

## NRA CAPITAL: HATTEN LAND MAKING ALL THE RIGHT MOVES

nra capital NRA Capital 🕒 August 22, 2017 📁 Stock Market, Upside Potential

*This is an excerpt from NRA Capital's research report on Hatten Land Limited.*

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### **Unbilled revenue likely to have reached RM800m.**

Following its listing in January, Hatten has followed through with the acquisition of two projects and has launched one of them.

Steady marketing has led the company to deliver revenue of RM130m in 4Q17 while maintaining unbilled revenue at around 1.5 years of sales or RM662m.

If we include sales from launches in July and August, we can assume that unbilled revenue would have been closer to RM800m.

These measures give us confidence in projecting revenue growth of 49% CAGR over the next three years. Moreover, fast inventory movement reduces risk and raises the return on capital.

### **Earnings exclude RM400m of fair value gains.**

Hatten made approximately RM91.0m in operating profit after-tax in FY17, excluding one-off RTO expense of RM82.2m, beating our forecast by around 10%.

What's interesting is that the company has not reclassified completed properties as investment properties.

We noticed that the company has been focusing on the sale of serviced apartments and hotel units while retaining retail units as properties held for sale, probably for subsequent capital appreciation and rental income.

We estimate that the unsold portion of the completed and soon-to-be-opened Elements Mall has a net development value of RM389.3m.

The estimated net development value and unbilled revenue of RM800m sum up to RM1.2 billion or S\$0.291 per share.

## **Steady pipeline of launches in FY18.**

At the results briefing, the management shared that there is a lack of hotel rooms in Melaka, which explains for their focus on serviced apartments and hotels.

Looking ahead, the company will launch for sale units at the Harbour City Luxury Hotel (a six-star outfit), in addition to Satori in July.

Hatten will generally have different themes for each of its developments. The next pipeline project to be launched in FY18 includes the MICC project (reported GDV of RM942.0m) which will be a trading hub targeted at businesses.

Satori and MICC are two of five pipeline projects that Hatten had earlier said it would acquire.

## **Trading at unchallenging P/E multiple.**

Hatten currently trades at 9.52x FY17 operating earnings and has declared a maiden dividend of 0.05 cents.

Our updated model factors in both development profits and estimated rental income, but excludes fair value gains from forecasts; to yield a higher fair value per share of S\$0.460 or around 20x P/E.

## **Risk qualification reduced from “high” to “average”.**

The risk is that investors make up for the bulk of buyers and sales may slow if the environment turns unfavourable.

That said, Hatten is anchored by a strong portfolio of seafront properties and can diversify overseas for faster growth.

As we see lower share price and forecasting risks now, we maintain our Overweight rating qualified by a “high return and average risk” classification.

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