

May 15, 2018

Credit Headlines: Golden Agri-Resources Ltd, Banyan Tree Holdings Limited, Hotel Properties Ltd, ABN Amro Group NV, Hong Fok Corp Ltd

Market Commentary

- The SGD swap curve flattened yesterday, with swap rates trading 2-3bps lower across most tenors (with the exception of the belly of the curve trading 1-2bps lower).
- Flows in SGD corporates were heavy yesterday, with better buying seen in GEMAU 5.5%'19 and mixed interest in HSBC 4.7%-PERP.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 1.34% while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 2bps to 412bps.
- 10Y UST yields rose 3bps to 3% yesterday on hawkish movements in European futures and options.

Credit Headlines

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

- GGR reported 1Q2018 results. Revenue declined 11% y/y to USD1.8bn driven by declines in the Plantations and Palm Oil Mills, Palm and Laurics and the Oilseeds segments while reported EBITDA was down 33.7% y/y to USD121.1mn. The overall weaker results was driven by a 12% decline in palm product output as well as a 12% decline in CPO FOB prices (USD645 /MT in 1Q2018 versus USD734/MT in 1Q2017). In our view the fall in prices and production volume is not idiosyncratic to GGR as we had observed 30-40% y/y EBITDA declines among comparable palm oil producers focused on Indonesia for 1Q2018.
- With the decline in earnings, interest coverage as measured by reported EBITDA/Interest declined to 3.3x versus 5.2x in 1Q2017 (4Q2017: 4.3x)
- In FY2017, GGR took USD45.6mn in impairment losses on the back of its Tianjin oilseeds business (since sold to Louis Dreyfus in April 2018) and from its noodles business. These were one-off items and no impairment losses were taken in 1Q2018.
- As at 31 March 2018, unadjusted net gearing was 0.73x, slightly higher from the median of 0.70x saw in FY2017, though in April 2018, GGR had paid down SGD200mn (~USD150mn) of bonds and with the completion of the sale of the business to Louis Dreyfus, we expect the company to have received USD111mn in cash proceeds. On a proforma basis, we estimate net gearing to have fallen slightly to ~0.66x.
- In end-2017, corporate guarantees provided on borrowings of joint ventures (an off-balance sheet item) ballooned to USD433.0mn (from USD268.1mn in end-2016) while non-cancellable operating leases increased to USD24.8mn (up 11% y/y from USD22.3mn in end-2016). Estimated post-employment benefit liabilities also increased to USD99.8mn (from USD80.6mn in end-2016). Adding on the estimated post-employment benefit liabilities which we consider as debt-like and the two off-balance sheet items, we find adjusted net gearing at 0.86x.
- During the quarter, GGR's cash flow from operations (before interest and tax) was SGD26.0mn (1Q2017: SGD197.1mn), lower due to the lower earnings during the quarter as well as higher working capital needs. For example, cash was used for deposits and advances to suppliers. In 1Q2018, GGR's total cash outflow for investments was USD138.4mn, of which USD101.4mn went towards investment in financial assets. We think this relates to investments in a technology fund and do not expect these investments to be cash flow generative in the near term. GGR funded the cash gap during the quarter via borrowings, with net borrowings of USD124mn.
- We are maintaining our Neutral (5) issuer profile on GGR, in view of its still manageable credit metrics though caution that increased investments in financial assets may lead to a gradual increase in net gearing levels. We are lowering our Overweight call on the GGRSP '21s to Neutral. (Company, OCBC)

Credit Headlines (cont'd):

Banyan Tree Holdings Limited (“BTH”) | Issuer Profile: Neutral (5)

