Hong Kong SAR Real Estate Dividend Outlook

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Dividend forecasting | **Thematic Report**

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Key implications

- Real estate companies listed in Hong Kong are expected to declare USD25.2 billion in FY 2022, representing a 13.3% increase from USD22.3 billion in FY 2021. The market leaders within Hang Seng Index, including Sun Hung Kai Properties and Henderson Land Development, are expected to remain resilient, paying stable to higher dividends for the rest of FY 2022.
- Compared with the players with assets that are mostly concentrated in mainland China, companies listed in Hong Kong SAR with diversified business projects both in Hong Kong SAR and mainland China appear to be more stable in dividend payments than the companies that only run projects in mainland China.
- While eight property developers (including services companies) were removed from the Hang Seng family index in early July, their impacts on the aggregate dividend amount are limited. Key contributors such as Longfor Properties and Country Garden Services Holdings strived to pay higher dividends to the shareholders.
- Debt control will be the priority for real estate players in the future. Under the government's "houses are built to be inhabited, not for speculation" policy statement, companies with healthy liquidity and cash flow will be more stable in paying dividends while the ones who do not will struggle to repay their debts.

It was a tough beginning for Hong Kong real estate players in 2022. Starting with the severe Omicron outbreak in early February with over 600 positive cases daily, the Hong Kong SAR government tightened the social distancing policy and limited group gatherings. These rules posed great challenges to various industries, especially the housing market. According to market data in 2022, the count of property sales and purchase agreements for all building units in Hong Kong was at 3828 in March, which translates to a 4.3% decrease from February. This also represents 57.8% decline compared with the same period in 2021. In early July, eight real estate participants were removed from the Hang Seng family index owing to the prolonged suspension of their shares on the Hong Kong Stock Exchange (HKEX) and failure to disclose 2021 financial results after the earning season closed for more than three months. However, most market leaders, especially the ones included in the Hang Seng Index, remained resilient in dividend payments. Under Beijing's statement for supporting the sustainable development of real estate industry and the 5.5% GDP target for 2022, we expect most market leader participants to remain the resilience and pay stable to rising dividends for the rest of FY2022.

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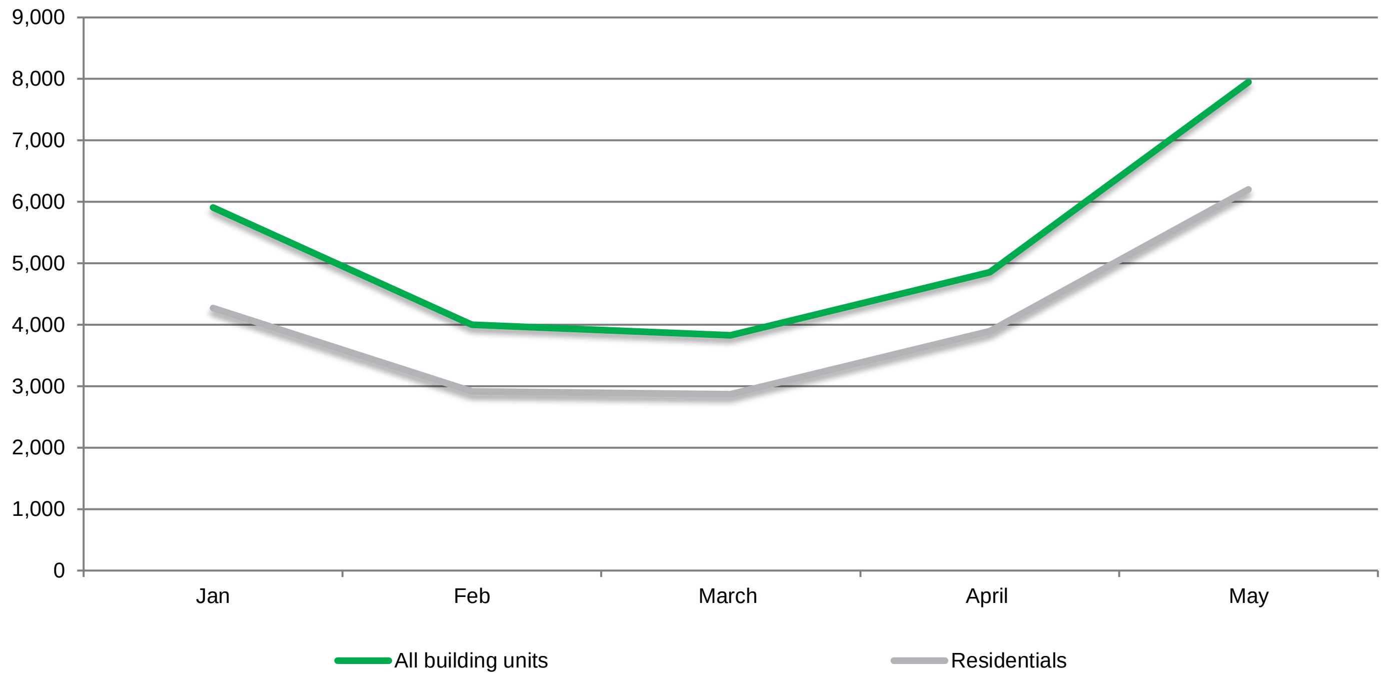
Number of sale and purchase agreements of building units in Hong Kong SAR



