REAL ESTATE EQUITY RESEARCH

Ho Bee Land Limited

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

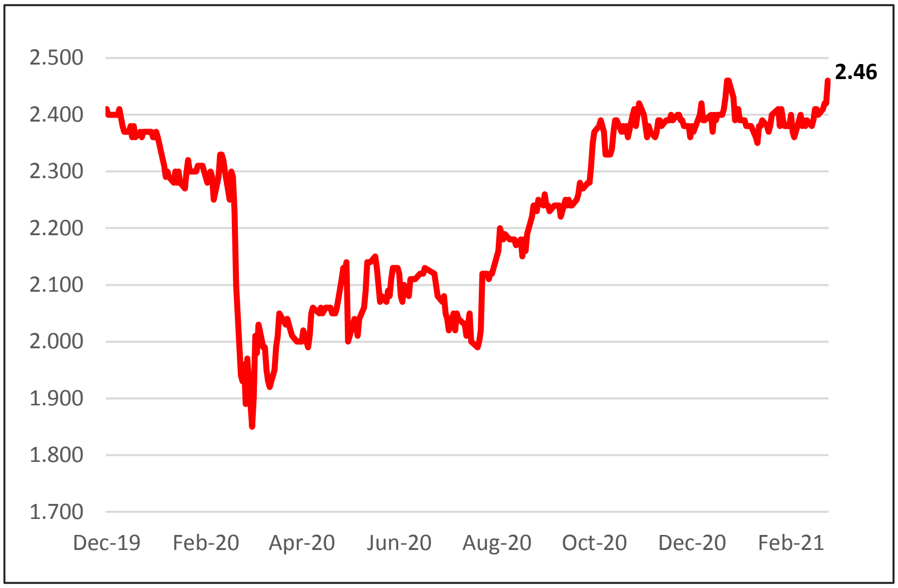
Country: Singapore
Industry: Real estate

18 March 2021
RECOMMENDATION: BUY

Current price: S$2.460
Target price: S$3.494
Issued shares: 664.02 million (31 Dec 20)
Market capitalisation: S$1,633.49 million

52-week range: S$1.803 - S$2.500

PRICE PERFORMANCE



COMPANY DESCRIPTION

Ho Bee Land Limited (HBL or the Company) is a real estate development and investment company listed on the Mainboard of the Singapore Exchange. The Group, comprising HBL and its subsidiaries, has a portfolio that covers residential, commercial and high-tech industrial projects which span the geographical markets of Australia, China, Germany, Singapore and the United Kingdom (UK).

SUMMARY

Amid the challenging COVID-19 environment, the Group recorded a 1.5% year-on-year (y-o-y) growth in revenue for the financial year ended 31 December 2020 (FY2020) on the back of resilient recurring income from its investment properties in Singapore and London. During the period, the Group's earnings was negatively impacted by a net fair value loss on investment properties of S$32.8 million compared with a fair value gain of S$243.7 million a year ago. Earnings per share more than halved to 20.62 cents in FY2020. Nonetheless, dividends of 10 cents per share has been recommended for the period. Looking ahead, we anticipate the Group's resilient recurring income stream and upcoming development projects in Singapore, Australia and Germany to underpin financial performance.

RECOMMENDATION

Based on HBL's reported NAV per share of S$5.46 as at 31 December 2020, the share is currently trading at a P/B of 0.45x, representing a discount of approximately 55% to NAV. Our peer comparison results show that the Company could be undervalued, given a lower PB of 0.45x compared to the peer average P/B of 0.64x. Adopting a relative valuation approach, we estimate a target price of S$3.494 if HBL's P/B were to adjust to the peer average P/B of 0.64x. This target price is a 42.0% upside from the current share price of S$2.460. We believe this upside could be justified by potential earnings growth underpinned by the Group's resilient recurring income stream from its investment properties, as well as its upcoming development projects. Further, insider share purchases reflect positively on the Company's value. Meanwhile, we identify the possibility for HBL to be privatized at S$3.518 per share after factoring in a 43% privatization premium. All things considered, we believe a buy recommendation is warranted on HBL.

KEY FINANCIALS

Year ended Dec 31	Revenue (S$ million)	Profit* (S$ million)	EPS (cents)	P/E (x)	DPS (cents)	Dividend yield (%)	NAV per share (S$)	P/B (x)
2019 actual	212.4	332.3	49.95	4.92	10.00	4.07	5.32	0.46
2020 actual**	215.7	137.1	20.62	11.93	10.00	4.07	5.46	0.45
2021 forecast	238.4	109.8	16.51	14.90	10.00	4.07	-	-
2022 forecast	230.3	114.1	17.16	14.34	10.00	4.07	-	-

Figures have been rounded. P/E, P/B and dividend yield figures are based on current price of S$2.460
**Profit attributable to owners of the Company*
***Recommended DPS of 10 cents for FY2020 is subject to approval at the AGM on 28 April 2021*
Source: Company, FPA Financial

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COMPANY OVERVIEW

(I) Corporate profile

Ho Bee Land Limited (HBL or the Company) is a real estate development and investment company that was listed on the Mainboard of the Singapore Exchange in 1999. The Group, comprising of HBL and its subsidiaries, is primarily involved in property development, property investment and investment holding. HBL has a portfolio of residential, commercial and industrial properties covering the geographical markets of Australia, China, Germany, Singapore and the United Kingdom (UK).

As at 31 December 2020, the Group had total assets of S$6.3 billion and net assets attributable to shareholders of S$3.6 billion.

(II) Major shareholders of the Company

The Company's major controlling shareholder is Dr Chua Thian Poh, the founder, Chairman and Chief Executive Officer of the Group. As at 6 March 2020, Dr Chua held a total stake of 75.06% in HBL, comprising a deemed interest in 497,932,900 shares held by Ho Bee Holdings (Pte) Ltd (Ho Bee Holdings) and 1,414,000 shares held by Kingdom Investment Holdings Pte Ltd (KIH). Ho Bee Holdings is the immediate and ultimate holding company of HBL and has a deemed interest in the 1,414,000 shares held by KIH.

A summary of HBL's substantial shareholders as disclosed in its Annual Report 2019 is shown in **Exhibit 1**.

Exhibit 1: HBL's register of substantial shareholders

SUBSTANTIAL SHAREHOLDERS

	Direct Interest		Deemed Interest	
Size of Shareholdings	**No. of Shares**	**%[1]**	**No. of Shares**	**%[1]**
Ho Bee Holdings (Pte) Ltd	497,932,900	74.85	1,414,000[2]	0.21
Chua Thian Poh	–	–	499,346,900[3]	75.06

Notes

(1) The percentage is calculated based on the number of issued shares of the Company as at 6 March 2020, excluding 38,107,400 shares held as treasury shares as at that date.

(2) Ho Bee Holdings (Pte) Ltd has a deemed interest in the 1,414,000 shares held by Kingdom Investment Holdings Pte. Ltd.

(3) Dr Chua Thian Poh has a deemed interest in the 497,932,900 shares held by Ho Bee Holdings (Pte) Ltd and 1,414,000 shares held by Kingdom Investment Holdings Pte. Ltd.

Source: Company

From 6 March 2020 to 31 December 2020, Dr Chua's stake in the Company had increased through share purchases by Ho Bee Holdings and his spouse Mdm Ng Noi Hinoy (collectively referred herein as the Share Acquisitions).

During the period, Ho Bee Holdings had purchased a total of 1,241,000 shares over 10 separate acquisitions at a price per share ranging from S$1.87 to S$2.40, as shown in **Exhibit 2** on the next page. The latest acquisition was on 31 December 2020 when it purchased 49,300 shares at S$2.40 per share, which is above the closing price of S$2.39 on the same day. Dr Chua's spouse had on 24 March 2020 acquired 516,250 shares at S$1.88 per share. Accordingly, a total of 1,757,250 shares were acquired through the Share Acquisitions.

Following the Share Acquisitions, Dr Chua held a total deemed interest of 501,104,150 shares, representing a 75.47% shareholding in the Company, as shown in **Exhibit 2** on the next page. This comprised 499,173.900 shares held directly by Ho Bee Holdings, 1,414,000 shares held directly by KIH and 516,250 shares held directly by his spouse.

Exhibit 2: 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 %
18-Mar-20	Ho Bee Holdings	111,000	218,664	1.97	499,457,900	75.08%
20-Mar-20	Ho Bee Holdings	250,000	475,988	1.90	499,707,900	75.12%
24-Mar-20	Ho Bee Holdings	38,600	72,186	1.87	499,746,500	75.12%
24-Mar-20	Mdm Ng Noi Hinoy	516,250	970,550	1.88	500,262,750	75.20%
19-Aug-20	Ho Bee Holdings	185,800	394,338	2.12	500,448,550	75.23%
21-Aug-20	Ho Bee Holdings	123,700	262,391	2.12	500,572,250	75.25%
14-Oct-20	Ho Bee Holdings	97,800	221,786	2.27	500,670,050	75.40%
16-Oct-20	Ho Bee Holdings	53,700	121,899	2.27	500,723,750	75.41%
24-Dec-20	Ho Bee Holdings	253,800	601,757	2.37	500,977,550	75.45%
29-Dec-20	Ho Bee Holdings	77,300	183,893	2.38	501,054,850	75.46%
31-Dec-20	Ho Bee Holdings	49,300	118,268	2.40	501,104,150	75.47%
Total	-	1,757,250	3,641,721	-	-	-

Source: Company, FPA Financial

(III) Portfolio overview

The Group has an approximately S$6.0 billion property investment portfolio (inclusive of property investments held by joint-controlled entities and associates of the Group) covering the markets of Australia, China, Singapore and the UK as disclosed in its Annual Report 2019. Singapore and the UK make up the largest proportioning of the total portfolio at 50% and 42% respectively, while Australia and China make up the remaining at 1% and 7% respectively.