- BTH reported 1Q2018 results. Revenue increased 8.6% y/y to SGD98.2mn, driven by higher revenue from the Property Sales and the Hotel Investments segments though this was partly offset by lower revenue from the Fee-based segment. The Property Sales segment saw higher revenue recognition mainly due to the phase two completions of Cassia Bintan and Cassia Phuket. A total of 29 property units were recognised in 1Q2018. Hotel Investments saw an increased from stronger contribution from hotels in Thailand and Seychelles. Reported operating profit was significantly higher at SGD37.3mn (up 101% y/y) though the growth was mainly due to other income of SGD17.1mn (one-off gain from dilution of the group's China joint venture in its partnership with China Vanke Co. Ltd).
- EBITDA (based on our calculation without including other income and other expenses) was SGD20.2mn (up 11% y/y), with resultant stronger EBITDA/Interest coverage of 2.8x (2.6x in 1Q2017).
- As at 31 March 2018, net gearing at BTH was 0.5x, relatively flat against end-2017. Cash balance stood at SGD158.9mn against SGD187.9mn in short term debt (of which SGD120mn relates to two bonds due in July and November 2018 respectively). In April 2018, BTH completed the voluntary tender offer for remaining shares in its subsidiary Laguna Resorts & Hotel Pcl (“LRH”) listed on the Stock Exchange of Thailand). Post-the transaction, BTH's stake in LRH had increased to 86.28% from 65.75% and we expect BTH to have paid THB1.4bn (~SGD57mn) to purchase these shares. We take some comfort that the final transaction size was smaller than originally planned. As an already partly-owned subsidiary, LRH results were already consolidated into the financials of BTH prior to the transaction.
- Assuming that the additional stake in LRH was purchased via debt and that minority interest had been reduced (ie: BTH had effectively bought stakes from minority investors in LRH), we expect net gearing to rise somewhat. Assuming an effective interest rate of 4.7% on the debt taken, interest expense increases by ~SGD2.6mn p.a.
- The short term debt coming due represents 34% of BTH's total debt as at 31 March 2018 and BTH would need to refinance this debt rather than paying them down (especially more so post the LRH stake acquisition).
- As at 31 March 2018, SGD467.4mn has been secured to obtain loans (representing 26% of total tangible assets). We think there is still some financial flexibility for BTH to raise secured debt for refinancing, if need be. For now, we maintain BTH's issuer profile at Neutral (5). (Company, OCBC)

Hotel Properties Ltd (“HPL”) | Issuer Profile: Neutral (4)

- Revenue increased 19.7% y/y to SGD173.4mn due to sales of units from Tomlinson Heights (2 units sold for SGD23.7mn). Net profit surged to SGD92.8mn (1Q2017: SGD21.0mn) due to a significant increase in results of associates and jointly controlled entities to SGD66.7mn (1Q2017: SGD2.4mn), with profits from Holland Park Villas development in London (construction completed in 4Q2017). HPL also recorded SGD15.5mn in other operating income (1Q2017: SGD1.7mn) as a result of SGD12.3mn fair value gain in investments.
- Net gearing fell sharply to 24.7% (4Q2017: 36.4%) mainly as a result of SGD206.9mn net repayment of shareholders' loan and dividends from associates and jointly controlled entities related to the Holland Park Villas. Meanwhile, operating cashflows remains positive at SGD48.4mn, which more than covers SGD6.8mn finance costs. (OCBC, Company)

Credit Headlines (cont'd):

ABN Amro Group NV ("ABN") | Issuer Profile: Neutral (3)

- ABN announced its 1Q2018 results with operating income for 1Q2018 up 4% y/y on the back of higher net interest income (+5% y/y) and other operating income (+15% y/y). Net interest income grew on the back of loan growth and a higher net interest margin (NIM) of 1.66% (1Q2017: 1.56%). Other operating income was higher due to higher equity participation results and revaluations gains on the stake in equensWorldline. Due to incidental costs such as restructuring provisions and a EUR25mn penalty fees from interest averaging, operating expenses remained flat despite an underlying decline in costs as a result cost-saving programmes. Higher income generated coupled with flat operating expenses led to cost-to-income ratio improving to 57.9% (1Q2016: 60.2%).
- Net profit for 1Q2018 fell 3% y/y to EUR595mn due to higher impairment charges on loans and other advances. Impairments totaled EUR208mn (1Q2017: EUR63mn) due to higher impairment charges in a few sectors (Diamonds & Jewellery ,Natural Resources and Global Transportation & Logistics).
- Comparing on a q/q basis, despite higher impairment charges incurred and lower operating income (-4% q/q), net profit was 10% higher q/q due to a decrease in operating expenses (-18% y/y) relative to the higher year-end expenses and incidental cost incurred in 4Q2017.
- ABN's balance sheet grew marginally by 1% due to higher securities financing (seasonal) and an increase in financial investments as well as a rise in financial assets held for trading. Loan and advances to banks has fallen 7% q/q but this was mitigated by growth in loans and advances to customers particularly in corporate loans (commercial banking +3% q/q and corporate & institutional banking +9% q/q). Liabilities grew due to higher securities financing and higher amount due to banks, offset by a fall in amount due to customers.
- Despite better performance this quarter, an increase in risk-weighted assets (+1.7% y/y) due to an increase in credit risk led to a drop in ABN's capital ratios. ABN's fully loaded CET1 ratio fell 2bps to 17.5% (4Q2017: 17.7%). Although at the lower end of its capital target range for 2018 of 17.5%-18.5%, the ratio is well above its reported 2019 fully-loaded minimum Supervisory Review and Evaluation Process CET1 requirement of 11.75%. ABN's fully loaded leverage ratio also dipped to 4.0% for 1Q2018 (4Q2017: 4.1%), above the 3.0% minimum requirement and in line with ABN's target level. (Company, OCBC)

