

Ho Bee Land (HOBEE SP)

Recurring-Income Boost

Raise EPS by 7-22% for acquisition; maintain BUY

We raise FY18-20E EPS by 7-22% after incorporating Ho Bee's recent acquisition of Ropemaker Place in the UK. This deal has put its conservative balance sheet to work and should enhance its recurring EBIT by 39%, in our estimation. The price paid appears reasonable, at a 7% discount to the vendor's asking price and with yields at almost 50bps higher than prime office yields in the locality. We retain our TP of SGD3.30, still at a 30% discount to our revised RNAV of SGD4.74. Trading at a steep 50% RNAV discount, Ho Bee is the cheapest property developer in our coverage. Maintain BUY. Risks to our view include sharp falls in Singapore and London office prices.

Lifting UK office exposure

Ho Bee has raised its exposure to the UK office market to 41% of its assets from 25% after snapping up Ropemaker Place, a Grade A office building in the City of London. This 602k sf NLA freehold property is less than 200m away from the future Moorgate station due to be completed in December this year. Annual rental income of GBP30.6m translates to a net yield of 4.7%, based on its acquisition price of GBP650m. Income visibility should be strong with a long WALE of 10.5 years or 8.5 years to break option for tenants. The property is 96%-occupied, with Macquarie Bank, IHS Markit, Mitsubishi UFJ and The Bank of Tokyo Mitsubishi UFJ as key tenants.

Reasonable acquisition price

Its acquisition price is 7% below the vendor's initial asking price of GBP700m, as reported by the media. Its acquisition yield of 4.7% is also higher than JLL's prime yield estimates of 4.25%. While a large base of banking and financial-service tenants may render the building more vulnerable to Brexit-vacancy risks, we believe its long committed WALE provides good earnings visibility.

Boost to recurring income

This acquisition has raised its annual recurring EBIT by 39% to SGD195m. After accounting for higher financing costs from this deal, we estimate incremental net profit of SGD22m. Balance sheet remains healthy with FY18E net gearing rising to 74%, from our previous estimates of 39%.

FYE Dec (SGD m)	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue	299	165	247	406	236
EBITDA	130	133	160	233	177
Core net profit	217	249	147	161	111
Core EPS (cts)	32.5	37.4	22.0	24.1	16.6
Core EPS growth (%)	(10.4)	15.1	(41.1)	9.5	(31.2)
Net DPS (cts)	6.0	10.0	8.0	8.0	8.0
Core P/E (x)	6.5	6.3	10.7	9.8	14.2
P/BV (x)	0.5	0.5	0.5	0.5	0.5
Net dividend yield (%)	2.8	4.2	3.4	3.4	3.4
ROAE (%)	7.5	8.2	4.6	4.9	3.3
ROAA (%)	4.8	5.5	2.8	2.7	1.9
EV/EBITDA (x)	20.4	21.9	24.7	16.1	21.1
Net gearing (%) (incl perps)	43.8	40.0	73.7	65.4	63.2
Consensus net profit	-	-	117	115	91
MKE vs. Consensus (%)	-	-	25.4	39.4	21.7

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BUY

Share Price SGD 2.36
 12m Price Target SGD 3.30 (+40%)
 Previous Price Target SGD 3.30

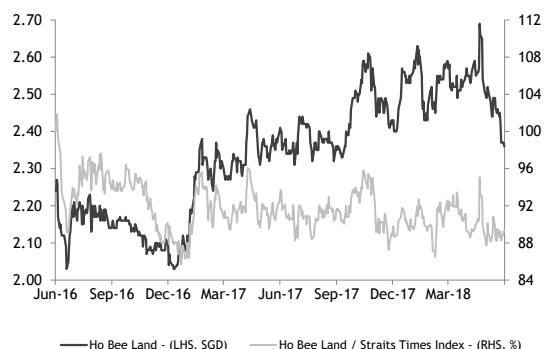
Statistics

52w high/low (SGD)	2.69/2.31
3m avg turnover (USDm)	0.1
Free float (%)	22.6
Issued shares (m)	703
Market capitalisation	SGD1.7B
	USD1.2B

Major shareholders:

