

Singapore

HOLD (no change)

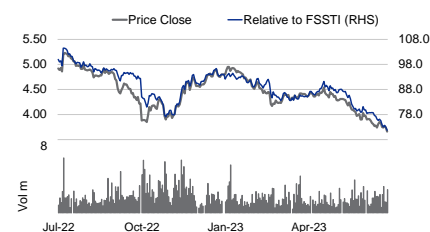
Consensus ratings*: Buy 5 Hold 3 Sell 3

Current price:	US\$3.66
Target price:	US\$4.00
Previous target:	US\$4.70
Up/downside:	9.3%
CGS-CIMB / Consensus:	-11.4%
Reuters:	HKLD.SI
Bloomberg:	HKL SP
Market cap:	US\$8,106m
Average daily turnover:	US\$6.34m
Current shares o/s:	2,215m
Free float:	47.9%

*Source: Bloomberg

Key changes in this note

- FY23F EPS decreased by 5%.
- FY24F EPS decreased by 15%.
- FY25F EPS decreased by 15%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-6.2	-17	-25.3
Relative (%)	-8.5	-15.2	-27.9

Major shareholders	% held
Jardine Matheson	52.1

Analyst(s)

Raymond CHENG, CFA

 T (852) 2539 1324
 E raymond.cheng@cgs-cimb.com

Will CHU, CFA

 T (852) 2539 1327
 E will.chu@cgs-cimb.com

Steven MAK

 T (852) 2539 1328
 E steven.mak@cgs-cimb.com

Hongkong Land Holdings Ltd

Weak HK office still a profit drag

- We expect negative rental reversions for HKL's HK office through FY24F due to falling rent rates and new completions in the HK Central District.
- We also expect a rollover of its share buyback programme by one year, if its buyback pace stays slow due to high floating rate borrowing costs.
- Reiterate Hold with a lower TP of US\$4.0 (60% discount to NAV).

We see continued, mild negative rental reversions for its HK offices

As at end-May 2023, HK Central Grade A office vacancy stood at 9-10%, vs. overall HK Grade A office at 12-15%, according to real estate agencies JLL, Savills and CBRE. HKL's Central office portfolio had a vacancy of 6.3% as at end-Mar 2023 and we expect it to be resilient enough to maintain a vacancy lower than the Central average through FY24F, given its prime location and HKL's commitment to ESG standards for its investment properties (IP). Nevertheless, we expect the mild negative rental reversions for HKL's HK office to continue through FY24F due to falling market rent rates and upcoming new supplies in the HK Central District.

Lower GPM for China DP a new norm

Management expects sales completions of its China development properties (DP) to be higher in FY23F than in FY22 due to the absence of pandemic-related restrictions, but profit booking would be skewed to the second half of FY23F. We believe lower GPM for China DP sales recognition (22% in FY22 vs. 28-44% in FY19-21) will be a new norm for HKL, and is comparable to China's largest state-owned developers such as COLI and CR Land.

We expect a rollover of share buyback budget by one year

As floating rate borrowing cost for HK\$/US\$ now stands high at c.6%, we think HKL will continue to keep a slow race in share buyback – even though it still had US\$0.4bn budget unused for buyback as at end-Jun 2023. We also believe HKL will extend its buyback programme by one year to 31 Dec 2024 and maintain its buyback budget.

Reiterate Hold; new TP based on a wider discount to NAV

We cut FY23-25F EPS by 5-15% to reflect 1) lower ASP assumptions for its China and Singapore DP sales, 2) new HK\$/Rmb assumption of 0.93 (0.91 previously), 3) delay in property sales booking schedule in FY24-25F, 4) weaker-than-expected EPS growth due to slower share buyback. We also cut our NAV for HKL by 3% to US\$10.1 accordingly. Our new TP for HKL is US\$4.0, now based on a wider 60% discount to NAV (55% previously), as its EPS recovery is taking longer than we expected earlier amidst a high interest rate environment. Reiterate Hold for HKL, as we believe the falling HK office rents and slower-than-expected share buyback reflect a lack of near-term re-rating catalysts. Key downside risks: slower-than-expected recovery of its DP sales in China and weaker-than-expected rental reversions for its HK offices. Lower-than-expected borrowing costs are, on the other hand, a key upside risk.

