King's Town Construction

KTC 2021

(2524 TW)

Speaker:

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Outlook of Property Market

Outlook of Property Market

- Taiwan reported a total of 248,879 units in housing transactions between January to September 2021, an increase of 16,868 units or 7.27% over the same period in 2020.

- During the period from January to September 2021, Tainan City registered a 19.12% rise in the number of housing transfers, ranking the highest by annual growth in Taiwan. Meanwhile, Kaohsiung City reported a total of 41,961 units in housing transfers between January to October 2021, up 14.92% from 35,701 units over the same period in 2020. Kaohsiung's performance in the this respect was quite outstanding among the six major municipalities in Taiwan, only losing slightly to Tainan City. For the remaining four major municipalities, New Taipei City, Taipei City, and Taichung City experienced an annual growth of 5.47%, 4.17%, and 5.92% in housing transfers between January and September 2021, respectively, while Taoyuan City saw a 0.78% decline.

- The COVID-19 pandemic did not have a significant impact on the housing market from 2020 to 2021. Owing to whispers of TSMC setting up new plants in Kaohsiung City during the second half of the year, a large number of investors flooded the housing market in the city, speeding up sales for various housing projects and leading to rising prices in the process. Labor shortages in the Kaohsiung and Tainan construction market further fueled the ongoing price hike in the housing market.

Outlook of Property Market

- The property market in Tainan and Kaohsiung has experienced greater fluctuations this year due chiefly to increased transactions driven by employment in the tech industry. At present, small- and medium-sized properties constitute the mainstream transactions in the property market as a result of huge demand for these property categories. A gradual shortage of property units in the market is causing a downward trend in transaction volume.

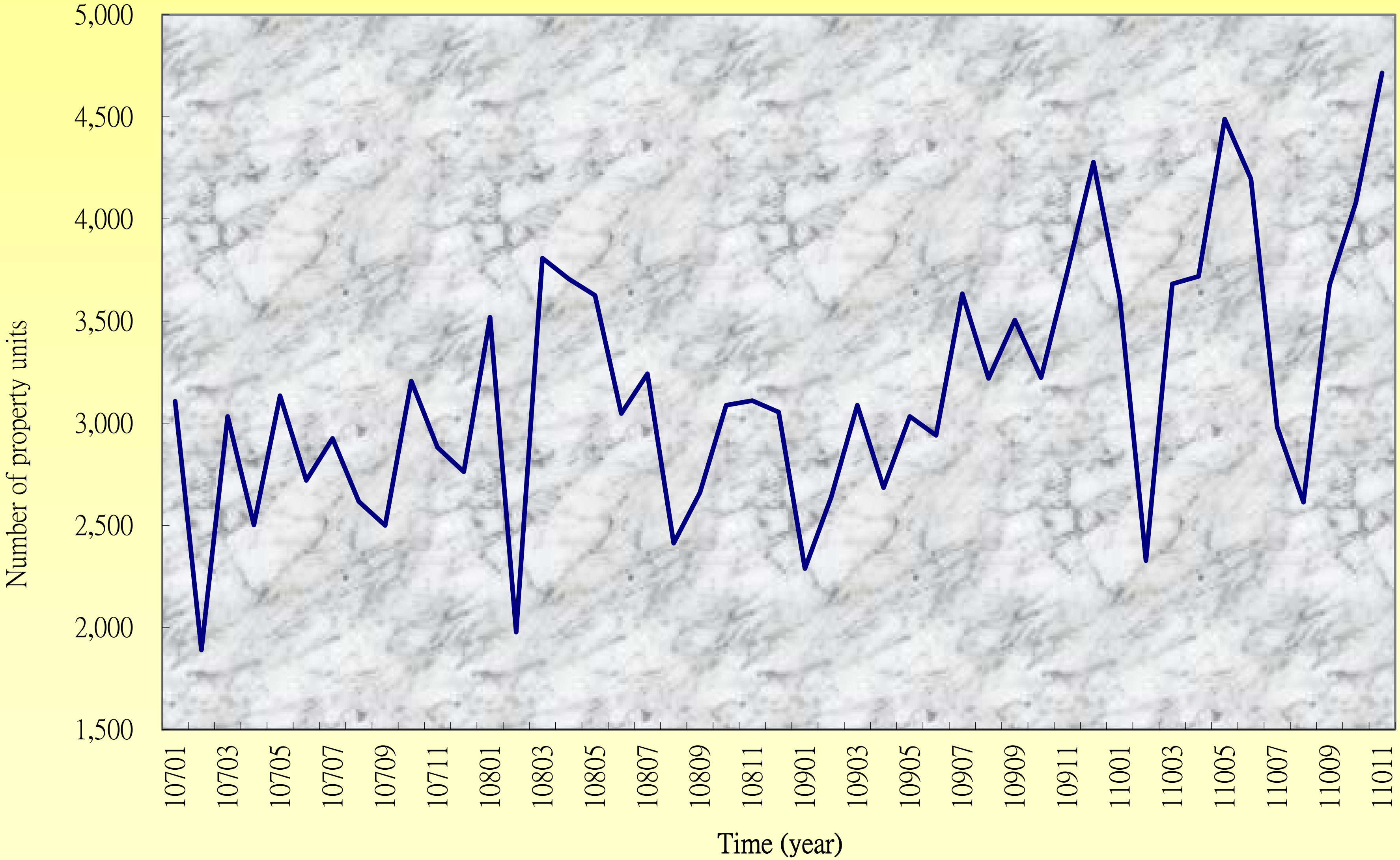
- A consensus has already emerged that interest rates will rise next year. At this stage, rising prices and interest rates will cause a decline in purchasing power. However, there will not be much impact on the property market in the early days of an interest rate hike.

