



Rating  
**Buy**

Asia  
Hong Kong

Property

Company  
**Henderson Land  
Dev. Co.**

Reuters 0012.HK	Bloomberg 12 HK	Exchange HSI	Ticker 0012
ADR Ticker HLCY	ISIN US4251663039		

Date  
24 June 2016

Forecast Change

Price at 23 Jun 2016 (HKD)	41.85
Price target - 12mth (HKD)	48.20
52-week range (HKD)	54.25 - 37.70
HANG SENG INDEX	20,868

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## Actualizing NAV potential from farmland and redevelopment

### Lower home prices and policy support lead to faster acquisition progress

Current property market prices provide opportune timing for HLD to speed up project acquisitions. Lower home prices soften property owners' attitudes and could reduce HLD's acquisition cost. In tandem with the government's target of kick-starting new-town development soon, the execution of farmland conversion becomes easier and faster. With the first example of a site at Ma Shi Po, we believe the market will assign a higher probability of NAV realization. We reiterate Buy on HLD with a target price of HK\$48.2.

### Ma Shi Po site an example of successful farmland value realization

Henderson Land resumed the farmland conversion process for its Ma Shi Po site with a new development-area plan, which was promptly approved by the Buildings Department afterwards. This sets a precedent. It shows how quickly farmland conversion can be executed when there is policy support. We estimate a boost to NAV of at least 10%, if 20% of HLD's farmland is converted and the company receives cash from the government's site resumption initiative.

### Faster progress and cheaper cost of ownership compilation of old buildings

We observe that HLD has expedited the ownership compilation of old urban buildings along with a decline in home prices. This has been widely covered by the media this year. Lower home prices help to lower HLD's acquisition bid prices by at least 10%, according to news media (see page 9).

### Consistent dividend growth and additional disclosures are strong merits

HLD's stable dividend growth track record is a strong merit. Accounting for bonus share, de facto dividend growth in 2012-2015 was 10-45% per year. In addition, given the confidentiality of private negotiations with existing homeowners and with the government, it is often difficult for us to ascertain land prices and project progress for HLD. We note that the company has provided much better disclosures recently: it conglomerated several sites into a major project and gave out land price and construction cost estimates.

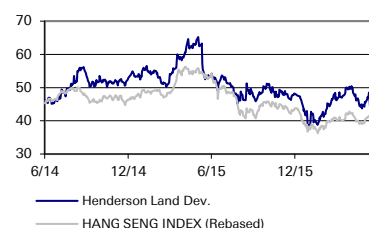
**Trading at 40% NAV discount, an attractive price for a reliable quality company**  
Henderson Land is trading at a 39% discount to our NAV estimate of HK\$68.8, which we have already factored in with a home price decline as deep as 40%. We set our target price at a 30% discount to our NAV. Risks: external economic shocks, liquidity outflow and sharper rate hikes.

### Key changes

Price target	47.88 to 48.20	↑	0.7%
Sales (FYE)	18,417 to 26,460	↑	43.7%
Op prof margin (FYE)	33.6 to 29.4	↓	-12.6%
Net profit (FYE)	8,820.8 to 9,973.3	↑	13.1%

Source: Deutsche Bank

### Price/price relative



Performance (%)	1m	3m	12m
Absolute	-5.8	-11.1	-22.1
HANG SENG INDEX	5.3	1.2	-23.7

Source: Deutsche Bank

### Forecasts And Ratios

Year End Dec 31	2014A	2015A	2016E	2017E	2018E
Reported NPAT (HKDm)	16,757.0	14,163.0	9,973.3	9,799.7	8,171.0
OLD DB EPS FD (HKD)	3.12	2.86	2.94	2.71	-
% Change	0.0%	-59.3%	2.6%	-0.6%	-
PER (x)	15.5	45.1	13.9	15.5	18.6
Yield (net) (%)	2.3	2.8	3.5	3.5	3.5

Source: Deutsche Bank estimates, company data

<sup>1</sup> DB EPS is fully diluted and excludes non-recurring items

<sup>2</sup> Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B which uses the year end close

Deutsche Bank AG/Hong Kong

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Model updated: 23 June 2016

### Running the numbers

Asia

Hong Kong

Property

### Henderson Land Dev. Co.

Reuters: 0012.HK

Bloomberg: 12 HK

### Buy

Price (23 Jun 16) HKD 41.85

Target Price HKD 48.20

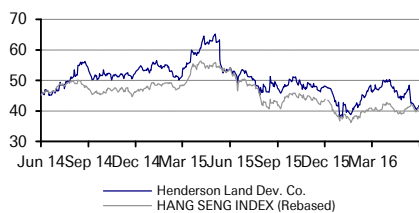
52 Week range HKD 37.70 - 54.25

Market Cap (m) HKDm 138,387  
USDm 17,840

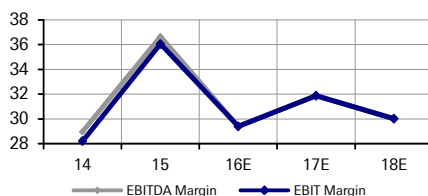
### Company Profile

Henderson Land Development Company Limited, through its subsidiaries, develops, invests in, and manages properties. The Company also provides project management, construction, and finance services. In addition, Henderson Land Development operates department stores, hotels and infrastructure business. &#x2D;

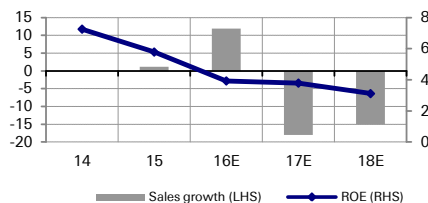
### Price Performance



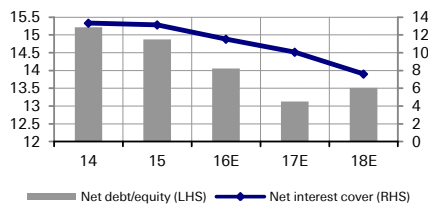
### Margin Trends



### Growth & Profitability



### Solvency



Fiscal year end 31-Dec

### Financial Summary

	2014	2015	2016E	2017E	2018E
DB EPS (HKD)	3.12	1.16	3.02	2.69	2.25
Reported EPS (HKD)	5.62	4.29	3.02	2.69	2.25
DPS (HKD)	1.10	1.45	1.45	1.45	1.45
BVPS (HKD)	79.4	76.0	70.5	71.7	72.5
Weighted average shares (m)	2,983	3,303	3,307	3,637	3,637
Average market cap (HKDm)	143,663	173,373	138,387	138,387	138,387
Enterprise value (HKDm)	103,230	128,940	91,246	87,820	86,519

