

# HK Housing 2004: Shortage Increasingly Apparent

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## From depression to delight

- Housing is a multi-year, trending market

In housing, where institutional investors are absent, private buyers dominate. As with most 'retail investor' markets, housing is driven more by the emotions of fear and greed than cold analysis. Hence, home prices tend to make multi-year, oneway moves as more people enter a rising market or exit a sinking one.

- Trend reversal seen in Q303 should accelerate into 2004

Prices have fallen for six years but 2003 should see the first upturn. While record affordability, low ownership, plentiful cash and positive carry are well acknowledged, few have credited the much-improved predictability of this asset class since key changes in public housing and land sale policies in 2003. The pendulum does swing back—similar 'disbeliever' stories in gold and stocks have reversed this year. We continue to believe that Hong Kong is poised for a fiveyear+ upswing in housing that should see prices rise by 30%+ before end-2004.

- Finally, the 'obvious' shortage gets noticed in 2004

This report focuses on the dynamics of this upturn and complements *A new upcycle begins, as rising confidence fuels strong fundamentals*, 24 September, which addressed the macro backdrop. We forecast acceleration into 2004 as accepted views in the market (wrongly, we believe) swing from oversupply to multi-year shortage—a key factor driving the 1990-97 bull market that saw home prices gain 219% versus an 85% rise in income levels.

- 18 reasons for our optimism

We cite 18 reasons including: 1) Landbank of only 2.7 years, well below the four-year JIT. Developers can earn >35% profit from rationing out stock. 2) No '1997 emigration' selling of >10,000 units pa in the 1990-97 cycle this time. 3) Technical and other tests show little resistance until the weekly home price index rises 64%. Stock triggers include rising prices, property launches, Application List in Dec, auction in Q104 and rising 'natural reverse flows' from China. We still prefer companies with large landbanks: SHKP, Sino Land, Hang Lung Properties and New World Dev for their high NAV sensitivity to the residential and retail property markets.

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## UBS Investment Research

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## Summary

### Market to focus on NAV expansion via growth in margin and landbank

Over the past two months, home prices have risen by 13.6% and recaptured the year-beginning level. With continued strength in price momentum, we expect the full year to show a price rise of around 5%, making 2003 the first year in the past six years to post a gain. Sales volume in September 2003 (as reflected in October 2003 sales and purchase registrations) was the strongest in three years.

Evidence is growing that the two deep-rooted structural changes in: (1) housing policy that began to be put in place since November 2002 (scrapping Home Ownership Scheme and adopting the Application List system on land sale); and (2) the economic relationship with China in June 2003 that has had the effect of increasing two-way flows with China (for details, please refer to our series of notes titled *Natural Reverse Flows*) have begun to rebuild confidence in the Hong Kong property market.

### Return of housing to more predictable free market forces & rising 'natural reverse flows from China'

As homebuyers and investors require lower 'risk premium' on housing as the government increasingly returns this asset class to the free market, and as confidence grows in Hong Kong's economic direction with two-way-flow-boosting measures between China and Hong Kong (new Work Permit scheme for mainland corporates and talent, Individual Travel, CEPA, etc), it appears that fundamental shifts in demand and supply dynamics have started.

In the past few years of a falling market, developers rightly concentrated on cash flow and volume—sacrificing prices and margins—as replacement cost of land was declining rapidly due to two market-distortive policies on land supply and public housing that were driven more by inconsistent administrative processes than risk/return considerations. In the coming five years, we think an upcycle will be visible as land becomes increasingly scarce, replacement costs rise and pent-up demand in an under-housed city is released. We think developers should be able to operate in a manner resembling the mid-1990s of rationing and rebuilding inventory, and lifting margins on existing sites in the process. Sector share prices should increasingly be driven by forward NAV that takes into account both expected margin rises on old sites and forecast growth on new sites.

### 18 reasons why home prices should rise

We continue to believe the Hong Kong housing market is at the start of a multi-year upcycle and expect home prices to rise 30%+ by end-2004. We set out the 18 reasons for our optimism as follows:

Market turning very fast: Prices up 13% and volume has doubled in two months; 2003, the first 'up' year since 1997

Table 1: Change in home prices

	CCL change
1998	-35%
1999	-3%
2000	-18%
2001	-8%
2002	-12%

Source: CCL

A new five-year+ upcycle in housing has begun

Supply-demand reasons:

- (1) **Structural demand has shifted up:** We believe release of short-term pent-up demand has played a part in boosting volume recently. However, we also believe long-term demand for private housing has also shifted up with: (i) cancellation of the Home Ownership Scheme (HOS) programme, which has supplied some 15,000 units per annum until November 2002, and (ii) government drastically minimising its role in private housing both as a supplier of physical units and land—this has greatly enhanced predictability of this asset class and hence its appeal to end-users and investors.

A new, free market in housing with less government intervention has made property a more predictable asset class to give a lasting boost to demand
  
- (2) **Supply is low, inventory rationing already taking place:** From now till the first land sale (possibly in March), developers face four months of uncertain landbank replenishment costs. With total available stock at only 2.7 years of supply, compared with the four years that are required to avoid a stock-out, developers have started to shift from a volume-optimising to a margin-optimising strategy. Inventory rationing is already taking place.

Hong Kong total landbank at 2.7 years, well short of JIT of four years
  
- (3) **Supply will exhaust by August 2006:** At end-Q303, developers only have 89,000 units on hand, which is some 15,000 units below 1996/97 levels. On 2,500 units absorption per month (or 30,000 per annum, marginally larger than expected absorption of 28,000 in the SARS-affected 2003), this stock will be exhausted by August 2006. Currently, even SHKP, the developer with the largest landbank, will see a complete exhaustion of housing pipeline by June 2006, which is just three years out.

Only 80,000 units on hand by end-2003: these will run out by August 2006
  
- (4) **2004 land sales unlikely to quench annual demand:** Including all sites previously offered in the Application List, we count some 31,000 potential units of supply. However, having coordinated a delayed release of land owned by the two railway companies, which have sites in Tseung Kwan O (TKO), West Kowloon and Ma On Shan, the government will likely face criticism if it releases sites in these locations from its own reserve. Therefore, we expect ‘practical’ supply at 16,500-20,000 units, far lower than forecast new housing sales of 30,000-35,000 units.

2004 public land sale: practical supply <20,000 units, lower than expected absorption of 30,000-35,000 units. This should further dry up inventory in 2004
  
- (5) **Four-year construction cycle is still the norm. New sites cannot meet demand requirements until May 2006:** While advances have been made in construction, our discussion with construction companies, developers and our survey of 132 auction sites completed since 1991 indicate that large-scale projects still require 4.2 years to complete. The constraint on physical delivery implies that the earliest that new sites could be offered for presale would be in May 2006, too late to quench existing housing demand.

With a four-year construction cycle, completion of new sites in 2008 is too far away to quench immediate demand

(6) **Profit maximisation requires that developers ration limited inventory:**

Assuming a 10% pa price rise, our analysis indicates that the developer who rations inventory (selling a third in the year preceding and a third after completion) should wind up making 35% more profits overall. The extent of this 'excess' profit would increase with the pace of price rise. Hence, given the current 'shortage' in landbank, a rise in prices would encourage developers to ration supply all the more until a reliable source of supply of raw land could be found. For this reason, we expect a faster pace of recovery in 2004 than in 2003 when 'inventory' was some 30,000 more at the beginning of that year.

A developer can make 35% more by rationing inventory. The more prices rise, the more it pays for a developer to delay sales

(7) **Absence of elasticity in secondary supply:** For fear of being short in a rising market, buyers are shifting from a 'sell first, buy later' to a 'buy first, sell later' mentality. As we emerge from a six-year downcycle when most distressed owners have already sold out, we expect the secondary market to tighten quickly on the upswing.

Secondary market has become less price elastic—'Emigration wave' in the early 1990s added >10,000 pa to supply. With fewer willing sellers, buyers have to strike, raising 'highs' in offers

Available stock in the secondary market could shrink by 23% as trading-up buyers buy before they sell their old flats, as opposed to the much used practice of selling before they buy when prices were falling in the past six years.

While the early 1990s upcycle was relieved by annual release of some 10,000 secondary units from emigrants departing Hong Kong, the coming years should see immigration into Hong Kong.

Furthermore, vacancy in the stock of secondary housing (1.09m units), which stands at an estimated 4.4% (46,195 homes), is already below the 4.8-4.9% natural rate of vacancy in Hong Kong, according to leading academics in this area. This suggests an already tight market, hence any pick-up in demand should cause a rapid price response.

(8) **Three tests on psychological and cash flow resistance:** We have performed three home price resistance analyses that show that a price rise should not face much opposition for the first 64% ascent. The tests include: (1) Technical analysis using Fibonacci methods; (2) Rent versus Buy comparisons—home prices would have to rise 190% before rent outlays and the interest expense on a mortgage equalise; (3) Affordability comparisons at the start of a multi-period housing rally—1990 versus 2003; housing is three times as affordable now than in 1990.

Three tests on resistance: Fibonacci, rent versus buy, and affordability

The housing market has been fraught with emotions that have swung widely between fear and greed over the past two decades. The market has just started to shake off its drag from extreme fear towards property. To incorporate these complex emotions into our analysis of home price movements, we have carried out a Fibonacci analysis on the Centa-City Leading (housing price) Index. It shows that resistance should appear when the Index hits 59.0, up some 64% from the current level of 36, with 102.9 being the peak of the housing bubble in 1997.

## Demand catalysts

With demand-supply dynamics in favour of housing, we expect the following themes to further accelerate near-term demand:

- (9) **Likely positive land auction in Q104 to signal premium on housing futures market:** Developers have been rationing inventory and should bid aggressively when land sale resumes. Prices for the first site sold may well translate into losses at current market prices but should provide indications for ‘futures’.
- (10) **Increasing awareness of looming housing shortage and sustained rise in the home price index:** The shortage should become more apparent in 2004 as more units are sold, land replenishment becomes more difficult and replenishment takes place at rising prices when developers see the urgency to prevent a stock-out.
- (11) **Investment demand to act as an accelerant:** Despite the recent market pick-up, investment demand for housing is still relatively low. Anecdotal evidence from the retail property market suggests that with a price recovery, investment demand should accelerate. Price movements in housing should beget stronger investment flows in 2004.
- (12) **Recovery of trade-up segment:** The trade-up segment (units between HK\$3-10m and accounting for around 20-25% of the overall market), which had been weak in past years, should turn favourable as: (i) supply-demand mismatch takes hold, and (ii) return of confidence facilitates reduction in precautionary cash holdings. The luxury housing market has fared well with strong export performance for the past four years. Many buyers of top-end homes are trade-related proprietors. The <HK\$3m market, which accounts for some 70% of transactions, on the other hand, has already benefited from reforms on public housing, especially termination of the HOS scheme.
- (13) **Income stabilisation:** Home price rises in cities such as London, Sydney and New York City have significantly outstripped income growth and inflation—the drop in interest rates and domestic confidence were also main reasons for the price gains. It is not a necessary that a rise in home prices be accompanied by inflation or pay increases. We believe affordability measures remain the most inclusive and best measure of housing demand in Hong Kong. With income levels in Hong Kong 69% above 1990 levels, as long as incomes stabilise and the perception of wage cuts abates, we believe home prices can perform. In fact, salary tax collection has risen sequentially for the past three years. Recent pay trend surveys and other leading indicators show an improving outlook for Hong Kong in 2004.

PMI at 56.5 (highest since May 1999),  
SME Business Confidence Index at  
10.36 (up 7ppt), HKIHRM and Mercer  
also showing stabilisation to a mild  
increase in salaries (c1.7%)

- (14) **GDP and Natural Reverse Flows momentum:** The benefits from the removal of barriers on tourism are already apparent. Further reverse-flow-enabling measures in the areas of population and capital flows in 2004 should further rebut the 'hollowing out' thesis and augment rising domestic confidence.
- (15) **Work permit scheme and investor immigrants:** These two schemes should drive demand for larger sized flats. These have the potential of adding annual demand for 3,000 units or 3.7% of the 80,419 total housing stock >1,000sf.
- (16) **Firming up of rentals:** On domestic recovery and home price rises, landlords should be less eager to let out vacant flats, especially when their properties' values are rising with a cost of carry at only 2.3-2.4% a year.
- (17) **US\$ weakness or HK\$/Rmb strength:** With a weak US\$, a portion of the billions of US\$ parked offshore by Hong Kong citizens may find its way back into HK\$ assets as domestic confidence rises.
- (18) **CEPA:** More foreign companies and corporates from China are expected to relocate and/or set up offices in Hong Kong to take advantage of the benefits under the Closer Economic Partnership Arrangement (CEPA) and other two-way-flow-facilitating measures.

Highly favourable fundamentals have bedded down in Q303—Full potency should start to show through sharply higher price momentum in 2004

In our opinion, the fundamentals for a housing upcycle are already in place and have started to show their effects in Q303. In the coming five quarters, we see momentum on prices accelerating significantly as perception reverses from 'oversupply' to increasingly 'shortage'. We continue to expect home prices to rise 30%+ by end-2004 (from the levels seen at the start of 2003). As housing remains the largest asset class for many households, its recovery should boost other domestic consumption sectors. The retail and office sectors should also benefit. We remain highly optimistic on all the property sectors and expect a multi-year process of price and NAV rises in sector stocks.

## Our picks: Long landbank and long domestic recovery

Table 2: Hong Kong property stocks—Valuation and rating

Developers (HK\$)	Share price	Curr NAV	Disc to curr	12m fwd NAV	Disc to fwd	Price target	Upside	Rating
Sun Hung Kai Properties	60.75	54.4	13%	69.5	-13%	76.40	26%	Buy 1
Sino Land	3.90	5.5	-29%	7.7	-49%	5.75	47%	Buy 1
Hang Lung Properties	9.50	10.1	-3%	14.2	-31%	13.75	45%	Buy 1
New World Dev	4.68	19.0	-75%	24.6	-81%	8.60	84%	Buy 1
Hang Lung Group	9.40	14.8	-36%	20.6	-54%	12.00	28%	Buy 1
Hysan Develop.	10.85	14.8	-27%	20.6	-47%	13.40	24%	Buy 1
Wharf Holdings	18.75	23.8	-21%	30.8	-39%	24.60	31%	Buy 1
Great Eagle	8.80	15.3	-43%	21.6	-59%	14.05	60%	Buy 2
Wheelock	8.65	11.2	-22%	15.1	-43%	10.60	23%	Buy 1
Cheung Kong	59.50	72.6	-18%	80.1	-26%	68.30	15%	Neutral 2 (RRD)
Henderson Land	30.40	37.3	-19%	43.6	-33%	29.30	-4%	Neutral 2
HK Land (US\$)	1.66	1.5	11%	2.02	-18%	1.41	-15%	Neutral 2 (RRD)
Henderson Inv	8.70	12.0	-27%	11.42	-24%	8.65	-1%	Neutral 2

Prices as at 26 November 2003.

Source: UBS estimates

For 2004, we continue to prefer those property companies with exposure to (i) the housing market and (ii) domestic consumption.

Developers with large landbank and the ability to replenish should outperform. Property companies with good exposure to the retail and housing market should also do well. Our top picks are:

**Sun Hung Kai Properties (0016.HK, TP: HK\$76.40, Buy 1)**—SHKP has the largest landbank amongst the Hong Kong developers. Its 19% market share is more than double its closest peer. We also believe that SHKP is furthest along in land conversion.

**Sino Land (0083.HK, TP: HK\$5.75, Buy 1)**—Aggressive landbanking in late 2002 resulted in Sino Land having the third largest landbank in Hong Kong. Aggressive recycling of cash from sale into buying new sites should enable Sino Land to maintain its sensitivity to the domestic recovery. Its 11.6% NAV sensitivity to change in home and retail property prices ranks it as the most sensitive stock to a domestic recovery.

**Hang Lung Properties (0101.HK, TP: HK\$13.75, Buy 1)**—HLP's 10.4% sensitivity to change in housing and retail is only second to Sino Land's. Arguably, HLP's 4m sf urban landbank gives it the highest concentration in urban residential. This landbank has helped HLP rerate from being a property investor to a property developer (NAV discount has narrowed from 40% to 0%). HLP should be a major beneficiary of the housing upcycle in 2004. However, given its limited inventory, beyond 2004, HLP's re-investment plans will be crucial to determining whether HLP can rerate for a second time.

Table 3: HK housing landbank—Developers' market share

	Attr units	Market share
SHKP	16,461	19%
CK	7,818	9%
Sino	7,041	8%
Henderson	6,887	8%
Hang Lung	4,531	5%
NWD	4,305	5%
Wharf	2,941	3%
Hutchison	2,601	3%
Swire	1,184	1%
K. Wah	916	1%
Other	33,923	38%
Total	88,608	100%

Source: UBS estimates

**New World Development (0017.HK, TP: HK\$8.60, Buy 1)**—By virtue of its third highest NAV sensitivity to housing and retail (8.2%), and discount to audited NAV-June 2003 of 75%, we maintain our view that the biggest challenge to New World Development being rerated upward will be its ability to monetise the part of its NAV in poor-performing assets in China (40% of book value). The company started this process by divesting 13 toll roads in China (HK\$1.2bn) two weeks ago and may do more in the coming year, which would be positive, in our view. We have not argued for a shrinkage of discount in the coming year but maintain it at 75%. However, on the expansion of Hong Kong assets in this upswing of housing and retail, we estimate NAV should lift by 29% to give around 84% potential upside to our price target.

In our opinion, New World Development's management performance has much room for improvement, but by and large this aspect of the company is well reflected in the current 75% discount to audited NAV. In the macro backdrop, we forecast that in a J-curve recovery, the rising tide will lift all boats, both the blue and non-blue chips.

**Table 4: Hong Kong property stocks' NAV sensitivity to change in property prices**

NAV sensitivity to 10% change in:	NAV (HK\$)	Combined			
		home + retail	...home prices	...office rents	...retail rents
Sino Land	5.7	11.6%	7.1%	1.7%	4.5%
HLP	10.1	10.4%	6.0%	1.9%	4.5%
NWD	19.0	8.2%	5.6%	1.0%	2.6%
Hysan	14.8	7.9%	3.2%	5.3%	4.7%
SHKP	54.4	6.9%	3.0%	1.6%	3.9%
Great Eagle	15.3	6.6%	0.4%	7.5%	6.2%
Wharf	23.8	6.0%	1.1%	3.1%	4.9%
HK Land (US\$)	1.5	5.4%	2.2%	7.3%	3.3%
Henderson Land	37.3	4.2%	1.6%	0.9%	2.6%
Cheung Kong	72.6	1.3%	1.2%	0.2%	0.1%

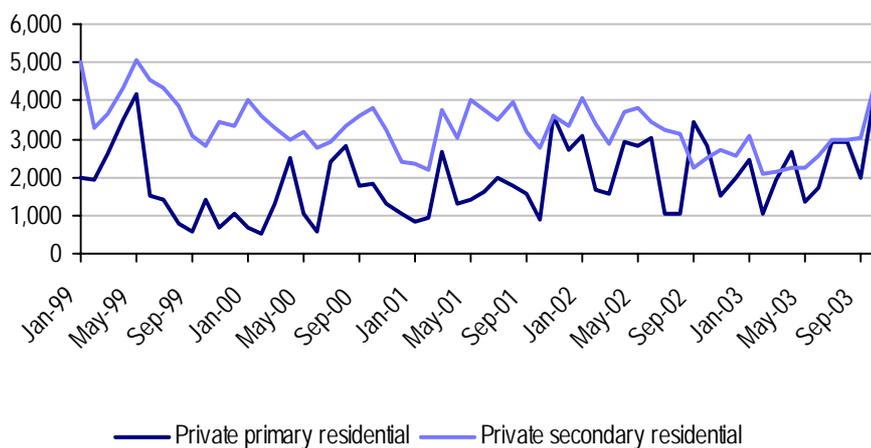
Source: UBS estimates

# Demand is fine, supply is short

## (1) Structural demand has shifted out

Similar to our argument that the occurrence of SARS would only delay but not extinguish demand, we believe the converse is true now. Property sales volume has rebounded very strongly in recent months, with private primary and private secondary housing sales volume both reaching recent highs.

Chart 1: Private primary and secondary sales volume (transactions)

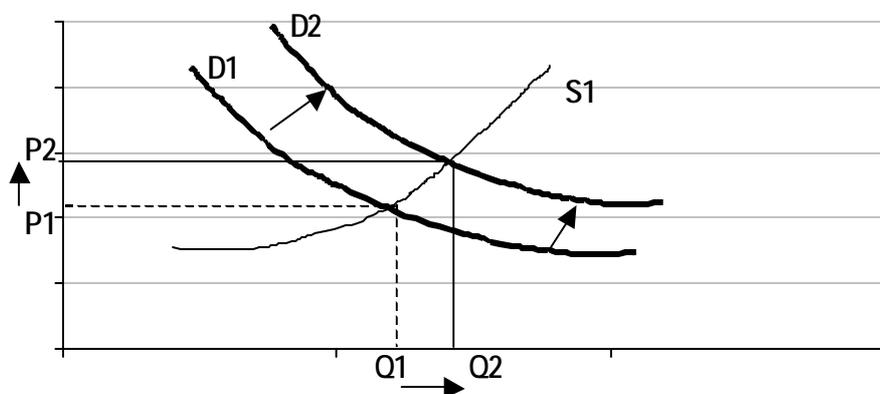


Source: Land Registry, Centaline, UBS estimates

Release of pent-up demand has played a part in the recent increase in volume. However, we believe the long-term demand curve has also shifted out for the following reasons:

- Dis-intervention by the government from the housing market has meant the removal of some 15,000 HOS units pa from the housing market. Some of this demand should find its way into the private market.
- Price appreciation restores property as an asset class as opposed to a fungible expense item.

Chart 2: Volume and price both rise as demand shifts higher



Source: UBS

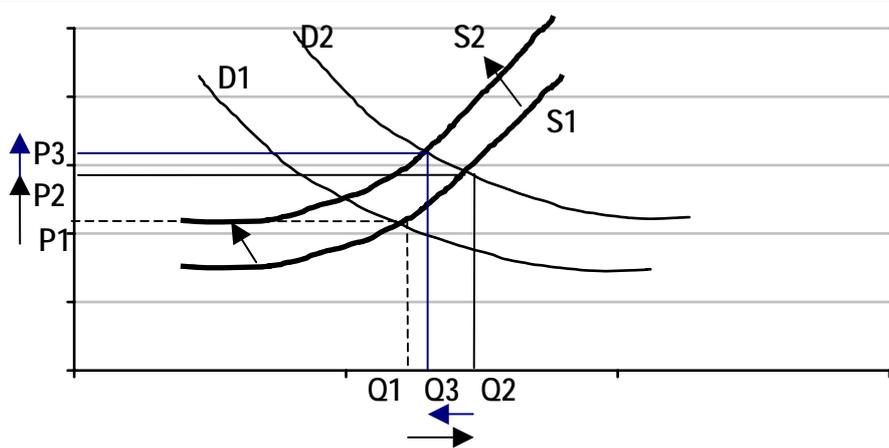
Were we to simply annualise the past three months' private primary volume, annualised demand would be some 35,976 units (8,994 units x 4 quarters).

We continue to believe that private primary demand in the next few years will likely be around 30,000-35,000 units pa. Even at 30,000 units pa, given how far the developers have run down their landbank, this would still lead to a significant shortage in the next few years.

## (2) Supply is low, inventory rationing already taking place

Over the past year, developers have run down their inventory to below 'just in time' (80,000 units on hand at end-2003 versus annual demand of some 30,000 units). Without knowing what and how much will be available from the Application List in 2004, developers have to control their inventory carefully so that they do not run the risk of being short inventory as the property upcycle accelerates.

Chart 3: Price rise but volume drops as developers ration supply



Source: UBS

We believe the lower sales volume in recent weeks is more a function of developers restricting supply than the exhaustion of 'pent-up demand'. The pricing strategy from developers' recent launches shows a marked shift from a volume-driven sales strategy to one that focuses on margin and pricing. This is essentially a return to the mid-1990s presale tactic.

**Margin strategy—smaller batches but with more price increase. Similar to what we are seeing now and what we saw in the mid-1990s**

A recent statement by Mr. Justin Chiu, Executive Director for Cheung Kong, on 23 November 2003 sums up developers' strategy nicely: "Sales volume in 2004 may be lower than in 2003 because developers will hold on to inventory"... "developers will put more emphasis on pricing rather than volume since volume is no longer an issue".

**Table 5: Recent new launches**

Date	Project	Comment
20-21 Sep	Sham Wan Towers	SHKP launches 48 units (4.6% of overall) at HK\$4,200psf, or a 20% premium to the secondary market. Units were sold within one hour. Other units are now held back.
15 Sep	Orchards	Swire offered 30 flats (7% overall) at HK\$4,500psf (secondary market at HK\$3,300-3,500psf).
4-5 Oct	The Pacifica	Cheung Kong and SHKP released 30 units for sale on Saturday. Units were sold within one hour. Developer only released 20 more units the following Sunday (all sold within ½ hour).
10 Nov	Princeton Towers	Cheung Kong released 12 units Monday night, all sold within the hour. CK only released eight more units.
8-9 Nov	Residence Oasis	Sino Land priced units at a 10% premium to the market. Units range from HK\$2,500-4,400psf.
8-9 Nov	Ivy on Belchers	HK Land offered 40 units (29% overall) at HK\$3,600-5,000.
21-22 Nov	Sky Tower	CK/NWD offered 250 units (11% overall). All were snapped up by buyers. CK/NWD only intend to make 500 of 2,200 units available before completion.

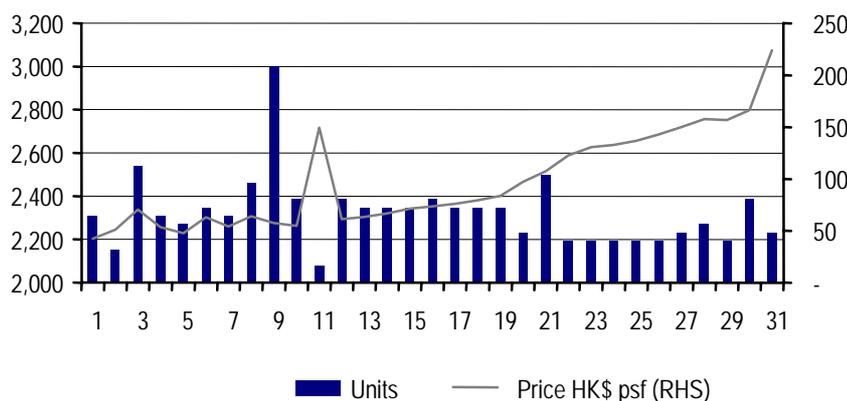
Source: Chinese press reports

**Presale strategy—Emphasis shifting from volume to margins**

This strategy is very similar to the developers’ presale strategy of the mid-1990s. For instance, from December 1995 to June 1996, Cheung Kong offered 31 separate batches of Kingswood Villas Phase 5, each time offering around 50-100 units. Pricing was raised from HK\$2,203psf to HK\$3,075psf from the first to last batch.

