

# China / Hong Kong Company Focus

## Cheung Kong

Bloomberg: 1 HK | Reuters: 0001.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

21 October 2013

### BUY HK\$124.00 HSI : 23,340

**Price Target :** 12-Month HK\$146.30 (Prev HK\$132.90)

**Reason for Report :** Asset divestment, raising TP

**Potential Catalyst:** New acquisitions and project launches

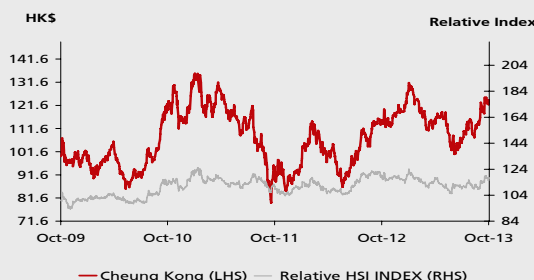
**DBSV vs Consensus:** Market has lower earnings estimates for FY13

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#### Price Relative



#### Forecasts and Valuation

FY Dec (HK\$m)	2011A*	2012A*	2013F	2014F
Turnover	42,359	31,106	29,261	56,808
EBITDA	14,895	15,313	18,492	22,134
Pretax Profit	49,822	36,140	33,369	37,630
Net Profit	46,055	32,152	29,161	32,385
EPS (HK\$)	19.88	13.88	12.59	13.98
EPS Gth (%)	74	(30)	(9)	11
PE (x)	6.2	8.9	9.8	8.9
P/Cash Flow (x)	13,054	175.9	14.9	37.8
EV/EBITDA (x)	21.7	21.1	17.5	14.6
DPS (HK\$)	3.16	3.16	3.38	3.65
Div Yield (%)	2.5	2.5	2.7	2.9
Net Gearing (%)	8	8	3	4
ROE (%)	16.0	10.0	8.4	8.7
Estimated NAV (HK\$)			185.1	188.6
Discount to NAV (%)			(33)	(34)
Earnings Rev (%)			13	11
Consensus EPS (HK\$)			12.00	12.87
Other Broker Recs:		B: 18	S: 0	H: 1

\* Net profit included fair value changes on investment properties

**ICB Industry:** Financials

**ICB Sector :** Real Estate Holding & Development

**Principal Business:** A leading local property developer with 49.9% stake in Hutchison Whampoa.

Source of all data: Company, DBSV, Thomson Reuters, HKEX

### Value unlocking

- Disposing Oriental Financial Center in Shanghai for c.HK\$9bn
- Well poised for value-accretive acquisitions
- BUY with TP raised to HK\$146.30

**Selling Oriental Financial Center in Shanghai.** A consortium equally owned by Cheung Kong and Hutchison Whampoa (HW) has agreed to sell Oriental Financial Center in Shanghai for US\$1.155bn (c.HK\$9bn) or HK\$10,401psf (c.Rmb89,000psm). This deal should not be a surprise as there were rumours that the Cheung Kong/HW consortium had been contemplating to sell this property for some time. Located in Lujiazui in Pudong, Oriental Financial Center is a commercial development with GFA of 80,000sm (or 0.86m sf). It is scheduled to be completed in mid-2014. The site where Oriental Financial Center is being built was acquired for Rmb832m in 2006. The sale is estimated to yield attributable profit of HK\$1.839bn to Cheung Kong directly and lower its gearing by 1.3ppts to 2%.

**Well poised for value-accretive acquisitions.** Since Jul 13, Cheung Kong has been strengthening its balance sheet via asset divestments and project sales. The company sold Kingswood Ginza property in Tin Shui Wai to Fortune REIT for HK\$5.85bn in Oct 13. The recent launch of The Rise in Kwai Chung received good response, with 85% of total units pre-sold for HK\$1.86bn. Cheung Kong has also agreed to sell Metropolitan Plaza in Guangzhou, a 50/50 JV with HW, for HK\$3.27bn. Including sales proceeds from Oriental Financial Center, Cheung Kong should generate c.HK\$13.8bn from asset disposals/project sales. On the other hand, Cheung Kong has yet to buy any site in Hong Kong for development YTD. Taking these into account, we estimate Cheung Kong's gearing has improved to c.2% from Jun 13's c.6%. The company is well poised for pursuing accretive acquisitions, which in turn should enhance its NAV. Should Cheung Kong raise its gearing to 20%, the company would have c.HK\$60bn for new investments.

