

Ho Bee Land Limited

Banking on recurring rental income to ride out near term uncertainties



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13 August 2018

SINGAPORE | REAL ESTATE | 2Q18 RESULTS

- Gross revenue and profits adjusted for revaluation gains within our forecast.
- S\$28.3mn revaluation gain as a result of the sale of a 30-year leasehold interest in its 999-year Bukit Timah petrol station site.
- 16% increase in total recurring rental income mainly as a result of new acquisitions.
- 44% increase in financing costs along with rise in net gearing ratio to 0.76x.
- Potential delay again in launch of Sentosa properties.
- Maintain ACCUMULATE with unchanged RNAV-derived target price of S\$2.98.

Results at a glance

(SGD mn)/Dec Yr End	2Q18	2Q17	YoY (%)	Comments
Total Revenue	43.4	37.4	16.1	
-Sale of development properties	3.5	2.8	23.6	
-Rental Income	39.9	34.6	15.5	Higher rental revenue from 67 Lombard Street acquired in June 2017 and Ropemaker Place acquired on 15 June 2018
Share of Profits from Associates and JVs	28.3	15.5	83.2	Mainly from higher recognition of sales from China JV project in Shanghai and Zhuhai
Profit from continuing operations bef. tax	77.2	40.3	91.7	Includes fair value gain of S\$28.3mn from revaluation of Bukit Timah petrol station site
Net Profit	71.5	36.1	98.1	

Source: Company, PSR

The Positives

+ **S\$28.3mn revaluation gain as a result of the sale of a 30-year leasehold interest in its 999-year Bukit Timah petrol station site.** The Group undertook the valuation as the sale consideration was significantly higher than last valuation at end FY17. This would translate to approximately a 4c increase in RNAV.

+ **16% increase in total recurring rental income mainly as a result of new acquisitions.** Latest acquisition of Ropemaker Place, the Grade A office building in London, was completed on 15 June 2018. With annual rental income of S\$55mn, we estimate this acquisition will increase recurring earnings by c.42% vs our original FY18e net property income.

+ **Metropolis, the Group's trophy Grade A office building in Buona Vista, remains 100% leased.** Management expressed optimism at minimally maintaining rental rates at the property's upcoming lease expiries over the next year. Metropolis contributes c.55% of total rental income by our estimates, pre-acquisition of Ropemaker Place.

The Negatives

- **44% increase in financing costs along with rise in net gearing ratio from 0.4x at end FY17 to 0.76x.** This is primarily due to the increase in debt of S\$1.15bn to fund the acquisition of Ropemaker Place. Average all-in cost for the incremental GBP debt stands at c.2% vs running yield of 4.7% for the acquisition.

- **Potential delay again in Sentosa launch.** Close to 42% of previous buyers for units at the Group's Sentosa projects Seascape and Turquoise are foreigners, who are likely to bear the brunt of the additional 5% ABSD cooling measure announced on 5 July. As a result, we think it is likely the Group will delay the re-launch of these projects again, which has been originally scheduled to be this year in the Group's 1Q18 announcement.

ACCUMULATE (Maintained)

LAST DONE PRICE	SGD 2.54
FORECAST DIV	SGD 0.08
TARGET PRICE	SGD 2.98
TOTAL RETURN	20.5%

COMPANY DATA

BLOOMBERG CODE:	HOBEE SP
O/S SHARES (MN):	665
MARKET CAP (USD mn / SGD mn):	1232 / 1690
52 - WK HI/LO (SGD):	2.69 / 2.24
3M Average Daily T/O (mn):	0.24

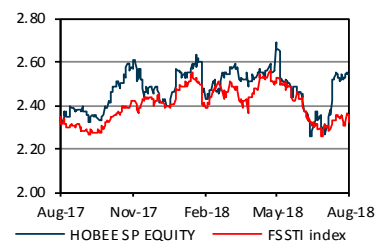
MAJOR SHAREHOLDERS (%)

