

SUNeVision (1686.HK)

Satisfactory results with excellent development of data center business

19 September 2019

Hong Kong | TMT | Company Report

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 annual results was satisfactory, which revenue increased by 19% to HK\$1.63 billion, and profit attributable to shareholders of the company increased by 11% to HK\$870 million. We update the rating to “Accumulate”. (Closing price at 27 Sep 2019)

Annual result update

Satisfactory results with excellent development of data center business

The group announced its annual results. During the period, revenue increased by 19% to HK\$1.63 billion, and profit attributable to shareholders of the company increased by 11% to HK\$870 million. Revenue growth was mainly attributable to new customers, especially cloud operators and the increase in revenue from existing customers. The cost of sales increased by 23% to HK\$70 million, mainly due to the increase in depreciation expenses and the increase in operating costs for the upfront expenses of new customers. Therefore, the Group's gross profit margin decreased from 58.5% to 57.2%. In addition, the Group's sales and administrative costs as a percentage of revenue were 1.6% and 6%, respectively, down 0.1% and 1.5% YoY.

The data center business of the Group is developing well. MEGA Plus' new customers in this year include major global cloud service operator and a regional video service provider. MEGA-i has added a leading international e-commerce operation. MEGA Two has also acquired a regional internet business group.

The Group's new project in Tsuen Wan has entered the construction phase; the new project in Tseung Kwan O has also entered the pre-construction design stage. We expect the Tsuen Wan project to be completed in 2021 and the first phase of Tseung Kwan O project to be completed from about 2022 to 2023. The GFA will reach approximately 2.8 million sq. ft. In addition, MEGA-i's expansion project is also underway, providing more data center equipment rooms and power supply to meet the higher demands of cloud providers.

Accumulate

CMP HKD 5.95

(Closing price at 17 Sep 2019)

TARGET HKD 6.46 (+8.57%)

COMPANY DATA

O/S SHARES (MN)	:	2,327
MARKET CAP (HKDMN)	:	13,847
52 - WK HI/LO (HKD)	:	7.03 / 4.16

SHARE HOLDING PATTERN , %

Sun Hung Kai Properties	74.04
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PRICE PERFORMANCE , %

	1M	3M	1Y
SUNeVision	5.68	-12.11	13.55
HSI	3.17	-3.82	0.15

RETURN VS. HSI



Source: Aastocks, Phillip Securities (HK) Research

KEY FINANCIALS

HKD mn	FY18	FY19	FY20F	FY21F
Revenue	1,365	1,625	1,789	1,936
Net Profit	776	865	746	792
EPS, HKD	0.192	0.214	0.184	0.196
PER, x	31.04	27.86	32.33	30.42
BVPS, HKD	0.966	1.031	1.123	1.221
P/BV, x	6.16	5.77	5.30	4.87
ROE, %	20.4	21.4	17.1	16.7

Source: Company reports, Phillip Securities Est.

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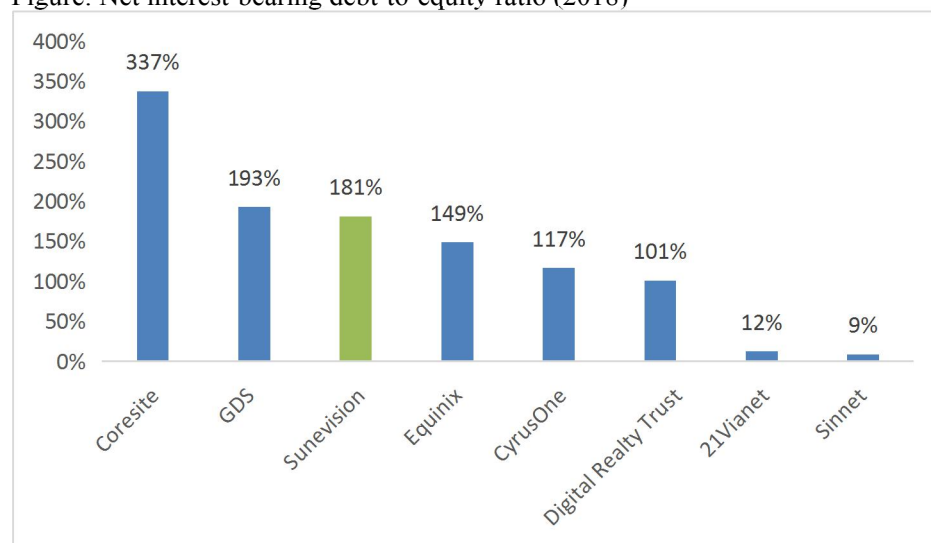
Acquiring data center in Sha Tin, while selling investment properties

The Group has announced the acquisition of the entire industrial building in Sha Tin for HK\$2.22 billion. Most of the industrial buildings are currently leased and used by the Group for operation data centre MEGA Two. At the same time, the Group's investment properties were sold to the parent company for HK\$1.81 billion, including properties in Standard Chartered Tower, Millennium City 1 in Kwun Tong and Kodak House II in North Point. The net cash outflow from the acquisition and sale was approximately HK\$410 million. By selling non-operating properties and acquiring data center industrial building in Sha Tin, the Group further concentrated its assets on the data center, which is beneficial to the long-term development.

