F•P•A FINANCIAL
Investment Perspectives
12 October 2021

REAL ESTATE EQUITY RESEARCH

Ho Bee Land Limited

SGX: H13
Bloomberg: HOBEE:SP
ISIN Code: SG1H41875896

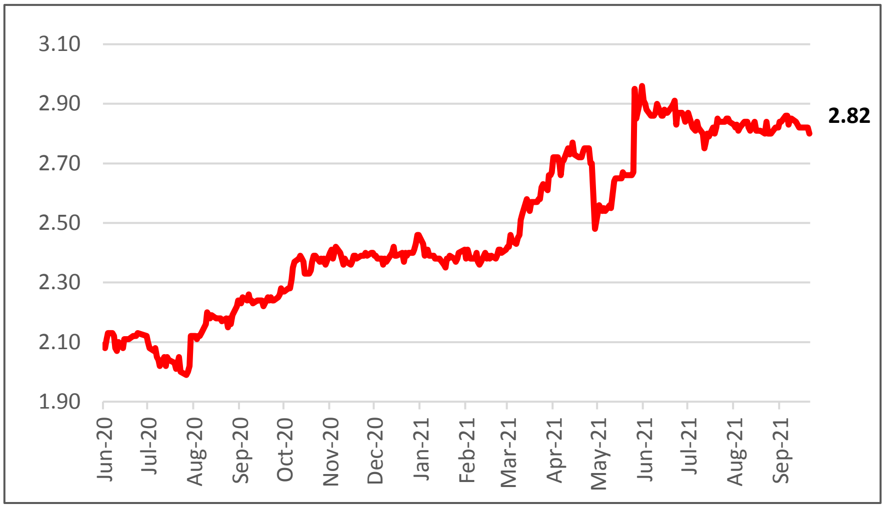
RECOMMENDATION: BUY

Current Price: S$2.82
Current Target Price: S$3.49

Issued Shares: 664.02 million
Market Capitalisation: S$1,872.54 million

52 Week Range: S$2.22 - S$3.02

PRICE PERFORMANCE



COMPANY DESCRIPTION

Ho Bee Land Limited is a real estate development and investment company. The portfolio of Ho Bee Land Limited and its subsidiaries (collectively defined herein as HBL) covers residential, commercial and high-tech industrial projects which span the geographical markets of Australia, China, Germany, Singapore and the United Kingdom (UK).

SUMMARY

For the half-year ended 30 June 2021 (1H2021), HBL recorded strong sales of development properties as lots of its Parklanes 2 residential project in Queensland were handed over to buyers during the period. Rental income also rose by 6.1% y-o-y to S$113.9 million due to positive rental reversions for HBL's investment properties in London and Singapore. Accordingly, revenue amounted to S$157.3 million, up by 46.5% year-on-year (y-o-y). Owing in part to stronger share of profits from jointly-controlled entities of S$50.0 million, as a result of the handover of about 700 units at Phase 2 of HBL's Tangshan residential project, HBL's profit after income tax rose by 26.3% y-o-y to S$114.6 million. Of which, S$105.5 million was attributable to shareholders, and this translates to an earnings per share of 15.89 cents for the period, compared to 13.62 cents a year ago. No dividends were declared for the period as in 1H2020, given HBL's policy to distribute dividends at the end of the financial year.

RECOMMENDATION

Since our initiation report issued on 18 March 2021, when HBL's share price closed at S$2.46, we note that the share price has broadly rallied. From then till present, the share price has increased by close to 14%. Recently, the share price has traded between S$2.80 and S$2.86. We identify HBL's strong recurring income base, stable dividends and good earnings growth potential as the main factors which could support upside in the share price. On valuation terms, HBL is relatively attractive in terms of dividend yield. Further, it is currently trading at a P/NAV of 0.51x which is lower than the peers' average of 0.58x. Meanwhile, we continue to believe there is possibility for HBL to be privatised, amid share acquisition transactions by its controlling shareholder over the last two years. Factoring in a 23.6% takeover premium, we estimate a privatization offer price of S$3.49 per share for HBL to be taken private. Overall, we believe there is good upside in HBL's share price. In the medium term, the share price could reach S$3.49. All things considered, we will maintain a buy recommendation on HBL. Our final target price is S$3.49 which is a 23.8% upside from the current share price of S$2.82.

KEY FINANCIALS

Year ended Dec 31	Revenue (S$ million)	Shareholders' profit (S$ million)	EPS (cents)	P/E (x)	DPS (cents)	Dividend yield (%)	NAV per share (S$)	P/NAV (x)
2019 actual	212.4	332.3	49.95	5.65	10.00	3.55	5.32	0.53
2020 actual	215.7	137.1	20.62	13.68	10.00	3.55	5.46	0.52
2021 forecast*	286.0	151.3	22.78	12.38	10.00	3.55	5.58	0.51
2022 forecast	311.7	114.8	17.29	16.31	10.00	3.55	-	-

Figures have been rounded. P/E, P/B and dividend yield figures are based on current price of S$2.82
**NAV per share as at 30 June 2021*
Source: HBL, FPA Financial

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FINANCIAL REVIEW FOR 1H2021

(I) Financial performance

For half year ended 30 June 2021 (1H2021), HBL recorded a 46.5% year-on-year (y-o-y) increase in revenue to S$157.3 million from S$107.3 million, mainly due to strong contribution from the Property Development segment which were absent a year ago.

During the period, sale of development properties was S$43.4 million, mainly contributed by sales recognition from HBL's maiden master-planned community residential project, Parklakes 2 in Queensland, Australia. The 95-lot project was fully sold in 2020 and lots were handed over to buyers starting in March 2021. Meanwhile, rental income rose by 6.1% y-o-y to S$113.9 million due to positive rental reversions for HBL's investment properties in London and Singapore. The breakdown of HBL's revenue in 1H2021 and 1H2020 are summarised in **Exhibit 1**.

Exhibit 1: Breakdown of HBL's revenue in 1H2021 and 1H2020

Revenue breakdown	1H2021 S$'000	1H2020 S$'000	Change (%)
Sales of development properties	43,350	-	NM
Rental income	113,930	107,335	6.1%
Total	**157,280**	**107,335**	**46.5%**

NM: not meaningful
Source: HBL

Other income increased by 13.5% y-o-y to S$1.7 million, partially due to higher interest income. Government grant income and expense recorded in 1H2020 were absent during the period. Accordingly, total income was S$159.0 million compared to S$107.3 million in 1H2020.

During the period, HBL recorded a net fair value loss on investment properties of S$3.7 million in relation to certain London properties. This compared with neither gains nor losses recorded during 1H2020. Cost of sales relating to residential development projects was S$36.4 million for the period, which were absent in 1H2020 given no sale of development properties then.

Direct rental expenses rose by 29.4% y-o-y to S$9.5 million, as rental commission increased due to more leases signed. In addition, maintenance expenses also increased because certain maintenance works were postponed during the Circuit Breaker period last year. For the period, HBL recorded a net foreign exchange loss of S$1.2 million compared to an exchange gain of S$5.7 million in 1H2020. This was mainly due to the revaluation of its net monetary assets in Australian Dollars (AUD) and Euro (EUR), as AUD and EUR weakened against the Singapore Dollar (SGD). Meanwhile, staff costs & directors' renumeration rose by 6.0% y-o-y to S$11.0 million, while other operating expenses increased by 12.7% y-o-y to S$4.1 million mainly due to allowance made for impairment loss on trade receivable. Accordingly, profit from operating activities dropped marginally by 0.2% y-o-y to S$93.1 million.

Net finance costs declined by 16.1% y-o-y to S$19.4 million due to the partial repayment of Pound Sterling (GBP) bank borrowings and the decline in interest rates for GBP bank borrowings at floating rates.

The share of profits from HBL's Shanghai and Zhuhai associates declined by 65.5% y-o-y to S$10.8 million as there were fewer residential units handed over to buyers during the period. Meanwhile, HBL recorded strong share of results from jointly-controlled entities of S$50.0 million for the period, compared to S$3.0 million in 1H2020. This was mainly attributable to higher profits from its Tangshan residential project, as approximately 700 units in Phase 2 of the project were handed over to buyers during the period.

As a result, HBL recorded a profit before income tax of S$134.5 million for the period compared to S$104.4 million in 1H2020. During the period, total income tax expense increased by 45% y-o-y to S$19.9 million, partially attributable to higher deferred tax expense.

Net of income tax expense, the profit for the period was S$114.6 million. This comprised S$105.5 million in profit attributable to shareholders and S$9.0 million in non-controlling interests. Based on profit attributable to shareholders of S$105.5 million, HBL reported earnings per share (EPS) of 15.89 cents for the period compared to 13.62 cents in 1H2020. Meanwhile, no dividends were declared for period. HBL's financial results for 1H2021 and 1H2020 are summarised in **Exhibit 2**.

Exhibit 2: HBL's financial results for 1H2021 and 1H2020

[S$'000]	1H2021	1H2020	Change (%)
Sale of development properties	43,350	-	NM
Rental income	113,930	107,335	6.1%
Revenue	**157,280**	**107,335**	**46.5%**
Other income	1,678	1,478	13.5%
Total income	158,958	108,813	46.1%
Fair value loss on investment properties	(3,719)	-	NM
Cost of sales - residential development projects	(36,410)	-	NM
Direct rental expenses	(9,450)	(7,305)	29.4%
(Loss)/Gain on foreign exchange	(1,222)	5,738	NM
Staff costs & directors' renumeration	(10,994)	(10,368)	6.0%
Other operating expenses	(4,091)	(3,631)	12.7%
Profit from operating activities	93,072	93,247	-0.2%
Net finance costs	(19,401)	(23,112)	-16.1%
Share of profits of:			
Associates	10,823	31,326	-65.5%
Joint-controlled entities	49,956	2,985	>100%
Profit before income tax	134,450	104,446	28.7%
Income tax expense	(19,881)	(13,705)	45.1%
Profit for the period	**114,569**	**90,741**	**26.3%**
Attributable to:			
Owners of the Company	**105,528**	**90,610**	**16.5%**
Non-controlling interests	9,041	131	NM
	114,569	90,741	26.3%
Profit attributable to owners of the Company	105,528	90,610	16.5%
Weighted average no. of shares ('000) (1)	664,016	665,231	-
EPS (cents)	**15.89**	**13.62**	**16.7%**

NM: not meaningful

(1) Excluding treasury shares

Source: HBL

(II) Capital management

HBL reported total assets of S$6,599.8 million as at 30 June 2021, an increase of S$273.5 million from S$6,326.3 million as at 31 December 2020. This was mainly attributable to an increase of S$249.6 million in investment properties and S$69.1 million in associates & jointly-controlled entities. These were partially offset by a S$48.2 million decrease in cash & cash equivalents to S$70.5 million, which was largely attributable to payment of dividends in the second quarter of every financial year.

Total liabilities increased by S$181.4 million to S$2,867.0 million as at 30 June 2021. This was mainly attributable to a S$203.0 million increase in total loans & borrowings, largely for the purpose of funding HBL's Biopolis Phase 6 project in Singapore. Gross proceeds of S$207.6 million from bank borrowings were used to partially fund the land premium of Biopolis Phase 6 and the purchase of financial assets. Meanwhile, repayment of S$61.6 million of bank borrowings was made during the period.

As a result, total equity amounted to S$3,732.8 million as at 30 June 2021 compared with S$3,640.7 million as at 31 December 2020. Excluding non-controlling interests of S$24.9 million, equity attributable to shareholders was S$3,707.9 million as at 30 June 2021. This represents a net asset value (NAV) of S$5.58 per share, based on 664.0 million issued shares (excluding treasury shares).

