

May 11, 2018

Credit Headlines: Singapore Post Ltd, Ascendas Hospitality Trust, Heeton Holdings Ltd, Wing Tai Holdings Ltd

Market Commentary

- The SGD swap curve bull-steepened yesterday, with the swap rates for the shorter tenors trading 3-4bps lower while the longer tenors traded 1-2bps lower.
- Flows in SGD corporates were heavy yesterday, with better buying seen in CMZB 4.875%'27, HSBC 4.7%-PERP and GEMAU 5.5%'19.
- Both the Bloomberg Barclays Asia USD IG Bond Index average OAS and the Bloomberg Barclays Asia USD HY Bond Index average OAS traded little changed at 1.36% and 425bps respectively.
- 10Y UST yields fell 4bps to 2.96%, as inflation data came in lower than expected.

Credit Headlines

Singapore Post Ltd ("SPOST") | Issuer Profile: Neutral (3)

- SPOST reported 4QFY2018 / full-year FY2018 results for the quarter ending December 2017. For FY2018, revenue was up 8.6% y/y to SGD1.46bn. The Postal segment drove the bulk of growth (+15.0% y/y to SGD625.9mn), performance at Logistics was modest (+4.3% y/y to SGD663.9mn) while eCommerce performance was disappointing (-0.3% y/y to SGD265.6mn).
- Operating profit (before exceptional items) fell 2.4% y/y to SGD143.5mn, with the Postal segment providing the bulk of profits. Even then, Postal operating profit fell 4.0% y/y to SGD144.6mn on shifting product mix from the lucrative domestic postal business to the less lucrative international postal business. The Logistics operating profit plunged 56.0% y/y to SGD10.4mn on competition as well as provisioning on doubtful debt. eCommerce continues to generated an operating loss of SGD16.7mn, though losses have been reduced y/y. The decline in group operating profit was only mitigated by the 16.8% increase in operating profit contribution from SingPost Centre retail mall, which opened in October 2017.
- 4QFY2018 trends were similar, except that eCommerce revenue saw some recovery, growing 15.7% y/y. Logistics operating profit doubled for the quarter, though segment operating margin remains tight at 3.4%. Margin compression trends at Postal persisted due to the secular decline seen at the domestic postal business driving shifts in product mix.
- Operating cash flow (including interest service) generation was strong, with SPOST reporting SGD191.8mn for FY2018. With capex trending lower to SGD62.1mn (FY2017: SGD199.8mn) due to the completion of SingPost Centre retail mall and SPOST's regional logistics hub, free cash flow was strong at SGD129.7mn. Cash generated was used to pay down debt, with SPOST now holding SGD70.0mn in net cash.
- Though SPOST would continue to see margin compression at its Postal business, this may be mitigated by the improvements at its Logistics and eCommerce segments seen thus far. (Company, OCBC)

Credit Headlines (cont'd):

Ascendas Hospitality Trust (“ASCHTSP”) | Issuer Profile: Neutral (4)

- ASCHTSP announced its FY2018 financial results for the fiscal year ended 31 March 2018 with gross revenue stable y/y at SGD203.3mn compared to restated FY2017. This was driven by +0.7% y/y improvement in gross rental revenue which mitigated slightly weaker food & beverage revenue (-0.1% y/y)
- Net property income though underperformed y/y down 4.4% due to a 3.2% rise in property expenses. Cost inflation was broad based although higher services and other taxes and staff costs were the main contributors.
- Interest expense continues to fall due to lower interest rates (FY2018 effective interest rate was 2.7% against 3.1% for FY2017) and resulting in EBITDA/Interest stronger at 5.1x in FY2018 against a restated 4.6x in FY2017. However, significantly higher y/y losses from foreign exchange and lower net change in fair value of derivative financial instruments drove profit from continuing operations (before share of joint ventures) down 48.3% y/y to SGD27.1mn.
- 4QFY2018 results show better trends although this is predominantly due to SGD22.0mn in net change in fair value of investment properties and a look fee of RMB23.6mn (~SGD4.9mn) for sale of Beijing Novotel Sanyuan and Ibis Beijing Sanyuan and Ibis Beijing Sanyuan. As such, profit before tax from continuing operations for 4QFY2018 improved 82.4% y/y to SGD34.5mn.
- As at 31 March 2018, reported aggregate leverage improved to 30.8% compared to 33.2% as at 31 December 2017. Short term debt of SGD155.7mn as at 31 March 2018 represented 40% of total debt, while cash and cash equivalents were SGD67.4mn. (OCBC, Company)

Heeton Holdings Ltd (“HHL”) | Issuer Profile: Neutral (5)

- Revenue declined 23.9% y/y to SGD11.8mn, mainly due to lower sales from Onze@Tanjong Pagar (SGD4.4mn y/y), likely due to depleting inventory. Meanwhile, hotel operations revenue increased (SGD1.0mn y/y) due to contribution from Luma Concept Hotel Hammersmith in London.
- Net profit surged 130.4% y/y to SGD6.4mn, mainly due to (1) SGD4.2mn gain on disposal of property, which should be largely due to Woodgrove (completion in Feb 2018), (2) higher share of results from associated companies/joint ventures (+44.7% y/y to SGD3.5mn) from progressive profit recognition of High Park Residences and Westwood Residences, though this is offset by (3) increase in finance expenses which rose 57.8% y/y to SGD4.6mn due to the issuance of HTONSP 6.08% '21s.
- Net gearing improved q/q to 0.53x (4Q2017: 0.65x) mainly due to the disposal of Woodgrove (proceeds: SGD50.3mn). However, we expect net gearing to trend up to ~0.8x, as we expect HHL to deploy the proceeds from the SGD118mn issuance of HTONSP 6.08% '21s.

