

China / Hong Kong

Flash Note

Refer to important disclosures at the end of this report

DBS Group Research . Equity

10 May 2018

Hongkong Land (HKL SP) : BUY

Mkt. Cap: US\$17,387m | **3m Avg. Daily Val:** US\$13.7m

Last Traded Price (9 May 2018): US\$7.39

Price Target 12-mth: US\$8.53 (15% upside)

Analyst

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Offices shining

- **Central office vacancy fell below 1% on continued favorable rental reversion**
- **Office reversionary growth in Singapore to turn positive later this year**
- **Recent share buyback signals strong embedded value**
- **Maintain BUY with US\$8.53**

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
Underlying Profit Gth (%)	(6.3)	14.4	8.1	0.2
EPS (US\$)	0.36	0.41	0.45	0.45
EPS Gth (%)	(6.3)	14.4	8.1	0.2
PE (X)	20.5	17.9	16.6	16.6
P/Cash Flow (X)	14.1	18.5	16.6	15.8
EV/EBITDA (X)	20.6	21.9	19.9	20.0
DPS (US\$)	0.19	0.20	0.21	0.21
Div Yield (%)	2.6	2.7	2.8	2.8
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 (%)			(41)	(44)
Earnings Rev (%):			Nil	Nil
Consensus EPS (US\$):			0.44	0.44
Other Broker Recs:		B: 9	S: 3	H: 3

Source: Company, DBS Vickers, Thomson Reuters

Company Guide



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

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What's New

The vacancy rate of Central office portfolio improved further to 0.9% in Mar-18 from Dec-17's 1.4%. Against this backdrop, office rental reversion continued to be positive. This would push up the average office rents which stood at HK\$108psf in 2017, driving rental income growth. Retail portfolio in Central remained effectively fully let but rental reversion turned mildly negative. This could partially offset the income growth from the office portfolio. In Singapore, office portfolio vacancy remained tight at 0.4% in Mar-18. Reversionary growth, though still negative, is expected to turn positive later this year given continued market recovery. WF Central, a newly opened luxury retail complex in Beijing, performed in line with the company's expectations.

In China, the company achieved attributable contracted sales of US\$300m in 1Q18, up 4.5% y-o-y. In Singapore, the substantially sold Sol Acres project was completed in Apr-18. Lake Grande, due for completion in 2019, has become fully sold. Elsewhere, Margaret Ville is expected to be launched shortly. Overall, residential sales are becoming increasingly crucial to the company's earnings.

Due to the payment for previously committed land acquisitions, the company's net debt has risen modestly since the beginning of 2018.

On 9 Apr, Hongkong Land repurchased 12.3m shares at US\$7/share in the open market, marking its first share repurchase in more than 15 years. This signals the strong embedded value of the stock.

Flash Note

The stock is now trading at 41% discount to our estimated current NAV. Given sustained demand from Chinese firms, tight vacancy and limited new supply, Central office market should remain in good shape. This augurs well for Hongkong Land's rental income expansion. Any further

share buyback could limit downside risk on share price. Maintain BUY with US\$8.53 TP

Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	14-Jul-17	US\$7.47	US\$8.93	Buy
2:	2-Aug-17	US\$7.54	US\$8.93	Buy
3:	4-Aug-17	US\$7.59	US\$8.93	Buy
4:	10-Nov-17	US\$7.32	US\$8.93	Buy
5:	18-Jan-18	US\$7.15	US\$8.53	Buy
6:	24-Jan-18	US\$7.15	US\$8.53	Buy
7:	9-Mar-18	US\$6.76	US\$8.53	Buy

Source: DBS Bank

Analyst: Jeff Yau

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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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