

Hong Kong's Property-Linked GREs Aim For Growth

A Comparative Analysis Of The City's Government-
Related Entities

Ricky Tsang

Director & Lead Analyst

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This report does not constitute a rating action



Key Takeaways

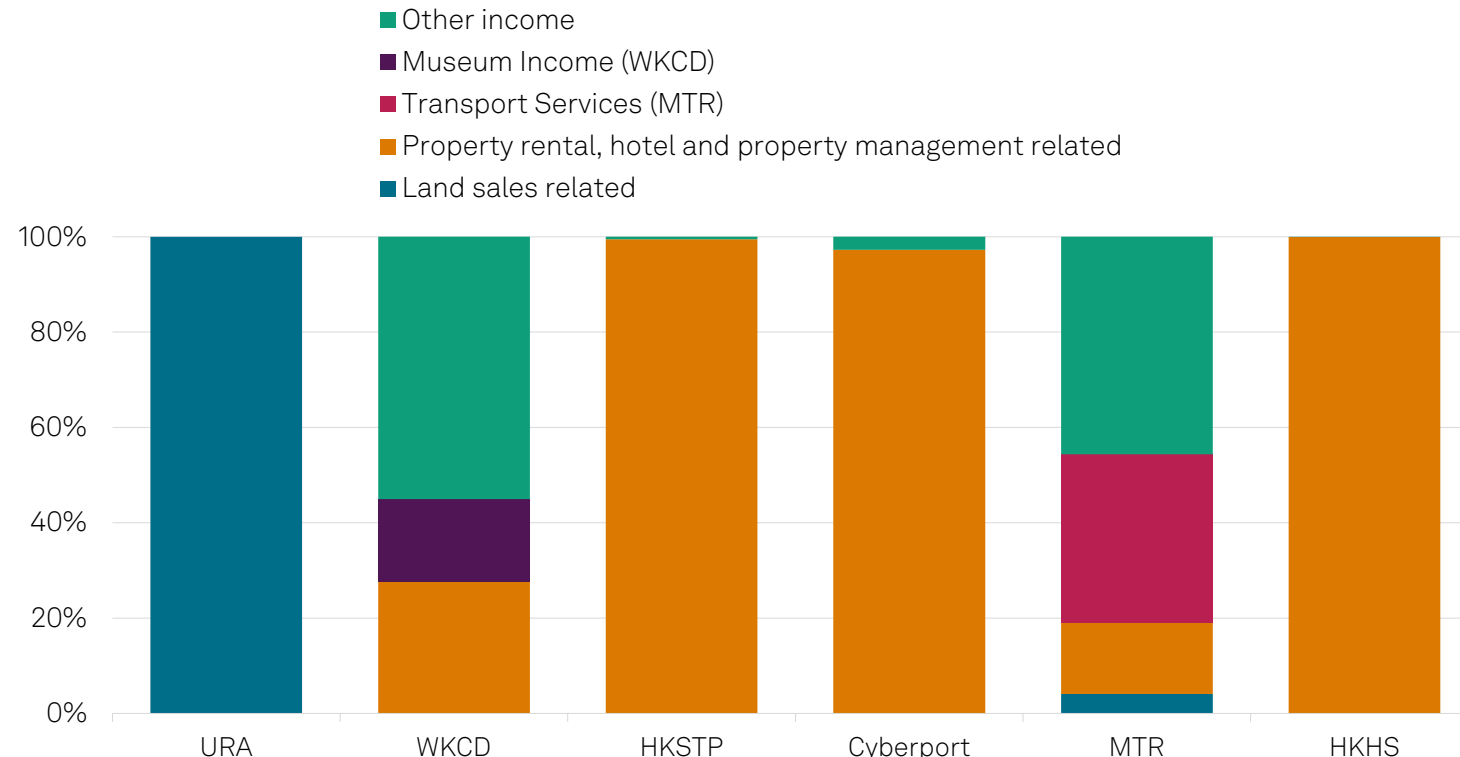
- We believe property related-income will continue to be essential to a set of Hong Kong public and government-related entities (GREs) and their ability to carry out essential public services.
- The government has strong influence over these entities through its majority ownership, controlling both the boards and the business planning of the entities.
- Even as the entities' property-related income weakens amid a property downturn in the city, these companies still have to manage sizable capital expenditure (capex) and new investments; many will turn to external funding.
- We believe the Hong Kong government (AA+/Stable/A-1+) will provide timely support in the case of financial stress; the degree of support will likely vary, depending on the importance of each entity to the government.
- Among these peers, the Urban Renewal Authority and MTR Corp. Ltd. would almost certainly receive extraordinary support from the government in a stress scenario; accordingly, we equalize the ratings and outlooks on the entities with those of the government.