A summary of HBL's balance sheet as at 30 June 2021 and 31 December 2020 is shown in **Exhibit 3**.

Exhibit 3: Summary of HBL's balance sheet as at 30 Jun 2021 and 31 Dec 2020

[S$'000]	30-Jun-21	31-Dec-20
Total assets	6,599,806	6,326,258
Less: total liabilities	2,867,020	2,685,588
Total equity	3,732,786	3,640,670
Equity attributable to shareholders	**3,707,894**	**3,624,129**
Non-controlling interests	24,892	16,541
	3,732,786	3,640,670
Equity attributable to shareholders	3,707,894	3,624,129
No. of issued shares	664,016	664,016
NAV per share (S$)	**5.58**	**5.46**

Source: HBL

As at 30 June 2021, HBL's total debt was S$2,632.5 million, which comprised of current and non-current loans & borrowings of S$488.2 million and S$2,144.3 million respectively. Net of cash & cash equivalents of S$70.5 million, net debt stood at S$2,562.0 million as at 30 June 2021. Accordingly, HBL's gearing ratio, as measured by net debt over total equity (excluding non-controlling interests), stood at approximately 0.69 times as at 30 June 2021, as shown in **Exhibit 4** on the next page. Overall, the increase in gearing ratio from 0.64 times as at 31 December 2020 was mainly due to the increased bank borrowings to fund the Biopolis Phase 6 project.

Exhibit 4: Gearing ratio as at 30 Jun 2021 and 31 Dec 2020

[S$'000]	30-Jun-21	31-Dec-20
Current loans & borrowings	2,144,295	1,995,634
Non-current loans & borrowings	488,216	433,901
Total debt	2,632,511	2,429,535
Less: cash & cash equivalents	(70,538)	(118,739)
Net debt	2,561,973	2,310,796
Gearing ratio (x) (1)	**0.69**	**0.64**

(1) Measured by net debt over total equity (excluding non-controlling interests)
Source: HBL

OPERATIONAL UPDATE

Since our initiation report on 18 March 2021, there have been some updated developments within HBL's business. We will now provide an operational update on these developments.

Singapore

In Singapore, HBL has started to place some units in the Turquoise residential project in Sentosa Cove for sale. An EdgeProp article in April 2021 reported that 16 units at the 91-unit high-end condo had been launched, with prices in the range of S$1,290 to S$1,536 per square foot (psf), after factoring a promotional discount ranging from S$500,000 to S$750,000 per unit. We note from latest data by the Urban Redevelopment Authority (URA) that there were 21 transactions for Turquoise over the period from February to September 2021. These transactions were classified under 'resale'. The average price per unit across the 21 transactions was S$3.3 million. The unit price per square foot (psf) ranged from S$1,116 to S$1,702. While these were classified under 'resale' transactions in the URA portal, we note that HBL had recorded S$6.0 million in sale of development properties during 1H2021. As we note that HBL did not have any residential launches in Singapore during the period, it is expected that the contribution was from Turquoise. Meanwhile, remaining units at the project and HBL's two other Sentosa Cove properties, Seascape and Cape Royale, are more than 90% leased.

Meanwhile, we note that construction of the biomedical sciences (BMS) development, Biopolis Phase 6, at one-north has been delayed. According to HBL's 'Responses to substantial and relevant questions from shareholders' announcement on 28 April 2021, construction works should have commenced in June 2021, with projected completion in Q3 2023. It was also reported that the expected total development cost is approximately S$425 million and expected rental is between S$6.00 and S$7.00 psf per month.

Most recently, on 28 June 2021, HBL had together with Yanlord Land Group Limited (Yanlord) announced that they have entered into a co-operation agreement to jointly develop a residential site located in Hongqiao District, Tianjin, the People's Republic of China (PRC). It was reported that the land parcel with a total site area of approximately 53,200 square metre (sqm) located at XiangDongNan Road in Hongqiao District Tianjin, the PRC was acquired by Yanlord through public land auction for a total consideration of approximately RMB1.5 billion. Upon completion of the transaction, Yanlord and HBL shall hold 51% and 49% effective interest in the development, respectively. Yanlord and HBL plan to jointly develop the site and transform it into a new high-end residential development with ancillary community retail space and educational facilities with a total gross floor area of approximately 117,100 sqm.

Australia

In Australia, units at the fully sold 95-lot master-planned community residential project, Parklakes 2, in Queensland were being handed over to buyers starting in March 2021. Meanwhile, HBL has 4 other development properties in Australia, including Bellevue in Ripley, The Pocket in Collingwood Park, Carrington Officer (Carrington) in Officer and Unity Park in Tarneit. Currently, we note that several stages of Bellevue, The Pocket and Carrington are launched and being marketed. Meanwhile, HBL also owns a 49% interest in a joint venture project involving the 303-unit Wollert residential development in Victoria.

Germany

As highlighted previously, HBL has co-investments in two individual commercial projects in Munich and Berlin. On the 40%-owned Munich development project, we note from HBL's latest update on 28 April 2021 that approvals should have been received during Q3 2021, with construction commencing thereafter. Project completion is expected in 2025. Meanwhile, construction works for the Berlin project will commence in Q1 2022 and be completed by 2023.

INDUSTRY OVERVIEW

Our industry review will focus on the office real estate market in London. We identify this as a key market impacting HBL's business, given the significant contribution of rental income from HBL's London investment properties to its revenue.

Review of London real estate office market

We will focus our review specifically on the City and West End segments of the Central London office real estate market, where HBL's office properties are situated.

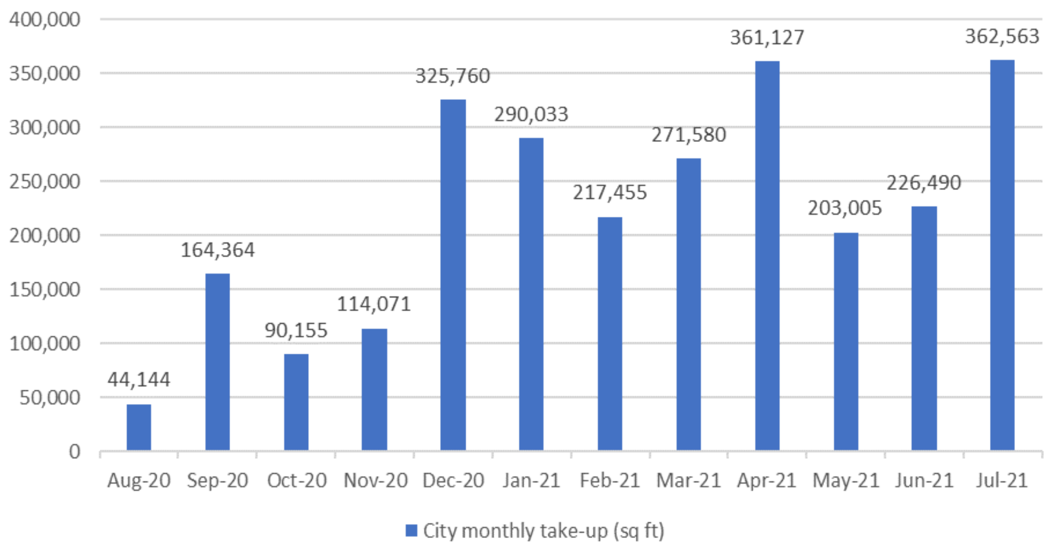
(I) Strong recovery in take-up

Central London – City

During Q2 2021, the City saw an improvement in occupier sentiment. According to Jones Lang LaSalle (JLL), take-up moderated in the City submarkets in Q2 2021, with 646,000 square feet (sq ft) transacted during the period. This was 31% above the volume leased in Q2 2020, but down 16% from Q1 2021. Meanwhile, total office space under offer rose by 45% quarter-on-quarter (q-o-q) to reach 1.1 million at the end of June 2021. JLL highlighted that while this is below the 10-year quarter average of 1.4 million sq ft, it suggests that take-up should strengthen into 2H2021. Similarly, we note from Knight Frank that take-up rose in the City in Q2 2021, with a majority of leasing transactions in the City core [1] submarket.

More recent data by Savills showed that leasing activity in the City reached 362,563 sq ft in July 2021, a 60.1% m-o-m increase. This was the highest monthly reading since March 2020 and marked the third consecutive month of increase in take-up. Savills highlighted that the pickup in take-up reflects growing demand for space in the City. The data of monthly take-up for the City are summarised in **Exhibit 5**.

Exhibit 5: City monthly take-up



Source: Savills

The increase in take-up during the month brought year-to-date July 2021 (YTD July 21) take-up to 1.93m sq ft, down by 11% from the same period a year ago, and 43% below the long-term average take-up for this point in the year. In particular, we note from Savills that there continues to be a strong preference for Grade A space as 89% of YTD July 21 take-up has been of such quality. Savills highlighted that sustained levels of strong occupier demand for new stock has resulted in pre-lets accounting for 30% of space that has been let so far in 2021.

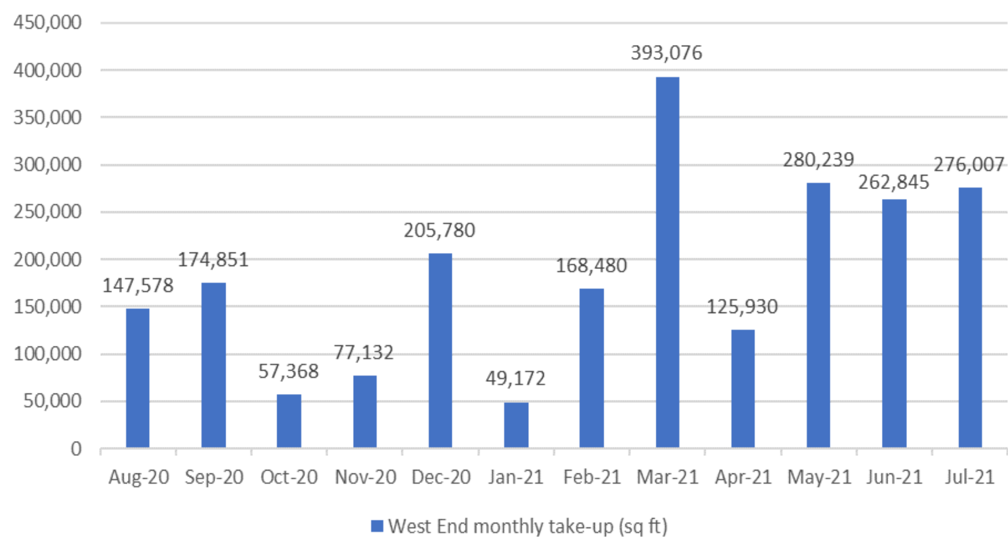
In terms of sector, the Professional Services sector continued to dominate demand in July 2021 and accounted for 38% of total take-up during the period. Savills highlighted that this has been the running theme for the last 18 months and since March 2020. Another major contributor was the Insurance & Financial Services sector, which is the second largest contributor which accounted for 17% of total take-up since the pandemic began.

