Asian Credit Daily

Nov 12, 2018

Credit Headlines: OUE Ltd, Fraser and Neave Ltd, Oxley Holdings Ltd, G8 Education Ltd, StarHub Ltd, Heeton Holdings Ltd, Lippo Malls Indonesia Retail Trust

Market Commentary

- The SGD swap curve flattened last Friday, with swap rates for the shorter tenors trading within 1bps lower while the longer tenors traded 1-2bps lower (with the exception of the 30-year swap rates trading 1bps higher).
- Flows in SGD corporates were heavy last Friday, with better buying seen in SLHSP 4.5%'25s and better selling seen in LLCAU 3.9%'27s.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 149bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 4bps to 567bps.
- Overall, 10Y UST yields fell 5bps to close at 3.18% on the back of safe haven demand due to losses in equities worldwide on worries about economic growth in China and US interest rate hikes.

Credit Headlines:

OUE Ltd ("OUE") | Issuer Profile: Neutral (4)

- OUE reported its 3Q2018 results. Revenue was relatively flat at SGD183.3mn. Its Development and Hospitality segments saw revenue grow which helped offset declines in Healthcare (from 64.4%-owned OUE Lippo Healthcare Limited ("OUE-LH")), dividend income and others. Investment properties income was relatively flat. Revenue from Development had increased 13% y/y to SGD43.6mn following transaction completion of properties at OUE Twin Peaks (earlier sold under the deferred payment scheme). Hospitality income grew 6% y/y to SGD61.8mn, driven by the ramp up of the Oakwood Premier OUE Singapore at OUE Downtown which opened in June 2017.
- Healthcare revenue had declined 57% y/y to only SGD4.9mn following the deconsolidation of Wuxi New District Phoenix Hospital Co., Ltd ("Wuxi"). Wuxi had been the subject of a legal lawsuit brought against it by Weixin Hospital Investment Management (Shanghai) Co. Ltd ("Weixin"). In 3Q2018, OUE-LH has deemed that it has lost control over Wuxi. On a standalone basis. OUE-LH had reported a loss after tax of SGD4.9mn in 3Q2018 widening from a loss after tax of SGD3.7mn in 3Q2017.
- Despite a flat gross profit, EBITDA (based on our calculation which does not include other income and other expenses) was SGD48.4mn (up 27% y/y) following the declines in overheads. EBITDA/Interest was thus higher at 1.4x (3Q2017: 1.1x)
- OUE ended the quarter with net profit of only SGD7.4mn (3Q2017: SGD18.4mn) as it had recognised SGD13.4mn in other losses (mainly due to mark-to-market losses on investments). OUE also recorded other comprehensive loss of SGD97.5mn during the quarter (we think from Gemdale), albeit this is a non-cash item, which narrowed book value of equity by 2% q/q. As at 30 September 2018, net gearing was 0.68x, marginally higher than 0.67x as at 30 June 2018.
- On 26 October 2018, OUE and OUE-LH completed the acquisition of a 60% and 40% stake respectively in the REIT Manager of First REIT ("FIRT"). OUE-LH had also bought a 10.6% stake in FIRT itself. On 1 November 2018, OUE had completed the sale of the office components of OUE Downtown to OUE Commercial REIT ("OUE-CT") for SGD908mn. OUE-CT is sponsored by OUE and is ~56%-owned by OUE.
- Since our last earnings review dated 10 September 2018, developments at OUE have been material and as such we are in the midst of reviewing its issuer profile. (Company, OCBC)

Credit Headlines (cont'd):

Fraser and Neave Ltd ("FNN") | Issuer Profile: Neutral (4)

