

Cheung Kong (Holdings) Limited

Stock Data	
September 3, 1998	
ADR Ticker:	CHEUY
Current Price:	US\$4.000
52-Wk High:	US\$11.500
52-Wk Low:	US\$3.750
Share Per ADR:	1.00
Beta vs. SPX:	1.31
Avg Daily Vol:	106,107shs(1998)
Issued Shares:	2,298mln
Mkt Cap:	US\$8,983mln HK\$69,616mln
Heng Sang Index:	7,317
Ratios	
EPS:	US\$0.988 (HK\$7.66)
DPS:	US\$0.209 (HK\$1.62)
PER:	3.97X
Dvd Yield:	4.97%
EPS Yr Chg:	27.16%
BVPS Yr Chg:	20.73%
Retention Rate:	78.85%
Opr Margin:	15.20%
ROA:	17.32%
ROE:	23.26%
Fin. Leverage:	1.34
Effective Tax rate:	6.94%
Current Ratio:	3.26
Quick Ratio:	1.43
Debt-to-Assets:	16.80%
T. Debt/Com Eqty:	21.80%
Exchange Rate:	
US1 = HK\$7.75	

BUY (US\$4.000)

Price-Earnings Ratio = 3.97X

Dividend Yield = 4.97

Cheung Kong (CK) is a premier developer in Hong Kong. CK has been renowned for its superior performance under the leadership of billionaire Li Ka-shing. The regional crisis has had only a minor impact on the group due to its diversified earnings base. Through its subsidiaries, CK is involved in investment and development of property, infrastructure projects, and securities investment.

Group Structure

Hutchison Whampoa Limited (HWL)

CK holds 49.9% of this blue-chip conglomerate whose diversified investments have provided CK with a stable earnings base. Through its subsidiaries, HWL is involved in property development, ports and terminal services, retailing, telecommunications, energy, infrastructure, finance and others. Total sales turnover of HWL in FY97 increased 21.63% to US\$5,754 million (HK\$44,590 million) and net income rose 2% to US\$1,583 million (HK\$12,266 million).

Cheung Kong Infrastructure (CKI)

CKI is the investment arm of the group's infrastructure projects which include power plants, toll roads and bridges in the PRC. CKI also engages in building materials businesses such as manufacturing and selling cement, concrete, asphalt, and aggregates. Turnover of CKI in FY97 increased 10.03% to US\$432 million. Net Income in the same period surged 172.12% from US\$114 million (HK\$886 million) to US\$311 million (HK\$2,411 million).

Hongkong Electric Holdings Limited (HEHL)

A publicly-listed utility which generates and supplies electricity for the Hong Kong Island; it also provides engineering services and project management. Turnover of this utility increased 5.11% to US\$1,041 million (HK\$8,065 million) in FY97. Net income climbed 13.36% to US\$607 million (HK\$4,709 million).

In the group reorganization in FY97, Cheung Kong transferred its 70.66% interest in Cheung Kong Infrastructure to Hutchison Whampao which in turn transferred a 35.01% interest in Hongkong Electric to Cheung Kong Infrastructure.

Hong Kong Research Team

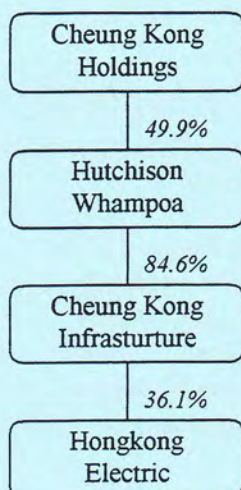
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Summary of Group Structure



As of March 31, 1998

Interim Profit - US\$389.7 million

On August 27, CK announced its 6 month interim result ending June 31 this year. Interim net profit decreased 78 percent to HK\$3.02 billion (US\$389.7 million). The drop in profit was primarily due to the large write-off of HK\$3.435 billion (US\$443.2 million) on assets in light of the current economic environment, of which, HK\$2.45 billion (US\$316 million) was a loss provision for property projects. The remaining HK\$985 million (US\$127.1 million) provision was charged as a loss for diminution in the value of listed investments.