Singapore

In Singapore, the Group wholly-owns 5 investment properties with office, retail and industrial purposes that have a combined lettable area of 114,103 square metres (sqm). Meanwhile, the Group also has a total of 450 apartments held for sale across its three residential properties at Sentosa Cove – Turquoise, Seascape and Cape Royale. These properties were 88% leased as of 19 May 2020, but with eventual sale intended. In FY2020, the entire Singapore portfolio generated total revenue of S$100.9 million, contributing to about 47% of Group revenue.

In March 2020, HBL was awarded a land tender to develop a biomedical sciences (BMS) development known as Biopolis Phase 6. The development site is located next to HBL's flagship commercial office development, The Metropolis, at one-north. When completed in 2022, the project would add another 35,000 sqm of business park space for BMS research and supporting activities, and 6,000 sqm for office and retail uses. We will provide further details about this development in the 'Potential catalysts' section on page 14.

London

In London, the Group wholly-owns 7 prime office properties with a total lettable area of approximately 146,392 square metres (sqm). Ropemaker Place, the Group's latest London acquisition in 2018, is the largest property which has blue-chip tenants such as Macquarie Group and MUFG, according to the Business Times. In addition, two other assets are fully let to the UK Government. During the period, the entire portfolio generated total rental income of S$113.2 million, which made up about 52% of Group revenue.

Australia

In Australia, the Group's residential projects in Melbourne - Eporo Tower and Pearl - are fully sold. Rhapsody in Gold Coast is 88% sold as of 31 December 2019, with the remaining unsold apartments currently being leased. In addition, the Group has a freehold mixed-used site measuring 73,723 sqm in gross floor area (GFA) in Broadbeach, Gold Coast.

As part of its plans to expand its development business in Australia, the Group had in late 2019 established a local team in Brisbane with an initial focus on developing master-planned residential communities in Queensland and Victoria. In June 2020, HBL had through wholly-owned subsidiaries acquired two residential development sites in Queensland, Australia. Both projects are expected to yield a combined total of 665 residential lots when completed. In March 2021, the Group conducted further acquisitions of three residential development sites – 1 in Queensland and 2 in Victoria – which are expected to yield a total of 1,197 residential lots. We will provide further details about these developments in the 'Potential catalysts' section on page 14.

China

In China, the Group has joint-venture residential projects in Shanghai, Tangshan and Zhuhai. The 40% joint venture project in Shanghai is completed and fully sold. Phase 1 and 2 of the 50% joint venture project in Tangshan comprising 2,065 units is fully sold. However, Phase 2 comprising 1,220 units is not yet completed and the Group expects profit contribution from the Phase 2 units to be in FY2021 when they are handed over to buyers. For the 20% joint venture project in Zhuhai, the Group has launched 2,799 units out of a total of 3,669 units. As of 19 May 2020, 96% of the launched units have been sold.

Germany

In March 2018, the Group had co-invested in a commercial redevelopment project in Munich with the intent to redevelop the existing building and increase the net lettable area (NLA). The project is currently undergoing planning and construction is expected to commence in 2021. The redevelopment project is expected to complete by 2025 and this would increase NLA by 30% to 61,600 sqm of Grade A office space. We will provide further details about this redevelopment project in the 'Potential catalysts' section on page 14. While specific details have not been disclosed, we note that the Group also has a co-investment in a new commercial project in Berlin.

A summary of the details of the Group's investment properties as at 31 December 2019 is shown in **Exhibit 3** below, while that for the Group's properties held for sale is shown in **Exhibit 4** on the next page.

Exhibit 3: Details of the Group's investment properties

Country	Property name	Description	Land tenure	Lettable area (sqm)	Group's effective interest
London	1 St Martin's Le Grand	A block of 11-storey office building	Freehold	25,715	100%
	60 St Martin's Lane	A block of 6-storey office building	Freehold	3,377	100%
	39 Victoria Street	A block of 10-storey office building	Freehold	9,104	100%
	110 Park Street	A block of 5-storey office building	125-year lease from Jun 1996	2,600	100%
	Apollo & Lunar House	Two office buildings of 20 and 22 storeys	Freehold	41,040	100%
	67 Lombard Street	A block of 10-storey office building	Freehold	8,699	100%
	Ropemaker Place	A block of 21-storey office building	Freehold	55,857	100%
Total	-	-	-	146,392	-
Singapore	The Metropolis	Two office towers of 21 and 23 storeys with retail component	Leasehold - 99 years from 3 Nov 2010	100,396	100%
	HB Centre 1	A block of 10-storey high-tech industrial building	Freehold	7,662	100%
	HB Centre 2	A block of 8-storey light industrial building	Freehold	3,216	100%
	Eastwood Centre	2 retail units	Leasehold - 99 years from 6 Nov 1995	972	100%
	623A Bukit Timah Road	Petrol station	Leasehold - 999 years	1,857	100%
Total	-	-	-	114,103	-

Source: Company

Exhibit 4: Details of the Group's properties held for sale

Country	Property name	Development type	Description	Land tenure	Net lettable/saleable area (sqm)	Group's effective interest
Australia	Rhapsody	Residential	27 apartments [1]	Freehold	2,461	100%
London	Parliament View	Residential	2 apartments	Freehold	271	100%
	Goodman's Fields	Residential	17 apartments	Leasehold- 999 years	708	100%
	Canaletto	Residential	21 apartments	Leasehold- 999 years	1,048	100%
Shanghai	Changyuan	Residential	1 apartment	Leasehold - 70 years from 1 Aug 2001	190	100%
Singapore	Turquoise	Residential	48 apartments [2]	Leasehold - 99 years from 12 Mar 2007	11,438	90%
	Seascape	Residential	100 apartments [2]	Leasehold - 99 years from 9 Jun 2007	25,605	50%
	Cape Royale	Residential	302 apartments [2]	Leasehold - 99 years from 7 Apr 2008	64,934	35%
Total	-		-	-	106,655	-

(1) Currently leased out

(2) Currently leased out with 88% occupancy across all 3 Sentosa Cove properties

Source: Company

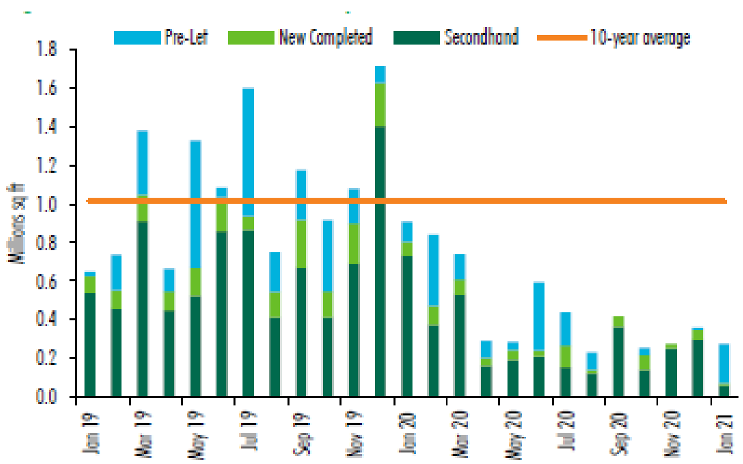
INDUSTRY OVERVIEW

(I) Office real estate sector review

London

According to CBRE, leasing activity remained subdued in the Central London office market in January 2021 due to the ongoing COVID-19 lockdown. During the month, take-up totaled 272,100 sq ft which was low relative to the 10-year monthly average of 1.0 million sq ft, as shown in **Exhibit 5**. Compared to December 2020, take-up fell by 24%.

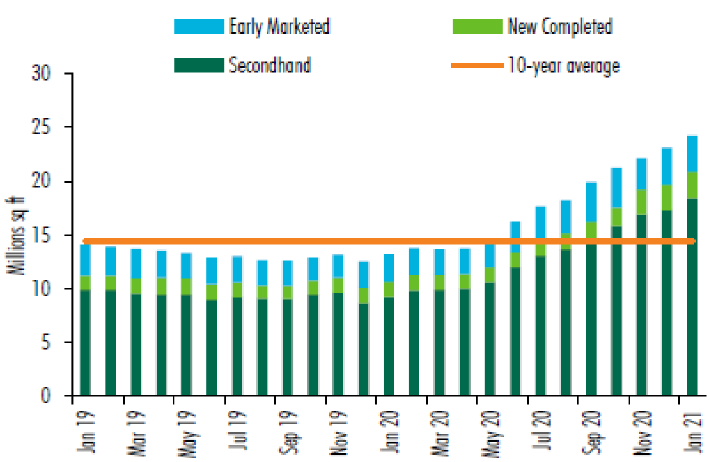
Exhibit 5: Central London take-up



Source: CBRE Research

Meanwhile, CBRE highlighted that availability continued to increase, reaching 24.3 million sq ft at the end of January – the highest level seen since 2004. Supply remained high relative to the 10-year monthly average of 14.4 million sq ft, as shown in **Exhibit 6**. The vacancy rate in Central London reached 8.5%, versus 8.1% at the end of 2020.

