Henderson Land (0012.HK)

Less housing policy impact

Bloomberg | Reuters | POEMS
0012.HK | 0012.HK | 0012.HK
Industry: Local property

Phillip Securities Research Pte Ltd
30 November 2012

Rating: Accumulate | CP: HKD55.3 | TP: HKD62

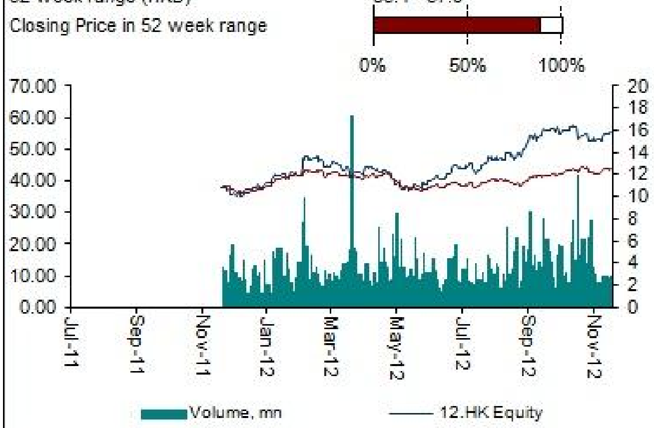
Company Profile

Henderson Land is one the largest Hong Kong property developer. Its core business comprises property development and property investment. It also holds direct equity interests in a listed subsidiary, Henderson Investment Limited (0097.HK) and three listed associates including The Hong Kong and China gas Company Limited (0003.HK), Hong Kong Ferry (Holdings) Company Limited (0050.HK) and Miramar Hotel and Investment Company Limited (0071.HK).

Less housing policy impact

The government launched BSD and new SSD policies on October 27, 2012. We think the impact to Henderson Land is relatively small. BSD: non-Hong Kong permanent residents (non-HKPR) and all companies are required to pay additional 15% BSD. It is believed that BSD will effectively dampen the demand of mainland buyers. However, for Q3 2012, mainland individual buyers accounted for about 16.2% in private residential property turnover. For the property valued 12 million or above, the ratio will be approximately 33.7%. It showed that the purchasing power of mainland buyers is mainly reflected in HK's luxury market. The major new properties launched by Henderson Land on 2012 are Yuen Long the Reach and Wu Kai Sha Double Cove, which is selling at about HKD7000 to HKD9000 psf. More than 600 and 400 units were sold respectively. The influence from reduced purchasing power of mainland buyers is limited to Henderson Land. After news digestion, buyers will regain market confidence. New SSD: HK government started the implementation of SSD since 2010. But property prices still surged under the low interest rate and stable employment environment in HK which reflected that the user-driven demand is high. HK government increased SSD and its valid period which will reduce the supply of secondary market property. It would favor local property sector instead as the users will shift to primary market.

HENDERSON LAND D		
Rating	**2.00**	**Accumulate**
- Previous Rating	*N/A*	*Not Rated*
Target Price (HKD)	**62**	
- Previous Target Price (HKD)	*N/A*	
Closing Price (HKD)	55.30	
Expected Capital Gains (%)	12.1%	
Expected Dividend Yield (%)	2.1%	
Expected Total Return (%)	**14.2%**	
Raw Beta (Past 2yrs weekly data)	N/A	
Market Cap. (HKD mn)	133,540	
Enterprise Value (HKD mn)	177,530	
3M Average Daily T/O (mn)	4.2	
52 week range (HKD)	35.4 - 57.9	
Closing Price in 52 week range		



Major Shareholders	(%)
1. Director Zhao Bing & ASSO	43.2
2. Cathay Capital HLD	12.5
3. Director Song Zhi Ping	8.2

