

Singapore Company Update

Ho Bee Land Ltd

Bloomberg: HOBEE SP | Reuters: HBEE.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

12 Aug 2022

BUY

Last Traded Price (10 Aug 2022): S\$2.81 (STI : 3,301.96)
Price Target 12-mth: S\$3.80 (35% upside)

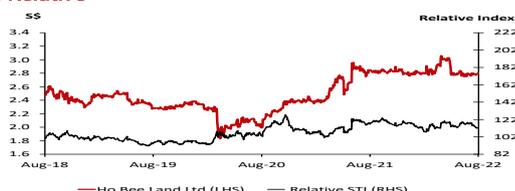
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What's New

- Development profits have been increasing over the past year, complementing recurring income
- Brisk sales at development projects in Singapore and Australia to continue driving profits
- Recurring income to also see a boost from recent acquisition of The Scalpel
- Maintain BUY with TP of S\$3.80

Price Relative



Forecasts and Valuation

FY Dec (\$m)	2020A	2021A	2022F	2023F
Revenue	216	348	304	321
EBITDA	232	351	331	337
Pre-tax Profit	171	358	284	309
Net Profit	137	331	240	261
Net Pft (Pre Ex.)	154	283	240	261
Net Pft Gth (Pre-ex) (%)	62.7	83.5	(15.3)	8.9
EPS (S cts)	20.6	49.8	36.1	39.3
EPS Pre Ex. (S cts)	23.2	42.6	36.1	39.3
EPS Gth Pre Ex (%)	63	84	(15)	9
Diluted EPS (S cts)	20.6	49.8	36.1	39.3
Net DPS (S cts)	10.0	10.0	10.0	10.0
BV Per Share (S cts)	546	592	618	647
PE (X)	13.6	5.6	7.8	7.1
PE Pre Ex. (X)	12.1	6.6	7.8	7.1
P/Cash Flow (X)	17.0	34.4	7.7	8.6
EV/EBITDA (X)	18.1	12.3	12.9	12.3
Net Div Yield (%)	3.6	3.6	3.6	3.6
P/Book Value (X)	0.5	0.5	0.5	0.4
Net Debt/Equity (X)	0.6	0.6	0.6	0.5
ROAE (%)	3.8	8.8	6.0	6.2
Earnings Rev (%)			28	45
Other Broker Recs:		B: 2	S: 0	H: 0

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

Multiple catalysts to unlock value

Investment Thesis:

Well diversified "future ready" portfolio. Ho Bee Land's (HBL) portfolio of office properties located in London's CBD and Singapore's science and knowledge hub appeals to a wide spectrum of tenants from the technology, finance, consumer goods, and shipping sectors. In addition, its UK offices are in prime locations and supported with a long WALE of 10 years, pointing to strong earnings visibility.

Stable income and dividends akin to REITs. With more than 90% of its revenues generated from rental income, which has been time and "COVID tested" with minimal earnings disruptions, we believe that HBL's earnings profile is similar to a REIT. The stable and recurring income stream has also enabled HBL to pay out dividends of 10 Scts per annum over the last four years, representing a yield of c.4.0%.

Multiple catalysts to unlock value. Trading at P/NAV of below 0.5x, several corporate actions could occur to unlock value for shareholders and pave the way for our RNAV of S\$6.28 to be realised. Share buybacks have brought HBL's free float down to c.25%, and possible scenarios are (i) privatisation, (ii) securitisation of its income-producing assets, or (iii) conversion into a "stapled security", presenting an upside of 35%-60%.

Valuation:

We value HBL based on the sum-of-the-parts RNAV. Our TP of S\$3.80 is pegged to a 40% discount to our RNAV.

Where we differ:

The strategic locations of its investment properties in London and Singapore continue to appeal to occupiers from a wide spectrum of industries including finance, technology, biomedical sciences, consumer goods, commodities, and shipping. Its ongoing development of Biopolis Phase 6 at the One North precinct will almost double its investments in Singapore's science and knowledge hub and puts HBL in a good position to tap into the growth of the biomedical sciences industry.

Key Risks to Our View:

The key risk to our projections will be an economic slowdown that may negatively affect residential development sales and commercial rents.