Exhibit 6: Central London availability

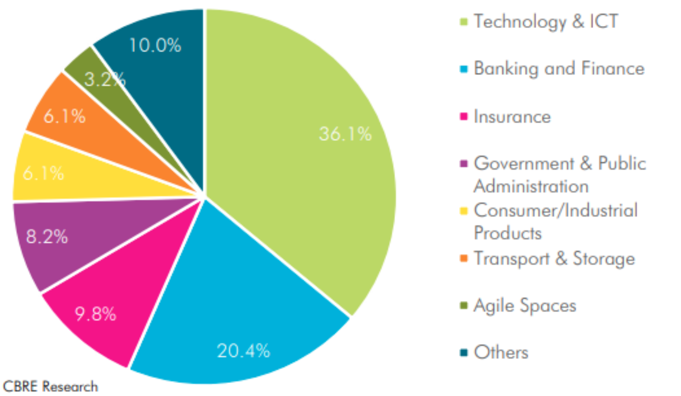


Source: CBRE Research

Singapore

According to CBRE, owing to the acceleration of digitalisation, the workforce is evolving into two practices: office-based and remote working. Key sectors that belong to the latter are the information & communications, finance & insurance, and professional services. In 2020, the technology and non-bank financial services firms were the top office demand drivers and accounted for at least 50% of leasing volume, as in CBRE data shown in **Exhibit 7**. Looking ahead in 2021, CBRE expects leasing demand to be led by these sectors given high demand for their services.

Exhibit 7: Office leasing demand by sector in 2020

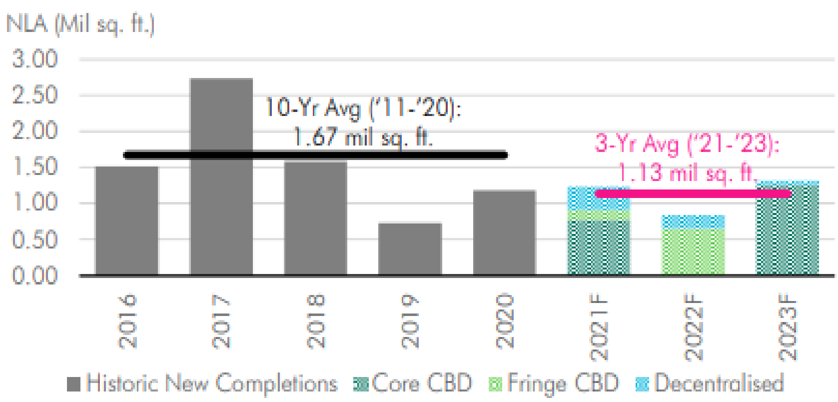


Source: CBRE Research
Note: Based on preliminary leasing volume for 2020
Others: Legal & accounting, business services, energy & commodities, manufacturing, pharmaceutical, construction, and real estate.

CBRE also notes that occupiers are showing stronger preference for prime office buildings with tech-enabled specifications vis-à-vis the ageing office stock with older specifications. In 2020, most of the negative net absorption stemmed from the Grade B market, which tallied -0.79 mil sq ft. Conversely, the Grade A (Core CBD) market registered 0.51 mil sq ft. of positive net absorption in 2020. Further, we note that the resilience in the Grade A office market was also reflected in its vacancy rate, which kept stable at 3.9%.

In terms of supply, CBRE's estimated total new supply for office over the next 3 years (2021-2023) is at 3.40 million sq ft. This would be equivalent to an annual average supply of 1.13 million sq ft, which is 32% lower than the historical 10-year annual average new supply of 1.67 million sq ft, as shown in **Exhibit 8**. In 2021, CBRE expects an introduction of 1.24 million sq ft of new office stock.

Exhibit 8: Future supply

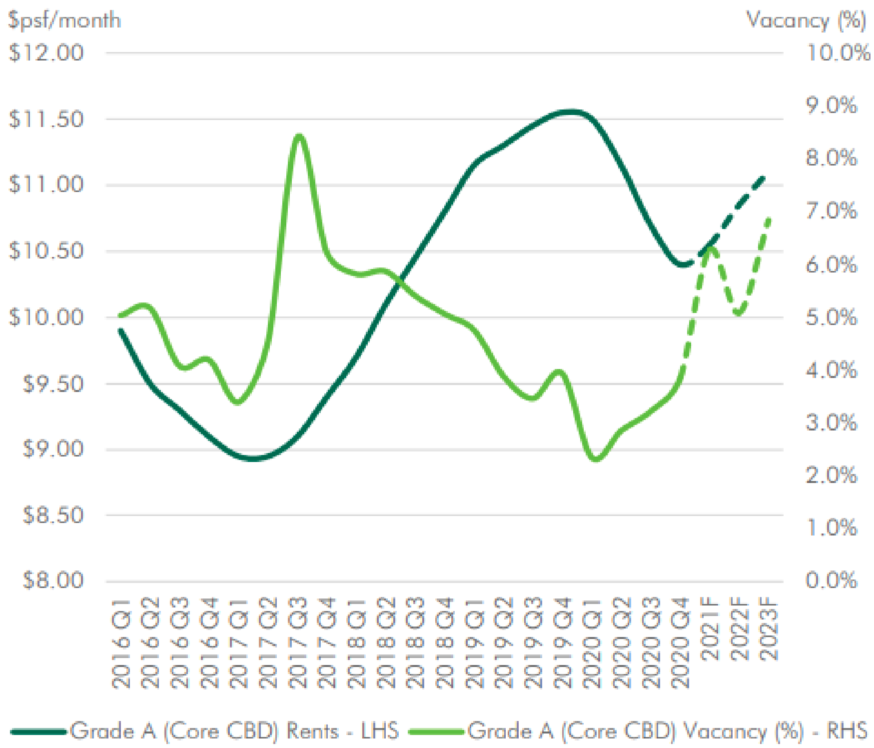


Source: CBRE Research

Meanwhile, in terms of office rents, CBRE highlighted that the office market recorded a full-year rental correction of 10.0% y-o-y in 2020. However, the correction was cushioned by the additional fiscal and job support measures provided by the government, including rental relief and property tax rebates. Further, the Grade A (Core CBD) office market was underpinned by a relatively tight vacancy rate of 3.9% as at end 2020.

In 2021, CBRE expects the office market to remain under some pressure in the first half, before witnessing some improvement in the second half of the year. CBRE believes that the overall office market is poised to benefit from the gradual economic recovery, as well as the gains in employment. Growing sectors such as technology, financial services and professional services are expected to support office demand. Continued demand for office space and limited Grade A supply in the pipeline would support office rental growth in the second half. However, the recovery would be uneven, with prime office buildings expected to benefit first, as occupiers leverage on the current downturn to ride on the “flight to quality” strategy. This would lead to an increasing vacancy in the older office stock, and prompt landlords to be more flexible in incentives and negotiations. With reference to **Exhibit 9** below, CBRE forecasts suggest that Grade A (Core CBD) office rents would gradually recover over the next 3 years (2021-2023).

<u>Exhibit 9: CBRE rental and vacancy forecast</u>



Source: CBRE Research

FINANCIAL ANALYSIS

In this section, we will discuss the Group's financial results for the latest financial year ended 31 December 2020 (FY2020). In addition, we will also review the Group's historical performance based on its financial results over the last 5 years.

(I) Financial review

Review of FY2020 results

In FY2020, the Group's rental income increased by 2.6% year-on-year (y-o-y) to S$215.0 million mainly due to positive rental reversions. During the period, the Group had granted S$1.6 million in rental rebates and Additional Rent Relief to its tenants. At the same time, revenue from the sale of development properties fell by 77.2% y-o-y to S$0.7 million as the Group recorded zero revenue contribution from this component in the first half of FY2020. Thus, total revenue amounted to S$215.7 million, up by 1.5% from S$212.4 million a year ago.

Other operating income fell by 53.8% y-o-y to S$3.9 million due to dividend income of S$4.6 million from a quoted equity investment in Australia received in FY2019 which was absent in FY2020 (the investment was disposed in October 2019). In contrast, subsidies of S$744,000 received by the Group from the Job Support Scheme in Singapore and Jobkeeper subsidy in Australia had contributed to other income. Accordingly, Group total income was S$219.6 million for FY2020, a drop of 0.6% from a year ago.

During the period, the Group incurred a net fair value loss of S$32.8 million on its investment properties in Singapore and the United Kingdom (UK), compared to a fair value gain of S$243.7 million a year ago. Cost of sales relating to residential development projects dropped by 42.0% y-o-y to S$1.6 million. Meanwhile, direct rental expenses decreased by 19.5% y-o-y to S$16.1 million mainly due to: (i) one-off refurbishment costs of GBP750,000 incurred in FY2019 which did not recur in FY2020; (ii) recovery of business rates from the UK tax authorities (HMRC) amounting to approximately GBP392,000; (iii) property tax recovered from tenants and refund of prior year property tax from IRAS of approximately S$953,000; and (iv) savings in utilities expenses due to office closures and rent commission expenses totaling S$662,000 in FY2020. Other operating expenses fell by 2.6% y-o-y to S$8.9 million. Conversely, staff costs & directors' renumeration rose by 8.7% y-o-y to S$17.7 million due to the hiring of a new team based in Gold Coast, Australia since 4Q2019. In addition, the Group recorded a foreign exchange gain of S$15.5 million in FY2020 compared with a S$6.2 million loss a year ago. This gain was due to the revaluation of the Group's net monetary assets in AUD and Euro, as AUD and Euro appreciated against the SGD in FY2020. Consequently, profit from operations dropped by 61.5% y-o-y to S$158.1 million.

Net finance cost decreased by 18% y-o-y to S$42.8 million due to the repayment of GBP bank borrowings and SGD revolving credit facilities as well as a drop in interest rates for GBP bank borrowings at floating rates. Meanwhile, the Group received significantly higher share of profits from its Shanghai and Zhuhai associates of S$53.2 million. Share of profits from joint-controlled entities improved to S$2.2 million compared to a loss of S$3.6 million a year ago, which was largely attributable to higher profits from Phase 2 of the Group's Tangshan project which were partially handed over to purchasers in December 2020.

