

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

Jeff YAU CFA, +852 36684180; jeff_yau@db.com

Ian CHUI +852 36684174; ianchui@db.com

Jason LAM +852 36684179 jasonlamch@db.com

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.

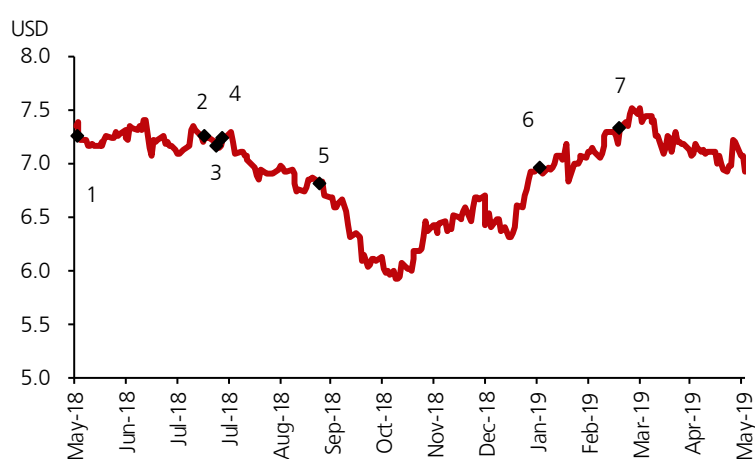
YTD, shares of Hongkong Land have risen 10%, underperforming other landlords by 9ppts. Meanwhile, the stock is trading at 47% discount to our appraised current NAV, against its 10-year average of 35%. Valuation is attractive even allowing for softening office demand in Central. Maintain BUY with US\$8.02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

Share price performance comparison

Name	Ticker	1M (%)	3M (%)	YTD (%)	2018 (%)
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

Analyst: Jeff YAU CFA,
Ian CHUI
Jason LAM

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DBS HK recommendations are based on an 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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DBS Bank (Hong Kong) Limited13th Floor One Island East, 18 Westlands Road, Quarry Bay, Hong Kong

Tel: (852) 3668-4181, Fax: (852) 2521-1812

Flash Note

DBS Regional Research Offices

HONG KONG

DBS Bank (Hong Kong) Ltd
Contact: Carol Wu
13th Floor One Island East,
18 Westlands Road,
Quarry Bay, Hong Kong
Tel: 852 3668 4181
Fax: 852 2521 1812
e-mail: dbsvhk@dbs.com

MALAYSIA

AllianceDBS Research Sdn Bhd
Contact: Wong Ming Tek (128540 U)
19th Floor, Menara Multi-Purpose,
Capital Square,
8 Jalan Munshi Abdullah 50100
Kuala Lumpur, Malaysia.
Tel.: 603 2604 3333
Fax: 603 2604 3921
e-mail: general@alliancedbs.com

SINGAPORE

DBS Bank Ltd
Contact: Janice Chua
12 Marina Boulevard,
Marina Bay Financial Centre Tower 3
Singapore 018982
Tel: 65 6878 8888
Fax: 65 65353 418
e-mail: equityresearch@dbs.com
Company Regn. No. 196800306E

INDONESIA

PT DBS Vickers Sekuritas (Indonesia)
Contact: Maynard Priajaya Arif
DBS Bank Tower
Ciputra World 1, 32/F
Jl. Prof. Dr. Satrio Kav. 3-5
Jakarta 12940, Indonesia
Tel: 62 21 3003 4900
Fax: 6221 3003 4943
e-mail: research@id.dbsvickers.com

THAILAND

DBS Vickers Securities (Thailand) Co Ltd
Contact: Chanpen Sirithanarattanakul
989 Siam Piwat Tower Building,
9th, 14th-15th Floor
Rama 1 Road, Pathumwan,
Bangkok Thailand 10330
Tel. 66 2 857 7831
Fax: 66 2 658 1269
e-mail: research@th.dbs.com
Company Regn. No 0105539127012
Securities and Exchange Commission, Thailand