Central London – West End

Similar to the City, leasing activity in the West End rebounded strongly in Q2 2021. Take-up rose by 61% q-o-q to reach 793,000 sq ft during the period, according to JLL data. This was the highest quarterly take-up volume since Q2 2019. The Technology, Media and Telecommunications (TMT) sector acquired the most space and accounted for 42% of take-up in Q2 2021, while take-up in the Banking & Finance sector remained active and contributed 18%. Meanwhile, we also note from JLL that total space under offer almost doubled over Q2 2021 to reach 1.03 million sq ft at the end of June 2021. Under offer space was 43% ahead of the 10-year quarterly average of 721,000 sq ft. JLL highlighted that this suggests take-up will likely increase in 2H2021. We note a similar trend based on Knight Frank data for Q2 2021. During the period, West End leasing activity recording a 39% q-o-q increase to 604,055 sq ft across 114 transactions. Leasing activity was concentrated in smaller office spaces, with 78 deals recorded for the 0 to 5,000 sq ft bracket and 25 deals recorded for the 5,000 to 10,000 sq ft bracket.

More recent data from Savills suggest a continued upward trend in leasing activity in the West End. In July 2021, take-up reached 276,007 sq ft, a 5.0% increase from 262,845 sq ft the previous month. This was the third highest monthly reading since the start of the pandemic, only falling behind March 2021 and May 2021. Savills highlighted that although month-on-month (m-o-m) take-up since the start of 2021 has not been consistent given the lockdown at the start of the year, on average leasing activity has risen by 56% per month from January. The data of monthly take-up for the West End are summarised in **Exhibit 6**.

Exhibit 6: West End monthly take-up



Source: Savills

The increase in July take-up brought YTD July 21 take-up in the West End to 1.55 million sq ft, 46% higher than the same period a year ago. Similar to the City sub-market, we note that the take-up of Grade A space in the West End made up a large proportion of total take-up in YTD July 21, at 89%. In comparison, the proportion was 57% during the corresponding period a year ago, which may suggest tenants' preference for higher quality office spaces in the West End. Most of the significant transactions in July 2021, as shown in **Exhibit 7**, were in respect to the leasing of Grade A offices.

Exhibit 7: Significant July transactions in the West End

Address	Floor/s	Sq ft	Grade	Rent achieved	Tenant	Lessor
136 George Street, W1	Entire	44,500	A	£81.25	Smart	Native Land
The Point, 37 North Wharf Road, W2	PtG,1	35,904	A	Confidential	Confidential	BT
6-8 Greencoat Place, SW1	Entire	32,400	B	£69.00	Fora	Derwent London
The Hudson, 350 Kennington Lane, SE11	LG-2	23,262	A	£52.50	University of Coventry	Aviva

Source: Savills

In terms of sector, the Tech & Media sector accounted for 18% of total space which was let in July 2021, which brought YTD July 21 take-up for the sector to 26% of overall take-up during the period. The other major sector was the Insurance & Financial sector, which also accounted for 26% of overall take-up during YTD July 21.

(II) Increased supply pushed up vacancy rates

Central London – City

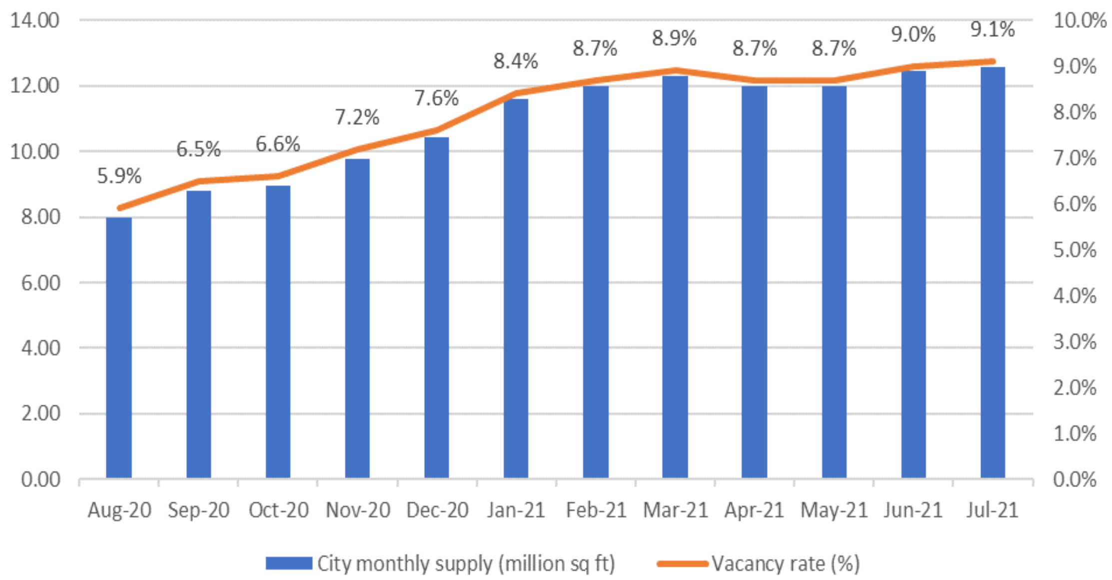
In Q2 2021, supply in the City continued to increase, reaching 9.9 million sq ft, and was at its highest level since Q4 2009, according to JLL. As a result, the overall vacancy rate rose and ended the quarter at 8.1%, compared to 7.3% at the ended of Q1 2021. We note similar developments from Knight Frank where increased availability had pushed up the vacancy rate during Q2 2021.

More recent data by Savills reflected a similar trend and showed that supply in the City sub-market rose slightly for the second consecutive month in July 2021. During the period, supply rose by 0.9% m-o-m to reach 12.57 million sq ft, corresponding to a vacancy rate of 9.1%. According to Savills, this is the highest vacancy level since 2009 and up 250 basis points on the long-term average of 6.6%.

At the end of July, 86% of supply was of Grade A standard, which is up on the five-year average. We note from Savills that the majority of supply (61%) was within the City core submarket, which recorded a higher vacancy rate of 11.6% compared with 6.8% in the City fringe.

The data of monthly supply and vacancy rate for the City are summarised in **Exhibit 8**.

Exhibit 8: City monthly supply and vacancy rate



Source: Savills

In terms of future supply, Savills data showed that the City has a development pipeline of 2.08 million sq ft in 2021, of which the bulk would come from refurbishments, as shown in **Exhibit 9**. Overall, 9% of the total pipeline in 2021 has been pre-let prior to completion. In total, over the period from 2021 to 2024, the City sub-market has a development pipeline of 14.36 million sq ft, of which 17% has been pre-let. Savills highlighted that with the continued demand for premium office space, it expects the pre-letting trend to continue with the 'flight to quality' trend showing no signs of subsiding.

Exhibit 9: City development pipeline

Sq ft	Refurb	Devs	Total	% Pre-let
2021	1,603,374	478,405	2,081,779	9%
2022	1,430,884	2,719,257	4,150,141	23%
2023	1,780,668	2,163,867	3,944,535	18%
2024	1,691,696	2,487,439	4,179,135	16%
Total	6,506,622	7,848,968	14,355,590	17%

Source: Savills

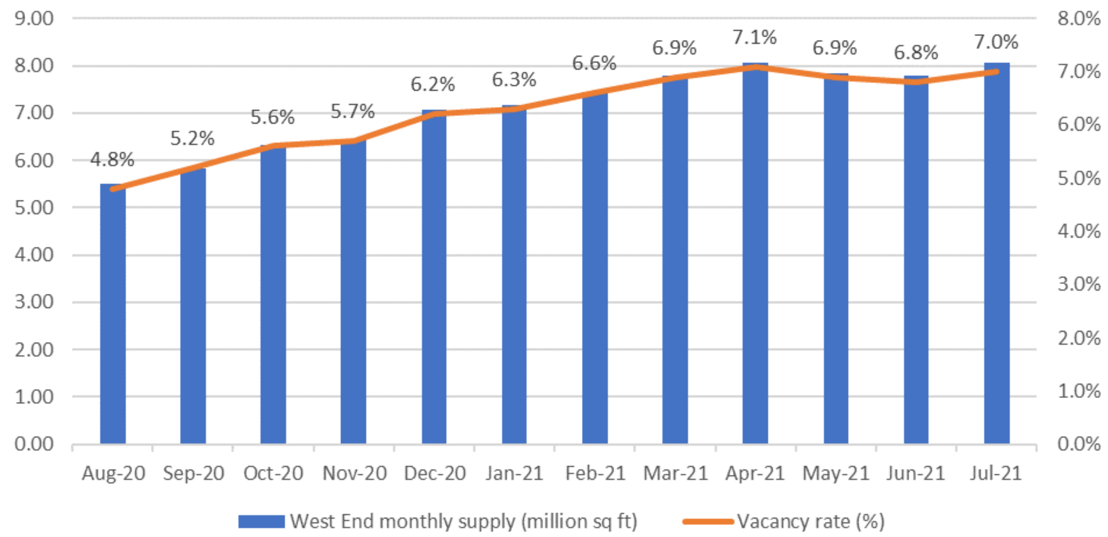
Central London – West End

In Q2 2021, reduced supply in the West End had alleviated the upward pressure on vacancy. Total supply across the West End submarkets declined over the quarter to reach 7.0 million sq ft, according to JLL. This followed 5 consecutive quarters of upward pressure. As a result, the overall vacancy rate fell to 7.3% as at the end of June 2021. However, this is still above the 10-year average of 4.1%.

Similarly, we note from Knight Frank that supply in West End reached 6.9 million sq ft in Q2 2021, down from 7.0 million sq ft recorded in Q1 2021. This comprised of 2.6 million sq ft of new & refurbished availability and 4.3 million sq ft of secondary space. The decrease in the levels of availability led to a fall in the West End vacancy rate to 7.8% in Q2 2021, down from 8.1% in the previous quarter.

However, more recent data from Savills showed that supply reached 8.06 million sq ft in July 2021, up by 3.6% m-o-m. The vacancy rate for the West End stood at 7.0% for July 2021. However, this is still above the long-term average of 4.5%. At the end of July, 60% of supply was of Grade A standard, relatively unchanged from 61% for the previous month. The data of monthly supply and vacancy rate for the West End are summarised in **Exhibit 10** on the next page.

Exhibit 10: West End monthly supply and vacancy rate



Source: Savills

In terms of development pipeline, the West End has a total of 12.65 million sq ft of new developments and extensive refurbishments scheduled to complete over the 2021-2024 period, of which 29% of these have been pre-let. This level of pre-let is much stronger compared to the 17% recorded for the City. Looking at specific years, we note strong pre-let for future supply in the West End of 64% and 34% for 2021 and 2022 respectively. This compares with 9% and 23% respectively for the City. The breakdown of development pipeline for the West End from 2021 to 2024 is summarised in **Exhibit 11**.

Exhibit 11: West End development pipeline

Sq ft	Refurb	Devs	Total	% Pre-let
2021	1,077,531	2,324,325	3,401,856	64%
2022	739,746	2,273,709	3,013,455	34%
2023	1,183,043	2,378,465	3,561,508	4%
2024	547,204	2,127,530	2,674,734	10%
Total	3,547,524	9,104,029	12,651,553	29%

Source: Savills

(III) Moderate rent performance

According to JLL, prime rents remained stable for the City and West End during Q2 2021. During the period, City prime rents remained unchanged at £70.00 per sq ft for the third consecutive quarter. Meanwhile, typical rent-free periods remained unchanged at 27 months, based on a 10-year lease term. For the West End, prime rents across all submarkets were unchanged in Q2 2021, with the core submarket recording at £115.00 per sq ft. Rent-free periods in the West End core [3] registered 24 months during the period. We also note from Knight Frank that rising levels of sentiment and low levels of availability for better quality space in the core markets led to rents being achieved which are above average levels of the market. At the end of Q2 2021, prime headline rents in the City of London were at £72.50 per sq ft with incentives at 27 months for a 10-year lease. Meanwhile, West End prime headline rents stood a £115.00 per sq ft and incentives were 24 months for a 10-year lease.