**1995/96 Kingswood Villas Ph 5: 31 batches with a 40% price increase from first to last**

**Chart 4: Kingswood Villas Phase 5: From December 1995 to June 1996**

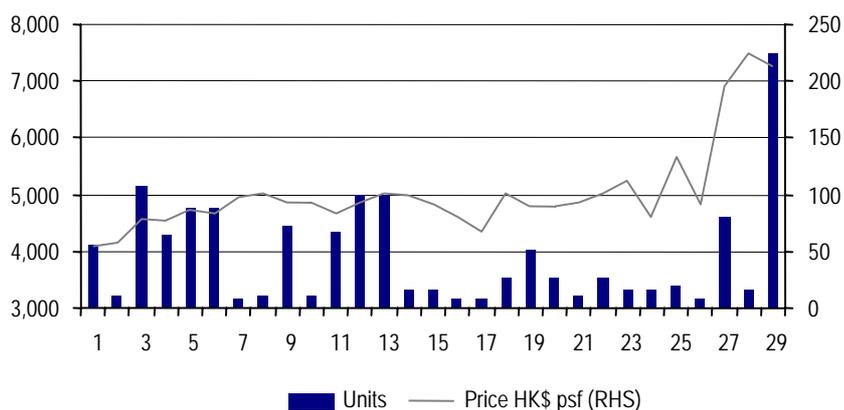


Source: Financial Chronicle

Henderson Land’s Metro City Phase 1 also saw the same pricing tactic. From June 1996 to May 1997, Henderson Land offered 29 batches of units to the public, raising prices from the initial batch’s HK\$4,097psf to HK\$7,273psf in batch 29 (also the largest offering at 225 units).

**Metro City Phase 1: 29 batches with a 78% price hike from first to last**

Chart 5: Metro City Phase 1: From June 1996 to May 1997



Source: Financial Chronicle

### (3) Supply will exhaust by 2006

The various definitions of what constitute supply have often led to confusion about whether there is in fact an over- or undersupply situation in Hong Kong. The various definitions include:

- **Number of leftover units (defined as units launched and unsold, this could include both completed and uncompleted units)**
- **Pre-saleable units in the next 12 months**
- **Completions**
- **Agricultural land**

In our opinion, supply should include all units that developers can offer for sale (total available stock). This includes all sites where the land premium has been paid and could be built on (even if no foundation has been put in place). At the end of Q303, we count some 88,608 paid-up units in the hands of developers. Paid-up stock should decline to 80,000 units by end-2003.

These 88,608 units are all that will be available for the medium term. Given the four-year construction cycle (a point that we will address in the next section), even if developers were to acquire land for 20,000 units at next year's first land sale (say, January 2004), the earliest completion should be January 2008. In addition, with a 20-month presale window, the earliest pre-sale window would be in May 2006, by which time the market would have well exhausted the total number of available stock.

**Table 7: Supply-demand dynamics—shrinking available stock**

Base case	Q303	2004E	2005E	2006E
Available stock—Year beginning	88,608	80,000	45,000	10,000
Absorption	(8,608)	(35,000)	(35,000)	(35,000)
Addition	0	0	0	20,000
Available stock—Year end	80,000	45,000	10,000	(5,000)

Case I: 30,000 annual absorption	Q303	2004E	2005E	2006E
Available stock—Year beginning	88,608	80,000	50,000	20,000
Absorption	(8,608)	(30,000)	(30,000)	(30,000)
Addition	0	0	0	20,000
Available stock—Year end	80,000	50,000	20,000	10,000

Source: UBS estimates

## Units available for presale

Taking this argument one step further, we count the number of units falling within the 20-month presale window. We estimate that on 1 January 2004, the number of unsold units completed in 2003 or earlier would total 14,909 units. Units that could potentially be launched (ie, maximum supply) total 35,485 (1,617 x 12 months + 2,010 x 8 months), yielding overall available stock of 50,395 units.

**Table 8: Units available**

	2004E	2005E	2006E	2007E
Completion	24,125	24,126	21,374	798
Units sold	(4,724)	0	0	0
Available stock	19,401	24,126	21,374	798
Units available/month	1,617	2,010	1,781	

Source: UBS estimates

On the assumption of 30,000-unit absorption per year or 2,500 units per month, the 20-month presale window should mean that at any one time, available stock should be at 50,000 units (2,500 units x 20 months).

Each month should see the 20-month window extend to take in new stock, however, normal absorption would also reduce available stock. Land released in January 2004 would only become pre-saleable in May 2006 when total available stock is 8,108 units. With indications that the first land sale may take place in March/April 2004, completion would stretch to April 2008. On the pre-saleable date of August 2006, the market may be run down to just 608 available units.

**Table 6: Paid-up stock**

	Completion*	Unsold units
2000	20,206	639
2001	23,566	2,953
2002	30,943	7,527
2003E	26,180	11,791
2004E	24,125	19,401
2005E	24,653	24,126
2006E	21,374	21,374
2007E	798	798
<b>Total</b>		<b>88,608</b>

\* Completions exclude village housing units Source: Company data, UBS estimates

**Table 9: Rolling window of supply availability**

	Units available	20 <sup>th</sup> month	New units	Units sold	Units available
Jan-04	50,395	Sep-05	2,010	(2,500)	49,905
Feb-04	49,905	Oct-05	2,010	(2,500)	49,416
Mar-04	49,416	Nov-05	2,010	(2,500)	48,926
Apr-04	48,926	Dec-05	2,010	(2,500)	48,437
May-04	48,437	Jan-06	1,781	(2,500)	47,718
Jun-04	47,718	Feb-06	1,781	(2,500)	46,999
Jul-04	46,999	Mar-06	1,781	(2,500)	46,280
Aug-04	46,280	Apr-06	1,781	(2,500)	45,561
Sep-04	45,561	May-06	1,781	(2,500)	44,842
Oct-04	44,842	Jun-06	1,781	(2,500)	44,123
Nov-04	44,123	Jul-06	1,781	(2,500)	43,404
Dec-04	43,404	Aug-06	1,781	(2,500)	42,686
Jan-05	42,686	Sep-06	1,781	(2,500)	41,967
Feb-05	41,967	Oct-06	1,781	(2,500)	41,248
Mar-05	41,248	Nov-06	1,781	(2,500)	40,529
Apr-05	40,529	Dec-06	1,781	(2,500)	39,810
May-05	39,810	Jan-07	798	(2,500)	38,108
Jun-05	38,108	Feb-07	0	(2,500)	35,608
Jul-05	35,608	Mar-07	0	(2,500)	33,108
Aug-05	33,108	Apr-07	0	(2,500)	30,608
Sep-05	30,608	May-07	0	(2,500)	28,108
Oct-05	28,108	Jun-07	0	(2,500)	25,608
Nov-05	25,608	Jul-07	0	(2,500)	23,108
Dec-05	23,108	Aug-07	0	(2,500)	20,608
Jan-06	20,608	Sep-07	0	(2,500)	18,108
Feb-06	18,108	Oct-07	0	(2,500)	15,608
Mar-06	15,608	Nov-07	0	(2,500)	13,108
Apr-06	13,108	Dec-07	0	(2,500)	10,608
May-06	10,608	Jan-08	??	(2,500)	8,108
Jun-06	8,108	Feb-08	??	(2,500)	5,608
Jul-06	5,608	Mar-08	??	(2,500)	3,108
Aug-06	3,108	Apr-08	??	(2,500)	608
Sep-06	608	May-08	??	(2,500)	(1,892)
Oct-06	(1,892)	Jun-08	??	(2,500)	(4,392)
Nov-06	(4,392)	Jul-08	??	(2,500)	(6,892)
Dec-06	(6,892)	Aug-08	??	(2,500)	(9,392)

Freeze on land sale

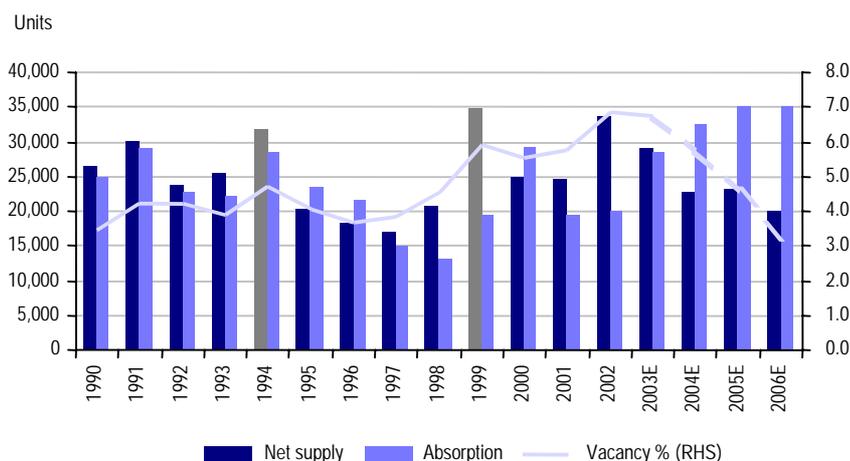
Potential supply from 2004 land addition

Source: UBS estimates

**Market only discounts less than two years**

Judging by past experience, we find the market only looks two years into the future. Both 1994 and 1999 saw high completions of 31,710 and 34,870 units, respectively. Had the market looked beyond two years to spot the high completions in these later years, this might not have resulted in the 39% and 30% price rise in the preceding 1996 and H197, and the 30% price rise in 1992 and 1993.

**Chart 6: Private market supply—Market discounts < two years**



Source: Rating & Valuation, UBS absorption and vacancy estimates

**Leftover units = Sell of long-dated future puts**

Looking at other supply measures such as the number of leftover units (ie, units launched but not sold), this has also shown a sharp improvement in H203 with leftover units down from 22,500 units to 18,000 units. This has been the result of a sharp pick-up in volume as well as developers holding back on new projects.

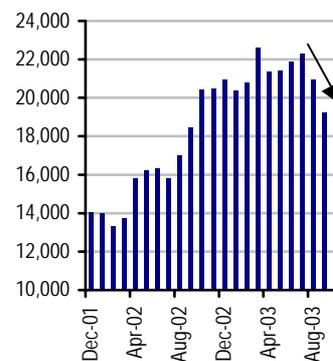
In the next six months, the number of leftover units may well go up, as developers increasingly reduce batch sizes and optimise each project’s price point (ie, release 50 out of 1,000 units, hence leftover units would increase by 950 units). However, in the overall picture, each unit sold would be one removed from the overall pipeline.

**(4) 2004 land sale unlikely to quench demand**

Land supply and the construction cycle should be key constraints to whether the 2006 shortage could be filled by the coming year’s land sales.

If we were to include ALL the residential sites that had appeared in government land sale programmes over the past four years as possible candidates to appear in the January Application List, we count possible supply of 31,168 units (see Appendix 1). However, in practice, that number should be closer to 20,000 units, as many of the sites may not be available (eg, the Borrett Road premises are currently leased out and are not ready), or would not be appropriate for sale in the near future (eg, sites along new railway lines such as those in Tseung Kwan O, Ma On Shan and West Kowloon).

**Chart 7: Leftover units**



Source: Midland Realty

**2004/05 Application List—31,168 potential units but closer to 17,000 in a practical sense**

**Table 10: Potential supply from 2004/05 land sales—31,000 in theory but 17,000 in practice**

	Sites	Units
All sites that have previously appeared in the land sale programme	33	31,168
Less:		
Tseung Kwan O	4	9,710
West Kowloon	2	2,625
Ma On Shan	2	1,907
Actual sites available	25	16,926

Source: Lands Dept, UBS estimates

Having asked the KCRC and MTRC to delay the release of their land, the government is unlikely to give preference to its own sites along the rail lines. Stripping out the sites in TKO, West Kowloon and Ma On Shan, the effective supply drops by some 46% from 31,168 units to 16,926 units.

#### Little relief from agricultural land conversion

The limited amount of stock available from public land sales should force developers to turn to agricultural land conversion. However, seeing as how next year's land sale should be hotly contested, we think lands officers are unlikely to want to grant land premium levels based on the old 'residual' calculation method, as next year's land auction should fetch much higher prices.

On our simplified example below—on an expectation of a 30% price hike and a larger 25% margin—auction prices will likely result in 50% higher land cost than under a strict residual value land premium calculation.

**Auction price likely to be 50% higher than residual calculation. Land premium offers will not come cheap**

**Table 11: Simplified example of land premium versus auction**

(HK\$ psf)	Residual calculation	Auction
Current price	2,000	2,000
Price appreciation	0	30%
Price	2,000	2,600
Expected margin	20%	25%
Cost	1,600	1,950
Less construction costs	800	800
Less: financing costs	172	210
Land costs	628	940

Source: UBS estimates

We expect land premium negotiations will be difficult and only the most prepared developer will be able to convert in scale.

#### (5) Four year construction cycle still the norm, new sites no help until May 2006

Physical delivery of flats is another key constraint. Our discussions with several construction companies and developers indicate that except for some low-rise housing, it still takes four years to deliver a housing project (from winning the auction to handing over the flats to buyers).

We reviewed 132 of 183 projects that were sold via land sales since 1991. The average period from auction to delivery was 4.2 years. See Appendix 2 for a complete list.

**Table 12: Years to complete a project—experience from past land sales**

	Number of sites sold in the fiscal year	Number of sites—completion traced	% coverage	Years to complete
2002/2003	8	2	25%	3.3
2001/2002	10	5	50%	2.9
2000/2001	16	16	100%	3.6
1999/2000	20	20	100%	4.0
1998/1999	3	3	100%	3.5
1997/1998	22	19	86%	4.5
1996/1997	10	10	100%	3.4
1995/1996	14	14	100%	4.1
1994/1995	22	20	91%	4.3
1993/1994	11	8	73%	4.6
1992/1993	23	11	48%	5.5
1991/1992	24	4	17%	4.8
<b>Total</b>	<b>183</b>	<b>132</b>	<b>72%</b>	<b>4.2</b>

We looked at 132 sites sold through land sale. These have an average construction time of 4.2 years

Source: Lands Dept, Buildings Dept, Centaline, UBS estimates

For low-rise housing, the construction cycle could be shortened to less than three years. However, for larger-scale projects such as Victoria Towers, Leighton Hill and Hampton Place, the four-year delivery cycle is still the norm.

**Table 13: Large projects mostly require more than four years construction time**

Auction date	Project	Developer	Lot	GFA (sf)	Land price (HK\$ m)	Completion date	Years
Apr 2000	Pacifica	CK/SHKP	NKIL 6275	1,450,000	1,900	Jan-05	4.77
Jun 2000	Parc Palais	NWD, Sino, RDC, Chinese Estates	KIL 11118	904,200	2,508	Aug-04	4.13
Dec 2000	The Long Beach	Hang Lung	KIL 11152	1,630,140	2,580	Aug-04	3.73
Dec 2000	Sai Wan Ho Ferry Concourse	Henderson, HK& China Gas	IL 8955	1,410,628	2,430	Jun-05	4.55
Jun 1999	1 Beacon Hill	Cheung Kong	NKIL 6277	779,885	3,240	Oct-03	4.38
Dec 1999	Hampton Place	Cheung Kong	KIL 11107	560,274	1,340	Feb-04	4.21
Apr 1998	Leighton Hill	SHKP	IL 8882	898,000	3,612	May-02	4.04
May 1998	Les Saison	SHKP, Swire, CMB	SIL 843	740,000	1,677	Mar-02	3.86

Source: Lands Dept, Centaline, UBS estimates

### Agricultural land = Planning approval negates shorter cycle

Developers can sometimes shorten the development cycle on agricultural land by completing site preparations, foundation work ahead of the land premium conversion. This could effectively shorten the lead time to three years. Our selection of 54 sites that were converted since 1998 had an average completion time of 3.46 years, 17% shorter than the 4.2 years for land bought at auction.

However, what the land premium completion time does not show is the lengthy negotiation process. With increasing environmental concerns, the conversion and Town Planning Board approval processes are becoming increasingly complex. The case of Henderson Land's Wu Kai Sha project, for example, has been in the conversion process for much of the past four years. Delays in the conversion have included constraints such as (1) zoning rights, (2) infrastructure concerns, and (3) plot ratios (from 1.5x to 3.0x to proposed 3.5x to a scaled back 2.48x).

### (6) Profit maximisation requires rationing of limited stock

With physical delivery four years away and limited stock, developers have to ration their inventory in order to maximise sale proceeds. Some have argued that in order for developers to meet profit estimates, property companies must maintain high volume. We believe any shortfall in development profit from lower volume can be more than offset by higher margins.

**Table 15: Presale now or later—Sell later in a rising market with limited stock**

Case 1: Normal (HK\$ m)	t-1	t	t+1	t+2	Total
% presold	75%	100%	100%	100%	
Current price (HK\$)	3,000	3,300	3,630	3,993	
Change		10%	10%	10%	
Sales proceeds	225	83	-	-	308
Turnover		308	-	-	308
Cost		240	-	-	240
Profit (A)		68	-	-	68
<hr/>					
Case 2: Delay presale (HK\$ m)	t-1	t	t+1	t+2	Total
% presold	33%	67%	100%	100%	
Current price (HK\$)	3,000	3,300	3,630	3,993	
Change		10%	10%	10%	
Sales proceeds	99	112	120	-	331
Turnover		211	120	-	331
Cost		161	79	-	240
Profit (B)		50	41	-	91
Gap (B) / (A)		75%	NA	NA	135%

Source: UBS estimates

**Table 14: Agricultural landbank**

Developer	Site area
SHKP	21m sf
Henderson Land	22m sf
New World Dev	20m sf
Cheung Kong	15m sf

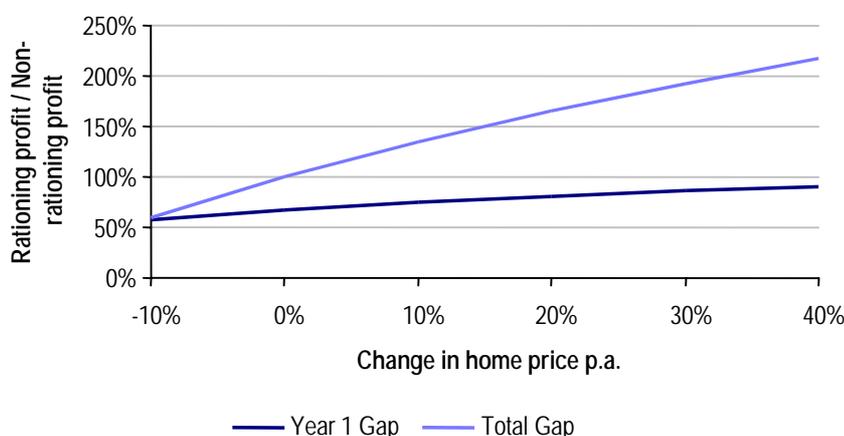
Source: Company data

In the above example, we use a theoretical project of 100,000sf GFA with a selling price of HK\$3,000psf and all-in costs of HK\$2,400psf. In case one, we use the conventional presale strategy where the developer pre-sells 75% of the project the year prior to completion and has the entire project presold by completion. In case two, the developer rations inventory and sells a third of the project in each of the three years around the completion date.

In our example where home prices rise 10% pa, in the year of completion (time t), the developer who rations inventory (case 2) shows a development profit 25% lower than the one that sells out (case 1). However, in terms of overall profit, the rationing developer winds up making 35% more profits overall (HK\$91m in case 2 versus HK\$68m in case 1). Furthermore, the profit shortfall would only be for the first year of rationing, as profits slipping from year one would offset profit shortfall for projects completing in the following year.

Rationing inventory should result in a 35% increase in overall profits

Chart 8: Impact of rationing inventory on development profits



Source: UBS estimates

The caveat of this analysis is that it assumes a fixed amount of inventory. Where supply can be replenished at will and margins are steady, the developer would have a stream of future projects and would be able to participate in future price rises. In this case, the developer would be better off selling off stock as soon as possible and redeploying capital to the next project.

### (7) Absence of elasticity in secondary supply

Equally important, if not more so, is the potential release of supply from the secondary market. In the context of Hong Kong’s overall 1.1m housing stock, annual new completions of 25,000-30,000 units account for just 2.3-2.8% of new supply. This would be roughly equal to one in 40 households deciding to put their flat on the market.

Annual new completion only a 2.3-2.8% addition to stock, secondary supply is important

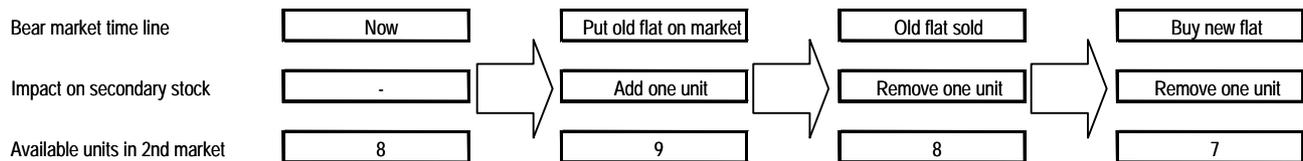
There is no reliable source on the total number of flats that have been put on the market. However, thinking through the dynamics of a trade-up purchase, we believe the number of secondary units available should drop significantly as Hong Kong emerges from a six-year downturn and moves into an upswing.

Looking at the following illustration, in a bear market, people looking to trade up tend to first sell their existing unit before buying a new unit. In a bull market, buyers tend to want to have a unit on hand before selling their old unit in order to guard against being short in a bull market. These dynamics result in a tightening of stock in the secondary market by 23% (see column two below).

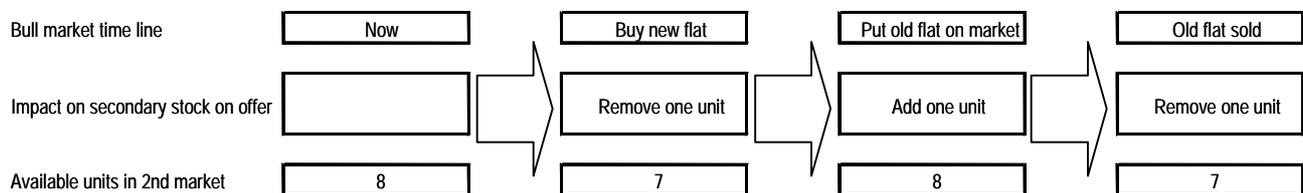
In a downmarket: sell the old flat before buying a new one. In an upmarket: buy the new flat before selling the old one

Figure 1: Trading up in bull and bear markets—Impact on secondary supply

**Bear market trade-up cycle**



**Bull market trade-up cycle**



Source: UBS

Due to the lack of reliable historical listing information, we cannot show this empirically. However, comparing the number of listings from July-August to September-October 2003 for 10 of Hong Kong’s more popular estates indicates that secondary supply at those locations declined by 9% (ranging from -31% to +6%).

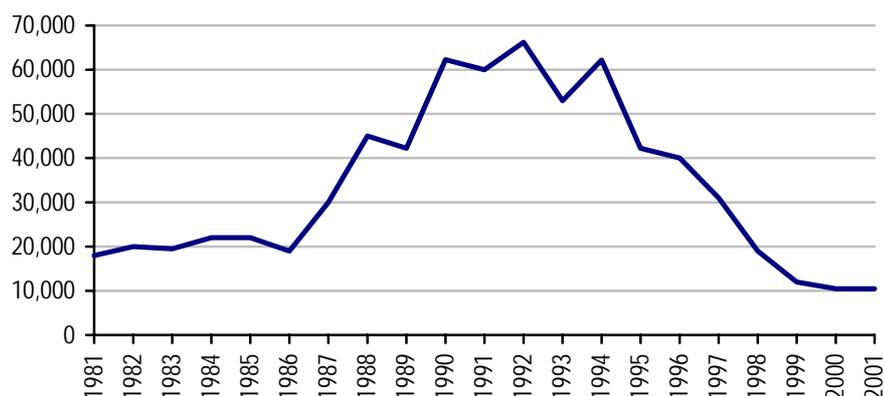
Secondary listings at 10 estates declined by 9% from July to October

Table 16: Change in property listings at key estates

Units	July-Aug 2003	Sep-Oct 2003	Change
Taikoo Shing	401	350	-13%
Kornhill	160	110	-31%
South Horizons	380	340	-11%
Mei Foo Sun Chuen	610	578	-5%
Laguna City	400	310	-23%
Telford Plaza	50	25	-50%
Shatin City One	278	257	-8%
Kingswood Villas	800	800	0%
Luk Yeung Sun Chuen	85	90	6%
Metro City	280	270	-4%
Total	3,444	3,130	-9%

Source: Centaline

Unlike the early 1990s, no relief this time from emigration supply  
**Chart 9: Emigration from Hong Kong (1981-2001)**



Source: Hong Kong Information Notes: Emigration—October 2002

The emigration wave of the late 1980s/early 1990s is another reason why we believe the secondary housing stock should be much tighter now than before. Between 1990 and 1994, some 53,000-65,000 people emigrated from Hong Kong each year. A number of these emigrants probably sold their homes, thereby releasing stock into the secondary market.

Actual emigration figures are hard to come by, however, based on the number of visa applications at local consulates and other local documentation (ie, certificate of no criminal conviction), the Hong Kong government estimated that between 1990-97, some 417,000 people may have emigrated from Hong Kong. As shown in the above chart, some 20,000 people have emigrated annually since the 1980s. We can assume that 20,000 emigrants represent base emigration. On the premise that emigrant families are two-person households and that 65% of emigrating households actually sell their homes, we estimate that emigrants would have released 10,437 units pa in 1990-97.

**From 1990-97, 417,000 people may have emigrated, releasing 10,000 secondary units pa**

**Table 17: Units released from emigrants (1990-97)**

Emigration from Hong Kong in 1990-97	416,900
Base emigration (20,000 people pa)	160,000
Surplus emigration	256,900
Estimated household size	2.0
Surplus households emigrating	128,450
Percentage of emigrating households to sell	65%
Units released to market	83,493
Units released to market pa	10,437

Notes: Emigration—October 2002

Source: UBS estimates, Hong Kong Information

In the coming years, we believe immigration into Hong Kong will be more prevalent than emigration from Hong Kong. The continued rollout of the Admission Scheme for Mainland Talents and Professionals and the Capital Investment Entrant Scheme (ie, investor immigrants) should see immigration into Hong Kong feature prominently. (See page 35 for discussion of the two schemes).

Although some Hong Kong persons may choose to relocate to the PRC (either for retirement or for work), existing data shows that retiring across the border has not been a significant trend (from mid-1996 to mid-1998, only 15,000 persons left for the PRC and did not return).

The 2001 'Survey on Aspiration and Experience of Taking Up Residence in the Mainland of China' found that:

- Only 0.8% of all persons aged 18 or older had taken up residence in the Mainland.
- Three-quarters of those who had taken up residence in the Mainland did so because they were 'required by work'.
- 0.6% of all households (13,100 households) intend to take up residence in the Mainland in the next five years while another 0.6% (12,400 households) will do so in the next 6-10 years.

The 2003 Survey on Aspiration is currently underway and should be released by end-2003.

## (8) Where is the resistance level?

After rising 13.6% over the past two months, many believe that home prices should hit some resistance. To address this, we take three approaches: (1) technical analysis via Fibonacci, (2) buy-rent comparisons, and (3) affordability comparisons between 1990 and 2003.

### Technical analysis—Housing has utility value

Just as with the stock market after a sharp decline, on a rebound in prices, normal psychology would prompt many retail investors to divest their holdings once they are no longer in a large loss position. We believe the case for housing is different as it has a physical utility value. While stock investors only have to consider how to allocate sales proceeds, homeowners must still consider where they will live and if they would have to pay rent after selling their flats. For this reason, technical analysis is unlikely to give a full picture.

