Asian Credit Daily

OCBC Bank

Nov 14, 2018

Credit Headlines: CapitaLand Ltd, Banyan Tree Holdings Limited, Olam International Limited, Hotel Properties Ltd, Singapore Airlines Ltd

Market Commentary

- The SGD swap curve flattened yesterday, with swap rates trading 1bps lower across most tenors (with the exception of the 12-year swap rates trading 2bps higher).
- Flows in SGD corporates were light yesterday, with flows seen in SLHSP 4.5%25s.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 150bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 15bps to 581bps.
- Overall, 10Y UST yields fell 4bps to close at 3.14% due to a sharp drop in oil prices which suggested lower inflation going forward.

Credit Headlines:

CapitaLand Ltd ("CAPL") | Issuer Profile: Neutral (3)

- CAPL reported 3Q2018 results. Revenue declined 16.9% y/y mainly due to lower contributions from development projects in Singapore and China. However, CAPL saw higher rental income from newly acquired and opened properties as well as from the consolidation of results from CapitaLand Mall Trust ("CMT"), CapitaLand Retail China Trust ("CRCT") and RCS Trust ("RCST") from Aug 2017. As such, despite the fall in revenue, net profit remained largely stable at SGD566.6mn (3Q2017: SGD578.5mn) due to a higher gross margin of 46% (3Q2017: 33.4%) due to a higher composition of rental revenue.
- By segment split, CapitaLand Singapore ("CL SMI") reported a 29.6% y/y decline in revenue to SGD518.9mn with the absence of revenue recognition for Cairnhill Nine and Victoria Park Villas with both projects fully sold. Despite the fall in revenue, EBIT for the segment rose 3.3% y/y to SGD443.1mn mainly from the sale of Westgate (reported PATMI gains: SGD99.2mn). However, with the lack of residential inventory in Singapore, residential sales plunged to SGD52mn (3Q2018: SGD373mn) with just 14 units sold (3Q2017: 108 units). The launched projects thus far have been substantially sold, including d'Leedon (100%), Marine Blue (91%), Sky Habitat (99%), The Interlace (99%) and The Orchard Residences (99%).
- CapitaLand China ("CL China") reported 19.9% y/y decline in revenue to SGD440.6mn as 3Q2018 saw a decline in sales value of residential units to RMB2.1bn (3Q2017: RMB3.3bn) with 1,279 units handed over which is lower y/y (3Q2017: 1,646 units). EBIT for the segment fell 5.7% y/y to SGD258.6mn. Contracted residential sales though plunged to RMB2.6bn (3Q2017: RMB4.4bn) with just 826 units sold in 3Q2018 (3Q2017: 2,163 units) as launches were deferred due to tighter government measures. The shortfall though is made up with RMB2bn of home sales in October, which is CAPL's largest home sales value in China over a 30-day period in 2018. We note that 96% of the launched units were sold as at 30 Sep 2018, which remains healthy.
- Net gearing inched up to 50.5% q/q (2Q2018: 49.9%) though, mainly due to below-the-line SGD304.3mn foreign exchange loss and SGD373.3mn losses from share of other comprehensive income of associates and joint ventures (which is also due to foreign exchange differences) due mainly to the appreciation of the SGD against RMB by 4.38% q/q. Noting that CAPL has been undertaking a number of acquisitions which will need to be settled, we expect net gearing to trend higher to ~55%. (Company, OCBC)

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Credit Headlines (cont'd):

Banyan Tree Holdings Limited ("BTH") | Issuer Profile: Neutral (5)

- BTH announced its 3Q2018 results. Revenue was up 2% y/y to SGD69.7mn, driven by increases in Property Sales and Fee-based segments. Hotel Investments (hotels where BTH owns a stake in) declined 5% y/y mainly due to Thailand and de-consolidation of China properties. Revenue per available room ("REVPAR") had declined 19% y/y to SGD134 due to declines in tourist arrivals to BTH's Thailand resorts.
- The third quarter tends to be a low season for BTH. Encouragingly in 3Q2018, operating profit was SGD6.5mn, removing impact from other income. EBITDA (based on our calculation which does not include other income) was SGD6.5mn versus SGD7.7mn in interest expense. While EBITDA is insufficient to cover interest expense, this had improved versus 3Q2017 where BTH saw a loss before interest tax, depreciation and amortisation of SGD6.2mn (against interest expense of SGD7.1mn). 3Q2017's reported operating profit was boosted by a one-off arising from BTH's partial sale of its Chinese hospitality business to China Vanke Co. Ltd.
- As at 30 September 2018, net gearing was 0.68x, slightly increased versus 0.65x as at 30 June 2018 and rising from 0.52x from end-2017 following BTH's purchase of additional stakes in its subsidiary Laguna Resorts & Hotels Pcl. In July 2018, BTH announced the proposed sale of its hotel Banyan Tree resort and land plots in Seychelles. In November 2018, the transaction was completed and we expect BTH to have received cash of ~SGD95.3mn. As at 30 September 2018, short term debt was SGD166.2mn (of which SGD50mn relates to SGD bonds due in end-November 2018). With cash balance as at 30 September 2018 of SGD88.7mn and the cash from the Seychelles sale, liquidity is sufficient to cover short term debt due.
- Further out, BTH's liquidity situation is still tight though in our view, its asset base should allow the company to continue tapping debt markets. As at 30 September 2018, secured debt-to-total tangible assets was 15% while gross debt-to-total tangible assets was 34%. As at 30 September 2018, SGD466.6mn (out of SGD1.0bn) of its property-related assets has been collateralised for secured debt financing. Another SGD155.4mn in shares held by BTH in a subsidiary had also been collateralised. We maintain BTH's issuer profile at Neutral (5). (Company, OCBC)

