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Credit Commentary

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CMBI Credit Commentary – HPDLF

HPDLF: Concerns on auditor change largely mitigated, maintain Buy on HPDLFs

Glenn Ko, CFA 高志和
(852) 3657 6235
glennko@cmbi.com.hk

Polly Ng 吴宝玲
(852) 3657 6234
pollyng@cmbi.com.hk

James Wen 温展俊
(852) 3757 6291
jameswen@cmbi.com.hk

Buy on HPDLPs and we like HPDLF 8%'23 (CB) most

Maintain Buy on HPDLFs in view of its adequate liquidity profile, high asset quality and manageable debt maturity profile. Offered at 82 and 80, HPDLP 6.8%'23 and 7%'24 are trading at YTM of 19.5% and 18.9%, respectively. Additionally, we consider Hopson's CB, HPDLF 8%'23, maturing at Jan'23, a good short-dated play. At 90, the CB is trading at an annualized YTM of 23.5% with a higher coupon rate (8%) than those of the 2 straight bonds.

Unaudited or audited?

We notice that Hopson did not use the word "audited consolidated" for its preliminary FY21 results. Instead, the company mentioned the results were reviewed by its audit committee (comprised of 3 its INEDs), and the preliminary results have been agreed by E&Y. The approach is largely the same as China SCE which is also audited by E&Y. Indeed, Hopson used similar wordings for its preliminary FY20 results. As per our discussions with Hopson (as well as China SCE), and a member of Hopson's audit committee, the FY21 results were audited and reviewed by E&Y. Hopson mentioned that the auditor will have unqualified opinions on its the final FY21 results.

FY21 results dragged by investment losses, but margin remains high

In FY21, Hopson's revenue and net core profit declined 10.6% and 62.8% to HKD30.7bn and HKD4.8bn, respectively. These were mainly attributable to the investment losses of HKD3.0bn in FY21 (vs gain of HKD8.0bn) from its investment portfolio. We estimate that its revenue and net core profit would increase 28% and 3% to cHKD34bn and HKD7bn, respectively if taking out the investment gain/losses. We are not too concerned of its investment portfolio, as cHKD9bn out of the investment portfolio of HKD15bn are invested in listed and large-cap equities in HK and the US.

CMBI Fixed Income
fis@cmbi.com.hk

Its gross margin remains at the very high end of the sector, despite lowered to 43% in FY21 from 64% in FY20. Adjusted for the investment gain/losses, the decline of margin would be more moderate to 48% in FY21 from 52% in FY20. The high margin of Hopson reflects its sizeable, low-cost and high asset quality land bank. This also reflects its slow asset churn model and more manageable debt maturity profile, as such it does not face the pressure to cut price for shoring up liquidity. Taking cues from its contracted ASP of HKD47,087/sqm and unrecognized sales ASP of cHKD18,100 (vs recognized ASP of 17,985/sqm in FY21) in FY21, we expect the margin of Hopson to remain high. Hopson set its FY22 sales target at cHKD56bn, c7% growth from the FY21 sales. For the 2M22, Hopson's contract sales were cHKD4bn, down 10% yoy.

Green camp under 3 Red Lines

Hopson reduced net debts of HKD4.7bn during FY21, reflected its positive free cash flow. It maintains in the green camp under 3 Red lines with net gearing, adj liab/assets and cash/ST debts ratio at 73.5%, 63.2% and 1.1x in Dec'21, compared with 89.7%, 64.4% and 1.1x in Dec'20, respectively. It does not have outstanding onshore bonds and MTN. its next 12-month public offshore maturities are HKD720mn due Jul'22 and the CBs of USD250mn due Jan'23. Its debt maturity profile is manageable factoring into cash/ST debt ratio of 1.1x, and its investment portfolio of cHKD15bn, cHKD9bn of which are in liquid and listed equities.

CMB International Securities Limited
Fixed Income Department
Tel: 852 3761 8867/ 852 3657 6291
fis@cmbi.com.hk

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