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FEATURE

Li Ka-shing's Flagship Is Looking Like a Bargain

By Andrew Bary May 26, 2018

Victor Li, right, recently took over as chairman of the Hong Kong–based conglomerate CK Hutchison Holdings from his father, Li Ka-shing. *PHOTO: ZHANG WEI/CHIN REY/BLOOMBERG VIA GETTY IMAGES; ILLUSTRATION BY JOEL ARBAJE*

Over 68 years, Li Ka-shing assembled an enormous Hong Kong–based empire. Now, with the reins ha his son, Victor Li, a big chunk of it is languishing on the stock market.

Known as "superman" in Hong Kong, Li Ka-shing, 89, became one of the Asia's wealthiest men with a worth of $34 billion. He drew comparisons to Warren Buffett because of his success in buying, develo periodically selling a wide range of assets.

Li Ka-shing's company, CK Hutchison Holdings (ticker: 1.Hong Kong), controls the world's largest port has operations in Rotterdam, the Netherlands, Europe's largest container port. It owns 3 Group, a leac wireless company; several Asian and European drugstore chains; and a 40% stake in oil-and-gas proc Energy (HSE.Canada). It also has a 76% stake in CK Infrastructure Holdings (1038.Hong Kong), a relat that owns power, water, and other assets in Asia, Australia, and Europe.

But CK Hutchison and other leading family-controlled Hong Kong companies like Jardine Matheson a some as complex relics at a time when investors prefer more dynamic Asian companies like Alibaba G (BABA) and Tencent Holdings (700.Hong Kong) The Li family owns 30% of CK Hutchison, which has a $44 billion.

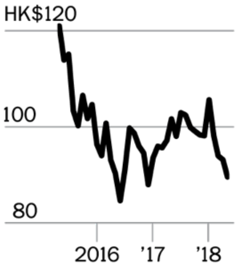
Shares of CK Hutchison Holdings trade around 89 Hong Kong dollars after hitting a new 52-week low past week. There are roughly HK$7.9 for each U.S. dollar. The company also has U.S.-listed shares tha $11 (CKHUY)—each U.S. share is equal to one of the Hong Kong shares.

The stock looks inexpensive based on profit, book value, and estimated net asset value. It trades for n projected 2018 earnings of HK$10 a share and for 80% of the company's year-end 2017 book value o share. The dividend yield is 3.2%.

"There is no reason that it should trade below book value," says Lorraine Tan, a Morningstar analyst ba Singapore. She puts fair value at HK$124. Other analysts have higher estimates of the company's net a presentation posted on its website recently, the company noted the "average market estimated NAV/ HK$149.

Out of Favor

(1.Hong Kong)
Weekly close on May 24



CK Hutchison Holdings

Recent Price	HK$89.45
52-Wk Change	-12%
2017 EPS	HK$9.10
2017 P/E	9.8
2018E **EPS**	HK$10.16
2018E **P/E**	8.8
Dividend Yield	3.2%
Market Value (bil)	$44
Price/Book Value	0.8

E=Estimate Source: Bloomberg

CK Hutchison is out of favor for several reasons. The company's 3 Gro wireless unit, which generates 25% of its profits, is exposed to two hig markets, Britain and Italy. While 3 Group is benefiting from the 2016 m Italian wireless business with Wind, the joint venture's revenues and p pressured by discounting. The coming entry by a new rival, Iliad (ILD.Fr Italian wireless market, is another concern.

The company's formerly high-growth Watson's drugstore business in experienced three years of declining same-store sales and faces a thr internet retailing.

There's also uncertainty about the company's direction under Victor Li, 53, a reserved, Stanford Univer engineer who took over earlier this month as chairman. In recent years, CK Hutchison has become mo with limited new investments and scant exposure to the tech sector.

The company declined to comment.

In remarks on the company's earnings call in March, Victor Li sounded cool to internet-related investm call it the new economy. But I can't take money from shareholders and give it to customers and call it a said. Li added that the stock looked undervalued, saying the multiple is "too low."

His father expressed confidence in him at the company's annual general meeting earlier this month, sa has followed me for more than 30 years. He should be able to do a good job." The older Li will remain a advisor.

NEWSLETTER SIGN-UP

Victor Li represents a new generation of Western-educated Hong Kong business leader from founding fathers. Ken Siazon, a principal at Southeastern Asset Management, is im saying that he emphasizes the company's long-term orientation, financial strength, and businesses. Siazon says CK Hutchison may start buying back stock, noting that its sister Asset Holdings (1113.Hong Kong), has done so. Southeastern owns CK Hutchison shares

In a 2015 restructuring of his empire, Li Ka-shing put real estate assets into the newly cr Property Holdings (now CK Asset) and most of the non-real-estate businesses into anot creation, CK Hutchison. These assets had been housed in two former companies: Hutch and Cheung Kong Holdings.

Morningstar's Tan says CK Hutchison is capable of generating mid- to high-single digit e in the next three years and 5% to 6% annualized gains in the dividend. That growth shou earnings gains at 3 Group, and the ports, retail, and infrastructure businesses.

Tan says investors can take comfort in the company's strong balance sheet. "This is an ir won't give you sleepless nights," she adds. The conservative dividend payout ratio, now about 30%, co increased, and the company could also spin off or sell assets. Weakness in the currently strong U.S. do results, since the company gets more than half of its profits from Europe.

In its recent presentation, CK Hutchison, which reports results semiannually, gave some first-quarter f nuggets, noting that same-store sales at Watson's China improved to a decline of 0.5% from a drop of It said that a key strategic priority is to "maximize recurrent earnings growth."

There are few diversified global companies like CK Hutchison with low valuations based on earnings, b net asset value that also offer good growth prospects. Victor Li is a wild card, but every indication is th manage the company his father created in a prudent and shareholder-oriented fashion. •

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