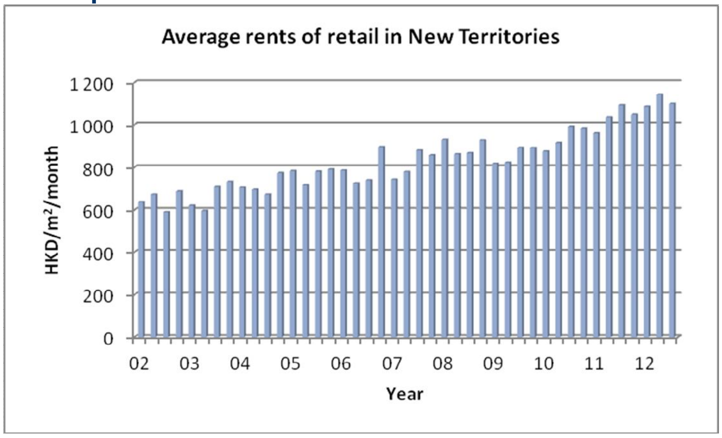
Source: PSHK, Company report, Bloomberg

Analyst
Phillip Research Team
+65 65311240
research@phillip.com.sg

Strong user-driven demand supporting the home prices

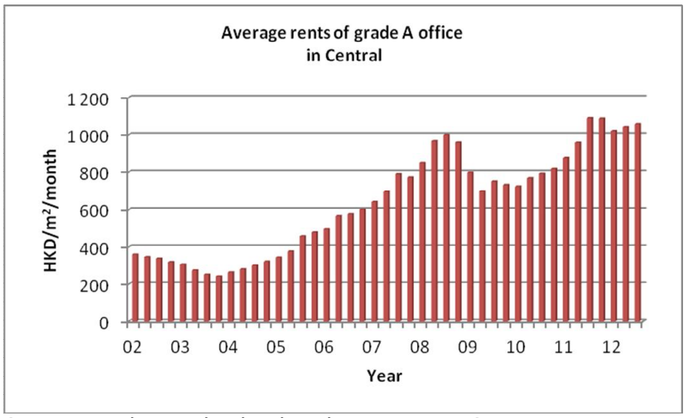
Since HK government launched SSD two years ago, the number of confirmor transactions fell nearly 80%. But the home prices still recorded an increase of about 15% this year, reflecting the strong user-driven demand. Although the number of transactions in HK residential market dropped sharply after the new housing policies launched. Transaction of 10 largest housing estates only recorded around 10 cases in the last 5 consecutive weeks but home prices had no significant adjustment, reflecting strong holding power of house owners. We still expect the home prices won't have a great drop due to low interest rate and stable employment environment. In addition, household income to mortgage payment is about 56% now, which is relatively low compared with the 1997 high of 109%. We don't expect great drop in home prices in the short term due to resident's adequate affordability and undersupply in terms of actual completions. But new housing policies dampen demand of non-HKPR buyers and government efforts to prevent property bubbles increase bargaining power of the buyers. We forecast a 5-10% decrease yoy in 2013 and the developers won't be too aggressive on the pricing.

Stable performance from rental income



Source: Rating and valuation department, PSR

Henderson Land's rental income rose 17% to HKD3.2b in 2012H1, mainly due to the rising retail rents and low vacancy rate. Group's retail rents is mainly from the New Territories, such as Metro City in Tseung Kwan O and Sunshine city in Ma On Shan. Retail rents in this area have already recorded about 12% increase in this year. Even China's economic slowdown reduced mainland shoppers' consumer sentiment, we believe it has little effect on the retail market of New Territories and the Group's active renovation and reorganization of tenant mix will support steady growth of the retail rents.



Source: Rating and valuation department, PSR

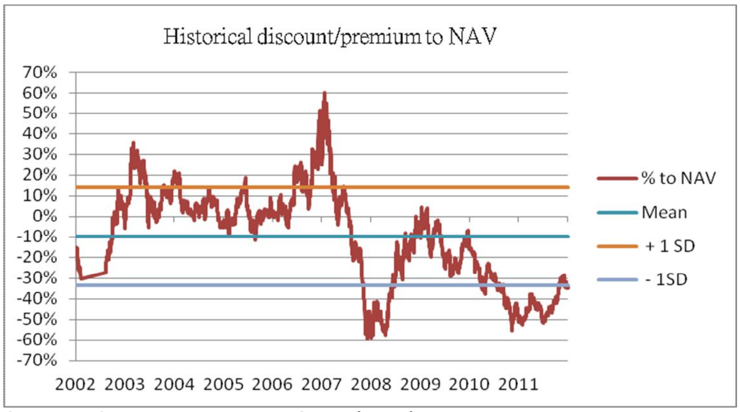
For the office leasing, the rents of Henderson Land are mainly from IFC in Central and AIA Tower in North Point. However, the grade A office rents in Central showed downward trend since September 2011, which dropped nearly 3% yoy in 2012Q3. The main reason is the unstable global economy caused the lack of leasing demand from the financial sector. But comparing to 2012Q2, the rents actually rose 1.4%. We will keep observing the downside risk on Central office rents and the occupancy rate. On the other hand, Kowloon office rent, especially Tsim Sha Tsui area surged 5.4% qoq with the vacancy rate dropped to 0.9%. If the global economy is still unstable, HK Island rents still have downside potential. But under the effect of "Energizing Kowloon East", we are optimistic on the Kowloon office rental income. Henderson Land has approximately 200m sqf portfolio of office and industrial buildings in Kowloon East with current vacancy rate less than 1%. We believe it can offset the downside risk of HK Island office rents and expect the Group's integrated rental income can be maintained at present high level in the coming year.

