Asian Credit Daily

May 15, 2019

Credit Headlines: Hong Fok Corp Ltd, City Developments Ltd, Sembcorp Industries Ltd, Singapore Telecommunications Ltd

Market Commentary

- The SGD swap curve steepened yesterday, with most tenors trading 1bps higher with the exception of the 12-year swap rates trading 2bps higher.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS was widened 1bps to 134bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 9bps to 497bps.
- Flows in SGD corporates were heavy, with flows seen in FPLSP 4.98%-PERPs, SOCGEN 6.125%-PERPs, HSBC 4.7%-PERPs, CMZB 4.875%'27s, ACAFP 3.8%'31s and UBS 5.875%-PERPs.
- 10Y UST yields rose 1bps to 2.41%, on the back of risk-on sentiments as risky assets saw a rebound after heavy sell-offs on Monday. US President Donald Trump's comments that trade negotiations with China has not fallen through sparked investor hopes for an eventual trade deal and a rally in the US stock indexes.

Credit Headlines

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

- HFC reported first quarter 2019 results. Revenue increased 53% y/y to SGD27.2mn from SGD17.7mn in 1Q2018, from recognition of revenue from the sales of its development properties in Singapore (Concourse Skyline) and higher rental income from its investment properties including YOTEL Singapore Orchard Road ("YOTEL") which had commenced its operations in 4Q2017.
- Profit before tax (before other income, other expenses, fair value changes, revaluation, impairment and gain on disposal) improved by 43.4% y/y to ~SGD12.4mn (1Q2018: ~SGD8.7mn). Reported net profit was higher by 813% y/y at SGD5.1mn (1Q2018: SGD0.6mn). This was largely due to a significantly higher fair value gain on other investments of SGD2.4mn vs SGD0.02mn a year ago, from the valuation of its investments at fair value as at 31 March 2019.
- HFC generated net cash from operations amounting to SGD4.9mn, though this was largely used to purchase SGD11.5mn of stocks and bonds. HFC had in the quarter redeemed its SGD120mn HFCSP 4.75% '19s and issued a SGD100mn HFCSP 4.2% '22s. Overall cash balance was lower at SGD44.8mn (1Q2018: SGD59.9mn).
- Net gearing is manageable at 29.4% though higher relative to 1Q2018's 28.7%, due to mainly a slight increase in debt of 1.4% y/y.
- Looking forward, HFC expects to recognise profit from sales of residential units and recurring income from renting its investment and development properties and YOTEL to continue to contribute positively. (Company, OCBC)

Credit Headlines (cont'd)

City Developments Ltd ("CDL") | Issuer Profile: Positive (2)

