

Feb 25, 2019

Credit Headlines: Heeton Holdings Ltd, Lippo Malls Indonesia Retail Trust, Golden Agri-Resources Ltd

Market Commentary

- The SGD swap curve steepened last Friday, with the shorter tenors trading 1bps higher while the longer tenors traded 2bps higher (with the exception of the 20-year swap rate trading only 1bps higher).
- The Bloomberg Barclays Asia USD IG Bond Index average OAS traded little changed at 144bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 12bps to 513bps.
- Flows in SGD corporates were moderate last Friday, with flows seen in DBSSP 3.98%-PERPs, OLAMSP 5.5%-PERPs and SINTEC 5.0%-PERPs.
- 10Y UST yields fell 3bps to 2.65%, on the back of comments made by members of the Federal Reserve regarding its monetary policy framework as the Fed begins a broad review of its approaches to keep inflation stable and unemployment low.

Credit Headlines

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

- HHL reported 2018 results. Revenue dipped 3.6% y/y to SGD55.1mn mainly due to decrease in sales from Onze@Tanjong Pagar which has been substantially sold. Results were also impacted by the decline in rental revenue from The Woodgrove which was divested in Feb 2018, though this was partly mitigated by increased contribution from Luma Concept Hotel Hammersmith which commenced operations from Apr 2017 and hotels which were acquired in 2018.
- Net profit though fell 78.5% y/y to SGDD16.2mn and this is mainly due to decrease in fair value gains to SGD6mn (2017: SGD37.1mn). Without the one-offs, we estimate that EBITDA would have increased 13% y/y to SGD30.7mn from the core segments of property investment (-15% y/y to SGD15.2mn, due to divestment of The Woodgrove), property development (+63% y/y to SGD10.3mn, from higher contribution from associate stakes in development projects) and hospitality (+80% y/y to SGD5.2mn, from higher hospitality revenue).
- Despite the slower Singapore property market, we remain comfortable with HHL’s projects in Singapore. As mentioned, its fully-owned Onze@Tanjong Pagar is already substantially sold. High Park Residences (20%-stake) completing this year is already fully sold. The remaining joint venture projects in Park Colonial (20%-stake) and Affinity at Serangoon (5%-stake) are also selling well, with the former 70.2%-stake sold while the latter project has fully sold its 300 units in phase 1 and 105 out of 350 units in phase 2.
- While SGD104.1mn of short-term debt exceeds SGD75.0mn of cash and fixed deposits, we are not overly worried as we believe the debt can be rolled-over, given that it is secured. In any case, we think there could be debt headroom for HHL to borrow given its moderate levels of net gearing.
- Net gearing remains relatively unchanged q/q at 0.59x (3Q2018: 0.60x) despite generating net profit of SGD3.5mn and operating cash from operations inflow of SGD12.0mn in 4Q2018. This is due to acquisition of Indigo Hotel in Glasgow, Scotland worth \$16.95 million. We continue to hold HHL at a Neutral (5) Issuer Profile. (Company, OCBC)

Credit Headlines (cont'd)**Lippo Malls Indonesia Retail Trust (“LMRT”) | Issuer Profile: Negative (6)**

- LMRT announced 4Q2018 results. Core revenue (gross rental income and carpark income) fell 10.6% y/y to SGD41.0mn, mainly due to the weakening of the IDR against SGD and expiry of master leases over the 7 Retail Spaces. Net property income though fell by a larger 14.5% y/y to SGD38.4mn due to higher operating property expense with allowance for doubtful debts made of SGD2.7mn.
- As a recap, LMRT has been facing delays of payments from tenants. Trade and other receivables amount to SGD40.5mn, which is nearly equivalent to a quarter of core revenue. That said, we see some improvements q/q. Without accounting for other receivables, trade receivables (net of allowance of doubtful debts) is SGD29.9mn (3Q2018: SGD40.1mn). SGD13.2mn are due from related party tenants (3Q2018: SGD20.3mn) and SGD16.7mn are due from non-related party tenants (3Q2018: SGD19.8mn). Further, LMRT disclosed that another SGD8.4mn in trade receivables have been collected after end-Dec 2018.
- Despite the late payments, LMRT continues to affirm that there is no reason to believe that Lippo group of companies will not be able to fulfill their payment obligations to LMRT. According to LMRT, 25.8% of 2018's revenue are from related parties, which includes LK Master Leases (9.5%), Matahari (6.3%), Hypermart (4.3%) and Sky Parking (3.6%). In our view, the risk of tenants defaulting remains elevated. That said, we still think that LMRT may eventually survive even if related parties default though LMRT's credit profile may be significantly weakened.
 - Using 2018's figures, cash from operating activities of SGD138.2mn is sufficient to cover (1) SGD11.7mn in capex, (2) SGD31.3mn in interest payments, (3) SGD17.7mn in distribution to perpetual security holders. However, the buffer will be significantly reduced if tenants (e.g. related party related) pull out or default.
- Occupancy rate has declined y/y to 92.9% (2017: 93.7%) though improved q/q (3Q2018: 92.6%). In the worst case scenario that related parties pull out, occupancy may plunge below 70% though we should expect occupancy to recover over time to the industry average (83.2%). Meanwhile, LMRT has recorded a positive rental reversion of 3.6% in 2018.
- Aggregate leverage improved to 34.3% (3Q2018: 36.8%) due to the net repayment of debt which was partly financed using internal cash resources. LMRT still holds SGD52.7mn of cash, which can be used to pay down more debt (and push down aggregate leverage) though SGD120mn of revolving credit facility is due. Despite the poor results and uncertainty from potential defaults from tenants, we believe that LMRT can obtain refinancing given the moderate levels of aggregate leverage while its balance sheet remains unencumbered. We continue to hold LMRT at a Negative (6) Issuer Profile. (Company, OCBC)