Given the above, profit before taxation amounted to S$170.7 million, down by 53.2% y-o-y. During FY2020, income tax expense dropped by 13.9% y-o-y to S$29.0 million as the Group recorded higher deferred tax expense in 2H FY2019. As a result, the Group recorded after-tax profit of S$141.7 million in FY2020, which comprised a S$137.1 million in profit attributable to owners of the Company and S$4.6 million in profit attributable to non-controlling interests.

Based on S$137.1 million in profit attributable to owners of the Company, Group earnings per share (EPS) was 20.62 cents for FY2020 compared to 49.95 cents in FY2019. Total dividends per share (DPS) of 10 cents has been recommended for FY2020, which would be paid on 28 May 2021 if approved at the Company's Annual General Meeting (AGM) to be held on 28 April 2021.

The Group's FY2020 and FY2019 financial results are summarised in **Exhibit 10**.

Exhibit 10: Group's FY2020 and FY2019 financial results

[S$'000]	FY2020	FY2019	y-o-y change
Sale of development properties	679	2,973	-77.2%
Rental income	215,002	209,459	2.6%
Revenue	215,681	212,432	1.5%
Other operating income	3,875	8,395	-53.8%
Total income	219,556	220,827	-0.6%
Fair value (loss)/gain on investment properties	(32,792)	243,729	n/m
Cost of sales - residential development projects	(1,530)	(2,640)	-42.0%
Direct rental expenses	(16,094)	(20,003)	-19.5%
Staff costs & directors' renumeration	(17,748)	(16,327)	8.7%
Gain/(loss) on foreign exchange	15,547	(6,239)	n.m
Other operating expenses	(8,861)	(9,100)	-2.6%
Profit from operations	158,078	410,247	-61.5%
Net finance costs	(42,835)	(52,135)	-17.8%
Share of profits of:			
Associates	53,203	10,505	406.5%
Joint-controlled entities	2,238	(3,615)	n.m
Profit before taxation	170,684	365,002	-53.2%
Income tax expense	(29,029)	(33,710)	-13.9%
Profit for the period	141,655	331,292	-57.2%
Attributable to:			
Owners of the Company	137,065	332,310	-58.8%
Non-controlling interests	4,590	(1,018)	n.m
	141,655	331,292	-57.2%
Profit attributable to owners of the Company	137,065	332,310	-58.8%
Weighted average no. of shares, excluding treasury shares ('000)	664,863	665,231	-
EPS (cents)	20.62	49.95	-58.7%
DPS (cents)	10.00	10.00	-

n.m: not meaningful

Source: Company, FPA Financial

Review of historical financials

We will also review the Group's historical financial results to gather an objective view on its performance. We note that the Group has managed to grow its recurring income stream from investment properties over the years. Meanwhile, the Group recorded strong income in FY2016 from sales of development properties largely due to sales recognition of two residential development projects in Australia which were completed in the first half. While the Group has continued to sell units since then, income from sales of development properties have been weaker compared to FY2016. Nonetheless, the Group has managed to lease 88% of the unsold apartments at its Sentosa Cove developments in Singapore and all balance units at the Rhapsody project in Australia.

Overall, we note that the Group's revenue has improved over the years. Overall revenue performance has been largely supported by the Group's recurring income stream from investment properties. As noted on page 10, the Group's investment properties continued to underpin performance with a 2.6% y-o-y rental income growth in FY2020 despite the challenging COVID-19 environment. At the same time, we also note that Group earnings have also improved over the years, except for FY2016 when the Group recorded lower net fair value gain of investment properties. In FY2019, the Group reported a 23.1% y-o-y growth in profit attributable to shareholders of S$332.3 million, mainly due to higher rental income from Ropemaker Place and positive rental reversions, as well as higher fair value gains from investment properties in Singapore and London. Accordingly, we note that EPS has also grown over the years and reached 50 cents in FY2019.

A summary of the Group's 5-year historical financials from FY2015 to FY2019 is shown in **Exhibit 11**.

Exhibit 11: Group's 5-year historical financial results

	For year ended Dec 31				
[S$'000]	2015	2016	2017	2018	2019
Rental income	129,933	144,502	147,167	179,649	209,459
Sales of development properties	-	154,910	17,488	17,196	2,973
Revenue	129,933	299,412	164,655	196,845	212,432
Profit attributable to shareholders	242,244	216,756	249,260	270,042	332,310
EPS (cents)	36.33	32.54	37.44	40.58	49.95
DPS (cents)	7.0	6.0	10.0	10.0	10.0
Closing price as at Dec 31 (S$)	2.02	2.03	2.46	2.37	2.41
Dividend yield (%)	3.5%	3.0%	4.1%	4.2%	4.1%

Source: Company, FPA Financial

(II) Capital management

The Group reported total assets of S$6,326.3 million as at 31 December 2020 as compared to S$6,196.1 million a year ago. The increase in total assets was partially attributed to increases in financial assets and development properties. Financial assets increased due to additional capital contributions to the existing European real estate fund and co-investment into the existing commercial redevelopment project in Munich totaling approximately €22.8 million. In addition, the Group also co-invested approximately €16.2 million into a new commercial project in Berlin. Meanwhile, development properties increased due to the Group's acquisition of the two new residential development sites in Queensland. The above-noted increases were in part offset by a decrease in investment in associates due to capital repatriation from the Group's Shanghai associate and gross dividend received from its Zhuhai associate during FY2020.

At the same time, the Group reported higher total liabilities of S$2,685.6 million as at 31 December 2020 compared with S$2,643.0 million as at 31 December 2019. The increase in total liabilities was in part due to higher trade & other payables largely owing to an increase in derivative financial liabilities arising from the valuation of interest rate swap contracts amounting to approximately S$18.3 million. Meanwhile, long-term bank borrowings due in the next twelve months were classified as current liabilities. This in part resulted in an increase in current borrowings of S$156.6 million to S$433.9 million. Non-current borrowings decreased by S$150.5 million to S$1,995.6 million. Accordingly, the Group's total debt stood at S$2,429.5 million as at 31 December 2020 compared to S$2,423.4 million a year ago.

Consequently, total equity was S$3,640.7 million as at 31 December 2020, comprising S$3,624.1 million in equity attributable to shareholders and S$16.5 million in equity attributable to non-controlling interests. Based on S$3,624.1 million in equity attributable to shareholders, the Group reported a net asset value (NAV) per share of S$5.46 as at 31 December 2020 compared to S$5.32 as at 31 December 2019. A summary of the Group's balance sheet data is shown in **Exhibit 12**.

Exhibit 12: Summary of the Group's balance sheet

[S$'000]	31-Dec-20	31-Dec-19
Total assets	6,326,258	6,196,091
Total liabilities	2,685,588	2,642,961
Net assets/total equity	3,640,670	3,553,130
Equity attributable to shareholders	3,624,129	3,540,654
No. of issued shares, excluding treasury shares ('000)	664,016	665,231
NAV per share (S$)	5.46	5.32
Total debt	2,429,535	2,423,420
Less: cash & cash equivalents	(118,739)	(191,378)
Net debt	2,310,796	2,232,042
Gearing	0.64	0.63

Source: Company, FPA Financial

As seen from **Exhibit 12** above, the Group recorded net debt of S$2,310.8 million as at 31 December 2020 after deducting S$118.7 million in cash & cash equivalents from total debt of S$2,429.5 million. Accordingly, the Group's gearing, as measured by net debt over equity attributable to shareholders, stood at 0.64 time as at 31 December 2020.

POTENTIAL CATALYSTS

As noted on pages 4 and 5, the Group has co-invested in a commercial redevelopment project in Munich and commercial project in Berlin; in March 2020 won a land tender to build a BMS development in Singapore; and acquired a total of five new residential development sites in Australia – 2 in June 2020 and 3 in March 2021.

We identify these as potential catalysts that could underpin Group revenue and earnings in the future. We will now provide the details of these projects.

(I) Munich redevelopment project and Berlin commercial project

On 26 March 2018, HBL entered into an agreement with Credit Suisse AG, Singapore Branch (CSAG) to invest up to €40 million in the CS Real Estate SICAV-SIF I – Credit Suisse (Lux) European Property Fund II (the Fund). The Fund is an investment company with variable capital governed by the Luxembourg law which invests its capital in real estate and/or real estate investment structures in key cities in Europe.

Pursuant to its investment in the Fund, HBL also committed to co-invest up to an additional €50 million by acquiring notes issued by a public limited liability company, Clouse SA, Compartment 29 (Clouse). The notes were issued through private placement with the proceeds invested in a commercial property known as Correo – Bayerstrasse 49, 51, 53, Paul-Heyse-Strasse 7, Schwanthalerstrasse 46, 48, 50 Munich, Germany. The freehold property is situated next to Munich's main railway station.

The total consideration for the Fund and the notes issued by Clouse was €90 million, or approximately S$145.8 million, which would be satisfied wholly in cash as and when required by the Fund and the notes. The purpose of the Munich redevelopment project is to redevelop the existing building and increase NLA. Construction is slated to commence in 2021, with completion of Phase 1 in 2023 and Phase 2 in 2025. Upon completion, the redevelopment project would expand NLA by 30% to approximately 61,000 sqm. The Group holds approximately 40% interest in the Munich redevelopment project.

Meanwhile, the Group also co-invested approximately €16.2 million into a new commercial project in Berlin. While we do not have the specific details of the project, the Group's earnings could potentially benefit once the project is completed.

