Asia Credit Research

Earnings Review: Hong Fok Corp Ltd ("HFC")

Recommendation

- HFC turned profitable, finally, with a small net profit of SGD0.6mn (1Q2017 net loss: SGD3.3mn). This is contributed by higher revenues (+25% y/y to SGD17.7mn) with the commencement of YOTEL Singapore Orchard Road. HFC has also moved 5 units worth SGD10.6mn at Concourse Skyline.
- Net gearing is moderate at 0.34x though HFC's still weak profitability and low asset diversification limits the strength of its credit. As such, we continue to hold HFC at a Neutral (5) Issuer Profile.
- While HFCSP '19s trading around 3.4% does not seem immediately attractive given its small scale, we note that it provides good yield pickup over higher levered peers (albeit these have larger scale) such as GUOLSP '19s and PREHSP '19s. In addition, HFC has expressed confidence in refinancing the HFCSP '19s or repaying via available undrawn facilities. As such, we upgrade our recommendation on HFCSP '19s to Overweight.

Relative Value:

Bond	Maturity date	Net gearing	Ask Yield	Spread
HFCSP 4.75% '19s	22/03/2019	0.34x	3.41%	164bps
GUOLSP 3.95% '19s	01/04/2019	0.92x	2.49%	69bps
PREHSP 4.9% '19s	18/03/2019	0.58x	3.18%	141bps

Indicative prices as at 15 May 2018 Source: Bloomberg, OCBC, Company
Net gearing based on latest available quarter

Issuer Profile: Neutral (5)

Ticker: **HFCSP**

Background

Hong Fok Corp Ltd ("HFC") is an investment holding company, with principal activities in property investment, property development, construction and property management. Its investment properties include The Concourse and International Building which totals over 74,000 sqm by gross floor area, as well as 610-room Yotel located in Orchard. The Cheong family substantially controls HFC. Its top shareholders are Hong Fok Land International Ltd (20.40%), Sim Eng Cheong (12.38%), Kim Pong Cheong (11.47%) and P C Cheong Pte Ltd (11.04%).

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Key Considerations

- **Stronger 1Q2018 results, coming from a low base:** Revenue rose 25% y/y to SGD17.7mn as YOTEL Singapore Orchard Road commenced operations in Oct 2017. We also note increased sales at Concourse Skyline with 5 units worth SGD10.6mn moved during Jan-Mar 2018 (1Q2017: no units were sold). As a result of increased revenue, HFC turned from a net loss (1Q2017: SGD3.3mn) to a net profit of SGD0.6mn. Aside from finance expense, employee benefit expense (2017: SGD22.6mn) remains as the largest cost item (with the bulk of it as senior management remuneration). Nevertheless, going forward, we expect operating results to improve when (1) Yotel, which accounts for 24% of total assets, ramps up operations, (2) more units are moved at Concourse Skyline and (3) office market further recovers.

- **Buoyant property market to benefit sales:** With the residential property market staging a strong recovery, the 360-unit Concourse Skyline is poised to benefit with another 5 units worth SGD10.8mn sold in April 2018. We believe that the pipeline is still large given that only 30 units have been moved since 2015.

- **Rising office market:** Investment properties accounted for 90% of the total assets, which in turn is 56% accounted for by The Concourse and International Building. With rising office rental environment and Grade A office rents improving to SGD9.70 psf according to CBRE (4Q2017: SGD9.40 psf), we expect revenues to increase.

- **Manageable credit metrics:** Net gearing remains moderate, inching up q/q to 0.34x (4Q2017: 0.33x) mainly due to SGD3.3mn capex on investment properties. However, operating cash flow remains negative at SGD0.9mn as of 1Q2018, though improved from 1Q2017 (outflow: SGD9.0mn). Profit before interest and tax of SGD7.6mn barely covered SGD6.3mn finance expense. Nevertheless, we are comforted that HFCSP has expressed confidence in refinancing or repaying SGD120mn HFCSP '19s from its available undrawn facilities. Other than HFCSP '19s, minimal short term debt is due. It appears that HFC has pushed out the maturity of the loans, with SGD442.3mn loans and borrowings maturing in 2022.

OCBC Global Treasury	
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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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