

# Henderson Land

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DBS Group Research . Equity

9 Feb 2022

## BUY

Last Traded Price (28 Jan 2022): HK\$34.00 (HSI : 23,550)  
Price Target 12-mth: HK\$40.00 (18% upside) (Prev HK\$35.85)

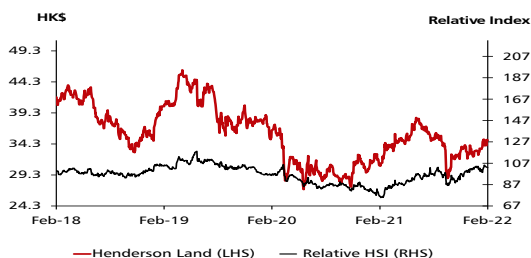
### Analyst

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### What's New

- Clinched the Central harbourfront commercial lot via "two-envelope" tender
- Secured the redevelopment rights of URA's Bailey Street/Wing Kwong Street project
- Growing rental income base via portfolio expansion
- BUY with HK\$40 TP

### Price Relative



### Forecasts and Valuation

FY Dec (HK\$ m)	2020A	2021F	2022F	2023F
Turnover	25,020	26,728	37,763	39,632
EBITDA	12,370	10,821	11,966	12,703
Pre-tax Profit	16,870	16,876	16,572	16,910
Underlying Profit	14,899	14,918	14,574	14,833
Underlying Profit Gth (%)	1.8	0.1	(2.3)	1.8
EPS (HK\$)	3.08	3.08	3.01	3.06
EPS Gth (%)	1.8	0.1	(2.3)	1.8
PE (X)	11.0	11.0	11.3	11.1
P/Cash Flow (X)	20.1	nm	5.8	9.2
EV/EBITDA (X)	20.0	22.9	20.7	19.5
DPS (HK\$)	1.80	1.80	1.80	1.80
Div Yield (%)	5.3	5.3	5.3	5.3
Net Gearing (%)	26	38	33	30
ROE (%)	4.6	4.5	4.3	4.2
Est. NAV (HK\$):			74.0	80.0
Disc. to NAV (%)			(54)	(57)

Earnings Rev (%)		0	(1)	New
Consensus EPS (HK\$):		2.94	2.97	3.23
Other Broker Recs:		B:9	S:6	H:2

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

## Building a better future

### Investment Thesis

**BUY with HK\$40.00 TP.** The stock is trading 54% below our assessed current NAV, against its 10-year average of 46%. Portfolio expansion in Hong Kong/China should boost the company's long-term rental income base, leading to earnings quality improvement.

**Strengthening Central commercial footprint.** Henderson Land won the "two-envelope" tender for the Central harbourfront commercial site with a winning bid of HK\$50.8bn or HK\$31,462psf. This sizeable development has a total GFA of 1.61msf, splitting into 0.94msf for retail use and 0.66msf for office purposes. This should more than double the company's commercial exposure in Central. With an estimated initial rental yield of c.3.3%, this commercial project, if fully let, should generate rental income of HK\$2.3bn p.a. Following the acquisition of this sizeable project, we estimate its gearing to rise to c.37%. We do not rule out the possibility of the company bringing in project partners or offloading non-core assets to restore financial strength.

**Growing urban residential exposure.** In Sep-21, the company won the tender for the redevelopment rights of the URA's Bailey Street/Wing Kwong Street project in To Kwa Wan, which will offer 1,150 units atop a retail podium with a total GFA of 0.72msf. Through taking on several redevelopment projects in the area in the earlier years, the company has a good understanding of the market there.

### Valuation:

Our target price is based on a target discount of 50% to our Dec 2022 NAV estimate.

### Where we differ:

We are more positive on its medium-term rental income growth, which is led by portfolio expansion in Hong Kong and China.

### Key Risks to Our View:

Any deterioration in property demand could drag its earnings and share price performance. The prolonged subdued investment sentiment in the commercial market would make it difficult to unlock the value of the company's non-core assets.

