

# Ho Bee Land (HOBEE SP)

## Recurring-Income Boost

### Raise EPS by 7-22% for acquisition; maintain BUY

We raise FY18-20E EPS by 7-22% after incorporating Ho Bee's recent acquisition of Ropemaker Place in the UK. This deal has put its conservative balance sheet to work and should enhance its recurring EBIT by 39%, in our estimation. The price paid appears reasonable, at a 7% discount to the vendor's asking price and with yields at almost 50bps higher than prime office yields in the locality. We retain our TP of SGD3.30, still at a 30% discount to our revised RNAV of SGD4.74. Trading at a steep 50% RNAV discount, Ho Bee is the cheapest property developer in our coverage. Maintain BUY. Risks to our view include sharp falls in Singapore and London office prices.

### Lifting UK office exposure

Ho Bee has raised its exposure to the UK office market to 41% of its assets from 25% after snapping up Ropemaker Place, a Grade A office building in the City of London. This 602k sf NLA freehold property is less than 200m away from the future Moorgate station due to be completed in December this year. Annual rental income of GBP30.6m translates to a net yield of 4.7%, based on its acquisition price of GBP650m. Income visibility should be strong with a long WALE of 10.5 years or 8.5 years to break option for tenants. The property is 96%-occupied, with Macquarie Bank, IHS Markit, Mitsubishi UFJ and The Bank of Tokyo Mitsubishi UFJ as key tenants.

### Reasonable acquisition price

Its acquisition price is 7% below the vendor's initial asking price of GBP700m, as reported by the media. Its acquisition yield of 4.7% is also higher than JLL's prime yield estimates of 4.25%. While a large base of banking and financial-service tenants may render the building more vulnerable to Brexit-vacancy risks, we believe its long committed WALE provides good earnings visibility.

### Boost to recurring income

This acquisition has raised its annual recurring EBIT by 39% to SGD195m. After accounting for higher financing costs from this deal, we estimate incremental net profit of SGD22m. Balance sheet remains healthy with FY18E net gearing rising to 74%, from our previous estimates of 39%.

FYE Dec (SGD m)	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue	299	165	247	406	236
EBITDA	130	133	160	233	177
Core net profit	217	249	147	161	111
Core EPS (cts)	32.5	37.4	22.0	24.1	16.6
Core EPS growth (%)	(10.4)	15.1	(41.1)	9.5	(31.2)
Net DPS (cts)	6.0	10.0	8.0	8.0	8.0
Core P/E (x)	6.5	6.3	10.7	9.8	14.2
P/BV (x)	0.5	0.5	0.5	0.5	0.5
Net dividend yield (%)	2.8	4.2	3.4	3.4	3.4
ROAE (%)	7.5	8.2	4.6	4.9	3.3
ROAA (%)	4.8	5.5	2.8	2.7	1.9
EV/EBITDA (x)	20.4	21.9	24.7	16.1	21.1
Net gearing (%) (incl perps)	43.8	40.0	73.7	65.4	63.2
Consensus net profit	-	-	117	115	91
MKE vs. Consensus (%)	-	-	25.4	39.4	21.7

Derrick Heng, CFA  
 derrickheng@maybank-ke.com.sg  
 (65) 6231 5843

# BUY

Share Price SGD 2.36  
 12m Price Target SGD 3.30 (+40%)  
 Previous Price Target SGD 3.30

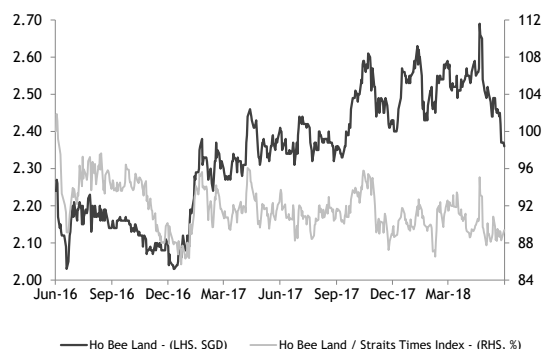
### Statistics

52w high/low (SGD)	2.69/2.31
3m avg turnover (USDm)	0.1
Free float (%)	22.6
Issued shares (m)	703
Market capitalisation	SGD1.7B
	USD1.2B

