EAST ASIA SECURITIES COMPANY LIMITED
9/F, 10 Des Voeux Road Central, Hong Kong.
Dealing: 2308 8200 Research: 3608 8096 Facsimile: 3608 6113

HONG KONG RESEARCH

Analyst: Carmen Wong

26th March 2015

HENDERSON LAND DEVELOPMENT COMPANY LIMITED (恒基兆業)

Sector	:	Property developer
HKSE Code	:	00012
Market Price	:	HK$53.80 (26/03/2015)
HSI	:	24,497.08 (26/03/2015)
Shares Issued	:	3,000.3 million
Mkt. Cap.	:	HK$161,418 million
52 weeks Hi/ Lo	:	HK$57.20 / HK$37.818

Chairman	:	Dr. Lee Shau Kee
Executive Directors	:	Mr. Lee Ka Kit Mr. Lee Ka Shing

SUMMARY OF THE FINAL RESULTS FOR THE YEAR ENDED 31ST DECEMBER 2014

Final Results Highlights

	2014 HK million	2013 HK million	*y-o-y* *Change*
• Turnover	23,371	23,289	*0.4%*
• Operating profit before changes in fair value of investment properties	6,956	6,125	*13.6%*
• Finance cost	(859)	(957)	*(10.2%)*
• Increase in fair value of investment properties	5,538	6,345	*(12.7%)*
• Share of results of associates	4,181	3,669	*14.0%*
• Share of results of jointly-controlled entities	2,657	2,613	*1.7%*
• **Profit attributable to shareholders**	**16,752**	**15,948**	***5.0%***
	HK$	HK$	
• Earnings per share	5.62	5.43	*3.5%*
• Underlying earnings per share	3.11	3.04	*2.3%*
• Dividend per share – Final	0.76	0.74	*2.7%*
• Dividend per share – Total	1.10	1.06	*3.8%*

- Henderson Land ("HLD" or the "Group") reported a profit attributable to shareholders of HK$16.75 billion in 2014, a mild increase of 5.0% from a year ago. Excluding the fair value change of investment properties, the Group's underlying net profit grew 4.0% year-on-year to HK$9.29 billion, in-line with market expectations.

- Turnover marginally increased by 0.4% year-on-year to HK$23.37 billion, as a 9.0% year-on-year growth in property leasing was partly offset by a decline in property development (-1.8% year-on-year).

- Shares of results of associates surged by 14.0% year-on-year. Excluding the Group's attributable share of changes in fair value of investment properties held by the associates of HK$796 million in 2014 (2013: HK$552 million), the Group's share of the underlying profits of its associates increased by 8.6% year-on-year, mainly attributable to i) increased contribution (+6.8% year-on-year) from the gas operation of The Hong Kong and China Gas Company Limited (3.HK); and ii) a post-tax profit of HK$284 million generated from the sale of property units of Green Code in Fanling held by Hong Kong Ferry (Holdings) Company Limited (50.HK).

- Shares of results of joint venture gained 1.7% from a year ago. Yet, Excluding the Group's attributable share of changes in fair value of investment properties held by the joint ventures of HK$1,188 million in 2014 (2013: HK$628 million), the Group's share of the underlying profit of joint ventures declined 26.0% year-on-year, mainly attributable to the share of decrease in post-tax profit contribution of HK$582 million from the sales of the property project "Global Trade Square" in Hong Kong which was recognised in 2013.

- HLD declared a final dividend of HK$0.76 per share, an increase of 2.7% year-on-year. Together with its interim dividend of HK$0.34 per share, its full-year dividend amounted to HK$1.10 (+3.8% year-on-year), representing a payout ratio of 35.4% in 2014 (2013: 34.9%).

- As at 31st December 2014, HLD's net debt declined from HK$38,344 million as of December 2013 to HK$37,420 million. Net debt to equity ratio improved from 17.2% to 15.7% accordingly.

