

Kerry Properties (683.HK)

Completion of Key Projects Prompts Repricing Opportunity

Hong Kong | Property | Company report

14 July 2017

Investment Summary

- Several key property development projects will be completed in FY2017, bringing substantial revenue to the company
- Large proportion of stable recurring revenue contributed by the investment property and hotel segments

Business Overview

Better than expected FY2016 result: Kerry Properties achieved sizable growth in FY2016. Revenue grew 25.0% to HK\$12,991Mn. Gross profit margin increased from 37.6% in FY2015 to 45.1% in FY2016, leading gross profit in FY2016 to increase 49.7% to HK\$5,856Mn. The increase in gross profit is mainly caused by the increase in the gross profit margin of the property development segment. In FY2016, Kerry Properties achieved very strong sales. Contracted sales in Hong Kong rose from HK\$5.8Bn in FY2015 to HK\$12.2Bn in FY2016. Contracted sales in China rose from HK\$6.8Bn in FY2015 to HK\$14.2Bn in FY2016. Net profit attributable to the shareholders increased 18.2% to HK\$6,537Mn. In FY2016, Earnings per Share increased 18% to HK\$4.53 and the company declared a final dividend of HK\$0.80, 33% higher than last year.

Several major properties will be completed in FY2017: Several major property development projects in both Hong Kong and China will be completed in FY2017. In particular, the HK\$12.2Bn contracted sales of Hong Kong segment in FY2016 were primarily the result of the sales of the two key properties in Hong Kong, namely Martin Heights and The Bloomsway. For the HK\$14.2Bn contracted sales of China segment, it was mainly contributed by Nanjing Jinling Arcadia Court, Hangzhou Zhijiang Castalia Court and Chengdu Metropolis-Arcadia Court etc. A substantial portion of the contracted sales is expected to be recognised in FY2017 because some projects are expected to be completed in FY2017. The key Hong Kong projects expected to be completed in FY2017 are as follow:

Property	Region	Completion Date	GFA (Sq. Ft.)	% Sold in FY2016
Martin Heights	Ho Man Tin	1H2017	1,142,168	39%
The Bloomsway	So Kwun Wat	1H2017	939,600	79%

Source: Kerry Properties

The key projects in China to be completed in FY2017 are as follow:

Property	Region	Completion Date	GFA (Sq. Ft.)	% Sold in FY2016
Arcadia Court	Nanjing	1H2017	1,028,802	73%
The Metropolis	Chengdu	2H2017	1,161,070	76%
Castalia Court	Hangzhou	2017 onwards	2,482,604	65%

Source: Kerry Properties

For the remaining unsold units, particularly those in Hong Kong, Kerry Properties plans to sell the remaining units after the whole projects are completed. In fact, using the data of recent transaction, we expect the remaining units of Martin Heights and The Bloomsway to worth about HK\$16Bn, having the potential to add sizable revenue to the company.

Buy

CMP: HKD 26.40

(Closing price as at 12 Jul 2017)

TARGET: HKD 33.60 (+27.27%)

COMPANY DATA

O/S SHARES (MN) :	1,443
MARKET CAP (HKDMN) :	38,102
52 - WK HI/LO (HKD):	30.20 / 19.30

SHARE HOLDING PATTERN , %

Kerry Group Limited	58.01
Schroders Plc	5.00

PRICE PERFORMANCE , %

	1M	3M	1Y
Kerry Properties	(3.83)	(7.37)	34.01
HSI	1.30	8.60	23.63

PRICE VS. HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

HKD mn	FY15	FY16	FY17E	FY18E
Net Sales	10,393	12,991	26,701	26,683
Net Profit	6,070	7,735	5,701	5,421
EPS, HKD	3.8300	4.5300	3.9500	3.7561
PER, x	5.48	5.93	6.08	6.68
BVPS, HKD	56.2666	57.3361	60.0861	62.6422
P/BV, x	0.47	0.37	0.40	0.40
ROE, %	6.8	7.9	6.6	6.0

Source: Company reports, Phillip Securities Est.

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Besides, the company has a strong development pipeline and the projects and land reserve are enough for the company's development for the next 4 years. There are several property development projects set to be completed in FY2018 and FY2019. They are located in Beacon Hills, Sai Ying Poon and Ho Man Tin, all of which are expected to aim at high end home seekers and investors and are expected to have strong demand and sales.

