Asia Credit Research

Credit Update: Wing Tai Properties Ltd ("WTP")

Issuer Profile:
Neutral (4)

Ticker: **WINGTA**

Background

Listed in 1991 in HKSE, Wing Tai Properties Ltd ("WTP") is principally engaged in property development and property investment in Hong Kong. WTP also manages hotels under the brand names of Wing Tai Asia and Lanson Place in Hong Kong, China and South East Asia. WTP is 34.4% owned by Wing Tai Holdings Ltd and 13.7%-owned by Sun Hung Kai Properties Ltd.

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

Recommendation

- While revenue declined by 14.0% y/y, this is mainly due to timing of project completion and handover. Property investment remains the main contributor of gross profit, and its contribution (less one-off gains) was stable y/y around HKD264mn with occupancy at Landmark East remaining high at 98%.
- Net gearing has materially improved to 4.7% (end-2017: 19.9%) following the disposal of W Square (HKD2.9bn) and Winner Godown Building (HKD2.2bn). That said, we note that WTP is still eyeing acquisitions and expansion of land bank and hence we continue to hold WTP at Issuer Profile of Neutral (4).
- We prefer WTP's WINGTA 4.25% 2022s over Wing Tai Holdings Ltd's ("WTH") WINGTA 4.5% 2022s as WTP sits closer to the assets while WTP has generated stronger profitability with recurring income from investment properties. However, we prefer WTH's WINGTA 4.08% PERP with an earlier reset over WTP's WINGTA 4.35% PERP.

Relative Value:

Bond	Maturity/ Reset date	Net gearing	Yield to Maturity/Reset	Spread
WINGTA 4.25% 2022	29/11/2022	0.05x	3.55%	141bps
WINGTA 4.35% PERP	24/08/2027	0.05x	4.68%	224bps
WINGTA 4.5% 2022	26/09/2022	Net cash	3.54%	140bps
WINGTA 4.08% PERP	28/06/2022	Net cash	4.48%	236bps

Source: Bloomberg, Indicative prices as at 06 September 2018

Key Considerations

- **Mixed results with divestments and timing difference on units handover:** WTP reported 1H2018 results. Revenue declined 14.0% y/y to HKD469.5mn (1H2017: HKD545.8mn), mainly due to lower property development revenue which slumped to HKD16.4mn (1H2017: HKD94.0mn) though we are not overly concerned as this is due to timing of project completion and handover. More crucially, property investment and management revenue remained flattish at HKD373.1mn (1H2017: HKD381.2mn) though slightly lower y/y due to divestments of Winner Godown (March 2018) and W Square (June 2018). However, due to the HKD693.3mn gain on disposals (1H2017: nil), net profit surged to HKD1.1bn (1H2017: HKD450.8mn).

- **Continued performance by Landmark East:** WTP's investment properties, which accounts for HKD19.6bn out of HKD35.4bn of total assets, are mainly represented by Landmark East (GFA: 1.3mn sq ft). As at end-1H2018, occupancy remained healthy at 98% (end-2017: 99%). While rental reversion numbers are no longer reported, WTP expects Landmark East to continue enjoying high occupancy and solid rental growth, with ongoing relocation trend to Kowloon East. We note that Hong Kong overall office net effective rent appears resilient, rising 8.1% y/y as of June 2018, according to Colliers. Meanwhile, occupancy has improved at Shui Hing Centre (+3pp h/h to 96%) and London properties (+7pp to 82%) though Fleet Place occupancy declined by 6% to 94%.

- **Expecting property development results to improve:** WTP's 35%-owned projects Le Cap and La Vetta totalling 460k sq ft are expected to be completed in 2018. As of end-1H2018, 12% of units at Le Cap were sold since its launch in late Apr 2018, which reportedly achieved record high unit prices in its district. Looking ahead, WTP is expecting to complete The Carmel (GFA: 159k sq ft) in 2019 and So Kwun Wat Road (GFA: 264k sq ft) in 2021. Meanwhile, WTP has commenced the master planning process for 65%-owned Gage Street/Graham Street (GFA: 433,500 sq ft) which was acquired in Oct 2017.

- **Credit profile materially improved following divestments:** Net gearing fell to 4.7% (end-2017: 19.9%) due to receipt of proceeds from the disposal of W

Square (HKD2.9bn) and Winner Godown Building (HKD2.2bn). Liquidity is ample with cash on balance sheet (HKD4.0bn) and unutilised revolving loan facilities of HKD2.1bn exceeding short term borrowings (HKD512.9mn), though WTP has signalled the intent to acquire yield-enhancing investment properties and expand the land bank. Meanwhile, contingent liabilities has swelled to HKD7.3bn (end-2017: HKD5.2bn) likely due to the JV which is developing the commercial site at Gage Street/Graham Street. Even if we account this and the SGD260mn WINGTA 4.35% PERP (which ranks senior unsecured) as debt, adjusted net gearing remains comfortable at ~35%. Asset encumbrance is manageable with just HKD8.4bn in investment properties, properties for sale and financial investments out of HKD35.4bn of total assets pledged to the bank.

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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.

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.

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