

## Earnings Review: GuocoLand Ltd (“GUOL”)

### Recommendation

- Continuing trends from [1QFY2019 results](#), 2QFY2019 revenue declined (-61% y/y to SGD142.9mn) due to depletion of completed unsold inventory. Property cooling measures have impacted the property market though sales at Martin Modern and Wallich Residence still look decent.
- Credit metrics strengthened q/q with net gearing improving to 0.77x (1QFY2019: 0.86x) with collection of sales proceeds and repatriation of cash from a China JV. Short-term debt has also been refinanced and termed out. We remain comfortable with GUOL’s credit profile.
- Despite the improvements in the credit profile, we remain largely Neutral on the GUOLSP seniors as we prefer the PREHSP and OHLSP curve due to the higher yields which should compensate for their weaker credit profiles. We also prefer GUOLSP seniors over the GUOLSP 4.6% PERP as we are uncertain if GUOL will redeem at the first call.

### Relative Value:

Bond	Maturity/ Reset date	Net gearing	Yield to Maturity/Reset	Spread
GUOLSP 4.1% 2020	13/05/2020	0.77x	3.24%	128bps
GUOLSP 3.62% 2021	30/03/2021	0.77x	3.57%	160bps
GUOLSP 4% 2022	31/01/2022	0.77x	3.76%	179bps
GUOLSP 3.85% 2023	15/02/2023	0.77x	3.93%	195bps
GUOLSP 4.6% PERP	23/01/2025	0.77x	5.42%	335bps
PREHSP 5.95% 2020	28/08/2020	0.75x	5.78%	381bps
PREHSP 3.9% 2021	12/01/2021	0.75x	6.19%	423bps
OHLSP 5.7% 2022	31/01/2022	2.45x	9.64%	767bps

Source: Bloomberg, Indicative prices as at 1 February 2018

**Issuer Profile:**  
**Neutral (5)**

Ticker: **GUOLSP**

### Background

Listed on the SGX in 1978, GUOL is a property developer headquartered in Singapore, with investments in residential properties, commercial properties and integrated developments. The group’s properties are located in Singapore, China, Malaysia and Vietnam. GUOL is a 68.0%-owned subsidiary of Guoco Group, which is listed on the HKSE and is in turn, a member of the Hong Leong Group, one of the largest conglomerates in South East Asia.

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### Key Considerations

- Weaker results wended due to fewer unsold completed units:** GUOL reported 2QFY2019 results for the quarter ending 31 Dec. Revenue declined 61% y/y to SGD142.9mn due to lower sales given a smaller inventory of completed unsold units. This followed the substantial sales of completed developments such as Sims Urban Oasis, which sold just 7 units worth SGD16.0mn in 2QFY2019. That said, gross margins remained around 30%, supported by rental income from investment properties such as Guoco Tower. In-line with the decline in revenue, net profit fell by 88% q/q to SGD7.4mn.
- Slower but still steady pace of sale:** The slower pace of sales following the [new property cooling measures on 6 Jul 2018](#) continued in 2QFY2019, albeit at a steady pace. Martin Modern sold 24 units for SGD82.0mn and Wallich Residence sold 11 units for SGD27.8mn over the quarter. These pre-sales will be progressively recognised and should support GUOL’s revenue in the coming quarters.
- Staying cautious of unlaunched inventory remaining in the pipeline:** We reiterate our caution on the Singapore property market and we are uncertain if demand for luxury projects can be sustained. We are cautious of the remaining projects in the pipeline that has yet to launch, which include Casa Meyfort (acquired for ~SGD320mn, 100% stake) and Pacific Mansion (acquired for SGD980mn via 40%-stake in a JV). These will likely be redeveloped into luxury residential developments. Meanwhile, we are not overly worried over Martin Modern which is over 68% sold. Separately, GUOL is also developing residential units at the Beach Road Downtown Core commercial site (acquired for SGD1.6bn via 70% stake in JV) though the exposure will be capped at 30% given the nature of the plot as a commercial site.

- **Improvements in credit metrics:** Net gearing improved to 0.77x (1QFY2019: 0.86x) mainly due to (1) operating cash inflow of SGD236.8mn due to the collection of receivables from units previously sold and other receivables and (2) SGD443.3mn repatriation of proceeds from a China JV, likely from the completion of Changfeng Residence, which we previously mentioned was substantially sold and completed as at 1QFY2018. Liquidity profile has also improved with short term debt falling to SGD271.5mn (1QFY2019: SGD1.48bn), which is well-covered by SGD1.2bn of cash, after refinancing SGD1.2bn of short-term loans. That said, we think net gearing may remain somewhat elevated as new projects (e.g. Casa Meyfort, Beach Road, Pacific Mansion) will require further capital, for example the SGD28.8mn deposits for land that is due to progressive payments for the Casa Meyfort freehold residential site. Overall, we remain comfortable with GUOL's credit profile, as it is backed by hard assets while we expect Guoco Tower to generate ~SGD100mn revenue p.a.

### OCBC Global Treasury

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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.

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**Analyst Declaration**

The analyst(s) who wrote this report and/or her or his respective connected persons held securities in the above-mentioned issuer or company as at the time of the publication of this report.

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