

Hongkong Land

Bloomberg: HKL SP EQUITY | Reuters: HKLD.SI

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DBS Group Research . Equity

29 Jul 2022

BUY

Last Traded Price (28 Jul 2022): US\$4.86 (STI : 3,221)
Price Target 12-mth: US\$6.14 (26% upside) (Prev US\$5.95)

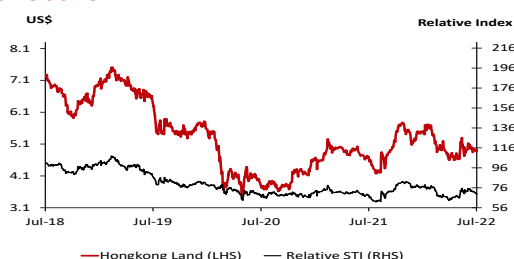
Analyst

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What's New

- 1H22 underlying earnings rose 8% on the back of higher development earnings
- Construction delays in China is a drag on FY22 underlying profit
- Announced another round of US\$500m share buyback program
- Reiterate BUY with US\$6.14 TP

Price Relative



Forecasts and Valuation

FY Dec (US\$ m)	2020A	2021A	2022F	2023F
Turnover	2,094	2,384	2,062	2,516
EBITDA	974	960	882	999
Pre-tax Profit	1,111	1,144	909	1,118
Underlying Profit	963	966	788	930
Underlying Profit Gth (%)	(10.5)	0.3	(18.4)	18.1
EPS (US\$)	0.41	0.41	0.35	0.42
EPS Gth (%)	(10.5)	0.5	(15.0)	18.1
PE (X)	11.8	11.7	13.8	11.7
P/Cash Flow (X)	9.1	16.5	10.0	8.5
EV/EBITDA (X)	16.4	16.7	18.1	16.0
DPS (US\$)	0.22	0.22	0.22	0.22
Div Yield (%)	4.5	4.5	4.5	4.5
Net Gearing (%)	13	15	17	17
ROE (%)	2.6	2.7	2.3	2.7
Est. NAV (US\$):			11.6	12.3
Disc. to NAV (%)			(58)	(60)

Earnings Rev (%): (6) 4
Consensus EPS (US\$): 0.41 0.44
Other Broker Recs: B:7 S:2 H:4

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

New share buyback program to support share price

Investment Thesis

BUY with US\$6.14 TP. The stock is now trading at a 58% discount to our appraised current NAV, c.1SD below its 10-year average. The new round of share buyback program should underpin share price appreciation in the near term.

Share buyback program extended. While the current share buyback program is ending soon, Hongkong Land has budgeted another US\$500m for further buybacks which would last until the end of 2023. This should bode well for its near-term share price performance.

Deferral of residential profit booking to weigh on near-term earnings. Impacted by lockdown restrictions in China, construction work at the mixed-use development in Shanghai, Galaxy Midtown, has been disrupted. Project completion is expected to be delayed to early 2023 from end-2022. This would result in some slippage of profit booking in 2H22, which in turn will weigh on the company's underlying profit in FY22.

Valuation:

Our target price (TP) for Hongkong Land is premised on a 50% discount to our Jun-2023 NAV estimates.

Where we differ:

We believe the Hongkong Land's Central office portfolio continues to benefit from "flight-to-quality" demand.

Key Risks to Our View:

Any deterioration in leasing demand for offices in Central could drag earnings. Slow demand could adversely affect residential sales earnings from China. Any cap rate expansion could lead to lower property valuations.

At A Glance

Issued Capital (m shrs)	2,298
Mkt Cap (US\$m)	11,168
Major Shareholders (%)	
Jardine Strategic Holdings Ltd	52.6
Free Float (%)	47.4
3m Avg. Daily Val. (US\$m)	13.8
GICS Industry: Real Estate / Real Estate Management & Development	



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WHAT'S NEW**Share buybacks to continue**

Despite marginally lower rental earnings, Hongkong Land's 1H22 underlying profit rose 8% to US\$425m thanks to higher development profit. The result was 14% above our forecast due to higher-than-expected booking of residential development profits. Interim DPS, however, remained flat at US\$0.06.