Meanwhile, latest data from Savills reflected a quarterly decline in average prime rents for both City and West End in Q2 2021. During the period, average prime rents in the City dropped by 6.4% q-o-q to £77.25, while that for the West End declined by 1.5% q-o-q to £116.75. A summary of prime rents for the City and West End during Q2 2021 is shown in **Exhibit 12**.

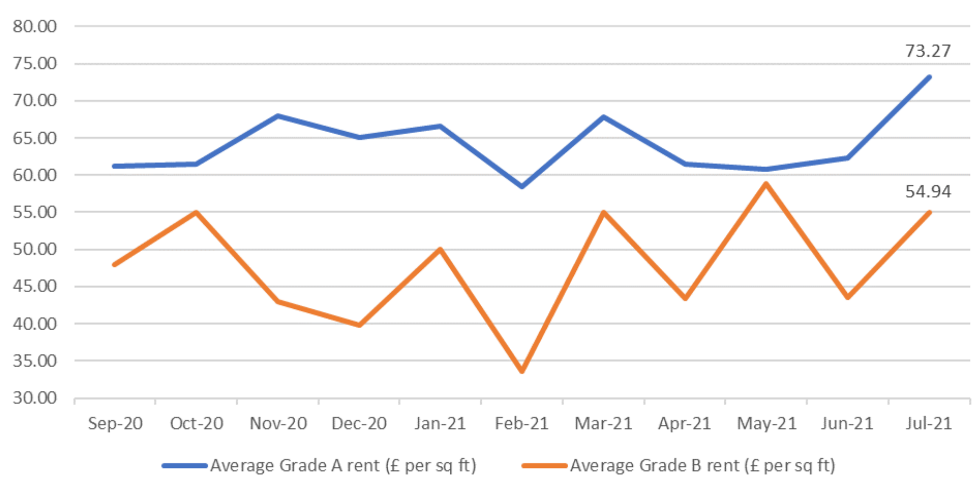
Exhibit 12: Q2 2021 prime rents for City and West End

	Prime rents (£ per sq ft) in Q2 2021	
Firm	City	West End
JLL	70.00	115.00
Knight Frank (1)	72.50	115.00
Savills	77.25	116.75

(1) Inclusive of South Bank
Source: respective real estate firms

More recent data from Savills suggest varying rent performance in the City and West End. In the City, average rents for both Grade A and Grade B offices recorded monthly growth of 17.6% and 26.3% respectively in July 2021 and registered at £73.27 per sq ft and £54.94 sq ft respectively, as shown in **Exhibit 13**.

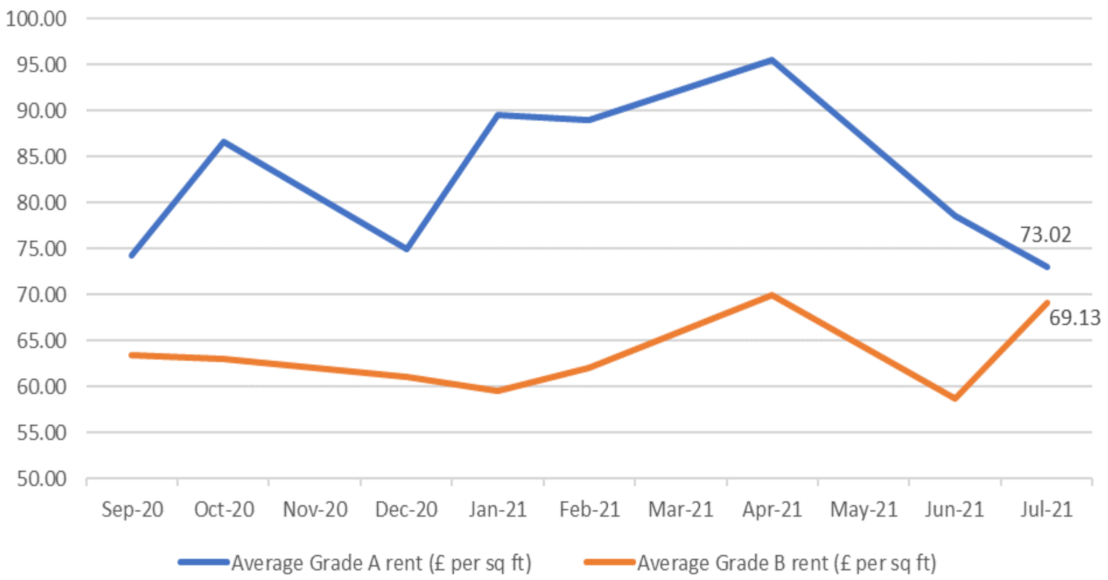
Exhibit 13: City average rent for Grade A and Grade B offices



Source: Savills

In the West End, average rents for Grade A offices declined by 7.0% m-o-m in July 2021 to £73.02 per sq ft, while Grade B office rents rose by 17.8% m-o-m to £69.13 per sq ft, as shown in **Exhibit 14**. Besides the opposite trend in Grade A rent performance for the two sub-markets, it is worth noting that growth in West End Grade B rents had lagged that of the City.

Exhibit 14: West End average rent for Grade A and Grade B offices



Several data points for specific months have been omitted due to unavailability of information
Source: Savills

(IV) Increased trend of hybrid work arrangements

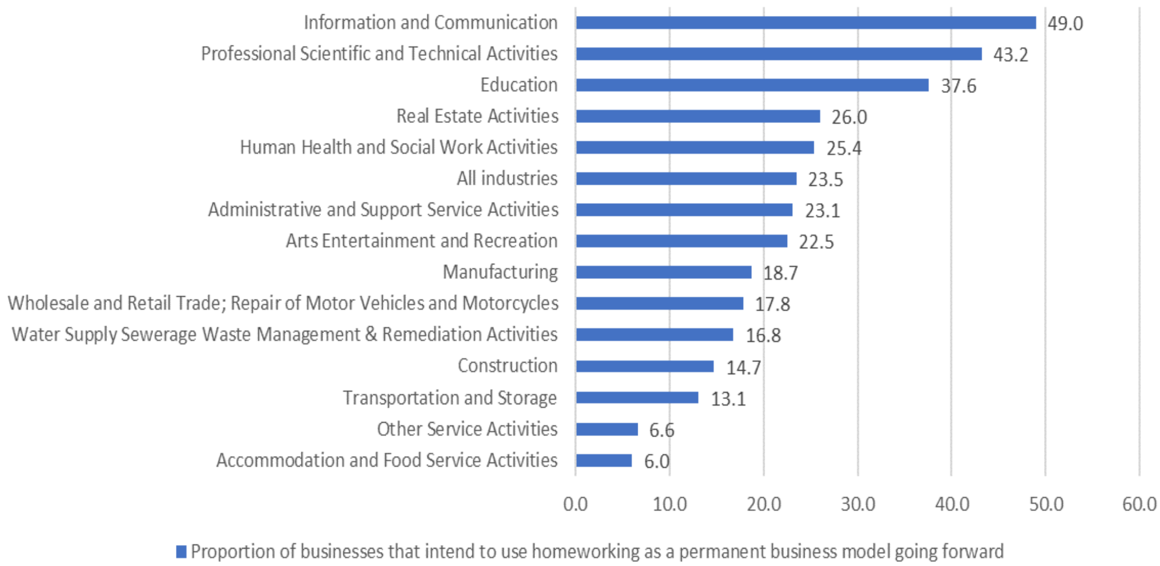
The Covid-19 pandemic has necessitated 'work from home' (WFH) as a default for a prolonged duration, and this may potentially induce a permanent structural shift in future work dynamics. In particular, there has been a rising trend of hybrid working in the UK.

<u>Preference for hybrid working by businesses and individuals</u>

According to the Office for National Statistics' (ONS) latest publication in June 2021 on business and individual attitudes towards the future of WFH, the proportion of working adults who did any work from home in 2020 increased to 37% on average from 27% in 2019, with workers living in London the most likely to WFH.

Importantly, we note that attitudes toward future remote working practices, as reflected in ONS' Business Insights & Conditions Survey (BICS) covering the period from 5 April to 2 May 2021, suggest the possibility of continued WFH in the long term. The BCIS results showed that 24% of businesses that had not permanently stopped trading intend to use increased WFH as a permanent business model going forward, as shown in **Exhibit 15**. In particular, businesses in the Information and Communication industry were most likely to intend to increase WFH in the future.

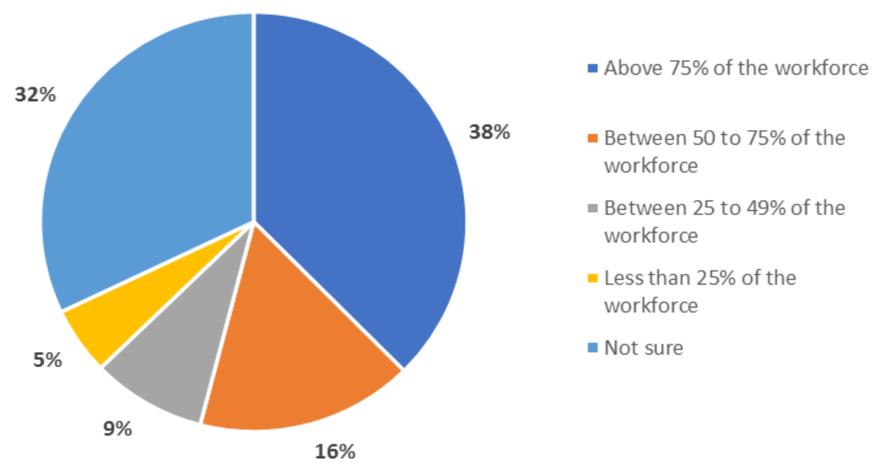
<u>Exhibit 15: Proportion of businesses that intend to use WFH as a permanent business model going forward</u>



Source: Office for National Statistics – Business Insights and Conditions Survey

The survey also highlighted that both businesses and individuals preferred a "hybrid" working approach (a mixture of both office and WFH) in the future. Of working adults currently WFH, 85% wanted to use a "hybrid" approach. Workers with higher incomes were more likely to expect a hybrid form of working, while those on lower incomes were more likely to expect to work exclusively from either their usual workplace or home. Meanwhile, nearly two-fifths (38%) of businesses expected 75% or more of their workforce to be at their normal place of work, as shown in **Exhibit 16** on the next page. Those that were uncertain of when they would return made up about one-third (32%) of the total sample.

Exhibit 16: Proportion of businesses that intend to use WFH as a permanent business model going forward



Source: Office for National Statistics – Business Insights and Conditions Survey

Increased adoption of hybrid work models by UK businesses

The need for flexible work arrangements amid virus-related restrictions has led to the increased adoption of hybrid work models in the UK. According to a recent report by the Financial Times (FT), many UK companies have created hybrid working models that are being rolled out in September 2021, with most wanting their staff in the office between 2 and 4 days a week. For instance, asset managers like Abrdn and Janus Henderson are adopting 'blended working', which would expect to see most staff returning to the office for around 2 days a week. Meanwhile, it was also reported that financial services companies such as Standard Chartered, BNP Paribas, Lloyds, Aviva, Santander and NatWest all expect staff numbers in the office to increase in the autumn as they roll out hybrid work plans.

