BEA securities

EAST ASIA SECURITIES COMPANY LIMITED
9/F, 10 Des Voeux Road Central, Hong Kong.
Dealing: 3608 8000 Research: 3608 8096 Facsimile: 3608 6132

HONG KONG RESEARCH

Analyst: Sabina Cheng

14th August, 2008

HANG LUNG PROPERTIES LIMITED (恆隆地產)

Sector	:	Property developer	Chairman	:	Ronnie C. Chan
HKSE Code	:	00101			
Market Price	:	HK$23.70 (13/08/2008)	Executive director	:	Terry Ng
HSI	:	21,293.32 (13/08/2008)			
Shares Issued	:	4,145.112 million			
Mkt. Cap.	:	HK$98,239 million			
52 weeks Hi/ Lo	:	HK$39.35/HK$21.80			

SUMMARY OF THE FINAL RESULTS FOR THE YEAR ENDED 30TH JUNE 2008

Final Results Highlights

	FY2008 HK$ million	FY2007 HK$ million	Change
• Turnover	10,079.9	4,389.4	*129.6%*
• Operating profit	6,517.6	2,762.7	*135.9%*
• **Increase in fair value of investment properties**	**10,181.5**	**5,962.1**	***70.8%***
• Share of results of jointly-controlled entities	128.9	78.3	*64.6%*
• **Attributable profit**	**13,159.1**	**6,370.6**	***106.6%***
• **Underlying net profit**	**5,123.0**	**2,047.9**	***150.2%***
	HK$	HK$	
• EPS- Basic	3.18	1.60	*98.8%*
• DPS- Interim	0.15	0.13	*15.4%*
• DPS- Final	0.51	0.43	*18.6%*

- Hang Lung Properties Limited ("HLP") reported a net profit growth of 106.6% to HK$13.16 billion for the year ended 30 June 2008, compared with HK$6.37 billion a year earlier. Excluding the property revaluation gain, the Group's underlying profit was up 150.2% y-o-y to HK$5.123 billion, in line with expectation, driven by a surge in development profit and higher rental earnings.

- Turnover increased by 129.6% y-o-y to HK$10.08 billion in FY08 from HK$4.39 billion a year earlier, as turnover from property sales and rentals both performed well. The Group reported a revaluation gain of HK$10.18 billion on its investment properties portfolio, 70.8% y-o-y higher than that in FY07.

- EPS was HK$3.18, against HK$1.60 a year earlier. HLP declared a final dividend of HK$0.51 per share, which was 18.6% higher than a year earlier. The payout ratio was 20.8% versus 35.0% in FY07. Meanwhile, its parent company - Hang Lung Group (00010) declared a final dividend of HK$0.54 per share.

- As of 30th June 2008, the Group held a net cash of HK$4.659 billion (31/12/2007: HK$1 billion), on the back of the slower-than-expected pace of China developments.

Business highlights

- **Breakdown of turnover and operating profit**

	Turnover					Operating profit		
HK$ million	FY08	%	FY07	%	*Change*	FY08	FY07	*Change*
Property sales	6,334.8	62.8	1,385.60	31.6	*357.2%*	3,551.9	301.20	*1,079.2%*
Property leasing	3,745.1	37.2	3,003.80	68.4	*24.7%*	3,045.7	2,402.20	*26.8%*
Total	10,079.9	100.0	4,389.40	100.0				

- Revenue from **property sales** increased by 357.2% y-o-y to HK$6,334.8 million in FY08, as more flats were sold. HLP sold nearly 800 units, with 605 units from The Long Beach and 113 units from The HarbourSide at an average price of about HK$7,100 and HK$16,900 per sq ft respectively. Profit margin for the segment jumped to 56.1% in FY08, compared with 21.7% a year earlier.

- The **property leasing** segment registered a 24.7% y-o-y rise in revenue to HK$3.75 billion in FY08, thanks to strong performance in both HK and Shanghai leasing properties.

