

Nov 13, 2018

Credit Headlines: Oxley Holdings Ltd, CapitalLand Ltd, Golden Agri-Resources Ltd, Landesbank Baden-Württemberg

Market Commentary

- The SGD swap curve flattened yesterday, with swap rates for the shorter tenors trading 1bps higher while the longer tenors traded 1-3bps lower.
- Flows in SGD corporates were moderate yesterday, with flows seen in DBBSP 3.98%-PERP, CMZB 4.2%'28s and SLHSP 4.5%'25s.
- Both the Bloomberg Barclays Asia USD IG Bond Index average OAS and the Bloomberg Barclays Asia USD HY Bond Index average OAS were unchanged at 149bps and 567bps respectively.
- 10Y UST yields remain unchanged at 3.18% as US markets were closed for a public holiday.

Credit Headlines:

Oxley Holdings Ltd (“OHL”) | Issuer Profile: Negative (6)

- OHL reported 1QFY2019 results for the quarter ending 30 Sep 2018. Revenue declined 45% y/y to SGD170.3mn with lower revenue completion from UK with Royal Wharf already substantially sold and handed over while Singapore also saw lower revenue. Share of results from equity-accounted associates and joint ventures turned negative (losses: SGD3.7mn) from 1QFY2018's profit of SGD14.2mn due to absence of share of profit from The Bridge in Cambodia.
- Net profit fell significantly more than revenue by 90% y/y to SGD4.8mn. Other gains declined to SGD4.9mn (1QFY2018: SGD14.1mn) with SGD8.7mn of FX losses incurred (1QFY2018: FX gain of SGD12.4mn). Finance costs also surged 147% y/y to SGD21.9mn due to an increase in total outstanding debt (+45% y/y to SGD3.79bn) while interest rates have increased.
- Thus far, Oxley continues to report good property sales though the average selling prices may have been compressed to move sales. In the most recent launch, 116 units out of 250 launched units at Kent Ridge Hill Residences (548 total units) were sold at SGD1,700 psf (Oxley guided for SGD1,850 ASP back in 3 Oct 2018). Early in Oct, Oxley also announced the sale of 87 units out of 215 units launched units at Mayfair Gardens at SGD1,900 psf (original guidance: SGD2,000 ASP). Together with decent sales achieved at several projects including Verandah Residences, Affinity at Serangoon, Riverfront Residences, we estimate that OHL has locked in more than SGD1.0bn in revenue that will be progressively recognised.
- Net gearing increased q/q to 2.45x (4QFY2018: SGD2.17x), mainly due to increase in borrowings used to fund acquisition of Singapore development properties (which resulted in net cash outflow from operations of SGD304.6mn). That said, we think liquidity profile should be manageable in the near term, with SGD234.7mn debt maturing within 12 months, against SGD232.3mn of cash.
- We continue to hold OHL at a Negative (6) Issuer Profile given the weak credit metrics. Continued sales and monetisation of the development projects will be crucial to support OHL's credit profile moving forward. (OCBC, Company)

Credit Headlines (cont'd):

CapitaLand Ltd (“CAPL”) | Issuer Profile: Neutral (3)

- Following CAPL's acquisition of a mixed-use site in Guangzhou for RMB882mn yesterday, CAPL announced that Raffles City China Investment Partners III, its 41.7%-owned fund, has acquired Shanghai's tallest twin towers for RMB12.8bn (SGD2.54bn) in a 50-50 joint venture with GIC. The twin towers are expected to open in phases from 2H2019.
- While CAPL has divested close to SGD2.0bn of assets in China in YTD2018, we note that CAPL had already announced two significant China acquisitions totalling RMB7.75bn (~SGD1.60bn), in [June 2018](#) and [Aug 2018](#), in addition CAPL has also acquired 16 multifamily properties in the USA in [Sep 2018](#).
- Taking all the transactions into consideration, we expect net gearing to trend higher to ~55% (2Q2018: 50%). (Company, OCBC)

Golden Agri-Resources Ltd (“GGR”) | Issuer Profile: Neutral (5)

