

Henderson Land

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Refer to important disclosures at the end of this report

DBS Group Research . Equity

23 May 2022

BUY

Last Traded Price (20 May 2022): HK\$32.80 (HSI : 20,717)
Price Target 12-mth: HK\$40.90 (25% upside) (Prev HK\$39.65)

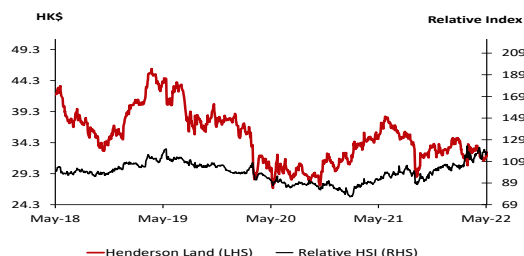
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What's New

- Expediting usage conversion to unleash farmland value
- Urban redevelopment projects offer decent returns
- Benefits from enhancements to compensation arrangement for agricultural land acquired by the government for public use
- BUY with HK\$40.90

Price Relative



Forecasts and Valuation

FY Dec (HK\$ m)	2020A	2021A	2022F	2023F
Turnover	25,020	23,527	29,845	42,838
EBITDA	12,370	10,444	10,204	13,310
Pre-tax Profit	16,870	15,774	14,555	17,563
Underlying Profit	14,899	13,624	12,879	15,406
Underlying Profit Gth (%)	1.8	(8.6)	(5.5)	19.6
EPS (HK\$)	3.08	2.81	2.66	3.18
EPS Gth (%)	1.8	(8.6)	(5.5)	19.6
PE (X)	10.7	11.7	12.3	10.3
P/Cash Flow (X)	19.3	68.0	9.1	9.2
EV/EBITDA (X)	21.7	25.7	26.3	20.1
DPS (HK\$)	1.80	1.80	1.80	1.80
Div Yield (%)	5.5	5.5	5.5	5.5
Net Gearing (%)	26	27	26	24
ROE (%)	4.6	4.1	3.8	4.5
Est. NAV (HK\$):			71.0	81.8
Disc. to NAV (%)			(54)	(60)

Earnings Rev (%): (1) Nil
Consensus EPS (HK\$): 2.85 3.05
Other Broker Recs: B:8 S:7 H:1

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

Farmland monetization and urban redevelopment to power growth

Investment Thesis

BUY with HK\$40.90 TP. The stock is trading 54% below our assessed current NAV, against its 10-year average of 46%. Any positive news flow on agricultural land conversion should provide upside on the stock price.

Expediting usage conversion to unleash farmland value. Recently, the government extended the standardization of land premium assessment for in-situ land exchange in Kwu Tung North and Fanling North New Development Areas (NDAs). This should expedite the usage conversion of Henderson Land's three plots of agricultural land there, providing GFA of 3.47m sf upon project completion. If the government extends this scheme to other NDAs, Henderson Land stands to benefit with its huge farmland reserve of 44.9msf, where c.84% is situated in the Northern Metropolis.

Urban old building redevelopment offers decent returns.

Henderson Land has urban redevelopment project clusters in Tai Kok Tsui, Hung Hom and Mid-levels with combined area of >2msf. The well-devised product mix and strategic locations should ensure good project marketability. Given relatively low land costs, these developments should offer respectable pre-tax margins of >30% and play a crucial role in driving the company's development earnings in the year ahead.

Valuation:

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

Where we differ:

We are more positive on its medium-term earnings growth outlook, underpinned by rental portfolio expansion and farmland conversion.

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 (HKm/US\$m)	158,785 / 20,234
Major Shareholders (%)	
Lee (Shau Kee)	72.8
Free Float (%)	27.2
3m Avg. Daily Val. (US\$m)	13.36
GICS Industry: Real Estate / Real Estate Management & Development	



Watchlist the stock on Insights Direct to receive prompt updates



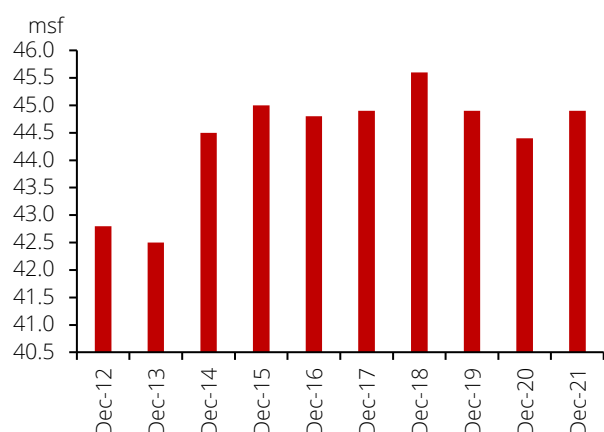
Henderson Land

WHAT'S NEW

Benefits from the standardization of land premium assessment for land exchange in Fanling North