- CDL reported 1Q2019 results for the quarter ending 31 Mar 2019. Revenue declined 29.5% y/y to SGD746.2mn due to absence of revenue from The Criterion EC which obtained TOP in Feb 2018. According to CDL, excluding The Criterion EC's contribution to 1Q2018 results, revenue in 1Q2019 would have rose 6% y/y. Overall, net profit rose 51.9% y/y to SGD211.5mn despite the fall in revenue as (1) CDL recorded SGD144.3mn gain from divestment of Manulife Centre in relation to the second Profit Participation Securities developed in 2015 and (2) share of after-tax profit of JVs rose to SGD33.5mn (1Q2018: SGD2.8mn) due to contribution from South Beach Residences.
- By segment, property development revenue fell to SGD250mn (1Q2018: SGD563mn) mainly due to the absence of revenue from The Criterion EC though pre-tax profit remained stable at SGD87.4mn (1Q2018: SGD86.5mn). Hotel Operations revenue also dipped by 4.8% y/y to SGD360mn, with a corresponding SGD1.9mn pre-tax loss (1Q2018 pre-tax profit: SGD20.8mn) due to weakening of GBP while Millennium Hotel London Mayfair and Dhevanafushi Maldives Luxury Resort and others in London and Singapore were closed for refurbishment. Rental Properties remained as the more steady segment with revenue rising to SGD103mn (1Q2018: SGD84mn) due to 3 buildings acquired in 2H2018 (Algate House, 125 Old Broad Street, Central Mall Office Tower) as well as the re-opening of Le Grove Serviced Residences and Hong Leong City Center. Meanwhile, pre-tax profit surged to SGD181mn (1Q2018: SGD61mn) mainly due to gain from divestment of Manulife Centre.
- Meanwhile, net gearing rose to 36.2% q/q (4Q2018: 32.9%) as CDL granted a loan to an established real estate developer in China (with CDL intending to take a 24% stake) and to acquire 70% interest in one of the office projects in Shanghai, which saw trade and other receivables increasing to SGD1.72bn (4Q2018: SGD955.5mn). Cash from operating activities remains healthy at SGD213.7mn with operating profit before working capital changes of SGD179.1mn (1Q2018: SGD210.8mn) though investing activities recorded a significant negative of SGD611.9mn due to SGD657.9mn advance granted to the real estate developer in China (which CDL intends to take a 24% stake). Meanwhile, there was also SGD28.2mn outflow for acquisition of a freehold site at Monk Bridge in Leeds, UK.
- We think there could be further cash outflows with CDL acquiring a residential site at Sims Drive in a 40-60 JV for SGD383.5mn in Apr 2019 while we understand that the total sum of investment in the China Real Estate Developer will be SGD1.1bn while only SGD657.9mn advance was granted. We expect net gearing to climb to ~40% levels as a result. Noting that CDL is not shy of deploying capital, we are reviewing the credit profile of CDL. (Company, OCBC)

Credit Headlines (cont'd)

Sembcorp Industries Ltd ("SCI") | Issuer Profile: Neutral (4)

- SCI announced its results for the first quarter ended March 2019 ("1Q2019"), revenue was down 10.1% y/y to SGD2.5bn on the back of lower top line from the Marine segment (via its 61%-stake in Sembcorp Marine Ltd ("SMM")) while SCI's main income contributor the Utilities segment, which has been renamed to Energy, saw an SGD84mn increase in top line.
- SCI breaks down profit from operations ("PFO"), excluding exceptional items by segment, an aggregation of earnings before interest and taxes and share of results of associates and joint ventures (net of tax). For the Energy segment, this was SGD216mn in 1Q2019 versus SGD190mn in 1Q2018. The increase in 1Q2019 was mainly due to contribution from the UK (+SGD21mn contribution), +SGD14mn contribution from rest of Southeast Asia and +SGD8mn from India which helped offset weakness in Singapore, China and higher corporate expenses (-SGD10mn impact from liquidated damages and investments in digital). It is worth noting though that all of UK's contribution was from UKPR which was only acquired in 2Q2018. Without UKPR, UK would have seen an operating loss. Taking the UKPR contribution out, PFO – Energy would have been only SGD192mn.
- PFO for Marine was lower by 78% y/y at only SGD4mn, this was driven by lower overall business volume. As at 3 May 2019, the net orderbook for the segment excluding Sete Brasil contracts had dwindled to SGD2.6bn (31 December 2018: SGD3.09bn), indicating that the Marine business is not replenishing contracts as fast. While optically this may look like a negative trend, this simultaneously caps working capital needs at Marine and therefore containing overall leverage levels at SCI, which is a credit positive from our perspective. As a medium term credit positive, SMM is due to receive SGD1.1bn in cash from Borr Drilling over the next five years (from rigs sold and already delivered by SMM). The exact payment schedule is not disclosed though the last payment will be received in 1Q2024.
- Driven by a reduction in cost of sales, EBITDA (based on our calculation which does not include other income and other expenses) though increased by 4.2% y/y to SGD326mn. Interest expense increased 25% y/y to SGD142mn, mainly due to higher average gross debt in 1Q2019 versus 1Q2018. This was also dragged by a SGD6mn increase in interest expense of lease liabilities (post adoption of SFRS(I) 16 Leases). SCI had taken more debt in relation to Myingyan (in Myanmar), Sirajganj Unit 4 (in Bangladesh) and the acquisition of UK Power Reserve ("UKPR", acquisition completed in June 2018). As a result, we find EBITDA/Interest coverage lower at 2.3x versus 2.7x in 1Q2018.
- Unadjusted net gearing was 1.09x as at 31 March 2019, slightly lower than the 1.11x in end-2018. Assuming 50% of perpetual as debt, we find adjusted net gearing at 1.20x, versus end-2018's 1.22x. We are comfortable keeping SCI's issuer profile at Neutral (4). (Company, OCBC)