- GGR reported its 3Q2018 results. Gross revenue was up 3.2% y/y to USD1.8bn, driven by an increase in the Palm and Laurics segment. Reported EBITDA though was down 26.6% to USD132.2mn driven by lower EBITDA generation from Plantations and Palm Oil Mills as well as Palm and Laurics. This was mainly due to a compression in gross profit margins as CPO prices were lower y/y while general & administration expenses increased 9.7% y/y to USD88.6mn.
- In 3Q2018, CPO Free on Board (“FOB”) price per MT was only USD536 against USD663 in 3Q2017 (down 19% y/y) on the back of significantly higher palm output (up 24% y/y) which we think outstripped demand.
- Additionally, finance expenses was up 39% y/y to USD43.8mn due to higher borrowing cost and higher average debt. In 3Q2018, average debt for GGR was USD3.2bn against USD3.0bn in 3Q2017. Resultant reported EBITDA/Interest was thus lower at 3.0x against 5.7x in 3Q2017 though had slightly improved from 2Q2018's EBITDA/Interest coverage of 2.9x.
- As at 30 September 2018, net gearing was 0.76x, somewhat higher than 0.75x as at 30 June 2018, this was driven though by compression in book value in equity from GGR's reported comprehensive loss for 3Q2018 of USD60.9mn. During the quarter, the company reported USDD28.7mn in foreign exchange losses while taxes were USD42.4mn. Encouragingly, debt levels at GGR had declined q/q by 4% as GGR had paid down debt via a combination of cash flow from operations and existing cash balance during the quarter.
- Short term debt was USD1.59bn as at 30 September 2018 though we estimate that USD1.0bn relates to working capital, leaving ~USD590mn to be refinanced against cash balance of USD104.3mn (excluding pledged cash). Adjusted tangible assets (we exclude intangible assets, bearer plants and long term investments) was USD5.9bn at GGR as at 30 September 2018, against total debt of USD3.1bn. While adjusted tangible asset value had declined q/q, we think these should help GGR in gaining access to debt markets for refinancing. GGR still falls within our issuer profile of Neutral (5), and we are maintaining it as such. (OCBC, Company)

Credit Headlines (cont'd):

Landesbank Baden-Württemberg ("LBBW") | Issuer Profile: Neutral (4)

- LBBW announced its 9M2018 results with total operating income of EUR1.88bn down 4.5% y/y. This was due to a 0.8% y/y fall in net interest income (low interest rates mitigated by volume growth), a 3.4% y/y fall in net fee and commission income and a 20.0% y/y fall in net gains on remeasurement and disposal (lower income from sale of securities). Within the net gains, this allowances for losses on loans and securities fell 21.7% y/y to EUR53mn.
- Administrative expenses were contained (-1.6% y/y) due to lower personnel expenses which offset higher investments in IT modernization. As such, the cost to income ratio improved to 73.6% for 9M2018 against 74.5% for 9M2017. Expenses for bank levy and deposit guarantee system rose 28.5% y/y due to changes in its assessment. However, the absence of restructuring expenses and guarantee commission fees for the State of Baden-Württemberg following the sale of the Sealink portfolio translated to 9M2018 consolidated profit before tax ending up 2% y/y to EUR457mn.
- LBBW's balance sheet continues to grow with total assets up 1.5% y/y. Within this, risk weighted assets grew faster at 7.2% y/y, due to loans growth in the Corporates segment (in particular loans to medium-sized and large companies).
- Loans growth along with first time adoption of IFRS9 (which resulted in a reduction in equity) drove LBBW's capital ratios lower compared to 31 Dec 2017. LBBW's fully loaded CET1/CAR capital ratios were at 14.7%/21.2% against 15.7%/22.2% as at 31 Dec 2017. This remains above regulatory minimum capital requirements, which have increased in line with the EU's Capital Requirements Regulations, and are set annually by the ECB on the basis of the Supervisory Review and Evaluation Process (SREP) with LBBW's phased in CET1/CAR 2018 capital requirement of 8.80%/12.30%. (OCBC, Company)

Table 1: Key Financial Indicators

	13-Nov	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	87	1	-1
iTraxx SovX APAC	10	0	0
iTraxx Japan	62	1	0
iTraxx Australia	78	0	0
CDX NA IG	67	3	1
CDX NA HY	106	-1	0
iTraxx Eur Main	72	2	-3
iTraxx Eur XO	295	10	0
iTraxx Eur Snr Fin	90	3	-2
iTraxx Sovx WE	27	1	0
AUD/USD	0.718	-0.99%	0.63%
EUR/USD	1.123	-1.77%	-3.06%
USD/SGD	1.385	-0.82%	-0.57%
China 5Y CDS	64	0	-2
Malaysia 5Y CDS	106	-3	1
Indonesia 5Y CDS	145	-1	-2
Thailand 5Y CDS	43	0	0

