

China / Hong Kong Company Update

Wharf

Bloomberg: 4 HK EQUITY | Reuters: 0004.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

10 Mar 2021

BUY

Last Traded Price (9 Mar 2021): HK\$18.96 (HSI : 28,773)

Price Target 12-mth: HK\$23.10 (22% upside)

Analyst

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What's New

- FY20 underlying earnings rose 14% to HK\$3.09bn, better than expected due to stronger development profit recognition
- China rental income grew 7% on higher turnover rents
- Boasts land bank of c.0.6msf on the Peak following the acquisition of two adjoining sites on Mansfield Road
- Maintain BUY with HK\$23.1 TP

Price Relative



Forecasts and Valuation

FY Dec (HK\$ m)	2019A	2020A	2021F	2022F
Turnover	16,874	20,997	30,247	25,344
EBITDA	8,131	11,330	8,407	8,572
Pre-tax Profit	6,470	8,548	8,208	8,566
Underlying Profit	2,710	3,092	5,786	6,324
Underlying Profit Gth (%)	(58.4)	14.1	87.1	9.3
EPS (HK\$)	0.89	1.01	1.90	2.07
EPS Gth (%)	(58.4)	13.9	87.1	9.3
PE (X)	21.3	18.7	10.0	9.2
P/Cash Flow (X)	5.4	4.5	98.7	9.8
EV/EBITDA (X)	10.8	7.8	10.5	10.3
DPS (HK\$)	0.33	0.40	0.55	0.60
Div Yield (%)	1.7	2.1	2.9	3.2
Net Gearing (%)	13	16	20	18
ROE (%)	2.4	2.0	3.6	3.8
Est. NAV (HK\$):			54.4	57.7
Disc. to NAV (%)			(65)	(67)

Earnings Rev (%): 6 1
 Consensus EPS (HK\$): 1.88 1.98
 Other Broker Recs: B:4 S:0 H:0

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

Out of the haze

Investment Thesis

BUY with HK\$23.1 TP. The stock, trading 65% below our assessed current NAV, is attractively valued in view of the company's quality assets in Hong Kong and China.

Dominant luxury player on the Peak. Following the acquisition of the two adjoining sites on Mansfield Road, Wharf Holdings boasts an unparalleled land bank of 0.6msf in attributable GFA on the Peak. This makes up 18% of the company's GAV. The recent sales of luxury houses at 77/79 Peak Road were greeted with encouraging response.

China malls and hotels are staging strong post COVID recovery. Chengdu IFS and Changsha IFS saw tenants' sales up 46% and 67% respectively in 2H20. This resulted in turnover rents rising 29% to HK\$1.29bn in FY20. Niccolo branded hotels are benefitting from strong demand from domestic leisure travelers.

Valuation:

Our TP for Wharf Holdings is based on a target discount of 60% to our Dec-2021 NAV estimates.

Where we differ:

We are more positive on the long-term growth prospects of Wharf Holdings' retail malls and hotel operations in China

Key Risks to Our View:

Any deterioration in leasing demand for commercial properties and housing policies in China could affect Wharf Holdings' earnings and share price performance.

Any unfavourable change in luxury home demand in Hong Kong could impact the company's future profitability as well as valuation given the company's growing exposure in this segment.

At A Glance

Issued Capital (m shrs)	3,053
Mkt Cap (HK\$/US\$m)	57,885 / 7,458
Major Shareholders (%)	
Wheelock and Co Ltd	50.8
Free Float (%)	49.2
3m Avg. Daily Val. (US\$m)	7.25
GICS Industry: Real Estate / Real Estate Management & Development	



ed-JS/ sa- CS /TW



Live more, Bank less

Wharf

WHAT'S NEW

FY20 earnings above, led by stronger than expected development profit

Wharf Holdings recorded 14% growth in FY20 underlying net profits to HK\$3.09bn, mainly on higher investment income. The results were above our expectations due to stronger-than-expected development profit recognition in China. The company declared a second interim DPS of HK\$0.20, taking full-year DPS to HK\$0.40. (FY19: HK\$0.325). This represents 39% of underlying EPS.

Revenue from its China rental portfolio was 7% higher at HK\$4.2bn on increased turnover rents which jumped 29% to HK\$1.29bn. Tenants' sales at Changsha IFS and Chengdu IFS surged 67% and 46% in 2H20 respectively as the pandemic was brought under control. This was despite rental concessions of Rmb130m granted to retail tenants in 1H20. With rental margin expansion, operating profits grew 11% to HK\$2.57bn.