Credit Headlines (cont'd)

Singapore Telecommunications Ltd ("SingTel") | Issuer Profile: Positive (2)

- SingTel reported its FY2019 and 4QFY2019 results for the period ended 31 March 2019. While headline numbers appear stable, underlying performance remains weak.
- While FY2019 revenue rose by 0.6% y/y to SGD17.37bn, reported EBITDA declined by 7.1% y/y to SGD4.69bn. Results were driven by weakness across all business segments:
  - Group Consumer revenues rose 1.1% y/y however reported EBITDA fell 4.7% as higher equipment sales and handset leasing in Singapore and Australia was offset by lower fixed voice and mobile service revenues in Singapore.
  - Group Enterprise saw revenues fall 2.3% y/y and reported EBITDA fall 9.0% y/y from the ongoing decline in traditional legacy services as well as lower margins in ICT and higher digital investments.
  - Group Digital Life revenues rose 13.3% y/y however reported losses increased with EBITDA down 78.8% to a loss of SGD92mn. While revenues were improved by the inclusion of Videology and growth in programmatic platform business as well as better scale at HOOQ, EBITDA fell due to Videology generating losses and lower revenue from the higher margin media businesses.
- Associates pre-tax earnings continue to struggle and were down 37.6% y/y to SGD1.42bn, mainly from intense competition at Airtel and Telkomsel. As a result, EBITDA and share of associates pre-tax earnings fell 17.1% y/y to SGD6.23bn and underlying net profit before exceptional items fell 21.5% y/y to SGD2.83bn.
- 4QFY2019 results had similar overall trends to FY2019 with group revenue up 1.9% y/y and EBITDA down 5.2% y/y to SGD4.34bn and SGD1.17bn respectively. Associates pre-tax earnings were down 19.3% y/y due to weaker performance and competitive pressures at Bharti Airtel and Telkomsel as well as higher depreciation, spectrum amortisation and network costs from continued 4G network expansion and as such EBITDA and share of associates pre-tax earnings fell 9.4% y/y to SGD1.59bn. Underlying net profit before exceptional items fell 15% y/y to SGD697mn.
- Despite the weaker earnings, cashflow performance appears decent with free cash flow up 40% y/y and 1% y/y for 4QFY2019 and FY2019 respectively and this was driven by lower capital expenditure .
- Similarly, reported credit ratios remain sound. The reported net debt/(EBITDA + share of associates pre-tax profits) ratio was 1.59x as at 31 March 2019, stable from 31 December 2019 (1.58x) and weaker from 31 March 2018 (1.32x). Reported net gearing at 24.9% as at 31 March 2019 was broadly stable from 31 December 2019 (25.2%) and weaker from 31 March 2018 (24.9%).
- While these metrics remain within our Positive (2) Issuer Profile, we continue to review the numbers including the weaker operating performance and industry outlook and how this will impact future free cash flows. (Company, OCBC)

