

Aug 15, 2018

Credit Headlines: Wheelock & Co Ltd, Hong Fok Corp Ltd

Market Commentary

- The SGD swap curve steepened yesterday, with swap rates for the shorter tenors trading 1-2bps higher while the longer tenors traded 3-5bps higher.
- Flows in SGD corporates were heavy yesterday, with better selling seen in HSBC 4.7%-PERPs.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 139bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 2bps to 475bps.
- Overall, 10Y UST yields rose 3bps to close at 2.90% as global sentiment improved after equities worldwide stabilized as well as the Turkish Lira which came off its recent record low against the dollar.

Credit Headlines:

Wheelock & Co Ltd (“WHEELK”) | Issuer Profile: Positive (2)

- WHEELK reported its result for first half-year period ended 30 June 2018 (“2QFY2018”). Group revenue decreased by 47% to HKD17.6bn due to lower revenue recognition of development properties sold in Hong Kong, based on the new accounting standards which require recognition at the time of assignment as well as the decrease in new project completion in the period.
- Likewise, reported group core profit decreased by 6% y/y to HKD5.2bn though partly offset by the improved profit from investment properties (+9% y/y to HKD7.4bn). Specifically, Harbour City saw a 10% y/y increase in operating profit while Chengdu International Finance Square (“IFS”) and Changsha IFS recorded a 23% y/y increase. Development properties performance declined with revenue down 76% y/y to HKD5.2bn (2017: HKD21.6bn) and operating profit down 42% y/y to HKD1.6bn (2017: HKD2.7bn) largely due to above-mentioned accounting reasons. No revenue was recognized for new project completion while record sales of remaining units at Kensington Hill, CAPRI, ONE HOMANTIN and NAPA enabled revenue recognition totaling HKD741mn. Similarly, WHEELK’s own core profit declined by 73% y/y to HK198mn. That said, WHEELK’s own core profit only accounts for 3.8% of total core profit (2017: 13.5%) and performance is largely driven by Wharf Holdings (38.5% of total core profit) and Wharf REIC (60% of total core profit) whose core profit dipped by 7.1% y/y and increased by 8.2% y/y respectively.
- As at 30 June 2018, the net debt to total equity increased to 25.2% (2017: 14.9%), which was surpassed our expectations of ~19% due to cash deployed for equity investments at Wharf Holdings in addition to the previously announced HKD12.5bn acquisition of a site in Kowloon Tong and HKD6.4bn acquisition of a site in Kai Tak. Given that the increase in debt is mainly at Wharf Holdings – [refer to our comments on its result on 10 Aug 2018](#), which remains manageable, we do not foresee the higher net gearing to be a concern for WHEELK. (Company, OCBC)

Credit Headlines (cont'd):

Hong Fok Corp Ltd ("HFC") | Issuer Profile: Neutral (5)

- HFC reported 2Q2018 results. Revenue increased 110% y/y to SGD30.9mn, mainly due to the sales of development properties. According to URA caveats, 12 units at Concourse Skyline were sold for SGD26.3mn in Apr-Jun 2018. Revenue was also boosted by income contribution from YOTEL Singapore Orchard Road, which commenced operations in 4Q2017. As a result, profit before tax (before fair value changes, impairment and gain on disposal) improved substantially to SGD5.1mn (2Q2017: -SGD2.1mn). However, net profit slumped to SGD3.4mn (2Q2017: SGD6.3mn) mainly due to the absence of [SGD9.0mn gain on disposal of subsidiaries in 2Q2017](#).
- Due to the sale of properties, HFC generated SGD13.8mn net cash from operations though this was used for SGD15.4mn net purchase in other investments, which comprise equity and equity-linked securities.
- HFC continues to remain confident that the SGD120mn HFCSP 4.75% '19s can be refinanced or repaid from its available undrawn facilities and expects to continue recognising more profit from the sales of residential units of Concourse Skyline in 2H2018. With net gearing remaining largely unchanged and manageable at 34%, we continue to hold HFC at a Neutral (5) Issuer Profile. (Company, OCBC)

