

SUNeVision (1686.HK)

The new capacity of the data center being sold faster than expected

Hong Kong | TMT | Company Report

28 February 2019

Investment Summary

SUNeVision is one of the leading carrier-neutral data center operators in Hong Kong, owned 74.04% by Sun Hung Kai Properties (16.HK). The Group announced its interim results on February 22, and its revenue reached HK\$760 million during the period, up 18.5% YoY, while we should see the net interest-bearing debt-to-equity ratio to rise significantly. We derive a target price of HK\$5.82. Due to the recent rally on stock price, we downgraded the rating to “Accumulate” with a potential upside of approximately 5.05%. (Closing price at 26 Feb 2019)

Corporate Update

The Group announced its interim results on February 22, and its revenue reached HK\$760 million during the period, up 18.5% YoY. However, the gross profit margin decreased from 59.3% to 57.2%, due mainly to the increase in depreciation expenses and the upfront expenses of new customers entering MEGA Plus and MEGA Two. In addition, operating costs as % of revenue also increased, with selling expenses accounting for 1.86%, up 0.05% YoY; administrative expenses as % of revenue was 4.5%, increased by 0.2% YoY. The increase was mainly used to promote new capacity in data centers. The interest expenses from bank loan and other financial costs were HK\$26.07 million, and the capitalization amount was HK\$18.82 million, representing, a financed expenses of HK\$7.24 million. Besides, the increase in fair value of investment properties during the period was HK\$90 million. The core profit attributable to shareholders of the company was HK\$321 million, a YoY increase of 7.5%.

Compared with our forecast, the Group’s revenue growth in the first half of the financial year was higher than our expectation, reflecting that the new capacity of the data center was sold faster than we expected. However, the drop in gross profit margin rate is also faster than our forecast, but the group said that the revenue generated by new customers will show up in the second half of 2019FY, so we are optimistic about the gross profit margin in 2019FY. In terms of operating costs, selling expenses and administrative expenses as % of revenue were slightly higher than our earlier forecasts.

Figure: 20182H vs 2019FY

	20182H	2019FY forecast
Revenue growth (YoY)	18.5%	8.5%
GPM	57.2%	57.5%
Selling expenses as % of revenue	1.86%	1.60%
Administrative expenses as % of revenue	4.5%	4.4%

Source: Company report, Phillip Securities (HK) Research

Accumulate

CMP HKD 5.54

(Closing price at 26 February 2019)

TARGET HKD 5.82 (+5.05%)

COMPANY DATA

O/S SHARES (MN) :	2,325
MARKET CAP (HKDMN) :	12,883
52 - WK HI/LO (HKD):	6.39 / 4.16

SHARE HOLDING PATTERN , %

Sun Hung Kai Properties	74.04
-------------------------	-------

PRICE PERFORMANCE , %

	1M	3M	1Y
SUNeVision	14.70	21.49	3.36
HSI	4.33	8.77	-7.98

RETURN VS. HSI



Source: Aastocks, Phillip Securities (HK) Research

KEY FINANCIALS

HKD mn	FY17	FY18	FY19E	FY20E
Revenue	1,142	1,365	1,511	1,669
Net Profit	632	776	730	704
EPS, HKD	0.156	0.192	0.181	0.174
PER, x	35.56	28.85	30.66	31.83
BVPS, HKD	0.911	0.968	1.058	1.145
P/BV, x	6.08	5.72	5.24	4.84
ROE, %	17.4	20.4	17.8	15.8

Source: Company reports, Phillip Securities Est.

Research Analyst
Terry Li (2277 6527)
 terryli@phillip.com.hk

Judicial review

As we mentioned earlier, the Group launched an application for judicial review against Hong Kong Science and Technology Parks Corporation (HKSTPC) in relation to TKOIE. The Group also mentioned this event in its interim results. It believes that HKSTPC has not complied with its policies and not enforced those lease restrictions properly, leading to rampant subletting or third party's occupation inside TKOIE. Hence, the Group launched an application for judicial review to the High Court to seek for clarification. However, the Group did not provide further updates for the case. We believe that the results of the review will have a significant impact on the competitive landscape of data centers in Hong Kong.

