

Soundwill

878 HK

Building property and investment value

- The share price has surged, but so has the NAV, which we estimate to have risen to HKD71.0
- Solid track record in terms of growing its NAV and continues to improve as a real estate operating company
- Still a deep value stock; also an emerging quality niche property play. Reiterate Buy with target price raised to HKD28.40

Target (HKD): **13.95 → 28.40**
Upside: **32.1%**
6 Feb price (HKD): **21.50**

- 1 Buy (unchanged)
- 2 Outperform
- 3 Hold
- 4 Underperform
- 5 Sell



Jonas Kan, CFA

(852) 2848 4439

jonas.kan@hk.daiwacm.com

■ What's new

We have reviewed our NAV and earnings forecasts for Soundwill after taking into account some recent developments, such as its sale of THE SHARP, the leasing progress of Midtown, and its acquisition of the Lun Fat Street site in Wanchai.

■ What's the impact

End-2013E NAV at HKD71.0. We think Soundwill has the qualities to become more of an active asset manager than a passive property owner. We think it has succeeded in expanding its NAV significantly on the back of the rise in achieved rents for Soundwill Plaza, the leasing progress for Midtown, the sale of THE SHARP, and the 4 February announcement of its 90% ownership stake in the Lun Fat Street site.

High earnings visibility. We are revising up our 2014 earnings forecast by 6.1% to take into account the better-than-expected achieved price for Park Haven, and increase

in rental income. More importantly, the company's earnings visibility is high, as the sale of THE SHARP has secured its property sales profit for FY15, while its latest project in Wanchai should help underpin its property sales profit for FY16.

Still solid prospects for a further NAV revision. We see a considerable 'option element' in the NAV of Soundwill, as the company has not disclosed its ownership of some strategic sites, and we have not yet factored this into our NAV estimate. Moreover, we believe the rental and NAV growth for its retail properties in Causeway Bay will continue and we still see considerable room for rental revisions, especially for the upper floors of Soundwill Plaza and Midtown.

■ What we recommend

While Soundwill's shares have rallied this year, we believe the stock still offers deep value. Moreover, we also see it as an emerging niche property play, with promising earnings and NAV growth prospects. We hence reiterate our Buy (1) rating, with a new six-month target price of HKD28.40, now based on a 60% discount (previously 70%) to our end-2013E NAV of HKD71.0. The key risk to our call would be a major decline in retail rents in Causeway Bay.

■ How we differ

While we see Soundwill as a quality emerging property company, this has yet to be widely recognised.

Forecast revisions (%)

Year to 31 Dec	12E	13E	14E
Revenue change	-	-	6.4
Net profit change	-	-	6.1
Core EPS (FD) change	-	-	6.1

Source: Daiwa forecasts

Share price performance



12-month range	9.80-21.90
Market cap (USDbn)	0.76
3m avg daily turnover (USDm)	0.72
Shares outstanding (m)	275
Major shareholder	Madam Foo and family (68.5%)

Financial summary (HKD)

Year to 31 Dec	12E	13E	14E
Revenue (m)	2,386	3,213	3,506
Operating profit (m)	1,068	1,480	1,646
Net profit (m)	858	1,208	1,310
Core EPS (fully-diluted)	3.120	4.394	4.766
EPS change (%)	195.8	40.8	8.5
Daiwa vs Cons. EPS (%)	14.9	5.3	83.0
PER (x)	6.9	4.9	4.5
Dividend yield (%)	0.8	1.0	1.2
DPS	0.180	0.220	0.250
PBR (x)	0.5	0.4	0.4
EV/EBITDA (x)	6.6	4.9	4.1
ROE (%)	7.8	9.7	9.3

Source: FactSet, Daiwa forecasts

Financial summary

■ **Key assumptions**

Year to 31 Dec	2007	2008	2009	2010	2011	2012E	2013E	2014E
Property leasing EBIT (HKDm)	166.0	189.7	208.6	180.5	197.2	256.9	304.2	413.0
Sales of assembled sites EBIT	230.0	85.0	423.0	183.5	12.9	145.2	152.5	573.0
Residential development sales EBIT (HKDm)	0.0	0.0	0.0	0.0	(30.2)	649.5	1,005.1	660.0

■ **Profit and loss (HKDm)**

Year to 31 Dec	2007	2008	2009	2010	2011	2012E	2013E	2014E
Property leasing	166	190	209	225	238	321	380	483
Residential development sales	0	0	0	0	84	1,357	2,084	1,591
Other Revenue	299	149	505	688	579	708	748	1,432
Total Revenue	465	339	714	914	902	2,386	3,213	3,506
Other income	6	4	7	7	17	7	7	7
COGS	(176)	(72)	(343)	(446)	(581)	(1,127)	(1,516)	(1,633)
SG&A	(77)	(77)	(80)	(114)	(146)	(124)	(130)	(140)
Other op. expenses	(10)	(16)	(18)	(2)	(4)	(74)	(94)	(93)
Operating profit	208	178	280	358	189	1,068	1,480	1,646
Net-interest inc./(exp.)	(89)	(61)	(25)	(28)	(35)	(37)	(44)	(73)
Assoc/forex/extraord./others	58	38	20	23	197	0	0	0
Pre-tax profit	177	155	274	353	351	1,031	1,435	1,573
Tax	(12)	(25)	(29)	(51)	(64)	(148)	(207)	(215)
Min. int./pref. div./others	(4)	2	4	(13)	(8)	(25)	(21)	(48)
Net profit (reported)	162	132	250	290	278	858	1,208	1,310
Net profit (adjusted)	162	132	250	290	278	858	1,208	1,310
EPS (reported)(HKD)	0.723	0.567	1.043	1.204	1.061	3.120	4.394	4.766
EPS (adjusted)(HKD)	0.723	0.567	1.043	1.204	1.061	3.120	4.394	4.766
EPS (adjusted fully-diluted)(HKD)	0.677	0.552	1.034	1.186	1.055	3.120	4.394	4.766
DPS (HKD)	0.070	0.070	0.100	0.100	0.130	0.180	0.220	0.250
EBIT	208	178	280	358	189	1,068	1,480	1,646
EBITDA	208	178	280	358	189	1,068	1,480	1,646

■ **Cash flow (HKDm)**

Year to 31 Dec	2007	2008	2009	2010	2011	2012E	2013E	2014E
Profit before tax	177	155	274	353	351	1,031	1,435	1,573
Depreciation and amortisation	4	16	6	6	7	7	7	8
Tax paid	(8)	(16)	(25)	(30)	(34)	(89)	(124)	(129)
Change in working capital	(653)	(448)	224	226	(631)	716	(65)	(335)
Other operational CF items	54	32	21	14	39	37	44	73
Cash flow from operations	(426)	(260)	501	571	(269)	1,702	1,298	1,190
Capex	(2)	(5)	(2)	(5)	(6)	(7)	(1,354)	(560)
Net (acquisitions)/disposals	(1)	(137)	(128)	(1,441)	(12)	0	0	0
Other investing CF items	0	(5)	0	0	0	0	0	0
Cash flow from investing	(3)	(148)	(129)	(1,446)	(18)	(7)	(1,354)	(560)
Change in debt	509	552	(317)	989	417	(1,000)	0	0
Net share issues/(repurchases)	0	0	0	0	249	0	0	0
Dividends paid	(11)	(16)	(17)	(24)	(36)	(49)	(60)	(69)
Other financing CF items	(90)	(62)	(26)	(14)	9	(50)	(55)	(90)
Cash flow from financing	408	475	(359)	950	639	(1,099)	(115)	(159)
Forex effect/others	0	0	0	0	0	0	0	0
Change in cash	(21)	67	12	75	352	595	(171)	471
Free cash flow	(428)	(265)	499	566	(275)	1,694	(56)	630

Source: FactSet, Daiwa forecasts

Financial summary continued ...

