

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

Recommendation

- Core results appear lackluster with gross profit dipping 17% y/y to SGD42.0mn as margins on sales declined. However, absence of one-off write-offs and stronger performance from associate stakes in Wing Tai Properties Ltd and Uniqlo lifted net profit to SGD16.5mn (2QFY2018: SGD2.1mn).
- WTH’s credit profile remains anchored by its strong credit metrics, with a net cash position, ample liquidity and positive operating cashflow. Net gearing may rise though as WTH is still looking for investment opportunities.
- Despite the weak operating results, we are retaining WTH at a Neutral (4) Issuer Profile in view of its healthy credit metrics. We continue to Overweight the WINGTA curve though the seniors of Wing Tai Properties Ltd (WINGTA 4.25% ‘22s) look more attractive given higher yields and stronger operating performance. However, we prefer WTH’s perps (WINGTA 4.08% PERP) over WINGTA 4.35% PERP as the former has a 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	3.55%	156bps
WINGTA 4.25% ‘23s (WTH)	15/03/2023	Net cash	3.75%	176bps
WINGTA 4.7% ‘24s (WTH)	28/02/2024	Net cash	3.93%	191bps
WINGTA 4.08% PERP (WTH)	28/06/2022	Net cash	4.63%	266bps
WINGTA 4.25% ‘22s (WTP)	29/11/2022	0.05x	3.77%	179bps
WINGTA 4.35% PERP (WTP)	24/08/2027	0.05x	5.11%	290bps

Indicative prices as at 14 Feb 2019 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.

Wong Hong Wei, CFA
+65 6722 2533

wonghongwei@ocbc.com

Key Considerations

- Lacklustre core performance:** WTH reported 2QFY2019 results for the quarter ending 31 Dec 2018. Revenue rose by 7% y/y to SGD116.0mn, which was likely due to increased property sales in Malaysia. However, margins on such projects were likely lower, which corresponded to the dip in gross profit (-17% y/y to SGD42.0mn). Despite lower gross profit, net profit surged y/y to SGD16.5mn (2QFY2018: SGD2.1mn) as other losses in 2QFY2018 (SGD8.8mn) reversed into gains of SGD1.7mn in 2QFY2019 due to the absence of write-off of development costs incurred for a project and higher share of profits of associated and joint venture companies (+70% y/y to SGD22.8mn) due to higher contributions from Wing Tai Properties Ltd and Uniqlo in Singapore and Malaysia.
- Lacklustre sales thus far:** The Garden Residences (40%-owned in a JV with Keppel) sold a mere 4 units worth SGD4.0mn in Oct-Dec 2018, which we think is impacted by the latest round of property cooling measures in Jul 2018. As of writing, The Garden Residences sold only 78 out of 613 units. Meanwhile, The Crest (40%-owned) sold 16 units worth SGD37.0mn in Oct-Dec 2018. We estimate The Crest to be over 70% sold. Few significant developments remain in the pipeline as WINGTA has been relatively quiet in the Singapore property scene.
- Credit metrics remain healthy, for now:** WTH remains in net cash though the net cash position declined to SGD50.6mn (1QFY2019: SGD75.2mn) with cash outflow from dividends (SGD61.5mn) and interest/distribution paid (SGD9.2mn) exceeding SGD47.3mn in operating cashflows. Adjusting senior perpetuals as debt, net gearing still looks healthy at 2.9%. That said, we think net gearing may potentially climb as WTH continues to guide that it is on a lookout for investment opportunities in Singapore and overseas markets. While SGD152.9mn of debt has become current (due within the next 12 months), this can be more than covered by SGD831.7mn of cash. Despite the lacklustre core results, the healthy credit metrics should cushion the slowdown in sales of development properties.

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Tel: 6349-1810

Credit Research

Andrew Wong

+65 6530 4736

WongVKAM@ocbc.com

Ezien Hoo, CFA

+65 6722 2215

EzienHoo@ocbc.com

Wong Hong Wei, CFA

+65 6722 2533

wonghongwei@ocbc.com

Seow Zhi Qi

+65 6530 7348

ZhiQiSeow@ocbc.com

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.

Analyst Declaration

The analyst(s) who wrote this report and/or her or his respective connected persons did not hold financial interests in the above-mentioned issuer or company as at the time of the publication of this report.

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