

Gallant Venture Ltd: Credit Update

Tuesday, 11 October 2016

Still chugging along

- 1H2016 results:** Gallant Venture Ltd (“GALV”) reported a 15% decline in 1H2016 revenue to SGD898.1 mn (1H2015: SGD1.07bn). More than 90% of GALV’s revenue is driven by its 71%-owned subsidiary Indomobil Sukses International Tbk (“IMAS”) which is listed on the Jakarta Stock Exchange (“JSE”). In 1H2016, IMAS recorded a 15% decline in revenues, largely driven by a fall in sales of Nissan and Hino vehicle brands, despite revenue gains made by Datsun and other segments. Despite the headline fall in revenue, gross profit declined by only 5% to SGD151.4mn in 1H2016 (1H2015: SGD158.7mn). The decline in gross profit was smaller due to the growth of other higher-margin segments (eg: spare parts, consumer finance and car rental). Driven by the lack of other income and higher expenses, GALV reported a wider loss before tax of SGD44.0mn (1H2015: negative SGD29.1mn). In 1H2015, cash flow from operations (“CFO”) before interest paid just managed to cover interest expenses, however, in 1H2016, GALV did not generate sufficient CFO to cover its interest expenses, with the gap in cash flow funded via the disposal of an asset which GALV held.
- Leverage partly driven by financing business:** GALV as a holding company consolidates IMAS’s results, which itself consolidates the results of Indomobil Multi Jasa Tbk (“IMJS”), a separately listed entity on the JSE and ~90% owned by IMAS. IMJS operates both the vehicle financing (ie: Indomobil Finance Indonesia “IMFI”) and car rental arms (ie: PT CSM Corporatama) of the Indomobil group. The leverage level (as measured by gross debt-to-equity) at IMJS is higher at 4.5x. Due to its business nature, we do not think that this is excessive. Certain lending banks have imposed a 8.5x – 10.0x gross debt-to-equity ratio cap on IMFI. As at 30 June 2016, GALV’s gross debt-to-equity ratio based on our standard calculation is at 1.2x, with unadjusted net tangible assets (“NTA”) at SGD1.2bn. GALV’s is subjected to two balance sheet covenants (i) NTA to be above SGD1bn and (ii) Consolidated Net Borrowings to Consolidated NTA to not exceed 2.25x. However, the actual covenants carve out IMFI, which we believe was done due to the distinct capital structure versus the rest of the group.

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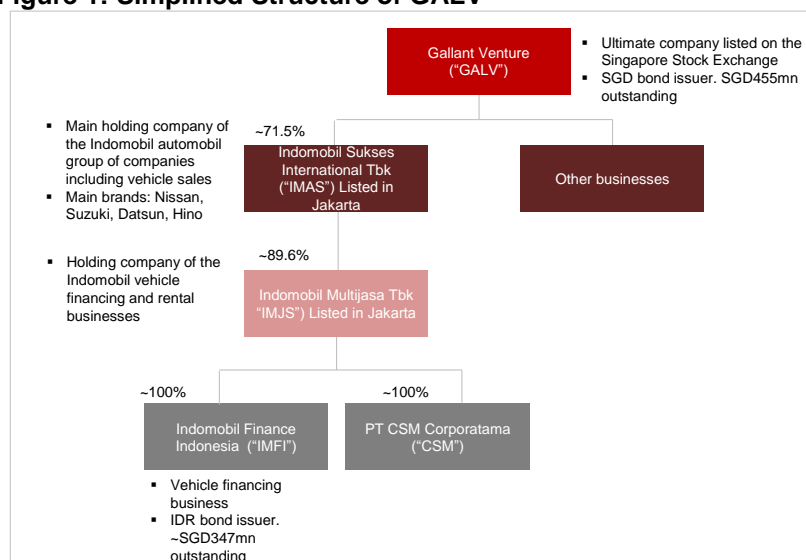
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Figure 1: Simplified Structure of GALV



Note: Pefindo (a local credit rating agency in Indonesia) rates IMFI’s IDR bonds at idA