■ Balance sheet (HKDm)

As at 31 Dec	2007	2008	2009	2010	2011	2012E	2013E	2014E
Cash & short-term investment	81	329	144	456	758	1,440	1,269	1,739
Inventory	24	33	37	37	43	53	79	15
Accounts receivable	78	71	71	163	122	324	436	447
Other current assets	704	602	635	828	2,481	2,513	2,196	2,387
Total current assets	888	1,034	887	1,484	3,404	4,330	3,981	4,589
Fixed assets	32	40	54	60	160	70	75	80
Goodwill & intangibles	14	7	7	7	6	6	6	6
Other non-current assets	5,467	6,238	7,250	10,153	11,130	11,316	12,889	13,987
Total assets	6,401	7,319	8,199	11,705	14,701	15,722	16,951	18,662
Short-term debt	529	707	2,104	3,092	3,509	2,509	2,509	2,509
Accounts payable	87	95	234	234	312	588	792	813
Other current liabilities	10	216	45	456	542	657	223	223
Total current liabilities	626	1,019	2,383	3,781	4,364	3,754	3,524	3,545
Long-term debt	1,361	1,713	0	0	0	0	0	0
Other non-current liabilities	736	715	872	1,206	59	59	59	59
Total liabilities	2,724	3,446	3,255	4,988	4,423	3,813	3,583	3,604
Share capital	22	24	24	24	27	27	27	27
Reserves/R.E./others	3,633	3,816	4,863	6,602	10,151	11,764	13,205	14,896
Shareholders' equity	3,655	3,840	4,887	6,626	10,179	11,792	13,232	14,924
Minority interests	22	33	57	91	99	117	135	135
Total equity & liabilities	6,401	7,319	8,199	11,705	14,701	15,722	16,951	18,663
EV	7,718	8,010	7,883	8,594	8,716	7,052	7,240	6,770
Net debt/(cash)	1,809	2,091	1,960	2,637	2,752	1,070	1,240	770
BVPS (HKD)	16.331	16.053	20.360	27.440	37.028	42.895	48.137	54.290

■ Key ratios (%)

Year to 31 Dec	2007	2008	2009	2010	2011	2012E	2013E	2014E
Sales (YoY)	135.3	(27.0)	110.5	28.0	(1.3)	164.6	34.7	9.1
EBITDA (YoY)	94.9	(14.3)	57.0	28.2	(47.4)	466.1	38.5	11.2
Operating profit (YoY)	94.9	(14.3)	57.0	28.2	(47.4)	466.1	38.5	11.2
Net profit (YoY)	30.8	(18.3)	89.3	15.9	(3.9)	208.2	40.8	8.5
Core EPS (fully-diluted) (YoY)	30.0	(18.5)	87.3	14.6	(11.0)	195.8	40.8	8.5
Gross-profit margin	62.1	78.7	51.9	51.1	35.6	52.8	52.8	53.4
EBITDA margin	44.7	52.5	39.2	39.2	20.9	44.8	46.1	47.0
Operating-profit margin	44.7	52.5	39.2	39.2	20.9	44.8	46.1	47.0
ROAE	5.2	3.5	5.7	5.0	3.3	7.8	9.7	9.3
ROAA	2.9	1.9	3.2	2.9	2.1	5.6	7.4	7.4
ROCE	4.3	3.0	4.2	4.3	1.6	7.6	9.8	9.8
ROIC	4.1	2.6	3.9	3.8	1.4	7.0	9.2	9.3
Net debt to equity	49.5	54.5	40.1	39.8	27.0	9.1	9.4	5.2
Effective tax rate	6.8	16.1	10.4	14.4	18.4	14.4	14.4	13.7
Accounts receivable (days)	56.1	80.1	36.1	46.7	57.8	34.1	43.1	46.0
Current ratio (x)	1.4	1.0	0.4	0.4	0.8	1.2	1.1	1.3
Net interest cover (x)	2.3	2.9	11.0	12.8	5.4	28.7	33.4	22.6
Net dividend payout	9.7	12.3	9.6	8.3	12.3	5.8	5.0	5.2

Source: FactSet, Daiwa forecasts

■ Company profile

Soundwill Holdings is a niche player and veteran specialist in assembling old building sites with redevelopment potential. Its business of selling assembled sites accounts for over 60% of its total revenue, while its self-developed flagship investment property, Soundwill Plaza, contributed over 20% of its total revenue and over 40% of its assets in 2011. The company has also tapped into luxury residential property development, leveraging on the low cost advantage of its assembled sites. In addition, it derives a small portion of its revenue from urban infrastructure and China property development businesses in Mainland China.

Building property and investment value

Has already had a strong run, but we still see value

Soundwill's share price has surged by 37% so far in 2013 and by 147% since the beginning of 2012. While the large run-up in its share price, along with the historical share price pattern of smaller property stocks in Hong Kong, make it very tempting to take profits, a thorough assessment of its fundamentals and NAV has led us to conclude that Soundwill shares still offer deep value and have promising investment potential. As such, any pull-back should be seen as an opportunity to accumulate.

This one is different

In our opinion, Soundwill is different from many typical small property companies in Hong Kong. While there are many small property companies in Hong Kong that trade at deep NAV discounts, we think Soundwill is different in three ways.

#1: An active asset manager rather than passive property owner

First, we believe Soundwill is more than a typical owner of property. It has been showing potential to become a competent asset manager that can enhance the value of its assets. We believe the company has been able to continually improve and upgrade the tenant profile of its flagship property, Soundwill Plaza, which now houses the flagship stores of Burberry and Omega (see Appendix I).

We also think the execution of Soundwill Plaza II – Midtown (Midtown), is progressing well and its positioning and achieved rents are better than expected. Based on our latest findings, high-end F&B is one main focus of the upper floor space of Midtown, and Soundwill has already brought in some Michelin star restaurants as tenants.

According to the *Hong Kong Economic Times*, at least six floors in the Mid-town have been leased at rents of over HKD100/sq ft. All in, we believe Soundwill has

demonstrated qualities to become more of an asset manager which can enhance the value of the assets it owns. Hence, it offers not only a deep NAV discount, but that NAV discount is also expanding.

