such as Shenzhen and Guangzhou. The highways are as follow:

Highway	Connects
Guangzhou-Shenzhen Superhighway	Hong Kong, Shenzhen ↔ Guangzhou
Western Delta Route Phase I	Guangzhou ↔ Shunde
Western Delta Route Phase II	Shunde ↔ Zhongshan
Western Delta Route Phase III	Zhongshan ↔ Zhuhai

Network of Highways in Pearl River Delta



Source: Company Presentation, Hopewell Highway Infrastructure

Average Daily Revenue of Guangzhou-Shenzhen Superhighway (RMB'000)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2013	9147	6846	9228	8321	8860	9023	9371	9440	9426	8031	9592	9492
2014	8463	7004	8657	8276	7868	8438	8857	9046	8692	7363	8903	8933
2015	8722	6724	8867	8505	8025	8775	9017	9057	8995	7627	9153	9202
2016	9160	6597	9303	8374	8584	9002	9266	9204	8389	7903	9779	9831
Mean	8873	6793	9014	8369	8334	8810	9128	9187	8876	7731	9357	9365

Average Daily Revenue of Western Delta Route Phase I (RMB'000)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2013	494	326	491	451	474	483	491	504	518	438	522	530
2014	505	406	535	517	486	525	541	572	542	445	551	545
2015	531	403	555	543	505	561	597	616	602	488	588	596
2016	627	418	603	563	577	603	633	631	649	541	655	659
Mean	539	388	546	519	511	543	566	581	578	478	579	583

Average Daily Revenue of Western Delta Route Phase II (RMB'000)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2013	1404	871	1428	1327	1407	1445	1504	1578	1630	1363	1634	1656
2014	1501	1218	1706	1652	1557	1688	1749	1846	1767	1434	1740	1683
2015	1681	1189	1704	1695	1567	1719	1770	1912	1824	1475	1804	1825
2016	1912	1263	1835	1713	1770	1865	1969	2023	2102	1727	2127	2137
Mean	1625	1135	1668	1597	1575	1679	1748	1840	1831	1500	1826	1825

Average Daily Revenue of Western Delta Route Phase III (RMB'000)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2013	--	203	294	287	325	351	376	402	417	361	459	455
2014	435	356	480	478	468	521	559	582	539	452	601	543
2015	549	446	548	547	518	587	626	708	624	504	644	642
2016	665	501	625	586	616	664	717	745	745	602	783	804
Mean	550	377	487	475	482	531	570	609	581	480	622	611

Source: Hopewell Highway Infrastructure

Large and steady cash flow business: From the above tables, Hopewell Highway Infrastructure generates large, steady streams of cash flow. Since the company adheres to a 100% dividend payout policy, Hopewell Holdings will be able to directly benefit from the cash flow generated by this highway infrastructure business.

Moreover, according to China Association of Automobile Manufacturers, China sold 28 million vehicles in 2016. Statistics Bureau of Guangdong also releases data that Guangdong's registered car population rose from 13.3 million in 2014 to 14.7 million in 2015, a 10% increase. With the car population increasing in Guangdong region, we expect the trend of large, steady cash flow stream to continue and Hopewell Holdings will continue to benefit from the high dividend payout policy by this highway business.

Financial Overview

Strong liquidity position: The company has a very strong and gradually increasing liquidity position since FY2015, giving the company a net cash position in rent years. Moreover, the current ratio and quick ratio have been above 3x ever since 2H FY2015, indicating the company has large reserve of cash and liquidity. The company's liquidity position can be further strengthened by the fact that it has a large available banking facilities that can be utilized when needed. The large cash position and the available banking facilities will allow the company to finance its capital expenditure once investment opportunities appear.

The following is the changes in cash and debt of the company over time:

HK\$Mn	1H FY2015	2H FY2015	1H FY2016	2H FY2016	1H FY2017
Cash*	3,566	3,768	4,071	2,886	3,561
Bank Debt*	(4,350)	(4,360)	(4,139)	(2,550)	(2,350)
Net Cash/(Debt)	(784)	(592)	(68)	336	1,211
Net Gearing Ratio	2%	1.5%	0.2%	--	--
Current Ratio	2.22	5.64	4.55	3.76	4.51
Quick Ratio	1.97	4.99	4.01	3.24	4.10
Available Banking Facilities	1,100	910	2,320	3,590	3,790

Source: Company Presentation, Hopewell Holdings

*: Exclude those held or owed by Hopewell Highway Infrastructure

Large amount of revenue from highly liquid business: Property leasing and highway operation are highly liquid business in the sense that rental income are collected monthly and the highway tolls are collected in cash. In particular, the average toll collected in all of the highways between 2013 and 2016, as shown on page 4, is CNY11,370 thousand per day.

The profit attributable to Hopewell Highway Infrastructure is as follow:

	Western Delta Route I	Western Delta Route II	Western Delta Route III	GZ-SZ Superhighway
Profit Sharing Ratio	50%	50%	50%	45%-50%
Toll Collection Until	9/2033	6/2035	1/2038	6/2027

Source: Hopewell Highway Infrastructure

The toll collection period are long and the one with earliest expiry date is still more than 10 years away. With Hopewell Highway Infrastructure adhering to a 100% dividend payout policy, we believe the company, which owns 66.7% of Hopewell Highway Infrastructure, can directly benefit from the large stream of cash flow from the highway business.

Valuation

Valuation model suggests a HK\$27.70 target price: Because of the diversity of the business of Hopewell Holdings, which comprise property investment and development, highway infrastructure, power generation and hotel operations, Hopewell Holdings is more appropriately considered to be a conglomerate enterprise.