### At A Glance

Issued Capital (m shrs)	4,841
Mkt Cap (HK\$m/US\$m)	169,435 / 21,755
Major Shareholders (%)	
Lee (Shau Kee)	72.8
Free Float (%)	27.2
3m Avg. Daily Val. (US\$m)	10.49
GICS Industry: Real Estate / Real Estate Management & Development	



Watchlist the stock on Insights Direct to receive prompt updates



## Henderson Land

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### WHAT'S NEW

#### Optimising asset and earnings quality

In 2H21, Henderson Land was in expansion mode. The company first secured the redevelopment right of the URA's Bailey Street/Wing Kwong Street project in To Kwa Wan with a winning bid of HK\$8.19bn in Sep 21. This translated into an accommodation value of HK\$11,414psf. Recently, Henderson Land sold a 25% stake in this redevelopment to each of Hysan Development and Empire Group.

The Bailey Street/Wing Kwong Street redevelopment is an 8 to 10-minute walk from both To Kwa Wan MTR Station and Ho Man Tin MTR Station. It will offer a total GFA of 0.72msf including 0.6msf for residential use and 0.12msf for retail purposes. About 1,150 units will be built. If sales proceeds exceed HK\$14.8bn, the URA will share 20%-50% of the excess revenue. The retail arcade will be held on rent for 10 years after project completion. And Henderson Land and the URA are entitled to 70% and 30% of its rental income respectively.

Including construction and financing costs, we estimate the total development cost at HK\$19,500psf for the residential portion. We believe the project can achieve an ASP of HK\$24,000-25,000psf in the future.

Henderson Land has accumulated strong development experience and understanding of the market in To Kwa Wan through undertaking old building redevelopments in the area in the past. In addition to the newly completed The Vantage, Henderson Land also developed Axis and The Zutton in the area.

In Nov-21, Henderson Land secured the sizeable Central waterfront commercial site for HK\$50.8bn through a "two-envelope" tender. This makes it the most expensive land deal ever in Hong Kong. The accommodation value works out to HK\$31,462psf.

The harbourfront site is adjacent to the Two International Finance Centre. Henderson Land intends to construct three buildings with a total GFA of 1.61msf. This sizeable project will be developed in two phases. The first phase, comprising 0.27msf of office space and 0.34msf of retail area, is scheduled for completion in 2027. Targeted for completion in 2032, the second phase will include 0.39msf of office space and 0.60msf for retail use. In addition, Henderson Land is required to build 0.23msf of government facilities. A

platform, The Horizon Park, will be built at the roof level to connect the three buildings. In addition, the site will be linked with the Central business cluster and the MTR station.

Including the construction and financing costs, we estimate the total development cost at HK\$44,000psf. We forecast that this commercial development, when fully let, will generate rental income of HK\$2.3bn p.a., representing about 35% of the company's pre-tax rental earnings in FY20. The initial rental yield is estimated at 3.3%.

Upon project completion, Henderson Land will boast an office/retail portfolio of c.3.1msf in attributable GFA in Central. This will make it the second-largest commercial landlord in Central.

Following this site purchase and stake disposal of the To Kwa Wan redevelopment, we estimate the company's gearing to rise to c.37%. We do not rule out the possibility of the company bringing in project partners for the Central harbourfront commercial project to diversify the investment risk and restore financial strength. When opportunity knocks, Henderson Land may further offload its non-core property assets to improve its balance sheet.

The company has been optimising its asset portfolio by adding prime development sites on the one hand and selling non-core rental properties on the other. This should lead to improving asset and earnings quality over the long term.

The stock is trading 54% below our current assessed NAV, against its 10-year average discount of 46%. Portfolio expansion in Hong Kong and China should bolster the company's recurrent income significantly, leading to better earnings quality over the long term. Based on a target discount of 50% to our Dec-22 NAV estimate, we derive our TP of HK\$40.00 and a BUY rating.

