

Ho Bee Land Limited

China residential sales continue to support earnings



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SINGAPORE | REAL ESTATE | 2Q17 RESULTS

- Revenue within our expectation, but associate's profits higher than expected due to higher than forecasted ASPs for Yanlord Western Garden (YWG).
- ASPs in YWG maintain stable despite property cooling measures.
- Weakening pound was main cause for 4.7% drop in rental income in 1H17.
- Metropolis occupancy maintained near 100% going into second renewal cycle.
- Maintain ACCUMULATE with higher RNAV-derived target price of S\$2.98.

Results at a glance

(\$GD mn)/Dec Yr End	2Q17	2Q16	YoY (%)	Comments
Sale of development properties	2.8	136.4	(97.9)	Higher profits from 2 residential development properties in Melbourne and Gold Coast in 2Q16
Rental Income	34.6	36.4	(5.1)	Mainly due to weaker GBP vs SGD for London portfolio
Share of Profits from Associates	12.2	7.6	60.5	Mainly from sales of China JV project Yanlord Western
Profit from continuing operations before tax	40.3	51.9	(22.5)	
Net Profit	36.7	42.1	(12.7)	

Source: Company, PSR

The positives

+ **ASPs for China development project maintained despite cooling measures:** HBL's biggest development project in China, the JV project Yanlord Western Gardens maintained ASPs near RMB53k/sqm despite cooling measures in the country. The project is now 77% sold (vs 69% in previous quarter). Almost all units launched in the quarter are sold.

+ **Metropolis occupancy maintained near 100% going into second renewal cycle:** The Metropolis (which takes up 38% of HBL total GAV) managed to maintain a near 100% occupancy going into its second rent renewal cycle since operating in 2013. Average passing rents have held stable YoY at S\$7+/psf.

The negatives

- **Weakening pound was main cause for 4.7% drop in rental income in 1H17:** Rental income dropped 4.7% YoY in 1H17, primarily due to the weakening pound vs SGD. The pound has weakened c.10% from 2Q17 against the SGD post Brexit.

- **Slow recovery in Sentosa residential market:** While we have seen improvements in transaction volumes and ASPs in the CCR region ytd, the Sentosa residential market remains weak. Rents at the Group's 3 Sentosa condominiums meanwhile have been stable and occupancy remains in the 75%-80% region.

Outlook

HBL's local and overseas rental properties remain stable on the back of a bottoming in Singapore office rents. Their London office properties on long leases of 5-10 years which would enable it to ride out Brexit uncertainties in the short term. Stable recurring rental income should continue to support earnings. We expect the recovery in the high end market to continue into FY18 which would benefit HBL's 3 Sentosa condominiums.

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

We maintain our ACCUMULATE call with a higher TP of S\$2.98. Our discount to RNAV remains at 30% and higher target price is derived following an update to the latest ASP for the Group's China residential project. Our estimate still incorporates a conservative S\$1,500/psf selling price for the 3 Sentosa condominiums.

11 August 2017

ACCUMULATE (Maintained)

LAST DONE PRICE	SGD 2.33
FORECAST DIV	SGD 0.07
TARGET PRICE	SGD 2.98
TOTAL RETURN	30.9%

COMPANY DATA

BLOOMBERG CODE:	HOBEE SP
O/S SHARES (MN) :	666
MARKET CAP (USD mn / SGD mn) :	1138 / 1551
52 - WK HI/LO (SGD) :	2.47 / 2.02
3M Average Daily T/O (mn) :	0.12

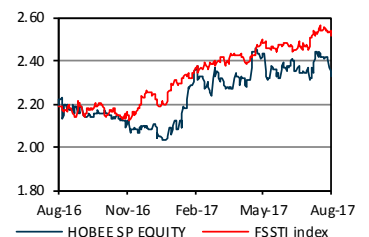
MAJOR SHAREHOLDERS (%)

HOBEE HOLDINGS PTE LTD	73.7%
DIMENSIONAL FUND ADVISORS LP	14%
DAWA ASSET MANAGEMENT	0.4%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	(0.0)	(0.0)	10.6
STIRETURN	3.1	3.3	19.5

