

### COMPANY UPDATE

## Link REIT (823 HK)

Takeaways From Pre-blackout Calls: Welcoming The Rate Cut Cycle

Management gave an update on the 1QFY25 performance. Despite weak consumption, its Hong Kong and major China portfolios registered a slightly positive rental reversion, beating guidance. Entering a rate cut cycle, LINK REIT has room to raise net gearing to no higher than 30%. We look forward to yield-accretive M&As in the near future. We lowered the risk-free rate and raised our target price by 5.5% to HK\$45.08, representing a 2025 yield of 5.9% and yield spread of 2.1%. Maintain BUY.

### WHAT'S NEW

- LINK REIT hosted pre-blackout meeting on 3 Oct 24.

### STOCK IMPACT

- 1QFY25 was quite challenging.** For the Hong Kong retail portfolio: a) tenant sales declined 5.9% yoy in 1QFY25, outperforming Hong Kong retail sales' 9.9% yoy decline; b) rental reversion came in at positive low single digits, beating management's guidance of flattish reversion; and c) consequently, occupancy cost rose to 13.4% in 1QFY25 from 12.6% in FY24. Mainland malls also managed to report flat to positive rental reversion. Overseas retail portfolio stayed resilient with high occupancy ratio. For the car parking business, although the number of parking tickets decreased moderately, revenue per space showed low single digit growth. For 2QFY25, management expects the yoy decline of tenant sales to narrow to 4-5% yoy in Hong Kong, with continued moderation in rental reversion.

### OCCUPANCY RATIO OF LINK REIT PORTFOLIO

	---- Hong Kong ----		----- Mainland China -----			Singapore	----- Australia -----		Other
	Retail	Office	Retail	Office	Logistic	Retail	Retail	Office	Office
1QFY25	97.5%	99.2%	93.6%	90.5%	92.5%	98.4%	99.5%	89.4%	89.4%
FY24	98.0%	98.2%	96.6%	92.3%	96.2%	97.8%	99.7%	88.2%	93.1%

Source: LINK REIT, UOB Kay Hian

- Welcoming the rate cut cycle.** The rate cut cycle has finally begun. Management expects two major implications on LINK REIT: a) financing cost has peaked in FY24 at 3.8%; and b) more importantly, with a more stable outlook on portfolio valuation, LINK REIT will have room to increase net gearing ratio to no higher than 30%, which means HK\$15-30b in additional capital resources for acquisitions. We look forward to hearing good news from LINK REIT on M&As.

### KEY FINANCIALS

Year to 31 Dec (HK\$m)	2023	2024	2025F	2026F	2027F
Net turnover	12,234	13,578	13,709	13,853	14,096
EBITDA	8,634	9,402	9,490	9,590	9,656
Operating profit	8,545	9,304	9,391	9,489	9,656
Net profit (rep./act.)	15,451	(1,983)	6,861	6,989	7,106
Net profit (adj.)	6,134	5,841	6,861	6,989	7,106
EPU (HK\$ cent)	240.2	228.7	266.3	268.9	271.0
DPU (HK\$ cent)	16.3	17.1	14.7	14.6	14.4
PE (x)	0.5	0.6	0.6	0.6	0.6
P/B (x)	17.7	16.3	16.1	15.9	15.8
DPU Yld (%)	7.0	6.7	6.8	6.9	6.9
Net margin (%)	126.3	(14.6)	50.0	50.4	50.4
Net debt/(cash) to equity (%)	27.0	29.1	29.2	29.0	28.8
Interest cover (x)	5.2	5.3	5.7	5.9	5.9
ROE (%)	8.8	(1.1)	3.8	3.9	3.9
Consensus DPU (HK\$ cent)	-	-	6,666.8	6,816.5	6,976.1
UOBKH/Consensus (x)	-	-	1.03	1.03	1.02

Source: LINK REIT, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	HK\$39.15
Target Price	HK\$45.08
Upside	+15.1%
(Previous TP:	HK\$42.76)

### COMPANY DESCRIPTION

LINK REIT is the first REIT in Hong Kong and currently the largest in Asia in terms of market capitalisation. Spanning Hong Kong, Beijing, Shanghai, Shenzhen, Guangzhou, Sydney and London, its portfolio comprises mostly retail and office properties.

### STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	823 HK
Shares issued (m):	2,576.6
Market cap (HK\$m):	100,875.7
Market cap (US\$m):	12,988.5
3-mth avg daily t'over (US\$m):	42.2

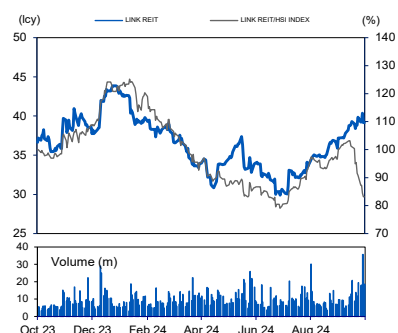
### Price Performance (%)

52-week high/low	HK\$43.85/HK\$29.90			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
6.5	28.8	17.2	8.3	(10.7)

### Major Shareholders

	%
-	-
FY25 NAV/Share (HK\$)	68.72
FY25 Net Debt/Share (HK\$)	20.14

### PRICE CHART



Source: Bloomberg

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### EARNINGS REVISION/RISK

- Earnings revision: None.

### VALUATION/RECOMMENDATION

- **Maintain BUY with a higher target price of HK\$45.08.** We lower the risk-free rate, thus lowering WACC to 7.2%, and increase our DDM target price by 5.5% to HK\$45.08. Our target price corresponds to a FY25 yield of 5.9%, and a yield spread over 10-year treasury yield of 2.1% (vs the five-year average of 2.6%). With a series of supportive policies, we expect Chinese and Hong Kong consumption to improve in 4Q24, positively supporting LINK REIT's performance. Last but not the least, we think it will be crucial for LINK REIT to secure yield-accretive M&As.

### SHARE PRICE CATALYST

- Stronger-than-expected economic recovery in Hong Kong and China.
- LINK REIT announcing major yield-accretive M&As.

LINK REIT'S 1FY DPU YIELD (2020-2024)



Source: Bloomberg, UOB Kay Hian

LINK REIT'S 1FY DPU YIELD SPREAD (%) OVER US 10YR GOVERNMENT BOND YIELD (2020-2024)



Source: Bloomberg, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (HK\$m)	2024	2025F	2026F	2027F
Net turnover	13,578.0	13,705.9	13,873.5	14,065.3
EBITDA	9,402.3	10,042.8	10,159.0	10,490.5
Deprec. & amort.	98.3	95.4	96.6	0.0
EBIT	9,304.0	9,947.4	10,062.4	10,490.5
Total other non-operating income	(7,824.0)	0.0	0.0	0.0
Associate contributions	(627.0)	150.0	150.0	150.0
Net interest income/(expense)	(1,768.0)	(1,672.4)	(1,637.2)	(1,645.8)
<b>Pre-tax profit</b>	<b>(915.0)</b>	<b>8,425.0</b>	<b>8,575.2</b>	<b>8,994.7</b>
Tax	(1,548.0)	(1,184.3)	(1,206.8)	(1,227.5)
Minorities	480.0	150.0	150.0	150.0
<b>Net profit</b>	<b>(1,983)</b>	<b>6,861</b>	<b>6,989</b>	<b>7,106</b>
Net profit (adj.)	6,718	6,861	6,989	7,106