The implementation of flexible working hours for workers has received government support. In August 2021, the UK government updated its guidance to recommend for a gradual return to the workplace. More recently, FT reported that workers in the UK will be granted the right to request for flexible work hours from their first day in a job, instead of after six months, under new proposals to be set out by the UK government.

Recent rising passenger commute suggests that more people in the UK are returning to the workplace. As reported by the International Railway Journal on August 27, latest data published by the Transport for London (TFL) showed that passenger numbers for London Underground's (LU) network have recovered to 50% of pre-pandemic levels on weekdays, and 60% at weekends. On average, around 1.8 million passengers are travelling on the LU network every weekday. Weekend passenger growth has also been strong, reaching 58% and 62% of pre-pandemic levels on August 21 and August 22 respectively.

SHARE PRICE PERFORMANCE REVIEW

Since our initiation report issued on 18 March 2021, when HBL's share price closed at S$2.46, we note that the share price has broadly rallied. From then till present, the share price has increased by close to 14%. During this period, the lowest closing price reached was S$2.48 on 14 May 2021, when the share price dropped by about 8% from the previous closing of S$2.70 on 12 May 2021. Meanwhile, the highest closing price reached was S$2.96 on 15 June 2021. Several days prior on 10 June 2021, the share price recorded a 1-day increase of 10% to S$2.95. On the same day, DBS Group Research initiated coverage on HBL with a "buy" recommendation and a target price of S$3.80. Recently, the share price has traded between S$2.80 and S$2.86.

In terms of insider trades, we note that HBL's Chairman and Chief Executive Officer, Dr. Chua Thian Poh, who is also the controlling shareholder, has been increasing his stake in HBL. This has been achieved through share acquisitions by Ho Bee Holdings (Pte) Ltd (Ho Bee Holdings) and his spouse Mdm Ng Noi Hinoy (collectively referred herein as the Share Acquisitions).

Over the period from 18 March 2021 till present, Ho Bee Holdings acquired a total of 384,600 shares over 6 separate acquisitions at a price per share ranging from S$2.42 to S$2.82, as shown in **Exhibit 17**. The latest acquisition was on 14 September 2021 when it purchased 98,600 shares at S$2.82 per share. Dr Chua's spouse had on 3 September 2021 acquired 50,000 shares at a price per share of S$2.79. Overall, a total of 434,600 shares were acquired through the Share Acquisitions.

The Share Acquisitions increased Dr. Chua's deemed interest in HBL to 501,538,750 shares, representing a 75.53% shareholding, as shown in **Exhibit 17**. This comprised 499,558,500 shares held directly by Ho Bee Holdings; 566,250 shares held directly by his spouse; and 1,414,000 shares held directly by Kingdom Investment Holdings Pte Ltd, in which Ho Bee Holdings owns a 96% stake.

Exhibit 17: Details of the Share Acquisitions

Date of acquisition	Acquirer	No. of shares acquired	Total acquisition price (S$)	Price per share (S$)	Deemed interest after acquisition	
					No. of shares	Shareholding %
23-Mar-21	Ho Bee Holdings	15,000	36,336	2.42	501,119,150	75.47%
24-May-21	Ho Bee Holdings	133,700	339,598	2.54	501,252,850	75.49%
27-Aug-21	Ho Bee Holdings	39,700	111,160	2.80	501,292,550	75.49%
3-Sep-21	Ng Noi Hinoy	50,000	139,500	2.79	501,342,550	75.50%
10-Sep-21	Ho Bee Holdings	7,600	21,280	2.80	501,350,150	75.50%
13-Sep-21	Ho Bee Holdings	90,000	251,600	2.80	501,440,150	75.52%
14-Sep-21	Ho Bee Holdings	98,600	278,032	2.82	501,538,750	75.53%
Total	**-**	**434,600**	**1,177,507**	**-**	**-**	**-**

Source: HBL, FPA Financial

FINANCIAL PROJECTION

In this section, we will provide our projection for HBL's revenue, earnings and dividends in 2021 and 2022.

(I) Revenue projection

We will project revenue from HBL's Property Investment and Property Development segments to derive overall projected revenue for 2021 and 2022.

<u>Revenue from rental income</u>

As discussed on page 3, HBL's investment properties in London and Singapore recorded positive rental reversions during 1H2021, which contributed to a 6.1% y-o-y growth in rental income to S$113.9 million.

Looking at the Central London office market, we note that the City and West End segments have experienced an improvement in leasing activity in recent months, as reflected by a relatively strong and sustained recovery in take-up. In particular, demand has been mostly concentrated in Grade A offices, which suggest increasing tenant preference for higher quality office spaces. At the same time, vacancy rates have risen owing to increased supply. Overall, rent performance has been moderate thus far in 2021. Moving forward, we expect the strength of office leasing demand will largely be dependent on the evolving work-from-home dynamics. In the coming months, office demand should rise with more people in the UK returning to the workplace as companies progressively introduce hybrid working models. On the supply-side, stronger pre-let of future supply for the West End compared to the City may suggest a faster rate of absorption of new space added into the West End submarkets. Coupled with recovering demand from the technology and financial sectors, this may help to alleviate further upward pressure on vacancy rates and support a recovery in rents. Overall, we note an improved outlook for office rental growth in Central London.

Similarly, we also note a positive outlook for office rental growth in Singapore. Commercial real estate firms like CBRE, Cushman & Wakefield (C&W), Jones Lang LaSalle (JLL), Knight Frank are expecting tightening supply to support a recovery in rents. According to CBRE, potential risks on the demand side remain, but the tapering supply pipeline bodes well for the market. In CBRE's view, the medium-term outlook for the Grade A market looks positive, but the recovery in the Grade B market is likely to lag the Grade A market as landlords grapple with rising vacancy rates. Similarly, C&W believes that in view of tight supply and rising demand amidst an economic recovery, grade A office rents could embark on a gradual rebound and are projected to chalk up a rental growth of 1% to 3% in 2H2021.

JLL also highlighted tightening supply amid limited new completions and possible supply withdrawals due to the redevelopment of ageing office assets as potential factors which could contribute to a firming up of rents and capital values in 2H2021. Knight Frank Research believes that while landlords could remain flexible on rates to secure occupancy, the tempering effect on rates could be in the immediate term, and rents should firm up as office inventory dwindles The firm expects office rents to level out and potentially improve moderately by 1% to 2% moving into the later half of 2021.

Considering the above, we would assume a 2% y-o-y increase in rental income for 2H2021 to S$109.8 million = [102% x S$107.7 million in actual rental income in 2H2020]. Accordingly, projected rental income for full-year 2021 would be S$223.8 million, as shown in **Exhibit 18** on the next page. For 2022, we would assume a 3% y-o-y increase in anticipation of a stronger recovery in office rents as vacancy decreases amid improving demand. Thus, projected rental income for the period would be S$230.5 million = [1.03% x S$223.8 million in projected rental income for 2022], as shown in **Exhibit 18** on the next page.

Exhibit 18: Projected rental income for 2021 and 2022

	Actual			Forecast		
[S$'000]	1H2020	2H2020	1H2021	2H2021	2021	2022
Rental income	107,335	107,667	113,930	109,820	223,750	230,463

Source: HBL, FPA Financial

Revenue from sale of development properties

During 1H2021, the sale of development properties was S$43.4 million, mainly contributed by sales recognition from HBL's maiden master-planned community residential project, Parklakes 2 in Queensland, Australia. Of the S$43.4 million, S$37.3 million was contributed from development sales in Australia (which we would assume to be from Parklanes 2) and S$6.0 million from development sales in Singapore (which we would assume to be from Turquoise).

Australia segment

In Australia, the 95-lot Parklakes 2 project was fully sold in 2020 and lots were handed over to buyers starting in March 2021, as discussed on page 7. We note from the development website that 94 lots ranged from 354 sqm to 797 sqm, with one large lot measuring 9,074 sqm, as shown in **Exhibit 19**.

Exhibit 19: Overview of lots in Parklakes 2 project

Source: Parklakes 2 development website

As prices ranged from A$299,000, this would imply an estimated price per sqm of about A$845, based on the smallest lot of 354 sqm. Given a total of 60,123 sqm across the 95 lots, the total projected sales from the project would be approximately A$50.8 million = [A$845 x 60,123 sqm], or S$50.2 million based on an AUD/SGD exchange rate of 0.98840. Accordingly, we would assume the remainder of S$12.9 million = [S$50.2 million – S$37.3 million recognized in 1H2021] in sales to be recognized in 2H2021, given handover of units to buyers.

Meanwhile, as noted page 7, HBL also has 3 other development projects in Australia which have been launched – Bellevue in Ripley, The Pocket in Collingwood Park and Carrington in Officer, Victoria.

Bellevue

For Bellevue, we note that the residential neighbourhood project will be created in 18 stages. Currently, we note from the development website that the first 3 stages are launched. Stage 1 – the Dawn Release – features 20 lots ranging from 370 sqm to 527 sqm, as shown in **Exhibit 20**. With prices from A$215,000, the estimated price per sqm would be A$581, based on the smallest lot of 370 sqm. Given a total of 8,277 sqm across the 20 lots, the total projected sales from Stage 1 would be approximately A$4.8 million = [A$581 x 8,277 sqm], or S$4.8 million based on an AUD/SGD exchange rate of 0.98840.

Exhibit 20: Overview of lots in Stage 1 of the Bellevue project

Source: Bellevue development website

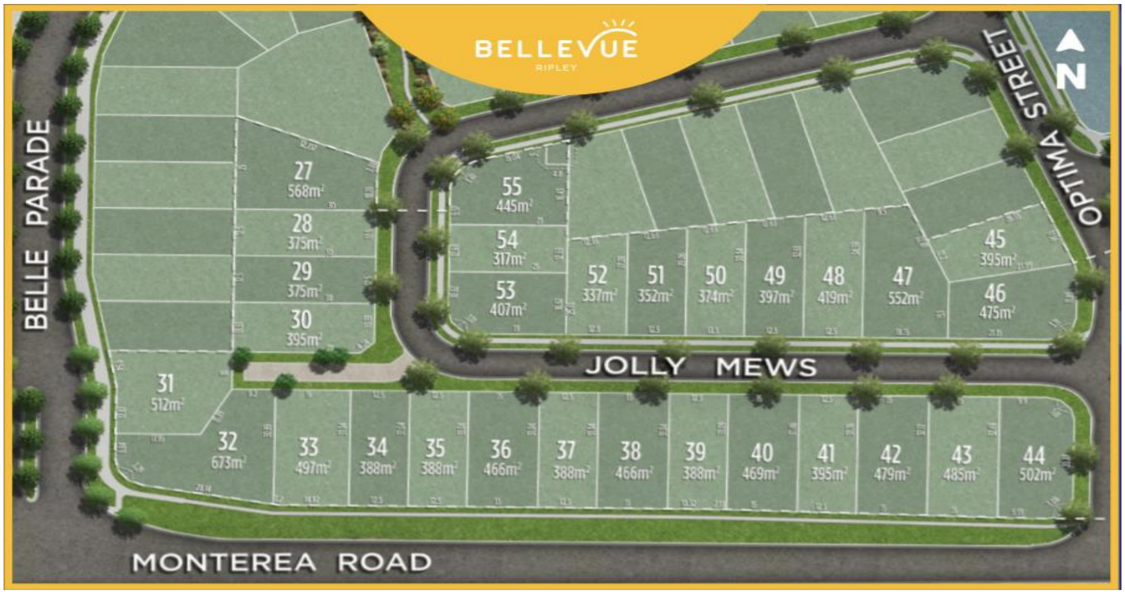
Stage 2 – the Spring Release – features 29 lots ranging from 365 sqm to 868 sqm, as shown in **Exhibit 21** on the next page. As prices priced from A$207,000, the estimated price per sqm would be A$567, based on the smallest lot of 365 sqm. Given a total of 12,488 sqm across the 29 lots, the total projected sales from Stage 2 would be approximately A$7.1 million = [A$581 x 8,277 sqm], or S$7.0 million based on an AUD/SGD exchange rate of 0.98840.