### Valuation Metrics

P/E (DB) (x)	15.5	45.1	13.9	15.5	18.6
P/E (Reported) (x)	8.6	12.2	13.9	15.5	18.6
P/BV (x)	0.68	0.63	0.59	0.58	0.58
FCF Yield (%)	0.8	3.0	1.7	7.0	3.9
Dividend Yield (%)	2.3	2.8	3.5	3.5	3.5
EV/Sales (x)	4.4	5.5	3.4	4.0	4.7
EV/EBITDA (x)	15.2	14.9	11.7	12.7	15.6
EV/EBIT (x)	15.6	15.1	11.7	12.7	15.6

### Income Statement (HKDm)

Sales revenue	23,371	23,641	26,460	21,689	18,428
Gross profit	7,301	9,675	8,845	8,033	6,706
EBITDA	6,773	8,663	7,783	6,917	5,535
Depreciation	176	139	0	0	0
Amortisation	0	0	0	0	0
EBIT	6,597	8,524	7,783	6,917	5,535
Net interest income/(expense)	-495	-649	-675	-687	-728
Associates/affiliates	6,838	8,300	5,660	6,282	5,534
Exceptionals/extraordinaries	5,538	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0
Profit before tax	18,478	16,175	12,768	12,511	10,341
Income tax expense	1,533	1,464	2,107	2,064	1,706
Minorities	188	548	688	647	464
Other post-tax income/(expense)	0	0	0	0	0
Net profit	16,757	14,163	9,973	9,800	8,171
DB adjustments (including dilution)	-7,460	-10,317	0	0	0
DB Net profit	9,297	3,846	9,973	9,800	8,171

### Cash Flow (HKDm)

Cash flow from operations	5,489	5,646	3,295	11,931	6,119
Net Capex	-4,383	-408	-951	-1,229	-149
Free cash flow	1,106	5,238	2,344	10,701	5,970
Equity raised/(bought back)	0	0	0	0	0
Dividends paid	-2,297	-3,391	-5,287	-5,598	-5,506
Net inc/(dec) in borrowings	-3,684	4,774	3,930	-6,759	-2,495
Other investing/financing cash flows	1,191	-5,145	188	134	149
Net cash flow	-3,684	1,476	1,175	-1,521	-1,882
Change in working capital	0	0	0	0	0

### Balance Sheet (HKDm)

Cash and other liquid assets	10,303	11,779	12,954	11,433	8,294
Tangible fixed assets	119,705	130,289	131,240	132,469	132,618
Goodwill/intangible assets	917	527	372	359	319
Associates/investments	82,511	87,572	89,280	91,250	94,212
Other assets	103,544	106,102	107,294	101,674	101,178
Total assets	316,980	336,269	341,140	337,185	336,620
Interest bearing debt	47,314	49,896	49,727	46,426	44,716
Other liabilities	26,449	30,104	29,770	24,267	22,284
Total liabilities	73,763	80,000	79,497	70,693	67,000
Shareholders' equity	238,150	251,247	256,277	260,802	263,699
Minorities	5,067	5,022	5,366	5,689	5,921
Total shareholders' equity	243,217	256,269	261,643	266,492	269,620
Net debt	37,011	38,117	36,774	34,994	36,422

### Key Company Metrics

Sales growth (%)	nm	1.2	11.9	-18.0	-15.0
DB EPS growth (%)	na	-62.6	159.0	-10.7	-16.6
EBITDA Margin (%)	29.0	36.6	29.4	31.9	30.0
EBIT Margin (%)	28.2	36.1	29.4	31.9	30.0
Payout ratio (%)	19.6	33.8	48.1	53.8	64.5
ROE (%)	7.3	5.8	3.9	3.8	3.1
Capex/sales (%)	22.4	3.1	3.6	5.7	0.8
Capex/depreciation (x)	29.7	5.2	nm	nm	nm
Net debt/equity (%)	15.2	14.9	14.1	13.1	13.5
Net interest cover (x)	13.3	13.1	11.5	10.1	7.6

Source: Company data, Deutsche Bank estimates

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# Investment thesis

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## Outlook

The current property market provides opportune timing for HLD to speed up its project acquisition progress. Lower home prices soften property owners' attitudes and could reduce HLD's acquisition costs. Together with the government's aim to kick-start new town development soon, execution of farmland conversion becomes easier and faster. With the first upcoming example of a Ma Shi Po site, the market could well assign a higher probability of NAV realization for HLD. Reiterate Buy; target price HK\$48.2.

## Valuation

We calculate our estimated NAV via a sum-of-the-parts valuation. For development properties, we apply DCF to estimate the value of the projects by taking estimated cash inflows from property sales minus outstanding costs, including outstanding land costs, construction costs, and related income taxes and LAT for each of the China development projects. We take into account only existing land bank and do not assume terminal value in our DCF analysis.

For investment properties, we use the income capitalization approach, taking estimated rental revenue from investment properties and dividing this by estimated cap rates. Our estimated rents and cap rates differ according to type of property and location.

To arrive at NAV for the company, we take aggregate estimated value for the above business segments and add the company's net cash position or subtract its net debt position. We base our HK\$48.2 target price for Henderson Land on a 30% discount to our estimated NAV of HK\$68.8/share.

## Risks

### External shocks and interest rate hikes

As an open economy, Hong Kong may be sharply affected by external factors, such as a slower-than-expected economic recovery in the US and financial stress in other countries. A slowdown in the local economy could lower housing demand. HK's strong housing market is underpinned by healthy market liquidity and low interest rates. Interest rate hikes and continuous liquidity outflow could severely hurt sentiment and housing demand. Deterioration in the property market could affect HLD's property business.

### Government tightening measures may be stricter than expected

Whenever the Chinese government tightens fiscal and monetary policies, especially via administrative measures, the result could be volatile movements in housing transaction volumes, housing prices, land prices, and financing available to developers and homebuyers. With this in mind, if the government's tightening measures are stricter than expected, or if the impact of measures already introduced is stronger than expected, this could result in weaker-than-expected sales and price performance of the property businesses of property companies, including HLD.



#### Unexpected economic fluctuations in Chinese economy

In our view, any weaker-than-expected performance by the Chinese economy will likely result in weaker housing demand – thus affecting Chinese developers' property sales and weaker consumption – thereby affecting the business of tenants of HLD's commercial properties. On the other hand, any overly strong growth in the Chinese economy could raise concerns about overheating and attract tightening measures. Therefore, any unexpected fluctuations in the Chinese economy will likely affect demand and supply in the China property market and the business of property companies such as HLD.

#### Track record of execution in China not fully proven

While HLD has a strong track record of operating in Hong Kong, its operational capabilities in China have not been fully established. Any delay in project completion is likely to affect the timing of earnings contribution from those projects. Weaker-than-expected operating performance in China could increase the downside to our estimated earnings and NAV.

