

Henderson Land

Sounding less optimistic

Henderson Land reported full-year results for 2014 that were ahead of consensus but less than our estimates. Underlying net profit and DPS both rose by 4% y/y but were 10% and 4% less than our estimates. At the results briefing, we found management sounding less optimistic on three fronts: 1) retail softness post Chinese New Year; 2) increasing land costs on old building redevelopment; and 3) the timing of farmland conversions. We cut our estimates by 5% for 2015 and by 10% for 2016 on account of completion slippages. Given the potential upside of 4%, we maintain our EW rating.

Retail has softened: We believe one of the key takeaways from the results briefing was that HLD's more guarded outlook on the Hong Kong retail property performance. It noted that tenant sales and leasing at its IFC Mall has softened post the Chinese New Year. Although tenant sales continue to rise at a low single-digit rate, this suggests that tenant sales excluding the Apple Store were likely in negative territory.

Mixed news on old building redevelopment plan: The good news on HLD's old building redevelopment plan is that it has managed to increase the projects where it has more than 80% interest from 31 to 40 (attributable gross floor area has risen from 3.07mn square feet to 3.4mn sf). The bad news is that this has also increased its blended land cost from HK\$5,600psf as of June 2014 to HK\$6,300psf now. On farmland conversions, there was little to update.

Cutting 2015 and 2016 earnings estimates but raising NAV by 2%: Reflecting the slippages in both Hong Kong and China development completions, we cut our earnings by 5% for 2015 and by 10% for 2016. On NAV, we raise our spot and forward NAV by 2%. Thus, as we keeping our target discount unchanged at 40%, we increase our price target by 2% to HK\$53.60.

Key upside and downside risks: We believe these include 1) larger-scale farmland conversions; 2) an earlier interest rate hike than we expect; and 3) more regulation on old building redevelopment.

0012.HK: Financial and Valuation Metrics EPS HKD

FY Dec	2013	2014	2015	2016	2017
EPS	3.35A	3.26A	3.11E	2.89E	2.84E
Previous EPS	3.35A	3.63E	3.46E	3.56E	N/A
Consensus EPS	3.05A	3.24E	3.22E	3.34E	N/A
P/E	15.4	15.8	16.6	17.8	18.1

Source: Barclays Research.

Consensus numbers are from Thomson Reuters

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PLEASE SEE ANALYST CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 7.

Stock Rating **EQUAL WEIGHT**
Unchanged

Industry View **NEUTRAL**
Unchanged

Price Target **HKD 53.60**
raised 2% from HKD 52.30

Price (23-Mar-2015) HKD 51.50

Potential Upside/Downside +4%

Tickers 12 HK / 0012.HK

Market Cap (USD mn) 19917

Shares Outstanding (mn) 3000.34

Free Float (%) 30.79

52 Wk Avg Daily Volume (mn) 3.5

52 Wk Avg Daily Value (USD mn) 22.24

Dividend Yield (%) 2.0

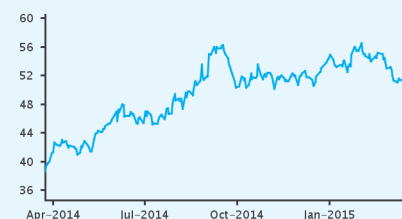
Return on Equity TTM (%) 7.98

Current BVPS (HKD) 85.12

Source: Thomson Reuters

Price Performance Exchange-HKG

52 Week range HKD 57.20-37.82



[Link to Barclays Live for interactive charting](#)

Asia ex-Japan Real Estate

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Asia ex-Japan Real Estate	Industry View: NEUTRAL
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Henderson Land (0012.HK)	Stock Rating: EQUAL WEIGHT
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Income statement (HKDmn)	2014A	2015E	2016E	2017E	CAGR
Revenue	23,371	29,754	24,272	31,227	10.1%
EBITDA	N/A	N/A	N/A	N/A	N/A
EBIT	6,219	7,848	7,032	5,373	-4.8%
Pre-tax income	18,473	12,182	11,589	10,638	-16.8%
Net income	16,752	9,794	9,546	9,389	-17.6%
EPS (reported) (HKD)	5.88	3.11	2.89	2.84	-21.5%
Net income (adj)	9,292	9,794	9,546	9,389	0.3%
EPS (adj) (HKD)	3.26	3.11	2.89	2.84	-4.4%
Diluted shares	N/A	N/A	N/A	N/A	N/A
DPS (HKD)	1.10	1.10	1.10	1.10	0.0%
Profit growth (%)	4.0	5.4	-2.5	-1.6	N/A

Price (23-Mar-2015) **HKD 51.50**
 Price Target **HKD 53.60**

Why Equal Weight? The old building redevelopment strategy appears to be gaining momentum. The current discount appears fair.