Source: HK Land Registry

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Recap of FY 2021 results—Resilience in market leader performances

A glance at the Hang Sang Index Participants' dividend performance in 2021

Company name	ISIN	FY 21 dividend	FY 20–21 year-on-year change	FY 21 Payout ratio	FY 21 Debt level
Country Garden Services Holding	KYG2453A1085	CNY0.2995	**36.94%**	23.32%	16.5%
New World Development	HK0000608585	HKD2.06	27%	36.4%	35.6%
CK Asset Holdings	KYG2177B1014	HKD2.2	22%	38.12%	8.56%
Longfor Properties	KYG5635P1090	HKD1.7	18.88%	44.65%	46.7%
China Resources Land	KYG2108Y1052	HKD1.38	10.22%	37%	30.4%
Link Real Estate Invt Trust	HK0823032773	HKD3.0567	5.4%	100%	22%
Hang Lung Properties Limited	HK0101000591	HKD0.78	2.63%	80.4%	30%
China Overseas Ld & Invt Ltd	HK0688002218	HKD1.21	2.54%	30.1%	32.3%
Henderson Land Development	HK0012000102	HKD1.8	flat	65.93%	27.5%
Sun Hung Kai Properties	HK0016000132	HKD4.95	flat	48%	17.5%
Wharf Real Estate Investment	KYG9593A1040	HKD1.31	-10.88%	60.93%	22.5%
Country Garden Holdings	KYG245241032	CNY0.311	**-14.43%**	25.49%	45.4%

Source: S&P Global Market Intelligence

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Despite the volatility in the real estate sector, we found most of the market participants remained stable in terms of dividend payments throughout FY 2021. Especially for the market leaders, of the 12 companies included in the Hang Seng Index, most of them recorded a dividend payment increase of between 5.4% and 36.94% compared with the last fiscal year. **Country Garden Services Holding Company (KYG2453A1085)** leads the index with the highest year-on-year (y/y) change of 36.94% for its total dividend payments. As the company aims to draw a

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diversified growth curve, the company's operating profit continues to grow with a 57.8% y/y increase, amounting to CNY5729.266 million (2020: CNY3630.482 million). Only **Wharf Real Estate Investment (KYG9593A1040)** and **Country Garden Holdings (KYG245241032)** reduced payments by approximately 10% and 14.43% y/y, respectively. Under the fifth Omicron wave in Hong Kong, Wharf's core businesses in retail and office leasing were hurt harshly in the absence of visitors, weak demand of tenants, and inflated supply. The company recorded a 12% and 24% loss of operating profit in major business areas Harbour City and Times Square, respectively. In total, Wharf recorded a 13% drop in its net profit in FY 2021. County Garden Service Holding also recorded a slight 2% decrease in its contract sales performance. This amounted to CNY558 billion with a 16.98% y/y decrease in net profit, attributed to owners of the company.