- Looking ahead, domestic consumption is expected to rebound as the COVID-19 outbreak in Taiwan stabilizes and gradual easing of control measures takes place while the Taiwanese government launches a series of stimulus measures such as the "Quintuple Stimulus Voucher."

Impact of House and Land Transactions Income Tax 2.0 on the Real Estate Market

- Transactions involving houses and land acquired by individuals and profit-seeking enterprises after January 1, 2016 that are completed after July 1, 2021 are subject to House and Land Transactions Income Tax 2.0. Consequently, the property market witnessed a wave of transactions, for the purpose of avoiding this tax, in the first half of 2021 before it came into effect.
- Aside from introducing adjustments to the holding periods and tax rates for house and land, House and Land Transactions Income Tax 2.0 primarily aims to stop the approach of avoiding high tax rates by holding house and land among legal persons. In other words, the past practice involving a company holding a property unit can no longer avoid high tax rates.

Statistics on Property Transactions in Kaohsiung City



The annual growth rate (y-o-y %) of the number of transactions between January and November 2021 rose by 17.96% from 2.74% in 2020.

- Note: These figures were taken from the statistics on housing transactions in Kaohsiung City provided by the Land Administration Bureau, Kaohsiung City Government.

Overview of the Housing Market in Kaohsiung City

- Despite interruptions arising from the COVID-19 pandemic in the first half of 2021, it is fair to say that the housing market in Kaohsiung was considerably stable against the backdrop of rising construction costs and inflation expectations, while smooth sales have been reported frequently in the market.

- In May 2021, there were no reports of major electronics manufacturers setting up plants in Kaohsiung City, but news of residents outside the city raiding our sales office for our Nanzi development project and causing a sell-out emerged consecutively. From June 2021 onwards, whispers of a large electronics manufacturer moving into Nanzi began to spread.

- On August 1, 2021, the Commercial Times disclosed that TSMC will build a 7-nanometer fab and a 28-nanometer fab at the former site of CPC's Kaohsiung Refinery. Everyone was dubious about this report at the beginning. It was not until September 7, 2021 when this news was widely reported by the United Daily News that the entire housing market began to heat up again.