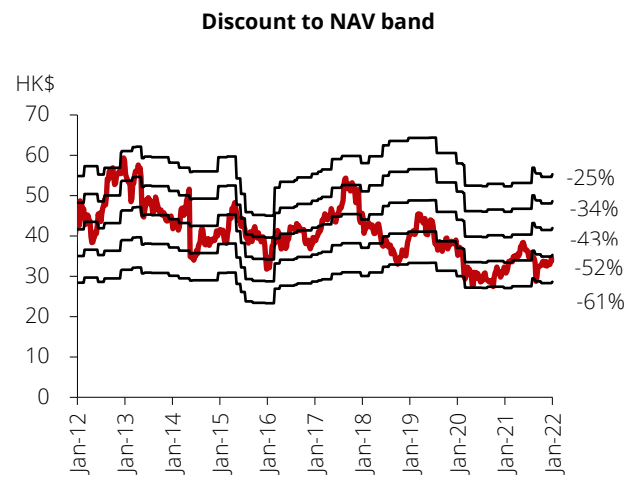
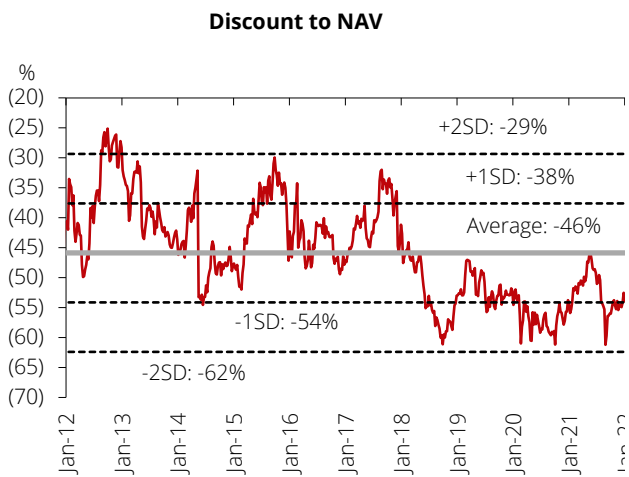
#### Company Background

Henderson Land Development (Henderson Land) is one of the leading property companies in Hong Kong. It excels in replenishing its land bank in urban areas by fully consolidating ownership of old building projects. Henderson Land has a development land bank of c.9.2msf in Hong Kong (as of Jun 21). The company is also the

**Henderson Land**

largest agricultural land owner in Hong Kong with land reserves in New Territories of c.44.6msf (site area) as of Jun 21. Its development land bank in China stands at 31.16msf. Henderson Land boasts a completed investment portfolio of 9.6msf in Hong Kong and 8.1msf in China. The company holds a 41.53% interest in The Hong Kong & China Gas Company, a 50.05% stake in Miramar Hotel and Investment, and a 33.41% stake in Hong Kong Ferry.

**Discount to NAV**



Source: Bloomberg Finance L.P., DBS HK

## Henderson Land

### Key Assumptions (%)

	2022F	2023F
Residential Price - HK	0	2
Office rental - HK	0	0
Retail Rental (Shopping Center) - HK	5	5

Source: DBS HK

### Segmental Breakdown (HK\$ m)

FY Dec	2019A	2020A	2021F	2022F	2023F
<b>Revenues (HK\$ m)</b>					
Sales of property	15,079	16,009	16,436	26,742	28,122
Rental Income	6,169	5,777	6,584	7,000	7,288
Department store operation	1,707	1,837	1,892	1,987	2,086
Others	1,229	1,397	1,816	2,034	2,136
<b>Total</b>	<b>24,184</b>	<b>25,020</b>	<b>26,728</b>	<b>37,763</b>	<b>39,632</b>

Source: DBS HK

### Income Statement (HK\$ m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Turnover	24,184	25,020	26,728	37,763	39,632
EBITDA	10,482	12,370	10,821	11,966	12,703
Depr / Amort	(377)	(428)	(471)	(494)	(519)
<b>EBIT</b>	<b>10,105</b>	<b>11,942</b>	<b>10,350</b>	<b>11,472</b>	<b>12,184</b>
Associates Inc	4,860	4,764	5,123	5,700	5,575
Interest (Exp)/Inc	34	(204)	(600)	(600)	(849)
Exceptionals	1,695	368	2,003	0	0
<b>Pre-tax Profit</b>	<b>16,694</b>	<b>16,870</b>	<b>16,876</b>	<b>16,572</b>	<b>16,910</b>
Tax	(1,997)	(1,882)	(1,658)	(1,848)	(1,927)
Non-controlling Interests	(57)	(89)	(300)	(150)	(150)
<b>Underlying Profit</b>	<b>14,640</b>	<b>14,899</b>	<b>14,918</b>	<b>14,574</b>	<b>14,833</b>
Sales Gth (%)	10	3	7	41	5
Net Profit Gth (%)	(26)	2	0	(2)	2
EBITDA Margins (%)	43	49	40	32	32
EBIT Margin (%)	42	48	39	30	31
Tax Rate (%)	12	11	10	11	11