	13-Nov	1W chg	1M chg
Brent Crude Spot (\$/bbl)	70.12	-4.17%	-12.82%
Gold Spot (\$/oz)	1,202.58	-2.01%	-2.00%
CRB	187.99	-2.38%	-5.03%
GSCI	441.47	-2.17%	-8.15%
VIX	20.45	2.45%	-4.04%
CT10 (bp)	3.149%	-7.88	-1.25
USD Swap Spread 10Y (bp)	6	1	1
USD Swap Spread 30Y (bp)	-9	1	1
TED Spread (bp)	27	0	10
US Libor-OIS Spread (bp)	28	0	9
Euro Libor-OIS Spread (bp)	4	1	0
DJIA	25,387	-0.29%	0.19%
SPX	2,726	-0.44%	-1.48%
MSCI Asiax	594	-1.82%	-1.38%
HSI	25,633	-1.16%	-0.65%
STI	3,068	-1.55%	-0.03%
KLCI	1,696	-1.03%	-2.00%
JCI	5,777	-2.42%	0.36%

New issues

- Gansu Province Electric Power Investment Group Co Ltd has scheduled for investor meetings from 13 Nov for its potential USD bond issuance.
- Zhoushan City Investment Group Co Ltd has scheduled for investor meetings from 13 Nov for its potential USD bond issuance.
- Santos Finance Ltd has scheduled for investor meetings from 13 Nov for its potential USD bond issuance.
- Emirates NBD PJSC scheduled for investor meetings from 12 Nov for its potential USD bond issuance.
- Export-Import Bank of Thailand has hired banks for its potential USD bond issuance.
- Tuspark Forward Ltd (a wholly-owned offshore subsidiary of Tuspark Holdings Co Ltd) scheduled for investor meetings on 12 Nov for its potential USD bond issuance.
- Si Fa Investment Ltd has scheduled for investor meetings from 15 Nov for its potential USD bond issuance (guaranteed by Wuxi Industry Development Group Co Ltd).

<u>Date</u>	<u>Issuer</u>	<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
9-Nov-18	First FZ Bond Ltd	USD200mn	2-year	6.9%
8-Nov-18	Baidu Inc	USD600mn	5.5-year	CT5+133bps
8-Nov-18	Baidu Inc	USD400mn	10-year	CT10+170bps
8-Nov-18	Clifford Capital Pte Ltd	USD300mn	3-year	CT3+40bps
8-Nov-18	CDBL Funding 1	USD400mn	3-year	3mL+125bps
8-Nov-18	Hunan Xiangjiang New Area Development Group Co Ltd	USD300mn	3-year	5.9%
8-Nov-18	Huayuan Property Co Ltd	USD200mn	3NPNC2	11.0%
7-Nov-18	Geely Sweden Finance AB	USD250mn	3-year	5.0%
7-Nov-18	PT Indonesia Asahan Aluminium (Persero)	USD1bn	3-year	5.5%
7-Nov-18	PT Indonesia Asahan Aluminium (Persero)	USD1.25bn	5-year	6.0%
7-Nov-18	PT Indonesia Asahan Aluminium (Persero)	USD1bn	10-year	6.875%
7-Nov-18	PT Indonesia Asahan Aluminium (Persero)	USD750mn	30-year	7.375%
7-Nov-18	LG Display Co Ltd	USD300mn	3-year	CT3+90bps

Source: OCBC, Bloomberg

Andrew Wong

Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6530 4736
wongVKAM@ocbc.com

Ezien Hoo, CFA

Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6722 2215
EzienHoo@ocbc.com

Wong Hong Wei, CFA

Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6722 2533
WongHongWei@ocbc.com

Seow Zhi Qi

Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6530 7348
zhigiseow@ocbc.com

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 Bank, its related companies, their respective directors and/or employees (collectively "Related Persons") may or might have in the future interests in the investment products or the issuers mentioned herein. Such interests include effecting transactions in such investment products, and providing broking, investment banking and other financial services to such issuers. OCBC Bank and its Related Persons may also be related to, and receive fees from, providers of such investment products.

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).