Financial Summary

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Total Net Revenues (US\$m)	2,384	2,244	1,876	2,004	2,098
Operating EBITDA (US\$m)	(371.8)	272.6	907.6	903.0	936.3
Net Profit (US\$m)	(349.2)	202.7	779.8	784.8	913.7
Core EPS (US\$)	0.41	0.34	0.35	0.35	0.41
Core EPS Growth	0.5%	(17.0%)	2.0%	0.9%	16.4%
FD Core P/E (x)	8.77	10.67	10.42	10.33	8.87
DPS (US\$)	0.22	0.22	0.22	0.22	0.23
Dividend Yield	6.01%	6.01%	6.01%	6.01%	6.28%
EV/EBITDA (x)	4.39	5.29	4.65	3.48	1.56
P/FCFE (x)	50.15	14.47	28.55	13.43	8.94
Net Gearing	14.7%	17.5%	19.1%	16.3%	12.0%
P/BV (x)	0.24	0.24	0.25	0.23	0.21
ROE	2.75%	2.29%	2.36%	2.30%	2.47%
% Change In Core EPS Estimates			(4.9%)	(14.8%)	(15.0%)
CGS-CIMB/Consensus EPS (x)			0.91	0.87	0.91

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 1: Earnings revisions

US\$ m	2023F			2024F			2025F		
	Old	New	% chg	Old	New	% chg	Old	New	% chg
Core net profit	810	780	-4%	891	785	-12%	1,032	914	-11%
EPS (US\$)	0.37	0.35	-5%	0.42	0.35	-15%	0.49	0.41	-15%
DPS (US\$)	0.22	0.22	0%	0.22	0.22	0%	0.24	0.23	-4%

SOURCE: CGS-CIMB RESEARCH ESTIMATES

Figure 2: NAV breakdown (end-FY23F)

	US\$ m	US\$/share	% GAV
HK Central office portfolio	12,259	5.5	42.9%
HK Central retail portfolio	2,536	1.1	8.9%
Other HK portfolio	35	0.0	0.1%
China IP	1,904	0.9	6.7%
SG IP	3,339	1.5	11.7%
Other Asean IP and hotels	551	0.2	1.9%
SG and Asean DP	2,381	1.1	8.3%
China DP	5,569	2.5	19.5%
GAV - total	28,574	12.9	100.0%
Less: net debt	(6,282)	(2.8)	
NAV	22,292	10.1	

SOURCE: CGS-CIMB RESEARCH ESTIMATES

Figure 3: Summary of NAV and TP changes

	Old	New	Chg
NAV (US\$)	10.40	10.10	-3%
Target discount	55%	60%	5% pt
Target price (US\$)	4.70	4.00	-15%