HO BEE HOLDINGS PTE LTD	74.1%
DIMENSIONAL FUND ADVISORS LP	1.7%
CHOON LENG WOON	0.3%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	10.4	3.1	11.4
STI RETURN	5.1	(5.0)	3.8

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

SGD MN	FY 16	FY 17	FY 18 e	FY 19 e
Revenue	299	165	167	169
EBITDA	130	133	103	122
NPAT (adj.)	113	173	95	90
EPS (adj.)	0.33	0.37	0.14	0.14
PER, x (adj.)	10.4	6.8	17.7	18.7
P/BV, x	0.5	0.5	0.5	0.5
DPS (SGD)	0.06	0.10	0.08	0.08
Div Yield, %	3.0%	4.0%	3.2%	3.2%
ROE, %	3.8%	5.5%	3.0%	2.8%

Source: Company, PSR

Valuation Method

RNAV

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Outlook

Outlook for the recurring income portfolio is stable due to the long WALE of the Group’s UK investment properties (10.5 years for the latest acquisition Ropemaker) and the stability of The Metropolis. We estimate recurring net property income for FY18e from the Group’s investment properties is sufficient to cover 3.3x ordinary dividend of 8c/share for FY18e. Uncertainties remain for the Group’s relaunch of the 3 Sentosa properties which take up c.14% of our estimated GAV pre-Ropemaker Place acquisition.

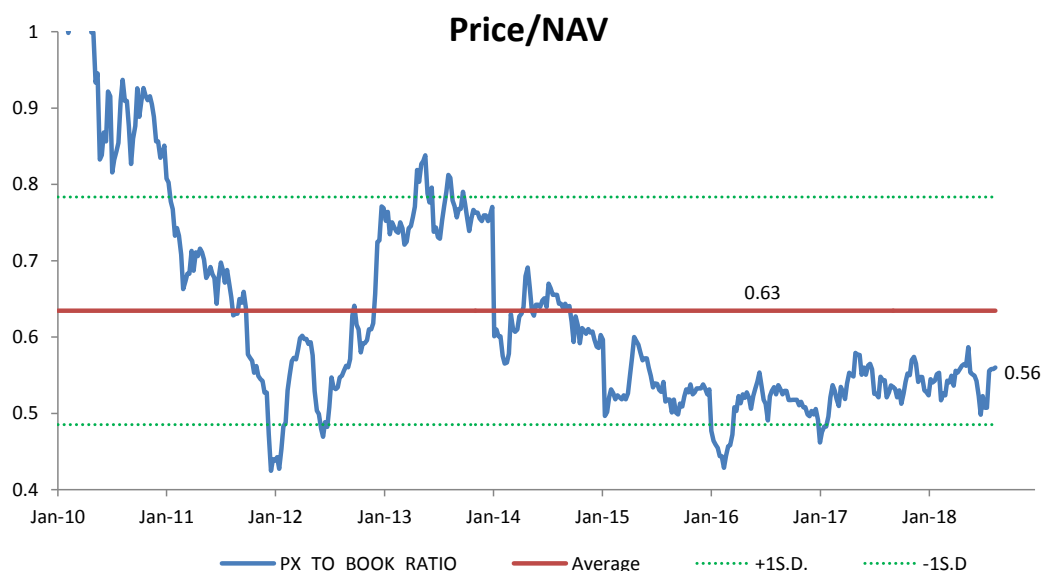
Maintain ACCUMULATE with unchanged RNAV-derived target price of S\$2.98.

HBL trades at a steep 45% discount to NAV, below its post GFC average P/NAV of 0.63 and one of the steepest discounts amongst locally listed developers.