Henderson Land continues to expand its farmland reserves. As of Dec-21, the company boasted of a sizeable agricultural land reserve of c.44.9msf in terms of attributable area. This makes the company the largest agricultural land holder among all property developers in Hong Kong.

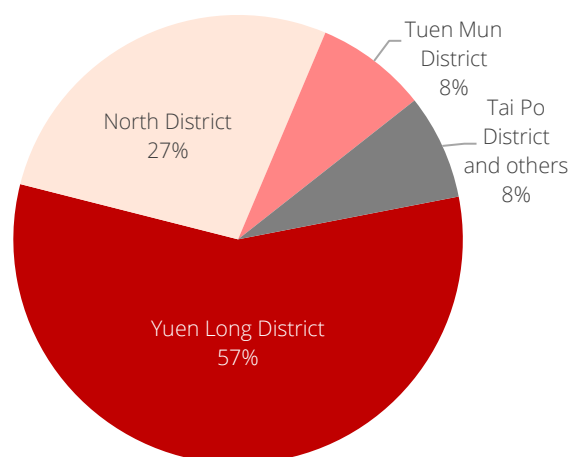
Agricultural land reserve



Source: Henderson Land

By geography, Yuen Long and North District account for 57% and 27% of Henderson Land's total attributable agricultural land area. In other words, about 84% of its farmland is in the Northern Metropolis area. This makes the company among the key beneficiaries of the development of the North Metropolis.

Agricultural land holding by district



Source: Henderson Land

The company has strong exposure in Fanling North and Kwu Tung North New Development Areas (NDAs). In late 2017, Henderson Land converted two plots of agricultural land, one in Fanling North and the other in Kwu Tung North, into residential use following the payment of land premium.

Currently, Henderson Land holds 1.38msf of land in these two NDAs. Among these, the applications of in-situ Land exchange for three separate lots with a combined land area of over 600,000sf have been approved by the government. Subject to the finalisation of land premium, these land plots will provide total combined GFA of 3.47msf including 3.03msf for residential use and 0.44msf for retail purpose.

In Oct-21, the government announced to implement the standardisation of land premium assessment to expedite farmland conversion in the Policy Address.

In late March, the land premium assessment using standard rates would first apply to those in-situ land exchange applications in Kwu Tung North and Fanling North NDAs.

For Kwu Tung North and Fanling North NDA, standard rates are HK\$5,574psf and HK\$5,110psf for residential use after land exchange (or HK\$3,252psf and HK\$2,787psf for non-residential use) on GFA basis. The standard rates for agricultural land before land exchange in the two NDAs are HK\$372psf on a site area basis. These rates are valid up to Jun-23.

Land premium assessed based on these standard rates should be higher than those for agricultural land conversion by Henderson Land in these two NDAs in late 17. We note that the standard rates compare favourably with land prices for three residential sites in the area sold via government tenders in 2021.

Currently, the government has accepted in-situ land exchange applications for six plots in these two NDAs for further processing. These include three above-mentioned plots from Henderson Land. We believe Henderson Land will make use of this new scheme for land premium assessment, which in turn unlocks the hidden value of its farmland reserve.

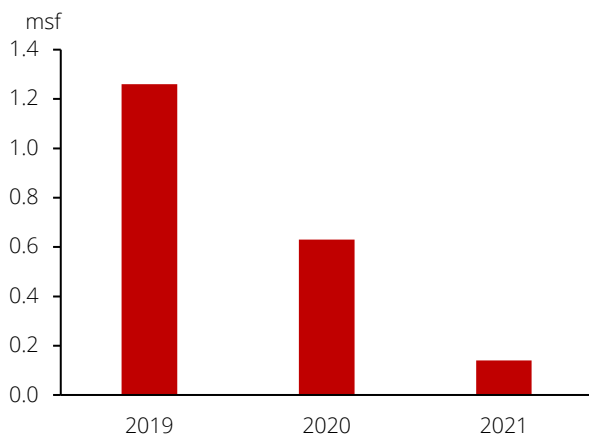
If this scheme serves to speed up the conversion of farmland into residential/commercial use, we believe the government would consider extending the scheme to other NDAs such as Hung Shui Kiu in the medium term. Henderson Land holds total land area of c.6.4msf in Hung Shui Kiu NDA.

