

# China / Hong Kong Flash Note

Refer to important disclosures at the end of this report

DBS Group Research . Equity

2 Aug 2019

## Hongkong Land (HKL SP) : BUY

**Mkt. Cap:** US\$14,214m | **3m Avg. Daily Val:** US\$12.0m

**Last Traded Price ( 1 Aug 2019):** US\$6.09

**Price Target 12-mth:** US\$7.70 (26.4% upside) (Prev US\$7.93)

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### Company Guide



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

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## Low valuations to cushion downside risk

- **1H19 underlying earnings rose 2% to US\$466m, in line with our forecast**
- **Positive rental reversion worked its way through Central office portfolio**
- **Strengthening development earnings from China**
- **BUY with US\$7.70 TP**

### Forecasts and Valuation

FY Dec (US\$ m)	2017A	2018A	2019F	2020F
Turnover	1,616	2,665	2,171	1,835
EBITDA	879	1,094	1,007	1,088
Pre-tax Profit	1,100	1,240	1,222	1,286
Underlying Profit	947	1,036	1,055	1,089
EPS (US\$)	0.41	0.44	0.45	0.46
EPS Gth (%)	12.6	9.1	1.4	3.2
PE (X)	15.0	13.8	13.6	13.2
P/Cash Flow (X)	15.2	18.4	11.9	18.4
EV/EBITDA (X)	20.4	16.4	17.8	16.5
DPS (US\$)	0.20	0.22	0.22	0.23
Div Yield (%)	3.3	3.6	3.6	3.8
Net Gearing (%)	7	9	11	12
ROE (%)	2.8	2.8	2.7	2.8
Est. NAV (US\$):			12.8	12.8
Disc. to NAV (%)			(53)	(53)
Earnings Rev (%):			Nil	1
Consensus EPS (US\$):			0.46	0.49
Other Broker Recs:		B: 9	S: 4	H: 1

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

### What's New

Hongkong Land's (HKL) 1H19 underlying profit grew by a modest 2% to US\$466m. This was led by increased rental earnings from Hong Kong and higher development income from China, partially offset by an increase in financing costs. Interim DPS stayed flat at US\$0.06.

Gross rental receipts rose by 5% to US\$510m led by improved contributions from its Central office portfolio. Office vacancy in its Central portfolio rose to 2.8% in Jun-19 from Dec-18's 1.4% amid slow leasing enquires. Taking into account new lease commitments, vacancy would have been lower at 1.6%.

Favourable rental growth was achieved upon lease renewals and new lettings. This resulted in average office rents improving to HK\$116psf from HK\$114psf in 2H18 and HK\$111psf in 1H18. HongKong Land's Central retail portfolio was effectively fully occupied with mildly positive base rental reversions. Average retail rents increased 3.5% y-o-y or 1.3% h-o-h to HK\$239psf. In Singapore, the office portfolio vacancy stood at 3.3% in Jun-19, against Dec-18's 2.5% with continued positive rental reversion. However, on a committed basis, vacancy was only 0.9%.

Despite lower contributions from its Singapore business, operating profits from property development (including JV and associates) grew 31% to US\$194m thanks to higher sales completions in China. We expect higher development earnings in 2H19 as a result of increased project completions in China.



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Attributable contracted sales revenue from China fell 1% y-o-y to US\$643m in 1H19. As of Jun-19, HKL's sold but unrecognised sales stood at US\$1.71bn.

Given increasing number of new projects in different cities scheduled for pre-sale in 2H19, HKL should see stronger contracted sales going forward. With rising project completions in the years ahead, the China property business should add momentum to the company's earnings growth. However, this does not necessarily translate into higher stock valuation in the short-to-medium term given the risk inherently perceived by the market on the China property development sector.

HKL acquired a residential land parcel in Wuhan through an open land auction in June for Rmb1.7bn (GFA: 0.23m sm, c.HK\$7500psm), with 2% of total project GFA to be given up for the construction of public facilities.

Net debt increased to US\$3.88bn in Jun-19 from Dec-18's US\$3.56bn due to acquisition of new sites in Wuhan and deposits paid for recent land auctions. This translated into gearing of 10%. (Dec-18: 9%) Despite slightly higher gearing, its financial risk remains well manageable.

The stock is trading at 53% discount to our appraised current NAV, against its 10-year average of 31%. The Central office market is peaking out, which, however, should have been priced in. Overall, we keep our BUY call with US\$7.70 TP. This is based on 40% discount to our Jun-2020 NAV estimate.

## Results Summary

FY Dec (US\$m)	1H18	1H19	% Chg	Comments
Rental income	484.1	509.6	5	1H19: Positive rental reversions for both office and retail in Hong Kong
Service and management charges	76.4	75.3	(1)	
Sale of residential properties	955.4	219.0	(77)	1H19: mainly from projects in Singapore
<b>Revenue</b>	<b>1,515.9</b>	<b>803.9</b>	<b>(47)</b>	
Cost of sales	(926.2)	(256.7)	(72)	
<b>Gross profit</b>	<b>589.7</b>	<b>547.2</b>	<b>(7)</b>	
Other income	8.3	11.6	40	
Administrative and other expenses	(79.3)	(88.9)	12	
<b>Operating profit</b>	<b>518.7</b>	<b>469.9</b>	<b>(9)</b>	
Net financing charges	(52.2)	(59.4)	14	
Share of results of joint venture	73.6	127.2	73	1H19: increased development earnings from China
<b>Profit before tax</b>	<b>540.1</b>	<b>537.7</b>	<b>(0)</b>	
Tax	(85.7)	(72.2)	(16)	
Minority Interest	0.7	0.4	(43)	
<b>Underlying profit</b>	<b>455.1</b>	<b>465.9</b>	<b>2</b>	
Interim DPS (US cents)	6.00	6.00	0	
contracted sales	650.0	643.0	(1)	

Source: Hongkong Land

## Flash Note

### Target Price & Ratings History



Source: DBS HK

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**Flash Note**

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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 share price catalysts within this time frame)

*\*Share price appreciation + dividends*

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