In 2021, the Hong Kong market recorded a muted performance compared with 2020. This is largely owing to the subdued performances of smaller players. Aggregate dividend amounts to USD22.3 billion for the real estate sector with a 19.3% y/y decline. **Seazen Group Limited (KYG2119Z1090)** suspended its dividend payment for the first time owing to a 18.13% decline of its core earnings attributed to equity shareholders. In addition, the company's contract sales performance has been declining at a consistent rate of 7% each year since 2019. **ZhongLiang Holdings Group (KYG9898C1024)** suspended its final dividend for the first time as well based on its decision to exercise prudence in terms of dividend payments and to preserve more cash for the company's future development. Initially, the company declared to pay an interim dividend with HKD18.4 cents per share. However, surprisingly, the company started to cancel the interim dividend payments in April 2022 because of market uncertainties and the continuing impact of the COVID-19 pandemic in mainland China. In 2021, the company barely achieved a 1.8% y/y increase in contract sales, which amounted to CNY171.8 billion.

On the other hand, market leaders in Hong Kong SAR performed better. **Sun Hung Kai Properties Limited (HK0016000132)**, the largest real estate company in the Hong Kong market, leads the Hang Seng Index in FY 2021 with the highest dividend payment of HKD4.95 per share. Since FY 2019, Sun Hung Kai has been keeping the flat dividend of HKD4.95 per share despite the turbulence and the COVID-19 pandemic outbreak. The payout ratio increased from 45% to 49% in the past two fiscal years. The landmark holdings in mainland China increased from 68.1 million square feet to 75.3 million square feet in 2021 and the ratio of landmark holdings between Hong Kong SAR and mainland China is approximately 53:57 at present. We expect Sun Hung Kai to keep its flat dividend for the rest of FY 2022 and gradually increase the payout ratio further starting in FY 2023.

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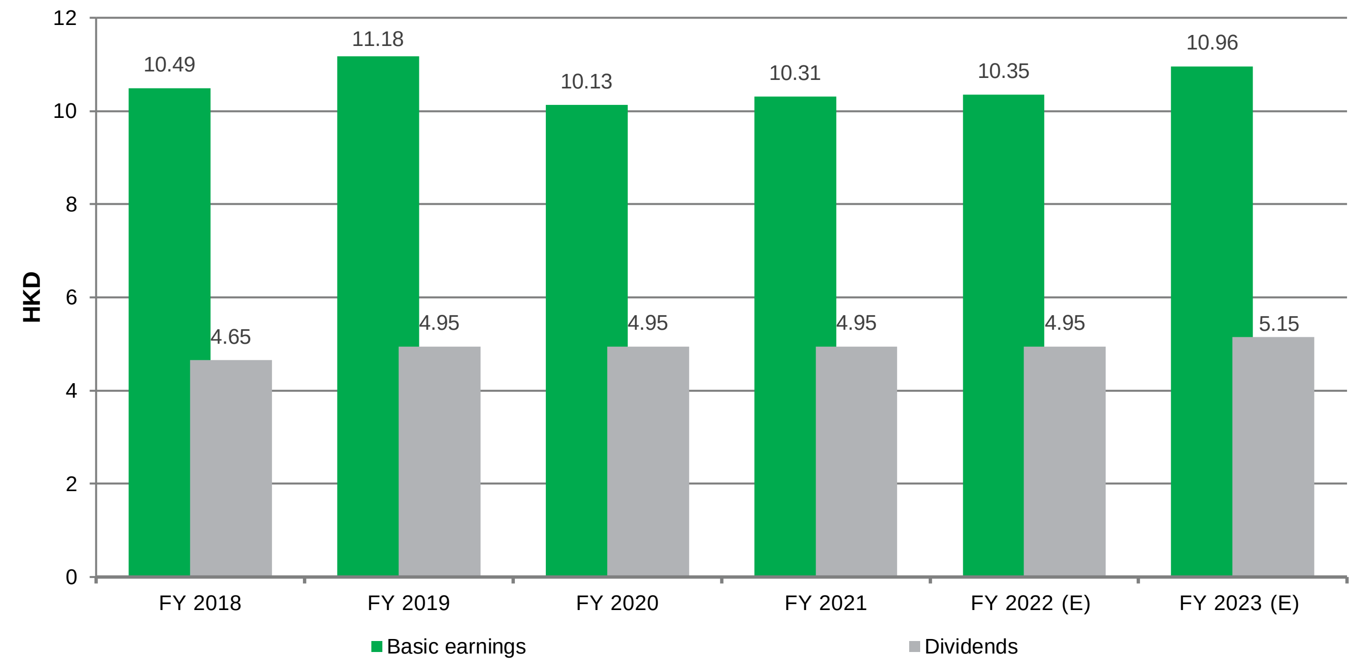
Sun Hung Kai: Underlying earnings and dividend per share