Golden Agri-Resources Ltd (“GGR”) | Issuer Profile: Neutral (5)

- In a surprise move, China has committed to buying an additional 10 mn metric tons of soybeans from the US. Imports of soybean into China from the US had crashed significantly (plunging to zero in November 2018). In July 2018, China slapped US soybeans with additional tariffs of 25%. Prior to the trade war, in the marketing year ending 30 September 2017 (“MY16/17”), China imported total of 36.8 mn metric tons of soybeans from the US.
- Given that palm is a close alternative to soy (eg: for animal feed and soy oil), we expect this announcement to cap the rise in CPO prices that has occurred since beginning of January 2019. We will review the issuer profile of GGR along with the release of its 4Q2018 financial results expected on 27 February 2019. (USDA, Bloomberg, OCBC)

Table 1: Key Financial Indicators

	<u>25-Feb</u>	<u>1W chg (bps)</u>	<u>1M chg (bps)</u>
iTraxx Asiax IG	72	-2	-11
iTraxx SovX APAC	56	-1	-5
iTraxx Japan	60	0	-6
iTraxx Australia	71	-1	-11
CDX NA IG	62	-1	-11
CDX NA HY	106	0	1
iTraxx Eur Main	67	-1	-7
iTraxx Eur XO	292	-4	-29
iTraxx Eur Snr Fin	83	-2	-6
iTraxx Sovx WE	24	0	0
AUD/USD	0.714	0.20%	-0.49%
EUR/USD	1.134	0.27%	-0.56%
USD/SGD	1.350	0.48%	0.24%
China 5Y CDS	51	-2	-6
Malaysia 5Y CDS	70	-3	-14
Indonesia 5Y CDS	109	-2	-8
Thailand 5Y CDS	46	-1	3

	<u>25-Feb</u>	<u>1W chg</u>	<u>1M chg</u>
Brent Crude Spot (\$/bbl)	66.91	0.62%	8.55%
Gold Spot (\$/oz)	1,331.39	0.34%	2.00%
CRB	184.06	2.99%	1.87%
GSCI	429.45	1.43%	4.82%
VIX	13.51	-16.71%	-22.45%
CT10 (bp)	2.655%	-0.72	-10.31
USD Swap Spread 10Y (bp)	1	-2	-2
USD Swap Spread 30Y (bp)	-20	-3	-3
US Libor-OIS Spread (bp)	24	0	-10
Euro Libor-OIS Spread (bp)	5	0	0
DJIA	26,032	2.33%	5.23%
SPX	2,793	1.71%	4.80%
MSCI Asiax	656	2.21%	3.98%
HSI	28,888	1.91%	4.78%
STI	3,260	-0.17%	1.82%
KLCI	1,720	1.62%	1.12%
JCI	6,515	0.26%	0.49%

New issues

- ReNew Power Ltd has scheduled investor meetings from 25 Feb for its potential USD bond issuance.

<u>Date</u>	<u>Issuer</u>	<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
21-Feb-19	The Chugoku Electric Power Co	USD300mn	5-year	CT5+100bps
21-Feb-19	Shui On Development (Holding) Ltd	USD500mn	2-year, 9-month	6.25%
21-Feb-19	E-House (China) Enterprise Holdings Ltd	USD200mn	2-year	8.625%
21-Feb-19	CFLD (Cayman) Investment Ltd	USD530mn	2-year	8.625%
21-Feb-19	KWG Group Holdings Ltd	USD350mn	4.5NC2.5	7.875%
21-Feb-19	Henderson Land MTN Ltd	USD300mn	10-year	CT10+140bps
20-Feb-19	China Construction Bank Corporation	USD1.85bn	10NC5	CT10+188bps
20-Feb-19	ENN Clean Energy International Investment Ltd	USD250mn	2-year	8.35%
20-Feb-19	Guangzhou R&F Properties Co Ltd	USD450mn USD375mn	4-year 5-year	8.125% 8.625%
20-Feb-19	Modern Land (China) Co Ltd	USD200mn	MOLAND 15.5%'20s	14.0%
20-Feb-19	Shriram Transport Finance Co Ltd	USD400mn	3-year	5.7%

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

Seow Zhi Qi

Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6530 7348
zhiqiseow@ocbc.com

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