Asia Credit Research

Credit Update: Oxley Holdings Ltd ("OHL")

Recommendation

- Despite the lackluster results which saw dips in revenue and profitability, this is mainly due to timing of revenue recognition. Decent sales have been achieved at OHL's launched projects and we believe that a significant part of the Singapore pipeline will continue to be de-risked though margins may be compressed given the subdued property outlook.
- While net gearing rose q/q to 2.55x (1QFY2019: 2.45x), which looks elevated, OHL is committed to deleverage and reduce net gearing to 1x. Even if OHL does not obtain refinancing, we believe that sufficient cashflows can be generated from divestments and property sales to meet the upcoming debt maturities.
- As such, we are Overweight on the OHLSP curve, including OHLSP 5% '19s, OHLSP 5.15% '20s and OHLSP 5.7% '22s. These provide high carry for a limited tenor. We also think that OHLSP 6.375% '21s (USD) look interesting.

Relative Value:

Bond	Maturity	Net gearing	Yield to Maturity	Spread
OHLSP 5% 2019	05/11/2019	2.55x	6.11%	424bps
OHLSP 5.15% 2020	18/05/2020	2.55x	6.18%	430bps
OHLSP 5.7% 2022	31/01/2022	2.55x	9.70%	773bps
OHLSP 6.375% 2021 (USD)	21/04/2021	2.55x	9.98%*	747bps*

Source: Bloomberg, Indicative prices as at 22 February 2019
**Yields in USD*

Issuer Profile: Neutral (5)

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 (41.9%-stake), its deputy CEO Mr Low See Ching (28.0%) and Mr Tee (11.4%) who appears to be a passive shareholder.

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Key Considerations

- **Short term blip due to timing:** OHL reported 2QFY2019 results for the quarter ending 31 Dec 2018. Revenue fell by 12% y/y to SGD355.5mn due to lower revenue contribution from the Royal Wharf mixed used development, which is unsurprising as it is substantially sold. Gross profit fell by a larger 33% y/y to SGD46.4mn due to lower margins on the sales. Net profit similarly fell 30% y/y to SGD48.1mn, with a surge in finance costs (+70% y/y to SGD26.9mn) due to increase borrowings mitigated by declines in administrative expenses (-53% y/y to SGD7.2mn) and other losses (-90% y/y to SGD1.7mn) due to the absence of foreign exchange loss. That said, we think the weaker results is due to timing as OHL has been making significant sales on the Singapore property front.

- **Decent property sales achieved in Singapore:** Since 2018, OHL has sold ~1,800 units worth ~SGD1.93bn. The smaller projects launched earlier have been fully sold, including 170-unit The Verandah Residences (SGD249mn), 60-unit Sixteen35 Residences (SGD56mn), 24-unit Sea Pavilion Residences (SGD33mn). At the bigger developments, sales have been decent, with the first phase at Affinity at Serangoon and Riverfront Residences fully sold. Including the second phase, 1,258 units have been moved at both projects worth SGD1.21bn. The remaining SGD375mn in sales is contributed by The Addition (SGD25mn), Mayfair Gardens (SGD196mn) and Kent Ridge Hill Residences (SGD154mn). Despite the decent sales thus far, OHL still have a significant pipeline to de-risk.

- **Significant development pipeline remains amidst slower property market though we are not overly worried:** Another estimated SGD2.9bn in revenue of development projects in Singapore remains to be launched/sold. As we expect the outlook of Singapore residential market to remain subdued, we think that margins may be compressed if OHL prices competitively to move units. We are cautious on Kent Ridge Hill Residences (SGD648.6mn) and Mayfair Gardens/Mayfair Modern (SGD392.4mn) as these are large projects, which have yet to demonstrate strong sales. That said, we are not overly worried on the overall Singapore pipeline as the remaining units at Affinity at Serangoon and Riverfront Residences account for SGD1.6bn in estimated revenue; as mentioned both projects have been selling well. Both projects are also targeted at the mass market and we believe units can be moved, by lowering prices if need be. Crucially, OHL has been making moves to deleverage significantly via divestments, which should make room to maneuverer if units do not sell as quickly as anticipated.

- **Tackling the upcoming debt maturities:** Even assuming that refinancing cannot be obtained, we believe OHL can generate sufficient cashflows via operations and/or divestments to meet its upcoming debt obligations.
  - **i)** In the coming 2 quarters (till end FY2019 ending June 2019), OHL has SGD739mn of debt due, of which SGD675mn is due to corporate level borrowings. According to OHL, this can be repaid upon the sale of Mercure and Novotel Hotels which is worth SGD950mn. OHL is confident that the sale will complete (the buyer is given up to 15 Apr 2019 to do due diligence) and we think that completion risks should be mitigated by the buoyant Singapore hospitality market which is seeing increasing interest and transactions.
  - **ii)** In FY2020, SGD830mn of debt will be due, which include SGD447mn retail bond, SGD153mn corporate level borrowings and SGD230mn in project debt. We think that a significant part of the debt can be repaid from (1) SGD586.6mn proceeds from sale of No.4 and No.5 Dublin Landings (SGD315.6mn) and sale of Blocks B and E of Dublin Landings (SGD271mn), (2) cash of SGD248.5mn as at 31-Dec 2018 and (3) ~SGD200mn cash remaining from the sale of the Mercure and Novotel Hotels after settling debts due in FY2019.
  - **iii)** We expect the SGD1.1bn tower of maturity in FY2021 to be met by cash collections from property sales, which should be met by future progress billings from presales which include (1) SGD1.65bn at Singapore's projects, (2) SGD584.2mn from Royal Wharf in the UK and (3) SGD316.1mn from The Peak, The Palms and The Bridge projects in Cambodia. In the worst case scenario, we believe that Chevron House (acquired for SGD660mn) and the ~18.9% stake in United Engineers Ltd (worth SGD288mn) can be liquidated.

- **Weak credit metrics though improvements are expected:** Net gearing rose q/q to 2.55x (1QFY2019: 2.45x) due to (1) cash outflow from operating activities of SGD65.6mn from increases in working capital, (2) SGD27.4mn interest paid and (3) decrease in book value equity due to FX movements (SGD26.6mn) and loss on investments in securities (SGD18.7mn) which are booked in other comprehensive income. That said, we continue to reiterate that credit metrics should materially improve, with OHL expecting to reduce net gearing to 1x, driven by divestments and property sales.

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Explanation of Issuer Profile Rating ("IPR") / Issuer Profile Score ("IPS")

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 ("IPR") into a 7 point Issuer Profile Score ("IPS") 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.

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Analyst Declaration
The analyst(s) who wrote this report and/or her or his respective connected persons held financial interests in the above-mentioned issuer or company as at the time of the publication of this report.

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