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

SGD MN	FY 15	FY 16	FY 17e	FY 18e
Revenue	130	299	218	183
EBITDA	118	130	118	115
NPAT (adj.)	55	113	117	85
EPS (adj.)	0.36	0.33	0.17	0.13
PER, x (adj.)	23.8	10.4	116	15.9
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%	3.9%	2.8%

Source: Company, PSR

Valuation Method

RNAV

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Figure 1: RNAV Table

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	658.8
PV of Australia Properties	113.1
Others	5.2
GAV	4061.1
Less FY2017 Net debt	1217.9
RNAV	2843.2
RNAV per share	4.26
Discount to RNAV	30.0%
Fair Value	2.98

Figure 2: Peer Comparison Table

Name	Mkt Cap (SGD mn)	Last Px (SGD)	PSR RATING	PSR TARGET PRICE	P/E	P/B	ROE (%)	ROA (%)	Dividend Yield (%)	Total Debt to Assets (%)
HO BEE LAND	1,564	2.35	ACCUMULATE	2.98	6.3	0.5	5.5	3.6	2.6	30.6
BANYAN TREE HLDGS LTD	434	0.57	BUY	0.77	-	0.8	-6.3	-2.2	-	38.3
CAPITALAND LTD	15,672	3.69	ACCUMULATE	4.19	9.5	0.9	6.6	2.5	2.7	32.5
CITY DEVELOPMENTS LTD	10,612	11.67	ACCUMULATE	11.07	17.1	1.2	5.9	2.7	1.4	29.0
UOL GROUP LTD	6,587	8.10	ACCUMULATE	8.93	19.7	0.8	3.9	2.7	1.9	20.8
FRASERS CENTREPOINT LTD	5,551	1.91			8.4	0.8	7.8	2.1	4.5	40.5
FRAGRANCE GROUP LTD	1,128	0.17			137.3	1.1	0.9	0.4	0.6	43.6
AMARA HLDGS LTD	302	0.53			29.9	0.8	2.8	1.4	5.7	42.9
HOTEL PROPERTIES LTD	2,014	3.87			18.5	1.1	4.1	2.3	2.1	31.2
KOP LTD	61	0.07			50.4	0.6	-6.5	-3.4	-	21.3
ROXY-PACIFIC HLDGS LTD	626	0.53			15.4	1.2	8.1	2.7	3.2	57.0
OUE LTD	1,790	1.99			13.5	0.5	2.0	0.9	2.5	35.9
FAR EAST ORCHARD LTD	659	1.55			36.9	0.5	4.1	2.5	3.9	9.8
BONVESTS HLDGS LTD	525	1.31			9.7	0.6	1.9	1.4	2.0	18.2
HOTEL ROYAL LTD	327	3.89			37.4	0.6	1.4	1.1	1.3	20.9
Peer Average					31.0	0.8	2.6	1.2	2.6	31.6

Source: Bloomberg, PSR

Financials

Income Statement

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
Revenue	100	130	299	218	183
Operating EBITDA	65	118	130	118	115
Depreciation & Amortisation	1	1	1	1	0
EBIT	64	117	129	117	115
Net Finance (Expense)/Inc	(18)	(23)	(30)	(19)	(23)
Other items	0	1	2	3	4
Associates & JVs	(6)	(23)	33	43	11
Revaluation Gains	282	186	104	0	0
Profit Before Tax	322	258	237	141	103
Taxation	(7)	(17)	(20)	(24)	(17)
Profit After Tax	315	241	217	117	85
Net Income, adj. excl reval gains	33	55	113	117	85

Per share data (SGD)

Y/E Dec, SGD	FY14	FY15	FY16	FY17e	FY18e
EPS, reported	0.47	0.36	0.33	0.17	0.13
DPS	0.05	0.07	0.06	0.07	0.07
BVPS	3.89	4.23	4.41	4.51	4.63