Overview of the Housing Market in Kaohsiung City

- As of November 2021, the number of housing transactions in Kaohsiung City has hit the 40,000-unit mark, which was a never-before-seen phenomenon in the city. With the lopsided bullishness in the housing market, the whole market turned into a seller's market in the second half of 2021 as property prices climbed and the gap in perceived price between sellers and buyers widened. Consequently, the housing market did not experience a significant increase in transaction volume.

- Surging construction costs have greatly impacted the construction industry. For instance, the cost of a 24-floor building completed by the Company in November 2012 was NT$68,000 per ping back then, but has now risen to NT$130,000 per ping, up 91.98% over a nine-year period. The commencement of large-scale projects and the construction of new factories by large electronics manufacturers in Kaohsiung City over the next few years are expected to exacerbate cost hikes in the housing market.

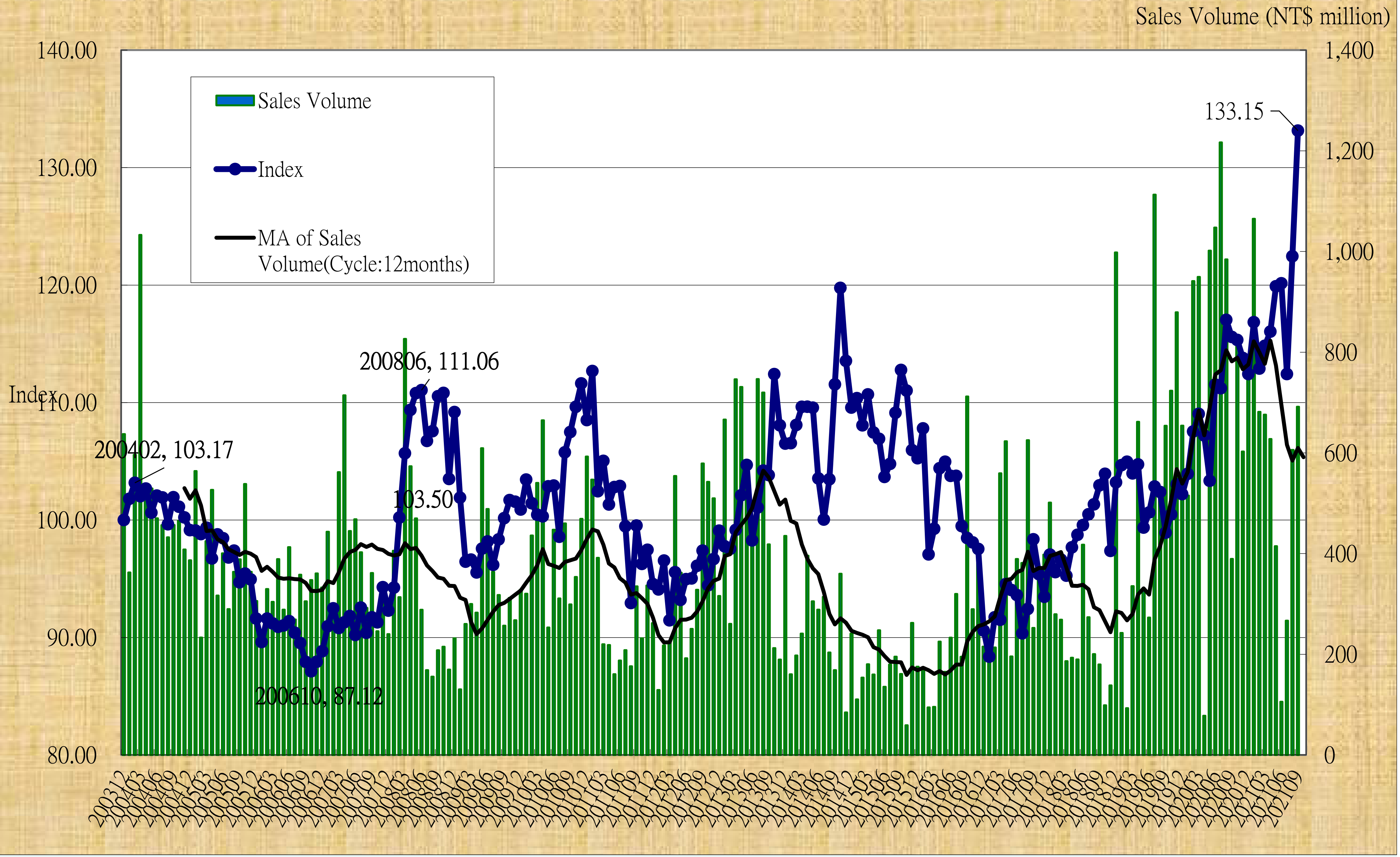
Number of housing units and total floor area of housing units with building permit