Relatively high debt-to-equity ratio, yet no reduction in dividend payout

As of June 30, 2019, the Group had a shareholder loan of HK\$3.3 billion and a bank loan of HK\$4.75 billion, of which HK\$2.18 billion was short-term debt. The net interest-bearing debt-to-equity ratio rose to 181%, which was at a relatively high level compared with peers. Although the Group has not reduced the dividend payout ratio, we believe that the Group will have further funding needs as the Tseung Kwan O project commences. Therefore, we maintain the Group's forecast of reducing the dividend payout ratio in the future.

Figure: Net interest-bearing debt-to-equity ratio (2018)

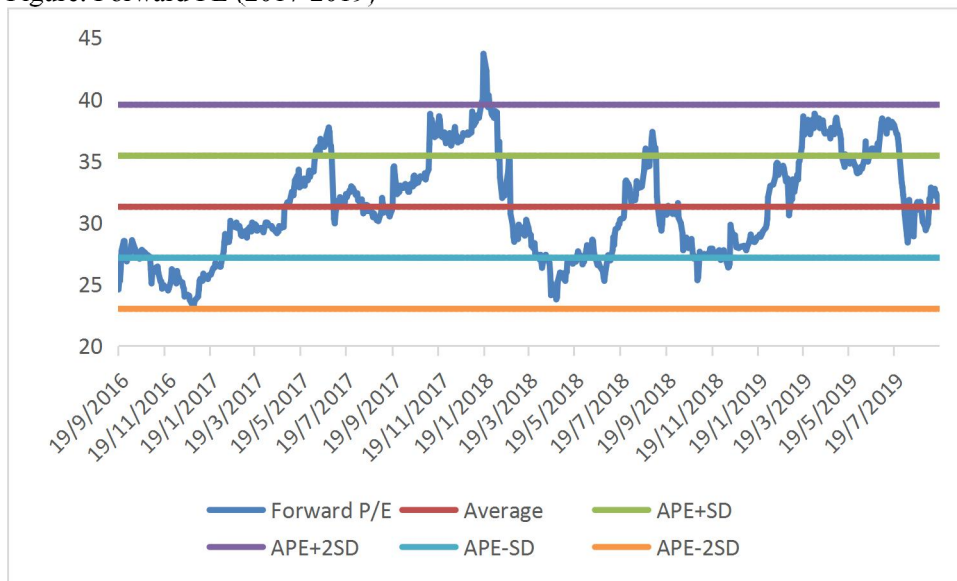


Source: Bloomberg, Phillip Securities (HK) Research

Valuation

Assuming 35x P/E in 2020F, we derive a target price of HK\$6.46, up 5.5% than previous TP, implying 33.8x P/E in 2020F. We upgrade the rating to "Accumulate", with 8.57% potential upside.

Figure: Forward PE (2017-2019)



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	FY16	FY17	FY18	FY19	FY20F	FY21F
Valuation Ratios						
P/E (X), adj	43.81	38.19	31.04	27.86	32.33	30.42
P/B (X)	6.75	6.53	6.16	5.77	5.30	4.87
Dividend Yield (%)	2.1%	2.3%	2.5%	2.8%	1.5%	1.6%
Per share data (HKD)						
EPS, (Basic)	0.136	0.156	0.192	0.214	0.184	0.196
EPS, (Basic) (Excluding gain on fair value)	0.128	0.140	0.157	0.172	0.184	0.196
EPS, (Diluted)	0.136	0.156	0.192	0.214	0.184	0.196
DPS (HKD)	0.126	0.137	0.151	0.165	0.092	0.098
BVPS	0.882	0.911	0.966	1.031	1.123	1.221
Growth & Margins (%)						
Growth						
Revenue	8.8%	14.3%	19.5%	19.1%	10.1%	8.2%
EBIT	-2.1%	14.0%	22.4%	13.4%	-11.6%	6.9%
Net Income (Excluding gain on fair value)	2.0%	9.9%	11.8%	9.9%	6.5%	6.3%
Margins						
Gross margin	63.9%	61.7%	58.5%	57.2%	56.5%	56.0%
EBIT margin	64.8%	64.7%	66.2%	63.0%	50.6%	49.9%
Net Profit Margin (Excluding gain on fair value)	51.6%	49.7%	46.4%	42.9%	41.7%	40.9%
Key Ratios						
ROA	12.4%	12.3%	12.2%	8.3%	5.3%	5.2%
ROE	15.5%	17.4%	20.4%	21.4%	17.1%	16.7%
Income statement (HKD mn)						
Revenue	999	1,142	1,365	1,625	1,789	1,936
Gross Profit	638	704	799	929	1,011	1,084
EBIT	648	738	904	1,024	905	967
Increase in fair value of investment properties	39	75	165	195	-	-
Interest expense	-	-	(7)	(25)	(28)	(35)
Net profit	549	632	776	865	746	792
Minority Interest	-	2	-	-	-	-
Net profit for owners	549	630	776	865	746	792

Source: Company, Phillip Securities (HK) Research
 (Financial figures as at 17 Sep 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

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