

Analyst: Sabina Cheng
Kerry Properties Limited (嘉里建設)

Sector	: Property developer	Chairman	: Mr. Ang Keng Lam
HKSE Code	: 0683	Managing Director	: Mr. Wong Siu Kong
Market Price	: HK\$41.95 (19/03/2008)		
HIS	: 21,866.939 (19/03/2008)		
Shares Issued	: 1,424.278 million		
Mkt. Cap.	: HK\$59,748.46 million		
52 weeks Hi/ Lo	: HK\$74.85/HK\$37.10		

SUMMARY OF THE FINAL RESULTS FOR THE YEAR ENDED 31ST DECEMBER 2007
Final Results Highlights

	2007 <u>HK\$</u> million	2006 <u>HK\$ million</u>	<u>Change</u>
• Turnover	12,496.00	10,193.12	22.59%
• Gross profit	3,735.17	2,792.00	33.78%
• Fair value changes on investment properties	4,493.94	2,318.70	93.81%
• Operating profit before finance costs	7,764.85	5,768.61	34.61%
• Share of results of associates	431.98	450.92	-4.20%
• Net profit	6,563.09	4,688.95	39.97%
	<u>HK\$</u>	<u>HK\$</u>	
• EPS- Basic	4.95	3.83	29.24%
• DPS- Final	0.65	0.65	Unchanged
• DPS- Total	0.95	0.85	11.76%

- Kerry Properties ("Kerry") announced a 39.97% jump in net profit to HK\$6.563 billion in FY2007 on strong property sales. Total turnover jumped 23% to HK\$12.5 billion.
- Underlying profit (excluding revaluation gains on investment property) in fact dropped some 12%. Kerry booked HK\$ 1.16 billion disposal gain in FY2006 in respect of its sale of 10.16% minority interest in Citibank Plaza. Major profit contributions were from the Hong Kong and Mainland property divisions, contributing HK\$1.64 billion and HK\$262 million respectively. The logistics network posted a profit of HK\$552 million.
- EPS was HK\$4.95 and a final dividend of HK\$0.65 per share was proposed, bringing the total dividend to HK\$0.95 per share. Dividend payout ratio dropped to 19.2% from 22.2% in FY2006.
- As of 31st Dec 2007, Kerry Properties had net debt of HK\$8.93 billion (31st Dec 2006: HK\$10.20 billion), representing a net gearing ratio of 20.3% (31st Dec 2006: 34.8%). Meanwhile, as of 31st Dec 2007, it had cash resources of approximately HK\$4.237 billion.
- As of 31st December 2007, net asset value per share of Kerry was HK\$30.90, versus 31st December 2006's NAV of HK\$23.68.

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Business Highlights

Breakdown of turnover by businesses

(HK\$ million)	Fiscal year ended 31 December				% y-o-y change
	2007	%	2006		
Property rental	1,106.28	8.85%	962.80	9.45%	14.90%
Property sales	3,184.22	25.48%	2,861.04	28.07%	11.30%
Hotel	400.54	3.21%	354.92	3.48%	12.85%
Logistics	7,241.69	57.95%	5,543.02	54.38%	30.65%
Warehouse operations	440.13	3.52%	427.77	4.20%	2.89%
Project, property management and others	123.13	0.99%	43.57	0.43%	182.61%
Total	12,496.00	100.00%	10,193.12	100.00%	22.59%

Hong Kong Property

- The Hong Kong Property Division recorded a turnover of HK\$3.503 billion in FY07 (versus HK\$2.827 billion in FY06) and a net profit of HK\$4.716 billion (2006: HK\$2.676 billion).
- The Division's turnover mainly included sales of 15 Homantin Hill, which enjoyed a successful launch during the year, as well as units at Tregunter Towers and Enterprise Square Three.
- Rental turnover from HK investment properties was HK\$492 million (2006: HK\$384 million) and operating profit of HK\$158 million (2006: HK\$86 million), representing y-o-y increases of 28% and 84%, respectively. As at the end of 2007, the Group has investment property portfolio in HK aggregating GFA of 2.9 million sq. ft. (2005: 1.5 million sq. ft.).

China Property

- China Property Division reported turnover of HK\$1.187 billion (2006: HK\$1.006 billion) and a net profit of HK\$885 million (2006: HK\$807 million). Excluding the effect of the increase in fair values of investment properties (after deferred taxation), net profit was HK\$262 million (2006: HK\$213 million).
- In China, property sales generated turnover and operating profit of HK\$172 million and HK\$23 million, respectively (2006: HK\$73 million and HK\$3 million, respectively), mainly in relation to the sales of office units in Shenzhen Kerry Centre.
- Investment properties generated rental turnover and operating profit of HK\$614 million and HK\$413 million, respectively (2006: HK\$578 million and HK\$403 million, respectively). As at the end of 2007, the Group's investment property portfolio in China comprised an aggregate GFA of 3.7 million sq. ft. (2006: 3.6 million sq. ft.). Occupancy rates of Kerry Everbright City Phase 1 fell from 95% to 74% at end of Dec 2007 as one major tenant moved out in Oct 2007 after expiry of its tenancy.

Logistics

- Logistics operations contributed turnover of HK\$7.243 billion (2006: HK\$5.543 billion) and profit attributable to the Group of HK\$137 million (2006: HK\$116 million), which represent an increase of 31% and 18% respectively. The turnover growth was mainly due to the increase in business generated in the Division's operation in Mainland China as well as its active geographical expansion and enhancing sales and marketing capabilities in the European market in 2007. However, the relatively slight growth in profit when compared with turnover was mainly attributable to the cost incurred in the setting up of new freight forwarding offices in Europe since late 2006.



Outlook & Prospects

- **China Property** It is expected that Kerry should perform better in FY2008 on more upcoming projects for sale. Moreover, as most of the firm's projects are mixed-used developments, this would further cushion it from the impact of the cooling measures. The Group expects to complete 1.2 million sq. ft. of gross floor area in China, mainly from the sale of the Everbright City development in Shanghai and a residential project in Beijing. Within its 10.6m sq.ft. GFA investment property, almost all are strategically located in city centres and CBDs of key cities. By 2011, Kerry is expected to build up a strong recurrent income.
- **Hong Kong Property** Kerry will book profits from its 640,000 sq. ft. of GFA in Hong Kong, including SOHO 38 at 38 Shelly Street in Mid-Levels and the remaining units at 15 Homantin Road. Kerry has 4 residential projects in the prime locations of HK Island with a total GFA of 931,245 sq. ft., which should be key earnings drivers in 2008-2010.
- **Macau Property** In July 2007, Kerry secured a site in Nam Van Lake of some 40,000 sq. ft. for development into a luxury residential apartment building, which is scheduled to be completed in the second quarter of 2011.
- **Logistics Investments** To strengthen its infrastructure network in strategic locations, new logistics facilities in Hanoi, Chengdu and Nanjing will be built with total GFA of some 700,000 sq.ft.
- **Capital Expenditures** Kerry plans to have capital expenditures of HK\$13.9 billion, of which HK\$6.3 billion will be for land acquisition. It has a land bank of 30 million sq. ft. on the Mainland. The Group is bolstering its land bank in cities with strong economic fundamentals and geographical advantages, such as Hangzhou, Shenyang, Tianjin, Chengdu and Changsha.
- **Valuation** After recent significant market correction, the counter is one of the cheapest among its peers., Its 47% discount to its 2008E NAV of HK\$79.20 offers a good buy opportunity on the back of Kerry's prime development sites in HK and China, and robust financial position.

Recommendation: Buy on Weakness

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