Cash Flows

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
CFO					
Profit before tax	315	241	217	117	85
Adjustments	(251)	(139)	(78)	(0)	28
WC changes	(49)	(120)	71	47	(19)
Cash generated from ops	15	(18)	210	163	94
Taxes paid, others	(17)	(3)	(31)	(24)	(17)
Cashflow from ops	(3)	(21)	178	139	77
CFI					
CAPEX, net	(2)	(2)	(2)	(1)	(1)
Purchase/sale of investments	(485)	(577)	3	(63)	0
Dividends	1	1	1	1	1
Others	(0)	(0)	18	0	0
Cashflow from investments	(486)	(577)	21	(63)	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	174	(197)
Effects of exchange rates	0	(0)	(1)	0	0
CCE, end	10	15	54	229	31

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.

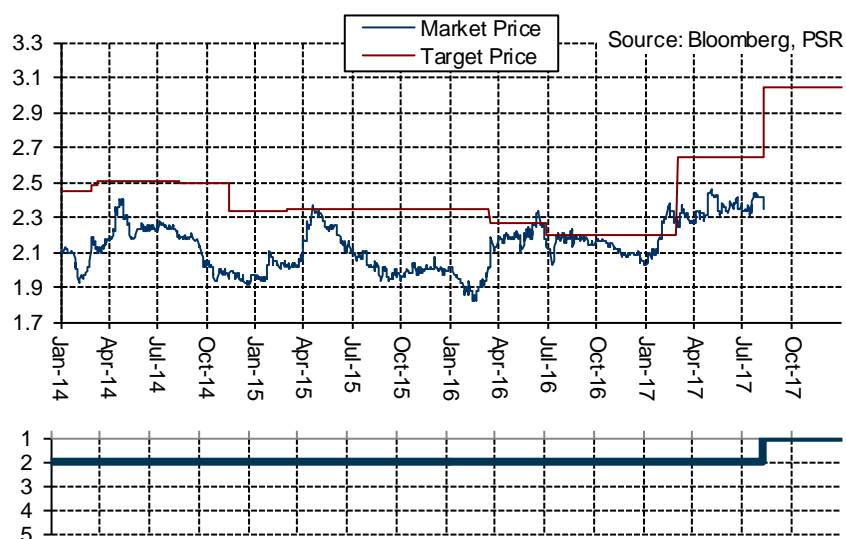
Balance Sheet

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
ASSETS					
PPE	22	22	22	23	24
Associates & JVs	802	789	792	835	846
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	3,921	3,932
Development property	230	321	414	390	418
Accounts Receivables	43	52	29	50	46
Cash balance	10	15	54	229	31
Others	20	21	0	0	0
Total current assets	302	408	500	669	495
Total Assets	3,684	4,558	4,395	4,589	4,427
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	2,991	3,076
Non-controlling interest	15	13	14	14	14
Total Equity	2,616	2,834	2,939	3,005	3,090

Valuation Ratios

Y/E Dec	FY14	FY15	FY16	FY17e	FY18e
P/E (X), adj.	39.1	23.8	10.4	11.6	15.9
P/B (X)	0.5	0.5	0.5	0.5	0.4
EV/EBITDA (X)	34.1	24.7	20.4	21.8	11.8
Dividend Yield (%)	2.5%	3.4%	3.0%	3.4%	3.4%
Growth & Margins (%)					
Growth					
Revenue	-28.5%	30.5%	130.4%	-27.1%	-16.0%
EBITDA	-65.1%	81.1%	9.8%	-9.3%	-2.8%
EBIT	-65.3%	82.3%	10.0%	-9.3%	-2.2%
Net Income, adj.	-80.4%	65.9%	106.3%	3.2%	-27.0%
Margins					
EBITDA margin	65.6%	91.0%	43.4%	54.0%	62.5%
EBIT margin	64.6%	90.2%	43.1%	53.7%	62.5%
Net Profit Margin	33.1%	42.2%	37.7%	53.5%	46.5%
Key Ratios					
ROE (%)	1.3%	1.9%	3.8%	3.9%	2.8%
ROA (%)	0.9%	1.2%	2.6%	2.5%	1.9%
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

Ratings History



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

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