### Major shareholders:

Chua Tian Poh 74.3%

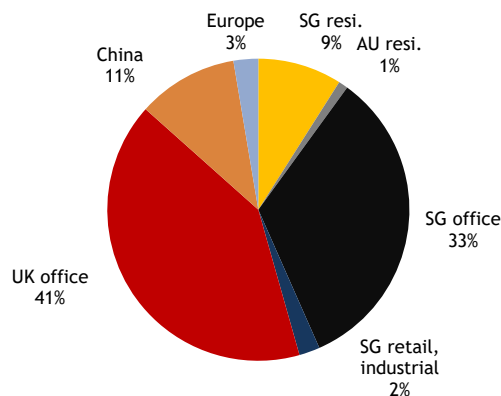
### Price Performance



	-1M	-3M	-12M
Absolute (%)	(6)	(9)	(2)
Relative to index (%)	(0)	(4)	(4)

Source: FactSet

### Exposure summary (% of valuation)



Source: Company, Maybank Kim Eng

**Fig 1: Ho Bee's RNAV and TP**

Valuation	2018E (SGD m)	% of total (%)	per share (SGD)	Remarks
Singapore residential	490	9.0	0.74	Sentosa homes at SGD1,800-1,900 psf. Incl. NAV of JV projects.
Australia residential	55	1.0	0.08	
<b>Investment properties</b>	<b>4,166</b>	<b>76.6</b>	<b>6.26</b>	
Singapore office	1,816	33.4	2.73	The Metropolis.
Singapore retail	49	0.9	0.07	
Singapore industrial	72	1.3	0.11	
UK office	2,230	41.0	3.35	Seven office buildings, including Ropemaker Place.
<b>China</b>	<b>586</b>	<b>10.8</b>	<b>0.88</b>	
<b>Europe</b>	<b>144</b>	<b>2.6</b>	<b>0.22</b>	European property fund.
<b>Gross asset value</b>	<b>5,441</b>	<b>100.0</b>	<b>8.17</b>	
Less: adjusted net liabilities	(2,286)			
<b>RNAV</b>	<b>3,155</b>			
Outstanding no. of shares (m)	665.7			Excludes treasury shares held by the company.
<b>RNAV per share</b>	<b>4.74</b>			
<b>TP</b>	<b>3.30</b>			
<i>Implied discount to RNAV (%)</i>	<i>(30)</i>			

Source: Maybank Kim Eng

**Fig 2: Earnings revisions**

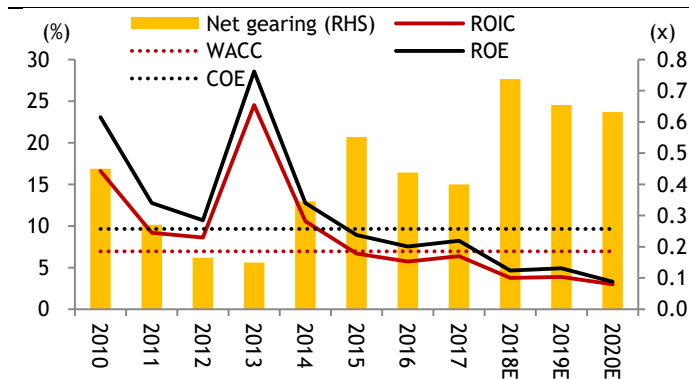
	New			Old			Change (%)		
	FY18	FY19	FY20	FY18	FY19	FY20	FY18	FY19	FY20
Revenue	247	406	236	216	343	172	14	18	37
EBIT	159	232	176	132	177	120	21	31	47
Associates & JVs	56	25	19	56	25	19	0	0	0
Net profit	147	161	111	139	141	91	6	14	22
BVPS	4.82	4.98	5.07	4.81	4.94	4.99	0.2	0.8	1.4

Source: Maybank Kim Eng

## Value Proposition

- Singapore-based property developer with a reputation for taking calculated risks in uncharted territories.
- The first property developer to build luxury homes on Sentosa Island in 2003. Major beneficiary of the strong market performance prior to the GFC.
- Made huge profits in 2013 by developing The Metropolis, the first Grade A office building in the Bona Vista precinct.
- While earnings will be supported by a strong recurring income base, we see relatively weak ROE and ROIC near term due to relatively low development earnings.

