

Henderson Land

12 HK

Target (HKD): 64.50 → 64.50

Upside: 25.2%

23 Mar price (HKD): 51.50

- 1 Buy (unchanged)
- 2 Outperform
- 3 Hold
- 4 Underperform
- 5 Sell

Harvesting steadily

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- Improving rental income and China contribution
- 4% rise in DPS plus another 1-for-10 bonus issue
- Falling net debt; reaffirm Buy

■ What's new

Henderson's 2014 underlying net profit rose by 4% YoY to HKD9,292m, with DPS also rising by 4% YoY to HKD1.10, and another declaration of a 1-for-10 bonus share. The gross rental income continued to rise (up 8% YoY to HKD7.9bn), while the company's China property sales profit also started showing improvement (rising 62% YoY to HKD660m), which should bode well for its sustained profit growth in the coming years, in our view.

■ What's the impact

2015 property sales profit should be underpinned by an improved margin, as the profit margin for Double Cove III has improved versus phase II (recognised in 2014), due to a higher achieved ASP and lower land cost (given the higher proportion of saleable GFA after it modified its building plans). Moreover, Henderson should continue to have more GFA from completing projects that are the redevelopment of old buildings, which generally have higher profit margins.

Rental income is on track for steady growth, as the occupancy rate for the newly completed Henderson 688

office building in Shanghai has now been ramped up to about 70%, based on committed offers. Meanwhile, Henderson continued to see positive rental reversion for its rental properties and it should also have new rental properties for completion in both Hong Kong and China in the next few years.

China property sales business also starting to mature, with several projects now having moved beyond the initial phases, which has led to notable margin improvement, thus underpinning the 62% YoY growth in its China property sales profit in 2014. With Henderson's continued increase in its production volume and more projects having entered later phases, we expect the contribution from the company's China projects to continue to improve in the coming years.

Falling net debt bodes well for Henderson's ability to raise its dividend and reinvest. Henderson's net debt as at end-2014 fell by 13% YoY to HKD30.7bn, resulting in a low net gearing ratio of 15.7%. The company has responded by raising its DPS by 4% and declaring another issuance of bonus shares on a 1-for-10 basis. If the company maintains its DPS, shareholders should see a 10% rise in the cash dividend in 2015. Its strong financial position should put the company in a good position to convert its abundant farmland and to reinvest in old-building projects as well as landbank replenishment, in our view.

■ What we recommend

We continue to see Henderson as a company that has started to enter a harvesting phase for its decades-long investment in rental properties, farmland conversion and old-building redevelopment projects. We

reaffirm our Buy (1) rating, with a 12-month target price of HKD64.50, based on an unchanged 30% discount applied to our end-2015E NAV of HKD92.10/share. The key risk to our call: if the government were to abandon its plans to redevelop new towns in the New Territories.

■ How we differ

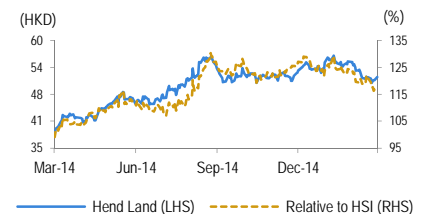
Our view that Henderson has entered into a harvesting period does not yet appear to be fully recognised by the market.

Forecast revisions (%)

Year to 31 Dec	15E	16E	17E
Revenue change	-	-	n.a.
Net profit change	-	-	n.a.
Core EPS (FD) change	-	-	n.a.

Source: Daiwa forecasts

Share price performance



12-month range	38.63-56.50
Market cap (USDbn)	19.71
3m avg daily turnover (USDm)	20.59
Shares outstanding (m)	2,969
Major shareholder	Lee Shau Kee (69.4%)

Financial summary (HKD)

Year to 31 Dec	15E	16E	17E
Revenue (m)	29,301	33,707	37,250
Operating profit (m)	8,365	10,262	11,663
Net profit (m)	10,760	12,820	14,550
Core EPS (fully-diluted)	3.624	4.318	4.901
EPS change (%)	15.8	19.1	13.5
Daiwa vs Cons. EPS (%)	13.5	28.0	n.a.
PER (x)	14.2	11.9	10.5
Dividend yield (%)	2.2	2.3	2.3
DPS	1.120	1.160	1.200
PBR (x)	0.6	0.6	0.6
EV/EBITDA (x)	12.3	9.7	8.2
ROE (%)	4.4	5.1	5.6