Major Hong Kong Public Entities With Property Exposure

Urban Renewal Authority (URA)	West Kowloon Cultural District Authority (WKCD)	Hong Kong Science & Technology Parks Corp. (HKSTP)	Hong Kong Cyberport Management Company Limited (Cyberport)	MTR Corp. Ltd. (MTR)	The Hong Kong Housing Society (HKHS)
(AA+/Stable/--)	Not Rated	Not Rated	Not Rated	(AA+/Stable/A-1+)	Not Rated

Property-Related Income Is Key For These Hong Kong Entities

While their property income varies, all the highlighted entities rely on it
Revenue mix as of the latest financials



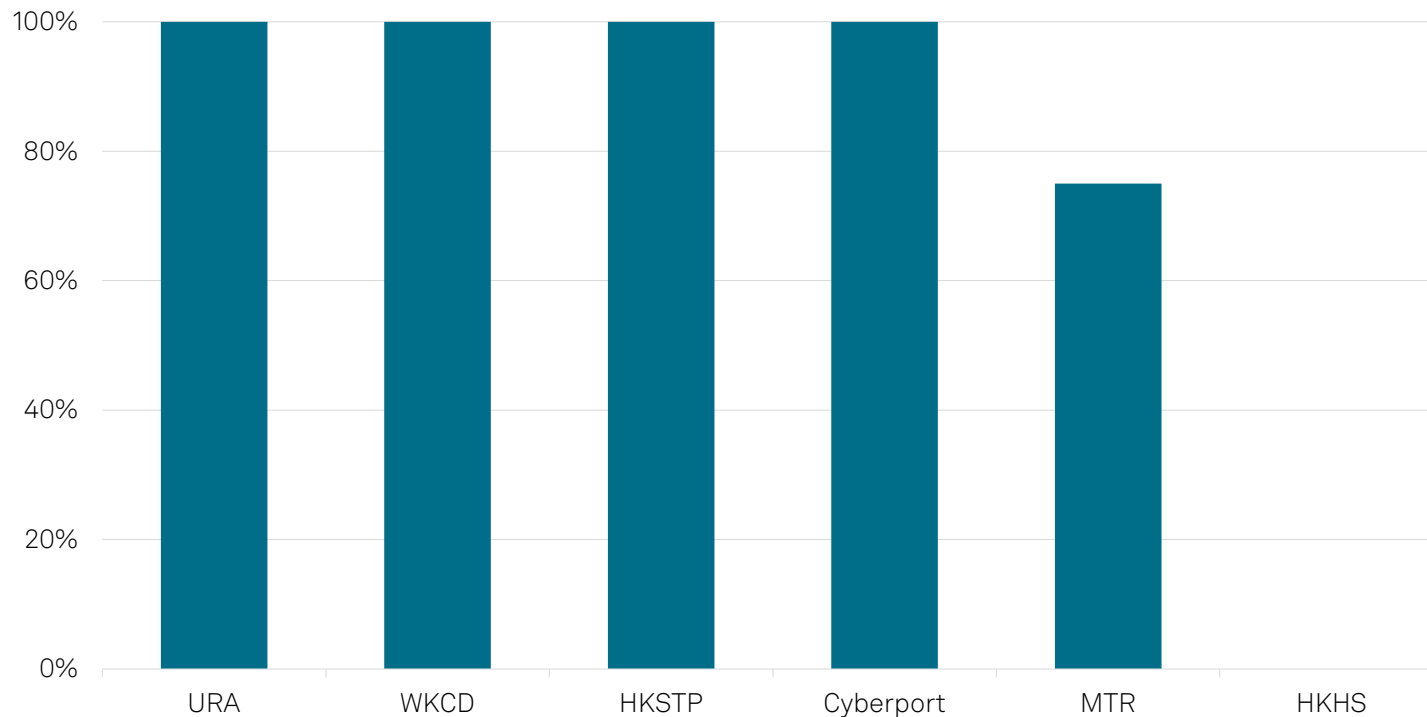
We include in MTR's property sales in Hong Kong despite not been reported in the topline. All financials are based on their latest 2023 year end or 2024 March year end financial reports.