(II) Biopolis Phase 6 development project

On 16 March 2020, HBL announced that its wholly-owned subsidiary, HB Universal Pte Ptd, was awarded a tender by Jurong Town Corporation (JTC) to develop a BMS development on a site next to The Metropolis at one-north. JTC had put up the site for tender on 14 August 2019 via a two-envelope Concept & Price Tender which closed 4 Dec 2019. The tender received 4 submissions with HBL submitting the winning bid of S$223.6 million. We note from the Business Times that HBL's bid of S$223.6 million was a 38% winning margin from the next highest bid of S$161.63 million submitted jointly by Perennial Real Estate Holdings and Boustead Projects. CapitaLand had submitted a bid of S$153.7 million.

The Company announced that the payment for the bid price of S$223.6 million will be financed by the Group's internal funds and bank borrowings.

<u>Rationale for the land tender</u>

We note that HBL had tendered the Biopolis Phase 6 site due to its strategic location in relation to its flagship development, The Metropolis. The Company believes that there is potential marriage value to be gained when the project is completed. We note that HBL expects the project to achieve a net yield of between 5% to 6% when rental income from the project is stabilized.

<u>Details of the development site</u>

The 60-year leasehold development site is located next to The Metropolis and is within walking distance to Buona Vista MRT Interchange Station. It has a total allowable GFA of 41,366 sqm, of which 85% would be set aside for BMS use and the remaining 15% for office and retail/F&B use.

HBL has commissioned architecture design firm, Skidmore Owings & Merill (SOM) as the lead design architect, and has partnered DCA Architects, a local architect firm, to conceptualise the landmark building. The 12-storey development seeks to seamlessly fuse elements of nature, technology and wellness into a community-focused design, and will be home to a community of researchers and entrepreneurs.

Currently, we note that the development project is still in its design development stage and HBL has yet to call tender for the construction. The project is expected for completion in the second half of 2022.

(III) Australia residential developments

<u>Acquisitions in June 2020</u>

In June 2020, HBL had through its wholly-owned subsidiaries, HB Doncaster Pty Ltd (HBD) and HB QLD Pty Ltd (HB QLD) acquired two residential development sites in Queensland, Australia.

HBD acquired a 47.41 hectare (ha) site located in the Ripley Valley Priority Development Area (Ripley site) in Ripley, a major growth corridor in South East Queensland. The site is expected to yield about 570 residential lots, a regional sports facility and associated community facilities. The acquisition cost of the Ripley site was disclosed to be A$14.5 million. Meanwhile, HB QLD had acquired a 8.98ha site located in Bli Bli (Bli Bli site). The site is part of the final two stages of the Parklanes 2 development located on Queensland's Sunshine Coast and has received all the required development permits. It is expected to yield 95 residential lots and the acquisition price was disclosed to be A$9.0 million.

In total, both residential development sites add up to 56.49ha and are expected to yield 665 residential lots. The Company announced that the acquisition of the two sites will be financed by the Group's internal funds and bank borrowings.

<u>Acquisitions in March 2021</u>

In March 2021, HBL announced that HB QLD and HBL VIC Pty Ltd (HBL VIC) have separately acquired three residential development sites in Australia – 1 in Queensland and 2 in Victoria. HB QLD acquired Collingwood Park, Queensland, a 27.15 ha site which is located 30km from the Brisbane CBD in the Ipswich area. The acquisition price of the site is A$14.3 million. When completed, the site is expected to yield approximately 323 residential lots.

HBL VIC acquired Tarneit, Victoria, a 59.73 ha site between two future rail stations and located 28km west of the Melbourne CBD. The acquisition price is A$73.2m and it is expected to yield about 755 residential lots, a 3.5 ha school, a 5.67 ha regional sports reserve and a 8.2 ha future development parcel. In addition, HBL VIC acquired Officer, Victoria, a 8.31 ha site located 50km south east of Melbourne CBD. The acquisition price of the site is A$16.23 million. When completed, the site is expected to yield approximately 119 residential lots.

In total, the three residential development sites would cost A$103.73 million and are expected to yield about 1,200 residential lots. The acquisitions will be financed by the Group's internal funds and bank borrowings.

FINANCIAL PROJECTIONS

In this section, we will provide our projections for Group revenue, earnings and dividends for the financial year ending 31 December 2021 (FY2021) and 31 December 2022 (FY2022).

(I) Revenue projection

Historically, the Group derives the bulk of its revenue from rental income generated by its investment properties. The only exception was in FY2016, mainly due to sales recognition from two of the Group's residential development projects in Australia, as discussed earlier on page 12. A summary breakdown of the Group's revenue based on operating segment is shown in **Exhibit 13**.

Exhibit 13: Breakdown of the Group's revenue based on operating segment

	FY2016		FY2017		FY2018		FY2019		FY2020	
Operating segment	S$'000	% of total	S$'000	% of total	S$'000	% of total	S$'000	% of total	S$'000	% of total
Rental income	144,502	48.3%	147,167	89.4%	179,649	91.3%	209,459	98.6%	215,002	99.7%
Sales of development properties	154,910	51.7%	17,488	10.6%	17,196	8.7%	2,973	1.4%	679	0.3%
Revenue	299,412	100.0%	164,655	100.0%	196,845	100.0%	212,432	100.0%	215,681	100.0%

Source: Company, FPA Financial

In our revenue projection for FY2021 and FY2022, we will estimate the revenue generated by the Group's operating segments as noted above.

Revenue from rental income

As noted on page 10, the Group's investment properties in Singapore and London experienced positive rental reversions during FY2020, which contributed to a 2.6% y-o-y growth in rental income. Looking ahead in 2021, we note a positive outlook for Singapore's office market. According to CBRE, Singapore's office market is expected to benefit from the gradual economic recovery in 2021, as well as the gains in employment. Growing sectors such as technology, financial services and professional services are expected to support office demand in 2021. Still, we note from CBRE forecasts that office rents, while expected to recover, may only increase moderately. Meanwhile, the London office market appears challenged with demand remaining weak while supply rises.

Considering the above, we could still see a rise in the Group's rental income in FY2021, given the resilient performance in FY2020 despite the challenging COVID-19 environment. We would assume, based on rental income growth in FY2020 as a proxy, that the Group's investment properties achieved a roughly 2% upward rental reversion during the period. For FY2021, we would assume the same upward rental reversion, and in turn a 2% y-o-y increase in rental income. For FY2022, we would assume a 5% y-o-y growth in rental growth, in view of a potential rebound in office demand as COVID-19 health concerns further subside.

Revenue from sale of development properties

As noted on page 5, the Group's unsold units at its Sentosa Cove properties in Singapore are mostly leased out. The Company has announced that the Group will divest the properties at an opportune time and will continue to lease them out currently. We also note that sales for these projects as well as the Group's properties held for sale in London and Shanghai have stagnated over the last few years. However, there have been some sales at the Rhapsody project in Gold Coast, Australia. As at 31 December 2019, the project had a balance of 27 apartments, which are currently leased out.

CoreLogic has recently reported that Australia's housing market is in the midst of a broad-based boom, spurred on by a combination of record low mortgage rates, improving economic conditions, government incentives and low advertised supply levels. According to CoreLogic, housing values are rising across each of the capital city and rest of state regions in Australia, demonstrating the diverse nature of the housing upswing. Given the strong housing market in Australia, there is a possibility that the Group may sell off the balance units at Rhapsody during FY2021. Based on recent sales transactions in 2020 listed on propertyvalue.com.au, the estimated average transacted price per sqm at Rhapsody was S$7,780, as shown in **Exhibit 14**.

Exhibit 14: Estimated average price per sqm for recently transacted Rhapsody apartments in 2020

Apartment	No. of bedrooms	Size (sqm)	Transaction date	Price (AUD)	Price/sqm (AUD)	Price/sqm (SGD) (1)
3202/3440 Surfers Paradise Boulevard	1	64	23-Sep-20	530,000	8,281	8,626
2507/3440 Surfers Paradise Boulevard	2	93	23-Nov-20	620,000	6,667	6,944
1402/3440 Surfers Paradise Boulevard	1	61	3-Dec-20	455,000	7,459	7,770
Average					**7,469**	**7,780**

(1) Based on SGD/AUD exchange rate of 0.96 as at 17 Mar 2021

Source: propertyvalue.com.au by CoreLogic

Given a net lettable/saleable area of approximately 2,461 sqm, the total sales price of the 27 balance units is estimated to be S$19.1 million = [S$7,780 x 2,461 sqm]. Assuming the Group does not divest its Sentosa Cove properties in FY2021, the projected revenue from sale of development properties during the period would only be S$19.1 million from the Rhapsody project. For FY2022, we would further assume the Group does not divest its Sentosa Cove properties and thus projected revenue from sale of development properties would be zero.

Revenue projection for FY2021 and FY2022

Based on the above projections, we would estimate Group revenue for FY2021 and FY2022 to be S$238.4 million and S$230.3 million respectively, as shown in **Exhibit 15**.

Exhibit 15: Projected Group revenue for FY2021 and FY2022

	FY2021 forecast		FY2022 forecast	
Operating segment	S$'000	y-o-y change	S$'000	y-o-y change
Rental income	219,302	2.0%	230,267	5.0%
Sales of development properties	19,147	>100%	-	-
Revenue	238,449	10.6%	230,267	-3.4%

Source: FPA Financial

(II) Earnings projection

Given the above projected revenue for FY2021 and FY2022, we will now estimate the Group's earnings for these periods.

Other operating income

As noted on page 10, other operating income fell by 53.8% y-o-y to S$3.9 million in FY2020 as dividend income of S$4.6 million received in the previous year in relation to a quoted equity investment in Australia, which was disposed in October 2019, was absent during the period. Meanwhile, subsidies of S$744,000 received by the Group from the Job Support Scheme in Singapore and Jobkeeper subsidy in Australia contributed to other income.

