

STRATEGY – HONG KONG

Hong Kong Developers And Hong Kong Landlords

Takeaways Of 2024 Hong Kong Policy Address

The Chief Executive delivered the 2024 Policy Address on 17 Oct 24. The government pledged to continue relaxing demand-side policies by expanding new CIES and raising LTV. On the supply front, the government reiterated its land supply plan, and expedite construction in the northern metropolitan area. Policy easing may positively impact the market in the near term. However, restoring confidence and further rate cuts are crucial. Maintain MARKET WEIGHT. SHKP and LINK REIT are our top picks.

WHAT'S NEW

- The Hong Kong Chief Executive delivered the Policy Address on 16 Oct 24. Below are the key takeaways regarding the policies related to the property sector.

ESSENTIALS

- The expansion of new CIES is within market expectation.** The new capital investment entrant scheme (CIES) will include residential properties valued above HK\$50m into the permissible investment assets. A maximum of HK\$10m of investment in residential properties can be accounted into the total investment of CIES candidate, who should meet the minimum requirement of HK\$30m. For residential properties valued above HK\$50m, in 9M24, there were approximately 306/130 primary/secondary transaction registrations respectively, contributing to 2.6%/0.7% of the respective markets, according to data from Centaline. On the other hand, the new CIES received 579 applications since it was re-launched in Mar 24. We expect the expansion of CIES to have a limited impact on Hong Kong's property market.

REGISTRATION OF TRANSCATION OF PROPERTIES OVER HK\$50M

	----- Primary transaction -----		----- Secondary transaction -----	
	No.of units	Value (HK\$b)	No.of units	Value (HK\$b)
Transactions of units over HK\$50m	306	41.4	130	14.3
Total transaction of Hong Kong	11,911	1,481	17,767	1,766
Contribution of units over HK\$50m	2.6%	2.8%	0.7%	0.8%

Source: Centaline Property Agency

- Further easing countercyclical macroprudential measures for mortgage loans.** The Hong Kong Monetary Authority (HKMA) will adjust the maximum loan-to-value (LTV) ratio for all residential properties to 70% regardless of the value of the properties, whether the properties are for self-use or held by companies, and whether the purchasers are first-time home buyers. The maximum debt servicing ratio will be adjusted to 50%. Increasing the LTV ratio of mortgage loans is a positive surprise, but the impact might be limited as buyers may not want to increase leverage due to economic uncertainty. The one-month/three-month HIBOR has fallen 61bp/74bp respectively ytd, down 129bp/140bp from its peak. However, since the US lowered interest rates on 18 Sep 24, the one-month/three-month HIBOR has increased by 76bp/43bp as of now. Strong US economic data and reduced expectations for further rate cuts are expected to weigh on expectation of mortgage rate cuts in the near term.

PEER COMPARISON

Company	Ticker	Rec	Price @	Target	Upside/	Market	----- PE -----		----- P/B -----		----- Yield -----	
			16 Oct 24	Price	(Downside)		Cap	2024F	2025F	2024F	2025F	2024F
			(HK\$)	(HK\$)	To TP	(lcy bn)	(x)	(x)	(x)	(x)	(%)	(%)
New World Development	17 HK	SELL	8.20	7.02	-14.4%	20,636.4	21.1	13.1	0.1	0.1	4.7	4.6
Hysan Development	14 HK	BUY	13.10	16.10	22.9%	13,453.8	7.8	7.3	0.2	0.2	8.2	8.2
Sun Hung Kai Properties	16 HK	BUY	86.70	103.0	18.8%	251,237.5	10.6	10.2	0.4	0.4	4.7	4.9
Wharf Real Estate Investment Co Ltd	1997 HK	BUY	24.90	32.80	31.7%	75,602.1	12.2	11.5	0.4	0.4	5.2	5.5
Link REIT	823 HK	BUY	38.00	45.05	18.6%	97,912.5	14.6	14.3	0.5	0.5	6.9	7.0

Source: Bloomberg, UOB Kay Hian

SECTOR RATING

Sector	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	86.70	103.00
LINK REIT	823 HK	BUY	38.00	45.05

Source: UOB Kay Hian

1M&3M HIBOR



Source: iFind, UOB Kay Hian

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### MAXIMUM LOAN-TO-VALUE POLICY

	Property type	Value of the properties (HK\$m)	Maximum loan-to-value (LTV) (%)	
			Before 2024/10/16	After 2024/10/16
Residential properties	Self-occupation	<30	70	
		Between 30m to 35m	60-70	70
	Non-self-use	>30	60	

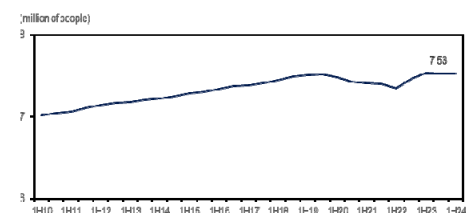
Source: UOB Kay Hian

- Reiterating land supply targets and continuing to make progress in strategic new development regions.** Although in the 2024 Policy Address, the government plans to “take into account the latest market changes when disposing land”, major land production targets remained unchanged: a) it plans to make available land to provide about 80,000 private housing units for the next five years, b) it will expedite the implementation of economic and housing-related projects in the Northern Metropolis, and c) the government targets to complete the relevant approval procedures of environmental impact assessment for the Kau Yi Chau Artificial Islands project next year.
- Further expanding talent admission schemes to attract talents.** Around 160,000 talents have arrived in Hong Kong with their families after the government implemented a new talent admission regime in late-22. To address the future labour force gap in Hong Kong, the main measures include: a) expanding the list of universities under the Top Talent Pass Scheme to 198 universities by adding 13 top mainland and overseas universities, and b) extending the visa duration for high-income talents from two years to three years. However, despite the government’s efforts to attract talents, Hong Kong’s working population (aged 20-60 years old) has been on a declining trend since 2019.
- Further increasing tourist numbers.** The Hong Kong government has proposed further enhancements to the central government regarding mainland residents’ tourism visit endorsements to Hong Kong. These enhancements include resuming the “multiple-entry” Individual Visit Endorsements for Shenzhen residents and expanding the coverage of pilot cities for the “one trip per week” Individual Visit Endorsements. Specific details are yet to be announced.

### ACTION

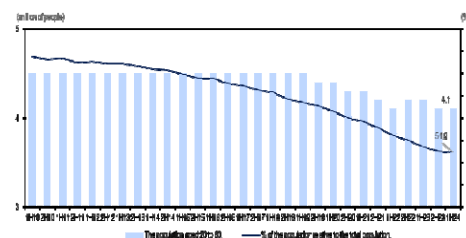
- Maintain MARKET WEIGHT on Hong Kong developers and landlords.** The government further eased demand side policies, creating more room for market recovery. Together with interest rate cuts and rebound of the Hong Kong stock market, we expect a near-term rebound in transaction volume and the CCL index. We reiterated our forecast that the CCL index will rebound by 3% in 4Q24 but drop by 4.7% in 2024. However, we think a recovery of confidence in the economy and further rate cuts are essential to the sustainable recovery of the Hong Kong property and retail sales markets. Our recommendation is to maintain MARKET WEIGHT. SHKP and LINK REIT are our top picks.

### HONG KONG TOTAL POPULATION



Source: Government, UOB Kay Hian

### THE POPULATION AGED 20-60 IN HONG KONG



Source: Government, UOB Kay Hian

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