Having said this, from October 1997 to August 2003, home prices fell by 69% (CCL from 102.93 to 31.77). The bulk of the decline took place in the span of one year (October 1997-98) when home prices declined by 50%. Fibonacci analysis suggests that the first resistance level should be encountered when prices have recovered 38.2% of the full drop. This implies resistance when the CCL hits 59.0, or when home prices have risen 64% from current levels.

Chart 10: Home prices—Fibonacci, no resistance until +64%



Source: Centaline, UBS estimates

### Buy versus rent

On a more fundamental basis, we also look at the ‘buy versus rent’ decision on both cash flow and profit and loss. Intuitively, with a gross housing yield of 5.7% and mortgage rates at 2.4%, the case to buy is strong.

As the following example shows, even after factoring in management fees and other expenses, the decision to buy is cash flow positive (buying is 4% more cash flow positive than renting). As 62% of the first year’s mortgage payment is actually principal repayment, from an earnings perspective, the numbers are even more compelling. We estimate that the expense to buy is 53% lower than to rent.

Table 19: Buy versus rent—cash flows and expenses

Comparison of annual expenses	Buy	Rent	Difference
Mortgage			
...Principal - first year	53,832		
...Interest - first year	32,170		
Rent		111,540	
Management fee	11,700		
Rates and government rent	8,923		
Comparison	106,626	111,540	-4%
Excluding principal	52,794	111,540	-53%

Source: UBS estimates

Keeping interest rates and absolute rental expenses constant, we estimate that home prices would have to rise by 10% and 190% before the ‘buy versus rent’ cash flow and expenses equations reach parity.

Table 18: Assumptions

Property price (HK\$ psf)	3,000
Size (sf)	650
Property yield	5.72%
Monthly rental (HK\$ psf)	14
Mgmt fee (HK\$ psf)	1.5
Rates and rent	8%
Pty value (HK\$ m)	1.95
LTV	70%
Mtg amount (HK\$ m)	1.37
Mtg rate	2.40%
Monthly mtg (HK\$)	7,167
Monthly rental (HK\$)	9,295

Source: UBS estimates

### What if rates rise by 125bps?

On the prospects of a 125bp hike in mortgage rates (which is unlikely in the next 12 months, as Hong Kong did not follow through with the last 125bp cut in US Fed rates), the buy-rent expense equation would equalise once home prices rise by 85%.

**Table 20: Buy versus rent—If mortgage rates were raised 1.25%**

Comparison of annual expenses	Buy	Rent	Difference
<b>Mortgage</b>			
...Principal - first year	47,227	-	-
...Interest - first year	49,038	-	-
<b>Rent</b>	-	111,540	
Management fee	11,700	-	-
Rates and government rent	8,923	-	-
<b>Comparison</b>	116,888	111,540	5%
<b>Excluding principal</b>	69,661	111,540	-38%

Source: UBS estimates

### Dynamics compared to 1990

Perhaps more intuitively, as affordability is simply a function of home prices, mortgage rates and household income, we can simply compare current conditions to those in 1990.

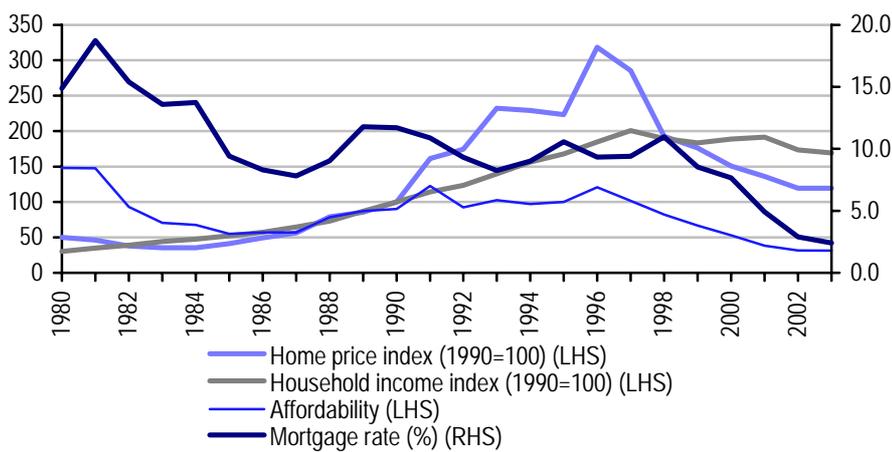
Household income has risen by 69%. Interest rates have fallen from 11.7% to 2.4%. Home prices, however, have only risen by 19%. Even factoring in an increase in flat sizes, monthly mortgage payments now are 29% lower than in 1990.

**Table 21: Housing much more affordable now than in 1990**

	1990	2003
Home prices (HK\$ psf)	1,761	2,102
Average size (sf)	526	650
Price (HK\$ m)	0.93	1.37
LTV	85%	70%
Mortgage amount (HK\$ m)	0.79	0.96
Mortgage rate (%)	11.71%	2.40%
Monthly mortgage (HK\$)	8,511	5,022
Median household income (HK\$)	9,450	16,000
<b>Affordability</b>	90%	31%

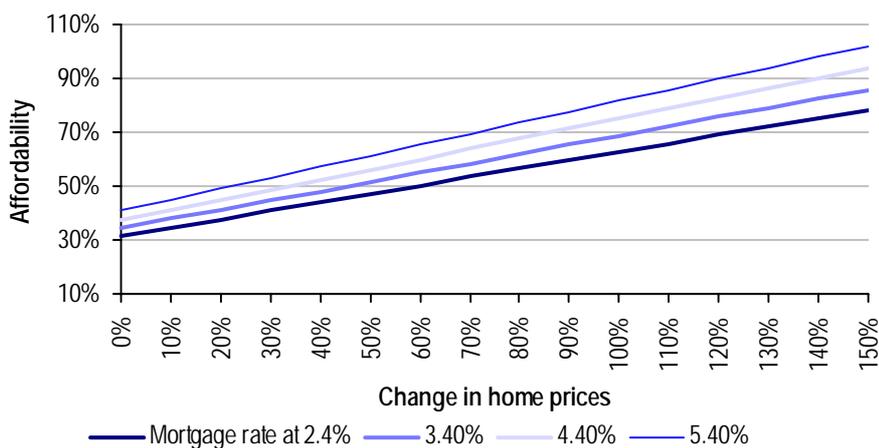
Source: UBS

Chart 11: Affordability, household income, mortgage rates and home prices



Source: HK Government, Hong Kong Monetary Authority, UBS estimates

Chart 12: Sensitivity of affordability to change in home prices and interest rates



Source: UBS estimates—Based on median household income of HK\$16,000 and HK\$1.4m home price

## 2004 demand catalysts

With demand-supply dynamics firmly in favour of a housing upswing, we think the following themes will further accelerate near-term demand.

### (9) Positive land auction in Q104 to signal premium on the housing 'futures' market

Given the shortage of landbank, when land sale resumes in January 2004 via the Application List, developers will likely be bidding aggressively to try to restore their landbank. Developers generally bid for land on expectations of a 15-25% margin, hence the resulting winning bid for land should provide an indication of where developers expect prices to be at in say two to three years' time. We expect the first few sites to go at prices that would translate into immediate loss if the project were developed overnight and sold at current prices at that time. This implies that developers would be banking on rising home prices to deliver their future development margin.

First land sale may translate into an immediate loss at current prices but land price should point to 'futures'

### (10) Increasing awareness of looming housing shortage and sustained rise in home prices

The general public first grasped the potential for a supply shortage in early October 2003 when the Secretary for Housing, Planning and Lands indicated completion statistics for 2006E and 2007E at only 10,000 and 4,000 units, respectively. In the ensuing weeks, those saying that supply was excessive fell silent. We expect the chorus of analysts alerting to a shortfall will get increasingly vocal.

Decline in completion: First highlighted by the Secretary for Housing, Planning and Lands in October. Chorus to get louder into 2004

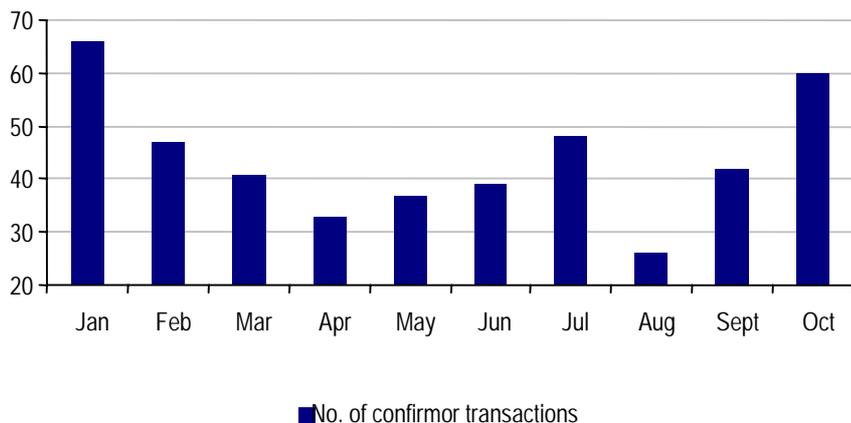
Putting the current shortage in historical context, the end-2003 80,000 unit landbank is some 15,000 units less than in 1996/97 when housing prices were 3x current levels and people were panicked into buying homes for fear that none would be available later, as developers went on stock ration.

The CCL home price index (consisting of 50 constituent estates) has risen 13.6% over the past two months and is now up 0.6% YTD. With the recent sharp rise, potential sellers in the secondary market have marked up asking prices 10-20% above transaction levels, effectively tightening secondary market supply. With sellers holding firm to asking prices, potential buyers are being forced to chase prices up. As more and more 'positive equity' is created in the market, trading activity should accelerate into Q1.

### (11) Investment demand as an accelerant

Despite the recent pick-up in the housing market, anecdotal evidence suggests much of the investment demand is still on the sidelines. Confirmed transactions have thus far remained low and trade-up demand (HK\$3m-10m) only began to contribute to the housing market in September 2003.

Chart 13: Number of confirmor transactions

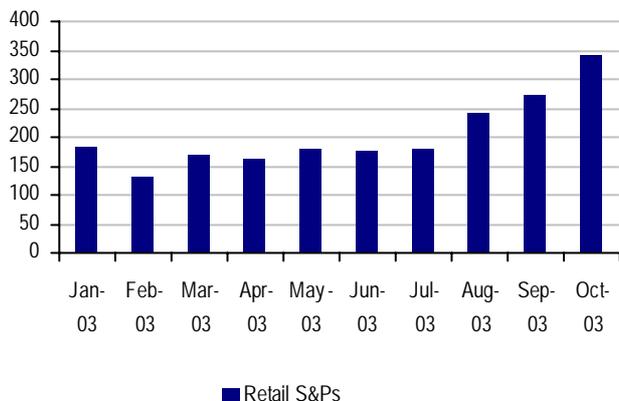


Source: Hong Kong Property Services

The retail property market provides a good example of accelerating demand from investors. Strong demand for retail property from investors has resulted in retail rental yields being bid down by 1-2 percentage points (according to JLL and Centaline) on rising volume. The number of shop transactions is at the highest level since the previous cyclical peak in 1997.

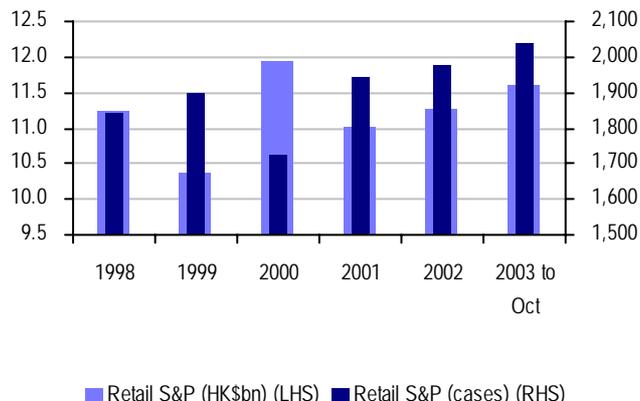
Retail property market, a good example of acceleration of investment demand

Chart 14: Retail property demand accelerated in H203



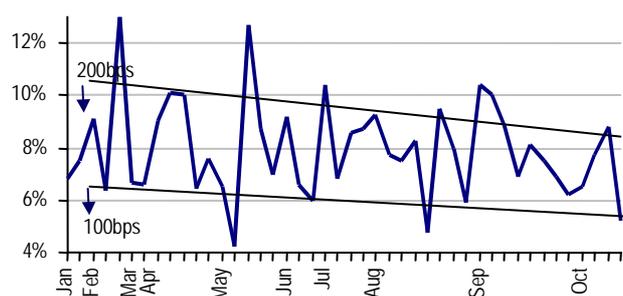
Source: Midland Realty

Chart 15: Retail property demand highest since 1997



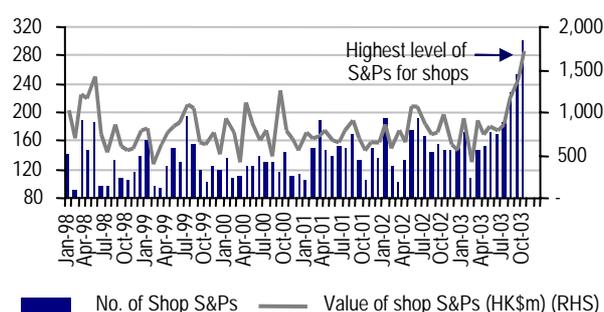
Source: Midland Realty

**Chart 16: Retail yields—down 1-2ppts YTD**



Source: JLL

**Chart 17: Yield trend is backed by high transaction volumes**



Source: Centaline

**Example 1: 128% return in four months**

An extreme example of this acceleration of demand can be seen in one recent transaction where a property appreciated 128% in value within a span of four months and yields were bid down from 13.2% to 5.8%. The 4,000sf shop front at 3-13 Kwong Wah Street, Mongkok, was let to the Hong Kong Post Office at HK\$110,000 per month with a 60-year lease term (five-year rent review). While this case is clearly unusual, it does provide a dramatic illustration of what can happen, given the dynamics of a rising market.

**Table 22: 3-13 Kwong Wah Street shop front—128% appreciation in four months**

Date	Property	Sum (HK\$ m)	Yield	Buyer
June 2003	3-13 Kwong Wah Street	1,000	13.2%	Investor
November 2003	3-13 Kwong Wah Street	2,280	5.8%	Investor
<b>Change</b>		<b>+128%</b>	<b>-7.4%</b>	

Source: Chinese press

**(12) Recovery of the trade-up segment**

The trade-up segment had been the weakest segment of the housing market in recent years. The top- and bottom-end of the market had benefited from the strong export sector (bosses making money) and the scale-back of public housing since 2001.

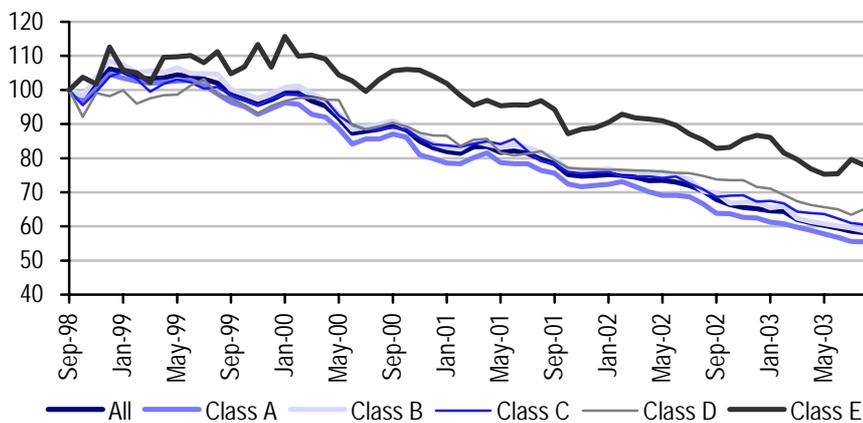
**Table 23: Private primary and secondary residential transaction volume**

(units)	1999	2000	2001	2002	2003E
Under HK\$2m	32,360	29,193	36,018	39,861	42,239
HK\$2-3m	16,198	12,933	12,737	13,792	9,175
HK\$3-5m	11,835	9,180	8,149	6,811	4,588
HK\$5-10m	6,099	4,051	3,216	3,066	3,719
>HK\$10m	1,716	1,617	703	946	1,134
<b>Total</b>	<b>68,208</b>	<b>56,974</b>	<b>60,823</b>	<b>64,476</b>	<b>60,854</b>

Source: Centaline, UBS estimates

While volume in the starter homes market (<HK\$2m) and luxury sector (>HK\$10m) have been rising since 2001, volume for units in the HK\$3-10m range have remained low. The luxury sector’s performance is also evident in property price outperformance. Since September 1998, Class E units (>1,721sf) have only fallen 22% in price terms versus 42% for the overall market.

**Chart 18: Large homes (>160sm) have outperformed**



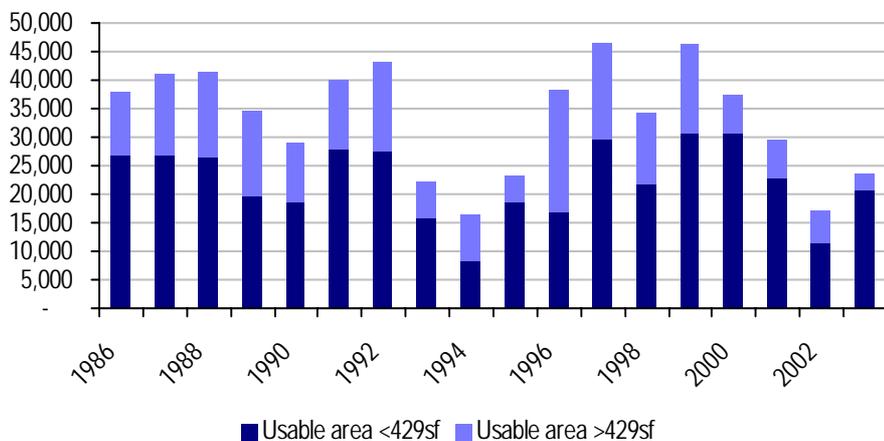
Source: Rating and Valuation, UBS estimates

We believe the recovery of the trade-up segment should be driven by demand-supply mismatch, domestic recovery, a rise in confidence and immigration.

The scale-back of HOS and the focus on first-time homebuyers have resulted in developers scaling down the size of units. Our review of consent to commence work statistics show that between 1996-99, developers received consent on an average 41,350 units per year, of which 16,659 units were larger than 429sf in usable area (definition excludes toilet, kitchen and common area). This figure decreased drastically between 1999 and 2002 when developers started work on 28,108 units per year with units above 429sf (usable area), dropping 62% to only 6,381 units pa. With trade-up supply greatly curtailed and a rebound in confidence, the trade-up segment should perform better.

**Demand-supply mismatch—Trade-up supply down 62%**

**Chart 19: Consent to commence work—Large units running short (units)**



Source: Buildings Department, UBS estimates

Total equity has been intact, just need confidence

With HK\$1.8trn in cash, HK\$1.7trn in housing against HK\$0.8trn in loans, we have long argued that the overall balance sheet of Hong Kong consumers has been intact. What was missing in the decision to trade-up was confidence in both the domestic economy and the housing market. This led to an excess build-up of precautionary cash holdings. The sharp rise in home prices, up 13.6% from the trough in H203, should restore that confidence and facilitate the trade-up cycle.

#### October 2003 S&Ps—Trade-up segment picking up

The October figures show a sharp pick-up in the trade-up segment. Transactions in the HK\$3-5m and HK\$5-10m segments rose 82% and 177% MoM, respectively, and were substantially higher than the 2002 and 2003 monthly average.

Table 24: Trade-up segments performing well

Primary S&P	Oct-03	MoM	vs 2003 Avg	vs 2002 Avg
<HK\$2m	1,787	73%	44%	91%
HK\$2-3m	960	94%	105%	28%
HK\$3-5m	492	117%	145%	36%
HK\$5-10m	766	251%	321%	367%
HK\$10-20m	127	338%	269%	302%
<b>Secondary S&amp;P</b>	<b>Oct-03</b>	<b>MoM</b>	<b>vs 2003 Avg</b>	<b>vs 2002 Avg</b>
<HK\$2m	4,870	33%	53%	37%
HK\$2-3m	560	68%	102%	21%
HK\$3-5m	370	50%	94%	45%
HK\$5-10m	222	60%	116%	69%
HK\$10-20m	137	101%	182%	175%
<b>Primary and secondary</b>	<b>Oct-03</b>	<b>MoM</b>	<b>vs 2003 Avg</b>	<b>vs 2002 Avg</b>
<HK\$2m	6,657	42%	50%	48%
HK\$2-3m	1,520	84%	104%	25%
HK\$3-5m	862	82%	121%	39%
HK\$5-10m	988	177%	247%	234%
HK\$10-20m	264	172%	218%	225%

Note: includes non-domestic property transactions

Source: Centaline, UBS estimates

### (13) Income stabilisation to reverse wage cut perception and release precautionary cash

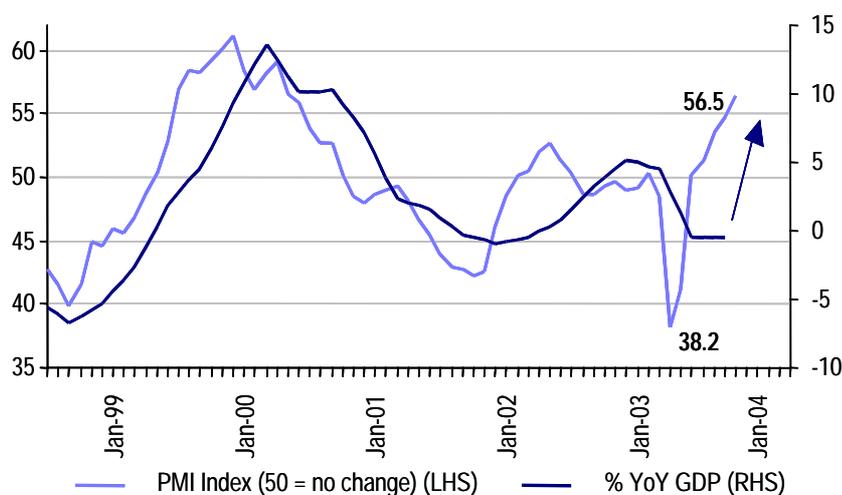
The past few years' market downturn has meant that the average person has lived under the burden of possibly seeing wage cuts or being laid off. While this may not necessarily be the case, the perception has weighed on sentiment, consumption and housing decisions.

Heading into 2004, we are seeing more signs of a more stable outlook. We believe that as long as wages are stable, this should be enough to drive rents and housing demand, which we have already seen evidence of.

### Signs of GDP and wage growth

- The October Purchasing Managers' Index continues to show improvement, rising from 54.8 to 56.5 (trough in April 2003 at 38.2).
- The Business Operating Environment Index for SMEs released by the Hong Kong Productivity Council shows a 7ppt increase from 3.36% to 10.36%, its highest level since records began in 1999. The survey also shows that 35% of service companies plan to hire more staff (40% being management positions), while 10% of manufacturing companies intend to relocate parts of their operations to Hong Kong.

Chart 20: Purchasing Managers Index



Source: PMI

- The HKIHRM Pay Trend Survey shows a stabilising/improving sectoral performance and outlook. Of the 14 sectors surveyed, five had increased salary levels while only three had pay reductions.

Table 25: Change in base pay adjustment by company

	2002	2003
Companies with overall zero adjustment	63.5%	60.2%
Companies with overall positive salary adjustments	25.0%	33.0%
Companies with overall negative salary adjustments	11.5%	6.8%

Source: HKIHRM

- More staff awarded bonuses. The HKIHRM survey also found that more staff had been awarded bonuses in 2003 than in 2002 (84% in 2003 versus 52% in 2002) with the average bonus up from 1.11 months to 1.25 months.
- As for 2004 pay adjustments, only 26 of 103 companies surveyed replied. 27% of the companies (seven companies) said they expect a mild overall pay increase while the majority 73% (19 companies) expect salaries to remain unchanged.
- Mercer expects a 1.7% wage hike in 2004. A survey done by Mercer suggests an average pay rise of 1.7% for Hong Kong in 2004 (2.2% real pay rise after factoring in 0.5% deflation, ranking Hong Kong 16<sup>th</sup> among 40 nations).

Table 26: Change in pay in 2003

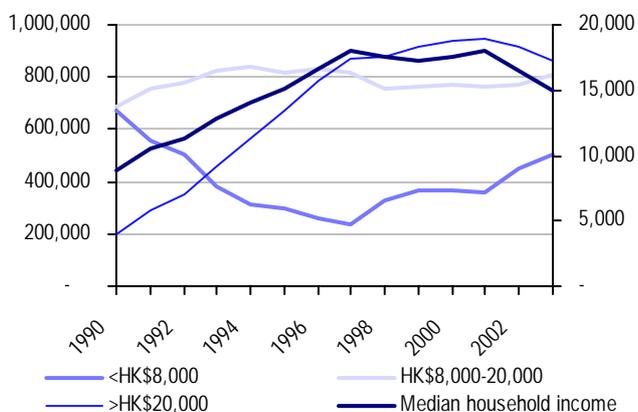
Accounting	1.1%
Petrochemical	1.0%
Engineering	0.7%
Insurance	0.6%
Retail	0.3%
Shipping	0.2%
Manufacturing	0.1%
Banks	0.0%
Utilities	0.0%
Construction	0.0%
Hotels	-0.1%
Trading	-2.1%
Hi-tech / telecom	-2.5%
Others	0.3%

Source: HKIHRM

London, Sydney, New York City—Price rise not driven by income

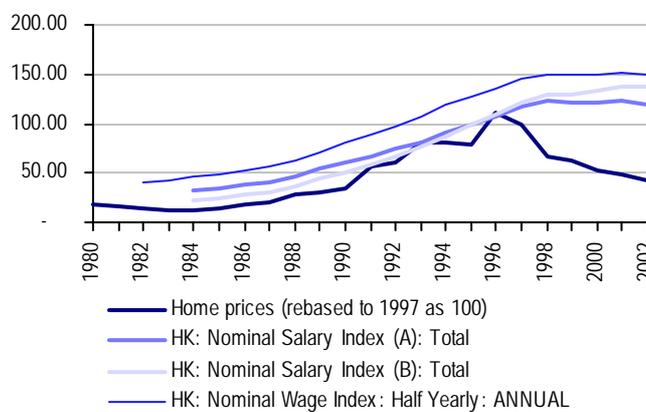
We have long argued that the past few years’ decline in median household income was more a factor of an increase of low-income families rather than a cut in wages. Compared to 1997, the number of households earning above HK\$20,000 per month has remained relatively stable (860,000 in 2003 versus 873,800 in 1997). Similarly, the number of households earning between HK\$8,000-20,000 has only declined from 815,100 to 812,300. The most significant change is in those households earning below HK\$8,000 per month; these families rose 116% from 234,200 to 504,800, thereby dragging down median household income.

Chart 21: Household income



Source: CEIC

Chart 22: Hong Kong: Home price vs wage levels



Source: CEIC

We do not believe significant wage growth is necessary for home prices to rise. We believe Hong Kong has over-corrected. More important to us is the direction of wages. While home prices have fallen 65% from the peak, wage levels in Hong Kong have actually only declined marginally.