Given the improving outlook as COVID-19 vaccines are progressively distributed, we could expect a withdrawal of subsidies as government support is scaled down to manage countries' deficits. Thus, we would assume the impact of subsidies to be absent in FY2021 and FY2022. Accordingly, projected other operating income for FY2021 and FY2022 would be approximately S$3.1 million after discounting S$744,000 in subsidies from other operating income of S$3.9 million in FY2020.

Fair value gain/(loss) on investment properties

The Group has consistently recorded fair value gains on its investment properties over the last few years, with the average annual gain of S$146.7 million over the period from FY2015-FY2019, as shown in **Exhibit 16**.

Exhibit 16: Group's historical fair value gain/(loss) on investment properties

S$'000	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
Fair value gain/(loss) on investment properties	186,362	104,050	78,082	121,364	243,729	(32,792)

Source: Company

Owing to the impact of COVID-19, a loss of S$32.8 million on investment properties was incurred in FY2020 as earlier noted on page 10. While the current global outlook seems more positive as compared to FY2020, there is still uncertainty over the potential cash flows generated by the Group's investment properties. We would thus assume no fair value gain or loss on investment properties for FY2021 and FY2022.

Cost of sales – residential development projects

We will estimate cost of sales – residential development projects (cost of sales) for FY2021 based on the historical trend for cost-to-sales ratio. Over the last few years, there appears to be an upward trend in cost-to-sales ratio, except for FY2018 when the ratio declined, as shown in **Exhibit 17**.

Exhibit 17: Historical cost-to-sales ratio for development properties

[S$'000]	FY2016 actual	FY2017 actual	FY2018 actual	FY2019 actual
Sale of development properties	154,910	17,488	17,196	2,973
Cost of sales - residential development projects	125,368	14,687	10,625	2,640
Cost-to-sales ratio (%)	80.9%	84.0%	61.8%	88.8%

Source: Company, FPA Financial

In our projections, we would assume a cost-to-sales ratio of 88.8% for FY2021 as in FY2019. The implied cost of sales for FY2021 would then be S$17.0 million, as shown in **Exhibit 18**. There will be no cost of sales in FY2022 given no revenue from sale of development properties during the year.

Exhibit 18: Projected cost of sales for FY2021 and FY2022

[S$'000]	FY2021 forecast	FY2022 forecast
Sale of development properties	19,147	-
Cost of sales - residential development projects	17,002	-
Cost-to-sales ratio (%)	88.8%	-

Source: FPA Financial

Direct rental expenses

As noted on page 10, direct rental expenses decreased by 19.5% y-o-y to S$16.1 million mainly due to: (i) one-off refurbishment costs of GBP750,000 incurred in FY2019 which did not recur in FY2020; (ii) recovery of business rates from the UK tax authorities (HMRC) amounting to approximately GBP392,000; (iii) property tax recovered from tenants and refund of prior year property tax from IRAS of approximately S$953,000; and (iv) savings in utilities expenses due to office closures and rent commission expenses totaling S$662,000 in FY2020. However, in FY2021 and FY2022, the government support could be scaled back with an improvement in the COVID-19 situation and utilities expenses should increase as the Group's offices resume operations. Meanwhile, we note that except for FY2020, direct rental expenses rose as rental income increased over the last few years, as shown in **Exhibit 19**.

Exhibit 19: Group's historical direct rental expenses

	FY2017		FY2018		FY2019		FY2020	
	S$'000	y-o-y change	S$'000	y-o-y change	S$'000	y-o-y change	S$'000	y-o-y change
Rental income	147,167	1.8%	179,649	22.1%	209,459	16.6%	215,002	2.6%
Direct rental expenses	17,901	7.0%	19,517	9.0%	20,003	2.5%	16,094	-19.5%

Source: Company, FPA Financial

Considering the above, we would assume the same direct rental expenses of S$20.0 million for FY2019 in FY2021. For FY2022, we would assume a 5% increase in direct rental expenses to account for higher rental income during the period. Accordingly, projected direct rental expenses for FY2022 would be S$21.0 million = [105% x S$20.0 million].

Staff costs & directors' renumeration

As noted on page 10, the Group incurred higher staff costs & directors' renumeration of S$17.7 million in FY2020 due to the hiring of a new team based in Gold Coast, Australia since 4Q2019. With reference to **Exhibit 20**, we note from historical results that there is no clear trend between staff costs & directors' renumeration and revenue.

Exhibit 20: Group's historical staff costs & directors' renumeration

[S$'000]	FY2016	FY2017	FY2018	FY2019	FY2020
Revenue	299,412	164,655	196,845	212,432	215,681
Staff costs & directors' renumeration	16,184	17,313	18,178	16,327	17,748

Source: Company, FPA Financial

For FY2021 and FY2022, we would assume staff costs & directors' renumeration of S$17.7 million as in FY2019, as shown in **Exhibit 21**.

Exhibit 21: Projected staff costs & directors' renumeration for FY2021 and FY2022

[S$'000]	FY2021 forecast	FY2022 forecast
Revenue	226,431	260,328
Staff costs & directors' renumeration	17,748	17,748

Source: FPA Financial

Gain/(loss) on foreign exchange

Prior to the COVID-19 pandemic, AUD/SGD and EUR/SGD exchange rates exchange rates had been on a decline as the SGD strengthened against the AUD and Euro, except for FY2017 when they broadly rose. This has been reflected in the Group's historical gain/loss on foreign exchange, when losses were incurred over the last few years except in FY2017, as shown in **Exhibit 22**.

Exhibit 22: Group's historical gain/loss on foreign exchange

[S$'000]	FY2016	FY2017	FY2018	FY2019	FY2020
Gain/(loss) on foreign exchange	(12,166)	711	(10,248)	(6,239)	15,547

Source: Company

As noted on page 10, the Group benefitted from a foreign exchange gain of S$15.5 million in FY2020 due to an appreciation of the AUD and Euro against the SGD during the period. Thus far in FY2021, we note that the AUD/SGD and EUR/SGD exchange rates have been relatively stable. However, there could be a possibility for the SGD to appreciate against the AUD and Euro going forward. In our projections for FY2021 and FY2022, we would assume no gains or losses on foreign exchange.

Other operating expenses

As noted on page 10, the Group recorded a 2.6% y-o-y decrease in other operating expenses to S$8.9 million from S$9.1 million a year ago. Historically, other operating expenses rose from FY2016 to FY2018, but has moderated over the last two years, as shown in **Exhibit 23**.

Exhibit 23: Group's historical other operating expenses

	Actual					Forecast	
[S$'000]	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
Other operating expenses	6,692	8,660	10,022	9,100	8,861	8,861	8,861

Source: Company, FPA Financial

In our projections, we would assume other operating expenses of S$8.9 million for FY2021 and FY2022 as in FY2019, as shown in **Exhibit 23** above.

Net finance costs

As at 31 December 2019, the Group had outstanding loans & borrowings of S$2,423.4 million, with effective interest rate ranging from 1.08% to 3.06%. During FY2020, Group repaid GBP bank borrowings and SGD revolving credit facilities which amounted to S$220.4 million in repayment of bank loans. This had contributed to lower net finance costs of S$42.8 million during the period, compared with S$52.1 million a year ago, as shown in **Exhibit 24**. In addition, lower interest rates for GBP bank borrowings at floating rates also contributed to the drop in net finance costs for FY2020.

Exhibit 24: Group's historical net finance costs

[S$'000]	FY2016	FY2017	FY2018	FY2019	FY2020
Finance income (1)	2,191	2,640	2,819	3,314	n/p
Finance costs (2)	(31,811)	(28,094)	(44,459)	(55,449)	n/p
Net finance costs	(29,620)	(25,454)	(41,640)	(52,135)	(42,835)

n/p: not provided

(1) Refers to interest income from debt investments carried at amortised cost

(2) Refers to interest expenses on financial liabilities measured at amortised cost

Source: Company

As at 31 December 2020, the Group had S$433.9 million in loans & borrowings to be repaid within the next one year or less. We note that the Group has been in discussion with its lenders and is confident of refinancing the debt. Assuming repayment would be made, the Group's net finance costs could be lower in FY2021. However, this could be offset by recent rising interest rates amid inflationary expectations. Further, interest expenses could potentially increase if the Group were to draw down on debt facilities to fund the construction costs for its development properties in Singapore and Australia.

Considering the above, we would assume in our projection for FY2021 that the effect of debt repayment would be directly offset by rising interest rates and the Group's potential drawdown of debt facilities. We would also assume the same amount of finance income in FY2020 for FY2021. Accordingly, projected net finance costs would be S$42.8 million for FY2021, as shown in **Exhibit 25**. We would further assume this figure for FY2022.

Exhibit 25: Projected net finance costs for FY2021 and FY2022

	Actual					Forecast	
[S$'000]	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
Net finance costs	(29,620)	(25,454)	(41,640)	(52,135)	(42,835)	(42,835)	(42,835)

Source: Company, FPA Financial

Share of profit/(loss) from associates

The Group'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 the Group has an ownership interest of 40% and 20% respectively, as shown in **Exhibit 26.**

Exhibit 26: Details of the Group's associates

Associate	Principal activity	Incorporation	Group ownership interest
Shanghai Yanlord Hongqiao Property Co. Ltd	Property development	China	40%
Zhuhai Yanlord Heyou Land Co. Ltd	Property development	China	20%

Source: Company

Shanghai Yanlord Hongqiao relates to the Group's joint venture residential project in Shanghai which has been completed and fully sold since FY2020, as discussed on page 5. Zhuhai Yanlord Heyou relates to the Group's joint venture residential project in Zhuhai which has sold most of its launched units.

We have summarized the breakdown of the Group's share of profit from its associates during FY2016-FY2020 in **Exhibit 27**.