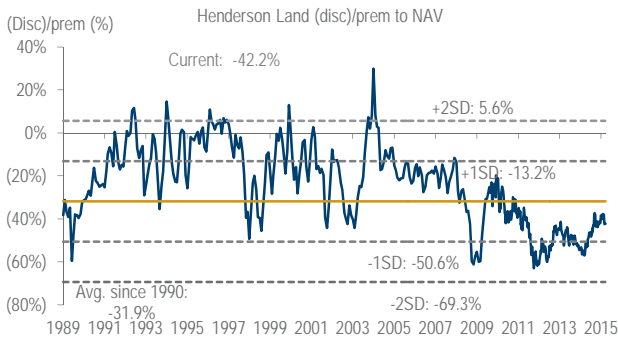
Source: FactSet, Daiwa forecasts

■ **Henderson Land: 2014 final results highlights**

(HKDm)	2013	2014	YoYchange
Turnover	23,289	23,371	0.4%
Property sales	15,743	15,466	-1.8%
Rental income	4,994	5,445	9.0%
Others	2,552	2,460	-3.6%
EBIT			
Property sales	2,952	2,861	-3.1%
Rental income	3,670	3,894	6.1%
Building, construction & others	(26)	(22)	-15.4%
Hotel, retail and others	136	132	-2.9%
Infrastructure	(41)	(55)	34.1%
Interest income	308	364	18.2%
Other businesses	134	315	135.1%
Corporate overhead & others	(1,008)	(533)	-47.1%
EBIT	6,125	6,956	13.6%
Net interest expenses	(957)	(859)	-10.2%
Operating profit	5,168	6,097	18.0%
Share of profits from associates & jces	5,102	4,854	-4.9%
Profit before tax	10,270	10,951	6.6%
Tax	(1,244)	(1,491)	19.9%
Minority interests	(88)	(168)	90.9%
Net profit	8,938	9,292	4.0%
EPS (HKD)	3.35	3.11	2.1%
DPS (HKD)	1.06	1.10	3.8%

