

COMPANY UPDATE

Link REIT (823 HK)

Takeaways From Shenzhen And Guangzhou Property Tour

We visited Central Walk, Liwan Link Plaza and Tianhe Link Plaza on 20-21 Nov 23. LINK REIT strengthened its mix of F&B tenants and shifted to more leisure and entertainment tenants to cater to the latest trend. Both Central Walk Shenzhen and Liwan Plaza saw record daily footfalls. Tenant sales are still below pre-COVID-19 levels due to the weaker performance of retail tenants. We expect the China retail portfolio to improve in 2024 on the adjusted tenant mix and completion of AEI. Maintain BUY. Target price: HK\$50.70.

WHAT'S NEW

- We visited Link Central Walk in Shenzhen, Link Plaza in Guangzhou Liwan and Link Plaza in Guangzhou Tianhe on 20-21 Nov 23.

ESSENTIALS

- Observation of retail trend:** a) retail tenants (clothing, etc) and cinemas are facing downward pressure after the pandemic, causing negative rental reversion; b) sales of F&B tenants are resilient; and c) shoppers' demand for leisure and entertainment is notably rising. With such a trend, we think that foot traffic and tenant sales of community malls that focus on dining and experiences are expected to be more resilient.
- Highlights of Link REIT's China portfolio:** a) upgrading of key infrastructure (car parks, washrooms, etc) through asset enhancement initiatives (AEI) to set a foundation for attracting good tenants (eg the ROI of AEI on Shenzhen Central Walk is well above 10%); b) adopting "first store" strategy by introducing a brand's first store of country/city/region; c) stabilising F&B proportion and improving the quality of F&B tenants; and d) increasing the proportion of leisure and entertainment tenants and introducing anchor tenants like Meland. These initiatives have led to phenomenal growth in foot traffic, with both Central Walk Shenzhen and Liwan Plaza seeing new record daily footfalls. However, we think the membership system is still relatively weak compared to leading mall operators.

STOCK IMPACT

- Expecting improvement of China retail portfolio in 2024 on the adjustment and AEIs done in 2023.** The negative impact from the pandemic on the China retail portfolio's NPI and valuation has been reflected in LINK REIT's valuation. Looking forward to 2024, backed by premium locations and strong tenant mix, and with completion of major AEIs, we expect that Link REIT's major retail properties in China can achieve positive retail sales growth, which can help drive positive rental reversion.

EARNINGS REVISION/RISK

- We keep our DPU forecast unchanged.

KEY FINANCIALS

Year to 31 Mar (HK\$m)	2022	2023	2024F	2025F	2026F
Net turnover	11,602	12,234	13,225	13,975	14,737
EBITDA	8,348	8,634	9,287	9,814	10,349
Operating profit	8,264	8,545	9,191	9,713	10,242
Net profit (rep./act.)	6,894	15,451	6,582	7,096	7,710
Net profit (adj.)	6,479	6,134	6,582	7,096	7,710
EPU (HK\$ cent)	307.0	240.2	254.8	271.5	291.8
DPU (HK\$ cent)	305.7	274.3	254.8	271.5	291.8
PE (x)	12.7	16.4	15.4	14.5	13.5
P/B (x)	0.5	0.5	0.5	0.5	0.6
DPU Yld (%)	7.7	6.9	6.4	6.8	7.3
Net margin (%)	59.4	126.3	49.8	50.8	52.3
Net debt/(cash) to equity (%)	28.9	27.0	28.5	28.6	28.6
Interest cover (x)	9.2	5.2	5.2	5.8	6.9
ROE (%)	4.3	8.8	3.6	4.0	4.3
Consensus DPU (HK\$ cent)	n.a.	n.a.	259.3	273.6	290.1
UOBKH/Consensus (x)	-	-	0.98	0.99	1.01

Source: CIFI Ever Sunshine, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK\$39.80
Target Price	HK\$50.70
Upside	+27.4%

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):	2,561.9
Market cap (HK\$m):	101,964.88
Market cap (US\$m):	13,061.01
3-mth avg daily t'over (US\$m):	33.8

Price Performance (%)

52-week high/low	HK\$62.83/HK\$35.45				
1mth	3mth	6mth	1yr	YTD	
1.9	(10.5)	(26.5)	(24.6)	(31.9)	

Major Shareholders

	%
-	-
-	-
-	-
FY24 NAV/Share (HK\$)	69.25
FY24 Net Debt/Share (HK\$)	19.74

PRICE CHART



Source: Bloomberg

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VALUATION/RECOMMENDATION

- **Maintain BUY with an unchanged target price of HK\$50.70.** Our target price implies 5.0% FY24 dividend yield. Link REIT is currently trading at 6.3% FY24 dividend yield. LINK REIT's resilient portfolio can support NPI growth, and high interest rate risks have been well under control as company has no major debt maturity in the next 12 months. We think company will regain growth momentum.