Olam International Limited ("OLAM") | Issuer Profile: Neutral (5)

- OLAM announced its 3Q2018 results. Revenue was up 23.6% y/y on the back of stronger revenues from its Food Staples and Packaged Foods segment (higher sales volume). Reported EBITDA was down 5.7% y/y though to SGD229.1mn mainly due to declines in EBITDA across Edible Nuts, Spices & Vegetable Ingredients (down 52% y/y) and Commodity Financial Services (loss before interest, tax, depreciation and amortization widened to SGD31.5mn against a loss of SGD9.4mn in 3Q2017). This was insufficiently offset by stronger EBITDA generation across Confectionary & Beverage, Food Staples and Packaged Foods and Industrial Raw Materials, Ag Logistics and Infrastructure ("IRM").
- Compounded by higher finance cost (up 12.6% y/y) to SGD143.6mn, EBITDA/Interest coverage had declined to 1.6x in 3Q2018 against 1.9x in 3Q2017. The increase in finance cost was despite the lower average debt balance in 3Q2018 of SGD12.1bn against SGD12.9bn in 3Q2017, indicating that cost of debt at OLAM had increased y/y.
- Cash flow from operations (after tax but before interest) ("CFO") was SGD854.8mn, down 22% y/y. We estimate that the main CFO contributor was Edible Nuts, Spices & Vegetable Ingredients, Confectionary & Beverage and IRM. As at 30 September 2018, unadjusted net gearing for OLAM was 1.42x, lower than the 1.49x as at 30 June 2018. Per company, the third quarter of the year tends to be a slower period. In our view, this helped lower working capital needs (and therefore working capital debt funding) during the quarter versus 2Q2018. Cash cycle for 3Q2018 was 83 days, lower than the 100 days for 2Q2018. Unlike 3Q2017 where investing outflows was SGD230.2mn, OLAM saw an investing inflow of SGD27.0mn, mainly as it had received a net repayment in loan from associates and jointly controlled entities of SGD166.0mn. We maintain OLAM's issuer profile at Neutral (5). (Company, OCBC)

Credit Headlines (cont'd):

Hotel Properties Ltd ("HPL") | Issuer Profile: Neutral (4)

- HPL reported 3Q2018 results. Revenue declined 21.5% y/y to SGD129.5mn due to lower contributions from the property division as we note that the remaining completed condominium units at Tomlinson Heights were fully sold. As discussed in CAPL's results, d'Leedon is also fully sold.
- However, net profit fell more by 51.4% y/y to SGD20.4mn (3Q2017: SGD42.0mn) with share of results of associates and jointly controlled entities decreasing to SGD22.1mn (3Q2017: SGD29.6mn) while other operating expenses rose to SGD11.9mn (3Q2017: 0.3mn), which is due to SGD9.9mn fair value loss in investments.
- Net gearing fell to 24.5% q/q (2Q2018: 26.6%) with continued healthy cashflows generated (3Q2018 operating cashflow: SGD39.8mn). As such, despite SGD289.3mn of short term debt coming due, we expect HPL to refinance this with a healthy balance sheet, strong cashflows, and access to the capital markets while we believe a significant portion of the balance sheet of HPL may remain largely unencumbered. (Company, OCBC)

Singapore Airlines Limited ("SIA") | Issuer Profile: Neutral (3)