Upside case **HKD 66.96**

An earlier-than-expected reversal of property measures may see Hong Kong property stocks trading back up to mid-cycle discounts. For HLD, its NAV discount could narrow, returning to a mid-cycle average of 25%.

Downside case **HKD 35.71**

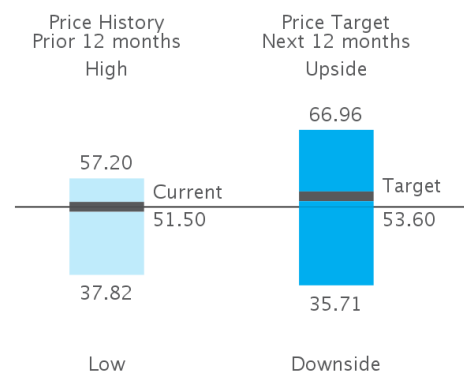
Should the drop in home prices trigger larger second round effects on rents and the broader local economy, property companies' discount to NAV could further widen to a mid-cycle discount minus 1.5x SD. For HLD, our downside case factors in a 60% discount to NAV.

Margin and return data	Average				
EBITDA margin (%)	N/A	N/A	N/A	N/A	N/A
EBIT margin (%)	26.6	26.4	29.0	17.2	24.8
Pre-tax margin (%)	79.0	40.9	47.7	34.1	50.5
Net margin (%)	71.7	32.9	39.3	30.1	43.5
Net (adj) margin (%)	39.8	32.9	39.3	30.1	35.5
ROIC (%)	N/A	N/A	N/A	N/A	N/A
ROA (%)	3.0	3.1	3.0	2.9	3.0
ROE (%)	4.0	4.0	3.8	3.7	3.9

Balance sheet and cash flow (HKDmn)	CAGR				
Tangible fixed assets	119,705	122,053	120,546	126,647	1.9%
Intangible fixed assets	N/A	N/A	N/A	N/A	N/A
Cash and equivalents	12,022	15,000	15,000	15,000	7.7%
Total assets	316,980	321,723	321,700	324,323	0.8%
Short and long-term debt	43,111	44,744	43,584	38,351	-3.8%
Net debt/(funds)	31,401	29,335	28,175	22,942	-9.9%
Other long-term liabilities	12,411	12,411	12,411	12,411	0.0%
Total liabilities	73,763	75,760	74,973	70,119	-1.7%
Shareholders' equity	238,150	246,384	250,514	262,095	3.2%
Change in working capital	707	2,136	2,141	7,285	117.6%
Cash flow from operations	6,305	9,180	8,317	11,803	23.2%
Capital expenditure	-278	-278	-278	-278	N/A
Free cash flow	6,027	8,902	8,039	11,525	24.1%
BVPS (HKD)	79.37	74.65	75.90	79.41	0.0%

Valuation and leverage metrics	Average				
P/E (reported) (x)	8.8	16.6	17.8	18.1	15.3
P/E (adj) (x)	15.8	16.6	17.8	18.1	17.1
NAV per share (HKD)	89.70	89.28	89.28	89.28	89.39
Premium/(discount) to NAV (%)	-41.4	-40.0	-40.0	-40.0	-40.3
P/BV (x)	0.6	0.7	0.7	0.6	0.7
Dividend yield (%)	2.1	2.1	2.1	2.1	2.1
Net debt/equity (%)	13.2	11.9	11.2	8.8	11.3
Net debt/EBITDA (x)	5.0	3.7	4.0	4.3	4.3
Total debt/capital (%)	13.8	13.9	13.4	11.5	13.2

Upside/Downside scenarios



Source: Company data, Barclays Research
 Note: FY End Dec

Sounding less optimistic

Henderson Land (HLD) report underlying profit for full-year 2014 that was ahead of the latest Bloomberg consensus forecasts but missed our estimates. Underlying net profit rose 4.0% y/y to HK\$9,292mn, which was 3% above consensus but 10% less than our estimate of HK\$10,291mn. Similarly, HLD's full-year DPS of HK\$1.10 was also slightly ahead of consensus but less than our estimate of HK\$1.14. In keeping with the practice of the past two years, HLD also declared a 1-for-10 bonus share scheme this year.

