

Ho Bee Land (HOBEE SP)

Diversifies into Germany

1Q18 net profit in line; Maintain BUY

1Q18 net profit was in line with our and consensus estimates. The decline in profit was due to a high-base effect from the one-off sale of Rose Court in 1Q17. Ho Bee sold a small redevelopment site on the Gold Coast and invested into a European property fund, which gives it exposure to a commercial development in Germany. We refresh our model and fine-tune our estimates to incorporate the latest data points. Our TP is raised by 5% to SGD3.30, based on an unchanged 30% discount to revised RNAV of SGD4.73. While the earnings outlook is not exciting, the steep 47% RNAV discount is amongst the largest in the sector. Maintain BUY.

Results inline; Sold Gold Coast site for a small profit

1Q18 net profit fell 12% YoY to SGD49.4m. The decline was mainly due to higher base from a SGD7.4m one-off gain from the sale of Rose Court in 1Q17. In 1Q18, Ho Bee sold a small development site at Ferny Avenue on the Gold Coast for AUD5.5m, at a premium to its acquisition cost of AUD2.9m in late-2012. Apart from the land parcel sold, Ho Bee has another undeveloped site on the Gold Coast that was acquired for AUD20m in Nov 2012. Its JV project in Shanghai continues to materially contribute to earnings, generating SGD28.5m in the quarter.

Investing into a European property fund

Ho Bee has committed EUR40m into a property fund (Credit Suisse (Lux) European Property Fund II) and another EUR50m into a Munich commercial development. The property will be redeveloped into a 500k sf Grade A office building. We built this investment into our model, but did not factor in profit contributions as no further details on the deal structure and return profile have been provided.

Sentosa re-launch a potential catalyst

With strengthening sentiment for high-end properties, Ho Bee will look to re-launch its 453 unsold units across various projects worth SGD2b on Sentosa. While we agree that sales should pick up in the year ahead, we believe sales volume should remain constrained due to the large price tags for the apartments. Units in these projects are typically priced above SGD4m.

| FYE Dec (SGD m) | FY16A | FY17A | FY18E | FY19E | FY20E |
|------------------------------|--------|-------|--------|-------|--------|
| Revenue | 299 | 165 | 216 | 343 | 172 |
| EBITDA | 130 | 133 | 133 | 178 | 121 |
| Core net profit | 217 | 249 | 139 | 141 | 91 |
| Core EPS (cts) | 32.5 | 37.4 | 20.9 | 21.1 | 13.7 |
| Core EPS growth (%) | (10.4) | 15.1 | (44.2) | 1.1 | (35.4) |
| Net DPS (cts) | 6.0 | 10.0 | 8.0 | 8.0 | 8.0 |
| Core P/E (x) | 7.8 | 6.8 | 12.2 | 12.0 | 18.6 |
| P/BV (x) | 0.6 | 0.5 | 0.5 | 0.5 | 0.5 |
| Net dividend yield (%) | 2.4 | 3.9 | 3.1 | 3.1 | 3.1 |
| ROAE (%) | 7.5 | 8.2 | 4.4 | 4.3 | 2.7 |
| ROAA (%) | 4.8 | 5.5 | 3.0 | 3.0 | 1.9 |
| EV/EBITDA (x) | 20.4 | 21.9 | 22.0 | 15.4 | 22.7 |
| Net gearing (%) (incl perps) | 43.8 | 40.0 | 38.1 | 31.7 | 30.8 |
| Consensus net profit | - | - | 119 | 139 | 136 |
| MKE vs. Consensus (%) | - | - | 16.8 | 0.9 | (33.2) |

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BUY

Share Price SGD 2.54
 12m Price Target SGD 3.30 (+30%)
 Previous Price Target SGD 3.15

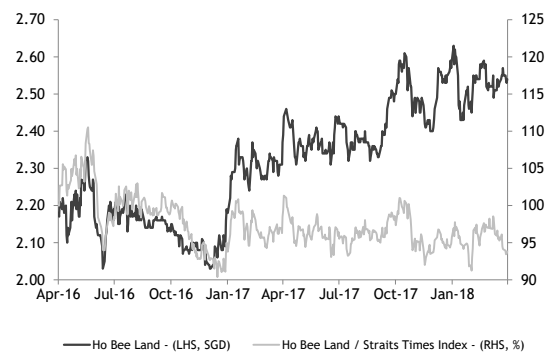
Statistics

| | |
|------------------------|-----------|
| 52w high/low (SGD) | 2.63/2.31 |
| 3m avg turnover (USDm) | 0.2 |
| Free float (%) | 21.1 |
| Issued shares (m) | 703 |
| Market capitalisation | SGD1.8B |
| | USD1.3B |

