

Ho Bee Land Limited

Improving sales volume and interest on the ground to narrow discount to RNAV

SINGAPORE | REAL ESTATE | RESULTS

- First profits from development properties since 2013. We expect development profits to taper off in 2017 as most of Australian residential development is sold.
- Activity in Singapore high-end property starting to pick up. Negativity towards Ho Bee Land's high-end property and huge discount to book less warranted.
- Rose Court sale demonstrates astute foresight of management.

Results at a glance

| (SGD mn)/Dec Yr End | FY16 | FY15 | y/y (%) | Comments |
|--|-------|-------|---------|--|
| Sale of development properties | 154.9 | - | - | Higher profits from 2 Australian residential development properties in Melbourne and Gold Coast Boosted by 3 new office acquisitions in London in CY2H15. Offset by weaker GBP/SGD |
| Rental Income | 144.5 | 129.9 | 11.2 | Sales from China JV Yanlord Western Gardens |
| Share of Profits from Associates | 29.6 | 17.0 | 73.6 | |
| Profit from continuing operations before tax | 236.8 | 258.1 | (8.3) | |
| Net Profit | 217.0 | 241.2 | (10.0) | Lower gain in fair value of investment properties |

Source: Company, Phillip Securities Research (Singapore)

First development properties profits since 2013. We expect development profits to taper off in 2017 as most of Australian residential development is sold. Ho Bee Land's (HBL's) two residential development projects Rhapsody in Gold Coast and Pearl in Melbourne drove top line growth from development property income. This is HBL's first development profits since 2013. We expect this revenue boost to taper off in the coming year as bulk of the revenue from these two projects has already been recognised. HBL's other residential projects in China are booked under Associates and JVs.

Activity in Singapore high-end property starting to pick up. Negativity towards Ho Bee Land's high-end property and huge discount to book less warranted. We opine that HBL's current discount of 45% to book value unfairly penalises the Group because of the negativity towards the 3 Sentosa properties which make up 16% of our FY17 GAV. Sentosa condominium units have made the news over the last few years for the [losses made by their owners and the falling Average selling prices \(ASP\)](#).

We observed a notable pickup in transactions for properties >\$2,000psf which ties in with the healthier sales figures of higher-end property units reported by locally listed developers in the latest quarterly results. 2016 saw 1,244 of such transactions, the first time we witnessed a significant y-o-y increase since 2010. We expect the momentum to continue into 2017 as a result of the widening gap between Singapore's correcting high-end home prices and rising regional high-end home prices, especially in China, Hong Kong and Jakarta, where most of our foreign buyers come from. An additional catalyst to sales volumes and prices can come in the form of the lifting of property cooling measures in time to come, although we do not see this happening in 2017.

2 March 2017

ACCUMULATE (Maintained)

| | |
|---------------------|--------------|
| LAST CLOSE PRICE | SGD 2.26 |
| FORECAST DIV | SGD 0.07 |
| TARGET PRICE | SGD 2.64 |
| TOTAL RETURN | 19.9% |

COMPANY DATA

| | |
|--------------------------------|-------------|
| O/S SHARES (MN) : | 666 |
| MARKET CAP (USD mn / SGD mn) : | 1068 / 1505 |
| 52 - WK HI/LO (SGD) : | 2.39 / 1.89 |
| 3M Average Daily T/O (mn) : | 0.17 |

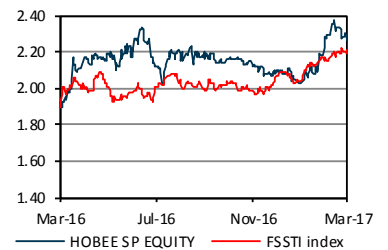
MAJOR SHAREHOLDERS (%)

| | |
|------------------------------|-------|
| HO BEE HOLDINGS PTE LTD | 73.9% |
| DIMENSIONAL FUND ADVISORS LP | 14% |
| CHOON LENG WOON | 0.3% |

PRICE PERFORMANCE (%)

| | 1M TH | 3M TH | 1Y R |
|------------|-------|-------|-------|
| COMPANY | 2.7 | 9.6 | 23.6 |
| STI RETURN | 1.81 | 7.12 | 20.74 |