#### HLD could face stronger-than-expected competition for land bank

HLD's strong balance sheet should support land bank acquisitions in Hong Kong and China, but competition from other developers may be more intense than we expect. If this is the case, expected NAV upside may turn out lower than expected.



# Actualizing NAV potential of farmland and redevelopment

## Lower home prices and policy support lead to faster acquisition progress

The current property market provides opportune timing for HLD to speed up its project acquisition progress. Lower home prices soften property owners' attitudes and could reduce HLD's acquisition costs. Together with the government's aim to kick-start new town development soon, execution of farmland conversion becomes easier and faster. With the first upcoming example of a Ma Shi Po site, the market could assign a higher probability of NAV being realized to HLD. Reiterate Buy; target price HK\$48.2.

## Ma Shi Po site sets example of successful farmland value realization

In the past, Henderson Land's farmland portfolio had been undervalued due to a lengthy process of farmland conversion negotiations with the government and a lack of transparency in progress and cost estimates. We think the situation is changing as the government is pushing supportive policy to help speed up the development of Kwu Tung and Fanling North.

Henderson Land's vast farmland portfolio in New Territories includes 2.4mn farmland in Fanling North and 0.4mn in Kwu Tung. We roughly see how it can realize farmland value in two ways: 1) conversion to residential projects (the technical term is "in-situ land exchange") and 2) cash compensation from the government for land resumption for other government uses.

Figure 1: HLD's stake in New Territories' new town development

	Site area (mn sf)
HLD's land holding in Fanling North New Development Area	
... for in-situ land exchange	0.80
... to be resumed by government by cash compensation	1.60
<b>Total</b>	<b>2.40</b>
HLD's land holding in Kwu Tung North New Development Area	
... for in-situ land exchange	-
... to be resumed by government by cash compensation	0.40
<b>Total</b>	<b>0.40</b>

Note: for lands to be resumed by the government, the compensation for farmland in the new development area is set at HK\$1,112.4psf per site area as from 1 April 2016.  
Source: Company data, Lands Department, Deutsche Bank



Figure 2: Of the land area HLD owns in Fanling North...

Application for farmland conversion	Attributable GFA (mn sf)	Site area (mn sf)
Phase 1 (2 plots)		
... a site in Ma Shi Po	0.60	0.17
... a site in Dills Corner Garden in Kwu Tung	0.34	0.05
<b>Total</b>	<b>0.94</b>	<b>0.22</b>
Phase 2 (3 plots)		
... a site in Fanling North		0.23
... a site in Fanling North	3.48	0.24
... a site in Fanling North		0.24
<b>Total</b>	<b>4.08</b>	<b>0.71</b>

Source: Company data, Deutsche Bank

### (1) Farmland conversion to residential projects by developer

Recently, Henderson Land resumed its site in Ma Shi Po for farmland conversion in accordance with the government's new town development plan. Shortly afterwards, the Buildings Department approved its project plan. We believe this sets precedence on how fast farmland conversion can be executed with policy support from the government. In December 2015, HLD successfully went through the first case of land premium finalization via the arbitration approach. Based on the two developments, we see great potential for the materialization of HLD's farmland value in the foreseeable future.

Figure 3: News reportage of Henderson Land's farmland conversion progress

6/20/2016	Henderson Land gets approval for building plan for Ma Shi Po farmland
	Buildings Department approves Henderson Land's plan for 5 residential blocks of 1,200 units on the Ma Shi Po site. The five blocks will have 16-21 storeys with a 2-storey clubhouse. To proceed with the plan, HLD has applied for in-situ land exchange. Earlier, it managed to clear out a tenant of the farmland who had refused to leave. (HKET)
6/14/2016	Henderson Land resumes site progress in Ma Shi Po
	Henderson Land is finally able to take back its farmland site in Ma Shi Po after two of the final protesters left the site voluntarily yesterday. Earlier Henderson Land faced opposition from villagers who had rented farmland, as HLD intended to take back the farmland for an in-situ land exchange with the government. The site is part of the upcoming new development area in New Territories. (HKEJ)

Source: News media houses, Deutsche Bank

The land premium finalization process now requires a much shorter time under a new pilot arbitration scheme launched by the government. The first successful case was in December last year: a small site owned by Henderson Land next to the Reach was converted at a land premium of only HK\$1,830psf. Compared with the Reach's current secondary price of HK\$9,723psf and assuming 90% SFA-to-GFA conversion, the land premium in this case is 21% of ASP.

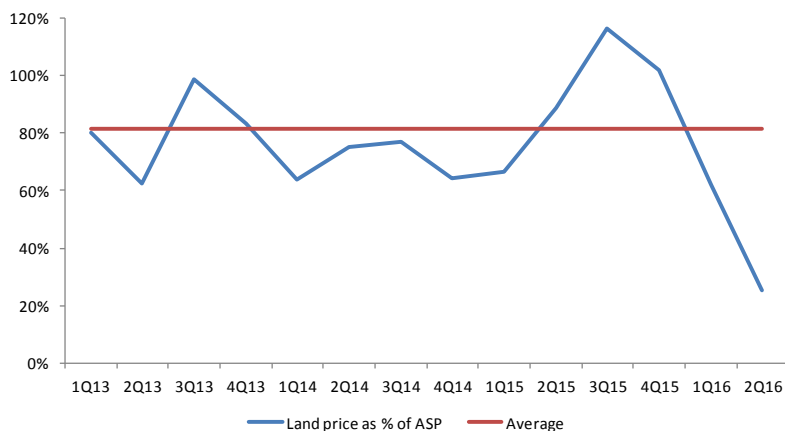
Figure 4: Successful case of finalizing land premium via arbitration in 2015

Location	Yuen Long Town Lot 527, Tai Kei Leng (adjacent to project The Reach)
Via	Pilot Scheme for Arbitration on Land Premium
Developer	Henderson Land
Site area (sf)	5,856
Land use	Residential R2
GFA (sf)	21,453
Land premium (HK\$m)	39.26
Average land premium (HK\$psf)	1,830
Date of execution	12/23/2015

Source: HKET, Company data, Deutsche Bank



Figure 5: Land prices as % of ASP in public land sales (by government, URA, MTRC)



Source: Lands Department, EPRC, Centaline, Deutsche estimates

We note that in 4Q15, land prices as a percentage of current ASPs were as high as 102%. Compared with this, the farmland conversion finalized by Henderson land, despite its small scale, is only 21% of the district's current ASP. This illustrates to us that farmland conversion is a cheap channel to acquire sites because of relatively less competition.

## (2) via cash compensation from the government

HLD currently holds 0.8mn site area in the new town area eligible for farmland conversion to residential projects. For the remaining land holdings of some 2.0mn site area owned by HLD in the new town area that has fallen outside of private residential zoning, these are likely to be taken back by the government for other land uses. Based on the latest figures released by the government, cash compensation is HK\$1,112.4psf per site area, which works out to a handsome windfall of HK\$2.22bn for Henderson Land. This process should be shorter than farmland conversion as it is simpler. The process will start as early as the end of this year and the booking of this gain could be in HLD's FY17 and FY18 earnings.

