

K. Wah International (173.HK)

Strong Sales is expected to Continue

Hong Kong | Property | Company report

27 April 2017

Investment Summary

- Several key development projects are expected to be completed in both FY2017 and FY2018
- Expansion in investment property portfolio to generate stable recurring income

Business Overview

Outstanding FY2016 result: K. Wah International achieved high growth in the FY2016 result. Revenue grew 104% to HK\$9,620Mn and net profit grew 123% to HK\$3,226Mn in FY2016. In fact, including the revenue of joint venture and associate companies, the attributable revenue to the group amounted to HK\$12,570Mn, a growth of 95% in comparison with FY2015. Benefiting from the outstanding result, earning per share grew 124% to HK\$1.0762. Despite the high growth in earning per share, K. Wah International declared a final dividend of HK\$0.13 per share, an 8% growth or one cent more than that of in FY2015, giving a total annual dividend of HK\$0.18 per share, which is also one cent more than that of in FY2015.

Strong sales is expected to continue in FY2017: K. Wah International has made strong progress in FY2016 in the sales of properties and the strong sales is expected to continue in FY2017. In fact, in FY2016 K. Wah International has a large reserve of attributable contracted sales amounted to about HK\$13Bn, of which HK\$6.3Bn of the sales have been booked in FY2016 and the remaining HK\$6.7Bn of sales will be booked in FY2017 and FY2018. The large reserve of contracted sales is expected to provide some assurance to the future revenue of the company. Some projects with contracted sales to be recognised, as at 31/12/2016, are as follow:

Project	Location	GFA (Sq. M.)	Completion Date	% Sold
The Spectra	Hong Kong	49,000	2017	>90%
The Palace II	Shanghai	35,000	2017	>85%
The Peak	Nanjing	132,000	2018	~15%
J Metropolis III	Guangzhou	34,000	2017	>95%

Source: K. Wah International

Apart from the attributable contracted sales reserve, the company is actively launching new projects, which are expected to be completed in the next few years. The total attributable GFA of the new projects being launched in FY2017 is more than 300,000 square metres and is expected to bring sizable revenue to the company:

Project launching in 2017	Location	GFA (Sq. M.)	Completion Date	Interest
K City	Hong Kong	51,000	2018	100%
The Palace III	Shanghai	43,000	2017	100%
Windermere	Shanghai	71,000	Completed	100%
Azure	Shanghai	16,000	2017	100%
Huadu Jiahua Plaza III	Guangzhou	60,000	2018	100%
J Metropolis Phase IV	Guangzhou	34,000	2017	99.9%
Silver Cove Phase III	Dongguan	34,000	2017	100%

Source: K. Wah International

Accumulate

CMP: HKD 5.06

(Closing price as at 25 Apr 2017)

TARGET: HKD 5.80 (+14.62%)

COMPANY DATA

O/S SHARES (MN) :	2,957
MARKET CAP (HKDMN) :	14,963
52 - WK HI/LO (HKD):	5.38 / 3.21

SHARE HOLDING PATTERN , %

Lui Che Woo	62.01
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PRICE PERFORMANCE , %

	1M	3M	1Y
K. Wah International	(1.74)	35.29	32.11
HSI	0.91	6.02	14.38

PRICE VS. HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

HKD mn	FY15	FY16	FY17E	FY18E
Net Sales	4,720	9,620	10,302	12,567
Net Profit	1,446	3,225	3,393	4,078
EPS, HKD	0.4813	1.0762	1.1476	1.3787
PER, x	5.66	5.44	4.73	4.24
BVPS, HKD	7.6860	8.5822	9.5298	9.7609
P/BV, x	0.45	0.46	0.57	0.60
ROE, %	6.3	12.6	12.0	14.1

Source: Company reports, Phillip Securities Est.

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Expanding investment property portfolio: In FY2017, K. Wah International will have several large investment properties launched and the company targets to increase the total GFA of the investment property portfolio to about 200,000 square metres, thus providing stable and recurring revenue and cash flow to the company and decreasing the volatility of revenue. Moreover, the new investment properties especially those in Shanghai are located in prime locations and will allow the company to charge sizable rent. The new investment property projects include:

	<i>Location</i>	<i>GFA (Sq. M.)</i>	<i>Completion Date</i>
<i>Stanford Residences, Xu Hui</i>	Shanghai	26,000	Q2 2017
<i>Stanford Residences Jin Qiao</i>	Shanghai	13,000	Q3 2017
<i>J Town, Silver Cove</i>	Dongguan	9,600	Q2 2017
<i>Office Building in Suhe Creek, Jingan</i>	Shanghai	20,000	2020