- Lackluster operating performance:** Despite the overall market growing slightly at 1.2% to 531,929 units sold¹ in 1H2016, vehicle sales at IMAS was down 24% y/y to IDR5.1bn (SGD542mn) from IDR6.8 trillion (SGD715mn) in 1H2015. This was largely attributable to the slower growth at the Nissan and Hino brands. Non-vehicle sales segment (eg: spare parts, services, consumer finance leases and car rental) performed better, with revenue growing 10% in 1H2016, though was insufficient to offset the decline in vehicle sales. In 1H2016, vehicle sales made up 64% of revenues while the remaining 36% was made up of non-vehicle sales. We expect full year sales of Nissan and Hino to continue being weak given the lack of new models being introduced this year and intense market competition in Indonesia. At the gross profit level though, IMAS reported a narrower decline of 1% y/y, as gross margins in the non-vehicle sales segment was higher than the ~6-7% on vehicle sales. In 1H2016, IMAS' gross margin was 16.9% against 14.6% in 1H2015. In 1H2016, cash flow from operations (before taxes and interest) just about covered IMAS' interest and financing charges. We expect IMAS' full year cash flow generation from operations to continue being thin and unlikely to meaningfully upstream dividends to GALV. This is exacerbated at the GALV level as the holding company took on significant amount of SGD borrowings to fund the acquisition of IMAS. In end-2012, the transaction valued IMAS at SGD1.9bn (using then prevailing exchange rate), currently IMAS has a market cap of ~SGD395mn².
- Share price unraveling:** GALV's listed equity price has declined a further 25% post our last credit update on the company on 5th August 2016. The company's market cap is ~SGD630mn; shrinking from ~SGD947mn immediately before its 2Q2016 results were released on 4th August 2016. In total, the company has lost ~33% in market cap since then. While there is no additional publicly available information that has come to our attention, we see this market movement as a compression in GALV's standalone financial flexibility.
- Source of liquidity:** GALV was an investor in the Lao Xi Men project via a note with detachable warrants it held. During 1H2016, GALV sold this note. As part of the sale, GALV will be repaid ~SGD454mn, separated into tranches. SGD194mn has been repaid in 1H2016. As at 30 June 2016, GALV is due to receive another SGD260mn by April 2017. Consolidated short term borrowings as at 30 June 2016 is SGD1.09bn, of these, the GALV HoldCo owes SGD297.7mn. The rest of the short term borrowings are taken at operating company level, bulk of which is attributable to IMAS. Given the stretched liquidity, short term debt at IMAS will need to be refinanced (rather than paid down). As yet, we see no evidence that IMAS will face issues in refinancing its debt. As at 30 June 2016, GALV has SGD637.8mn in land inventories and SGD176mn in investment properties (held via GALV's subsidiaries). Net-net we think that GALV's balance sheet provides it with asset monetization options against its upcoming maturities.
- Recommendation:** As IMAS has yet to generate sufficient dividends to support the acquisition debt taken by GALV, we expect GALV's leverage levels to be elevated and liquidity continued to be stretched. We maintain our Negative issuer profile of the company and keeping all 3 bonds at Neutral on valuation. We see the NOLSP curve as having a lower credit risk than GALV, and will Underweight GALV's bonds should the bonds rally against the NOLSP '17s and '19s. Currently the NOLSP 17s and 19s are yielding around the same levels as GALVs.

Issuer	Issue	Maturity	Outstanding Amount (SGDm)	Ask Price	Ask YTW	I-Spread	Rating
GALV	GALVSP 5.9 '17	12/05/2017	150	97.00	11.7	1,066	NR/NR/NR
GALV	GALVSP 7.0 '17	02/08/2017	75	97.00	11.3	1,011	NR/NR/NR
GALV	GALVSP 7.0 '18	06/04/2018	230	91.00	13.9	1,258	NR/NR/NR
NOL	NOLSP 4.25 '17	26/04/17	400	97.00	12.0	1,090	NR/NR/NR
NOL	NOLSP 4.4 '19	08/11/19	300	79.00	14.6	1,295	NR/NR/NR

Note: Indicative prices as at 11 October 2016

¹ Association of Indonesia Automotive Industries (GAIKINDO) data as compiled by Bloomberg

² The IDR:SGD exchange rate has declined 16% since December 2014 to 10 October 2016

Gallant Venture Ltd

Table 1: Summary Financials

Year End 31st Dec	FY2014	FY2015	1H2016
Income Statement (SGD'mn)			
Revenue	2,328.3	2,028.1	898.1
EBITDA	352.3	275.1	132.6
EBIT	229.5	149.1	70.2
Gross interest expense	131.6	145.2	67.2
Profit Before Tax	23.0	-99.0	-44.0
Net profit	7.5	-107.5	-44.3
Balance Sheet (SGD'mn)			
Cash and bank deposits	161.3	201.9	224.6
Total assets	5,026.2	4,956.1	4,748.7
Gross debt	2,240.2	2,383.5	2,288.4
Net debt	2,078.9	2,181.6	2,063.8
Shareholders' equity	2,185.1	2,034.2	1,960.4
Total capitalization	4,425.3	4,417.8	4,248.9
Net capitalization	4,264.0	4,215.8	4,024.2
Cash Flow (SGD'mn)			
Funds from operations (FFO)	130.4	18.5	18.1
CFO*	79.7	68.2	-144.2
Capex	180.5	110.8	35.8
Acquisitions	27.3	45.8	5.8
Disposals	53.6	35.9	197.7
Dividend	3.8	2.6	2.8
Free Cash Flow (FCF)	-100.8	-42.6	-180.0
FCF adjusted	-78.2	-55.1	9.1
Key Ratios			
EBITDA margin (%)	15.1	13.6	14.8
Net margin (%)	0.3	-5.3	-4.9
Gross debt to EBITDA (x)	6.4	8.7	8.6
Net debt to EBITDA (x)	5.9	7.9	7.8
Gross Debt to Equity (x)	1.03	1.17	1.17
Net Debt to Equity (x)	0.95	1.07	1.05
Gross debt/total capitalisation (%)	50.6	54.0	53.9
Net debt/net capitalisation (%)	48.8	51.7	51.3
Cash/current borrowings (x)	0.2	0.2	0.2
EBITDA/Total Interest (x)	2.7	1.9	2.0

