

Earnings Review: Heeton Holdings Ltd (“HHL”)

Recommendation

- Although sales from Onze@Tanjong Pagar have slowed, likely due to depleting inventory, HHL continues to progressively recognize profits from High Park Residences and Westwood Residences, which are 100% sold.
- HHL deleveraged in 1Q2018, with net gearing falling q/q to 0.53x (4Q2017: 0.65x) due to SGD50.3mn proceeds from disposal of Woodgrove. However, net gearing may increase to ~0.8x when proceeds from HTONSP 6.08% '21s are utilised.
- With a manageable credit metrics, we continue to hold HHL at a Neutral (5) Issuer Profile. While HTONSP curve is trading in-line with FRAG curve, we think both HTONSP '20s and '21s look attractive over CHIPEN 4.7% '21s and OHLSP 5.15% '20s given HHL's lower gearing profile.

Relative Value:

Bond	Maturity date	Net gearing	Ask Yield	Spread
HTONSP 6.08% '21s	19/07/2021	0.8x (forecast)	5.73%	349bps
HTONSP 6.1% '20s	08/05/2020	0.8x (forecast)	5.56%	349bps
FRAG 6.125% '21s	26/04/2021	0.9x	5.64%	343bps
CHIPEN 4.75% '21s	14/06/2021	1.6x	4.47%	224bps
OHLSP 5.15% '20s (retail)	18/05/2020	2.9x (forecast)	4.90%	282bps

Indicative prices as at 11 May 2018 Source: Bloomberg, OCBC, Company
Net gearing based on latest available quarter

Issuer Profile: Neutral (5)

Ticker: **HTONSP**

Background

HHL is a property company with assets and revenue predominantly in Singapore and UK. HHL focuses on property development, property investments and hospitality. HHL owns or holds stakes in 5 commercial properties and 8 hotel assets (with 3 more in the pipeline). The Toh family owns about 69% interest in HHL, which are represented by Heeton Investments Pte Ltd (27.63%), Hong Heng Co Pte Ltd (16.81%), Toh Giap Eng (11.96%), Toh Khai Cheng (6.79%) and Toh Gap Seng (5.78%).

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Key Considerations

- Results boosted by disposal gains:** HHL reported 1Q2018 results. Revenue fell 23.9% y/y to SGD11.8mn, mainly due to lower sales from Onze@Tanjong Pagar (SGD4.4mn y/y) with only 1 unit moved (SGD2.8mn), likely due to depleting inventory. The decline in revenue though is partly offset by hotel operations revenue, which increased (SGD1.0mn y/y) due to the launch of Luma Concept Hotel Hammersmith in London in Apr 2017. Despite lower revenues, net profit surged 130.4% y/y to SGD6.4mn mainly due to (1) SGD4.2mn gain on disposal of property, which is largely related to Woodgrove (disposal completed in Feb 2018), (2) higher share of results from associated companies/joint ventures (+44.7% y/y to SGD3.5mn) from progressive profit recognition of High Park Residences and Westwood Residences (these are fully sold), though (3) finance expenses increased (+57.8% y/y to SGD4.6mn) due to the issuance of SGD118mn HTONSP 6.08% '21s
- Improvements in credit metrics may be temporary:** Net gearing fell q/q to 0.53x (4Q2017: 0.65x) mainly due to the disposal of Woodgrove (proceeds: SGD50.3mn). However, we expect net gearing to trend up to ~0.8x, as we expect HHL to deploy the proceeds from the SGD118mn issuance of HTONSP 6.08% '21s. We think this will likely be used for the expansion of the hospitality portfolio as HHL is still exploring more opportunities. Other potential use of proceeds include funding of the development cost of residential projects which are under associates/JVs (e.g. Park Colonial at Woodleigh Lane, Affinity at Serangoon (formerly Serangoon Ville) and further acquisition of land sites as HHL is seeking suitable development projects in Singapore and beyond. Meanwhile, SGD99.6mn cash and SGD30.7mn bank deposits are more than sufficient to cover SGD50.0mn in short term bank loans.
- Strong property market to support sales:** We expect the [recovery in property prices to be sustained through 2018](#). This should support launches at Affinity at Serangoon (5% stake, 2Q2018) and Park Colonial at Woodleigh Lane (20% stake, 3Q2018), as well as move the remaining units at Onze@Tanjong Pagar. However, we will turn cautious if HHL continues to concentrate more capital in Singapore residential projects (e.g. further bids of land sites for development).

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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.

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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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