- SIA reported its second quarter results for the financial year ended 2019 ("2QFY2019"). Revenue was up 5.6% y/y to SGD4.1bn on the back of passenger carriage growth (8.4% y/y increase). Encouragingly, growth in passengers carried had outpaced capacity growth, with available seat-km growing by 5.3% y/y. Passenger load factor (a measure of capacity utilization) was higher at 84.9% in 2QFY2019 against 81.8% in 2QFY2018.
- Reported operating profit though was down 34.8% y/y to SGD232.9mn. This was mainly due to the 24% y/y rise in net fuel costs, higher depreciation and higher other operating costs. EBITDA (based on our calculation) was down 12% y/y to SGD574mn. With interest expense rising to SGD28mn (2QFY2018: SGD22mn), driven by higher average debt balance in 2QFY2019 of SGD4.0bn versus SGD2.6bn in 2QFY2018, we find EBITDA/Interest coverage lower at 20.6x (2QFY2018: 29.7x)
- As at 30 September 2018, unadjusted net gearing at SIA was 0.17x, higher than the 0.12x as at 30 June 2018. Cash balance was SGD2.0bn against sales in advanced of carriage (a current liability item where cash had been received ahead of provision of services) of SGD2.6bn. SIA's gross gearing was 0.31x against 0.25x as at 30 June 2018.
- SIA had reported a net income of only SGD65.7mn in 3Q2018 against SGD303.2mn in 3Q2017 though it is worth noting that 3Q2018 net income was dragged by a SGD117mn in share of losses of associated companies. This was due to a one-off accounting adjustment at Virgin Australia ("VHA") where SIA holds a 20%-stake in VHA. This accounting adjustment is non-cash and due to de-recognisation of deferred tax assets and impairment of assets at Virgin Australia International.
- In 2QFY2019, SIA had spent SGD1.0bn in investing outflows (largely on purchase of planes) and paid SGD380mn in dividends. These were funded by operating cash flows of SGD612.5mn and additional borrowings of SGD883.1mn (net of debt repaid). Post quarter-end, SIA had raised a further SGD600mn in SGD bonds. We estimate on a pro-forma basis, SIA's net gearing would have reach 0.2x. SIA had spent SGD3.1bn in capex in 1HFY2019, against SGD6.2bn expected in FY2019. This though excludes amounts that Vistara, its 49%-owned loss-making joint venture is intending to spend on capex. SIA is on a leveraging trend, though for now we are maintaining SIA's issuer profile at Neutral (3). (Company, OCBC)

Table 1: Key Financial Indicators

	14-Nov	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	89	4	1
iTraxx SovX APAC	10	0	0
iTraxx Japan	63	1	1
iTraxx Australia	79	2	1
CDX NA IG	70	7	4
CDX NA HY	105	-2	-1
iTraxx Eur Main	71	4	-3
iTraxx Eur XO	294	14	0
iTraxx Eur Snr Fin	89	5	-4
iTraxx Sovx WE	27	1	-1
AUD/USD	0.724	-0.56%	1.47%
EUR/USD	1.132	-0.97%	-2.28%
USD/SGD	1.378	-0.44%	-0.08%
China 5Y CDS	66	3	0
Malaysia 5Y CDS	108	3	3
Indonesia 5Y CDS	147	4	0
Thailand 5Y CDS	43	0	0

	14-Nov	1W chg	1M chg
Brent Crude Spot ($/bbl)	65.47	-9.23%	-18.60%
Gold Spot ($/oz)	1,203.46	-1.88%	-1.92%
CRB	184.54	-4.18%	-6.77%
GSCI	426.42	-4.60%	-11.29%
VIX	20.02	0.30%	-6.05%
CT10 (bp)	3.151%	-8.48	-1.06
USD Swap Spread 10Y (bp)	6	1	1
USD Swap Spread 30Y (bp)	-10	0	0
TED Spread (bp)	27	0	10
US Libor-OIS Spread (bp)	28	-1	9
Euro Libor-OIS Spread (bp)	4	0	0
DJIA	25,286	-1.36%	-0.21%
SPX	2,722	-1.21%	-1.62%
MSCI Asiax	596	-1.93%	-0.98%
HSI	25,793	-1.26%	-0.03%
STI	3,054	-0.23%	-0.51%
KLCI	1,688	-1.24%	-2.49%
JCI	5,835	-1.50%	1.37%

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New issues

- Bank of China Ltd, Hong Kong Branch has priced a CNH1bn 3-year bond at 4.45%, tightening from its initial price guidance of 4.75%.
- Bank of China Ltd., Macau Branch has priced a USD800mn deal across two tranches with the USD550mn 3-year FRN priced at 3mL+75bps, tightening from its initial price guidance of 3mL+100bps area and the USD250mn 5-year FRN at 3mL+85bps, tightening from its initial price guidance of 3mL+110bps area.
- Industrial Bank Co Ltd/Hong Kong has priced a USD600mn 3-year FRN at 3mL+85bps, tightening from its initial price guidance of 3mL+110bps area.
- Zhongyuan Bank Co Ltd has priced a USD1.395bn Perp NC5 AT1 at 5.6%, tightening from its initial price guidance of 5.5%-6.0% area.
- Export-Import Bank of Thailand has priced a USD300mn 5-year FRN at 3mL+90bps, tightening from its initial price guidance of 3mL+115bps area.
- Power Finance Corp has hired banks for its potential USD bond issuance.

Date	Issuer	Size	Tenor	Pricing
13-Nov-18	Bank of China Ltd, Hong Kong Branch	CNH1bn	3-year	4.45%
13-Nov-18	Bank of China Ltd., Macau Branch	USD550mn	3-year	3mL+75bps
13-Nov-18	Bank of China Ltd., Macau Branch	USD250mn	5-year	3mL+85bps
13-Nov-18	Industrial Bank Co Ltd/Hong Kong	USD600mn	3-year	3mL+85bps
13-Nov-18	Zhongyuan Bank Co Ltd	USD1.395bn	Perp NC5	5.6%
13-Nov-18	Export-Import Bank of Thailand	USD300mn	USD300mn	3mL+90bps
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%

Source: OCBC, Bloomberg

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