Sources: Company Reports, S&P Global Ratings.

- Apart from Hong Kong transportation income, MTR uses land sales to support its "Rail-Plus-Property" model to develop new metro lines across the city.
- The URA also uses revenue from land sales to support urban renewal.
- The Hong Kong Housing Society (HKHS) earns income from residential development and rent from public housing to provide affordable housing.
- Hong Kong Science & Technology Parks Corp. (HKSTP), Hong Kong Cyberport Management Co. Ltd. (Cyberport) also house thousands of startups and high-tech companies on their premises. These two GREs also give guidance and seed funding to entrepreneurs in the city.

The Hong Kong Government Tightly Controls And Supervises These Entities

HK government wholly owns or holds majority stakes



Sources: Company Reports, S&P Global Ratings.

- Most of these GREs have legal framework or ordinances that detail their mandates. These ordinances mandate the purpose and function of the GREs.
- Most of these entities are 100% government-owned, with the exception of MTR being publicly listed with 75% government ownership; HKHS is an independent and non-government owned entity.
- The government has material representation on their boards and significant involvement over their financial and business plannings.
- With approval from government, WKCD also added a role to develop and sell land parcels in the district to support its capex.

A Legal Framework Is In Place To Give Purpose And Function To These Entities

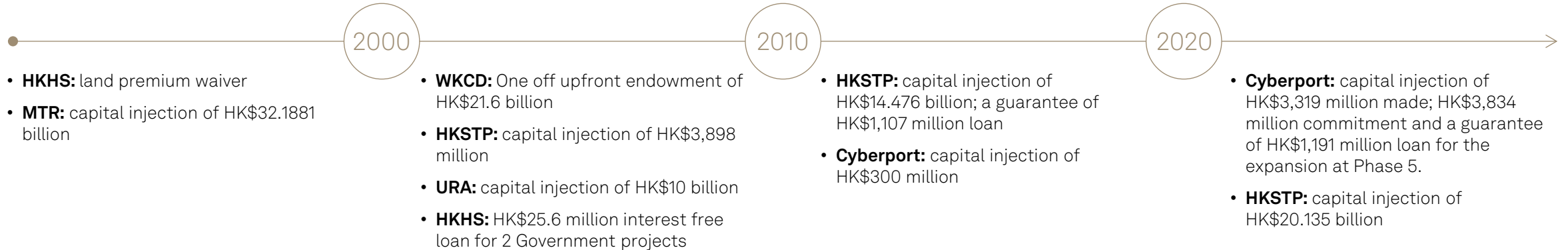
	URA (AA+/Stable/--)	WKCD	HKSTP	Cyberport	MTR (AA+/Stable/A-1+)	HKHS
Government control over board composition	All board members are appointed by the chief executive, including 4 public officers.	All board members are appointed by the chief executive, including 3 public officers.	The chairman is appointed by the chief executive, and the board members are appointed by the financial secretary.	All board members are appointed by the shareholders (HKSAR Government). 1 out of 16 board members is a public officer.	The chairman is appointed by the financial secretary. The chief executive may appoint 3 directors to the board.	4 out of 25 supervisory board members are public officers.
Governing ordinance	Urban Renewal Authority Ordinance	West Kowloon Cultural District Authority Ordinance	Hong Kong Science and Technology Parks Corporation Ordinance	Not established under specific ordinances.	Mass Transit Railway Ordinance	Hong Kong Housing Society Incorporation Ordinance
Government's involvement in business planning	Corporate plan and business plan must be submitted to the financial secretary for approval each year.	<ul style="list-style-type: none"> A development plan needs to be submitted to the Town Planning Board. Corporate plan and business plan must be sent to the secretary for culture, sports and tourism each year. 	Estimates of income and expenditure must send to the financial secretary each year.	Legislative Council receives frequent update of work progress of Cyberport.	Every new rail projects needs approval from the Transportation Commission.	Frequent consultations from the Legislative Council.
Government financial support	Initial capital, tax exemptions and land premium waivers. URA may borrow/receive guarantee from the government.	Grant to rights to residential development in the West Kowloon project. WKCD may borrow from, or receive debt guarantees from, the government.	Tax exemptions. Provision of interest-free loans, debt guarantee and capital injections.	Provision of guarantee of loans and capital injections.	Grant of property development rights of relevant railway projects. MTR may receive debt guarantees from the government.	Tax exemptions and land premium waivers. Provision of interest-free loans.

