

INITIATE COVERAGE

Kerry Properties (683 HK)

Luxury Home Expert; Mega Investment In Shanghai CBD Bearing Fruit From 2025

Kerry Properties specialises in luxury homes, with over 60% of its IP and DP gross asset value contributed by mainland China projects, which should benefit from the stabilisation of China's economy. Mont Verra in Hong Kong and Jinling Residence in Shanghai are set to boost sales, lowering net gearing from 43% in 2024 to 31% by 2026. Expect stable DPS of HK\$1.35 for 2024-26. The stock is trading at 0.22x P/B, the lowest among peers. Initiate coverage with BUY and a target price of HK\$21.70, derived from a 65% discount to Dec 24 NAV of HK\$62.10.

INITIATE COVERAGE

- Excels in luxury homes with solid exposure to mainland China.** The Mont Verra project in Kowloon Tong closed the most transactions for apartments costing over HK\$100m each in Hong Kong in 2024. Jinling Residence in central Shanghai will be one of the top luxury projects for sale in 2025. Geographically, Kerry Properties has strong exposure to the mainland property market, which contributes over 60% of the gross asset value of its development properties (DP) and investment properties (IP), with a solid presence in Shanghai, Wuhan, Hangzhou and Shenyang. The Rmb22b acquisition of the Shanghai Huangpu Jinling Road mixed-use development site in 2022-23 further strengthened its position in China. We expect the stabilisation of the property market in these cities to support Kerry Properties in accelerating destocking and reducing price discounts, thus providing upside to DP margin.
- Mega investment in central Shanghai bearing fruit since 2025.** The residential part of the Jinling Road mixed-use development site, namely Jinling Residence, will launch sales in phases throughout 2025. Given the government's approved ASP of Rmb189,000/sqm and the scarcity of prime residences in the CBD, we expect the project to achieve a 100% sell-through rate, generating approximately Rmb20b in cash inflow in 2025-26. Additionally, the remaining 20+ units at Mont Verra are expected to attract strong market interest. Thanks to the two anchor projects, and without considering any new major investment, the company's net gearing is expected to decrease from 43% in 2024 to around 37% by 2025 and around 30% by 2026. A healthy net gearing ratio is essential for the company to capitalise on investment opportunities.
- Expect stable dividend.** We expect accelerated revenue recognition from DP and resilient income from IP in 2024-26. Kerry Properties' profits may fluctuate in 2024-26 mainly due to the DP business' lower gross margin. Nevertheless, a reduction in gearing, resulting from cash inflows from luxury residences sales, will strengthen the company's financial standing and ability to pay dividends. We anticipate a basic DPS of HK\$1.35, maintained since 2018, continuing through 2024-26. Looking further ahead, Jinling Residence will begin delivery in 2027, potentially making a strong positive impact on the company's financials.

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KEY FINANCIALS

Year to 31 Dec (HK\$m)	2022	2023	2024F	2025F	2026F
Net turnover	14,590	13,090	19,008	16,273	21,740
EBITDA	2,614	5,743	4,201	3,956	5,694
Operating profit	3,097	6,187	4,645	4,400	6,138
Net profit (rep./act.)	2,755	3,243	1,519	2,512	2,585
Net profit (adj.)	3,756	3,243	3,119	2,512	2,585
EPS (HK\$)	257.9	223.2	214.7	172.9	177.9
PE (x)	7.1	8.2	8.5	10.6	10.3
P/B (x)	0.2	0.2	0.2	0.2	0.2
EV/EBITDA (x)	35.9	16.4	22.4	23.8	16.5
Dividend yield (%)	7.4	7.4	7.4	7.4	7.4
Net margin (%)	18.9	24.8	8.0	15.4	11.9
Net debt/(cash) to equity (%)	33.9	34.3	43.2	37.2	30.0
ROE (%)	3.3	3.0	2.9	2.3	2.4
Consensus net profit (HK\$m)	-	-	3,104.0	3,334.0	3,328.0
UOBKH/Consensus (x)	-	-	1.00	0.75	0.78

