

SUN HUNG KAI PROPERTIES LIMITED (新鴻基地產)

Sector	: Property developer	Chairman & Chief Executive	: Kwok Ping-sheung, Walter
HKSE Code	: 0016	Vice Chairmen & Managing Directors	: Kwok Ping-kwong, Thomas Kwok Ping-luen, Raymond
HSI	: 24,537.02 (13/09/2007)		
Market Price	: HK\$119.40 (13/09/2007)		
Shares Issued	: 2,491.8 million		
Mkt. Cap.	: HK\$297,525 million		
52 weeks Hi/ Lo	: HK\$119.5 / HK\$83.25		

SUMMARY OF THE FINAL RESULTS FOR THE YEAR ENDED 30TH JUNE 2007
Final Results Highlights

	FY2006/07 HK\$ million	FY2005/06 HK\$ million	y-o-y Change
• Turnover	30,994	25,598	21.08%
• Operating profit*	11,562	12,314	-6.11%
• Increase in fair value of investment properties	8,904	9,110	-2.26%
• Share of results of associates and jointly-controlled entities*	2,616	647	304.33%
• Increase in fair value of investment properties held by associates and jointly controlled entities	3,384	2,305	46.81%
• Attributable profit	21,226	19,850	6.93%
• Underlying net profit	11,495	10,468	9.81%
	<u>HK\$</u>	<u>HK\$</u>	
• EPS – Basic	8.52	8.23	3.52%
• DPS – Interim	0.70	0.70	-
• DPS – Final	1.60	1.50	6.67%

* before change in fair value of investment properties

- Sun Hung Kai Properties (SHKP) reported a 6.93% growth y-o-y in net attributable profit to HK\$21.226 billion for the year ended 30th June 2007 (FY05/06: HK\$19.85 billion). Stripping out the revaluation gain, underlying profit of SHKP for FY06/07 increased 9.81% y-o-y to HK\$11.495 billion, at the lower end of market expectations due to lower development profits.
- Turnover grew 21.08% y-o-y to HK\$30.994 billion in FY06/07, thanks to a rise in property sales and rental income as well as a jump in contribution from other business - mainly the logistics businesses.
- EPS was HK\$8.52, up 3.52% y-o-y, while the underlying EPS was HK\$4.61, up 6.22% y-o-y. A final dividend of HK\$1.60 per share was proposed, 6.67% higher than last year. Along with an unchanged interim DPS of HK\$0.70, the payout ratio (underlying) for the FY06/07 was 49.9%, versus 50.7% for FY05/06.
- SHKP acquired 5.5 million sq. ft. of land bank during FY06/07. Total land bank in Hong Kong amounted to 43.5 million sq. ft. comprising 23.9 million sq. ft. of completed investment properties and 19.6 million sq. ft. of properties under development. SHKP also owned more than 23 million sq. ft. of agricultural land, the majority of which is along major existing and planned railways in the New Territories.
- As of 30/06/2007, net debt of SHKP stood at HK\$25.968 billion (FY05/06: HK\$22.431 billion) and the developer's net debt-to-shareholders' equity ratio increased to 14.0% (30/06/06: 13.4%).

This report has been prepared solely for information purposes and we are not soliciting any action based upon it. Neither this document 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 we consider reliable, but accuracy or completeness is not guaranteed. Opinions expressed herein are subject to change without notice. At time of this report, East Asia Securities Company Limited has no position in securities of the company or companies mentioned herein, while its group companies may from time to time have interests in securities of the company or companies mentioned herein.



Business Highlights

• Breakdown of turnover by activities

	FY2006/07 (HK\$ million)	%	FY2005/06 (HK\$ million)	%	y-o-y Change
Property sales	14,242	46.0%	10,890	42.5%	30.8%
Rental income	6,078	19.6%	5,659	22.1%	7.4%
Hotel operation	799	2.6%	734	2.9%	8.9%
Telecommunications	4,039	13.0%	3,779	14.8%	6.9%
Other business activities	5,836	18.8%	4,536	17.7%	28.7%
Total	30,994	100.0%	25,598	100.0%	21.1%

- **Property sales** amounted to HK\$14.242 billion in FY06/07, up 30.8% y-o-y. SHKP sold and pre-sold HK\$20.93 billion worth of properties during the year, including HK\$252 million from mainland properties and HK\$2.350 billion from the Orchard Residences in Singapore. The HK\$18.328 billion derived from sales in Hong Kong came mainly from Harbour Green in West Kowloon, The Vineyard in Yuen Long, Park Island Phase 5 on Ma Wan, Severn 8 on The Peak and Manhattan Hill in West Kowloon. Profit contribution (including share of profits from associates & jointly controlled entities) from the segment increased 9.2% y-o-y to HK\$7.70 billion.
- Gross **rental income** of the Group, including its share from joint-venture investment properties, increased by 11.6% over last year to HK\$7.215 billion. Net rental income was HK\$5,245 million, an increase of 13.7% over FY05/06. Occupancy of the rental portfolio was 94%. (FY05/06: 95%). Rental income growth primarily came from increased rents for new leases and renewals.
- Revenue from **hotel operations** increased 8.9% y-o-y to HK\$799 million in FY06/07. Net profit for the segment was up 44.8% y-o-y to HK\$349 million on significant improvement in room rates for all hotels and full year contribution from the Four Seasons Hotel.

Outlook & Prospects

• Local property portfolio

- **ICC** Management gave guidance that all space in Phase 1 (900,000 sq. ft) has already been pre-leased or at an advanced stage of negotiations. The average rent that SHKP asked for in Phase 1 is HK\$35 psf. With anchor tenant Morgan Stanley committed to 10 floors, management is confident in attracting other financial institutions to relocate from Central. In fact, there has been news that other big names like Credit Suisse and Goldman Sachs are prospective tenants. Pre-leasing of Phase 2 of ICC, 600,000 sq. ft GFA, has recently started and the average rent has increased to HK\$42 psf.
- **Residential** A few high-margin projects are to be launched for sale in FY08 including The Cullinan at Kowloon Station (target launch date in late 2007 or early 2008) and Harbour Place in Hunghom (target launch date in late October or November 2007).

- **Aggressive expansion in the Mainland** SHKP has acquired 22.2 million sq. ft of developable land bank in China during FY06/07. This adds to its total land bank in China to 45.8 million sq ft located in 6 major cities. Management revealed the target to raise committed investments in China from the current 17% to 30% of total assets of SHKP over the next 3 years. The current attributable committed investments are about RMB44 billion. Contributions from Mainland's property portfolio will not come until FY09 with the long-term target to achieve balanced portfolio of investment and development properties. With the strong balance sheet, SHKP should likely secure more projects with a target to enter 10 major cities in the next 3 years.
- **Stock Fairly Valued** Trading at FY2008E PER of some 22X and roughly at par to its estimated NAV, we see the counter fairly priced. The counter has rallied some 35% over the past month on the likely rates cut in the US and influx of liquidity in HK from the Mainland. On the strong pre-leasing of ICC and robust China expansion plans, we like SHKP's fundamentals and we recommend "buy on weakness" on the counter to take advantage of its longer-term growth.

Recommendation: Buy on weakness

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.