■ Soundwill Plaza II-Midtown



Source: Company

#2: Continuing to improve

Second, we think Soundwill has demonstrated that it has been able to keep on improving as a company (such as expanding its business scope, improving transparency, etc.), and we believe that it has already successfully transformed itself from a site-assembly company into a niche developer.

Two years ago, some market observers may still have described Soundwill as a property company with just a single asset (Soundwill Plaza) and a site-assembly business, despite its success in selling the WarrenWoods (its first residential development) in 2010, as some might have considered this development a special and one-off case. However, we think such a perception cannot hold now. For with the sale of its second residential development, Park Haven, in 2012, the company has demonstrated that it is capable of developing and marketing premium projects (Park Haven is currently over 90% pre-sold and has achieved an ASP of about HKD21,000/sq ft).

Moreover, we think its credentials as a niche property developer have been further strengthened by its recent speedy sale of THE SHARP, where it sold out all the units above the 3-storey mega shop (which it plans to keep as a long-term investment) within several hours, raising HKD1.5bn, and locking in over HKD700m in property sales profit for FY15, based on our estimates.

#3: Offers solid option value

Third, we see an important element of 'option value' in Soundwill's NAV, as it has accumulated many sites that offer strategic and long-term value but these sites have not been disclosed to the investment community until

its stakes in them reach a certain threshold. Moreover, our methodology is to value the sites it may just sell at estimated cost, while the market value it can realise could be much higher. THE SHARP is a case in point.

We previously valued the site on which THE SHARP sits at an estimated cost of HKD388m. However, Soundwill was able to raise some HKD1.5bn in sales proceeds in early January 2013 from the units on the upper floors. Based on the achieved ASPs of these units on the upper floors (we estimate them to be HKD32,600/sq ft) and the latest achieved rents in Russell Street, we estimate that the 3-storey mega shop on the ground floor of THE SHARP could be worth some HKD720m. As such, we estimate the NAV enhancement from THE SHARP is HKD1.6bn or HKD5.90/share (see the tables on P.6-7).

■ **THE SHARP**



Source: Company

More recently, Soundwill announced that its ownership stake in a site at 12-24 Lun Fat Street in Wanchai has reached 90%, which effectively means that it can take the owners of the 10% remaining units to court if they do not sell those units to Soundwill. As the group's ownership in this site had not been disclosed until the company's announcement on 4 February, we estimate that this project will add a further HKD2.90/share to its current NAV.

We see 12-24 Lun Fat Street as a prime site and believe it is well-positioned to benefit from the ongoing transformation of Wanchai, which is being helped by at least three new developments— Swire Properties' (Not rated) Pacific Place expansion, Hopewell's (Not rated) rolling out of its Hopewell Centre II, as well as the Lee Tung Street redevelopment project of Sino Land (83 HK, HKD14.0, Buy [1]) and Hopewell.

We estimate that the historical cost on its book of the group's investment in its strategic sites is over HKD700m, and this should mean that the group has solid potential to continue to provide positive surprises to the market. In sum, we believe the three aforementioned factors have enabled Soundwill to continue to grow its NAV, and in the next section we present our latest estimate of its NAV.

As most of our NAV is derived from Soundwill's assets in the Causeway Bay area, a key risk to our call would come from a major decline in retail rents in Causeway Bay. We also note that there may be a liquidity problem associated with investing in Soundwill shares, as the company's market capitalisation is about USD760m and its average daily turnover in the past three months has been USD0.71m. However, for those investors who are not constrained by liquidity considerations, we continue to think that Soundwill presents a very interesting and unusual investment proposition.

We estimate the NAV has surged to HKD71

To recap, we see Soundwill's NAV being composed of six parts: Soundwill Plaza, Soundwill Plaza II, the site-assembly business, the Hong Kong residential development business, other rental properties in Hong Kong, and China property assets (see our initiation report: [A deep value stock on the way to asset realisation](#), published on 4 November 2011) Back in November 2011, we put our estimate of its end-2012 NAV at HKD41.7, and then on 22 August 2012 we estimate the stock's end-2012 NAV at HKD46.50 (see our 22 August 2012 report, [Asset realisation on the way](#)).

After a thorough review of the latest market value of each of its assets, and after taking into account the various developments of the group (such as the sale of Park Haven and THE SHARP, the announcement of a 90% ownership stake in 12-24 Lun Fat Street, etc.), we are introducing our end-2013 NAV estimate for Soundwill of HKD71.0. A detailed breakdown of our NAV and factors driving our NAV revisions are shown in the following tables.

■ Changes in our NAV estimate for Soundwill

	Previous [^] (HKD/sh)	Revised (HKD/sh)	Chg (%)	Chg (HKD/sh)	Reasons
Soundwill Plaza	33	38.3	15.80%	5.2	Continual rise in achieved rents for both the ground floor and upper floors
Soundwill Plaza II- Mid-town	8.1	13.7	69.60%	5.6	Higher-than-expected positioning and achieved rents.
Site-assembly business	1.6	11.3	602.80%	9.7	Valuing THE SHARP at market value rather than cost, and taking into account the value of its 12-24 Lun Fat Street.
HK residential development business	7.4	12	63.10%	4.6	Has notably expanded its landbank over the past 18 months.
Other rental properties in HK	1.6	5	209.70%	3.4	Has added the value of its newly acquired No. 10 Knutsford Terrace
China property assets	0.6	0.6	0.00%	-	
Gross NAV	52.2	80.7	54.60%	28.5	
Net debt*	-5.7	-9.7	69.70%	-4	
NAV	46.5	71	52.80%	24.5	

Source: Daiwa Note: *net debt is before reflecting the transfer of the asset value of Park Haven and THE SHARP into cash when completed; ^previous NAV refers to end-2012E, revised NAV refers to end-2013E

