

Analyst: Sabina Cheng
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\$55.60 (27/03/2008)		
HSI	: 22,664.221 (27/03/2008)		
Shares Issued	: 2,146.742 million		
Mkt. Cap.	: HK\$119,358.80 million		
52 weeks Hi/ Lo	: HK\$79.80 / HK\$45.20		

SUMMARY OF THE INTERIM RESULTS FOR THE SIX MONTHS ENDED 31ST DECEMBER 2007
Interim Results Highlights

	1H2007/08	1H2006/07	
	<u>HK\$ million</u>	<u>HK\$ million</u>	<u>Change</u>
• Turnover	8,409	4,525	85.85%
• Operating profit before changes in fair value of investment properties	3,053	1,775	72.05%
• Increase in fair value of investment properties	4,153	752	452.33%
• Finance cost	(269)	(295)	-8.69%
• Share of results of associates	1,934	1,620	19.40%
• Share of results of jointly-controlled entities	2,198	1,332	65.02%
• Profit attributable to shareholders	9,188	3,793	142.24%
	<u>HK\$</u>	<u>HK\$</u>	
• EPS – Basic	4.69	2.06	127.67%
• DPS – Interim	0.40	0.40	Unchanged

- Henderson Land Development (“HLD”) reported a 142.24% y-o-y rise in net profit to HK\$9.188 billion for the 6 months ended 31st Dec 2007, attributed mainly to a 452.33% rise in revaluation gains from its investment properties when compared with same period last year. The underlying profit, excluding the revaluation gains was HK\$3.76 billion, or an increase of 5% on higher sales and rental income in Hong Kong. Results were above market expectations.
- Turnover increased by 85.85% y-o-y to HK\$8.409 billion, mainly on a jump in revenue from property development. For the first half, turnover from property development was HK\$6.253 billion, up 130.31% y-o-y, while total gross rental income rose by 5.82% y-o-y to HK\$1.291 billion.
- The Group’s operating profit before changes in fair value of investment properties grew 72.05% y-o-y to HK\$3.053 billion, with operating margin at 36.31% (1H FY06/07: 39.22%).
- EPS was HK\$4.69, against HK\$2.06 from a year earlier. An interim dividend per share of HK\$0.40 was proposed, unchanged from a year earlier.
- As of 31st Dec 2007, the Group’s net debt amounted to HK\$17.280 billion (30th June 2007: HK\$ 8.750 billion), translating to a net debt-to-shareholders’ equity ratio at 15.0% (30th June 2007: 9.5%).
- As of 31st Dec 2007, the Group’s total attributable GFA amounted to 18.4 million sq. ft. – including completed investment properties and hotels with total GFA of 10.3 million sq. ft., properties held for or under development with total GFA of 7.0 million sq. ft. and stock of unsold property units with total GFA of 1.1 million sq. ft., whilst its agricultural land lots totalled 33.4 million sq. ft. (30th June 2007: 30.6 million sq. ft.).

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Business Review

• Turnover by business segments

	1H2007/08		1H2006/07		<i>Change</i>
	HK\$ million	%	HK\$ million	%	
Property development	6,253	74.36	2,715	60.00	130.31%
Property leasing	1,291	15.35	1,220	26.97	5.82%
Building construction	114	1.36	78	1.72	46.15%
Infrastructure	129	1.53	73	1.61	76.71%
Hotel operation	104	1.24	73	1.61	42.47%
Others	518	6.16	330	8.09	41.53%
Total	8,409	100.00	4,525	100.0	

- During the interim period, revenue from the **property development** segment rose 130.31% y-o-y to HK\$6.253 billion, mainly from satisfactory sales of various property development projects including The Beverly Hills (Phase I), King's Park Hill, Grand Waterfront, Grand Promenade and The Sherwood. The Group sold more than 1,700 residential units in Hong Kong, generating attributable sales revenue of HK\$7.532 billion, a marked increase when compared with HK\$3.97 billion for the same period of the last financial year.
- **Property leasing** revenue including the attributable contributions from rental properties owned by jointly controlled entities amounted to HK\$1.291 billion, 5.82% y-o-y increase over HK\$1.220 billion for the previous interim period. The total net rental income contribution increased by 12% to HK\$1.24 billion. At the period end, leasing rate remained high at 94% for the Group's core rental properties. AIA Tower also performed well with nearly 100% rental growth on renewal. The IFC Mall and other large-scale shopping centres such as Metro City Phase III, Shatin Plaza and Citimall were almost fully let. Meanwhile, 12.3% out of the total number of tenancies in Hong Kong, representing GFA of about 600,000 sq. ft., would be subject to renewal and resulting in higher rent.

Outlook & Prospects

- **Hong Kong Properties HLD** has finalized the basic terms for land-use conversion for Wu Kai Sha and Tai Tong Road projects with attributable GFA of 2.7 million sq. ft. Meanwhile, it is expected that HLD will have to rely more on the sale of inventory in the coming years to drive HK residential earnings. Currently, there are 1,830,176 sq.ft. of GFA of unsold units being attributable to the Group.
- **Mainland Properties HLD** had 21.8 million sq.ft. and 94.5 million sq.ft. in prime cities and 2nd-tier cities, respectively at end-Dec-07. The current land bank for development in Mainland China is 150 million sq. ft. and the management sets 200 million sq. ft. as their optimal target, making Henderson one of the large-cap Hong Kong developers with land bank comparable to large-cap Mainland developers.
- **Hong Kong and China Gas (HKCG)** It was reported that earnings contributed by HLD's HKCG stake could increase from 20% to 26% following shareholders' approval of a further acquisition of Henderson Investment's HKCG stake. Going forward, this can help provide stable income streams for the Group.
- **Valuation** The counter is trading at a 15% discount to its forward NAV estimate. Given HLD could be benefited from the rising residential prices, land-bank replenishment through agricultural land conversion and stable earning streams from HKCG, we recommend to hold the counter.

Recommendation: Hold

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