

STRATEGY – HONG KONG

Hong Kong Exchange and Hong Kong Property Sector

Takeaways From 2023 Hong Kong Policy Address: Policies Largely In Line; Maintain MARKET WEIGHT

We have a neutral view on the policies related to the stock market and we expect a short-term rebound in ADT but sustained recovery will still depend on China's macro development and US monetary policy. For the property sector, the relaxation of demand-side management measures is within expectation. However, combining the aggressive land supply plan and weak population policy, the overall impact on the property industry is natural to negative. Sales need to be closely watched.

WHAT'S NEW

- Hong Kong Chief Executive John Lee delivered his second Policy Address on 25 October. Below are the key takeaways regarding the policies related to the capital market and property sector.

ESSENTIALS

Stock Market Implications:

- Reversing stock trading levy to levels before the rise in 2021.** The Hong Kong government will cut the stock stamp duty rate by 3bp to 0.1% and it aims to complete the legislative process by the end of November. We expect the new stock trading levy rate to be officially implemented starting December. The stamp duty cut is expected to reduce the government revenue's revenue by HK\$12.3b, or about 2% of total revenue, according to its estimates.
- Reviewing stock price spreads.** The Hong Kong Stock Exchange (HKEX) and financial regulatory authorities will initiate a review to narrow the minimum bid-ask spreads. This will enable stocks with liquidity but higher minimum bid-ask spreads to better reflect market conditions. The HKEX will seek market opinions on specific measures in 2Q24.
- Reforming GEM market listing rules.** The HKEX has published consultations papers to reform the GEM markets which have not witnessed any IPO since Feb 20. These proposals include simplifying the mechanism for transitioning to the main board and expanding pathways for technology companies to go public in the GEM market. The HKEX is expected to implement the revised listing rules in 1Q24.
- Reducing market data costs.** The HKEX will review the ongoing real-time data service fee standards to reduce the investors' cost for accessing real-time market data. The new fees rate will be implemented by the end of this year.
- History has shown mixed ADT performance after levy adjustments.** The city had lowered its stock trading stamp duty in 1998, 2000 and 2001 before the rise in 2021. We observed that the short-term performance of the HSI was relatively weak after the cuts, but the average daily turnover (ADT) trend was mixed following the levy adjustments. However, in our opinion, the long-term impact of levy cuts on the market appears to be relatively limited. To highlight, the three cuts were taken place during periods of high volatility, such as Asian Financial Crisis and Dot-com bubble, making the past performances less relevant for comparison.

PEER COMPARISON

Company	Ticker	Rec	Price @	Target	Upside/	Market	PE		P/B		Yield	
			25 Oct 23	Price	(Downside)	Cap	2023F	2024F	2023F	2024F	2023F	2024F
			(lcy)	(lcy)	To TP	(lcy b)	(x)	(x)	(x)	(x)	(%)	(%)
Hong Kong Exchanges and Clearing Ltd.	388 HK	BUY	278.20	370.00	33.0	367,672.7	29.8	27.3	7.2	7.0	3.0	3.3
Hysan Development	14 HK	BUY	14.46	26.18	81.1	14,973.8	7.7	6.6	0.2	0.2	9.9	9.9
Sun Hung Kai Properties	16 HK	BUY	79.50	112.64	41.7	231,532.6	9.1	8.7	0.4	0.4	5.5	5.7
New World Development *	17 HK	HOLD	14.22	16.03	12.7	36,189.2	6.7	6.7	0.2	0.2	5.3	5.3
Wharf Real Estate Investment Co Ltd	1997 HK	HOLD	27.65	40.30	45.8	84,558.9	12.8	11.4	0.4	0.4	4.8	5.4
Link REIT	823 HK	BUY	35.90	50.70	41.2	91,204.7	14.0	13.1	0.5	0.5	7.2	7.6

Source: Bloomberg, UOB Kay Hian

SECTOR RATING

Sector	Sector Rating
Hong Kong Property	MARKET WEIGHT
Hong Kong Exchange	MARKET WEIGHT

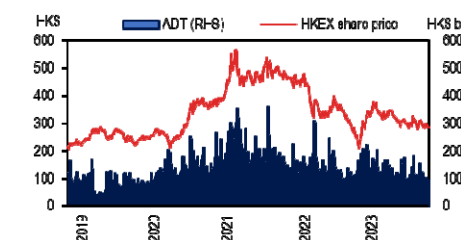
Source: UOB Kay Hian

SECTOR PICKS

Company	Ticker	Rec	Share Price (HK\$)	Target Price (HK\$)
SHKP	16 HK	BUY	79.50	112.64
HKEX	388 HK	BUY	278.20	370.00