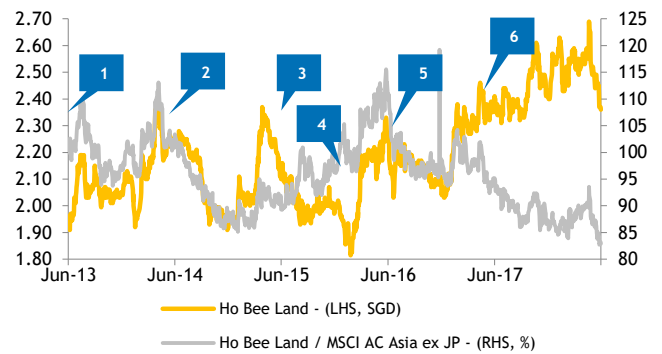
### Returns vs cost of capital



Source: Company, Maybank Kim Eng

## Price Drivers

### Historical share price trend



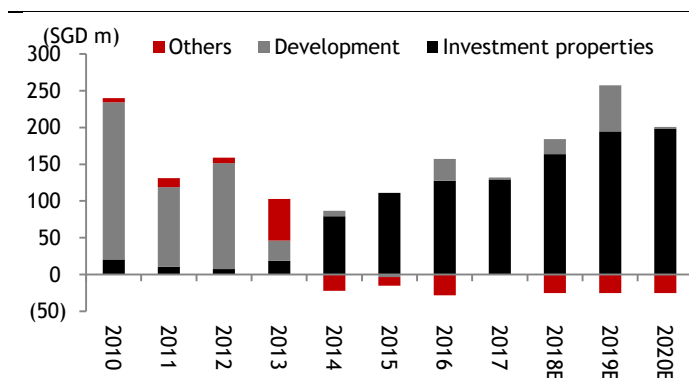
Source: Factset, Company, Maybank Kim Eng

1. Rebound in Singapore's residential market and expectations for strong fair value gains as The Metropolis nears completion in 2013.
2. Concerns over asset value due to large losses incurred by home buyers on Sentosa.
3. Privatisation of Keppel Land in early 2015 reignited privatisation interest in the sector.
4. Positives from higher dividends, stronger earnings from Australia and potential sale of an office in the UK.
5. Concerns over impact of Brexit on the value of its UK assets in June 2016.
6. Government relaxed cooling measures in Mar 2017 for the first time since GFC.

## Financial Metrics

- Stable cashflows with >SGD190m of EBIT in FY19E from its investment properties.
- Strong recurring income base cushions the more cyclical development business.
- Potential re-launch of unsold stock in Sentosa could lift development earnings.
- Conservative SGD1,800-1,900 psf valuation of unsold units on Sentosa Island.
- We value The Metropolis using a conservative cap rate of 3.75%.

### EBIT breakdown



Source: Company, Maybank Kim Eng

## Swing Factors

### Upside

- Privatisation offer by major shareholder who already owns over 70% of the company.
- Strong rebound in luxury home market in Sentosa.
- Profitable sale of investment properties.

### Downside

- Sharp fall in value of office properties in UK and Singapore.
- Overpaying for development land.
- Poor execution of overseas projects.

FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
<b>Key Metrics</b>					
P/E (reported) (x)	6.5	6.3	10.7	9.8	14.2
Core P/E (x)	6.5	6.3	10.7	9.8	14.2
P/BV (x)	0.5	0.5	0.5	0.5	0.5
P/NTA (x)	0.5	0.5	0.5	0.5	0.5
Net dividend yield (%)	2.8	4.2	3.4	3.4	3.4
FCF yield (%)	12.7	11.6	10.7	19.8	9.6
EV/EBITDA (x)	20.4	21.9	24.7	16.1	21.1
EV/EBIT (x)	20.6	22.1	24.9	16.2	21.2

**INCOME STATEMENT (SGD m)**

Revenue	299.4	164.7	246.9	405.9	235.6
EBITDA	129.9	132.8	160.3	233.3	176.6
Depreciation	(0.8)	(1.1)	(1.0)	(1.0)	(1.0)
EBIT	129.0	131.7	159.3	232.3	175.6
Net interest income / (exp)	(29.6)	(25.5)	(45.1)	(61.2)	(60.0)
Associates & JV	33.3	94.8	56.4	24.8	19.1
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	104.1	78.1	0.0	0.0	0.0
Pretax profit	236.8	279.2	170.6	196.0	134.7
Income tax	(19.7)	(28.4)	(22.8)	(34.2)	(23.1)
Minorities	(0.3)	(1.5)	(1.0)	(1.0)	(1.0)
Reported net profit	216.8	249.3	146.7	160.7	110.6
Core net profit	216.8	249.3	146.7	160.7	110.6
Preferred Dividends	0.0	0.0	0.0	0.0	0.0