- FNN reported FY2018 results for the year ending 30 Sep. Revenue increased 1.5% y/y to SGD1.93bn, continuing the trend of revenue growth in 9MFY2018, with Dairies revenue in FY2018 growing 4.6% y/y to SGD1.16bn with growth in sales from Malaysia (+6.0% y/y to SGD319mn) with entry into new markets, Thailand (+5.0% y/y to SGD589mn) from increased distribution and new products and Singapore (+2.5% y/y to SGD249mn). However, overall revenue growth was partly offset by declines in Beverages (-2.2% y/y to SGD488.5mn) with FNN attributing the decline to market contraction and weaker consumer sentiment, as well as intense price competition. Printing & Publishing (-4.1% y/y to SGD281.1mn) continued to struggle due to the cessation of non-performing business in Australia, cessation of airport press and books concession.
- Overall, reported EBIT rose 25.6% y/y to SGD213.5mn with better performance from all segments. Dairies performance remained strong, growing 13% y/y to SGD204mn with growth from Vinamilk (+19% y/y to SGD95mn), likely due to the equity accounting of Vinamilk from Apr 2017 as well as the increase in stakes in Vinamilk (current ownership: 20.01% stake), as well as growth from Thailand (+19% y/y to SGD87mn) with higher sales and favourable input costs though EBIT from Malaysia fell 10% y/y to SGD41mn despite higher revenues with higher dairy-based commodity prices and packaging cost. Beverages EBIT remained negative at –SGD0.2mn, though this has improved from FY2017's negative EBIT of SGD3.9mn with improvements in EBIT margin at Malaysia due to favourable sugar costs and operational cost savings. Publishing & Printing losses also narrowed to just SGD1.2mn (FY2017: SGD4.5mn) from cost reduction.
- Net gearing improved to 10.8% (3QFY2018: 13.6%) with a decline of SGD90.9mn of net debt, mainly due to operating cashflows of SGD85.6mn generated in 4QFY2018. That said, we may see debt inching higher with FNN looking to invest USD50mn (~SGD69mn) in a greenfield brewery (Emerald Brewery Myanmar Ltd) in Myanmar, which FNN holds a 74.9% interest. Though FNN has healthy credit metrics, we continue to hold FNN at a Neutral (4) Issuer Profile as it runs on a single engine (Dairies) in view of the subdued performance from the Beverages segment. (Company, OCBC)

Oxley Holdings Ltd ("OHL") | Issuer profile: Negative (6)

- OHL's wholly-owned subsidiary, Oxley Docklands Quay One Limited and National Asset North Quays DAC have entered into an agreement with Landings 2 Propco S.A. R.L for the sale of a 300-year lease on No. 2 Dublin Landings in Ireland. No.2 Dublin Landings is a mixed-use development which features office and retail space as well as residential apartments.
- The property is sold at an aggregate price of EUR106.5mn (SGD166.5mn), of which Oxley Docklands will be entitled to 76.84% of the sale price at EUR81.3mn (SGD127.9mn).
- The proceeds from the sale will contribute positively to OHL's cashflow but is not expected to have any material impact on the earnings per share or net tangible assets per share of OHL for the financial year ending 30 June 2019. (Company, OCBC)

G8 Education Ltd ("G8") | Issuer Profile: Negative (6)

- China First Capital Limited has released an update on its stake in G8. The company has acquired an aggregate of 4,077,345 shares of G8 at an average price of AUD2.65 per share over the period from 1 March 2018 – 8 November 2018 with an aggregate consideration of ~AUD10.8mn, payable in cash on settlement. Within the same period, China First Capital Limited has also disposed 2,509,844 shares of G8 at an average price of AUD2.09 per share for aggregate net proceeds of ~AUD5.3mn.
- As at 8 November 2018, China First Capital Group Limited held 1,567,501 shares of G8 which represents 0.34% of the total shares issued by G8. (Company, OCBC)

Credit Headlines (cont'd):

StarHub Ltd ("STHSP") | Issuer Profile: Neutral (3)

