

## Earnings Review: Oxley Holdings Ltd (“OHL”)

### Recommendation

- As expected, net gearing surged to 2.4x (2QFY2018: 1.9x) as OHL pays for a number of acquisitions, including the SGD660mn purchase of Chevron House. We expect net gearing to increase further to 2.9x when the remaining acquisitions are settled. As such, we will retain our Negative (6) Issuer Profile.
- For investors comfortable with OHL, OHLSP 5.7% '22s look attractive over OHLSP 5.15% '20s, providing 183bps spread pickup for ~1.7 years extension in tenor. However, we remain Underweight on the entire OHL curve and prefer other issues (e.g. HTONSP 6.08% '21s) around the 6.0% yield handle that has a lower net gearing. We think it is reasonable for OHLSP 5.7% '22s to provide closer to equity-like returns given the high net gearing levels.

### Relative Value:

Bond	Maturity	Net gearing	Yield to Maturity	Spread
OHLSP 5.7% 2022	31/01/2022	2.9x (F)	6.15%	436
OHLSP 5.15% 2020	18/05/2020	2.9x (F)	4.56%	253
OHLSP 6.375% 2021 (USD)	21/04/2021	2.9x (F)	6.29% (SGD)	414
ASPSP 5.9% 2021	19/04/2021	2.9x (A)	5.90%	374
HTONSP 6.08% 2021	19/07/2021	0.8x (F)	5.94%	375

Source: Bloomberg, Indicative prices as at 30 April 2018

**Issuer Profile:**  
**Negative (6)**

Ticker: **OHLSP**

### Background

Oxley Holdings Ltd (“OHL”) is a property developer listed on the SGX in Oct 2010. Beginning with a portfolio of development projects in Singapore, OHL has expanded to overseas projects in the UK, Malaysia, Ireland, China, Cambodia, Myanmar and Indonesia. OHL is also building a pipeline of investment and hospitality properties. OHL’s key shareholders are its CEO Mr Ching Chiat Kwong (41.1%-stake), its deputy CEO Mr Low See Ching (27.6%) and Mr Tee (11.6%) who appears to be a passive shareholder.

**Wong Hong Wei**  
+65 6722 2533

[wonghongwei@ocbc.com](mailto:wonghongwei@ocbc.com)

### Key Considerations

- Lacklustre results due to timing issue:** OHL reported 3QFY2018 results for the quarter ending 31 March. Overall, results were lacklustre due to the timing of recognition of revenue. Revenue declined 38% y/y to SGD238.8mn as 3Q2018 revenue from The Royal Wharf Phase 1A and 1B is lower than the 3Q2017 revenue from The Flow and Floraville/Floraview/Floravista. Net profit fell 33% y/y to SGD30.4mn, in-line with the decline of revenue, even with SGD22.2mn foreign exchange gain and SGD10.3mn fair value gain on investment properties as finance costs surged 34% y/y to SGD15.5mn (due to increase in borrowings) and fair value loss on financial instruments of SGD11.8mn.
- Surge in net gearing to continue though management targets lower leverage:** Net gearing surged to 2.4x q/q (2QFY2018: 1.9x), with the largest use of cash being the addition of SGD712.6mn of investment properties following the completion of SGD660mn acquisition of Chevron House. Net gearing may continue increasing and peak at ~2.9x in 4QFY2018 as we expect land purchases that OHL made in the preceding 6 months to be settled (e.g. SGD311mn purchase of Mayfair Gardens, SGD418mn purchase of Vista Park). Nevertheless, there is some potential for OHL to deleverage, if management chooses to (we acknowledge that management has explicitly targeted a declining total debt / capitalisation). OHL is expected to receive cashflows from the projects which will TOP in the next 12 months (SGD0.85bn from the unbilled contracts) and SGD263mn from the sale of Block D1 at Dublin Landings.
- Somewhat stretched liquidity mitigated by access to capital markets and assets:** SGD218.4mn cash looks insufficient compared to SGD293.9mn of short term debt maturing and settlement of en-bloc purchases. Nevertheless, we note that OHL maintains access to the capital markets, as demonstrated through the recent issuance of OHLSP 5.7% '22s (though trading below par) and placement of 156.8mn shares which raised SGD78.1mn. In the worst case scenario, we think OHL can monetise its stakes in United Engineers (worth ~SGD275mn), Novotel Singapore / Mercure Singapore (Indicative valuation of hotels: SGD886mn) and Chevron House (Indicative valuation: SGD750mn). However, the easily monetisable parts of OHL’s balance sheet will not be able to cover SGD3.3bn of total debt. Hence, OHL’s execution in property sales will be crucial.