- At the end of 2014, HLD had a land bank of a total attributable gross floor area (GFA) of 23.8 million square feet in Hong Kong (as at 30th June 2014: 24.1 million square feet). It also had agricultural land lots of 44.5 million square feet (as at 30th June 2014: 42.6 million square feet), the largest holding among the property developers in Hong Kong. In China, its total attributable GFA reached 126.1 million square feet (as at 30th June 2014: 130.6 million square feet).

Business Review

- **Turnover by business segments**

HK$ million	**2014**	**%**	**2013**	**%**	***Change***
Property development	15,466	66.2%	15,743	67.6%	*(1.8%)*
Property leasing	5,445	23.3%	4,994	21.4%	*9.0%*
Construction	888	3.8%	1,290	5.5%	*(31.2%)*
Hotel operation	188	0.8%	194	0.8%	*(3.1%)*
Department store operation	431	1.8%	399	1.7%	*8.0%*
Others	953	4.1%	669	2.9%	*42.5%*
Total	**23,371**	**100.0%**	**23,289**	**100.0%**	*0.4%*

- **Operating profit/(loss) by business segments**

HK$ million	**2014**	**%**	**2013**	**%**	***Change***
Property development	2,861	40.2%	2,952	43.3%	*(3.1%)*
Property leasing	3,894	54.7%	3,670	53.8%	*6.1%*
Construction	(22)	-0.3%	(26)	-0.4%	*(15.4%)*
Infrastructure	(55)	-0.8%	(41)	-0.6%	*34.1%*
Hotel operation	47	0.7%	57	0.8%	*(17.5%)*
Department store operation	85	1.2%	79	1.2%	*7.6%*
Others	315	4.4%	134	2.0%	*135.1%*
Total	**7,125**	**100.0%**	**6,825**	**100.0%**	*4.4%*

- **Property development:** The Group's turnover of property development in Hong Kong fell 4.2% year-on-year to HK$10,122 million, as a large lump-sum of property sales (HK$9,365 million) from Double Cove Phase 1 in Ma On Shan and The Reach in Yuen Long were recognized in 2013. Meanwhile, HLD achieved contracted sales of HK$13,926 million (commercial: HK$2,234 million; residential: HK$11,692 million) in 2014, an increase of 32.6% from a year earlier. Key residential projects launched for pre-sale in 2014 included Double Cove Starview (Double Cove Phase 2) and Double Cove Starview Prime (Double Cove Phase 3) in Ma On Shan, High One in Cheung Sha Wan as well as inventory units such as The Reach in Yuen Long, etc. Separately, the Group disposed of some office and industrial developments during the year, including E-Trade Plaza in Chai Wan, Global Trade Square in Wong Chuk Hang and Global Gateway Tower in Cheung Sha Wan.

In China, revenue from property development increased from HK$5,173 million in 2013 to HK$5,344 million in 2014. Revenue contribution was mainly attributable to the completed projects including High West in Chongqing, Phases 2A, 2B and 3 of Riverside Park in Suzhou, Phase 2A of Palatial Crest in Xian, etc. HLD achieved contracted sales of HK$5,203 million in China during 2014, up 30.0% year-on-year.

- **Property leasing:** HLD held a total attributable GFA of 8.9 million square feet of completed investment properties in Hong Kong. Rental income grew steadily by 7.7% year-on-year to HK$3,976 million, mainly driven by positive rental reversions. Additionally, average occupancy rate of its investment properties in Hong Kong improved from 96% as of December 2013 to 98% as of December 2014.

  In China, the Group held attributable GFA of 7.3 million square feet of completed investment properties. Rental income rose 12.7% year-on-year to HK$1,469 million, thanks to i) year-on-year improvement in the average occupancies and higher rental rates of World Finance Centre, Henderson Centre (both in Beijing) and Grand Gateway II in Shanghai; as well as ii) the new contribution from Henderson 688 in Shanghai which was completed in May 2014.

