Asian Credit Daily

May 14, 2018

Credit Headlines: City Developments Ltd, Ezion Holdings Ltd, OUE Limited, UOL Group Ltd, Olam International Ltd

Market Commentary

- The SGD swap curve flattened last Friday, with swap rates trading 4-5bps lower across most tenors.
- Flows in SGD corporates were heavy last Friday, with better buying in HSBC 4.7%-PERP and CMZB 4.875%'27s.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 1.35% while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 11bps to 414bps.
- 10Y UST yields rose 1bps to 2.97% last Friday in the absence of major price catalysts.

Credit Headlines

City Developments Ltd ("CDL") | Issuer Profile: Positive (2)

- CDL reported 1Q2018 results. Revenue was up 35.0% y/y to SGD1.06bn. Performance was largely driven by property development (+88.3% y/y to SGD563.2mn), though hotel operations were more modest (+3.1% y/y to SGD377.8mn) and rental properties softer (-1.2% y/y to SGD84.2mn).
- Property development was driven in part by the full recognition of the Criterion EC (TOP in February) as well as by the sales of phase one of New Futura (62 of 64 units launched sold).
- For hotel operations, M&C was aided by the stronger GBP, else revenue would have decreased 2.7% y/y. RevPar fell 3.1% y/y to GBP68.5, but the stronger GBP increased it 3.2% y/y on a constant currency basis. For rental properties, performance was affected by the AEI at Republic Plaza.
- In terms of PBT, property development fell 12.0% y/y to SGD81mn, as the margins of the Criterion are lower than the projects delivered in 1Q2017. Hotel operations PBT jumped to SGD21mn (1Q2017: SGD5mn) on higher revenue and better performance at the South Beach hotel. The PBT at rental properties surged to SGD61mn (1Q2017: SGD28mn) in part driven by the divestments of the Mercure Brisbane and Ibis Brisbane by CDLHT, as well as absent FX losses seen by CDLHT in 1Q2017.
- Operating cash flow (including interest service) worsened to an outflow of SGD61.1mn (1Q2017: SGD47.8mn inflow), in part driven by deposits paid for the land sites at Amber Park and Sumang Walk, as well as progress billings for the Criterion EC, which caused trade and other receivables to jump. CDL had also paid down SGD182.9mn in payables. Coupled with SGD53.7mn in capex, free cash flow was negative SGD114.8mn, mitigated in part by the SGD80.6mn received from the Brisbane hotel divestments.
- CDL had also paid down debt by SGD237.6mn during the quarter. As a result, cash balance fell by SGD368.3mn to SGD3.41bn. Cash balance is more than enough to repay short-term debt of SGD1.01bn. Though net gearing inched higher q/q to 12% (4Q2017: 11%), it remains very low. (Company, OCBC)

Credit Headlines (cont'd):

Ezion Holdings Ltd ("EZI") | Issuer Profile: Negative (7)

- EZI reported 1Q2018 results. Revenue plunged 45.0% y/y to SGD37.8mn. As mentioned during the recent profit guidance (refer to OCBC Asian Credit Daily (9 May)), management indicated that the finalizing of EZI's refinancing exercise had affected EZI's operations.
- Specifically, management indicated that working capital constraints had delayed the deployment of its liftboats. Management had also indicated the drop in utilization rate of jack-up rigs, as well as not recognizing charter revenues from customers assessed to be unable to meet obligations. For the latter, it is not surprising as certain customers have not been making payment for some time (refer to OCBC Asia Credit - Ezion Credit Update (24 Oct 2017)). Management had also indicated that charter rates have fallen across EZI's fleet.
- Though EZI managed to grind out a small gross profit (aided by the sharp fall in depreciation from SGD36.0mn in 1Q2017 to SGD19.6mn), the sharp increase in other operating expenses to SGD35.2mn (1Q2017: SGD8.9mn) on additional accrued costs on its restructuring project drove EZI to a net loss of SGD46.4mn.
- Though operating cash flow (including interest service) was positive at SGD9.5mn for the quarter, this was largely driven by the reduction of EZI's working capital (SGD19.9mn cash generated) and hence unlikely to be recurring. It should be noted that EZI disclosed pro-forma financial statements based on the impact of restructuring outcomes post the end of 1Q2018. Net gearing would fall based on pro-forma numbers from 543% to 325%, though it remains elevated. (Company, OCBC)

OUE Limited ("OUE") | Issuer Profile: Neutral (4)