Henderson Land

To facilitate land resumption progress, the Hong Kong government has enhanced the ex-gratia compensation for landowners, effective 3 May. The existing four-tier zonal system will be streamlined to a two-tier zonal system, with rates reviewed every six months. Under the new arrangement, agricultural land with development purposes and non-development purposes will fall under the Tier 1 rate of HK\$1,510psf and Tier 2 rate of HK\$755psf respectively.

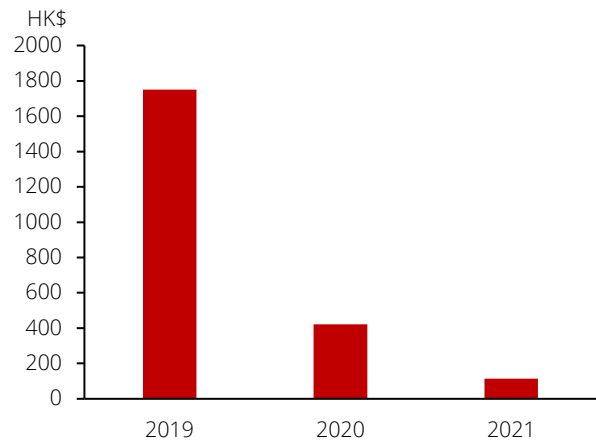
Under the two-tier Zonal System, owners of land resumed by the government for development uses outside NDAs will receive the same Tier One rate as in development projects within NDAs, representing a 60% increase over the Zone B rate normally receivable for development projects outside NDAs before the revision in compensation zones. Owners of land resumed for non-development uses will receive Tier Two rate, representing a 20% increase over the Zone C rate normally receivable for rural improvement works in the past. This could be positive for Henderson Land. In 2019-21, the government reclaimed a total land area of 2.03msf in Fanling North NDA, Kwu Tung North NDA, Hung Shui Kiu NDA, Kwu Tung South, Kam Tin, Tong Yan San Tsuen and Lam Tei for public use for HK\$2.29bn in cash.

Government resumption of agricultural land (Area)



Source: Henderson Land

Government resumption of agricultural land (Cash compensation)



Source: Henderson Land

Henderson Land has been acquiring old tenement buildings primarily in urban areas for redevelopment. Currently, the company has urban redevelopment project clusters in Tai Kok Tsui, Hung Hom and Mid-levels. Recently, Henderson Land offered The Quinn. Square Mile in Tai Kok Tsui for pre-sale. Market response has been satisfactory with 100 units sold for c.HK\$660m. The Quinn. Square Mile will provide 614 units upon scheduled completion in 2024. Total GFA is 242,518sf including 202,147sf for residential use and 40,371sf for retail purpose. This marked the company's fourth residential redevelopment project in the neighbourhood. Elsewhere, Henderson Land will also redevelop another project nearby at 39-53 Tai Kok Tsui Road (0.39msf) which should go on pre-sale in 2023.

The Quinn. Square Mile



Source: DBS HK

Henderson Land

39-53 Tai Kok Tsui Road



Source: DBS HK

The Hung Hom cluster is branded as Baker Circle which has a combined GFA of 1.03msf including 0.87msf for residential use and 0.17msf for retail purpose. Total number of residential units that can be built reaches about 2,800. The entire project is scheduled for completion in 2027.

Henderson Land plans to pre-sell three projects there with aggregate GFA of 0.33msf in 2022. Over 880 units are being built on these three sites with targeted completions in 1H24. Based on our estimated ASP of HK\$23,000psf for the residential portion, we estimate pre-tax development margins of >30%. We see this redevelopment cluster as a key development profit contributor in the medium term.

30-44 Gillies Avenue South/75-77 Baker Street



Source: DBS HK

The Mid-level cluster spans attributable GFA of 0.7msf. The bulk stems from 4A-4P Seymour Road which offers 172 units in two residential towers with GFA of 472,077sf. Henderson Land owns 65% stake in this redevelopment with the balance held by New World Development. Superstructure works are currently underway with phased completions in 2Q23 and 3Q23. Given low land costs, this redevelopment is a profit bonanza. We estimate pre-tax earnings attributable to the company to exceed HK\$5bn.