Note: E = Estimate.
Source: S&P Global Market Intelligence

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Link Real Estate Investment Trust (HK0823032773) ranks second in the Hang Seng Index list with a total of HKD3.0567 per share for FY 2021. Real Estate Investment Trusts (REITs) are a crucial part of the Hong Kong SAR's real estate sector and as most of the REITs' net income after tax is paid to investors in the form of dividends at regular intervals, the payout ratio of a REIT must be at least 90%. Link REIT is one of the world's largest real estate investment trusts in terms of market capitalization. The company achieved 97.7% retail occupancy in FY 2021 with a 0.9% y/y increase. Covering business in retail properties, car parks, and office properties in Hong Kong SAR, mainland China, Australia, and United Kingdom, the company recorded a successful year with a gearing ratio of 22.0%. The payout ratio consistently stands at 100% throughout the years and we expect a similar pattern for the company based on the promising financial outlook.

Post pandemic: Less travel restrictions and policy support

The volatility for the real estate market started when the Chinese government introduced the "Three Red Lines" policy after the August 2020 conference in Beijing that occurred against a trend of growing debt levels, rising land prices, and booming sales. Since then, many real estate companies started to focus more on debt management to meet government guidelines. It was also during that period that the concept of "houses are built to be inhabited, not for speculation" was introduced. The fifth wave of the pandemic in Hong Kong followed by approximately two months of complete lockdown in Shanghai further imposed greater challenges for the mainland China economy. Hong Kong SAR's GDP recorded a 4% y/y contraction for the first quarter of 2022. According to the data reported from the National Bureau of Statistics of Shanghai, the housing development projects also recorded a 18% y/y decrease from January to May 2022. Housing sales recorded a 18.2% decrease compared with the same period of 2021, translating to 3.77 million square meters.

With the sluggish economy, both the government of Hong Kong SAR and mainland China launched a series of policy measures to combat the situation. Starting from 1 April 2022, the travel restriction from nine countries (including Australia, Canada, United States, United Kingdom) were lifted and the hotel quarantine period was

