

Earnings Review: Hong Fok Corp Ltd (“HFC”)

Recommendation

- Continued positive profitability (aside from fair value changes and one-off gains) looks to be a new norm with moving of units at Concourse Skyline and increased contribution from YOTEL Singapore Orchard Road as it continues to ramp up after commencing operations in 4Q2017. While we expect sales at Concourse Skyline to decelerate following the property cooling measures in Jul 2018, HFC continues to expect more profit recognition in 2H2018.
- Net gearing remains at 0.34x, unsurprisingly as HFC has not been undertaking significant development and investment projects. We continue to retain HFC's Neutral (5) Issuer Profile despite manageable net gearing as profitability remains weak, weighed by other expenses (which include remuneration).
- That said, we like HFCSP '19s, noting HFC's confidence in redeeming it while we think debt headroom remains given the manageable net gearing. HFCSP '19s provide good yield pickup over GUOLSP '19s. As a comparison, we currently rate GuocoLand Ltd similarly with an Issuer Profile of Neutral (5).

Relative Value:

Bond	Maturity date	Net gearing	Ask Yield	Spread
HFCSP 4.75% '19s	22/03/2019	0.34x	3.60%	192bps
GUOLSP 3.95% '19s	01/04/2019	0.92x	2.61%	91bps

Indicative prices as at 17 Aug 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%).

Wong Hong Wei, CFA
+65 6722 2533
wonghongwei@ocbc.com

Key Considerations

- Decent 2Q2018 results due to monetisation of residential inventory:** Revenue increased 110% y/y to SGD30.9mn, mainly due to the sales of development properties. According to URA caveats, 12 units at Concourse Skyline were sold for SGD26.3mn in Apr-Jun 2018. Revenue was also boosted by income contribution from YOTEL Singapore Orchard Road (“Yotel”), which commenced operations in 4Q2017. As a result, profit before tax (before fair value changes, impairment and gain on disposal) improved substantially to SGD5.1mn (2Q2017: -SGD2.1mn). However, net profit slumped to SGD3.4mn (2Q2017: SGD6.3mn) mainly due to the absence of [SGD9.0mn gain on disposal of subsidiaries in 2Q2017](#).
- Profitability likely to remain though residential sales may decelerate:** We think HFC will likely remain profitable, even without fair value and one-off gains, as Yotel continues to ramp up operations. We estimate that Yotel accounts for about 24% of total assets. In addition, the recovery in the office market, with Grade A office market rent surging 4.1% q/q to SGD10.10 psf/mth in 2Q2018, should benefit HFC as we estimate that The Concourse and International Building accounts for about half of HFC's total assets. HFC has also ventured into providing co-working spaces at International Building from June 2018, which may uplift rental revenues. While another 3 units have been sold at Concourse Skyline for SGD8.5mn post 2Q2018 results, the recent property cooling measures may dampen transaction volumes going forward. That said, HFC continues to expect more profit recognition in 2H2018 from the sales of Concourse Skyline.
- Net gearing largely unchanged, unsurprisingly:** Net gearing remains largely unchanged and manageable at 34% and we do not expect significant changes as HFC has not been undertaking major development projects or investments. Despite the sale of properties which generated SGD13.8mn net cash from operations, we note that SGD15.4mn was deployed to purchase equity and equity-linked securities – while still small, we will monitor if more funds continue to be diverted for such purposes. Maintaining its guidance from the previous quarter, HFC continues to remain confident that the SGD120mn HFCSP 4.75% '19s can be refinanced or repaid from its available undrawn facilities.

OCBC Global Treasury

Treasury Advisory

Corporate FX & Structured Products

Tel: 6349-1888 / 1881

Interest Rate Derivatives

Tel: 6349-1899

Investments & Structured Products

Tel: 6349-1886

GT Institutional Sales

Tel: 6349-1810

Credit Research

Andrew Wong

+65 6530 4736

WongVKAM@ocbc.com

Ezien Hoo, CFA

+65 6722 2215

EzienHoo@ocbc.com

Wong Hong Wei, CFA

+65 6722 2533

wonghongwei@ocbc.com

Explanation of Issuer Profile Rating ("IPR") / Issuer Profile Score ("IPS")

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 ("IPR") into a 7 point Issuer Profile Score ("IPS") 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 held securities in the following above-mentioned issuers or companies as at the time of the publication of this report: GuocoLand Ltd

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