



Swire Pacific B-share (87 HK)

Hong Kong conglomerate at a triple discount



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Summary



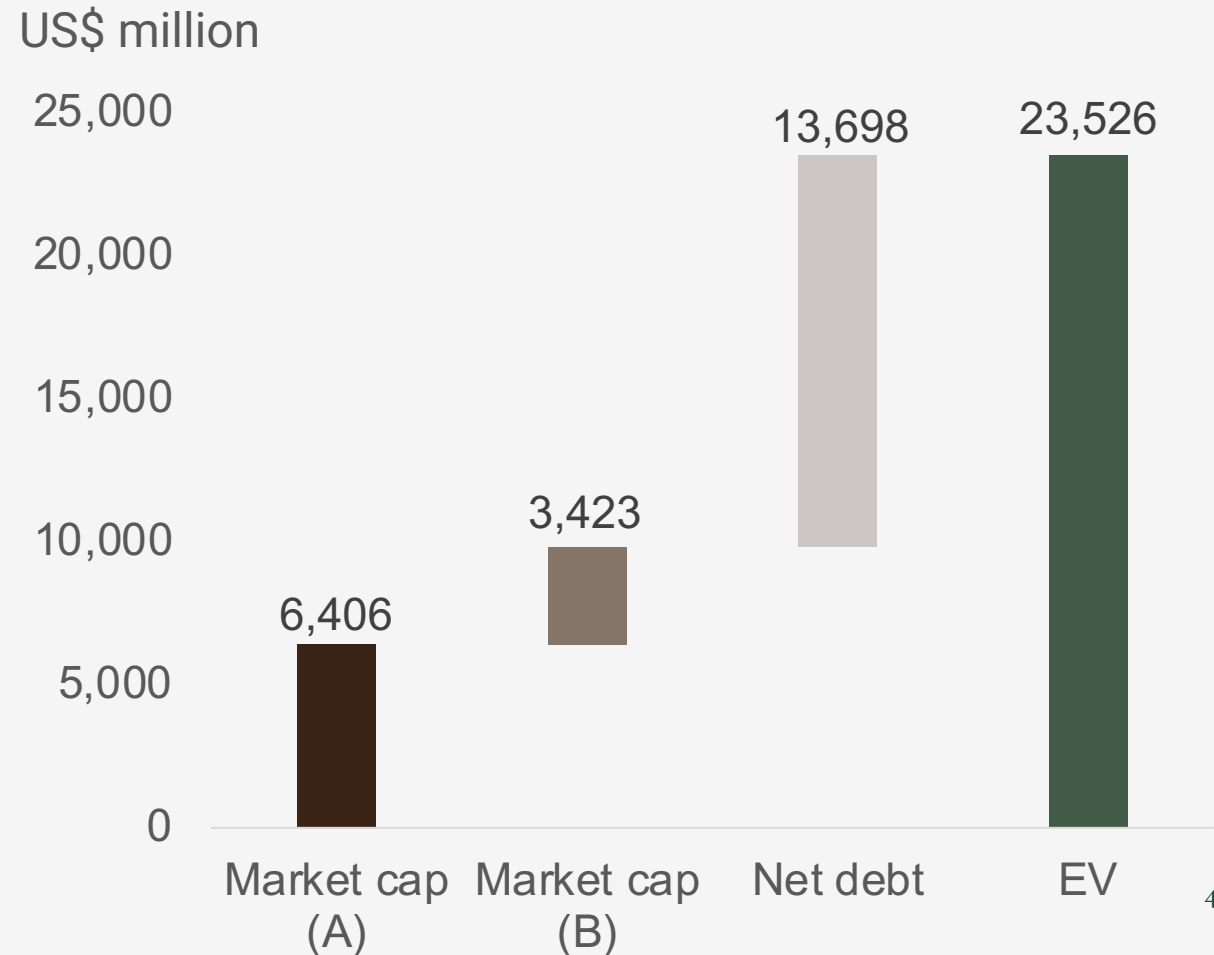
1. Swire Pacific is the main operating company of the Swire Group, a family controlled entity with history dating back hundreds of years. The company was one of Hong Kong's original *hongs* that became wealthy through cross-border trading.
2. Today, Swire Pacific is primarily focused property development and leasing. It owns high-quality assets in Hong Kong, centred around office-, retail- and hospitality properties. It also owns a number of retail assets in tier 1 cities in mainland China.
3. The company has suffered over the past few years. First, mainland tourism to Hong Kong was cut off after the anti-government protests in the summer of 2019. That hurt Cathay Pacific as well as Hong Kong's retail industry. Then came COVID-19, which caused people to work from home and reduced the demand for office space. COVID-19 also led to an almost complete stop in airline traffic.
4. Gross rental income is gradually coming down to spot levels, which themselves have started to flatten out. Expect rental reversions to persist for some time. Other parts of the business the business are likely to come back if and China's COVID-19 policies are relaxed and the borders opened up.
5. A rudimentary sum-of-the-parts valuation with 4-6% cap rates and a 25% NAV discount leads to an intrinsic value per B-share of HK\$26.6, well above the current price of HK\$9.0 for the B-share.
6. The B-share offers greater voting power per dollar invested and you'll invest alongside the family. Despite this, the B-share trades at an 18% discount to the A-share. The new buyback program is likely to purchase more B-shares than A-shares.
7. Risks include prolonged lockdowns and border closures, rising interest rates and weak bargaining power against the ruling Communist Party, which in recent years has shifted its focus to wealth distribution.

While Swire Pacific's net debt is high, most of it sits in property subsidiaries and Cathay Pacific and not at the ListCo level



- Share price (A):
- Share price (B):
- A-shares outstanding: 905 million
- B-shares outstanding: 2,982 million (worth 1/5 of A)
- Market cap (A): US\$6.4 billion
- Market cap (B): US\$3.4 billion
- Total market cap: US\$9.8 billion
- Net debt: US\$13.7 billion
- Enterprise value: US\$23.5 billion

- Daily trading volume: US\$4.1 million



* HK\$ = Hong Kong Dollar. HKD/USD = 7.85

Business overview

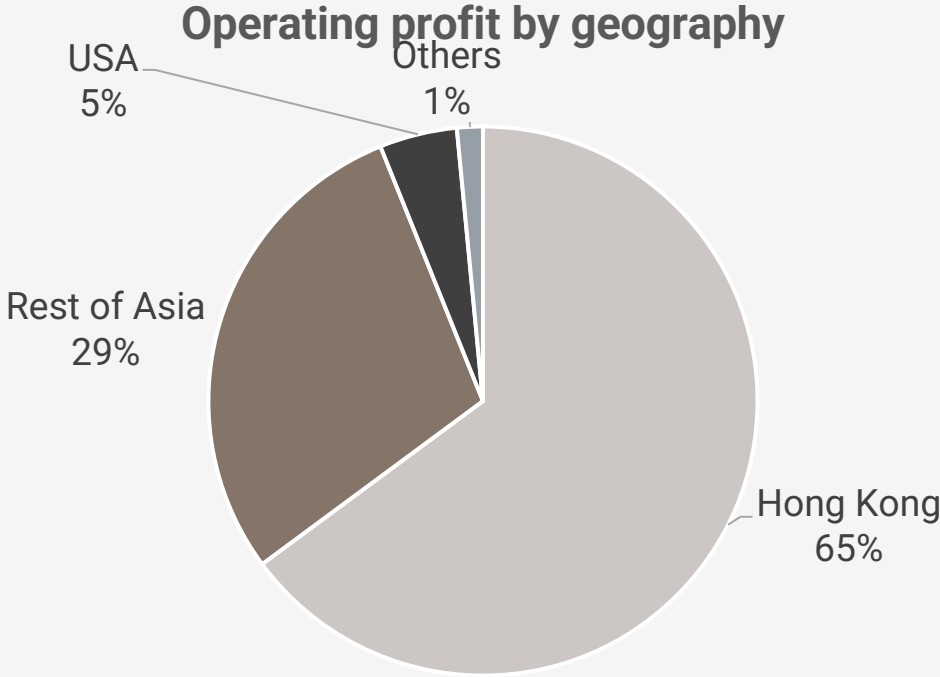
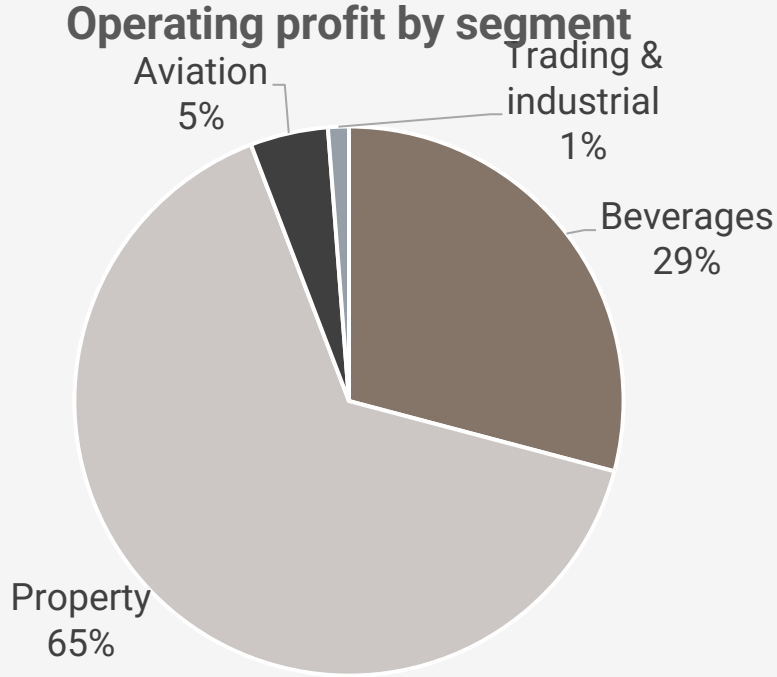


- Swire Pacific is a Hong Kong conglomerate with a rich history dating back several hundred years. It's owned and controlled by descendants of original founder John Swire who lived in the early 19th century.
- The company has four main business:
 1. Swire Properties, which owns the Hong Kong commercial properties Pacific Place in Admiralty and Taikoo Place in Quarry Bay. It also has a number of high quality retail properties in tier 1 cities in China.
 2. Cathay Pacific, Hong Kong's leading airline
 3. HAECO, an aircraft maintenance business
 4. A major Coca-Cola bottling business in Greater China
- Swire Pacific has two separate share classes: An "A-share" as well as a "B-share" which gives identical voting rights about only 1/5 the cash flow rights of the A-share. The Swire family owns more of the B-share, enabling it to control the company with a minimum amount of capital.



Taikoo Place

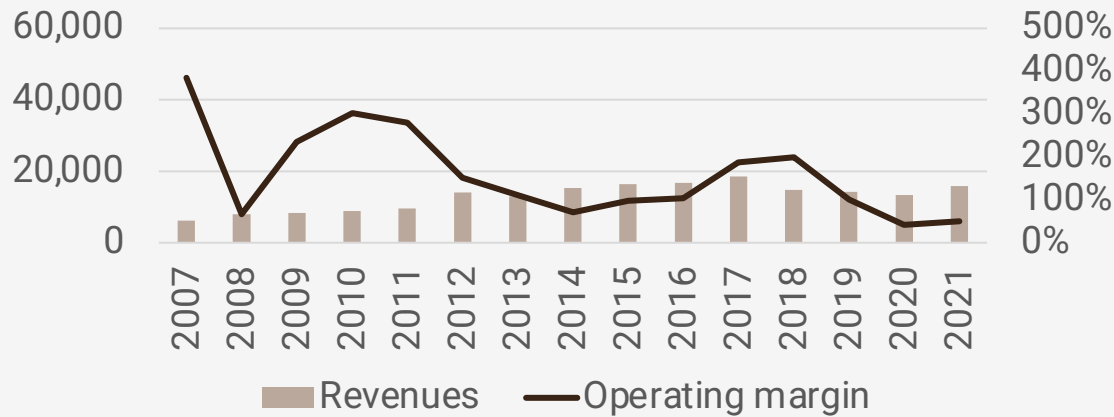
More of Swire's operating income comes from property leasing in Hong Kong



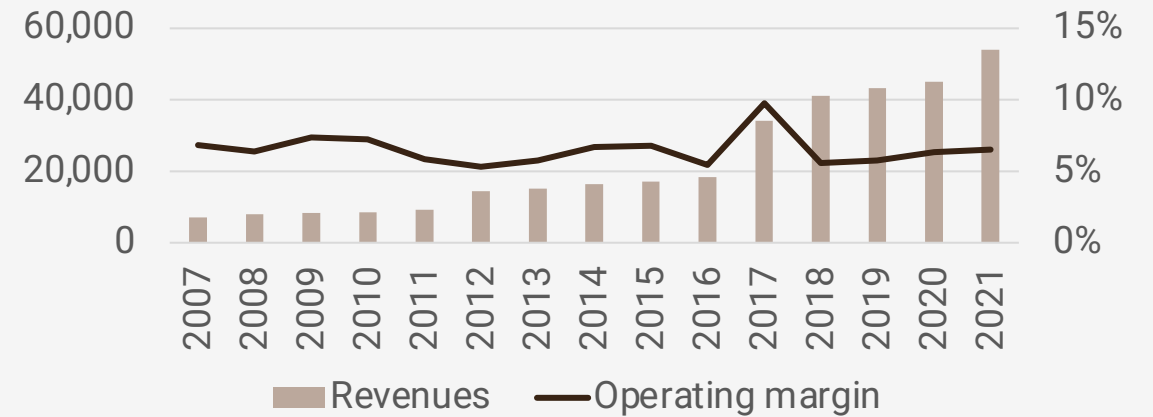
Growth has come from the beverage segment and aviation. But those are low margin businesses.