SOURCE: CGS-CIMB RESEARCH ESTIMATES

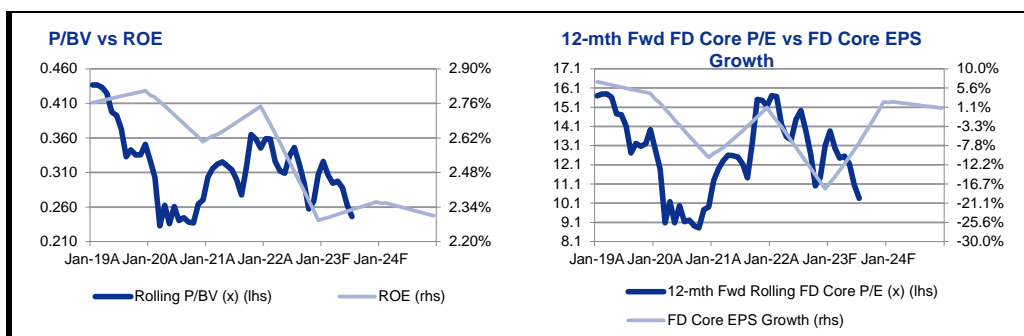
Figure 4: HK property valuation summary

Short Name	Ticker	CP (HK\$)	TP (HK\$)	Rating	Mkt cap (US\$ m)	NAV/sh (HK\$)	Disc. to NAV (%)	Upside (%)	P/E (x)				P/BV (x)			Dividend yield (%)			Net Gearing (%)		
									2022	2023F	2024F	2025F	2022	2023F	2024F	2022	2023F	2024F	2022	2023F	2024F
CK Asset	1113 HK	42.70	52.50	ADD	19,634	105.0	59	23	7.0	7.7	7.4	6.8	0.41	0.40	0.39	5.3	5.3	5.5	Net cash	Net cash	Net cash
HLD	12 HK	22.75	26.50	ADD	14,097	48.1	53	16	11.4	10.5	9.6	9.3	0.34	0.33	0.33	7.9	7.9	7.9	40	40	39
Kerry Prop	683 HK	16.16	21.00	ADD	3,002	59.9	73	30	5.2	6.2	5.7	4.5	0.22	0.21	0.21	8.4	8.4	8.4	34	37	41
NWD	17 HK	18.08	20.80	ADD	5,824	51.9	65	15	9.7	10.7	11.8	10.4	0.21	0.22	0.21	11.4	8.7	8.7	47	46	42
SHKP	16 HK	96.05	123.40	ADD	35,623	189.8	49	28	9.7	10.6	10.3	9.8	0.46	0.45	0.44	5.2	5.2	5.2	17	16	13
Sino	83 HK	9.28	11.70	ADD	9,706	19.5	52	26	11.6	13.5	12.2	9.6	0.46	0.48	0.48	6.1	6.1	6.3	Net cash	Net cash	Net cash
Wharf Holdings	4 HK	18.30	20.40	HOLD	7,158	45.3	60	11	184.6	13.3	11.1	9.9	0.37	0.36	0.35	2.2	2.2	2.5	3	7	7
HLP	101 HK	11.10	14.00	ADD	6,392	27.9	60	26	12.1	10.8	10.4	9.5	0.37	0.38	0.37	7.0	7.0	7.0	28	32	33
HKL*	HKL SP	3.66	4.00	HOLD	8,106	10.1	64	9	10.4	10.4	10.3	8.9	0.24	0.25	0.23	6.0	6.0	6.0	17	19	16
Hysan	14 HK	17.80	22.10	ADD	2,340	55.2	68	24	10.9	10.7	9.4	8.6	0.23	0.23	0.22	8.1	8.1	8.1	22	22	22
Swire Prop	1972 HK	17.94	20.10	HOLD	13,432	36.5	51	12	12.1	13.5	12.9	11.3	0.36	0.36	0.36	5.6	5.8	6.0	6	7	6
Wharf REIC	1997 HK	39.35	46.80	ADD	15,291	62.4	37	19	19.3	17.9	16.3	15.1	0.63	0.62	0.61	3.3	3.5	3.9	23	22	20
Champion REIT	2778 HK	2.77	2.55	REDUCE	2,118	5.83	52	(8)	12.7	13.5	13.0	12.4	0.35	0.35	0.34	7.1	6.6	6.8	29	28	26
Link REIT	823 HK	43.20	48.00	ADD	14,120	73.8	41	11	16.0	7.1	16.5	15.4	0.56	0.58	0.58	7.1	6.3	6.1	27	26	26
Midland	1200 HK	0.72	0.96	ADD	66	NA	NA	33	NA	88.6	35.4	NA	0.75	0.75	0.73	0.0	0.0	0.0	Net cash	Net cash	Net cash
Developers							59	21	34.2	10.4	9.7	8.6	0.35	0.35	0.34	6.6	6.3	6.3	24	24	24
Landlords & REITs							53	13	13.4	12.0	12.7	11.6	0.39	0.39	0.39	6.3	6.2	6.3	22	22	21
Simple average (ex. Midland)							56	17	23.8	11.2	11.2	10.1	0.37	0.37	0.37	6.5	6.2	6.3	23	23	22

