Hongkong Land (HKL SP) : BUY

Mkt. Cap: US$11,882m I **3m Avg. Daily Val:** US$10.8m

Last Traded Price (5 Mar 2020): US$5.05

Price Target 12-mth: US$5.81 (15.0% upside) (Prev US$6.52)

Company Guide

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

Hongkong Land - iBanking Login

Hongkong Land - Institution Login

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Negatives priced in

- **FY19 underlying profit grew 4% to US$1.08bn, 3% above our forecast due to stronger-than-expected rise in development earnings from China**
- **Coronavirus outbreak likely to lead to project delays and lower sales completions in China**
- **To minimise occupancy risk for Central offices by extending lease expiry profile**
- **BUY, TP revised to US$5.81 TP**

Forecasts and Valuation

FY Dec (US$ m)	2018A	2019F	2020F	2021F
Turnover	2,665	2,320	1,757	2,960
EBITDA	1,094	1,175	1,011	1,132
Pre-tax Profit	1,240	1,322	1,157	1,262
Underlying Profit	1,036	1,076	980	1,064
Underlying Profit Gth (%)	9.4	3.9	(9.0)	8.6
EPS (US$)	0.44	0.46	0.42	0.46
EPS Gth (%)	9.1	4.2	(9.0)	8.6
PE (X)	11.4	11.0	12.0	11.1
P/Cash Flow (X)	15.2	9.1	12.4	6.2
EV/EBITDA (X)	18.5	17.2	20.0	17.8
DPS (US$)	0.22	0.22	0.22	0.22
Div Yield (%)	4.4	4.4	4.4	4.4
Net Gearing (%)	9	9	21	19
ROE (%)	2.8	2.8	2.6	2.8
Est. NAV (US$):			12.2	11.6
Disc. to NAV (%)			(59)	(57)
Earnings Rev (%):			(6)	(3)
Consensus EPS (US$):			0.47	0.48
Other Broker Recs:		B:9	S:3	H:2

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

What's New

Hongkong Land's FY19 underlying profit came in at US$1.08bn, up 4% y-o-y. The improvement was mainly led by increased development profit from China due to higher sales completions despite lower residential contribution from Singapore. Final DPS was flat at US$0.16, taking the full-year DPS of US$0.22, which represents a yield of 4.4%.

Gross rental receipts rose by a modest 2% thanks to improved office contributions from its Central portfolio. Office rental reversion remained positive. This led to average office rents increasing 4% y-o-y to HK$118psf. However, with subdued leasing demand amid the prolonged protests and US-China trade dispute, vacancy rose to 2.9% in Dec-19 from Dec-18's 1.4%. Retail portfolio remained effectively fully let in Dec-19 with positive base rent reversion. However, due to temporary rental relief, average retail rents fell to HK$222psf in 2019 from HK$233psf in 2018. Office vacancy of its Singapore portfolio stood at 5% in Dec-19. However, on a committed basis, vacancy was low at 0.7%. Favourable rental growth was recorded upon lease renewals. This resulted in average office rents rising to S$9.7psf in 2019 from S$9.2psf in 2018.

Hongkong Land's attributable contracted sales in China surged 18% to US$1.87bn in 2019, due to a change in sale location mix. As of Dec-19, sold but unrecognised contracted sales from China stood at US$1.86bn, up 37% from a year ago.

In Feb-20, Hongkong Land acquired a mixed-use site in West Bund of Shanghai via government auction for Rmb31.05bn or US$4.4bn. This marked the largest land acquisition the company has ever made in China. Located in Xuihi District along the Huangpu River, this site will house a Grade A office, retail, hotel, residential development and convention centre with total developable GFA of c.1.1msm. About 22% of GFA including office and residential will be earmarked for sale. The land premium will be paid by instalments in 2020. This sizeable project will be constructed in multiple phases with targeted completion in 2023-27. When completed, this mixed-use development is set to boost the company's recurring income.

Net debt stood at US$3.59bn in Dec-19. This translated into a gearing of 9%. Upon the full payment of land premium for the recently acquired Shanghai site, the company's gearing should increase to c.20%. Following the acquisition of this large-scale strategic mixed-use site in Shanghai, the pace of new investments is expected to moderate this year compared to recent years. Despite higher gearing, Hongkong Land's financial risk should remain manageable.