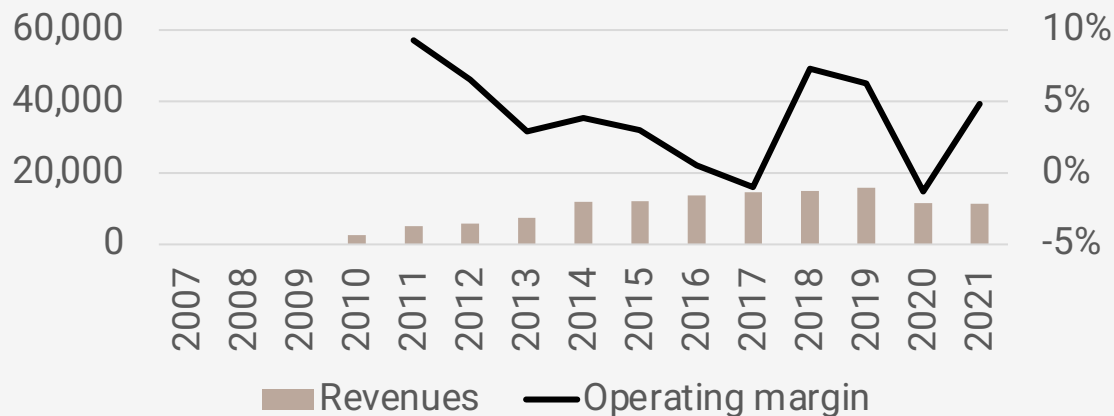
Property



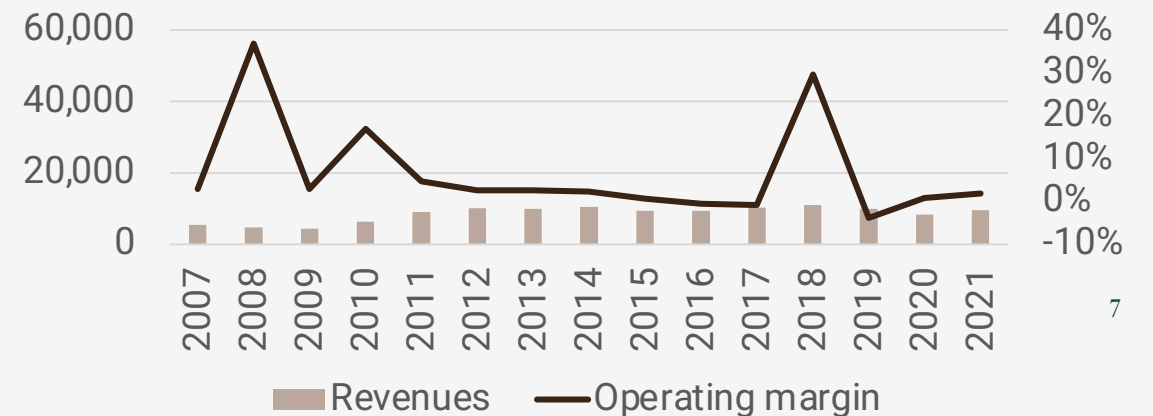
Beverages



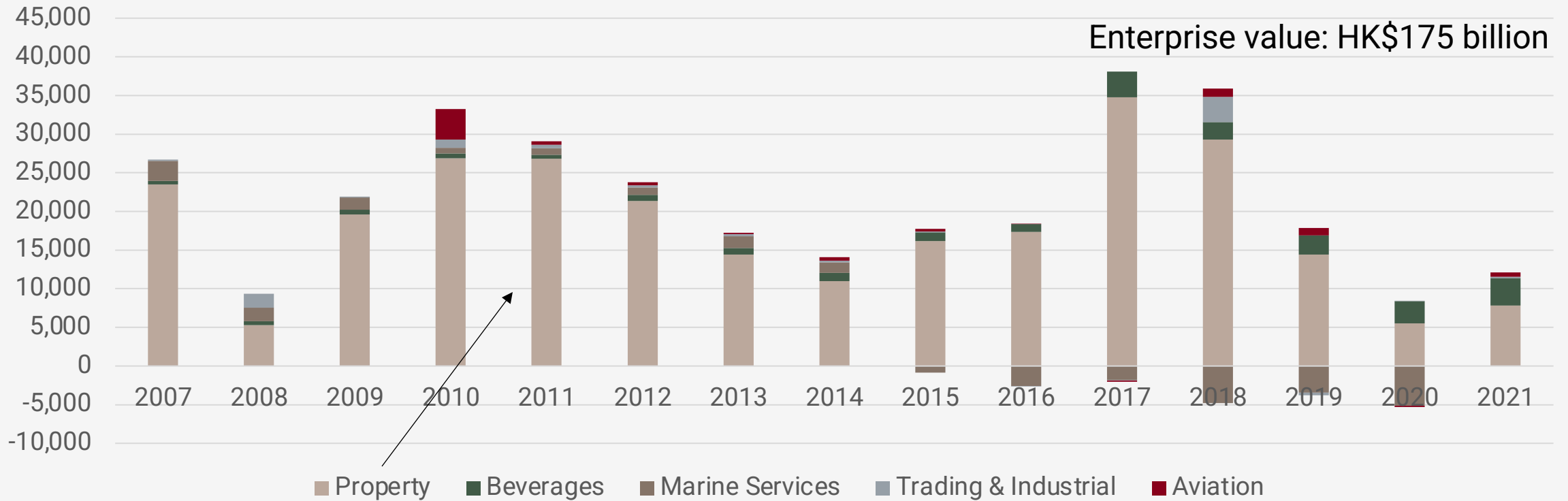
Aviation



Trading & industrial



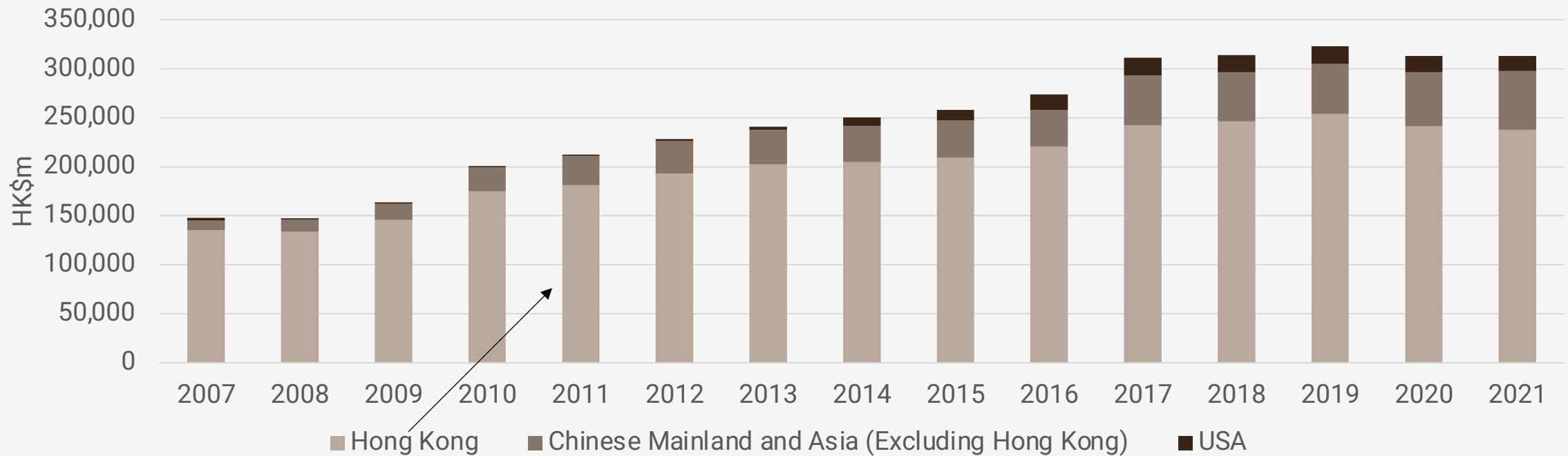
Property leasing revenue is the key driver of operating profit



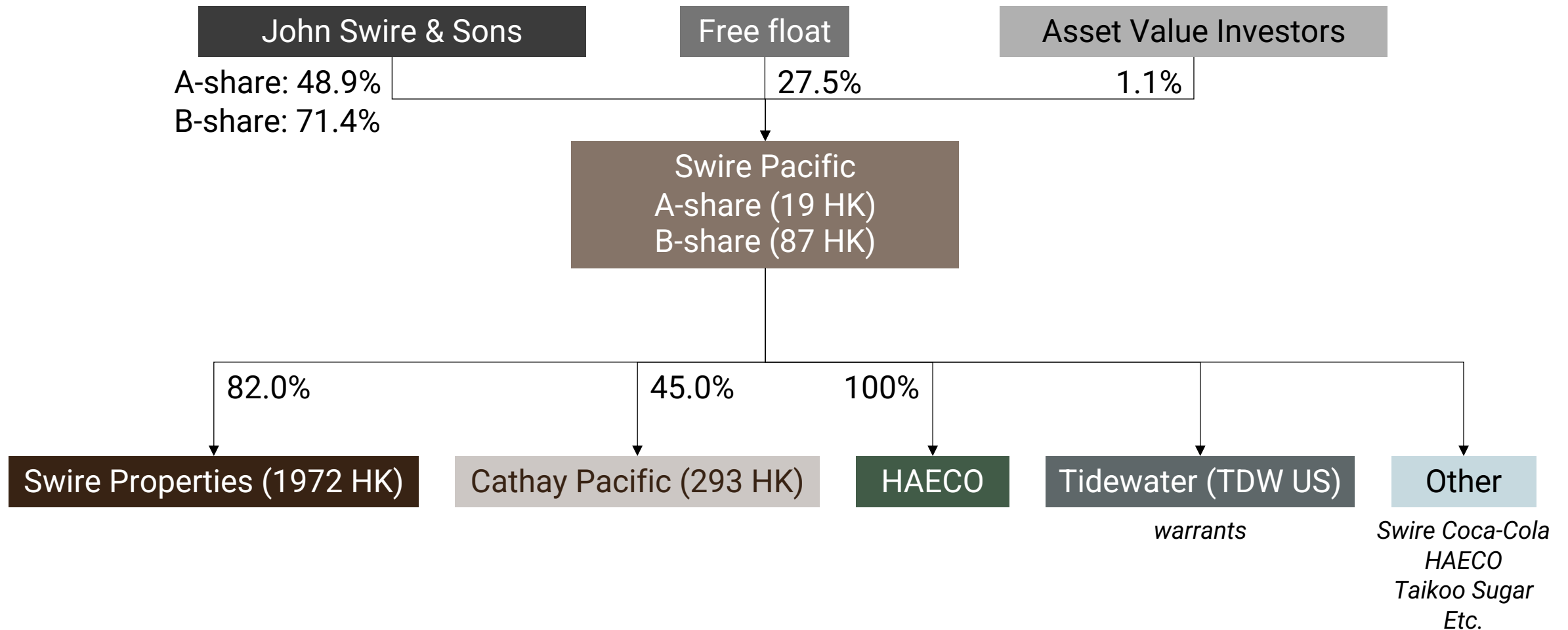
The majority of Swire Pacific's assets are in Hong Kong



Swire Pacific: total assets



Swire Pacific owns several listed subsidiaries



Swire Properties (1972 HK)



- Swire Properties is a developer of commercial properties in:
 - Hong Kong: 14.4 million square feet, much of it in the Eastern part of Hong Kong island (Quarry Bay)
 - Mainland China: 9.7 million square feet
 - Singapore and Miami: 2.7 million square feet
- The company also owns several hotels: Upper House at Pacific Place and EAST Hong Kong at Taikoo Place, as well as 20% interest in JW Marriott, Conrad Hong Kong, Island Shangri-Land and Novotel Citygate. Within mainland China, it owns Opposite House at Taikoo Li Sanlitun, 50% interest in EAST Indigo, Temple House at Sino-Ocean Taikoo Li Chengdu, Mandarin Oriental at Taikoo Hui in Guangzhou and 50% of Sukhothai Shanghai.
- In addition, the company is engaged in several residential developments including in Singapore, Miami, Hong Kong and Indonesia.
- But overall, almost 100% of Swire Properties operating profit comes from recurring revenues, i.e. commercial properties and hotels





Swire's key commercial properties

Taikoo Hui (Guangzhou)



HKRI Taikoo Hui (Shanghai)



Taikoo Place (Hong Kong)



Indigo (Beijing)



Taikoo Li Sanlitun (Beijing)



Citygate (Hong Kong)



Sino-Ocean Li Taikoo (Chengdu)



Taikoo Li Qiantian (Shanghai)