Source: UOB Kay Hian

HEADLINE ADT TREND AND HKEX SHARE PERFORMANCE



Source: HKEX, Bloomberg, UOB Kay Hian

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HONG KONG STOCK TRADING STAMP DUTY RATE ADJUSTMENTS HISTORY

Time Frame	Adjustment (bps)	Stamp duty rate (%)	HSI performance (%)		ADT changes (%)*	
			1 week	1 month	1 month	1 year
Before Mar 1998		0.1500%				
Apr 1998	-2.50	0.1250%	-0.1	-8.4	-25.6	-62.8
Apr 2000	-1.25	0.1125%	-4.7	-8.4	-30.8	-48.5
Sep 2001	-1.25	0.1000%	-4.9	-8.7	+9.0	-1.6
Aug 2021	+3.00	0.1300%	+0.8	+0.3	-13.2	-39.9

*Single month ADT data before the rate adjustments was used as the baseline for comparison.
Source: Hong Kong SAR Government, HKEX, UOB Kay Hian

- **Lower stamp duty may boost liquidity in the short term.** The 9M23 headline ADT on the HKEX plunged 11.6% yoy to HK\$109.7b due to several external headwinds such as surging US long-term treasury yield, US-China tensions, and the slower pace of economic recovery in Mainland China. We expect the ADT to rebound as a knee-jerk reaction as the 20% lower trading cost after the cut will encourage more day traders, high-frequency traders, and quantitative traders to return to the market. However, we maintain our view that sustained ADT recovery will only occur with a significant improvement in China's economic fundamentals.

- **Impact of GEM reform and market fee reduction on HKEX's core revenue.** We expect the ongoing reforms will revitalise liquidity and fundraising activities in the GEM market, leading to improved trading income and listing fees for the exchange. Meanwhile, it is out of our expectations that the exchange is informed to revise its market data fee. The revenue from providing market data has grown at a CAGR of 5% to HK\$1.1b over the past five years and contributes 7% to the HKEX's core revenue. We will revise our growth assumptions on the market data fee after more details are revealed.

Property Market Implications

- **Adjust the demand-side management measures for residential properties:** a) shorten the applicable period of the special stamp duty (SSD) from three years to two years, b) reduce the respective rates of the buyer's stamp duty (BSD) and the new residential stamp duty (NRSD) by half, from 15% to 7.5%, and c) introduce a stamp duty suspension arrangement for incoming talents' acquisition of residential properties. Under the suspension arrangement, the payment of stamp duty concerned is suspended at the time of property acquisition, but the talent is required to pay the relevant amount if he/she is subsequently unable to become a Hong Kong permanent resident (HKPR).
- **Further speed up land supply.** In the next five years, the government vows to further speed up supply for both private units and public housing units in the next five years. For the medium to longer term, the Northern Metropolis is expected to provide 500,000 new housing units and create 500,000 new jobs in next 20 years. At last, the government will commence the environmental impact assessment process for Kau Yi Chau Artificial Islands, which is expected to provide another 1,000 ha of land.

GOVERNMENT FIVE-YEAR PLAN OF HOUSING SUPPLY

Period	2022 Policy Address	2022 Policy Address	Change
	2023/24-2027/28	2024/25-2028/29	
New public housing units	158000	172000	8.9%
New private housing unit	72000	80000	11.1%

Source: 2023 HK Policy Address, UOB Kay Hian

SCHEDULE OF LAND AND HOUSING SUPPLY OF NORTHERN METROPOLIS

2024	Release all the land use and development proposals
2027	commence land resumption by 2027
2032	form 40% of the new development land and complete 40% of the new flats

Source: 2023 HK Policy Address, UOB Kay Hian

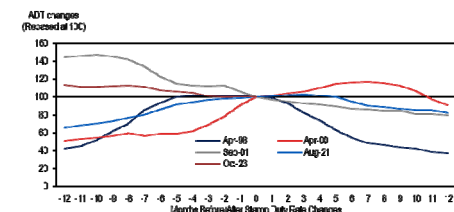
- **Talent and population policies are rather mild.** The Top Talent Pass Scheme (TTPS) introduced last year has achieved satisfactory results, by receiving 160,000 applications and issuing 100,000 approvals, which is equivalent to 1.1x of the total number of talent visas granted in 2019. This year, the government mainly works to: a) marginally expand the

STOCK TRADING COST STRUCTURE

Cost per transaction	Rate (old)	Rate (new)
SFC Transaction Levy	0.0027%	0.0027%
Investor Compensation Levy	0.002%	0.002%
FRC Transaction Levy	0.00015%	0.00015%
Trading Fee	0.00565%	0.00565%
Stamp Duty on Stock Trading*	0.13%	0.10%
Total	0.1405%	0.1105%