**BALANCE SHEET (SGD m)**

Cash & Short Term Investments	58.0	97.1	224.0	270.9	258.7
Accounts receivable	28.6	28.5	29.9	31.4	32.9
Inventory	253.6	241.3	201.5	79.4	71.5
Property, Plant & Equip (net)	22.5	26.7	26.7	26.7	26.7
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	792.0	848.5	919.6	944.4	963.6
Other assets	3,239.9	3,375.8	4,548.9	4,562.7	4,577.1
<b>Total assets</b>	<b>4,394.7</b>	<b>4,617.8</b>	<b>5,950.6</b>	<b>5,915.5</b>	<b>5,930.5</b>
ST interest bearing debt	234.7	173.0	250.0	200.0	150.0
Accounts payable	42.6	47.1	49.5	52.0	54.6
LT interest bearing debt	1,111.0	1,181.5	2,350.0	2,250.0	2,250.0
Other liabilities	67.0	74.0	78.0	82.0	86.0
<b>Total Liabilities</b>	<b>1,455.5</b>	<b>1,476.1</b>	<b>2,727.7</b>	<b>2,584.1</b>	<b>2,540.8</b>
Shareholders Equity	2,925.3	3,127.6	3,207.7	3,315.2	3,372.6
Minority Interest	13.9	14.2	15.2	16.2	17.2
<b>Total shareholder equity</b>	<b>2,939.2</b>	<b>3,141.8</b>	<b>3,222.9</b>	<b>3,331.4</b>	<b>3,389.8</b>
Perpetual securities	0.0	0.0	0.0	0.0	0.0
<b>Total liabilities and equity</b>	<b>4,394.7</b>	<b>4,617.8</b>	<b>5,950.6</b>	<b>5,915.5</b>	<b>5,930.5</b>

**CASH FLOW (SGD m)**

Pretax profit	236.8	279.2	170.6	196.0	134.7
Adj net interest (income)/exp	29.6	25.5	45.1	61.2	60.0
Change in working capital	71.0	10.1	31.3	113.2	(1.4)
Cash taxes paid	(31.4)	(19.5)	(22.8)	(34.2)	(23.1)
Other operating cash flow	(77.6)	(136.0)	(33.6)	9.4	4.0
Cash flow from operations	178.1	112.9	168.8	312.3	152.1
Capex	(0.9)	(4.5)	(1.0)	(1.0)	(1.0)
Free cash flow	178.3	181.7	167.8	311.3	151.1
Dividends paid	(46.6)	(39.9)	(66.6)	(53.3)	(53.3)
Equity raised / (purchased)	(1.1)	0.0	0.0	0.0	0.0
Change in Debt	(77.3)	(2.5)	1,245.5	(150.0)	(50.0)
Perpetual securities distribution	0.0	0.0	0.0	0.0	0.0
Other invest/financing cash flow	(12.3)	(27.1)	(45.1)	(61.2)	(60.0)
Effect of exch rate changes	(1.4)	(0.4)	0.0	0.0	0.0
Net cash flow	41.1	43.2	(17.1)	46.9	(12.2)

FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	130.4	(45.0)	50.0	64.4	(42.0)
EBITDA growth	9.8	2.3	20.7	45.6	(24.3)
EBIT growth	10.0	2.1	20.9	45.9	(24.4)
Pretax growth	(8.3)	17.9	(38.9)	14.9	(31.2)
Reported net profit growth	(10.5)	15.0	(41.1)	9.5	(31.2)
Core net profit growth	(10.5)	15.0	(41.1)	9.5	(31.2)
<b>Profitability ratios (%)</b>					
EBITDA margin	43.4	80.7	64.9	57.5	75.0
EBIT margin	43.1	80.0	64.5	57.2	74.6
Pretax profit margin	79.1	nm	69.1	48.3	57.2
Payout ratio	18.5	26.7	36.3	33.1	48.1
<b>DuPont analysis</b>					
Net profit margin (%)	72.4	nm	59.4	39.6	47.0
Revenue/Assets (x)	0.1	0.0	0.0	0.1	0.0
Assets/Equity (x)	1.5	1.5	1.9	1.8	1.8
ROAE (%)	7.5	8.2	4.6	4.9	3.3
ROAA (%)	4.8	5.5	2.8	2.7	1.9
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	3.0	3.1	2.2	2.3	2.3
Net gearing (%) (incl perps)	43.8	40.0	73.7	65.4	63.2
Net gearing (%) (excl. perps)	43.8	40.0	73.7	65.4	63.2
Net interest cover (x)	4.4	5.2	3.5	3.8	2.9
Debt/EBITDA (x)	10.4	10.2	16.2	10.5	13.6
Capex/revenue (%)	0.3	2.8	0.4	0.2	0.4
Net debt/ (net cash)	1,287.7	1,257.4	2,376.0	2,179.1	2,141.3