## Farmland value could boost NAV by at least 10%

Currently Henderson Land owns 45mn sf farmland in the New Territories. In the following scenario analysis, we calculate that even if only 20% of these sites were to be converted with land premiums of HK\$1,500-2,500psf, NAV accretion would reach 10.7-11.0% of the current NAV. In addition, cash compensation from the government would provide 1% of the current NAV. Thus, based on our estimates, the farmland value of Henderson Land's portfolio could add at least 10% to the current NAV.



Figure 6: Scenario analysis of NAV accretion from farmland

	Case 1	Case 2	Case 3		
(1) Farmland conversion					
Land premium (HK\$psf)	1,500	2,000	2,500		
Farmland acquisition costs (HK\$psf)	40	40	40		
<b>Total land costs (HK\$psf)</b>	<b>1,540</b>	<b>2,040</b>	<b>2,540</b>		
Construction cost (HK\$psf)	3,500	3,500	3,500		
<b>Total land and construction costs (HK\$psf)</b>	<b>5,040</b>	<b>5,540</b>	6,040		
Allowed margin	20%	20%	20%		
<b>ASP (HK\$psf)</b>	<b>6,300</b>	<b>6,925</b>	<b>7,550</b>		
ASP on SFA basis (HK\$psf)	7,412	8,147	8,882		
DCF summary:					
NAV accretion per GFA (HK\$psf)	495	489	483		
Site area that could be converted assuming 20% of the portfolio (mn sf)	11.3	11.3	11.3		
Plot ratio (times)	4.5	4.5	4.5		
Expected GFA (mn sf)	50.63	50.63	50.63		
Increase in NAV if farmland converted (HK\$mn)	25,072	24,761	24,449		
Increase in NAV per share if farmland converted (HK\$)	7.58	7.49	7.39		
<b>Current NAV per share (HK\$)</b>	<b>68.82</b>	<b>68.82</b>	<b>68.82</b>		
<b>... NAV accretion from farmland conversion</b>	<b>11.0%</b>	<b>10.9%</b>	<b>10.7%</b>		
A simplified DCF illustration (4 year development cycle, WACC of 8%):					
Year	0	1	2	3	4
Case 1					
Land premium (HK\$psf)	(1,540)				
Construction cost (HK\$psf)		-875	-875	-875	-875
ASP presale progress (HK\$psf)			1,890	1,890	2,520
NCF (HK\$psf)	(1,540)	(875)	1,015	1,015	1,645
WACC	8.00%				
NAV (HK\$psf)	495				
Case 2					
Land premium (HK\$psf)	(2,040)				
Construction cost (HK\$psf)		-875	-875	-875	-875
ASP (HK\$psf)			2,078	2,078	2,770
NCF (HK\$psf)	(2,040)	(875)	1,203	1,203	1,895
WACC	8.00%				
NAV (HK\$psf)	489				
Case 3 (HK\$psf)					
Land premium (HK\$psf)	(2,540)				
Construction cost (HK\$psf)		-875	-875	-875	-875
ASP (HK\$psf)			2,265	2,265	3,020
NCF	(2,540)	(875)	1,390	1,390	2,145
WACC	8.00%				
NAV	483				
(2) Government resumption					
Site area of farmland (mn sf)	2.00				
Compensation on site area (HK\$psf)	1,112				
Compensation for HLD (HK\$mn)	2,225				
Increase in NAV per share from government resumption (HK\$)	0.67				
Current NAV per share (HK\$)	68.82				
... NAV accretion from farmland conversion	1.0%				
<b>NAV accretion from farmland conversion &amp; govt. resumption</b>	<b>12.0%</b>	<b>11.9%</b>			<b>11.7%</b>

Source: Company data, Deutsche Bank estimates



### Faster progress and cheaper cost of ownership compilation of old buildings

We observe that HLD has been expediting the compilation of ownership of urban old building as home prices decline. In 2016-to-date, news media have widely reported on HLD consolidating ownership. Lower home prices also help lower its acquisition bid by at least 10% from the 2015 peak, according to news reports (see figure 7).

**Figure 7: News on progress of Henderson Land's ownership compilation for urban redevelopment**

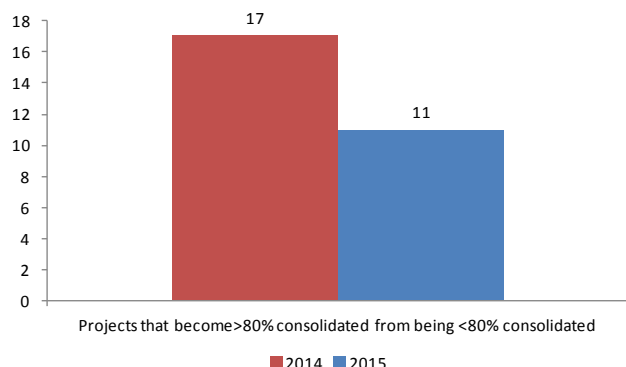
6/15/2016	Henderson Land about to reach the 80% interest threshold for compulsory auction of Champagne Court
	Henderson Land has already acquired more than 70% ownership interest of the building Champagne Court in Tsim Sha Tsui. The developer could apply for compulsory auction once it obtains 80% ownership. Champagne Court is located in the core shopping district in Hong Kong. Henderson Land started the acquisition procedure five years ago and the building comprises 107 units. The site could be redeveloped together with adjacent Miramar Hotel and Mira Mall. (Apple Daily)
6/15/2016	Henderson Land applies for compulsory auction of a redevelopment site in Sai Ying Pun
	Henderson Land has applied for compulsory auction for the remaining interests of the site at no. 13-17 Chung Ching Street in Sai Ying Pun. The developer has collected 17 out of 18 total undivided shares of ownership, representing 94.4% ownership. The remaining interest belongs to the owner of the street shop. If the interest of the site is successfully consolidated, Henderson Land will develop the site together with adjacent sites in a project called 6-22 Chung Ching Street, and the site is also partly owned by Peterson Group. (HKEJ & Sing Tao)
5/25/2016	Henderson Land applies for compulsory possession to proceed with North Point redevelopment
	Henderson Land applied to court for the compulsory possession of a unit that it had bought at a compulsory auction. The unit is at no. 17-19 Jupiter Street in North Point. The property owner was recently deceased and the unit was illegally occupied. The developer applied for compulsory possession in order to proceed with its redevelopment plan for the site. (HKET)
4/29/2016	Henderson Land consolidates interests of a Sham Shui Po site via a compulsory auction of HK\$53.8mn
	Henderson Land won the bid at a compulsory auction for no. 9-11 Nam Cheong Street in Sham Shui Po at the reserve price of HK\$53.8mn. The developer has now consolidated all ownership interests of the building with the compulsory auction. The 8,600sf site provides 78,000sf GFA and 130 residential units. The developer plans to launch the project in 2017 and to complete the construction in 2019. The total acquisition process took 7-8 years. (Headline news)
3/31/2016	Henderson Land lowers acquisition offer for Champagne Court
	Henderson Land lowered its acquisition offer for remaining property owners of Champagne Court by 10-17% from the peak in 2015. The developer has already compiled more than 70% interests of the building and is on its way to cross the 80% threshold to be eligible for a compulsory auction. (Sing Tao)
3/22/2016	Henderson Land consolidated interest of a North Point site via a compulsory auction of HK\$197mn
	Henderson Land has won the bid of the compulsory auction for no. 17-19 Jupiter Street in North Point at the consideration of HK\$197mn. The site is currently having a 4-storey tall residential building completed in 1953. (HKEJ)
2/1/2016	A developer reported to be Henderson Land revised down acquisition price for urban redevelopment by 12-20%
	The remaining property owners of the building Tai Lok House had recently been informed that a developer had already obtained more than 80% ownership interests for the building, making it eligible for a compulsory auction. The building is on no. 2 Tai Cheong Street in Quarry Bay. The asking acquisition price for the remaining 16 residential units and a shop space had been lowered by 12-20%. The developer behind the acquisition is reported to be Henderson Land. (Sing Tao)