Pacific Place (Hong Kong)

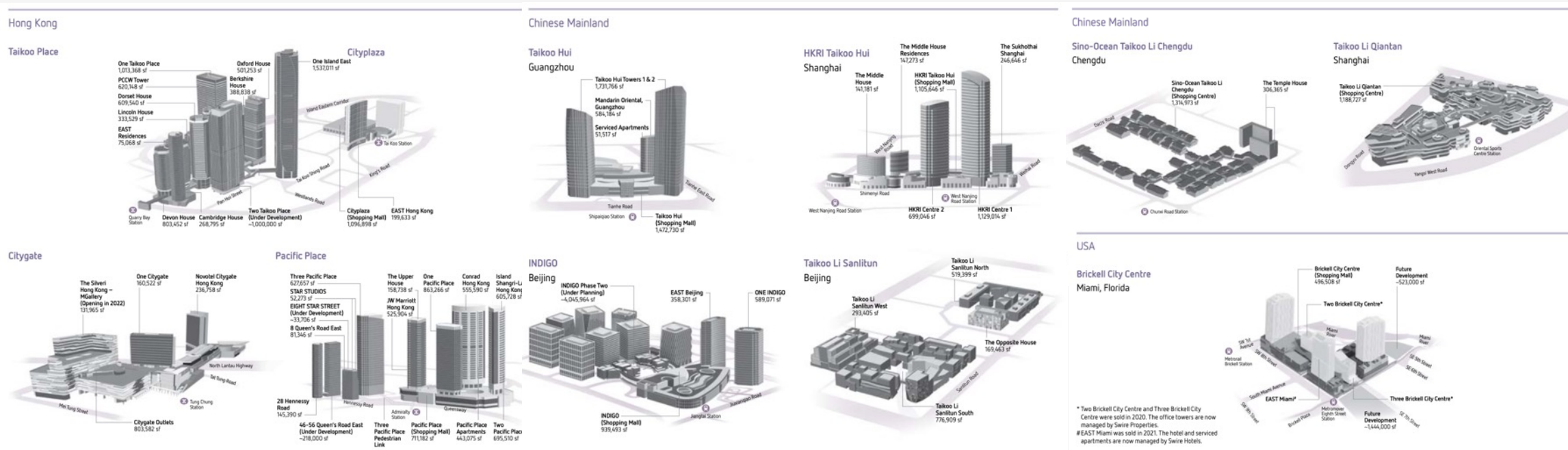


Key Swire commercial properties:

- Taikoo Hui (Guangzhou)
- Taikoo Hui (Shanghai)
- Taikoo Li Qiantian (Shanghai)
- Indigo (Beijing)
- Taikoo Li Sanlitun (Beijing)
- Sino-Ocean Li Taikoo (Chengdu)
- Taikoo Place (Hong Kong)
- Pacific Place (Hong Kong)
- Citygate (Hong Kong)
- Brickell City Centre (Miami)



Detailed descriptions of each commercial property



Swire Properties Hong Kong assets



Swire Properties mainland China assets



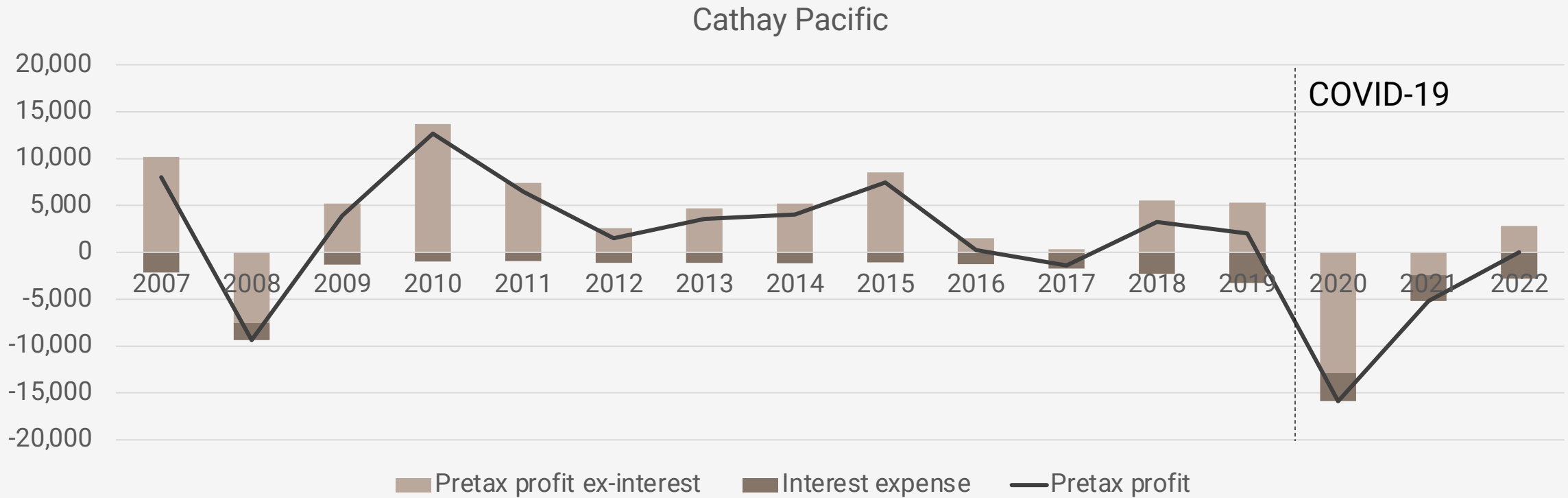
Aviation: Cathay Pacific (293 HK) and HAECO (fully owned)



- **Cathay Pacific** is the flagship airline carrier for Hong Kong
- In addition to running Cathay Pacific, Swire also provides in flight catering and ground handling services at Hong Kong International Airport for itself and other airlines.
- Swire also owns **Hong Kong Express Airways** as well as associate interests in Air China and Air China Cargo
- **HAECO** (“Hong Kong Aircraft Engineering Company Limited”) is an aircraft maintenance and repair business, based in Hong Kong, Xiamen and the United States.
- Cathay Pacific also owns 18.1% of Air China, one of the flagship airline carriers of China



Cathay Pacific was profitable before COVID-19. But with high interest expense



Coca-Cola bottling operation for Greater China



- Swire's bottling operation has the exclusive rights to manufacture, market and distribute Coca-Cola products in 11 mainland Chinese provinces and Shanghai, as well as Hong Kong, Taiwan and parts of the US
- 26 bottling plants across the following regions:
 - 18 in mainland China
 - 1 in Hong Kong
 - 1 in Taiwan
 - 6 in the United States
- After Swire refranchised its bottling operations a few years ago, the business has shifted from asset-heavy bottling to a more asset-light syrup sales. That has improved the return on capital for the segment.
- 67% of the product mix were sparkling drinks such as Coca-Cola, Fanta, Sprite and Gatorade. 62 beverage brands in total.
- Swire estimates that its products are sold to 762 million separate customers yearly, representing roughly 1,890 million cases





The trading & industrial segment



Swire Foods

Packaging and selling of sugar under the Taikoo Sugar brand name

Qinyuan bakeries in Guangdong province



Taikoo Motors

Dealerships in Taiwan and Hong Kong



Sportswear Retailing

160 mono-brand retail outlets for Nike, Adidas, New Balance, Asics etc as well as multi-brand shops

Distribution of sportswear.



Swire Environmental Services

Waste management

Other investments



- **China Healthcare Investments:** A healthcare provider that operates hospitals, clinic and senior living facilities in the Guangdong province.
- **Shenzhen New Frontier United Family Hospital:** A premium multi-specialty hospital in Shenzhen
- **DeltaHealth China Limited:** A mainland Chinese healthcare provider specializing in cardiovascular health
- **Green Monday Holdings:** A producer of distributor of plant based food products



Company history



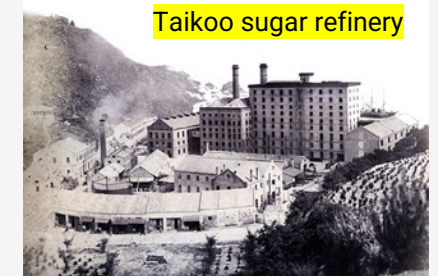
- John Swire & Sons was founded by British merchant John Swire in **1816**, initially focusing on cross-border trading of textiles.
- In **1861**, the company began to trade with China through a partnership that became known as R.S. Butterfield & Swire.
- In **1882**, Butterfield & Swire acquired a plot of waterfront land in Hong Kong's Quarry Bay. The Taikoo Sugar Refinery was set up on the plot and went into operation in **1884**. Later on in 1907, it built the Taikoo dockyard on the same plot.
- Orient Paint was created in Shanghai in **1933** to manufacture paint and sell it across the mainland.
- After the Communists took over mainland China in **1949**, the Shanghai operations were expropriated, with the Hong Kong business – including Orient Paint – remaining under John Swire & Sons control.
- Swire purchased the Coca-Cola bottler for Hong Kong in **1965**. It was then invited by Coca-Cola to develop its mainland business in **1989**.
- Swire Properties was incorporated in **1972** and three years later, Swire built a 61 tower residential developments on its plot of land in Quarry Bay. Taikoo Place in Quarry Bay was built in **1991**.
- Swire entered the offshore support vessel industry in **1975** together with Northern Offshore. It exited the business in **2022**.
- In **1976**, Cathay Pacific and Swire Pacific formed a JV called HACTL to handle air cargo
- In **1977**, Swire Resources was set up to focus on the retail trade, specifically sportswear.
- The auto dealership business began with Volvo trucks and buses in Taiwan in **1978**.
- In **1985**, Swire Properties purchased two plots of land in Hong Kong's CBD to develop the Pacific Plaza office / retail / hospitality development.
- The expansion into mainland China began with Taikoo Hui in Guangzhou in **2002**. Soon thereafter, Swire purchased a 50% interest in HKRI Taikoo Hui in Shanghai. In 2015, Sino-Ocean Taikoo Li in Chengdu opened.
- In **2009**, Swire Pacific increased its position in Cathay Pacific to 42%, making it the controlling shareholder
- Swire Properties was separately listed on the Hong Kong Stock Exchange in **2012**.