Cheung Kong Holdings Interim Results, 1997-8

(US\$ million)	1997	1998
Net Profit	1778.1	389.68
Turnover	220.6	1362.6
Exceptional Items	996.1 ^a	-442.6 ^b
Dividend (Cents)	5.0323	3.6129
Earnings Per Share (Cents)	77.4194	17.0323

^a due to group reorganization

^b write-offs of property value & listed securities

BUY Recommendation

The stock market in Hong Kong is oversold. The Hang Seng Index has fallen from 16,820 points last August to the present level of around 7,300 points. We believe CK is a bargain which emerged from the recent correction for the following reasons:

☐ Low Gearing

The capital structure of CK has only about 20% long-term debt. It leaves CK enough room for debt financing of any acquisition at a bargain price. In June, a wholly-owned subsidiary of CK completed a syndicated loan with 13 banks for US\$278 million (HK\$1.5 billion). It gives CK a competitive advantage over its peers, particularly under the present market conditions. At the end of June, CK had approximately HK\$4 billion (US\$516 million) cash on hand.

☐ Diversified Earnings

Through its associated companies and subsidiaries, CK's earnings are derived from diversified sources and countries. Hence, its earnings are relatively more insulated from the domestic factors.

☐ Undervalued -- Long-Term Growth

CK's shares are trading at one-third of their all time high of US\$12.65 (HK\$98.00) last August. CK's PE Ratio is now 3.97X with a dividend yield of 4.97%. We believe this decrease has resulted primarily from the recent correction in the Hong Kong stock market, and we believe that when this market recovers, the blue chips will be valued at higher PE Ratios which should translate into increased share prices.

Cheung Kong Holdings Ltd will remain profitable due to its prudential land acquisition policy during the booming period when property prices were escalating. The interim write-offs of property value were believed to be adequate. At the present level of property prices, the projects after provisions can still be profitable.

Earning Forecast

FYE December	1997	1997	yoy		1998F	1998F	yoy
	HKD	USD	% chg		HKD	USD	% chg
Net Profit	17,602m	2,271m	28%		16,043m*	2,070m	-9%
Earnings Per Share	7.66	0.988	27%		6.98*	0.901	-9%
Dividend Per Share	1.62	0.209	17%		1.47	0.190	-9%
Price-Earning Ratio		3.97				4.35	
Dividend Yield(%)		4.97				4.84	

*Source :Estimate Directory - June 98

10 Years Financial Summary

Profit & Loss Account (US\$ million)

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Turnover	291	651	569	1,289	1,326	1,380	1,915	1,588	1,703	1,014
Profit Before XO	270	358	419	630	809	1,262	1,305	1,435	1,776	2,271
XO Items	73	160	45	52	6	-	-	-	-	-
Profit attributable to										
Shareholders	343	518	465	682	802	1,262	1,305	1,435	1,776	2,271
Dividends	82	108	136	193	227	284	312	352	409	480
Profit Retained	261	410	328	490	575	978	993	1,084	1,367	1,791

Source: Adapted from FY97 Annual Report

Balance Sheet Items (US\$ million)

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Fixed Assets	182	229	226	251	261	353	486	590	627	425
Investments	1,473	1,838	1,966	2,207	3,075	4,382	6,086	6,194	7,743	9,721
Net Current Assets	209	346	675	825	554	897	1,525	1,365	2,654	2,573
	1,864	2,413	2,867	328	3,891	5,632	8,096	8,149	11,024	12,719
<i>Deduct:</i>										
Long Term Loans	150	258	388	210	160	931	2,171	1,103	1,550	1,760
Deferred Items	25	20	16	121	115	3	2	6	2	2
Minority Interests	21	28	23	17	88	128	342	330	625	275
Total Net Assets	1,668	2,107	2,439	2,935	3,527	4,570	5,581	6,710	8,847	10,681
<i>Representing:</i>										
Share Capital	142	142	142	142	142	142	142	142	148	148
Share Premium	355	355	355	355	355	355	355	355	1,014	1,014
Reserves & Retained	1,171	1,610	1,942	2,438	3,030	4,073	5,084	6,213	7,685	9,519
Total Shareholders funds	1,668	2,107	2,439	2,935	3,527	4,570	5,581	6,710	8,847	10,681