Outlook & Prospects

- ***Slow progress in farmland conversion.*** Under the North East New Territories New development Areas Planning and Engineering Study, HLD has applied for in-situ land exchange for two land lots in Fanling North and Kwu Tung, which are expected to provide total developable GFA of 3.73 million and 0.27 million square feet respectively. However, the progress of farmland conversion has been slow due to prolonged negotiation with the government and administrative process. The first-phase conversion for farmland has been recently announced to be delayed from January 2016 to April 2016.
- ***Upcoming launches in Hong Kong for 2015.*** The Group aims to sell 2,002 units from new launches, in addition to its 1,175 inventory units. Upcoming launches will primarily include i) Double Cove (Phase 4 and 5) in Ma On Shan (650 units), ii) To Kwa Wan project (300 units) and iii) Tai Kok Tsui project (448 units), of which a majority will be small-to-medium sized units.
- ***An expected recovery in China property.*** Given the favourable policy in China including the relaxation in the restrictions on mortgage lending and home purchases as well as monetary easing, Management anticipated a recovery in its property development business in China this year. Nonetheless, profit margin will likely under pressure, given the pent-up inventory and destocking by developers.
- ***Cautious view on Hong Kong retail rental business.*** Despite a continued positive rental reversion, Management has taken a cautious view on the outlook for its Hong Kong retail rental business this year, amid a slowdown in retail sales. For instance, the overall sales growth in IFC (International Finance Centre) mall was in the low-single-digit growth in 2014 and started to see softness after the Chinese New Year.
- ***Updates on its shopping project near Hong Kong-Shenzhen border.*** For the recently announced shopping centre to be built at Lok Ma Chau near the border, the site has an area of some 400,000 square feet and is 50:50 owned by Sun Hung Kai Properties and HLD. The site is still in the planning stage with a long-term goal to develop into a sizeable shopping mall. The commencement of operation for the shopping mall is yet to be confirmed.
- **Valuation**: Trading at 48.1% discount to its 2015E NAV, valuation of HLD shares is not particularly attractive when compared with its long-term average of 40%. Given its fair valuation and the lack of near-term positive catalyst, we recommend “Hold” rating for the counter. Downside risks include any delays in project launches or completion and unexpectedly fall of property prices in Hong Kong and China.

Recommendation: Hold

Important Disclosure / Analyst Declaration / Disclaimer

This report is published by East Asia Securities Company Limited, a wholly-owned subsidiary of The Bank of East Asia, Limited ("BEA").

Each research analyst primarily responsible for the content of this report (whether in part or in whole) certifies that (i) the views on the companies and securities mentioned in this report accurately reflect his/her personal views; and (ii) no part of his/her compensation was, is, or will be, directly, or indirectly, related to specific recommendations or views expressed in this report.

This report has been prepared solely for information purposes and has no intention whatsoever to solicit any action based upon it. Neither this report nor its contents shall be construed as an offer, invitation, advertisement, inducement or representation of any kind or form whatsoever. This report is based upon information, which East Asia Securities Company Limited considers reliable, but accuracy or completeness is not guaranteed. The analysis or opinions expressed in this report only reflect the views of the relevant analyst as at the date of the release of this report which are subject to change without notice. Any recommendation contained in this report does not have regard to the specific investment objectives, financial situation and the particular needs of any specific recipient. This report should not be regarded by recipients as a substitute for the exercise of their own judgment. Investments involve risks and investors should exercise prudence in making their investment decisions and obtain separate legal or financial advice, if necessary. East Asia Securities Company Limited and / or The Bank of East Asia Group accepts no liability whatsoever for any direct or consequential loss arising from any use of or reliance on this report or further communication given in relation to this report.

At the time of preparing this report, East Asia Securities Company Limited has no position in securities of the company or companies mentioned herein, while BEA along with its affiliates/associates and/or persons associated with any of them may from time to time have interests in the securities mentioned in this report. BEA and its affiliates/associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein and may also perform or seek to perform broking, investment banking and other banking services for these companies.

BEA and/or any of its affiliates/associates may beneficially own a total of 1% or more of any class of common equity securities of the company or companies mentioned in this report and may, within the past 12 months, have received compensation and/or within the next 3 months seek to obtain compensation for investment banking services from the company or companies mentioned in the report.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of, or located in, any locality, state, country or other jurisdiction, publication, availability or use would be contrary to law and regulation.