Figure 1: RNAV Table

Ho Bee Land RNAV	
	Valuation (SGD m)
Investment Properties	
Singapore Commerical	1866.7
London Commerical	1195.2
Residential Properties	
PV of Singapore Properties	591.2
PV of China Properties	376.5
PV of Australia Properties	113.1
Others	5.2
GAV	4147.9
Less FY2018e Net debt	1318.5
RNAV	2829.4
RNAV per share	4.25
Discount to RNAV	30.0%
Fair Value	2.98

Figure 2: HBL trades at below post-GFC average P/NAV



Source: Bloomberg, PSR

Financials

Income Statement

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
Revenue	130	299	165	202	204
Operating EBITDA	118	130	133	134	153
Depreciation & Amortisation	1	1	1	0	0
EBIT	117	129	132	134	153
Net Finance (Expense)/Inc	(23)	(30)	(25)	(21)	(21)
Other items	1	2	3	4	5
Associates & JVs	(23)	33	95	32	8
Revaluation Gains	186	104	78	0	0
Profit Before Tax	258	237	279	145	140
Taxation	(17)	(20)	(28)	(25)	(24)
Profit After Tax	241	217	251	121	116
Net Income, adj. excl reval gains	55	113	173	121	116

Per share data (SGD)

Y/E Dec, SGD	FY15	FY16	FY17	FY18e	FY19e
EPS, reported	0.36	0.33	0.37	0.18	0.17
DPS	0.07	0.06	0.10	0.08	0.08
BVPS	4.23	4.41	4.70	4.80	4.89

Cash Flows

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
CFO					
Profit before tax	241	217	251	121	116
Adjustments	(139)	(78)	(128)	12	35
WC changes	(120)	71	10	(17)	(2)
Cash generated from ops	(18)	210	132	115	149
Taxes paid, others	(3)	(31)	(19)	(25)	(24)
Cashflow from ops	(21)	178	113	91	125
CFI					
CAPEX, net	(2)	(2)	(5)	(1)	(1)
Purchase/sale of investments	(577)	3	(0)	(1,247)	0
Dividends	1	1	37	1	1
Others	(0)	18	2	0	0
Cashflow from investments	(577)	21	(63)	(1,246)	0
CFF					
Purchase of treasury shares	(3)	(1)	0	0	0
Loans, net of repayments	640	(110)	(31)	1,244	(21)
Dividends paid	(34)	(47)	(40)	(67)	(53)
Others	0	0	0	0	0
Cashflow from financing	603	(158)	(71)	1,178	(74)
Net change in cash	5	41	42	22	51
Effects of exchange rates	(0)	(1)	(0)	0	0
CCE, end	15	54	97	119	170

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.

Balance Sheet

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
ASSETS					
PPE	22	22	27	28	29
Associates & JVs	789	792	849	927	935
Long-term investments	3,050	2,790	3,114	4,314	4,314
Others	289	290	262	274	274
Total non-current assets	4,150	3,895	4,251	5,543	5,552
Development property	321	414	241	258	258
Accounts Receivables	52	29	28	40	41
Cash balance	15	54	97	119	170
Others	21	0	0	0	0
Total current assets	408	500	367	417	469
Total Assets	4,558	4,395	4,618	5,960	6,021

LIABILITIES

Short term loans	384	235	173	224	224
Accounts Payables	50	43	47	71	69
Others	67	36	43	43	43
Total current liabilities	501	313	263	338	336
Long term loans	1,195	1,111	1,181	2,395	2,395
Others	29	32	32	32	32
Total non-current liabilities	1,224	1,143	1,213	2,427	2,427

EQUITY

Shareholder Equity	2,820	2,925	3,128	3,182	3,244
Non-controlling interest	13	14	14	14	14
Total Equity	2,834	2,939	3,142	3,196	3,258