JOHN SWIRE & SONS



John Swire

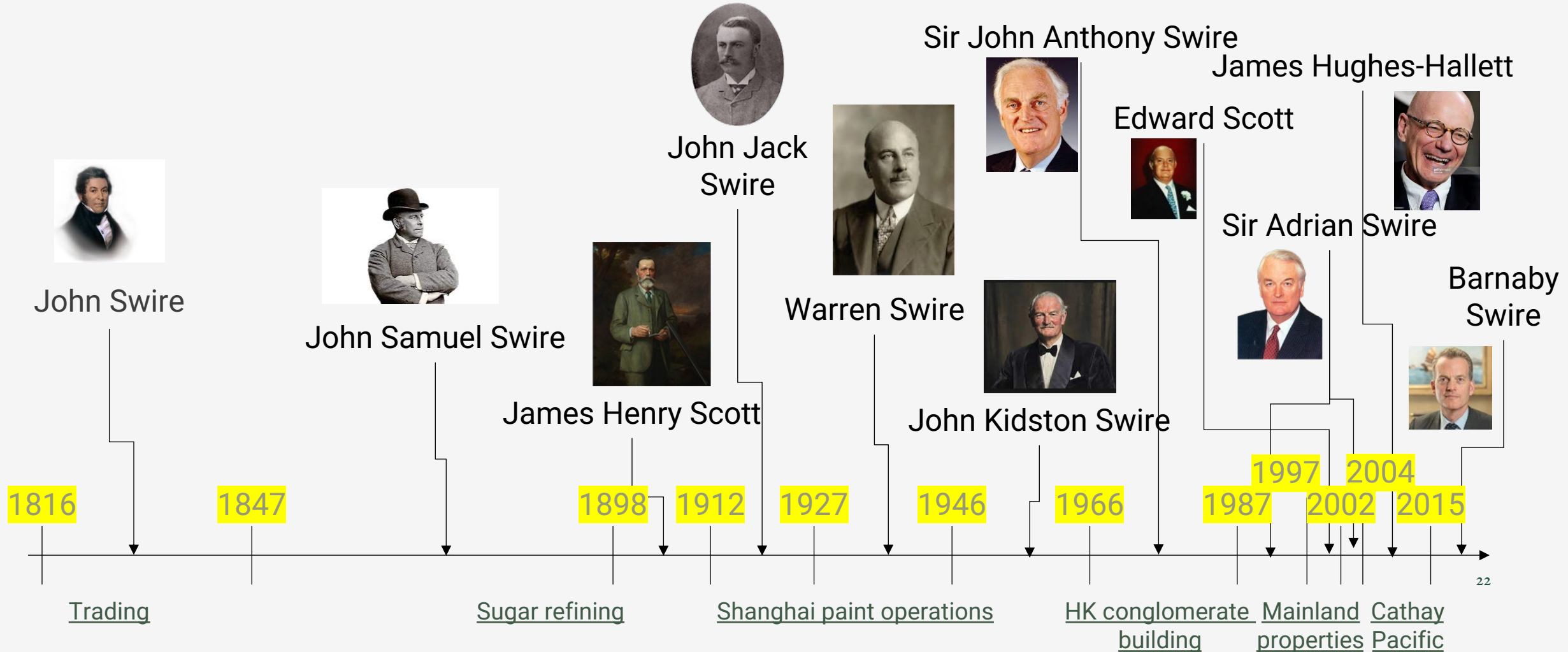


Taikoo sugar refinery



Quarry Bay residential development

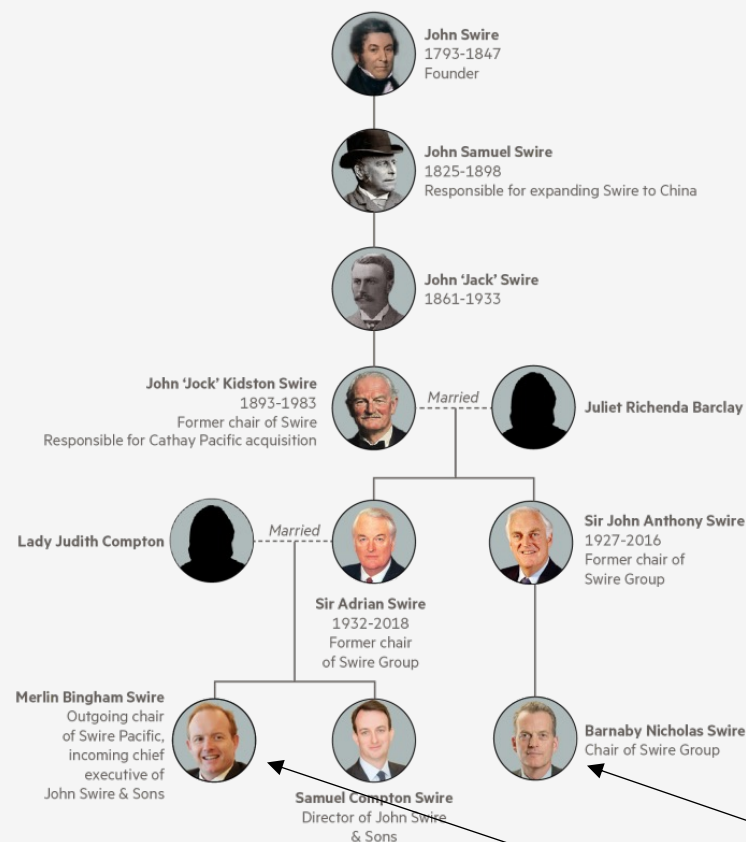
Swire's leadership throughout history





Merlin Swire's failed tenure at Swire Pacific

Swire family tree



- Younger Merlin Swire took over the Chairmanship of Swire Pacific in 2018 and moved to Hong Kong. He is John Swire's great-great-great-grandson.
- In 2019, Cathay staff participated in anti-government protests. Merlin met with government officials in Beijing and ousted the Cathay Pacific leadership soon thereafter.
- Perhaps because of Swire's difficulties from 2019 onwards, Merlin decided to move back to London in 2021, leaving Swire Pacific to professional managers.
- Today, parent John Swire & Sons is run by Barnaby and Merlin Swire, while Swire Pacific is run professionally by ex-Swire Properties managers Guy Bradley and Tim Blackburn.

Current de facto leaders of the Swire Group

The important strategic decisions are made by Barnaby and Merlin Swire in London



Parent Swire Group's Chairman is **Barnaby Swire**. He has been Chairman of Swire Pacific since 2014, replacing James Hughes-Hallett. He is a son of late John Anthony Swire, who ran Swire Group between 1966 and 1987 and passed away in 2016. He studied modern languages at Oxford, graduating in 1985.



Swire Pacific's Chairman is **Guy Bradley**. Before becoming Chairman of Swire Pacific, he was CEO of Swire Properties, which he's worked for since 1987 across Hong Kong, the US, mainland China, Taiwan, etc. He has a Master's degree in PPE from Oxford and is a Chartered Surveyor.



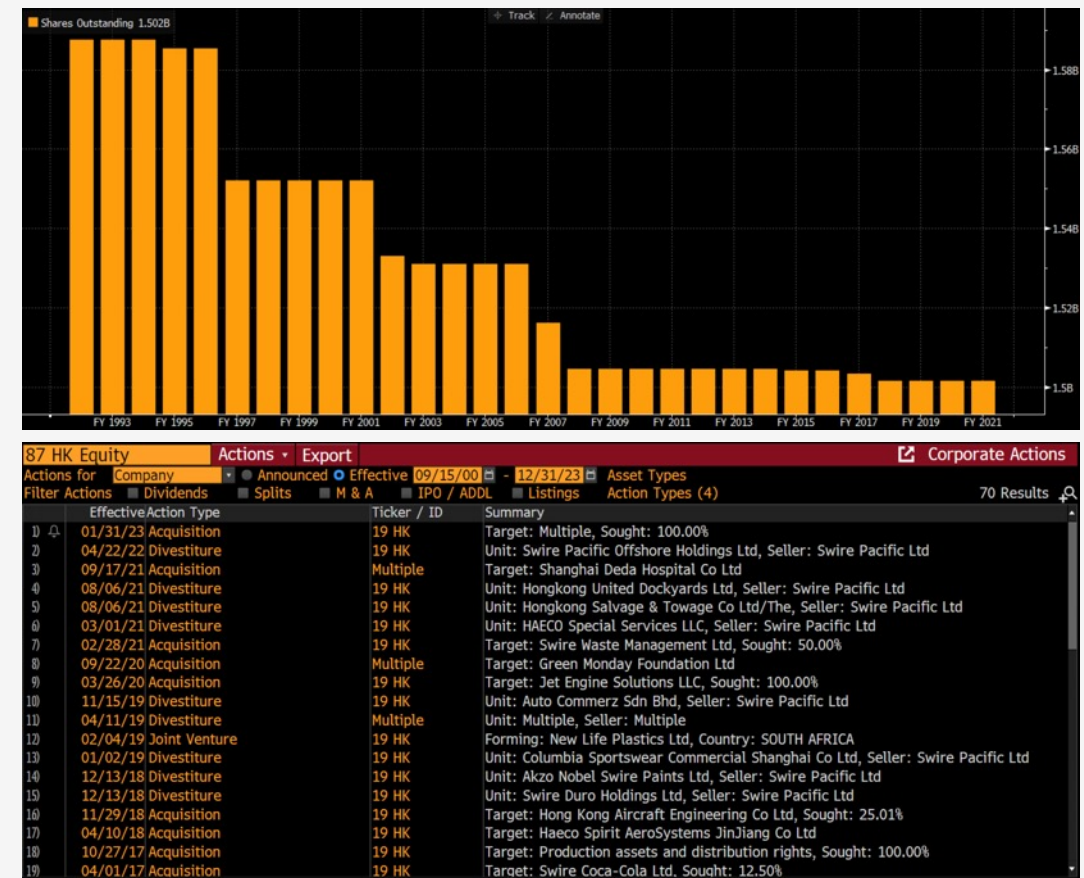
Swire Pacific's CEO **Tim Blackburn** was previously CEO of Swire in mainland China, being a key driving force in building the company's commercial properties. He's been with Swire since 1994 across a number of positions. He has a Master degree in modern languages from Cambridge and also a chartered surveyor. He's been described as immensely talented.



Swire's corporate governance is decent but it's unclear whether their M&A activities add any value



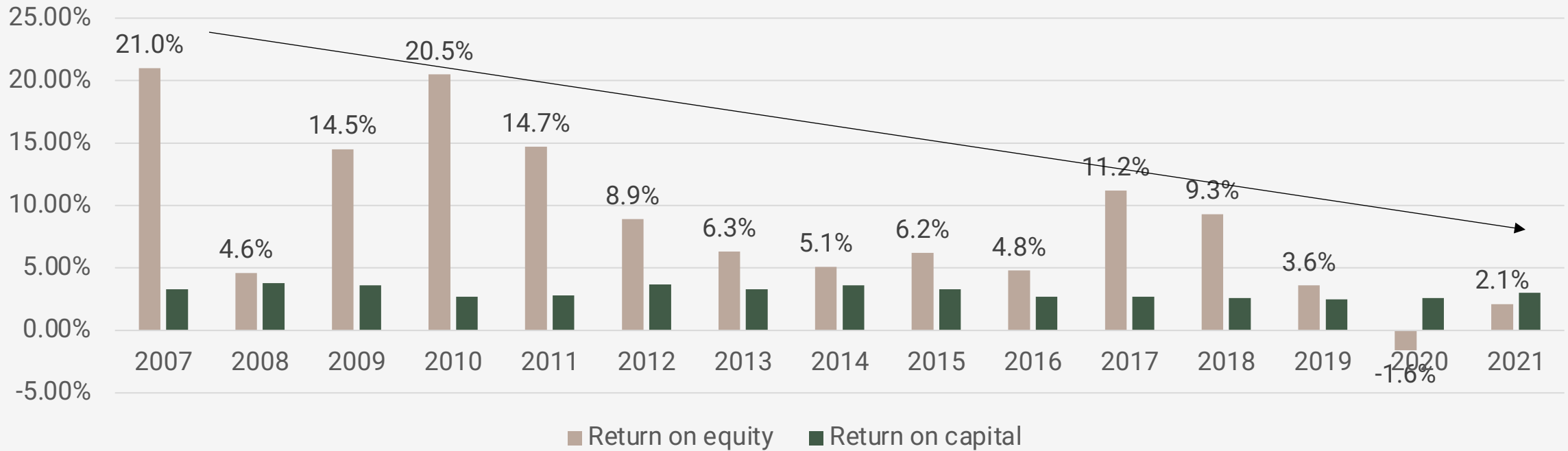
- The share count has dropped over time... but at a very slow pace.
- Buybacks have been sparse. There was one buyback in 2008 and another one in 2002. But the recently announced buyback is much larger in scale and will end up shrinking the B-share count by about 5%.
- No major related party transactions as far as I can tell.
- The company has been active in M&A:
 - The company has recently acquired a number of hospitals in mainland China, including Shanghai Deda Hospital in 2021 for an unknown amount.
 - In 2018, Swire got out of the paint business by selling Akzo Nobel Swire Paints to former partner Akzo Nobel. Transaction terms were undisclosed.
 - In 2018, Swire purchased the 25% it didn't already own of HAECO at 9.85x EBITDA, which I suppose might be a fair multiple.
 - It sold Swire Pacific Offshore to Tidewater in April 2022, at close to the bottom of the OSV cycle. Terrible timing and almost certainly value destructive, in my view.
 - The latest transaction, which has yet to close is the acquisition Coca-Cola's bottling operations in Vietnam and Cambodia for US\$1.0 billion. The transaction will close in January 2023.



Swire's return on equity has fallen over time



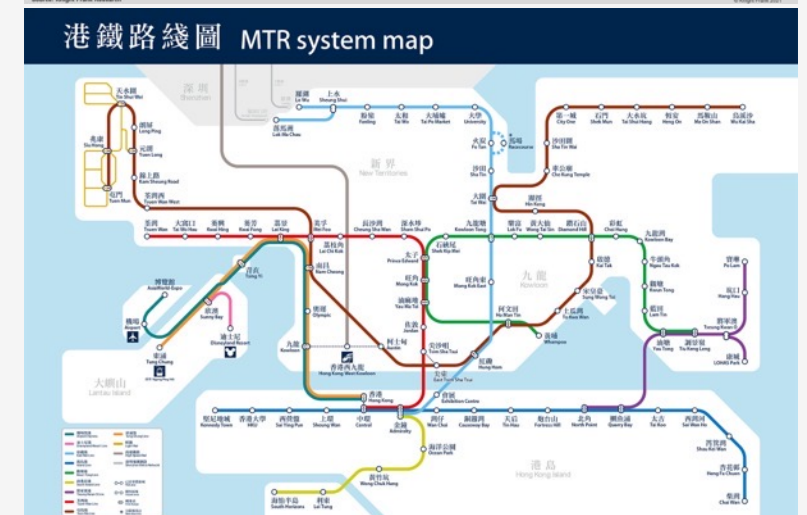
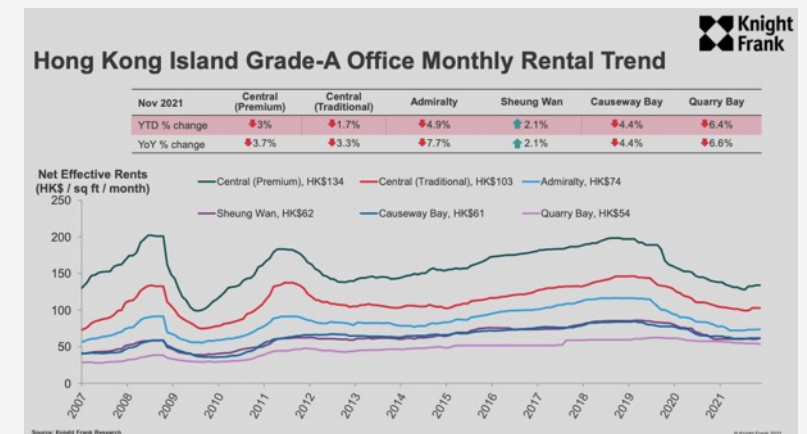
Return on capital