Revenue from the fully let Changsha IFS Mall rose 20% amidst robust tenants' sales growth of 42% led by luxury segment. Occupancy cost ratio was low at 9%, and should underpin positive reversionary growth in the year ahead. Occupancy of newly built office Tower 1 at Changsha IFS has climbed up to 83% in Dec-20 from 49% in Jan-20, with Tower 2 scheduled for phased opening starting from 2H22.

Benefitting from the post COVID retail market recovery, Chengdu IFS mall income rose 12% aided by positive reversionary growth and increased turnover rents. Turnover rents accounted for 37% of retail revenue, thanks to 18% growth in retail sales. Occupancy cost ratio remained comfortable at 12%, which augurs well for future reversionary growth.

Including associates and joint ventures, operating profits from property development in China was 55% higher at HK\$7.62bn, supported by profit recognition from the lucrative Shanghai One Jingan. Operating margin expanded to 43% in FY20 from FY19's 33%. Development profits from Hong Kong, mainly from its 50%-owned Mount Nicholson, rose 19% to HK\$797m.

In 2020, Wharf Holdings' contracted sales in China fell 13% to Rmb17.4bn, 16% above its full-year contracted sales target of Rmb15bn. About 84% of sales proceeds came from projects in Suzhou, Hangzhou, Beijing and Chongqing. As of Dec-20, Wharf's net order book stood at Rmb28bn (or 0.86msm). In

2021, Wharf targets to sell Rmb15bn worth of properties in China.

Wharf Holdings has recently expanded its residential exposure on the Peak with the acquisition of two luxury lots on Mansfield Road. The company first acquired 2-8 Mansfield Road through government tender for HK\$12bn in Dec-20. In Feb-21, a consortium in which Wharf Holdings has a 50% stake bought the adjacent lot (9-11 Mansfield Road) for HK\$7.25bn. As a result, the company increased its residential development land bank on the Peak by 0.33msf in attributable GFA terms.

Since the beginning of 2021, Wharf Holdings has sold three luxury houses at 77/79 Peak Road for HK\$1.7bn or HK\$86,600psf on average. The corresponding profit should spice up the company's bottom-line earnings in the near term.

In Dec-20, Wharf Holdings' net debt rose to HK\$25.5bn from Jun-20's HK\$23.9bn. This translated into gearing of 16%. It should further increase to c.25% after the recent purchase of the sites at the Peak. Despite higher gearing, the company's financial risk remains manageable.

As of Dec-20, Wharf Holdings had long-term investments of HK\$66.9bn including its investments in Greentown China (HK\$6.3bn) and a portfolio of blue chips (HK\$60.6bn). Technology and new economy investments made up c.53% of its equity investment portfolio with the balance comprising largely property stocks.

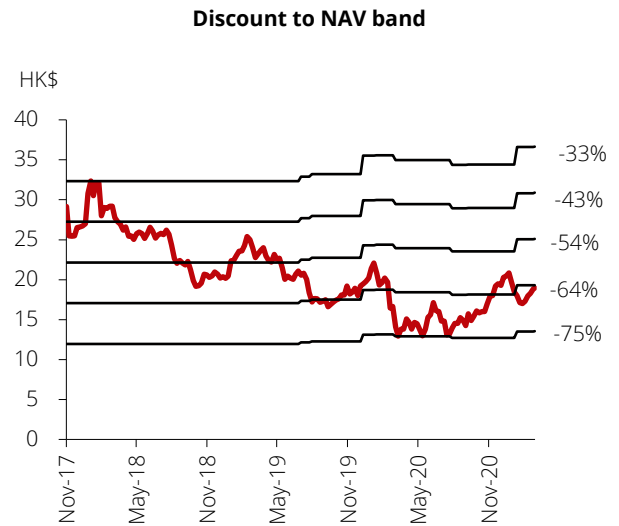
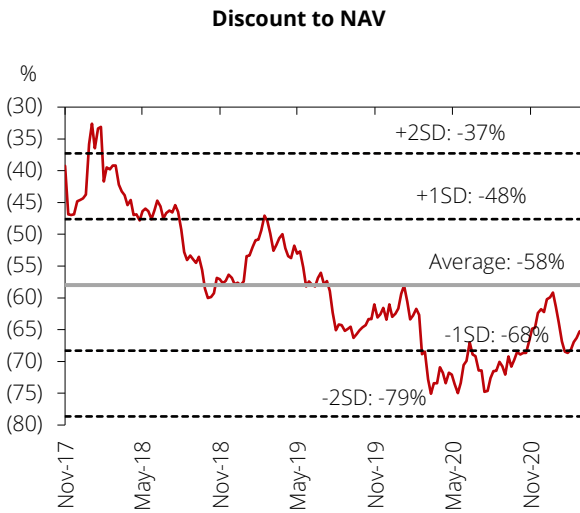
YTD, share price of Wharf Holdings has fallen 9%, underperforming the broad market by 16ppts. Meanwhile, the stock is trading at a 65% discount to our assessed current NAV. Valuation is attractive from a historical perspective. Rental portfolio in China should see growing contributions, while luxury home sales in Hong Kong should provide an earnings upside. In view of its strong asset backing, we recommend BUY with HK\$23.1 TP. This is derived by assigning 60% discount to our Dec-2021 NAV estimate.