The cases from London, Sydney and New York City show that the price rise need not be in lock step with wage growth. From 1995 to 2002, London home prices have risen 182% against compensation per employee growth of 36%. Sydney home prices rose 101% against pay rises of 28%. New York home prices rose 75% while income rose 29%.

London, Sydney and New York City home prices all outstrip income growth

Table 27: Home price change vs income—London, Sydney, New York City

	Change in home prices (1995-2002)	Change in compensation per employee— private sector (1995-2002) <sup>1</sup>
London	+182%	+36%
Sydney	+101%	+28%
New York	+75%	+29%

<sup>1</sup>Compensation figures are on a country basis

Source: Economist, CEIC

## (14) GDP and natural reverse flow momentum

Relaxation of individual travel has helped lift the tourism and retail industry. With PRC tourists to Hong Kong up 20% YoY (despite SARS), we expect the momentum from individual travel to continue in Q4 and 2004. PRC tourists are expected to account for 14% of Hong Kong retail sales. Furthermore, the improved outlook and domestic confidence should help boost domestic consumer spending, helping Hong Kong's overall GDP growth.

In observing that flows from the Mainland are still increasing at a fast clip, an increasing number of people in Hong Kong are rebutting views that Hong Kong is being hollowed out by China. Our case has been that 'in filling' momentum should accelerate into 2004 as the four borders with China become increasingly porous, allowing natural reverse flows from China to come through in the form of:

- (i) Tourism (2002: 6.8m = HK population; 2003: 8.2m; 2004: 10m or +20%);
- (ii) Wealthy people and talents of China entering Hong Kong via the work permit scheme, which came into effect on 15 July 2003; (iii) Business set-ups and CEPA (1 January 2004)—The Hong Kong government has indicated that nearly 40% of new companies setting up in Hong Kong in 2003 have been from the Mainland (negligible previously) and 30%+ are from Japan; (iv) Capital flows.

## (15) Work permit scheme and investor immigrants

Application for the work permit and investor immigrant schemes began from 15 July 2003 and 27 October 2003, respectively. Run rates for applications have thus far progressed in line with our expectations, with the number of work permit entrants likely to reach 3,000 and investor immigrants likely to reach 800 in the first 12 months of launch.

**It is now far easier for PRC citizens to work in Hong Kong—more to come**

Although the investor immigrant scheme has received more press coverage, we continue to believe that of the two schemes, the work permit scheme should have a larger impact on the Hong Kong housing market (3,000 vs 800). Without any precedent or surveys, it is difficult to estimate their impact on the property market. However, we estimate that if 1% of China's large businesses were to open an office in Hong Kong and send five key staff each, this could create demand for 2,975 homes larger than 1,100sf (3.7% of current stock) and 1.2m sf of office space (2.1% of current stock).

## Two schemes show early promise

**Admission of Mainland Talent and Professional Scheme**—From 15 July to 31 October 2003, 1,076 people applied for the Admission of Mainland Talent and Professional Scheme. 735 people have been approved with average monthly salaries of HK\$29,100 per month (range from HK\$10,000 to HK\$350,000 per month).

**Capital Investment Scheme**—From 27 October to 6 November 2003, 31 applications have been received. Of these, 15 involve PRC residents holding foreign passports.

**Table 28: Applicants under Capital Investment Scheme**

Category	Where from?	Number
Foreign citizens	Mexico (1), US (1), Canada (2), Indonesia (2), Singapore (1), Malaysia (2), UK (1), others (1)	11
PRC nationals with foreign citizenship	Philippines (5), Canada (4), New Zealand (1), US (1), Australia (1), Brazil (1), Japan (1)	15
Macao SAR		2
Taiwan		3
Total		31

Source: Immigration Department

## (16) Firming up of rentals

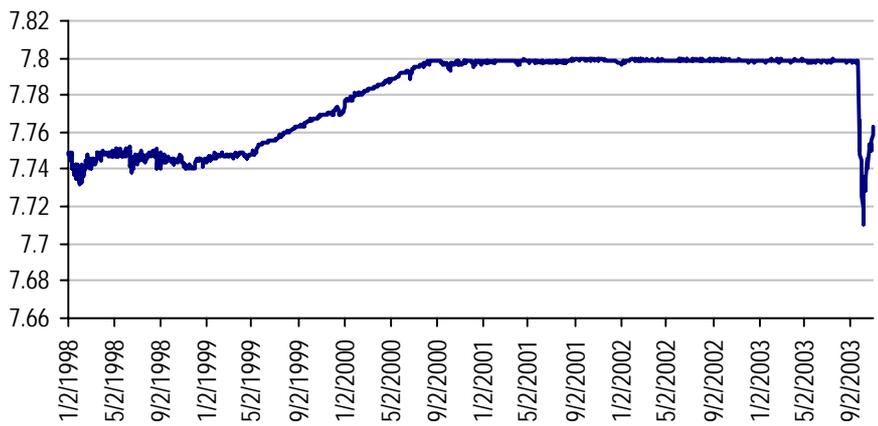
As domestic sentiment recovers, landlords should be less eager to fill up vacant apartments and other spaces. The secondary market has overall vacancy of only 4.4%, already below the natural rate of vacancy of 4.8-4.9% for Hong Kong as established by some academics. We expect housing rentals to start to firm up in 2004. This in turn should draw more investors into buying housing.

Of the three markets, retail rents have been the first to react with prime location spot rents being marked up 12%. Centaline has already reported rent rises in three housing estates over the past two weeks. While office headline rents remain unchanged (with IFC2 now 59% occupied), landlords have cut leasing incentives (rent free cut by one-third), thereby pushing up effective rents by 20-30% from trough levels. We think the office market should see better pricing power in H203 and a price rise of 20% in 2004.

## (17) US\$ weakness or HK\$/Rmb strength

A weak US dollar is generally believed to be positive for Hong Kong assets. In addition, a portion of the billions of dollars of savings parked offshore is likely to return to Hong Kong, as confidence in domestic assets returns. We think domestic liquidity is likely to be abundant for well over a year. In addition, China's attempts to cool its housing market and stabilise its A-share market may inadvertently divert some liquidity (some from external trade surpluses) into Hong Kong properties/stocks. This process should be made even easier with further opening of Hong Kong's borders with the Mainland.

Chart 23: HK\$ to US\$



Source: CEIC

### (18) CEPA and other schemes to boost two-way flows

As implementation details are announced under CEPA, we expect more foreign and domestic companies to start-up in Hong Kong. We believe this should help boost demand for office space (ie, insurance companies, accounting firms, etc) and housing going into 2004.

## Company update

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# Sun Hung Kai Properties

## Well positioned for the sweet spot

### ■ Largest landbank with 19% market share

SHKP's market share of 16,461 attributable units is more than double the size of the second largest developer. SHKP's brand name and marketing savvy, which have allowed SHKP units to fetch 10% premium prices, should serve it equally well in the upcycle and allow it to maximise sales proceeds.

### ■ Most advanced in land premium negotiations

Despite having the largest landbank in Hong Kong, SHKP's 12.5m sf residential landbank should run out by end-FY06. Unlike other developers that have to rely on land sales to replenish landbank, we believe SHKP is the most advanced in land premium negotiations with 40-50% of its 21m sf agricultural landbank in an advanced stage of conversion.

### ■ Alternate growth: 10.5m sf investment property under development

Not to be overlooked is SHKP's investment property development plan. SHKP is expected to complete 10.5m sf by end-2010 (Millennium V 1.3m sf, Kowloon Station 5-7 4.7m sf, Shanghai 4.5m sf). Upon completion, these projects could lift SHKP's gross rental income by 53% to HK\$8.8bn.

### ■ Valuation: HK\$76.40 price target offers 26% potential upside

We estimate a 10% change in home and retail property prices will lift NAV by 3.0% and 3.9%, respectively. Our HK\$76.40 price target is based on a 10% premium to our HK\$69.50 forward NAV estimate. Our 1 predictability level is based on SHKP's brandname and proven ability to sell flats in both up and down markets. Buy 1.

Highlights (HK\$m)	06/02	06/03	06/04E	06/05E	06/06E
Net rental income	4,087	3,857	3,831	4,149	4,444
EBITDA	8,764	7,721	7,788	8,408	8,719
EPS (UBS, HK\$)	3.75	3.36	2.97	3.26	3.66
NAV/share (UBS, HK\$)	59.84	55.42	64.13	65.97	69.45
DPS (UBS, HK\$)	2.150	1.600	1.600	1.600	1.600

Profitability & Valuation	5-yr hist. av.	06/03	06/04E	06/05E	06/06E
DPS yield (UBS) %	0.0	3.4	2.6	2.6	2.6
Prem/disc to NAV %	2.3	-16.2	-5.3	-7.9	-12.5
CEPS yield (UBS) %	6.5	5.8	4.8	5.3	6.0
EV/EBITDA x	17.4	18.2	21.5	19.3	18.2
PE (UBS) x	16.6	13.8	20.4	18.6	16.6

Source: Company accounts, Thomson Financial, UBS estimates. UBS EPS is adjusted by adding back goodwill amortization. Valuations: based on an average share price that year, (E): based on a share price of HK\$60.75 on 26 Nov 2003

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Hong Kong

Real Estate

**Rating Buy 1**

**Price target HK\$76.40/US\$9.84**

**Price HK\$60.75/US\$7.75 (ADR)**

RIC: 0016.HK/SUHJY.PK

#### Forecast returns

Forecast price appreciation	+25.8%
Forecast dividend yield	2.6%
Forecast stock return	+28.4%
Market return assumption	5.7%
Forecast excess return	+22.7%
Net DPS (04E)	HK\$1.60/US\$0.21
Trend EPS growth rate	+3%

#### Trading data (local/US\$)

52-wk. range	HK\$69.25-33.90/US\$9.00-4.25
Market cap.	HK\$146bn/US\$18.6bn
Shares o/s	2,401m (ORD)/2,401m (ADR)
ADR Ratio	1 ADR:1 ORD
Free float	46%
Average volume ('000)	7,112/0
Convertible	No
Volatility	Medium

#### Balance sheet data 06/04E

Shareholders' equity	HK\$129bn
Prem (discount) to NAV/Share	-5.3%
Net cash (debt)	(HK\$9.43bn)

#### EPS (UBS, HK\$)

	06/03	06/04E	Prior	Cons.
H1	1.56	-	-	-
H2	1.18	-	-	-
FY	3.36	2.97	-	3.21

[www.ubs.com/investmentresearch](http://www.ubs.com/investmentresearch)

Table 29: SHKP NAV breakdown

(HK\$ m)	Current	Forward	Change
Development properties	31,203	41,073	32%
...Development properties - cost	26,769	26,769	0%
...Development properties - surplus	4,434	14,304	223%
Land pending development (agricultural land)	11,661	11,661	0%
Investment properties under development	11,375	11,865	4%
Investment properties	68,261	91,178	34%
...Retail	45,119	63,167	40%
...Office	15,216	18,259	20%
...Residential	6,086	7,911	30%
...Others	1,841	1,841	0%
Investment properties - associates	11,727	15,271	30%
...Retail	6,020	8,428	40%
...Office	5,644	6,772	20%
...Residential	27	35	30%
...Others	36	36	0%
Hotels	4,701	4,701	0%
Other business	4,829	4,829	0%
Loans receivable	1,746	1,746	0%
KMB (MV)	5,193	5,193	0%
Smartone (MV)	2,356	2,448	5%
Sunvision (MV)	2,703	2,703	0%
Gross assets	155,758	192,668	24%
Less:			
Net debt	(13,236)	(13,236)	0%
Receivables less payables	(12,028)	(12,028)	0%
Net assets	130,494	167,404	28%
Number of shares	2,401	2,401	0%
NAV per share (HK\$)	54.36	69.73	28%

Source: UBS estimates

Table 30: SHKP residential development schedule (to end Q303)

Project	Stake	Use	Attr. GFA (000sf)	SP (HK\$ psf)	% sold	Unsold Attr. GFA (000 sf)	Total EBIT (HK\$ m)	EBIT margin	
FY02	Belchers 2, Western	29%	R	386	5,500	80%	78	646	30%
FY02	Seaview Crescent I, Tung Chung	20%	R	180	2,420	84%	29	112	26%
FY02	Les Saison, Shau Kei Wan	30%	R/C	214	4,992	88%	25	367	34%
FY03	Ocean Shores Ph 3, TKO	49%	R	497	2,912	56%	219	40	3%
FY03	Park Central 2, TKOTL# 57	58%	R	685	3,133	77%	157	1,049	49%
FY03	Park Central 2, TKOTL# 66	25%	R	64	2,904	77%	15	83	45%
FY03	Aegean Coast, TMTL# 374	25%	R	307	2,420	77%	70	17	2%
FY03	1&3 Po Shan Rd., Mid-levels	60%	R	72	7,150	86%	10	111	22%
FY03	Seaview Crescent II (Blk 6)	20%	R	61	2,236	87%	8	26	20%
	Leftover stock < 90% sold						612		
FY04	YOHO Town, YLTL 503	100%	R	1,180	2,200	50%	585	649	25%
FY04	Fu Tei, TMTL 399	100%	R	375	2,090		375	296	38%
FY04	Ocean Shores Phase 3B, TKO	49%	R	289	2,912	56%	127	23	3%
FY04	8 Waterloo Road/Yunan Lane, Yaumatei LDC	JV	R	310	3,080		310	25	3%
FY04	Vianni Cove, TSWTL 27	40%	R	321	1,980	90%	33	157	25%
FY04	Liberte I, CSW Shipyard Redevelopment	35%	R	414	3,099	81%	78	169	13%
FY04	Liberte II, CSW Shipyard Redevelopment	35%	R	127	3,084	83%	22	50	13%
FY04	18 Farm Rd, To Kwa Wan	100%	R	268	3,300		268	96	11%
FY04	Sham Wan Towers, Ap Lei Chau	100%	R	454	4,180		454	475	25%
	Total for FY 04			3,738			2,252	1,940	
FY05	Kowloon Station III	100%	R	1,078	5,500		1,078	1,123	19%
FY05	Olympic Station Pkg 3, Tai Kok Tsui	100%	R	1,100	3,300		1,100	1,045	29%
FY05	Park Island Ph2, Ma Wan	60%	R	611	2,322		611	-13	-1%
FY05	Severn Road, The Peak	100%	R	59	10,260		59	14	2%
FY05	Pacifica, West Kowloon NKIL 6275	50%	R	648	3,080		648	557	28%
FY05	Millennium City 5, 418 Kwun Tong - Sold to BEA	100%	O	406	3,285	100%	0	454	34%
	Total for FY05			3,902			3,496	3,180	
FY06	Park Island Ph 3, Ma Wan	60%	R/C	528	2,322		528	8	1%
FY06	Swire Bottler's, TWTL#77&89	100%	SA	1,113	2,530		1,113	529	19%
FY06	Tin Ping Shan, Sheung Shui	100%	R	537	2,640		537	558	39%
FY06	KMB Headquarters (brought in to P&L via associates)	33%	R	350			350		
FY06	Pkg VI, Kowloon Station	100%	R	737	5,225		737	1,753	46%
	Total for FY06			3,265			3,265	2,850	
FY07+	Kwu Tung Phase II & III, Sheung Shui	100%	R	604	2,200		604	181	14%
FY07+	To Fung Shan, Shatin (No LP)	100%	R	744	2,970		744	66	3%
FY07+	Shek Wu Wai, Yuen Long (No LP)	50%	R	227	2,200		227	136	27%
FY07+	Ngau Tam Mei, Yuen Long (no LP)	100%	R	383	2,200		383	153	18%
FY07+	Ap Lei Chau Warehouse Redev (No LP)	35%	R	316	4,180		316	458	35%
FY07+	18-30 Bedford Rd., Tai Kok Tsui (No LP)	100%	R	55	2,500		55	55	40%
FY07+	Sham Tseng, Tsing Lung Tau Lot 67 (No LP)	100%	R	11	2,530		11	-3	-11%
FY07+	Yuen Long Town Lot 504 (No LP)	100%	R	1,454	2,145		1,454		0%
FY07+	Pkg V, Kowloon Station	100%	R	229	5,500		229		0%
	Total for FY07 and beyond (LP only)			833			833		

R = Residential, C = Commercial, SA = Serviced Apartments

Source: UBS estimates

**Table 31: SHKP investment properties under development**

	Attr. GFA	Total investment (HK\$ bn)	GFA completed (m sf)								
			FY03	FY04E	FY05E	FY06E	FY07E	FY08E	FY09E	FY10E	FY11E
IFC 2	1.692	6.8	1.17		0.52						
Millennium City Ph3	0.108	0.2	0.11								
Millennium City Ph5	1.282	3.2			1.28						
Kowloon Station 5-7	4.698	20.0				0.90	3.80				
Shanghai Liujiazui	4.500	8.0					0.90	0.90	0.90	0.90	0.90
Total	12.28	38.2	1.28	0.00	1.81	0.90	4.70	0.90	0.90	0.90	0.90
Existing landbank			20.5	20.5	22.3	23.2	27.9	28.8	29.7	30.6	31.5
Increase			7%	0%	9%	4%	20%	3%	3%	3%	3%

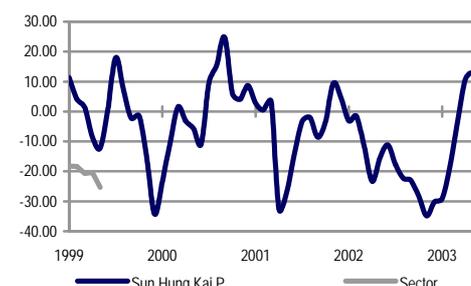
Source: UBS estimates

## Sun Hung Kai P.

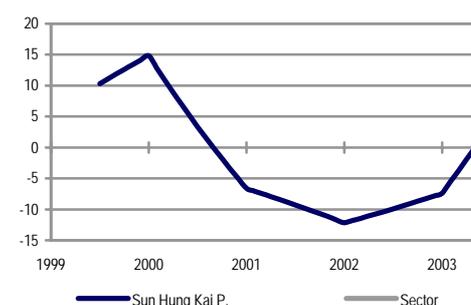
Per share (HK\$)	6/02	6/03	6/04E	6/05E	6/06E
EPS (stated)	3.55	2.74	2.97	3.26	3.66
EPS (pre-exceptional)	3.75	3.36	2.97	3.26	3.66
CEPS (pre-exceptional)	3.66	3.31	2.93	3.22	3.62
Revalued NAV per share	59.84	55.42	64.13	65.97	69.45
<b>Profit &amp; Loss (HK\$m)</b>					
Net rental income	4,087	3,857	3,831	4,149	4,444
Investment income	86	102	128	149	170
Trading income	4,044	2,769	2,663	2,876	2,750
Associates & other income	2,847	3,184	2,431	2,596	3,564
<b>Total income</b>	<b>11,064</b>	<b>9,912</b>	<b>9,053</b>	<b>9,770</b>	<b>10,929</b>
Interest payable	(969)	(549)	(523)	(426)	(421)
Administration and other	(497)	(502)	(487)	(497)	(507)
<b>Revenue surplus</b>	<b>9,598</b>	<b>8,861</b>	<b>8,042</b>	<b>8,846</b>	<b>10,001</b>
Interest capitalised	317	222	222	222	222
Depreciation & amortisation	(101)	(106)	(111)	(117)	(123)
Pre-exceptional provisions	-	-	-	-	-
<b>Pre-exceptional pre-tax profits</b>	<b>9,814</b>	<b>8,977</b>	<b>8,153</b>	<b>8,951</b>	<b>10,100</b>
Exceptionals	(487)	(1,481)	-	-	-
<b>Stated pre-tax profits</b>	<b>9,327</b>	<b>7,496</b>	<b>8,153</b>	<b>8,951</b>	<b>10,100</b>
Tax	(872)	(919)	(757)	(834)	(998)
Minorities & preference & extraordinary	64	7	(256)	(292)	(316)
<b>Attributable net profits</b>	<b>8,519</b>	<b>6,584</b>	<b>7,140</b>	<b>7,826</b>	<b>8,787</b>
Cost of dividend	(5,162)	(3,841)	(3,841)	(3,841)	(3,841)
<b>Retained profits/earnings</b>	<b>3,357</b>	<b>2,742</b>	<b>3,298</b>	<b>3,984</b>	<b>4,945</b>
<b>Pre-exceptional cash flow</b>	<b>8,790</b>	<b>7,949</b>	<b>7,029</b>	<b>7,720</b>	<b>8,687</b>
<b>EBITDA</b>	<b>8,322</b>	<b>7,034</b>	<b>7,326</b>	<b>7,946</b>	<b>8,257</b>
<b>EBIT</b>	<b>8,221</b>	<b>6,928</b>	<b>7,215</b>	<b>7,829</b>	<b>8,135</b>
<b>Cash flow (HK\$m)</b>					
EBIT	8,663	7,615	7,813	8,442	8,764
Depreciation & amortisation	251	362	111	117	123
Working capital movement	(865)	5,870	(50)	325	321
Other (operating)	(329)	(655)	5,459	3,742	6,148
<b>Operational cash flow</b>	<b>7,720</b>	<b>13,192</b>	<b>13,333</b>	<b>12,626</b>	<b>15,355</b>
Net interest paid	(762)	(247)	(396)	(278)	(251)
Dividends paid	(3,740)	(5,348)	(3,842)	(3,842)	(3,843)
Tax paid	(538)	(659)	(762)	(713)	(781)
Net (acquisitions)/capital expenditure	(3,693)	(1,541)	(4,500)	(4,500)	(4,499)
Equity issued	-	-	-	-	-
Other items	887	1,032	466	513	-
<b>Movement in (net debt)/net cash</b>	<b>(126)</b>	<b>6,429</b>	<b>4,300</b>	<b>3,806</b>	<b>5,982</b>
<b>Balance sheet (HK\$m)</b>					
Book value investment properties	86,519	81,852	90,315	98,632	108,117
Other fixed assets	34,083	34,009	34,850	35,732	36,658
<b>Total book value of fixed assets</b>	<b>120,602</b>	<b>115,861</b>	<b>125,165</b>	<b>134,364</b>	<b>144,775</b>
Book value trading properties	38,457	31,934	28,361	26,216	24,483
Cash & deposits	8,272	8,891	8,500	8,500	8,500
Other current assets	6,662	4,093	4,181	4,135	4,186
<b>Total book value of assets</b>	<b>173,993</b>	<b>160,779</b>	<b>166,206</b>	<b>173,216</b>	<b>181,943</b>
Debt	(28,329)	(22,127)	(17,932)	(14,218)	(10,367)
Other liabilities	(20,908)	(19,332)	(19,369)	(19,649)	(20,020)
<b>Book ordinary shareholders' funds/NTA</b>	<b>124,756</b>	<b>119,320</b>	<b>128,905</b>	<b>139,350</b>	<b>151,556</b>
Surpluses over book value	11,269	5,849	5,350	995	-
<b>Revalued shareholders' funds/NTA</b>	<b>136,025</b>	<b>125,169</b>	<b>134,255</b>	<b>140,344</b>	<b>151,556</b>
Fully diluted shareholders' funds/NTA	143,665	133,070	153,970	158,386	166,749
<b>Profitability</b>					
Recurring income cover of expenses	3.3x	4.6x	5.2x	6.2x	6.7x
Interest cover	4.5x	8.0x	9.2x	12.2x	13.5x
Headline stated net dividend cover	1.7x	1.7x	1.9x	2.0x	2.3x
Pre-exceptional cash dividend cover	1.7x	2.1x	1.8x	2.0x	2.3x
<b>Productivity</b>					
Pre-exceptional tax rate	8.9%	10.2%	9.3%	9.3%	9.9%
Net debt/revalued net assets	14.0%	9.9%	6.1%	3.6%	1.1%
Net debt/(revalued gross assets-cash)	10.9%	8.0%	5.2%	3.1%	1.0%
Net debt/EV	0.1%	0.1%	0.0%	0.0%	NA
<b>Momentum</b>					
Growth in pre-ex. pre-tax cash flow	10.3%	(7.7%)	(9.2%)	10.0%	13.1%
Growth in pre-ex. net cash flow per share	12.2%	(9.6%)	(11.6%)	9.8%	12.5%
Growth in revalued NAV per share	(12.2%)	(7.4%)	15.7%	2.9%	5.3%
<b>Value</b>					
Core EBITDA/EV	5.0%	5.5%	4.6%	5.1%	5.5%
Pre-ex. cash earnings yield	6.0%	7.1%	4.8%	5.3%	6.0%
Average yield on appraised values	7.1%	7.6%	6.8%	6.4%	6.0%
(Discount) to revalued NAV	2.3%	(16.2%)	(5.3%)	(7.9%)	(12.5%)
Gross dividend yield	3.5%	3.4%	2.6%	2.6%	2.6%

Since its incorporation in 1972, SHKP has established itself as Hong Kong's leading property developer. It is the largest producer of private homes in Hong Kong and the SHKP brandname is synonymous with premium quality construction and workmanship. In addition to property development, SHKP has 19m sf of investment properties and interests in telecommunications, infrastructure, freight forwarding and information technology.

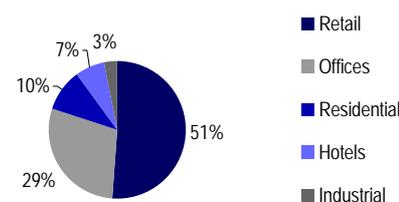
## Relative rating - (discount) to NAV (%)



## Relative rating - NAV versus sector (%)

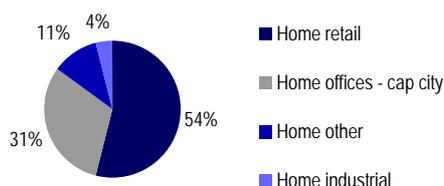


## Sectoral breakdown



Total value (HK\$m): 81,852.0

## Geographic breakdown



Total value (HK\$m): 81,852.0

Source: UBS estimates. \* Historical valuations are based on an 'average for the year' share price. Current & future valuations are based on a share price of HK\$60.75 on 26/11/2003

# Cheung Kong

## Good property stub, but needs Hutchison

### ■ 9% market share in attributable stock

Helped by aggressive landbanking over the past few years, Cheung Kong's attributable paid-up inventory currently stands at 7,818 units, or 9% of total market stock. We believe this is notable considering Cheung Kong divested attributable 2,854 units to end-Q303.

### ■ Deep pockets and 15m sf of agricultural land

With deep pockets (gearing at 10%) and many potential sites for conversion under active negotiations, Cheung Kong's ability to replenish landbank should only be second to SHKP, putting it in a favourable position to exploit the coming upcycle.

### ■ Hutchison—70% of NAV

We estimate Hutchison currently contributes 70% of Cheung Kong's NAV. Despite having some HK\$20bn worth of property for sale, the weighting of Hutchison means that every 10% increase in home prices would only lift Cheung Kong's NAV by 1.2%.

### ■ Valuation: price target based on 15% discount to forward NAV

Our HK\$68.30 price target is based on a 15% discount to our HK\$80.10 forward NAV estimate. This is in turn based on our HK\$60 fair value target for Hutchison. On a 0%/25% holding company discount for Hutchison, Cheung Kong's property stub trades at an implied 61%/2% discount, respectively. Our 2 predictability level reflects the uncertainty in 3G outlook and the considerable operating and financial leverage of the business. Neutral 2.