- OUE reported 1Q2018 results. Revenue fell 25.8% y/y to SGD145.6mn, driven by the lack of development property income recognized (1Q2017: SGD72.6mn) as OUE had finished selling its inventory of residential property, though we expect some revenue to be recognized in the future when Twin Peaks condo units sold via Deferred Payment Schemes achieve transaction completion (with unrecognized revenues estimated at ~SGD480mn).
- Other segments showed growth with revenue from investment properties income up 2.2% y/y to SGD69.5mn, driven by the incremental rental income from Downtown Gallery (opened May 2017) mitigating softer performance at OUE-CT (revenue -1.6% y/y to SGD44.1mn). Hospitality income jumped 13.5% y/y to SGD69.5mn, driven by stronger performance at both Mandarin Orchard Singapore and Crowne Plaza Changi Airport, as well as incremental revenue from Oakwood Premier at OUE Downtown (opened June 2017).
- Operating cash flow (including interest service) was SGD49.4mn (1Q2017: SGD42.1mn), though we note that the improvement was driven in part by stretching payables (+SGD37.4mn impact). Investing cash outflow was high at SGD235.4mn, with SGD67.3mn and SGD159.4mn on acquisition in other investments and deposits placed for investments. These could relate to the PT Alpha / Megafeat Internasional Indonesia transaction we mentioned previously (refer to OCBC Asian Credit Daily (2 Apr)). Financing cash flows filled the gap with SGD96.6mn in additional borrowings as well as SGD78.8mn in fresh equity raised at the OUE Lippo Healthcare Ltd level.
- Net gearing increased from 60% to 65% q/q as a result. Near-term borrowings heavy at SGD1.5bn, though SGD0.6bn is due 1Q2019. (OCBC, Company)

Credit Headlines (cont'd):

UOL Group Ltd ("UOL") | Issuer Profile: Neutral (3)

- UOL reported 1Q2018 results. Note that y/y comparisons (e.g. revenue up 89% y/y to SGD661.0mn) look exceptionally strong as the UIC Group's contributions were consolidated from 1 Sep 2017. Excluding the effects of consolidation, revenue from (1) property development (1Q2017: SGD183.3mn) declined 7% y/y due to the completion of Riverbank@Fernvale in March 2017; (2) hotel operations (1Q2017: SGD104.6mn) increased 9% y/y with acquisition of Pan Pacific Melbourne in Jul 2017; and (3) property investments (1Q2017: SGD56.5mn) declined 4% y/y due to lower revenue from OneKM mall.
- Credit metrics remained intact with net gearing remaining unchanged q/q at 21%. We expect UOL to refinance the chunky SGD954.8mn of short term debt due (including SGD175mn UOLSP '18s) as a substantial portion of its assets likely remain unencumbered. In addition, UOL holds SGD749.5mn cash balance.
- With a strong property market, UOL has launched Amber45 at over SGD2,000 psf on 12 May 2018. UOL looks to launch the plot at Potong Pasir Ave 1 (GFA: 51,605 sqm) in 2H2018 and a freehold site at Meyer Road (GFA: 14,259 sqm) in 2019.

Olam International Ltd ("OLAM") | Issuer Profile: Neutral (5)

- OLAM reported 1Q2018 results. Revenue increased 8.5% y/y to SGD6.3bn driven by increased volumes from the Food Staples and Packaged Foods segments (mainly from Grains) while reported EBITDA was SGD368.1mn (down 7.7% y/y) as all segments except Industrial Raw Materials, Agriculture Logistics & Infrastructure ("IRM") showed lower EBITDA contribution compared to 1Q2017.
- By segments (1) Edible Nuts, Spices & Vegetable Ingredients ("Edible Nuts, SVI")'s EBITDA showed a 2% y/y decline to SGD136mn following the continued challenging conditions in the tomato processing sub-segment; (2) Confectionary & Beverage Ingredients segment EBITDA was down 18% y/y to SGD61mn due to the significantly lower contribution from the coffee sub-segment; (3) Food Staples & Packaged Foods saw higher volume growth though EBITDA was down 15% y/y to SGD100mn as wheat milling and sugar faced margins pressure; (4) IRM EBITDA was up 6% y/y to SGD66mn from stronger contribution in Cotton and the Gabon Special Economic Zone; while (5) Commodity Financial Services saw EBITDA decline 12% y/y to SGD4.5mn.
- As at 31 March 2018, OLAM's unadjusted net gearing was relatively stable at 1.5x against end-2017, despite the 2% increase in gross debt. Debt levels had increased due to higher working capital needs with OLAM sharing that it had entered into peak procurement season versus 4Q2017. Book value equity rose 1%, driven by further conversion of warrants into equity (OLAM received SGD71.8mn in 1Q2018 in cash from such conversion).
- OLAM's cash conversion days was 109 days in 1Q2018, significantly below the 139 days in 1Q2017 and within its internal target of 100 to 120 days. In 1Q2018, OLAM reported an operating cash outflow (before interest and tax) of SGD290.8mn while the disposal of OLAM's 50%-stake in Nauvu Investments to Wilmar for USD148mn (~SGD197.9mn) help lead to an investing cash inflow of SGD29.6mn.
- As at 2 April 2018, free float of Olam's publicly listed equity was only ~10.3%. We continue to expect OLAM to be debt reliant for its working capital needs though its bank debt and fixed income market access remains strong. (Company, OCBC)