Table 1: Key Financial Indicators

	15-Aug	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	82	3	-5
iTraxx SovX APAC	11	1	-2
iTraxx Japan	56	1	-6
iTraxx Australia	75	2	-6
CDX NA IG	61	3	1
CDX NA HY	107	0	0
iTraxx Eur Main	69	5	5
iTraxx Eur XO	305	14	16
iTraxx Eur Snr Fin	86	9	11
iTraxx Sovx WE	28	3	4
AUD/USD	0.723	-2.66%	-2.51%
EUR/USD	1.134	-2.29%	-3.13%
USD/SGD	1.378	-1.10%	-1.17%
China 5Y CDS	62	2	-2
Malaysia 5Y CDS	88	6	-7
Indonesia 5Y CDS	123	12	6
Thailand 5Y CDS	43	0	-1

	15-Aug	1W chg	1M chg
Brent Crude Spot (\$/bbl)	72.46	-2.93%	-3.81%
Gold Spot (\$/oz)	1,193.69	-1.66%	-3.81%
CRB	190.44	-2.09%	-1.70%
GSCI	454.99	-2.50%	-1.81%
VIX	13.31	21.77%	9.28%
CT10 (bp)	2.897%	-6.33	6.96
USD Swap Spread 10Y (bp)	7	1	1
USD Swap Spread 30Y (bp)	-7	0	-2
TED Spread (bp)	27	-6	-10
US Libor-OIS Spread (bp)	27	-4	-10
Euro Libor-OIS Spread (bp)	4	0	0
DJIA	25,300	-1.28%	1.12%
SPX	2,840	-0.65%	1.38%
MSCI Asiax	653	-2.73%	-2.78%
HSI	27,753	-1.76%	-2.71%
STI	3,243	-1.29%	-0.54%
KLCI	1,784	-0.41%	3.59%
JCI	5,770	-5.28%	-2.93%

New issues

- CMT MTN Pte Ltd has priced a SGD150mn 7-year bond (guaranteed by HSBC Institutional Trust Services (Singapore) Ltd) at 3.2%.

<u>Date</u>	<u>Issuer</u>	<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
14-Aug-18	CMT MTN Pte Ltd	SGD150mn	7-year	3.2%
13-Aug-18	BCEG HongKong Co Ltd	USD600mn	3-year	5.75%
10-Aug-18	Nimble City Ltd	USD250mn	2NC1	9%
8-Aug-18	Tuspark Forward Ltd	USD350mn	3-year	8.50%
8-Aug-18	Powerlong Real Estate Holdings Ltd	USD250mn	PWRLNG 5.95%'20s	9%+accrued interest
7-Aug-18	Shinhan Financial Group	USD500mn	Perp NC5	5.875%
6-Aug-18	SK Broadband Co Ltd	USD300mn	5-year	CT5+117.5bps
2-Aug-18	Power Finance Corp Ltd	USD300mn	10-year	CT10+235bps
2-Aug-18	Sands China Ltd	USD1.8bn	5-year	CT5+175bps
2-Aug-18	Sands China Ltd	USD1.8bn	7-year	CT7+220bps
2-Aug-18	Sands China Ltd	USD1.9bn	10-year	CT10+245bps
2-Aug-18	Wuhan Real Estate Development Investment Group Co Ltd	USD430mn	3-year	5.7%
2-Aug-18	Bank of China Ltd/Macau	USD300mn	3-year	3mL+75bps
31-Jul-18	Lotte Property & Development Co Ltd	USD200mn	3-year	3mL+92.5bps
31-Jul-18	KWG Group Holdings Limited	USD350mn	3NC2	7.875%
31-Jul-18	China Mengniu Dairy Co Ltd	USD500mn	5-year	CT5+148bps

Source: OCBC, Bloomberg

Andrew Wong

Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6530 4736
wongVKAM@ocbc.com

Ezien Hoo, CFA

Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6722 2215
EzienHoo@ocbc.com

Wong Hong Wei, CFA

Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6722 2533
WongHongWei@ocbc.com

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