Asia Credit Research

New Issue View: Hong Fok Corporation ("HFC")

Recommendation

- Hong Fok Corporation ("HFC") is proposing a **3-year SGD100mn issue at an initial price guidance of 4.5% area** (+255bps above swap).
- While the proceeds from the bonds will be used for general corporate purposes which may include refinancing certain existing borrowings, and financing capital expenditure, investments and general working capital of the Issuer and its subsidiaries, we think the bulk of it will go towards refinancing its HFCSP 4.75% '19s (size: SGD120mn) which is maturing in two days' time.
- We are **neutral on the new HFCSP bond** at 4.5% area levels, given that the jump in revenue in 2018 is unlikely to persist and net gearing is expected to rise.
- Bond curve of other property names such as Chip Eng Seng, Heeton and Oxley appear to trade wider. HTONSP '21s, for instance, is offering a yield of 7.87% and ~330bps pickup relative to the new HFCSP bond. We have both HFCSP and HTONSP on Neutral (5) Issuer Profile. Separately, while both CHIPEN '22s and OHLSP '22s offer good spread pickups, they are significantly more geared than HFCSP.

Relative Value:

Bond	Maturity/Call date	Net gearing	Ask Price	Ask Yield	Spread
HFCSP 4.5% Area '22s (proposed issue)	28/03/2022	0.33x	100.00	4.50%	255bps
METRO 4% '21s	25/10/2021	0.03x	100.88	3.64%	169bps
CHIPEN 6% '22s	15/03/2022	1.68x	100.30	5.89%	394bps
HTONSP 6.08% '21s	19/07/2021	0.59x	96.25	7.87%	592bps
OHLSP 5.7% '22s	31/01/2022	2.55x	89.10	10.17%	822bps

Indicative prices as at 20 March 2018
Source: Bloomberg
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, The Concourse and International Building, total over 75,000 sq m by gross floor area. HFC also owns 610-room YOTEL. The Cheong family substantially controls HFC. Its top shareholders are Hong Fok Land International Ltd (20.40%), Sim Eng Cheong (13.06%), Kim Pong Cheong (11.49%) and P C Cheong Pte Ltd (11.06%).

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Key Considerations

- **Residential sales tripled in 2018:** Revenue increased 87% y/y to SGD131mn in 2018 from SGD70mn a year ago. This was mainly due to higher sales of residential units in Singapore. Specifically, according to URA caveats, 38 units at Concourse Skyline were sold in 2018 for a total of SGD92mn versus 12 units in 2017 for SGD30mn. Bulk of the 2018 sales occurred in 2Q and 3Q 2018, and there is an apparent trend of sales slowing post the implementation of cooling measures with only 1 unit sold in Dec 2018. Revenue for 2018 was also boosted by contributions from YOTEL Singapore Orchard Road ('YOTEL'), which had commenced its operations in 4Q2017. Looking forward, HFC expects to recognize profit from sales of residential units albeit at a slower pace and contributions from YOTEL to be stable.

- **Stable cash balance despite better sales:** HFC had generated significant net cash from operations of SGD81mn in 2018, on the back of property sales. These cash were largely used to repay SGD16mn (net amount) of loans and borrowings, SGD26mn of interest costs, SGD7mn of dividends and purchase SGD20mn (net amount) of other investments which comprise equity and equity-linked securities and SGD14mn of capex. As such, overall cash balance was somewhat stable at SGD50mn (2017: SGD51mn) despite the substantial net operating cash flow.

- **Manageable net gearing, though expected to climb:** Net gearing was manageable at 28.7% at end-2018 (2017: 33.3%). The decrease in net gearing was largely due to HFC having larger reserves (up 11.4% y/y). Having said that, we expect net gearing to climb going forward if HFC has to consolidate its associate company Hong Fok Land International ("HFL") which is an unlisted entity. HFL had in Feb 2019 proposed to buy back all of its 1.49bn outstanding ordinary shares at a price of HKD0.55 each. Given HFC has undertaken not to accept the Buyback Offer, HFC's interest in HFL could increase from the current 42.3% to over 50% in which HFC will become the parent company of HFL, depending on the level of acceptance HFL receives. HFL is not a debt free entity. At end-2017, total liabilities were SGD100.8mn and additionally, HFL would most likely take on more debt to finance the Buyback Offer. Assuming 100% acceptance level, we estimate that HFL would require a maximum outlay of ~SGD141mn (~HKD821mn) for the Buyback Offer. Therefore, we would expect HFC's debt level to rise post-Buyback Offer and consolidation.

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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.

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.

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