Issuer Profile:
Positive (2)

Ticker:
HKL

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Hongkong Land Holdings Ltd ("HKL")

Recommendation

- **In 1H2019, revenue was down 47.0% h/h to USD803.9mn from USD1.5bn. This was largely due to lower properties sales from the development properties segment. Given HKL had USD1.7bn in sold but unrecognised contracted sales in Mainland China at 30 June 2019 (+13.7% h/h), we are not overly concerned about the lower revenue.**
- **Management expects the investment properties segment to remain firm going forward, while the development properties segment is expected to continue to grow.**
- **HKL has a robust balance sheet, with net gearing at 10% and EBITDA/Interest at 4.6x as at end June 2019. We are maintaining HKL's Positive (2) Issuer Profile.**
- **We think HKLSP 3.43% '20 looks relatively more attractive than CITSP 3.0% '20, given that both are trading at a similar level and HKL has a stronger credit profile. We have City Development Ltd at an Issuer Profile of Neutral (3). That said, WHEELK 4.5% '21 (also a Positive (2) Issuer Profile) is offering a 18bps pick up against HKLSP 3.43% '20 for a 16 months longer tenor.**
- **HKLSP 3.95% '38 has a yield of 3.75%, with a spread over swap of 177bps. We think HKLSP 3.95% '38 looks interesting, as we expect HKL's credit metrics to remain intact.**

Relative Value

Bond	Maturity / Call date	Net gearing	Ask YTC / YTM	Spread
HKLSP 3.43% '20	14/05/2020	10%	2.26%	61bps
HKLSP 3.95% '38	28/11/2038	10%	3.75%	177bps
CITSP 3.0% '20	02/04/2020	32%	2.27%	62bps
WHEELK 4.5% '21	02/09/2021	13%	2.37%	79bps
WHARF 4.5% '21	20/07/2021	19%	2.35%	77bps

Indicative prices as at 8 August 2019 Source: Bloomberg
Aggregate leverage based on latest available quarter

Background

- Hongkong Land Holdings Limited ("HKL") was established in 1889 and listed in the London Stock Exchange, with secondary listings in Bermuda and Singapore. It is a leading Asian property investment, management and development group, with its main portfolio in Hong Kong where it owns and manages some 450,000 sq. m of prime property.
- The Group also has a number of high quality residential, commercial and mixed-use projects under development in cities across Greater China and Southeast Asia. In Singapore, its subsidiary, MCL Land, is a well-established residential developer.
- Its assets and investments are managed from Hong Kong and it is 50.01% owned by Jardine Matheson Holdings Ltd.

Key Considerations

- **Lumpy revenue:** In 1H2019, revenue was down by 47.0% h/h to USD803.9mn from USD1.5bn, largely due to lower sales of properties from the development properties segment. Rental income though was up 5.3% h/h. We are not overly concerned about the lower sales of properties as (1) HKL has USD1.7bn in sold but unrecognised contracted sales (+13.7% h/h) in Mainland China at 30 June 2019 and (2) sales completions and contracted sales are in line with expectations and are expected to strengthen in 2H2019. Profit before tax (excluding non-trading items) was down slightly by just 0.4% h/h despite the lower revenue, due to a 72.8% h/h increase in contributions from share of results of associates and joint ventures under development properties.

- **Investment properties remain stable:** HKL's investment properties, largely office, are 52% (by net floor area) located in Hong Kong, followed by another 18.9% in Singapore. The Hong Kong office portfolio saw average net rent increase by 4.5% h/h to HKD116 psf/month, with weighted average lease expiry ("WALE") longer at 4.6 years from 3.9 years a year ago. For the remaining of 2019, we see 10% of the leases at Hong Kong's office portfolio expire. We expect positive rental reversion to continue as the average expiring net rent is 0.9% below the average net rent that HKL managed to secure in 1H2019. While vacancy rate was 2.8% at end June 2019, it would have been just 1.6% if we were to take into account of committed leases. The Singapore office portfolio too reported strong figures. Average gross rent grew by 5.5% h/h to SGD9.6 psf/month. Although vacancy rate was 3.3% compared with 0.1% at June 2018, it was only 0.9% on a committed basis. Even though the rent rate of leases that will be expiring in 2H2019 is SGD10.2 psf/month, above SGD9.6 psf/month, it is for a mere 2% of the total lettable office area. As such, we do not expect reversions of these leases to have a significant impact on the portfolio even if they were to be negative. In addition, the Singapore office market has seen Grade A office rents climb 3.0% q/q to SGD9.93 psf/month in 2Q2019 and we expect this positive trend in terms of rent rate to persist.