At A Glance

Issued Capital (m shrs)	664
Mkt. Cap (S\$m/US\$m)	1,866 / 1,363
Major Shareholders (%)	
Ho Bee Holdings Pte Ltd	75.2
Free Float (%)	24.8
3m Avg. Daily Val (US\$m)	0.08

GIC Industry : Real Estate / Real Estate Management & Development



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WHAT'S NEW

More than just recurring income

(+) 1H22 revenues increased 13% y-o-y to S\$178.3m

HBL's 1H22 revenues increased 13.3% y-o-y to S\$178.3m on the back of higher contributions from both the property development and property investment segments.

Revenue from the property development segment increased c.S\$6.2m (or 14.5%) y-o-y to S\$49.6m, mainly due to the sales of more units at Turquoise in Sentosa Cove in 1H22. Although, we believe that the bulk of the sales at Turquoise has already been recognised in the past few quarters. Meanwhile, HBL will begin recognising revenues from the sales at Cape Royale, also in Sentosa Cove. It was reported last month that HBL has begun selling some of its units at Cape Royale, and about half of the 50 units that were launched have already been sold. Median prices achieved were between S\$4.0m and S\$5.5m for the three-bedroom and four-bedroom units, respectively.

Property investment revenue also increased 12.9% y-o-y to S\$128.6m, mainly attributable to higher rental income following the acquisition of The Scalpel in London in March 2022. The Scalpel is a Grade A office building in the heart of London's insurance district. The c.S\$1.3bn office building was acquired at a yield of c.4%, and is expected to generate rental income of c.GBP29m per annum.

(+) EUR44.8m gains from divestment of Munich office property

HBL's other income increased to S\$32.8m, mainly due to fair value gains of S\$30.8m recognised from its investment in Munich Notes. The underlying office asset in Munich was divested in February 2022, and the total gains were c.EUR44.8m. Approximately half of the fair value gains were already recognised in FY21, while the remaining c.EUR20.2m (S\$30.8m) was recognised in 1H22.

(+) S\$16.0m in net fair value gains on investment properties

Net fair value gains of S\$16.0m on its investment properties portfolio were recorded in 1H22, a turnaround from the S\$3.7m fair value loss in 1H21. The net gain was derived as a result of the increase in the

value of its Singapore portfolio. The Metropolis (in Singapore) recorded a S\$56.4m fair value gain, which was likely the result of better occupancies and higher rental rates, while the cap rate in Singapore remained relatively stable.

However, fair value gains were partially offset by the loss in its London portfolio. The fair value losses in its London portfolio would have been mainly due to the depreciation of the GBP against the SGD, as well as some cap rate expansion in the London office market. Cap rates for its London properties have expanded marginally from 4.03%-5.65% (December 2021) to 4.25%-6.00% (June 2022).

(-) Unrealisable exchange losses and higher financing costs

Due to the strengthening of the SGD, HBL recorded a net unrealisable exchange loss of S\$12.0m. This was mainly due to the revaluation of HBL's net monetary assets in AUD and EUR.

Finance costs increased 71% y-o-y to S\$33.2m in 1H22. The increase was mainly due to additional bank borrowings of c.S\$1.1bn used to fund the acquisition of The Scalpel and the development sites in Australia. HBL's net gearing currently stands at c.0.89 times. Additionally, the rising SONIA rates also led to higher financing costs for its GBP floating rate loans.

(+) Share of profits from China increased 54% y-o-y

1H22 share of profits increased 54% y-o-y to S\$16.7m, mainly contributed by profits from the Nanjing project, which started handing over units to buyers in 1H22. Its share of profits was partially offset by contribution from the Shanghai project, which has been fully recognised in FY21.

The share of profits from jointly controlled entities decreased 84% y-o-y, mainly due to the absence of profits from Phase 2 of the Tangshan project in China that had been fully handed over to buyers in 1H21. The S\$7.8m in profits of jointly controlled entities in 1H22 was largely derived from the sales of Seascape in Sentosa Cove.

(+) EPS and NAV increased

Due to higher profits, EPS for 1H22 increased by more than 42% y-o-y to 22.57 Scts. The higher fair value of its portfolio also led to a c.S\$0.05 Scts increase in HBL's NAV. Its NAV as at 30 June 2022 inched up to S\$5.97.