Chua Tian Poh 74.3%

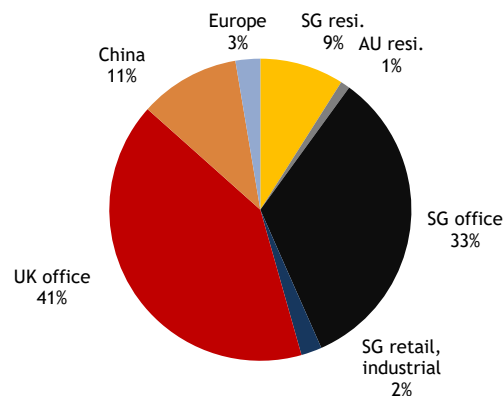
Price Performance



	-1M	-3M	-12M
Absolute (%)	(6)	(9)	(2)
Relative to index (%)	(0)	(4)	(4)

Source: FactSet

Exposure summary (% of valuation)



Source: Company, Maybank Kim Eng

Fig 1: Ho Bee's RNAV and TP

Valuation	2018E (SGD m)	% of total (%)	per share (SGD)	Remarks
Singapore residential	490	9.0	0.74	Sentosa homes at SGD1,800-1,900 psf. Incl. NAV of JV projects.
Australia residential	55	1.0	0.08	
Investment properties	4,166	76.6	6.26	
Singapore office	1,816	33.4	2.73	The Metropolis.
Singapore retail	49	0.9	0.07	
Singapore industrial	72	1.3	0.11	
UK office	2,230	41.0	3.35	Seven office buildings, including Ropemaker Place.
China	586	10.8	0.88	
Europe	144	2.6	0.22	European property fund.
Gross asset value	5,441	100.0	8.17	
Less: adjusted net liabilities	(2,286)			
RNAV	3,155			
Outstanding no. of shares (m)	665.7			Excludes treasury shares held by the company.
RNAV per share	4.74			
TP	3.30			
<i>Implied discount to RNAV (%)</i>	<i>(30)</i>			

Source: Maybank Kim Eng

Fig 2: Earnings revisions

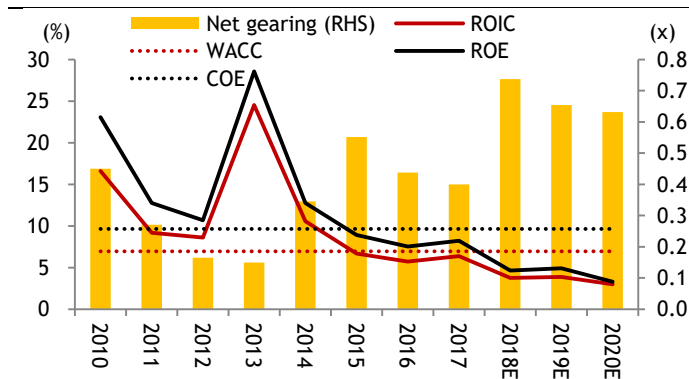
	New			Old			Change (%)		
	FY18	FY19	FY20	FY18	FY19	FY20	FY18	FY19	FY20
Revenue	247	406	236	216	343	172	14	18	37
EBIT	159	232	176	132	177	120	21	31	47
Associates & JVs	56	25	19	56	25	19	0	0	0
Net profit	147	161	111	139	141	91	6	14	22
BVPS	4.82	4.98	5.07	4.81	4.94	4.99	0.2	0.8	1.4

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.