Share price data as of 24 Jul 2023; * HKL data stated in US\$

SOURCES: CGS-CIMB RESEARCH ESTIMATES, BLOOMBERG, COMPANY REPORTS

Refinitiv ESG Scores													
	<table border="1"> <tr> <td style="background-color: #90EE90;">C+</td> <td style="background-color: #3CB371;">A+</td> <td style="background-color: #90EE90;">C+</td> <td style="background-color: #90EE90;">B-</td> <td style="background-color: #90EE90;">B</td> <td style="background-color: #FF4500;">D</td> </tr> <tr> <td>ESG Score</td> <td>ESG Controversies Score</td> <td>ESG Combined Score</td> <td>ESG Environment Pillar Score</td> <td>ESG Social Pillar Score</td> <td>ESG Government Pillar Score</td> </tr> </table>	C+	A+	C+	B-	B	D	ESG Score	ESG Controversies Score	ESG Combined Score	ESG Environment Pillar Score	ESG Social Pillar Score	ESG Government Pillar Score
C+	A+	C+	B-	B	D								
ESG Score	ESG Controversies Score	ESG Combined Score	ESG Environment Pillar Score	ESG Social Pillar Score	ESG Government Pillar Score								
ESG in a nutshell													
<p>Hongkong Land Holdings Ltd (HKL) has been a landlord and developer of premium properties for more than 130 years. HKL strived to set an example of good corporate citizenship by having a well-designed sustainability strategy and governance structure and adopting global best practices. To help address global challenges, HKL has aligned its sustainability strategy with the United Nations Sustainable Development Goals (SDGs) and integrated that into its businesses and operations</p>													
Keep your eye on	Implications												
<p>We see no ESG issues for HKL which we are concerned about.</p>	<p>N/A</p>												
ESG highlights	Implications												
<p>In FY21, HKL achieved over 850 hours of volunteer services and served more than 12,000 people in need. It also issued US\$500m green bond and US\$1.9bn sustainability linked loans.</p>	<p>HKL has demonstrated its commitment towards ESG issues over the past few years. We believe further progress on ESG could support a re-rating of its shares.</p>												
Trends	Implications												
<p>It has developed sustainability action plans and targets including: 1) reducing its energy consumption and carbon emissions of its HK Central portfolio by 37% and 55% respectively by 2030 (base year: 2008); 2) recycling 25% of the waste generated by its existing properties by 2030 (base year: 2008); 3) developing health and wellbeing policy for employees; and 4) disclosing employee diversity metrics.</p>	<p>We have not applied any premium/discount of ESG in our fundamental valuations of HKL. We believe HKL will continually improve on the different areas of ESG, thereby attracting greater interest among ESG-focused investors.</p>												
<small>SOURCES: CGS-CIMB RESEARCH, REFINITIV</small>													

BY THE NUMBERS

Profit & Loss

(US\$m)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Total Net Revenues	2,384	2,244	1,876	2,004	2,098
Gross Profit	1,100	1,021	1,084	1,081	1,115
Operating EBITDA	(372)	273	908	903	936
Depreciation And Amortisation	0	0	0	0	0
Operating EBIT	(372)	273	908	903	936
Financial Income/(Expense)	(155)	(168)	(261)	(251)	(227)
Pretax Income/(Loss) from Assoc.	356	229	305	309	402
Non-Operating Income/(Expense)	0	0	0	0	0
Profit Before Tax (pre-EI)	1,144	907	952	962	1,111
Exceptional Items					
Pre-tax Profit	(171)	334	952	962	1,111
Taxation	(179)	(132)	(153)	(148)	(161)
Exceptional Income - post-tax					
Profit After Tax	(350)	202	799	813	950
Minority Interests	1	1	(19)	(28)	(36)
Pref. & Special Div	0	0	0	0	0
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	(349)	203	780	785	914
Recurring Net Profit	966	776	780	785	914
Fully Diluted Recurring Net Profit	966	776	780	785	914

Cash Flow

(US\$m)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
EBITDA	(372)	273	908	903	936
Cash Flow from Inv. & Assoc.					
Change In Working Capital	(306)	78	(351)	492	982
Straight Line Adjustment					
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	1,536	815	251	263	275
Net Interest (Paid)/Received	(173)	(183)	(261)	(251)	(227)
Tax Paid	(157)	(125)	(147)	(150)	(157)
Cashflow From Operations	529	858	401	1,257	1,809
Capex	(432)	(727)	(316)	(253)	(202)
Disposals Of FAs/subsidiaries					
Disposals of Investment Properties					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	0	0	0	0	0
Cash Flow From Investing	(432)	(727)	(316)	(253)	(202)
Debt Raised/(repaid)	73	441	200	(400)	(700)
Proceeds From Issue Of Shares	(192)	(352)	(56)	0	0
Shares Repurchased					
Dividends Paid	(510)	(504)	(494)	(488)	(487)
Preferred Dividends					
Other Financing Cashflow	0	0	0	0	0
Cash Flow From Financing	(629)	(416)	(350)	(888)	(1,187)

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(US\$m)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Total Cash And Equivalents	1,480	1,173	908	1,024	1,443
Properties Under Development	2,971	2,911	3,937	4,333	4,320
Total Debtors	1,029	539	566	595	624
Inventories					
Total Other Current Assets	28	63	63	63	63
Total Current Assets	5,508	4,686	5,474	6,014	6,450
Fixed Assets	0	0	0	0	0
Total Investments	38,116	37,670	36,861	38,513	40,672
Intangible Assets	0	0	0	0	0
Total Other Non-Current Assets	239	241	241	241	241
Total Non-current Assets	38,355	37,911	37,102	38,754	40,913
Short-term Debt	865	419	419	419	419
Current Portion of Long-Term Debt					
Total Creditors	2,195	1,667	1,667	1,667	1,667
Other Current Liabilities	203	329	130	129	138
Total Current Liabilities	3,263	2,415	2,216	2,215	2,224
Total Long-term Debt	5,718	6,571	6,771	6,371	5,671
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	36	26	26	26	26
Total Non-current Liabilities	5,754	6,598	6,798	6,398	5,698
Total Provisions	228	257	750	750	750
Total Liabilities	9,244	9,270	9,764	9,362	8,672
Shareholders' Equity	34,584	33,303	32,769	35,334	38,584
Minority Interests	34	24	42	71	107
Total Equity	34,618	33,327	32,811	35,405	38,691

