

Mar 5, 2019

Credit Headlines: The Straits Trading Company Ltd

Market Commentary

- The SGD swap curve flattened yesterday, with shorter tenors trading 1-2bps lower while the longer tenors traded 2bps lower (with the exception of the 12-year swap rate trading lower by 1bps).
- The Bloomberg Barclays Asia USD IG Bond Index average OAS traded little change at 140bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 3bps to 494bps.
- Flows in SGD corporates were heavy, with flows seen in DBSSP 3.98%-PERPs, GUOLSP 4.6%-PERPs, HSBC 4.7%-PERPs, PREHSP 5.95%'20s and UBS 5.875%-PERPs.
- 10Y UST yields fell 3bps to 2.72%, reversing last Friday's movement in yields which rose despite the weak US manufacturing, personal income and spending economic data released.

Credit Headlines

The Straits Trading Company Ltd ("STC") | Issuer Profile: Unrated

- STC announced its 4Q2018 results, with reported 4Q2018 revenue remaining fairly stable y/y at SGD104.7mn though underlying trends differ. A 7.8% y/y decrease to SGD94.9mn in the resources segment due to lower tin mining and smelting revenue was offset by a 179.1% increase y/y to SGD9.8mn in the real estate segment revenue with several strategic additions to its overseas property portfolio. Through Straits Real Estate ("SRE"), a co-investment vehicle in which STC has a majority-stake, the Group doubled its residential portfolio in Japan (1,016 units across 10 assets from 612 units across 5 assets) and acquired a portfolio of logistics properties in Australia through a new joint venture. SRE is also significantly invested in the Greater Tokyo Office Fund, who reinvested divestment gains into the Savills Investment Management Japan Value Fund, focused on acquiring more office assets in Japan.
- Profit before tax rose 643.8% y/y to SGD22.0mn. This was mainly driven by lower y/y expenses, notably from the 20.1% y/y decrease in the costs of tin mining and smelting which traditionally made up a significant portion of expenses. STC's commitment to raise operational efficiency in its resource subsidiary, Malaysia Smelting Corporation Berhad ("MSC"), is expected to continue to cut expenses, as migration of MSC's operations to a new state-of-the-art plant in Pulau Indah, Klang, is still in progress. Results were also lifted by a one-time sharing of fund related fees, otherwise other expenses were fairly stable.
- Net gearing increased y/y to 0.39x (4Q2017: 0.26x) mainly due to the SGD332.4mn acquisition of investment properties during FY2018 as seen by the expansion of STC's overseas property portfolio. Strong recurring income (2018 EBITDA: SGD46.4mn) is expected to continue with the lower cost of its tin business (albeit with lower tin revenue) and higher rental income moving forward. Coupled with a cash and cash equivalents position of SGD244.9mn (4Q2017: SGD362.4mn) and a resulting cash asset ratio of 0.99x (4Q2017: 1.68x), STC is expected to be able to meet its short-term debt obligations of SGD247.2mn as of 31 December 2018 comfortably. If the acquisition path continues, however, STC would need to refinance its short term debt, while noting that it has an existing SGD150.0mn bond due in 2021 (STRTR 3.73%'21s). (Company, OCBC)

Table 1: Key Financial Indicators

	5-Mar	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	67	-4	-11
iTraxx SovX APAC	51	-4	-7
iTraxx Japan	56	-3	-4
iTraxx Australia	66	-4	-8
CDX NA IG	60	-1	-4
CDX NA HY	106	0	0
iTraxx Eur Main	62	-1	-8
iTraxx Eur XO	277	0	-27
iTraxx Eur Snr Fin	76	0	-10
iTraxx Sovx WE	21	-1	-3
AUD/USD	0.708	-1.42%	-2.07%
EUR/USD	1.134	-0.47%	-0.62%
USD/SGD	1.355	-0.60%	-0.27%
China 5Y CDS	47	-2	-6
Malaysia 5Y CDS	60	-7	-18
Indonesia 5Y CDS	97	-9	-12
Thailand 5Y CDS	43	-3	3

	5-Mar	1W chg	1M chg
Brent Crude Spot (\$/bbl)	65.57	0.55%	5.79%
Gold Spot (\$/oz)	1,286.63	-3.19%	-2.18%
CRB	181.09	-0.36%	0.64%
GSCI	423.05	0.60%	3.13%
VIX	14.63	-1.48%	-6.04%
CT10 (bp)	2.724%	8.84	2.58
USD Swap Spread 10Y (bp)	1	0	-2
USD Swap Spread 30Y (bp)	-20	1	-2
US Libor-OIS Spread (bp)	19	-3	-15
Euro Libor-OIS Spread (bp)	5	0	0
DJIA	25,820	-1.04%	1.61%
SPX	2,793	-0.12%	2.01%
MSCI Asiax	658	-0.29%	2.50%
HSI	28,960	0.65%	3.46%
STI	3,237	-0.76%	1.64%
KLCI	1,684	-2.06%	0.00%
JCI	6,488	-0.57%	0.11%

New issues

- Guotai Junan Holdings Ltd has priced a USD500mn 3-year bond (guarantor: Guotai Junan Securities Co Ltd) at CT3+147.5bps, tightening from IPT of +180bps area.
- CDBL Funding 2 has priced a USD700mn 3-year bond (guarantor: Metro Excel Ltd) at CT3+125bps, tightening from IPT of +155bps area.
- NWD Finance (BVI) Ltd has priced a USD500mn NC5-perpetual bond at 6.25%.
- Hon Hai Precision has mandated banks for its potential USD 5-year and 10-year bond issuances.

<u>Date</u>	<u>Issuer</u>	<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
3-Mar-19	Guotai Junan Holdings Ltd	USD500mn	3-year	CT3+147.5bps
3-Mar-19	CDBL Funding 2	USD700mn	3-year	CT3+125bps
3-Mar-19	NWD Finance (BVI) Ltd	USD500mn	NC5-PERP	6.25%
1-Mar-19	Zhenro Properties Group Ltd	USD200mn	3NC2	9.95%
1-Mar-19	Centurion Corp Ltd	SGD4mn	CENSP 5.5%'22s	5.5%
28-Feb-19	Vanke Real Estate (Hong Kong) Co Ltd	USD600mn	5.25-year	CT5+175bps
28-Feb-19	Tuspark Forward Ltd	USD350mn	2-year	7.9%
28-Feb-19	Sunrise (Cayman) Ltd	USD500mn	5-year	CT5+285.5bps
28-Feb-19	Agile Group Holdings Ltd	USD500mn	3NC2	6.7%
28-Feb-19	Jubilant Pharmaceuticals Ltd	USD200mn	5NC3	6.0%
27-Feb-19	Sichuan Languang Development Co Ltd	USD150mn	LGUANG 11.0%'20s	12.625%
27-Feb-19	Mitsui Sumitomo Insurance Co Ltd	USD910mn	NC10-PERP	4.95%
27-Feb-19	Emirates NBD PJSC	SGD130mn	4-year	3.05%
26-Feb-19	Bi Hai Co	USD600mn	3-year	6.25%
26-Feb-19	ICBCIL Finance Co	USD700mn USD800mn	3-year 5-year	CT3+125bps CT5+142.5bps

Source: OCBC, Bloomberg

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