YTD, Hongkong Land has repurchased 59.7m shares from the market. This brought the cumulative number of shares repurchased since it announced its share buyback program in Sep-21 to 96.1m, reducing its issued share capital by c.4%. While the current share buyback is close to an end, Hongkong Land has earmarked another US\$500m for a new share buyback program which should last until the end of 2023. This should drive its share price performance in the near term. Based on the current share price, the company could repurchase up to 103m shares, representing c.4.6% of its existing outstanding shares.

Gross rental receipts were 3% lower dragged by reduced office and retail income. Reversionary growth for its Central office portfolio remained negative given higher expiring rents. This resulted in average office passing rents falling 5% y-o-y to HK\$112psf. Vacancy stood at 5.4% in Jun-22, up slightly from Dec-21's 5.2%. On a committed basis, the office portfolio was 94.9% leased (Dec-21: 95.1%). In response to tightened social distancing measures led by the Omicron variant outbreak at the beginning of the year, the company granted temporary rental relief to affected tenants, F&B tenants in particular. This, coupled with negative base rental reversion, led to average retail passing rents declining by 6.7% y-o-y to HK\$168psf. Despite the COVID resurgence, its retail portfolio remained virtually fully let. Footfall and tenant sales in the Beijing and Macau retail portfolios were negatively impacted by pandemic-related restrictions.

Its Singapore portfolio fares better with continued positive reversionary growth. As a result, average passing rents rose 2.9% y-o-y to S\$10.5psf. On a committed basis, the portfolio's vacancy rate remained stable at 3% in Jun-22. (Dec-21: 2.9%)

Including contributions from associates and joint ventures, development earnings was 57% higher y-o-y resulting from more sales completions in the period. Due to subdued demand driven by pandemic-led lockdowns and restrictions,

Hongkong Land's attributable contracted sales in China tumbled 69% to US\$419m.

Despite weak market sentiment, a consortium in which Hongkong Land has a 34% stake acquired a primarily residential site adjacent to the West Bund project in Shanghai for Rmb4.73bn. This will comprise of six residential blocks with >470 units. Hongkong Land has an attributable developable area of 18,700sm.

As of Jun-22, the company's sold but unrecognized contracted sales stood at US\$2.43bn. But COVID-led lockdowns have disrupted the construction progress of Galaxy Midtown project in Shanghai with project completion expected to be delayed from the end of 2022 into early 2023. This could possibly postpone the profit booking schedule and substantially weigh on the development earnings in near term. Development activities at West Bund mixed-use development has also been suspended for two months.

In Singapore, Hongkong Land's attributable contracted sales amounted to US\$270m, up 57% y-o-y. Launched in May-22, Piccadilly Grand has received strong market response with 75% of total 407 units already sold. The company acquired a 49% interest in a residential site in the Tanjong Katong area which is expected to provide 638 units with developable area of 599,000sf.

Net debt increased to US\$6.1bn in Jun-22 from Dec-21's US\$5.1bn due to lower sales proceeds, land premium for recently acquired development sites and share buyback. This translated into gearing of 18%. Allowing for a new round of share buybacks, gearing would rise to c.20%. Financial risk remains manageable. Interest cost for 55% of total debt is at fixed rates with an average hedge tenor of 7.3 years. This helps mitigate the impact of interest rate hikes on earnings.