4A-4P Seymour Road



Source: DBS HK

Henderson Land has consolidated the ownership of buildings at 88 Robinson Road, 94-100 Robinson Road and 105 Robinson Road in Mid-levels for redevelopment.

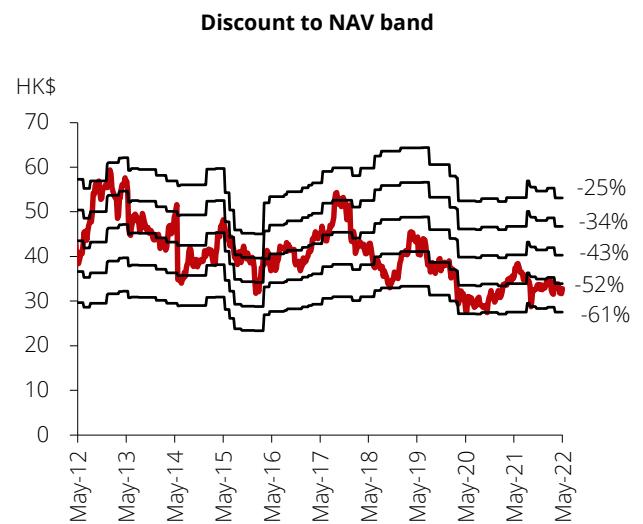
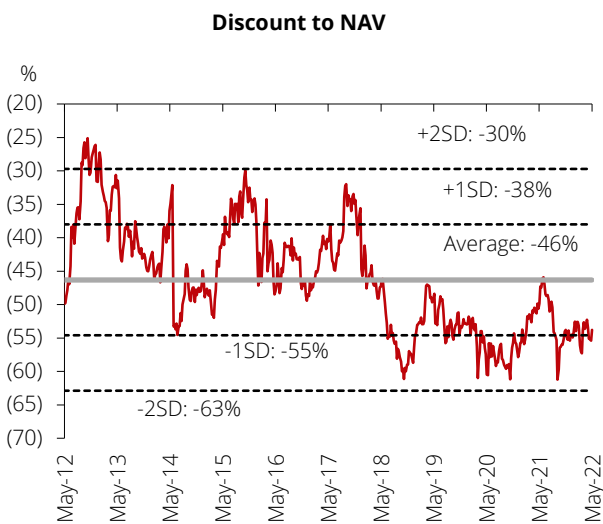
The stock is trading at a 54% discount to our appraised current NAV. Valuation is inexpensive. Any positive news flow on agricultural land conversion should improve the sentiment towards the counter. By assigning a 50% discount to our Dec-2022 NAV estimate, we set our TP at HK\$40.90. Maintain BUY.

Henderson Land

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.14.3msf in Hong Kong (as of Dec-21). The company is also the largest agricultural landowner in Hong Kong with land reserves in New Territories of c.44.9msf (site area) as of Dec-21. Its development land bank in China stands at 35.7msf. Henderson Land boasts a completed investment portfolio of 10.2msf in Hong Kong and 8.1msf in China. The company holds a 41.53% interest in The Hong Kong & China Gas Company, a 50.08% 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	0	5

Source: DBS HK

Segmental Breakdown (HK\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenues (HK\$ m)					
Sales of property	15,079	16,009	12,630	18,455	30,580
Rental Income	6,169	5,777	6,505	6,799	7,297
Department store operation	1,707	1,837	1,791	1,809	1,899
Others	1,229	1,397	2,601	2,783	3,061
Total	24,184	25,020	23,527	29,845	42,838

Source: DBS HK

Income Statement (HK\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Turnover	24,184	25,020	23,527	29,845	42,838
EBITDA	10,482	12,370	10,444	10,204	13,310
Depr / Amort	(377)	(428)	(505)	(530)	(557)
EBIT	10,105	11,942	9,939	9,673	12,753
Associates Inc	4,860	4,764	3,965	5,582	5,759
Interest (Exp)/Inc	34	(204)	(491)	(700)	(950)
Exceptionals	1,695	368	2,361	0	0
Pre-tax Profit	16,694	16,870	15,774	14,555	17,563
Tax	(1,997)	(1,882)	(1,952)	(1,525)	(2,007)
Non-controlling Interest	(57)	(89)	(198)	(150)	(150)
Underlying Profit	14,640	14,899	13,624	12,879	15,406
Sales Gth (%)	10	3	(6)	27	44
Net Profit Gth (%)	(26)	2	(9)	(5)	20
EBITDA Margins (%)	43	49	44	34	31
EBIT Margin (%)	42	48	42	32	30
Tax Rate (%)	12	11	12	10	11