- STHSP reported its 3Q2018 results. Revenue was up 3.0% y/y to SGD582.2mn, largely due to increase in sales of equipment which increased 24.4% y/y to SGD122.6mn and made up 21% of total revenue. Sales of equipment was higher due to greater volume of premium handsets sold and sales of smart home equipment. Overall service revenue which made up 79% of total revenue, dipped 1.5% y/y to SGD459.6mn. All sub-segments saw flat-to-declining y/y growth, with the exception of Broadband which saw revenue up by 0.8% y/y at SGD46.8mn and Enterprise Fixed which saw revenue up 13% at SGD124.6mn. Higher Enterprise Fixed revenue was led by the consolidation of D'Crypt Pte Ltd ("D'Crypt") since January 2018 and the consolidation of Accel Systems & Technologies Pte Ltd ("Accel") from July 2017. Excluding the impact from D'Crypt and Accel, service revenue from Enterprise Fixed would have increased 4.5% y/y. Mobile, traditionally the main contributor to Service Revenue, saw revenue decline by 4.2% y/y to SGD213.6mn, making up only 46% of overall service revenue (48% in 3Q2017) due to higher phone subsidy given to customers. Pay TV, a smaller contributor though important in STHSP's bundling strategy saw revenue decline by 14.1% y/y to SGD74.6mn due to lower subscriber base.
- Overall Service EBITDA was SGD132.2mn (down 12% y/y) while reported EBITDA (which includes contribution from Sales of Equipment) was SGD147.0mn (down 9.8% y/y). Interest expense though rose 1.5% y/y to SGD7.5mn resulting in EBITDA/Interest of 19.6x, down from 22.0x in 3Q2017.
- As at 30 September 2018, net debt-to-EBITDA was flattish q/q around 1.2x. Despite generating net cash flow from operations of SGD152.0mn, outflows include investing outflows (mostly for purchase of PPE and intangible assets) of SGD72.7mn and payment of SGD69.2mn in cash dividends. Notably, STHSP continues to guide for 27%-29% service EBITDA margin for FY2018 despite YTD2018's 30.2% service EBITDA margin. We think this could point to further deterioration in results, with competition in the telco sector remaining intense. While the sector outlook appears challenging, with a still healthy credit metrics, we continue to hold STHSP at a Neutral (3) Issuer Profile. (Company, OCBC)

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

- HHL reported 9M2018 results with revenue down 21.6% to SGD37.2mn. This was due to (1) a SGD11.3mn y/y decline in revenue from the sale of Onze@Tanjong Pagar as this development was substantially sold in 2017; and (2) lower rental revenue of SGD0.9mn y/y due to the divestment of The Woodgrove in Feb 2018. Hotel operations however continue prior reporting period trends with revenues up SGD1.4mn due to contribution from Luma Concept Hotel Hammersmith London which commenced operation from Apr 2017. Cost of properties fell materially by 47.8% y/y due to lower recognized revenue and other operating income rose 70.0% y/y due to gain on the disposal of an investment property and this translated to 9M2018 PBIT before fair value changes, gain on disposals and share of associate/JV results up 81.5% y/y to 7.8mn. Including gain on disposals, 9M2018 PBIT declined 75.7% y/y due to the SGD28.0mn prior year gain from disposal of joint venture company Buildhome Pte. Ltd. that owned The Lumos residential project in 3Q2017.
- Meanwhile, HHL reported that sales of Park Colonial (20%-owned, JV with Chip Eng Seng), which is 65.1% sold, and Affinity at Serangoon (5%-owned, JV with Oxley Holdings Ltd), which sold 78% of units launched in Phase 1, are within expectations.
- Finance expenses rose materially in 9M2018 by 46.1% as a result of issuance of SGD118mn HTONSP 6.08% '21s in January 2018. As such, despite the better adjusted EBITDA (which includes other operating income and expenses and share of results from associated companies/joint venture companies), which rose 37.2% y/y to SGD23.1mn, the EBITDA/Interest ratio of 1.8x for 9M2018 was marginally weaker than 1.9x for 9M2017.
- Net gearing rose to 67.1% (2Q2018: 47.0%), mainly due to SGD57.38mn acquisition of Smile Hotel Asakusa in Tokyo, Japan (SGD33.7mn), Stewart Aparthotel in Edinburgh, Scotland (SGD12.38mn) and investment costs for development of Hampton by Hilton in Leeds, UK (SGD9.29mn). Noting that the SGD118mn in bond proceeds issued has not been fully deployed, we opine that net gearing may continue increasing as HHL has signalled its intention to explore more investment and acquisition opportunities to grow its recurrent income. As such, despite the moderate credit profile, we continue to hold HHL at a Neutral (5) Issuer Profile.

