

Earnings Review: Wing Tai Holdings Ltd (“WTH”)

Recommendation

- Lifted by stronger performance at WTH's associate Wing Tai Properties Ltd (“WTP”), net profit surged to SGD69.7mn. Otherwise, results were lacklustre with revenue declining 4% y/y to SGD70.3mn.
- WTH continues to maintain a net cash position, though net gearing would increase to ~5% when WTH completes the purchase of a AUD95mn (~SGD96mn) property in Australia and if we account for the perps as debt.
- We continue to hold WTH at a Neutral (4) Issuer Profile with WTH's weak profitability mitigated by its healthy credit profile. We prefer to hold bonds of WTH's associate (WINGTA 4.25% '22s) over WTH's seniors (WINGTA 4.5% '22s, WINGTA 4.25% '23s) for yield pickup and WTP offering stronger profitability with recurring income from investment properties. Investors seeking higher yield can also consider switching to OUESP 3.75% '22s. Between WTH's and WTP's perps, we prefer the former's given its shorter reset date.

Relative Value:

Bond	Maturity date/ Reset Date	Net gearing	Ask Yield	Spread
WINGTA 4.5% '22s (WTH)	26/09/2022	Net cash	3.36%	103bps
WINGTA 4.25% '23s (WTH)	15/03/2023	Net cash	3.68%	131bps
WINGTA 4.08% PERP (WTH)	28/06/2022	Net cash	4.51%	220bps
OUESP 3.75% '22s	17/04/2022	0.6x	3.86%	157bps
WINGTA 4.25% '22s (WTP)	29/11/2022	0.2x	3.70%	135bps
WINGTA 4.35% PERP (WTP)	24/08/2027	0.2x	4.78%	214bps

Indicative prices as at 11 May 2018 Source: Bloomberg, OCBC, Company
Net gearing based on latest available quarter

Issuer Profile: Neutral (4)

Ticker: **WINGTA**

Background

Listed on the SGX since 1989, Wing Tai Holdings (“WTH”) is an investment holding company with core businesses in property investment and development, lifestyle retail and hospitality management in key Asian markets such as Singapore, Malaysia, Hong Kong and China. WTH's commercial properties include Winsland House in Singapore and Landmark East and W Square in Hong Kong. WTH owns a 34.4%-stake in Wing Tai Properties Ltd (“WTP”). The group's Chairman Mr. Cheng Wai Keung owns a 51.1% stake in WTH.

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Key Considerations

- **Results lifted by good performance at WTP:** WTH reported 3QFY2018 results for the quarter ending 31 March 2018. Revenue declined 4% y/y to SGD70.3mn, with sales in 3QFY2018 likely represented by units sold in Le Nouvel Ardmore (1 unit sold worth SGD15.7mn), revenue from retail segment (estimate: ~SGD36mn), income from investment properties (estimate: ~SGD9mn) and contribution from BM Mahkota in Penang (which obtained TOP in Nov 2017). While revenue was relatively flattish, net profit surged to SGD69.7mn (3QFY2017: SGD8.6mn) mainly due to surge in contributions from profits of associated and joint venture companies (+326% y/y to SGD72.0mn), which is mainly from WTH's share of gain from its associate WTP (which booked disposal gains from the disposal of Winner Godown Building).
- **Healthy credit metrics, for now:** WTH remains in net cash position as of 3QFY2018. However, if we account for the perps (which are ranked senior unsecured) as debt, we expect net gearing to increase to ~5% following the completion of purchase of a AUD95.4mn (~SGD96mn) property at St Kilda Road in Australia (target closing by end-May 2018). We think it is likely for net gearing to increase as WTH continues to look for investment opportunities in Singapore and overseas markets. Meanwhile, liquidity remains very healthy with cash of SGD835.3mn exceeding current borrowings of SGD3.4mn. Debt maturity is also well-termed out with bonds maturities spread evenly (SGD80mn-SGD117.3mn maturing p.a. in 2021-2024).
- **Benefiting from the strong property market:** We expect the [recovery in domestic property prices to be sustained through 2018](#), which should benefit WTH's projects in Singapore. This includes (1) The Garden Residences (JV between Keppel Land and WTH) which may launch in mid-2018, (2) the remaining units at Le Nouvel Ardmore and (3) 40%-owned The Crest, which had already done well with 51 units (worth SGD118.8mn) sold in YTD in 2018.

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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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