KEY INFORMATION OF PROPERTIES WE VISITED

Project	Central Walk	Link Plaza Liwan	Link Plaza Tianhe
City	Shenzhen	Guangzhou	Guangzhou
GFA	83,900 sqm	88,727 sqm	90,113 sqm
No. of car park	741	1043	1000
Year of opening	2007	2013	2012
Year of acquisition	March 2019	March 2017	June 2021
Cost of acquisition	RMB 6,600 million	RMB4,065 million	RMB3,205 million
Latest valuation	RMB4,660 million (4.65% cap rate)	RMB4,070 million (5.15% cap rate)	RMB3,050 million (5.15% cap rate)
Positioning	Destination mall	Community mall	Community mall
Tenant mix	F&B: 38% Retail: 24% Leisure: 13.2% Daily groceries: 5.9% Personal care: 5.4% Others: 13.1%	F&B: 36% Supermarket & department store: 21% Retail: 18% Leisure: 7.9% Personal care: 5.1% Others: 13.3%	F&B: 39% Retail: 21% Leisure: 12% Supermarket & department store: 8.4% Personal care: 7.2% Others: 6.9%
Major competitors	COCO Park, Wongtee Plaza, One Avenue	Rock Square (Capitaland), Taikoo Li (Swire), Mixc mall (CR Land)	IGC (SHKP), GT Land Plaza, K11 (NWD)
CAPEX of AEI	RMB 286 million	N/A	-RMB 200 million (Phase 1)
Completion of AEI	January 2022	N/A	September 2023
Foot traffic	30-40K/day during weekday 70-80K/day during weekend Peak is 75K/day	~90K/day during weekday ~12K/day during weekend Peak is 180K/day	Officially re-opened in Nov 2023

Source: LINK REIT, UOB Kay Hian

CENTRAL WALK SHENZHEN



Source: UOB Kay Hian

LINK PLAZA LIWAN



Source: UOB Kay Hian

LINK PLAZA TIANHE



Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Mar (HK\$m)	2023	2024F	2025F	2026F
Net turnover	12,234.0	13,224.6	13,975.1	14,737.4
EBITDA	8,633.6	9,286.8	9,813.9	10,349.2
Deprec. & amort.	88.6	95.7	101.2	106.7
EBIT	8,545.0	9,191.1	9,712.7	10,242.5
Total other non-operating income	9,317.0	0.0	0.0	0.0
Associate contributions	85.0	150.0	150.0	150.0
Net interest income/(expense)	(1,648.0)	(1,774.8)	(1,680.7)	(1,471.4)
Pre-tax profit	16,299.0	7,566.2	8,181.9	8,921.1
Tax	(1,006.0)	(1,134.9)	(1,227.3)	(1,338.2)
Minorities	158.0	150.0	150.0	150.0
Net profit	15,451.0	6,581.3	7,104.6	7,732.9

CASH FLOW

Year to 31 Mar (HK\$m)	2023	2024F	2025F	2026F
Operating	7,934.6	9,200.4	9,024.9	9,459.1
Pre-tax profit	16,299.0	7,566.2	8,181.9	8,921.1
Tax	(1,006.0)	(1,134.9)	(1,227.3)	(1,338.2)
Deprec. & amort.	88.6	95.7	101.2	106.7
Associates	n.a.	n.a.	n.a.	n.a.
Working capital changes	156.0	806.6	209.3	212.6
Non-cash items	(9,251.0)	92.0	79.0	85.5
Other operating cashflows	1,648.0	1,774.8	1,680.7	1,471.4
Investing	(923.5)	(674.8)	(765.3)	(679.6)
Capex (growth)	(29.5)	(31.9)	(33.7)	(35.6)
Investments	(1,000.0)	(1,000.0)	(1,000.0)	(1,000.0)
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	106.0	357.1	268.5	356.0
Financing	4,197.0	(12,586.3)	(8,802.5)	(9,258.5)
Distribution to unitholders	(6,360.0)	(6,454.3)	(6,853.3)	(7,431.2)
Issue of shares	12,049.0	0.0	0.0	0.0
Proceeds from borrowings	262.0	(4,000.0)	0.0	0.0
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	(1,754.0)	(2,132.0)	(1,949.2)	(1,827.4)
Net cash inflow (outflow)	11,208.1	(4,060.7)	(542.8)	(479.0)

BALANCE SHEET

Year to 31 Mar (HK\$m)	2023	2024F	2025F	2026F
Fixed assets	1,463.0	1,125.1	1,057.7	986.5
Other LT assets	246,622.0	237,642.3	239,642.3	241,642.3
Cash/ST investment	13,987.0	9,926.4	9,383.5	8,904.5
Other current assets	5,847.0	5,141.6	5,231.1	5,322.0
Total assets	267,919.0	253,835.4	255,314.6	256,855.4
ST debt	4,133.0	4,133.0	4,133.0	4,133.0
Other current liabilities	5,618.0	5,719.1	6,018.0	6,321.5
LT debt	60,780.0	56,780.0	56,780.0	56,780.0
Other LT liabilities	8,213.0	8,213.0	8,213.0	8,213.0
Shareholders' equity	188,940.0	178,905.2	180,235.6	181,622.9
Minority interest	120.0	(30.0)	(180.0)	(330.0)
Total liabilities & equity	267,919.0	253,835.4	255,314.6	256,855.4

KEY METRICS

Year to 31 Mar (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	70.6	70.2	70.2	70.2
Pre-tax margin	133.2	57.2	58.5	60.5
Net margin	126.3	49.8	50.8	52.5
ROA	6.3	2.5	2.8	3.0
ROE	8.8	3.6	4.0	4.3
Growth				
Turnover	5.4	8.1	5.7	5.5
EBITDA	3.4	7.6	5.7	5.5
Pre-tax profit	100.3	(53.6)	8.1	9.0
Net profit	124.1	(57.4)	8.0	8.8
Net profit (adj.)	(5.3)	7.3	8.0	8.8
EPU	(21.8)	6.1	6.7	7.6
Leverage				
Debt to total capital	25.6	25.4	25.3	25.1
Debt to equity	34.4	34.0	33.8	33.5
Net debt/(cash) to equity	27.0	28.5	28.6	28.6
Interest cover (x)	5.2	5.2	5.8	7.0

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