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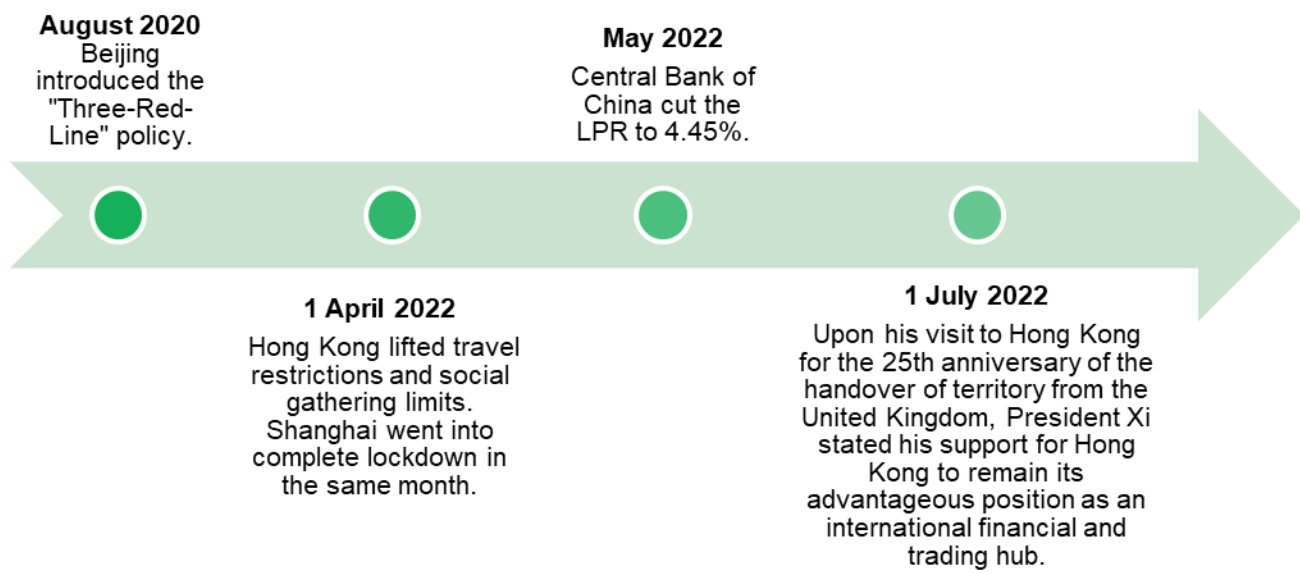
shortened from 14 days to 7 days. In mainland China, the central bank of China lowered the five-year loan prime rate (LPR) by 15 basis points to 4.45%—it was the largest cut on record. With the 5.5% GDP growth target for 2022, the Chinese government authorities urged local governments to roll out more measures to bring the economy back on track during this year's economic conference. So far, over 100 cities have lowered mortgage rates by an average of 20 to 60 basis points to boost the housing demand. In early July 2022, upon the 25th anniversary of the handover and establishment of Hong Kong SAR and Xi's visit to Hong Kong SAR, a new initiative for mutual access between interest rate swap markets in Hong Kong SAR and mainland China, called "Swap Connect" was introduced. This will provide a convenient and secure channel for overseas investors to trade interest rate swap products in mainland China through a connection between infrastructure institutions in the two places. As Hong Kong SAR starts to emerge from the pandemic and the central government rolls out supportive policies, we expect the aggregate dividend in FY 2022 to grow by 13.3% to USD25.2 billion for the real estate sector.

Policy timeline



Source: S&P Global Market Intelligence

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Beyond Hong Kong SAR: A mixed picture for mainland China players

Contrary to the Hong Kong SAR–based real estate participants, it is usually more complicated when it comes to the projects in mainland China.

Especially after the Evergrande crisis, the solvency issue of real estate participants has become more and more worrisome for international investors and local residential buyers. This also created high volatility in the stock market in 2021. **China Evergrande Group (KYG2119W1069)**, the world's most indebted property developer with over USD300 billion liabilities, was suspended by the HKEX in March because of its trading activities. Now, with the delay in publishing the financial results for over three months, HKEX imposed guided rules for the company to meet a series of requirements, including filling documents to prove that the company has sufficient assets to operate. Otherwise, the company will be delisted from the Hong Kong stock market. Based on such circumstances, we do

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not expect both **Evergrande Group (KYG2119W1069)** and **Evergrande Property Services Group (KYG3224K1022)** to pay dividends in the near term.

