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Credit Commentary

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Hopson: weaker but much better than peers FY22 results

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Maintain Buy on HPDLFs

We maintain buy on HPDLFs in view of its more resilient FY22 results, large offshore financial investments, high quality investment properties (IPs) and manageable debt maturity profile. As discussed, Hopson has proven track records in full repayments even in a challenging operating environment and without access to capital markets. It repaid, rather than refinanced, CBs of RMB1.8bn in Feb'10, straight bonds of USD350mn in Sep'12, USD300mn in Jan'18 and CBs of USD250mn in Jan'23 in a challenging market environment. During the stringent lockdown in China, it repaid 2 offshore bonds totalled cUSD1.1bn in Jun and Jul'22. HPDLFs corrected 2-5pts since mid Feb'23 but is still 4-5 pts higher YTD. Offered at 92.9 and 87.0, HPDLF'23 and '24 are trading at YTM of 18.7% and 20.5%, respectively. We continue to see Hopson a survivor for the sector and consider the current valuations of HPDLFs offer attractive risk-return profile.

	O/s amt (USD mn)	Offer price	YTM	Maturity
HPDLF 6.8 12/28/23	237.5	92.9	18.7%	28/12/2023
HPDLF 7 05/18/24	300	88.0	20.5%	18/5/2024

Weaker but more resilient FY22 results

	2021	2022	yoy change
Contract sales	42,299.0	32,579.0	-23.0%
Revenue	30,734.2	27,252.0	-11.3%
GFA delivered ('000 sqm)	1,235.7	1,014.4	-17.9%
Gross profit	13,144.9	8,280.8	-37.0%
Net core profit	4,756.0	1,081.0	-77.3%
Gross margin	43%	30%	-13 pct pts

Hopson reported weaker FY22 results mainly driven by lower GFA delivered facing the impact of COVID and partly by weaker RMB. Hopson is one of the few developers to report its financials in HKD. Nonetheless, its performance is much more resilient compared with that of most of the peers under our radar. To illustrate, Hopson remains profitable with gross margin of 30% in FY22 while many of its peers turned to loss with gross margin below 10%. Additionally, Hopson's contract sales decline of 23% in FY22 was also more moderate compared with an average of 47% for peers under our radar. The more resilient operating performance of Hopson reflects its focus on top tier cities such as Beijing, Guangzhou and Shanghai and prudent expansion over the past decade. Hence, its liquidity and debt maturity profiles are more manageable, and its pace of sales and construction are less affected by the downturn its peers facing. Hopson set its FY22 contract sales target at RMB40bn (cHKD51bn).

As per Hopson, its contract sales were already over RMB10bn in 1Q23 (vs RMB8bn in 1Q22), given the strong sales of a Shanghai URP which was launched this week with sales over RMB4bn.

URPs to be coming on stream helps protect margin

Hopson's gross margin in FY22 was 30% (43% in FY21 and 37% in 2H22). Its gross margin is at the very high end of the sector. During the investors' call yesterday, Hopson mentioned that 6 GZ URPs will be converted into its land bank with total saleable resources of RMB212bn (vs its contract sales of RMB32.6bn in FY22) over the coming 1-2 years. The lower AV of URPs should help to protect its margin. As per our previous discussions with Hopson, it expects its gross margin for property developments to be 25-30% over the coming 1-2 years.

Offshore investment portfolio offers an alternative liquidity source

HKD mn	2H20	1H21	2H21	1H22	2H22
Investment income	5,194.1	5,007.1	-7,971.8	-1,819.6	-390.6
Current financial assets	22,020.7	27,120.2	6,133.8	2,634.0	1,453.4
Non-current financial assets	6,143.2	5,770.8	6,389.6	5,319.3	4,751.5
Financial assets	28,163.9	32,891.0	12,523.4	7,953.3	6,204.9
Margin loan	9,163.8	10,170.2	3,391.7	1,454.1	1,025.1
Estimated LTV	32.5%	30.9%	27.1%	18.3%	16.5%
Investments in JVs	11,480.0	12,071.9	8,874.9	8,776.3	8,678.9

The book value of its financial assets was HKD6.2bn, out of these, HKD1.5bn 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 given the market volatility in 2H21 and FY22. Additionally, it has 9.1% stakes in Ping An Healthcare of cHKD2.1bn booked under investments in JVs. Based on the public disclosures (for listed investments of >5% of outstanding shares), the market value of Hopson's listed investments in HKEX is cHKD3.8bn, including the stakes in Ping An Healthcare. We estimate that the value of its financial investments and listed investments in Ping An Healthcare to be cHKD8bn. Even after deducting for margin loans of HKD1bn, these offshore investments represent a significant offshore liquidity source.

Manageable debt maturity profile

HKD mn	Dec'20	Jun'21	Dec'21	Jun'22	Dec'22
Cash on hand	29,650.1	42,855.0	36,312.3	28,262.0	18,394.2
Current financial investments	22,020.7	27,120.2	6,133.8	2,634.0	1,453.4
ST debts	27,084.8	37,825.6	31,979.4	31,835.7	26,002.4
Net debts	87,766.0	83,503.7	83,042.5	77,429.7	79,802.3
Net gearing	89.7%	76.0%	73.5%	68.3%	81.12%
Adj. liab/asset	64.4%	63.2%	63.2%	60.0%	61.20%
Unrestricted cash/ST debts	1.0x	1.1x	0.9x	0.8x	0.5x
Cash/ST debts	1.1x	1.1x	1.1x	0.9x	0.7x
(Cash+current financial investments)/ST debts	1.9x	1.8x	1.3x	1.0x	0.8x
3 Red Lines	Green	Green	Green	Yellow	Yellow

Hopson was in yellow camp under the 3 Red Lines. Nonetheless, we take comfort from its financial investments, listed investments booked under investment in JVs and manageable offshore debt maturities. The next offshore maturity will be the HPDLF 6.8 12/28/23 (o/s USD237.5mn) due in Dec'23. As per Hopson, it applied NDRC quota for new USD bonds issue for the refinancing of this USD bonds. On the other hand, it had the cash on hand of RMB6.1-7.4bn (cUSD900-1.1bn) which is not restricted nor in the escrow account as at Dec'22. Furthermore, it had IPs of cRMB75bn, and loans against these IPs were, equivalent to LTV of c32%. Hence, there is a headroom of RMB20bn of additional loans against its IPs if Hopson raises the LTV to the industry norm of 60-70%.

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