Our sum of parts model suggests a target price of HK\$27.70, corresponding to a P/E and P/B of 8.09x and 0.66x respectively, with Neutral rating assigned. (Closing price as at 14 Feb 2017)

Risks

Possible tightening regulations of highway infrastructure: The Chinese government implemented Holiday Toll-Free policy since 2012 National Holiday. The toll-free policy will adversely affect the revenue of the company especially the traffic just prior to, during and just after the holiday period is usually high. If further toll-free policies are implemented, the revenue and profit will be adversely affected.

Competition from other transport means: The Guangzhou-Shenzhen Superhighway currently generates the highest revenue among the highways. However, it may face competition from the new Coastal Expressway and the Guangzhou-Shenzhen-Hong Kong Express Rail Link, which could divert some of the users of the Guangzhou-Shenzhen Superhighway, adversely affecting the revenue and the profit of the company.

Uncertainties in Hopewell Centre II demand: Hopewell Centre II is located at Wan Chai, which has a number of conference and exhibition facilities nearby, such as the Hong Kong Convention and Exhibition Centre. Moreover, the nearby region has many 5 stars hotels and the company may not be able to achieve a very high occupancy rate, like the one achieved by Panda Hotel, especially there will be 1,024 rooms in Hopewell Centre II conference hotel.

Financials

FYE	FY2014	FY2015	FY2016	FY2017F	FY2018F
Valuation Ratios					
Price Earnings (P/E)	16.6	8.51	8.63	11.96	12.67
Price to Book (P/B)	0.52	0.53	0.51	0.50	0.48
Per Share Data (HKD)					
EPS	1.5600	3.2500	3.1700	2.3156	2.1863
Book Value Per Share	50.2435	52.2345	53.4714	55.7870	57.9733
Dividend Per Share	1.1000	1.1200	1.3000	1.3000	1.3000
Growth & Margins (%)					
Growth					
Revenue	21.3	(10.9)	(0.8)	29.1	(4.3)
Operating Income	22.9	(13.9)	0.7	29.3	(4.3)
Net Profit	(87.0)	90.5	(2.7)	(32.7)	(5.6)
Margins					
Gross Profit Margin	56.5	58.5	58.3	57.8	57.8
Operating Profit Margin	36.6	35.3	35.9	35.9	35.9
Net Profit Margin	77.2	165.1	161.9	134.7	134.7
Key Ratios					
ROE (%)	3.1	6.2	5.9	8.4	7.9
ROA (%)	2.5	5.1	5.1	3.4	3.1
Income Statement (HKD Mn)					
Revenue	2,093	1,865	1,850	2,388	2,285
- Cost of Goods Sold	(911)	(774)	(771)	(1,008)	(965)
Gross Income	1,182	1,091	1,079	1,380	1,320
- Operating Expenses	(416)	(433)	(416)	(522)	(499)
Operating Income	766	658	663	858	821
- Net Non-Operating Gain	1,180	2,688	2,566	1,398	1,309
Pretax Income	1,946	3,346	3,229	2,256	2,130
- Income Tax Expenses	(329)	(267)	(235)	(242)	(229)
Net Profit	1,617	3,079	2,994	2,014	1,901

Source: Company, Phillip Securities (HK) Research Estimates
(Financial figures as at 14 Feb 2017)

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within $\pm 5\%$ from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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Contact Information (Regional Member Companies)

SINGAPORE

Phillip Securities Pte Ltd
Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel : (65) 6533 6001
Fax : (65) 6535 6631
Website: www.poems.com.sg

HONG KONG

Phillip Securities (HK) Ltd
Exchange Participant of the Stock Exchange of Hong Kong
11/F United Centre 95 Queensway
Hong Kong
Tel (852) 22776600
Fax (852) 28685307
Websites: www.phillip.com.hk

INDONESIA

PT Phillip Securities Indonesia
ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel (62-21) 57900800
Fax (62-21) 57900809
Website: www.phillip.co.id

THAILAND

Phillip Securities (Thailand) Public Co. Ltd
15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel (66-2) 6351700 / 22680999
Fax (66-2) 22680921
Website: www.phillip.co.th

UNITED KINGDOM

King & Shaxson Capital Limited
6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel (44-20) 7426 5950
Fax (44-20) 7626 1757
Website: www.kingandshaxson.com

AUSTRALIA

PhillipCapital Australia
Level 12, 15 William Street,
Melbourne, Victoria 3000, Australia
Tel (613) 96188238
Fax (613) 92002272
Website: www.phillipcapital.com.au

MALAYSIA

Phillip Capital Management Sdn Bhd
B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel (603) 21628841
Fax (603) 21665099
Website: www.poems.com.my

JAPAN

PhillipCapital Japan K.K.
Nagata-cho Bldg.,
8F, 2-4-3 Nagata-cho,
Chiyoda-ku, Tokyo 100-0014
Tel (81-3) 35953631
Fax (81-3) 35953630
Website: www.phillip.co.jp

CHINA

Phillip Financial Advisory (Shanghai) Co. Ltd
No 436 Hengfeng Road,
Greentech Unit 604,
Postal code 200070
Tel (86-21) 51699400
Fax (86-21) 63532643
Website: www.phillip.com.cn

FRANCE

King & Shaxson Capital Limited
3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel (33-1) 45633100
Fax (33-1) 45636017
Website: www.kingandshaxson.com

UNITED STATES

Phillip Futures Inc
141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1.312.356.9000
Fax +1.312.356.9005