Our thoughts

With rising rental rates and built-in rental escalations, we expect HBL's recurring **rental income from its investment properties portfolio to continue growing**. In addition, the acquisition of The Scalpel in London (March 2022) will contribute at least three quarters of rental income, estimated to be c.GBP29m on an annualised basis.

On the development property front, we expect HBL to continue recognising **higher profits from the sales at Cape Royale in Sentosa Cove**. In addition, the eight parcels of master-planned community projects in Australia are ongoing and will contribute to development profits when they are ready for sale.

With the depreciation of the AUD, EUR, and GBP against the SGD, we will be watching out for the impact of foreign exchange movements. In addition to impacting the fair value of HBL's portfolio, it could also impact earnings from both the development property and investment property segments. In 1H22, more than 26% of HBL's profits from development properties were derived from Australia. Given its large portfolio of investment properties in the UK, c.61% of its recurring rental income was derived from the UK in 1H22.

Despite the exposure to foreign currency fluctuations, we continue to like HBL for its **REIT-like recurring income** that contributed more than 72% of its earnings in 1H22. Moreover, the addition of **The Scalpel in March 2022 will further drive recurring rental income**, and rising rents and built-in rental escalations in its leases could help to mitigate some of the weakness in the foreign currencies. We will be maintaining our **BUY** recommendation with a TP of **S\$3.80**. Based on its latest NAV, our TP remains undemanding, as it translates to a P/B multiple of only 0.64x.

Company Background

Ho Bee Land Limited is a real estate company founded in 1987. Listed on the Mainboard of the Singapore Exchange since 1999, Ho Bee has a global footprint that spans Australia, China, the United Kingdom, and Europe. Its portfolio covers many quality residential, commercial, and high-tech industrial projects since its inception.

In Singapore, Ho Bee is widely recognised as the pioneer developer of luxury homes in the exclusive residential enclave of Sentosa Cove. Other notable developments in Singapore include The Metropolis at one-north, the largest Grade A office development outside the Central Business District to-date, and Elementum, a cutting-edge biomedical sciences development slated to be completed by end-2023.

In London, the company has a portfolio of eight investment properties, including The Scalpel, Ropemaker Place, and 1 St Martin's Le Grand.

Ho Bee Land Ltd

Interim Income Statement (\$m)

FY Dec	1H2021	2H2021	1H2022	% chg yoy	% chg hoh
Revenue	157	190	178	13.3	(6.4)
Cost of Goods Sold	(46)	(77)	(49)	7.9	(35.6)
Gross Profit	111	114	129	15.6	13.4
Other Oper. (Exp)/Inc	(13)	23	17	nm	(25.0)
Operating Profit	98	136	146	48.9	6.9
Other Non Opg (Exp)/Inc	0	0	0	-	-
Associates & JV Inc	61	55	24	(59.8)	(55.3)
Net Interest (Exp)/Inc	(19)	(20)	(32)	(64.4)	(56.5)
Exceptional Gain/(Loss)	(1)	52	(12)	(882.7)	nm
Pre-tax Profit	138	223	126	(8.5)	(43.3)
Tax	(20)	2	10	(148.1)	313.3
Minority Interest	(9)	0	(1)	91.3	nm
Net Profit	109	225	135	23.8	(39.9)
Net profit bef Except.	110	173	147	33.3	(14.7)
EBITDA	159	192	171	7.4	(10.9)
Margins (%)					
Gross Margins	70.8	59.7	72.2		
Opg Profit Margins	62.3	71.7	81.9		
Net Profit Margins	69.5	118.2	75.9		

Source of all data: Company, DBS Bank

Historical PE and PB band



Source: Bloomberg Finance L.P., DBS Bank estimates



Source: Bloomberg Finance L.P., DBS Bank estimates

Ho Bee Land Ltd

Segmental Breakdown

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenues (\$m)					
Development Properties	2.97	0.68	124	37.5	26.4
Rental Income	209	215	224	267	295
Fees	0.0	0.0	0.0	0.0	0.0
Total	212	216	348	304	321
Gross Profit (\$m)					
Development Properties	0.33	(0.9)	19.6	9.38	6.60
Rental Income	189	199	205	243	269
Fees	0.0	0.0	0.0	0.0	0.0
Total	190	198	225	253	275
Gross Profit Margins (%)					
Development Properties	11.2	(125.3)	15.8	25.0	25.0
Rental Income	90.5	92.5	91.8	91.2	91.1
Fees	N/A	N/A	N/A	N/A	N/A
Total	89.3	91.8	64.7	83.0	85.7

Rental income driven by three quarters of contribution from The Scalpel in London that was acquired in March 2022.