Number of housing units and total floor area of housing units with use permit

Number of buildings with first-time registration of building ownership

Sales Situation and Projects
On sale at King's Town Construction

Selling Price Index and Volume at King's Town Construction



The Company's average selling price (ASP) in September 2021 was NT$282,000 per ping, reaching a record high in the Company's history.

Recent Overview of King's Town Construction

- In November 2021, the Company recorded an operating revenue of NT$515,178 thousand, down 41.16% y-o-y, and a cumulative operating revenue of NT$5,497,855 thousand, down 30.79% y-o-y.
- This year, the Company's revenue primarily came from Museum of Modern Art (36.09%), King's Palace (24.84%), Le Dome (8.32%), King Park (8.13%), King's Hanshin Online (7.90%), and other development projects.
- **The Company's average selling price (ASP) in September 2021 was NT$282,399 thousand, reaching a record high in the Company's history.**

Recent Overview of King's Town Construction

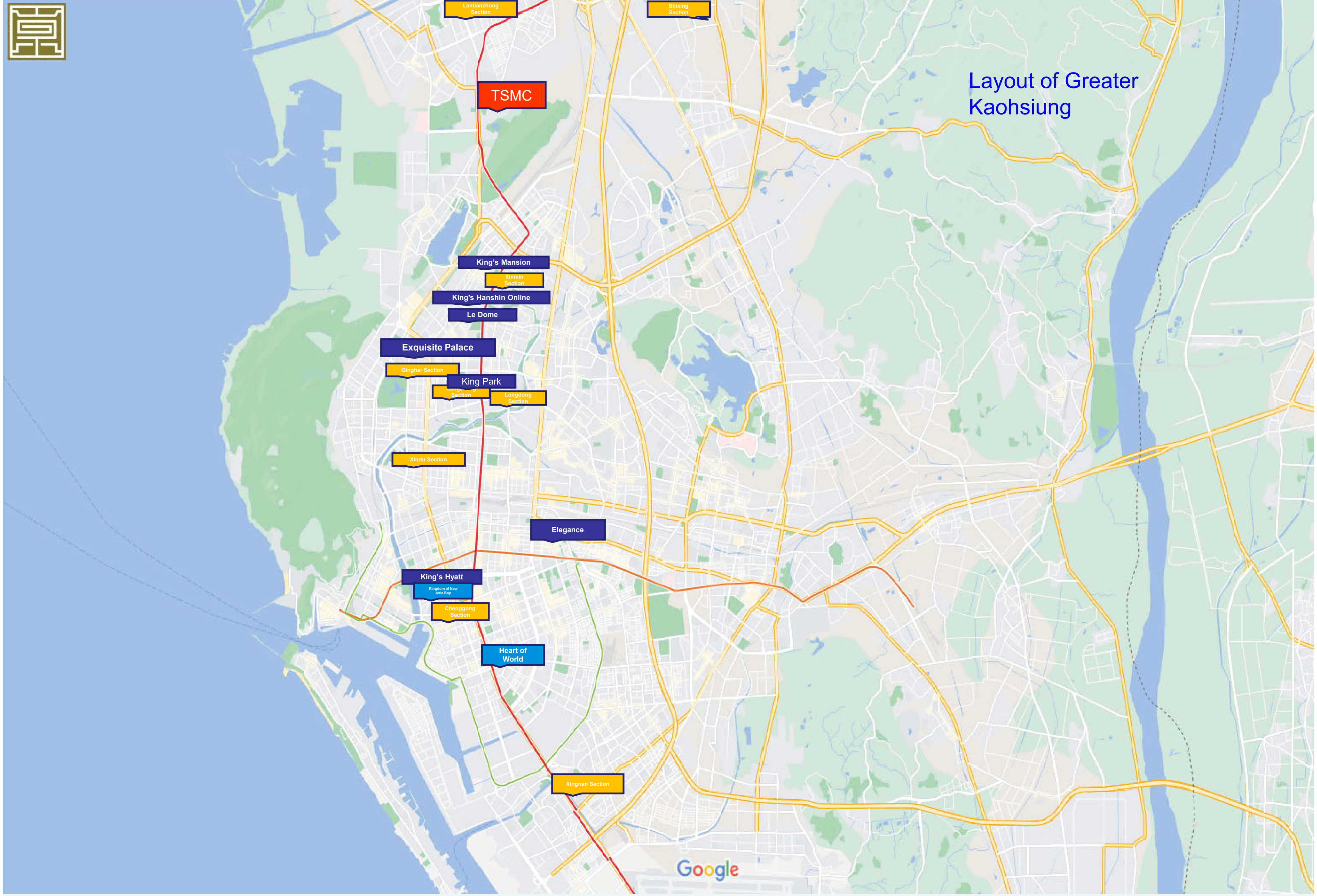
- In 2021, the Company purchased 17,134.52 pings of land, amounting to NT$3,877,180 thousand. The Company's current land inventory is 30,895.56 pings (after deducting 1,825.11 pings of land under construction).
- At present, the Company has a number of projects on sale, including King Park, King's Grand Tower, Le Dome, King's Hanshin Online, King Park, Museum of Modern Art, and King's Mansion, as well as a couple of projects on pre-sale, including Kingdom of New Asia Bay and Heart of World.
- Most of the land purchased by the Company this year is located in Tainan City, with the largest and the most important being the Rende Technology Park Project jointly developed with SanDi Properties Co., Ltd. Therefore, Tainan City is currently the Company's main region of focus for expansion and development, where the city is slated to account fr a gradually increasing proportion of the Company's development projects in the coming years.