OCBC Bank

Credit Headlines (cont'd):

Lippo Malls Indonesia Retail Trust ("LMRT") | Issuer Profile: Negative (6)

- LMRT reported 3Q2018 results. Net property income fell 15.0% y/y to SGD39.5mn, mainly due to lower gross rental income (-9.4% y/y to SGD37.0mn) and carpark income (-15.2% y/y to SGD4.6mn), from the weakening of the IDR against the SGD by 9.4% y/y and the expiry of master leases over 7 Retail Spaces though this is partly offset by the acquisition of Lippo Plaza and Kediri Town Square in Dec 2017. Net property income was also weighed down by an increase in property operating expense, due to net allowance of doubtful debts in 3Q2018 of SGD2.1mn (3Q2017: net reversal of doubtful debts of SGD0.7mn), with a total of SGD4.1mn net allowance for doubtful debts made in 9M2018.
- Despite guiding in the previous quarter's 2Q2018 results that SGD8.3mn trade receivables have been collected (SGD2.4mn from related party tenants) since 30 Jun 2018, trade and other receivables ballooned q/q to SGD44.3mn (2Q2018: SGD32.0mn), which is larger than the total gross rental income of SGD37.0mn in 3Q2018. The main driver for the increase is due to increase in receivables from related party tenants to SGD20.3mn (2Q2018: SGD14.5mn) though there was also some increase from non-related party tenants to SGD19.8mn (SGD18.1mn). That said, LMRT continues to affirm that there is no reason to believe that Lippo group of companies will not be able to fulfil their payment obligations to LMRT and is able to manage any credit risk that may arise.
- In our view, risks of tenants defaulting have increased significantly while trade receivables remain elevated. Lippo Karawaci Tbk PT (LMRT's sponsor) has seen its credit ratings downgraded with its LPKRIJ 7% '22s falling to ~75cts (yielding 16.9%), which may suggest that investors are pricing in significant credit risk. That said, in our view LMRT may eventually survive even if the Lippo group of companies (estimate: 30% of revenue) defaults though LMRT's credit profile may be significantly weakened in such a scenario. Thus far, occupancy rate in 3Q2018 remains high at 92.6%, though this has fallen from 94%-95% range in 2013-2017.
- Aggregate leverage increased q/q to 37.1% (2Q2018: 36.0%) with a small uptick in total debt to SGD730.4mn (2Q2018: SGD724.7mn) while total assets shrank to SGD1.98b (2Q2018: SGD2.03bn) mainly due to SGD60.7mn in FX translation differences. Meanwhile, operating cashflow of SGD107.9mn in 9M2018 well-covers SGD9.3mn for capex and purchase of PPE, SGD23.2mn of interest payments and SGD13.7mn of distribution to perpetual securities holders. Separately, LMRT has announced that it has obtained SGD67.5mn 4-year and SGD67.5mn 5-year term loan facilities. This is credit positive in alleviating the liquidity profile, which LMRT will put towards the refinancing of its SGD90mn term loan and redemption of SGD100mn LMRTSP 4.5% '18s. (Company, OCBC)

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Table 1: Key Financial Indicators