Source: Various news clips, Deutsche Bank

In 2015, there were 11 projects from Henderson that had crossed the 80% ownership mark for ownership consolidation, making them eligible for compulsory auction (a final step to help the developer fully consolidate ownership interests). In terms of GFA, the progress in ownership compilation is 15% slower than that in 2014, primarily due to a more aggressive attitude from homeowners as they expected a higher acquisition offer as home price was increasing. But as the home price has fallen in 2016, the acquisition bid that Henderson Land made should also be lower.

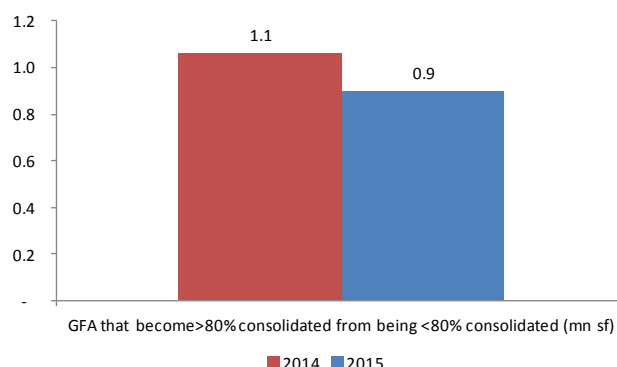


Figure 8: Redevelopment project acquisition (number of projects)



Source: Company data, Deutsche Bank

Figure 9: Redevelopment project acquisition (attributable GFA)



Source: Company data, Deutsche Bank

### Consistent dividend growth and additional disclosure are strong merits

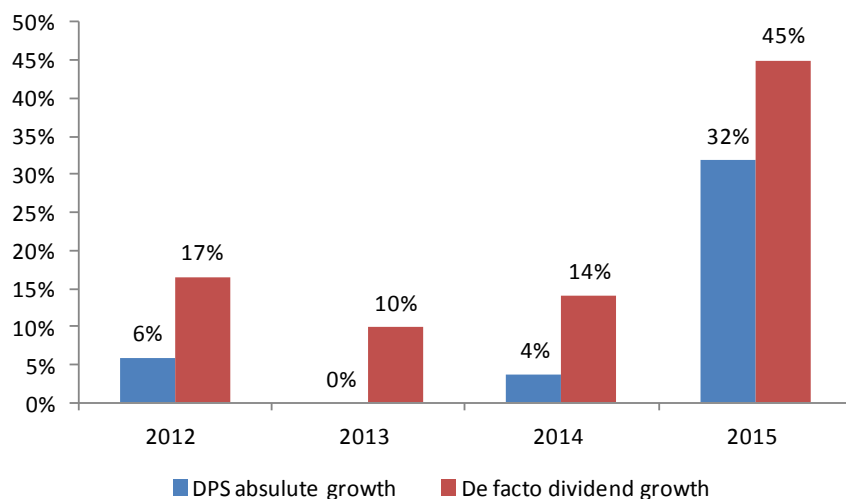
HLD's stable dividend growth track record is a strong merit. Accounting for bonus share, the de facto dividend growth in 2012-2015 is 10-45% each year.

Figure 10: Dividend growth

	2011	2012	2013	2014	2015
DPS (HK\$)	1.00	1.06	1.06	1.10	1.45
One for ten bonus share?	No	Yes	Yes	Yes	Yes
DPS absolute growth	NA	6%	0%	4%	32%
De facto dividend growth	NA	17%	10%	14%	45%

Source: Deutsche Bank

Figure 11: HLD's dividend growth



Source: Deutsche Bank

In addition, given the confidentiality of private negotiations with existing homeowners and with the government, it is often difficult for us to ascertain land prices and the project progress for HLD. We note that the company has provided much better disclosures recently. It conglomerated several sites into



a major project and gave out land price and construction cost estimates in its latest annual report.

Figure 12: Major projects in HLD's pipeline

Project	Site area (sf)	Expected GFA upon redevelopment (sf)	Est. land cost (HK\$psf)	Est. construction cost (HK\$psf)	No of sites encompassing the projects
1 450-456G Queen's Road West, Western District	28,027	272,327	5,000	4,600	1
2 4A-4P Seymour Road, Mid-Levels (65% owned)	52,466	472,185	10,200	4,800	1
3 852-858 King's Road and 21-39 Mansion Street, North Point	17,720	168,640	6,200	3,700	1
4 Berwick Street, Nam Cheong Street/ Yiu Tung Street, Shek Kip Mei	45,525	409,367	5,400	3,700	More than 6
5 Kok Cheung Street/Li Tak Street/ Fuk Chak Street/ Ka Shin Street/Tai Kok Tsui Road/ Pok Man Street, Tai Kok Tsui (Eltanin Square Mile and 4 phases afterwards)	91,760	824,659	5,700	4,300	5
6 Gillies Avenue South/ Baker Street/ Whampoa Street/ Bulkeley Street, Hung Hom	115,450	1,039,050	6,500	4,000	More than 9
7 18 King Wah Road, North Point	52,689	329,755	Land premium in negotiation with govt.	3,300	1
8 Lot 2640 in DD 92, Castle Peak Road-Kwu Tung, Sheung Shui	154,280	555,398	5,200	4,320	1
9 15 Middle Road, Tsim Sha Tsui	28,309	339,646	13,800	3,500	1
10 Kwun Chui Road, Are 56, Tuen Mun Town Lot no. 500	261,953	785,341	4,620	4,000	1

Source: Company data, Deutsche Bank



# Financial analysis

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## Earnings and NAV revisions

We raised our NAV estimate by 1% to HK\$68.8/shr. The slight change is brought about by project additions and the higher ASP we put in for projects that have been launched. However, the positive effect is largely nullified by a cut in ASPs for not-yet-launched projects, as we forecast a 40% home price decline, as well as a share dilution based on a one-for-ten bonus share in 2015.