Potential growth momentum

At the end of June 2012, Henderson Land has the largest agricultural landbank among local property developers in Hong Kong, held New Territories land reserves amounting to around 42.4m sqf. 9.1m sqf in those area are involving in two of government's new development area plans. Increasing demand for home ownership in Hong Kong from mainlanders causes those development plans to be potential growth momentum of Henderson Land. However, existing transportation facilities and infrastructures are not enough in those area, we are not going to price in this factor into our valuation.

12-month forward NAV Estimate			
Item	HKD mn	HKD per share	% of GAV
HK Property Development	**38421**	**16.2**	14.7%
HK Agricultural Land	**16960**	**7.2**	6.5%
HK Investment Properties	**88665**	**37.4**	34.0%
Residential	10264	4.3	
Office	27305	11.5	
Retail	25324	10.7	
Others	25772	10.9	
China Properties	**44290**	**18.7**	17.0%
Listed Investments	**72685**	**30.7**	27.8%
Hong Kong & China Gas (0003.H	67826	28.6	
Henderson Investment (0097.HK)	1242	0.5	
Hong Kong Ferry (0050.HK)	814	0.3	
Miramar Hotel (0071.HK)	2538	1.1	
Sunlight REIT (0435.HK)	265	0.1	
Total gross asset value	**261021**	**110.2**	100.0%
Net debt	**-51195**	**-21.6**	
Net Asset Value	**209826**	**88.6**	

Source: Company report, PSR



Source: Company report, PSR, Bloomberg

Valuation

We give Henderson Land "Accumulate" rating and a target price of HKD62. Current discount to NAV is about 35%. Because of government effort to prevent property bubble and already high levels of property prices, we believe discount to NAV will not return to ten years historical average of 10%. But due to Henderson Land's satisfying launch of the Reach and Double Cove this year and global economy stabilize causing investor sentiment increase, narrowing NAV discount to 30% is possible. Therefore, we give 30% discount on 12-month forward NAV of HKD88.6 and get a target price of HKD62.

Major risks

- Great drop in property prices
- HK Island office vacancy rate rise sharply
- Government housing policies

PhillipCapital
Your Partner In Finance

Financial Status

Income Statement (HKD mn)	FY10	FY11	FY12E	FY13E	FY14E
Sale of properties revenue	2522	9692	12531	17853	19647
Property investment & other revenue	4570	5496	6321	6520	6842
Cost of sales	-3843	-8418	-10421	-15762	-16393
Gross profit:	**3249**	**6770**	**8431**	**8611**	**10096**
Other revenue & net income	1764	401	451	482	508
Selling & administrative expenses	-2166	-2624	-2947	-3094	-3249
Operating profit:	**2847**	**4547**	**5935**	**5999**	**7355**
Revaluation gain	9538	8968	0	0	0
Financial costs	-970	-1169	-1308	-1392	-1542
Net profit before tax:	**17239**	**18981**	**8792**	**9593**	**10427**
Income tax	-1601	-1618	-1107	-1178	-1216
Minority interests	182	-179	-189	-167	-154
Net profit attributable to shareholders:	**15820**	**17184**	**7496**	**8248**	**9057**
Core profit attributable to shareholders:	**5042**	**5560**	**7496**	**8248**	**9057**

Balance Sheet (HKD mn)	FY10	FY11	FY12E	FY13E	FY14E
Cash and cash equivalents	9916	19364	28693	38272	47520
Inventories	60717	68204	72364	76820	82631
Other current assets	11422	12928	14584	16334	18458
Current assets:	**82055**	**100496**	**104515**	**109219**	**114680**
Fixed assets	84068	92771	97409	101305	105864
Other LT assets	64189	69203	70472	72954	73120
Total assets:	**230312**	**262470**	**272396**	**283478**	**293664**
ST loans	7516	19699	19699	19699	19699
Other current liabilities	6545	9828	11302	12997	15077
LT debts	47099	36041	46041	46041	46041
Other non-current liabilities	4729	6977	7825	7825	7825
Minority interest	5385	4589	4818	5059	5312
Shareholders' equity:	**159038**	**185336**	**182711**	**191857**	**199710**