Valuation Ratios

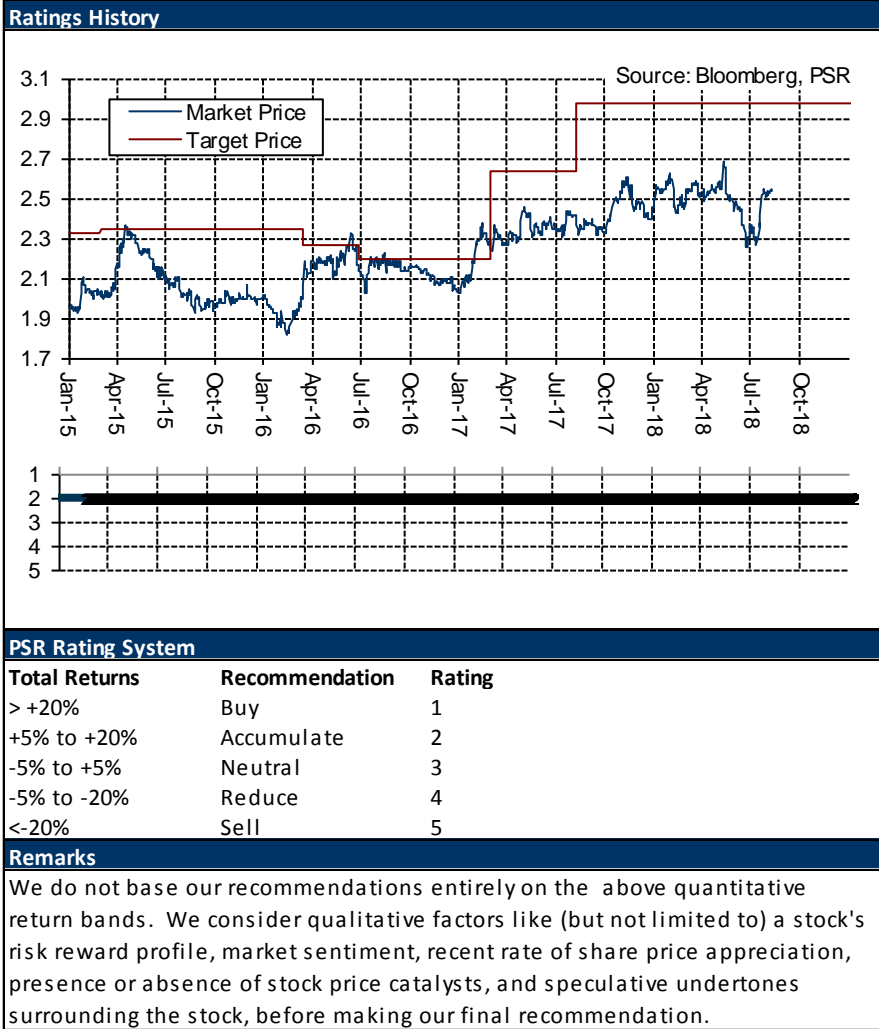
Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
P/E (X), adj.	23.8	10.4	6.8	14.0	14.5
P/B (X)	0.5	0.5	0.5	0.5	0.5
EV/EBITDA (X)	24.7	20.4	22.2	12.6	11.0
Dividend Yield (%)	3.4%	3.0%	4.0%	3.2%	3.2%

Growth & Margins (%)

Growth					
Revenue	-62.0%	130.4%	-45.0%	22.9%	0.9%
EBITDA	-36.8%	9.8%	2.3%	0.7%	14.1%
EBIT	-48.9%	10.0%	2.1%	1.5%	14.1%
Net Income, adj.	-36.7%	106.3%	52.8%	-30.2%	-3.9%
Margins					
EBITDA margin	91.0%	43.4%	80.7%	66.1%	74.7%
EBIT margin	90.2%	43.1%	80.0%	66.1%	74.7%
Net Profit Margin	42.2%	37.7%	104.9%	59.6%	56.8%

Key Ratios

ROE (%)	1.9%	3.8%	5.5%	3.8%	3.6%
ROA (%)	1.2%	2.6%	3.7%	2.0%	1.9%
Net Debt/(Cash)	1,564	1,291	1,257	2,500	2,449
Net Gearing (X)	0.34	0.29	0.27	0.42	0.41



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