

SECTOR UPDATE

Property – Hong Kong

Expect Modest Pull-back Of Primary Sales In 2Q24

CCL Index fell after increasing for three consecutive weeks while CVI Index rose over 60, reflecting a change in banks' attitude towards granting mortgages from lukewarm to optimistic. CRI rose again by 0.55% mom. With expectation of fewer interest cuts, we foresee primary sales pulling back in 2Q24. However, we maintain our forecast of property prices (-2%) and maintain MARKET WEIGHT on the sector. We prefer retail landlords over developers. Top pick: Wharf REIC.

WHAT'S NEW

- The CCL and CVI indexes were updated on 12 Apr 24.

ESSENTIALS

- CCL Index fell after increasing for three consecutive weeks while CVI index rose over 60.** The CCL index, which reflects secondary property prices, stood at 144.88 on 12 Apr 24, decreasing 1.5% wow. Ytd, CCL Index dropped 1.6% while CCL Index of small- to medium-sized units outperformed with a 1.3% decrease ytd. The CVI Index, which reflects banks' view on the property market, increased sharply to 63.77 on 12 Apr 24 from below 20 six weeks ago. A CVI Index above 60 reflects a change in banks' attitude towards granting mortgages from lukewarm to optimistic. City Rental Index (CRI) rose again by 0.55% mom.
- With expectation of fewer interest cuts, we expect primary sales to pull back in 2Q24.** According to Bloomberg, implied interest rate cut for 2024 dropped to 42.3bp as of 16 Apr 24 from the 150bp on 2 Jan 24. After the rapid release of demand in March, we think investors and homebuyers will calm down a bit and refocus on the impact of interest rates. Blue Coast achieved a sell-through rate of 70% for the 620 units (compared to the >95% of Belgravia Place) reflecting a more cautious buyer sentiment. After first-hand home sales exceeded 4,000 in March, we expect both new and second-hand home sales to modestly pull back from April to June.

ACTION

- Maintain MARKET WEIGHT on Hong Kong's property sector.** Despite the pressure from forecasts of higher interest rates and a weak macro economy, the net gearing ratio of Hong Kong developers remained relatively low while the rents of residential properties have been showing an uptrend, offering downside protection to property prices. Thus, we do not expect developers to continue cutting prices aggressively in 2Q24. We maintain our forecast that Hong Kong's property prices will decrease 2% in 2024. However, as sales may slow down before the interest rate cut kicks in, developers' earnings and dividend visibility will be further reduced. Thus, we prefer retail landlords to developers.

Link REIT has recently underperformed, mainly due to lower expectations of interest rate cuts and concerns about the trend of shoppers heading north. We prefer Wharf to LINK REIT because of two reasons: a) Wharf will start to benefit from debt reduction in 2023; and b) high-end consumption, which mainly focuses on tourists, is less affected. Lastly, we remain cautious on the office segment.

PEER COMPARISON

Company	Ticker	Rec	Price @		Upside/(Downside) to TP (%)	Market Cap (HK\$m)	PE		P/B		Yield	
			16 Apr 24 (HK\$)	Target Price (HK\$)			2024F (x)	2025F (x)	2024F (x)	2025F (x)	2024F (%)	2025F (%)
Hysan Development	14 HK	BUY	11.38	17.99	58.1	11,687.4	5.7	5.4	0.2	0.2	10.7	11.5
Sun Hung Kai Properties	16 HK	BUY	69.55	105.05	51.0	201,540.6	8.6	8.2	0.3	0.3	5.8	6.1
New World Development	17 HK	HOLD	7.95	9.08	14.2	20,007.2	6.6	6.4	0.1	0.1	5.6	6.0
Wharf Real Estate Investment Co Ltd	1997 HK	BUY	22.70	31.20	37.4	68,922.4	10.0	8.9	0.4	0.3	6.1	6.9
Link REIT	823 HK	BUY	31.25	48.15	54.1	79,807.7	12.3	11.8	0.5	0.5	8.1	8.4

Source: Bloomberg, UOB Kay Hian

MARKET WEIGHT

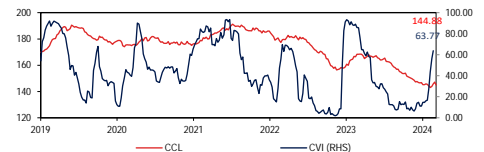
(Maintained)

SECTOR PICKS

Company	Ticker	Rec	Share Price (HK\$)	Target Price (HK\$)
SHKP	16 HK	BUY	69.55	105.05
Wharf REIC	1997 HK	BUY	22.70	31.20

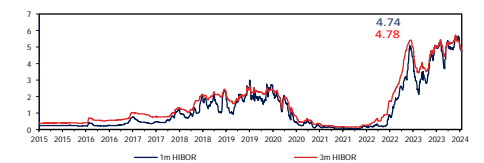
Source: UOB Kay Hian

CCL INDEX VS CVI INDEX



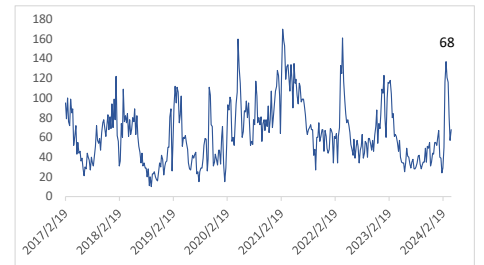
Source: Bloomberg, UOB Kay Hian

1M & 3M HIBOR



Source: Bloomberg, UOB Kay Hian

TRANSACTIONS OF 35 MAJOR ESTATES



Source: Bloomberg, UOB Kay Hian

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### RISKS

- **Upside risks:** Better-than-expected economic recovery and tourism spending in Hong Kong.
- **Downside risks:** Further delay of interest rate cut.

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