

Earnings Review: Hotel Properties Ltd (“HPL”)

Recommendation

- Following the completion of the Holland Park Villas in London in 4Q2017, the near-term development pipeline looks dry, which weighed on revenues in 2Q2018 as development revenue fell. 2Q2018 appears lackluster as a result with costs remaining mostly constant despite lower revenues and gross profits.
- That said, net gearing remains intact though slightly higher q/q by 1.9pp to 26.6%. HPL also continues to be cash generative, generating SGD45.5mn cash from operating activities in 2Q2018. We retain HPL at Neutral (4) Issuer Profile rating.
- We think HPLSP 3.95% '19s look rich, preferring to switch out to HPLSP 3.85% '21s or HPLSP 3.88% '20s which look fair. That said, amongst the companies we rate at Neutral (4) Issuer Profile, we prefer WINGTA 4.25% '22s and OUESP '20s, which offers higher yield. We continue to Overweight HPLSP 4.65% PERP, which trades in-line with FHREIT 4.45% PERP.

Relative Value:

Bond	Maturity date/ Reset Date	Net gearing	Ask Yield	Spread
HPLSP 4.65% PERP	05/05/2022	0.27x	4.33%	223bps
HPLSP 3.85% '21s	27/05/2021	0.27x	3.09%	109bps
HPLSP 3.88% '20s	08/04/2020	0.27x	2.87%	101bps
HPLSP 3.95% '19s	13/09/2019	0.27x	2.12%	38bps
FHREIT 4.45% PERP	12/05/2021	0.50x	4.17%	217bps
WINGTA 4.25% '22s	29/11/2022	0.20x	3.56%	143bps
OUESP 3.8% '20s	15/04/2020	0.67x	3.45%	159bps

Indicative prices as at 17 Aug 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. In addition to hotel ownership and operations, 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.

Wong Hong Wei, CFA
+65 6722 2533
wonghongwei@ocbc.com

Key Considerations

- Lacklustre 2Q2018 results:** HPL reported 2Q2018 results. Revenue fell 27.9% y/y to SGD137.2mn, as Tomlinson Heights development sold more units in 2Q2017, noting that only 2 units were sold in 2Q2018 for SGD22.0mn according to the URA caveats. However, HPL also reported weaker performance of resorts in Maldives and Bali, which were affected by adverse political and environmental conditions. As a result, gross profit fell ~37% y/y to SGD27.0mn. Despite recording SGD2.7mn fair value gain in investments (2Q2017: nil), net profit still plunged to SGD4.7mn (2Q2018: SGD16.3mn), more than the fall in gross profits as costs were mostly constant y/y. Costs include administrative expenses (SGD16.1mn) and finance costs (SGD7.0mn).
- Development pipeline looking dry:** Total revenue may remain subdued, with contribution coming only from the hospitality segment as the development pipeline is looking dry. Thus far in July to August, few sales are recorded at Tomlinson Heights (1 unit), The Interlace (2 units) and D'Leedon (6 units). Meanwhile, HPL continues to market the remaining units in the Burlington Gate and Holland Park Villas developments. The 70%-owned Paddington Square in London is the next big development with 360,000 sq ft of office space and 76,000 sq ft of retail space though the completion is only much later in 2022. HPL is also working on the planning and final proposals for the 30%-stake in the 1.4mn sq ft mixed use developments at Ludgate House and Sampson House in the UK though we have not seen an update announcement on the progress.
- Credit metrics remain intact:** Net gearing inched up slightly to 26.6% q/q (1Q2018: 24.7%) despite generating SGD45.5mn net cash from operations and SGD33.8mn net repayment from associates and jointly controlled entities due to (1) SGD52.1mn dividends paid, (2) SGD14.8mn additions to investments and (3) SGD26.7mn of capex. Earlier this month, HPL has announced it is redeeming its SGD100mn HPLSP '23c18s.

OCBC Global Treasury

Treasury Advisory

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Tel: 6349-1886

GT Institutional Sales

Tel: 6349-1810

Credit Research

Andrew Wong

+65 6530 4736

WongVKAM@ocbc.com

Ezien Hoo, CFA

+65 6722 2215

EzienHoo@ocbc.com

Wong Hong Wei, CFA

+65 6722 2533

wonghongwei@ocbc.com

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.

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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