■ Our NAV estimate for Soundwill since November 2011

	at 4 Nov 2011		at 22 Aug 2012		at 6 Feb 2013		Remark
	(HKDm)	(HKD/sh)	(HKDm)	(HKD/sh)	(HKDm)	(HKD/sh)	
1 Soundwill Plaza [^]	8,309	30.1	9,117	33.0	10,562	38.3	Achieved rents in Soundwill Plaza continue to rise (see Appendix I).
2 Soundwill Plaza II – Midtown [^]	2,224	8.1	2,224	8.1	3,773	13.7	Its positioning and achieved rents are higher than expected (see Appendix I).
3 Site-assembly business	442	1.6	442	1.6	3,106	11.3	
THE SHARP	388	1.4	388	1.4	2,020	7.3	We previously valued THE SHARP at cost. But Soundwill has raised some HKD1.5bn through selling just the upper floors.
12-24, Lun Fat Street	-	-	-	-	806	2.9	Its ownership of this site was not disclosed previously. We see it as a prime site in Wanchai (see Appendix I).
HK site-assembly business	54	0.2	54	0.2	280	1.0	Based on estimated cost. Could include some strategic sites similar to 12-24 Lun Fat Street.
4 HK residential development business	1,375	5.0	2,029	7.4	3,309	12.0	
Park Haven	1,116	4.0	1,770	6.4	2,004	7.3	Achieved ASP of Park Haven was better than expected.
2 special units in WarrenWoods	57	0.2	57	0.2	80	0.3	
School street project	202	0.7	202	0.7	268	1.0	
Mosque St. project	-	-	-	-	555	2.0	This site not included in our previous estimate.
Lai Yin St and St Jones Street project	-	-	-	-	155	0.6	This site not included in our previous estimate.
Kin Wah & Fort Street project	-	-	-	-	248	0.9	This site not included in our previous estimate.
5 Other rental properties in HK	445	1.6	445	1.6	1,378	5.0	
No. 10 Knutsford Terrace	-	-	-	-	928	3.4	Newly acquired. A quality en-bloc commercial property in an established commercial area in Tsimshatsui.
Other rental properties in HK	445	1.6	445	1.6	450	1.6	Based on estimated cost. Could include some strategic sites similar to 12-24 Lun Fat Street.
6 China property assets	153	0.6	153	0.6	153	0.6	Based on estimated cost.
Gross NAV	12,948	46.9	14,410	52.2	22,281	80.7	
Net debt*	(1,488)	(5.4)	(1,580)	(5.7)	(2,681)	(9.7)	
NAV	11,460	41.5	12,830	46.5	19,600	71.0	

Source: Daiwa

Note: *net debt is before reflecting the transfer of the asset value of Park Haven and THE SHARP into cash when completed;

[^]advertising billboards in HK are now included as part of Soundwill Plaza and Soundwill Plaza II

Apart from having achieved notable growth in its NAV, Soundwill's earnings prospects have also improved notably over the past six months, in our view, due to the better-than-expected achieved ASP for Park Haven, the sale of THE SHARP, the new contribution from No. 10 Knutsford Terrace and 12-24 Lun Fat Street. We expect Park Haven to underpin the group's earnings in FY13 and FY14, while THE SHARP, its latest Lun Fat

Street project in Wanchai and a number of other projects should help underpin Soundwill's property sales profit for FY15-16. Among the smaller property companies in Hong Kong, we consider it rare to find one with such high earnings visibility.

■ **Soundwill: detailed breakdown of our end-2013 NAV estimate**

	(sq ft)	Spot rent HKD/sq ft (gross)	Cap. rate (%)	Mkt value (HKD/sq ft)	Mkt value (HKDm)	Remarks (HKD/ share)
1 Soundwill Plaza						
- Shops (G/F)	8,800	2,000	4%	600,000	5,280	19.1 Highest achieved rent in Causeway Bay for a retail shop is HKD3,700/sq ft
- Shops (1/F floor)	9,500	600	4%	180,000	1,710	6.2
- Upper floors	228,100	50	4%	15,000	3,422	12.4
Advertising billboards			4%		150	0.5
	246,400				10,562	38.3
2 Midtown/ Soundwill Plaza II						Located behind Soundwill Plaza on Russell Street (see Appendix I)
- Shops (G/F)	12,500	400	4.5%	106,667	1,333	4.8 The rent we assume represents 20% of our estimated G/F rent for Soundwill Plaza
- Shops (1-3/F floor)	37,500	100	4.5%	26,667	1,000	3.6
- Upper floors	167,000	40	4.5%	10,667	1,781	6.5
Advertising billboards			4.5%		53	0.2
Outstanding development cost					(395)	(1.4)
	217,000				3,773	13.7
3 Site-assembly businesses						
a. THE SHARP						Located opposite Times Square (see Appendix I)
- Shops (G/F)	1,500	1,000	4.0%	300,000	450	1.6 The rent we assume represents 50% of our estimated ground floor rent for Soundwill Plaza
- Shops (2-3/F floor)	3,000	300	4.0%	90,000	270	1.0 4,500 sq ft is a good size for a flagship store (in demand and very scarce in Causeway Bay)
- Upper floors	46,000				1,500	5.4
Outstanding development cost					(200)	(0.7)
	50,500				2,020	7.3
b 12-24 Lun Fat Street	56,000			20,000	806	2.9 We see this as a prime site, well positioned to benefit from the ongoing transformation of Wanchai (see Appendix II)
c HK site-assembly business					280	1.0 Based on estimated cost. Could include many strategic sites like 12-24 Lun Fat Street
					3,106	11.3
4 HK residential development business						
The WarrenWoods (2 special units)					80	0.3 See Appendix III
Park Haven	131,000			21,000	2,004	7.3 See Appendix III
School street project	22,500			18,000	268	1.0 See Appendix III
Mosque St. project	46,600			18,000	555	2.0 See Appendix III
Lai Yin St and St Jones Street project	13,000			18,000	155	0.6 See Appendix III
Kin Wah & Fort Street project	29,200			14,000	248	0.9 See Appendix III
					3,309	12.0
5 Other rental properties						
a No.10 Knutsford Terrace	87,000	40	4.50%	10,667	928	3.4 Acquisition price is HKD895m. See Appendix IV.
b Other rental properties					450	1.6
					1,378	5.0
6 China property assets					153	0.55 Based on estimated cost. Translates into about CNY800/sq m
Gross NAV					22,281	80.7
Net debt*					(2,681)	(9.7)
NAV					19,600	71.0

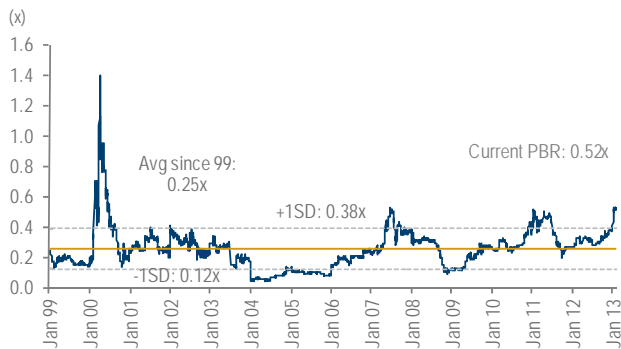
Source: Daiwa

Note: *net debt is before reflecting the transfer of the asset value of Park Haven and THE SHARP into cash when completed

What is the fair price-to-NAV for Soundwill?

For a company with such a solid record in terms of growing its NAV and improving as a real-estate operating company, we wonder what Soundwill's appropriate P/NAV valuation benchmark would be. This raises the question of whether the Hong Kong property companies should always trade at a notable discount to NAV (it is not uncommon for those in the US and other developed markets to trade at close to NAV or at a premium to NAV) and whether the smaller Hong Kong property companies should always trade at a much larger NAV discount versus the big players.