**BUY with TP raised to HK\$146.30.** The stock is trading at a 33% discount to our assessed current NAV. Stripping out the value of its stake in HW for which we assign a 10% holding company discount, the remaining stub is trading at a 54% discount. The valuation sounds attractive. Although HW has decided not to pursue the private sale of PARKnSHOP at this stage, it is looking at ways to maximise the value and future growth potential of the A.S. Watson & Company Ltd retail business, including an IPO. This reflects that the Cheung Kong Group is looking to unlock its value through various means. This should help narrow its discount to NAV and provide upside on stock. Based on a higher fair value for HW, we have raised our TP for Cheung Kong from HK\$132.90 to HK\$146.30 which suggests 18% upside from the current level.

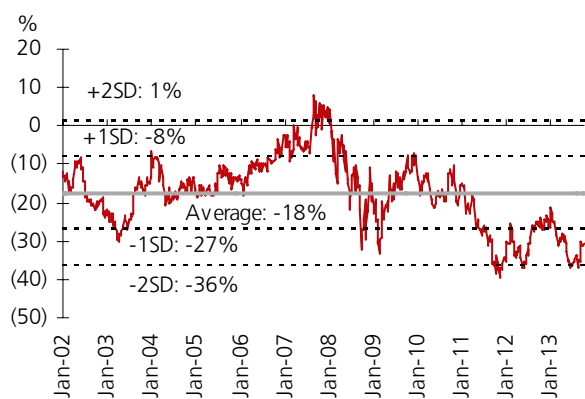
#### At A Glance

Issued Capital (m shrs)	2,316
Mkt Cap (HK\$m/US\$m)	287,204 / 37,039
Major Shareholders (%)	
Li Ka-shing	43.33
JPMorgan Chase & Co.	5
Free Float (%)	56.67
Avg Daily Volume (m shrs)	4.4

## Company Focus

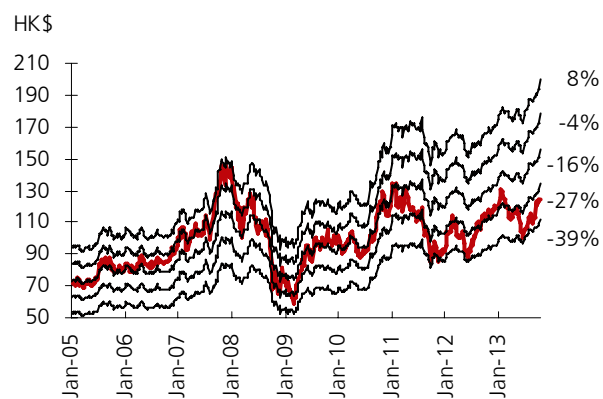
### Cheung Kong

#### Discount to NAV



Source: Thomson Reuters, DBS Vickers

#### Discount to NAV band



Source: Thomson Reuters, DBS Vickers

## Key Assumption

	2013F	2014F
Residential price - HK	0% to -5%	-5 to -10%
Office rental - HK	0 to 5%	5%
Retail rental - HK	5%	5%

Source: DBS Vickers

## Segmental Breakdown (HK\$m)

FY Dec	2010A	2011A	2012A	2013F	2014F
Property sales	29,297	38,143	26,521	24,342	51,923
Property rental	1,264	1,377	1,867	2,065	1,934
Hotels and serviced suites	2,037	2,489	2,350	2,475	2,560
Property and project management	265	350	368	379	390
<b>Total sales</b>	<b>32,863</b>	<b>42,359</b>	<b>31,106</b>	<b>29,261</b>	<b>56,808</b>