Cash flow statement (HKD mn)	FY10	FY11	FY12E	FY13E	FY14E
Cash flow from operations	-17282	-600	2173	3982	4586
Capex	-1012	-1455	-1231	-1274	-1298
Disposal/(purchase)	143	1276	107	211	169
Equity raised/(repaid)	5	10026	0	0	0
Debt raised/(repaid)	6409	5068	5587	5519	5095
Dividend paid	-833	-1655	-2865	-3178	-3397
Others	11827	-3609	-2705	-5012	-2569
Change in cash	-743	9051	1066	248	2586
Beginning cash	10495	9752	18803	19869	20117
Ending cash	9752	18803	19869	20117	22703

Key ratios	FY10	FY11	FY12E	FY13E	FY14E
ROE (%)	3.10%	3.70%	3.50%	3.90%	3.60%
Net debt/equity (%)	20%	19%	18%	20%	19%
DPS (HKD)	1.00	1.00	1.15	1.25	1.40
EPS (HKD)	7.32	7.44	3.25	3.57	3.92

Source: Company report, PSR

PhillipCapital
Your Partner In Finance

Important Information

This publication is prepared by Phillip Securities Research Pte Ltd., 250 North Bridge Road, #06-00, Raffles City Tower, Singapore 179101 (Registration Number: 198803136N), which is regulated by the Monetary Authority of Singapore ("Phillip Securities Research"). By receiving or reading this publication, you agree to be bound by the terms and limitations set out below.

This publication has been provided to you for personal use only and shall not be reproduced, distributed or published by you in whole or in part, for any purpose. If you have received this document by mistake, please delete or destroy it, and notify the sender immediately. Phillip Securities Research shall not be liable for any direct or consequential loss arising from any use of material contained in this publication.

The information contained in this publication has been obtained from public sources, which Phillip Securities Research has no reason to believe are unreliable and any analysis, forecasts, projections, expectations and opinions (collectively, the "Research") contained in this publication are based on such information and are expressions of belief of the individual author or the indicated source (as applicable) only. Phillip Securities Research has not verified this information and no representation or warranty, express or implied, is made that such information or Research is accurate, complete, appropriate or verified or should be relied upon as such. Any such information or Research contained in this publication is subject to change, and Phillip Securities Research shall not have any responsibility to maintain or update the information or Research made available or to supply any corrections, updates or releases in connection therewith. In no event will Phillip Securities Research or persons associated with or connected to Phillip Securities Research, including but not limited its officers, directors, employees or persons involved in the preparation or issuance of this report, (i) be liable in any manner whatsoever for any consequences (including but not limited to any special, direct, indirect, incidental or consequential losses, loss of profits and damages) of any reliance or usage of this publication or (ii) accept any legal responsibility from any person who receives this publication, even if it has been advised of the possibility of such damages. You must make the final investment decision and accept all responsibility for your investment decision, including, but not limited to your reliance on the information, data and/or other materials presented in this publication.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this material are as of the date indicated and are subject to change at any time without prior notice.

Past performance of any product referred to in this publication is not indicative of future results.

This report does not constitute, and should not be used as a substitute for, tax, legal or investment advice. This publication should not be relied upon exclusively or as authoritative, without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this publication has been made available constitutes neither a recommendation to enter into a particular transaction, nor a representation that any product described in this material is suitable or appropriate for the recipient. Recipients should be aware that many of the products, which may be described in this publication involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made, unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of any product. Any decision to purchase any product mentioned in this research should take into account existing public information, including any registered prospectus in respect of such product.

Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, may provide an array of financial services to a large number of corporations in Singapore and worldwide, including but not limited to commercial / investment banking activities (including sponsorship, financial advisory or underwriting activities), brokerage or securities trading activities. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, may have participated in or invested in transactions with the issuer(s) of the securities mentioned in this publication, and may have performed services for or solicited business from such issuers. Additionally, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, may have provided advice or investment services to such companies and investments or related investments, as may be mentioned in this publication.

Phillip Securities Research or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report may, from time to time maintain a long or short position in securities referred to herein, or in related futures or options, purchase or sell, make a market in, or engage in any other transaction involving such securities, and earn brokerage or other compensation in respect of the foregoing. Investments will be denominated in various currencies including US dollars and Euro and thus will be subject to any fluctuation in exchange rates between US dollars and Euro or foreign currencies and the currency of your own jurisdiction. Such fluctuations may have an adverse effect on the value, price or income return of the investment.