Exhibit 21: Overview of lots in Stage 2 of the Bellevue project

Source: Bellevue development website

Stage 3 – the Splendour Release – features 29 lots ranging from 317 sqm to 673 sqm, as shown in **Exhibit 22**.

Exhibit 22: Overview of lots in Stage 3 of the Bellevue project



Source: Bellevue development website

We note from recent listings on the development website that Lot 51 of 352 sqm and Lot 54 of 317 sqm are selling for A$216,000 and A$210,500 respectively. Accordingly, the estimated price per sqm would be A$614 for Lot 51 and A$664 for Lot 54, as shown in **Exhibit 23** on the next page. Thus, the average price per sqm would be A$639.

Exhibit 23: Recent listings of lots for sale at Stage 3 of Bellevue

Lot no.	Size (sqm)	Price (A$)	Price per sqm (A$)
Lot 51	352	216,000	614
Lot 54	317	210,500	664
Average			**639**

Source: Bellevue development wesbite

Assuming the average price per sqm of A$639 as a proxy, the total projected sales from Stage 3 would be approximately A$8.1 million = [A$639 x 12,679 sqm], given a total of 12,679 sqm across the 29 lots. This is equivalent to S$8.0 million based on an AUD/SGD exchange rate of 0.98840.

The Pocket

Based on the 'Design Guidelines' document on the development website, we note that The Pocket will be developed in 10 stages, with Stage 1 and 2 currently being marketed. Stage 1 – the Mint Release – features 36 lots ranging from 408 sqm to 905 sqm, as shown in **Exhibit 24**.

Exhibit 24: Overview of lots for Stage 1 of The Pocket

Source: The Pocket development website

We note from recent listings on realestate.com.au that Lot 3 of 419 sqm and Lot 49 of 500 sqm are selling for A$483,360 and A$490,511 respectively. Accordingly, the estimated price per sqm would be A$1,154 for Lot 3 and A$981 for Lot 49, as shown in **Exhibit 25** on the next page. Thus, the average price per sqm would be A$1,067.

Exhibit 25: Recent listings of lots for sale at Stage 1 of The Pocket

Lot no.	Size (sqm)	Price (A$)	Price per sqm (A$)
Lot 3	419	483,360	1,154
Lot 49	500	490,511	981
Average			**1,067**

Source: realestate.com.au

Assuming the average price per sqm of A$1,067 as a proxy, the total projected sales from Stage 1 would be approximately A$19.1 million = [A$1,067 x 17,866 sqm], given a total of 17,866 sqm across the 36 lots. This is equivalent to S$18.8 million based on an AUD/SGD exchange rate of 0.98840.

Stage 2 – the Jade Release – features 19 lots ranging from 402 sqm to 791 sqm, as shown in **Exhibit 26**.

Exhibit 26: Overview of lots for Stage 2 of The Pocket

Source: The Pocket development website

Given insufficient information relating to the prices for lots of Stage 2, we would assume the average price per sqm of A$1,067 for Stage 1 as a proxy. Accordingly, the total projected sales from Stage 2 would be approximately A$10.9 million = [A$1,067 x 10,242 sqm], given a total of 10,242 sqm across the 19 lots. This is equivalent to S$10.8 million based on an AUD/SGD exchange rate of 0.98840.

Carrington

Based on the Carrington development website, we note that the Kestrel Release is currently being marketed. This features 26 lots ranging from 308 sqm to 720 sqm, as shown in **Exhibit 27**.

Exhibit 27: Overview of lots for the Kestrel Release of Carrington

Source: Carrington development website

We note from a recent listing on realestate.com.au that Lot 222 of 450 sqm is selling for A$810,260. Accordingly, the estimated price per sqm for the lot would be A$1,801. Given a total of 10,409 sqm across the 26 lots, the total projected sales from the Kestrel Release would be approximately A$18.7 million = [A$1,801 x 10,409 sqm], or S$18.5 million based on an AUD/SGD exchange rate of 0.98840.

Projected sales at Bellevue, The Pocket and Carrington

The total expected sales from Bellevue, The Pocket and Carrington, based on the relevant stages for the individual projects which are launched so far, would be S$19.8 million, S$29.7 million and S$18.5 million respectively, as shown in **Exhibit 28** on the next page. Thus, the combined total for the 3 projects would be S$67.9 million. In our projection, we would assume that the lots in relation to this combined total expected sales for the 3 projects would be sold and handed over to buyers in 2022. Accordingly, this will imply that the full amount of S$67.9 million in sales would be recognized in 2022. This may be a conservative estimate given that there could be sales and handover of units to buyers for subsequent launches of the various stages in the 3 projects.

Exhibit 28: Projected sales to be recognized from Bellevue, The Pocket and Carrington in 2022

Project name	Expected sales (S$ million)
Bellevue - Stage 1	4.8
Bellevue - Stage 2	7.0
Bellevue - Stage 3	8.0
Subtotal - Bellevue	**19.8**
The Pocket - Stage 1	18.8
The Pocket - Stage 2	10.8
Subtotal - The Pocket	**29.7**
Carrington - Kestrel Release	18.5
Subtotal - Carrington	**18.5**
Grand total	**67.9**

Source: FPA Financial

Taken together with expected sales of S$12.9 million to be recorded from Parklanes 2 in 2H2021, as discussed on page 20, the projected sales of development properties for the Australia segment would be S$50.2 million and S$67.9 million for 2021 and 2022 respectively, as shown in **Exhibit 29**.

Exhibit 29: Projected sale of development properties for the Australia segment in 2021 and 2022

	Actual		Forecast		
[S$'000]	1H2020	1H2021	2H2021	2021	2022
Sale of development properties for Australia segment	-	37,321	12,872	50,193	67,937

Source: HBL, FPA Financial

Singapore segment

For the Singapore segment, we would assume the same revenue of S$6.0 million generated from development sales in Singapore during 1H2021, given the potential for additional sale of units at Turquoise. Accordingly, the projected amount for 2021 would be S$12.1 million, as shown in **Exhibit 30**. We would assume a 10% y-o-y increase in 2022 to S$13.3 million = [110% x S$12.1 million], given further potential sales at Turquoise if more units were to be put up for sale, as shown in **Exhibit 30**.

Exhibit 30: Projected sale of development properties for the Singapore segment in 2021 and 2022

	Actual		Forecast		
[S$'000]	1H2020	1H2021	2H2021	2021	2022
Sale of development properties for Singapore segment	-	6,029	6,029	12,058	13,264

Source: HBL, FPA Financial

Total projected sale of development properties for 2021 and 2022

Given the projected development sales for the Australia and Singapore segments in 2021 and 2022, the total projected sale of development properties for 2021 and 2022 would be S$62.3 million and S$81.2 million respectively, as shown in **Exhibit 31**.

Exhibit 31: Total projected sale of development properties for 2021 and 2022

Sale of development properties	Actual		Forecast		
[S$'000]	1H2020	1H2021	2H2021	2021	2022
Australia	-	37,321	12,872	50,193	67,937
Singapore	-	6,029	6,029	12,058	13,264
Total	**-**	**43,350**	**18,901**	**62,251**	**81,200**

Source: HBL, FPA Financial

Total projected revenue for 2021 and 2022

Given the projected figures for rental income and sale of development properties, the projected revenue for 2021 and 2022 would be S$286.0 million and S$311.7 million respectively, as shown in **Exhibit 32**.

Exhibit 32: Total projected revenue for 2021 and 2022

	Actual		Forecast		
[S$'000]	1H2020	1H2021	2H2021	2021	2022
Sale of development properties	-	43,350	18,901	62,251	81,200
Rental income	107,335	113,930	109,820	223,750	230,463
Total	**107,335**	**157,280**	**128,721**	**286,001**	**311,663**

Source: HBL, FPA Financial

(II) Earnings projection

Given the projected revenue figures for 2021 and 2022, we now estimate the HBL's earnings for these periods.

Other income

As noted on page 3, other income increased by 13.5% y-o-y to S$1.7 million in 1H2021, partially due to higher interest income. For 2H2021, we would assume the same amount as in 1H2021 and thus projected other income for full-year 2021 would be S$3.4 million, as shown in **Exhibit 33**. For 2022, we could consider an increase in interest income given the potential impact of higher interest rates. However, as there may be a need for HBL to tap on cash reserves for the purpose of debt repayment and funding of working capital, cash deposits may decline in 2022. Given that the potential of lower cash deposits could offset the impact of higher interest rates, we would assume the same projected other income of S$3.4 million for 2021 in 2022, as shown in **Exhibit 33**.

Exhibit 33: Projected other income for 2021 and 2022

	Actual			Forecast		
[S$'000]	1H2020	2H2020	1H2021	2H2021	2021	2022
Other income	1,478	2,397	1,678	1,678	3,356	3,356

Source: HBL, FPA Financial

Net fair value change on investment properties

Over the period from 2016 to 2019, HBL has consistently recorded fair value gains on its investment properties, as shown in **Exhibit 34**.

Exhibit 34: Historical fair value gain/(loss) on investment properties

[S$'000]	2016	2017	2018	2019	2020
Fair value gain/(loss) on investment properties	104,050	78,082	121,364	243,729	(32,792)

Source: HBL

During 2020, however, the valuations of HBL's investment properties were negatively impacted due to the Covid-19 pandemic, with a fair value loss of S$32.8 million recorded for the period. As noted on page 3, net fair value loss of S$3.7 million was recorded for 1H2021 in relation to certain London properties. Adopting a conservative approach, we would assume no fair value gains or losses in 2H2021 and thus the full-year impact for 2021 would be a loss of S$3.7 million, as shown in **Exhibit 35**. We would further assume no fair value gains or losses in 2022.

Exhibit 35: Projected fair value change on investment properties

	Actual			Forecast		
[S$'000]	1H2020	2H2020	1H2021	2H2021	2021	2022
Fair value gain/(loss) on investment properties	-	(32,792)	(3,719)	-	(3,719)	-

Source: HBL, FPA Financial

Cost of sales – residential development projects

We will estimate cost of sales relating to residential development projects (cost of sales) based on the ratio of cost of sales to sale of development properties (cost of sales ratio). Looking at historical data, we note that the cost of sales ratio has generally risen over the last few years, except in 2018 when it declined, as shown in **Exhibit 36**.

Exhibit 36: Historical cost of sales ratio

[S$'000]	2016	2017	2018	2019	2020
Sale of development properties	154,910	17,488	17,196	2,973	679
Cost of sales	125,368	14,687	10,625	2,640	1,530
Cost of sales ratio (%)	80.9%	84.0%	61.8%	88.8%	225.3%

Source: HBL, FPA Financial

Meanwhile, as noted on page 3, HBL recorded cost of sales of S$36.4 million in 1H2021, which translates to a cost of sales ratio of 84.0%. We would assume HBL to maintain this cost of sales ratio for 2H2021, and in turn full-year 2021. Accordingly, the projected cost of sales for 2021 and 2022 would be S$52.3 million and S$68.2 million respectively, as shown in **Exhibit 37**.