	12-Nov	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	86	-2	0
iTraxx SovX APAC	10	0	0
iTraxx Japan	61	0	-1
iTraxx Australia	76	-3	-1
CDX NA IG	66	1	2
CDX NA HY	106	0	-1
iTraxx Eur Main	70	0	-4
iTraxx Eur XO	288	0	-6
iTraxx Eur Snr Fin	88	1	-5
iTraxx Sovx WE	26	0	-1
AUD/USD	0.723	0.21%	1.57%
EUR/USD	1.132	-0.73%	-2.04%
USD/SGD	1.379	-0.31%	-0.08%
China 5Y CDS	64	-3	0
Malaysia 5Y CDS	105	-7	3
Indonesia 5Y CDS	143	-8	-1
Thailand 5Y CDS	43	0	0

	12-Nov	1W chg	1M chg
Brent Crude Spot ($/bbl)	70.99	-2.98%	-11.74%
Gold Spot ($/oz)	1,211.02	-1.66%	-0.50%
CRB	188.45	-2.00%	-4.79%
GSCI	440.55	-2.22%	-8.35%
VIX	17.36	-11.02%	-18.54%
CT10 (bp)	3.182%	-1.89	2.06
USD Swap Spread 10Y (bp)	6	0	2
USD Swap Spread 30Y (bp)	-10	2	1
TED Spread (bp)	27	0	10
US Libor-OIS Spread (bp)	27	-2	8
Euro Libor-OIS Spread (bp)	4	0	0
DJIA	25,989	2.84%	2.56%
SPX	2,781	2.13%	0.50%
MSCI Asiax	598	-0.84%	-0.73%
HSI	25,602	-3.34%	-0.77%
STI	3,078	0.56%	0.29%
KLCI	1,708	0.07%	-1.31%
JCI	5,874	-0.54%	2.04%

New issues

- First FZ Bond Ltd has priced a USD200mn 2-year bond (guaranteed by Founder Securities (Hong Kong) Financial Holdings Ltd, keepwell provider: Founder Securities Co Ltd) at 6.9%, in line with its final price guidance.
- Export-Import Bank of Korea has hired banks for its potential USD bond issuance.
- Mei Nian Investment Ltd has scheduled for investor meetings from 12 Nov for its potential USD bond issuance (guaranteed by Meinian Onehealth Healthcare Holdings Co Ltd).
- SPIC 2018 USD Senior Perpetual Bond Company Ltd has hired banks for its potential USD bond issuance (guaranteed by State Power Investment Corporation).

Date	Issuer	Size	Tenor	Pricing
9-Nov-18	First FZ Bond Ltd	USD200mn	2-year	6.9%
8-Nov-18	Baidu Inc	USD600mn	5.5-year	CT5+133bps
8-Nov-18	Baidu Inc	USD400mn	10-year	CT10+170bps
8-Nov-18	Clifford Capital Pte Ltd	USD300mn	3-year	CT3+40bps
8-Nov-18	CDBL Funding 1	USD400mn	3-year	3mL+125bps
8-Nov-18	Hunan Xiangjiang New Area Development Group Co Ltd	USD300mn	3-year	5.9%
8-Nov-18	Huayuan Property Co Ltd	USD200mn	3NPNC2	11.0%
7-Nov-18	Geely Sweden Finance AB	USD250mn	3-year	5.0%
7-Nov-18	PT Indonesia Asahan Aluminium (Persero)	USD1bn	3-year	5.5%
7-Nov-18	PT Indonesia Asahan Aluminium (Persero)	USD1.25bn	5-year	6.0%
7-Nov-18	PT Indonesia Asahan Aluminium (Persero)	USD1bn	10-year	6.875%
7-Nov-18	PT Indonesia Asahan Aluminium (Persero)	USD750mn	30-year	7.375%
7-Nov-18	LG Display Co Ltd	USD300mn	3-year	CT3+90bps

Source: OCBC, Bloomberg

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