

# China / Hong Kong Flash Note

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DBS Group Research . Equity

10 Nov 2016

## Hongkong Land (HKL SP) : BUY

**Mkt. Cap:** US\$15,223m | **3m Avg. Daily Val:** US\$11.7m

**Last Traded Price ( 9 Nov 2016):** US\$6.47

**Price Target 12-mth:** US\$7.76 (20% upside) (Prev US\$7.87)

### Company Guide

[Hongkong Land](#)



Summary of our point of view, and highlights the relevant data points, which are actively tracked

### Analyst

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## Tight supply to support positive office reversion

- **Positive reversionary growth for Hong Kong office portfolio to continue**
- **Good residential sales from China**
- **Inexpensive valuation, maintain BUY with US\$7.76 TP**

### Forecasts and Valuation

FY Dec (US\$ m)	2014A	2015A	2016F	2017F
Turnover	1,876	1,932	2,090	2,133
EBITDA	1,014	975	996	1,006
Pre-tax Profit	1,121	1,060	1,054	1,142
Underlying Profit	930	905	865	934
Underlying Profit Gth (%)	(0.5)	(2.7)	(4.3)	8.0
Net Profit Gth (%)	(0.5)	(2.7)	(4.3)	8.0
EPS (US\$)	0.40	0.38	0.37	0.40
EPS Gth (%)	(0.5)	(2.7)	(4.3)	8.0
PE (X)	16.4	16.8	17.6	16.3
P/Cash Flow (X)	18.3	14.2	28.2	19.8
EV/EBITDA (X)	17.3	18.0	17.7	17.5
DPS (US\$)	0.19	0.19	0.19	0.19
Div Yield (%)	2.9	2.9	2.9	2.9
Net Gearing (%)	10	8	9	9
ROE (%)	3.4	3.2	2.9	3.0
Est. NAV (HK\$)			11.3	11.9
Disc. to NAV (%)			(42)	(46)
Earnings Rev (%)			0	0
Consensus EPS (US\$)			0.39	0.40
Other Broker Recs:		B: 8	S: 4	H: 3

Source: Company, DBS Vickers, Thomson Reuters

### What's New

**Positive reversionary growth for Hong Kong office portfolio to continue.** Benefitting from the current tight supply in Central, Hongkong Land has continued to achieve positive rental reversion for its Central office portfolio. This would push up its average office rents which stood at HK\$103psf in 1H16. However, the office vacancy rose slightly to 3.5% in September 2016 from June 2016's 3.1% due to the timing of new lease commencement. Nevertheless, the vacancy should decline before the year-end as tenants take up the previously committed office space. Its retail portfolio remained fully leased with rental reversion remaining largely positive. In Singapore, office vacancy was marginally lower at 0.8% in September 2016 compared to June 2016's 1%. But reversionary growth has turned negative in view of upcoming supply glut in the office leasing market.

**Good residential sales from China.** In China, Hongkong Land's contracted sales jumped 57% to US\$222m in 3Q16. This brought the cumulative contracted sales for 9M16 to US\$654m, up 39% y-o-y. Residential sales from China should serve as an increasingly important earnings platform for Hongkong Land over time. Turning to Singapore, the fully pre-sold J Gateway project remains on target for completion by end-2016. Despite lacklustre market sentiment, HongKong Land continued the pre-sales of the

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LakeVille and Sol Acres projects. Besides, the company had commenced the pre-sales of Lake Grande in July 2016 with encouraging initial response.

**Inexpensive valuation, maintain BUY with US\$7.76 TP.** The stock is trading at a 42% discount to our assessed current NAV, compared with its 10-year average of 25%. Office leasing demand in Central has been showing signs of moderation recently. But the tight vacancy and projected limited new supply should provide support to office rents in

Central. Despite increasing uncertainty in the global financial market, we keep our BUY call at this stage with a U\$7.76 TP, given inexpensive valuations.

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**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return i.e. > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

*Share price appreciation + dividends*

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