

**Analyst: Anita Hwang**
**HENDERSON LAND DEVELOPMENT COMPANY LIMITED** (恆基兆業)

Sector	: Property developer	Chairman & Managing Director	: Dr. Lee Shau Kee
HKSE Code	: 0012		
Market Price	: HK\$61.05 (17/09/2007)		
HSI	: 24,599.34 (17/09/2007)		
Shares Issued	: 1,942.58 million		
Mkt. Cap.	: HK\$118,594.5 million		
52 weeks Hi/ Lo	: HK\$63.25 / HK\$41.30		

**SUMMARY OF THE FINAL RESULTS FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2007**
**Final Results Highlights**

<b>(HK\$ million)</b>	<u>FY2006/07</u>	<u>FY2005/06</u>	<u>Change</u>
• Turnover	8,356	6,773	23.4%
• Operating profit before changes in fair value of investment properties	3,487	4,055	-14.0%
• Finance cost	(508)	(496)	2.4%
• Increase in fair value of investment properties	1,981	7,297	-72.8%
• Share of results of associates	4,058	2,535	60.1%
• Share of results of jointly-controlled entities	3,653	3,805	-4.0%
• <b>Profit attributable to shareholders</b>	<b>9,818</b>	<b>13,549</b>	<b>-27.5%</b>
	<u>HK\$</u>	<u>HK\$</u>	
• EPS	5.19	7.47	-30.5%
• Adjusted EPS* (excluding revaluation gain)	3.11	2.90	7.2%
• DPS – Final	0.70	0.65	7.7%
• DPS – Total	1.10	1.05	4.8%

- Henderson Land Development (“HLD”) reported a 27.5% y-o-y decline in net profit to HK\$9,818 million for the year ended 30<sup>th</sup> June 2007. The decline in profit was mainly due to the higher revaluation surplus in the previous fiscal year. Excluding revaluation gain on investment properties, underlying profit was HK\$5,883 million, up 11.7% y-o-y. The result was in-line with consensus.
- Turnover increased by 23.4% y-o-y to HK\$8,356 million, mainly attributable to property development (56% of total revenue), up 72% y-o-y; and 9.9% y-o-y growth in property leasing (29.7% of total revenue). Core operating profit rose by 16.8% y-o-y to HK\$3,554 million, driven by property development (44.0% of total EBIT), up 15.6% y-o-y; and 16.2% y-o-y growth in property leasing (44.8% of total EBIT).
- Included in the FY07 result was total non-recurrent income of HK\$938.0 million made up of the excess, amounting to HK\$352.4 million, of the fair values of net assets comprised in the companies acquired from Henderson Investment Limited over the consideration paid, and the HLD’s share of gain of HK\$585.6 million arising from the disposal of 10 piped-city gas projects by an associate.
- EPS was HK\$5.19, down 30.5% y-o-y. Excluding revaluation gain on investment properties, adjusted EPS was HK\$3.11, up 7.2% y-o-y. A final DPS of HK\$0.70 (up 7.7% y-o-y) was declared, bringing total DPS for FY06/07 to HK\$1.10, up 4.8% y-o-y. Payout ratio for FY06/07 on adjusted EPS was 35% (FY05/06: 36%).
- As of 30/06/2007, HLD’s net debt amounted to HK\$8,750 million (30/06/2006: HK\$13,035 million), translating to a net debt-to-equity ratio of 9.5% (30/06/2006: 16.7%).

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- As of 30/06/2006, HLD had a land bank in Hong Kong with a total attributable GFA of 21.1 million sq. ft. It also had agricultural land lots of approximately 31.7 million sq. ft.

### Business Review

#### • **Core operating profit by business segments**

	FY2006/07		FY2005/06		Change
	HK\$ million	%	HK\$ million	%	
Property development	1,565	44.0%	1,354	44.5%	15.6%
Property leasing	1,593	44.8%	1,371	45.0%	16.2%
Finance	82	2.3%	115	3.8%	-28.5%
Construction	12	0.3%	1	0.0%	1070.0%
Infrastructure	131	3.7%	82	2.7%	59.4%
Hotel operation	42	1.2%	48	1.6%	-13.3%
Others	130	3.7%	73	2.4%	78.9%
<b>Total</b>	<b>3,553.9</b>	<b>100.0%</b>	<b>3,043.9</b>	<b>100.0%</b>	<b>16.8%</b>

- Core operating profit from **property development** increased 15.6% y-o-y to HK\$1,565 million, with revenue of HK\$4,658 million, up 72.0% y-o-y. This was mainly attributable to the sales of various property development projects including Grand Waterfront, The Sherwood and CentrePlace. Profit margin was lower at 33.6% (FY06: 49.9%). During FY07, HLD sold some HK\$7,894.8 million worth of properties in Hong Kong, a growth of 130% when compared with HK\$3,434.6 million for FY06. At the end of FY06/07, HLD had a total of 3,341 residential units available for sale with attributable GFA of 3.01 million sq. ft.
- Core operating profit from **property leasing** rose by 16.2% y-o-y to HK\$1,593 billion for FY06/07 on increase in occupancy rates and average rental rates. Revenue from property leasing amounted to HK\$2,484 million (FY06: HK\$2,261 million), representing an increase of 9.9% y-o-y. The

### Outlook & Prospects

- China expansion** HLD's strategy is to build landmark commercial developments in the major cities such as Beijing and Shanghai and massive residential schemes in other second-tier cities. As at the end of FY07, HLD had a total developable GFA of 101.5 million sq. ft. Management guided that they are planning to conclude another 50 million sq. ft. by the end of 2007, bringing the total developable GFA to over 150 million sq. ft. Completion schedule (in developable GFA) for the next 3 years will be as follows:
  - FY2008: 4.4 million sq. ft (2.7 million sq. ft for investment & 1.7 million sq. ft for sale)
  - FY2009: 2.8 million sq. ft (mostly residential units for sale)
  - FY2010: 12.6 million sq. ft (2.9 million sq. ft of office development & 9.7 million sq. ft of residential units for sale)
- Local property** Land bank replenishment for HLD has been slow and no major launch is up coming. At the end of FY07, HLD had a total of 3,341 residential units available for sale. HLD has about 10 million sq. ft of agricultural land in various stages of conversion. Unless conversion becomes faster, the market generally concerns HLD's small local land bank would undermine its earnings in the next 2 years. Going forward into FY08 to FY10, HLD will still rely on local property sales and rentals to sustain the earnings before earnings contribution from China properties become substantial.
- Fully valued** The counter is trading at FY08E 23X PER and some 6% discount to FY08E NAV of HK\$65 (average historic discount is 18%). Although China projects provide attractive long-term growth, meaningful earnings contribution would not come until FY2010 and near-term performance still hinges on local property sales. Accordingly, we prefer a switch to Sun Hung Kai Properties for better local properties exposure whilst maintain our "Hold" rating on the counter.

## **Recommendation: Hold (prefer Sun Hung Kai Properties)**

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