■ Soundwill: PBR



Source: Bloomberg, Daiwa

Without looking too deeply at this complex subject, and given its track record and the three aforementioned factors, we think it is fair to say that the 70% discount benchmark we used before is too conservative. The table above indicates what the fair value would be under different scenarios for the appropriate NAV discount. Our base case is to reduce our NAV discount benchmark by 10pp, from 70% to 60% and, accordingly, we raise our six-month target price to HKD28.40 from HKD13.90.

■ Soundwill: fair value estimate

Discount	Fair value HKD/share	Implied upside	2013E PER (x)	2014E PER (x)
70%	21.3	-1%	4.8	4.5
60%	28.4	32%	6.9	4.9
50%	35.5	65%	8.1	7.4
40%	42.6	98%	9.7	8.9
30%	49.7	131%	11.3	10.4
20%	56.8	164%	12.9	11.9
10%	63.9	197%	14.5	13.4

Source: Daiwa forecasts; note: the 60% discount is our base-case scenario

However, we believe there is still considerable value-creation potential ahead for Soundwill. We think our current estimates of Soundwill's NAV are still not aggressive and we see room for further upward revisions (please see remarks in our NAV breakdown on P.7)

Moreover, if Soundwill maintains the progress it has achieved in the past 12 months, we would see room for further reductions in its NAV discount, not to mention that its NAV could also become notably higher.

We think this is possible because we see Soundwill as a company that is well positioned to benefit from the on-going transformation of Causeway Bay as an even stronger district for commercial properties. We believe that relative to the scale of consumer spending that could come into Hong Kong, the current scale of retail property assets in the area is too small.

As such, we believe that the Causeway Bay retail area will expand both horizontally and vertically, and that this could significantly elevate the rent and capital values of properties in the less well-located streets in the area, as well as those not on ground level in buildings in the area. Soundwill's property assets in Causeway Bay and the Greater Causeway Bay area are well positioned to benefit from this trend, in our view (see Appendix I).

Meanwhile, the group's announcement on 4 February 2013 that it had acquired a 90% stake in 12-14 Lun Fat Street Wanchai should make it a beneficiary of what we see as the on-going transformation of Wanchai as well (see Appendix II).

All in all, despite the run-up in the share price, we continue to see Soundwill as a deep-value stock, offering high earnings visibility and promising prospects for further NAV growth. Hence, we reiterate our Buy (1) rating and are raising our six-month target price to HKD28.40, now based on a 60% discount (70% previously) to our end-2013 NAV estimate of HKD71.0. Any pull-back in its share price should be taken as opportunity to accumulate the stock, in our view.

■ Soundwill: NAV structure


	HKDm	HKD/sh	% of total
1 Soundwill Plaza	10,562	38.3	47.4%
2 Soundwill Plaza II - Midtown	3,773	13.7	16.9%
3 Site-assembly business	3,106	11.3	13.9%
THE SHARP	2,020	7.3	9.1%
12-24, Lun Fat Street	806	2.9	3.6%
HK site-assembly business	280	1.0	1.3%
4 HK residential development business	3,309	12.0	14.9%
Park Heaven	2,004	7.3	9.0%
2 special units in WarrenWoods	80	0.3	0.4%
School street project	268	1.0	1.2%
Mosque St. project	555	2.0	2.5%
Lai Yin St and St Jones Street project	155	0.6	0.7%
Kin Wah & Fort Street project	248	0.9	1.1%
5 Other rental properties in HK	1,378	5.0	6.2%
No. 10 Knutsford Terrace	928	3.4	4.2%
Other rental properties in HK	450	1.6	2.0%
6 China property assets	153	0.6	0.7%
Gross NAV	22,281	80.7	100.0%
Net debt*	(2,681)	(9.7)	-12.0%
NAV	19,600	71.0	88.0%

Source: Daiwa Note: *before reflecting the transfer of the asset value of Park Haven and THE SHARP into cash when completed


Appendix I: Soundwill's property assets in Causeway Bay

■ Soundwill: its three main retail-property assets in Causeway Bay


Growing Presence in Causeway Bay's Retail Hub




1



2



3



Soundwill Plaza (金朝陽中心)

Leasing GFA : 246,400 sq. ft.
(G/F & 1/F shop = 18,300 sq. ft)

Enhanced property value
Lease renewal of G/F retail shops with rental increase of 100% - 150%

Soundwill Plaza II – Midtown

Site area : 12,500 sq. ft.
Leasing GFA : 217,000 sq. ft

A large scale commercial complex integrating retail, food, beverage and offices in one

Est. completion : Q3 2013

THE SHARP

Site area : 3,200 sq. ft.
Leasing GFA : 4,500 sq. ft.

A new 24-hour vertical retail centre

Est. completion : Q3 2015

Pre-sold 29 units on 3 Jan 2013

For sale : 46,000 sq. ft.

Source: Company

■ Soundwill: its three main retail-property assets in Causeway Bay (cont'd)

Flagship Investment Property Located in One of the World's Most Expensive Districts

Tang Lung St 登龍街



Soundwill Plaza

New tenants



Russell St 羅素街

Times Square 時代廣場

Percival St 波斯雷街



SWP Rental Statistics

	GFA (sq. ft.)
G/F (street level)	8,800
1/F (street level)	9,500
Upper levels	228,100
Total	246,400

