

China / Hong Kong

Flash Note

Refer to important disclosures at the end of this report

DBS Group Research . Equity

9 Mar 2018

Hongkong Land (HKL SP) : BUY

Mkt. Cap: US\$15,905m | **3m Avg. Daily Val:** US\$13.2m

Last Traded Price (8 Mar 2018): US\$6.76

Price Target 12-mth: US\$8.53 (26% upside)

Analyst

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Investing for the future

- **FY17 underlying profit up 14% to US\$970m, 6% above our forecasts on stronger-than-expected growth in development profit in China**
- **Positive reversionary growth for Central offices to continue**
- **Expanding property presence in China and South East Asia**
- **Compelling valuation; BUY with US\$8.53 TP**

Forecasts and Valuation

FY Dec (US\$ m)	2016A	2017A	2018F	2019F
Turnover	1,994	1,960	2,460	2,046
EBITDA	971	911	1,002	998
Pre-tax Profit	1,019	1,128	1,253	1,254
Underlying Profit	848	970	1,048	1,050
EPS (US\$)	0.36	0.41	0.45	0.45
EPS Gth (%)	(6.3)	14.4	8.1	0.2
PE (X)	18.8	16.4	15.2	15.1
P/Cash Flow (X)	12.9	17.0	15.2	14.5
EV/EBITDA (X)	19.1	20.3	18.5	18.5
DPS (US\$)	0.19	0.20	0.21	0.21
Div Yield (%)	2.8	3.0	3.1	3.1
Net Gearing (%)	6	7	9	11
ROE (%)	2.8	2.8	2.8	2.6
Est. NAV (US\$):			12.4	13.1
Disc. to NAV (%)			(46)	(48)
Earnings Rev (%):			8	(2)
Consensus EPS (US\$):			0.43	0.44
Other Broker Recs:		B: 9	S: 3	H: 4

Source: Company, DBS Vickers, Thomson Reuters

What's New

Hongkong Land's FY17 underlying earnings came in at US\$970m, up 14% y-o-y, mainly led by significantly higher development profits from China and increased rental earnings. Final DPS rose 8% to US\$0.14, taking the full-year DPS to US\$0.20 (FY16: HK\$0.19).

Gross rental receipts rose modestly by 6% to US\$912m. This reflects the mainly positive rental reversion for its Central office portfolio which resulted in average office rents rising 5% y-o-y to HK\$108psf in 2017. Vacancy for Central office portfolio improved further to 1.4% in Dec-17 from Jun-17's 1.5%. Retail portfolio remained effectively fully let with base rental reversions largely neutral. However, average retail rents were 3% y-o-y higher at HK\$224psf in 2017 due to the full year effect of positive reversions in 2016.

Office rents in Central grew c.6% in 2017 after rising c.10% in 2016, according to Jones Lang LaSalle. Demand from Chinese enterprises shows no sign of abating. Coupled with tight vacancy and limited new supply, office reversionary growth should remain favourable when 31% of lease will be up for renewal or rent review in 2018.

Vacancy of its Singapore portfolio remained low at 0.3% in Dec-17 but negative reversionary growth dragged average rents in 2017. However, the latest deals suggest that the rental reversion is turning positive.

In Beijing, the newly opened WF Central retail complex was 77% occupied as of Feb-18. Committed occupancy should improve to c.90% by Jun-18.

Flash Note

Development profits in China, primarily from Chongqing and Shanghai, were substantially higher in FY17 due to higher project completion, offsetting lower contributions from Singapore.

Due to few launches in 2H17, Hongkong Land's contracted sales was only marginally higher at US\$1.11bn in 2017, which came mainly from projects in Chongqing. Net order book stood at US\$1.03bn, of which c.85% is expected to be recognized in FY18. In Singapore, near-term development earnings visibility is high as Sol Acres and Lake Grande, scheduled for completion in FY18 and FY19 respectively, were 96% and 98% pre-sold at the end of 2017.

Hongkong Land is on acquisition mode. In 2017, Hongkong Land made forays into three second tier cities in China, including Wuhan, Nanjing and Hangzhou and acquired two new sites in Chongqing. In Jan-18, the company secured an additional site in Nanjing. Elsewhere, Hongkong Land acquired one residential site in each of Indonesia, Singapore

and Bangkok, and conditionally entered into a joint venture to develop two residential projects in Ho Chi Minh City. Total investment for these projects reached US\$4.2bn of which c.52% is in China.

Net debt rose to US\$2.55bn in Dec-17 from Jun-17's US\$1.9bn due to the payment for committed land purchases in China and Southeast Asia. But gearing remained low at 7%. The company's financial risk should remain well managed in our view.

The stock is trading at 46% discount to our appraised current NAV, against its 10-year average of 29%. From an historical perspective, it is grossly undervalued and hence our BUY call. Our TP of US\$8.53 is based on a 35% discount to our Dec-18 NAV estimate.

Results Summary

FY Dec (US\$m)	FY16	FY17	% Chg	Comments
Rental income	859	912	6	FY17: higher average office and retail rents
Service income	131	140	7	
Sales of properties	1,004	908	(10)	
Revenue	1,994	1,960	(2)	
Cost of sales	(923)	(934)	1	
Gross profit	1,071	1,026	(4)	
Other income	12	17	45	
Administrative expenses	(112)	(136)	21	
Operating profit	971	908	(6)	
Net financing charges	(69)	(78)	13	
Share of results of associates and joint ventures	117	299	155	FY17: primarily led by high project completions in China
Profit before tax	1,019	1,128	11	
Tax	(168)	(157)	(7)	
Non-controlling interests	(3)	(1)	(50)	
Underlying profit	848	970	14	
Final DPS (US cents)	13.00	14.00	8	
Underlying EPS (US cents)	36.03	41.21	14	
NAV (US\$/sh)	13.30	15.63	18	

Source: Company

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	04 May 17	7.68	8.51	BUY
2:	17 Jul 17	7.58	8.93	BUY
3:	02 Aug 17	7.54	8.93	BUY
4:	04 Aug 17	7.80	8.93	BUY
5:	10 Nov 17	7.37	8.93	BUY
6:	01 Mar 18	6.96	8.53	BUY

Note: Share price and Target price are adjusted for corporate actions.

Source: DBS Bank

Analyst: Jeff YAU CFA,
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Jason LAM

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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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