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

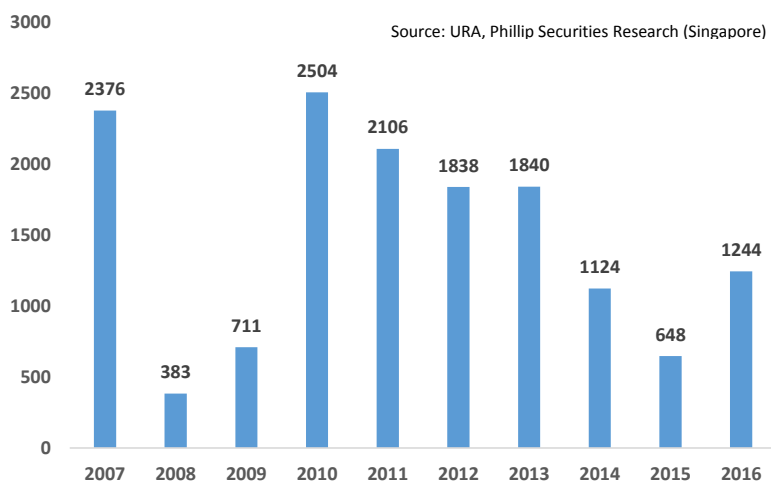
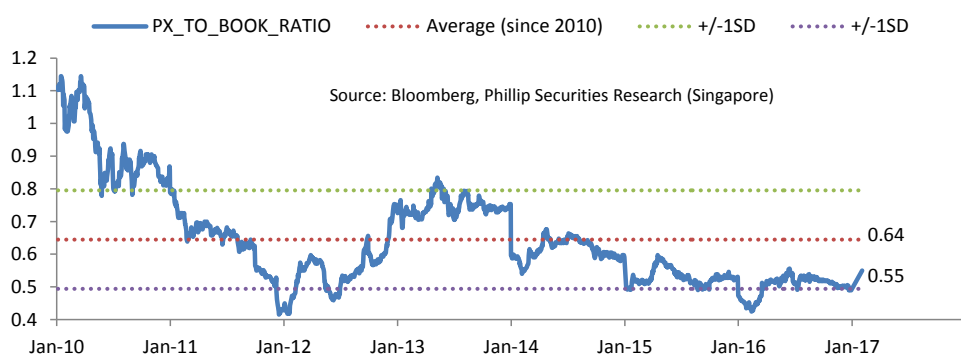
| SGD M N | FY 15 | FY 16 | FY 17e | FY 18 e |
|---------------|-------|-------|--------|---------|
| Revenue | 130 | 299 | 208 | 182 |
| EBITDA | 118 | 130 | 112 | 115 |
| NPAT (adj.) | 55 | 113 | 97 | 88 |
| EPS (adj.) | 0.36 | 0.33 | 0.14 | 0.13 |
| PER, x (adj.) | 23.8 | 10.4 | 14.0 | 15.4 |
| P/BV, x | 0.5 | 0.5 | 0.5 | 0.4 |
| DPS (SGD) | 0.07 | 0.06 | 0.07 | 0.07 |
| Div Yield, % | 3.4% | 3.0% | 3.4% | 3.4% |
| ROE, % | 19% | 3.8% | 3.2% | 2.9% |

Source: Company Data, PSR est.

Valuation Method

RNAV

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Figure 1: No of Property Transactions >S\$2,000psf

Price to Book


HBL's current 45% discount to book value probably as a result of negativity and lack of visibility towards its Sentosa Cove Properties.

HBL trades at a P/NAV close to a -1 S.D. level, far from the average of 0.64 post Global Financial Crisis from 2010.