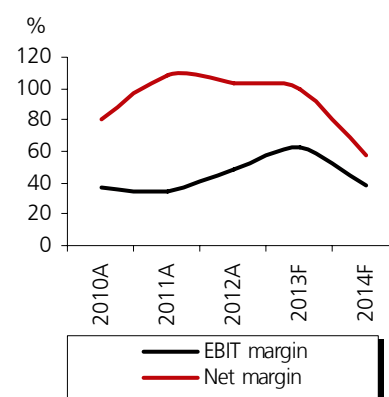
Source: Company, DBS Vickers

## Income Statement (HK\$m)

FY Dec	2010A	2011A	2012A	2013F	2014F
Turnover	32,863	42,359	31,106	29,261	56,808
EBITDA	12,456	14,895	15,313	18,492	22,134
Depr/Amort	(398)	(400)	(340)	(367)	(397)
<b>EBIT</b>	<b>12,058</b>	<b>14,495</b>	<b>14,973</b>	<b>18,125</b>	<b>21,738</b>
Associates Inc	11,027	28,757	13,759	16,044	16,792
Interest (Exp)/Inc	(188)	(322)	(446)	(800)	(900)
Exceptionals	8,680	6,892	7,854	-	-
<b>Pre-Tax Profit</b>	<b>31,577</b>	<b>49,822</b>	<b>36,140</b>	<b>33,369</b>	<b>37,630</b>
Tax	(4,776)	(3,563)	(3,616)	(3,458)	(4,495)
Minority Interest	(323)	(204)	(372)	(750)	(750)
<b>Net Profit</b>	<b>26,478</b>	<b>46,055</b>	<b>32,152</b>	<b>29,161</b>	<b>32,385</b>
Sales Growth (%)	35.3	28.9	(26.6)	(5.9)	94.1
Net Profit Gr (%)	35.0	73.9	(30.2)	(9.3)	11.1
EBITDA Mgn (%)	37.9	35.2	49.2	63.2	39.0
Opg Mgn (%)	36.7	34.2	48.1	61.9	38.3
Tax Rate (%)	15.1	7.2	10.0	10.4	11.9

Source: Company, DBS Vickers

## Margin Trends



## Company Focus

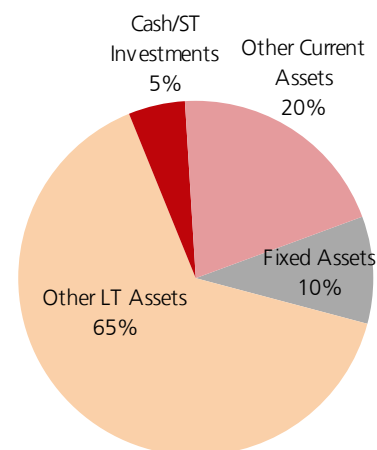
### Cheung Kong

#### Balance Sheet (HK\$m)

FY Dec	2010A	2011A	2012A	2013F	2014F
Fixed Assets	31,569	36,413	39,801	37,568	40,536
Other LT Assets	205,505	244,767	263,420	274,241	287,948
Cash/ST Investments	25,405	20,114	21,403	34,537	24,841
Other Current Assets	68,472	71,892	82,942	82,835	98,092
<b>Total Assets</b>	<b>330,951</b>	<b>373,186</b>	<b>407,566</b>	<b>429,181</b>	<b>451,417</b>
ST Debt	15,127	22,897	5,098	2,098	5,898
Other Current Liab	19,578	12,134	15,091	16,041	16,991
LT Debt	22,027	23,020	43,001	43,001	34,201
Other LT Liab	761	850	883	883	883
Perpetual securities	0	4,648	5,652	5,652	5,652
Minority Interests	3,821	3,212	3,157	3,613	4,070
Shareholders' Equity	269,637	306,425	334,684	357,893	383,722
<b>Total Capital</b>	<b>330,951</b>	<b>373,186</b>	<b>407,566</b>	<b>429,181</b>	<b>451,417</b>
Share Capital (m)	2,316	2,316	2,316	2,316	2,316
Net Cash/(Debt)	(12,007)	(26,023)	(26,932)	(10,698)	(15,294)
Working Capital	59,172	56,975	84,156	99,233	100,044
Net Gearing (%)	4	8	8	3	4