We raised our FY16E earnings by 13% to HK\$10.0bn and FY17E earnings by 20% to HK\$9.8bn. On our estimates, key projects set to be completed in 2016E are Double Cove Ph4 and 5, High One, Axis and H. Bonaire. Similarly, key projects set to be completed in 2017E are Eltanin Square Mile, Zutten, Parker 33, Harbour Park and Jones Hive. As these projects are all launched and sold in portion, we believe it is reasonable to revise up our earnings estimates as they have already locked in a higher ASP and contract sales.

On the other hand, we are expecting HLD to take a smaller profit in the development business in FY18 as we forecast fewer bookings based on the assumption that sales of loss-making projects will be delayed. The mismatch between our strong lift in near-term earnings and a rather flat NAV change is because we attribute a lower ASP for not-yet-launched projects and a higher ASP for launched projects. In addition, we factor in the one for ten bonus share in 2015. We continue to use a 30% discount to derive our target price, which works out to HK\$48.2.



Figure 13: HLD – income statement (HK\$mn)

As at 31 Dec	2012	2013	2014	2015	2016E	2017E	2018E
Property Sales	8,708	15,743	15,466	15,690	18,448	13,720	10,353
Property investment	4,494	4,994	5,445	5,589	5,547	5,394	5,383
Building Construction	761	1,290	888	0	0	0	0
Infrastructure	63	0	0	0	0	0	0
Others	1,566	1,262	1,572	2,362	2,465	2,575	2,692
<b>Total Turnover</b>	<b>15,592</b>	<b>23,289</b>	<b>23,371</b>	<b>23,641</b>	<b>26,460</b>	<b>21,689</b>	<b>18,428</b>
Property Sales	2,306	2,952	2,861	4,092	3,780	3,027	1,656
Property investment	3,107	3,670	3,894	4,129	3,994	3,884	3,876
Building Construction	(50)	(26)	(22)	0	0	0	0
Infrastructure	9	(41)	(55)	0	0	0	0
Other Income	979	270	447	1,315	1,072	1,122	1,175
Group Expenses	(1,636)	(1,222)	(528)	(1,012)	(1,063)	(1,116)	(1,172)
<b>EBIT</b>	<b>4,715</b>	<b>5,603</b>	<b>6,597</b>	<b>8,524</b>	<b>7,783</b>	<b>6,917</b>	<b>5,535</b>
Net Interest Expenses	(1,239)	(957)	(859)	(842)	(873)	(874)	(914)
<b>Net Operating Profit</b>	<b>3,476</b>	<b>4,646</b>	<b>5,738</b>	<b>7,682</b>	<b>6,910</b>	<b>6,043</b>	<b>4,621</b>
Share of Associates	8,464	6,282	6,838	8,300	5,660	6,282	5,534
Exceptionals	8,813	6,345	5,538	7,310	0	0	0
<b>Pretax Profit</b>	<b>21,337</b>	<b>17,795</b>	<b>18,473</b>	<b>23,338</b>	<b>12,768</b>	<b>12,511</b>	<b>10,341</b>
Taxation	(1,005)	(1,739)	(1,533)	(1,464)	(2,107)	(2,064)	(1,706)
Minority Interest	(124)	(108)	(188)	(548)	(688)	(647)	(464)
<b>Net Profit</b>	<b>20,208</b>	<b>15,948</b>	<b>16,752</b>	<b>21,326</b>	<b>9,973</b>	<b>9,800</b>	<b>8,171</b>
EPS	8.47	5.43	5.62	6.46	3.02	2.69	2.25
<b>Core Net Profit</b>	<b>7,098</b>	<b>8,938</b>	<b>9,292</b>	<b>11,009</b>	<b>9,973</b>	<b>9,800</b>	<b>8,171</b>
<b>Core EPS (HK\$)</b>	<b>2.97</b>	<b>3.04</b>	<b>3.11</b>	<b>3.33</b>	<b>3.02</b>	<b>2.69</b>	<b>2.25</b>
<b>DPS (HK\$)</b>	<b>1.06</b>	<b>1.06</b>	<b>1.10</b>	<b>1.45</b>	<b>1.45</b>	<b>1.45</b>	<b>1.45</b>

Source: Company, Deutsche Bank estimates



Figure 14: HLD – balance sheet (HK\$mn)

As at 31 Dec	2012	2013	2014	2015	2016E	2017E	2018E
Investment Properties.	100,035	106,931	119,705	130,289	131,104	132,191	132,191
Hotel Properties	593	572	0	0	0	0	0
Other fixed assets	444	1,369	0	0	135	278	427
<b>Fixed assets</b>	<b>101,072</b>	<b>108,872</b>	<b>119,705</b>	<b>130,289</b>	<b>131,240</b>	<b>132,469</b>	<b>132,618</b>
Associates & JC entities	72,040	79,154	82,511	87,572	89,280	91,250	94,212
Investments & Loans Rec.	6,193	6,940	8,658	9,149	8,994	8,981	8,941
Prop held for Dev	0	0	0	0	0	0	0
Leasehold Land	9,846	10,027	9,888	10,130	10,130	10,130	10,130
Prop under dev	66,458	70,111	70,133	71,344	75,720	72,491	73,682
Bank balances & cash	14,390	15,858	12,022	14,512	15,687	14,166	11,027
Other current assets	11,558	13,152	14,063	13,273	10,090	7,698	6,010
<b>Current Assets</b>	<b>102,252</b>	<b>109,148</b>	<b>106,106</b>	<b>109,259</b>	<b>111,626</b>	<b>104,485</b>	<b>100,850</b>
Loans & overdrafts	2,826	7,418	13,590	12,408	17,049	14,917	15,060
Deposits recv'd on prop.	7,562	6,429	6,404	8,235	6,081	5,470	5,320
Trade & other payables	6,033	7,870	8,505	8,484	6,615	5,422	4,607
Other current liabilities	2,488	2,402	3,332	3,166	2,756	2,515	2,282
<b>Current liabilities</b>	<b>18,909</b>	<b>24,119</b>	<b>31,831</b>	<b>32,293</b>	<b>32,501</b>	<b>28,323</b>	<b>27,268</b>
<b>Total Net assets</b>	<b>262,648</b>	<b>279,995</b>	<b>285,149</b>	<b>303,976</b>	<b>308,639</b>	<b>308,862</b>	<b>309,352</b>
Long term loans	38,792	39,367	29,112	38,503	37,792	33,166	30,528
Amt due to fellow sub	5,579	4,213	4,612	1,177	1,177	1,177	1,177
Other L-T Liabilities	7,790	7,115	7,799	8,016	8,016	8,016	8,016
<b>Long term liabilities</b>	<b>52,161</b>	<b>50,695</b>	<b>41,523</b>	<b>47,696</b>	<b>46,985</b>	<b>42,359</b>	<b>39,721</b>
Minority interests	4,689	4,598	5,067	5,022	5,366	5,689	5,921
Shareholders' funds	205,212	223,402	238,150	251,247	256,277	260,802	263,699
<b>Total capital employed</b>	<b>262,062</b>	<b>278,695</b>	<b>284,740</b>	<b>303,965</b>	<b>308,628</b>	<b>308,851</b>	<b>309,341</b>
<b>Book value per share (HK\$)</b>	<b>84.98</b>	<b>82.78</b>	<b>79.38</b>	<b>75.98</b>	<b>70.46</b>	<b>71.70</b>	<b>72.50</b>