Source: HKEX, UOB Kay Hian

HKEX TRAILING 12-MONTH HEADLINE ADT TREND BEFORE/AFTER STAMP DUTY RATE ADJUSTMENTS

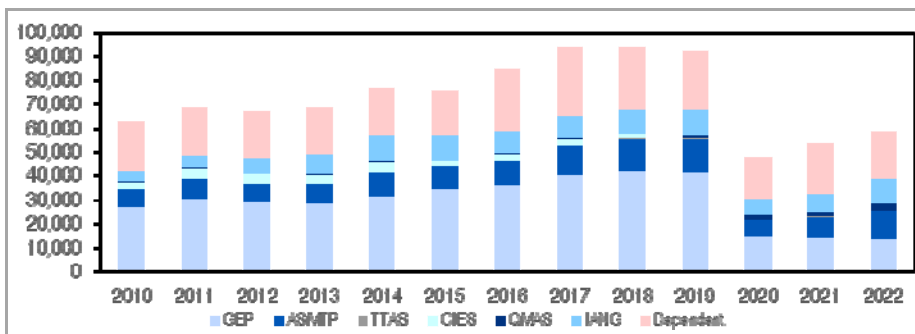


Source: HKEX, UOB Kay Hian

coverage of TTPS, b) relax visa requirement for Vietnamese talents, and c) introduce the high Vocational Professionals Admission Scheme to attract professional Higher Diploma graduates. With birth rate falling to a record low of 0.71, the government published measures to support families with newborn babies. A key takeaway is that applications of families that have babies born on or after 25 October will have their waiting time for public rental housing (PRH) flats reduced by one year.

- **Expect a nice rebound of sales volume in the near term.** From 2016 to 2022, Hong Kong immigration issued a total number of 359,789 talent visas, of which we conservatively estimate that roughly 25% will have the will to apply HKPR once their conditions are fulfilled. That means Hong Kong currently has roughly 90,000 potential PR applicants from its talent pool. As a comparison, Hong Kong has 15,000-20,000 primary home transactions and 35,000-5,000- secondary home transactions annually. Thus, we expect the cut of BSD/NRSD rate and introduction of stamp duty suspension arrangement will help unleash the demand of non-PR talents.

NO. OF TALENT VISAS GRANTED DURING 2010-22



Source: Hong Kong Immigration, UOB Kay Hian. Note: GE: General Employment Policy; ASMTP: Admission Scheme for Mainland Talents and Professionals; TTAS: Technology Talent Admission Scheme; CIES: Capital Investment Entrant Scheme; QMAS: Quality Migrant Admission Scheme; IANG: Immigration Arrangements for Non-local Graduate

- **Neutral to pessimistic on Hong Kong’s property price in 2024.** Besides the high interest rate, concerns over population contraction and oversupply are the two major factors that weigh on Hong Kong’s property price. With tedious population policy and aggressive land supply plan, the 2023 Policy Address did not provide major support to Hong Kong’s property price in the next 12 months. However, we believe interest rate will remain as the most important

ACTIONS

- **Maintain BUY on the HKEX with unchanged target price of HK\$370.00.** The policies announced by John Lee to enhance stock market liquidity were largely within our expectations. However, the share price retreated by 4% in the afternoon due to profit-taking activities after it had outperformed the index since few days ago. The exchange is now trading at 2024F PE of 26.3x, 1.0SD below its historical mean, which we deem not so pricey.
- **Maintain MARKET WEIGHT on the Hong Kong property sector.** The relaxation of demand-side management measures is in line with our expectation. However, combining the aggressive land supply plan and weak population policy, the overall impact on the property industry is neutral to negative. Looking forward, the sector may still be exposed to risks of upside adjustment of prime rate. Sales of developers are the key to be watched in the following months. We maintain MARKET WEIGHT. SHKP remains our top pick.

MEASURES TO SUPPORT FAMILIES WITH NEW BORN

The government will provide a one-off cash bonus of HK\$20,000 for each baby born on or after 25 Oct 23 in Hong Kong to a parent who is a HKPR. Effective for three years.

The government will raise the deduction ceiling for home loan interest or domestic rents from the current HK\$100,000 to HK\$120,000, an increase of 20%, for taxpayers who live with his/her first child born on or after 25 Oct 23 until the child reaches the age of 18;

Starting from the HOS sale exercise next year, a quota of flats will be reserved for balloting and priority flat selection by family applicants with babies born on or after 25 October until the children reach the age of three. In each of the HOS or GSH sale exercise, an additional 10% of the total number of flats will be reserved for the purpose of selection priority

Applications of families that have babies born on or after 25 October will have their waiting time for PRH flats reduced by one year. Effective from Apr 24

Source: 2023 HK Policy Address, UOB Kay Hian

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