- **Development properties expected to grow:** Bulk of HKL's development properties (i.e. 55.4%) is located in Mainland China. We note that revenue recognised over the half year from property sales in Mainland China was higher by 83.1% h/h, while contracted sales was lower by 1.1% h/h due to the timing of sales launches. As at 30 June 2019, HKL has USD1.7bn sold but unrecognised sales which will be recognised over time. Overall, market sentiment in Mainland China remains stable. In Singapore, contracted sales in 1H2019 were 2.52x that of 1H2018, due to the sales launch of Parc Esta in November 2019. Similarly, sold but unrecognised sales was 2.46x that at 30 June 2018. Given the pipeline of sold but recognised sales, we would expect development properties to deliver better revenue in the upcoming quarters.

- **Strong balance sheet:** HKL's financial position remains strong, even though net debt was higher at USD3.9bn at 30 June 2019 from USD3.6bn at end 2018. The higher debt was not unexpected as deposits were paid for recent land auctions and furthermore, HKL had acquired a new residential site in Wuhan (construction to be completed in 2022). As a result, we find the net gearing higher at 10% versus 9% at end 2018. EBITDA/Interest was 4.6x based on our calculation, down from 6.6x a year ago. Interest expenses were higher as the average cost of borrowing was increased 0.1% to 3.7% at end June 2019 relative to June 2018. EBITDA was lower by 9.3% h/h as revenue had declined by 47.0% h/h, while cost of sales was lower by a greater extend of 72.3% h/h. We are maintaining HKL's Positive (2) Issuer Profile on the back of its low gearing level.

Explanation of Issuer Profile Rating / Issuer Profile Score

Positive ("Pos") – The issuer's credit profile is either strong on an absolute basis, or expected to improve to a strong position over the next six months.

Neutral ("N") – The issuer's credit profile is fair on an absolute basis, or expected to improve / deteriorate to a fair level over the next six months.

Negative ("Neg") – The issuer's credit profile is either weaker or highly geared on an absolute basis, or expected to deteriorate to a weak or highly geared position over the next six months.

To better differentiate relative credit quality of the issuers under our coverage, we have further sub-divided our Issuer Profile Ratings into a 7 point Issuer Profile Score scale.

IPR	Positive		Neutral			Negative	
IPS	1	2	3	4	5	6	7

Please note that Bond Recommendations are dependent on a bond's price, underlying risk free rates and an implied credit spread that reflects the strength of the issuer's credit profile. Bond Recommendations may not be relied upon if one or more of these factors change.

Explanation of Bond Recommendation

Overweight ("OW") – The performance of the issuer's specific bond is expected to outperform the issuer's other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

Neutral ("N") – The performance of the issuer's specific bond is expected to perform in line with the issuer's other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

Underweight ("UW") – The performance of the issuer's specific bond is expected to underperform the issuer's other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

Other

Suspension – We may suspend our issuer rating and bond level recommendation on specific issuers from time to time when OCBC is engaged in other business activities with the issuer. Examples of such activities include acting as a joint lead manager or book runner in a new issue or as an agent in a consent solicitation exercise. We will resume our coverage once these activities are completed.

Withdrawal ("WD") – We may withdraw our issuer rating and bond level recommendation on specific issuers from time to time when corporate actions are announced but the outcome of these actions are highly uncertain. We will resume our coverage once there is sufficient clarity in our view on the impact of the proposed action.

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