Exhibit 37: Projected cost of sales for 2021 and 2022

	Actual			Forecast		
[S$'000]	1H2020	2H2020	1H2021	2H2021	2021	2022
Sale of development properties	-	679	43,350	18,901	62,251	81,200
Cost of sales	-	1,530	36,410	15,877	52,291	68,208
Cost of sales ratio (%)	-	225.3%	84.0%	84.0%	84.0%	84.0%

Source: HBL, FPA Financial

Direct rental expenses

We will estimate direct rental expenses based on the ratio of direct rental expenses to rental income (rental expense ratio). Looking at historical data, we note that the rental expense ratio has steadily declined over the last few years, as shown in **Exhibit 38**.

Exhibit 38: Historical rental expense ratio

[S$'000]	2016	2017	2018	2019	2020
Rental income	144,502	147,167	179,649	209,459	215,002
Direct rental expenses	16,735	17,901	19,517	20,003	16,094
Rental expense ratio (%)	11.6%	12.2%	10.9%	9.5%	7.5%

Source: Company, FPA Financial

Meanwhile, as noted on page 3, direct rental expenses rose by 29.4% y-o-y to S$9.5 million in 1H2021, as rental commission increased due to more leases signed. In addition, maintenance expenses also increased because certain maintenance works were postponed during the Circuit Breaker period last year. The rental expense ratio for the period was 8.3%, which is higher compared to 6.8% in 1H2020.

In our projection, we would assume the same rental expense ratio in 1H2021 for 2H2021, and in turn the ratio for full-year 2021 would be 8.3%. We would further assume this figure for 2022. Accordingly, projected direct rental expenses for 2021 and 2022 would be S$18.6 million and S$19.1 million respectively as shown in **Exhibit 39**.

Exhibit 39: Projected direct rental expenses for 2021 and 2022

	Actual			Forecast		
[S$'000]	1H2020	2H2020	1H2021	2H2021	2021	2022
Rental income	107,335	107,667	113,930	109,820	223,750	230,463
Direct rental expenses	7,305	8,789	9,450	9,115	18,571	19,128
Rental expense ratio (%)	6.8%	8.2%	8.3%	8.3%	8.3%	8.3%

Source: HBL, FPA Financial

Staff costs & directors' renumeration

Looking at historical data in **Exhibit 40**, we note that there is no clear trend for staff costs & directors' renumeration over the last few years. In 2020, staff costs & directors' renumeration increased by 9% y-o-y to S$17.7 million, mainly due to the hiring of a new team based in Australia since Q4 2019. The increase would have been higher if not for a decrease in 2H2020 due to a decline in bonus.

Exhibit 40: Historical staff costs & directors' renumeration

[S$'000]	2016	2017	2018	2019	2020
Staff costs & directors' renumeration	16,184	17,313	18,178	16,327	17,748

Source: HBL

As noted on page 3, staff costs & directors' renumeration rose by 6.0% y-o-y to S$11.0 million in 1H2021. We would assume the same amount for 2H2021, factoring that the bonus decline factor in 2H2020 could be one-off due to Covid-19. Accordingly, the projected staff costs & directors' renumeration would be S$22.0 million in 2021, as shown in **Exhibit 41**. We would further assume this figure for 2022.

Exhibit 41: Projected staff costs & directors' renumeration for 2021 and 2022

	Actual			Forecast		
[S$'000]	1H2020	2H2020	1H2021	2H2021	2021	2022
Staff costs & directors' renumeration	10,368	7,380	10,994	10,994	21,988	21,988

Source: HBL, FPA Financial

Gain/(loss) on foreign exchange

Prior to the Covid-19 pandemic, AUD/SGD and EUR/SGD exchange rates had been on a decline given the strengthening of the SGD against the AUD and EUR, except in FY2017. Thus, we note that foreign exchange losses were generally incurred over the period from 2016 to 2019, except in 2017, as shown in **Exhibit 42**. In 2020, however, foreign exchange gains of S$15.5 million were recorded as the AUD and EUR appreciated against the SGD during the period.

Exhibit 42: Historical gain/(loss) on foreign exchange

[S$'000]	2016	2017	2018	2019	2020
Gain/(loss) on foreign exchange	(12,166)	711	(10,248)	(6,239)	15,547

Source: HBL

As noted on page 3, foreign exchange losses of S$1.2 million were recorded in 1H2021, as the AUD and EUR weakened against the SGD. Thus far in 2H2021, we note a similar trend as reflected by a general decline in the AUD/SGD and EUR/SGD exchange rates. To account for this, we would assume a 10% increase in foreign exchange losses in 2H2021 from 1H2021. Thus, the projected foreign exchange losses for 2H2021 would be S$1.3 million = [110% x S$1.2 million loss in 1H2021], bringing total losses for 2021 to S$2.6 million, as shown in **Exhibit 43**. We would assume no gains or losses in 2022.

Exhibit 43: Projected gain/(loss) on foreign exchange

	Actual			Forecast		
[S$'000]	1H2020	2H2020	1H2021	2H2021	2021	2022
Gain/(loss) on foreign exchange	5,738	9,809	(1,222)	(1,344)	(2,566)	-

Source: HBL, FPA Financial

Other operating expenses

As noted on page 3, HBL's other operating expenses increased by 12.7% y-o-y to S$4.1 million mainly due to allowance made for impairment loss on trade receivable. For 2H2021, we would assume the same other operating expenses as in 1H2021, and thus the projected amount for full-year 2021 would be S$8.2 million, as shown in **Exhibit 44**. We would further assume this figure for 2022.

Exhibit 44: Projected other operating expenses

	Actual			Forecast		
[S$'000]	1H2020	2H2020	1H2021	2H2021	2021	2022
Other operating expenses	3,631	5,230	4,091	4,091	8,182	8,182

Source: HBL, FPA Financial

Net finance costs

As noted on page 3, net finance costs declined by 16.1% y-o-y to S$19.4 million in 1H2021 amid repayment of GBP bank borrowings and decline in interest rates for GBP bank borrowings at floating rates. However, interest rates have moved up recently amid rising inflation concerns. The possibility of sooner-than-expected tightening of monetary policy has also increased, as central banks move to rein in rising prices. This may lead to higher interest expenses incurred on HBL's bank borrowings at floating rates. Further, interest expense may also rise if HBL were to take on additional debt financing to fund the construction costs for its development properties in Singapore and Australia.

Considering the above, we would assume the same amount of net finance costs in 1H2021 for 2H2021, given that interest rates may not rise substantially for the time being. Accordingly, the projected net finance costs for full-year 2021 would be S$38.8 million. For 2022, we would assume a 10% y-o-y increase in net finance costs to S$42.7 million = [110% x S$38.8 million projected net finance costs for 2021], in anticipation of stronger upward pressure on interest rates and additional borrowings for development funding. We have summarised our projection for net finance costs in **Exhibit 45**.

Exhibit 45: Projected net finance costs

	Actual			Forecast		
[S$'000]	1H2020	2H2020	1H2021	2H2021	2021	2022
Net finance costs	23,112	19,723	19,401	19,401	38,802	42,682

Source: HBL, FPA Financial

Share of profit/(loss) from associates

HBL's associates comprise of Shanghai Yanlord Hongqiao Property Co. Ltd (Shanghai Yanlord Hongqiao) and Zhuhai Yanlord Heyou Land Co. Ltd (Zhuhai Yanlord Heyou), in which HBL has an ownership interest of 40% and 20% respectively.

Shanghai Yanlord Hongqiao is involved with HBL's residential project in Shanghai which has been fully sold and handed over to purchasers. Zhuhai Yanlord Heyou is involved with the residential project in Zhuhai which has sold 86% of a total of 3,669 units.

Given that the Shanghai and Zhuhai residential projects are mostly sold and that substantial profits have been recognized over the last few years, we would thus assume zero share of profits from both associates in 2H2021 and 2022. Accordingly, projected share of profit for full-year 2021 would be S$10.8 million, as shown in **Exhibit 46**.

Exhibit 46: Projected share of profit/(loss) from associates

	Actual			Forecast		
[S$'000]	1H2020	2H2020	1H2021	2H2021	2021	2022
Share of profit from associates	31,326	21,877	10,823	-	10,823	-

Source: HBL, FPA Financial

Share of profit/(loss) from jointly-controlled entities

HBL's material joint-controlled entities comprise of Seaview (Sentosa) Pte Ltd (Seaview), Pinnacle (Sentosa) Pte Ltd (Pinnacle) and Yanlord Ho Bee Investments Pte Ltd (Yanlord Ho Bee), in which HBL has an ownership interest of 50%, 35% and 50% respectively. Seaview and Pinnacle are the developers of HBL's Singapore residential projects, Seascape and Cape Royale, in Sentosa Cove. Yanlord Ho Bee is involved with HBL's joint venture project in Tangshan.

As noted on page 3, share of profits from jointly-controlled entities was S$50.0 million in 1H2021, compared to S$3.0 million in 1H2020. The increase was mainly attributable to higher profits from HBL's Tangshan residential project, as approximately 700 units in Phase 2 of the project were handed over to buyers during the period. We note in HBL's latest annual report that in 2020, approximately 40% of the 1,220 total units at the Tangshan project were handed over to purchasers with the remaining 60%, or about 732 units, to be handed over in 1H2021. Thus, we would assume all remaining units at the Tangshan project to be handed over to buyers in 1H2021. Accordingly, we would assume minimal impact of the share of results from Yanlord Ho Bee in 2H2021 and 2022.

While we note that Seascape (98 apartments remaining) and Cape Royale (302 apartments remaining) are currently 90% leased and should thus generate recurring income for Seaview and Pinnacle, we note that HBL had recorded share of losses in 2020, specifically from Pinnacle, due to adjustment for foreseeable losses on development project. Thus, we would adopt a conservative approach to assume zero share of results from Seaview and Pinnacle in 2H2021 and 2022.

Overall, we would assume neither share of profit or loss from jointly-controlled entities in 2H2021 and 2022. Accordingly, the projected share of profit for full-year 2021 would be S$50.0 million, as shown in **Exhibit 47**.

Exhibit 47: Projected share of profit/(loss) from jointly-controlled entities

	Actual			Forecast		
[S$'000]	1H2020	2H2020	1H2021	2H2021	2021	2022
Share of profit from jointly-controlled entities	2,985	(747)	49,956	-	49,956	-

Source: HBL, FPA Financial

Profit before income tax

Given the earnings projection so far, we would derive a profit before income tax of S$204.0 million and S$154.8 million for 2021 and 2022 respectively , as shown in **Exhibit 48**.