Major shareholders:

| | |
|------------------------------|-------|
| CHUA THIAN POH FAMILY | 69.1% |
| Ho Bee Land Ltd. | 5.1% |
| Dimensional Fund Advisors LP | 1.4% |

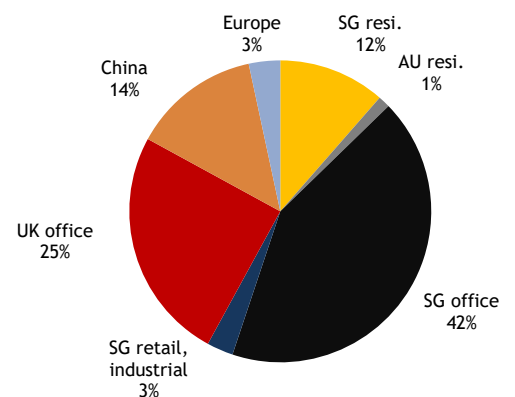
Price Performance



| | -1M | -3M | -12M |
|-----------------------|-----|-----|------|
| Absolute (%) | 1 | (2) | 7 |
| Relative to index (%) | (3) | (2) | (5) |

Source: FactSet

Exposure summary



Source: Company, Maybank Kim Eng

Fig 1: Quarterly profit and loss

| FYE 31 Dec | 1Q17 | 4Q17 | 1Q18 | Change | | YTD18 (SGD m) | % of FYE | FY18E (SGD m) |
|-------------------------------|---------|---------|---------|--------|--------|------------------|----------|------------------|
| | (SGD m) | (SGD m) | (SGD m) | QoQ % | YoY % | | | |
| Revenue | 42.4 | 41.2 | 48.7 | 18.2 | 14.8 | 48.7 | 23.1 | 210.4 |
| EBITDA | 27.6 | 25.4 | 32.4 | 27.3 | 17.4 | 32.4 | 24.8 | 130.4 |
| D&A | (0.2) | (0.3) | (0.2) | (38.3) | (11.9) | (0.2) | 20.8 | (1.0) |
| EBIT | 27.3 | 25.1 | 32.2 | 28.2 | 17.7 | 32.2 | 24.9 | 129.4 |
| Net interest income/(expense) | (5.9) | (7.1) | (6.8) | (4.8) | 15.0 | (6.8) | 24.7 | (27.5) |
| Other items | 7.8 | 78.1 | 0.0 | n.m. | n.m. | 0.0 | n.m. | 0.0 |
| Associates & JVs | 34.5 | 13.6 | 30.2 | >100 | (12.4) | 30.2 | 140.9 | 21.4 |
| PBT | 63.7 | 109.7 | 55.5 | (49.4) | (12.8) | 55.5 | 45.0 | 123.3 |
| Taxation | (7.2) | (6.9) | (5.9) | (13.9) | (17.4) | (5.9) | 29.1 | (20.4) |
| MI | (0.2) | (0.3) | (0.2) | (27.6) | 13.5 | (0.2) | 23.6 | (1.0) |
| Net income | 56.3 | 102.4 | 49.4 | (51.8) | (12.3) | 49.4 | 48.4 | 102.0 |