- **OHL to benefit from a strong property market:** The pickup in the Singapore property market (1Q2018 URA private residential price index: +3.9% q/q) is a significant positive for OHL, with strong sales achieved at Verandah Residences (82% sold) that was launched in April 2018. OHL will be launching a number of projects in Singapore in 2Q-3QCY2018 (including Riverfront Residences, Affinity at Serangoon, Sea Pavilion Residences, Sixteen35 Residences, Parkwood Residences, Meyappa) with SGD557.4mn attributable gross development value (“GDV”). In total, OHL estimates SGD5.2bn in remaining GDV (less recognised billings and future progress billings) for its projects in Singapore. If OHL continues to achieve strong sales and monetise its landbank quickly, we see the potential for OHL’s credit profile to improve. In addition to the Singapore properties, OHL is targeting to launch Deanston Wharf in UK (GDV: SGD646.5mn) in 2H2018 as well as the office segment and So Sofitel Residences at Oxley Towers KLCC in Malaysia (GDV: SGD970.3mn).

<b>OCBC Global Treasury</b>	
<p><b>Treasury Advisory</b>  <b>Corporate FX &amp; Structured Products</b>            Tel: 6349-1888 / 1881  <b>Interest Rate Derivatives</b>            Tel: 6349-1899  <b>Investments &amp; Structured Products</b>            Tel: 6349-1886</p> <p><b>GT Institutional Sales</b>            Tel: 6349-1810</p>	<p><b>Credit Research</b>  <b>Andrew Wong</b>            +65 6530 4736  <a href="mailto:WongVKAM@ocbc.com">WongVKAM@ocbc.com</a></p> <p><b>Nick Wong Liang Mian, CFA</b>            +65 6530 7348  <a href="mailto:NickWong@ocbc.com">NickWong@ocbc.com</a></p> <p><b>Ezien Hoo, CFA</b>            +65 6722 2215  <a href="mailto:EzienHoo@ocbc.com">EzienHoo@ocbc.com</a></p> <p><b>Wong Hong Wei</b>            +65 6722 2533  <a href="mailto:wonghongwei@ocbc.com">wonghongwei@ocbc.com</a></p>

#### Explanation of Issuer Profile Rating / Issuer Profile Score

**Positive (“Pos”)** – The issuer’s credit profile is either strong on an absolute basis, or expected to improve to a strong position over the next six months.

**Neutral (“N”)** – The issuer’s credit profile is fair on an absolute basis, or expected to improve / deteriorate to a fair level over the next six months.

**Negative (“Neg”)** – The issuer’s credit profile is either weaker or highly geared on an absolute basis, or expected to deteriorate to a weak or highly geared position over the next six months.

To better differentiate relative credit quality of the issuers under our coverage, we have further sub-divided our Issuer Profile Ratings into a 7 point Issuer Profile Score scale.

IPR	Positive		Neutral			Negative	
IPS	1	2	3	4	5	6	7

#### Explanation of Bond Recommendation

**Overweight (“OW”)** – The performance of the issuer’s specific bond is expected to outperform the issuer’s other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

**Neutral (“N”)** – The performance of the issuer’s specific bond is expected to perform in line with the issuer’s other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

**Underweight (“UW”)** – The performance of the issuer’s specific bond is expected to underperform the issuer’s other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

Other

**Suspension** – We may suspend our issuer rating and bond level recommendation on specific issuers from time to time when OCBC is engaged in other business activities with the issuer. Examples of such activities include acting as a joint lead manager or book runner in a new issue or as an agent in a consent solicitation exercise. We will resume our coverage once these activities are completed.

**Withdrawal (“WD”)** – We may withdraw our issuer rating and bond level recommendation on specific issuers from time to time when corporate actions are announced but the outcome of these actions are highly uncertain. We will resume our coverage once there is sufficient clarity in our view on the impact of the proposed action.

**Analyst Declaration**

The analyst(s) who wrote this report and/or her or his respective connected persons did not hold securities in the above-mentioned issuer or company as at the time of the publication of this report.

**Disclaimer for research report**

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC and/or its related and affiliated corporations may at any time make markets in the securities/instruments mentioned in this publication and together with their respective directors and officers, may have or take positions in the securities/instruments mentioned in this publication and may be engaged in purchasing or selling the same for themselves or their clients, and may also perform or seek to perform broking and other investment or securities-related services for the corporations whose securities are mentioned in this publication as well as other parties generally.

This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, “**Relevant Materials**”) to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a “**Relevant Entity**”) in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) (“**MIFID**”) and the EU’s Markets in Financial Instruments Regulation (600/2014) (“**MiFIR**”) (together referred to as “**MiFID II**”), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).

Co.Reg.no.:193200032W