

Champion REIT (2778.HK)

Disposal of Asset Releases the Value of the Trust

Hong Kong | Property | Company report

28 July 2017

Investment Summary

- Attempting to sell Langham Place Office Tower. If the disposal is successful, the Trust is expected to receive large stream of cash flow
- With Murray Road Carpark land sold at a price per square foot of about HK\$50,000 by the Government, the Trust's property, Three Garden Road, is expected to benefit from that valuation, if the Trust is looking to sell Three Garden Road in the future

Neutral

CMP: HKD 6.08
(Closing price as at 26 Jul 2017)
TARGET: HKD 6.30 (+3.62%)

COMPANY DATA

O/S SHARES (MN) :	5,812
MARKET CAP (HKDMN) :	35,337
52 - WK HI/LO (HKD):	6.46 / 4.12

Business Overview

Properties at prime locations: Champion REIT owns three properties, namely Three Garden Road, Langham Place Mall, and Langham Place Office Tower, which are located either at Central or Mong Kok. Although the Trust only has three investment properties, these properties are valuable and produce large stream of cash flow and rental income to the Trust. The details of the three properties are as follow:

Property	Location	GFA (Sq. Ft.)
Three Garden Road	Central	1,638,000
Langham Place Office Tower	Mong Kok	703,000
Langham Place Mall	Mong Kok	590,000

Source: Champion REIT

The Trust announced the disposal of Langham Place Office Tower: In July 2017, Champion REIT announces the potential disposal of Langham Place Office Tower. In FY2016, Langham Place Office Tower contributed HK\$325Mn of rental income to Champion REIT, representing about 14.1% of the total rental income Champion REIT generated during the year. In terms of net property income, Langham Place Office Tower has a higher contribution, providing HK\$295Mn of and representing 14.6% of the total net property income. According to the FY2016 annual report, the fair value of Langham Place Office Tower was HK\$8,477Mn. In fact, Langham Place Office Tower only represents a small portion of the investment property portfolio of the trust, with its valuation contributing only 12.7% of the fair value of the entire investment property portfolio of the trust.

Property	Rental Income	Net Property Income	Occupancy Rate
Three Garden Road	HK\$1,157Mn	HK\$1,040Mn	95.9%
Langham Place Office Tower	HK\$325Mn	HK\$295Mn	100.0%
Langham Place Mall	HK\$817Mn	HK\$692Mn	100.0%
Total	HK\$2,299Mn	HK\$2,027Mn	

Source: Champion REIT

Property	Langham Place	Three Garden Road	Sub-total
Office	HK\$8,477Mn	HK\$37,856Mn	HK\$46,333Mn
Retail	HK\$18,470Mn	HK\$587Mn	HK\$19,057Mn
Carpark	HK\$348Mn	HK\$535Mn	HK\$883Mn
Miscellaneous	HK\$217Mn	HK\$352Mn	HK\$569Mn
Total	HK\$27,512Mn	HK\$39,330Mn	HK\$66,842Mn

Source: Champion REIT

SHARE HOLDING PATTERN , %

Lo Ka Shui	63.20
Eagle Asset Management	6.23

PRICE PERFORMANCE , %

	1M	3M	1Y
Champion REIT	21.11	21.84	33.63
HSI	4.14	9.61	21.39

PRICE VS. HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

HKD mn	FY15	FY16	FY17E	FY18E
Revenue	2,289	2,557	2,323	2,389
NPI	1,800	1,783	2,026	1,878
EPU, HKD	0.5700	0.5500	3.0392	0.4746
PER, x	9.34	7.00	2.07	13.27
BVPU, HKD	8.3976	8.7155	8.8786	9.1512
P/BV, x	0.49	0.50	0.71	0.69
ROE, %	6.8	6.3	43.6	3.4

Source: Company reports, Phillip Securities Est.