Income Statement (\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	212	216	348	304	321
Cost of Goods Sold	(22.6)	(17.6)	(123)	(51.6)	(45.9)
Gross Profit	190	198	225	253	275
Other Opng (Exp)/Inc	(17.0)	(22.7)	9.47	8.55	7.60
Operating Profit	173	175	235	261	283
Other Non Opng (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	6.89	55.4	116	69.1	53.0
Net Interest (Exp)/Inc	(52.1)	(42.8)	(39.8)	(46.3)	(26.8)
Exceptional Gain/(Loss)	237	(17.3)	47.3	0.0	0.0
Pre-tax Profit	365	171	358	284	309
Tax	(33.7)	(29.0)	(17.6)	(44.1)	(48.0)
Minority Interest	1.02	(4.6)	(9.5)	(0.3)	(0.3)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	332	137	331	240	261
Net Profit before Except.	94.8	154	283	240	261
EBITDA	180	232	351	331	337
Growth					
Revenue Gth (%)	7.9	1.5	61.2	(12.4)	5.5
EBITDA Gth (%)	(28.3)	28.7	51.3	(5.6)	1.7
Opg Profit Gth (%)	13.8	1.5	33.8	11.5	8.3
Net Profit Gth (Pre-ex) (%)	(40.3)	62.7	83.5	(15.3)	8.9
Margins & Ratio					
Gross Margins (%)	89.3	91.8	64.7	83.0	85.7
Opg Profit Margin (%)	81.3	81.3	67.4	85.9	88.1
Net Profit Margin (%)	156.4	63.5	95.1	78.7	81.2
ROAE (%)	9.7	3.8	8.8	6.0	6.2
ROA (%)	5.5	2.2	5.1	3.2	3.1
ROCE (%)	2.6	2.4	3.5	3.0	2.9
Div Payout Ratio (%)	20.0	48.4	20.1	27.7	25.4
Net Interest Cover (x)	3.3	4.1	5.9	5.6	10.6

Source: Company, DBS Bank

Interim Income Statement (\$\$m)

FY Dec	1H2020	2H2020	1H2021	2H2021	1H2022
Revenue	107	108	157	190	178
Cost of Goods Sold	(7.3)	(10.3)	(45.9)	(76.8)	(49.5)
Gross Profit	100	98.0	111	114	129
Other Oper. (Exp)/Inc	(12.5)	(10.2)	(13.4)	22.9	17.2
Operating Profit	87.5	87.8	98.0	136	146
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	34.3	21.1	60.8	54.8	24.5
Net Interest (Exp)/Inc	(23.1)	(19.7)	(19.4)	(20.4)	(31.9)
Exceptional Gain/(Loss)	5.74	(23.0)	(1.2)	52.3	(12.0)
Pre-tax Profit	104	66.2	138	223	126
Tax	(13.7)	(15.3)	(19.9)	2.31	9.56
Minority Interest	(0.1)	(4.5)	(9.0)	(0.5)	(0.8)
Net Profit	90.6	46.5	109	225	135
Net profit bef Except.	84.9	69.4	110	173	147
EBITDA	122	109	159	192	171

Increase in financing costs mainly due the the additional S\$1.1bn in loans taken to fund acquisitions in the UK

Growth

Revenue Gth (%)	nm	0.9	45.2	21.1	(6.4)
EBITDA Gth (%)	nm	(10.5)	45.6	20.5	(10.9)
Opg Profit Gth (%)	nm	0.3	11.6	39.3	6.9
Net Profit Gth (%)	nm	(48.7)	135.2	105.9	(39.9)

Margins

Gross Margins (%)	93.2	90.5	70.8	59.7	72.2
Opg Profit Margins (%)	81.5	81.0	62.3	71.7	81.9
Net Profit Margins (%)	84.4	42.9	69.5	118.2	75.9