FIGURE 1

Henderson Land – full-year 2014 results snapshot

	FY 14E/A			% diff to Barclays	Surprise
	Barclays	Consensus	Actual		
Underlying net profit (HK\$m)	10,291	8,994	9,292	-10%	Worse
Underlying EPS (HK\$)	3.63	3.11	3.11	-14%	Worse
Full-year DPS (HK\$)	1.14	1.08	1.10	-4%	Worse

Source: Company data, Bloomberg consensus estimates, Barclays Research estimates

Sounding more reserved on three fronts

At the results briefing, we found management sounding less optimistic on three fronts:

- **Retail softening** – In 2014, the contributions from the IFC Mall only increased by 6% y/y. Management remarked that although recent retail leases signed still show 20% rental reversion, there has been marked softness post the Chinese New Year with prospective retail tenants holding back a bit. Although tenant sales continue to increase at a low single-digit rate as this also includes the Apple Store, this suggests that other tenants' sales were likely in negative territory.
- **Land cost for old building redevelopment rising** – On the plus side, HLD has made some progress in its old building redevelopment strategy. The number of projects with at least 80% interest has risen from 31 projects with 3.07mn square feet to 40 projects with 3.4mn sf. As many of the new additions are in more urban Kowloon, this has resulted in its blended land costs increasing from HK\$5,600psf to HK\$6,300psf.
- **Farmland conversions still a work in progress** – There was not much to report on potential farmland conversions. Details of the land resumptions and land exchanges remain a work in progress.

Cutting FY16E earnings but tweaking up NAV slightly

Reflecting some slippages in the estimated completion timing of HLD's Hong Kong and China development projects, we cut our earnings estimates by 5% for full-year 2015 and by 10% for 2016. For the next three years, we expect Henderson Land's underlying earnings to remain range bound between HK\$9.4bn and HK\$9.8bn. Given Henderson Land's flattish earnings and the enlarged share base from the 1-for-10 bonus share issue, we take down our DPS estimate from HK\$1.14 to HK\$1.10 for 2015.

On the NAV front, we raise our spot NAV up by 1.8% to HK\$90.13 per share and our forward NAV by 2.4% to HK\$89.28 per share. Thus, because we keep our target discount unchanged at 40%, we also increase our price target by 2.5% from HK\$52.30 to HK\$53.60. Given the potential upside of only 4%, we continue to rate HLD as EW.

FIGURE 2

Henderson Land – changes to our estimates

	Net Profit (HKD mn)			DPS (HKD)			NAV/share (HKD)	
	FY15E	FY16E	FY17E	FY15E	FY16E	FY17E	Current	Forward
Previous estimate	10,269	10,581	N.A.	1.14	1.14	N.A.	88.51	87.22
Revised estimates	9,794	9,546	9,389	1.10	1.10	1.10	90.13	89.28
Change	-475	-1,035	N.A.	-0.04	-0.04	N.A.	1.62	2.06
Change %	-5%	-10%	N.A.	-4%	-4%	N.A.	1.8%	2.4%

Source: Barclays Research estimates

Key aspects of the results

HLD's FY14 underlying earnings missed our estimate by 10%, or HK\$999mn. The miss can be attributed to the following:

- **Hong Kong development margins at 25%** – Including contributions from associate and JVs, Henderson Land's reported Hong Kong development sales of HK\$11,477mn. Its 2014 Hong Kong development margin came in at 25% and was 6ppt lower than our estimate of 31%.
- **China development rebounded from the loss of 1H14 with the full-year margin at 10% (vs. our estimate of 11%).** However, as the China sales revenue was 24% less than our estimate, the China development profit was about HK\$100mn less than our estimate.

Henderson Land's shareholder funds increased by 3.6% h/h to HK\$238,150mn as of December 2014. Given the 10% share dilution from last year's bonus share issue, HLD's BVPS decreased by 6.7% to HK\$79.38 as of December 2014 (from HK\$85.12 as of June 2014).

Valuation methodology

Our 12-month price target of HK\$53.60 is based on a 40% discount to our end-2015 NAV estimate. Historically, Henderson Land has traded at an average discount of 24% with one standard deviation swing of 20%. Our 40% target discount is equal to 0.8SD below its historical norm.

