

Issuer Profile: GuocoLand Ltd (“GUOL”)

Neutral (5)

Ticker:

GUOLSP

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Recommendation

- FY2019 results appear lackluster, with revenue falling 19% y/y and EBITDA falling 21% y/y due to lower inventory of unsold units. Meanwhile, sales progress on the current projects (e.g. Martin Modern, Wallich Residence) is still decent.
- A significant pipeline remains to be launched, which includes Mayer Mansion (previously: Casa Meyfort), residential part of Guoco Midtown and Pacific Mansion. We think it will be crucial for GUOL to monetize these given the sizeable exposure.
- Credit metrics are slightly weaker though manageable. Net gearing rose q/q to 79% (3QFY2018: 75%) mainly due to settlement of land payment. Meanwhile, EBITDA/Interest fell to 2.0x (FY2018: 2.3x) and net debt/EBITDA rose to 16.7x (FY2018: 14.6x). That said, we remain comfortable as Guoco Tower should generate at least SGD100mn in recurring income p.a.
- If GUOL does not undertake further significant acquisitions, we think its credit profile may materially improve in the next 1-2 years if (1) GUOL undertakes a REIT listing, (2) substantially move the residential pipeline and (3) achieve good pre-commitments for Guoco Midtown, which is expected to deliver 770k sq ft of Grade A office space.
- We think the shorter end of the curve (2020s-2021s) look tight while we are Neutral on GUOLSP 4% '22s and GUOLSP 3.85% '23s. We are Underweight on GUOLSP 4.6% PERP, preferring FPLSP 4.98% PERP which yields higher while offering a better structure with call, reset and step-up dates coinciding.

Relative Value:

Bond	Maturity / Call date	Net gearing	Ask YTW	Spread
GUOLSP 4.2% 2020	05/02/2020	79%	2.07%	32bps
GUOLSP 4.1% 2020	13/05/2020	79%	2.35%	64bps
GUOLSP 3.62% 2021	30/03/2021	79%	2.83%	125bps
GUOLSP 4% 2022	31/01/2022	79%	3.16%	163bps
GUOLSP 3.85% 2023	15/02/2023	79%	3.23%	173bps
GUOLSP 4.6% PERP	23/01/2023	79%	4.48%	297bps
FPLSP 3.95% 2021	07/10/2021	74%	2.77%	122bps
FPLSP 3.65% 2022	22/11/2019	74%	3.20%	163bps
FPLSP 4.98% PERP	11/04/2024	74%	4.74%	325bps

*Indicative prices as at 28 August 2019 Source: Bloomberg
Aggregate leverage based on latest available quarter*

Background

- Listed on the SGX in 1978 with a market cap of SGD2.3bn, GuocoLand Ltd (“GUOL”) is a property developer headquartered in Singapore, with investments in residential properties, commercial properties and integrated developments.
- GUOL’s properties are located primarily in Singapore (e.g. Guoco Tower, Guoco Midtown) though there is also exposure to China, Malaysia and Vietnam. GUOL is a 69.2%-owned subsidiary of Guoco Group Ltd, which is listed on the HKSE. Guoco Group is in turn a member of the Hong Leong Group Malaysia, one of the largest conglomerates in South East Asia, which is controlled by the Quek family.

Key Considerations

- **Lacklustre results due to fewer residential projects recognised:** GUOL reported 4QFY2019 results for the quarter ended 30 Jun. Revenue increased 81% y/y to SGD323.5mn, mainly due to progressive revenue recognition of residential projects in Singapore and Malaysia. According to URA caveats, GUOL moved 3 units worth SGD10.1mn at Wallich Residence

and 9 units worth SGD21.9mn at Martin Modern. On a full year FY2019 basis though, revenue fell 19% y/y to SGD927.0mn due to lower inventory of completed unsold units as prior year contributions included Leedon Residence. Correspondingly, we calculate that EBITDA fell 20.8% y/y to SGD219.4mn. Profit before tax fell 36% y/y to SGD309.0mn though this is largely due to share of profit of associates and joint venture falling by 94% y/y to SGD12.8mn from substantial [recognition of profit from Changfeng Residence booked in 1QFY2018](#).