Major Projects on Sale in 2022

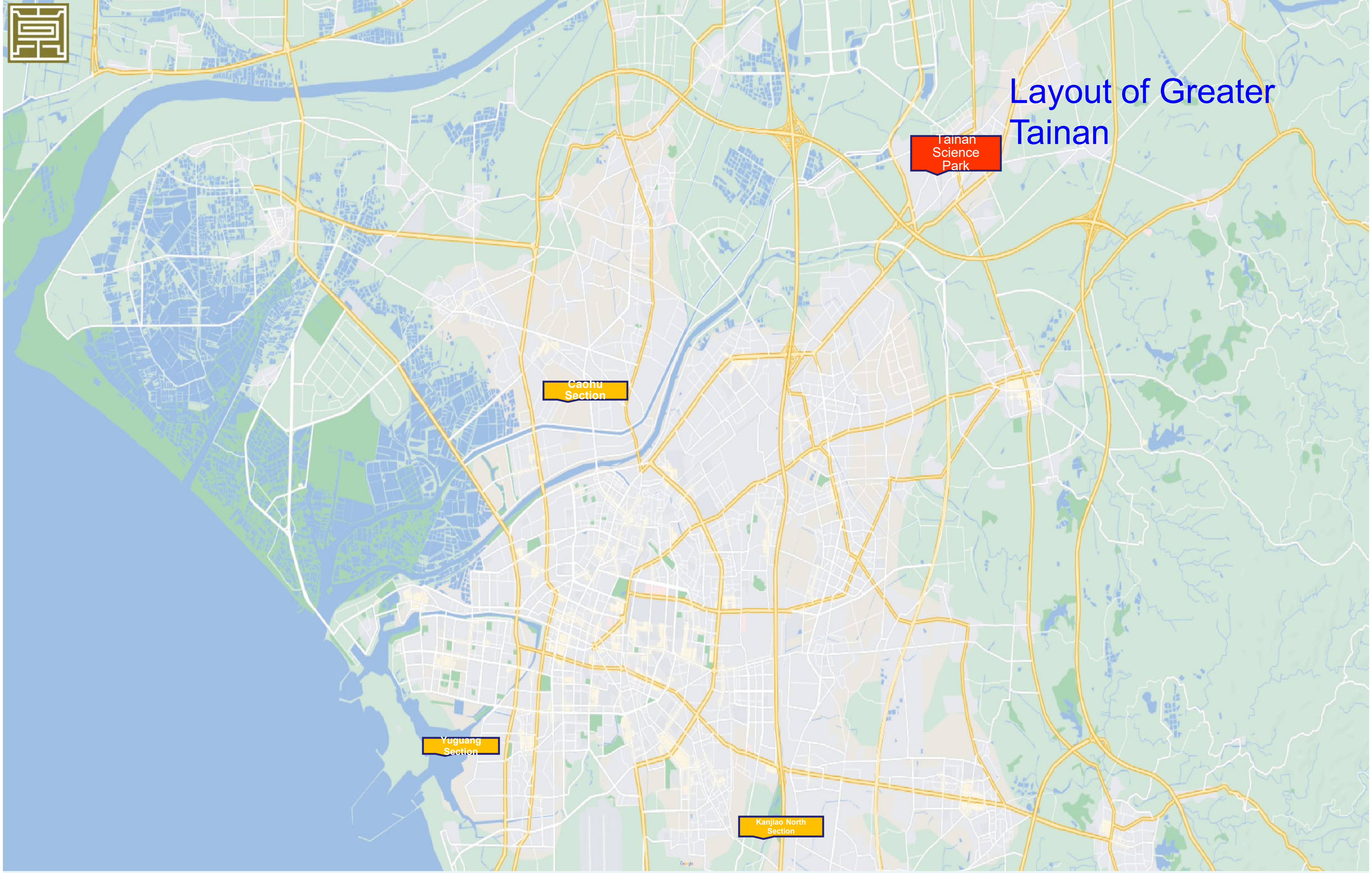
Project Name	Project Serial No.	Total Amount of Housing Inventory (NT$ million)	Total Sales Area (ping)	Total Units	Land Area (ping)	Gross Margin (F)
King Park	W49	7,585	14,266	81	1,327.78	66.06%
King's Hyatt	W82	1,340	6,912	30	783.78	42.35%
Le Dome	W97	599	2,164	14	1,541.86	43.49%
King's Hanshin Online	WA5	196	766	10	549.01	34.94%
King's Mansion	WAX	1,040	4,304	55	1,111.55	39.66%
Exquisite Palace	WAT	3,518	14,279	110	3,008.32	39.66%
Elegance	W94	964	4,016	60	698.78	31.02%
Total		15,242	46,707	360	9,021	--------------

Major Projects on Pre-sale in 2022

Project Name	Project Serial No.	Total Amount of Housing Inventory (NT$ million)	Total Sales Area (ping)	Total Units	Land Area (ping)	Gross Margin (F)
Kingdom of New Asia Bay	WCV	3,038	6,076	38	395.98	48.54%
Heart of World	WB7	4,563	16,900	533	929.28	43.62%
Total		7,601	22,976	571	1,325.26	--------------



At present, the Company's inventory of excess housing units and land available for sale is mostly located in Kaohsiung City.



Next year, the Company will increase the proportion of development projects in Tainan City.