Source: Deutsche Bank



# Valuation

## Our estimated NAV for HLD is HK\$68.8/share

We calculate our estimated NAV via a sum-of-the-parts valuation. For development properties, we apply DCF to estimate the value of the projects by taking estimated cash inflows from property sales minus outstanding costs, including any outstanding land costs, construction costs, and related income taxes and LAT for each of the China development projects. We take into account only the existing land bank and do not assume any terminal value in the DCF analysis.

For investment properties, we use the income capitalization approach, taking the estimated rental revenue of investment properties and dividing this by estimated cap rates. Our estimated rents and cap rates differ according to type of property and location.

In arriving at the NAV for the company, we take the aggregate estimated value for the above business segments and add the company's net cash position or subtract its net debt position. We base our HK\$48.2 target price for Henderson Land on a 30% discount to our estimated NAV of HK\$68.8/share.

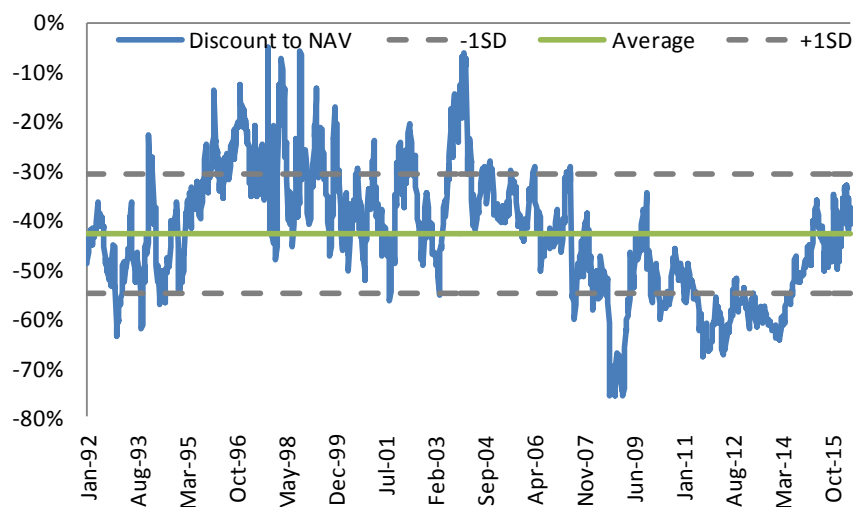
Figure 15: Henderson Land – estimated NAV

	NAV (HK\$m)	NAV/share (HK\$)	% of NAV	% of GAV
<b>Development Properties</b>				
Mass residential	20,213	6.11	8.9%	7.6%
Luxury residential	2,641	0.80	1.2%	1.0%
Office	513	0.16	0.2%	0.2%
	<b>23,367</b>	<b>7.07</b>	<b>10.3%</b>	<b>8.8%</b>
<b>Investment Properties</b>				
Luxury residential	1,193	0.36	0.5%	0.5%
Retail	80,799	24.43	35.5%	30.5%
Office	38,006	11.49	16.7%	14.4%
Industrial	2,278	0.69	1.0%	0.9%
Hotel	10,430	3.15	4.6%	3.9%
Car parks & others	3,269	0.99	1.4%	1.2%
	<b>135,974</b>	<b>41.12</b>	<b>59.8%</b>	<b>51.4%</b>
<b>China Properties</b>				
Development properties	3,630	1.10	1.6%	1.4%
Investment properties	31,766	9.61	14.0%	12.0%
	<b>35,396</b>	<b>10.70</b>	<b>15.6%</b>	<b>13.4%</b>
<b>Other Assets</b>				
Miramar Hotels	3,383	1.02	1.5%	1.3%
Hongkong and China Gas	59,417	17.97	26.1%	22.5%
HK Ferries	1,015	0.31	0.4%	0.4%
Other financial assets	6,023	1.82	2.6%	2.3%
	<b>69,838</b>	<b>21.12</b>	<b>30.7%</b>	<b>26.4%</b>
<b>Gross asset value</b>	<b>264,576</b>	<b>80.01</b>	<b>116.3%</b>	<b>100.0%</b>
Net debt	(37,011)	(11.19)	-16.3%	-14.0%
<b>Net asset value</b>	<b>227,565</b>	<b>68.82</b>	<b>100.0%</b>	<b>86.0%</b>

Source: Deutsche Bank estimates

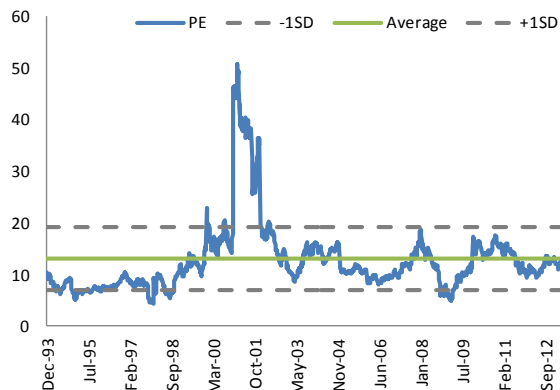


Figure 16: HLD – Historical discount to NAV



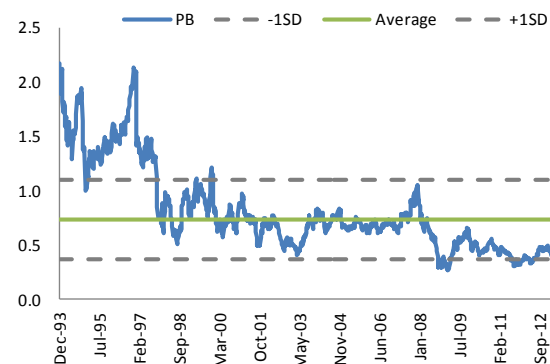
Source: Bloomberg, Deutsche Bank estimates

Figure 17: Historical P/E



Source: Bloomberg, Deutsche Bank estimates

Figure 18: Historical P/B



Source: Bloomberg, Deutsche Bank estimates



# Investment risks

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## Macro risks

### External shocks and interest rate hikes

Hong Kong is an open economy that could be severely affected by external factors, such as a slower-than-expected economic recovery in the US and financial stress in other countries. A slowdown in the local economy could lead to lower housing demand. The strong housing market in Hong Kong has been underpinned by healthy market liquidity and low interest rates. Interest rate hikes and continuous liquidity outflow could severely hurt sentiment and housing demand. Deterioration in the property market could affect HLD's property business.