Wharf

Company Background

Wharf has a development land bank of 2.8m square metres in the key cities of China. Wharf has been expanding its investment property portfolio there. In Hong Kong, it owns the Peak portfolio, Kowloon Godown and a 15% stake in the Yau Tong Bay redevelopment in addition to the Kowloon Tong & Kai Tal sites. Moreover, Wharf owns a 67% stake in Modern Terminals.

Discount to NAV



Source: Bloomberg Finance L.P., DBS HK

Wharf

Results Summary

HK\$m	FY19	FY20	% Chg	Comments
Turnover	16,874	20,997	24	FY20: mainly due to higher DP revenue from China
Segment results				
Investment Property	2,423	2,653	9	
- Hong Kong	112	80	(29)	
- China	2,311	2,573	11	FY20: due to strong growth in turnover rent
Development Property	3,197	6,471	102	
- Hong Kong	(3)	46	n.a.	
- China	3,200	6,425	101	FY20: due to booking of lucrative Shanghai One Jingan
Hotels	53	1	(98)	
Logistics	513	497	(3)	
- Terminals	500	487	(3)	
- Others	13	10	(23)	
Investment and others	2,167	1,932	(11)	FY20: Lower interest income was partly compensate by increased dividends from enlarged investment portfolio
Corporate expenses	(484)	(450)	(7)	
Operating profit before fair value change on investment properties	7,869	11,104	41	
Fair value change on investment properties	946	(208)	n.a.	
Other net charges	(2,067)	(1,827)	(12)	FY20: included impairment provision of HK\$2.86bn made for Kowloon Tong residential project partly offset by net fair value gain of HK\$1.19bn on other long-term investments; FY19: led by a provision of HK\$2.42bn for impairment losses on certain Mainland DP
Finance costs	(1,112)	(780)	(30)	FY20: included an unrealised mark-to-market gain of HK\$35m (FY18: HK\$50m) on cross currency and interest rate swaps; effective borrowing rate fell to 2.9% from FY19's 3.6%
Associates	336	172	(49)	
- Development Property	105	(85)	n.a.	
- Hotel	2	(3)	n.a.	
- Logistics	229	260	14	
Jointly controlled entities	498	1,066	114	
- Investment Property	111	59	(47)	
- Development Property	383	1,002	162	
- Hotel	3	6	100	
- Logistics	1	(1)	n.a.	
Profit before taxation	6,470	9,527	47	
Taxation	(3,000)	(4,743)	58	FY20: included LAT of HK\$2.5bn (FY19: HK\$248m)
Non controlling interests	(84)	(920)	995	FY20: increased net profits of certain non-wholly-owned subsidiaries
Net profit	3,386	3,864	14	
Core profits*	2,710	3,092	14	
* adjusting out the demerged Wharf REIC				

Source: Wharf Holdings

Wharf

Key Assumptions (%)

	2021F	2022F
Residential price - HK	0	3
Office rental - HK	(8)	0
Retail rental (Shopping centre) - HK	0	5

Source: DBS HK

Segmental Breakdown (HK\$ m)

FY Dec	2018A	2019A	2020A	2021F	2022F
Revenues (HK\$ m)					
Investment Property	3,586	4,090	4,363	4,876	5,193
Hotels	463	530	396	558	598
Logistics	2,616	2,597	2,566	2,890	3,034
Development Property	12,914	7,054	11,222	19,400	13,920
Investment and others	1,476	2,603	2,450	2,524	2,599
Total	21,055	16,874	20,997	30,247	25,344

Source: DBS HK

Income Statement (HK\$ m)