Balance Sheet (\$\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	34.9	43.5	44.5	173	202
Invt in Associates & JVs	1,005	975	765	834	887
Other LT Assets	4,704	4,867	5,361	5,361	5,361
Cash & ST Invt	191	119	123	1,601	1,720
Inventory	184	200	0.0	0.0	0.0
Debtors	26.0	44.1	124	39.2	41.4
Other Current Assets	51.1	78.0	322	322	322
Total Assets	6,196	6,326	6,740	8,331	8,534
ST Debt	277	434	743	743	743
Creditor	65.5	90.4	91.8	87.1	91.9
Other Current Liab	60.0	69.7	54.4	45.8	49.7
LT Debt	2,146	1,996	1,803	3,233	3,233
Other LT Liabilities	94.0	95.9	98.8	98.8	98.8
Shareholder's Equity	3,541	3,624	3,929	4,103	4,297
Minority Interests	12.5	16.5	20.3	20.6	20.9
Total Cap. & Liab.	6,196	6,326	6,740	8,331	8,534
Non-Cash Wkg. Capital	136	162	300	229	222
Net Cash/(Debt)	(2,232)	(2,311)	(2,422)	(2,375)	(2,255)
Debtors Turn (avg days)	44.2	59.3	88.4	98.1	45.8
Creditors Turn (avg days)	1,012.2	1,744.2	273.3	645.1	727.8
Inventory Turn (avg days)	3,055.3	4,296.0	299.9	N/A	N/A
Asset Turnover (x)	0.0	0.0	0.1	0.0	0.0
Current Ratio (x)	1.1	0.7	0.6	2.2	2.4
Quick Ratio (x)	0.5	0.3	0.3	1.9	2.0
Net Debt/Equity (X)	0.6	0.6	0.6	0.6	0.5
Net Debt/Equity ex MI (X)	0.6	0.6	0.6	0.6	0.5
Capex to Debt (%)	0.2	0.4	0.1	3.3	0.8

Increase in borrowings mainly due to recent acquisitions and further CAPEX to fund development of Biopolis Phase 6.

Source: Company, DBS Bank

Cash Flow Statement (\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	365	171	358	284	309
Dep. & Amort.	0.68	1.31	1.05	1.05	1.05
Tax Paid	(25.6)	(18.7)	(50.8)	(52.7)	(44.1)
Assoc. & JV Inc/(loss)	(6.9)	(55.4)	(116)	(69.1)	(53.0)
Chg in Wkg.Cap.	(0.4)	(51.9)	(94.0)	80.5	2.65
Other Operating CF	(193)	63.9	(44.2)	0.0	0.0
Net Operating CF	140	110	54.2	244	216
Capital Exp.(net)	(5.3)	(9.1)	(2.2)	(130)	(30.0)
Other Invs.(net)	(4.3)	(68.5)	(184)	0.0	0.0
Invs in Assoc. & JV	70.6	81.9	175	0.0	0.0
Div from Assoc & JV	5.34	21.6	0.12	0.12	0.12
Other Investing CF	11.7	(57.6)	(30.1)	0.0	0.0
Net Investing CF	78.1	(31.7)	(41.7)	(130)	(29.9)
Div Paid	(66.5)	(66.5)	(66.4)	(66.4)	(66.4)
Chg in Gross Debt	(79.8)	(38.4)	107	1,430	0.0
Capital Issues	0.0	(2.7)	0.0	0.0	0.0
Other Financing CF	(55.6)	(45.1)	(48.2)	0.0	0.0
Net Financing CF	(202)	(153)	(8.1)	1,364	(66.4)
Currency Adjustments	(1.1)	1.99	0.23	0.0	0.0
Chg in Cash	15.1	(72.6)	4.68	1,477	120
Opg CFPS (S cts)	21.1	24.4	22.3	24.6	32.1
Free CFPS (S cts)	20.3	15.2	7.83	17.1	28.0

Source: Company, DBS Bank

Target Price & Ratings History



Note : Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
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Source: DBS Bank

Analyst: Dale LAI

Derek TAN

DBS Bank 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 share price catalysts within this time frame)

*Share price appreciation + dividends

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

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