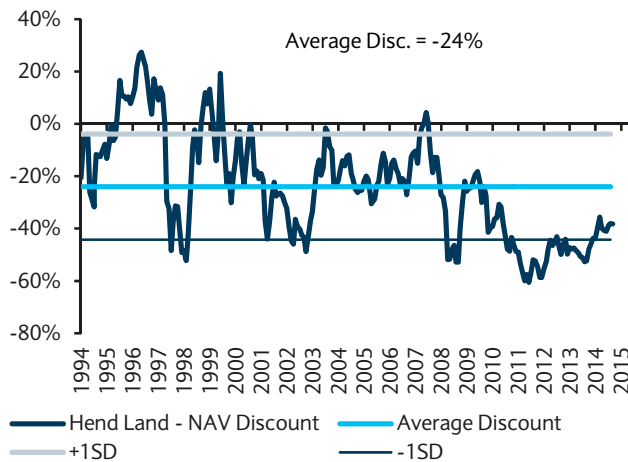
FIGURE 3

Henderson Land – NAV summary

(HK\$ mn)	Methodology	Current	% of NAV	End-15E	% of NAV
Dev Prop - HK	DCF at 8%	41,234	15%	35,975	13%
Dev Prop - PRC	DCF at 8%	14,837	5%	16,024	6%
Agricultural land	@HKD400psf	17,040	6%	17,040	6%
HK- Inv Prop		113,026	42%	114,105	43%
...office	Cap rate = 5.00%	38,240	14%	37,284	14%
...retail	Cap rate = 5.00%	61,580	23%	64,043	24%
...residential	Cap rate = 3.25%	8,576	3%	8,148	3%
...Industrial	Cap rate = 7.25%	4,630	2%	4,630	2%
China Inv Properties	Cap rate = 7.0%	29,072	11%	29,072	11%
...office		16,647	6%	16,647	6%
...retail		12,425	5%	12,425	5%
...others		0	0%	0	0%
HK IP under dev	DCF at 8%	953	0%	1,030	0%
China IP under dev	DCF at 10%	3,703	1%	4,073	2%
Hotels		3,468	1%	3,468	1%
HK & C Gas (MV)	@HKD17.60/share	76,152	28%	76,152	28%
Other listco (MV)		4,170	2%	4,170	2%
Other assets	Book value	5,882	2%	5,882	2%
Gross asset		309,539	114%	306,991	115%
Net debt		-39,122	-14%	-39,122	-15%
Net asset		270,417	100%	267,869	100%
# of shares (mn)		3,000		3,000	
NAV (HKD)		90.13		89.28	
Share price (HKD)		51.50		53.60	
Discount/target discount		-43%		-40%	

Source: Datastream, Company data, Barclays Research estimates

FIGURE 4
Henderson Land – historical discount to NAV



Source: Datastream, Barclays Research estimates

FIGURE 5
Henderson Land – historical trailing P/B



Source: Datastream, Barclays Research

Key investment risks

The key risks to our price target, in our view, include the following:

To the downside,

- **More regulation on old building redevelopment** – The redevelopment of old urban buildings is one of Henderson’s core strategies. If the government were to increase regulations on old building redevelopment, site acquisition progress may turn slower.
- **Interest rate hike** – If interest rates were to rise faster than we expect, we believe this would negatively impact housing demand with developers may having to cut prices to stimulate volume. Conversely, if interest rate were to remain low, this could potentially prolong the current property cycle; hence, interest rates could be both an upside or downside risk for Henderson Land.

To the upside,

- **Farmland conversions** – We estimate that every 1mn of GFA of farmland conversions would add HK\$0.42/share to Henderson Land’s NAV.

FIGURE 6

Henderson Land – full-year 2014 results summary

	Dec-14	Jun-14	h/h Change
BVPS (HK\$)	79.38	85.12	-6.7%
Net debt (HK\$m)	-37,420	-31,171	20.0%
Net-debt-to-shareholders' fund	-15.7%	-13.6%	-2.1ppt
	FY 14	FY 13	y/y Change
Underlying net profit (HK\$m)	9,292	8,938	4.0%
Full-year DPS (HK\$)	1.10	1.06	3.8%
Development margin (%)	19.7%	22.6%	-2.8ppt
...HK (%)	25.2%	30.9%	-5.7ppt
...China (%)	10.1%	6.6%	3.5ppt
Net rental income (HK\$m)	6,004	5,610	7%
Rental margin (%)	75.6%	76.6%	-1.0ppt
Revaluation gain (HK\$m)	7,526	7,529	0%
% of IP as year beginning	5.2%	6.4%	-1.3ppt

Note: Revaluation gain includes share from JV. Revaluation gain as % of IP as year beginning does not include share from JV. Source: Company data, Barclays Research

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Primary Stocks (Ticker, Date, Price)