Peer Comparison Table

| Name | Mkt Cap (SGD mn) | Last Px (SGD) | P/E | ROE | P/B | Debt/Assets LF |
|-----------------------------|------------------|---------------|-------|------|------|----------------|
| HO BEE LAND LTD | 1,505 | 2.26 | 6.9 | 10.4 | 0.54 | 0.54 |
| CAPITALAND LTD | 15,170 | 3.58 | 12.8 | 5.4 | 0.86 | 0.86 |
| CITY DEVELOPMENTS LTD | 8,711 | 9.58 | 13.6 | 6.0 | 0.94 | 0.94 |
| UOL GROUP LTD | 5,262 | 6.54 | 18.2 | 3.8 | 0.65 | 0.65 |
| FRASERS CENTREPOINT LTD | 4,810 | 1.655 | 7.0 | 8.1 | 0.70 | 0.70 |
| UNITED INDUSTRIAL CORP LTD | 4,087 | 2.88 | 14.3 | 4.7 | 0.66 | 0.66 |
| YANLORD LAND GROUP LTD | 2,893 | 1.49 | 5.2 | 8.2 | 0.67 | 0.67 |
| GUOCOLAND LTD | 2,160 | 1.825 | 15.6 | 3.2 | 0.62 | 0.62 |
| WHEELOCK PROPERTIES (S) LTD | 2,154 | 1.8 | 36.9 | 2.4 | 0.71 | 0.71 |
| WING TAI HOLDINGS LTD | 1,385 | 1.79 | 194.6 | 0.1 | 0.44 | 0.44 |
| Peer Average | | | | 4.6 | 0.69 | 0.69 |

Source: Bloomberg, Phillip Securities Research (Singapore)

At 0.55 P/NAV, HBL trades at a bigger discount to the peer average (market cap>SGD 1b) of 0.69.

Rose Court sale demonstrates astute foresight of management.

HBL's sale of Rose Court for £94.5mn in February 2017 is a further demonstration of the astuteness of management. Acquired just four years ago at £67.2mn, the sale price represents a 41% gain (in GBP terms) over the holding period (or 9% annualised). This is on top of a c.6.5% rental yield per year. Though GBP depreciated c.12% over the holding period (mostly post-Brexit), we think this transaction further demonstrates the astuteness of management.

Investment Action

At 0.55 P/NAV, HBL trades at a bigger discount to the peer average (market capitalisation >SGD 1bn) of 0.69. We opine that interest in high-end properties is returning as the divergence in prices between Singapore's and regional high-end property widens. The returning interest should narrow the P/NAV gap in HBL's share price. As such, we narrow our discount to RNAV from 40% to 30%. We maintain our ACCUMULATE call on Ho Bee Land with an increased RNAV-derived target price of S\$2.64 (from S\$2.20).

| Ho Bee Land RNAV | |
|-------------------------------|-------------------|
| | Valuation (SGD m) |
| Investment Properties | |
| Singapore Commerical | 1725.7 |
| London Commerical | 967.2 |
| Residential Properties | |
| PV of Singapore Properties | 591.2 |
| PV of China Properties | 402.4 |
| PV of Australia Properties | 113.1 |
| Others | 5.2 |
| GAV | 3804.7 |
| Less FY2016 Net debt | 1291.5 |
| RNAV | 2513.2 |
| RNAV per share | 3.77 |
| Discount to RNAV | 30.0% |
| Fair Value | 2.64 |

Financials

Income Statement

| Y/E Dec, SGD mn | FY14 | FY15 | FY16 | FY17e | FY18e |
|--|------------|------------|------------|------------|------------|
| Revenue | 100 | 130 | 299 | 208 | 182 |
| Operating EBITDA | 65 | 118 | 130 | 112 | 116 |
| Depreciation & Amortisation | 1 | 1 | 1 | 1 | 0 |
| EBIT | 64 | 117 | 129 | 111 | 116 |
| Net Finance (Expense)/Inc | (18) | (23) | (30) | (19) | (23) |
| Other items | 0 | 1 | 2 | 3 | 4 |
| Associates & JVs | (6) | (23) | 33 | 25 | 14 |
| Revaluation Gains | 282 | 186 | 104 | 0 | 0 |
| Profit Before Tax | 322 | 258 | 237 | 116 | 108 |
| Taxation | (7) | (17) | (20) | (20) | (18) |
| Profit After Tax | 315 | 241 | 217 | 97 | 89 |
| Net Income, adj. excl reval gains | 33 | 55 | 113 | 97 | 89 |