Source: Company; Maybank

## Research Offices

### REGIONAL

**Sadiq CURRIMBHOY**  
Regional Head, Research & Economics  
(65) 6231 5836  
sadiq@maybank-ke.com.sg

**WONG Chew Hann, CA**  
Regional Head of Institutional Research  
(603) 2297 8686  
wchewh@maybank-ib.com

**ONG Seng Yeow**  
Regional Head of Retail Research  
(65) 6231 5839  
ongsengyeow@maybank-ke.com.sg

**TAN Sin Mui**  
Director of Research  
(65) 6231 5849  
sinmui@kimeng.com.hk

### ECONOMICS

**Suhaimi ILIAS**  
Chief Economist  
Malaysia | Philippines | China  
(603) 2297 8682  
suhaimi\_ilias@maybank-ib.com

**CHUA Hak Bin**  
Regional Thematic Macroeconomist  
(65) 6231 5830  
chuahb@maybank-ke.com.sg

**LEE Ju Ye**  
Singapore  
(65) 6231 5844  
leejuye@maybank-ke.com.sg

**Dr Zamros DZULKAFLI**  
(603) 2082 6818  
zamros.d@maybank-ib.com

**Ramesh LANKANATHAN**  
(603) 2297 8685  
ramesh@maybank-ib.com

### FX

**Saktiandi SUPAAT**  
Head, FX Research  
(65) 6320 1379  
saktiandi@maybank.com.sg

**Christopher WONG**  
(65) 6320 1347  
wongkl@maybank.com.sg

**Leslie TANG**  
(65) 6320 1378  
leslietang@maybank.com.sg

**Fiona LIM**  
(65) 6320 1374  
fionalim@maybank.com.sg

### STRATEGY

**Sadiq CURRIMBHOY**  
Global Strategist  
(65) 6231 5836  
sadiq@maybank-ke.com.sg

**Willie CHAN**  
Hong Kong / Regional  
(852) 2268 0631  
williechan@kimeng.com.hk

### FIXED INCOME

**Winson Phoon, ACA**  
(65) 6231 5831  
winsonphoon@maybank-ke.com.sg

**Se Tho Mun Yi**  
(603) 2074 7606  
munyi.st@maybank-ib.com

### MALAYSIA

**WONG Chew Hann, CA** *Head of Research*  
(603) 2297 8686 wchewh@maybank-ib.com  
• Strategy

**Desmond CH'NG, ACA**  
(603) 2297 8680  
desmond.chng@maybank-ib.com  
• Banking & Finance

**LIAW Thong Jung**  
(603) 2297 8688 tjliaw@maybank-ib.com  
• Oil & Gas Services - Regional

**ONG Chee Ting, CA**  
(603) 2297 8678 ct.ong@maybank-ib.com  
• Plantations - Regional

**Mohshin AZIZ**  
(603) 2297 8692 mohshin.aziz@maybank-ib.com  
• Aviation - Regional • Petrochem

**YIN Shao Yang, CPA**  
(603) 2297 8916 samuel.y@maybank-ib.com  
• Gaming - Regional • Media

**TAN Chi Wei, CFA**  
(603) 2297 8690 chiwei.t@maybank-ib.com  
• Power • Telcos

**WONG Wei Sum, CFA**  
(603) 2297 8679 weisum@maybank-ib.com  
• Property

**LEE Yen Ling**  
(603) 2297 8691 lee.yl@maybank-ib.com  
• Building Materials • Glove • Ports • Shipping

**Ivan YAP**  
(603) 2297 8612 ivan.yap@maybank-ib.com  
• Automotive • Semiconductor • Technology

**Kevin WONG**  
(603) 2082 6824 kevin.wong@maybank-ib.com  
• REITs • Consumer Discretionary

**LIEW Wei Han**  
(603) 2297 8676 weihan.l@maybank-ib.com  
• Consumer Staples

**Adrian WONG**  
(603) 2297 8675 adrian.wkj@maybank-ib.com  
• Constructions • Healthcare

**Jade TAM**  
(603) 2297 8687 jade.tam@maybank-ib.com  
• Media • Building Materials

**Mohd Hafiz Hassan**  
(603) 2082 6819 mohdhafiz.ha@maybank-ib.com  
• Small & Mid Caps

**TEE Sze Chiah** *Head of Retail Research*  
(603) 2082 6858 szechiah.t@maybank-ib.com

**Nik Ihsan Raja Abdullah, MSTA, Cfte**  
(603) 2297 8694  
nikmohdihsan.ra@maybank-ib.com

### SINGAPORE

**Neel SINHA** *Head of Research*  
(65) 6231 5838 neelsinha@maybank-ke.com.sg  
• Strategy • Industrials  
• SMID Caps - Regional

