

Earnings Review: GuocoLand Ltd (“GUOL”)

Recommendation

- 3QFY2019 results look decent with revenue rising 27% y/y to SGD292.5mn, due to higher contribution from residential sales, especially from Martin Modern. However, it remains to be seen if good property sales can also be achieved at properties which have yet to launch (e.g. Casa Meyfort, Pacific Mansion).
- Credit metrics remains manageable with net gearing improving slightly q/q to 0.75x (2QFY2019: 0.77x). Meanwhile, liquidity is ample with cash of SGD1.1bn well-covering SGD276.9mn of short-term debt.
- We continue to remain largely Neutral on GUOL seniors. However, for GUOLSP 4.6% PERP, we prefer switching out to the new FPLSP 4.98% PERP for ~13bps yield pickup (on YTW) and we like that the FPLSP 4.98% PERP sports a better structure (with first call, reset, step-up date coinciding in 2024) unlike the GUOLSP perp (with first call in 2023 while reset and step-up are in 2025)

Relative Value:

Bond	Maturity/ Reset date	Net gearing	Yield to Maturity/Reset	Spread
GUOLSP 4.1% 2020	13/05/2020	0.75x	3.20%	129bps
GUOLSP 3.62% 2021	30/03/2021	0.75x	3.24%	131bps
GUOLSP 4% 2022	31/01/2022	0.75x	3.41%	148bps
GUOLSP 3.85% 2023	15/02/2023	0.75x	3.45%	151bps
GUOLSP 4.6% PERP	23/01/2025	0.75x	4.46%	251bps
FPLSP 4.98% PERP	11/04/2024	0.87x	4.59%	261bps
FPLSP 3.95% 2021	07/10/2021	0.87x	3.01%	108bps

Source: Bloomberg, Indicative prices as at 29 April 2019

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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Key Considerations

- Stronger results from higher property sales:** GUOL reported 3QFY2019 results for the quarter ending 31 Mar 2019. Revenue rose 27% y/y to SGD292.5mn due to higher contribution from residential sales. According to the URA caveats, over the quarter, Wallich residence moved 4 units worth SGD11.5mn while Martin Modern moved 12 units worth SGD35.3mn. GUOL recorded a negative SGD3.6mn share of profit from associates and joint ventures (3QFY2018: +SGD11.6mn), which we think is partly due to the repatriation of capital from China which reduced assets in associates and joint ventures to SGD440.7mn in 3QFY2019 (3QFY2018: SGD882.6mn). Overall, net profit rose 10% y/y to SGD34.1mn.
- Significant inventories remaining in the pipeline, cautious of the remaining projects that have yet to launch:** SGD2.7bn of inventories remain on the books, which is mostly related to Singapore property projects. A few of these have progressed, including Martin Modern which we estimate to be more than 70% sold as well as Wallich Residence which is about 30% sold. However, we are cautious of the remaining projects in the pipeline that has yet to launch, including Casa Meyfort (acquired for ~SGD320mn, 100% stake) and Pacific Mansion (acquired for SGD980mn via 40-% stake in a JV), given the lacklustre tone of the Singapore residential property market. 1Q2019 private residential property prices fell 0.7% q/q. Separately, GUOL is developing more than 200 residential units at Guoco Midtown. Guoco Midtown was acquired for SGD1.6bn via 70% stake in JV though the majority - 770k sq ft out of 950k sq ft in total GFA are planned to be developed as Grade A office space, to be completed by 1H2022.
- Manageable credit metrics:** Net gearing inched down to 75% (2QFY2019: 77%) due to SGD127.7mn cash generated from operations. However, as mentioned in the previous paragraph, a number of mega projects have yet to commence or complete, which could drive gearing higher when further capital is required. Meanwhile, liquidity is ample with SGD1.1bn of cash well-covering SGD276.9mn of short-term loans and borrowings. Overall, we remain comfortable with GUOL's

credit profile, as it is backed by hard assets while we expect Guoco Tower to generate ~SGD100mn revenue p.a. Given that Guoco Tower (opened: 2016) has largely stabilised, we think it is also possible that GUOL may seek to monetise this (e.g. via REIT listing) in order to recycle capital.

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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.

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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 held financial interests in the above-mentioned issuer or company as at the time of the publication of this report.

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