Source: Company, OCBC estimates | *CFO after deducting interest expense

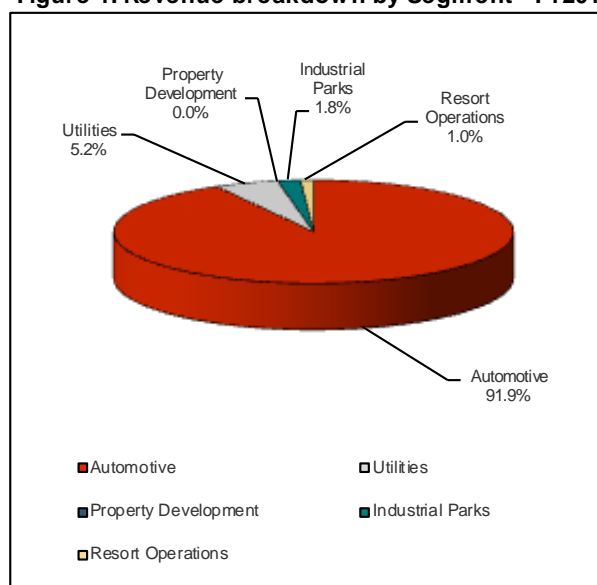
* FCF Adjusted = FCF - Acquisitions - Dividends + Disposals

Figure 3: Debt Maturity Profile

Amounts in (SGD'mn)	As at 30/6/2016	% of debt
Amount repayable in one year or less, or on demand		
Secured	1,088.4	47.6%
Unsecured	0.0	0.0%
	1,088.4	47.6%
Amount repayable after a year		
Secured	747.4	32.7%
Unsecured	452.6	19.8%
	1,200.0	52.4%
Total	2,288.4	100.0%

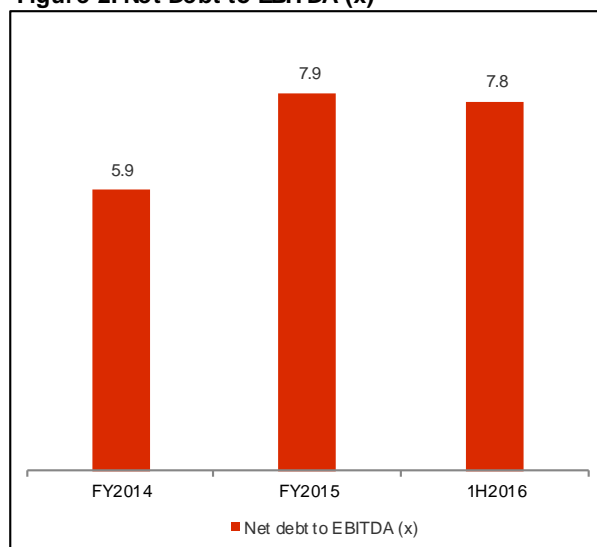
Source: Company

Figure 1: Revenue breakdown by Segment - FY2015



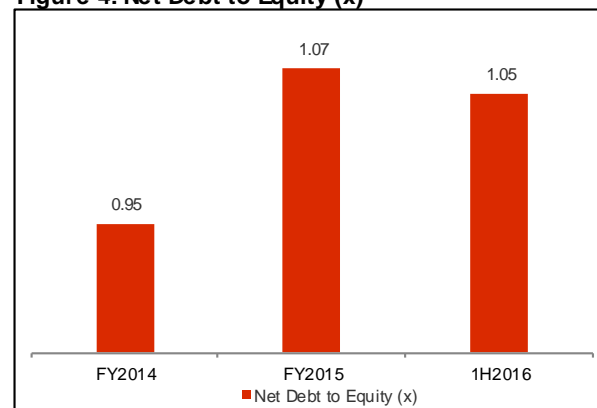
Source: Company

Figure 2: Net Debt to EBITDA (x)



Source: Company, OCBC estimates

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

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