

China / Hong Kong

Flash Note

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DBS Group Research . Equity

9 May 2019

Hongkong Land (HKL SP) : BUY

Mkt. Cap: US\$16,281m | **3m Avg. Daily Val:** US\$12.1m

Last Traded Price (8 May 2019): US\$6.92

Price Target 12-mth: US\$8.02 (15.9% upside)

Analyst

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Waning demand led to higher office vacancy

- **Central office portfolio vacancy increased on slower leasing enquiries**
- **Contracted sales in China fell in 1Q19 due to fewer project launches**
- **Maintain BUY on attractive valuation, US\$8.02 TP**

Forecasts and Valuation

FY Dec (US\$ m)	2017A	2018A	2019F	2020F
Turnover	1,616	2,665	2,260	1,840
EBITDA	879	1,094	1,013	1,068
Pre-tax Profit	1,100	1,240	1,230	1,241
Underlying Profit	947	1,036	1,039	1,040
EPS (US\$)	0.41	0.44	0.45	0.45
EPS Gth (%)	12.6	9.0	0.6	0.1
PE (X)	17.1	15.6	15.5	15.5
P/Cash Flow (X)	17.2	10.2	12.8	21.7
EV/EBITDA (X)	22.2	17.8	19.2	18.2
DPS (US\$)	0.20	0.22	0.22	0.23
Div Yield (%)	2.9	3.2	3.2	3.3
Net Gearing (%)	7	9	11	12
ROE (%)	2.8	2.8	2.7	2.6
Est. NAV (US\$):			13.0	13.4
Disc. to NAV (%)			(47)	(48)
Earnings Rev (%):			Nil	Nil
Consensus EPS (US\$):			0.46	0.48
Other Broker Recs:		B: 9	S: 3	H: 2

Source: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), 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

Office leasing demand from Chinese enterprises in Central has softened since 2H18. This resulted in a slowdown in leasing enquiries. Against this background, the vacancy of Hongkong Land's Central office portfolio inched up to 2.1% in Mar-19 from Dec-18's 1.4% but this should fall in the coming months as tenants take up committed space. Despite slightly higher vacancy and waning demand, office rental reversion remained positive. Tight new supply in Central in the years ahead should help support office rents there.

The Central retail portfolio effectively remained fully occupied while base rental reversions were mildly positive. In Singapore, the office portfolio vacancy stood at 2.8% in Mar-19, up slightly from Dec-18's 2.5% but reversionary growth continued to be positive.

In Beijing, a luxury brand has committed to open its Mainland China flagship store at WF Central. The hotel component of this complex, Mandarin Oriental Wangfujing, opened for business in Mar-19.

Due to fewer sales launches, contracted sales revenue in China fell 36% to US\$193m but is anticipated to rise in 2H19. With project completion skewed towards 2H19, residential profit contributions in China were lower in 1Q19.

In Singapore, pre-sales at Margaret Ville and Parc Esta were satisfactory. Tulip Garden is expected to be launched for pre-sale in 2H19.



Live more, Bank less

Flash Note

Net debt was largely stable at around US\$3.6bn but should rise modestly when committed land and other payments are made.

YTD, shares of Hongkong Land have risen 10%, underperforming other landlords by 9ppts. Meanwhile, the stock is trading at 47% discount to our appraised current NAV, against its 10-year average of 35%. Valuation is attractive even allowing for softening office demand in Central. Maintain BUY with US\$8.02 TP.

Share price performance comparison

		1M	3M	YTD	2018
Name	Ticker	(%)	(%)	(%)	(%)
Hang Lung Props	101 HK	(10.8)	(1.4)	16.2	(21.6)
HK Land @	HKL SP	(3.0)	(2.0)	9.8	(10.8)
Hysan Dev	14 HK	0.1	5.6	16.4	(10.8)
Swire Props	1972 HK	(1.9)	2.8	15.6	8.5
Wharf REIC	1997 HK	-	9.3	25.6	(10.6)
Market cap wt.		(2.6)	4.4	18.9	(6.4)
Hang Seng Index		(3.6)	3.8	12.2	(15.3)
Hang Seng Prop. Index		(4.8)	3.9	16.3	(9.3)

Source: Bloomberg Finance L.P.

Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	10-May-18	US\$7.39	US\$8.53	Buy
2:	18-Jul-18	US\$7.13	US\$8.57	Buy
3:	24-Jul-18	US\$7.20	US\$8.57	Buy
4:	27-Jul-18	US\$7.15	US\$8.57	Buy
5:	19-Sep-18	US\$6.80	US\$8.57	Buy
6:	17-Jan-19	US\$6.92	US\$7.86	Buy
7:	1-Mar-19	US\$7.17	US\$8.02	Buy

Source: DBS HK

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DBS HK recommendations are based on Absolute Total Return* Rating system, defined as follows:

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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Sources for all charts and tables are DBS HK unless otherwise specified.

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