On 3 July, **Shimao Group (KYG810431042)**, another well-known real estate developer apologized for defaulting on the 4.750% senior notes that was due in 2022 (the "July 2022 Notes") in the aggregate principal amount of USD1 billion issued by the company. According to the announcement, the company's contracted sales for the five months ended 31 May 2022 were approximately CNY34.26 billion, representing a decline of approximately 72% as compared with that of CNY121.79 billion for the corresponding period in 2021. Similar cases happened to **Sunac China Holdings Limited (KYG8569A1067)** as well where the company claimed to default on several notes when they become due or within the relevant grace periods. The company recorded a plunge of 65% y/y in March and April 2022 on contract sales. Until the beginning of July, all of the companies mentioned have not published their FY 2021 financial results yet even after the earning season closed in Hong Kong for more than three months. We expect suspensions in terms of those companies' dividend performance for FY 2021 based on the tough circumstances.

Dividend suspension for FY 2022 expected for all eight real estate companies removed from Hang Seng Family Indexes

Company name	ISIN	FY 2018–22 (E) DPS trend
Aoyuan Healthy Life Group	KYG0404F1019	
China Evergrande Group	KYG2119W1069	
China Aoyuan Group	KYG2119Z1090	
Color Life Services Group	KYG229151058	
Evergrande Property Services	KYG3224K1022	
Kaisa Group Holdings	KYG521321003	
Shimao Group	KYG810431042	
Sunac China Holdings	KYG8569A1067	

Note: We note potential spill-over effect of the real estate sector's liquidity shortage into local financial institutions as the banks, which are already hit by the high-yield dollar bond, have to endure Chinese home buyers' "mortgage strike" and also more credit defaults by home developers to come.
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With the government's new tone for real estate sector development, the companies that manage to take care of liquidity with prudence became the winners when it comes to giving back to companies' shareholders. For example, **Country Garden Services Holding Company (KYG2453A1085)** raised the dividend from CNY0.2187 to CNY0.2995 from FY 2020 to FY 2021 and recorded a 36.95% y/y increase. **Longfor Properties Co Ltd (KYG5635P1090)** paid CNY1.7 per share for FY 2021 and this translates to 18.9% y/y increase (FY 2020: CNY1.43). The company has been gradually increasing its dividend payments throughout history with stable performance. Based on the financial results, both companies emphasized on liquidity control and recorded a successful year in 2021. Country Garden Services achieved a 67.3% y/y increase in net profit, amounting to CNY8.864 billion with a current ratio (current assets/current liabilities) at 1.3 times. Longfor Properties has made great effort in cost control—contract sales expenses remained stable at 1.9% and net debt ratio was 46.7%, which falls into the "green category" under the government's "Three Red Line" policy.

