

Champion Real Estate Investment Trust----- Maintain OUTPERFORM
A buying opportunity: Citibank moving out of Citibank Plaza highly unlikely
EPS: ◀▶ TP: ▶▶

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- On 17 June 2014, Citibank acquired the East Tower of One Bay East in Kowloon East, with a GFA of 512,000 sq ft, for HK\$5.4 bn. Citibank revealed that the property would be used for consolidating the back office operations which are currently at One Island East, Harbour Centre and Citibank Plaza.
- We believe chance of Citibank moving out of Citibank Plaza is highly unlikely, specially given its 'bad experience' in 1980s, when it moved its headquarter to Citicorp Centre in Tin Hau. It then moved back to Citibank Plaza in Central upon the property's completion in 1992.
- This indeed underscores that financial institutions are location sensitive, especially for their client-facing functions, and they tend to stay in Central. Moreover, Citibank renewed its lease in Citibank Plaza in 2013, which will only expire in June 2016.
- We therefore see the 17 June's price correction as unjustified, and believe it presents a buying opportunity. We reiterate Champion REIT as one of our top picks in the sector for 2H14, in order to ride the continuous improvement in the Central office sector.

According to the report, Citibank currently leases approx. 600,000 sq ft of office space in Hong Kong, 52% of which is in Citibank Plaza.

Moving out of Citibank Plaza again? Unlikely—from bad experience

To recall, Citibank has had a rather 'bad experience' during 1980s, when it decentralised itself to Citicorp Centre at Whitfield Road in Tin Hau, until when it moved back to Citibank Plaza in Central upon its completion in 1992. This underscores that financial institutions are location sensitive, especially for the client-facing functions, and they tend to stay in Central.

After all, Citibank renewed its lease in Citibank Plaza in 2013, which will only expire in June 2016.

A buying opportunity: Multi catalysts on the Central office sector underway

We therefore see yesterday's (17 June) unit price correction as unjustified, and believe the correction presents a buying opportunity in fact.

We are still early in the office recovery cycle, and expect the following as the imminent catalysts:

- (1) interim reporting season to provide more colour on improving sentiments,
- (2) more newsflow on office expansion, and
- (3) updates on the implementation of Hong Kong Shanghai through-train scheme.

We reiterate Champion REIT as one of our top picks in the sector for 2H14.

Bbg/RIC	2778 HK / 2778.HK	Price (18 Jun 14, HK\$)	3.63		
Rating (prev. rating)	O (O)	TP (prev. TP HK\$)	4.50 (4.50)		
Shares outstanding (mn)	5,729.29	Est. pot. % chg. to TP	24		
Daily trad vol - 6m avg (mn)	3.7	52-wk range (HK\$)	3.83 - 3.25		
Daily trad val - 6m avg (US\$ mn)	1.7	Mkt cap (HK\$/US\$ mn)	20,797.3/ 2,683.1		
Free float (%)	39.3	Performance	1M	3M	12M
Major shareholders	Lo Ka Shui (60.9%)	Absolute (%)	(1.9)	4.3	(0.5)
		Relative (%)	(4.0)	(5.1)	(9.8)
Year	12/12A	12/13A	12/14E	12/15E	12/16E
Net property income (HK\$ mn)	1,666	1,748	1,850	1,928	1,973
EBITDA (HK\$ mn)	1,572	1,636	1,730	1,806	1,849
Net profit (HK\$ mn)	1,254	1,271	1,287	1,300	1,311
Distributable income (HK\$ mn)	1,254	1,271	1,287	1,300	1,311
EPS (HK\$)	0.19	0.23	0.20	0.20	0.20
- Consensus EPS (HK\$)	n.a.	n.a.	0.18	0.18	0.19
EPS growth (%)	24.3	24.3	(13.0)	0	0
P/E (x)	19.3	15.5	17.8	17.8	17.8
DPU (HK\$)	0.21	0.21	0.21	0.21	0.21
- Change from prev. DPU (%)	n.a.	n.a.	0	0	0
DPU yield (%)	5.8	5.8	5.8	5.8	5.8
P/B (x)	0.6	0.5	0.5	0.5	0.5
ROE (%)	3.0	2.8	2.8	2.8	2.8
Debt/Asset (%)	21.7	22.0	21.4	20.7	20.1

Note 1: Champion Real Estate Investment Trust (Champion REIT) is a trust formed to own and invest in income-producing office and retail properties. The company focuses on Grade-A commercial properties in prime locations.

[Click here](#) for detailed financials

Citibank acquired One Bay East (512,000 sq ft office space)

On 17 June 2014, Wheelock announced that Citibank has acquired the East Tower of One Bay East in Kowloon East, that has 512,000 sq ft of GFA, for HK\$5.4 bn.

Separately, according to a report in the HKET on 18 June 2014, Citibank revealed that the newly acquired property at Kowloon East would be used for consolidating the back office operations which are currently at One Island East, Harbour Centre and Citibank Plaza. The daily cited market expectations that Citibank is likely to keep its headquarter and front office operations at Citibank Plaza in Central, while relocating the support functions to Kowloon East.

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Companies Mentioned (Price as of 18-Jun-2014)

Champion Real Estate Investment Trust (2778.HK, HK\$3.63, OUTPERFORM, TP HK\$4.5)
Citigroup Inc. (C.N, \$47.79)
Hongkong Land Holdings (HKLD.SI, \$6.74)
Swire Properties Limited (1972.HK, HK\$23.5)
Wheelock and Company Limited (0020.HK, HK\$32.8)

Disclosure Appendix

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3-Year Price and Rating History for Champion Real Estate Investment Trust (2778.HK)

2778.HK	Closing Price	Target Price	
Date	(HK\$)	(HK\$)	Rating
12-Aug-11	3.88	4.08	N
28-Nov-11	2.97	2.67	U
20-Feb-12	3.44	2.78	
14-Mar-12	3.49	3.43	N
13-Aug-12	3.53	3.10	U
25-Sep-12	3.51	3.70	N
06-Jan-13	3.77	4.83	O
20-Feb-13	4.13	4.74	
09-May-13	4.15	5.13	
20-May-13	4.16	5.02	
08-Aug-13	3.45	4.55	
09-Jan-14	3.41	4.20	
14-Feb-14	3.41	4.09	
24-Feb-14	3.32	3.85	
09-May-14	3.78	4.50	



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Price Target: (12 months) for Champion Real Estate Investment Trust (2778.HK)

Method: Our HK\$4.5 target price for Champion REIT is set at 25% discount to our estimated HK\$6.02 net asset value (NAV), implying target yield of 4.7%, as the Central office market has seen its trough and is now in the early recovery stage.

Risk: Risks that could impede achievement of our HK\$4.5 target price for Champion REIT include a slower-than-expected recovery in Central office rent. An increase in interest rate may increase our yield for IP which in turn may lower the size of our NAV. Upside risks to our target price include the earlier-than-expected recovery of the occupancy in Citibank Plaza.

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