Source of funding

The Group announced on December 12 that it had successfully acquired the Tseung Kwan O Data Center site for HK\$5.46 billion and stated that the Tseung Kwan O project will be funded from internal and external resources. In this interim results, the group updated that it has obtained two loans from Sun Hung Kai Properties Group and banks, respectively, amounting to HK\$3.8 billion and HK\$2.18 billion, totaling HK\$5.98 billion, which is in line with our earlier forecast of at least HK\$5 billion.

We expect the net interest-bearing debt-to-equity ratio to rise significantly from the current 57.3% to 161.9%. We maintain our estimate of a significant reduction in the dividend payout ratio in the future, thus maintaining a 50% forecast dividend payout ratio.

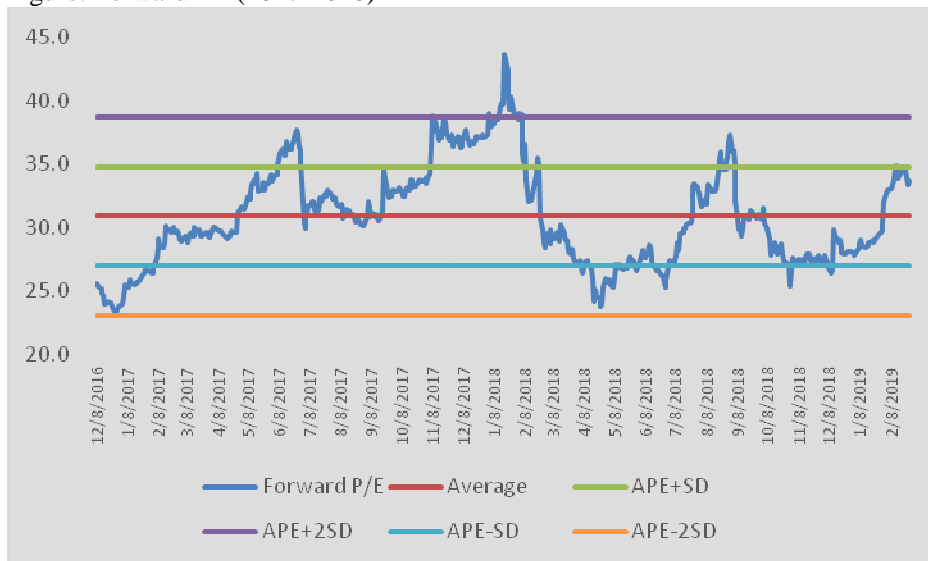
Earnings forecast

In view of the new capacity of the data center being sold faster than our forecast, we have lift the revenue growth forecast of 2019/2020FY to 10.7%/10.4%. Meanwhile, we slightly lowered the gross profit margin of 2019FY by 0.1%, reflecting that the gross profit margin fell slightly faster than expected. In addition, we lift the selling expenses of 2019/2020FY to 1.8%/1.7%, which was an increase of 0.2%/0.2% from the previous forecast; the administrative expenses of 2019/2020FY both increased by 0.1% to 4.5%. Finally, we slightly lower our forecast on interest expenses, because the amount of interest capitalization is larger than our expectation.

Valuation

Assuming 36x P/E in 2019F, we derive a target price of HK\$5.82, up 2.6% than previous TP, due to the new capacity of the data center being sold faster than our forecast, implying 33.5x P/E in 2020F. As the stock price has rallied recently, we downgrade to the rating to "Accumulate", with 5.05% potential upside,

Figure: Forward PE (2017-2018)



Source: Bloomberg, Phillip Securities (HK) Research

Risk

1. Slower than expected demand on data center
2. Significant increase in land supply for data centers within a short period
3. The entry of cloud service giant players to data center industry in Hong Kong
4. Loss on judicial review