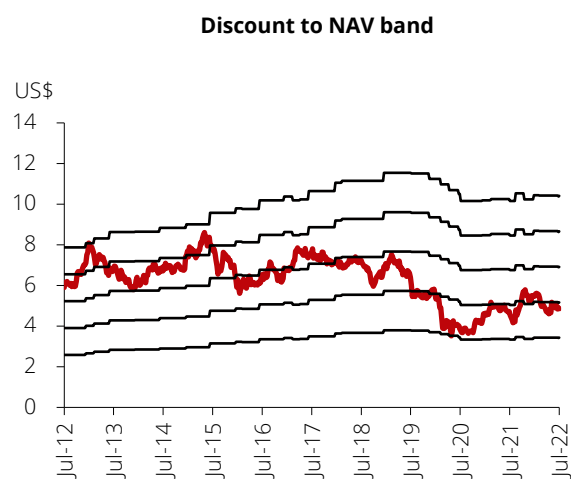
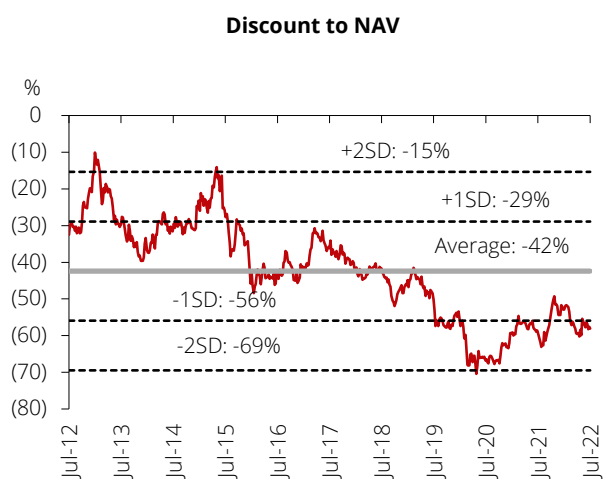
YTD, shares of Hongkong Land have fallen 7%. Meanwhile, the stock is trading at 58% discount to our appraised current NAV, against its 10-year average of 42%. The current valuation remains undemanding. The extension of share buyback program should prompt share price appreciation in near term. We raised our TP by c.3% to US\$6.14 to reflect the impact of its new share buyback program. This is based on 50% discount to our Jun-2023 NAV estimate. BUY.

Hongkong Land

Company Background

Hongkong Land is one of Asia's leading property investment, management, and development groups. The Group owns and manages a portfolio of prime and luxury retail properties in key Asian cities, principally in Hong Kong and Singapore. In Feb-20, the company secured a mixed-use site in West Bund of Shanghai via a government auction, for Rmb31.05bn.

Discount to NAV



Source: Bloomberg Finance L.P., DBS HK

Result Summary

FY Dec (US\$m)	1H21	1H22	% Chg	Comments
Rental income	469.8	455.6	(3)	1H22: Central office and retail portfolios recorded negative rental reversions
Service and management charges	83.3	92.2	11	
Sale of residential properties	332.7	346.2	4	
Revenue	885.8	894.0	1	
Cost of sales	(383.9)	(402.8)	5	
Gross profit	501.9	491.2	(2)	
Other income	4.5	9.8	118	
Administrative and other expenses	(97.0)	(106.9)	10	
Operating profit	409.4	394.1	(4)	
Net financing charges	(73.1)	(89.5)	22	
Share of results of joint venture	120.1	175.5	46	1H22: mainly due to higher development earnings from China
Profit before tax	456.4	480.1	5	
Tax	(62.1)	(55.8)	(10)	
Minority Interest	0.1	0.3	200	
Underlying profit	394.4	424.6	8	
Interim DPS (US cents)	6.00	6.00	0	

Source: Hongkong Land

Key Assumptions (%)

	2022F	2023F
Office rental - HK	0	(3)
Retail rental (Shopping centre) - HK	0	5

Source: DBS HK

Segmental Breakdown (US\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenues (US\$ m)					
Rental income	999	938	947	897	907
Service and mgmt charges	153	148	182	194	214
Sale of trading properties	1,168	1,009	1,255	971	1,394
Total	2,320	2,094	2,384	2,062	2,516