Sources: Company data, S&P Global Ratings.

They Also Have A Solid Record Of Ongoing Government Support

- They have large funding needs and require ongoing support from government as they carry out policy missions designated by the government.
- As a result, these entities all enjoy various level of ongoing support from the government including tax exemptions, or interest free loans or capital injections from the government.
- URA also enjoys flexibility in the transfer of plot ratios among its urban redevelopment activities. MTR also benefits from land premium waivers from its land tender revenue.

Major ongoing support from government throughout the years



Sources: Company data, S&P Global Ratings.

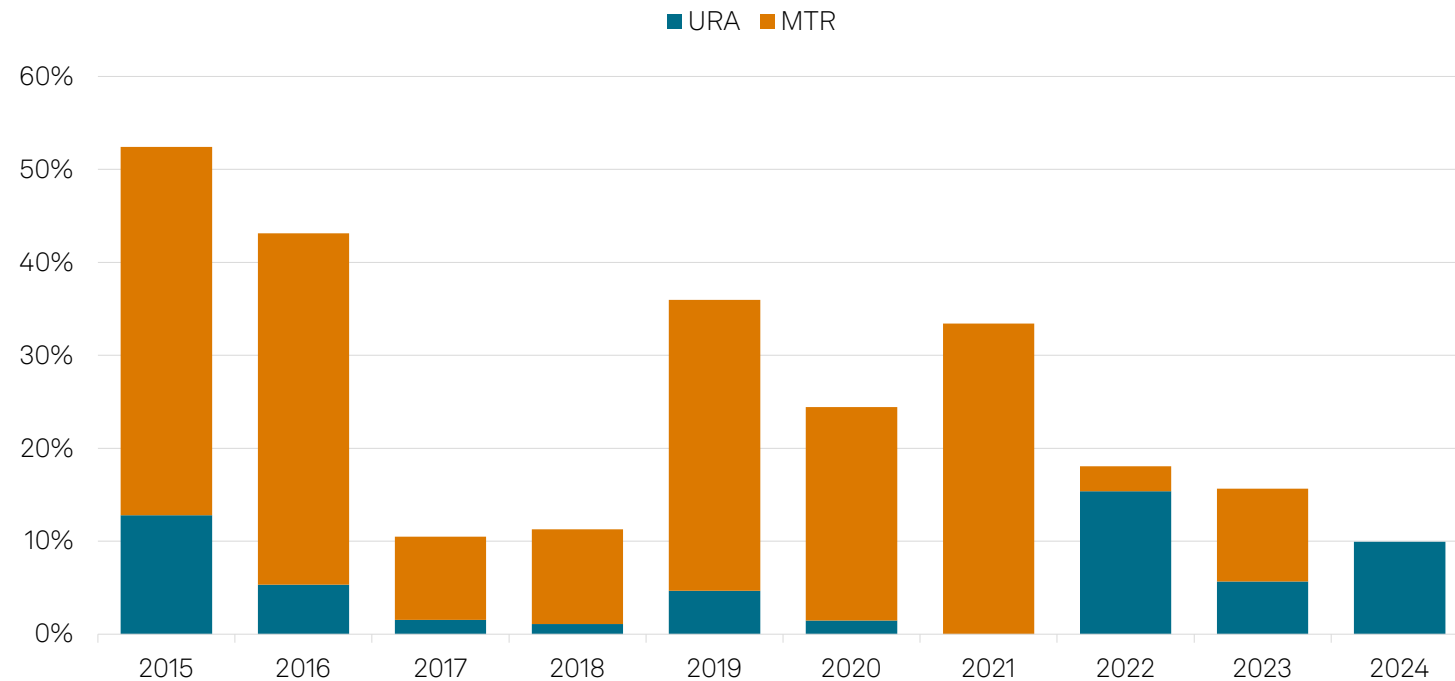
They Implement Important, While Varying, Policy Roles For The Government