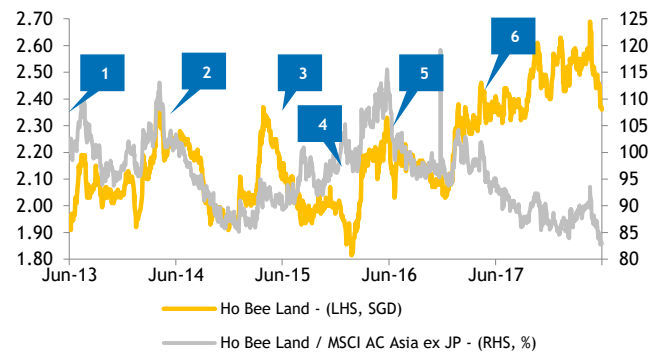
Returns vs cost of capital



Source: Company, Maybank Kim Eng

Price Drivers

Historical share price trend



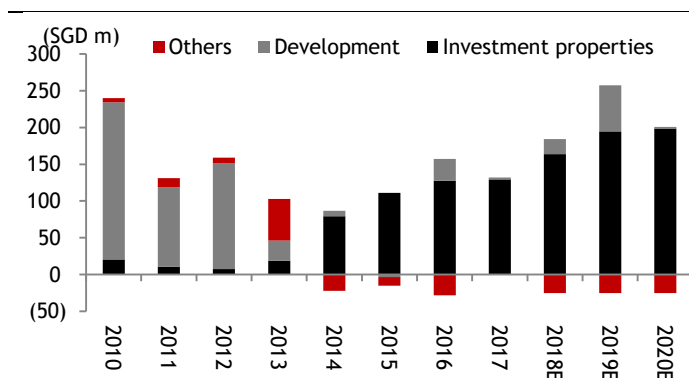
Source: Factset, Company, Maybank Kim Eng

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 of Brexit on the value of its UK assets in June 2016.
6. Government relaxed cooling measures in Mar 2017 for the first time since GFC.

Financial Metrics

- Stable cashflows with >SGD190m of EBIT in FY19E 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	10.7	9.8	14.2
Core P/E (x)	6.5	6.3	10.7	9.8	14.2
P/BV (x)	0.5	0.5	0.5	0.5	0.5
P/NTA (x)	0.5	0.5	0.5	0.5	0.5
Net dividend yield (%)	2.8	4.2	3.4	3.4	3.4
FCF yield (%)	12.7	11.6	10.7	19.8	9.6
EV/EBITDA (x)	20.4	21.9	24.7	16.1	21.1
EV/EBIT (x)	20.6	22.1	24.9	16.2	21.2
INCOME STATEMENT (SGD m)					
Revenue	299.4	164.7	246.9	405.9	235.6
EBITDA	129.9	132.8	160.3	233.3	176.6
Depreciation	(0.8)	(1.1)	(1.0)	(1.0)	(1.0)
EBIT	129.0	131.7	159.3	232.3	175.6
Net interest income / (exp)	(29.6)	(25.5)	(45.1)	(61.2)	(60.0)
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	170.6	196.0	134.7
Income tax	(19.7)	(28.4)	(22.8)	(34.2)	(23.1)
Minorities	(0.3)	(1.5)	(1.0)	(1.0)	(1.0)
Reported net profit	216.8	249.3	146.7	160.7	110.6
Core net profit	216.8	249.3	146.7	160.7	110.6
Preferred Dividends	0.0	0.0	0.0	0.0	0.0
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	58.0	97.1	224.0	270.9	258.7
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	4,548.9	4,562.7	4,577.1
Total assets	4,394.7	4,617.8	5,950.6	5,915.5	5,930.5
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	2,350.0	2,250.0	2,250.0
Other liabilities	67.0	74.0	78.0	82.0	86.0
Total Liabilities	1,455.5	1,476.1	2,727.7	2,584.1	2,540.8
Shareholders Equity	2,925.3	3,127.6	3,207.7	3,315.2	3,372.6
Minority Interest	13.9	14.2	15.2	16.2	17.2
Total shareholder equity	2,939.2	3,141.8	3,222.9	3,331.4	3,389.8
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Total liabilities and equity	4,394.7	4,617.8	5,950.6	5,915.5	5,930.5
CASH FLOW (SGD m)					
Pretax profit	236.8	279.2	170.6	196.0	134.7
Adj net interest (income)/exp	29.6	25.5	45.1	61.2	60.0
Change in working capital	71.0	10.1	31.3	113.2	(1.4)
Cash taxes paid	(31.4)	(19.5)	(22.8)	(34.2)	(23.1)
Other operating cash flow	(77.6)	(136.0)	(33.6)	9.4	4.0
Cash flow from operations	178.1	112.9	168.8	312.3	152.1
Capex	(0.9)	(4.5)	(1.0)	(1.0)	(1.0)
Free cash flow	178.3	181.7	167.8	311.3	151.1
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)	1,245.5	(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)	(45.1)	(61.2)	(60.0)
Effect of exch rate changes	(1.4)	(0.4)	0.0	0.0	0.0
Net cash flow	41.1	43.2	(17.1)	46.9	(12.2)

FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
Key Ratios					
Growth ratios (%)					
Revenue growth	130.4	(45.0)	50.0	64.4	(42.0)
EBITDA growth	9.8	2.3	20.7	45.6	(24.3)
EBIT growth	10.0	2.1	20.9	45.9	(24.4)
Pretax growth	(8.3)	17.9	(38.9)	14.9	(31.2)
Reported net profit growth	(10.5)	15.0	(41.1)	9.5	(31.2)
Core net profit growth	(10.5)	15.0	(41.1)	9.5	(31.2)
Profitability ratios (%)					
EBITDA margin	43.4	80.7	64.9	57.5	75.0
EBIT margin	43.1	80.0	64.5	57.2	74.6
Pretax profit margin	79.1	nm	69.1	48.3	57.2
Payout ratio	18.5	26.7	36.3	33.1	48.1
DuPont analysis					
Net profit margin (%)	72.4	nm	59.4	39.6	47.0
Revenue/Assets (x)	0.1	0.0	0.0	0.1	0.0
Assets/Equity (x)	1.5	1.5	1.9	1.8	1.8
ROAE (%)	7.5	8.2	4.6	4.9	3.3
ROAA (%)	4.8	5.5	2.8	2.7	1.9
Leverage & Expense Analysis					
Asset/Liability (x)	3.0	3.1	2.2	2.3	2.3
Net gearing (%) (incl perps)	43.8	40.0	73.7	65.4	63.2
Net gearing (%) (excl. perps)	43.8	40.0	73.7	65.4	63.2
Net interest cover (x)	4.4	5.2	3.5	3.8	2.9
Debt/EBITDA (x)	10.4	10.2	16.2	10.5	13.6
Capex/revenue (%)	0.3	2.8	0.4	0.2	0.4
Net debt/ (net cash)	1,287.7	1,257.4	2,376.0	2,179.1	2,141.3

Source: Company; Maybank

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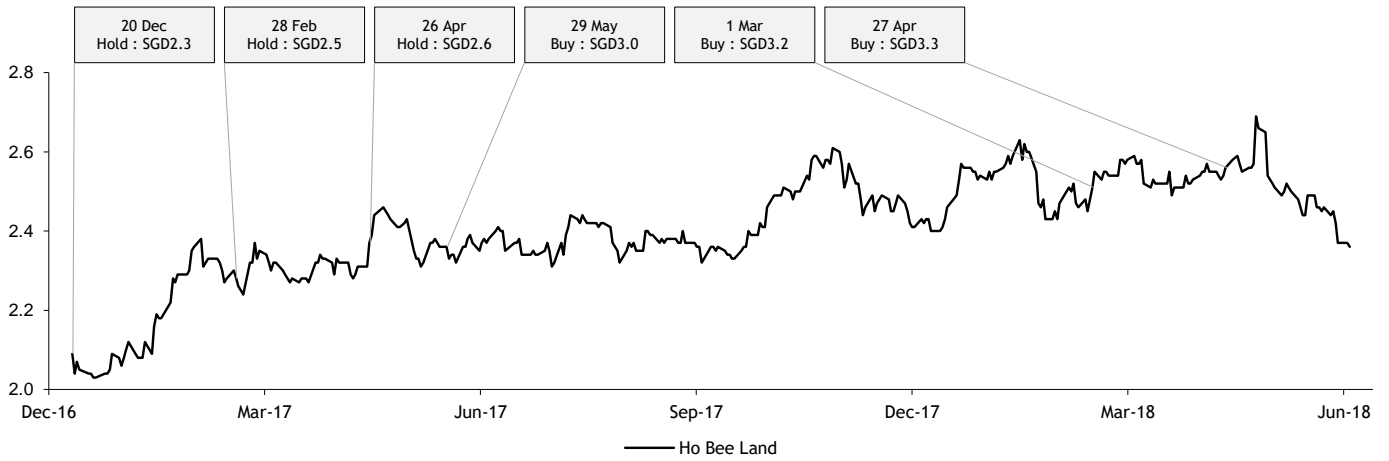
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