

Swire Properties (1972.HK)

New Investment Properties Gradually Start Operation

Hong Kong | Property | Company report

29 August 2017

Investment Summary

- Three new investment properties in Hong Kong will be completed in FY2018, with one of them having been sold to third party, subject to terms and conditions
- Rapid retail sales growth in China, benefitting the investment properties in China

Business Overview

Rapid growth in 1H2017 result: In 1H2017, Swire Properties's revenue rose 46% to HK\$11,525Mn. Operating profit rose 131% to HK\$15,537Mn and net profit rose 177% to HK\$14,763Mn. The rapid growth in net profit is mainly caused by the 331% surge in the valuation gain on investment properties, which is caused by the increase in rental income and the reduction in cap rate. Underlying profit increased 30% to HK\$4,628Mn and is mainly caused by the sharp increase in profit contributed by the property trading segment, whose profit rose rapidly because of the handover of the pre-sold units at ALASSIO project in Hong Kong. In 1H2017, Swire Properties had an Earnings per Share of HK\$0.91 and an Underlying Earnings per Share of HK\$0.61. The company declared a dividend of HK\$0.25 per share, representing a HK\$0.02 increase in comparison with that of 1H2016.

Property trading segment is the primary contributor of the growth: Swire Properties handed over its properties to their buyers in Hong Kong. The entire 197 pre-sold units in ALASSIO were handed over to the buyers and 9 out of 28 units in WHITESANDS were handed over to buyers too. The property trading segment still has some floor area remaining from previous development projects, which is expected to be enough for sales for the next one or two years. However, once the property trading portfolio dries up, Swire Properties will not be able to sustain the current level of revenue generated by the property trading segment. Therefore, unless the three land held for development in USA start to be developed, the revenue contributed by the property trading segment will be gradually declining.

<i>Property Trading Portfolio</i>	<i>Location</i>	<i>GFA (Sq. Ft.)</i>	<i>Completion Date</i>
5 Star Street	Hong Kong	408	2010
WHITESANDS	Hong Kong	49,212	2015
Pinnacle One, Chengdu*	China	593,139	2014
ASIA, Miami**	USA	5,359	2008
Reach, Miami	USA	63,158	2016
Rise, Miami	USA	290,616	2016
<i>Held for Development</i>			
Fort Lauderdale, Florida	USA	825,000	--
South Brickell Key, Miami, Florida	USA	550,000	--
Brickell City Centre, Miami, Florida	USA	523,000	--

Source: Company Reports, Swire Properties

*: Awaiting court proceedings for cancellation of sales due to consideration was not received on time

** : 122 out of 123 units were sold. One penthouse unit remains unsold

Neutral

CMP: HKD27.35

(Closing price at 24 Aug 2017)

TARGET: HKD27.30 (-0.18%)

COMPANY DATA

O/S SHARES (MN) :	5,850
MARKET CAP (HKDMN) :	159,998
52 - WK HI/LO (HKD):	27.70 / 21.15

SHARE HOLDING PATTERN , %

Swire Pacific Limited	82.0
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PRICE PERFORMANCE , %

	1M	3M	1Y
Swire Properties	1.67	6.42	25.17
HIS	2.99	8.42	20.62

PRICE VS. HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

HKD mn	FY15	FY16	FY17E	FY18E
Net Sales	16,447	16,792	18,699	16,333
Net Profit	14,196	15,209	16,948	16,110
EPS, HKD	2.4100	2.5700	2.8970	2.7539
PER, x	12.45	10.22	9.42	9.91
BVPS, HKD	36.9653	38.1318	40.2988	42.3227
P/BV, x	0.65	0.58	0.68	0.65
ROE, %	4.6	6.5	5.3	5.0

Source: Company reports, Phillip Securities Est.

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Three new investment properties will be ready in FY2018: Swire Properties currently has three investment properties projects under development in Hong Kong, namely 8-10 Wong Chuk Hang Road, Tung Chung Town Lot 11 and New Kowloon Inland Lot 6312, all of which are going to be completed in FY2018. These properties are either offices or retail and hotel complex. In particular, Swire Properties has conditionally agreed to sell New Kowloon Inland Lot 6312, subject to the successful application of occupation permit and certificate of compliance on or before 31/12/2018.

