

SECTOR UPDATE

Property – Hong Kong

Limited Downside Risks To Property Price in Near Term; Watch For Policy Support For Hong Kong Tourism

The cooling of primary transactions, ie 1,400 units sold in May, is within our expectations. CCL is returning to a downward trend, while CRI is back on an upward trend, supporting rental yields. March and April saw worse-than-expected declines in Hong Kong's retail sales. Hong Kong's property prices may see support from: a) improved liquidity in the mainland; and b) the upcoming peak season of leasing. Continue to watch for policy catalysts for landlords. Top picks: SHKP and Wharf REIC.

WHAT'S NEW

- Market data shows primary transaction volume came in at around 1,400 units in May.
- According to the government, Hong Kong's retail sales dropped 14.7% yoy in March.

ESSENTIALS

- The cooling of primary transactions is within our expectations.** In May, the primary market recorded approximately 1,400 units transactions (vs about 4,200 in March and about 1,800 in April), which is within our expectation of 1,200-1,700 units. As we had expected earlier, further delays in US interest rate cuts will weigh on the recovery of property sales.
- CCL returning to a downward trend.** The CCL index has fallen for the fifth consecutive week to 143.78, driving the ytd decline to 2.3%, in line with our expectation of -2% in 1H24. The CVI index, which reflects banks' view of the property market, fell to below 50. On a positive note, Centaline's rental index (CRI) rose by 0.47% mom to 117.09 in April, marking the second consecutive month of increase, which hopefully can further support an overall rental yield of 3.1%.
- Worse-than-expected decline in Hong Kong's retail sales.** In March and April, Hong Kong's retail sales dropped by 7% and 14.7% respectively yoy, which was more than the anticipated +0.9% and -6.3%. The most underperforming categories were clothing & footwear, as well as gold & jewellery, whereas supermarkets fared relatively better, implying that the main cause of the retail sales slump could have been the weak tourism spending. Migration data showed that the yoy growth of mainland visitors to Hong Kong decelerated sharply to 26% and 6% respectively in March and April. As we are seeing an accelerated yoy growth in mainland tourists we expect the decline in retail sales to marginally narrow in May.

YOY GROWTH OF HONG KONG RETAIL SALES – BY CATEGORIES

	All retail outlets	Food & Beverag & Tobacco	Super-market	Fuel	Clothing, footwear and allied products	Consumer durable goods	Department stores	Jewellery, watches and valuable gifts	Other consumer goods
Mar 24	-7%	-11.3%	-3.4%	-14.5%	-16.7%	-5.9%	-14.1%	-16.6%	+6.3%
Apr 24	-14.7%	-12.2%	-3.0%	-9.6%	-24.0%	-5.2%	-21.5%	-28.7%	-11.7%

Source: Hong Kong Government

PEER COMPARISON

Company	Ticker	Rec	Price @ Current Price 31 May 24 (HK\$)	Target Price (HK\$)	Upside/ (Downside) to TP (%)	Market Cap (HK\$ m)	PE		P/B		Yield	
							2024F (x)	2025F (x)	2024F (x)	2025F (x)	2024F (%)	2025F (%)
Hysan Development	14 HK	BUY	12.24	17.99	47.0	12,426.8	6.0	5.7	0.2	0.2	10.1	10.8
Sun Hung Kai Properties	16 HK	BUY	74.50	105.05	41.0	218,202.9	9.3	8.9	0.4	0.3	5.4	5.6
New World Development	17 HK	HOLD	8.45	9.08	7.5	21,290.7	7.0	6.8	0.1	0.1	5.3	5.6
Wharf Real Estate Investment Co Ltd	1997 HK	BUY	22.20	31.20	40.6	68,770.5	10.0	8.9	0.4	0.3	6.2	6.9
Link REIT	823 HK	BUY	33.85	44.10	26.3	83,766.1	11.6	11.5	0.5	0.5	8.0	8.1

Source: Bloomberg, UOB Kay Hian

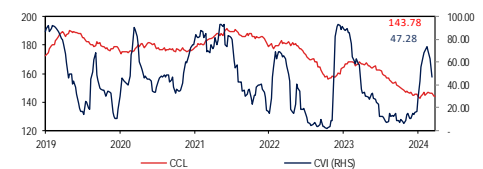
MARKET WEIGHT (Maintained)

SECTOR PICKS

Company	Ticker	Rec	Share Price (HK\$)	Target Price (HK\$)
SHKP	16 HK	BUY	74.50	105.05
Wharf REIC	1997 HK	BUY	22.20	31.20

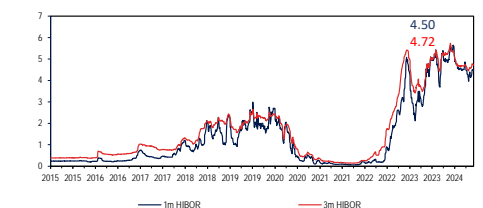
Source: UOB Kay Hian

CCL INDEX VS CVI INDEX



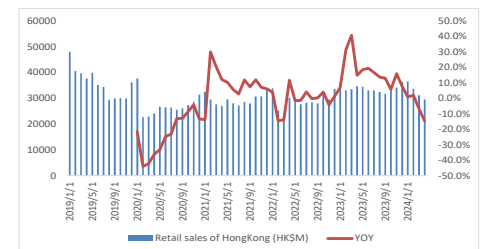
Source: Bloomberg, UOB Kay Hian

1M & 3M HIBOR



Source: Bloomberg, UOB Kay Hian

HONG KONG RETAIL SALES (HK\$M)



Source: Hong Kong Government, UOB Kay Hian

ANALYST(S)

Jieqi Liu
+852 2826 1392
jieqi.liu@uobkayhian.com.hk

Damon Shen
+86 21 54047225 ext.820
damonshen@uobkayhian.com

ACTION

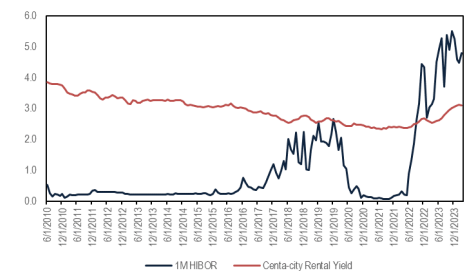
- **Maintain MARKET WEIGHT on Hong Kong's property sector.**
- For Hong Kong developers, we see limited downside risks to property price in 3Q24: a) the transaction volume of Hong Kong properties is expected to be positively correlated with that of Tier 1 and Tier 2 mainland cities, which will be boosted by the recent round of policy easing, and b) 3Q is the peak season for leasing transactions, which will positively support rental yields. We think an interest rate cut will be the major catalyst for Hong Kong's property sector. SHKP remains our top pick for its balanced product mix.
- For Hong Kong landlords, the deterioration of Hong Kong's retail sales may trigger further policy support from the central government, eg an increase in duty-free allowance for mainland tourists. Valuation wise, major landlords are trading at attractive yields. Wharf REIC remains our top pick, as it will be a key beneficiary of possible policy supports.

DAILY AVERAGE OF MAINLAND TOURISTS TO HONG KONG

	2023	2024	yoy
Jan	9,049	96,266	964%
Feb	39,573	110,789	180%
Mar	63,416	80,213	26%
Apr	76,755	81,332	6%
May	75,182	92,439	23%

Source: Hong Kong Immigration, UOB Kay Hian

CENTA-CITY RENTAL YIELD VS 1M HIBOR



Source: Centanet, UOB Kay Hian

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