Source: Company

■ Soundwill Plaza: Burberry's flagship store in Soundwill Plaza



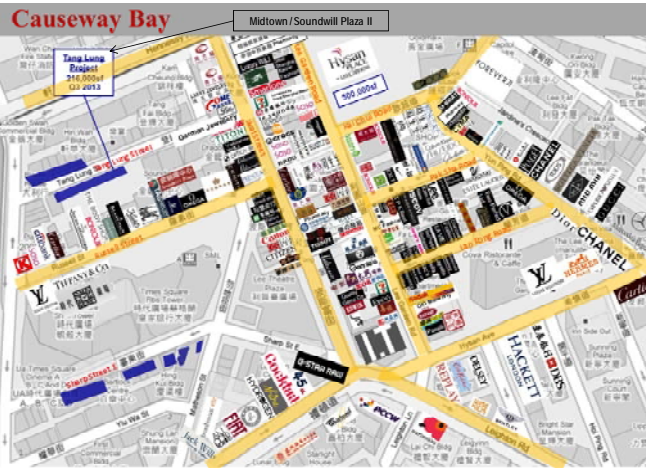
Source: Daiwa

■ Soundwill Plaza: Omega's flagship store in Soundwill Plaza



Source: Daiwa

■ The Causeway Bay area and the location of Midtown



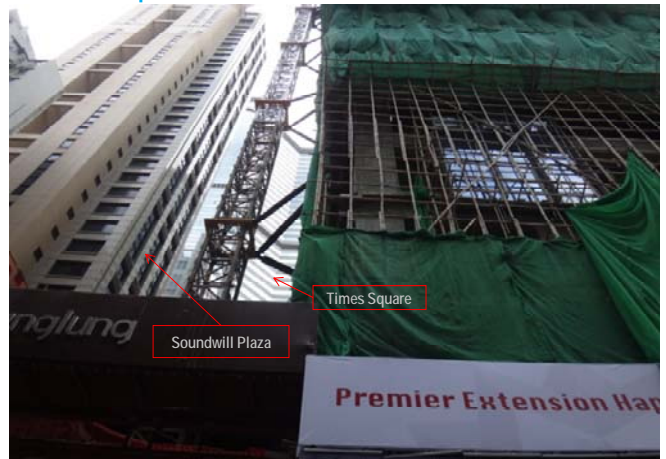
Source: Jones Lang LaSalle

■ Soundwill Plaza II – Midtown



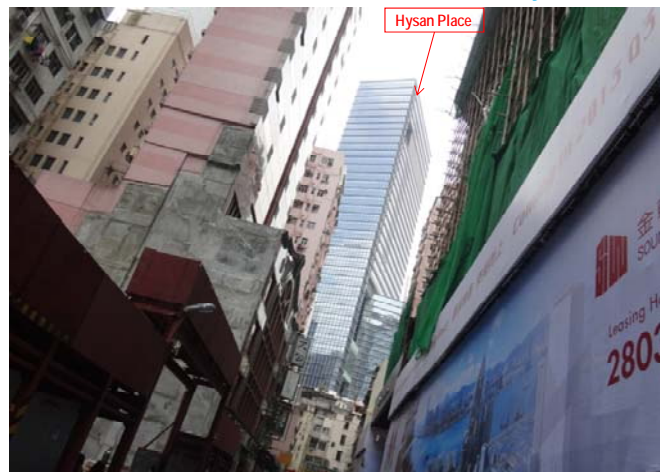
Source: Daiwa

■ Soundwill Plaza II – Midtown: located behind Soundwill Plaza and Times Square



Source: Daiwa

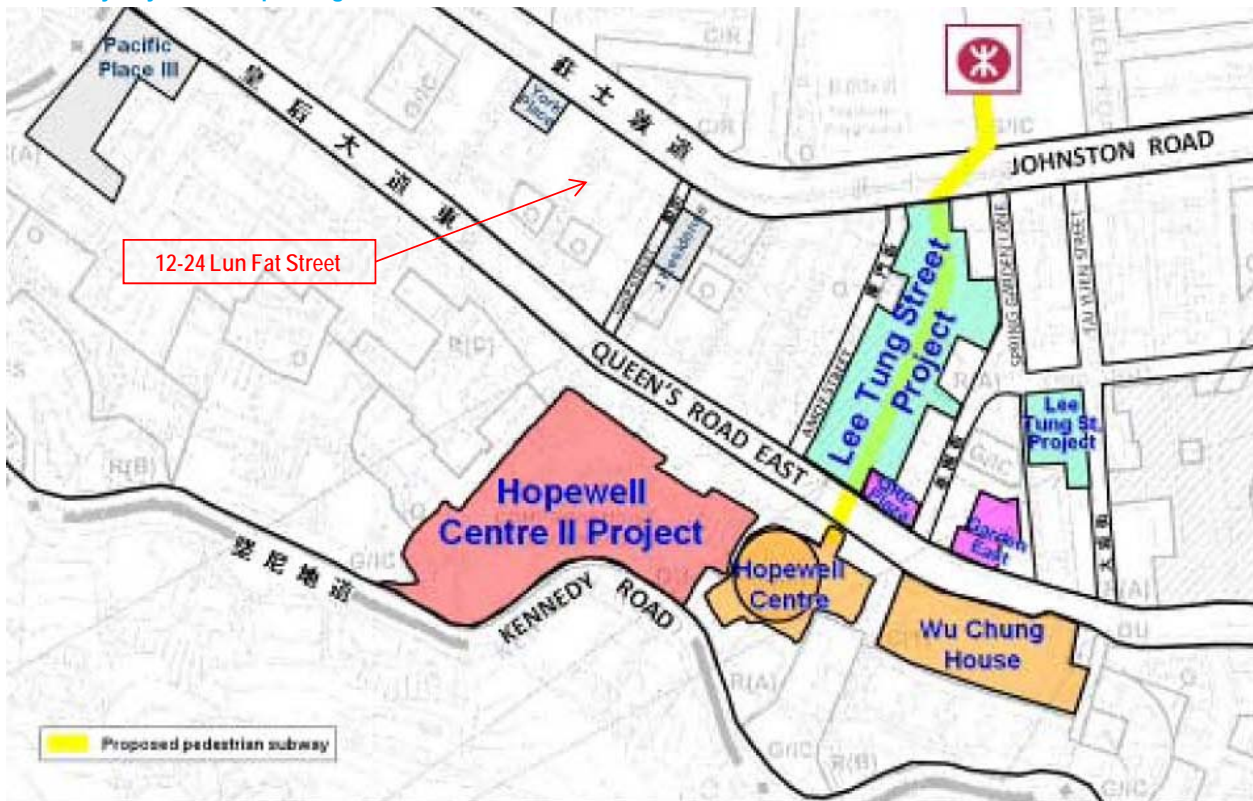
■ Soundwill Plaza II – Midtown: a 5-minute walk from Hysan Place



Source: Daiwa

Appendix II: the Wanchai area and Soundwill's 12-14 Lun Fat Street project

- The Causeway Bay area is expanding



Source: Hopewell, Daiwa

- 12-14 Lun Fat Street in Wanchai



Source: Daiwa

Appendix III: Soundwill's other property projects

Soundwill's residential development landbank

Mid-level (HK Island)




Mosque St. 摩羅廟街
Can be developed into a **30,000 sq. ft. residential complex**

North Point (HK Island)



Kin Wah St. & Fort St. 建華街及堡壘街
Can be developed into a **29,200 sq. ft. residential complex**

Tai Hang (HK Island)



School St. 書館街
Can be developed into a **22,500 sq. ft. commercial and residential complex**

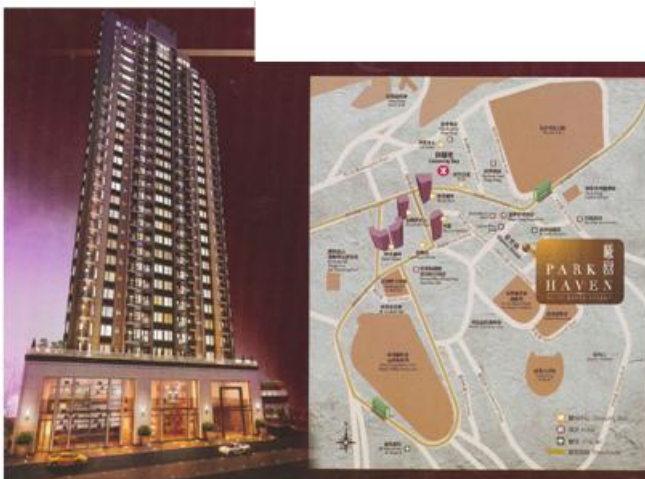


Lai Yin St. & Jones St. 禮賢街及重士街
Can be developed into a **65,000 sq. ft. residential property (collaboration with Henderson Land)**



Source: Company

Soundwill's Park Haven project in Causeway Bay



Source: Company

Appendix IV: Others

Soundwill's newly acquired investment property in Tsimshatsui

New Acquisition to Enhance Soundwill's Investment Portfolio in Hong Kong



No. 10 Knutsford Terrace

Site area : 7,250 sq. ft.