Source: Company, DBS Vickers

#### Asset Breakdown

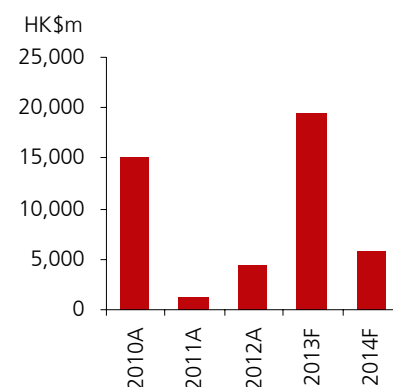


#### Cash Flow Statement (HK\$m)

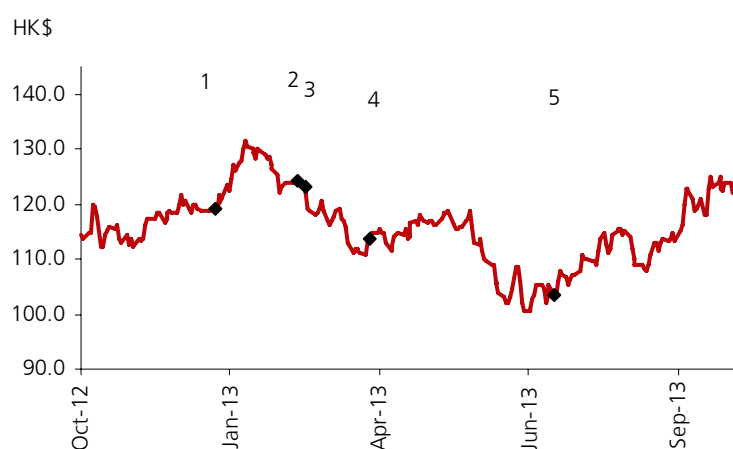
FY Dec	2010A	2011A	2012A	2013F	2014F
EBIT	12,058	14,495	14,973	18,125	21,738
Tax Paid	(1,376)	(865)	(2,220)	(2,858)	(3,895)
Depr/Amort	398	400	340	367	397
Chg in Wkg Cap	5,752	(10,730)	(6,069)	1,007	(14,256)
Othr Non-Cash	(1,761)	(2,097)	(2,632)	2,805	1,805
<b>Operational CF</b>	<b>15,071</b>	<b>1,203</b>	<b>4,392</b>	<b>19,446</b>	<b>5,788</b>
Capex	(173)	(1,273)	(126)	(500)	(2,000)
Assoc, MI, Invsmt	3,251	(10,737)	2,964	6,317	1,331
<b>Investment CF</b>	<b>3,078</b>	<b>(12,010)</b>	<b>2,838</b>	<b>5,817</b>	<b>(670)</b>
Net Chg in Debt	2,449	9,130	1,761	(3,000)	(5,000)
New Capital	-	-	-	-	-
Dividend	(6,403)	(7,179)	(7,611)	(7,729)	(8,214)
Other financing CF	(471)	3,603	(107)	(1,300)	(1,500)
<b>Financing CF</b>	<b>(4,425)</b>	<b>5,554</b>	<b>(5,957)</b>	<b>(12,029)</b>	<b>(14,714)</b>
Chg in Cash	13,724	(5,253)	1,273	13,234	(9,596)
Chg in Net Cash	11,275	(14,383)	(488)	16,234	(4,596)

Source: Company, DBS Vickers

#### Operating cashflow



## Target price &amp; ratings history



S.No.	Date	Closing Price	Target Price	Rating
1:	31-Dec-12	HK\$118.90	HK\$125.00	Buy
2:	15-Feb-13	HK\$122.00	HK\$148.30	Buy
3:	19-Feb-13	HK\$123.40	HK\$148.30	Buy
4:	27-Mar-13	HK\$113.20	HK\$148.30	Buy
5:	8-Jul-13	HK\$105.20	HK\$132.90	Buy

Source: DBS Vickers

## Company Focus

### Cheung Kong

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**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 catalysts within this time frame)

*Share price appreciation + dividends*

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