

Investment Stewardship Group

Voting Bulletin: Wheelock & Co. Ltd

As part of our fiduciary duty, BlackRock’s Investment Stewardship team (BIS) advocates for sound corporate governance and business practices that are aligned with long-term sustainable financial performance. This objective underpins all our engagements and votes at company meetings.

We engage company leadership on key topics emphasizing governance practices including management of environmental and social factors that potentially have material economic, operational or reputational ramifications for the company.

We determine our [engagement priorities](#) based on our observation of market developments and emerging governance themes and evolve them year over year as necessary. The BIS team’s key engagement priorities include:

1. Board quality
2. Environmental risks and opportunities
3. Corporate strategy and capital allocation
4. Compensation that promotes long-termism
5. Human capital management

We are committed to enhancing the transparency of our stewardship practices. Where we believe it will help to understand our voting decisions at shareholder meetings, we will publish a Voting Bulletin explaining the rationale for how we have voted on select resolutions, and (where relevant) provide information around our engagement with the issuer.

Company	Wheelock & Co. Ltd
Market	Hong Kong
Meeting Date	16 th June 2020
Key Resolutions ¹	Item 7: to approve the scheme of arrangement, reduction and increase in share capital, issuance and allotment of shares to Admiral Power Holdings Limited, withdrawal of listing of shares on the Stock Exchange of Hong Kong, and related transactions
Board Recommendation	In favour
BlackRockVote	In favour

¹ Full meeting resolutions can be accessed at: <https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0520/2020052000814.pdf>

Overview

Wheelock & Co. Ltd (Wheelock) is a Hong Kong-based real estate conglomerate with a market capitalization approximately equivalent to US\$15bn that is 67.5% controlled by the Woo family. Through Wheelock, the family also controls 72.1% of Wharf and 65.5% of Wharf REIC, which are similarly listed in Hong Kong, with market capitalizations equivalent to US\$6bn and US\$12bn respectively (as of 29 May 2020). Wharf owns most of the group's exposure to property development in China, while Wharf REIC was spun out from the group in November 2017 and owns well-known malls in Hong Kong. As at 31 December 2019, these two subsidiaries accounted for nearly 90% of Wheelock's net asset value (NAV).

Background of Key Resolution

On 24 February 2020, the Woo family proposed to take Wheelock private through Admiral Power Holdings Ltd by offering minority shareholders one share of Wharf, one share of Wharf REIC, plus HK\$12 cash.² As of the last trading day before the announcement, the combined Wharf and Wharf REIC shares were worth HK\$59.9, thus the aggregate offer was valued at HK\$71.9 per share. This translates to a premium of 52.2% to Wheelock's share price pre-announcement. The HK\$12 cash portion of the offer represents a 1.8% discount of Wheelock's reassessed NAV as of 31 March 2020, excluding Wharf and Wharf REIC. The Woo family's stakes in Wharf and Wharf REIC will drop to 50.2% and 43.5% respectively following the distribution of the shares in the delisting of Wheelock.

The announcement was made during the early stages of COVID-19 and subsequent market impact, and as of 29 May 2020, the share prices of Wharf and Wharf REIC have fallen to HK\$13.8 and HK\$29.8 respectively, bringing the value of the combined shares down 27.2% from the announcement date compared to a 16.8% decline in the market Hang Seng Index during that period. Meanwhile, Wheelock's share price has surged to HK\$52.3, narrowing its discount to 6% below the aggregate offer value based on the current market prices.

Rationale for BlackRock vote

BlackRock believes it is in our clients' interests to vote in favour of the proposal, as it would allow Wheelock shareholders to have more direct exposure to property assets of Wharf and Wharf REIC that trade at a premium over Wheelock shares' recent and historic trading value.

We note that Wheelock has been trading at a conglomerate discount to book value of over 50% since mid-June 2018 through the privatization announcement in February 2020. **The privatization offer would allow Wheelock shareholders to have more direct exposure to property assets of Wharf and Wharf REIC at a premium over Wheelock shares recent trading value, in addition to receiving cash that is similar to the assessed market value for the "stub" assets of Wheelock.**³

The shares component of the offer might be viewed as an unattractive feature, especially given the deep discount to NAV of development properties in Mainland China and developments in Hong Kong's retail sector and environment, which are directly relevant to the core businesses of Wharf and Wharf REIC. However, we believe these two listed subsidiaries, which contribute to 90% of Wheelock's NAV, should potentially provide as much if not more upside to shareholders than the diversified parent-company. Even after the downward adjustment in Wharf and Wharf REIC's share prices post announcement, their combined value plus the cash component still translate to a premium of 17% to Wheelock's pre-announcement share price.

Had the proposal failed, Wheelock's share price could have fallen to pre-announcement levels with limited prospects for the conglomerate to see much of a re-rating under a "double-discount" scenario. In general, real estate companies, especially with China's development property exposure, generally trade at considerable 30-

² Please see: http://www.wheelockcompany.com/wc/e00020_Despatch%20Announcement%2020200521.pdf

³ Please see previous footnote.

60% discount to book value or NAV. In addition, the tiered holding structure of Wheelock as a parent-company conglomerate could remain an additional layer of discount on the property assets of Wharf and Wharf REIC. Thus, this “double-discount” scenario risks preventing Wheelock from being a strong performer over the short- as well as longer-term.

Moreover, the proposal is beneficial to Wheelock shareholders as it provides greater trading liquidity through direct ownership of Wharf and Wharf REIC, as well as a combined dividend income 67% higher than the yield of the Wheelock shares, without taking into account of the potential returns generated from the HK\$ 12 cash. As such, BlackRock voted in favour of the privatization proposal.

We will continue to engage with the group after the delisting of Wheelock, given direct interest of BlackRock’s portfolios in Wharf and Wharf REIC, on issues pertaining to longer-term sustainable value creation for these two major Hong Kong real estate companies.