Key Ratios

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue Growth	13.9%	(5.9%)	(16.4%)	6.8%	4.7%
Operating EBITDA Growth	(1.6%)	(10.3%)	7.3%	(0.5%)	3.7%
Operating EBITDA Margin	39.6%	37.7%	48.4%	45.1%	44.6%
Net Cash Per Share (US\$)	(2.22)	(2.61)	(2.84)	(2.60)	(2.10)
BVPS (US\$)	15.05	14.95	14.80	15.95	17.42
Gross Interest Cover	4.25	3.60	2.72	2.98	3.45
Effective Tax Rate	0.0%	39.5%	16.1%	15.4%	14.5%
Net Dividend Payout Ratio	52.9%	64.6%	62.7%	62.1%	53.3%
Accounts Receivables Days	161.6	127.6	107.6	106.0	106.1
Inventory Days	-	-	-	-	-
Accounts Payables Days	535.4	575.9	768.2	660.5	619.0
ROIC (%)	51.3%	37.8%	43.1%	25.1%	22.8%
ROCE (%)	2.41%	2.23%	2.41%	2.28%	2.22%
Return On Average Assets	2.49%	2.12%	2.39%	2.34%	2.47%

Key Drivers

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Gross rental income (US\$ m)	1,129.0	1,118.4	1,136.2	1,138.7	1,168.4
Property sales booked (US\$ m)	1,255.3	1,126.0	740.2	865.8	929.4
Rental income GPM (%)	78.4%	76.9%	77.9%	78.9%	79.4%
Property sales GPM (%)	17.2%	14.2%	26.9%	21.0%	20.1%
Underlying payout ratio on rental profit (%)	69.3%	69.0%	66.1%	64.9%	65.7%
Net gearing (%)	14.8%	17.5%	19.2%	16.3%	12.0%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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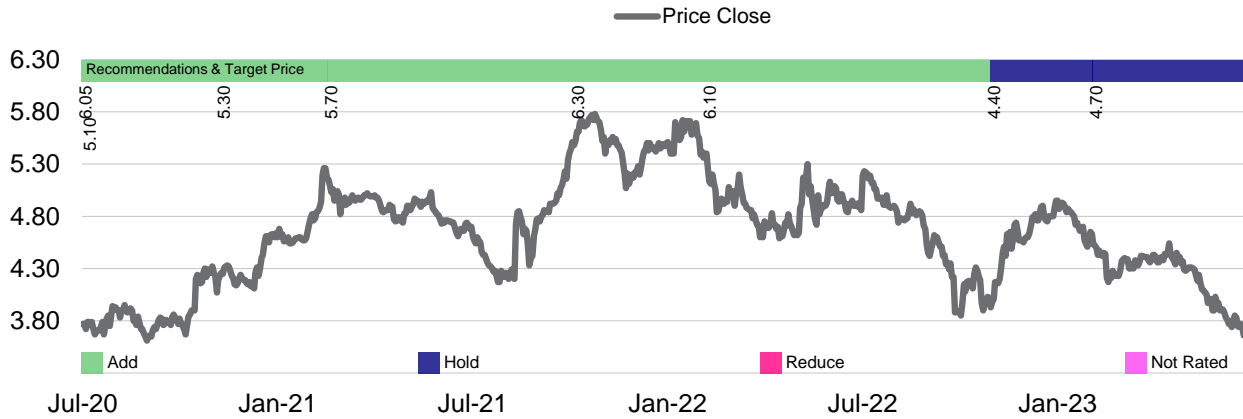
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632 companies under coverage for quarter ended on 30 June 2023		
	Rating Distribution (%)	Investment Banking clients (%)
Add	65.3%	0.9%
Hold	25.8%	0.3%
Reduce	8.9%	0.0%

Spitzer Chart for stock being researched (2 year data)

Hongkong Land Holdings Ltd (HKL SP)



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