Asia Credit Research

Credit Update: Oxley Holdings Ltd ("OHL")

Recommendation

- 3QFY2019 results were propped up mainly by fair value gains (net profit: +118% y/y to SGD66.1mn). While PBT would have been negative SGD28.1mn without such gains, this is due to timing of revenue recognition, with SGD2.0bn presales in Singapore and SGD1.7bn presales from overseas yet to be recognized. OHL is also positioned to move the remaining SGD2.5bn of inventory in Singapore.
- SGD1.09bn of debt will mature in the short-term though we are not overly worried. SGD525mn is due to Mercure and Novotel hotels which are expected to be refinanced. The remaining debt will be covered by sales proceeds from Chevron House (SGD190mn) and cash collections from Dublin projects (SGD364mn) and Cambodia projects (SGD279mn).
- Net gearing remains elevated at 2.49x (2QFY2019: 2.55x) though we expect net gearing to trend down to ~1.5x by early 2020. Credit metrics may continue to improve materially, if OHL chooses to, given the significant cash inflows from development sales.

Issuer Profile: Neutral (5)

Ticker: **OHLSP**

Relative Value:

Bond	Maturity	Net gearing	Yield to Maturity	Spread
OHLSP 5% 2019	05/11/2019	2.49x	6.15%	421bps
OHLSP 5.15% 2020	18/05/2020	2.49x	7.31%	552bps
OHLSP 5.7% 2022	31/01/2022	2.49x	9.33%	745bps
OHLSP 6.375% 2021 (USD)	21/04/2021	2.49x	9.31%*	716bps*

Source: Bloomberg, Indicative prices as at 16 May 2019
**Yields in USD*

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 (41.5%-stake), its deputy CEO Mr Low See Ching (27.8%) and Mr Tee (11.3%) who appears to be a passive shareholder.

Wong Hong Wei, CFA
+65 6722 2533
wonghongwei@ocbc.com

Key Considerations

- **Stronger results due to fair value gain:** OHL reported 3QFY2019 results for the quarter ending 31 Mar. Revenue fell 75% y/y to SGD59.9mn mainly due to the depletion of inventory at Royal Wharf, which has been mostly handed over to buyers already. Net profit rose 118% y/y to SGD66.1mn with SGD91.7mn fair value gain on Chevron House, which is in the process of being sold. Without the fair value gain on Chevron House, PBT would have been negative SGD28.1mn. However, we are not overly worried as this is due to timing of revenue recognition. SGD2.38bn presales have been secured in Singapore, of which SGD2.0bn have yet to be recognised. Another SGD1.7bn presales from overseas projects have yet to be recognised.

- **Strong property sales achieved and positioned to sell the remainder:** OHL achieved 2,186 units worth SGD2.38bn in property presales in Singapore since 2018, de-risking nearly half the Singapore development portfolio. The main contributing projects are Riverfront Residences (SGD947mn), Affinity at Serangoon (SGD568mn), The Verandah Residences (SGD249mn) and Mayfair Gardens (SGD222mn). OHL is targeting to sell another 814 units by Dec 2019 and the remainder (another 839 units) by Dec 2020. We are not overly worried as the remaining units at Affinity at Serangoon (remaining sales value: SGD0.7bn) and Riverfront Residences (SGD0.6bn) are already more than half sold. Even for other large projects such as Mayfair Gardens (remaining sales value: SGD0.3bn) and Kent Ridge Hill Residences (SGD0.6bn), decent sales of SGD222mn and SGD194mn have already been achieved despite only launching in Sep 2018 and Nov 2018 respectively. That said, 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 the remaining units.

- **Tackling the 2019 maturities:** According to OHL, SGD525mn debt due in 2019 is due to the Novotel and Mercure hotels and refinancing can be obtained. Assuming the hotels remain unsold, noting that OHL is interested to sell this asset, OHL will refinance the property with SGD650mn in loans which will result in

SGD125mn surplus (SGD650mn less SGD525mn). However, we also note that OHL is not in a hurry to divest the hotel as cash needs are sufficiently covered. Adding the SGD125mn surplus with SGD190mn (SGD210mn less retention sum) that will be received from the Chevron House sale under the first phase of cash collections, this will be sufficient to repay SGD300mn OHLSP 5% '19s. In addition, the sales proceeds from Dublin Block A4 and A5 (EUR159mn = SGD244mn) can be used to repay SGD129mn in corporate loan. OHL is expecting further surplus cashflow in 2019 from USD204mn (SGD279mn) from TOP of Peak Cambodia retail units (TOP: Sep 2019) and another EUR78mn (SGD120mn) from potential sales proceeds at Dublin Block A3.

- **Expect improvements in credit metrics:** Net gearing fell to 2.49x (2QFY2019: 2.55x) due to the larger equity base (from fair value gain) despite net cash outflows from investing activities of SGD80.6mn (due to asset enhancement at Chevron House). We expect net gearing to decline to ~1.5x by early-FY2020, assuming Chevron House transaction completes (AEI target end-date is Jan 2020). We are also comfortable with OHL's profile looking into 2020 as ~SGD520mn of debt due to Chevron House will be settled upon the completion of the transaction. In addition, OHL may receive another SGD295mn in remaining sales consideration from Chevron House, TOP of Cambdoai residential units (USD204mn = SGD279mn) and sales at Dublin Block B and E (EUR140mn = SGD215mn). Credit metrics may continue to improve materially, if OHL chooses to (noting that OHL expects to reduce net gearing to 1x), given the significant cash inflows from development sales and the potential to divest the Novotel and Mercure hotels. That said, if significant acquisition opportunities arise, we would not dismiss the possibility that OHL may gear up again.

OCBC Global Treasury	
Treasury Advisory **Corporate FX & Structured Products** Tel: 6349-1888 / 1881 **Interest Rate Derivatives** Tel: 6349-1899 **Investments & Structured Products** Tel: 6349-1886 **GT Institutional Sales** Tel: 6349-1810	**Credit Research** **Andrew Wong** +65 6530 4736 WongVKAM@ocbc.com **Ezien Hoo, CFA** +65 6722 2215 EzienHoo@ocbc.com **Wong Hong Wei, CFA** +65 6722 2533 wonghongwei@ocbc.com **Seow Zhi Qi** +65 6530 7348 ZhiQiSeow@ocbc.com

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.

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 held financial interests 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