

Hatten Land Ltd

15 June 2021

Ceased coverage

BBG	HATT SP
Market cap	S\$43.1m
Price (14 Jun 2021)	S\$0.027
52-week range	S\$0.024 – S\$0.084
Target Price	Ceased coverage
Shares Outstanding	1,595.2m
Free Float	27%
Major Shareholder	Hatten Holdings 58.7%
P/BV (03/21)	1.1x
Net Debt to EBITDA (03/21)	Negative EBITDA

Source: Company data, Bloomberg, SAC Capital

Analyst

Lam Wang Kwan
lamwk@saccapital.com.sg

Peggy Mak
pmak@saccapital.com.sg

Ceasing coverage

Due to reallocation of resources, we are ceasing coverage on Hatten Land. Our previous call and price target can no longer be relied upon for your investment decision.

Hatten reported RM78m net loss for 9M to 31 Mar 2021, on revenue of RM28m, as sales slowed with COVID and absence of foreign buyers for Malacca properties. Potential buyers' default also weigh on its balance sheet. As at Mar 2021, total property assets recorded in its books were RM909m. Outstanding payments from buyers of sold units was RM472m. On the liability side, it owed trade creditors RM417m and has uncompleted work of RM254m.

Hatten proposed two scheme of arrangements with the creditors of the Hatten City Phase 1 and Phase 2 projects. While that of Phase 2 has been approved by the High Court, the application for Phase 1 was dismissed, and Hatten is appealing. Essentially, the scheme earmarked unsold units for sale to repay the creditors, who are mainly buyers that were offered guaranteed rental return.

Hatten signed an agreement to divest the Harbour City project for US\$60m (~RM250m). The divestment would cut Hatten's loss by RM73.8m, but also lower net book value by RM50.2m for FYJun20, according to the EGM circular. Shareholders had approved the deal. Completion is deferred to 30 Jun 2021.

In addition to the above projects, Hatten also owns the Verdo by the River (a retail mall), Unicity (a mixed use development at Seremban), and Satori (hotel and serviced apartments).

As at 31 March 2021, net debt was RM380m and net equity RM117m (~S\$37m), bringing net gearing to 3.25x. Hatten is hoping to raise funds from selling the properties on hand to unwind debt. We estimate the sale of Harbour City will bring in net RM150m, if it goes through.

YE 30 Jun (RMm)	FY16A	FY17A	FY18A	FY19A	FY20A
Revenue	412.4	462.4	298.1	342.8	109.5
EBIT	97.3	30.8	43.1	109.8	(193.0)
Net profit	68.6	8.7	5.8	9.5	(229.7)
EPS (S cents)	5.8	0.6	0.0	0.0	(0.2)
DPS (S cents)	-	0.05	0.03	0.01	-
Net cash / (debt)	(168.5)	(292.8)	(471.7)	(388.0)	(376.0)
Valuation					
EBIT margin (%)	23.6	6.7	14.5	32.0	(176.4)
ROIC (%)	17.8	1.5	5.1	8.0	(54.5)
EV/EBITDA (x)	2.6	11.9	12.6	4.4	(3.2)
P/E (x)	1.4	12.8	19.4	11.7	(0.5)
Dividend yield (%)	-	1.9	0.9	0.5	-

Key summary

Due to reallocation of resources, we are ceasing coverage on Hatten Land. Our previous call and price target can no longer be relied upon for your investment decision.

Hatten reported RM78m net loss for 9M to 31 Mar 2021, on revenue of RM28m, as sales slowed with COVID and absence of foreign buyers for Malacca properties. Potential buyers' default also weigh on its balance sheet. As at Mar 2021, total property assets recorded in its books were RM909m. Outstanding payments from buyers of sold units was RM472m. On the liability side, it owed trade creditors RM417m and has uncompleted work of RM254m.

Hatten entered into the following financial restructuring exercises:

Hatten City Phase 1 – Hatten has proposed a scheme of arrangement for the creditors, the details, however, are not disclosed. The Malacca High Court had dismissed its application for approval of the Scheme, and Hatten is appealing. The project owed some RM322m to creditors, of which ~RM68m are third party. The remaining are loans from parent Hatten.

Hatten City Phase 2 – Hatten earmarks 32 unsold units in the project for sale (worth ~RM114.6m) to meet outstanding liabilities of RM283m. About RM43.4m of the sale proceeds will be paid to third party creditors. These are guaranteed rental return that Hatten provided to the buyers of some sold units, and claims for liquidated ascertained damages. The balance will be repaid to Hatten.

Harbour City – In Aug 2020, Hatten announced an agreement with Tayrona Capital Pte Ltd to divest the Harbour City project for US\$60m (~RM250m). But US\$25m will be paid to the project company for debt owing by Hatten. The divestment would cut Hatten's loss by RM73.8m, but also lower net book value by RM50.2m for FYJun20, according to the EGM circular. Shareholders had approved the divestment. Completion is deferred to 30 Jun 2021.

In addition to the above projects, Hatten also owns the Verdo by the River (a retail mall), Unicity (a mixed use development at Seremban), and Satori (hotel and serviced apartments).

In Jun 2020, it acquired a 20% stake (now 19.3%) in ECXX Global Pte Ltd for S\$8m, through issuance of 100.2m new Hatten shares at S\$0.08 per share. ECXX is a platform that allows fractionalized ownership of assets to be traded on the ECXX exchange. This could be an avenue for Hatten to sell its properties through tokenization, according to the management.

As at 31 March 2021, net debt was RM380m, net equity RM117m (~S\$37m), giving rise to net gearing of 3.25x. Hatten is hoping to raise funds from selling the properties on hand to unwind debt. The sale of Harbour City will bring in net RM150m, if it goes through.

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