

Earnings Review: Hotel Properties Ltd (“HPL”)

Recommendation

- HPL delivered a decent set of results following the completion of Holland Park Villas in London in 4Q2017. Net gearing improved significantly q/q to 24.7% (4Q2017: 36.4%) and operating cashflows remain healthy at SGD48.4mn, which more than covers SGD6.8mn in finance costs.
- While HPL’s credit metrics have improved, we retain its Neutral (4) Issuer Profile rating for now, noting that net gearing hovered around 0.4x-0.5x since 2012.
- We think HPLSP 4.65% PERP offers value at 4.62% YTC, providing 25bps yield pickup over FHREIT 4.45% PERP. However, we prefer to switch out of HPL’s straight seniors. We favour WINGTA 4.25% ‘22s over HPLSP 3.85% ‘21s even with 1.5Y extension in tenor due to 43bps yield pickup. Investors seeking higher yield may also switch from HPLSP 3.88% ‘20s to OUESP 3.8% ‘20s for 60bps yield pickup.

Relative Value:

Bond	Maturity date/ Reset Date	Net gearing	Ask Yield	Spread
HPLSP 4.65% PERP	05/05/2022	0.25x	4.62%	231bps
HPLSP 3.85% ‘21s	27/05/2021	0.25x	3.26%	105bps
HPLSP 3.88% ‘20s	08/04/2020	0.25x	2.84%	81bps
HPLSP 3.95% ‘19s	13/09/2019	0.25x	2.40%	50bps
FHREIT 4.45% PERP	12/05/2021	0.47x	4.37%	217bps
WINGTA 4.25% ‘22s	29/11/2022	0.20x	3.69%	134bps
OUESP 3.8% ‘20s	15/04/2020	0.65x	3.44%	141bps
CAPLSP 3.78% ‘19s	16/08/2019	0.49x	2.40%	50bps

*Indicative prices as at 15 May 2018 Source: Bloomberg, OCBC, Company
Net gearing based on latest available quarter*

Issuer Profile: Neutral (4)

Ticker: **HPLSP**

Background

Hotel Properties Limited (“HPL”) engages in hotel ownership, management and operation, property development and investment holding. HPL has ownership interests in 29 hotels under prestigious hospitality brands. HPL has also established itself as a niche property developer and owner in prime locations, including the Orchard Road area in Singapore. The controlling shareholder is 68 Holdings Pte Ltd, which owns 56.3% of HPL. 68 Holdings Pte Ltd is mainly owned by Wheelock Properties Singapore and HPL’s co-founder, Mr Ong Beng Seng.

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Key Considerations

- **Decent 1Q2018 results:** Revenue rose 19.7% y/y to SGD173.4mn due to sales of units from Tomlinson Heights (2 units sold for SGD23.7mn). Net profit surged to SGD92.8mn (1Q2017: SGD21.0mn) due to a significant increase in results of associates and jointly controlled entities to SGD66.7mn (1Q2017: SGD2.4mn). This is due to profits from Holland Park Villas development in London (construction completed in 4Q2017). HPL also recorded SGD15.5mn in other operating income (1Q2017: SGD1.7mn) as a result of SGD12.3mn fair value gain in investments. HPL may continue to move more units at Tomlinson Heights, and we note that one more unit (SGD10.5mn) has been sold in Apr 2018.
- **Improved credit metrics:** Net gearing fell sharply to 24.7% (4Q2017: 36.4%), mainly as a result of SGD206.9mn net repayment of shareholders’ loan and dividends from associates and jointly controlled entities related to the Holland Park Villas. Meanwhile, operating cashflows remains positive at SGD48.4mn, which more than covers SGD6.8mn finance costs. Cash of SGD213.2mn covers SGD175.5mn of short-term borrowings. However, it remains to be seen if HPL intends to run at a low net gearing level in the longer term. We note that HPL has undertaken a number of acquisitions in 2017, including 80%-stake in Hilton London Olympia (£114.9mn), 70%-stake in DoubleTree by Hilton Hotel London Ealing (£39.4mn), and 50%-stake in Four Seasons Langkawi Malaysia (USD55mn).
- **Projects in the pipeline:** HPL is progressing on the planning and final proposals for the 30%-stakes in the 1.4mn sq ft mixed use developments at Ludgate House and Sampson House in the UK. These have a gross development value of £1.3bn (SGD2.4bn). HPL is also developing Paddington Square in London, which is targeted for completion in 2022 with 360,000 sq ft of office space and 76,000 sq ft of retail space.

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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.

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.

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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