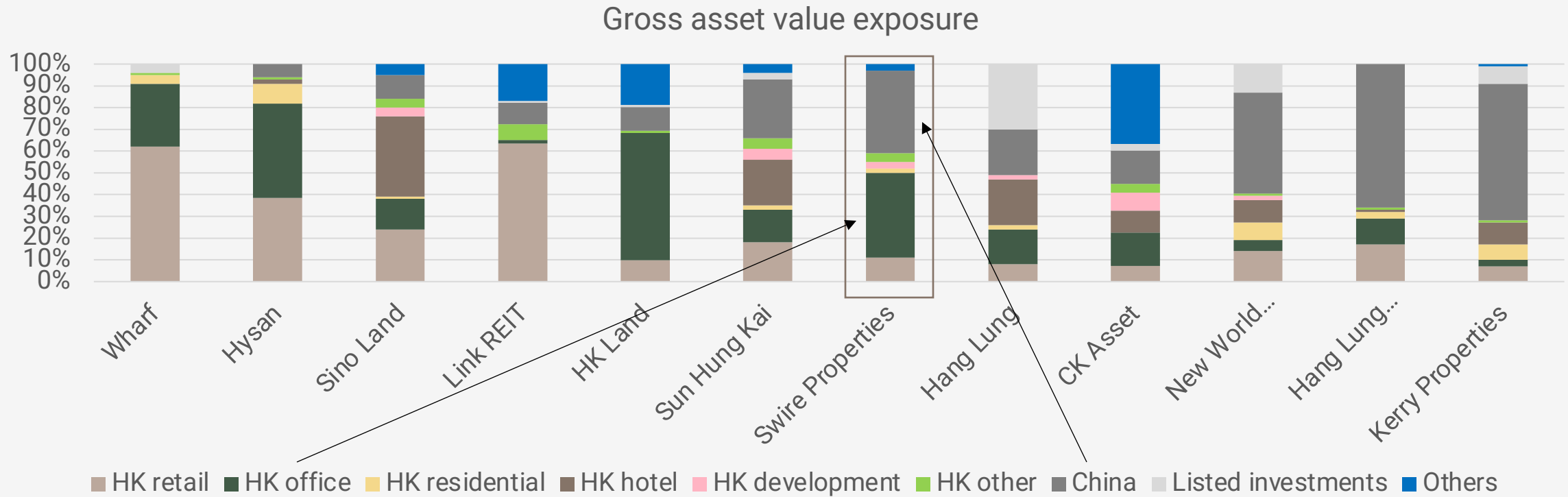
Competitive advantage



- **High-quality assets:** Pacific Place and Taikoo Place are high-quality, modern and almost irreplaceable assets. Their occupancy rates are impressively high at 96-98%. Quarry Bay office rents are low in comparison to those in Central making such offices viable alternatives. Finally, Quarry Bay is easily accessible through the Eastern Harbour Crossing and the Tseung Kwan O Line.
- **Conservative culture:** The Swire Group has lasted for over 200 years. Why the group's capital allocation can be questioned, there's a reason it has survived. The Swire family's motto is: "Esse Quam Videri" = to be, rather than to seem. Investments are done with a long-term perspective. Neither Merlin nor Barnaby are particularly flashy. They seem to take their jobs seriously.



Compared to its peers, Swire Properties has greater office exposure and also significant exposure to the Chinese market



Glassdoor feedback about Swire suggests it's a well-managed and stable company without much opportunities for growth



- *"More like an institution than a business"*
- *"Well administered and carefully (slowly) steered"*
- *"Organization is highly structured"*
- *"Those who joined after 2013 are on a new contract, which entailed huge cuts to benefits, including pensions, schooling allowances, and medical benefits."*
- *"Good reputation and opportunities for growth"*
- *"Stable, good work/life balance, good culture, ppl are relatively nice comparing to banks"*
- *"Bizarre pay structure, incredibly old fashioned and slow moving career progression"*
- *"New management just want to cut salary and benefit"*

glassdoor

John Swire & Sons

Companies

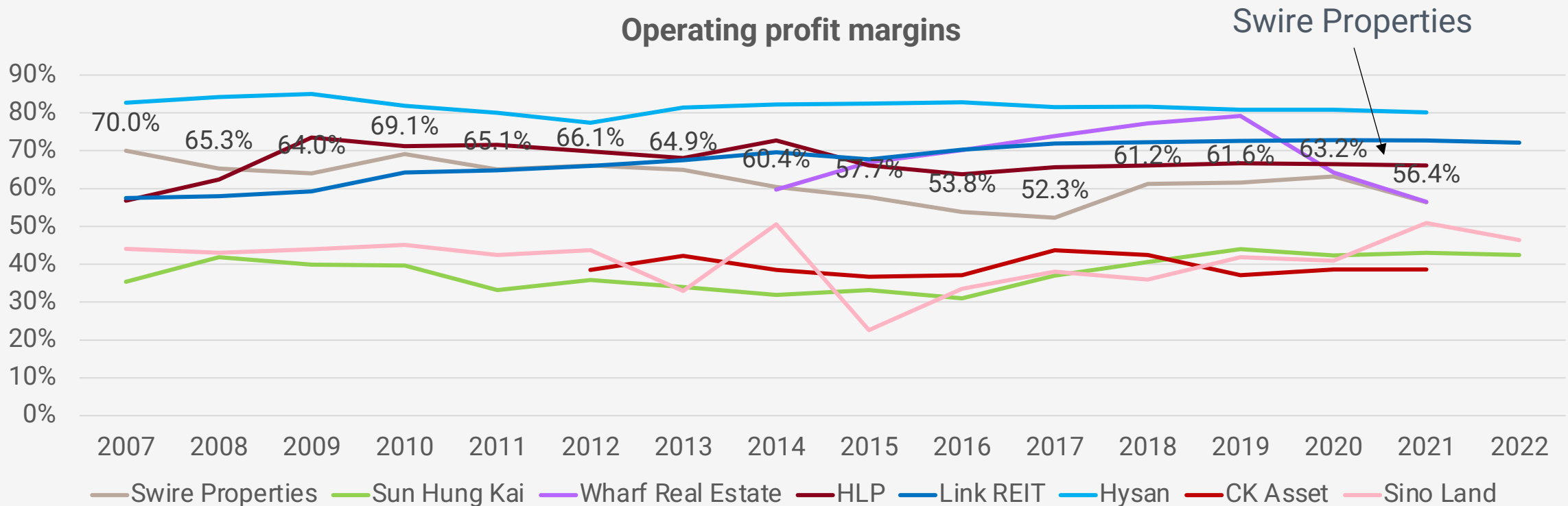
Jobs Companies Salaries Careers

SWIRE

John Swire & Sons

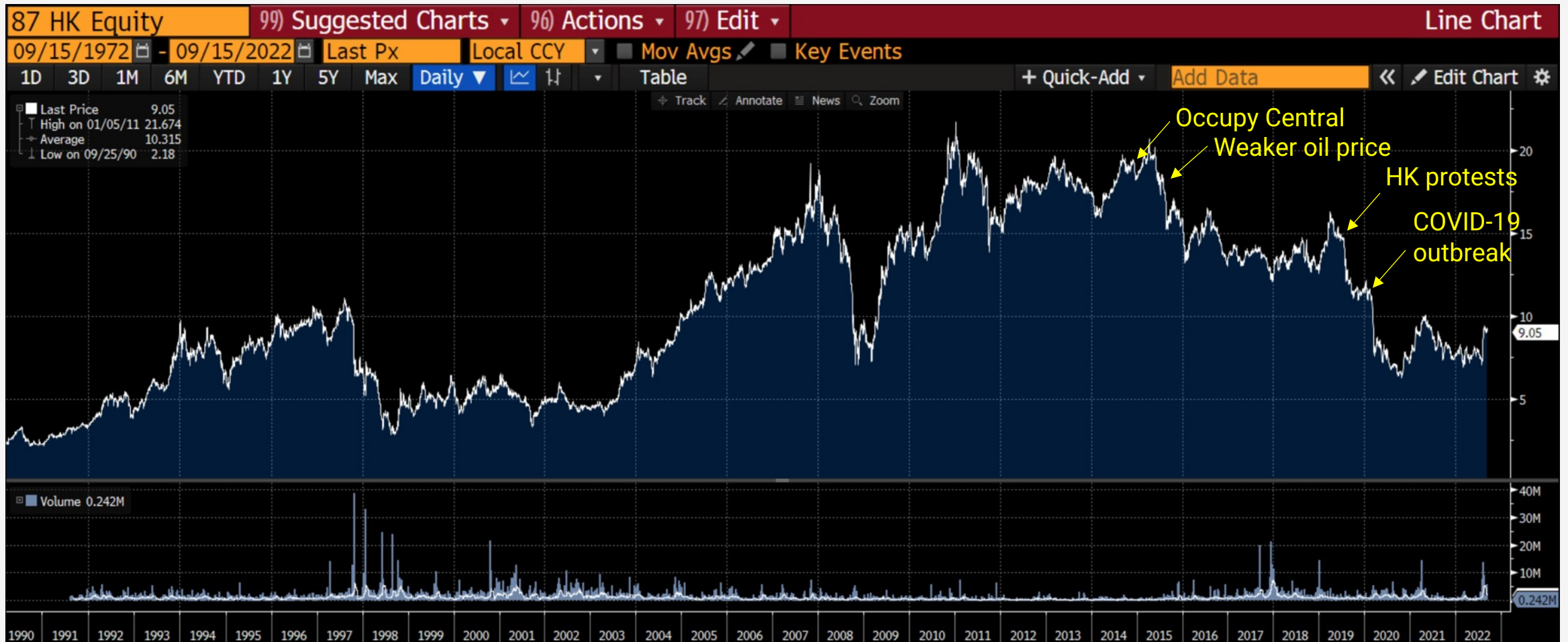
Overview 131 Reviews 39 Jobs 80 Salaries 72 Interviews 39 Benefits 1 Photos

Property leasing is an inherently capital intensive but high-margin business... but it's also likely an efficient operation



Source: TIKR

The stock has dropped by almost half since 2015... in line with other Hong Kong property developers



Source: Bloomberg



What went wrong with Swire Pacific?

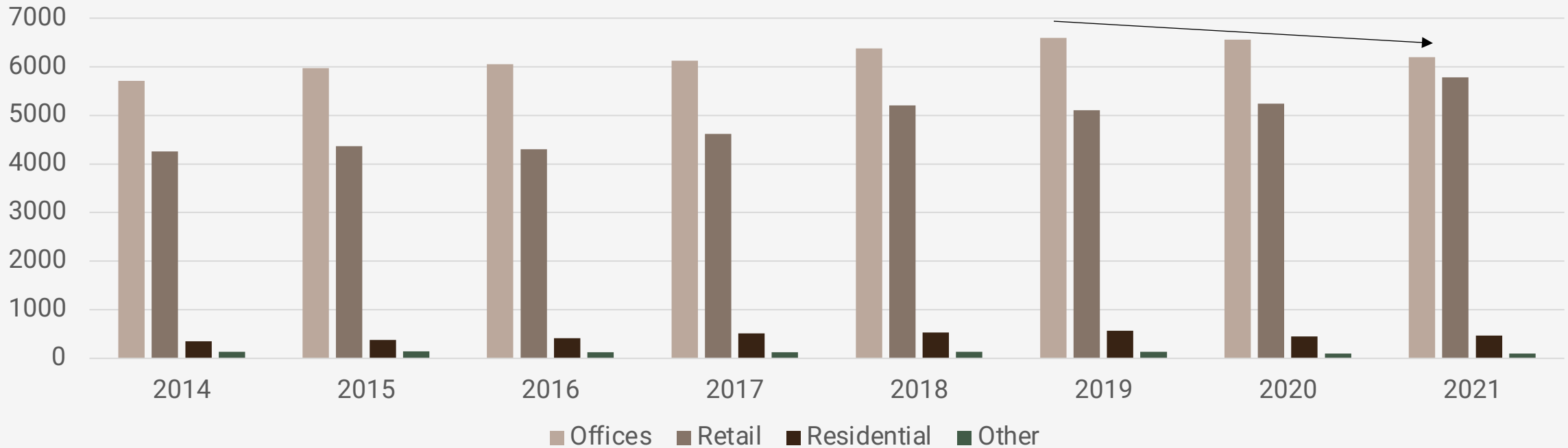
- **Weakness at Cathay Pacific:** The anti-government protests in mid-2019 cut off mainland tourism to Hong Kong, hitting Cathay Pacific. Employee support for the protests hurt the airline's reputation further. The anti-government protests also hurt Hong Kong's retail industry and Swire's retail rents.
- **Work-from-home during COVID-19:** Office rents fell roughly 25% following the onset of COVID-19 in Hong Kong, and have only recently started stabilising.
- **Weakness in the marine services segment:** After crude oil prices dropped in 2014, offshore oil & gas capex dropped precipitously, weakening the demand for offshore service vessels
- **On the other hand:** Positive contribution from One Taikoo Place + decent result from the beverage division



A slight decrease in gross rental income for office... but further negative rental reversions are coming