FY Dec	2018A	2019A	2020A	2021F	2022F
Turnover	21,055	16,874	20,997	30,247	25,344
EBITDA	8,945	8,131	11,328	8,407	8,572
Depr / Amort	(643)	(712)	(724)	(755)	(786)
EBIT	8,302	7,419	10,604	7,652	7,787
Associates Inc	2,382	834	1,238	1,056	1,329
Interest (Exp)/Inc	(62)	(662)	(280)	(500)	(550)
Exceptionals	215	(1,121)	(2,035)	0	0
Pre-tax Profit	10,837	6,470	9,527	8,208	8,566
Tax	(4,126)	(3,000)	(4,743)	(1,927)	(1,809)
Minority Interest	(88)	(84)	(920)	(496)	(432)
Net Profit	6,623	3,386	3,864	5,786	6,324
Underlying Profit	6,511	2,710	3,092	5,786	6,324
Sales Gth (%)	(51)	(20)	24	44	(16)
Net Profit Gth (%)	(58)	(49)	(9)	87	9
EBITDA Margins (%)	42	48	54	28	34
EBIT Margin (%)	39	44	51	25	31
Tax Rate (%)	38	46	53	23	21

Source: DBS HK

Wharf

Balance Sheet (HK\$ m)

FY Dec	2018A	2019A	2020A	2021F	2022F
Fixed Assets	88,408	87,867	91,401	91,394	92,171
Long-term Investments	30,544	36,531	66,875	71,875	71,875
Other LT Assets	220	261	299	299	299
Intangibles Assets	298	298	298	298	298
Deferred Tax Asset	737	752	670	670	670
Associates/JVs	41,859	43,085	33,139	31,086	30,765
Bank Balance/Cash & Liquid	17,448	27,292	16,668	10,084	11,821
Inventory	45,954	44,083	42,396	50,897	54,393
Debtors	1,722	1,987	2,160	2,160	2,160
Other Non Cash Current	159	62	189	189	189
Total Assets	227,349	242,218	254,095	258,952	264,641
ST Debt	11,239	10,647	11,549	11,500	3,700
Creditors	29,690	33,790	29,705	29,705	29,705
Other Current Liab	3,736	2,795	4,444	4,444	4,444
LT Debt	31,847	35,689	30,625	30,674	38,474
Deferred Tax Liabilities	11,637	12,539	13,915	13,915	13,915
Other LT Liabilities	440	415	381	381	381
Minority Interests	3,336	3,469	4,622	4,318	3,951
Shareholder's Equity	135,424	142,874	158,854	164,015	170,071
Total Cap. & Liab.	227,349	242,218	254,095	258,952	264,641
Share Capital (m)	3,047	3,049	3,049	3,049	3,049
Net Cash/(Debt)	(25,638)	(19,044)	(25,506)	(32,090)	(30,353)
Working Capital	20,618	26,192	15,715	17,681	30,713
Net Gearing (%)	19	13	16	20	18

Source: DBS HK

Cash Flow Statement (HK\$ m)

FY Dec	2018A	2019A	2020A	2021F	2022F
EBIT	8,302	7,419	10,604	7,652	7,787
Tax Paid	(1,938)	(2,763)	(4,545)	(1,927)	(1,809)
Depr/Amort	643	712	726	755	786
Profit or loss on disposal of FAs/subsidiaries/investment	0	0	0	0	0
Chg in Wkg.Cap	(15,121)	4,076	1,123	(8,101)	(2,946)
Other Non-Cash	23	(124)	(734)	(900)	(1,100)
Operating CF	(8,091)	9,320	7,174	(2,520)	2,717
Net Capex	(2,504)	(837)	0	0	0
Investments	(17,040)	2,286	(19,746)	(5,000)	0
Associates & JVs	(3,722)	(2,055)	7,749	3,109	1,650
Others	702	(2,201)	0	0	0
Investing CF	(22,564)	(2,807)	(11,997)	(1,891)	1,650
Net Chg in Debt	7,266	3,162	(4,162)	0	0
New Capital	0	0	0	0	0
Dividend	(3,768)	(2,065)	(1,639)	(2,173)	(2,630)
Non-controlling Interest	0	320	0	0	0
Other Financing CF	239	(5)	0	0	0
Financing CF	3,737	1,412	(5,801)	(2,173)	(2,630)
Chg in Cash	(26,918)	7,925	(10,624)	(6,584)	1,737

Source: DBS HK

Wharf

Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	11-Mar-20	HK\$15.40	HK\$18.65	Buy
2:	4-Aug-20	HK\$13.00	HK\$16.20	Buy
3:	24-Sep-20	HK\$14.72	HK\$16.20	Buy
4:	19-Jan-21	HK\$18.06	HK\$23.10	Buy
5:	1-Feb-21	HK\$18.50	HK\$23.10	Buy

Source: DBS HK

Analyst: Jeff YAU CFA,

DBS HK recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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