The Central office market has peaked out with lackluster leasing demand from corporates. According to Jones Lang LaSalle, vacancy rose to 4% in Jan-20. Office rents there have fallen c.7% since mid-19. Hongkong Land has made effort to extend the leases of major tenants in recent years. As a result, the weighted average lease expiry of its office portfolio has increased to 4.7 years as at end-2019 from 2018's 4 years. This helps minimise occupancy risks.

The coronavirus outbreak has led to temporary halt in development activities. The resulting delays in sales completions is likely to lower the contributions from residential sales in China. Retail properties in Hong Kong and Beijing are also impacted by the virus outbreak.

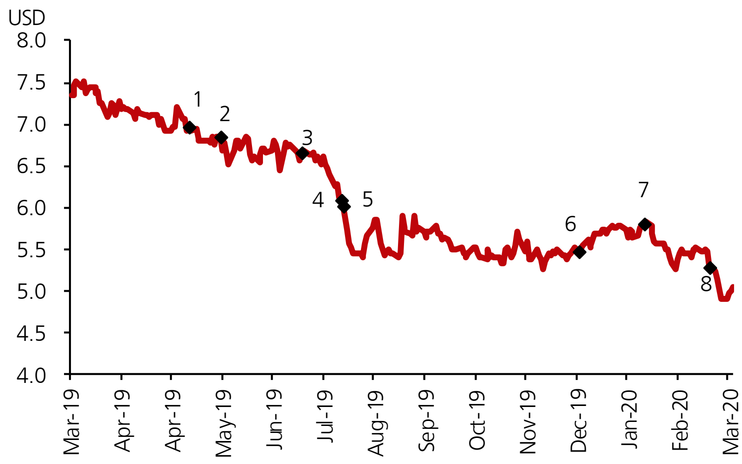
YTD, Hongkong Land's share price has fallen 12% amid growing global economic uncertainty led by the coronavirus outbreak. The counter is trading at a 59% discount to our appraised current NAV, near the low end of the historical trading range. This should cushion further downside risk on share price despite Central office market experiencing headwinds. By assigning a wider target discount of 50% to our Dec-20 NAV estimate, we derive a TP of HK$5.81, which still suggests 15% upside from the current level. Reiterate BUY.

Results Summary

FY Dec (US$m)	FY18	FY19	% Chg	Comments
Rental income	983	999	2	FY19: higher office passing rents due to positive rental reversion; lower average retail rents due to temporary rental relief
Service income	150	153	2	
Sales of properties	1,533	1,168	(24)	
Revenue	**2,665**	**2,320**	(13)	
Cost of sales	(1,429)	(990)	(31)	
Gross profit	**1,236**	**1,330**	8	
Other income	28	26	(6)	
Administrative expenses	(174)	(186)	6	
Operating profit	**1,089**	**1,170**	7	
Net financing charges	(114)	(121)	6	
Share of results of associates and joint ventures	265	273	3	FY19: increased residential sales earnings from China
Profit before tax	**1,240**	**1,322**	7	
Tax	(206)	(247)	20	
Non-controlling interests	2	1	(43)	
Underlying profit	**1,036**	**1,076**	4	
Interim DPS (US cents)	6.00	6.00	0	
Final DPS (US cents)	16.00	16.00	0	
Total DPS (US cents)	22.00	22.00	0	
Underlying EPS (US cents)	44.24	46.12	4	
NAV (US$/sh)	16.43	16.39	(0)	

Source: HongKong Land

Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	9-May-19	US$6.92	US$8.02	Buy
2:	27-May-19	US$6.85	US$8.02	Buy
3:	10-Jul-19	US$6.44	US$7.93	Buy
4:	1-Aug-19	US$6.12	US$7.93	Buy
5:	2-Aug-19	US$6.09	US$7.70	Buy
6:	11-Dec-19	US$5.47	US$6.64	Buy
7:	16-Jan-20	US$5.64	US$6.64	Buy
8:	21-Feb-20	US$5.48	US$6.52	Buy

Source: DBS HK

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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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