Marketable GFA : 87,000 sq. ft.

Status:

- Existing occupancy rate : 94.5%
- Consideration : HK\$895mil
- Acquisition to be completed in Q1 2013

Source: Company

Soundwill: shareholder/corporate structure



Source: Company

HONG KONG		
Nagahisa MIYABE	(852) 2848 4971	nagahisa.miyabe@hk.daiwacm.com <i>Regional Research Head</i>
Hiroaki KATO	(852) 2532 4121	hiroaki.kato@hk.daiwacm.com <i>Regional Research Co-head</i>
John HETHERINGTON	(852) 2773 8787	john.hetherington@hk.daiwacm.com <i>Regional Deputy Head of Asia Pacific Research; Regional Head of Product Management</i>
Pranab Kumar SARMAH	(852) 2848 4441	pranab.sarmah@hk.daiwacm.com <i>Regional Head of Research Promotion</i>
Mingchun SUN	(852) 2773 8751	mingchun.sun@hk.daiwacm.com <i>Head of China Research; Chief Economist (Regional)</i>
Dave DAI	(852) 2848 4068	dave.dai@hk.daiwacm.com <i>Deputy Head of Hong Kong and China Research; Pan-Asia/Regional Head of Clean Energy and Utilities; Utilities; Power Equipment; Renewables (Hong Kong, China)</i>
Kevin LAI	(852) 2848 4926	kevin.lai@hk.daiwacm.com <i>Deputy Head of Regional Economics; Macro Economics (Regional)</i>
Chi SUN	(852) 2848 4427	chi.sun@hk.daiwacm.com <i>Macro Economics (China)</i>
Jonas KAN	(852) 2848 4439	jonas.kan@hk.daiwacm.com <i>Head of Hong Kong Research; Head of Hong Kong and China Property; Regional Property Coordinator; Property Developers (Hong Kong)</i>
Jeff CHUNG	(852) 2773 8783	jeff.chung@hk.daiwacm.com <i>Automobiles and Components (China)</i>
Grace WU	(852) 2532 4383	grace.wu@hk.daiwacm.com <i>Head of Greater China FIG; Banking (Hong Kong, China)</i>
Jerry YANG	(852) 2773 8842	jerry.yang@hk.daiwacm.com <i>Banking (Taiwan)/Diversified Financials (Taiwan and China)</i>
Leon QI	(852) 2532 4381	leon.qi@hk.daiwacm.com <i>Banking (Hong Kong, China)</i>
Joseph HO	(852) 2848 4443	joseph.ho@hk.daiwacm.com <i>Head of Industrials and Machineries (Hong Kong, China); Capital Goods –Electronics Equipments and Machinery (Hong Kong, China)</i>
Bing ZHOU	(852) 2773 8782	bing.zhou@hk.daiwacm.com <i>Consumer/Retail (Hong Kong, China); Hotels, Restaurants and Leisure – Casinos and Gaming (Hong Kong, Macau)</i>
Eric CHEN	(852) 2773 8702	eric.chen@hk.daiwacm.com <i>Pan-Asia/Regional Head of IT/Electronics; Semiconductor/IC Design (Regional)</i>
Felix LAM	(852) 2532 4341	felix.lam@hk.daiwacm.com <i>Head of Materials (Hong Kong, China); Cement and Building Materials (China, Taiwan); Property (China)</i>
John CHOI	(852) 2773 8730	john.choi@hk.daiwacm.com <i>Head of Multi-Industries (Hong Kong, China); Small/Mid Cap (Regional); Internet (China)</i>
Kelvin LAU	(852) 2848 4467	kelvin.lau@hk.daiwacm.com <i>Head of Transportation (Hong Kong, China); Hong Kong and China Research Coordinator; Transportation (Regional)</i>
Jibo MA	(852) 2848 4489	jibo.ma@hk.daiwacm.com <i>Head of Custom Products Group; Custom Products Group</i>
Thomas HO	(852) 2773 8716	thomas.ho@hk.daiwacm.com <i>Custom Products Group</i>
PHILIPPINES		
Rommel RODRIGO	(63) 2 813 7344 ext 302	rommel.rodrido@dbpdaiwacm.com.ph <i>Head of Philippines Research; Strategy; Capital Goods; Materials</i>
Danielo PICACHE	(63) 2 813 7344 ext 293	danielo.picache@dbpdaiwacm.com.ph <i>Property; Banking; Transportation – Port</i>

SOUTH KOREA		
Chang H LEE	(82) 2 787 9177	chlee@kr.daiwacm.com <i>Head of Korea Research; Strategy; Banking/Finance</i>
Sung Yop CHUNG	(82) 2 787 9157	sychung@kr.daiwacm.com <i>Pan-Asia Co-head/Regional Head of Automobiles and Components; Automobiles; Shipbuilding; Steel</i>
Anderson CHA	(82) 2 787 9185	anderson.cha@kr.daiwacm.com <i>Banking/Finance</i>
Mike OH	(82) 2 787 9179	mike.oh@kr.daiwacm.com <i>Capital Goods (Construction and Machinery)</i>
Sang Hee PARK	(82) 2 787 9165	sanghee.park@kr.daiwacm.com <i>Consumer/Retail</i>
Jaeh H LEE	(82) 2 787 9173	jhlee@kr.daiwacm.com <i>IT/Electronics (Tech Hardware and Memory Chips)</i>
Thomas Y KWON	(82) 2 787 9181	yskwon@kr.daiwacm.com <i>Pan-Asia Head of Internet & Telecommunications; Software (Korea) – Internet/On-line Game</i>

TAIWAN		
Mark CHANG	(886) 2 8758 6245	mark.chang@daiwacm-cathay.com.tw <i>Head of Research; Regional Head of Small/Medium Cap; Small/Medium Cap (Regional)</i>
Birdy LU	(886) 2 8758 6248	birdy.lu@daiwacm-cathay.com.tw <i>IT/Technology Hardware (Handsets and Components)</i>
Christine WANG	(886) 2 8758 6249	christine.wang@daiwacm-cathay.com.tw <i>IT/Technology Hardware (PC Hardware)</i>
Chris LIN	(886) 2 8758 6251	chris.lin@daiwacm-cathay.com.tw <i>IT/Technology Hardware (Panels)</i>