**CHUA Su Tye**  
(65) 6231 5842 chuasutye@maybank-ke.com.sg  
• REITs

**Derrick HENG, CFA**  
(65) 6231 5843 derrickheng@maybank-ke.com.sg  
• Property • REITs (Office)

**Luis HILADO**  
(65) 6231 5848 luishilado@maybank-ke.com.sg  
• Telcos

**John CHEONG, CFA**  
(65) 6231 5845 johncheong@maybank-ke.com.sg  
• Small & Mid Caps • Healthcare • Transport

**NG Li Hiang**  
(65) 6231 5840 nglhiang@maybank-ke.com.sg  
• Banks

**LAI Gene Lih**  
(65) 6231 5832 laigenetih@maybank-ke.com.sg  
• Technology

### HONG KONG / CHINA

**Mitchell KIM** *Head of Research*  
(852) 2268 0634 mitchellkim@kimeng.com.hk  
• Internet & Telcos

**Christopher WONG**  
(852) 2268 0652  
christopherwong@kimeng.com.hk  
• HK & China Properties

**Jacqueline KO, CFA**  
(852) 2268 0633 jacquelineko@kimeng.com.hk  
• Consumer Staples & Durables

**Ricky NG, CFA**  
(852) 2268 0689 rickyng@kimeng.com.hk  
• Regional Renewables  
• HK & China Properties

**Sonija LI, CFA, FRM**  
(852) 2268 0641 sonijali@kimeng.com.hk  
• Gaming

**Stefan CHANG, CFA**  
(852) 2268 0675 stefanchang@kimeng.com.hk  
• Technology - Regional

**Tony REN, CFA**  
(852) 2268 0640 tonyren@kimeng.com.hk  
• Healthcare & Pharmaceutical

### INDIA

**Jigar SHAH** *Head of Research*  
(91) 22 6623 2632 jigar@maybank-ke.co.in  
• Strategy • Oil & Gas • Automobile • Cement

**Vishal MODI**  
(91) 22 6623 2607 vishal@maybank-ke.co.in  
• Banking & Financials

**Neerav DALAL**  
(91) 22 6623 2606 neerav@maybank-ke.co.in  
• Software Technology • Telcos

**Vishal PERIWAL**  
(91) 22 6623 2605 vishalperiwa@maybank-ke.co.in  
• Infrastructure

### INDONESIA

**Isnaputra ISKANDAR** *Head of Research*  
(62) 21 8066 8680  
isnaputra.iskandar@maybank-ke.co.id  
• Strategy • Metals & Mining • Cement

**Rahmi MARINA**  
(62) 21 8066 8689  
rahmi.marina@maybank-ke.co.id  
• Banking & Finance

**Aurellia SETIABUDI**  
(62) 21 8066 8691  
aurellia.setiabudi@maybank-ke.co.id  
• Property

**Janni ASMAN**  
(62) 21 8066 8687  
janni.asman@maybank-ke.co.id  
• Cigarette • Healthcare • Retail

### PHILIPPINES

**Minda OLONAN** *Head of Research*  
(63) 2 849 8840  
minda\_olonan@maybank-atrke.com  
• Strategy

**Katherine TAN**  
(63) 2 849 8843  
kat\_tan@maybank-atrke.com  
• Banks • Construction

**Luis HILADO**  
(65) 6231 5848 luishilado@maybank-ke.com.sg  
• Telcos

**Romel LIBO-ON**  
(63) 2 849 8844  
romel\_libo-on@maybank-atrke.com  
• Property

### THAILAND

**Maria LAPIZ** *Head of Institutional Research*  
Dir (66) 2257 0250 | (66) 2658 6300 ext 1399  
Maria.L@maybank-ke.co.th  
• Strategy • Consumer • Materials • Services

**Tanawat RUENBANTERNG**  
(66) 2658 6300 ext 1394  
Tanawat.R@maybank-ke.co.th  
• Banks & Diversified Financials

**Ornmongkol TANTITANATORN**  
(66) 2658 6300 ext 1395  
ormmongkol.t@maybank-ke.co.th  
• Power & Utilities • Infrastructure

**Surachai PRAMUALCHAROENKIT**  
*Head of Retail Research*  
(66) 2658 5000 ext 1470  
Surachai.p@maybank-ke.co.th  
• Auto • Conmat • Contractor • Steel

**Ekachai TARAPORNIT** *Deputy Head*  
(66) 2658 5000 ext 1530  
Ekachai.t@maybank-ke.co.th

**Sutthichai KJMWORACHAI** *Deputy Head*  
(66) 2658 5000 ext 1400  
sutthichai.k@maybank-ke.co.th  
• Energy • Petrochem