Source: Adapted from FY97 Annual Report

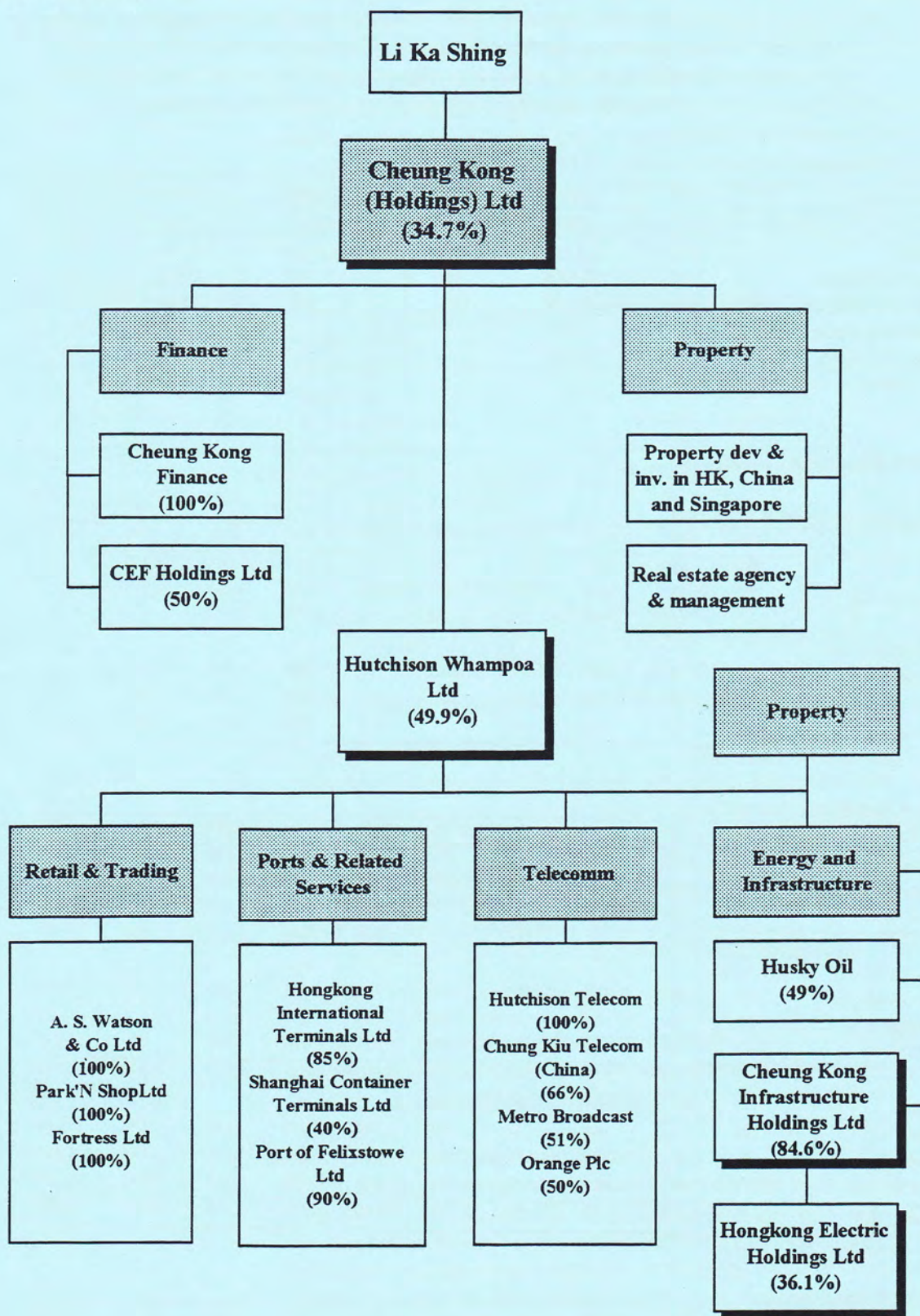
Per Share Data (US\$ dollar)

Earnings Per Share	0.123	0.163	0.191	0.286	0.368	0.574	0.594	0.653	0.777	0.988
Dividend Per Share	0.037	0.049	0.062	0.088	0.103	0.129	0.142	0.155	0.178	0.209
NAV Per Share	0.759	0.959	1.110	1.335	1.605	2.080	2.539	3.053	3.850	4.649