Source: Company, Maybank Kim Eng

Fig 2: Ho Bee's RNAV and TP

We fine-tune our model to incorporate earnings revisions and built in its latest investments

| Valuation | 2018E | % of total | per share | Remarks |
|--------------------------------|---------|------------|-----------|--|
| | (SGD m) | (%) | (SGD) | |
| Singapore residential | 490 | 11.4 | 0.74 | Sentosa homes at SGD1,800-1,900 psf. Incl. NAV of JV projects. |
| Australia residential | 55 | 1.3 | 0.08 | |
| Investment properties | 3,006 | 70.2 | 4.52 | |
| Singapore office | 1,816 | 42.4 | 2.73 | The Metropolis. |
| Singapore retail | 49 | 1.2 | 0.07 | |
| Singapore industrial | 72 | 1.7 | 0.11 | |
| UK office | 1,070 | 25.0 | 1.61 | |
| China | 586 | 13.7 | 0.88 | |
| Europe | 144 | 3.4 | 0.22 | European property fund. |
| Gross asset value | 4,281 | 100.0 | 6.43 | |
| Less: adjusted net liabilities | (1,133) | | | |
| RNAV | 3,147 | | | |
| Outstanding no. of shares (m) | 665.7 | | | |
| RNAV per share | 4.73 | | | |
| TP | 3.30 | | | |
| Implied discount to RNAV (%) | (30) | | | |

Source: Maybank Kim Eng

Fig 3: Earnings revision

We refresh our model to adjust the timing of sales and remove development earnings from its Gold Coast projects. Rents at The Metropolis are also lowered slightly.

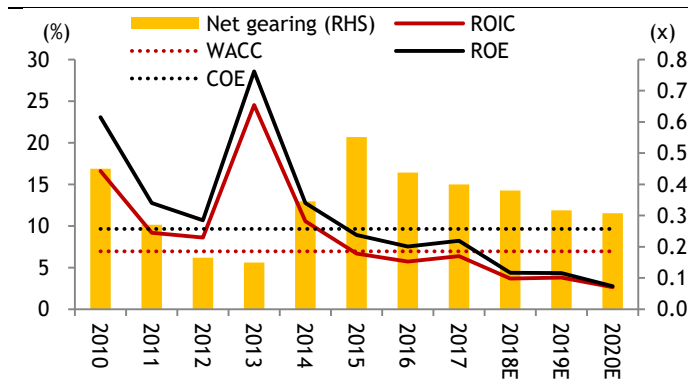
| | New | | | Old | | | Change (%) | | |
|------------------|------|------|------|------|------|------|------------|------|------|
| | FY18 | FY19 | FY20 | FY18 | FY19 | FY20 | FY18 | FY19 | FY20 |
| Revenue | 216 | 343 | 172 | 245 | 310 | 365 | -12 | 11 | -53 |
| EBIT | 132 | 177 | 120 | 155 | 186 | 182 | -15 | -5 | -34 |
| Associates & JVs | 56 | 25 | 19 | 17 | 13 | 13 | 232 | 92 | 48 |
| Net profit | 139 | 141 | 91 | 119 | 139 | 136 | 17 | 1 | -33 |
| BVPS | 4.81 | 4.94 | 4.99 | 4.78 | 4.91 | 5.03 | 0.6 | 0.7 | -0.7 |

Source: Maybank Kim Eng

Value Proposition

- Singapore-based property developer with a reputation for taking calculated risks in uncharted territories.
- The first property developer to build luxury homes on Sentosa Island in 2003. Major beneficiary of the strong market performance prior to the GFC.
- Made huge profits in 2013 by developing The Metropolis, the first Grade A office building in the Bona Vista precinct.
- While earnings will be supported by a strong recurring income base, we see relatively weak ROE and ROIC near term due to relatively low development earnings.