Per share data (SGD)

| Y/E Dec, SGD | FY14 | FY15 | FY16 | FY17e | FY18e |
|---------------|------|------|------|-------|-------|
| EPS, reported | 0.47 | 0.36 | 0.33 | 0.14 | 0.13 |
| DPS | 0.05 | 0.07 | 0.06 | 0.07 | 0.07 |
| BVPS | 3.89 | 4.23 | 4.41 | 4.48 | 4.61 |

Cash Flows

| Y/E Dec, SGD mn | FY14 | FY15 | FY16 | FY17e | FY18e |
|----------------------------------|--------------|--------------|--------------|------------|--------------|
| CFO | | | | | |
| Profit before tax | 315 | 241 | 217 | 97 | 89 |
| Adjustments | (251) | (139) | (78) | 14 | 26 |
| WC changes | (49) | (120) | 71 | 49 | (21) |
| Cash generated from ops | 15 | (18) | 210 | 159 | 94 |
| Taxes paid, others | (17) | (3) | (31) | (20) | (18) |
| Cashflow from ops | (3) | (21) | 178 | 140 | 76 |
| CFI | | | | | |
| CAPEX, net | (2) | (2) | (2) | (1) | (1) |
| Purchase/sale of investments | (485) | (577) | 3 | 0 | 0 |
| Dividends | 1 | 1 | 1 | 1 | 1 |
| Others | (0) | (0) | 18 | 0 | 0 |
| Cashflow from investments | (486) | (577) | 21 | 0 | 1 |
| CFF | | | | | |
| Purchase of treasury shares | (6) | (3) | (1) | 0 | 0 |
| Loans, net of repayments | 443 | 640 | (110) | 82 | (274) |
| Dividends paid | (56) | (34) | (47) | (47) | 0 |
| Others | 0 | 0 | 0 | 0 | 0 |
| Cashflow from financing | 381 | 603 | (158) | 35 | (274) |
| Net change in cash | (108) | 5 | 41 | 175 | (198) |
| Effects of exchange rates | 0 | (0) | (1) | 0 | 0 |
| CCE, end | 10 | 15 | 54 | 229 | 31 |

Balance Sheet

| Y/E Dec, SGD mn | FY14 | FY15 | FY16 | FY17e | FY18e |
|---------------------------------|--------------|--------------|--------------|--------------|--------------|
| ASSETS | | | | | |
| PPE | 22 | 22 | 22 | 23 | 24 |
| Associates & JVs | 802 | 789 | 792 | 817 | 831 |
| Long-term investments | 2,283 | 3,050 | 2,790 | 2,790 | 2,790 |
| Others | 275 | 289 | 290 | 273 | 273 |
| Total non-current assets | 3,382 | 4,150 | 3,895 | 3,902 | 3,917 |
| Development property | 230 | 321 | 414 | 390 | 418 |
| Accounts Receivables | 43 | 52 | 29 | 47 | 45 |
| Cash balance | 10 | 15 | 54 | 229 | 31 |
| Others | 20 | 21 | 0 | 0 | 0 |
| Total current assets | 302 | 408 | 500 | 667 | 494 |
| Total Assets | 3,684 | 4,558 | 4,395 | 4,569 | 4,412 |

LIABILITIES

| | | | | | |
|--------------------------------------|------------|--------------|--------------|--------------|--------------|
| Short term loans | 164 | 384 | 235 | 252 | 0 |
| Accounts Payables | 89 | 50 | 43 | 70 | 75 |
| Others | 40 | 67 | 36 | 36 | 36 |
| Total current liabilities | 293 | 501 | 313 | 358 | 110 |
| Long term loans | 752 | 1,195 | 1,111 | 1,195 | 1,195 |
| Others | 24 | 29 | 32 | 32 | 32 |
| Total non-current liabilities | 775 | 1,224 | 1,143 | 1,227 | 1,227 |

EQUITY

| | | | | | |
|--------------------------|--------------|--------------|--------------|--------------|--------------|
| Shareholder Equity | 2,601 | 2,820 | 2,925 | 2,971 | 3,061 |
| Non-controlling interest | 15 | 13 | 14 | 14 | 14 |
| Total Equity | 2,616 | 2,834 | 2,939 | 2,985 | 3,075 |

