

Earnings Review: GuocoLand Ltd (“GUOL”)

Recommendation

- 1QFY2019 revenue came in somewhat weaker still (-54% y/y to SGD168.0mn) with lower sales from completed properties. In addition, the pace of sale at Martin Modern has slowed following the new cooling measures. We are also cautious of the unlaunched inventory in the pipeline, which are targeted at the high end market given the subdued appetite following the July property cooling measures.
- That said, we remain comfortable with GUOL's credit profile, backed by hard assets and recurring income from Tanjong Pagar Centre while we expect GUOL to continue refinancing the remaining short term maturities.
- We continue to prefer the GUOLSP seniors (e.g. GUOLSP 3.62% '21s, GUOLSP 4% '22s and GUOLSP 3.85% '23s) over GUOLSP 4.6% PERP as it is uncertain if GUOL may redeem at the first call. With GUOLSP '19s maturing soon, investors may switch into GUOLSP 4.1% '20s or GUOLSP 3.62% '21s.

Relative Value:

Bond	Maturity/ Reset date	Net gearing	Yield to Maturity/Reset	Spread
GUOLSP 3.95% 2019	01/04/2019	0.86x	1.99%	20bps
GUOLSP 4.1% 2020	13/05/2020	0.86x	3.29%	126bps
GUOLSP 3.62% 2021	30/03/2021	0.86x	3.63%	150bps
GUOLSP 4% 2022	31/01/2022	0.86x	3.84%	165bps
GUOLSP 3.85% 2023	15/02/2023	0.86x	4.01%	175bps
GUOLSP 4.6% PERP	23/01/2025	0.86x	5.24%	285bps

Source: Bloomberg, Indicative prices as at 29 October 2018

Issuer Profile:
Neutral (5)

Ticker: **GUOLSP**

Key Considerations

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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- Continued decline in revenue with lower inventories:** GUOL reported 1QFY2019 results for the quarter ending 30 Sep. Revenue fell 54% y/y to SGD168.0mn (15% lower q/q) with lower sales from completed residential units following healthy sales from completed residential projects in the previous year. However, gross profit declined just 26% y/y to SGD50.3mn, which we think is supported by rental income from investment properties including Guoco Tower (which commands a high margin). With the absence of contribution from Changfeng Residence, share of profit from associates fell 92% y/y to SGD13.5mn (1QFY2018: SGD170.6mn). As such, net profit fell 83% y/y to SGD29.5mn.
- Slower pace of sale following property cooling measures:** Following the implementation of the [new property cooling measures on 6 Jul 2018](#), sales appear to have slowed. Martin Modern sold 30 units worth SGD92.1mn over Jul-Sep 2018, according to the URA caveats. In total, 292 units (out of 450 units) worth SGD746.6mn have been sold. Meanwhile, 10 units at Wallich Residence were sold for SGD36.1mn in Jul-Sep 2018. In total, 37 (out of 181 units) have been sold for SGD133.8mn as of writing. Despite slower sales, these pre-sales will be progressively recognised and should support GUOL's revenue in the coming quarters.
- Staying cautious of unlaunched inventory remaining in the pipeline:** Casa Meyfort (acquired for ~SGD320mn, 100% stake) and Pacific Mansion (acquired for SGD980mn via 40%-stake in JV) have yet to launch, though we understand that GUOL is looking at luxury residential developments at these sites. However, we stay cautious as higher end projects typically attract more foreigners and high net worth individuals, whose appetite may remain subdued due to the property cooling measures. Meanwhile, GUOL may develop residential units at the Beach Road Downtown Core commercial site (acquired for SGD1.6bn via 70%-stake in JV), though the exposure to residential will be capped at 30%. Meanwhile, we are not overly worried over Martin Modern as it is already ~65% sold and there remains buffer to cut prices, if need be.

- **Net gearing likely to remain somewhat elevated:** Net gearing remained largely unchanged at 0.86x (4QFY2018: 0.87x) despite SGD102.3mn net cash from operating activities (driven by collection of receivables) as total equity fell 0.8% y/y to SGD4.62bn due to SGD70.3mn in translation losses with the weakening of the CNY against the SGD. That said, we think net gearing may remain somewhat elevated as new projects (e.g. Casa Meyfort, Beach Road, Pacific Mansion) will require further capital. Meanwhile, current loans and borrowings of SGD1.48bn exceed SGD718.3mn in cash though we expect GUOL to refinance this. GUOL should maintain access to the capital markets and there is room to pledge another ~SGD600mn of investment properties and ~SGD1.2bn of inventories to raise secured debt, if need be. Overall, we still remain comfortable with GUOL's credit profile, backed by hard assets while we expect Guoco Tower to generate ~SGD100mn revenue p.a.

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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.

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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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