

## Earnings Review: GuocoLand Ltd (“GUOL”)

### Recommendation

- Revenues and net profit declined, likely due to the decrease in the unsold inventory. Net gearing increased to 0.92x (2QFY2018: 0.84x) though credit metrics remain manageable, backed by investment properties (estimated SGD3.0bn without Beach Road) and continued sales from a strong property market. As such, we will retain our Neutral (5) Issuer Profile.
- We prefer the GUOLSP seniors (e.g. GUOLSP 3.62% '21s, GUOLSP 4% '22s) over GUOLSP 4.6% PERP. Investors comfortable with duration can consider switching from GUOLSP 4.6% PERP to FPLSP 3.95% PERP, which we think offer a stronger issuer profile for a higher yield to reset and shorter reset date.

### Relative Value:

Bond	Maturity/Reset date	Net gearing	Yield to Maturity/Reset	Spread
GUOLSP 4.6% PERP	23/01/2025	0.92x	4.82%	231bps
GUOLSP 3.62% 2021	30/03/2021	0.92x	3.47%	131bps
GUOLSP 4% 2022	31/01/2022	0.92x	3.65%	138bps
FPLSP 3.95% PERP	05/10/2022	0.84x	5.36%	302bps

Source: Bloomberg, Indicative prices as at 27 April 2018

**Issuer Profile:**  
**Neutral (5)**

### Key Considerations

- Not fretting over weaker results with higher revenue from investment properties:** GUOL reported 3QFY2018 results for the quarter ending 31 Mar. Revenue declined 15% y/y to SGD230.6mn as revenue recognised from residential projects fell, likely due to the decline in unsold inventory. Conversely, GUOL mentioned that revenue from property investment increased. We estimate Tanjong Pagar Centre (“TPC”) contributes ~SGD100mn revenue p.a. Meanwhile, net profit declined 21% y/y to SGD23.5mn in tandem with revenue while finance costs (+35% y/y to SGD29.3mn) increased due to increased borrowings and lower capitalised financing costs (Sims Urban Oasis obtained TOP in Oct 2017).
- Gearing up though credit metrics remain manageable:** Net gearing increased to 0.92x (2QFY2018: 0.84x) due to an estimated ~SGD1.0bn outlay to complete the acquisition of the Beach Road commercial site (acquired for SGD1.62bn). Inventories also increased to SGD3.05bn q/q (2QFY2018: SGD2.86bn), likely due to the Chongqing land acquisitions. We note net gearing had increased in spite of the increase in total equity due to the issuance of SGD400mn perpetuals in 3QFY2018. Following the [acquisition of Pacific Mansion](#), net gearing may expand to ~0.95x. While finance costs have risen to SGD29.3mn in 3QFY2018, we expect this can be met by recurring income from investment properties.
- Positioned to benefit from a strong property market:** 1Q2018 URA private residential price index showed a strong print of +3.9% q/q. This should benefit development projects such as Martin Modern which sold 41 units for SGD92.6mn in Jan-Mar 2018. GUOL also moved units at Wallich Residence (luxury segment), which sold 6 units for SGD22.2mn. That said, we understand that GUOL remains on the lookout for more sites, which could pressure its gearing profile.
- Sizeable refinancing requirements ahead:** SGD3.2bn of debt is due within the next 12 months, which far exceeds the SGD989.9mn cash on hand and ~SGD100mn p.a. recurring income from TPC and SGD552.7mn receivables (should be mainly due to sales proceeds receivables). Nevertheless, we are not overly concerned as SGD2.9bn (out of SGD3.2bn) of the short term debt is secured, which GUOL may seek to refinance with lenders. In any case, GUOL still maintain access to the capital markets while there is still room to pledge another ~SGD571mn of investment properties and SGD443.8mn of inventories to raise secured debt, if need be. We also see the potential for GUOL to monetise TPC via divestments (e.g. injection into a REIT).

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

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