OCBC Bank

Issuer Profile:

Neutral (4)

Ticker:

HPLSP

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Hotel Properties Ltd ("HPL")

Recommendation

- **Core results are weaker with revenue falling 8.9% y/y to SGD124.9mn, mainly due to lower contributions from property development. We can expect subdued contributions from the property development segment given the dry landbank.**
- **Net gearing rose q/q to 34% (2Q2018: 26.2%) mainly due to acquisition of a resort in Sri Lanka though we are not overly concerned as credit metrics remain manageable.**
- **We note that the HPLSP seniors are not actively traded though at the indicative yields, we prefer WINGTA 4% 2021s instead given higher yields. Meanwhile, we think HPLSP 4.65% PERP still looks somewhat interesting at 4%, trading wider than most REIT PERPs. We compare HPL with REITs given that HPL's development pipeline looks dry while most of the assets are hospitality/investment properties.**

Relative Value:

Bond	Maturity / Call date	Issuer Profile	Ask YTW	Spread
HPLSP 3.88% 2020	08/04/2020	Neutral (4)	2.28%	56bps
HPLSP 3.9% 2020	23/04/2020	Neutral (4)	2.24%	53bps
HPLSP 3.85% 2021	27/05/2021	Neutral (4)	2.82%	120bps
HPLSP 4.65% PERP	05/05/2022	Neutral (4)	4.03%	245bps
WINGTA 4% 2021	07/10/2021	Neutral (4)	2.94%	133bps
FHREIT 4.45% PERP	12/05/2021	Neutral (3)	3.77%	215bps

Indicative prices as at 20 August 2019 Source: Bloomberg
Aggregate leverage based on latest available quarter

Background

- Listed on the SGX with a market cap of SGD1.8bn, the principal activities of Hotel Properties Ltd ("HPL") include hotel ownership, management and operation, property development and investment properties.
- As of Dec 2018, we estimate that hotels account for ~56% of HPL's total assets, with revenues split nearly evenly between (1) Singapore, (2) Maldives and (3) other parts of the world including rest of Asia and UK/Europe. Investment properties account for ~36% of HPL's total assets, which are mainly represented by retail malls in Singapore.
- Managing Director/co-founder Mr Ong Beng Seng has 38.28% deemed interest in HPL while Wheelock and Co Ltd has 22.52% stake in HPL.

Key Considerations

- **Results impacted by lower development revenue:** HPL announced 2Q2019 results. Revenue fell 8.9% y/y to SGD124.9mn due to lower contributions from property division as Tomlinson Heights development were fully sold in the prior year. As a result, gross profit fell 5.7% y/y to SGD25.4mn. However, profit before tax surged to SGD11.4mn (2Q2018: SGD8.3mn) though this is due to one-offs. The positive one-off impacts include (1) increase in other operating income to SGD10.6mn (2Q2018: SGD3.8mn) mainly due to SGD9.0mn non-recurring income and (2) increase in share of results of associates and joint ventures to SGD11.1mn (2Q2018: SGD1.3mn) driven by profits from Holland Park Villas and Burlington Gate developments in London while the negative one-off impacts include net fair value loss of investments of SGD6.0mn and net fair value loss in held-for trading investments of SGD1.6mn. Without the one-offs, we estimate profit before tax would have fallen to SGD0.6mn (2Q2018: SGD5.3mn).

- **Net gearing higher q/q:** Net gearing rose q/q to 34% (1Q2019: 26.2%) mainly due to acquisition of subsidiary of SGD31.3mn, which should be related to the announced

USD22.6mn (~SGD31mn) purchase of Marriott Weligama Bay Resort & Spa, which is a 198-key 5-star resort at Sri Lanka. In addition, HPL placed SGD14.1mn deposits for investments during the quarter.

- **Remain comfortable with the credit profile:** While cash from operating activities turned to a negative SGD3.9mn (2Q2018: +SGD45.5mn), this is mainly due to cash used for working capital purposes of SGD25.1mn and significantly higher income tax paid of SGD14.8mn (2Q2018: SGD5.8mn). We note HPL mentioned the under provision of tax in prior years. Based on profit before working capital changes of SGD34.7mn, this still well-covers SGD10.0mn of finance costs in 2Q2019.

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.

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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