Source: Company, Daiwa

■ **Henderson Land: price-to-NAV multiple**



Source: Datastream, Daiwa estimates

■ **Henderson Land: gross rental income**



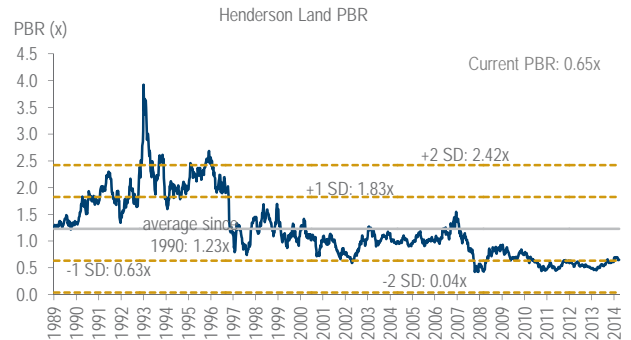
Source: Company, Daiwa

■ **Henderson Land: KPIs**

	1H00	2H00	1H11	2H11	1H12	2H12	1H13	2H13	1H14	2H14
BVPS (HKD)	58.76	66.45	68.31	71.12	73.23	77.24	80.12	82.77	85.12	79.38
Gross rental income (HKDm)	2,335	2,540	2,769	3,036	3,231	3,397	3,586	3,721	3,854	4,050
- from HK (HKDm)	2,132	2,266	2,326	2,563	2,675	2,791	2,942	3,062	3,146	3,278
- from China (HKDm)	202	275	418	498	556	606	644	659	708	772
Sales and pre-sales in China (HKDm)	na	na	903	1,002	1,647	4,901	4,012	3,303	1,834	3,369
No. of old bldg projects	42	68	82	84	85	75	74	81	72	80
GFA of old bldg projects (m sq ft)	5	7.3	7.9	8.0	8.2	7.3	7.4	7.4	6.9	6.1
Net debt (HKDm)	32,226	44,818	34,649	36,890	36,382	35,205	31,984	38,344	31,171	37,420
Net debt to equity (%)	23.0%	28.2%	19.5%	19.9%	19.1%	17.2%	15.0%	17.2%	13.6%	15.7%
HK landbank (m sq ft)										
Properties held for/under development	8.6	9.3	10.2	10.2	10.1	10.4	10.1	13.7	13.1	13.0
Stock of unsold properties	1.7	1.6	0.8	0.7	0.5	0.4	0.5	0.8	0.9	0.9
Completed investment properties (incl. hotel)	10.4	10.4	10.2	10.2	10.1	10.1	10.2	10.1	10.1	9.9
	20.7	21.3	21.2	21.1	20.7	20.9	20.8	24.6	24.1	23.8
China landbank (m sq ft)										
Properties held for/under development	148.4	150.4	152.6	151.2	147.7	140.3	138.7	136.1	130.6	126.1
Stock of unsold properties	-	-	-	1.0	1.4	1.2	0.9	1.2	1.6	2.5
Completed investment properties	5.6	6.5	6.5	6.5	6.9	6.4	6.6	6.6	7.3	7.3
	154.0	156.9	159.1	158.7	156.0	147.9	146.2	143.9	139.5	135.9
Agricultural landbank in HK (m sq ft)	40.1	40.6	41.4	41.9	42.4	42.8	43.0	42.5	42.6	44.5

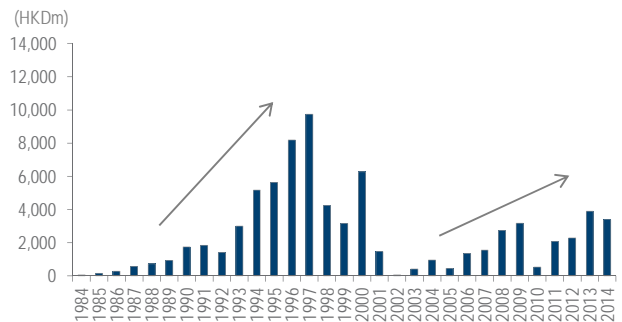
Source: Company, Daiwa

■ **Henderson Land: PBR trend**



Source: Datastream, Daiwa

■ **Henderson Land: property sales profit**



Source: Company, Daiwa

Financial summary
■ Key assumptions

Year to 31 Dec	2010	2011	2012	2013	2014	2015E	2016E	2017E
Property sales profit (HKDm)	539	2,186	2,306	2,952	2,861	4,899	6,150	6,890
Rental EBIT (HKDm)	1,933	2,620	3,107	3,670	3,894	4,604	5,110	5,673

■ Profit and loss (HKDm)

Year to 31 Dec	2010	2011	2012	2013	2014	2015E	2016E	2017E
Property sales	2,522	9,692	8,708	15,743	15,466	20,500	24,200	26,951
Rental income	3,157	3,920	4,494	4,994	5,445	5,933	6,467	7,049
Other Revenue	1,413	1,576	2,390	2,552	2,460	2,867	3,039	3,250
Total Revenue	7,092	15,188	15,592	23,289	23,371	29,301	33,707	37,250
Other income	0	0	0	0	0	0	0	0
COGS	(2,415)	(8,418)	(8,167)	(14,508)	(13,590)	(17,927)	(20,292)	(22,390)
SG&A	(1,024)	(1,045)	(1,060)	(1,200)	(1,268)	(1,370)	(1,489)	(1,523)
Other op. expenses	(806)	(1,178)	(1,066)	(1,456)	(1,557)	(1,639)	(1,664)	(1,674)
Operating profit	2,847	4,547	5,299	6,125	6,956	8,365	10,262	11,663
Net-interest inc./(exp.)	(970)	(1,169)	(1,239)	(957)	(1,429)	(1,180)	(1,230)	(1,320)
Assoc/forex/extraord./others	4,058	3,548	4,167	5,102	6,594	6,670	7,205	7,680
Pre-tax profit	5,935	6,926	8,227	10,270	12,121	13,855	16,237	18,023
Tax	(711)	(1,310)	(1,005)	(1,244)	(2,707)	(2,963)	(3,279)	(3,331)
Min. int./pref. div./others	(182)	(56)	(124)	(88)	(122)	(132)	(138)	(142)
Net profit (reported)	5,042	5,560	7,098	8,938	9,292	10,760	12,820	14,550
Net profit (adjusted)	5,042	5,560	7,098	8,938	9,292	10,760	12,820	14,550
EPS (reported)(HKD)	2.317	2.471	2.987	3.312	3.130	3.624	4.318	4.901
EPS (adjusted)(HKD)	2.317	2.471	2.987	3.312	3.130	3.624	4.318	4.901
EPS (adjusted fully-diluted)(HKD)	2.317	2.471	2.987	3.312	3.130	3.624	4.318	4.901
DPS (HKD)	1.000	1.100	1.060	1.060	1.100	1.120	1.160	1.200
EBIT	2,847	4,547	5,299	6,125	6,956	8,365	10,262	11,663
EBITDA	2,995	4,699	5,463	6,296	7,134	8,557	10,460	11,862