<i>Property</i>	<i>Interest</i>	<i>GFA (Sq. Ft.)</i>	<i>Type</i>	<i>Completion Date</i>
8-10 Wong Chuk Hang Road	50%	382,500	Office	FY2018
Tung Chung Town Lot 11	20%	475,000	Retail/Hotel	FY2018
New Kowloon Inland Lot 6312	--*	555,000	Office	FY2018

Source: Company Reports, Swire Properties

*: Swire Properties conditionally agreed to sell its 100% interest in the company which owns this uncompleted investment property development

These investment properties will provide a stable recurring profit and provide some support to the profit when the property trading portfolio dries up. Moreover, the Tung Chung Town Lot 11 is right next to the company's another investment property, Citygate Outlets, which the company has an attributable interest of 20%. The Tung Chung Town Lot 11 project comprises retail area and hotel area and is expected to be benefit from the crowd brought by Citygate Outlets as well as the future Hong Kong-Zuhai-Macau Bridge, which is expected to be completed in December 2017.

China investment properties will provide growth: Taikoo Hui in Shanghai was open in May 2017 and Swire Properties has 50% interest in the project. Calculating using a 100% interest basis, Taikoo Hui in Shanghai has a GFA of 2,930,595 square foot and the company has already achieved good results in the property, i.e. 91% leased, 40% shops opened in the shopping mall, and 75% leased for offices. Taikoo Hui in Shanghai also consists of an under development portion, with a GFA of 538,799 square foot. That portion is expected to be completed by the end of FY2017. Retail sales of the retail portion of the other investment properties in China were strong throughout the reporting period, e.g.: Taikoo Hui in Guangzhou - 30%, INDIGO - 69%, and Sino-Ocean Taikoo Li Chengdu - 47%.

Investment Thesis, Valuation & Risk

Our valuation model suggests a target price of HK\$27.30: Swire Properties will have several investment properties starting operation in FY2018. Moreover, Swire Properties released the value of its investment property by selling the New Kowloon Inland Lot 6312 property. Therefore, a target price of HK\$27.30, corresponding to a P/E and P/B of 9.42x and 0.68x, has been assigned, with a 'Neutral' rating maintained. (Closing price at 24 Aug 2017)

<i>Downside Risks</i>	(1): Retail sales in China slow down (2): Downturn in property industry in USA (3): Rent of new investment properties worse than expected
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Financials

FYE	FY2014	FY2015	FY2016	FY2017F	FY2018F
Valuation Ratios					
Price Earnings (P/E)	12.15	12.45	10.22	9.42	9.91
Price to Book (P/B)	0.69	0.65	0.58	0.68	0.65
Per Share Data (HKD)					
EPS	1.6300	2.4100	2.5700	2.8970	2.7539
Book Value Per Share	35.5027	36.9653	38.1318	40.2988	42.3227
Dividend Per Share	0.6600	0.7100	0.7100	0.7300	0.7300
Growth & Margins (%)					
Growth					
Revenue	19.0	6.9	2.1	11.3	(12.7)
Operating Income	8.9	3.4	(5.2)	9.6	(5.4)
Net Profit	(23.2)	46.0	7.1	11.5	(2.9)
Margins					
Gross Profit Margin	66.4	64.9	61.4	59.3	63.0
Operating Profit Margin	87.9	87.1	85.4	87.0	86.8
Net Profit Margin	63.2	86.3	90.6	90.6	98.6
Key Ratios					
ROE (%)	4.6	6.5	6.7	5.3	5.0
ROA (%)	3.7	5.2	5.3	3.8	3.5
Income Statement (HKD Mn)					
Revenue	15,387	16,447	16,792	18,699	16,333
- Cost of Goods Sold	(5,176)	(5,781)	(6,486)	(7,616)	(5,825)
Gross Income	10,211	10,666	10,306	11,083	10,507
- Operating Expenses	(1,231)	(1,381)	(1,507)	(1,440)	(1,382)
Operating Income	8,980	9,285	8,799	9,643	9,125
- Net Non-Operating Gain	2,389	6,968	8,821	9,748	9,469
Pretax Income	11,369	16,253	17,620	19,392	18,594
- Income Tax Expenses	(1,646)	(2,057)	(2,411)	(2,444)	(2,483)
Net Profit	9,723	14,196	15,209	16,948	16,110

Source: Company, Phillip Securities (HK) Research Estimates

(Financial figures as at 24 Aug 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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