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Broker's Picks Hatten Land



August 18, 2017

Hatten Land (Hatten) reported 4QFY17 net profit of RM59.7m, +200% yoy, on a 24% increase in revenue to RM130m, thanks to better operating performance. However, FY17 net profit of RM8.7m was lower than FY16 due to one-off items such as reverse takeover offer expenses of RM82.2m. Excluding this, we estimate FY17 bottomline would have been RM91m, +32.6% yoy. The group has proposed final DPS of 0.05 Scts for FY17, translating into a yield of c.0.3%.

The better FY17 earnings performance came from progressive billings and higher sales at Hatten City P2 and Harbour City development. The Imperio Mall is 60% taken up, while Imperio Residence is 56% sold. Meanwhile, Harbour City Suites and Harbour City Resort saw further sales growth of 14% and 25%, respectively, bringing take-up rate to 95% and 49%. As at Jun 2017, Hatten had remaining unbilled sales of RM662m.

The group launched the Satori mixed development in Jul this year. This is Melaka's first wellness-themed integrated project and comprises Satori Suites (139,667 sq ft of saleable area), Satori Residences (81,872 sq ft) and Satori commercial (85,520 sq ft). Although no details were given, we understand that the initial offering of the hotel suites (Satori Suites) garnered a strong booking rate. We expect this development to have a GDV of RM300m, which would extend the group's forward income visibility.

Balance sheet has improved, with a net debt-to-equity ratio of 1.6x at end-FY17F (vs 2.8x at end-FY16). This puts the group in a strong position to tap into growth opportunities, including the acquisition of land under its right-of-first-refusal pipeline from its Sponsor, as well as potentially venture into other parts of Malaysia or overseas.

We raise FY18F EPS by 7.5% and lower FY19F EPS by 8.2% to adjust for results and introduce FY20F projections. We continue to be positive about the Melaka property market, thanks to robust tourist flows and numerous mega infrastructure projects, planned or under development, like KL-Singapore High Speed Rail and Melaka Gateway. These developments are likely to transform the landscape of Melaka and boost its attraction as a holiday and investment destination. Maintain **Add with a TP of S\$0.38**. Downside risks to our call are a slowdown in tourist arrivals to Malaysia, namely Melaka, or a delay in the development of the planned infrastructure projects, which could temper the attractiveness of Melaka as an investment destination. –CIMB

Hatten Land closed at: S\$0.205