- **Significant pipeline remains though sales rate has been decent thus far:** According to GUOL, Wallich Residence is 40% sold (including sale of the penthouse, which should have contributed significantly to 4QFY2019 results) while Martin Modern is over 70% sold. We are not overly worried for these two projects given the momentum of sales. Further, GUOL added that the pricing of Wallich Residence has been maintained. Going forward, GUOL will likely launch (1) Mayer Mansion (previously: Casa Meyfort) this year as pre-marketing has already started, (2) Midtown Bay (residential part of Guoco Midtown at Beach Road) which is launch-ready and (3) Pacific Mansion though this will likely be the last to be launched amongst the 3 projects. As a recap, [Casa Meyfort \(100%-stake\) was acquired in Jul 2018 for ~SGD320mn](#), [GuocoLand JV \(GUOL: 70%-stake\) won the Guoco Midtown site for SGD1.62bn](#) in Oct 2017 and [Pacific Mansion \(GUOL: 40%-stake\) was acquired through a JV for SGD980mn](#) in Mar 2018. We think it will be crucial for GUOL to monetise these developments given the sizeable exposure. This is especially so as the [property cooling measures announced in Jul 2018](#) has slowed the property market, though we are somewhat comforted by the decent sales momentum achieved thus far (on Martin Modern and Wallich Residences). Meanwhile, according to GUOL, there has been an increase in enquiries from Hong Kong following geopolitical events.
- **Recurring income from investment properties:** GUOL reported full occupancy for Guoco Tower and 20 Collyer Quay. While an estimated ~20% of leases at Guoco Tower should be up for renewal p.a. from FY2020, we think rental reversion could be in the double digit region, as Grade A office market rent has rallied over 20% since 2016-2017 (Guoco Tower was completed in 2016). We think the office space (NLA: 890k sq ft) and retail space (NLA: 100k sq ft) at Guoco Tower should generate at least SGD100mn in recurring income p.a. GUOL also reported positive rental reversion from 20 Collyer Quay (estimated ownership area: 142k sq ft) given the buoyant office market. We estimate this property to contribute ~SGD15mn in recurring income p.a. Going forward, the recurring income should be boosted when Guoco Midtown comes to completion in 2022 (office & retail portion: ~800k sq ft).
- **Dabbling into co-working space and a REIT listing going forward?:** GUOL management was interviewed by Business Times on 15 Jul 2019. In relation to extending parallel business from the residential and integrated development businesses, we understand that GUOL is studying co-working / flexible spaces though it has not been decided how this will be implemented. GUOL is also looking at the potential to do a REIT listing though we think this may not materialise in the near term; we think GUOL may prefer to complete the upcoming leasing cycle which should see significant positive rental reversion.
- **Credit metrics slightly weaker though still manageable:** Net gearing increased q/q to 79% (3QFY2019: 75%), mainly due to cash outflows which includes SGD90.6mn for a JV project in Singapore (likely Pacific Mansion) and another SGD223.7mn cash outflow which should be due to payment for land acquisition of Casa Meyfort. We think there should not be further significant lumpy cash outflows, unless GUOL undertakes another major acquisition. EBITDA/Interest fell to 2.0x (FY2018: 2.3x) while net debt to EBITDA rose to 16.7x (FY2018: 14.6x). We note that liquidity remains ample with SGD823.7mn of cash well covering SGD285.4mn of current borrowings.

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

Please note that Bond Recommendations are dependent on a bond’s price, underlying risk free rates and an implied credit spread that reflects the strength of the issuer’s credit profile. Bond Recommendations may not be relied upon if one or more of these factors change.

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.

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