■ Cash flow (HKDm)

Year to 31 Dec	2010	2011	2012	2013	2014	2015E	2016E	2017E
Profit before tax	5,935	6,926	8,227	10,270	12,121	13,855	16,237	18,023
Depreciation and amortisation	148	152	164	171	178	192	198	199
Tax paid	(917)	(973)	(1,020)	(1,120)	(2,436)	(2,667)	(2,951)	(2,998)
Change in working capital	252	268	3,277	1,290	8,808	8,925	9,025	9,250
Other operational CF items	(521)	46	234	(1,194)	(1,597)	(1,882)	(2,143)	(2,308)
Cash flow from operations	4,897	6,419	10,882	9,417	17,073	18,423	20,366	22,166
Capex	(23,368)	(8,546)	(8,620)	(9,274)	(9,273)	(13,412)	(14,265)	(16,401)
Net (acquisitions)/disposals	0	0	0	0	0	0	0	0
Other investing CF items	2,962	4,379	5,320	1,350	1,480	1,490	1,510	1,530
Cash flow from investing	(20,406)	(4,167)	(3,300)	(7,924)	(7,793)	(11,922)	(12,755)	(14,871)
Change in debt	0	0	0	0	0	0	0	0
Net share issues/(repurchases)	0	10,000	0	0	0	0	0	0
Dividends paid	(2,362)	(2,362)	(2,362)	(2,575)	(2,939)	(3,658)	(4,133)	(4,381)
Other financing CF items	(1,345)	(1,567)	(1,651)	(1,251)	(1,881)	(1,930)	(1,948)	(1,963)
Cash flow from financing	(3,707)	6,072	(4,013)	(3,826)	(4,820)	(5,588)	(6,081)	(6,344)
Forex effect/others	0	0	0	0	0	0	0	0
Change in cash	(19,215)	8,324	3,569	(2,333)	4,460	914	1,530	951
Free cash flow	(18,471)	(2,127)	2,262	143	7,800	5,011	6,101	5,765

Source: FactSet, Daiwa forecasts

Financial summary continued ...

■ Balance sheet (HKDm)