Gross rental income

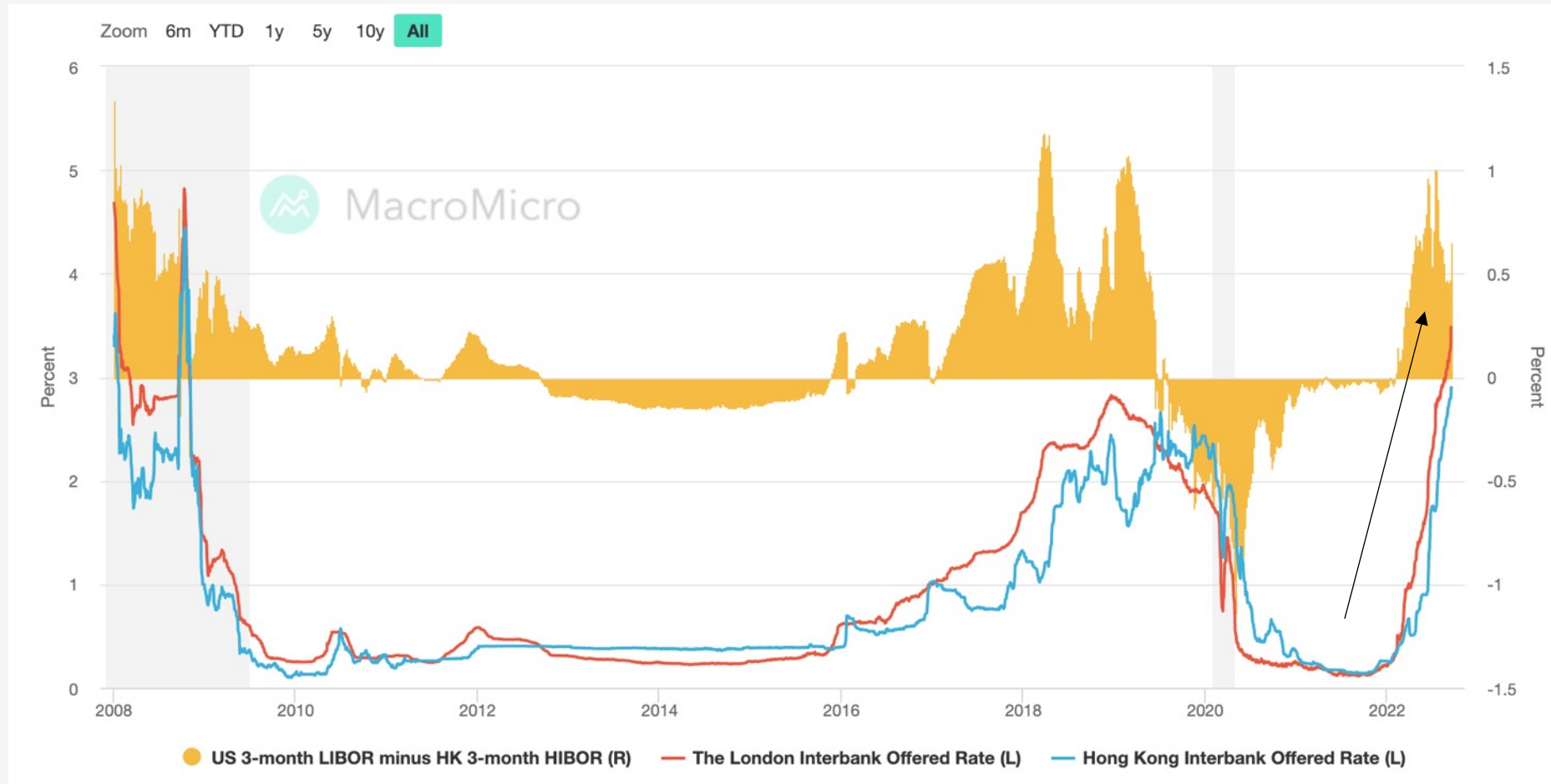




Long-term industry trends

1. Hong Kong interest rates have gone higher as US interest rates have been raised over the past year.
2. Hong Kong office rents have gone down around 20-25% since COVID-19 broke out in early 2020. To avoid the risk of COVID-19 infections, many chose to work from home from 2020 onwards, reducing the demand for office space. Companies responded by downsizing and moving to cheaper office space in Kowloon.
3. Hong Kong retail rents have also come down significantly since the anti-government protests in 2019, subsequent weak tourism as well COVID-19.
4. While some multinationals are signalling that they may leave Hong Kong for Singapore, Tokyo or other cities in Asia following the new National Security Law, more and more mainland Chinese enterprises are coming to Hong Kong. Demand for Hong Kong office space continues to be strong.
5. There will be new supply of over 2.8 million sq ft of office space on Hong Kong Island until the end of 2023, most of which in Central and Quarry Bay. This will keep putting pressure on rents. Although, Swire will partly benefit from this growth given that Two Taikoo Place with its 1 million sqft of office space is included in this number.

Hong Kong interest rates have gone up recently, putting pressure on property prices. The culprit is a higher US Fed Funds rate.

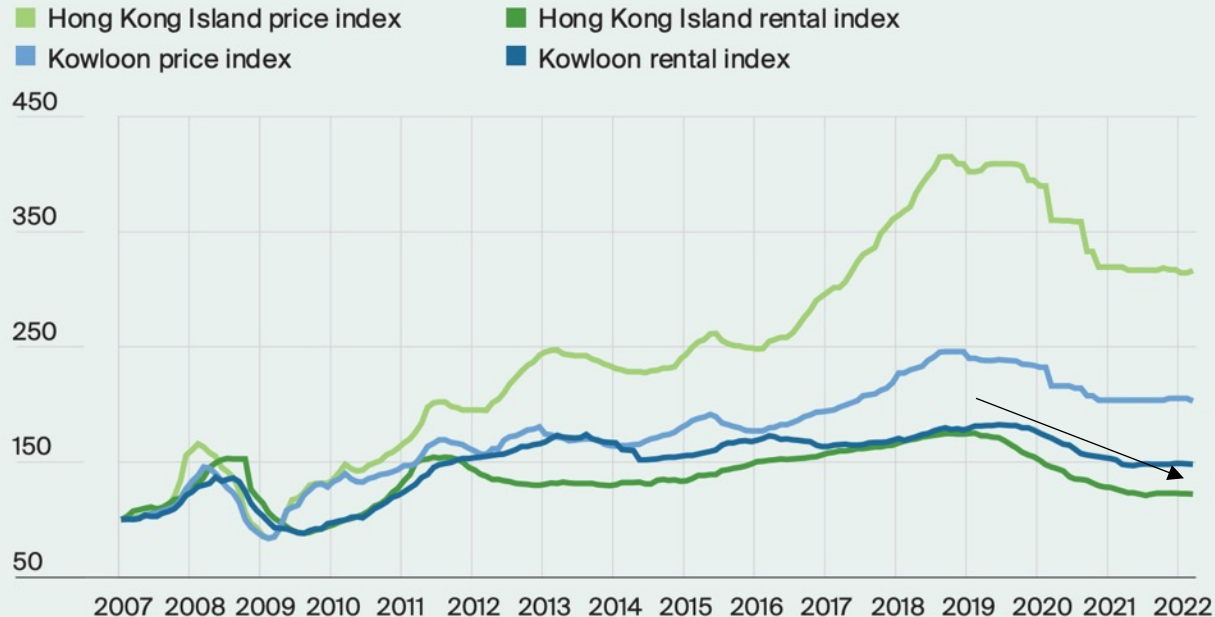


Hong Kong office rentals and property prices have dropped since mid-2019 when the anti-government protests began



Fig 1. Grade-A office rents and prices

2007 = 100



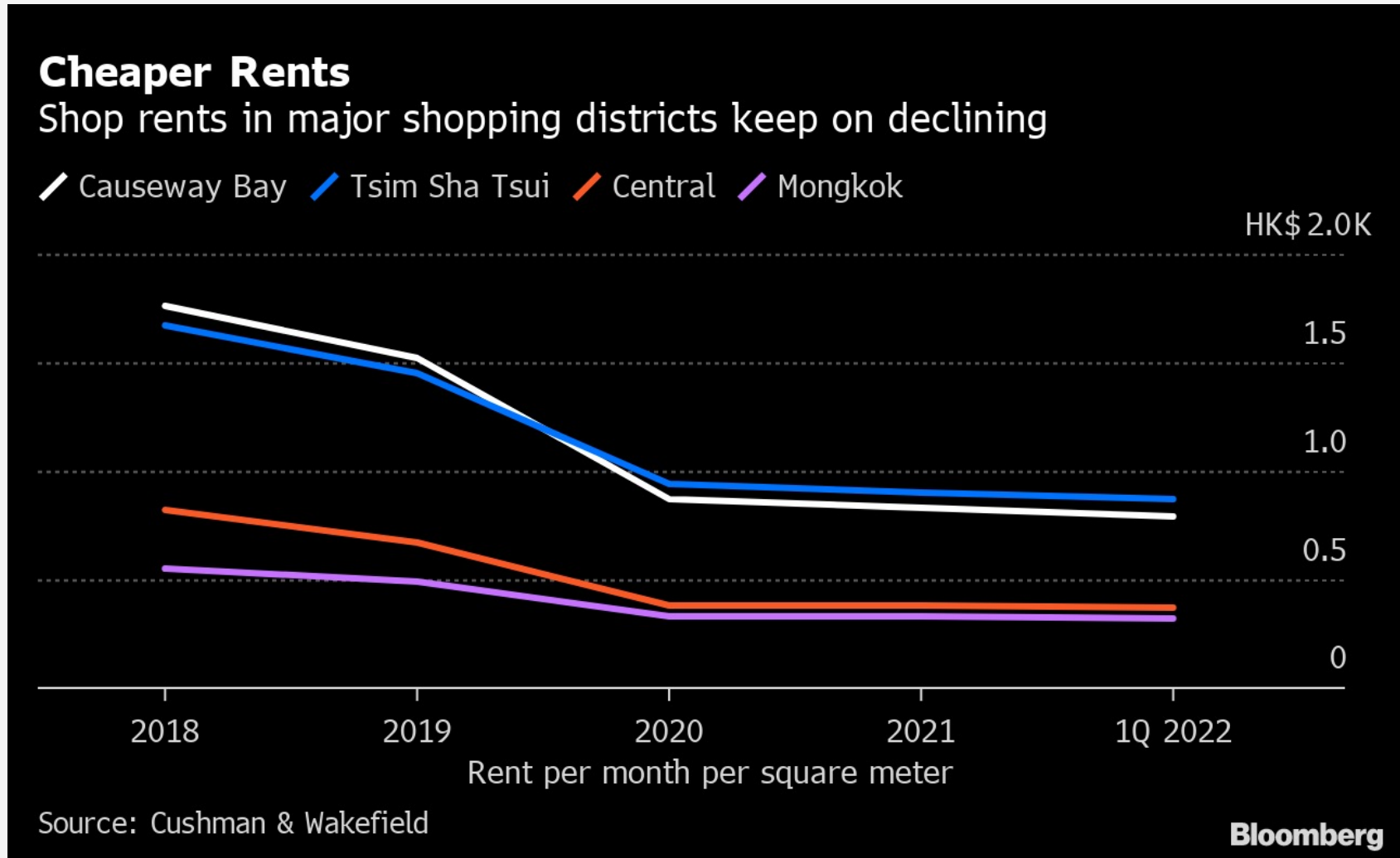
Source: Knight Frank Research

District	Net effective rent	Change	
	HK\$ psf / mth	MoM %	YoY %
Premium Central	134.6	0.2	1.0
Traditional Central	103.4	-0.5	0.8
Overall Central	114.0	-0.2	0.8
Admiralty	73.7	0.8	1.9
Sheung Wan	60.1	-0.2	-1.0
Wan Chai	53.6	0.4	-7.0
Causeway Bay	60.8	0.0	-3.1
North Point	41.4	-0.6	-4.7
Quarry Bay	51.0	-2.7	-9.8
Tsim Sha Tsui	57.0	-0.8	1.7
Cheung Sha Wan	28.4	-0.9	1.6
Hung Hom	39.7	1.0	-4.0
Kowloon East	29.8	-0.2	-2.4
Mong Kok / Yau Ma Tei	50.9	0.8	-0.7

Source: Knight Frank Research
Note: Rents and prices are subject to revision.

Quarry Bay weakness

Hong Kong retail rents have suffered significantly during COVID



What will change for Swire Pacific?