2021 Q3 Financial Statements

- As of 2021 Q3, the Company reported a cumulative net operating revenue of NT$4,510,451 thousand, a cumulative gross profit of NT$1,772,787 thousand, a cumulative gross profit margin of 39.30%, a cumulative operating income of NT$1,383,841 thousand, a cumulative net income before tax of NT$1,280,505 thousand, a cumulative net income after tax of NT$1,093,514 thousand, a cumulative net profit margin of 24.24%, a cumulative comprehensive income of NT$1,093,514 thousand, and a cumulative basic earnings per share of NT$2.95.
- In 2021 Q3, the Company reported a net operating revenue of NT$1,002,168 thousand, a gross profit of NT$414,005 thousand, a gross profit margin of 41.31%, an operating income of NT$321,839 thousand, a net income before tax of NT$302,893 thousand, a net income after tax of NT$278,558 thousand, a net profit margin of 27.79%, a comprehensive income of NT$278,558 thousand, and a basic earnings per share of NT$0.75.

King's Town Construction Co., Ltd. Consolidated Income Statement

Unit: NT$ millions

Year / Item	2021 Q1 to Q3		2020		2019		2018		2017	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Operating revenue	4,510	100.0%	8,668	100.0%	5,990	100.0%	3,298	100.0%	4,185	100.0%
Gross profit	1,773	39.30%	2,984	34.43%	2,591	43.26%	1,179	35.75%	1,573	37.59%
Operating income to capital (%)	1,383	30.68%	2,175	25.09%	1,945	32.47%	663	20.10%	989	23.63%
Net income before tax	1,281	28.39%	1,933	22.30%	1,803	30.10%	547	16.59%	856	20.45%
Net income after tax	1,094	24.24%	1,685	19.44%	1,657	27.66%	497	15.07%	775	18.52%
Other comprehensive income	0	0%	(216)	-2.49%	(730)	-12.19%	414	12.55%	1,855	44.32%
Total comprehensive income	1,094	24.24%	1,685	19.44%	1,656	27.65%	498	15.10%	777	18.57%
EPS (NT$)	$2.95	------	$4.48	------	$4.31	------	$1.29	------	$2.02	---

	2018	2019	2020
Capital structure analysis (%)			
Debt ratio	64.69	62.78	54.72
Long-term funds to property, plant and equipment	1,935.86	2,379.92	2,682.96
Liquidity analysis (%)			
Current ratio	208.67	228.55	291.53
Quick ratio	1.73	3.99	15.18
Times interest earned	2.12	5.15	7.57
Operating performance analysis (%)			
Accounts receivable turnover	225.74	68.73	55.78
Days to collect accounts receivable	1.62	5.31	6.54
Average inventory turnover	0.07	0.10	0.18
Average days to sell inventory	5,214.28	3,650.00	2,027.77
Property, plant and equipment turnover (times)	3.42	6.75	10.42
Total asset turnover (times)	0.10	0.17	0.27
Return on investment analysis (%)			
Rate of return on assets	1.84	5.25	5.50
Rate of return on equity	4.18	13.16	4.18
Operating income to capital (%)	17.23	50.54	58.59
Profit before tax to capital (%)	14.22	46.86	52.07
Profit to sales (%)	15.08	27.65	19.44
Earnings per share (NTD)	1.29	4.31	4.48
Cash flow (%)			
Cash flow ratio (%)	*****	0.36	47.78
Cash flow adequacy ratio (%)	*****	0.67	84.60
Cash flow reinvestment ratio (%)	*****	0.26	23.48

