

COMPANY UPDATE

Link REIT (823 HK)

Key DPU Drivers Remain Intact; Yield At Historical High

We had a con-call with Link REIT on 12 September. Key takeaways are: a) management remains upbeat on its Hong Kong retail portfolio; b) car parks are noteworthy growth drivers with 4-5% rental escalation; and c) acquisitions should be yield accretive. Its operations remain well on track. We lower FY24 DPU by 3.0% to factor in weaker China recovery. Maintain BUY. Target price: HK\$50.70. Current yield of 6.8% offers a good entry point.

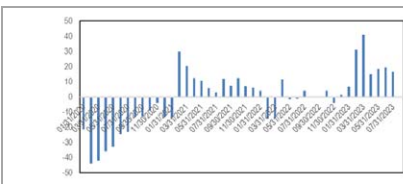
WHAT'S NEW

- We held a conference call with Link REIT on 12 September. The key takeaways are highlighted below.

STOCK IMPACT

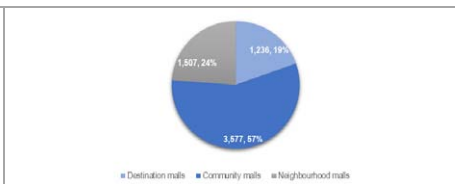
- Hong Kong retail portfolio remains resilient.** According to government data, Hong Kong retail sales grew by 17.7% in 2Q23. Management stays upbeat on Link REIT's Hong Kong retail portfolio and reiterated its target of mid-to-high single-digit rental reversion, which is expected to be underpinned by a continuous upgrade of its tenant mix.

HONG KONG RETAIL SALES - YOY



Source: Bloomberg, UOB Kay Hian

BREAKDOWN OF HONG KONG RETAIL RENTALS



Source: Bloomberg, UOB Kay Hian

- Car park business a noteworthy growth driver.** Hong Kong has been facing an undersupply of car parks. After consolidating the two car park/car service centres and godown buildings in Hung Hom and Chai Wan, revenue contribution from car parks rose to 19.5% in FY23. Hong Kong will continue to face an undersupply of car parks in the medium term, and management expects organic growth in car park income (+5.3% yoy in FY23) to be underpinned by an annual rental escalation of 4-5%.
- Stay selective on new acquisitions.** Link REIT has HK\$9b cash on hand, after paying down the HK\$4b bank loan due in Apr 23. Management reiterated that acquisitions, if any, should be yield accretive. At the moment, the gap between bidding and asking price remains wide in its target markets (ie Australia and Singapore) while Australia is likely to start the repricing process sooner. The high interest rate on cash (>4%) will help to lower the opportunity cost of Link REIT.

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	6,581	7,105	7,733
Net profit (adj.)	6,479	6,134	6,581	7,105	7,733
EPS (HK cent)	307.0	240.2	254.7	271.9	292.6
PE (x)	305.7	274.3	254.7	271.9	292.6
P/B (x)	12.1	15.5	14.6	13.7	12.7
EV/EBITDA (x)	0.5	0.5	0.5	0.5	0.5
Dividend yield (%)	8.2	7.4	6.8	7.3	7.8
Net margin (%)	59.4	126.3	49.8	50.8	52.5
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	7.0
ROE (%)	4.3	8.8	3.6	4.0	4.3
Consensus DPU (HK cent)	n.a.	n.a.	266.2	281.4	297.4
UOBKH/Consensus (x)	-	-	0.96	0.97	0.98

Source: MicroPort Scientific Corporation, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	HK\$37.30
Target Price	HK\$50.70
Upside	+35.9%
(Previous TP)	HK\$58.68

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):	2,553.8
Market cap (HK\$m):	95,258.4
Market cap (US\$m):	12,171.1
3-mth avg daily t'over (US\$m):	34.4

Price Performance (%)

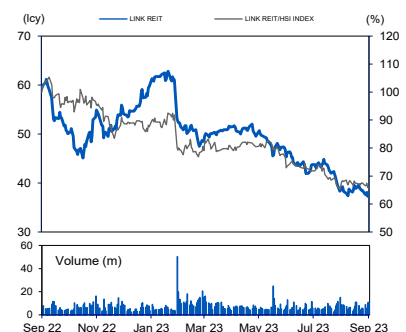
52-week high/low HK\$62.83/HK\$37.30

1mth	3mth	6mth	1yr	YTD
(2.7)	(20.2)	(23.3)	(37.5)	(33.0)

Major Shareholders

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

PRICE CHART



Source: Bloomberg

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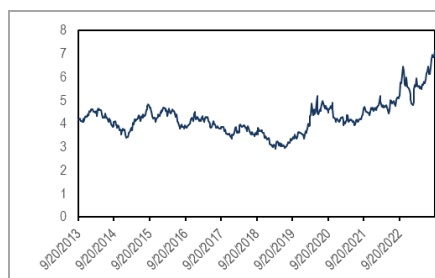
EARNINGS REVISION/RISK

- **Trim DPU forecast.** We slightly lower our assumption of rental reversion of Link REIT's China portfolio to reflect the impact of a weaker-than-expected recovery of the macro economy. Consequently, our FY24/FY25/FY26 DPU forecasts are lowered by 3.0%/2.4%/0.4% respectively to HK\$2.547/HK\$2.719/HK\$2.926.

VALUATION/RECOMMENDATION

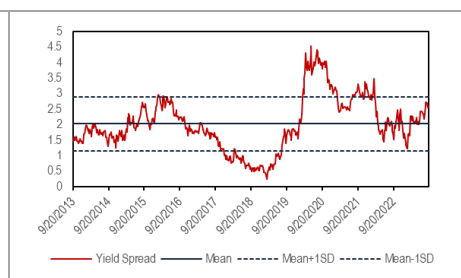
- **Maintain BUY with lower target price of HK\$50.70.** We lower target price to HK\$50.70 on higher risk premium. Our target price implies 5.0% FY24 dividend yield. Link REIT is currently trading at 6.8% FY23 dividend yield, which: a) hits a historical high; and b) implies 2.5% yield spread over 10-year US Government Bond yield. Its current price offers a good entry point. Looking forward, we see a higher possibility of re-rating LINK REIT, as in a challenging macro environment: a) its high exposure to community and neighbourhood malls makes it defensive; and b) companies with stable cash flow and earnings growth will attract more investor interest.

LINK REIT-1FY DPU YIELD (2013-23)



Source: Bloomberg, UOB Kay Hian

LINK REIT - 1FY DPU YIELD SPREAD OVER 10-YEAR US BOND YIELD



Source: Bloomberg, UOB Kay Hian

SHARE PRICE CATALYST

- Stronger-than-expected recovery of Hong Kong and China economies.
- China and Hong Kong governments introducing stimulus measures to boost consumption.

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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