Source: K. Wah International

Large and valuable future projects: The Company has a number of large and valuable projects in Hong Kong, Pearl River Delta and Yangtze River Delta. In December 2016, the company obtained Kai Tak Area 1K Site 2, which has a GFA of about 53,000 square metres. The land is expected to bring sizable revenue to the company especially when K City, the other project acquired by the company in the early years, had very strong sales. Until 18/3/2017, more than 600 units, out of the 900 total available units, were sold, allowing the company to generate pre-sales revenue of HK\$6Bn in aggregate. Moreover, the company also has projects in the traditional high end residential district such as Tai Po and the low density residential area such as Grampian Road. These projects are expected to launch in 2018 or later:

	<i>Location</i>	<i>GFA (Sq. M.)</i>	<i>Completion Date</i>
<i>Tai Po Town Lot No.226</i>	Hong Kong	61,000	2019
<i>2 Grampian Road</i>	Hong Kong	2,000	2019
<i>Kai Tak Area 1K Site 2</i>	Hong Kong	53,000	2021
<i>Weifang Village Street Project</i>	Shanghai	14,000	2020
<i>Lot G89 in Jiangning District</i>	Nanjing	50,000	2020
<i>Lot G87 in Pukou District</i>	Nanjing	99,000	TBC
<i>J Metropolis (Remaining Portion)</i>	Guangzhou	567,000	TBC
<i>Huadu Jiahua Plaza IV</i>	Guangzhou	26,000	2018

Source: K. Wah International

Investment Thesis, Valuation and Risk

Our valuation model suggests a target price of HK\$5.80: K. Wah International has achieved outstanding result in FY2016 and projects such as The Spectra, Tai Po project and K City are expected to bring large revenue to the company. Moreover, the company has obtained another land in Kai Tak as well as a new land in Nanjing, which are projects with large potential. Therefore, a target price of HK\$5.80, corresponding to a P/E and P/B of 4.73x and 0.57x, has been assigned, with an 'Accumulate' rating assigned. (Closing price as at 25 Apr 2017)

<i>Downside Risks</i>	(1): Tightening policy in Hong Kong and Chinese property market (2): Possible land bank replenishment problem due to the aggressive bidding strategy adopted by Chinese developers (3): Depreciation of Renminbi
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Financials

FYE	FY2014	FY2015	FY2016	FY2017F	FY2018F
Valuation Ratios					
Price Earnings (P/E)	11.43	5.66	5.44	4.73	4.24
Price to Book (P/B)	0.52	0.45	0.46	0.57	0.60
Per Share Data (HKD)					
EPS	0.6569	0.4813	1.0762	1.1476	1.3787
Book Value Per Share	9.0218	7.6860	8.5822	9.5298	9.7609
Dividend Per Share	0.1500	0.1700	0.1800	0.2000	0.2000
Growth & Margins (%)					
Growth					
Revenue	(67.2)	97.2	103.08	7.1	30.6
Operating Income	(58.1)	122.4	52.3	25.8	45.5
Net Profit	11.2	(23.5)	122.9	5.2	26.4
Margins					
Gross Profit Margin	58.9	64.4	47.0	53.4	53.4
Operating Profit Margin	45.2	51.0	38.1	44.8	42.5
Net Profit Margin	79.0	30.7	33.5	47.7	41.6
Key Ratios					
ROE (%)	7.3	6.3	12.6	12.0	14.1
ROA (%)	3.7	2.9	6.3	6.3	7.5
Income Statement (HKD Mn)					
Revenue	2,394	4,720	9,620	10,302	12,567
- Cost of Goods Sold	(985)	(1,680)	(5,097)	(4,804)	(5,860)
Gross Income	1,409	3,040	4,523	5,498	6,707
- Operating Expenses	(326)	(632)	(854)	(882)	(1,368)
Operating Income	1,083	2,408	3,669	4,616	5,339
- Net Non-Operating Gain	1,624	406	1,402	890	1,413
Pretax Income	2,707	2,814	5,071	5,506	6,752
- Income Tax Expenses	(815)	(1,368)	(1,846)	(2,113)	(2,674)
Net Profit	1,892	1,446	3,225	3,393	4,078

Source: Company, Phillip Securities (HK) Research Estimates
(Financial figures as at 25 Apr 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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