INDIA		
Punit SRIVASTAVA	(91) 22 6622 1013	punit.srivastava@in.daiwacm.com <i>Head of Research; Strategy; Banking/Finance</i>
Navin MATTA	(91) 22 6622 8411	navin.matta@in.daiwacm.com <i>Automobiles and Components</i>
Saurabh MEHTA	(91) 22 6622 1009	saurabh.mehta@in.daiwacm.com <i>Capital Goods; Utilities</i>
Mihir SHAH	(91) 22 6622 1020	mihir.shah@in.daiwacm.com <i>FMCG/Consumer</i>
Deepak PODDAR	(91) 22 6622 1016	deepak.poddar@in.daiwacm.com <i>Materials</i>
Nirmal RAGHAVAN	(91) 22 6622 1018	nirmal.raghavan@in.daiwacm.com <i>Oil and Gas; Utilities</i>

SINGAPORE		
Adrian LOH	(65) 6499 6548	adrian.loh@sg.daiwacm.com <i>Head of Singapore Research, Regional Head of Oil and Gas; Oil and Gas (ASEAN and China); Capital Goods (Singapore)</i>
Srikanth VADLAMANI	(65) 6499 6570	srikanth.vadlamani@sg.daiwacm.com <i>Banking (ASEAN)</i>
David LUM	(65) 6329 2102	david.lum@sg.daiwacm.com <i>Property and REITs</i>
Ramakrishna MARUVADA	(65) 6499 6543	ramakrishna.maruvada@sg.daiwacm.com <i>Head of ASEAN & India Telecommunications; Telecommunications (ASEAN & India)</i>

Daiwa's Offices

Office / Branch / Affiliate	Address	Tel	Fax
DAIWA SECURITIES GROUP INC			
HEAD OFFICE			
	Gran Tokyo North Tower, 1-9-1, Marunouchi, Chiyoda-ku, Tokyo, 100-6753	(81) 3 5555 3111	(81) 3 5555 0661
Daiwa Securities Trust Company	One Evertrust Plaza, Jersey City, NJ 07302, U.S.A.	(1) 201 333 7300	(1) 201 333 7726
Daiwa Securities Trust and Banking (Europe) PLC (Head Office)	5 King William Street, London EC4N 7JB, United Kingdom	(44) 207 320 8000	(44) 207 410 0129
Daiwa Europe Trustees (Ireland) Ltd	Level 3, Block 5, Harcourt Centre, Harcourt Road, Dublin 2, Ireland	(353) 1 603 9900	(353) 1 478 3469
<hr/>			
Daiwa Capital Markets America Inc	Financial Square, 32 Old Slip, New York, NY10005, U.S.A.	(1) 212 612 7000	(1) 212 612 7100
Daiwa Capital Markets America Inc. San Francisco Branch	555 California Street, Suite 3360, San Francisco, CA 94104, U.S.A.	(1) 415 955 8100	(1) 415 956 1935
Daiwa Capital Markets Europe Limited	5 King William Street, London EC4N 7AX, United Kingdom	(44) 20 7597 8000	(44) 20 7597 8600
Daiwa Capital Markets Europe Limited, Frankfurt Branch	Trianon Building, Mainzer Landstrasse 16, 60325 Frankfurt am Main, Federal Republic of Germany	(49) 69 717 080	(49) 69 723 340
Daiwa Capital Markets Europe Limited, Paris Representative Office	36, rue de Naples, 75008 Paris, France	(33) 1 56 262 200	(33) 1 47 550 808
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Daiwa Capital Markets Europe Limited, Moscow Representative Office	Midland Plaza 7th Floor, 10 Arbat Street, Moscow 119002, Russian Federation	(7) 495 641 3416	(7) 495 775 6238
Daiwa Capital Markets Europe Limited, Bahrain Branch	7th Floor, The Tower, Bahrain Commercial Complex, P.O. Box 30069, Manama, Bahrain	(973) 17 534 452	(973) 17 535 113
Daiwa Capital Markets Hong Kong Limited	Level 28, One Pacific Place, 88 Queensway, Hong Kong	(852) 2525 0121	(852) 2845 1621
Daiwa Capital Markets Singapore Limited	6 Shenton Way #26-08, DBS Building Tower Two, Singapore 068809, Republic of Singapore	(65) 6220 3666	(65) 6223 6198
Daiwa Capital Markets Australia Limited	Level 34, Rialto North Tower, 525 Collins Street, Melbourne, Victoria 3000, Australia	(61) 3 9916 1300	(61) 3 9916 1330
DBP-Daiwa Capital Markets Philippines, Inc	18th Floor, Citibank Tower, 8741 Paseo de Roxas, Salcedo Village, Makati City, Republic of the Philippines	(632) 813 7344	(632) 848 0105
Daiwa-Cathay Capital Markets Co Ltd	14/F, 200, Keelung Road, Sec 1, Taipei, Taiwan, R.O.C.	(886) 2 2723 9698	(886) 2 2345 3638
Daiwa Securities Capital Markets Korea Co., Ltd.	One IFC, 10 Gukjegeumyung-Ro, Yeouido-dong, Yeongdeungpo-gu, Seoul, 150-876, Korea	(82) 2 787 9100	(82) 2 787 9191
Daiwa Securities Capital Markets Co Ltd, Beijing Representative Office	Room 3503/3504, SK Tower, No.6 Jia Jianguomen Wai Avenue, Chaoyang District, Beijing 100022, People's Republic of China	(86) 10 6500 6688	(86) 10 6500 3594
Daiwa SSC Securities Co Ltd	45/F, Hang Seng Tower, 1000 Lujiazui Ring Road, Pudong, Shanghai 200120, People's Republic of China	(86) 21 3858 2000	(86) 21 3858 2111
Daiwa Securities Capital Markets Co. Ltd, Bangkok Representative Office	18 th Floor, M Thai Tower, All Seasons Place, 87 Wireless Road, Lumpini, Pathumwan, Bangkok 10330, Thailand	(66) 2 252 5650	(66) 2 252 5665
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Daiwa Securities Capital Markets Co. Ltd, Hanoi Representative Office	Suite 405, Pacific Palace Building, 83B, Ly Thuong Kiet Street, Hoan Kiem Dist. Hanoi, Vietnam	(84) 4 3946 0460	(84) 4 3946 0461
<hr/>			
DAIWA INSTITUTE OF RESEARCH LTD			
HEAD OFFICE			
	15-6, Fuyuki, Koto-ku, Tokyo, 135-8460, Japan	(81) 3 5620 5100	(81) 3 5620 5603
MARUNOUCHI OFFICE			
	Gran Tokyo North Tower, 1-9-1, Marunouchi, Chiyoda-ku, Tokyo, 100-6756	(81) 3 5555 7011	(81) 3 5202 2021
<hr/>			
New York Research Center	11th Floor, Financial Square, 32 Old Slip, NY, NY 10005-3504, U.S.A.	(1) 212 612 6100	(1) 212 612 8417
London Research Centre	3/F, 5 King William Street, London, EC4N 7AX, United Kingdom	(44) 207 597 8000	(44) 207 597 8550

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