Source: Kerry Properties, Bloomberg, UOB Kay Hian

BUY

Share Price	HK\$18.28
Target Price	HK\$21.70
Upside	18.7%

COMPANY DESCRIPTION

Kerry Properties, through its subsidiaries, invests in and develops real estate. The company also owns and operates logistics, freight and warehouse business. In addition, it invests in infrastructure-related projects and operates hotels.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	683 HK
Shares issued (m):	1,451.3
Market cap (Rmb m):	26,529.9
Market cap (US\$m):	3,414.2
3-mth avg daily t'over (US\$m):	3.8

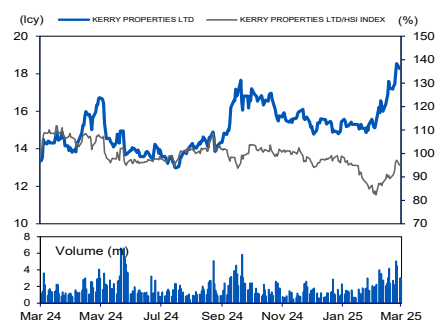
Price Performance (%)

52-week high/low	HK\$18.8/HK\$12.7			
1mth	3mth	6mth	1yr	YTD
19.5	16.4	29.3	32.5	17.5

Major Shareholders

	%
Kerry Group	60.23
FY24 NAV/Share (HK\$)	62.10
FY24 Net Debt/Share (HK\$)	36.24

PRICE CHART



Source: Bloomberg

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EARNINGS REVISION/RISK

- We estimate 2024/2025/2026 underlying net profit at HK\$3,119m/HK\$2,512m /HK\$2,585m respectively. Looking farther ahead, Jinling Residence will begin delivery in 2027, making a strong positive impact on the company's financials.
- We expect net gearing ratio to decline to 37.2% as of Dec 25 and 30.0% as of Dec 26.

VALUATION/RECOMMENDATION

- **Attractive P/B valuation; initiate coverage with BUY and SOTP-based target price of HK\$21.70.** Kerry Properties is trading at 0.25x 2025F P/B, near 1SD below its 10-year mean and also the lowest among major listed Hong Kong developers. We use the DCF method to assess the value of its DP, adopt an income approach to value its IP, and gauge the company's stake in Kerry Logistics Network at market value. Our calculated NAV/share as of end-24 is HK\$62.10. We use an NAV discount of 65%, which is above our benchmark discount of 50% for Hong Kong developers to reflect the company's relatively small market cap. Our target price of HK\$21.70 implies 12.6x 2025F PE, 0.29x 2025F P/B and a 6.2% dividend yield for 2025.

SHARE PRICE CATALYST

- **Catalysts:** a) Stronger-than-expected fiscal stimulus announced by the Chinese government to stabilise the macro economy, and b) greater-than-expected interest rate cuts by the US.
- **Risks:** a) Weaker-than-expected macroeconomic policy and economic growth, and b) worse-than-expected financial results for 2024.

PROFIT & LOSS

Year to 31 Dec (HK\$m)	2023	2024F	2025F	2026F
Net turnover	13,089.6	19,008.5	16,272.5	21,739.6
EBITDA	5,742.5	4,200.9	3,955.8	5,694.1
Deprec. & amort.	(444.3)	(444.0)	(444.0)	(444.0)
EBIT	6,186.8	4,644.9	4,399.8	6,138.1
Total other non-operating income	(745.0)	(800.0)	0.0	0.0
Associate contributions	1,357.6	633.6	1,161.6	896.2
Net interest income/(expense)	59.9	21.1	(635.8)	(599.6)
Pre-tax profit	6,859.3	4,499.6	4,925.6	6,434.6
Tax	(2,695.5)	(2,059.7)	(1,493.0)	(2,929.0)
Minorities	(920.5)	(920.5)	(920.5)	(920.5)
Net profit	3,243.3	1,519.4	2,512.1	2,585.2
Net profit (adj.)	3,243.0	3,119.4	2,512.1	2,585.2