Exhibit 27: Breakdown of Group's share of profit from associates during FY2016-FY2020

	Group's share of profit/(loss)				
	FY2016	FY2017	FY2018	FY2019	FY2020
Associate	S$'000	S$'000	S$'000	S$'000	S$'000
Shanghai Yanlord Hongqiao Property Co. Ltd	25,716	97,572	87,934	7,676	n/p
Zhuhai Yanlord Heyou Land Co. Ltd	3,868	1,680	20,613	2,829	n/p
Total	29,584	99,252	108,547	10,505	53,203

n/p: not provided

Source: Company, FPA Financial

As noted on page 10, the Group recorded a higher share of profits from its Shanghai and Zhuhai associates of S$53.2 million as more units handed over to buyers during FY2020. In addition, a write-back of development costs which were over-accrued also contributed to the higher share of profits.

Given that the Shanghai and Zhuhai residential projects are mostly sold and that substantial profits have been recognized over the last few years, we expect the Group to benefit marginally from them through its two associates going forward. We would thus assume zero share of profits from both associates in FY2021 and FY2022.

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

In FY2020, the Group recorded share of profits from joint-controlled entities of S$2.2 million compared with a S$3.6 million loss a year ago. This was mainly due to higher profits from Phase 2 of the Group's Tangshan project (which is fully sold) which were partially handed over to purchasers in December 2020. For FY2021, we would expect stronger contributions from the Tangshan project as more units are handed over to buyers.

Given the above, we would assume a 20% increase in share of profits from joint-controlled entities in FY2021 to account for the profit recognition for the Tangshan project. Thus, the projected share of profits from joint-controlled entities would be approximately S$2.7 million = [120% x S$2.2 million] in FY2021. For FY2022, we would assume zero share of profits.

Projected profit before taxation

Factoring in the above projections, we would estimate a profit before taxation of S$137.8 million and S$143.0 million for FY2021 and FY2022 respectively, as shown in **Exhibit 28**.

Exhibit 28: Projected profit before taxation for FY2021 and FY2022

[S$'000]	FY2021 forecast	FY2022 forecast
Sale of development properties	19,147	-
Rental income	219,302	230,267
Revenue	238,449	230,267
Other operating income	3,131	3,131
Total income	241,580	233,398
Fair value (loss)/gain on investment properties	-	-
Cost of sales - residential development projects	(17,002)	-
Direct rental expenses	(20,003)	(21,003)
Staff costs & directors' renumeration	(17,748)	(17,748)
Gain/(loss) on foreign exchange	-	-
Other operating expenses	(8,861)	(8,861)
Profit from operations	177,966	185,786
Net finance costs	(42,835)	(42,835)
Share of profits of:		
Associates	-	-
Joint-controlled entities	2,686	-
Profit before taxation	137,816	142,951

Source: FPA Financial

Income tax expense

As noted on page 11, income tax expense dropped by 13.9% y-o-y to S$29.0 million as the Group recorded higher deferred tax expense in 2H FY2019. For FY2021 and FY2022, we would estimate total income tax expense of S$23.4 million and S$24.3 million respectively, based on a 17% Singapore tax rate levied on the Group's profit before taxation. We have summarized the projected income tax expense for FY2021 and FY2022 in **Exhibit 29** on the next page.

Exhibit 29: Projected income tax expenses for FY2021 and FY2022

	Forecast	
[S$'000]	FY2021	FY2022
Profit before taxation	137,816	142,951
Tax calculated based on Singapore tax rate of 17%	23,429	24,302
Total income tax expense	23,429	24,302

Source: FPA Financial

Projected profit after tax

After adjusting for the above projected income tax expense, we would estimate profit after tax of S$114.4 million and S$118.6 million for FY2021 and FY2022 respectively. As noted in **Exhibit 10** on page 11, the Group recorded a profit attributable to non-controlling interests of S$4.6 million in FY2020, which we would assume in FY2021 and FY2022. Accordingly, profit attributable to owners of the Company would be S$109.8 million and S$114.1 million for FY2021 and FY2022 respectively. Consequently, the projected EPS for FY2021 and FY2022 would be 16.51 cents and 17.16 cents respectively. We have summarized our earnings projection for FY2021 and FY2022 in **Exhibit 30**.

Exhibit 30: Earnings projections for FY2021 and FY2022

[S$'000]	FY2021 forecast	FY2022 forecast
Sale of development properties	19,147	-
Rental income	219,302	230,267
Revenue	238,449	230,267
Other operating income	3,131	3,131
Total income	241,580	233,398
Fair value (loss)/gain on investment properties	-	-
Cost of sales - residential development projects	(17,002)	-
Direct rental expenses	(20,003)	(21,003)
Staff costs & directors' renumeration	(17,748)	(17,748)
Gain/(loss) on foreign exchange	-	-
Other operating expenses	(8,861)	(8,861)
Profit from operations	177,966	185,786
Net finance costs	(42,835)	(42,835)
Share of profits of:		
Associates	-	-
Joint-controlled entities	2,686	-
Profit before taxation	137,816	142,951
Income tax expense	(23,429)	(24,302)
Profit for the period	114,387	118,649
Attributable to:		
Owners of the Company	109,797	114,059
Non-controlling interests	4,590	4,590
	114,387	118,649
Profit attributable to owners of the Company	109,797	114,059
Weighted average no. of shares, excluding treasury shares ('000)	664,863	664,863
EPS (cents)	16.51	17.16

Source: FPA Financial

(III) Dividends projection

With reference to **Exhibit 31**, the Group has consistently paid dividends of 10 cents per share over the last 3 years. For FY2020, a DPS of 10 cents has been recommended, which would be paid on 28 May 2021 if approved at the Company's Annual General Meeting (AGM) to be held on 28 April 2021.

For FY2021 and FY2022, we would assume the same dividends of 10.0 cents per share, which would imply a payout ratio of about 60.6% and 58.3% respectively.

Exhibit 31: Projected dividends for FY2021 and FY2022

	Actual						Forecast	
	FY2015	**FY2016**	**FY2017**	**FY2018**	**FY2019**	**FY2020**	**FY2021**	**FY2022**
EPS (cents)	36.33	32.54	37.44	40.58	49.95	20.62	16.51	17.16
DPS (cents)	7.00	6.00	10.00	10.00	10.00	10.00	10.00	10.00
Payout ratio (%)	19.3%	18.4%	26.7%	24.6%	20.0%	48.5%	60.6%	58.3%

Source: Company, FPA Financial

VALUATION ANALYSIS

We will present our valuation analysis in two parts. First, we will perform a peer comparison analysis to review how HBL is faring against industry peers in terms of valuation metrics. We will then adopt a relative valuation approach to derive an estimated target price for HBL. In the second part, we will support our valuation analysis by discussing a potential privatisation of HBL.

(I) Peer comparison analysis

We performed a peer comparison analysis to review how HBL is faring against industry peers in terms of valuation metrics. We selected peer companies that are similar to HBL in terms of industry and business operations. The peer companies as listed in **Exhibit 32** have business operations in property development and property investment.

Exhibit 32: Peer comparison

Company	SGX code	Price (S$) as at 18 Mar 21	Market cap (S$ million)	EPS [1] (cents)	P/E (x)	DPS (cents)	Dividend yield (%)	NAV per share [2] (S$)	P/B (x)
Ho Bee Land [3]	H13	2.460	1,633.44	20.62	11.93	10.00	4.07	5.46	0.45
Peer companies:									
CapitaLand Ltd [3]	C31	3.310	17,188.43	(31.00)	n/m	9.00	2.72	4.30	0.77
City Developments Ltd [3]	C09	7.660	6,946.85	(212.80)	n/m	12.00	1.57	9.38	0.82
Frasers Property Ltd [4]	TQ5	1.170	3,423.02	3.77	31.03	1.50	1.28	2.58	0.45
GuocoLand Ltd [5]	F17	1.610	1,786.78	3.92	41.07	6.00	3.73	3.44	0.47
UOL Group Ltd [3]	U14	7.820	6,599.30	1.56	501.28	15.00	1.92	11.60	0.67
Peer average	-	-	-	-	**191.13**	-	**2.24**	-	**0.64**

Figures have been rounded. n/m: not meaningful
(1) 12-month trailing diluted EPS based on latest financial statements
(2) As at 31 Dec 20.
(3) Recommended DPS for FY2020 is still subject to approval
(4) Annual DPS paid on 10 Feb 2021 in respect to FY2020 (1 Oct 2019 to 30 Sep 2020). NAV per share as at 30 Sep 2020.
(5) Annual DPS paid on 19 Nov 2020 in respect to FY2020 (1 July 2019 to 30 June 2020)
Source: Respective company data, FPA Financial

Based on the results in **Exhibit 32** above, we note that HBL's P/B multiple of 0.45x is lower than the peer average P/B of 0.64x, which may suggest that it is undervalued. Adopting a relative valuation approach, we will estimate a target price of S$3.494 for HBL if it were to trade at the peer average P/B multiple of 0.64x as follows:

- Estimated target price = [peer average P/B] x [latest reported NAV per share] = 0.64 x S$5.46 = S$3.494

This estimated target price would represent a 42.0% upside from the current price of S$2.460.

(II) Potential HBL privatization

As noted on page 3, HBL's major controlling shareholder Dr Chua currently holds a 75.47% shareholding in HBL, comprising of his deemed interest in Ho Bee Holdings and KIH and his spouse. At the same time, we also note that his son, Mr Chua Wee-Chern, has a 0.36% shareholding in the Company. Accordingly, the Chua family, comprising Dr Chua, his spouse and his son, own a substantial 75.83% interest in HBL.