Source: Adapted from FY97 Annual Report

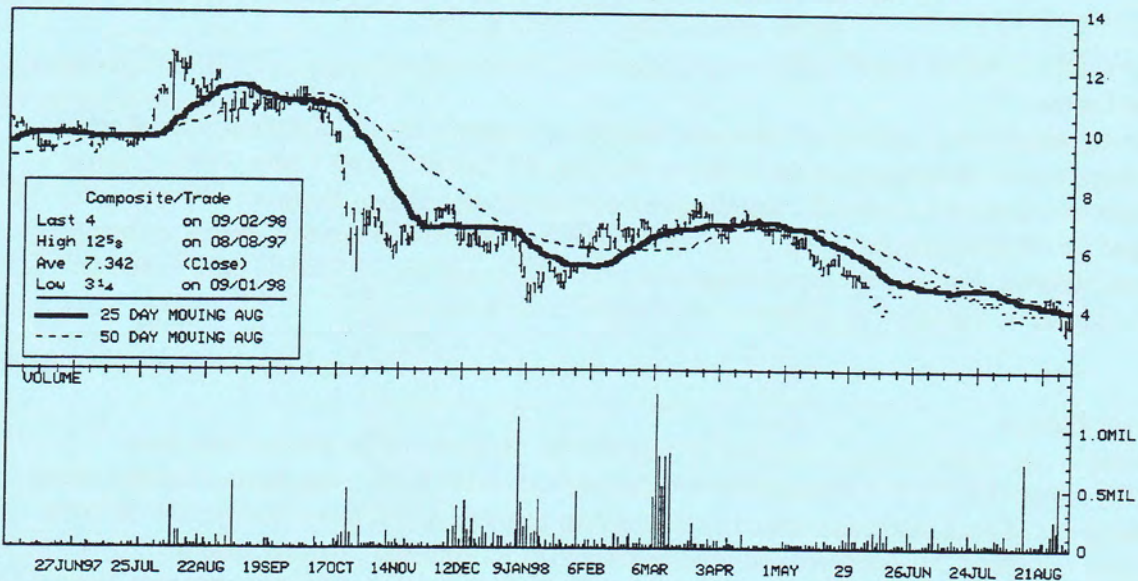
Group Structure

As of 31 March, 1998



Cheung Kong ADR (Ticker: CHEUY)

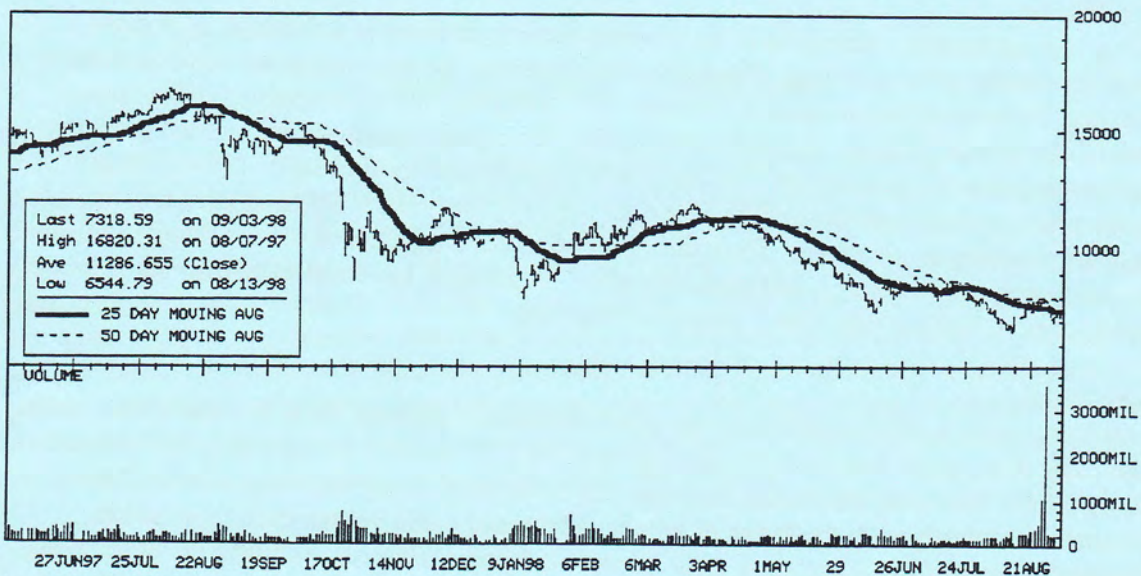
Daily Price-Volume(shares) Graph: June 1, 1997 to September 2, 1998



Source: Bloomberg (Amounts in US dollars)

Hang Seng Index

Daily Price-Volume(shares) Graph: June 1, 1997 to September 3, 1998



Source: Bloomberg

In evaluating an investment in the ADR Shares, prospective investors should consider carefully all the information contained in this report, including the considerations set below.