CASH FLOW

Year to 31 Dec (HK\$m)	2023	2024F	2025F	2026F
Operating	4,533.0	(9,190.1)	8,409.1	9,773.5
Profit for the year	6,859.3	4,499.6	4,925.6	6,434.6
Tax	(2,695.5)	(2,059.7)	(1,493.0)	(2,929.0)
Deprec. & amort.	(444.3)	(444.0)	(444.0)	(444.0)
Associates	(1,357.6)	(633.6)	(1,161.6)	(896.2)
Working capital changes	3,440.0	(11,996.4)	6,738.1	7,744.0
Non-cash items	745.0	800.0	0.0	0.0
Other operating cashflows	(2,014.0)	644.0	(156.0)	(136.0)
Investing	(2,453.3)	141.2	341.2	621.2
Capex (growth)	(5,290.1)	(1,100.0)	(900.0)	(600.0)
Investment	24,823.1	24,815.5	25,335.9	25,590.9
Others	(21,987.9)	(23,574.4)	(24,094.8)	(24,369.7)
Financing	(47.2)	3,551.3	(4,994.1)	(4,842.5)
Dividend payments	(1,959.3)	(1,961.9)	(1,961.9)	(1,961.9)
Proceeds from borrowings	45,306.4	0.0	0.0	0.0
Loan repayment	(42,765.3)	5,513.1	(3,032.2)	(2,880.6)
Others/interest paid	(629.0)	0.0	0.0	0.0
Net cash inflow (outflow)	2,032.4	(5,497.7)	3,756.2	5,552.3
Beginning cash & cash equivalent	11,325.4	13,539.6	8,042.0	11,798.2
Changes due to forex impact	(282.7)	0.0	0.0	0.0
Ending cash & cash equivalent	13,075.2	8,042.0	11,798.2	17,350.4

BALANCE SHEET

Year to 31 Dec (HK\$m)	2023	2024F	2025F	2026F
Fixed assets	82,968.0	83,268.0	84,168.0	84,768.0
Other LT assets	67,058.0	66,250.4	66,770.8	67,025.8
Cash/ST investment	13,539.6	8,042.0	11,798.2	17,350.4
Other current assets	44,866.7	51,834.1	53,383.6	49,100.8
Total assets	208,432.4	209,394.5	216,120.6	218,245.1
ST debt	6,636.2	7,299.8	6,934.8	6,588.1
Other current liabilities	19,209.6	14,180.6	22,468.1	25,929.4
LT debt	48,494.9	53,344.4	50,677.1	48,143.3
Other LT liabilities	12,934.8	12,934.8	12,934.8	12,934.8
Shareholders' equity	107,256.6	106,814.2	107,364.5	107,987.8
Minority interest	13,900.2	14,820.7	15,741.2	16,661.6
Total liabilities & equity	208,432.4	209,394.5	216,120.6	218,245.1

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	43.9	22.1	24.3	26.2
Pre-tax margin	52.4	23.7	30.3	29.6
Net margin	24.8	8.0	15.4	11.9
ROA	1.6	0.7	1.2	1.2
ROE	3.0	1.4	2.3	2.4
Growth				
Turnover	(10.3)	45.2	(14.4)	33.6
EBITDA	119.7	(26.8)	(5.8)	43.9
Pre-tax profit	32.7	(34.4)	9.5	30.6
Net profit	17.7	(53.2)	65.3	2.9
Net profit (adj.)	(13.7)	(3.8)	(19.5)	2.9
EPS	(13.5)	(3.8)	(19.5)	2.9
Leverage				
Debt to total capital	31.3	33.3	31.9	30.5
Debt to equity	51.4	56.8	53.7	50.7
Net debt/(cash) to equity	38.8	49.2	42.7	34.6
Interest cover (x)	n.a.	n.a.	6.2	9.5

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