Exhibit 48: Projected profit before income tax for 2021 and 2022

[S$'000]	2021 forecast	2022 forecast
Sale of development properties	62,251	81,200
Rental income	223,750	230,463
Revenue	**286,001**	**311,663**
Other income	3,356	3,356
Total income	289,357	315,019
Fair value loss on investment properties	(3,719)	-
Cost of sales - residential development projects	(52,291)	(68,208)
Direct rental expenses	(18,571)	(19,128)
(Loss)/Gain on foreign exchange	(2,566)	-
Staff costs & directors' renumeration	(21,988)	(21,988)
Other operating expenses	(8,182)	(8,182)
Profit from operating activities	182,040	197,512
Net finance costs	(38,802)	(42,682)
Share of profits of:		
Associates	10,823	-
Joint-controlled entities	49,956	-
Profit before income tax	**204,017**	**154,830**

Source: FPA Financial

Income tax expense

As noted on page 4, income tax expense increased by 45% y-o-y to S$19.9 million in 1H2021, partially attributable to higher deferred tax expense. For 2021 and 2022, we would project income tax expense of S$34.7 million and S$26.3 million respectively, based on a 17% Singapore tax rate levied on the Group's profit before taxation. The estimation are as follows:

- Projected income tax expense for 2021 = 17% x S$204.0 million = S$34.7 million
- Projected income tax expense for 2022 = 17% x S$154.8 million = S$26.3 million

Profit after tax

Net of income tax expense, the projected profit after tax would be S$169.3 million and S$128.5 million for 2021 and 2022 respectively. After adjusting for non-controlling interests, the projected profit attributable to shareholders would be S$151.3 million and S$114.8 million for 2021 and 2022 respectively. This will translate to an EPS of 22.78 cents and 17.29 cents for 2021 and 2022 respectively. We have summarized our earnings projection for 2021 and 2022 in **Exhibit 49** on the next page.

Exhibit 49: Earnings projection for 2021 and 2022

[S$'000]	2021 forecast	2022 forecast
Sale of development properties	62,251	81,200
Rental income	223,750	230,463
Revenue	**286,001**	**311,663**
Other income	3,356	3,356
Total income	289,357	315,019
Fair value loss on investment properties	(3,719)	-
Cost of sales - residential development projects	(52,291)	(68,208)
Direct rental expenses	(18,571)	(19,128)
(Loss)/Gain on foreign exchange	(2,566)	-
Staff costs & directors' renumeration	(21,988)	(21,988)
Other operating expenses	(8,182)	(8,182)
Profit from operating activities	182,040	197,512
Net finance costs	(38,802)	(42,682)
Share of profits of:		
Associates	10,823	-
Joint-controlled entities	49,956	-
Profit before income tax	204,017	154,830
Income tax expense	(34,683)	(26,321)
Profit for the period	**169,334**	**128,509**
Attributable to:		
Owners of the Company	**151,252**	**114,787**
Non-controlling interests	18,082	13,723
	169,334	128,509
Profit attributable to owners of the Company	151,252	114,787
Weighted average no. of shares ('000)	664,016	664,016
EPS (cents)	**22.78**	**17.29**

Source: FPA Financial

(III) Dividends projection

Over the period from 2017 to 2020, HBL has consistently paid dividends of 10 cents per share, despite the impact of Covid-19 in 2020. Thus, we would assume dividends of 10.0 cents per share to be issued for 2021 and 2022.

VALUATION ANALYSIS

We will first perform an updated peer comparison analysis to review how HBL is currently faring against industry peers in terms of valuation metrics. Based on the results of our peer comparison, we will then adopt a relative valuation approach to derive an estimated target price for HBL. We will also discuss the possibility of a HBL privatization.

(I) Peer comparison analysis

Our updated peer comparison analysis is summarized in **Exhibit 50**.

Exhibit 50: Updated peer comparison analysis

Company	SGX code	Price (S$) as at 12 Oct 21	Market cap (S$ million)	EPS [(1)] (cents)	P/E (x)	DPS [(2)] (cents)	Dividend yield (%)	NAV per share [(3)] (S$)	P/NAV (x)
Ho Bee Land Ltd	H13	2.820	1,872.54	22.89	12.32	10.00	3.55	5.58	0.51
Peer companies:									
City Developments Ltd	C09	7.290	6,611.30	(216.70)	NM	15.00	2.06	9.22	0.79
Frasers Property Ltd [(4)]	TQ5	1.150	4,503.50	5.86	19.62	1.50	1.30	2.73	0.42
GuocoLand Ltd	F17	1.670	1,853.31	13.52	12.35	6.00	3.59	3.60	0.46
Roxy Pacific Holdings Ltd	E8Z	0.470	612.87	(2.03)	NM	-	-	0.73	0.64
UOL Group Ltd	U14	7.100	5,994.39	22.12	32.10	15.00	2.11	11.76	0.60
Peers' average	-	-	-	-	**21.36**	-	**2.27**	-	**0.58**

NM: not meaningful
(1) Trailing 12-month diluted EPS
(2) Trailing 12-month DPS
(3) As at 30 June 2021, unless stated otherwise
(4) NAV per share as at 31 March 2021
Source: Respective company data, FPA Financial

Based on the results in **Exhibit 50** above, we note that HBL's is currently trading at a P/NAV of 0.51x based on its reported NAV per share of S$5.58. This is lower compared to the peers' average P/NAV of 0.58x, which could suggest that HBL is undervalued based on the value of its net assets. Assuming it would be fair for HBL to trade at the peers' average P/NAV, we estimate a target price of S$3.24 as follows:

➢ Estimated target price = [peers' average P/B] x [latest reported NAV per share] = 0.58 x S$5.58 = S$3.24

(II) Potential HBL privatization

In our initiation report, we discussed the potential for HBL to be taken private, given the substantial shareholding held by the Chua family, comprising Dr. Chua Thian Poh, his spouse and his son.

While there have been no announcements regarding a privatization exercise thus far, we believe that there is still potential for a takeover offer by the Chua family, which currently holds a 75.94% stake in HBL. Since 2020, there has been an increasing trend of privatization for companies listed on the Singapore Exchange. Most recently, we note that Roxy-Pacific Holdings Limited (Roxy-Pacific) has received a pre-conditional voluntary general offer from TKL & Family for all the issued ordinary shares in the company. The offeror is the bid vehicle of a consortium formed by 11 individuals, including the chairman and chief executive of Roxy-Pacific, Mr. Teo Hong Lim, who is also the major controlling shareholder.

To estimate a potential takeover offer price for HBL, we will consider privatisation offers for SGX-listed companies, in particular those relating to the property sector, thus far in 2021, as shown in **Exhibit 51**.

Exhibit 51: 2021 privatisation offers for property-related companies on SGX

Target	Acquirer	Currency	Last transaction (1) Date	Last transaction (1) Price (S$)	Offer price per share (S$)	Price premium (2)
GL Limited	Guoco Group Limited	SGD	14-Jan-21	0.560	0.800	42.9%
Jardine Strategic Holdings Limited	Jardine Matheson Holdings Limited	USD	7-Mar-21	27.450	33.000	20.2%
World Class Global Limited	Aspial Corporation Limited	SGD	11-Mar-21	0.099	0.210	112.1%
Top Global Limited	SW Investment Holding Pte Ltd	SGD	30-Apr-21	0.385	0.390	1.3%
Fragrance Group Limited	JK Global Treasures Pte Ltd	SGD	8-Jul-21	0.118	0.138	16.9%
Roxy-Pacific Holdings Limited	TKL & Family Pte Ltd	SGD	14-Sep-21	0.405	0.485	19.8%
Average						**35.5%**
Average (excluding World Class Global Limited and Top Global Limited)						**23.6%**

(1) Refers to last transaction prior to takeover announcement
(2) Refers to premium of offer price over last traded share price prior to takeover announcement
Source: respective companies' announcements

As highlighted in **Exhibit 51** above, the average price premium would be 35.5% across the 6 privatization offers. Excluding that for World Class Global Limited and Top Global Limited, the average price premium would be 23.6%. We would assume this in the case of a potential HBL privatization offer.

In the case of HBL, the 24.06% stake which is uncontrolled by the Chua family would be worth approximately S$450.5 million = [24.06% x current market capitalisation of S$1,872.5 million] at the current share price of S$2.82. Assuming a privatisation price premium of 23.6%, the estimated acquisition cost to privatise HBL would be approximately S$3.49 per share, which would be equivalent to a total cost of S$556.8 million = [123.6% x S$450.5 million].

(III) Valuation summary

The results from our peer comparison analysis suggest that HBL is relatively attractive in terms of dividend yield, with a yield of 3.55% which is above the peers' average of 2.27%. Further, HBL is currently trading at a P/NAV of 0.51x which is lower than the peers' average of 0.58x. The estimated target price would be S$3.24 if HBL were to trade at the peers' average P/NAV of 0.58x.

Meanwhile, we foresee that there is still a possibility for HBL to be taken private. Factoring in a 23.6% takeover premium, we estimate a privatization offer price of S$3.49 per share for the Chua family to privatise HBL. This translates to a total estimated acquisition cost of S$556.8 million.

Overall, we are of the view that there is good upside in HBL's share price. We believe that it is possible for the share price to reach the estimated privatization offer price of S$3.49 in the medium term. Thus, our final target price would be S$3.49, which represents a 23.8% upside from the current share price of S$2.82.

INVESTMENT RECOMMENDATION

Since our initiation report issued on 18 March 2021, when HBL's share price closed at S$2.46, we note that the share price has broadly rallied. From then till present, the share price has increased by close to 14%. Recently, the share price has traded between S$2.80 and S$2.86. We identify HBL's strong recurring income base, stable dividends and good earnings growth potential as the main factors which could support upside in the share price.

On valuation terms, the results from our peer comparison analysis suggest that HBL is relatively attractive in terms of dividend yield, with a yield of 3.55% which is above the peers' average of 2.27%. Further, HBL is currently trading at a P/NAV of 0.51x which is lower than the peers' average of 0.58x. Meanwhile, we continue to believe there is possibility for HBL to be taken private, amid share acquisition transactions by its controlling shareholder over the last two years. Factoring in a 23.6% takeover premium, we estimate a privatization offer price of S$3.49 per share for the Chua family to privatise HBL. This translates to a total estimated acquisition cost of S$556.8 million. Overall, we are of the view that there is good upside in HBL's share price. In the medium term, the share price could reach S$3.49.

Considering the above, we will maintain a buy recommendation on HBL. Our final target price is S$3.49, which is a 23.8% upside from the current share price of S$2.82. However, there are risks to our current target price which we will highlight in the next section.

RISKS TO THE UPSIDE IN TARGET PRICE

Below, we highlight the risk factors that could limit the upside in our target price.

(I) Risk of weak global economic recovery due to virus uncertainty

For the most part, global vaccination progress as well as strong fiscal and monetary stimulus have helped to support a strong global economic recovery in 2021 thus far. However, recent economic indicators suggest that the pace of recovery in major economies like the United States (US) and China has slowed. In its recently published World Economic Outlook report, the International Monetary Fund downgraded its global growth forecast to 5.9% from 6.0%. Evidently, virus resurgence has been a major cause of the slowing global growth, as the spread of the Delta variant has resulted in a slowdown in consumption and disrupted global supply chains. Meanwhile, rising inflation, in part due to supply bottlenecks and upward pressure on wages, has also been a major concern. This could result in sooner-than-expected withdrawal of central bank stimulus in economies like the US, which could then reduce growth. Moreover, virus uncertainty remains and there is still a threat of virus resurgence.

The risk of a global economic slowdown and virus uncertainty could have a negative impact on HBL's financial performance. A weaker economic backdrop could dampen property development sales. Further, virus-related restriction measures could delay construction progress at the development projects in Australia and Singapore. Meanwhile, increased WFH due to virus-related concerns could push up vacancy rates and result in a fall in office rents.

(II) Risk of exchange rate fluctuations

As discussed on page 31, HBL recorded foreign exchange losses of S$1.2 million in 1H2021, as the AUD and EUR weakened against the SGD. Thus far in 2H2021, we note a similar trend as reflected by a general decline in the AUD/SGD and EUR/SGD exchange rates. A significant strengthening of the SGD could negatively impact HBL's earnings through foreign exchange losses. At the same time, there is also a possibility for the SGD to weaken going forward, as a further deterioration of the virus situation could dampen investor confidence.

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