Asia Credit Research

Credit Update: GuocoLand Ltd ("GUOL")

Issuer Profile: Neutral (5)

Ticker: **GUOLSP**

Background

Listed on the SGX in 1978, GUOL is a property developer headquartered in Singapore, with investments in residential properties, commercial properties and integrated developments. The group's properties are located in Singapore, China, Malaysia and Vietnam. GUOL is a 68.0%-owned subsidiary of Guoco Group, which is listed on the HKSE and is in turn, a member of the Hong Leong Group, one of the largest conglomerates in South East Asia.

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Recommendation

- Revenues and net profit continued to decline due to lower inventories remaining though 1QFY2019 results may stabilize as GUOL has already sold SGD87.6mn of units at Wallich Residence and Martin Modern.
- Significant amounts of short-term debt were refinanced and net gearing declined to 0.87x (3QFY2018: 0.92x). We remain comfortable with GUOL's credit profile, backed by hard assets and recurring income from Tanjong Pagar Centre while we expect GUOL to continue refinancing the remaining short term maturities.
- We continue to prefer the GUOLSP seniors (e.g. GUOLSP 3.62% '21s, GUOLSP 4% '22s and GUOLSP 3.85% '23s) over GUOLSP 4.6% PERP as GUOL may not redeem at the first call. For investors looking for yield, we prefer switching from GUOLSP 4.6% PERP to FPLSP 3.95% PERP, which offer a stronger issuer profile at Neutral (4) for a higher yield to reset and shorter reset date.

Relative Value:

Bond	Maturity/ Reset date	Net gearing	Yield to Maturity/Reset	Spread
GUOLSP 3.95% 2019	01/04/2019	0.87x	2.48%	72bps
GUOLSP 4.1% 2020	13/05/2020	0.87x	3.11%	118bps
GUOLSP 3.62% 2021	30/03/2021	0.87x	3.41%	139bps
GUOLSP 4% 2022	31/01/2022	0.87x	3.68%	159bps
GUOLSP 3.85% 2023	15/02/2023	0.87x	3.82%	166bps
GUOLSP 4.6% PERP	23/01/2025	0.87x	5.06%	276bps
FPLSP 3.95% PERP	05/10/2022	0.84x	5.50%	336bps

Source: Bloomberg, Indicative prices as at 6 September 2018

Key Considerations

- **Weaker results as expected due to one-offs and lower inventories:** GUOL reported 4QFY2018 results for the quarter ending 30 June. Revenue declined 51.6% y/y to SGD197.0mn, mainly due to a decline in inventory with healthy sales from completed residential projects in the previous quarters. EBITDA was correspondingly lower by 38.5% y/y at SGD45.5mn. Aside from lower revenue, net profit was impacted (-43.0% y/y to SGD166.1mn) due to lower fair value gains (mainly from Tanjong Pagar Centre's Guoco Tower) of SGD142.5mn (4QFY2017: SGD254.5mn).

- **Sales look to have slowed following cooling measures:** Following the implementation of the new property cooling measures on 6 Jul 2018, sales at Wallich Residence and Martin Modern have slowed noticeably in August compared to July, though this is partly due to the Hungry Ghost Festival (11 Aug to 9 Sep) which may cause potential buyers to stay away. That said, we expect 1QFY2019 results to remain supported as GUOL sold 27 units at Wallich Residence and Martin Modern worth SGD87.6mn in Jul-Aug 2018, ahead of 16 units sold for SGD59.1mn in 4QFY2018.

- **Keep watch on the significant Singapore inventory remaining:** If the slower sales resulting from the new property cooling measures persist, GUOL may be adversely affected given its significant inventory remaining in the pipeline. We note that only 34 out of 181 units have been sold at Wallich Residence while Casa Meyfort (acquired for ~SGD320mn, 100% stake) and Pacific Mansion (acquired for SGD980mn via 40%-stake in JV) have yet to launch. As these are higher end projects (which typically attracts more foreigners and high net worth individuals), the impact from the property cooling measure is larger. In addition, GUOL may develop residential units at the Beach Road commercial site (acquired for SGD1.6bn via 70%-stake in JV) though we note the exposure to residential will be capped with at least 70% of the GFA going towards office space. Meanwhile, we are not overly worried over Martin Modern as it is more than 60% sold and there remains buffer for GUOL to cut prices, if need be, to move units.

- **Overcoming the refinancing hurdle:** The tower of short term maturity, while still sizeable, has shrunk considerably to SGD1.6bn (3Q2018: SGD3.2bn) with refinancing into longer term debt – we believe this portion of debt is due to Tanjong Pagar Centre ("TPC"). The remainder of the short term debt is likely due to bridging loan to acquire Beach Road, and we expect GUOL to similarly refinance this as we believe GUOL maintains access to the capital markets. There is still room to pledge another ~SGD603mn of investment properties and ~SGD1.27bn of inventories to raise secured debt, if need be. We also see the potential for GUOL to monetise TPC via divestments (e.g. injection into a REIT).

- **Net gearing remains somewhat elevated though manageable:** Net gearing fell to 0.87x (3QFY2018: 0.92x), mainly due to fair value gains which expanded the equity base while net cash of SGD212.4mn was generated in 4QFY2018 from operating activities, helped by the monetisation of inventory. We think that net gearing may remain somewhat elevated as the new projects (e.g. Casa Meyfort, Beach Road, Pacific Mansion) will require further capital. That said, we remain comfortable with GUOL's credit profile, backed by hard assets while we expect TPC to generate ~SGD100mn revenue p.a. We also expect GUOL to benefit from the recovery in the Singapore office market and the ramp up of contribution from the 223-room Sofitel Singapore Centre (which soft launched in Aug 2017).

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Positive ("Pos") – The issuer's credit profile is either strong on an absolute basis, or expected to improve to a strong position over the next six months.

Neutral ("N") – The issuer's credit profile is fair on an absolute basis, or expected to improve / deteriorate to a fair level over the next six months.

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To better differentiate relative credit quality of the issuers under our coverage, we have further sub-divided our Issuer Profile Ratings ("IPR") into a 7 point Issuer Profile Score ("IPS") scale.

IPR	Positive		Neutral			Negative	
IPS	1	2	3	4	5	6	7

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Overweight ("OW") – The performance of the issuer's specific bond is expected to outperform the issuer's other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

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