Surprises for Kaohsiung City between November and December 2021

- 11/09: TSMC announced plans to set up plans in Kaohsiung City (with an estimated capital expenditure of over NT$200 billion).
- 11/17: News of MediaTek looking to invest in Kaohsiung City emerged.
- 11/14: Tenders for the Type 3 Special Economic and Trade-oriented Zone in Asia New Bay Area were awarded, with a total investment amount of NT$77.5 billion, to Highwealth Construction (NT$50.3 billion), Kuo Yang Construction and Taiwan Life (NT$16.6 billion), as well as Kuocheng Development & Construction and Kao Hsing Chang Iron & Steel Corp. (NT$10.6) for various development projects, such as the 5G AIoT Industry Innovation Hall, as well as commercial and residential purposes in the future.
- 11/22: The Northern Kaohsiung Project was officially launched. This project comprises the former sites of CPC's Kaohsiung Refinery and factories of Chien Tai Cement Co., Ltd. and Southeast Cement Corporation, covering a total area of 265.55 hectares. Under this project, land owners can apply for development projects and modification of urban plans to enable the relevant land to be used for industrial, commercial, and residential purposes.
- 11/22: The former site of Zuoying Junior High School was converted into a park and green space, preserving the skyline of the Dragon and Tiger Pagodas at Lotus Lake.

Surprises for Kaohsiung City between November and December 2021

- 11/23: Investment solicitation for the Kaohsiung Software Park Phase II Project was launched. Covering a total floor area of 47,210 pings. this project receives NT$10 billion worth of resources invested by the government. The scope of industry involved in this project include "park development," "smart facilities," "startup linkage," "talent cultivation," "field application," and "industry cluster."
- 12/01: The Ministry of Culture pledged to speed up the expansion of Taiwan Broadcasting System's southern production center with the establishment of a Southern Taiwan channel.
- 12/03: The Ministry of Transportation and Communications issued an operation permit for the Circular Light Rail in Kaohsiung City, signaling that the operation of rail services between stations from C17 to C20 is coming soon.
- 12/07: A call for superficies tender for Taiwan Sugar Corporation's 13,007-ping land in the "Type 2 Business District" within the Guotai Rezoning Area in Fengshan District was made on December 7. The tender was awarded to Mitsui Fudosan, which is expected to build its shopping park, Lalaport.
- 12/09: U.S.-based Entegris, Inc. announced plans to invest NT$14 billion in the construction of its largest manufacturing base in the world in Kaohsiung City.

Future Prospects for the Property Market in Kaohsiung City

- TSMC's plans to set up plants in Kaohsiung City is critical to industrial transformation in the city since it has been striving to reduce the proportion of high-polluting industries in recent years. However, such efforts have also led to population loss and a decline in economic strength. TSMC's arrival has brought development prospects to Kaohsiung City.
- With the establishment of fabrication plants in Kaohsiung City, not only will TSMC bring its employees to the city, but quite a number of manufacturers in the industry chain are also expected to move into the city. For example, U.S.-based Entegris, Inc. announced plans to set up facilities in Kaohsiung City on December 9, 2021. TSMC's arrival is estimated to bring an abundance of job opportunities and economic contributions to Kaohsiung City; consequently, the housing market is expected to benefit directly from it as well, with the property market foreseeing steady growth in demand in the next five years.
- Economic strength and industrial upgrading are what Kaohsiung City lacks most at this stage. The presence of a new industry chain and a host of major construction projects in Kaohsiung City in the future can not only improve the economic level of the city and the purchasing power of the people of Kaohsiung, but also create a large number of job opportunities and enhance the competitiveness of the local economy, hopefully leading to the total transformation of Kaohsiung City in the process.

Development Projects with an Impact on Kaohsiung City in the next 20 years

Project Name	Location	Area	Start Time and Impact
Construction of TSMC plants in Kaohsiung City	Former site of CPC's Kaohsiung Refinery	169.5 hectares	Expected to commence in 2023
Qiaotou Science Park	Kaohsiung New Town Qiaotou Science Park	352.44 hectares	Available to the tech industry for land selection and planning for plant construction at the end of 2021
Asia New Bay Area 5G AIoT Innovation Park	Northern and southern bases in the Type 3 Special Economic and Trade-oriented Zone in Asia New Bay Area	16,000 pings	Tenders for construction have been awarded to Highwealth Construction, Kuo Yang Construction, and Kuocheng Development & Construction.

Thank you
Q&A

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