OCBC Bank

Table 1: Key Financial Indicators

	15-May	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	72	2	8
iTraxx SovX APAC	47	2	5
iTraxx Japan	61	3	7
iTraxx Australia	74	3	6
CDX NA IG	63	1	7
CDX NA HY	106	-1	-1
iTraxx Eur Main	65	3	7
iTraxx Eur XO	282	14	34
iTraxx Eur Snr Fin	80	5	10
iTraxx Sovx WE	18	1	0
AUD/USD	0.693	-0.82%	-3.37%
EUR/USD	1.121	0.14%	-0.85%
USD/SGD	1.368	-0.42%	-1.10%
China 5Y CDS	49	3	8
Malaysia 5Y CDS	64	2	12
Indonesia 5Y CDS	105	2	10
Thailand 5Y CDS	38	1	0

	15-May	1W chg	1M chg
Brent Crude Spot ($/bbl)	71.06	0.98%	-0.17%
Gold Spot ($/oz)	1,295.68	1.16%	0.60%
CRB	179.99	0.28%	-3.96%
GSCI	436.89	0.03%	-2.93%
VIX	18.06	-6.52%	46.59%
CT10 (bp)	2.410%	-7.31	-14.39
USD Swap Spread 10Y (bp)	-4	-2	-3
USD Swap Spread 30Y (bp)	-28	-3	-4
US Libor-OIS Spread (bp)	16	0	-2
Euro Libor-OIS Spread (bp)	6	0	0
DJIA	25,532	-1.67%	-3.23%
SPX	2,834	-1.72%	-2.45%
MSCI Asiax	634	-3.61%	-6.92%
HSI	28,322	-3.54%	-4.99%
STI	3,223	-1.86%	-3.10%
KLCI	1,612	-1.33%	-1.19%
JCI	6,070	-3.20%	-5.68%

New issues

- Housing and Developmental Board has priced a SGD700mn 5-year bond at 2.164%.
- Buana Lintas Lautan Tbk PT has scheduled investor meetings from 15 May for its potential USD bond issuance.
- Indiabulls Housing Finance Ltd has mandated banks for its potential USD bond issuance.
- GS Caltex Corp has scheduled investor meetings from 20 May for its potential USD bond issuance.
- Goho Financial Asset Management Co Ltd has scheduled investor meetings from 15 May for its potential USD bond issuance.

Date	Issuer	Size	Tenor	Pricing
14-May-19	Housing and Developmental Board	SGD700mn	5-year	2.164%
10-May-19	Bank of China/Hong Kong	USD100mn	2-year	2.90%
10-May-19	Zhongrong International Bond 2019 Limited	USD301.41mn	3NP2	7.60%
9-May-19	Asian Infrastructure Investment Bank	USD2.5bn	5-year	MS+6bps
9-May-19	Yankuang Group (Cayman) Limited	USD500mn	YGCZCH 6.0%'22s	5.5%
9-May-19	E-House (China) Enterprise Holdings Limited	USD100mn	EHOUSE 7.75%'21s	8.5%
9-May-19	Industrial and Commercial Bank of China Limited	USD200mn	2-year	2.5%
8-May-19	CCBL (Cayman) 1 Corporation Ltd	USD500mn USD200mn	5-year 10-year	T+130bps T+195bps
8-May-19	MGM China Holdings Limited	USD750mn USD750mn	5NC2 7NC3	5.375% 5.875%
7-May-19	Car Inc	USD372.3mn	3-year	8.875%
7-May-19	Woori Financial Group Inc	USD450mn	5-year	3M-US LIBOR+77bps
7-May-19	Qingdao Jiaozhou Bay Development Group Co Ltd	USD80mn	QDJZWD 6.5%'21s	7.2%
2-May-19	Medco Oak Tree Pte Ltd	USD650mn	7NC4	7.70%
2-May-19	SD International Sukuk Ltd	USD300mn	3-year	6.30%
2-May-19	Alam Synergy Pte Ltd	USD125mn	ASRIIJ 6.625%'22s	95.176+accrued

Source: OCBC, Bloomberg

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