

SECTOR UPDATE

Hong Kong Developers And Landlords

Expect Strong Performance Of Stock Market To Positively Impact Property Prices

The CCL index fell 7.71% in 9M24. We anticipate a 3% rebound, supported by both rate cuts and China's economic stimulus policies. For the Golden Week holiday, the first six days registered a 24% yoy growth in the number of mainland tourists, with F&B being the major beneficiary. However, the relatively high Hong Kong dollar exchange rate may continue to weigh on high-end tourism spending. Maintain MARKET WEIGHT, preferring developers. Our top picks are SHKP and LINK REIT.

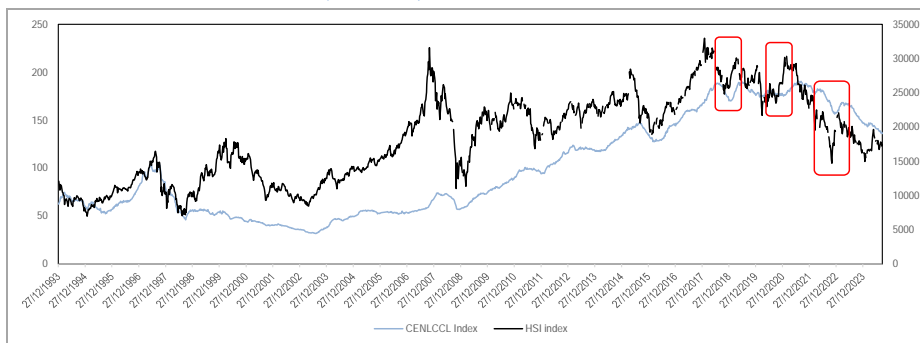
WHAT'S NEW

- Centaline announced the latest CCL index and CVI index data on 4 Oct 24.
- The Golden Week holiday registered a 24% yoy growth in the number of mainland tourists.

ESSENTIALS

- **CCL index fell to Aug 16's level.** The latest reading of the CCL is 135.86, which has fallen 7.71% in 2024 and returned to the level at the end of Aug 16. The index fell 29.0% from the historical high of 191.34 in Aug 21. The latest CCL index reflects the level of secondary market price one week before the interest rate cut was announced on 19 September. The CVI index stayed below 20. Developers' low pricing continued to be effective. SHKP's Cullinan Sky and Lai Sun's the Parkland recorded sell-through rates of 100% and 96% respectively over the past weekend.
- **Expect a 3% rebound in property prices and 4,500 primary transactions in 4Q24.** As per our analysis of the HSI and CCL indices, we have observed that since 2017, every rebound in the HSI has been accompanied or followed by a rebound in property prices. We believe that the improvement in home buyers' sentiment is the main factor driving the recovery in the CCL. While the sustained recovery in property prices still depends on the strength of China's economy and Hong Kong's competitiveness, we think a 3% rebound in the CCL could be expected in the near term. The first-hand transaction volume in 3Q24 was approximately 2,365 units, averaging around 788 units per month. We expect the primary transaction volume to increase to 4,200 units in the fourth quarter, leading to an annual transaction volume of 15,000 units. This represents a 50% yoy increase, which is in line with our previous expectation of 16,000 units.

HANG SENG INDEX VS CCL INDEX (1993-2024)



Source: Bloomberg UOB Kay Hian

PEER COMPARISON

Company	Ticker	Rec	Price 7 Oct 24 (HK\$)	Target Price (HK\$)	Upside/ (Downside) to TP (%)	Market Cap (HK\$m)	PE		P/B		Yield	
							2024F (x)	2025F (x)	2024F (x)	2025F (x)	2024F (%)	2025F (%)
New World Development	17 HK	SELL	9.66	7.02	-27.3	24,310.7	23.4	15.0	0.1	0.1	1.8	2.4
Hysan Development	14 HK	BUY	14.26	16.10	12.9	14,645.1	8.5	8.0	0.2	0.2	7.5	7.5
Sun Hung Kai Properties	16 HK	BUY	90.80	103.00	13.4	263,118.4	11.1	10.6	0.4	0.4	4.5	4.6
Wharf Real Estate Investment Co Ltd	1997 HK	BUY	29.00	32.80	13.1	88,050.6	14.2	13.5	0.5	0.5	4.4	4.7
Link REIT	823 HK	BUY	39.15	45.08	15.1	100,875.7	15.1	14.8	0.6	0.6	6.7	6.8

Source: Bloomberg, UOB Kay Hian

MARKET WEIGHT

(Maintained)

SECTOR RATING

Sector	Rating
Hong Kong developers	Market weight
Hong Kong landlords	Market weight

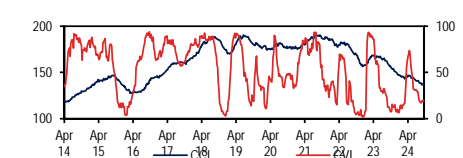
Source: UOB Kay Hian

SECTOR PICKS

Company	Ticker	Rec	Share Price (HK\$)	Target Price (HK\$)
SHKP	16HK	BUY	90.8	103.0
LINK REIT	823 HK	BUY	39.15	45.08