**Suttatip PEERASUB**  
(66) 2658 5000 ext 1430  
suttatip.p@maybank-ke.co.th  
• Media • Commerce

**Termporn TANTIVIVAT**  
(66) 2658 5000 ext 1520  
termporn.t@maybank-ke.co.th  
• Property

**Jaroontan WATTANAWONG**  
(66) 2658 5000 ext 1404  
jaroontan.w@maybank-ke.co.th  
• Transportation • Small cap

**Sorrahhol VIRAMETEEKUL**  
*Head of Digital Research*  
(66) 2658 5000 ext 1550  
sorrahhol.v@maybank-ke.co.th  
• Food, Transportation

**Wijit ARAYAPISIT**  
(66) 2658 5000 ext 1450  
wijit.a@maybank-ke.co.th  
• Strategist

### VIETNAM

**LE Hong Lien, ACCA**  
*Head of Institutional Research*  
(84 28) 44 555 888 x 8181  
lien.le@maybank-kimeng.com.vn  
• Strategy • Consumer • Diversified

**THAI Quang Trung, CFA,**  
*Deputy Head, Institutional Research*  
(84 28) 44 555 888 x 8180  
trung.thai@maybank-kimeng.com.vn  
• Real Estate • Construction • Materials

**LE Nguyen Nhat Chuyen**  
(84 28) 44 555 888 x 8082  
chuyen.le@maybank-kimeng.com.vn  
• Oil & Gas

**NGUYEN Thi Ngan Tuyen,**  
*Head of Retail Research*  
(84 28) 44 555 888 x 8081  
tuyen.nguyen@maybank-kimeng.com.vn  
• Food & Beverage • Oil & Gas • Banking

**TRUONG Quang Binh,**  
*Deputy Head, Retail Research*  
(84 28) 44 555 888 x 8087  
binh.truong@maybank-kimeng.com.vn  
• Rubber Plantation • Tyres & Tubes • Oil & Gas

**TRINH Thi Ngoc Diep**  
(84 28) 44 555 888 x 8208  
diep.trinh@maybank-kimeng.com.vn  
• Technology • Utilities • Construction

**NGUYEN Thi Sony Tra Mi**  
(84 28) 44 555 888 x 8084  
mi.nguyen@maybank-kimeng.com.vn  
• Port Operation • Pharmaceutical  
• Food & Beverage

**NGUYEN Thanh Lam**  
(84 28) 44 555 888 x 8086  
thanhlam.nguyen@maybank-kimeng.com.vn  
• Technical Analysis

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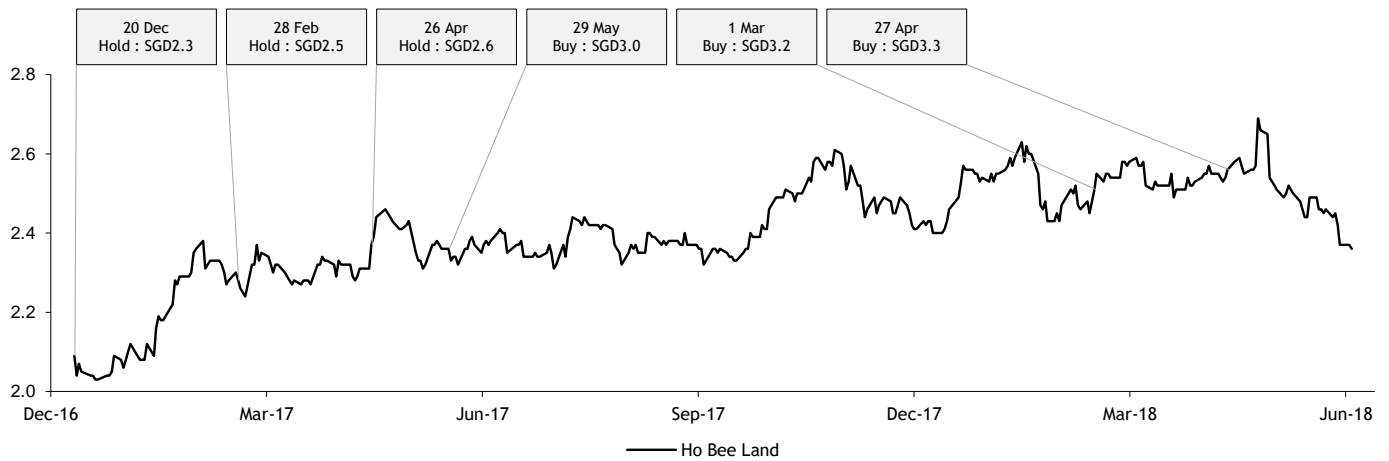
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## Historical recommendations and target price: Ho Bee Land (HOBEE SP)