Highlights (HK\$m)	12/01	12/02	12/03E	12/04E	12/05E
Net rental income	681	816	738	676	695
EBITDA	2,567	1,407	1,779	2,096	2,634
EPS (UBS, HK\$)	3.77	3.76	3.81	1.22	1.68
NAV/share (UBS, HK\$)	92.39	71.31	69.77	75.46	78.80
DPS (UBS, HK\$)	1.600	1.600	1.600	1.600	1.600

Profitability & Valuation	5-yr hist. av.	12/02	12/03E	12/04E	12/05E
DPS yield (UBS) %	0.0	2.5	2.7	2.7	2.7
Prem/disc to NAV %	-11.7	-10.5	-14.7	-21.2	-24.5
CEPS yield (UBS) %	14.4	5.7	6.2	1.9	2.6
EV/EBITDA x	-	>100	85.1	72.1	58.1
PE (UBS) x	12.0	17.0	15.6	48.6	35.5

Source: Company accounts, Thomson Financial, UBS estimates. UBS EPS is adjusted by adding back goodwill amortization.  
Valuations: based on an average share price that year, (E): based on a share price of HK\$59.50 on 26 Nov 2003

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Hong Kong

Real Estate

**Rating Neutral 2\***

**Price target HK\$68.30/US\$8.79**

**Price HK\$59.50/US\$7.70 (ADR)**

RIC: 0001.HK/CHEUY.PK

#### Forecast returns

Forecast price appreciation	+14.8%
Forecast dividend yield	2.7%
Forecast stock return	+17.5%
Market return assumption	5.7%
Forecast excess return	+11.8%
Net DPS (03E)	HK\$1.60/US\$0.21
Trend EPS growth rate	-26%

#### Trading data (local/US\$)

52-wk. range	HK\$66.50-40.50/US\$8.65-5.15
Market cap.	HK\$138bn/US\$17.8bn
Shares o/s	2,316m (ORD)/2,316m (ADR)
ADR Ratio	1 ADR:1 ORD
Free float	63%
Average volume ('000)	6,025/1
Convertible	No
Volatility	Medium

#### Balance sheet data 12/03E

Shareholders' equity	HK\$172bn
Prem (discount) to NAV/Share	-14.7%
Net cash (debt)	(HK\$15.9bn)

#### EPS (UBS, HK\$)

	12/02	12/03E	Prior	Cons.
H1	0.00	0.00	-	-
H2	0.00	0.00	-	-
FY	3.76	3.81	-	2.86

[www.ubs.com/investmentresearch](http://www.ubs.com/investmentresearch)

**Table 32: Cheung Kong NAV breakdown**

(HK\$ m)	Current (Hutchison at HK\$55.25)	Hutchison at HK\$60
Development properties	50,463	55,896
Investment properties	16,035	18,200
Hutchison (MV)	118,226	127,812
Treasury	5,060	5,060
F-REIT (MV)	610	610
CK Life Science (MV)	3,541	3,541
Stake in Priceline (MV)	746	746
Stake in tom.com (MV)	1,046	1,046
Gross assets	195,727	212,911
Cash	3,140	3,140
Total liabilities	(30,637)	(30,637)
Total net asset	168,230	185,414
Shares issued	2,316	2,316
NAV per share (HK\$)	72.60	80.10
Cheung Kong (HK\$)	59.50	68.30
Discount	-18%	-15%

Source: UBS estimates

**Table 33: Cheung Kong development landbank (to end Q303)**

Project	Stake	Attr. GFA (sf)	Use	% sold	Unsold attr. GFA (sf)	Cost (HK\$ psf)	SP (HK\$ psf)	Total attr. op profit (HK\$ m)
FY02 The Metropolis, KCRC Hung Hom	50%	188,500	SA	85%	27,335	4,536	3,928	0
FY01 Laguna Verde V -Extension	50%	351,847	R	84%	55,578	3,332	4,680	474
FY03 Hampton Place, Tai Kok Tsui,	100%	560,295	R/C	81%	104,419	3,492	3,276	-121
FY03 Gianni Cove, Tin Shui Wai,	60%	481,004	R	74%	125,211	1,750	1,744	-3
FY03 Ramblers' Crest, Tsing Yi TL 140	30%	290,578	SA	66%	98,796	1,839	2,145	89
FY03 One Beacon Hill, Kowloon Tong	100%	779,885	R	58%	325,382	5,838	5,899	48
FY01 Harbourfront Landmark, Hunghom	50%	358,405	R/C	46%	194,689	6,204	6,338	48
FY03 Princeton Tower, Sheung Wan	100%	97,539	R/C	19%	79,407	2,785	3,565	76
FY03 Shek Kong DD110	100%	111,097	R	0%	111,097	2,032	2,090	6
<b>Total leftover (&lt;90% presold)</b>					<b>1,121,915</b>			
FY04 Caribbean Coast 2, Tung Chung	50%	520,757	R/C	34%	344,792	2,188	2,188	0
FY04 Caribbean Coast 3, Tung Chung	50%	657,716	R/C	0%	657,716	2,188	2,188	0
FY04 Banyan Garden 1, CSW Shipyard	75%	586,907	R	99%	8,212	2,310	3,003	407
FY04 Banyan Garden 2&3, CSW Shipyard	75%	705,531	R	94%	45,065	2,528	3,003	335
FY04 SkyTower, KIL 4013	40%	603,335	R	8%	552,784	3,300	3,276	-14
FY04 Pacifica, West Kowloon NKIL 6275	50%	776,151	R	0%	776,151	2,468	2,789	249
FY04 Cairnhill 1 & 2, Tsuen Wan	50%	413,668	R/C	50%	206,834	1,675	2,574	372
<b>Total FY04</b>		<b>4,264,065</b>			<b>2,591,553</b>			<b>1,348</b>
FY05 Caribbean Coast 4, Tung Chung	50%	386,488	R/C	0%	386,488	1,764	2,188	164
FY05 Tiger Balm Garden	100%	508,948	R	0%	508,948	3,971	4,840	442
FY05 Tiu Keng Leng Station	100%	1,613,000	R	0%	1,290,400	1,957	2,925	1,562
<b>Total FY05</b>		<b>2,508,436</b>			<b>2,185,836</b>			<b>2,168</b>
FY06 Tin Shui Wai Town Lot 24, Yuen Long	98%	1,809,832	R	0%	1,809,832	1,695	1,800	190
<b>Total FY06</b>		<b>1,809,832</b>			<b>1,809,832</b>			<b>190</b>

R = Residential, C = Commercial, SA = Serviced Apartments

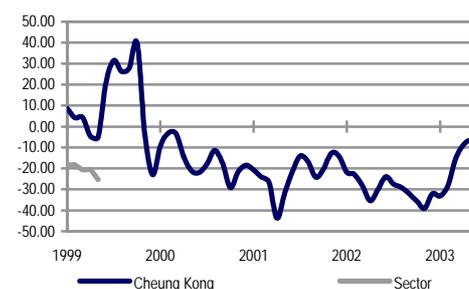
Source: UBS estimates

## Cheung Kong

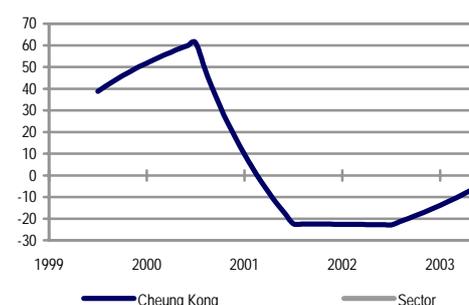
Per share (HK\$)	12/01	12/02	12/03E	12/04E	12/05E
EPS (stated)	3.12	3.83	3.65	1.22	1.68
EPS (pre-exceptional)	3.77	3.76	3.81	1.22	1.68
CEPS (pre-exceptional)	3.56	3.65	3.70	1.12	1.57
Revalued NAV per share	92.39	71.31	69.77	75.46	78.80
<b>Profit &amp; Loss (HK\$m)</b>					
Net rental income	681	816	738	676	695
Investment income	1,086	894	933	954	954
Trading income	1,897	617	977	1,289	1,794
Associates & other income	7,080	8,309	8,649	2,370	3,390
<b>Total income</b>	<b>10,744</b>	<b>10,636</b>	<b>11,297</b>	<b>5,289</b>	<b>6,833</b>
Interest payable	(1,262)	(900)	(774)	(813)	(926)
Administration and other	(0)	(0)	(0)	(0)	(0)
<b>Revenue surplus</b>	<b>9,482</b>	<b>9,736</b>	<b>10,523</b>	<b>4,476</b>	<b>5,907</b>
Interest capitalised	486	250	250	250	250
Depreciation & amortisation	-	-	-	-	-
Pre-exceptional provisions	-	-	-	-	-
<b>Pre-exceptional pre-tax profits</b>	<b>9,968</b>	<b>9,986</b>	<b>10,773</b>	<b>4,726</b>	<b>6,157</b>
Exceptionals	(1,500)	176	(360)	-	-
<b>Stated pre-tax profits</b>	<b>8,468</b>	<b>10,162</b>	<b>10,413</b>	<b>4,726</b>	<b>6,157</b>
Tax	(1,209)	(1,338)	(1,842)	(1,797)	(2,246)
Minorities & preference & extraordinary	(22)	52	(112)	(94)	(25)
<b>Attributable net profits</b>	<b>7,237</b>	<b>8,876</b>	<b>8,459</b>	<b>2,835</b>	<b>3,887</b>
Cost of dividend	(3,706)	(3,706)	(3,706)	(3,706)	(3,706)
<b>Retained profits/earnings</b>	<b>3,531</b>	<b>5,170</b>	<b>4,753</b>	<b>(871)</b>	<b>181</b>
<b>Pre-exceptional cash flow</b>					
<b>EBITDA</b>	<b>2,661</b>	<b>1,564</b>	<b>1,829</b>	<b>2,146</b>	<b>2,684</b>
<b>EBIT</b>	<b>2,661</b>	<b>1,564</b>	<b>1,829</b>	<b>2,146</b>	<b>2,684</b>
<b>Cash flow (HK\$m)</b>					
EBIT	2,715	1,563	1,829	2,146	2,634
Depreciation & amortisation	77	78	60	60	-
Working capital movement	(515)	(1,621)	1,616	(194)	307
Other (operating)	8,101	11,844	15,453	12,817	11,918
<b>Operational cash flow</b>	<b>10,378</b>	<b>11,864</b>	<b>18,958</b>	<b>14,829</b>	<b>14,860</b>
Net interest paid	(836)	(236)	234	227	28
Dividends paid	(3,708)	(3,706)	(3,706)	(3,706)	(3,706)
Tax paid	(173)	(141)	(365)	(412)	(488)
Net (acquisitions)/capital expenditure	(7,843)	(7,245)	(7,353)	(10,352)	(8,016)
Equity issued	-	2,614	-	-	-
Other items	(2,666)	(274)	(3,957)	(2,545)	(3,590)
<b>Movement in (net debt)/net cash</b>	<b>(4,848)</b>	<b>2,876</b>	<b>3,812</b>	<b>(1,958)</b>	<b>(912)</b>
<b>Balance sheet (HK\$m)</b>					
Book value investment properties	42,785	44,964	43,652	48,755	51,990
Other fixed assets	123,664	126,482	129,940	127,154	124,959
Total book value of fixed assets	166,449	171,446	173,593	175,908	176,949
Book value trading properties	21,889	20,177	14,098	13,451	5,991
Cash & deposits	1,575	2,156	3,000	3,000	3,000
Other current assets	6,597	7,288	7,331	7,375	7,420
<b>Total book value of assets</b>	<b>196,510</b>	<b>201,067</b>	<b>198,021</b>	<b>199,735</b>	<b>193,361</b>
Debt	(24,381)	(21,873)	(18,905)	(20,864)	(21,523)
Other liabilities	(6,791)	(8,182)	(6,973)	(7,617)	(7,808)
<b>Book ordinary shareholders' funds/NTA</b>	<b>165,338</b>	<b>171,012</b>	<b>172,143</b>	<b>171,254</b>	<b>164,030</b>
Surpluses over book value	3,749	4,440	4,440	6,423	-
<b>Revalued shareholders' funds/NTA</b>	<b>169,087</b>	<b>175,452</b>	<b>176,583</b>	<b>177,677</b>	<b>164,030</b>
Fully diluted shareholders' funds/NTA	213,988	165,160	161,599	174,781	182,508
<b>Profitability</b>					
Recurring income cover of expenses	1.5x	2.0x	2.3x	2.2x	2.0x
Interest cover	1.5x	2.0x	2.3x	2.2x	2.0x
Headline stated net dividend cover	2.0x	2.4x	2.3x	0.8x	1.0x
Pre-exceptional cash dividend cover	2.2x	2.3x	2.3x	0.7x	1.0x
<b>Productivity</b>					
Pre-exceptional tax rate	12.1%	13.4%	17.1%	38.0%	36.5%
Net debt/revalued net assets	10.7%	11.9%	9.8%	10.2%	10.1%
Net debt/(revalued gross assets-cash)	9.4%	10.2%	8.6%	8.9%	8.9%
Net debt/EV	1.4%	0.4%	0.4%	0.4%	NA
<b>Momentum</b>					
Growth in pre-ex. pre-tax cash flow	(52.4%)	2.7%	8.1%	(57.5%)	32.0%
Growth in pre-ex. net cash flow per share	(56.4%)	2.4%	1.4%	(69.8%)	40.7%
Growth in revalued NAV per share	(22.4%)	(22.8%)	(2.2%)	8.2%	4.4%
<b>Value</b>					
Core EBITDA/EV	1.3%	0.9%	1.2%	1.4%	1.7%
Pre-ex. cash earnings yield	4.4%	5.7%	6.2%	1.9%	2.6%
Average yield on appraised values	6.3%	5.3%	6.3%	5.1%	3.3%
(Discount) to revalued NAV	(11.7%)	(10.5%)	(14.7%)	(21.2%)	(24.5%)
Gross dividend yield	2.0%	2.5%	2.7%	2.7%	2.7%

Cheung Kong is the largest Hong Kong property company by market capitalisation. Incorporated in 1971, Cheung Kong has expanded beyond property development and Hong Kong, through 49.9% owned associate, Hutchison Whampoa, Cheung Kong also has interest in container terminals, retailing, telecommunications, infrastructure and energy both in Hong Kong and overseas. The listed companies of the Cheung Kong group include Hutchison Whampoa, Cheung Kong Infrastructure, Hong Kong Electric and tom.com.

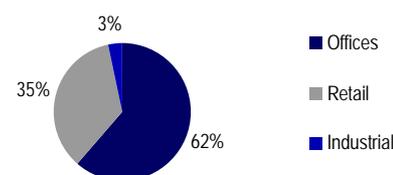
## Relative rating - (discount) to NAV (%)



## Relative rating - NAV versus sector (%)

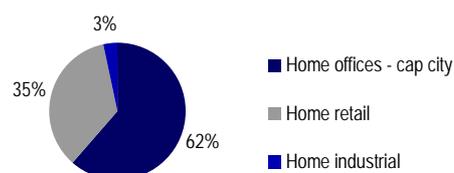


## Sectoral breakdown



Total value (HK\$m): 44,964.0

## Geographic breakdown



Total value (HK\$m): 44,964.0

Source: UBS estimates. \* Historical valuations are based on an 'average for the year' share price. Current & future valuations are based on a share price of HK\$59.5 on 26/11/2003

# Henderson Land

## Rising tide lifts all boats

### ■ 8% market share ranks it fourth

While we remain concerned about Henderson Land's development property mix (luxury rural villas), Henderson Land's 6,887 units still rank it fourth amongst the developers. In an upcycle, Henderson Land should benefit as well.

### ■ It has growth, but at the associate level

Whether Henderson Land can rerate and narrow the gap to SHKP will depend on its growth profile. We continue to hope that Henderson Land can repeat its early 1990s aggressive landbanking practice, however, looking at the detailed land premium conversion timetable, most sites appear to be held at the associate level.

### ■ Should be a keen bidder at next year's land auction

Having raised HK\$3bn through the recent share placement, we expect Henderson will have to account to its new shareholders and aggressively bid for sites at next year's land auction.

### ■ Valuation: HK\$29.30 price target, Neutral 2

Henderson Land currently trades at a 19% discount to our NAV estimate of HK\$37.30. Our price target is based on a 35% discount to forward NAV. This compares to a historical NAV discount of 15%. Restoration of Henderson's growth profile should help narrow the discount. Our 2 predictability level reflects: (1) the difficulty in predicting progress and the extent of Henderson Land's land premium agreements, and (2) uncertainty in Henderson Land's presale strategy for luxury villas. Neutral 2 rating maintained.

Highlights (HK\$m)	06/02	06/03	06/04E	06/05E	06/06E
Net rental income	1,329	1,340	1,394	1,532	1,652
EBITDA	1,330	1,379	1,583	2,364	1,757
EPS (UBS, HK\$)	1.27	1.58	1.40	1.98	1.63
NAV/share (UBS, HK\$)	41.41	37.75	37.48	38.07	39.40
DPS (UBS, HK\$)	0.800	0.800	0.800	0.900	0.900

Profitability & Valuation	5-yr hist. av.	06/03	06/04E	06/05E	06/06E
DPS yield (UBS) %	0.0	3.3	2.6	3.0	3.0
Prem/disc to NAV %	-21.6	-35.9	-18.9	-20.2	-22.8
CEPS yield (UBS) %	7.5	5.9	4.1	6.2	5.1
EV/EBITDA x	-	37.7	39.4	25.0	-
PE (UBS) x	15.3	15.3	21.7	15.4	18.7

Source: Company accounts, Thomson Financial, UBS estimates. UBS EPS is adjusted by adding back goodwill amortization. Valuations: based on an average share price that year, (E): based on a share price of HK\$30.40 on 26 Nov 2003

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Hong Kong

Real Estate

**Rating Neutral 2**

**Price target HK\$29.30/US\$3.77**

**Price HK\$30.40/US\$4.00 (ADR)**

RIC: 0012.HK/HLDCY.PK

#### Forecast returns

Forecast price appreciation	-3.6%
Forecast dividend yield	3.0%
Forecast stock return	-0.6%
Market return assumption	5.7%
Forecast excess return	-6.3%
Net DPS (04E)	HK\$0.80/US\$0.10
Trend EPS growth rate	+5%

#### Trading data (local/US\$)

52-wk. range	HK\$34.90-18.15/US\$4.50-2.25
Market cap.	HK\$55.2bn/US\$7.26bn
Shares o/s	1,815m (ORD)/1,815m (ADR)
ADR Ratio	1 ADR:1 ORD
Free float	35%
Average volume ('000)	6,579/1
Convertible	No
Volatility	Medium

#### Balance sheet data 06/04E

Shareholders' equity	HK\$59.3bn
Prem (discount) to NAV/Share	-18.9%
Net cash (debt)	(HK\$4.34bn)

#### EPS (UBS, HK\$)

	06/03	06/04E	Prior	Cons.
H1	-	-	-	-
H2	-	-	-	-
FY	1.58	1.40	-	1.62

[www.ubs.com/investmentresearch](http://www.ubs.com/investmentresearch)

**Table 34: Henderson Land NAV breakdown**

(HK\$ m)	Current	Forward	Change
Development properties	23,443	26,497	13%
Investment properties	22,335	29,907	34%
Henderson Investment (MV)	24,879	25,722	3%
Henderson China (MV)	1,201	1,201	0%
Agricultural land	2,850	2,850	0%
Instalment receivable	2,337	2,337	0%
Hotels	415	415	0%
Gross asset	77,460	88,929	15%
Net debt	-9,795	-9,795	0%
Net asset	67,665	79,134	17%
Number of shares	1,815	1,815	0%
NAV (HK\$)	37.30	43.60	17%

Source: UBS estimates

**Table 35: Henderson Investment NAV breakdown**

(HK\$ m)	Now	Forward
Investment properties	4,436	5,304
Hotels	736	809
Infrastructure	1,278	1,278
Investment securities	918	918
HK & China Gas (MV)	22,798	20,726
HK Ferry (MV)	754	754
Miramar (MV)	1,816	1,816
Henderson Cyber	650	650
Gross asset	33,385	32,255
Net debt	214	214
Net asset	33,599	32,469
Number of shares	2,817	2,817
NAV (HK\$)	11.93	11.52
Share price (HK\$)	8.90	8.64
Discount	-25%	-25%
Property assets per share (HK\$)	1.84	2.17
HK Gas	68%	64%
Three listed associates	76%	72%

Source: UBS estimates

Table 36: Henderson Land development schedule (to end Q303)

Project	Stake	Use	Attr. GFA (sf)	% Presold	Unsold attr. GFA (sf)	Cost (HK\$ psf)	SP (HK\$ psf)	Total attr. op profit (HK\$ m)	Margin
FY01 Casa Bella, Mid-Levels	50	R	50,947	88%	6,163	1,600	5,000	173	68%
FY02 Seaview Crescent, Tung Chung	20	R	233,783	84%	38,252	2,585	2,576	-2	0%
FY01 Royal Peninsula, Hunghom	50	R	739,175	82%	130,612	4,611	4,578	-24	-1%
FY02 Supernova Stand, North Point	35	R	15,727	78%	3,460	2,723	3,630	57	25%
FY03 MetroHarbourview I, Tai Kok Tsui	50	R	440,000	78%	98,750	2,950	3,076	56	4%
FY03 Park Central II, TKOL#57 and #66	25	R/C	320,125	77%	72,564	3,000	3,120	39	4%
FY03 Aegean Coast, TMTL#374	25	R	306,774	77%	69,893	2,550	2,400	-46	-6%
FY02 Sereno Verde I, Yuen Long	44	R	205,805	74%	53,378	2,006	2,500	102	25%
FY02 Wealth House, 108-110 Castle Peak	100	R	12,975	71%	3,816	1,200	3,300	27	64%
FY01 Palatial Crest, Mid Levels	64	R	115,909	59%	47,088	3060	5,500	283	44%
FY03 Royal Terrace, King's Rd.	100	R	128,905	56%	56,396	4,000	3,850	-19	-4%
FY01 Casa Marina II, Tai Po TL#118	100	R	182,657	52%	87,882	4,000	4,000	0	0%
FY01 King's Park Rise, KIL#11063	50	R	120,394	49%	61,138	7818	8,600	94	9%
FY01 Casa Marina, TPTL#117	100	R	226,561	45%	124,840	3,357	4,000	146	16%
FY02 Sereno Verde 2, Yuen Long	44	R	162,940	36%	104,923	2,006	2,500	80	25%
FY03 City Regalia, Shum Shui Po	100	R	31,220	29%	22,244	4,000	2,675	-41	-50%
FY03 Sereno Verde 4, Yuen Long	44	R	58,468	28%	42,302	2,006	2,128	7	6%
FY03 Sereno Verde 3, Yuen Long	44	R	75,006	8%	69,236	2,006	2,128	9	6%
FY02 9 Durham Road, Kowloon Tong	100	R	19,766	0%	19,766	3,000	6,000	59	50%
FY03 Beverly Hills Villa, TPTL#161	90	R	652,481	0%	652,481	4,053	4,180	83	3%
FY03 Paradise Square, Mongkok LDC	100	R	137,707	0%	137,707	3,285	4,000	98	18%
<b>Total FY03 and before (&lt;90% presold)</b>					<b>1,902,891</b>				
FY04 MetroHarbourview II, Tai Kok Tsui	50	R	415,000	46%	222,355	2,750	2,841	38	3%
FY04 Beverly Hills Villas, TPTL#161	90	R	396,383		396,383	4,053	4,180	50	3%
FY04 14-16 Shipyard Lane	75	R	60,374		60,374	1,400	3,850	148	64%
<b>Total FY 04</b>			<b>871,757</b>		<b>679,112</b>			<b>236</b>	
FY05 Sai Wan Ho Ferry Concourse	50	R	718,071		718,071	3,498	4,150	468	16%
FY05 Bridge St/ Hollywood St, HK	100	R	259,883		259,883	3,662	4,000	87	9%
FY05 Park Central 1 & 2, TKOL#57 and #66	25	R	69,976		69,976	2,750	2,750	0	0%
FY05 Tan Kwei Tsuen, Yuen Long	60	R	32,693		32,693	1,800	2,200	13	18%
FY05 Lam Tei Fuk Hang Tsuen, Tuen Mun	100	R	797,226		797,226	1,465	2,090	498	30%
FY05 Tung Chung, MTRC Station - Site 2N	20	SA	47,344		47,344	2,400	2,400	0	0%
FY05 FSSTL # 189	45	R	144,248		144,248	1,943	1,986	6	2%
<b>Total FY05</b>			<b>2,069,441</b>		<b>2,069,441</b>			<b>1,072</b>	
FY06 1 High St, 5 Hospital Rd.	100	R	63,663		63,663	1,600	4,180	164	62%
FY06 Ma Tau Wai South Gas Plant Redev	27	R	264,060		264,060	2,341	3,000	174	22%
FY06 29 Lugard Rd., The Peak	100	R	11,836		11,836	6,500	10,000	41	35%
FY06 38B Kennedy Road	83	R	5,569		5,569	5,000	6,500	8	23%
<b>Total FY06</b>			<b>345,128</b>		<b>345,128</b>			<b>388</b>	
FY07+ 12 Headland Rd., South Bay	100	R	15,006		15,006	3,500	8,000	68	56%
FY07+ Tong Yan San Tsuen, Yuen Long (No LP)	100	R	70,105			1,800	2,200	28	18%
FY07+ DD381 Lot 941, Tuen Mun (No LP)	100	R	19,052			3,000	2,300	-13	-30%
FY07+ Section A Lot2030 in DD95, Kwu Tung, North (No LP)	80	R	65,563			2,325	3,000	44	23%
FY07+ Yau Tong Shipyards & Sawmills Redevelopment (No LP)	19	R	1,796,305						
<b>Total FY07 and beyond (LP only)</b>					<b>15,006</b>				