	URA (AA+/Stable/--)	WKCD	HKSTP	Cyberport	MTR (AA+/Stable/A-1+)	HKHS
Profit orientation	Not primarily profit oriented. URA also undertakes not-for-profit social initiatives.	Not primarily profit oriented.	Managed on prudent commercial principles.	Managed on prudent commercial principles.	Managed on prudent commercial principles.	Not for profit.
Property related activity	Primary land development	Potential land sales revenue of part of the West Kowloon District	Rental income from the premises in the park	Rental income from the premises in the park	Land tender revenue from "Rail-Plus-Property" model	Public housing
Role	To undertake and promote urban renewal in Hong Kong through building redevelopment and rehabilitation.	To develop and manage the West Kowloon integrated project; promote arts and cultural development in Hong Kong.	To develop and manage science and industrial parks in Hong Kong; facilitates development of manufacturing/service industries-related and advanced technologies. It is also tasked to complete master planning study later this year for the new San Tin Technopole, a new hub in the Northern Metropolis region.	To develop and manage the Cyberport complex; promote the development of innovation and technology (I&T) sector in Hong Kong.	To construct and operate The Mass Transit Railway in Hong Kong; conduct property-related activities including development, rental and management of railway-linked properties.	To provide public housing, for rental or sale, at subsidized rates.
Importance	Sole statutory body for urban renewal; policy importance is rising given prevalence of old buildings in the city.	Increasing policy importance given government's focus to develop the creative, cultural and tourism industries.	Increasing policy importance given government's focus of developing Hong Kong as a global innovation and technology hub.	Increasing policy importance given government's focus of developing Hong Kong as a global innovation and technology hub.	Monopoly in rail and metro services; works with government to develop key public transport infrastructure in Hong Kong.	Second-largest provider of public housing in Hong Kong. Complements the work of the Housing Authority by providing housing to at-need groups.

Sources: Company data, S&P Global Ratings.