- **Recovery from COVID-19:** Office and retail rents have faced pressure during COVID-19. In Hong Kong, they've recently started to stabilise.
- **Higher interest rates:** The recent spike in interest rates will impact Swire Pacific's own borrowing costs as well as cap rates.
- **Mainland border re-opening:** There's talk of a commitment to opening the border between the mainland and Hong Kong, as well as reducing quarantine periods for incoming travellers to Hong Kong. Such moves would improve Hong Kong retail rents, Cathay Pacific airline traffic to Hong Kong, HAECO revenues and revenues for Swire Pacific's trading & industrial segment.
- **New openings:** Taikoo Li Sanlitun West and Taikoo Li Qiantian opened in late 2021 and have not yet started contributing to rental income. Two Taikoo Place in Quarry Bay will open by the end of 2022.
- **Vietnamese and Cambodian bottling operations:** Swire Pacific recently acquired 100% of Coca-Cola's bottling operations in Vietnam and Cambodia for US\$1,015 million. These will start contributing to earnings from FY2022 onwards.
- **Future investments:** Swire Pacific has committed to investing HK\$100 billion in properties in Hong Kong and China over the next ten years, primarily focused on retail-led mixed developments in top tier cities. In addition, it wants to invest HK\$20 billion in Chinese healthcare assets in the next ten years as well.
- **Dividends:** The new dividend policy is to pay out more than 50% of ex-Cathay earnings, and then pass-through any additional earnings from Cathay Pacific. Meanwhile, management has restated its commitment to increase the regular dividend back to the pre-COVID level of HK\$3.00/share.
- **Ongoing buybacks:** Thanks to activism from UK's Asset Value Investors and other large institutional investors, Swire Pacific has begun to buy back shares and will continue to buy back shares worth HK\$4 billion until the next AGM in May 2023. It plans to buy back both B- and A-shares, and may end up buying back more B-shares given their lower valuation. Since Swire cannot breach the 25% minimum free float requirement, it can buy back a maximum 140 million B-shares, roughly 4.7% of the total. It's worth noting that the Swire family has a 71.5% stake in Swire Pacific's B-shares and a 48.9% stake in Swire Pacific's³⁸ A-share, so they have an incentive to allocate a greater allocation of the buybacks to the B-share.

The yield on Swire's e.g. 2025 USD bonds has increased significantly and is now back to its prior, 2018 levels of 4.7%. Borrowing costs have increased.



New openings



Taikoo Li Sanlitun West (Beijing)



Retail property with 300 shops
Flagship property for Sanlitun
Late 2021

Taikoo li Qiantan (Shanghai)



Retail property with 250 shops
Near Lujiazui
Late 2021

Two Taikoo Place (Hong Kong)

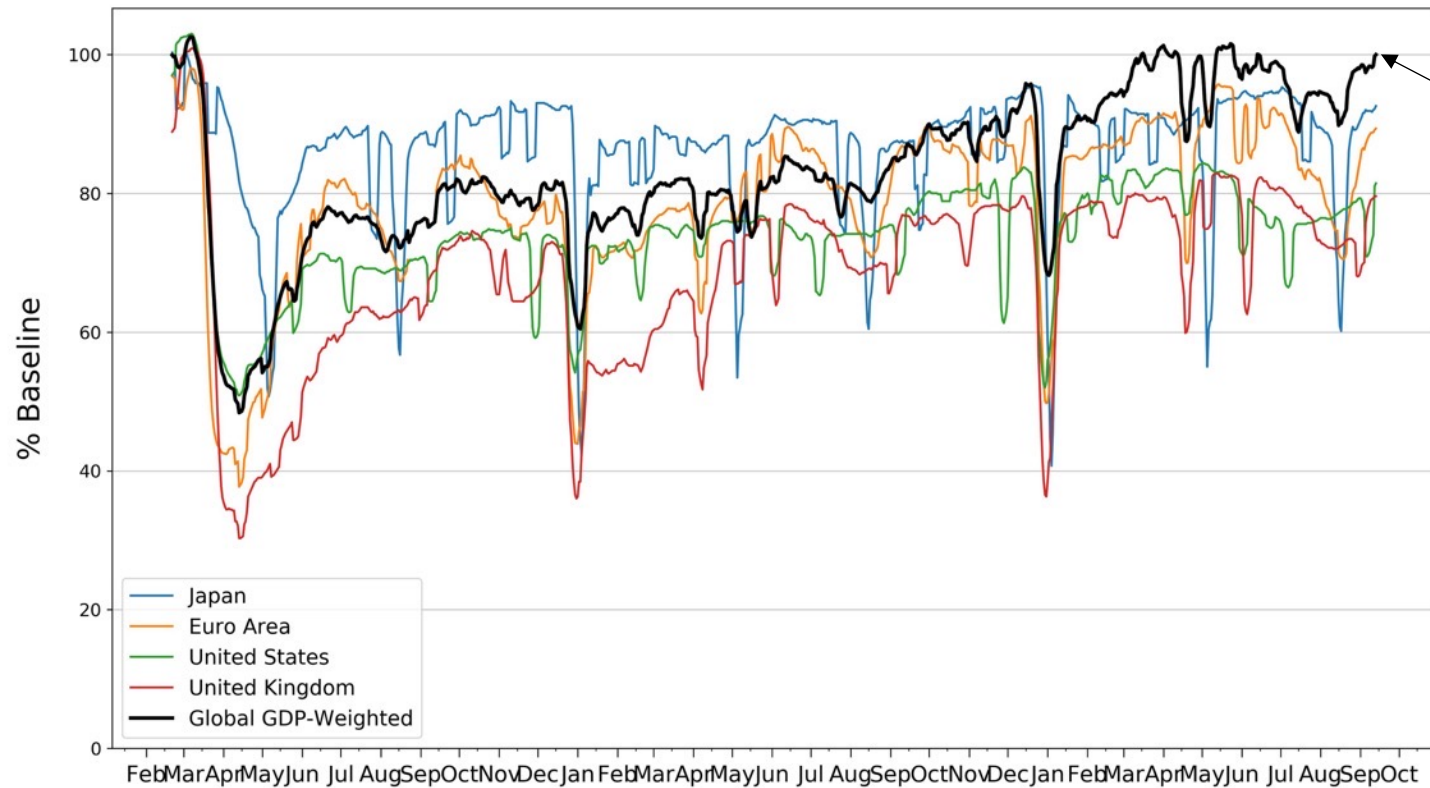


1 million sqft
42 story office building
At Taikoo Place in Quarry Bay
Late 2022

While HK is behind the world in its recovery from COVID-19... other countries show that a full recovery in office demand is possible



exante
data
Workplace Patronage, 7-Day Moving Average



Workplace patronage is now back to the 2019 baseline level globally

Source: Google (Latest Data: September 13)
Global GDP Weighted doesn't include data from China
Euro Area - GDP Weighted Average of:
Austria, Belgium, Estonia, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Portugal, Slovak Republic, Slovenia, Spain

Swire's peer group trades at 8.5x P/E and 7.1% dividend yield



Conglomerates (2023e)	Ticker	Country	Mkt cap (US\$m)	EV/EBITD A	P/E	5yr ROE	P/B	Div yield
Swire Pacific B share	87 HK	Hong Kong	3,439	8.0x	6.8x	4.0%	0.25x	6.7%
Swire Pacific A share	19 HK	Hong Kong	6,344	9.7x	8.3x	4.0%	0.30x	5.5%
CK Asset	1113 HK	Hong Kong	24,378	6.4x	8.3x	6.3%	0.48x	4.4%
Jardine Matheson	JM SP	Hong Kong	16,232	10.9x	8.6x	5.6%	0.49x	4.1%
Wharf Holdings	4 HK	Hong Kong	11,294	13.4x	18.0x	3.6%	0.53x	1.7%
NWS	659 HK	Hong Kong	3,897	6.4x	8.9x	3.0%	0.54x	7.8%
Guangdong Investment	270 HK	China	5,798	7.6x	8.5x	10.8%	0.95x	9.3%
Shanghai Industrial	363 HK	China	1,452	6.3x	2.9x	7.9%	0.21x	12.5%
Average ex-Swire			10,508	8.5x	9.2x	6.2%	0.53x	6.6%
Median ex-Swire			8,546	7.0x	8.6x	5.9%	0.51x	6.1%

Median EV/EBITDA of 10.2x and P/B 0.45x



Source: Bloomberg

Multiply with 5x to get 87 HK's P/B

With cap rates of 3-6%, Swire *Properties* gross asset value is probably in excess of HK\$260 billion



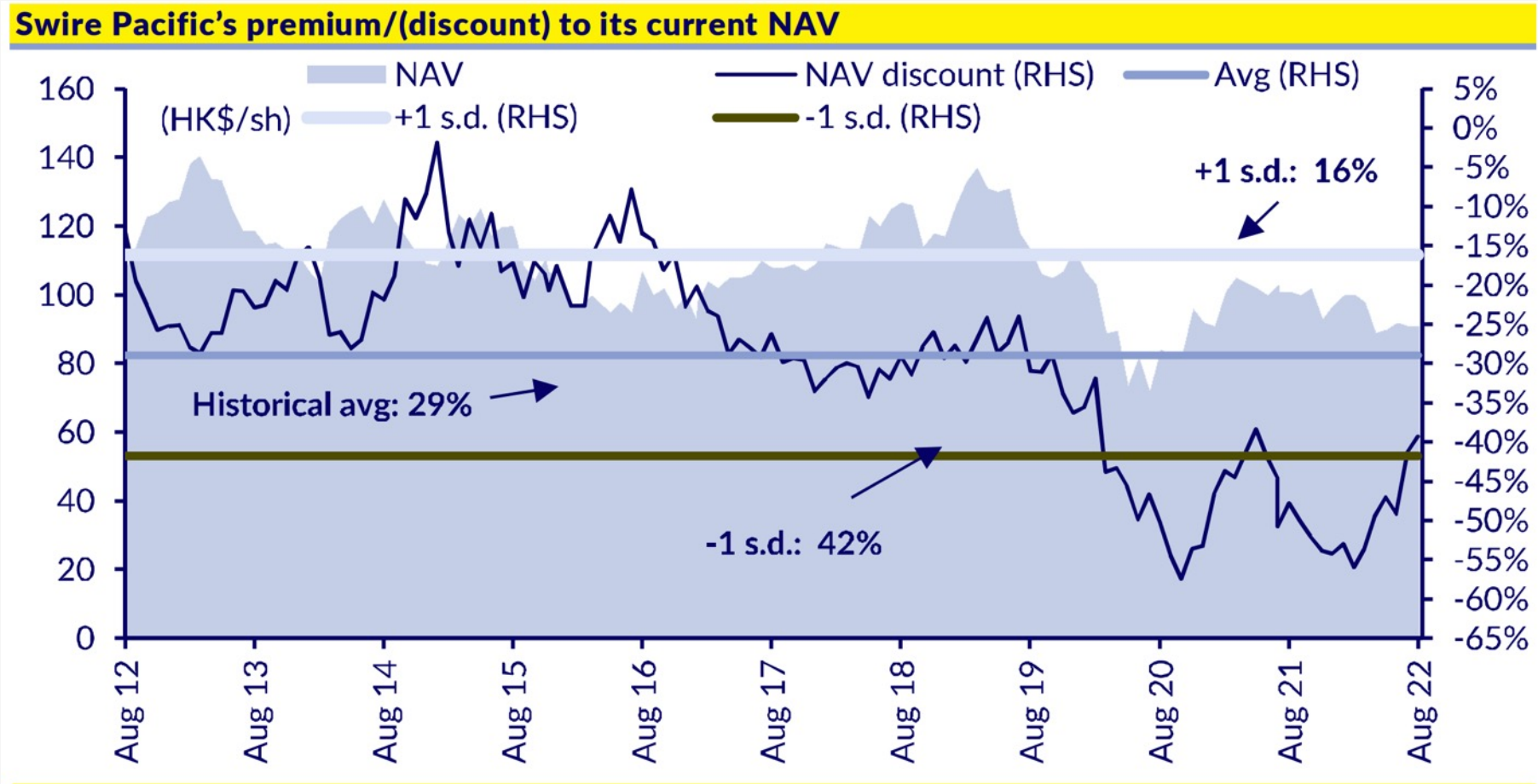
Swire Properties	Gross rental income	Cap rate	Value (HK\$m)
Offices	6,366	4.0%	159,162
Retail	3,862	4.5%	85,827
Residential	542	3.0%	18,065
Other	114	4.0%	2,838
Hotels	1,108	6.0%	18,461
<u>Gross asset value</u>			<u>284,353</u>
Net debt			-19,520
<u>Net asset value</u>			<u>264,833</u>

A conservative sum-of-the-parts calculation gives an intrinsic value number of HK\$26.6 per B-share, far above the current price of HK\$9.0