As at 31 Dec	2010	2011	2012	2013	2014	2015E	2016E	2017E
Cash & short-term investment	9,916	19,364	14,390	15,858	12,022	12,936	14,468	15,418
Inventory	60,717	68,204	7,882	6,449	5,460	5,210	4,250	3,360
Accounts receivable	4,497	4,495	5,814	7,453	8,520	8,560	9,030	9,310
Other current assets	6,925	8,433	74,166	79,388	80,104	82,120	84,569	86,459
Total current assets	82,055	100,496	102,252	109,148	106,106	108,826	112,317	114,547
Fixed assets	84,068	92,771	101,072	108,872	119,705	124,974	129,944	136,137
Goodwill & intangibles	512	516	415	409	318	409	409	412
Other non-current assets	63,677	68,687	77,818	85,685	90,851	91,430	93,370	96,736
Total assets	230,312	262,470	281,557	304,114	316,980	325,639	336,040	347,832
Short-term debt	7,516	19,699	2,826	7,418	13,590	7,418	7,560	7,582
Accounts payable	5,812	9,030	15,265	15,890	17,304	17,250	17,850	18,320
Other current liabilities	733	798	1,404	2,111	1,346	2,180	2,210	2,245
Total current liabilities	14,061	29,527	19,495	25,419	32,240	26,848	27,620	28,147
Long-term debt	47,099	36,041	44,371	43,580	29,112	35,284	35,144	35,120
Other non-current liabilities	4,729	6,977	7,790	7,115	12,411	12,740	12,977	13,110
Total liabilities	65,889	72,545	71,656	76,114	73,763	74,872	75,741	76,377
Share capital	4,352	4,738	4,830	5,398	52,010	52,010	52,010	52,010
Reserves/R.E./others	154,686	180,598	200,382	218,004	186,140	193,634	203,129	214,235
Shareholders' equity	159,038	185,336	205,212	223,402	238,150	245,644	255,139	266,245
Minority interests	5,385	4,589	4,689	4,598	5,067	5,123	5,160	5,210
Total equity & liabilities	230,312	262,470	281,557	304,114	316,980	325,639	336,040	347,832
EV	144,060	130,030	118,360	113,488	106,140	104,943	101,790	97,608
Net debt/(cash)	44,699	36,376	32,807	35,140	30,680	29,766	28,236	27,284
BVPS (HKD)	73.087	78.003	86.369	82.772	80.212	82.736	85.934	89.675

■ Key ratios (%)

Year to 31 Dec	2010	2011	2012	2013	2014	2015E	2016E	2017E
Sales (YoY)	(53.4)	114.2	2.7	49.4	0.4	25.4	15.0	10.5
EBITDA (YoY)	(44.0)	56.9	16.3	15.2	13.3	19.9	22.2	13.4
Operating profit (YoY)	(45.3)	59.7	16.5	15.6	13.6	20.3	22.7	13.6
Net profit (YoY)	(17.2)	10.3	27.7	25.9	4.0	15.8	19.1	13.5
Core EPS (fully-diluted) (YoY)	(21.9)	6.7	20.9	10.9	(5.5)	15.8	19.1	13.5
Gross-profit margin	65.9	44.6	47.6	37.7	41.9	38.8	39.8	39.9
EBITDA margin	42.2	30.9	35.0	27.0	30.5	29.2	31.0	31.8
Operating-profit margin	40.1	29.9	34.0	26.3	29.8	28.5	30.4	31.3
Net profit margin	71.1	36.6	45.5	38.4	39.8	36.7	38.0	39.1
ROAE	3.5	3.2	3.6	4.2	4.0	4.4	5.1	5.6
ROAA	2.4	2.3	2.6	3.1	3.0	3.3	3.9	4.3
ROCE	1.5	2.0	2.1	2.3	2.5	2.9	3.4	3.8
ROIC	1.3	1.7	2.0	2.1	2.0	2.4	2.9	3.2
Net debt to equity	28.1	19.6	16.0	15.7	12.9	12.1	11.1	10.2
Effective tax rate	12.0	18.9	12.2	12.1	22.3	21.4	20.2	18.5
Accounts receivable (days)	305.2	108.0	120.7	104.0	124.7	106.4	95.2	89.9
Current ratio (x)	5.8	3.4	5.2	4.3	3.3	4.1	4.1	4.1
Net interest cover (x)	2.9	3.9	4.3	6.4	4.9	7.1	8.3	8.8
Net dividend payout	43.2	44.5	35.5	32.0	35.1	30.9	26.9	24.5
Free cash flow yield	n.a.	n.a.	1.5	0.1	5.1	3.3	4.0	3.8

Source: FactSet, Daiwa forecasts

■ Company profile

Henderson Land is one of the largest property companies in Hong Kong and has diversified investments in the residential-, office- and retail-property sectors. It is the largest holder of agricultural land in Hong Kong currently and also the largest shareholder in HK and China Gas as well as Miramar Hotel and HK Ferry. In recent years, Henderson Land has been increasing its investment in China property, and has a landbank of more than 100m sq ft in the country currently.

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