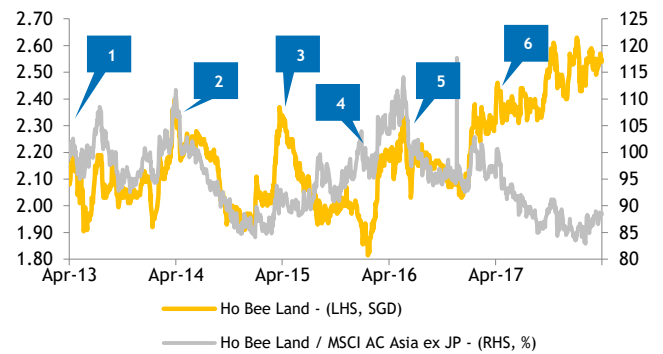
Returns vs cost of capital



Source: Company, Maybank Kim Eng

Price Drivers

Historical share price trend



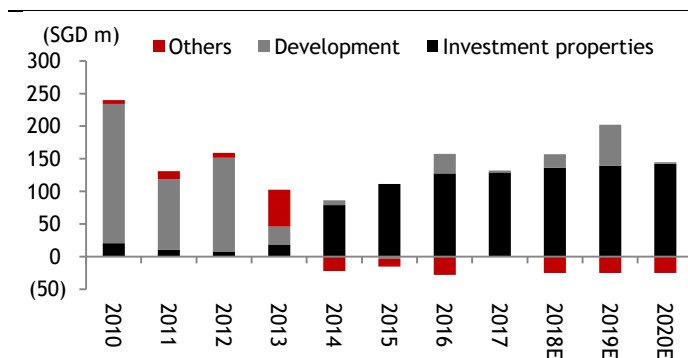
Source: FactSet, Company, Maybank Kim Eng

1. Rebound in Singapore's residential market and expectations for strong fair value gains as The Metropolis nears completion in 2013.
2. Concerns over asset value due to large losses incurred by home buyers on Sentosa.
3. Privatisation of Keppel Land in early 2015 reignited privatisation interest in the sector.
4. Positives from higher dividends, stronger earnings from Australia and potential sale of an office in the UK.
5. Concerns over impact to the value of its UK assets post-Brexit in June 2016.
6. Government relaxed cooling measures in Mar 2017 for the first time since GFC.

Financial Metrics

- Stable cashflows with >SGD130m of EBIT in FY18/19E from its investment properties.
- Strong recurring income base cushions the more cyclical development business.
- Potential re-launch of unsold stock in Sentosa could lift development earnings.
- Conservative SGD1,800-1,900 psf valuation of unsold units on Sentosa Island.
- We value The Metropolis using a conservative cap rate of 3.75%.

EBIT breakdown



Source: Company, Maybank Kim Eng

Swing Factors

Upside

- Privatisation offer by major shareholder who already owns over 70% of the company.
- Strong rebound in luxury home market in Sentosa.
- Profitable sale of investment properties.

Downside

- Sharp fall in value of office properties in UK and Singapore.
- Overpaying for development land.
- Poor execution of overseas projects.

| FYE 31 Dec | FY16A | FY17A | FY18E | FY19E | FY20E |
|------------------------|-------|-------|-------|-------|-------|
| Key Metrics | | | | | |
| P/E (reported) (x) | 6.5 | 6.3 | 12.2 | 12.0 | 18.6 |
| Core P/E (x) | 7.8 | 6.8 | 12.2 | 12.0 | 18.6 |
| P/BV (x) | 0.6 | 0.5 | 0.5 | 0.5 | 0.5 |
| P/NTA (x) | 0.6 | 0.5 | 0.5 | 0.5 | 0.5 |
| Net dividend yield (%) | 2.4 | 3.9 | 3.1 | 3.1 | 3.1 |
| FCF yield (%) | 10.5 | 10.7 | 8.4 | 15.5 | 5.9 |
| EV/EBITDA (x) | 20.4 | 21.9 | 22.0 | 15.4 | 22.7 |
| EV/EBIT (x) | 20.6 | 22.1 | 22.2 | 15.5 | 22.9 |

INCOME STATEMENT (SGD m)

| | | | | | |
|-----------------------------|--------|--------|--------|--------|--------|
| Revenue | 299.4 | 164.7 | 215.9 | 343.4 | 171.8 |
| EBITDA | 129.9 | 132.8 | 133.0 | 178.3 | 120.5 |
| Depreciation | (0.8) | (1.1) | (1.0) | (1.0) | (1.0) |
| EBIT | 129.0 | 131.7 | 132.0 | 177.3 | 119.5 |
| Net interest income / (exp) | (29.6) | (25.5) | (27.5) | (31.4) | (28.6) |
| Associates & JV | 33.3 | 94.8 | 56.4 | 24.8 | 19.1 |
| Exceptionals | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other pretax income | 104.1 | 78.1 | 0.0 | 0.0 | 0.0 |
| Pretax profit | 236.8 | 279.2 | 160.9 | 170.8 | 110.1 |
| Income tax | (19.7) | (28.4) | (20.9) | (29.2) | (18.2) |
| Minorities | (0.3) | (1.5) | (1.0) | (1.0) | (1.0) |
| Reported net profit | 216.8 | 249.3 | 139.0 | 140.6 | 90.9 |
| Core net profit | 216.8 | 249.3 | 139.0 | 140.6 | 90.9 |
| Preferred Dividends | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