R = Residential, C = Commercial, SA = Serviced Apartments

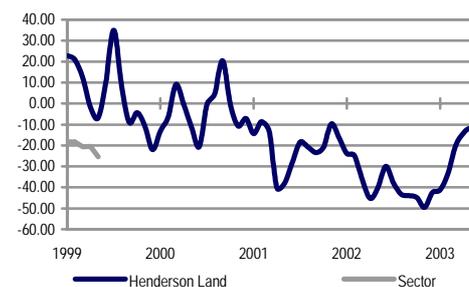
Source: UBS estimates

## Henderson Land

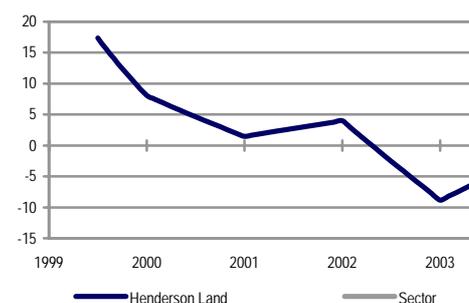
Per share (HK\$)	6/02	6/03	6/04E	6/05E	6/06E
EPS (stated)	1.25	1.30	1.35	1.98	1.63
EPS (pre-exceptional)	1.27	1.58	1.40	1.98	1.63
CEPS (pre-exceptional)	0.97	1.39	1.31	1.89	1.54
Revalued NAV per share	41.41	37.75	37.48	38.07	39.40
<b>Profit &amp; Loss (HK\$m)</b>					
Net rental income	1,329	1,340	1,394	1,532	1,652
Investment income	545	443	393	400	427
Trading income	116	153	316	963	241
Associates & other income	1,492	2,196	1,855	2,321	2,168
<b>Total income</b>	<b>3,481</b>	<b>4,133</b>	<b>3,958</b>	<b>5,216</b>	<b>4,487</b>
Interest payable	(679)	(448)	(330)	(366)	(357)
Administration and other	(196)	(217)	(222)	(226)	(231)
<b>Revenue surplus</b>	<b>2,606</b>	<b>3,467</b>	<b>3,407</b>	<b>4,624</b>	<b>3,899</b>
Interest capitalised	581	382	238	229	219
Depreciation & amortisation	(65)	(65)	(65)	(65)	(65)
Pre-exceptional provisions	-	-	-	-	-
<b>Pre-exceptional pre-tax profits</b>	<b>3,122</b>	<b>3,784</b>	<b>3,580</b>	<b>4,788</b>	<b>4,053</b>
Exceptionals	(36)	(472)	(100)	-	-
<b>Stated pre-tax profits</b>	<b>3,086</b>	<b>3,312</b>	<b>3,480</b>	<b>4,788</b>	<b>4,053</b>
Tax	(388)	(407)	(564)	(643)	(548)
Minorities & preference & extraordinary	(544)	(662)	(493)	(555)	(549)
<b>Attributable net profits</b>	<b>2,153</b>	<b>2,242</b>	<b>2,423</b>	<b>3,591</b>	<b>2,957</b>
Cost of dividend	(1,378)	(1,378)	(1,378)	(1,550)	(1,550)
<b>Retained profits/earnings</b>	<b>775</b>	<b>865</b>	<b>1,045</b>	<b>2,041</b>	<b>1,406</b>
<b>Pre-exceptional cash flow</b>	<b>1,673</b>	<b>2,398</b>	<b>2,350</b>	<b>3,426</b>	<b>2,802</b>
<b>EBITDA</b>	<b>1,330</b>	<b>1,379</b>	<b>1,583</b>	<b>2,364</b>	<b>1,757</b>
<b>EBIT</b>	<b>1,265</b>	<b>1,314</b>	<b>1,518</b>	<b>2,299</b>	<b>1,692</b>
<b>Cash flow (HK\$m)</b>					
EBIT	2,967	3,689	3,565	2,299	1,692
Depreciation & amortisation	66	65	65	65	65
Working capital movement	3,566	(403)	7,021	125	(2,119)
Other (operating)	-	-	-	-	-
<b>Operational cash flow</b>	<b>6,599</b>	<b>3,351</b>	<b>10,651</b>	<b>2,489</b>	<b>(363)</b>
Net interest paid	127	(5)	63	34	70
Dividends paid	(1,550)	(1,378)	(1,378)	(1,550)	(1,550)
Tax paid	(1,170)	(859)	(784)	(875)	(796)
Net (acquisitions)/capital expenditure	(1,040)	(450)	(1,383)	(2,374)	(2,446)
Equity issued	-	-	2,950	-	-
Other items	2,650	134	(2,455)	1,421	3,783
<b>Movement in (net debt)/net cash</b>	<b>5,616</b>	<b>793</b>	<b>7,665</b>	<b>(855)</b>	<b>(1,302)</b>
<b>Balance sheet (HK\$m)</b>					
Book value investment properties	35,541	32,642	39,655	41,350	43,125
Other fixed assets	25,653	24,356	25,006	25,776	26,634
Total book value of fixed assets	61,194	56,998	64,661	67,127	69,759
Book value trading properties	23,445	20,978	24,520	21,992	21,385
Cash & deposits	1,645	2,383	2,383	2,383	2,383
Other current assets	4,465	4,976	5,123	5,275	5,433
<b>Total book value of assets</b>	<b>90,750</b>	<b>85,333</b>	<b>96,686</b>	<b>96,777</b>	<b>98,960</b>
Debt	(12,163)	(11,420)	(6,727)	(5,065)	(6,367)
Other liabilities	(21,975)	(19,673)	(30,652)	(28,675)	(26,386)
<b>Book ordinary shareholders' funds/NTA</b>	<b>56,611</b>	<b>54,240</b>	<b>59,308</b>	<b>63,036</b>	<b>66,207</b>
Surpluses over book value	4,540	3,619	3,500	3,500	3,500
<b>Revalued shareholders' funds/NTA</b>	<b>61,151</b>	<b>57,859</b>	<b>62,808</b>	<b>66,536</b>	<b>69,707</b>
Fully diluted shareholders' funds/NTA	71,307	65,003	68,005	69,085	71,494
<b>Profitability</b>					
Recurring income cover of expenses	2.2x	2.8x	3.4x	3.4x	3.7x
Interest cover	2.6x	3.7x	5.0x	4.9x	5.4x
Headline stated net dividend cover	1.6x	1.6x	1.8x	2.3x	1.9x
Pre-exceptional cash dividend cover	1.2x	1.7x	1.6x	2.1x	1.7x
<b>Productivity</b>					
Pre-exceptional tax rate	12.4%	10.8%	15.8%	13.4%	13.5%
Net debt/revalued net assets	14.8%	13.9%	6.4%	3.9%	5.6%
Net debt/(revalued gross assets-cash)	10.1%	9.6%	4.2%	2.7%	3.9%
Net debt/EV	0.2%	0.1%	0.0%	NA	NA
<b>Momentum</b>					
Growth in pre-ex. pre-tax cash flow	(31.0%)	33.0%	(1.7%)	35.7%	(15.7%)
Growth in pre-ex. net cash flow per share	(29.8%)	43.3%	(6.2%)	44.6%	(18.2%)
Growth in revalued NAV per share	4.0%	(8.8%)	(0.7%)	1.6%	3.5%
<b>Value</b>					
Core EBITDA/EV	2.0%	2.6%	2.5%	4.0%	NA
Pre-ex. cash earnings yield	3.0%	5.8%	4.3%	6.2%	5.1%
Average yield on appraised values	7.3%	6.9%	5.8%	6.1%	6.3%
(Discount) to revalued NAV	(21.6%)	(35.9%)	(18.9%)	(20.2%)	(22.8%)
Gross dividend yield	2.5%	3.3%	2.6%	3.0%	3.0%

Founded in 1976, Henderson Land is one of the largest producers of new homes in Hong Kong. In addition to property development, the Henderson Group has interests in property investment, hotels, utilities and technology.

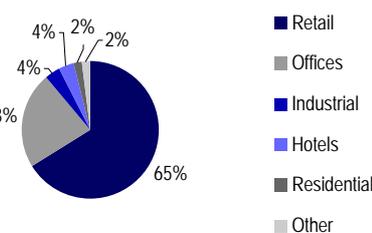
## Relative rating - (discount) to NAV (%)



## Relative rating - NAV versus sector (%)

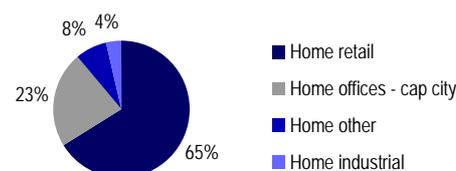


## Sectoral breakdown



Total value (HK\$m): 32,641.6

## Geographic breakdown



Total value (HK\$m): 32,641.6

Source: UBS estimates. \* Historical valuations are based on an 'average for the year' share price. Current & future valuations are based on a share price of HK\$30.4 on 26/11/2003

# Hang Lung Properties

## Prime-urban developments

### ■ Reaping the fruits from past labour

By virtue of being the shrewdest buyer of land in 1999 and 2000, Hang Lung Properties now has 4m sf of urban land heading into the housing upcycle. In light of the 13.6% rise in home prices in the past two months, our HK\$14.5bn sales estimate is likely too conservative.

### ■ Combined housing and retail sensitivity of 10.4%

We estimate that every 10% change in home and retail prices will impact HLP's NAV by 6.0% and 4.5%, respectively. HLP's combined 10.4% NAV sensitivity ranks it second only to Sino Land.

### ■ What's next to determine the direction of the discount?

There is little doubt that HLP should be a key beneficiary of the housing upcycle. However, equally important are new investment opportunities. Without a ready source to replenish landbank, we believe HLP's presale strategy and ability to replenish its landbank will determine how well it participates in the upcycle.

### ■ Valuation: Par to NAV, price target of HK\$13.75

HLP currently trades at a 3% discount to its current NAV. Since 1999, HLP's transformation from being a landlord to becoming a developer has enabled it to rerate, narrowing the long-term discount from 40% to 0%. Our HK\$13.75 price target is on par with our forward NAV estimate. Our 1 predictability level is based on Hang Lung's resilient retail rental portfolio and its low-cost urban development landbank. Buy 1.

Highlights (HK\$m)	06/02	06/03	06/04E	06/05E	06/06E
Net rental income	1,462	1,474	1,673	1,817	1,995
EBITDA	1,373	1,385	3,158	3,230	1,910
EPS (UBS, HK\$)	0.37	0.34	0.86	0.93	0.53
NAV/share (UBS, HK\$)	10.55	9.78	12.95	12.94	13.69
DPS (UBS, HK\$)	0.400	0.400	0.440	0.450	0.450

Profitability & Valuation	5-yr hist. av.	06/03	06/04E	06/05E	06/06E
DPS yield (UBS) %	0.1	5.3	4.6	4.7	4.7
Prem/disc to NAV %	-21.7	-23.2	-26.7	-26.6	-30.6
CEPS yield (UBS) %	8.0	3.9	8.5	9.6	5.6
EV/EBITDA x	14.3	22.8	11.4	9.2	13.9
PE (UBS) x	15.0	22.3	11.1	10.3	17.9

Source: Company accounts, Thomson Financial, UBS estimates. UBS EPS is adjusted by adding back goodwill amortization. Valuations: based on an average share price that year, (E): based on a share price of HK\$9.50 on 26 Nov 2003

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Hong Kong

Real Estate

**Rating Buy 1**

**Price target HK\$13.75/US\$8.85**

**Price HK\$9.50/US\$6.05 (ADR)**

RIC: 0101.HK/HLPPY.PK

#### Forecast returns

Forecast price appreciation	+44.7%
Forecast dividend yield	4.8%
Forecast stock return	+49.5%
Market return assumption	5.7%
Forecast excess return	+43.8%
Net DPS (04E)	HK\$0.44/US\$0.06
Trend EPS growth rate	+10%

#### Trading data (local/US\$)

52-wk. range	HK\$10.35-6.60/US\$6.75-4.20
Market cap.	HK\$27.4bn/US\$3.50bn
Shares o/s	2,889m (ORD)/578m (ADR)
ADR Ratio	1 ADR:5 ORD
Free float	38%
Average volume ('000)	3,585/0
Convertible	Yes
Volatility	Low

#### Balance sheet data 06/04E

Shareholders' equity	HK\$31.3bn
Prem (discount) to NAV/Share	-26.7%
Net cash (debt)	(HK\$4.78bn)

#### EPS (UBS, HK\$)

	06/03	06/04E	Prior	Cons.
H1	-	-	-	-
H2	-	-	-	-
FY	0.34	0.86	-	1.07

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**Table 37: Hang Lung Properties current and prospective NAV**

(HK\$ m)	Current	Forward	Change
Investment properties	28,374	35,620	26%
...Office	5,568	6,682	20%
...Retail	13,173	18,443	40%
...Residential	2,878	3,741	30%
...Industrial	823	823	0%
...CP	1,772	1,772	0%
...China	4,159	4,159	0%
Properties under development	11,990	11,990	0%
Discount profit from development	3,747	8,116	126%
Total assets	44,110	55,725	27%
Net debt (including CB)	-11,181	-11,181	0%
Other liabilities	-2,786	-2,786	0%
Pref shares	-843	-843	0%
Net assets	29,300	40,915	41%
Number of shares (m)	2,889	2,889	0%
NAV/share (HK\$)	10.14	14.16	36%
Net asset on CB conversion	32,750	44,365	37%
Number of shares (m)	3,273	3,273	0%
Diluted NAV/share (HK\$)	10.01	13.56	37%

Source: UBS estimates

**Table 38: Hang Lung Properties development schedule**

	Hong Kong projects	Use	Stake	Attr. GFA (sf)	Cost (HK\$ psf)	SP (HK\$ psf)	Attr. op profit (HK\$ m)	Margin
FY04	Harbourside, Kowloon Station	R	100	1,380,000	3,747	5,184	2,799	34%
FY04	Carmel on the Hill, Homantin	R	100	137,567	3,578	4,104	72	13%
FY04	Aqua Marine, Hing Wah St, W. Kowloon	R	85	620,053	2,558	2,916	222	12%
FY05	The Long Beach, Hoi Fai Rd, West Kowloon	R	100	1,413,649	2,865	3,564	989	20%
	Hong Kong projects			3,551,269	3,427	4,629	4,082	26%

R = Residential

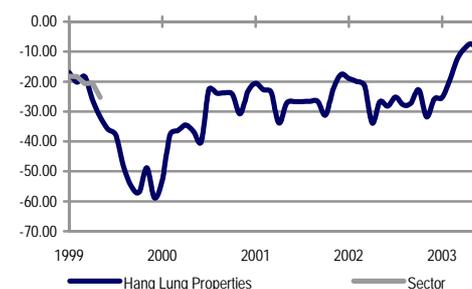
Source: UBS estimates

## Hang Lung Properties

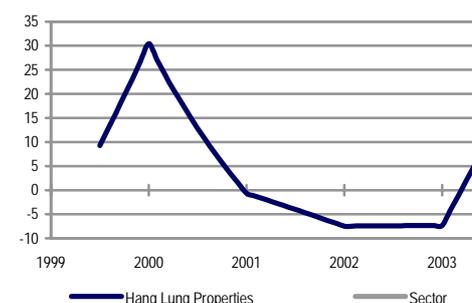
Per share (HK\$)	6/02	6/03	6/04E	6/05E	6/06E
EPS (stated)	0.42	0.35	0.86	0.93	0.53
EPS (pre-exceptional)	0.37	0.34	0.86	0.93	0.53
CEPS (pre-exceptional)	0.31	0.28	0.81	0.91	0.53
Revalued NAV per share	10.55	9.78	12.95	12.94	13.69
<b>Profit &amp; Loss (HK\$m)</b>					
Net rental income	1,462	1,474	1,673	1,817	1,995
Investment income	93	60	79	79	29
Trading income	-	-	1,570	1,498	-
Associates & other income	66	53	29	30	32
<b>Total income</b>	<b>1,621</b>	<b>1,587</b>	<b>3,351</b>	<b>3,424</b>	<b>2,056</b>
Interest payable	(449)	(442)	(396)	(125)	(16)
Administration and other	(89)	(88)	(85)	(85)	(85)
<b>Revenue surplus</b>	<b>1,084</b>	<b>1,056</b>	<b>2,870</b>	<b>3,214</b>	<b>1,954</b>
Interest capitalised	192	170	143	45	8
Depreciation & amortisation	-	-	-	-	-
Pre-exceptional provisions	-	-	-	-	-
<b>Pre-exceptional pre-tax profits</b>	<b>1,276</b>	<b>1,226</b>	<b>3,013</b>	<b>3,259</b>	<b>1,962</b>
Exceptionals	131	38	-	-	-
<b>Stated pre-tax profits</b>	<b>1,406</b>	<b>1,264</b>	<b>3,013</b>	<b>3,259</b>	<b>1,962</b>
Tax	(123)	(152)	(390)	(422)	(254)
Minorities & preference & extraordinary	(76)	(102)	(151)	(163)	(175)
<b>Attributable net profits</b>	<b>1,207</b>	<b>1,010</b>	<b>2,472</b>	<b>2,674</b>	<b>1,534</b>
Cost of dividend	(1,156)	(1,156)	(1,271)	(1,300)	(1,300)
<b>Retained profits/earnings</b>	<b>51</b>	<b>(146)</b>	<b>1,200</b>	<b>1,373</b>	<b>234</b>
<b>Pre-exceptional cash flow</b>					
<b>EBITDA</b>	<b>1,373</b>	<b>1,385</b>	<b>3,158</b>	<b>3,230</b>	<b>1,910</b>
<b>EBIT</b>	<b>1,373</b>	<b>1,385</b>	<b>3,158</b>	<b>3,230</b>	<b>1,910</b>
<b>Cash flow (HK\$m)</b>					
EBIT	1,504	1,445	2,935	3,119	1,941
Depreciation & amortisation	23	16	11	11	11
Working capital movement	(1,125)	(2,111)	5,140	5,472	(99)
Other (operating)	(131)	(38)	-	-	-
<b>Operational cash flow</b>	<b>271</b>	<b>(688)</b>	<b>8,085</b>	<b>8,602</b>	<b>1,853</b>
Net interest paid	(324)	(391)	(356)	(136)	(9)
Dividends paid	(1,204)	(1,204)	(1,204)	(1,320)	(1,349)
Tax paid	(103)	(123)	(346)	(357)	(400)
Net (acquisitions)/capital expenditure	(2)	(1,239)	(200)	(200)	-
Equity issued	(13)	-	-	-	-
Other items	(3)	38	25	25	25
<b>Movement in (net debt)/net cash</b>	<b>(1,378)</b>	<b>(3,607)</b>	<b>6,003</b>	<b>6,613</b>	<b>120</b>
<b>Balance sheet (HK\$m)</b>					
Book value investment properties	26,106	28,387	34,798	38,103	39,996
Other fixed assets	1,530	425	433	440	448
<b>Total book value of fixed assets</b>	<b>27,636</b>	<b>28,812</b>	<b>35,231</b>	<b>38,543</b>	<b>40,444</b>
Book value trading properties	8,490	10,775	5,682	295	295
Cash & deposits	3,146	1,104	3,500	3,500	3,500
Other current assets	186	174	183	192	202
<b>Total book value of assets</b>	<b>39,458</b>	<b>40,865</b>	<b>44,595</b>	<b>42,530</b>	<b>44,440</b>
Debt	(10,302)	(11,891)	(8,284)	(1,671)	(1,551)
Other liabilities	(3,887)	(4,979)	(5,061)	(5,182)	(5,121)
<b>Book ordinary shareholders' funds/NTA</b>	<b>25,269</b>	<b>23,996</b>	<b>31,251</b>	<b>35,677</b>	<b>37,769</b>
Surpluses over book value	-	-	-	-	-
<b>Revalued shareholders' funds/NTA</b>	<b>25,269</b>	<b>23,996</b>	<b>31,251</b>	<b>35,677</b>	<b>37,769</b>
Fully diluted shareholders' funds/NTA	33,931	31,704	40,875	40,839	43,010
<b>Profitability</b>					
Recurring income cover of expenses	2.9x	2.9x	3.6x	9.0x	19.9x
Interest cover	3.3x	3.3x	4.2x	14.5x	117.7x
Headline stated net dividend cover	1.0x	0.9x	1.9x	2.1x	1.2x
Pre-exceptional cash dividend cover	0.8x	0.7x	1.8x	2.0x	1.2x
<b>Productivity</b>					
Pre-exceptional tax rate	9.6%	12.4%	13.0%	13.0%	12.9%
Net debt/revalued net assets	22.8%	37.1%	12.5%	(4.8%)	(4.8%)
Net debt/(revalued gross assets-cash)	17.2%	24.5%	10.1%	(4.5%)	(4.6%)
Net debt/EV	6.6%	0.1%	(0.1%)	(0.1%)	NA
<b>Momentum</b>					
Growth in pre-ex. pre-tax cash flow	(4.5%)	(2.5%)	171.7%	12.0%	(39.2%)
Growth in pre-ex. net cash flow per share	8.5%	(9.3%)	190.3%	12.9%	(42.0%)
Growth in revalued NAV per share	(7.5%)	(7.3%)	32.5%	(0.1%)	5.8%
<b>Value</b>					
Core EBITDA/EV	4.4%	4.4%	8.8%	10.9%	7.3%
Pre-ex. cash earnings yield	3.7%	3.7%	8.5%	9.6%	5.6%
Average yield on appraised values	7.6%	7.4%	6.6%	6.2%	6.4%
(Discount) to revalued NAV	(21.7%)	(23.2%)	(26.7%)	(26.6%)	(30.6%)
Gross dividend yield	4.8%	5.3%	4.6%	4.7%	4.7%

Hang Lung Properties, formerly known as Amoy Properties, is the Hang Lung Group's property arm. Since 1999, the company has amassed a 4.4m sf urban development landbank, all at market troughs, and substantially transformed from landlord to developer. The sale of properties, including the HarbourSide at Kowloon Station, should generate HK\$14.5bn in sales proceeds over the next two to three years. Hang Lung derives approximately HK\$2bn in gross rental income from 5.8m sf of Hong Kong property and 1.6m sf in Shanghai.

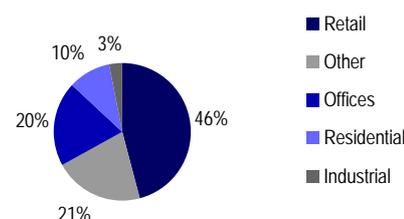
## Relative rating - (discount) to NAV (%)



## Relative rating - NAV versus sector (%)

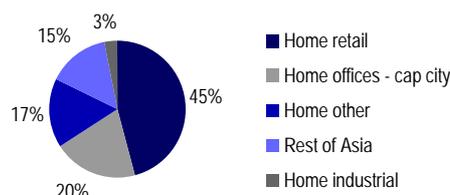


## Sectoral breakdown



Total value (HK\$m): 28,387.0

## Geographic breakdown



Total value (HK\$m): 28,387.0

Source: UBS estimates. \* Historical valuations are based on an 'average for the year' share price. Current & future valuations are based on a share price of HK\$9.5 on 26/11/2003

# Hang Lung Group

## What's good for HLP is good for HLG

### ■ 86% of NAV tied to HLP

We estimate Hang Lung Group's 62% stake in Hang Lung Properties currently accounts for 80% of its gross assets and 86% of its net assets. As HLP is one of the most sensitive stocks to an improvement in the retail and housing outlook (combined sensitivity of 10.4%), HLG should also be a key beneficiary of the market upswing.

### ■ Relative value has swung from 148% to 133% and back

Over the past two months, we have seen HLG's stake in HLP swing from accounting for 148% of its own MV to 133%, then to 144% and then back to 135%. We do not believe this is consistent with the company's underlying fundamentals.

### ■ Underlying fundamentals suggest the two should trade in line

Assets at the parent company consist of HK\$1bn in residual development interest, HK\$1bn in PRC properties, HK\$2.0bn in Hong Kong rental properties and HK\$1.2bn in net debt. Accounting for only 20% of gross assets (HLP: 80%), these are insufficient to differentiate HLG from HLP and would therefore lead us to expect the two stocks to trade in line.

### ■ Valuation: HK\$12.00 price target, Buy 1

Our HK\$12.00 price target is based on a 40% discount to our forward NAV estimate. Our forward NAV estimate is premised on our HK\$13.75 price target for HLP. Our 1 predictability level is based on the resilience of Hang Lung Properties' (Hang Lung Group's subsidiary) retail and low-cost urban landbank.

Highlights (HK\$m)	06/02	06/03	06/04E	06/05E	06/06E
Net rental income	1,650	1,602	1,835	1,999	2,212
EBITDA	1,790	1,544	3,377	3,468	2,234
EPS (UBS, HK\$)	0.52	0.37	1.06	1.17	0.73
NAV/share (UBS, HK\$)	11.05	13.98	19.72	19.94	21.98
DPS (UBS, HK\$)	0.440	0.440	0.475	0.475	0.475

Profitability & Valuation	5-yr hist. av.	06/03	06/04E	06/05E	06/06E
DPS yield (UBS) %	0.1	6.5	5.1	5.1	5.1
Prem/disc to NAV %	-36.0	-51.8	-52.3	-52.8	-57.2
CEPS yield (UBS) %	8.0	4.9	10.8	12.0	7.3
EV/EBITDA x	7.3	13.2	6.6	4.7	-
PE (UBS) x	12.3	18.3	8.9	8.1	13.0

Source: Company accounts, Thomson Financial, UBS estimates. UBS EPS is adjusted by adding back goodwill amortization.  
Valuations: based on an average share price that year, (E): based on a share price of HK\$9.40 on 26 Nov 2003

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Hong Kong

Real Estate

**Rating Buy 1**

**Price target HK\$12.00/US\$7.73**

**Price HK\$9.40/US\$6.05 (ADR)**

RIC: 0010.HK BBG: 10 HK

#### Forecast returns

Forecast price appreciation	+27.7%
Forecast dividend yield	5.1%
Forecast stock return	+32.8%
Market return assumption	5.7%
Forecast excess return	+27.1%
Net DPS (04E)	HK\$0.48/US\$0.06
Trend EPS growth rate	+10%

#### Trading data (local/US\$)

52-wk. range	HK\$10.35-5.85/US\$6.67-3.75
Market cap.	HK\$12.5bn/US\$1.60bn
Shares o/s	1,325m (ORD)/265m (ADR)
ADR Ratio	1 ADR:5 ORD
Free float	49%
Average volume ('000)	2,630/OTC
Convertible	No
Volatility	Low

#### Balance sheet data 06/04E

Shareholders' equity	HK\$21.5bn
Prem (discount) to NAV/Share	-52.3%
Net cash (debt)	(HK\$5.74bn)

#### EPS (UBS, HK\$)

	06/03	06/04E	Prior	Cons.
H1	-	-	-	-
H2	-	-	-	-
FY	0.37	1.06	-	1.39

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**Table 39: Hang Lung Group current and prospective NAV**

(HK\$ m)	Current (HLP at HK\$9.15)	Target (HLP at HK\$13.75)
Stake in HLP	16,484	24,640
Development property	1,006	1,006
Investment property	2,937	2,937
Gross asset	20,427	28,583
Less:		
Net debt	-1,255	-1,255
Net asset	19,171	27,328
Number of shares	1,324	1,324
NAV (HK\$)	14.48	20.64
Stake in HLP/HLG shares (HK\$)	12.45	18.61
Current price (HK\$)	9.15	12.00
Discount	-37%	-40%