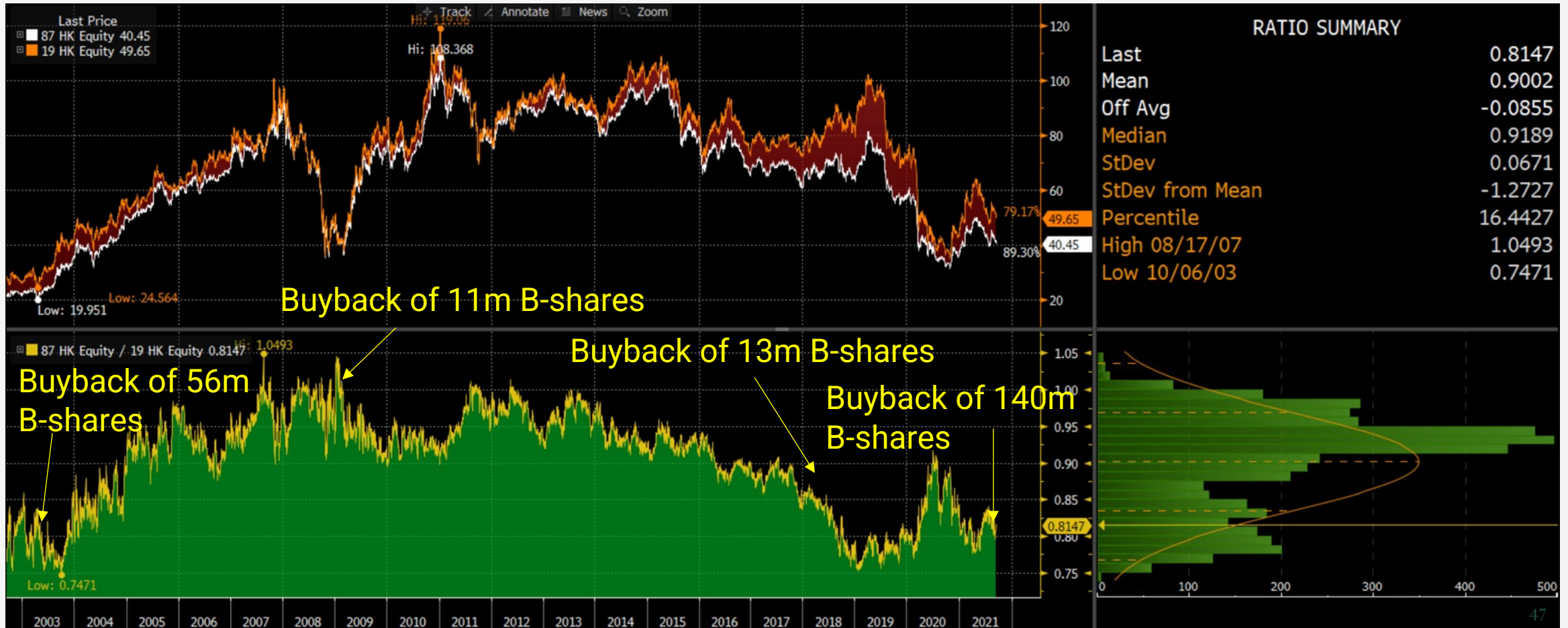
<u>Swire Pacific (HK\$m)</u>	<u>Ticker</u>	<u>Method</u>	<u>Metric</u>	<u>Stake</u>	<u>Value to Swire Pacific</u>
Swire Properties	1972 HK	SOTP	264,833	82.0%	217,163
Cathay Pacific	293 HK	Market	55,296	42.0%	23,224
Tidewater warrants	TDW US	Market	1,329	16.0%	1,329
HAECO	n.a.	20x PE	760	100.0%	15,200
Coca-Cola bottling	n.a.	15x PE	2,549	n.a.	38,235
Trading & industrial	n.a.	12x PE	94	n.a.	1,128
<u>Gross asset value</u>					<u>296,279</u>
Corporate net debt					-29,888
<u>Net asset value</u>					<u>266,391</u>
Shares outstanding					7,508
<u>Intrinsic value/share</u>					<u>35.5</u>
NAV discount					25%
<u>Adj intrinsic value/share</u>					<u>26.6</u>
Current share price (B)					9.0
<u>Upside</u>					<u>195.4%</u>

Swire Pacific's NAV discount has recently narrowed to 40% but remains higher than the 10-year historical discount of 29%. NB: CLSA estimates



Source: CLSA

The Swire Pacific B-share now trades at a 19% discount to the A-share vs 0% back in 2013



Source: Bloomberg

A rough HK\$2 billion drop in rental income will hurt EBIT vs 2019. But at some point spot rents will recover somewhat.

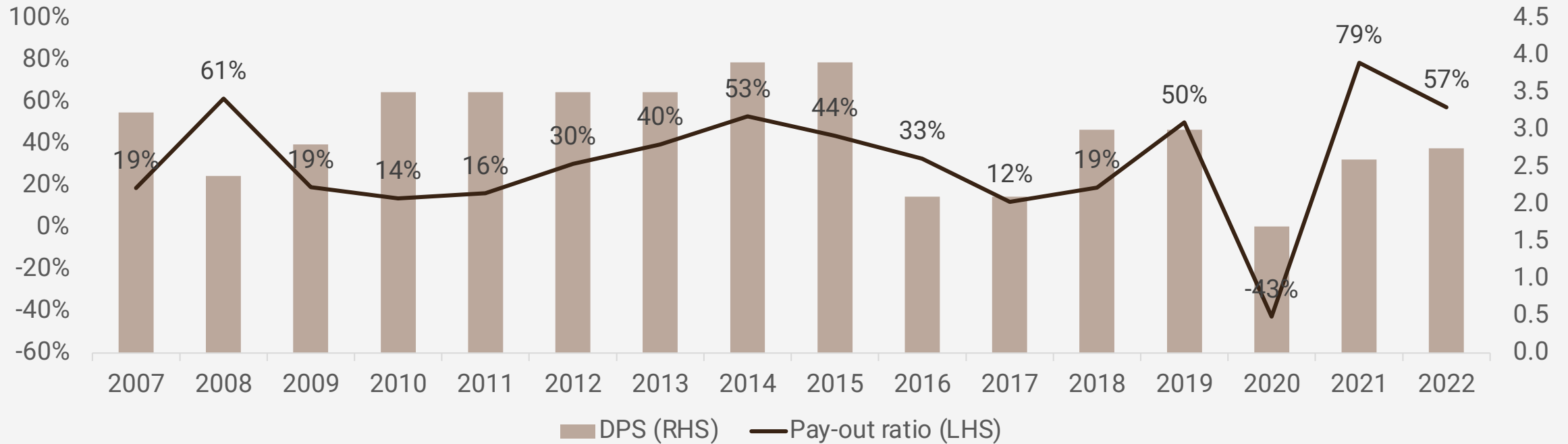


Swire Pacific (HK\$m)	2018	2019	2020	2021	2022	2023	2024	2025
Revenue	84,606	85,652	78,356	90,802	92,263	95,729	99,826	104,431
Cost of sales	-53,739	-53,831	-47,859	-55,524	-58,126	-60,309	-62,890	-65,791
Gross profit	30,867	31,821	30,497	35,278	34,137	35,420	36,935	38,639
Distribution costs	-14,086	-14,565	-14,380	-16,456	-15,685	-16,274	-16,970	-17,753
Administrative expenses	-6,331	-6,563	-6,475	-7,048	-6,920	-7,180	-7,487	-7,832
Other operating expenses	-398	-304	-292	-310	-319	-329	-339	-349
Other net gains	1,458	-325	2,682	2,570	-	-	-	-
Change in fair value of investment properties	19,378	3,728	-4,421	-1,931	-	-	-	-
Operating profit	30,888	13,792	7,611	12,103	11,214	11,637	12,139	12,705
Finance charges	-2,525	-2,494	-2,090	-2,057	-2,366	-2,649	-2,914	-3,060
Finance income	201	452	370	315	324	334	344	355
JVs	2,458	1,949	1,315	2,273	960	1,181	1,452	1,786
Associates	1,324	885	-9,850	-2,833	-1,841	350	368	386
Pretax profit	32,346	14,584	-2,644	9,801	8,291	10,853	11,389	12,172
Income tax	-2,926	-2,746	-2,425	-3,067	-1,492	-1,953	-2,050	-2,191
Net profit	29,420	11,838	-5,069	6,734	6,799	8,899	9,339	9,981
EPS	3.9	1.6	-0.7	0.9	0.9	1.2	1.2	1.3
P/E	2.3x	5.7x	-13.3x	10.0x	10.0x	7.6x	7.2x	6.8x
EV/EBIT	5.7x	12.7x	23.0x	14.5x	15.6x	15.1x	14.4x	13.8x
Div yield	6.7%	6.7%	3.8%	5.8%	5.0%	7.1%	7.4%	7.9%

Historical dividends of around HK\$3-5/A-share and HK\$0.6-0.8/B-share...
new policy is >50% of recurring profit ex-Cathay + Cathay pass-through



Swire Pacific dividend per share / pay-out ratio



Source: TIKR

Potential downside risks



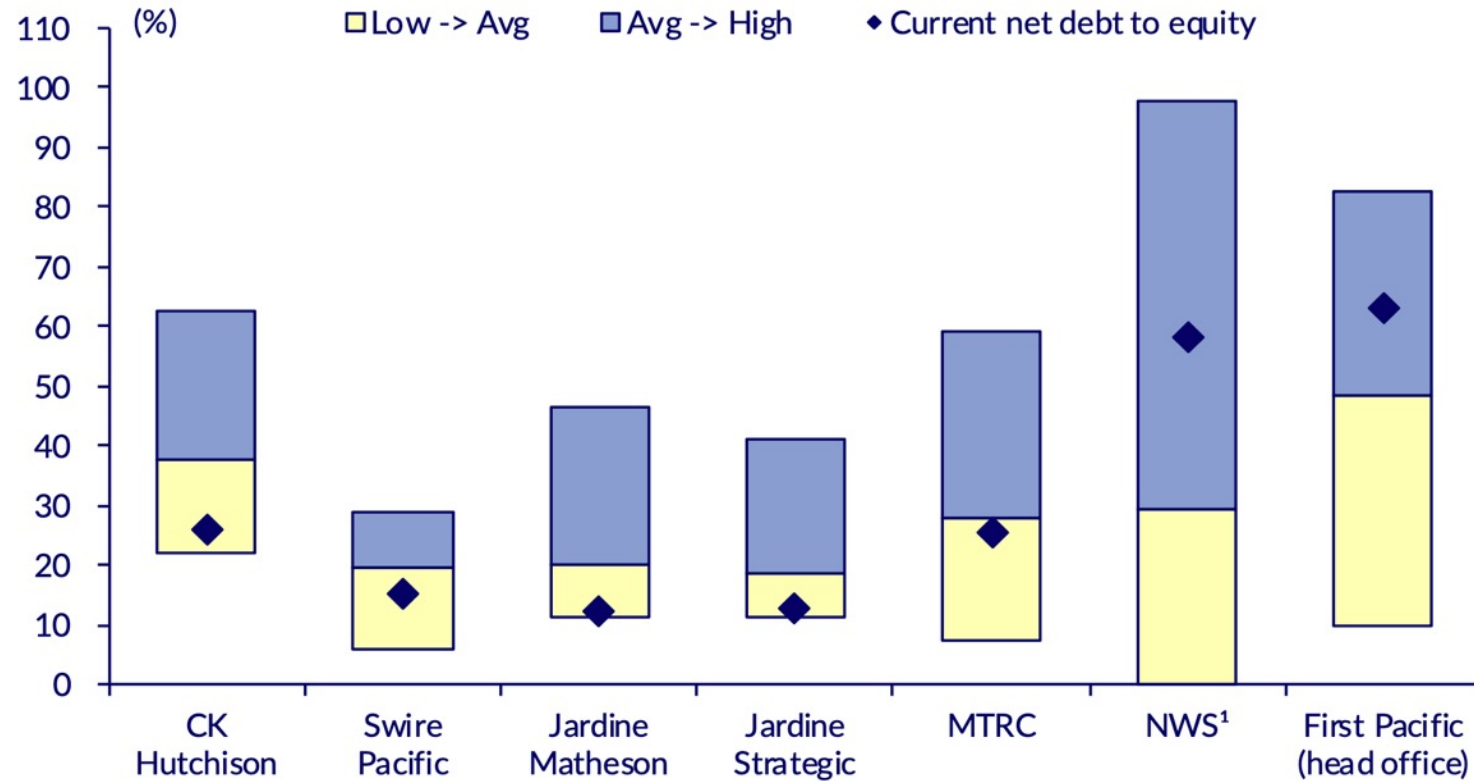
Sino-Ocean Taikoo Li in Chengdu, China

- **Prolonged lockdowns:** Nobody knows how long Hong Kong's current COVID-19 restrictions will last. They are putting pressure on retail sales, office rents and airline traffic out of Hong Kong.
- **Cathay Pacific's near-bankruptcy:** Cathay Pacific is a legacy, bloated airline that almost went bankrupt in 2020. Can it survive a pandemic, an increasingly competitive airline market and CCP encroachment?
- **Higher interest rates:** If US and Hong Kong interest rates continue to rise, that will put further pressure on cap rates and financing costs.
- **Higher oil prices:** Dampening the demand for air travel, and potentially even pushing inflation and interest rates higher.
- **Potential "social contributions":** Swire remains dependent on the goodwill of the Chinese Communist Party. A mainland economist has suggested that Hong Kong conglomerates should donate land or investments to government-controlled charities. It pointed to Tencent and Alibaba's CNY 50 billion donations as the way forward. It's possible that Swire will be forced to donate capital in the same way.

Swire Pacific's debt levels are relatively modest – especially in light of its predictable cash flows



Hong Kong conglomerates' forecasted net debt to equity in 20CL vs long-term high/low net debt to equity



¹ For NWS, we factor in the 1) cash paid for acquiring FTLife and 2) reclassify the perpetual securities as debt for illustration purposes. Source: CLSA, Companies

Catalysts



- Continued buybacks until at least May 2023
- An end to China's zero-COVID policy, which leaked documents suggest might happen after the CCP's Party Congress in October 2022
- The taking away of Hong Kong's quarantine requirements for overseas visitors
- A return to offices after 2.5 years of working from home



Taikoo Place in Quarry Bay, Hong Kong