Asia Credit Research

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.

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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).

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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.

Co.Reg.no.:193200032W