Hong Fok Corp Ltd ("HFC") | Issuer Profile: Neutral (5)

- HFC reported 1Q2018 results. Revenue rose 25% y/y to SGD17.7mn due to contribution from YOTEL Singapore Orchard Road. We also note that HFC moved 5 units worth SGD10.6mn at Concourse Skyline. As a result, HFC turned from a net loss (1Q2017: SGD3.3mn) to a net profit of SGD0.6mn.
- Net gearing remained relatively unchanged q/q at 0.34x (4Q2017: 0.33x). Following the successful refinancing of HFCSP '18s, HFC has expressed confidence in refinancing or repaying the SGD120mn HFCSP '19s with available undrawn facilities (amount undisclosed).
- While profitability has been weak, we think this should improve with 5 units at Concourse Skyline sold in April for SGD10.8mn. With a buoyant property market, sales should continue to remain supported. We also expect YOTEL to ramp up and contribute more as it commenced operations only in 4Q2017. (OCBC, Company)

Table 1: Key Financial Indicators

	15-May	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	74	-5	-1
iTraxx SovX APAC	12	-1	0
iTraxx Japan	51	0	0
iTraxx Australia	64	-3	0
CDX NA IG	60	-3	0
CDX NA HY	107	0	0
iTraxx Eur Main	54	-2	0
iTraxx Eur XO	268	-7	-3
iTraxx Eur Snr Fin	57	-4	1
iTraxx Sovx WE	18	0	0
AUD/USD	0.753	1.02%	-3.21%
EUR/USD	1.193	0.59%	-3.60%
USD/SGD	1.336	0.29%	-1.94%
China 5Y CDS	58	-4	-1
Malaysia 5Y CDS	84	-2	12
Indonesia 5Y CDS	113	-17	16
Thailand 5Y CDS	45	-1	1

	15-May	1W chg	1M chg
Brent Crude Spot (\$/bbl)	78.25	4.54%	7.81%
Gold Spot (\$/oz)	1,313.73	-0.07%	-2.39%
CRB	203.83	0.09%	2.07%
GSCI	486.71	2.03%	3.93%
VIX	12.93	-12.34%	-25.73%
CT10 (bp)	2.999%	2.28	17.21
USD Swap Spread 10Y (bp)	3	-1	-1
USD Swap Spread 30Y (bp)	-9	1	4
TED Spread (bp)	43	-9	-17
US Libor-OIS Spread (bp)	47	-3	-11
Euro Libor-OIS Spread (bp)	2	-1	0
DJIA	24,899	2.23%	2.21%
SPX	2,730	2.15%	2.78%
MSCI Asiax	729	2.11%	0.91%
HSI	31,229	2.72%	1.37%
STI	3,549	0.17%	1.36%
KLCI	1,855	0.44%	-0.74%
JCI	5,874	-0.18%	-6.31%

Source: OCBC, Bloomberg

New issues

- Industrial & Commercial Bank of China Ltd/ Sydney (ICBCAS) has priced a USD300mn 3-year FRN at 3mL+75bps, tightening from its initial price guidance of 3mL+100bps area.
- Industrial & Commercial Bank of China Ltd has priced a USD350mn re-tap of its ICBCAS FRN maturing in 2023 at 3mL+85bps, tightening from its initial price guidance of 3mL+110bps area.
- BOC Aviation Ltd has priced a USD350mn 7-year FRN at 3mL+130bps, tightening from its initial price guidance of 3mL+160bps area.
- KDB Life Insurance has priced a USD200mn 30NC5 bond at 7.5%, in line with its initial price guidance.
- NagaCorp Ltd has priced a USD300mn 3NC2 bond (guaranteed by NagaCorp (HK) Ltd, NagaWorld Ltd and TanSriChen Inc) at 9.625%, tightening from its initial price guidance of 9.75%.
- First Pacific Co Ltd has scheduled for investor meetings from 16 May for its potential USD bond issuance.

Date	Issuer	Size	Tenor	Pricing
14-May-18	NagaCorp Ltd	USD300mn	3NC2	9.625%
14-May-18	KDB Life Insurance	USD200mn	30NC5	7.5%
14-May-18	BOC Aviation Ltd	USD350mn	7-year	3mL+130bps
14-May-18	Industrial & Commercial Bank of China Ltd	USD350mn	ICBCAS FRN 16/04/2023	3mL+85bps
14-May-18	Industrial & Commercial Bank of China Ltd/ Sydney	USD300mn	3-year	3mL+75bps
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

Source: OCBC, Bloomberg

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