CMBI Credit Commentary – HPDLF

Hopson: Repayment track records count

Buy on HPDLFs; the CBs are attractive lower-beta and short-tenor plays

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Table 1: Summary of outstanding offshore bonds

	O/s amt (USD mn)	Offer price	YTM	Maturity
HPDLF 8 01/06/23 CBs	250	86.9	57.0%	6/1/2023
HPDLF 6.8 12/28/23	237.5	69.3	39.4%	28/12/2023
HPDLF 7 05/18/24	300	61.0	41.5%	18/5/2024

We maintain buy on HPDLFs in view of its adequate liquidity profile, high asset quality, large offshore investment portfolio and manageable debt maturity profile. In particular, we consider HPDLF 8%'23, the CBs due 6 Jan'23, attractive low-beta and short-tenor plays.

Hopson has proven track records in full repayments even in a challenging operating environment and an unfavourable capital market. It repaid, rather than refinanced, CBs of RMB1.8bn in Feb'10, straight bonds of USD350mn and USD300mn in Sep'12 and Jan'18 in a challenging market environment. In Jun and Jul'22, it repaid 2 offshore bonds totalled cUSD1.1bn. HPDLFs rebounded 5-10pts since the recent lows in early-mid Aug'22. That said, offered at 87.1, 69.3 and 61.0, HPDLF 8%'23 (CBs), 6.8%'23 and 7%'24 are trading at YTM of 57.0%, 39.4% and 41.5%, respectively. We consider Hopson a survivor for the sector and believe that the current valuations of HPDLFs offer attractive risk-return profile.

Weaker but relatively resilient 1H22 results

Excluding investment losses and fair value gain of investment properties, Hopson's recurring revenue increased 35.4% to HKD15.0bn but recurring gross profit and EBIT lowered 4.6% and 12.1% to HKD4.9bn and HKD3.2bn, respectively. These reflected the lower profit margin of recognized property sales because of higher land costs and lower contribution from property management resulting from the impact of COVID-19. Its adj. gross and EBIT margin narrowed to 32.6% and 21.6% in 1H22 from 46.2% and 33.3%, respectively. Hopson expects its gross margin for property sales to be 25-30% over the coming 1-2 years. Hopson's 1H22 results, albeit weakened, were relatively resilient compared with those of its peers.

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Hopson maintains the FY22 contract sales target at RMB40bn (cHKD45bn). In 8M22, its contract sales were RMB20.9bn, completed c52% of the full year target. Despite the 23.2% yoy decline in property pre-sales for the 8M22, its sales decline is relatively modest. For the 35 developers under our radar, the average yoy decline in contract sales for 8M22 was 48%.

Offshore investment portfolio offers an alternative liquidity source

Table 2: Summary of investment portfolio

HKD mn	2H20	1H21	2H21	1H22
Investment income	5,194.1	5,007.1	-7,971.8	-1,819.6
Current financial assets	22,020.7	27,120.2	6,133.8	2,634.0
Non-current financial assets	6,143.2	5,770.8	6,389.6	5,319.3
Financial assets	28,163.9	32,891.0	12,523.4	7,953.3
Margin loan	9,163.8	10,170.2	3,391.7	1,454.1
Estimated LTV	32.5%	30.9%	27.1%	18.3%
Investments in JVs	11,480.0	12,071.9	8,874.9	8,776.3

Hopson booked investment losses (on revenue line) of HKD1.8bn in 1H22 and HKD8.0bn in 2H21. Over the 12-month to Jun'22, the investment loss totalled HKD9.8bn. That said, Hopson reported investment gain of HKD13.9bn for the 18-month to Jun'21.

The book value of its financial assets was HKD8.0bn, out of these, HKD2.6bn were booked under current financial assets which were mainly HK-listed equities. The non-current financial assets were mainly pre-IPO and PE investments. As per our discussions with Hopson, it had divested part of investments facing market volatilities in 2H21 and 1H22, reflected in the commensurate decline in margin loan. The positions in non-current financial assets were largely stable.

Based on public disclosure (for listed investments of >5% of outstanding shares), the market value of Hopson's listed investments in HKEX is c HKD4.6bn, including the 9.1% stakes in Ping An Healthcare of cHKD2.4bn booked under investments in JVs. We estimate that the value of its financial investments and listed investments in Ping An Healthcare to be over HKD10bn. Even excluding margin loans of HKD1.5bn, these offshore investments represent good alternative liquidity sources.

Debt reduction continues with demonstrated repayment records

Table 3: Key financial figures

HKD mn	Dec'20	Jun'21	Dec'21	Jun'22
Cash on hand	29,650.1	42,855.0	36,312.3	28,262.0
Current financial investments	22,020.7	27,120.2	6,133.8	2,634.0
ST debts	27,084.8	37,825.6	31,979.4	31,835.7
Net debts	87,766.0	83,503.7	83,042.5	77,429.7
Net gearing	89.7%	76.0%	73.5%	68.3%
Adj. liab/asset	64.4%	63.2%	63.2%	60.0%
Unrestricted cash/ST debts	1.0x	1.1x	0.9x	0.8x
Cash/ST debts	1.1x	1.1x	1.1x	0.9x
(Cash+current financial investments)/ST debts	1.9x	1.8x	1.3x	1.0x
3 Red Lines	Green	Green	Green	Yellow

Hopson continues the deleveraging trend since 1H21 with net debt lowered 6.8% to HKD77.4bn in 1H22. Its net gearing and adj. liab/assets ratios further improved to 68.3% and 60.0% in Jun'22 while cash/ST debts ratio weakened moderately to 0.9x given the lower cash on hand. Hopson was in yellow camp (down from green) under the 3 Red Lines. Nonetheless, we take comfort from its financial investments and manageable offshore debt maturities. Factoring into the current financial investments, its cash and current financial/ST debts is 1.0x. After the repayment of offshore bonds of HKD720mn in Jul'22, Hopson has 3 outstanding offshore bonds totalled USD787.5mn (see Table 1). The next offshore maturity will be the CBs of USD250mn due Jan'23. We believe that

Hopson will have adequate liquidity to cover its near-term maturities. Additionally, Hopson has been gradually opening up the access to onshore CMBS since 2018 through collateralization of its high quality investment properties since 2018. As at Jun'22, its investment property portfolio was valued at cHKD85bn with 95% of GFA in T1 cities and LTM rental income of HKD4.2bn. Its o/s CMBS was HKD13.3bn. Assuming a LTV of 50%, headroom for additional CMBS will be cHKD29bn (cUSD3.7bn). We take additional comfort from Hopson's proven track records in full repayments even in challenging times.

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