Source: DBS HK

## Henderson Land

### Balance Sheet (HK\$ m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Fixed Assets	183,803	187,743	211,341	215,456	219,430
Long-term Investments	13,160	11,186	11,186	11,186	11,186
Other LT Assets	453	1,319	1,319	1,319	1,319
Intangibles Assets	262	262	262	262	262
Deferred Tax Asset	416	633	633	633	633
Associates/JVs	128,401	134,881	126,980	133,352	135,098
Bank Balance/Cash & Liquid	12,110	7,088	18,717	33,478	42,019
ST Investments	0	0	0	0	0
Inventory	101,755	102,111	154,382	141,532	139,419
Debtors	14,597	15,576	14,776	14,526	14,726
Other Non Cash Current	288	288	288	288	288
<b>Total Assets</b>	<b>455,245</b>	<b>461,087</b>	<b>539,885</b>	<b>552,032</b>	<b>564,380</b>
ST Debt	27,768	26,254	15,834	18,000	18,000
Creditors	6,406	8,909	9,609	9,809	9,864
Other Current Liab	24,991	19,573	16,495	16,495	16,495
LT Debt	62,400	58,087	126,585	126,419	128,420
Deferred Tax Liabilities	6,910	7,904	7,904	7,904	7,904
Other LT Liabilities	1,377	8,168	8,168	8,168	8,168
Non-controlling Interests	4,542	4,585	19,800	20,100	20,409
Shareholder's Equity	320,851	327,607	335,490	345,138	355,120
<b>Total Cap. &amp; Liab.</b>	<b>455,245</b>	<b>461,087</b>	<b>539,885</b>	<b>552,032</b>	<b>564,380</b>
Share Capital (m)	4,841	4,841	4,841	4,841	4,841
Net Cash/(Debt)	(81,655)	(83,749)	(127,120)	(114,359)	(107,819)
Working Capital	69,585	70,327	146,225	145,521	152,093
Net Gearing (%)	25	26	38	33	30

Source: DBS HK

### Cash Flow Statement (HK\$ m)

FY Dec	2019A	2020A	2021F	2022F	2023F
EBIT	10,105	11,942	10,350	11,472	12,184
Tax Paid	(1,275)	(1,534)	(1,658)	(1,848)	(1,927)
Depr/Amort	377	428	471	494	519
Profit or loss on disposal of FAs/subsidiaries/investment	(251)	(229)	0	0	0
Chg in Wkg.Cap	(2,053)	(3,968)	(49,271)	16,099	5,018
Other Non-Cash	(159)	433	150	200	201
<b>Operating CF</b>	<b>6,744</b>	<b>7,072</b>	<b>(39,957)</b>	<b>26,417</b>	<b>15,995</b>
Net Capex	(2,932)	(1,932)	(200)	(400)	(200)
Investments	(8)	(505)	0	0	0
Associates & JVs	(8,039)	(3,714)	4,194	(4,500)	0
Associates' Dividends	3,885	3,829	3,829	3,829	3,829
Others	3,271	1,348	0	0	0
<b>Investing CF</b>	<b>(3,823)</b>	<b>(974)</b>	<b>7,823</b>	<b>(1,071)</b>	<b>3,629</b>
Net Chg in Debt	5,458	(1,591)	55,000	2,000	2,001
Non-controlling Interests	(260)	56	0	0	0
New Capital	0	0	0	0	0
Dividend	(8,219)	(8,828)	(8,986)	(8,985)	(8,984)
Other Financing CF	(2,848)	(388)	(2,250)	(3,600)	(4,100)
<b>Financing CF</b>	<b>(5,869)</b>	<b>(10,751)</b>	<b>43,764</b>	<b>(10,585)</b>	<b>(11,083)</b>
Chg in Cash	(2,948)	(4,653)	11,629	14,761	8,540

Source: DBS HK

**Henderson Land**

**Target Price & Ratings History**



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	24-Mar-21	HK\$34.35	HK\$37.15	Buy
2:	24-Aug-21	HK\$35.80	HK\$40.60	Buy
3:	15-Sep-21	HK\$33.80	HK\$40.60	Buy
4:	23-Sep-21	HK\$29.55	HK\$35.85	Buy
5:	4-Nov-21	HK\$32.80	HK\$35.85	Buy

Source: DBS HK

Analyst: Jeff YAU CFA,

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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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