Valuation Ratios

| Y/E Dec, SGD mn | FY14 | FY15 | FY16 | FY17e | FY18e |
|--------------------|------|------|------|-------|-------|
| P/E (X), adj. | 39.1 | 23.8 | 10.4 | 14.0 | 15.1 |
| P/B (X) | 0.5 | 0.5 | 0.5 | 0.5 | 0.4 |
| EV/EBITDA (X) | 34.1 | 24.7 | 20.4 | 23.0 | 11.6 |
| Dividend Yield (%) | 2.5% | 3.4% | 3.0% | 3.4% | 3.4% |

Growth & Margins (%)

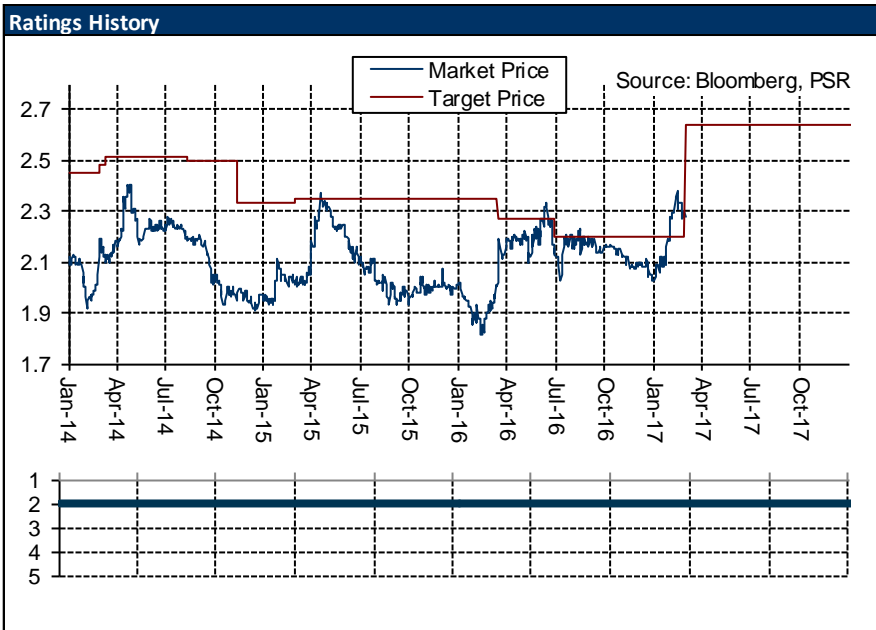
| | | | | | |
|-------------------|--------|-------|--------|--------|--------|
| Growth | | | | | |
| Revenue | -28.5% | 30.5% | 130.4% | -30.6% | -12.4% |
| EBITDA | -65.1% | 81.1% | 9.8% | -14.0% | 4.3% |
| EBIT | -65.3% | 82.3% | 10.0% | -14.0% | 5.0% |
| Net Income, adj. | -80.4% | 65.9% | 106.3% | -14.6% | -7.3% |
| Margins | | | | | |
| EBITDA margin | 65.6% | 91.0% | 43.4% | 53.7% | 63.9% |
| EBIT margin | 64.6% | 90.2% | 43.1% | 53.3% | 63.9% |
| Net Profit Margin | 33.1% | 42.2% | 37.7% | 46.4% | 49.1% |

Key Ratios

| | | | | | |
|-----------------|------|-------|-------|-------|-------|
| ROE (%) | 1.3% | 1.9% | 3.8% | 3.2% | 2.9% |
| ROA (%) | 0.9% | 1.2% | 2.6% | 2.1% | 2.0% |
| Net Debt/(Cash) | 905 | 1,564 | 1,291 | 1,218 | 1,164 |
| Net Gearing (X) | 0.25 | 0.34 | 0.29 | 0.27 | 0.26 |

Source: Company, Phillip Securities Research (Singapore) Estimates

*Forward multiples and yields are based on current market price; historical multiples and yields are based on historical market price.



PSR Rating System

| Total Returns | Recommendation | Rating |
|---------------|----------------|--------|
| > +20% | Buy | 1 |
| +5% to +20% | Accumulate | 2 |
| -5% to +5% | Neutral | 3 |
| -5% to -20% | Reduce | 4 |
| <-20% | Sell | 5 |

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation.

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