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**Malaysia**

Maybank Investment Bank Berhad  
(A Participating Organisation of  
Bursa Malaysia Securities Berhad)  
33rd Floor, Menara Maybank,  
100 Jalan Tun Perak,  
50050 Kuala Lumpur  
Tel: (603) 2059 1888;  
Fax: (603) 2078 4194

Stockbroking Business:  
Level 8, Tower C, Dataran Maybank,  
No.1, Jalan Maarof  
59000 Kuala Lumpur  
Tel: (603) 2297 8888  
Fax: (603) 2282 5136


**Singapore**

Maybank Kim Eng Securities Pte Ltd  
Maybank Kim Eng Research Pte Ltd  
50 North Canal Road  
Singapore 059304

Tel: (65) 6336 9090


**Hong Kong**

Kim Eng Securities (HK) Ltd  
28/F, Lee Garden Three,  
1 Sunning Road, Causeway Bay,  
Hong Kong

Tel: (852) 2268 0800

Fax: (852) 2877 0104


**London**

Maybank Kim Eng Securities  
(London) Ltd  
PNB House  
77 Queen Victoria Street  
London EC4V 4AY, UK

Tel: (44) 20 7332 0221

Fax: (44) 20 7332 0302


**Indonesia**

PT Maybank Kim Eng Securities  
Sentral Senayan III, 22<sup>nd</sup> Floor  
Jl. Asia Afrika No. 8  
Gelora Bung Karno, Senayan  
Jakarta 10270, Indonesia

Tel: (62) 21 2557 1188

Fax: (62) 21 2557 1189


**New York**

Maybank Kim Eng Securities USA  
Inc  
400 Park Avenue, 11th Floor  
New York, New York 10022,  
U.S.A.

Tel: (212) 688 8886

Fax: (212) 688 3500


**India**

Kim Eng Securities India Pvt Ltd  
2nd Floor, The International,  
16, Maharishi Karve Road,  
Churchgate Station,  
Mumbai City - 400 020, India

Tel: (91) 22 6623 2600

Fax: (91) 22 6623 2604


**Philippines**

Maybank ATR Kim Eng Securities Inc.  
17/F, Tower One & Exchange Plaza  
Ayala Triangle, Ayala Avenue  
Makati City, Philippines 1200

Tel: (63) 2 849 8888

Fax: (63) 2 848 5738


**Thailand**

Maybank Kim Eng Securities  
(Thailand) Public Company Limited  
999/9 The Offices at Central World,  
20<sup>th</sup> - 21<sup>st</sup> Floor,  
Rama 1 Road Pathumwan,  
Bangkok 10330, Thailand

Tel: (66) 2 658 6817 (sales)

Tel: (66) 2 658 6801 (research)


**Vietnam**

Maybank Kim Eng Securities Limited  
4A-15+16 Floor Vincom Center Dong  
Khoi, 72 Le Thanh Ton St. District 1  
Ho Chi Minh City, Vietnam

Tel : (84) 844 555 888

Fax : (84) 8 38 271 030


**Saudi Arabia**

*In association with*  
**Anfaal Capital**  
Villa 47, Tujjar Jeddah  
Prince Mohammed bin Abdulaziz  
Street P.O. Box 126575  
Jeddah 21352

Tel: (966) 2 6068686

Fax: (966) 26068787


**South Asia Sales Trading**

Kevin Foy  
Regional Head Sales Trading  
kevinfoy@maybank-ke.com.sg  
Tel: (65) 6636-3620  
US Toll Free: 1-866-406-7447


**North Asia Sales Trading**

Andrew Lee  
andrewlee@kimeng.com.hk  
Tel: (852) 2268 0283  
US Toll Free: 1 877 837 7635

**Malaysia**

Joann Lim  
joann.lim@maybank-ib.com  
Tel: (603) 2717 5166

**Indonesia**

Hariato Liong  
hariato.liong@maybank-ke.co.id  
Tel: (62) 21 2557 1177

**New York**

James Lynch  
jlynch@maybank-keusa.com  
Tel: (212) 688 8886

**Vietnam**

Patrick Mitchell  
patrick.mitchell@maybank-kimeng.com.vn  
Tel: (84)-8-44-555-888 x8080

**Thailand**

Tanasak Krishnasreni  
Tanasak.K@maybank-ke.co.th  
Tel: (66)2 658 6820

**London**

Mark Howe  
mhowe@maybank-ke.co.uk  
Tel: (44) 207-332-0221

**India**

Sanjay Makhija  
sanjaymakhija@maybank-ke.co.in  
Tel: (91)-22-6623-2629

**Philippines**

Keith Roy  
keith\_roy@maybank-atrke.com  
Tel: (63) 2 848-5288

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