

## Issuer Profile:

Positive (2)

## Ticker:

WHEELK

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# Wheelock & Co Ltd (“WHEELK”)

## Recommendation

- Wharf REIC remains crucial to WHEELK, contributing to 47% of WHEELK’s total underlying net profit. As for WHARF, we have published an [Earnings Review](#) on it last week. Wheelock itself saw successful launches and revenue surge.
- Wheelock-Own’s net gearing was higher at 15.8% at end June 2019, from 13.0% in the preceding corresponding period. We think the HKD6.5bn of debt coming due before end 2020 is very manageable as it has significant undrawn facilities of HKD26.7bn, and not forgetting the recurrent dividend income from its subsidiaries of ~HKD2.6bn.
- Net gearing on a consolidated basis was also higher at 25.0% (2018: 23.9%) while EBITDA/Interest (consolidated basis) was 8.2x, up from 7.3x a year ago. As such, we maintain WHEELK at Issuer Profile of Positive (2).
- We think WHEELK 4.5% ’21 looks interesting, as it is trading marginally wider than bonds of issuers which we also have on Positive (2) Issuer Profile. Separately, WHEELK 4.5% ’21 is offering a spread of 76bps above swap and a yield of 2.37% while WHARF 4.5% ’21, which we rate one notch lower at Neutral (3) Issuer Profile, also offers a similar yield for an almost matching tenor.

## Relative Value

Bond	Maturity / Call date	Net gearing	Ask YTC / YTM	Spread
WHARF 4.5% ’21	20/07/2021	17%	2.35%	73bps
WHEELK 4.5% ’21	02/09/2021	25%	2.37%	76bps

*Indicative prices as at 19 August 2019 Source: Bloomberg  
Aggregate leverage based on latest available quarter*

## Background

- Wheelock & Co Limited (“WHEELK”) is a Hong Kong listed investment holding company founded in 1857.
- WHEELK owns 65% of The Wharf (Holdings) Ltd (“WHARF”) and 63% of Wharf Real Estate Investment Co (“Wharf REIC”). Together with 98.9%-owned Wheelock Properties (Singapore) (“WPSL”), the subsidiary companies generate solid recurring dividend income for the Group.
  - WHARF principally engages in property investment and development in Hong Kong and Mainland China, hotel operations and logistics.
  - Wharf REIC holds a portfolio of six premier assets (worth HKD274 bn) including Harbour City, Times Square, Wheelock House, Crawford House, The Murray and Plaza Hollywood.
  - WPSL is a property investor and developer, with a focus on luxury residences.

## Key Considerations

- **Wharf REIC is crucial to WHEELK:** Wharf REIC contributed HKD3.3bn to WHEELK’s underlying net profit (i.e. 46.8% of total). We note that majority of Wharf REIC’s revenue is generated from rental income under the investment properties (“IP”) segment (87.5% of total revenue) which is largely recurring. Of the six properties it owns, Harbour City (including hotels) remained the key driver of Wharf REIC. Over 1H2019, total revenue for Harbour City rose 5% y/y to HKD6.2bn on the back of higher retail revenue (+6% y/y) and average passing retail rent (+4% y/y) while occupancy rate for Harbour City was maintained at 96% as at end June 2019. Harbour City’s office component also contributed positively with a higher average spot rent (+9% y/y). We expect Wharf REIC to remain largely stable, and continue to be a reliable source of income for WHEELK.

- **WHARF's IP in Mainland China performed well:** Over 1H2019, revenue at WHARF rose by 3% y/y to HKD8.1bn from HKD7.8bn, on the back of stronger performance from IP (+21% y/y to HKD2.0bn) though partially offset by the development properties ("DP") segment (-21% y/y to HKD3.1bn). Separately, a drift towards IP (away from DP) was observed. For profit before tax which includes share of results of associates and joint ventures, DP/IP split was 30%/41% (2018: 69%/26%, 1H2018: 53%/37%). We think this trend is likely to persist and may skew further towards IP given that Tower 2 at Changsha IFS (under IP) will open and WHARF has not purchased any new land recently. Recurring income made up 29% of WHARF's revenue and 34% of the total operating profit in 1H2019.
- **Wheelock-Own's revenue surged:** Wheelock-Own's revenue was HKD4.6bn, up by 418% y/y while underlying net profit grew 864% y/y to HKD1.9bn. This was largely due to the gain on disposal of the O'South malls and higher sales recognition of DP projects. Residential contracted sales amounted to HKD16.2bn with a total of 1,282 units sold or presold. Though down from the HKD23.4bn recorded in 1H2018, we note that 1H2018 figure was a record high. Net order book (i.e. presold but contracted sales not yet recognised) grew to HKD34.9bn, from HKD26.7bn at end 2018. This increase was mainly driven by successful launches of MONTARA and GRAND MONTARA which took place in 2Q2019.
- **Strong credit metrics:** Wheelock-Own's debt increased to HKD43.1bn from HKD32.6bn, with its net gearing higher at 15.8% at end June 2019, from 13.0% in the preceding corresponding period. Even though HKD6.5bn of its own debt will come due before 31 December 2020, and based on our estimation it only has cash of ~HKD1.4bn (Wheelock-Own's) as at 30 June 2019, it (Wheelock-Own) has significant undrawn facilities of HKD26.7bn (38.3% of total available facilities). Therefore we think the maturing debt would be very manageable, not forgetting the recurrent dividend income that WHEELK receives from its subsidiaries. Specifically, WHEELK is expected to receive HKD2.1bn in dividends from its stake in Wharf REIC and HKD0.5bn from WHARF in September 2019. Total net debt of WHARF, Wharf REIC and other groups which are non-resource to WHEELK and its wholly-owned subsidiaries was HKD59.1bn. Including which, net gearing on a consolidated basis would have been higher at 25.0% (2018: 23.9%). Cash (consolidated basis) was HKD25.8bn and WHEELK also has a portfolio of listed investments with an aggregate market value of HKD51.2bn which is immediately available for use if needed. EBITDA/Interest (consolidated basis) was 8.2x, up from 7.3x a year ago largely due to a much larger increase in EBITDA than debt. As such, we are maintained WHEELK at Issuer Profile of Positive (2).

### 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.

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#### 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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