Credit Headlines (cont'd):

Wing Tai Holdings Ltd ("WTH") | Issuer Profile: Neutral (4)

- WTH reported 3QFY2018 results for the quarter ending 31 March 2018. Revenue declined 4% y/y to SGD70.3mn, with sales in 3QFY2018 likely represented by units sold in Le Nouvel Ardmore (sold 1 unit worth SGD15.7mn), revenue from retail segment (estimate: ~SGD36mn), income from investment properties (estimate: ~SGD9mn) and contribution from BM Mahkota in Penang (which obtained TOP in Nov 2017).
- While revenue was relatively flattish, net profit surged to SGD69.7mn (3QFY2017: SGD8.6mn) mainly due to surge in contributions from profits of associated and joint venture companies (+326% y/y to SGD72.0mn), which is mainly from WTH's share of gain from its associate Wing Tai Properties Ltd which booked disposal gains from the disposal of Winner Godown Building.
- WTH remains in net cash position as of 3QFY2018. However, if we account for the perps (which are ranked senior unsecured) as debt, we expect net gearing to increase to ~5% following the completion of purchase of a AUD95.38mn (~SGD96mn) property at St Kilda Road in Australia. We think it is likely for net gearing to increase as WTH continues to look for investment opportunities in Singapore and overseas markets.

Table 1: Key Financial Indicators

	11-May	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	75	0	-1
iTraxx SovX APAC	12	0	0
iTraxx Japan	52	0	-2
iTraxx Australia	66	-1	-2
CDX NA IG	60	-2	-4
CDX NA HY	107	0	1
iTraxx Eur Main	55	-1	-2
iTraxx Eur XO	268	-6	-16
iTraxx Eur Snr Fin	59	-1	-1
iTraxx Sovx WE	18	1	0
AUD/USD	0.753	-0.17%	-2.95%
EUR/USD	1.192	-0.36%	-3.64%
USD/SGD	1.338	-0.28%	-2.19%
China 5Y CDS	59	0	-2
Malaysia 5Y CDS	96	18	23
Indonesia 5Y CDS	117	1	15
Thailand 5Y CDS	45	0	1

	11-May	1W chg	1M chg
Brent Crude Spot (\$/bbl)	77.54	3.57%	7.60%
Gold Spot (\$/oz)	1,321.16	0.51%	-2.38%
CRB	204.52	1.20%	2.86%
GSCI	487.14	2.71%	4.37%
VIX	13.23	-16.79%	-34.63%
CT10 (bp)	2.964%	1.43	18.32
USD Swap Spread 10Y (bp)	5	1	1
USD Swap Spread 30Y (bp)	-8	3	5
TED Spread (bp)	48	-6	-15
US Libor-OIS Spread (bp)	49	-3	-10
Euro Libor-OIS Spread (bp)	2	-1	-1
DJIA	24,740	3.38%	2.27%
SPX	2,723	3.55%	3.06%
MSCI Asiax	718	1.74%	-1.05%
HSI	30,809	1.64%	-0.29%
STI	3,538	-1.07%	1.66%
KLCI	1,847	-0.29%	-1.25%
JCI	5,908	-1.73%	-6.61%

Source: OCBC, Bloomberg

New issues

- China Huadian Overseas Development 2018 Ltd has priced a USD600mn 5-year bond at CT5+125bps, tightening from its initial price guidance of CT5+150bps area.
- Southwest Securities International Securities Ltd has priced a USD150mn 363-day bond (keepwell provider: Southwest Securities Co Ltd) at 6.75%, in line with its initial price guidance.
- Excel Capital Global Ltd has priced its USD200mn Perp NC3 bond (guaranteed by Minmetals Land Ltd, keepwell provider: China Minmetals Corp) at 7%, in line with its initial price guidance.
- Australia and New Zealand Banking Group Ltd has priced a USD1.25bn deal across two-tranches, with the USD500mn 3-year FxD priced at CT3+65bps, tightening from its initial price guidance of CT3+70bps and the USD750mn 3-year FRN priced at 3mL+46bps, in line with its initial price guidance.
- HSBC Holdings PLC has priced a USD6bn senior deal across three tranches with the USD2bn 3NC2 FRN priced at 3mL+60bps (tighter than initial guidance of 3mL+75bps), the USD2bn 6NC5 Fxd-to-FRN at 3mL+112bps (tighter than initial guidance of 3mL+135bps) and the USD2bn 6NC5 FRN at 3mL+100bps (wider than initial guidance of 3mL equivalent).

<u>Date</u>	<u>Issuer</u>	<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
10-May-18	HSBC Holdings PLC	USD2bn	6NC5	3mL+100bps
10-May-18	HSBC Holdings PLC	USD2bn	6NC5	3mL+112bps
10-May-18	HSBC Holdings PLC	USD2bn	3NC2	3mL+60bps
10-May-18	Australia and New Zealand Banking Group Ltd	USD750mn	3-year	3mL+46bps
10-May-18	Australia and New Zealand Banking Group Ltd	USD500mn	3-year	CT3+65bps
10-May-18	Excel Capital Global Ltd	USD200mn	Perp NC3	7%
10-May-18	Southwest Securities International Securities Ltd	USD150mn	363-day	6.75%
10-May-18	China Huadian Overseas Development 2018 Ltd	USD600mn	5-year	CT5+125bps
9-May-18	Bank of Communications Co Ltd (HK Branch)	HKD3bn	2-year	2.95%
9-May-18	Bank of Communications Co Ltd (HK Branch)	USD700mn	5-year	3mL+85bps
9-May-18	Bank of Communications Co Ltd (HK Branch)	USD600mn	3-year	3mL+75bps
9-May-18	Guang Ying Investment Ltd	USD250mn	3-year	CT3+185bps

Source: OCBC, Bloomberg

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