Land Sales By The URA And MTR Are Weakening Amid Property Downturn

Contributions to land supply from the URA and MTR are declining

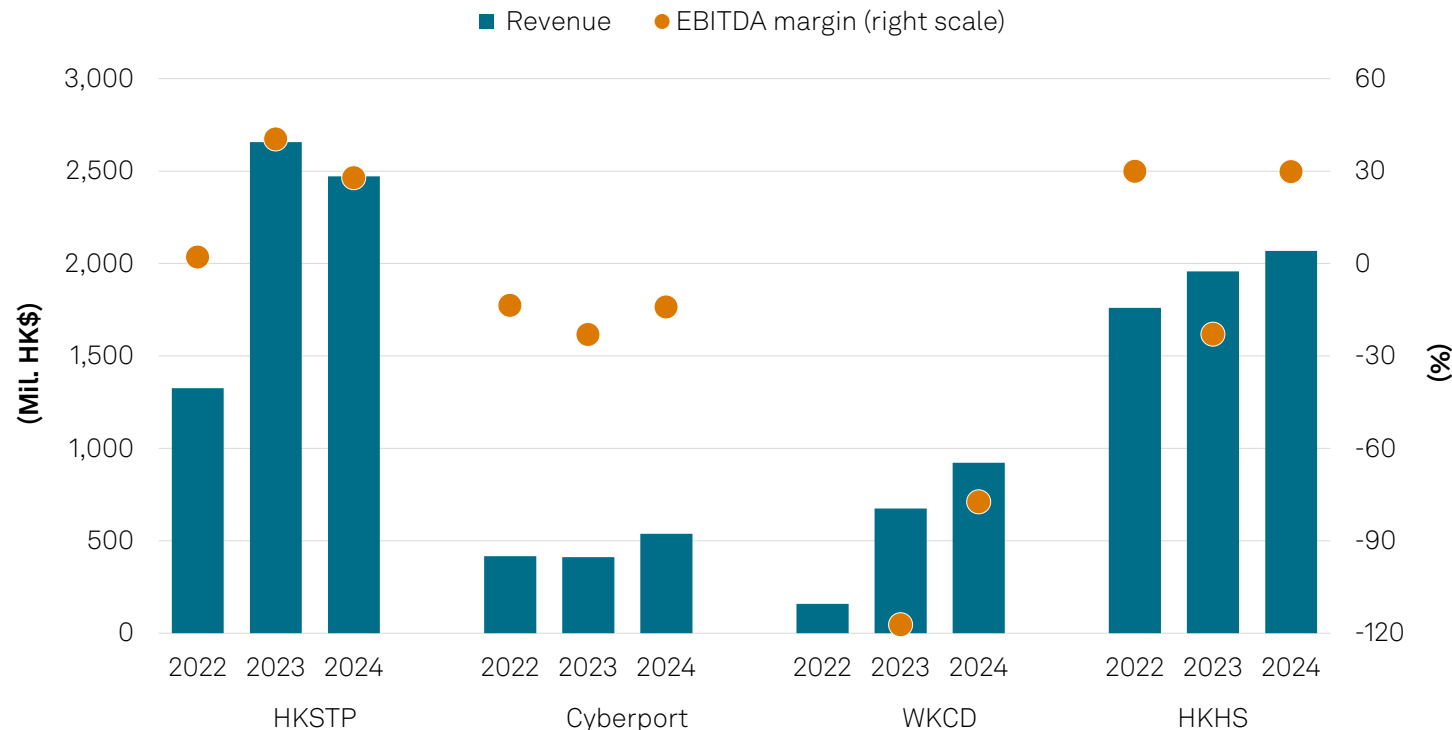


All years are fiscal years ending March 31 in the reference period. Sources: HKSAR Government--Development Bureau, S&P Global Ratings.

- URA and MTR have large property development exposure and are impacted by the current cyclical downturn. These two companies have historically contributed to roughly 25% of private residential land supply in Hong Kong over the past 10 years.
- With a weakening property market, URA's margins have turned negative over the past two years, due to losses incurred on land tenders.
- MTR's cash flow from operations also halved in 2024 from the peak in 2021 partly due to reduced land sales and withdrawn tenders.

Other Entities' Financial Performances Are Also Weakening

They are showing losses stemming from weak business conditions



All years are fiscal years ending March 31 in the reference period. Sources: Company reports, S&P Global Ratings.

- Cyberport did not generate profit over the past years, in part due to the cost of its public mission, which includes financial assistance to startups.
- WKCD also had not generated a profit in recent years due to COVID effects (lockdowns and reduced gatherings in public spaces) and the high operating costs of running exhibitions and museums.
- HKHS has been in deficit over the past 3 years due to ongoing operating expenses, and larger investment properties/property inventory write-downs.
- HKSTP is in general more stable than others given the essential solidity of its rental business. Occupancy of the Science Park premises have been about 90% over the past two years.