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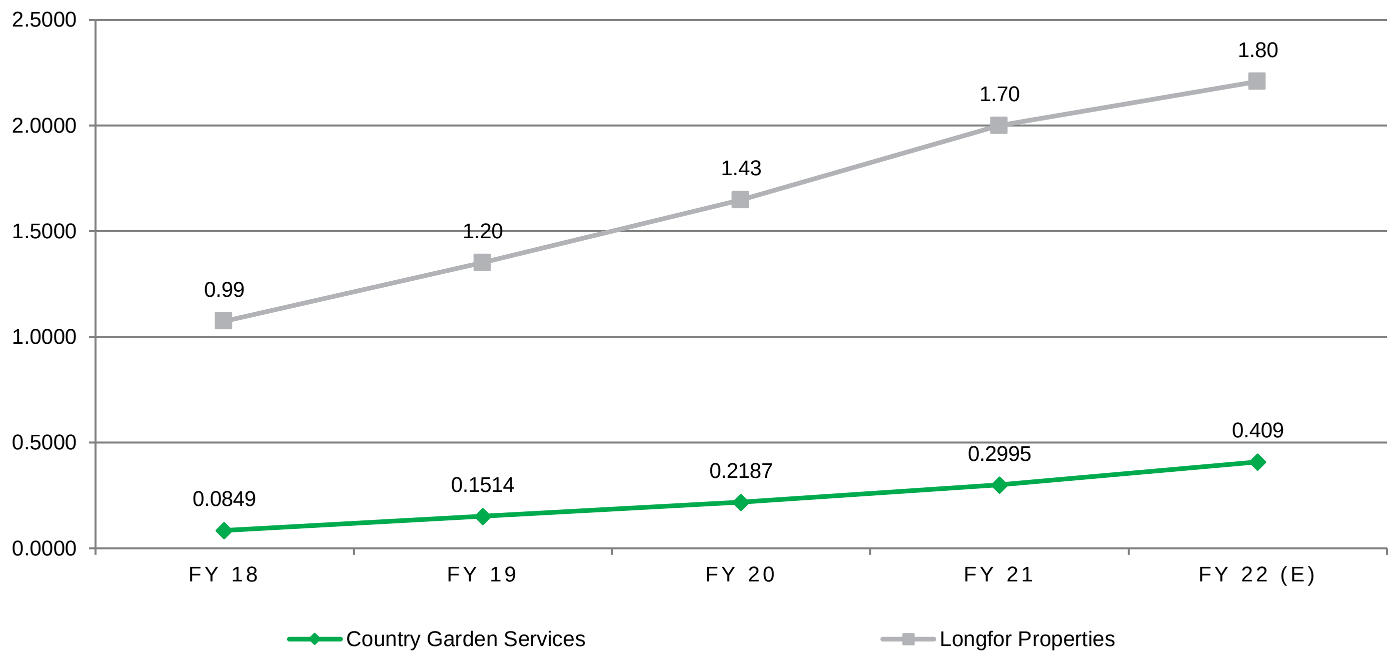
Annual dividend trends of Longfor Properties and Country Garden Services



Note: E = Estimate.
Source: S&P Global Market Intelligence

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For the rest of FY 2022: What to expect

Overall, we expect an aggregate of USD25.217 billion dividend payments for the rest of FY 2022 in the housing market of Hong Kong SAR. This translates to a 13.03% growth compared with the performance in FY 2021. Market leader players should keep paying stable to rising dividends for the rest of the year. However, we believe the golden age of real estate developments to achieve high growth with high leverage will not come back in the short term under the government's tone of "houses are for living, not for speculation". We expect the market leader participants to remain the resilient and the stable to rising dividend payments momentum while the ones with high leverage will be struggling to repay debts and take care of the company's liquidity in a more cautious way. In the new era of housing development, the companies that manage to take liquidity issues seriously and possess diversified business models will have a more stable and positive outlook. In the end, company's stable performance will benefit the dividend payments for shareholders in FY 2022.