Henderson Land (0012.HK, 23-Mar-2015, HKD 51.50), Equal Weight/Neutral, J

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Champion REIT (2778.HK)	China Overseas Grand Oceans Group (0081.HK)	China Overseas Land & Investment (0688.HK)
China Resources Land (1109.HK)	Chong Hong Construction Co. (5534.TW)	City Developments (CTDM.SI)
CKH Holdings (0001.HK)	Country Garden Holdings (2007.HK)	DLF Ltd. (DLF.NS)
Evergrande Real Estate Group (3333.HK)	Far Eastern New Century Corp. (1402.TW)	Farglory Land Development Co., Ltd. (5522.TW)
Fortune REIT (0778.HK)	Global Logistic Properties (GLPL.SI)	Godrej Properties Ltd. (GODR.NS)
Greentown China Holdings Ltd. (3900.HK)	Guangzhou R&F Properties Co., Ltd. (2777.HK)	Hang Lung Properties (0101.HK)
Henderson Land (0012.HK)	Hongkong Land (HKLD.SI)	Huaku Development Co., Ltd. (2548.TW)
Hui Xian REIT (87001.HK)	Hysan Development (0014.HK)	IREIT Global (IREI.SI)
Keppel Land (KLAN.SI)	Keppel REIT (KASA.SI)	Kerry Properties (0683.HK)
Kindom Construction (2520.TW)	KWG Property Holding (1813.HK)	Link REIT (0823.HK)
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Midland Holdings (1200.HK)	New World Development (0017.HK)	Oberoi Realty Ltd. (OEBO.NS)
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Henderson Land (12 HK / 0012.HK)

HKD 51.50 (23-Mar-2015)

Stock Rating

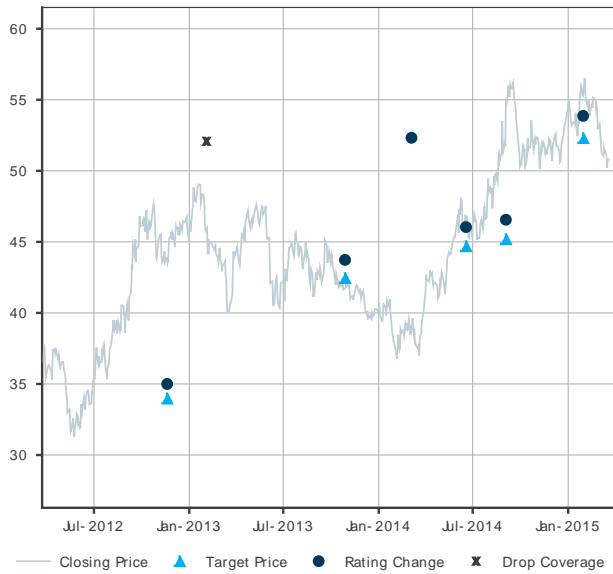
EQUAL WEIGHT

Industry View

NEUTRAL

Rating and Price Target Chart - HKD (as of 23-Mar-2015)

Currency=HKD



Date	Closing Price	Rating	Adjusted Price Target
30-Jan-2015	55.40	Equal Weight	52.30
03-Sep-2014	55.00	Underweight	45.20
18-Jun-2014	46.80	Equal Weight	44.70
05-Mar-2014	38.59	Overweight	
28-Oct-2013	41.73	Equal Weight	42.45
28-Jan-2013	48.31	Drop Coverage	
19-Nov-2012	43.84	Underweight	33.98

Source: Thomson Reuters, Barclays Research

Historical stock prices and price targets may have been adjusted for stock splits and dividends.

Source: IDC, Barclays Research

[Link to Barclays Live for interactive charting](#)

J: Barclays Bank PLC and/or an affiliate trades regularly in the securities of Henderson Land.

Valuation Methodology: Our 12-month price target for Henderson Land of HK\$53.60 is based on a 40% discount to our end-2015 NAV estimate. Historically, Henderson Land has traded at an average discount of 24% with a one standard deviation swing of 20%. Our 40% target discount is equal to 0.8SD below Henderson Land's historical norm. Given our concerns on affordability and rising supply, we believe property stocks should trade below their historical mid-cycle discounts.

Risks which May Impede the Achievement of the Barclays Research Price Target: The key risks to our price target, in our view, include the following: To the downside, 1) more regulation on old building redevelopment and 2) interest rate hikes. To the upside, 1) increased farmland conversions and 2) faster asset turnover and higher average selling prices for its residential developments.

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