Table 1: Key Financial Indicators

	14-May	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	74	-3	0
iTraxx SovX APAC	12	0	0
iTraxx Japan	51	0	0
iTraxx Australia	65	-1	0
CDX NA IG	59	-3	0
CDX NA HY	107	0	0
iTraxx Eur Main	54	-2	0
iTraxx Eur XO	268	-6	-4
iTraxx Eur Snr Fin	57	-3	1
iTraxx Sovx WE	17	1	0
AUD/USD	0.756	0.52%	-2.89%
EUR/USD	1.196	0.35%	-3.36%
USD/SGD	1.333	0.17%	-1.73%
China 5Y CDS	58	-2	-1
Malaysia 5Y CDS	91	10	19
Indonesia 5Y CDS	114	-12	17
Thailand 5Y CDS	45	0	1

	14-May	1W chg	1M chg
Brent Crude Spot ($/bbl)	76.77	0.79%	5.77%
Gold Spot ($/oz)	1,320.85	0.51%	-1.86%
CRB	203.56	0.15%	1.93%
GSCI	484.43	0.39%	3.44%
VIX	12.65	-14.35%	-27.34%
CT10 (bp)	2.960%	1.07	13.37
USD Swap Spread 10Y (bp)	3	-1	0
USD Swap Spread 30Y (bp)	-9	2	4
TED Spread (bp)	44	-10	-19
US Libor-OIS Spread (bp)	47	-5	-12
Euro Libor-OIS Spread (bp)	3	0	1
DJIA	24,831	2.34%	1.93%
SPX	2,728	2.41%	2.69%
MSCI Asiax	724	2.13%	0.27%
HSI	31,576	5.27%	2.49%
STI	3,562	0.83%	1.74%
KLCI	1,845	0.94%	-1.23%
JCI	5,878	1.49%	-6.25%

Source: OCBC, Bloomberg

New issues

- Suntec REIT MTN Pte Ltd has priced a SGD80mn re-tap of its SUNSP 3.4%'23s at 3.4%.
- Zhongyuan Sincere Investment Co Ltd has scheduled for investor meetings from 14 May for its potential USD bond issuance (guaranteed by Zhongyuan Yuzi Investment Holdings Group Co Ltd).
- Beijing Construction Engineering Group (HongKong) Co Ltd has scheduled for investor meetings from 14 May for its potential USD bond issuance (guaranteed by Beijing Construction Engineering Group Co Ltd).
- China Overseas Grand Oceans Group Ltd has scheduled for investor meetings from 14 May for its potential bond issuance.

Date	Issuer	Size	Tenor	Pricing
11-May-18	Suntec REIT MTN Pte Ltd	SGD80mn	SUNSP 3.4%'23s	3.4%
10-May-18	HSBC Holdings PLC	USD2bn	6NC5	3mL+100bps
10-May-18	HSBC Holdings PLC	USD2bn	6NC5	3mL+112bps
10-May-18	HSBC Holdings PLC	USD2bn	3NC2	3mL+60bps
10-May-18	Australia and New Zealand Banking Group Ltd	USD750mn	3-year	3mL+46bps
10-May-18	Australia and New Zealand Banking Group Ltd	USD500mn	3-year	CT3+65bps
10-May-18	Excel Capital Global Ltd	USD200mn	Perp NC3	7%
10-May-18	Southwest Securities International Securities Ltd	USD150mn	363-day	6.75%
10-May-18	China Huadian Overseas Development 2018 Ltd	USD600mn	5-year	CT5+125bps
9-May-18	Bank of Communications Co Ltd (HK Branch)	HKD3bn	2-year	2.95%
9-May-18	Bank of Communications Co Ltd (HK Branch)	USD700mn	5-year	3mL+85bps
9-May-18	Bank of Communications Co Ltd (HK Branch)	USD600mn	3-year	3mL+75bps
9-May-18	Guang Ying Investment Ltd	USD250mn	3-year	CT3+185bps

Source: OCBC, Bloomberg

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