

HK Property

22 March 2018

Henderson Land (12 HK)

FY17 results in line, led by disposal gain

- ⊕ **Results in line.** FY17 reported core profit rose 38% YoY to HK\$19.6bn. Excluding disposal gain, core profit rose 18% YoY to HK\$12.1bn, in line with our forecast. FY17 dividend was HK\$1.71, +10% YoY. The growth was mainly driven by the increase in property profit. The company proposed a 1-for-10 bonus share issue for the sixth consecutive year. BVPS rose 11% YoY to HK\$73.26.
- ⊕ **Margin expansion from old landbank.** HK and mainland property sales were flat YoY at HK\$9.4bn and HK\$10.4bn, respectively. Yet, profit margin expanded on inventory sales, of which the land costs were still low. HK property margin grew to 35% (2016: 28%), leading to a 29% YoY increase in HK property profit. Mainland property post-LAT EBIT grew even faster at 46% YoY, with post-LAT margin jumped to 24% (2016: 14%). We estimate property sales contributed HK\$4bn to core profit, +49% YoY, of which HK stills accounted for 60%.
- ⊕ **Steady recurring income.** HK and mainland rental income posted mild growth at 3.1% YoY and 2.7% YoY, respectively, in local currency terms. Share of profit from HK & China Gas (ex-property) also rose 8% YoY. We estimate these contributed a recurrent core profit of HK\$8bn, +6% YoY, with the rental-utility split remained at 65:35.
- ⊕ **Slowing momentum from mainland profit.** We expect rental income to remain steady in 2018-19E, before rental contribution from Shanghai Xujiahui project and Guangzhou Haizhu Square Station project kicks in by 2020E. We also expect mainland property revenue to gradually decline, following the 3% YoY drop in FY17 contracted sales to HK\$8.2bn, which was 21% lower than the revenue booked in FY17. Management expects mainland property margin to soften in 2018E.
- ⊕ **A low year in 2018E.** We estimate a similar trend in HK property profit, with no major project booking in 2018E. Therefore, even assuming full booking of inventory sales, we still expect a 5% YoY decline in core profit. A total of 3,364 units (inventory: 1,460; new launch: 1,903) will be saleable in FY18 in HK, similar to last year. Therefore, we estimate contracted sales may also be flat YoY at HK\$12.4bn. Margin outlook may soften, with farmland conversion not as cheap as market had expected, and the high land cost at Kai Tak acquisition.
- ⊕ **Stay patient.** While the company continues to increase its stake in old buildings, with 51 projects (total 4.2m GFA) with >80% ownership, we believe it will still take 2-3 years for presale. Together with the farmlands, we estimate HK\$53bn, or 18% of its net assets, are tied up in these half-idle assets, which will drag its ROE. We believe investors would have to share the company's patience before these assets can be monetized. Meanwhile, though the company intends to increase dividend over time, we believe the room is narrowing as payout has increased to 57%, excluding the disposal gain. We believe the current 31% discount to its NAV of HK\$76.50 is fair to reflect its slow growth and asset turnover. Therefore, we maintain our **Neutral** rating and TP of HK\$55.10, based on 30% NAV discount.

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Analyst Stock Ratings:

Buy: The stock's total return is expected to **exceed** that of the corresponding industry over the next 12 months.

Neutral: The stock's total return is expected to be **in line with** that of the corresponding industry over the next 12 months.

Sell: The stock's total return is expected to be **below** that of the corresponding industry over the next 12 months.

Not-Rated: The analyst **does not have conviction** regarding the outlook of the stock's total return relative to that of the corresponding industry over the next 12 months.

Analyst Industry Views:

Outperform: The analyst expects the industry coverage universe to be **attractive** relative to the relevant broad market benchmark over the next 12 months.

Market perform: The analyst expects the industry coverage universe to be **in line with** the relevant broad market benchmark over the next 12 months.

Underperform: The analyst expects the industry coverage universe to be **unattractive** relative to the relevant broad market benchmark over the next 12 months.

Broad market benchmark for Hong Kong is **the Hang Seng Composite Index**, for China A-shares is the **MSCI China A Index**, for US-listed Chinese companies is **S&P US Listed China 50 (USD) Index**.

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