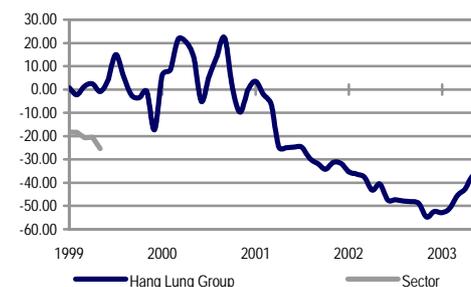
Source: UBS estimates

## Hang Lung Group

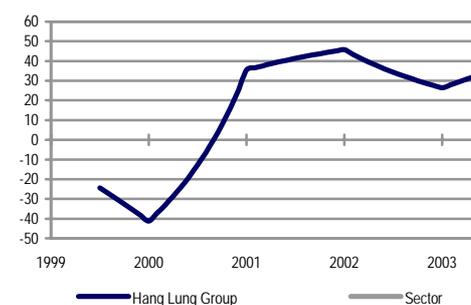
Per share (HK\$)	6/02	6/03	6/04E	6/05E	6/06E
EPS (stated)	0.52	0.37	1.06	1.17	0.73
EPS (pre-exceptional)	0.52	0.37	1.06	1.17	0.73
CEPS (pre-exceptional)	0.41	0.33	1.02	1.13	0.69
Revalued NAV per share	11.05	13.98	19.72	19.94	21.98
<b>Profit &amp; Loss (HK\$m)</b>					
Net rental income	1,650	1,602	1,835	1,999	2,212
Investment income	106	85	85	85	85
Trading income	135	(33)	1,570	1,498	52
Associates & other income	193	58	105	127	129
<b>Total income</b>	<b>2,083</b>	<b>1,712</b>	<b>3,596</b>	<b>3,709</b>	<b>2,478</b>
Interest payable	(565)	(484)	(460)	(286)	(264)
Administration and other	(165)	(128)	(125)	(126)	(127)
<b>Revenue surplus</b>	<b>1,354</b>	<b>1,101</b>	<b>3,011</b>	<b>3,297</b>	<b>2,087</b>
Interest capitalised	192	100	100	100	100
Depreciation & amortisation	(47)	(47)	(47)	(47)	(47)
Pre-exceptional provisions	-	-	-	-	-
<b>Pre-exceptional pre-tax profits</b>	<b>1,499</b>	<b>1,153</b>	<b>3,064</b>	<b>3,350</b>	<b>2,140</b>
Exceptionals	-	-	-	-	-
<b>Stated pre-tax profits</b>	<b>1,499</b>	<b>1,153</b>	<b>3,064</b>	<b>3,350</b>	<b>2,140</b>
Tax	(133)	(153)	(398)	(435)	(278)
Minorities & preference & extraordinary	(674)	(513)	(1,265)	(1,369)	(901)
<b>Attributable net profits</b>	<b>692</b>	<b>488</b>	<b>1,401</b>	<b>1,547</b>	<b>961</b>
Cost of dividend	(582)	(585)	(632)	(632)	(633)
Retained profits/earnings	109	(97)	769	914	328
<b>Pre-exceptional cash flow</b>	<b>547</b>	<b>435</b>	<b>1,348</b>	<b>1,494</b>	<b>908</b>
<b>EBITDA</b>	<b>1,790</b>	<b>1,544</b>	<b>3,377</b>	<b>3,468</b>	<b>2,234</b>
<b>EBIT</b>	<b>1,743</b>	<b>1,497</b>	<b>3,330</b>	<b>3,421</b>	<b>2,187</b>
<b>Cash flow (HK\$m)</b>					
EBIT	1,743	1,497	3,107	3,310	2,219
Depreciation & amortisation	47	33	47	47	47
Working capital movement	(1,166)	(1,409)	5,709	5,578	(1,610)
Other (operating)	(136)	(43)	-	-	-
<b>Operational cash flow</b>	<b>488</b>	<b>78</b>	<b>8,863</b>	<b>8,936</b>	<b>655</b>
Net interest paid	(444)	(454)	(398)	(224)	(189)
Dividends paid	(1,120)	(1,073)	(1,178)	(1,175)	(1,981)
Tax paid	(120)	(126)	(152)	(358)	(405)
Net (acquisitions)/capital expenditure	(22)	(205)	(150)	(150)	(150)
Equity issued	(4)	5	-	-	-
Other items	165	(577)	(620)	(877)	1,259
<b>Movement in (net debt)/net cash</b>	<b>(1,058)</b>	<b>(2,354)</b>	<b>6,365</b>	<b>6,152</b>	<b>(810)</b>
<b>Balance sheet (HK\$m)</b>					
Book value investment properties	30,733	31,051	37,835	41,644	42,472
Other fixed assets	3,578	1,506	1,506	1,506	1,506
Total book value of fixed assets	34,311	32,557	39,340	43,149	43,977
Book value trading properties	9,976	11,456	7,080	3,368	3,368
Cash & deposits	3,673	1,684	3,500	3,500	3,500
Other current assets	962	800	806	914	1,044
<b>Total book value of assets</b>	<b>48,921</b>	<b>46,497</b>	<b>50,727</b>	<b>50,932</b>	<b>51,889</b>
Debt	(13,403)	(13,791)	(9,242)	(3,090)	(3,798)
Other liabilities	(17,358)	(15,666)	(20,012)	(23,843)	(23,240)
<b>Book ordinary shareholders' funds/NTA</b>	<b>18,160</b>	<b>17,040</b>	<b>21,472</b>	<b>23,998</b>	<b>24,851</b>
Surpluses over book value	-	-	-	-	-
<b>Revalued shareholders' funds/NTA</b>	<b>18,160</b>	<b>17,040</b>	<b>21,472</b>	<b>23,998</b>	<b>24,851</b>
Fully diluted shareholders' funds/NTA	14,642	18,516	26,123	26,409	29,121
<b>Profitability</b>					
Recurring income cover of expenses	2.6x	2.9x	3.4x	5.3x	6.1x
Interest cover	3.1x	3.4x	4.1x	7.2x	8.6x
Headline stated net dividend cover	1.2x	0.8x	2.2x	2.4x	1.5x
Pre-exceptional cash dividend cover	0.9x	0.7x	2.1x	2.4x	1.4x
<b>Productivity</b>					
Pre-exceptional tax rate	8.9%	13.2%	13.0%	13.0%	13.0%
Net debt/revalued net assets	66.5%	65.4%	22.0%	(1.6%)	1.0%
Net debt/(revalued gross assets-cash)	23.3%	26.2%	11.1%	(0.8%)	0.6%
Net debt/EV	0.6%	0.3%	(0.0%)	NA	NA
<b>Momentum</b>					
Growth in pre-ex. pre-tax cash flow	(11.7%)	(18.7%)	173.6%	9.5%	(36.7%)
Growth in pre-ex. net cash flow per share	(1.5%)	(20.4%)	209.7%	10.8%	(39.2%)
Growth in revalued NAV per share	45.8%	26.5%	41.1%	1.1%	10.3%
<b>Value</b>					
Core EBITDA/EV	9.3%	7.6%	15.2%	21.2%	NA
Pre-ex. cash earnings yield	5.8%	4.9%	10.8%	12.0%	7.3%
Average yield on appraised values	7.6%	7.5%	6.7%	6.1%	6.5%
(Discount) to revalued NAV	(36.0%)	(51.8%)	(52.3%)	(52.8%)	(57.2%)
Gross dividend yield	6.2%	6.5%	5.1%	5.1%	5.1%

The principal activities of Hang Lung are property development, property investment, hotel operations and management. Over the past few years, the Hang Lung group has restructured its operations, consolidating all property businesses under 62.0% owned subsidiary Hang Lung Properties. Hang Lung Group also divested its interest in Grand Hotel to Hang Lung Properties in 2002. Hang Lung Group now largely function as the holding company for Hang Lung Properties, with residual interests in three to four small development sites.

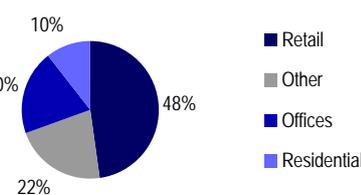
## Relative rating - (discount) to NAV (%)



## Relative rating - NAV versus sector (%)

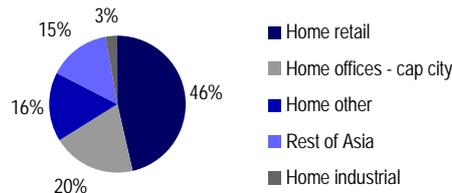


## Sectoral breakdown



Total value (HK\$m): 31,051.2

## Geographic breakdown



Total value (HK\$m): 31,051.2

Source: UBS estimates. \* Historical valuations are based on an 'average for the year' share price. Current & future valuations are based on a share price of HK\$9.4 on 26/11/2003

# Sino Land

## Aggressive developer with the highest sensitivity to the housing upcycle

### ■ Third largest landbank and growing: A high beta play

By virtue of its 5.3m sf development landbank (7,400 units, 8% of total stock and the third largest in Hong Kong after Sun Hung Kai Properties and Cheung Kong), we believe Sino Land has the highest NAV sensitivity to a rise in home prices. For every 10% rise in home prices, we estimate that its NAV would gain 7.1% (SHKP: 3.0%).

### ■ Aggressive landbanking should add further leverage

We expect Sino Land to continue its aggressive stance on housing by recycling the majority of its HK\$14bn (64% of FY03 NAV) in cash from sales of its landbank into buying new sites. This should ensure that Sino Land is the sector's most sensitive play on the expected housing upcycle.

### ■ Large retail exposure in a recovering economy

Sino Land has 45% of its total NAV in retail rental landbank. The company's NAV has benefited from rising home prices and increased domestic confidence in Hong Kong. For Sino Land, a 10% rise in shop prices would equate to a 4.5% increase in NAV. In our view, this is one of the highest sensitivities among the Hong Kong developers.

### ■ Valuation: Price target of HK\$5.75 and Buy 1 maintained

We maintain our 12-month fully diluted forward NAV of HK\$7.72 (30% rise in home prices, 40% increase in retail values and 20% rise in office rents assumed). Our 12-month price target of HK\$5.75 (+47% potential upside) is based on a 25% discount to NAV (versus SHKP's 10% premium). Our 1 predictability level for Sino Land reflects favourable housing market fundamentals and Sino Land's ability to benefit from the upcycle (third largest landbank). We maintain our Buy 1 rating.

Highlights (HK\$m)	06/02	06/03	06/04E	06/05E	06/06E
Net rental income	740	731	786	820	875
EBITDA	1,130	949	1,111	1,840	2,282
EPS (UBS, HK\$)	0.15	0.10	0.21	0.37	0.41
NAV/share (UBS, HK\$)	6.64	6.08	6.95	8.64	9.05
DPS (UBS, HK\$)	0.040	0.040	0.040	0.040	0.040

Profitability & Valuation	5-yr hist. av.	06/03	06/04E	06/05E	06/06E
DPS yield (UBS) %	-	1.6	1.0	1.0	1.0
Prem/disc to NAV %	-57.8	-59.9	-43.9	-54.8	-56.9
CEPS yield (UBS) %	-	4.2	5.3	9.4	10.4
EV/EBITDA x	-	17.8	21.2	12.4	9.6
PE (UBS) x	-	23.8	18.3	10.5	9.5

Source: Company accounts, Thomson Financial, UBS estimates. UBS EPS is adjusted by adding back goodwill amortization. Valuations: based on an average share price that year, (E): based on a share price of HK\$3.90 on 26 Nov 2003

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Hong Kong

Real Estate

Rating	Buy 1
Price target	HK\$5.75/US\$3.70
Price	HK\$3.90/US\$2.51 (ADR)

RIC: 0083.HK BBG: 83 HK

#### Forecast returns

Forecast price appreciation	+47.4%
Forecast dividend yield	1.0%
Forecast stock return	+48.4%
Market return assumption	5.7%
Forecast excess return	+42.7%
Net DPS (04E)	HK\$0.04/US\$0.01
Trend EPS growth rate	+51%

#### Trading data (local/US\$)

52-wk. range	HK\$4.42-2.00/US\$2.85-1.28
Market cap.	HK\$15.1bn/US\$1.94bn
Shares o/s	3,874m (ORD)/775m (ADR)
ADR Ratio	1 ADR:5 ORD
Free float	33%
Average volume ('000)	8,687/OTC
Convertible	Yes
Volatility	High

#### Balance sheet data 06/04E

Shareholders' equity	HK\$24.8bn
Prem (discount) to NAV/Share	-43.9%
Net cash (debt)	(HK\$8.09bn)

#### EPS (UBS, HK\$)

	06/03	06/04E	Prior	Cons.
H1	-	-	-	-
H2	-	-	-	-
FY	0.10	0.21	-	0.21

[www.ubs.com/investmentresearch](http://www.ubs.com/investmentresearch)

Table 40: Sino Land current and forward NAV breakdown

(HK\$ m)	Current	Forward	% change	Changes driven by
Development properties (incl. assoc)	15,440	19,788	28%	30% home price rise
Investment properties (incl. assoc)	18,205	23,263	28%	
..Office	3,740	4,488	20%	20% office rent rise
..Retail	9,934	13,907	40%	20% retail rent rise and 100bps compression in cap rates
..Residential	1,124	1,461	30%	30% home price rise
..Car park	1,281	1,281	0%	
..Industrial	2,126	2,126	0%	
Hotel	2,099	2,099	0%	
LT investments/treasuries	1,365	1,365	0%	
Total gross assets	37,108	46,515	25%	
Net debt	- 8,877	- 8,877	0%	
Receivables less payables	- 2,292	- 2,292	0%	
Associate debt	- 3,955	- 3,955	0%	
NAV	21,984	31,391	43%	
Total number shares (m)	3,886	3,886	0%	
NAV per share (HK\$)	5.66	8.08	43%	
No of fully-diluted shares (m)	4,262	4,262	0%	HK\$1.5bn CB with exercise price at HK\$4
Fully-diluted NAV per share (HK\$)	5.51	7.72	40%	
Current/Target share price (HK\$)	3.90	5.75		
Current/target discount to NAV	29%	25%		

Source: UBS estimates

Table 41: Sino Land's residential property completions in FY04-07

Property	Location	Type	Completion	%-owned	Attr. GFA (sf)	% sold	Cost (HK\$ psf)	Selling price (HK\$ psf)	Margin
<b>FY04E</b>									
The Cliveden	Tsuen Wan	R	Jul-03	50	112,537	42%	2,436	3,190	24%
Ocean View	Ma On Shan	R	Aug-03	100	612,465	98%	2,570	2,900	11%
The Cairnhill	Tsuen Wan	R	Dec-03	25	206,909	50%	2,217	2,867	23%
St Andrew's Place	Sheung Shui	R	Mar-04	100	98,909	0%	2,172	2,750	21%
Embassy Lodge	Sheung Shui	R	Jan-04	100	166,840	0%	2,006	2,750	27%
Parc Palais	King's Park	R	Mar-04	30	271,253	5%	4,384	5,347	18%
Imperial Villas	Yuen Long	R	Dec-03	100	179,543	95%	1,731	2,090	17%
<b>Total FY04</b>					<b>1,648,456</b>	<b>57%</b>	<b>19,104</b>		<b>18%</b>
<b>FY05E</b>									
Anglers' Bay	Tsuen Wan	R	Sep-04	50	88,668	50%	2,496	2,562	3%
Caldecott, NKIL 6378, Piper's Hill	Sham Shui Po	R	Dec-04	33.3	25,737	0%	2,670	3,520	24%
Residence Oasis: Hang Hau MTR Station Ph1	TKO	R	Aug-04	60	895,470	0%	2,158	3,080	22%*
The Beacon Hill	Kowloon Tong	R	May-05	33.3	100,391	0%	3,244	5,500	41%
West Kowloon KIL 11158	Kowloon	R	May-05	100	731,138	0%	3,188	3,630	12%
Oceania Heights	Tuen Mun	R	May-05	100	312,777	68%	1,826	2,085	12%
<b>Total FY05 E</b>					<b>2,125,099</b>	<b>12%</b>	<b>15,583</b>	<b>20,377</b>	<b>18%</b>
<b>FY06 E</b>									
Tsuen Wan Town Centre-TWTL 398	Tsuen Wan	R	Jun-06	100	1,156,053	0%	2,324	3,135	26%
<b>Total FY06E</b>					<b>1,156,053</b>	<b>0%</b>	<b>3,253</b>	<b>3,135</b>	<b>26%</b>
<b>FY07E</b>									
Ho Tung Lau STTL 470	Shatin	R	Jun-07	100	1,301,625	0%	2,563	3,410	19%*
<b>Total FY07E</b>					<b>1,301,625</b>	<b>0%</b>	<b>2,563</b>	<b>3,410</b>	<b>19%</b>
<b>Overall total</b>					<b>6,231,233</b>				

\* Assume 25% profit sharing to MTRC and KCRC; R= Residential

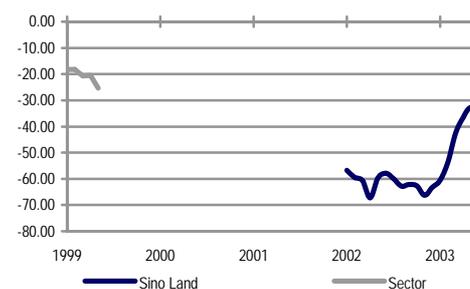
Source: Centaline, UBS estimates

## Sino Land

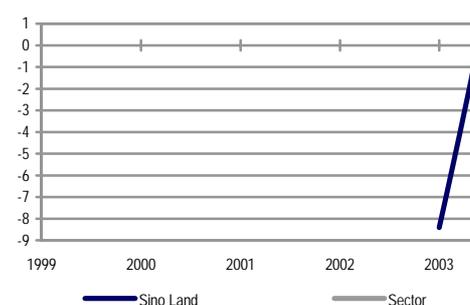
Per share (HK\$)	6/02	6/03	6/04E	6/05E	6/06E
EPS (stated)	0.07	0.01	0.21	0.37	0.41
EPS (pre-exceptional)	0.15	0.10	0.21	0.37	0.41
CEPS (pre-exceptional)	0.15	0.09	0.21	0.37	0.41
Revalued NAV per share	6.64	6.08	6.95	8.64	9.05
<b>Profit &amp; Loss (HK\$m)</b>					
Net rental income	740	731	786	820	875
Investment income	125	98	98	98	98
Trading income	373	235	377	1,045	1,454
Associates & other income	334	333	752	936	685
<b>Total income</b>	<b>1,573</b>	<b>1,397</b>	<b>2,013</b>	<b>2,898</b>	<b>3,112</b>
Interest payable	(506)	(531)	(429)	(429)	(424)
Administration and other	(415)	(424)	(416)	(412)	(406)
<b>Revenue surplus</b>	<b>652</b>	<b>442</b>	<b>1,168</b>	<b>2,057</b>	<b>2,282</b>
Interest capitalised	42	47	43	43	43
Depreciation & amortisation	(18)	(17)	(21)	(25)	(31)
Pre-exceptional provisions	-	-	-	-	-
<b>Pre-exceptional pre-tax profits</b>	<b>675</b>	<b>472</b>	<b>1,190</b>	<b>2,075</b>	<b>2,294</b>
Exceptionals	(330)	(346)	-	-	-
<b>Stated pre-tax profits</b>	<b>345</b>	<b>126</b>	<b>1,190</b>	<b>2,075</b>	<b>2,294</b>
Tax	(90)	(77)	(367)	(640)	(708)
Minorities & preference & extraordinary	8	2	2	2	2
<b>Attributable net profits</b>	<b>263</b>	<b>51</b>	<b>824</b>	<b>1,436</b>	<b>1,588</b>
Cost of dividend	(154)	(155)	(155)	(155)	(155)
<b>Retained profits/earnings</b>	<b>109</b>	<b>(104)</b>	<b>669</b>	<b>1,281</b>	<b>1,433</b>
<b>Pre-exceptional cash flow</b>					
<b>EBITDA</b>	<b>1,069</b>	<b>949</b>	<b>1,111</b>	<b>1,840</b>	<b>2,282</b>
<b>EBIT</b>	<b>1,051</b>	<b>933</b>	<b>1,089</b>	<b>1,815</b>	<b>2,252</b>
<b>Cash flow (HK\$m)</b>					
EBIT	1,112	933	1,089	1,815	2,252
Depreciation & amortisation	55	49	53	58	63
Working capital movement	2,018	(4,085)	(4)	(532)	(346)
Other (operating)	(140)	81	46	43	325
<b>Operational cash flow</b>	<b>3,046</b>	<b>(3,022)</b>	<b>1,185</b>	<b>1,383</b>	<b>2,293</b>
Net interest paid	(357)	(416)	(288)	(288)	(284)
Dividends paid	(44)	(34)	(46)	(46)	(46)
Tax paid	(67)	(20)	(222)	(504)	(674)
Net (acquisitions)/capital expenditure	602	54	(41)	(41)	(41)
Equity issued	(58)	(20)	(20)	(20)	(20)
Other items	(705)	788	380	380	380
<b>Movement in (net debt)/net cash</b>	<b>2,417</b>	<b>(2,670)</b>	<b>947</b>	<b>864</b>	<b>1,608</b>
<b>Balance sheet (HK\$m)</b>					
Book value investment properties	15,625	14,493	14,749	15,429	16,143
Other fixed assets	13,500	12,791	12,173	12,882	13,093
<b>Total book value of fixed assets</b>	<b>29,125</b>	<b>27,283</b>	<b>26,922</b>	<b>28,311</b>	<b>29,236</b>
Book value trading properties	6,171	9,450	9,484	6,572	4,466
Cash & deposits	2,733	1,092	2,342	3,654	3,974
Other current assets	3,441	2,936	2,969	5,420	7,253
<b>Total book value of assets</b>	<b>41,471</b>	<b>40,762</b>	<b>41,717</b>	<b>43,958</b>	<b>44,929</b>
Debt	(8,782)	(9,969)	(10,428)	(11,029)	(10,176)
Other liabilities	(6,971)	(6,457)	(6,527)	(6,599)	(6,672)
<b>Book ordinary shareholders' funds/NTA</b>	<b>25,719</b>	<b>24,336</b>	<b>24,762</b>	<b>26,330</b>	<b>28,082</b>
Surpluses over book value	-	-	2,733	1,963	980
<b>Revalued shareholders' funds/NTA</b>	<b>25,719</b>	<b>24,336</b>	<b>27,495</b>	<b>28,293</b>	<b>29,061</b>
Fully diluted shareholders' funds/NTA	27,219	25,836	29,516	36,693	38,446
<b>Profitability</b>					
Recurring income cover of expenses	1.3x	1.3x	1.5x	1.6x	1.6x
Interest cover	1.6x	1.5x	1.9x	2.1x	2.2x
Headline stated net dividend cover	1.7x	0.3x	5.3x	9.3x	10.3x
Pre-exceptional cash dividend cover	3.7x	2.4x	5.2x	9.2x	10.2x
<b>Productivity</b>					
Pre-exceptional tax rate	13.3%	16.3%	30.9%	30.9%	30.8%
Net debt/revalued net assets	23.5%	36.5%	28.9%	21.0%	16.8%
Net debt/(revalued gross assets-cash)	15.6%	22.4%	19.0%	15.0%	12.4%
Net debt/EV	49.3%	37.5%	41.4%	39.2%	NA
<b>Momentum</b>					
Growth in pre-ex. pre-tax cash flow	39.0%	(32.2%)	164.3%	76.1%	10.9%
Growth in pre-ex. net cash flow per share	42.3%	(35.8%)	118.8%	76.7%	11.1%
Growth in revalued NAV per share	NA	(8.4%)	14.2%	24.3%	4.8%
<b>Value</b>					
Core EBITDA/EV	6.0%	5.6%	4.7%	8.1%	10.5%
Pre-ex. cash earnings yield	5.3%	3.9%	5.3%	9.4%	10.4%
Average yield on appraised values	5.3%	5.7%	6.3%	6.3%	6.4%
(Discount) to revalued NAV	(57.8%)	(59.9%)	(43.9%)	(54.8%)	(56.9%)
Gross dividend yield	1.4%	1.6%	1.0%	1.0%	1.0%

Sino Land was founded in 1971, and is 53.36%-owned by Tsim Sha Tsui Properties. Sino Land's businesses include property development, property investment, property management, hotel operations, and share investment and trading.

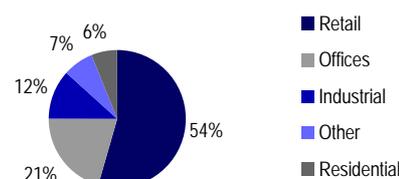
## Relative rating - (discount) to NAV (%)



## Relative rating - NAV versus sector (%)

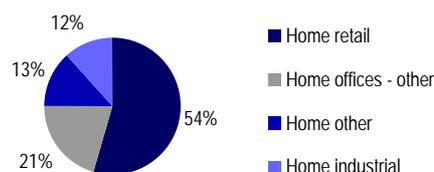


## Sectoral breakdown



Total value (HK\$m): 14,492.5

## Geographic breakdown



Total value (HK\$m): 14,492.5

Source: UBS estimates. \* Historical valuations are based on an 'average for the year' share price. Current & future valuations are based on a share price of HK\$3.9 on 26/11/2003

# Appendix 1: Possible sites to be included in Application List

Table 42: Possible sites to be offered in 2004/05 land sale

Location	Lot no.	Res GFA (sf)	No. of units	TKO	West Kowloon
Peak Pavilions, 12 Mt. Kellett Road, the Peak	RBL 1159	39,574	25		
1 Ede Road, Kowloon Tong	NKIL 6306	82,022	51		
21, 23 and 25 Borrett Road, Mid-levels West	IL 8949	569,416	419		
3 and 5 Ede Road, Kowloon Tong	NKIL 6423	109,147	68		
Site E/A3, West Kowloon Reclamation (Site B1)	KIL 11146	916,528	1,222		1,222
Junction of King Fuk Street, King Tai Street and Prince Edward Road East, San Po Kong	NKIL 6308	1,230,422	1,641		
Site 15, Area 77, Ma On Shan	STTL 487	771,671	772		
Sites 21 and 22, Area 86B, Ma On Shan	STTL 449	1,135,602	1,136		
Site F/A14, West Kowloon Reclamation	KIL 11140	1,095,990	1,461		1,461
Sites 3 and 4, Mui Wo, Lantau	Lot 734 D.D. 4	15,623	13		
Welfare Road, Aberdeen	AIL 451	551,375	735		
Tung Lo Wan Hill Road, Sha Tin	STTL 510	302,038	302		
Ex-Tin Kwong Road Police Married Quarters, Ho Man Tin	KIL 11124	1,620,735	2,161		
Lin Shing Road, Chai Wan	CWIL 175	179,113	239		
Area 73B, Tseung Kwan O	TKOTL 77	874,575	1,166	1,166	
Area 11, Shek Mun, Sha Tin	STTL 536	941,850	1,256		
Area 74 South, Tseung Kwan O	TKOTL 87	1,346,846	1,796	1,796	
Area 74 South, Tseung Kwan O	TKOTL 86	1,919,447	2,559	2,559	
Sa Po Road, Kowloon City	NKIL 6330	340,035	453		
Ex-Yuen Long Estate, Yuen Long	YLTL 518	667,368	890		
Sha Tau Kok Road, Fanling	FSSTL 177	478,998	639		
Ex-Government Supplies Depot, Oil Street, North Point	IL 8920	789,378	1,053		
Yeung Uk Road, Tsuen Wan	TWTL 393	764,244	1,019		
Area 3A, Tung Chung	TCTL 11	329,766	206		
Area 11, Shek Mun, Shatin	STTL 507	2,751,752	3,931		
Kwai Shing Circuit, Kwai Chung	KCTL 486	221,112	316		
Area 58, Tuen Mun	TMTL 449	238,979	239		
Ex-Pearl Island Quarters, Tuen Mun	TMTL 422	210,780	211		
Ex-South Lantau Hospital, Lantau	Lot 245 in DD 331	71,473	60		
Area 52, Tuen Mun	TMTL 430	16,792	14		
Area 65B, Tseung Kwan O	TKOTL 61	2,932,393	4,189	4,189	
Siu Lam, Tuen Mun	TMTL 436	39,784	33		
Ex-Hollywood Road Police Quarters, Sheung Wan	IL 8914	626,250	895		
<b>Total</b>		<b>24,181,076</b>	<b>31,168</b>	<b>9,710</b>	<b>2,683</b>