### CASH FLOW

Year to 31 Dec (HK\$m)	2024	2025F	2026F	2027F
<b>Operating</b>	<b>8,622.3</b>	<b>8,097.8</b>	<b>8,704.5</b>	<b>8,659.1</b>
Pre-tax profit	(915.0)	7,895.2	8,045.3	8,183.5
Tax	(1,548.0)	(1,184.3)	(1,206.8)	(1,227.5)
Deprec. & amort.	98.3	95.4	96.6	0.0
Associates	n.a.	n.a.	n.a.	n.a.
Working capital changes	1,303.0	(459.9)	46.7	(25.0)
Non-cash items	7,911.0	79.0	85.5	82.3
Other operating cashflows	1,773.0	1,672.4	1,637.2	1,645.8
<b>Investing</b>	<b>172.2</b>	<b>488.4</b>	<b>404.7</b>	<b>428.2</b>
Capex (growth)	(32.8)	(31.8)	(32.2)	0.0
Investments	(996.0)	0.0	0.0	0.0
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	1,200.9	520.2	436.9	428.2
<b>Financing</b>	<b>(15,597.6)</b>	<b>(9,140.1)</b>	<b>(9,001.3)</b>	<b>(9,123.6)</b>
Distribution to unitholders	(6,367.0)	(6,947.6)	(6,927.2)	(7,049.5)
Issue of shares	(0.2)	0.0	0.0	0.0
Proceeds from borrowings	(206.0)	0.0	0.0	0.0
Loan repayment	(5,654.0)	0.0	0.0	0.0
Others/interest paid	(3,370.4)	(2,192.6)	(2,074.1)	(2,074.1)
<b>Net cash inflow (outflow)</b>	<b>(6,803.1)</b>	<b>(554.0)</b>	<b>107.9</b>	<b>(36.2)</b>
Beginning cash & cash equivalent	13,987.1	7,184.0	6,630.0	6,738.0
Changes due to forex impact	0.0	0.0	0.0	0.0
Ending cash & cash equivalent	7,184.0	6,630.0	6,738.0	6,701.7

### BALANCE SHEET

Year to 31 Dec (HK\$m)	2024	2025F	2026F	2027F
Fixed assets	1,383.0	1,059.8	995.4	995.4
Other LT assets	239,668.0	240,668.0	241,668.0	242,668.0
Cash/ST investment	7,184.0	6,630.0	6,738.0	6,701.7
Other current assets	4,079.0	4,546.8	4,566.8	4,556.1
<b>Total assets</b>	<b>252,314.0</b>	<b>252,904.6</b>	<b>253,968.1</b>	<b>254,921.2</b>
ST debt	7,947.0	7,947.0	7,947.0	7,947.0
Other current liabilities	5,680.0	5,687.8	5,754.5	5,718.9
LT debt	51,312.0	51,312.0	51,312.0	51,312.0
Other LT liabilities	8,845.0	8,845.0	8,845.0	8,845.0
Shareholders' equity	178,823.0	179,555.8	180,702.6	181,691.3
Minority interest	(381.0)	(531.0)	(681.0)	(681.0)
<b>Total liabilities &amp; equity</b>	<b>252,314.0</b>	<b>252,904.6</b>	<b>253,968.1</b>	<b>254,921.2</b>

### KEY METRICS

Year to 31 Dec (%)	2024	2025F	2026F	2027F
<b>Profitability</b>				
EBITDA margin	69.2	73.3	73.2	74.6
Pre-tax margin	(6.7)	61.5	61.8	63.9
Net margin	(14.6)	53.9	54.2	56.3
ROA	n.a.	2.9	3.0	3.1
ROE	n.a.	4.1	4.2	4.4
<b>Growth</b>				
Turnover	11.0	0.9	1.2	1.4
EBITDA	8.9	6.8	1.2	3.3
Pre-tax profit	(105.6)	n.a.	1.8	4.9
Net profit	(112.8)	n.a.	1.7	5.3
Net profit (adj.)	(4.8)	26.5	1.7	5.3
EPU	(4.8)	23.7	0.6	4.1
<b>Leverage</b>				
Debt to total capital	24.9	24.9	24.8	24.7
Debt to equity	33.1	33.0	32.8	32.6
Net debt/(cash) to equity	29.1	29.3	29.1	28.9
Interest cover (x)	5.3	6.0	6.2	6.4

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