BALANCE SHEET (SGD m)

| | | | | | |
|-------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Cash & Short Term Investments | 58.0 | 97.1 | 226.3 | 253.0 | 221.1 |
| Accounts receivable | 28.6 | 28.5 | 29.9 | 31.4 | 32.9 |
| Inventory | 253.6 | 241.3 | 201.5 | 79.4 | 71.5 |
| Property, Plant & Equip (net) | 22.5 | 26.7 | 26.7 | 26.7 | 26.7 |
| Intangible assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Investment in Associates & JVs | 792.0 | 848.5 | 919.6 | 944.4 | 963.6 |
| Other assets | 3,239.9 | 3,375.8 | 3,388.9 | 3,402.7 | 3,417.1 |
| Total assets | 4,394.7 | 4,617.8 | 4,792.9 | 4,737.6 | 4,733.0 |
| ST interest bearing debt | 234.7 | 173.0 | 250.0 | 200.0 | 150.0 |
| Accounts payable | 42.6 | 47.1 | 49.5 | 52.0 | 54.6 |
| LT interest bearing debt | 1,111.0 | 1,181.5 | 1,200.0 | 1,100.0 | 1,100.0 |
| Other liabilities | 67.0 | 74.0 | 78.0 | 82.0 | 86.0 |
| Total Liabilities | 1,455.5 | 1,476.1 | 1,577.7 | 1,434.1 | 1,390.8 |
| Shareholders Equity | 2,925.3 | 3,127.6 | 3,200.0 | 3,287.4 | 3,325.0 |
| Minority Interest | 13.9 | 14.2 | 15.2 | 16.2 | 17.2 |
| Total shareholder equity | 2,939.2 | 3,141.8 | 3,215.2 | 3,303.6 | 3,342.2 |
| Perpetual securities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total liabilities and equity | 4,394.7 | 4,617.8 | 4,792.9 | 4,737.6 | 4,733.0 |

CASH FLOW (SGD m)

| | | | | | |
|-----------------------------------|--------|---------|--------|---------|--------|
| Pretax profit | 236.8 | 279.2 | 160.9 | 170.8 | 110.1 |
| Adj net interest (income)/exp | 29.6 | 25.5 | 27.5 | 31.4 | 28.6 |
| Change in working capital | 71.0 | 10.1 | 31.3 | 113.2 | (1.4) |
| Cash taxes paid | (31.4) | (19.5) | (20.9) | (29.2) | (18.2) |
| Other operating cash flow | (77.6) | (136.0) | (35.5) | 4.4 | (0.9) |
| Cash flow from operations | 178.1 | 112.9 | 143.4 | 262.3 | 100.9 |
| Capex | (0.9) | (4.5) | (1.0) | (1.0) | (1.0) |
| Free cash flow | 178.3 | 181.7 | 142.4 | 261.3 | 99.9 |
| Dividends paid | (46.6) | (39.9) | (66.6) | (53.3) | (53.3) |
| Equity raised / (purchased) | (1.1) | 0.0 | 0.0 | 0.0 | 0.0 |
| Change in Debt | (77.3) | (2.5) | 95.5 | (150.0) | (50.0) |
| Perpetual securities distribution | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other invest/financing cash flow | (12.3) | (27.1) | (27.5) | (31.4) | (28.6) |
| Effect of exch rate changes | (1.4) | (0.4) | 0.0 | 0.0 | 0.0 |
| Net cash flow | 41.1 | 43.2 | (14.8) | 26.7 | (31.9) |