Capital Expenditure Will Drive Funding Needs

- Some of these entities have already initiated more debt financing from banks or bond markets to support the coming capex cycle.

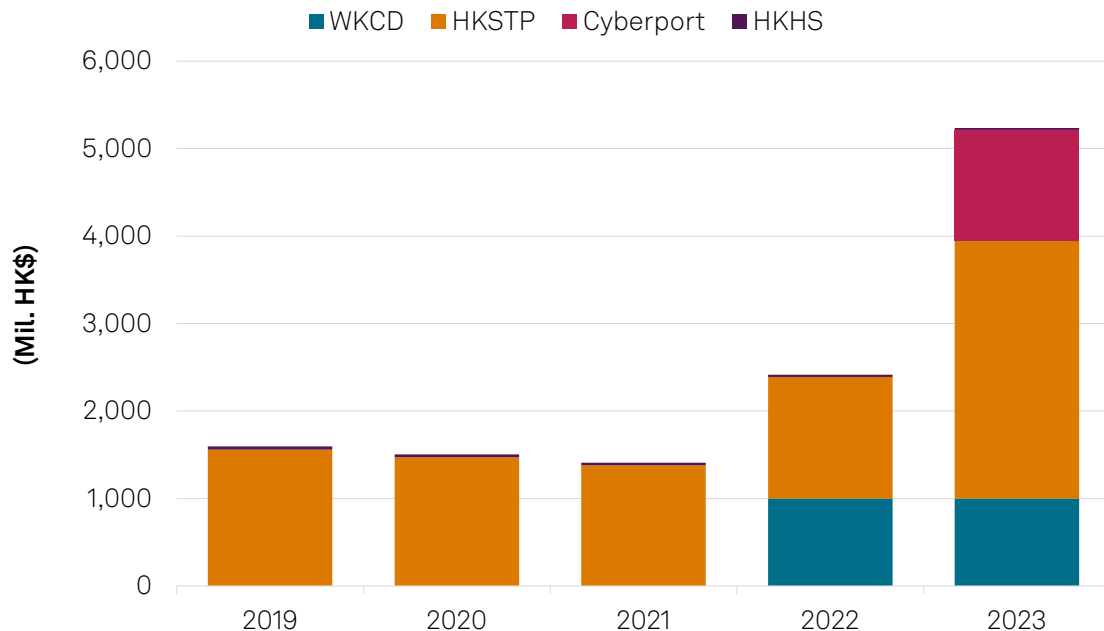
	URA (AA+/Stable/--)	WKCD	HKSTP	Cyberport	MTR (AA+/Stable/A-1+)	HKHS
Recent financing activities	In 2024, URA raised HK\$12 billion from the bond market to replenish funding for the city's urban redevelopment.	<ul style="list-style-type: none"> • To sell residential developments in West Kowloon, for operating expenses and capital expenditure in the coming decade. • In 2022, WKCD signed a three-year sustainability-linked loan, comprising a term loan of HK\$1 billion and revolving credit facilities of HK\$3 billion. 	A HK\$1.6 billion government loan obtained in 2024 for financing the final settlement of the development costs of AMC and Data Technology Hub.	N. A.	Active in loans and notes issuance each year.	HKHS signed HK\$12 billion syndicated loan in September 2024, including a HK\$3 billion social tranche for the construction of subsidized housing projects.
Capex plans	HK\$64.3 billion spending for acquisition and construction according to pipeline on hand	<ul style="list-style-type: none"> • Lyric Theatre Complex is scheduled to be completed by 2026. • Other facilities including Music Centre, Musical Theatre, Great Theatre 	The government will seek funding for the first stage of San Tin Technopole's infrastructure for the company's development and operation.	<ul style="list-style-type: none"> • The government has committed HK\$3.8 billion and a guarantee of a HK\$1.2 billion loan for Cyberport's expansion at Phase 5. • Authorities have reserved 15 hectares of land for Cyberport to set up a digital technology hub at Lau Fau Shan. 	MTRC's robust pipeline of network expansion projects in Hong Kong will increase total capex to HK\$90.8 billion over the next three years.	HKHS forecasts its five-year production of 6,200 rental units and the sale of 11,100 subsidized flats.