### Government tightening measures may be stricter than expected

Whenever the Chinese government tightens fiscal and monetary policies, especially using administrative measures, the results could be volatile movements in housing transaction volumes, housing prices, land prices, and financing available to developers and homebuyers. With this in mind, if the government's tightening measures are stricter than expected or if the impact of the measures already introduced is stronger than expected, this could weaken sales and price performance of the property businesses of property companies, including HLD.

### Unexpected economic fluctuations in Chinese economy

In our view, any weaker-than-expected performance by the Chinese economy will likely result in weaker housing demand – affecting Chinese developers' property sales and weakening consumption – thereby affecting the business of tenants of HLD's commercial properties. On the other hand, any overly strong growth in the Chinese economy could raise the concern of overheating and attract tightening measures. Therefore, any unexpected fluctuations in the Chinese economy would likely affect demand and supply in the China property market and the business of property companies such as HLD.

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## Company-specific risks

### Track record in execution in China not fully proven

While HLD has a strong track record of operating in Hong Kong, its operational capabilities in China have not been fully established. Any delay in project completion will likely affect the timing of earnings contributions from those projects. Weaker-than-expected operating performance in China could result in downside to our estimated earnings and NAV.

### HLD could face stronger-than-expected competition for land bank

HLD's strong balance sheet supports land bank acquisitions in Hong Kong and China, but competition from other developers may be more intense than we expect. If this is the case, NAV upside could turn out to be lower than expected.



# Appendix 1

## Important Disclosures

Additional information available upon request

### Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Henderson Land Dev. Co.	0012.HK	41.90 (HKD) 23 Jun 16	NA

\*Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg and other vendors. Other information is sourced from Deutsche Bank, subject companies, and other sources. For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at <http://gm.db.com/ger/disclosure/DisclosureDirectory.eqsr>.

For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at <http://gm.db.com/ger/disclosure/Disclosure.eqsr?ricCode=0012.HK>

## Analyst Certification

The views expressed in this report accurately reflect the personal views of the undersigned lead analyst(s) about the subject issuer and the securities of the issuer. In addition, the undersigned lead analyst(s) has not and will not receive any compensation for providing a specific recommendation or view in this report. Iris Poon/Foo Leung

### Historical recommendations and target price: Henderson Land Dev. Co. (0012.HK)

(as of 6/23/2016)



1. 05/11/2014:	Buy, Target Price Change HKD59.30 Tony Tsang	3. 21/08/2015:	Buy, Target Price Change HKD56.18 Tony Tsang
2. 23/03/2015:	Buy, Target Price Change HKD58.02 Tony Tsang	4. 25/01/2016:	Buy, Target Price Change HKD47.88 Tony Tsang



## Equity rating key

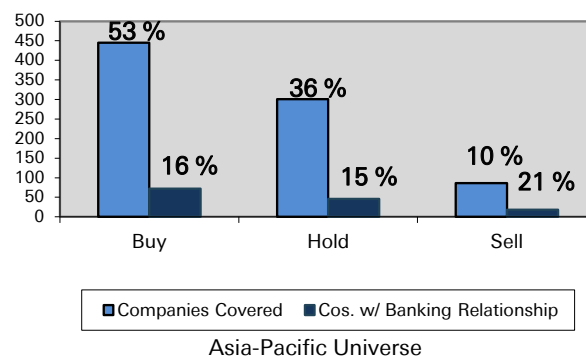
**Buy:** Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield ) , we recommend that investors buy the stock.

**Sell:** Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock

**Hold:** We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

Newly issued research recommendations and target prices supersede previously published research.

## Equity rating dispersion and banking relationships



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Macroeconomic fluctuations often account for most of the risks associated with exposures to instruments that promise to pay fixed or variable interest rates. For an investor who is long fixed rate instruments (thus receiving these cash flows), increases in interest rates naturally lift the discount factors applied to the expected cash flows and thus cause a loss. The longer the maturity of a certain cash flow and the higher the move in the discount factor, the higher will be the loss. Upside surprises in inflation, fiscal funding needs, and FX depreciation rates are among the most common adverse macroeconomic shocks to receivers. But counterparty exposure, issuer creditworthiness, client segmentation, regulation (including changes in assets holding limits for different types of investors), changes in tax policies, currency convertibility (which may constrain currency conversion, repatriation of profits and/or the liquidation of positions), and settlement issues related to local clearing houses are also important risk factors to be considered. The sensitivity of fixed income instruments to macroeconomic shocks may be mitigated by indexing the contracted cash flows to inflation, to FX depreciation, or to specified interest rates – these are common in emerging markets. It is important to note that the index fixings may -- by construction -- lag or mis-measure the actual move in the underlying variables they are intended to track. The choice of the proper fixing (or metric) is particularly important in swaps markets, where floating coupon rates (i.e., coupons indexed to a typically short-dated interest rate reference index) are exchanged for fixed coupons. It is also important to acknowledge that funding in a currency that differs from the currency in which coupons are denominated carries FX risk. Naturally, options on swaps (swaptions) also bear the risks typical to options in addition to the risks related to rates movements.



Derivative transactions involve numerous risks including, among others, market, counterparty default and illiquidity risk. The appropriateness or otherwise of these products for use by investors is dependent on the investors' own circumstances including their tax position, their regulatory environment and the nature of their other assets and liabilities, and as such, investors should take expert legal and financial advice before entering into any transaction similar to or inspired by the contents of this publication. The risk of loss in futures trading and options, foreign or domestic, can be substantial. As a result of the high degree of leverage obtainable in futures and options trading, losses may be incurred that are greater than the amount of funds initially deposited. Trading in options involves risk and is not suitable for all investors. Prior to buying or selling an option investors must review the "Characteristics and Risks of Standardized Options", at <http://www.optionsclearing.com/about/publications/character-risks.jsp>. If you are unable to access the website please contact your Deutsche Bank representative for a copy of this important document.

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