

Aug 21, 2018

Credit Headlines: Century Sunshine Group Holdings Limited

Market Commentary

- The SGD swap curve flattened yesterday, with swap rates for the shorter tenors as well as the belly trading within 1bps while the longer tenors traded 1-3bps lower.
- Flows in SGD corporates were heavy yesterday, with better buying seen in OCBCSP 4.0%-PERPs and HSBC 4.7%-PERPs.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 140bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 6bps to 488bps.
- 10Y UST yields fell 5bps to close at 2.82%, its six-week low ahead of the release of the minutes from the Federal Reserve's meeting on Wednesday.

Credit Headlines:

Century Sunshine Group Holdings Limited ("CENSUN") | Issuer Profile: Neutral (5)

- CENSUN reported its six months results for the financial year ended December 2018 ("1H2018"). Gross revenue for continuing operations was up 60% y/y to HKD2.2bn with reported gross profit growing in tandem at 59% y/y to HKD548.7mn. All three of CENSUN's key businesses recorded y/y revenue growth, with the largest increases in both absolute amount and percentage coming from Fertiliser (revenue up 61% y/y) and Magnesium (revenue up 58% y/y).
- Overall reported gross profit margin was marginally lower at 24.8% in 1H2018 versus 25% in 1H2017. The main Fertiliser and Magnesium businesses though yielded stronger standalone gross margins. The Fertiliser business yielded 23.2% in 1H2018 (versus 23.0% in 1H2017). Due to a change in product mix, gross profit margin since 2017 had fallen 5ppt from 2016's 28.4%. The Magnesium business conversely saw gross profit margin at 25.4% versus 1H2017's 25.0%. Growth in revenue at the Fertiliser and Magnesium business was driven by both improvements in volume as well as higher average selling price ("ASP"). Encouragingly, ASP had risen 17% y/y for Fertiliser and 11% y/y for Magnesium. In 2017, ASP for Fertiliser only increased 3.3% y/y while ASP for Magnesium fell 7.9% y/y in 2017.
- Selling and marketing expenses expanded 21% y/y to HKD61.5mn while administrative expenses ballooned 97% y/y on the back of consolidation of Shandong Hongri (50.5%-owned as of April 2017) and share option expenses granted by ~72.4%-owned Rare Earth Magnesium Technology Group Holdings Limited (previously known as Group Sense International Limited). Notwithstanding the higher expenses, EBITDA increased 55% y/y to HKD478.9mn. Finance costs though had increased 33% y/y to HKD91.8mn largely due to higher levels of debt assumed in 1H2018 versus 1H2017. We find resultant EBITDA/Interest coverage stronger at 5.2x (1H2017: 4.5x).
- CENSUN ended the period with a profit after tax from continuing operations of HKD215.1mn (versus HKD120.1mn in 1H2017) though an inconsequential loss from discontinued operations of HKD1.1mn was also recorded. Despite the significantly stronger bottom line, CENSUN reported other comprehensive expenses of HKD85.0mn (largely dragged by foreign exchange translation losses) which led to a lower total comprehensive income for the period of HKD129.0mn (1H2017: HKD257.7mn)
- Gross gearing and net gearing remained stable at 0.6x and 0.4x respectively as at 30 June 2018 versus end-2017. Capital commitments (mostly for capex) had reduced to only HKD170.4mn versus HKD224.7mn at the beginning of the year and we expect leverage levels to stay stable for the next six months. Short term debt coming due is significant at HKD1.0bn (49% of gross debt), though with only 17% of hard assets (we take property, plant, equipment, land use rights and deposits with banks) used as collateral, we think the refinancing risk as manageable at this point. We maintain CENSUN's issuer profile at Neutral (5). (Company, OCBC)

Table 1: Key Financial Indicators

| | 21-Aug | 1W chg (bps) | 1M chg (bps) |
|--------------------|--------|--------------|--------------|
| iTraxx Asiax IG | 82 | -1 | -4 |
| iTraxx SovX APAC | 11 | 0 | -2 |
| iTraxx Japan | 56 | -1 | -6 |
| iTraxx Australia | 74 | -2 | -6 |
| CDX NA IG | 62 | -1 | 0 |
| CDX NA HY | 107 | 0 | 0 |
| iTraxx Eur Main | 70 | 1 | 4 |
| iTraxx Eur XO | 304 | -4 | 9 |
| iTraxx Eur Snr Fin | 86 | -3 | 5 |
| iTraxx Sovx WE | 28 | 0 | 4 |
| AUD/USD | 0.734 | 1.33% | -0.57% |
| EUR/USD | 1.150 | 1.33% | -1.68% |
| USD/SGD | 1.369 | 0.68% | -0.24% |
| China 5Y CDS | 61 | -3 | -4 |
| Malaysia 5Y CDS | 88 | -2 | -4 |
| Indonesia 5Y CDS | 123 | -2 | 4 |
| Thailand 5Y CDS | 42 | -2 | -4 |