Source: Lands Dept, UBS estimates

## Appendix 2: History of land sale and timing of completion

Table 43: Historical land sale—Average time to completion is 4.2 years

	Type	Project	Developer	Lot #	Type	Site area (sqm)	Price (HK\$ m)	Completion	Years
2000/2001									
25-Apr-00	AUC	Pacifica	CK/SHKP	NKIL 6275	R1	16,064	1,900	Jan-05	4.8
25-Apr-00	AUC	Not named	AWT Holdings	RBL 1143	R3	1,925	130	Oct-03	3.5
12-Jun-00	AUC	Carmel on the Hill	Hang Lung	KIL 11122	R1	1,421	251	Jul-03	3.1
12-Jun-00	AUC	St Andrew's Place	Sino	LOT 943 in D.D. 94	R4	22,973	93	May-03	3.0
16-Jun-00	TEN	Parc Palais	NWD, Sino, RDC, Chinese Estates	KIL 11118	R2	36,006	2,508	Aug-04	4.1
19-Jun-00	TEN	Aqua Marine	Hang Lung	NKIL 6338	Mixed Development	14,900	850	Dec-03	3.5
29-Aug-00	AUC	Ocean View	Sino	STTL 481	R2	11,380	865	Nov-03	3.2
29-Aug-00	AUC	The Cliveden	Sino, Kerry	TWTL 404	R3	6,970	292	Mar-04	3.6
5-Oct-00	AUC	Cairnhill	CK, Sino, K. Wah	TWTL 395	R3	25,630	835	Jun-04	3.7
5-Oct-00	AUC	8 Farm Road	SHKP	KIL 11145	R1	2,765	540	Jun-04	3.7
5-Oct-00	AUC	Angler's Bay	K. Wah	LOT 214 IN DD 387	R3	7,845	240	Nov-04	4.2
7-Dec-00	AUC	The Long Beach	Hang Lung	KIL 11152	R1	20,200	2,580	Aug-04	3.7
7-Dec-00	AUC	Not named	Far East	LOT 14 IN DD 231	R4	2,790	21	Oct-04	3.9
14-Dec-00	TEN	Sai Wan Ho Concourse	Henderson, Gas	IL 8955	R1	12,200	2,430	Jun-05	4.5
19-Feb-01	AUC	La Costa	K. Wah	STTL 483	R2	7,296	560	Apr-04	3.2
19-Feb-01	AUC	Costa Bello	Capital	Lot 1144 in DD 215	R3	5,140	74	Apr-03	2.2
		Total				195,505	14,169		
1999/2000									
20-Apr-99	AUC	Sky Horizon	Sino	IL8921	R2	2,494	590	Jan-03	3.8
20-Apr-99	AUC	The Palace	K. Wah	NNKIL 6276	R2	4,272	515	Oct-02	3.5
20-Apr-99	AUC	Aqua Blue	Nan Fung	TMTL 419	R3	19,318	385	Jun-03	4.2
10-Jun-99	TEN	Grand Regentville	Sino	FSSTL 195	CR & GIC	12,212	248	Mar-03	3.8
17-Jun-99	TEN	1 Beacon Hill	Cheung Kong	NKIL 6277	R3	41,578	3,240	Oct-03	4.4
29-Jun-99	AUC	Not named	Kwai Hung Realty	RBL 1146	R3	2,369	265	Jul-03	4.0
29-Jun-99	AUC	Horizon Place	Sino	KCTL 480	R1	3,746	470	Dec-02	3.5
29-Jun-99	AUC	Cathay Bungalow	Glory Fortune	TPTL 167	R3	2,611	44	Mar-04	4.7
4-Aug-99	AUC	Not named	Hanvon Dev	RBL 1147	R3	2,463	134	Jun-03	3.9
4-Aug-99	AUC	The Hillgrove	Wing Tai	TMTL 371	R3	16,469	330	Aug-02	3.1
4-Aug-99	AUC	The Sea Crest	K. Wah	TMTL 408	R1	4,765	320	Oct-02	3.2
4-Aug-99	AUC	Not named	Glory Treasure	LOT 1847 IN DD	R4	2,130	5	Apr-03	3.7
				Cheung Chau					
14-Oct-99	AUC	Vianni Cove	CK+SHKP	TSWTL 27	R1	14,901	555	Dec-03	4.2
14-Oct-99	AUC	Not named	Fu Hop Investment	RBL 1142	R3	2,267	151	Apr-03	3.5
13-Dec-99	AUC	Hampton Place	Cheung Kong	KIL 11107	R1	6,943	1,340	Feb-04	4.2
13-Dec-99	AUC	JC Castle	Emperor	TPTL 165	R3	14,985	152	Aug-03	3.6
29-Feb-00	AUC		SHKP	RBL 1148	R3	13,570	490	Oct-04	4.6
29-Feb-00	AUC	The Oakridge	Asia Standard	SIL 845	R1	881	170	Mar-03	3.1
29-Feb-00	AUC	Not named	Tack Hsin	Lot 736 in D.D. 332	R4	3,380	17	Oct-06	6.6
28-Mar-00	TEN	Sham Wan Towers	SHKP	ApIL 128	Mixed	9,301	740	Apr-04	4.1
		Total				180,655	10,161		
1998/1999									
17-Apr-98	TEN	Leighton Hill	SHKP	IL 8882	R2	43,143	3,612	May-02	4.0
22-Apr-98	AUC	Royal Jubilee	Asia Standard	FSSTL 183	C/R	3,068	330	Dec-00	2.7
22-May-98	TEN	Les Saison	SHKP, Swire, CMB	SIL 843	R1	7,056	1,677	Mar-02	3.9
		Total				53,267	5,619		
1997/1998									
3-Jun-97	AUC			RBL 1138	R3	53,126	5,500		
3-Jun-97	AUC	Harbourfront Landmark	Cheung Kong	KIL 11055	R1	7,402	6,060	Dec-01	4.6
3-Jun-97	AUC			LOT 244 in DD 331	R4	2,240	40		
27-Aug-97	AUC	129 Repulse Bay	Chinachem	RBL 1132	R3	10,570	5,550	Jul-03	5.9
27-Aug-97	AUC	Regalia Bay	Paliburg	LOT 868 in DD 1	R3	3,920	64	Mar-03	5.5
				Lamma					
27-Aug-97	AUC	3 Mei Wo Circuit	Cosco Land	STTL 217	R4	1,307	56	Jan-01	3.4

Table 43: Historical land sale—Average time to completion is 4.2 years (cont'd)

	Type	Project	Developer	Lot #	Type	Site area (sqm)	Price (HK\$ m)	Com	Years
15-Sep-97	AUC	23 Hung Shing Street	Qualifair Co	APIL 130	C/R	400	105	Jul-01	3.8
15-Sep-97	AUC	Emerald Garden	Rilex	LOT 13 in DD 231	R4	1,570	51	Mar-03	5.5
14-Oct-97	AUC	The Beverly Hill I & II	Henderson	TPTL 161	R3	91,265	5,600	Dec-02	5.2
14-Oct-97	AUC	Nerine Cove	COLI, Ryoden, Tai Cheung	TMTL 407	R1	16,587	2,900	Nov-00	3.1
19-Nov-97	AUC	Morningside	Yue Tai Hing	RBL 1139	R3	3,189	221	Mar-02	4.3
19-Nov-97	AUC	Grand Blossom House	Yue Tai Hing	HHIL 550	R1	693	276	Oct-01	3.9
1-Dec-97	TEN			YLTL 497	I	2,435	15		
11-Dec-97	AUC	Parkview Court	Tai Cheung	TMTL 416	R1	2,293	285	Nov-00	3.0
11-Dec-97	AUC	Kisland Villas II	Tsing Yee Props	LOT 2058 in DD 121	R3	1,950	58	Mar-04	6.3
13-Jan-98	AUC	JC Place	Emperor	TMTL 409	R1	3,875	250	Mar-01	3.2
13-Jan-98	AUC	??	Paliburg	LOT 1736 in DD 122	R3	2,040	33	Mar-04	6.2
12-Feb-98	AUC	Votre Palais	Crystal Group	STTL 318	R4	4,133	90	Aug-02	4.5
12-Feb-98	AUC		New Foundation Development	STTL 468	R1	88	12	Mar-03	5.1
13-Mar-98	TEN	Victoria Towers	CK, Hutch, Citic	KIL 11086	C/R	10,486	2,893	Sep-02	4.6
24-Mar-98	AUC	Greenery Place	Hing Kong	YLTL 451	R2	6,796	290	Mar-01	3.0
24-Mar-98	AUC	The Mount Austin	Nan Fung	RBL 1145	R3	13,328	920	Dec-02	4.8
		Total				239,693	31,269		
1996/1997									
14-Aug-96	AUC		Sino	SOIL 96	R3	276	17	Jan-00	3.4
14-Aug-96	AUC	Casa Marina	Henderson Land	TPTL 118	R3	21,200	535	Jul-00	4.0
29-Oct-96	LAB	Brighton Place	COLI	TWTL 376	C/R	1,020	4	Feb-00	3.3
13-Nov-96	AUC	Springdale Villas	Sino Land	YLTL 491	C/R	4,206	370	May-00	3.5
11-Dec-96	AUC	Wealth Court	??	NKIL 6235	C/R	222	61	May-99	2.4
15-Jan-97	AUC	12A South Bay Road	Eton	RBL 1133	R3	2,008	230	Sep-00	3.7
15-Jan-97	AUC	Palm Beach	??	TMTL 355	R3	5,080	258	Dec-99	2.9
21-Jan-97	TEN	Greenside Paradise	Chung Tung Investment	LOT 1000 in DD 40	R2	1,167	27	Dec-99	2.9
25-Mar-97	AUC	Ellery Terrace	COLI, BEA, BoC	KIL 11091	R1	2,627	1,400	Dec-00	3.8
25-Mar-97	AUC	Island Resort	Sino	CWIL 152	R1	25,592	11,820	Jul-01	4.3
		Total				63,398	14,722		
1995/1996									
28-Jun-95	AUC	Marina Casa I	Henderson Land	TPTL 117	R3	26,310	500	Sep-99	4.3
28-Jun-95	AUC	Newton Harbour View	Henderson Land	SIL 825	R1	1,296	320	Dec-99	4.5
26-Sep-95	AUC	The Paramount	Cheung Kong, Hutchison	TPTL 97	R3	15,300	280	Jun-99	3.8
27-Nov-95	AUC		End user - Kilberg Prop	RBL 1119	R3	1,936	107	Mar-99	3.3
27-Nov-95	AUC	Kam Fung Court	Hon Kwok	TWTL 377	C/R	572	95	Dec-99	4.1
13-Dec-95	TEN	Regentville	Sino	FSSTL 127	C/R	11,288	876	Mar-01	5.3
19-Dec-95	AUC	The Summit	Hang Lung	IL 8870	R2	3,045	860	May-02	6.4
19-Dec-95	AUC	The Grandeur	Hon Kwok	IL 8871	C/R	550	191	Jun-04	8.5
5-Feb-96	TEN	Dawning Views	Henderson Land	FSSTL 185 => FSSTL 193	C/R	8,000	753	Oct-96	0.7
5-Feb-96	TEN	Dawning Views	Henderson Land	FSSTL 186 => FSSTL 193	C/R	21,160	2,187	Oct-96	0.7
5-Feb-96	TEN	Monte Vista	CK	STTL 446	R2	25,825	2,718	Sep-00	4.7
18-Mar-96	AUC	Royal Peninsula	Henderson Land	KIL 11084	C/R	15,073	4,725	May-01	5.1
18-Mar-96	AUC	Fuller Garden	Paliburg	TPTL 141	R1	466	70	Mar-99	3.0
18-Mar-96	AUC	Bayview Park	Sino	CWIL 156	C/R	1,591	440	Sep-99	3.5
		Total				132,412	14,122		
1994/1995									
26-May-94	AUC	Belair Monte	12 consortium	FSSTL 126	R1	20,780	2,040	Mar-99	4.8
26-May-94	AUC	Greenfield	14 consortium	YLTL 463	R1	5,889	510	Sep-98	4.4
26-Jul-94	AUC	Tycoon Place	China Travel, Lai Sun, HK Parkview	TPTL 119	R3	23,800	890	Sep-98	4.2
26-Jul-94	AUC	Fuller Garden	Paliburg	TPTL 138	R1	2,114	335	Jun-97	2.9
23-Aug-94	AUC	The Paragon	Citic	TPTL 136	R2	15,250	950	Nov-97	3.3
20-Oct-94	AUC		Gold Face	FSSTL 116	R3	13,430	264		

Table 43: Historical land sale—Average time to completion is 4.2 years (cont'd)

	Type	Project	Developer	Lot #	Type	Site area (sqm)	Price (HK\$ m)	Com	Years
20-Oct-94	AUC	Rich Court	Nan Fung	STTL 397	R1	280	47	Apr-97	2.5
10-Nov-94	LAB	Nan Fung Plaza	Nan Fung	TKOTL 23	C/R	14,300	34	Jun-99	4.6
23-Nov-94	AUC		Wing Tai	NKIL 6208	R1	84	14		
23-Nov-94	AUC	??	HKR	TPTL 139	R1	2,367	372	Dec-98	4.1
25-Jan-95	AUC	Greenfields	Hang Tung	STTL 108	R3	6,500	171	Jul-98	3.5
22-Feb-95	AUC		Eton	SIIL 74	R1	211	54	Oct-06	11.6
22-Feb-95	AUC	Carmen Garden	Eton	KIL 11064	R2	4,126	1,020	Aug-97	2.5
14-Mar-95	AUC	Scenic View	SHKP	NKIL 6217	R1	13,999	1,610	Dec-99	4.8
14-Mar-95	AUC	Baycrest	Hang Lung	STTL 435	R2	10,900	1,240	Sep-00	5.6
27-Mar-95	AUC	Dragon View	COLI, BEA, BoC	KIL 11075	R1	3,380	920	Sep-98	3.5
27-Mar-95	AUC	Maritime Bay	Sino	TKOTL 49	R1	5,970	1,060	Feb-99	3.9
27-Mar-95	AUC	Villa Oceania	Sino	STTL 428	C/R	10,306	1,320	Apr-99	4.1
27-Mar-95	AUC	Villa Art Deco	Paliburg	YLTL 467	R2	2,155	70	Sep-98	3.5
30-Mar-95	AUC	King's Park Hill	Henderson, Gas	KIL 11063	R2	15,644	1,330	Apr-00	5.1
30-Mar-95	AUC		Grand Apex	LOT 323 in DD 213	R3	900	30	Oct-98	3.5
30-Mar-95	AUC	Park Royale	Paliburg	YLTL 450	R2	16,301	465	Jul-99	4.3
		Total				188,686	14,745		
1993/1994									
22-Jun-93	AUC	Kau To Shan	Ng family, COLI, DBS	STTL 98	R3	15,320	505		
9-Jul-93	AUC		Ng family	TMTL 368	R1	2,783	266		
9-Jul-93	AUC		Ng family, COLI, NF	YLTL 486	R2	10,320	600		
29-Nov-93	AUC	Covent Garden	HK Macau	YLTL 419	R2	4,350	297	Dec-98	5.1
15-Dec-93	AUC	Monterey Villas	K. Wah	LOT 661 in PENG CHAU	C/R	1,945	82	Mar-97	3.3
15-Dec-93	AUC	Dynasty Heights	Sino, NF, DBS, Chinachem	NKIL 5924	R2	43,520	3,940	Mar-99	5.3
1-Mar-94	AUC	Majestic Park	Sino, Ng family	KIL 11044	R2	7,059	2,260	Jan-98	3.9
1-Mar-94	AUC	Grand Palisades	Sino, Ng family	TPTL 137	R2	18,490	2,140	Jan-98	3.9
1-Mar-94	AUC	Noble Place	Hang Lung	TMTL 263	R2	7,877	650	Mar-98	4.1
15-Mar-94	LAB	Metro City Ph 3	Henderson	TKOTL 34	C/R	12,620	23	Dec-99	5.8
15-Mar-94	LAB	La Cite Noble	Henderson Land	TKOTL 40	R1	14,600	46	Jun-99	5.3
		Total				138,884	10,809		
1992/1993									
28-Apr-92	AUC			TPTL 115	R2	24,630	930		
18-May-92	AUC			TPTL 116	R2	14,540	533		
19-Aug-92	AUC			NKIL 6175	R1	114	15		
19-Aug-92	AUC			LOT 717 in DD 4	C/R	741	54		
18-Sep-92	AUC			LOT 237 in DD 331	R4	855	5		
18-Sep-92	AUC			SIL 830	C/R	1,685	475		
28-Sep-92	LAB	Hop Yick Plaza	Henderson	YLTL 488	R1	1,590	15	Nov-97	5.2
2-Oct-92	LAB	Metro City	Henderson	TKOTL 36	R1	15,400	51	May-97	4.7
8-Oct-92	AUC			FSSTL 80	R3	6,900	97		
8-Oct-92	AUC			STTL 251	R4	884	14		
27-Nov-92	AUC	Primrose	RDC	NKIL 4932	R2	1,312	98	Feb-00	7.2
27-Nov-92	AUC			LOT 716 in DD 4	C/R	741	45		
16-Dec-92	LAB	Marbella	Chinachem	STTL 418	R1	6,050	74	Jun-02	9.5
17-Dec-92	LAB	East Point City	SHKP	TKOTL 17	C/R	20,400	76	Nov-97	5.0
12-Jan-93	AUC	San Po Kong Plaza	Nan Fung	NKIL 6157	C/R	3,093	705	Dec-96	4.0
12-Jan-93	AUC		Emperor	KIL 11035	R2	1,395	360		
12-Jan-93	AUC	Parkside Villa	SHKP	YLTL 456	R2	10,500	345	Mar-97	4.2
3-Feb-93	AUC	Galaxia	RDC	NKIL 6160	C/R	26,060	3,530	Mar-98	5.2
2-Mar-93	LAB	Metro City Phase II	Henderson	TKOTL 27	C/R	31,560	249	Mar-00	7.1
3-Mar-93	LAB	Granville Garden	Henderson	STTL 410	R2	10,680	267	Oct-97	4.7
3-Mar-93	LAB			TPTL 126	C/R	1,425	23		
30-Mar-93	AUC	The Waterside	Sino	STTL 393	R1	6,450	990	Jun-97	4.3
30-Mar-93	AUC		Kerry	LOT 4284 in DD 124	C/R	1,844	155		
						188,849	9,105		
1991/1992									
26-Apr-91	AUC	Classical Garden Ph 4	Sino	TPTL 111	R2	10,490	325	Sep-97	6.4
17-Jul-91	AUC	Avon Park	??	FSSTL 112	R1	13,530	1,010	Mar-94	2.7
24-Feb-92	LAB	The Tolo Place	Henderson	STTL 392	R1	8,014	94	Dec-96	4.8
25-Feb-92	AUC	Sunshine City							
25-Feb-92	AUC	King's Park Villa	SHKP	KIL 11002	R2	8,811	1,190	Mar-97	5.1

Source: Lands Dept, UBS estimates

## Appendix 3: Land premium conversions since 1998

Table 44: Selection of land premium conversions from 1998 and completion times

Date	Site	Use	Developer	GFA (000sf)	Value (HK\$ m)	Completion date*	Years
Jul-98	Nob Hill, Lai Chi Kok	R	CK and FE Hotels	560	710	Jul-02	4.06
Sep-98	Summit Terrace, Nan Fung Textile	R	Nan Fung	727	650	Oct-03	5.24
Jan-99	Parkland Villas II, Fu Tei Extension	R	Henderson	250	100	Mar-01	2.15
Feb-99	Neo Horizon/La Serene, Disco Bay Ph 9 & 10	R	HKR, Citic	269	220	Jul-00	1.36
Mar-99	Olympic Station Hotel	H	SHKP	667	310	??	NA
Jan-98	Sorrento I & II, Kowloon Station II	R	Wheelock	1,130	1,500	Dec-02	4.98
Jan-98	Sorrento I & II, Kowloon Station II	R	Wheelock	1,130	1,500	Dec-03	6.07
Mar-99	The Harbourside, Kowloon Station IV	R	MTRC	1,380	1,900	Dec-03	4.86
Mar-99	Laguna Verde Extension	R	Cheung Kong	400	500	Mar-02	3.08
Mar-99	Prima Villa, Yuen Chow Kok STTL 394	R	SHKP	510	400	Jan-02	2.83
Apr-99	The Parcville, Yuen Long	R	SHKP	1,001	600	Aug-02	3.33
Apr-99	Napa Valley, Fu Tei	R	Hang Lung	90	40	Jul-03	4.24
Apr-99	MetroHarbourview I & II	R	HK Ferry	2,057	2,030	Apr-03	4.06
Mar-99	Bellagio, San Miguel Brewery	R	Wheelock, Wharf,	2,400	1,860	Apr-03	4.14
May-99	Banyan Garden, CSW Shipyard	R	Cheung Kong	1,720	1,550	Jun-03/Mar-04	4.56
May-99	Liberte, Cheung Sha Wan Shipyard	R	Shun Tak	1,656	1,500	Dec-03	4.64
May-99	Caribbean Coast, Tung Chung Ph 3 ext	R	Cheung Kong	1,130	740	Sep-04	5.43
Jun-99	Le Village, Village Rd	R	Hon Kwok	x	55	Aug-02	3.18
Oct-99	Kwu Tung Phase II and III	R	SHKP	405	162	??	NA
Nov-99	Siena One and Two, Yi Pak Wan	R	HKR, Citic	2,066	1,650	Mar-03	3.46
Jan-00	Kowloon Station III	R	MTRC/SHKP	1,076	2,400	??	NA
Feb-00	Tung Chung Ph 2	R	HKR (30%)	707	489	??	NA
Mar-00	Branksome II, Ava Mansion Re-dev	R	Kerry Properties	143	688	Sep-04	4.57
Mar-00	Orchards, Tai Koo Primary School Redev	R	Swire	395	799	Mar-04	4.14
Jul-00	13 Bowen Road, Mid--Levels	R	Sino PA (Ng Family)	46	143	Jun-04	3.91
Sep-00	MetroHarbourview II, (From Hotel to Retail)	R	HK Ferry/Henderson	200	40	Nov-03	3.23
Nov-00	New Haven, Tsuen Wan Sha Tsui	R	Hang Lung	464	540	Mar-03	2.44
Dec-00	YD. 217-223 Prince Edward Rd, Mongkok	R	Yats Development	121	174	Mar-04	3.26
Mar-01	Banyan Garden, Hotel to Res	R	Cheung Kong	370	250	Mar-04	3.07
Apr-01	Metropolis (From office to SA)	R	KCRC/CK	370	160	Mar-03	1.96
Jan-01	Grand Excelsior, 83 Waterloo Rd	R	K Wah	x	77	Dec-02	2.01
Mar-01	Fu Tei 443	R	NWD	200	90	Nov-03	2.70
Jul-01	Tiger Balm Garden	R	Cheung Kong	443	985	??	NA
Aug-01	Seaview Crescent, extension	R	5 developers	150	120	??	NA
Jul-01	Bellagio, Sham Tseng nullah	R	Wharf/Wheelock	349	170	??	NA
May-01	Choi Hung Interchange	R	MTRC	187	207	??	NA
Jun-01	Ka Wai Toi, Western	R	HKHS	322	292	??	NA
Nov-01	YOHO Town, YLTL 503	R	SHKP	470	247	Sep-04	2.88
Nov-01	8 Waterloo Road, KIL 11100	R	SHKP	312	190	Jul-04	2.66
Nov-01	TMTL 399, Fu Tei Tuen Mun	R	SHKP	380	123	Aug-04	2.79
Nov-01	KIL 11151 Olympic Stn Phase 3	R	SHKP	1,110	815	??	NA
Nov-01	TWTL 373 Swire Bottlers' Yeung Uk Rd	R	SHKP	1,110	488	??	NA
Nov-01	Liberte II, NKIL CSW Shipyard Re-dev (Hotel to Res)	R	SHKP/Shun Tak	350	183	Dec-03	2.04
Dec-01	Lam Tei 1A	R	Henderson Land	797	165	Dec-04	3.10
Dec-01	TKO Area 55B	R	MTRC/NWD	1,041	600	??	NA
Jan-02	TKO Area 57a	R	SHKP	317	200	??	NA
May-02	Rambler's Crest, TYTL 140	R	CK and Hutch	x	343	Jun-04	2.05
Oct-02	Tiu Keng Leng Station	R	CK/MTRC	1,328	1,028	??	NA
Nov-02	Ho Tung Building (Fo Tan)	R	Sino	1,323	1,320	??	NA
Jul-02	Yuen Long, TSW	R	CK	1,818	600	??	NA
Jun-02	Hang Hau Station, TKO	R	MTRC + Sino + Kerry	1,535	1,280	Feb-05	2.75
Sep-03	Tin Ping Shan	R	SHKP	530	x	??	NA
Oct-03	Diamond Hill	R	Hon Kwok	200	160	??	NA
Oct-03	116-122 Yeung Uk Rd	R	Nan Fung	213	137	??	NA
Total 54 conversions							3.46

\*Based on estimated completion date from the consent to presale; R = Residential; ?? = Not yet filed consent to presale

Source: Lands Department, Chinese press reports, UBS estimates

## ■ **Statement of Risk**

The Hong Kong economy and the property market could be negatively affected if SARS returns.

Share prices could overshoot if excess liquidity flows into Asia/HK looking for recovery exposure result in valuations rising ahead of fundamentals even before the underlying market has started to rise.

## ■ **Analyst Certification**

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### Global ratings: Definitions and allocations

UBS rating	Definition	UBS rating	Definition	Rating category	Coverage <sup>1</sup>	IB services <sup>2</sup>
<b>Buy 1</b>	FSR is > 10% above the MRA, higher degree of predictability	<b>Buy 2</b>	FSR is > 10% above the MRA, lower degree of predictability	<b>Buy</b>	35%	44%
<b>Neutral 1</b>	FSR is between -10% and 10% of the MRA, higher degree of predictability	<b>Neutral 2</b>	FSR is between -10% and 10% of the MRA, lower degree of predictability	<b>Hold/Neutral</b>	56%	40%
<b>Reduce 1</b>	FSR is > 10% below the MRA, higher degree of predictability	<b>Reduce 2</b>	FSR is > 10% below the MRA, lower degree of predictability	<b>Sell</b>	9%	37%

1: Percentage of companies under coverage globally within this rating category.

2: Percentage of companies within this rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS; as of 30 September 2003.

### KEY DEFINITIONS

**Forecast Stock Return (FSR)** is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

**Market Return Assumption (MRA)** is defined as the one-year local market interest rate plus 5% (an approximation of the equity risk premium).

**Predictability Level** The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities.

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Companies mentioned

Company Name	Reuters	Rating	Price
<b>Cheung Kong</b> <sup>1</sup>	0001.HK	Neutral 2 (RRD)	HK\$59.75
<b>Hang Lung Group</b> <sup>10</sup>	0010.HK	Buy 1	HK\$9.35
<b>Hang Lung Properties</b> <sup>10</sup>	0101.HK	Buy 1	HK\$9.40
<b>Henderson Land</b>	0012.HK	Neutral 2	HK\$30.50
<b>New World Dev</b> <sup>3,12</sup>	0017.HK	Buy 1	HK\$4.67
<b>Sino Land</b>	0083.HK	Buy 1	HK\$3.85
<b>Sun Hung Kai P.</b>	0016.HK	Buy 1	HK\$61.00
<b>Wharf Holdings</b>	0004.HK	Buy 1	HK\$18.85

Price(s) as of 27 November 2003. Source: UBS.

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