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The potential disposal of Langham Place Office Tower may imply a payment of special dividend by the Trust: On 18/7/2017, Savills was appointed as the principal agent for the global tender sale of Langham Place Office Tower, with the indicative price range of the tower between HK\$24.5Bn and HK\$25.0Bn, about 190% higher than the fair value of the property on the financial statement. As at 31/12/2016, the Trust had HK\$14,841Mn debt outstanding. If Langham Place Office Tower is sold successfully at the indicative price and the proceeds are used to repay all of the outstanding debt, the Trust will still have approximately HK\$10Bn on hand. Therefore, the disposal may mean the Trust can distribute the excess cash in the form of special dividend. The ordinary dividend however may decrease due to the lower profit, a result of the disposal of the Langham Place Office Tower.

The tender for Murray Road Carpark is potentially beneficial: In May 2017, the Murray Road Carpark land, which has a GFA of 465,005 square foot, was sold at a recorded price of HK\$23.28Bn, equivalent to a price per square foot of HK\$50,063. This is potentially beneficial to the valuation of the Three Garden Road, which is located close to the Murray Road Carpark land. Moreover, Three Garden Road's GFA is 1,638,000 square foot, about 250% larger than that of the Murray Road Carpark land. If Champion REIT considers to sell Three Garden Road, which is currently valued at about HK\$24,000 per square foot on the financial statement, the value of the property, coupled with the positive effect brought by the tender of Murray Road Carpark land, will be released, thereby bringing sizable cash flow to the Trust.

Investment Thesis, Valuation and Risk

Our valuation model suggests a target price of HK\$6.30: Our valuation model is based on the NAV per unit. Given by the fact that Champion REIT's investment properties are all high quality and located at prime locations and the potential disposal of Langham Place Office Tower will release the value of the property by bringing sizable cash flow and gain to the company, we expect the Trust will have a large increase in distributable income in FY2017. Moreover, the sales proceed, if Langham Place Office Tower is successfully sold, will be more than enough to repay all of the debt of the Trust. Therefore, a target price of HK\$6.30, corresponding to a 29% discount to NAV and a 'Neutral' rating, has been assigned. (Closing price as at 26 Jul 2017)

<i>Downside Risks</i>	(1): Unsuccessful disposal of Langham Place Office Tower (2): If Langham Place Office Tower is disposed, the ordinary dividend would be lower due to lower profit
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Financials

FYE	FY2014	FY2015	FY2016	FY2017F	FY2018F
Valuation Ratios					
Price Earnings (P/E)	17.01	9.34	7.00	2.07	13.27
Price to Book (P/B)	0.45	0.49	0.50	0.71	0.69
Per Unit Data (HKD)					
EPU	0.3400	0.5700	0.5500	3.0392	0.4746
Book Value Per Unit	8.0551	8.3976	8.7155	8.8786	9.1512
Dividend Per Unit	0.2037	0.1983	0.2295	2.8761	0.2020
Growth & Margins (%)					
Growth					
Revenue	5.0	0.0	11.7	(9.1)	2.8
Pretax Income	(8.2)	63.9	(2.5)	458.5	(84.4)
Income Available for Distribution	(2.9)	(1.8)	16.2	1034.6	(92.2)
Margins					
Net Property Income Margin	78.7	77.9	79.3	78.6	78.6
Pretax Income Margin	93.7	153.5	134.0	823.8	125.1
Income Available for Distribution Margin	53.9	52.9	55.1	687.7	51.9
Key Ratios					
ROE (%)	4.2	6.8	6.3	43.6	3.4
ROA (%)	3.0	5.0	4.7	42.2	3.2
Income Statement (HKD Mn)					
Revenue	2,288	2,289	2,557	2,323	2,389
- Property Expense	(431)	(488)	(506)	(531)	(511)
Net Property Income	1,748	1,800	1,783	2,026	1,878
- Base Fee & Other Expense	587	343	1,730	1,400	1,110
Pretax Income	2,335	2,143	3,513	3,426	2,988
- Income Tax Expenses	(136)	(215)	(208)	(245)	(230)
Income Before Distribution	2,199	1,928	3,305	3,181	2,758
- Distribution Adjustment	(927)	(694)	(2,093)	(1,773)	(1,518)
Income Available for Distribution	1,272	1,234	1,212	1,408	1,240

Source: Company, Phillip Securities (HK) Research Estimates

Income Statement is projected based on the assumption of successfully disposing Langham Place Office Tower
(Financial figures as at 26 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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