Source: UOB Kay Hian

CCL INDEX



Source: Centaline, UOB Kay Hian

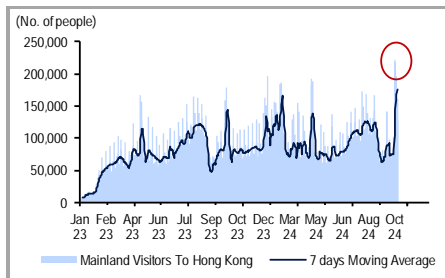
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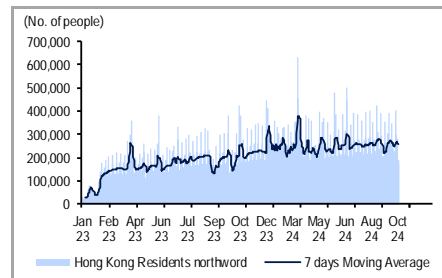
- Stronger tourist arrivals during the National Day Golden Week benefit the F&B sector.** The average daily arrivals of mainland tourists from 1 Oct to 6 Oct 24 is 185,000, marking an increase of 24% from the average daily number of tourist arrivals in the first six days of the National Day holiday in 2023, and an increase of 37% from the average daily number of tourists during 1 Oct to 6 Oct 23. According to Hong Kong Federation of Restaurants & Related Trades, the daily turnover of Hong Kong restaurants reached HK\$300m during this national day holiday, matching the level of the 2023 National Day Holiday. However, the Hong Kong Retail Management Association still holds a cautious attitude towards tourists' spending, and is more positive on local spending thanks to the strong performance of stock market.

NO OF MAINLAND TOURISTS VISTING HONG KONG



Source: HKSAR, UOB Kay Hian

NO. OF HONG KONG RESIDENTS GOING NORTHBOUND

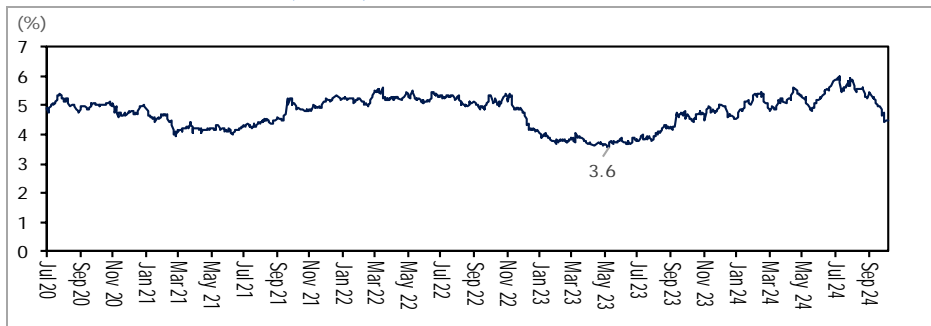


Source: HKSAR, UOB Kay Hian

ACTION

- Maintain MARKET WEIGHT; prefer Hong Kong developers.** We maintain MARKET WEIGHT on Hong Kong developers and Hong Kong landlords, but believe the near-term rebound in property prices will support developers. For landlords, as the exchange rate of the Hong Kong dollar relative to the renminbi stayed relatively high, we expect limited support to high-end tourism shopping 4Q24 from the recent stimulus policies from the Chinese government. We prefer developers over landlords. SHKP and LINK REIT remain our top picks as: a) SHKP remains the best proxy of Hong Kong's property prices; and b) LINK REIT has approximately 28.9% of Hong Kong rental income contributed by F&B tenants. We expect LINK REIT to be a key beneficiary of the improvement in F&B and local spending.
- Maintain BUY on SHKP but raise target price to HK\$103.00.** The latest target price represents a 40% discount to NAV of HK\$171.91, narrowing from 45% previously. This target price corresponds to a FY25/26 dividend yield of 4.2%, which is 1.0x SD below the mean since 2020.

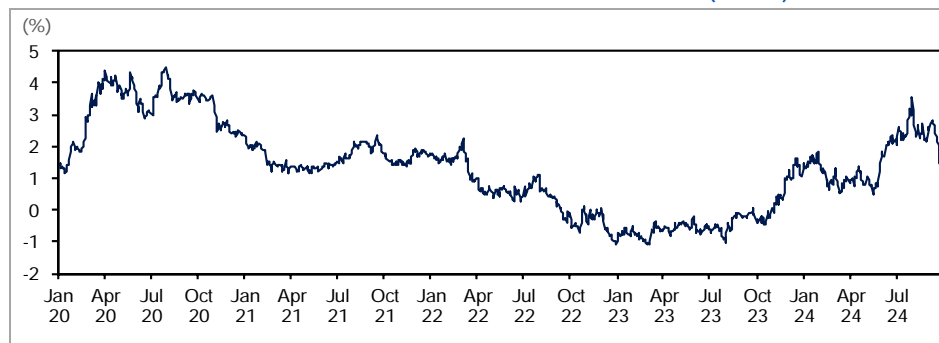
1FY DIVIDEND YIELD OF SHKP (2020-24)



Source: Bloomberg, UOB Kay Hian

- Maintain BUY on Wharf and raise target price to HK\$32.80.** The latest target price corresponds to a targeted 2025 dividend yield of 4.3%, which: a) is lowered from 5.0% previously, and b) implies a 0.3% yield spread over the 10-year US treasury yield, equivalent to 0.75x SD below the mean since 2020.

WHARF: 1FY DIVIDEND YIELD SPREAD OVER 10-YEAR US TREASURY YIELD (2020-24)



Source: Bloomberg, UOB Kay Hian

- Maintain BUY on Hysan but raise target price to HK\$16.10.** The latest target price corresponds to a targeted 2025 dividend yield of 6.7%, which: a) is lowered from 7.0% previously, and b) implies a 2.7% yield spread over the 10-year US treasury yield, equivalent to 0.5x SD below the mean since 2020.

HYSAN: 1FY DIVIDEND YIELD SPREAD OVER 10 YEAR US TREASURY YIELD (2020-24)



Source: Bloomberg, UOB Kay Hian

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