Given the above, we identify the possibility of a privatization offer for HBL. According to the Business Times, current low interest rates and the difficulty of finding good investment opportunities could provide an incentive for controlling shareholders to invest money in listed companies which they own and are familiar with. In January 2021, a takeover offer of 70 cents per share was issued for GL Limited, which was at a 25% privatization premium. Recently, the offer price has been upgraded to 80 cents, representing a premium of approximately 43% over the last transacted price of 56 cents on the last trading day before the proposed privatisation was announced.

In the case of HBL, the 24.17% stake which is uncontrolled by the Chua family would be worth approximately S$394.8 million = [24.17% x current market capitalisation of S$1,633.49 million] at the current share price of S$2.460. Assuming a privatization bid premium of about 43%, as proxied by the upgraded privatization premium of GL Limited, the estimated acquisition cost to privatise HBL would be approximately S$3.518 per share, which would be equivalent to a total cost of S$564.6 million = [143% x S$394.8 million].

SWOT AND COMPETITIVE ANALYSIS

In this section, we undertake a SWOT analysis as shown in **Exhibit 33**.

Exhibit 33: SWOT analysis

SWOT analysis	
Strengths • Strong recurring income stream • High quality investment properties	Weaknesses • Stagnant development sales
Opportunities • New development projects in Munich, Singapore and Queensland	Threats • Weak global economic recovery • COVID-19 resurgence • Prolonged working from home

(I) Strengths

As noted on page 12, the Group's financial performance has been underpinned by its recurring income stream from its investment properties. Despite the challenging COVID-19 environment, we note that the Group's office assets in London and Singapore are maintaining close to 100% lease occupancy. Further, we also note that positive rental reversions were achieved when leases were renewed for the Group's investment properties in these markets in 1H FY2020. At the same time, we also note that the Group has managed to lease out all unsold units at Rhapsody in Australia and majority of the unsold apartments at its Sentosa Cove properties in Singapore.

(II) Weaknesses

As noted on page 17, sales performance for the Group's properties held for sale in Singapore and other countries have stagnated over the last few years. Thus, the Group's property development business appears to have weighed on overall business performance.

(III) Opportunities

We noted earlier on page 14-15 that the Group has a strong pipeline of development projects including its major BMS development in Singapore, a redevelopment project in Munich and two residential developments in Australia. We identify these projects as potential catalysts which could deliver favourable returns for the Group in the future.

(IV) Threats

While the global growth outlook has improved amid vaccine distribution, COVID-19 health concerns remain elevated as infection numbers remain high in certain parts of the world and new coronavirus strains are being discovered. As a result, control measures have largely remained in place and some countries have also had to reinstate lockdowns. The trajectory of the global recovery would largely be dependent on the speed of vaccine rollouts. The main concern would be delayed progress which could be due to inefficiency or limitations in terms of logistical supply. Thus, there is a risk of prolonged border controls and lockdown measures, which could weigh on the global economic recovery.

While the Group's business, in particular its property investment business, has been relatively insulated from the impact of COVID-19, a weak global economic recovery could limit growth potential. Persistent COVID-19 health concerns could lead to extended periods of working from home and stifle office leasing demand. In turn, this could weigh on rental growth prospects. Further, the need for prolonged safe distancing measures could also delay the progress of the Group's development projects in Singapore, Australia and Germany.

INVESTMENT RECOMMENDATION

Based on HBL's reported NAV per share of S$5.46 as at 31 December 2020, it is currently trading at a PB of 0.45x, representing a discount of approximately 55% to NAV.

While we note that other comparable real estate companies are also trading at discount to NAV, our peer comparison results suggest that HBL is trading at a steeper discount. The Company's current PB of 0.45x is lower compared to the peer average PB of 0.64x. Adopting a relative valuation approach, we estimate a target price of S$3.494 if HBL's PB were trade at the peer average PB of 0.64x.

At the same time, we identify the possibility for HBL to be privatized amid recent takeover offers for companies like GL Limited. With the Chua family's current 75.83% interest in HBL, we estimate a potential HBL privatization offer at S$3.518 per share after factoring in a 43% privatization premium.

Meanwhile, the Group's financial performance is expected to improve going forward. We believe this will be supported by resilient recurring income derived from the Group's investment properties in Singapore and London. Further, we identify the Group's development projects in Singapore, Australia and Germany as potential catalysts which could bolster earnings in the future.

Given the above, we believe a buy recommendation is warranted on HBL. Our current target price is S$3.494, which is a 42.0% upside from the current share price of S$2.460. We believe this upside could be justified by potential growth in the Group's earnings as supported by its resilient property investment income stream and upcoming development projects. However, there are risks to our target price which we will highlight in the next section.

RISKS TO THE UPSIDE IN TARGET PRICE

We will highlight below risk factors that could limit the upside in our target price for HBL

Risk of currency fluctuations

As noted on page 10, the Group recorded a foreign exchange gain of S$15.5 million in FY2020 on the back of an appreciation of the AUD and Euro against the SGD. We also noted on page 20 that the AUD/SGD and EUR/SGD exchange rates have been relatively stable thus far in FY2021.

Looking ahead, however, there could be a possibility for the SGD to strengthen on increased capital inflow due to stronger foreign investments. In the last few years prior to the COVID-19 pandemic, the AUD/SGD and EUR/SGD exchange rates trended downwards, except in 2017. Thus, a stronger SGD could result in foreign exchange losses for the Group and in turn negatively impact earnings performance.

Global economic slowdown due to continuation of control measures

With the progressive rollout of vaccines globally, the growth outlook for the global economy has improved. According to the International Monetary Fund (IMF), the global economy is projected to grow 5.5% in 2021 after contracting by 3.5% in 2020.

However, the global growth outlook is still largely dependent on the how effectively vaccines are being distributed. The pace of distribution is likely to vary across different countries and thus the recovery could be uneven. As it stands, COVID-19 health concerns remain elevated as new coronavirus strains are discovered in parts of the world like Europe and the Middle East. There is a possibility that control measures could remain in place for a prolonged period and hinder the global economic recovery. This could limit the Group’s earnings growth potential going forward.

SUSTAINABILITY INFORMATION

Stakeholder engagement

As part of its efforts in aligning its business decisions with the needs and concerns of external and internal stakeholders, HBL proactively engages stakeholders through various channels to identify and understand issues pertinent to them. In addition, HBL strives to maintain regular two-way communication to foster accountability and transparency.

The following tables in **Exhibit 34 and 35** summarise the stakeholder engagement approach adopted by HBL.

Exhibit 34: HBL's stakeholder engagement approach

Key Stakeholders	Engagement Methods	Frequency	Key Topics of Interest
Investors	Timely updates of financial results and announcements, business developments, press releases, and other relevant disclosures via SGXNet and website	Throughout the year	• Sustain profitability and enhance shareholder return • Transparent reporting • Sound corporate governance practices • Active portfolio management
	Annual General Meeting	Annually	
Tenants (existing and potential)	Regular formal or informal tenant meetings and feedback sessions to exchange ideas and updates on important initiatives and matters	Throughout the year	• Safe and secure office premises • Responsiveness to requests and feedback of tenants
	Established channels of communication for tenant and property-related issues	Throughout the year	
Employees	Induction programme for new employees	Throughout the year	• Equitable remuneration • Fair and competitive employment practices and policies • Safe and healthy work environment • Focus on employee development and well-being
	Training and development programmes	Throughout the year	
	Career development performance appraisals	Annually	
	Recreational and wellness activities	Throughout the year	
	Regular e-mailers, meetings, and town-halls sessions	Throughout the year	

Source: Company

Exhibit 35: HBL's stakeholder engagement approach - continued

Key Stakeholders	Engagement Methods	Frequency	Key Topics of Interest
Communities	Corporate giving and philanthropy activities through Ho Bee Foundation	Throughout the year	• Contributions to communities • Responsible and ethical business practices
	Corporate volunteering	Throughout the year	
Government and Regulators	Meetings and dialogue sessions	Throughout the year	• Compliance with, and keep abreast to, ever-changing laws and regulations
	Membership in industry associations such as Real Estate Developers' Association of Singapore (REDAS), Singapore Chinese Chamber of Commerce and Industry (SCCCI), Singapore Business Federation (SBF)	Throughout the year	
Business Partners (such as Third-Party Service Providers)	Regular dialogue sessions with service providers and property managers	Throughout the year	• Equitable treatment of business partners • Regular and punctual payments upon enlistment of service
	Established channels of communication	Throughout the year	

Source: Company

Integrating sustainability

HBL recognises that long-term value creation for its business and stakeholders is contingent its our ability to adapt to evolving stakeholder interests as well as global trends and developments. To holistically harness opportunities and mitigate risks, HBL has aligned its sustainability focus areas to its business strategy. HBL believes this would allow it to continually generate business value – be it financial, reputational or other forms, for stakeholders.

Material Environmental, Social and Governance (ESG) factors

A review of the five key areas of focus identified to be material to HBL is conducted on an annual basis. For FY2019, no significant changes were made to these key focus areas, which include:

(1) Enhancing Economic Value
(2) Contributing to a Sustainable Environment
(3) Developing our People
(4) Enriching our Communities
(5) Strengthening Corporate Governance

A summary of the details of these key focus areas is shown in **Exhibit 36** below.

Exhibit 36: HBL's key focus areas

Sustainability Focus Areas		Material Factors
	Enhancing Economic Value Enhanced profitability, value creation, distribution and retention for shareholders.	Economic performance
	Contributing to a Sustainable Environment Mitigating our environmental footprint.	Energy Water
	Developing our People Talent management strategy and practices.	Employment Training and Education
	Enriching our Communities Giving back to society through our philanthropic efforts.	Local Communities
	Strengthening Corporate Governance Compliance with applicable laws and regulations including, ethics, integrity and anti-corruption.	Anti-corruption Socio-economic Compliance Environmental Compliance

Source: Company

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