Source: DBS HK

Income Statement (US\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Turnover	2,320	2,094	2,384	2,062	2,516
EBITDA	1,184	974	960	882	999
Depr / Amort	(14)	(15)	(16)	(17)	(17)
EBIT	1,170	959	943	865	982
Associates Inc	273	268	356	234	350
Interest (Exp)/Inc	(121)	(116)	(155)	(190)	(213)
Exceptionals	0	0	0	0	0
Pre-tax Profit	1,322	1,111	1,144	909	1,118
Tax	(247)	(150)	(179)	(122)	(142)
Minority Interest	1	2	1	0	(46)
Underlying Profit	1,076	963	966	788	930
Sales Gth (%)	(13)	(10)	14	(14)	22
Net Profit Gth (%)	4	(11)	0	(18)	18
EBITDA Margins (%)	51	47	40	43	40
EBIT Margin (%)	50	46	40	42	39
Tax Rate (%)	19	13	16	13	13

Source: DBS HK

Balance Sheet (US\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Fixed Assets	33,331	30,221	28,740	28,824	29,411
Long-term Investments	0	0	0	0	0
Other LT Assets	48	43	32	32	32
Deferred Tax Asset	27	36	68	68	68
Associates/JVs	7,226	8,921	9,515	9,734	10,068
Bank Balance/Cash & Liquid	1,424	1,997	1,480	1,080	1,486
Inventory	2,042	1,949	2,971	3,309	2,936
Debtors	1,141	1,082	1,029	1,114	1,214
Other Non Cash Current	20	14	28	28	28
Total Assets	45,259	44,262	43,863	44,189	45,243
ST Debt	715	690	865	650	651
Creditors	1,461	1,572	2,195	2,395	2,295
Other Current Liab	261	153	203	203	203
LT Debt	4,300	5,875	5,718	6,283	6,682
Deferred Tax Liabilities	211	196	228	228	228
Other LT Liabilities	22	38	36	36	36
Minority Interests	43	29	34	29	70
Shareholder's Equity	38,247	35,709	34,584	34,365	35,078
Total Cap. & Liab.	45,259	44,262	43,863	44,189	45,243
Share Capital (m)	2,334	2,334	2,328	2,234	2,234
Net Cash/(Debt)	(3,591)	(4,568)	(5,104)	(5,853)	(5,848)
Working Capital	2,190	2,627	2,245	2,284	2,516
Net Gearing (%)	9	13	15	17	17

Source: DBS HK

Cash Flow Statement (US\$ m)

FY Dec	2019A	2020A	2021A	2022F	2023F
EBIT	1,170	959	943	865	982
Tax Paid	(116)	(268)	(157)	(122)	(142)
Depr/Amort	14	15	16	17	17
Chg in Wkg.Cap	(161)	346	(306)	397	494
Other Non-Cash	275	(71)	32	(195)	(219)
Operating CF	1,182	981	529	962	1,132
Net Capex	(170)	(2,015)	(95)	(700)	(330)
Investments	0	0	0	0	0
Associates & JVs	(489)	599	(338)	0	0
Others	0	0	0	0	0
Investing CF	(658)	(1,416)	(432)	(700)	(330)
Net Chg in Debt	25	1,458	76	350	400
New Capital	0	0	(192)	(500)	(300)
Dividend	(511)	(511)	(510)	(512)	(496)
Other Financing CF	(5)	(5)	(3)	0	0
Financing CF	(491)	943	(629)	(662)	(396)
Chg in Cash	33	508	(533)	(399)	406

Source: DBS HK

Target Price & Ratings History



S.No.	Date	Closing Price	Target Price	Rating
1	30-Jul-21	US\$4.57	US\$5.23	BUY
2	7-Sep-21	US\$4.20	US\$5.41	BUY
3	15-Nov-21	US\$5.68	US\$6.55	BUY
4	17-Jan-22	US\$5.45	US\$6.64	BUY
5	4-Mar-22	US\$5.40	US\$6.61	BUY
6	19-Jul-22	US\$4.92	US\$5.95	BUY

Source: DBS HK

Analyst: Jeff Yau

Percy Leung

DBS HK 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)

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*Share price appreciation + dividends

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