Source: DBS HK

Henderson Land

Balance Sheet (HK\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Fixed Assets	183,803	187,743	265,453	266,624	271,498
Long-term Investments	13,160	11,186	9,103	9,103	9,103
Other LT Assets	453	1,319	769	769	769
Intangibles Assets	262	262	262	262	262
Deferred Tax Asset	416	633	698	698	698
Associates/JVs	128,401	134,881	134,842	141,095	143,025
Bank Balance/Cash & Liquid	12,115	7,355	12,535	16,885	24,760
ST Investments	0	0	0	0	0
Inventory	101,755	102,111	109,981	106,002	104,980
Debtors	14,581	15,113	16,038	15,788	15,988
Other Non Cash Current	299	484	623	623	623
Total Assets	455,245	461,087	550,304	557,849	571,707
ST Debt	29,252	29,332	31,784	21,240	20,000
Creditors	6,406	8,912	8,594	8,794	8,849
Other Current Liab	23,507	16,492	22,869	22,869	22,869
LT Debt	62,400	58,087	67,955	80,499	83,739
Deferred Tax Liabilities	6,910	7,904	9,172	9,172	9,172
Other LT Liabilities	1,377	8,168	57,751	57,751	57,751
Non-controlling Interests	4,542	4,585	17,159	17,168	17,571
Shareholder's Equity	320,851	327,607	335,020	340,356	351,755
Total Cap. & Liab.	455,245	461,087	550,304	557,849	571,707
Share Capital (m)	4,841	4,841	4,841	4,841	4,841
Net Cash/(Debt)	(81,655)	(83,749)	(91,968)	(89,618)	(83,743)
Working Capital	69,585	70,327	75,930	86,396	94,634
Net Gearing (%)	25	26	27	26	24

Source: DBS HK

Cash Flow Statement (HK\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
EBIT	10,105	11,942	9,939	9,673	12,753
Tax Paid	(1,275)	(1,534)	(2,263)	(1,525)	(2,007)
Depr/Amort	377	428	505	530	557
Profit or loss on disposal of FAs/subsidiaries/investment	(251)	(229)	(162)	0	0
Chg in Wkg.Cap	(2,053)	(3,968)	(6,323)	7,229	3,927
Other Non-Cash	(159)	433	(1,011)	100	100
Operating CF	6,744	7,072	685	16,007	15,330
Net Capex	(2,932)	(1,932)	(54,169)	(400)	(200)
Investments	(8)	(505)	(2)	0	0
Associates & JVs	(8,039)	(3,714)	(3,297)	(4,500)	0
Associates' Dividends	3,885	3,829	3,829	3,829	3,829
Others	3,271	1,348	3,595	0	0
Investing CF	(3,823)	(974)	(50,044)	(1,071)	3,629
Net Chg in Debt	5,458	(1,591)	62,272	2,000	2,000
Non-controlling interests	(260)	56	115	0	0
New Capital	0	0	0	0	0
Dividend	(8,219)	(8,828)	(8,954)	(8,985)	(8,984)
Other Financing CF	(2,848)	(388)	(1,382)	(3,600)	(4,100)
Financing CF	(5,869)	(10,751)	52,051	(10,585)	(11,084)
Chg in Cash	(2,948)	(4,653)	2,692	4,350	7,875

Source: DBS HK

Henderson Land

Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	24-Aug-21	HK\$35.80	HK\$40.60	Buy
2:	15-Sep-21	HK\$33.80	HK\$40.60	Buy
3:	23-Sep-21	HK\$29.55	HK\$35.85	Buy
4:	4-Nov-21	HK\$32.80	HK\$35.85	Buy
5:	9-Feb-22	HK\$34.00	HK\$40.00	Buy
6:	23-Mar-22	HK\$33.25	HK\$39.65	Buy

Source: DBS HK

Analyst: Jeff Yau, CFA
Percy Leung

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

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