RISK RELATING HONG KONG

Political Factors

Hong Kong, which was a territory of the United Kingdom, became a Special Administration Region (SAR) subject to the sovereignty of the People's Republic of China (PRC) on 1 July, 1997. Current agreements and laws provide that the social and economic systems in Hong Kong will remain unchanged for 50 years and that Hong Kong will enjoy a high degree of autonomy except in foreign affairs and defense. Future political developments in Hong Kong or the PRC could have a material adverse effect upon the social or economic conditions in Hong Kong.

Economic Factors

Hong Kong is one of the leading economies in Asia-Pacific. Gross domestic product was about HK\$1,334 billion (US\$172.13 billion) in 1997. Since the end of 1997, the Hong Kong economy, along with other parts of Asia has been affected by the regional financial crisis. In the first quarter in 1998, Hong Kong recorded a 2 percent year-on-year decrease in gross domestic product. Also the unemployment rate was up to 4.2 percent in May 1998. Regarding the economic downturn in Hong Kong, the capital market experienced unprecedented levels of volatility and asset prices corrected significantly. The recent events affecting the economy may affect the businesses operating in Hong Kong. Hong Kong is in a recession, having two consecutive quarters of negative gross domestic product.

Property Market

Hong Kong is experiencing a slowdown in the property market, resulting in a decrease in property values and the number of transactions. For residential properties, the property prices have tumbled by approximately 50 percent from its peak in October 1997. Coupled with oversupply of office space, the prices of commercial property also fall substantially. From past experience, we learned property prices are connected to the government's willingness to allow development of land. If the current government policy comes under political or economic pressure, the price of land and related developments may drop significantly. Thus, there may be an adverse effect on the profitability of property developers and property investment companies. In addition, the volatile interest rate environment may further the risk of new project development.

Currency Risks

The Hong Kong dollar is freely convertible into other currencies (including the U.S. dollar), and, since 1983, the Hong Kong dollar has been officially linked to the U.S. dollar at the rate of U.S.\$1.00 to Hong Kong \$7.80. However, the market exchange rate of the Hong Kong dollar against the U.S. dollar continues to be subject to the forces of supply and demand in the foreign exchange market. Since the third quarter of 1997, exchange rates for various Asian currencies, including the Hong Kong dollar and the Renminbi (RMB), the official currency of the PRC, have come under market exchange pressure which has led to the devaluation of certain Asian currencies and which could lead to the future devaluation of other Asian currencies. No assurance can be given that the Hong Kong dollar or the RMB will not be devalued in the future or that the Hong Kong government will maintain the official link of the Hong Kong dollar to the U.S. dollar at the current rate or at any rate. A devaluation of the RMB and / or the Hong Kong dollar may adversely effect the price of the ADR.

The government of Hong Kong has recently intervened in the foreign exchange and equity markets. The government has used its foreign reserves to support the Hong Kong dollar and to purchase stocks of companies on the Hang Seng Index as well as Hang Seng futures. If the Hong Kong government ceases this intervention there may be an adverse impact on the price of the ADR.

Listed below are the closing exchange rates of HKD against one United States dollars for the last day of the following quarter:

Quarter end	Spot Rate
June 98	7.7487
March 98	7.7497
Dec 97	7.7485
Sept 97	7.7380
June 97	7.7468
March 97	7.7488

Accounting Principles Considerations

Certain financial information of HKT which is reproduced herein has been prepared and presented in accordance with Hong Kong Generally Accepted Accounting Principles (GAAP) which differs in certain significant respects from U.S.GAAP. Therefore, there can be no assurance that the financial position or results of operations determined under U.S. GAAP would not be materially different than that determined under Hong Kong GAAP.

RISK RELATING TO THE ADRs

The primary trading medium for HKT shares is the Hong Kong Stock Exchange. In addition, American Depository Receipts (ADR's) evidencing American Depository Shares issued by the U.S. Depository representing HKT shares on deposit with the Depository, are quoted in the National Quotation Bureau's pink sheets. This is a quotation medium only, not an issuer listing service, and should not be confused with the NASDAQ Stock Market. Unlike the NASDAQ Stock Market, there are no quantitative or qualitative standards for the issuers to be quoted in this market. Because these issuers are not required to file financial reports with the SEC, an investor may be unable to gain access to any financial or operational information regarding the issuer. There is no assurance that this trading market for HKT shares will be sustained. Discontinuation of any of these markets could have an adverse effect upon liquidity, i.e. the ability to sell HKT shares.

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