| FYE 31 Dec | FY16A | FY17A | FY18E | FY19E | FY20E |
|--|---------|---------|---------|---------|---------|
| Key Ratios | | | | | |
| Growth ratios (%) | | | | | |
| Revenue growth | 130.4 | (45.0) | 31.1 | 59.1 | (50.0) |
| EBITDA growth | 9.8 | 2.3 | 0.2 | 34.1 | (32.4) |
| EBIT growth | 10.0 | 2.1 | 0.2 | 34.3 | (32.6) |
| Pretax growth | (8.3) | 17.9 | (42.3) | 6.1 | (35.6) |
| Reported net profit growth | (10.5) | 15.0 | (44.2) | 1.1 | (35.4) |
| Core net profit growth | (10.5) | 15.0 | (44.2) | 1.1 | (35.4) |
| Profitability ratios (%) | | | | | |
| EBITDA margin | 43.4 | 80.7 | 61.6 | 51.9 | 70.1 |
| EBIT margin | 43.1 | 80.0 | 61.1 | 51.6 | 69.6 |
| Pretax profit margin | 79.1 | nm | 74.5 | 49.7 | 64.1 |
| Payout ratio | 18.5 | 26.7 | 38.3 | 37.9 | 58.6 |
| DuPont analysis | | | | | |
| Net profit margin (%) | 72.4 | nm | 64.4 | 40.9 | 52.9 |
| Revenue/Assets (x) | 0.1 | 0.0 | 0.0 | 0.1 | 0.0 |
| Assets/Equity (x) | 1.5 | 1.5 | 1.5 | 1.4 | 1.4 |
| ROAE (%) | 7.5 | 8.2 | 4.4 | 4.3 | 2.7 |
| ROAA (%) | 4.8 | 5.5 | 3.0 | 3.0 | 1.9 |
| Leverage & Expense Analysis | | | | | |
| Asset/Liability (x) | 3.0 | 3.1 | 3.0 | 3.3 | 3.4 |
| Net gearing (%) (incl perps) | 43.8 | 40.0 | 38.1 | 31.7 | 30.8 |
| Net gearing (%) (excl. perps) | 43.8 | 40.0 | 38.1 | 31.7 | 30.8 |
| Net interest cover (x) | 4.4 | 5.2 | 4.8 | 5.7 | 4.2 |
| Debt/EBITDA (x) | 10.4 | 10.2 | 10.9 | 7.3 | 10.4 |
| Capex/revenue (%) | 0.3 | 2.8 | 0.5 | 0.3 | 0.6 |
| Net debt/ (net cash) | 1,287.7 | 1,257.4 | 1,223.7 | 1,047.0 | 1,028.9 |

Source: Company; Maybank

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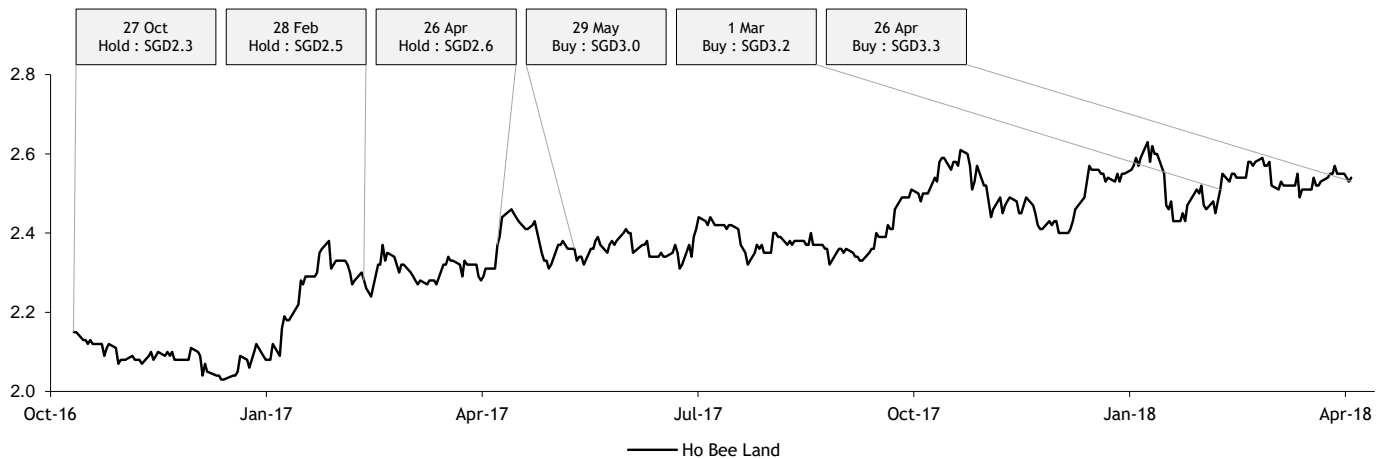
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