Financials

FYE JUN	FY15	FY16	FY17	FY18	FY19F	FY20F
Valuation Ratios						
P/E (X), adj	39.33	40.79	35.56	28.85	30.66	31.83
P/B (X)	6.39	6.28	6.08	5.72	5.24	4.84
Dividend Yield (%)	2.2%	2.3%	2.5%	2.7%	1.5%	1.6%
Per share data (HKD)						
EPS, (Basic)	0.141	0.136	0.156	0.192	0.181	0.174
EPS, (Basic) (Excluding gain on fair value)	0.125	0.128	0.140	0.157	0.162	0.174
EPS, (Diluted)	0.141	0.136	0.156	0.192	0.181	0.174
DPS (HKD)	0.123	0.126	0.137	0.151	0.081	0.087
BVPS	0.866	0.882	0.911	0.968	1.058	1.145
Growth & Margins (%)						
Grwoth						
Revenue	8.5%	8.8%	14.3%	19.5%	10.7%	10.4%
EBIT	-1.0%	-2.1%	14.0%	22.4%	-1.3%	-1.4%
Net Income (Excluding gain on fair value)	5.7%	2.0%	9.9%	11.8%	3.2%	10.0%
Margins						
Gross margin	65.6%	63.9%	61.7%	58.5%	57.4%	57.0%
EBIT margin	72.0%	64.8%	64.7%	66.2%	59.0%	52.7%
Net Profit Margin (Excluding gain on fair value)	55.1%	51.6%	49.7%	46.4%	43.3%	42.2%
Key Ratios						
ROA	13.7%	12.4%	12.3%	12.2%	7.0%	5.0%
ROE	16.5%	15.5%	17.4%	20.4%	17.8%	15.8%
Income statement (HKD mn)						
Revenue	918	999	1,142	1,365	1,511	1,669
Gross Profit	602	638	704	799	867	951
EBIT	661	648	738	904	892	879
Increase in fair value of investment properties	74	39	75	165	90	-
Interest expense	-	-	-	(7)	(33)	(51)
Net profit	569	549	632	776	730	704
Minority Interest	-	-	2	-	-	-
Net profit for owners	569	549	630	776	730	704

Source: Company, Phillip Securities (HK) Research
(Financial figures as at 26 February 2019)

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

GENERAL DISCLAIMER

This publication is prepared by Phillip Securities (Hong Kong) Ltd ("Phillip Securities"). By receiving or reading this publication, you agree to be bound by the terms and limitations set out below.

This publication shall not be reproduced in whole or in part, distributed or published by you for any purpose. Phillip Securities shall not be liable for any direct or consequential loss arising from any use of material contained in this publication.

The information contained in this publication has been obtained from public sources which Phillip Securities has no reason to believe are unreliable and any analysis, forecasts, projections, expectations and opinions (collectively the "Research") contained in this publication are based on such information and are expressions of belief only. Phillip Securities has not verified this information and no representation or warranty, express or implied, is made that such information or Research is accurate, complete or verified or should be relied upon as such. Any such information or Research contained in this publication is subject to change, and Phillip Securities shall not have any responsibility to maintain the information or Research made available or to supply any corrections, updates or releases in connection therewith. In no event will Phillip Securities be liable for any special, indirect, incidental or consequential damages which may be incurred from the use of the information or Research made available, even if it has been advised of the possibility of such damages.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this material are as of the date indicated and are subject to change at any time without prior notice.

This material is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this material may not be suitable for all investors and a person receiving or reading this material should seek advice from a financial adviser regarding the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This publication should not be relied upon as authoritative without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this publication has been made available constitutes neither a recommendation to enter into a particular transaction nor a representation that any product described in this material is suitable or appropriate for the recipient. Recipients should be aware that many of the products which may be described in this publication involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in this research should take into account existing public information, including any registered prospectus in respect of such security.

Disclosure of Interest

Analyst Disclosure: Neither the analyst(s) preparing this report nor his associate has any financial interest in or serves as an officer of the listed corporation covered in this report.

Firm's Disclosure: Phillip Securities does not have any investment banking relationship with the listed corporation covered in this report nor any financial interest of 1% or more of the market capitalization in the listed corporation. In addition, no executive staff of Phillip Securities serves as an officer of the listed corporation.

Availability

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

Information contained herein is based on sources that Phillip Securities (Hong Kong) Limited ("PSHK") believed to be accurate. PSHK does not bear responsibility for any loss occasioned by reliance placed upon the contents hereof. PSHK (or its affiliates or employees) may have positions in relevant investment products. For details of different product's risks, please visit the Risk Disclosures Statement on <http://www.phillip.com.hk>.

© 2019 Phillip Securities (Hong Kong) Limited

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 10, 330 Collins Street,
Melbourne, VIC 3000, Australia
Tel (613) 86339803
Fax (613) 86339899
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