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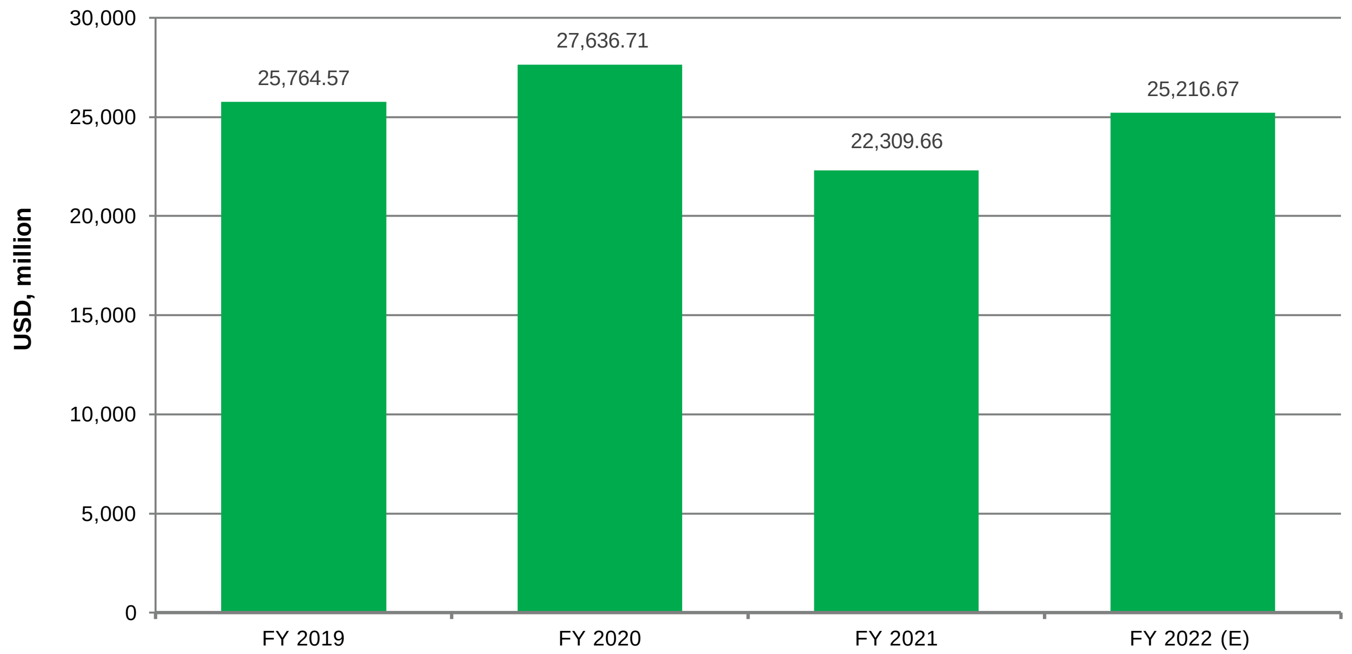
Hong Kong SAR real estate dividend performance



Note: E = Estimate. Eight real estate participants that were removed from the Hang Seng Family Index are included.
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Below, we highlight the attractive dividend payers for the rest of FY 2022. We select the companies based on their consistent stable to increasing dividend payment patterns throughout history and the positive outlook consensus. Most of the companies manage projects in both mainland China and Hong Kong SAR. With the stable debt level and diversified business portfolios, these companies will have a better ability to combat the subdued and volatile market for the rest of the year.

Attractive dividend payers—Second half FY 2022

Stock name	ISIN	Type	Amount	Dividend yield	Amount confidence	Ex-date	Ex-date confidence
New World Development	HK0000608585	FIN	HKD1.5	7.77%	Medium	24-Nov-22	Medium
Henderson Land	HK0012000102	INT	HKD0.54	6.86%	Medium	5-Sep-22	Medium
Sun Hung Kai Properties	HK0016000132	FIN	HKD3.7	5.38%	Medium	7-Nov-22	Medium
Sino Land Co. Ltd	HK0083000502	FIN	HKD0.42	4.83%	Medium	31-Oct-22	Medium
Hang Lung Properties	HK0101000591	INT	HKD0.18	5.62%	Medium	9-Sep-22	Medium
China Overseas Ld & Invt	HK0688002218	INT	HKD0.47	5.62%	Medium	16-Sep-22	Medium
Link Real Estate Invt Trust	HK0823032773	INT	HKD1.658	4.95%	Medium	22-Nov-22	Medium
CK Asset Holdings Limited	KYG2177B1014	INT	HKD 0.45	4.29%	Medium	5-Sep-22	Medium
Country Garden Services	KYG2453A1085	FIN	CNY0.409	1.86%	Medium	2-Jun-23	Medium
Longfor Properties	KYG5635P1090	INT	CNY0.50	6.32%	Medium	15-Dec-22	Medium

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