  - Property leasing in Hong Kong exhibited pleasing results spurred by dynamic growth of the local economy. Rental turnover and profits from Hong Kong amounted to HK$2,290.1 million and HK$1,852.9 million, respectively, both representing an increase of 11%.

  - Benefiting from rapid growing consumption in Mainland China, property leasing in Shanghai continued to grow remarkably. Rental turnover and profits from Shanghai increased by 54% to HK$1,455.0 million and 63% to HK$1,192.8 million respectively, partly boosted by additional contribution from the second office tower of Plaza 66 which was completed in December 2006.

  - Profit margin for property leasing in Hong Kong stayed the same at 81% and that in Shanghai edged up 5 percentage points to 82% thanks to positive rental reversions. Overall profit margin for this segment increased to 81.3% from 80.0% a year earlier. The proportion of rental profit from Shanghai to total rental profit increased to 39% from 31% in the same period last year.

Outlook & Prospects

- **Mainland businesses** HLP aims to achieve its plan of HK$40 billion investment in 18 projects in China by the end of 2009. So far, the 5 confirmed projects, having a total GFA of 16.2 million sq. ft. and total investment costs of RMB 19.7 billion, are progressing on schedule and contribution should commence starting late 2009. Given that as at June 2008, it had total cash balance of HK$10.6 billion, unsold properties of being valued at around HK$23 billion, and recurrent rental income of around HK$3.5 billion, this demonstrates that the company has good discipline in its HK$40 billion investment on the Mainland.

- **Likely to have lower development sales in FY2009** Management has indicated that the company should be in no hurry to sell its remaining 2,000 units in Hong Kong. It will maintain its strategy of only releasing their inventories at the best possible time so as to maximise the profit margin of HLP's development sales. This includes 1,224 units at The Long Beach and 763 units at The HarbourSide. Nevertheless, such strategy is likely to create a major earnings swing factor for the company amid the global slowdown. Accordingly, a lower development sale is expected in FY2009.

- **Fair valuation** Overall, the counter had strong performance from China rental in FY2008, yet property development earnings in Hong Kong are expected to fall in FY2009. The share is now trading at 31% discount to its 2009E NAV, which is not too demanding for an exposure with a disciplined management team who are actively looking for China deals this year.

Recommendation: Hold

Important Disclosure / Analyst Certification / Disclaimer

This document is published by East Asia Securities Company Limited, a wholly-owned subsidiary of The Bank of East Asia, Limited (BEA).

The research analyst primarily responsible for the content of this report, in part or in whole certifies that the views on the companies and their securities mentioned in this report accurately reflect his/her personal views. The analyst also certifies that no part of his/her compensation was, is, or will be, directly, or indirectly, related to specific recommendations or views expressed in this report.

This report has been prepared solely for information purposes and has no intention whatsoever to solicit any action based upon it. Neither this report nor its contents shall be construed as an offer, invitation, advertisement, inducement or representation of any kind or form whatsoever. The information is based upon information, which East Asia Securities Company Limited considers reliable, but accuracy or completeness is not guaranteed. Information and opinions expressed herein reflect a judgment as of the date of this document and are subject to change without notice. Any recommendation contained in this report does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This report is not to be taken in substitution for the exercise of judgment by respective readers of this report, who should obtain separate legal or financial advice. East Asia Securities Company Limited and / or The BEA Group accepts no liability whatsoever for any direct or consequential loss arising from any use of this report or further communication given in relation to this report.

At time of this report, East Asia Securities Company Limited has no position in securities of the company or companies mentioned herein the report, while BEA along with its affiliates and/or persons associated with any of them may from time to time have interests in the securities mentioned in this report. BEA and its associates, its directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein and may also perform or seek to perform broking, investment banking and other banking services for these companies.

BEA and/or any of its affiliates may beneficially own a total of 1% or more of any class of common equity securities of the subject company or companies mentioned in this report and may, within the past 12 months, have received compensation and/or within the next 3 months seek to obtain compensation for investment banking services from the subject company or companies mentioned in the report.

This document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of, or located in, any locality, state, country or other jurisdiction, publication, availability or use would be contrary to law and regulation.