

Earnings Review: Banyan Tree Holdings Ltd ("BTH")

Recommendation

- BTH's liquidity profile remains stretched against interest obligations though we take some comfort that the stake acquisition of its subsidiary, Laguna Resorts & Hotels Pcl ("LRH") was lower than anticipated. In April 2018, BTH increased its stake in LRH to 86.28% from 65.75%.
- We think there is better value in Heeton Holdings Ltd ("HHL")'s HTONSP 6.1% '20 which provides a spread pick-up of 70 bps over the BTHSP 4.85% '20s.
- HHL is a smaller residential property developer focused on the Singapore market and we hold the issuer profile at Neutral (5).

Relative Value:

| Bond | Maturity/Call date | Net gearing | Ask Yield | Spread |
|------------------|--------------------|-------------|-----------|--------|
| BTHSP 4.875% '19 | 03/06/2019 | 49% | 4.44% | 263bps |
| BTHSP 4.850% '20 | 05/06/2020 | 49% | 4.83% | 283bps |
| HTONSP 6.1% '20 | 08/05/2020 | 53% | 5.54% | 355bps |

Indicative prices as at 31 May 2018 Source: Bloomberg
Net gearing based on latest available quarter

Issuer Profile: Neutral (5)

Key Considerations

- **Relatively stronger EBITDA interest coverage:** Revenue increased 8.6% y/y to SGD98.2mn in 1Q2018, driven by higher revenue from the Property Sales segment (both hotel residences and Laguna Property Sales grew) and the Hotel Investments segment (up 4.5% y/y). This was partly offset by lower revenue from the Fee-based segment (Spa/Gallery Operations no longer consolidate China operations and Design & Others saw revenue decline while Hotel/Fund/Club Management saw revenue increased 7.3% y/y). High revenue was recognised at the Property Sales segment mainly due to the phase two completions of Cassia Bintan and Cassia Phuket. A total of 29 property units were recognised in 1Q2018. Hotel Investments saw an increase from stronger contribution from hotels in Thailand and Seychelles.
- **Profits boosted by one-off income:** Reported operating profit was significantly higher at SGD37.3mn (up 100.9% y/y) though the growth was mainly due to other income of SGD17.1mn (one-off gain from dilution of the group's China joint venture in its partnership with China Vanke Co. Ltd). EBITDA (based on our calculation which does not include other income and other expenses) was SGD20.2mn (up 11.4% y/y), with resultant stronger EBITDA/Interest coverage of 2.8x (2.6x in 1Q2017). Finance costs increased slightly by 2.7% to SGD7.2mn despite the lower average debt in 1Q2018 versus 1Q2017, indicating that cost of debt at BTH had risen. Given seasonality in the resorts business, the first quarter tends to be a strong quarter for BTH, in 2017 and 2016, the first quarter made up 77% of full year EBITDA (second and third quarters were loss-making). BTH ended 1Q2018 with profit attributable to owners of the company of SGD20.2mn against SGD1.2mn in 1Q2017.
- **Expect a rise in net gearing from buying more stakes in LRH:** As at 31 March 2018, net gearing at BTH was 0.5x, relatively flat against end-2017. In April 2018, BTH completed the voluntary tender offer for remaining shares in its subsidiary LRH which is listed in Thailand. Post-the transaction, BTH's stake in LRH had increased to 86.28% from 65.75% and we expect BTH to have paid THB1.4bn (~SGD57mn) to purchase these shares. We take some comfort that the final transaction size was smaller than originally planned. As an already partly-owned subsidiary, LRH results were already consolidated into the financials of BTH prior to the transaction. Assuming that the additional stake in LRH was purchased via debt and that minority interest had been reduced (since BTH had effectively bought stakes from minority investors in LRH), we expect net gearing to rise

Ticker: **BTHSP**

Background

Banyan Tree Holdings ("BTH"), listed on the SGX is an international developer and operator of resorts residences, spas, retail galleries and golf courses. BTH's flagship brand "Banyan Tree" is a household name regionally in the high-end hospitality segment. BTH holds an ~86%-stake in Laguna Resorts & Hotels Pcl ("LRH"), which is listed on the Thailand Stock Exchange ("SET").

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somewhat and this would be seen in 2Q2018 financials. Assuming an effective interest rate of 4.7% on the debt taken, with interest expense increasing by ~SGD2.6mn p.a with a 0.2x impact on EBITDA/Interest coverage.

- **Short term debt coming due:** As at 31 March 2018, cash balance at BTH amounted to SGD158.9mn and we expect this would have declined to SGD101.9mn. As at 31 March 2018, short term debt at BTH amounted to SGD187.9mn (representing 34% of BTH's total debt) and BTH would need to refinance this debt rather than paying them down, especially more so post the LRH stake acquisition. Of the short term debt, SGD120mn relates to two bonds due in July and November 2018 respectively while the rest relate to secured bank loans. SGD467.4mn of assets (largely property related) has been secured to obtain loans. The amount of collateral represents ~45% of property-related assets and signify that BTH still has some financial flexibility to raise secured debt for refinancing, if need be.

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|---|---|
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Explanation of Issuer Profile Rating / Issuer Profile Score

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.

Negative ("Neg") – The issuer's credit profile is either weaker or highly geared on an absolute basis, or expected to deteriorate to a weak or highly geared position over the next six months.

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

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

Explanation of Bond Recommendation

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.

Neutral (“N”) – The performance of the issuer’s specific bond is expected to perform in line with 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.

Underweight (“UW”) – The performance of the issuer’s specific bond is expected to underperform 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.

Other

Suspension – We may suspend our issuer rating and bond level recommendation on specific issuers from time to time when OCBC is engaged in other business activities with the issuer. Examples of such activities include acting as a joint lead manager or book runner in a new issue or as an agent in a consent solicitation exercise. We will resume our coverage once these activities are completed.

Withdrawal (“WD”) – We may withdraw our issuer rating and bond level recommendation on specific issuers from time to time when corporate actions are announced but the outcome of these actions are highly uncertain. We will resume our coverage once there is sufficient clarity in our view on the impact of the proposed action.

Analyst Declaration

The analyst(s) who wrote this report and/or her or his respective connected persons did not hold securities in the above-mentioned issuer or company as at the time of the publication of this report.

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