To the extent permitted by law, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, may at any time engage in any of the above activities as set out above or otherwise hold a interest, whether material or not, in respect of companies and investments or related investments, which may be mentioned in this publication. Accordingly, information may be available to Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, which is not reflected in this material, and Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, may, to the extent permitted by law, have acted upon or used the information prior to or immediately following its publication. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited its officers, directors, employees or persons involved in the preparation or issuance of this report, may have issued other material that is inconsistent with, or reach different conclusions from, the contents of this material.

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities Research to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

Section 27 of the Financial Advisers Act (Cap. 110) of Singapore and the MAS Notice on Recommendations on Investment Products (FAA-N01) do not apply in respect of this publication.

This material is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this material may not be suitable for all investors and a person receiving or reading this material should seek advice from a professional and financial adviser regarding the legal, business, financial, tax and other aspects including the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

Please contact Phillip Securities Research at [65 65311240] in respect of any matters arising from, or in connection with, this document.

This report is only for the purpose of distribution in Singapore.

Contact Information (Singapore Research Team)

Chan Wai Chee
CEO, Research
Special Opportunities
+65 6531 1231
yebo@phillip.com.sg

Joshua Tan
Head of Research
Global Macro, Asset Strategy
+65 6531 1249
joshuatan@phillip.com.sg

Derrick Heng
Deputy Head of Research
SG Equity Strategist & Transport
+65 6531 1221
derrickhengch@phillip.com.sg

Magdalene Choong, CFA
Investment Analyst
Regional Gaming
+65 6531 1791
magdalenechoongss@phillip.com.sg

Go Choon Koay, Bryan
Investment Analyst
Property
+65 6531 1792
gock@phillip.com.sg

Travis Seah
Investment Analyst
REITs
+65 6531 1229
travisseahhk@phillip.com.sg

Ken Ang
Investment Analyst
Financials, Telecoms
+65 6531 1793
kenangwy@phillip.com.sg

Ng Weiwen
Macro Analyst
Global Macro, Asset Strategy
+65 6531 1735
ngww@phillip.com.sg

Roy Chen
Macro Analyst
Global Macro, Asset Strategy
+65 6531 1535
roychencz@phillip.com.sg

Nicholas Ong
Investment Analyst
Commodities, Offshore & Marine
+65 6531 5440
nicholasonghg@phillip.com.sg

Research Assistant
General Enquiries
+65 6531 1240 (Phone)
research@phillip.com.sg

Contact Information (Regional Member Companies)

SINGAPORE
Phillip Securities Pte Ltd
Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel +65 6533 6001
Fax +65 6535 6631
Website: www.poems.com.sg

MALAYSIA
Phillip Capital Management Sdn Bhd
B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel +603 2162 8841
Fax +603 2166 5099
Website: www.poems.com.my

HONG KONG
Phillip Securities (HK) Ltd
Exchange Participant of the Stock Exchange of Hong Kong
11/F United Centre 95 Queensway
Hong Kong
Tel +852 2277 6600
Fax +852 2868 5307
Websites**:** www.phillip.com.hk

JAPAN
Phillip Securities Japan, Ltd.
4-2 Nihonbashi Kabuto-cho Chuo-ku,
Tokyo 103-0026
Tel +81-3 3666 2101
Fax +81-3 3666 6090
Website:www.phillip.co.jp

INDONESIA
PT Phillip Securities Indonesia
ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel +62-21 5790 0800
Fax +62-21 5790 0809
Website: www.phillip.co.id

CHINA
Phillip Financial Advisory (Shanghai) Co. Ltd
No 550 Yan An East Road,
Ocean Tower Unit 2318,
Postal code 200001
Tel +86-21 5169 9200
Fax +86-21 6351 2940
Website: www.phillip.com.cn

THAILAND
Phillip Securities (Thailand) Public Co. Ltd
15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel +66-2 6351700 / 22680999
Fax +66-2 22680921
Website www.phillip.co.th

FRANCE
King & Shaxson Capital Limited
3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel +33-1 45633100
Fax +33-1 45636017
Website: www.kingandshaxson.com

UNITED KINGDOM
King & Shaxson Capital Limited
6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel +44-20 7426 5950
Fax +44-20 7626 1757
Website: www.kingandshaxson.com

UNITED STATES
Phillip Futures Inc
141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1-312 356 9000
Fax +1-312 356 9005

AUSTRALIA
Octa Phillip Securities Ltd
Level 12, 15 William Street,
Melbourne, Victoria 3000, Australia
Tel +61-03 9629 8288
Fax +61-03 9629 8882
Website: www.octaphillip.com