| | 21-Aug | 1W chg | 1M chg |
|----------------------------|----------|---------|--------|
| Brent Crude Spot (\$/bbl) | 72.18 | -0.39% | -1.22% |
| Gold Spot (\$/oz) | 1,192.18 | -0.16% | -2.64% |
| CRB | 189.11 | -0.62% | -1.82% |
| GSCI | 452.36 | -0.60% | -1.14% |
| VIX | 12.49 | -15.49% | -2.88% |
| CT10 (bp) | 2.819% | -7.95 | -7.41 |
| USD Swap Spread 10Y (bp) | 8 | 1 | 2 |
| USD Swap Spread 30Y (bp) | -6 | 1 | 2 |
| TED Spread (bp) | 28 | 0 | -6 |
| US Libor-OIS Spread (bp) | 25 | -2 | -10 |
| Euro Libor-OIS Spread (bp) | 4 | 0 | 0 |
| DJIA | 25,759 | 2.27% | 2.80% |
| SPX | 2,857 | 1.24% | 1.97% |
| MSCI Asiax | 651 | -0.21% | -2.31% |
| HSI | 27,598 | -1.21% | -2.22% |
| STI | 3,205 | -1.25% | -2.82% |
| KLCI | 1,788 | 0.24% | 1.88% |
| JCI | 5,892 | -3.04% | 0.33% |

New issues

- Singtel Group Treasury Pte Ltd has priced a USD500mn 10-year bond (guaranteed by Singapore Telecommunications Ltd) at CT10+105bps, tightening from its initial price guidance of CT10+125bps.
- Zhejiang Baron (BVI) Company Limited has priced a USD200mn 3-year bond (guaranteed by Hangzhou Jianggan District Urban Construction & Comprehensive Development Co Ltd) at 6.8%, in line with its initial price guidance.
- Guangzhou Metro Group Co Ltd has priced a USD630mn 2-year bond at 4.4%.
- Perennial Real Estate Holdings has priced a SGD170mn 2-year bond at 5.95%, tightening for its initial price guidance of 6.0%.
- Modernland Realty Tbk PT has scheduled for investor calls on 20 Aug for its potential USD bond issuance.
- Shanghai Lingang Economic Development (Group) Co Ltd has scheduled for investor meetings from 21 Aug for its potential USD bond issuance.

| <u>Date</u> | <u>Issuer</u> | <u>Size</u> | <u>Tenor</u> | <u>Pricing</u> |
|-------------|--|-------------|------------------|---------------------|
| 20-Aug-18 | Singtel Group Treasury Pte Ltd | USD500mn | 10-year | CT10+105bps |
| 20-Aug-18 | Zhejiang Baron (BVI) Company Limited | USD200mn | 3-year | 6.8% |
| 20-Aug-18 | Guangzhou Metro Group Co Ltd | USD630mn | 2-year | 4.4% |
| 20-Aug-18 | Perennial Real Estate Holdings | SGD170mn | 2-year | 5.95% |
| 16-Aug-18 | Export-Import Bank of China | USD680mn | 3-year | 3mL+60bps |
| 16-Aug-18 | Oversea-Chinese Banking Corp Ltd | SGD1bn | Perp NC5 | 4.0% |
| 15-Aug-18 | Industrial & Commercial Bank of China Asia Ltd | USD100mn | 2-year | 3mL+70bps |
| 14-Aug-18 | CMT MTN Pte Ltd | SGD150mn | 7-year | 3.2% |
| 13-Aug-18 | BCEG HongKong Co Ltd | USD600mn | 3-year | 5.75% |
| 10-Aug-18 | Nimble City Ltd | USD250mn | 2NC1 | 9.0% |
| 8-Aug-18 | Tuspark Forward Ltd | USD350mn | 3-year | 8.5% |
| 8-Aug-18 | Powerlong Real Estate Holdings Ltd | USD250mn | PWRLNG 5.95%'20s | 9%+accrued interest |
| 7-Aug-18 | Shinhan Financial Group | USD500mn | Perp NC5 | 5.875% |
| 6-Aug-18 | SK Broadband Co Ltd | USD300mn | 5-year | CT5+117.5bps |

Source: OCBC, Bloomberg

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