N.A.--Not available. Sources: Company Reports, S&P Global Ratings.

Debt Usage Is Likely To Continue

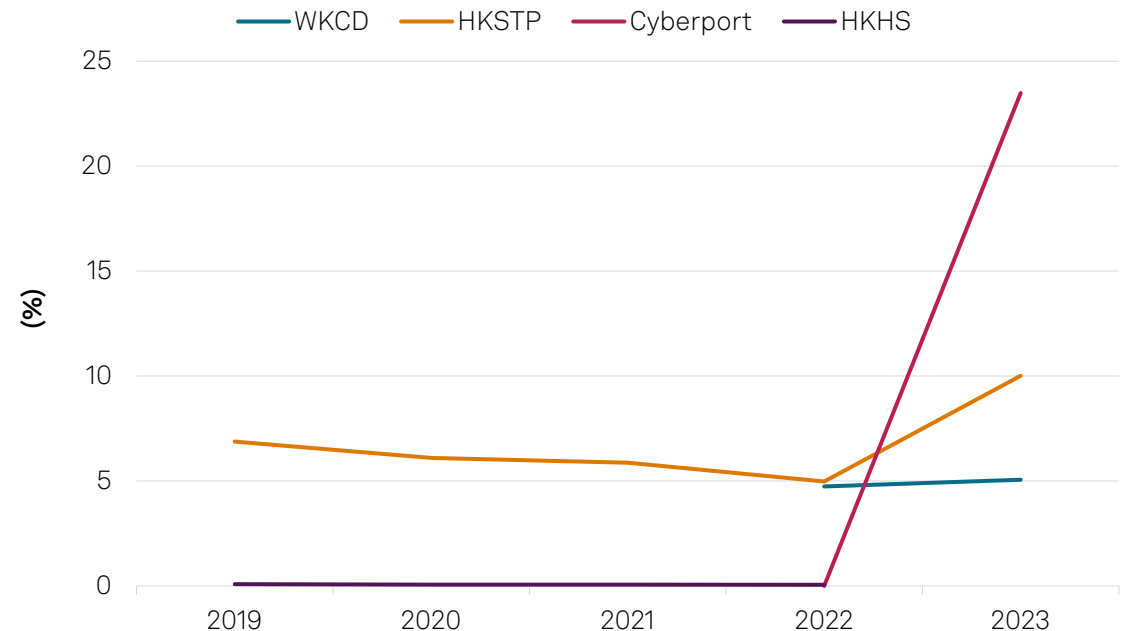
- Among unrated GREs or public entities, we expect their debt leverage to rise. Most have already seen rising total debt given increased external funding.
- For HKHS, which has not reported its 2024 results yet, its use of debt should increase from nil in 2023 as it signed a syndicated loan in September 2024.

Latest reported total debt more than tripled versus 2019



Sources: Company Reports, S&P Global Ratings.

Debt/debt-plus-equity ratios jump in 2023 and likely 2024



Sources: Company Reports, S&P Global Ratings.



Analytical Contacts

Ricky Tsang

Director

+ 852 9389 6121

ricky.tsang@spglobal.com

Oscar Chung

Senior Analyst

+ 852 6690 4435

oscar.chung@spglobal.com

Lawrence Lu

Managing Director

+ 852 2533 3517

lawrence.lu@spglobal.com

Christopher Yip

Managing Director

+ 852 2533 3593

Christopher.yip@spglobal.com

Research Contributor

Xiaoqing Yuan

Research Contributor

xiaoqing.yuan@spglobal.com

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