<i>Property</i>	<i>Region</i>	<i>Completion Date</i>	<i>GFA (Sq. Ft.)</i>
<i>Beacon Hill Project (NKIL 6532)</i>	Beacon Hill	1H2018	116,380
<i>Hing Hon Road Project</i>	Sheung Wan	1H2019	47,962
<i>LaSalle Road/Boundary Street</i>	Ho Man Tin	2H2019	45,180
<i>Beacon Hill Project (NKIL6533)</i>	Beacon Hill	2H2019	342,769

Source: Kerry Properties

Investment properties segment is growing steadily: The investment property segment is expected to have a considerable growth, caused by the completion of a new property originally planned for sales, Shan Kwong Road project. The project has a GFA of 81,217 square foot and provides 106 units. Rent per square foot is expected to be HK\$50-HK\$70 per month and the annual rental income, assuming a 100% occupancy rate, from the property is expected to be approximately HK\$60Mn. The project is expected to be completed in FY2017.

Besides, Kerry Properties also has several large investment properties construction projects ongoing in China, such as the Shenzhen Qianhai projects and Hangzhou Kerry Centre, with completion date ranging from FY2017 to FY2020. The type of properties ranges from residential and office to retail and hotel. Key investment properties under development are as follow:

<i>Property</i>	<i>Region</i>	<i>Completion Date</i>	<i>Attributable GFA (Sq. Ft.)</i>
<i>Hangzhou Kerry Centre</i>	Hangzhou	1H2017	275,005
<i>Shenyang Kerry Centre</i>	Shenyang	From 1H2017	5,729,813
<i>Nanchang Complex Development II</i>	Nanchang	2019	402,057
<i>Zhengzhou Complex Development</i>	Zhengzhou	From 2021	1,116,112
<i>Jinan Complex Development</i>	Jinan	From 2H2017	588,906
<i>Putian Hotel Development</i>	Putian	2019	215,381
<i>Kunming Complex Development</i>	Kunming	2019	506,651
<i>Qianhai Complex Development I</i>	Shenzhen	2019	2,173,844
<i>Qianhai Complex Development II</i>	Shenzhen	2020	331,172

Source: Kerry Properties

Investment Thesis, Valuation and Risk

Our valuation model suggests a target price of HK\$33.60: Kerry Properties has achieved strong sales in its Hong Kong projects, namely The Bloomsway and Martin Heights, and at the same time has a large and stable stream of recurring revenue from the investment property segment. Moreover, it still has large number of unsold units with high market value in the Martin Heights and The Bloomsway projects, potentially adding large stream of revenue to the company. Therefore, a target price of HK\$33.60, corresponding to a P/E and P/B of 6.08x and 0.40x respectively, has been assigned, with a 'Buy' rating assigned. (Closing price as at 12 Jul 2017)

<i>Downside Risks</i>	(1): Tightening policy in Chinese property market (2): Possible high cost to acquire land in public market in both Hong Kong and China
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Financials

FYE	FY2014	FY2015	FY2016	FY2017F	FY2018F
Valuation Ratios					
Price Earnings (P/E)	6.44	5.48	5.93	6.08	6.68
Price to Book (P/B)	0.50	0.47	0.37	0.40	0.40
Per Share Data (HKD)					
EPS	4.6900	3.8300	4.5300	3.9500	3.7561
Book Value Per Share	55.4310	56.2666	57.3361	60.0861	62.6422
Dividend Per Share	0.9000	0.9000	1.1000	1.2000	1.2000
Growth & Margins (%)					
Growth					
Revenue	5.0	(29.1)	25.0	105.5	(0.1)
Operating Income	5.3	(42.9)	61.2	38.4	(2.5)
Net Profit	(17.1)	(22.5)	27.4	(26.3)	(4.9)
Margins					
Gross Profit Margin	42.3	37.6	45.1	29.2	29.4
Operating Profit Margin	33.9	27.3	35.3	32.2	32.6
Net Profit Margin	53.4	58.4	59.5	57.1	59.8
Key Ratios					
ROE (%)	8.5	6.8	7.9	6.6	6.0
ROA (%)	4.7	3.7	3.8	2.7	2.6
Income Statement (HKD Mn)					
Revenue	14,664	10,393	12,991	26,701	26,683
- Cost of Goods Sold	(8,456)	(6,482)	(7,135)	(18,905)	(18,833)
Gross Income	6,208	3,911	5,856	7,796	7,850
- Operating Expenses	(1,236)	(1,071)	(1,276)	(1,459)	(1,669)
Operating Income	4,972	2,840	4,580	6,337	6,181
- Net Non-Operating Gain	4,562	4,420	5,750	769	663
Pretax Income	9,534	7,260	10,330	7,106	6,844
- Income Tax Expenses	(1,698)	(1,190)	(2,595)	(1,405)	(1,423)
Net Profit	7,836	6,070	7,735	5,701	5,421

Source: Company, Phillip Securities (HK) Research Estimates
(Financial figures as at 12 Jul 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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