Asian Credit Daily

OCBC Bank

Aug 27, 2018

Credit Headlines: G8 Education Ltd, GuocoLand, Wing Tai Properties Ltd, Oxley Holdings Limited

<u>Market Commentary</u>

- The SGD swap curve flattened last Friday, with swap rates for the shorter tenors trading 1-2bps higher while the longer tenors traded 1bps lower (with the exception of the 30-year swap rates trading 2bps higher).
- Flows in SGD corporates were heavy last Friday, with better buying seen in OCBCSP 4%-PERPs and MAPLSP 3.4%'26s.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS was unchanged at 139bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 1bps to 485bps.
- 10Y UST yields rose 2bps to 2.85% initially ahead of the speech by Federal Reserve Chairman Jerome Powell on Friday for any indications on further rate hikes. However, yields subsequently reversed 4bps to close at 2.81% after Federal Reserve Chairman Powell affirmed expectations that the US central bank will continue raising rates.

<u>Credit Headlines:</u>

G8 Education Ltd ("G8") | Issuer Profile: Negative (6)

- G8 reported its 1H2018 results with performance on trend with FY2017. Total revenues rose 7.6% y/y, largely driven by acquisitions and new centre openings and helped by fee increases. Underlying performance (or like-for-like) continues to struggle however from lower occupancy (-2.5% y/y to 70.1%), higher wages costs and the overall supply/demand imbalance in Australia's child-care industry. This drove EBITDA (which we calculate excluding other income and other expenses) 14.4% lower y/y to AUD79.3mn and underlying EBIT 21% lower y/y to AUD48mn.
- Overall expenses rose 13% y/y to AUD348.7mn, largely due to a 14% rise in employee benefits on the back of regulatory impacts which influenced required staff ratios. Occupancy costs also rose 10.2% y/y.
- Cashflow from operations was solid y/y with AUD30.3mn generated for the 6 months to 30 June 2018, however investing cash outflow was higher at AUD46mn as G8 continues to upgrade existing centres, as well as acquire and open new greenfield centres. As at end 2017, G8 had an acquisition pipeline of 40 centres in 2018-19 and a target to open 30 new greenfield centres in 2018 at a capital cost of AUD120mn. For the YTD, 7 new centres were completed with 12 centres expected to complete in 2H2018 and 16 centres in FY2019. 5 centres were closed in 1H2018. Subsequent to 30 June 2018, G8 also completed the acquisition of 4 centres for $16.4m.
- Investments, along with the ongoing payment of substantial dividends (AUD31.3mn), was funded with debt as total borrowings rose 13.5% h/h. That said, finance costs fell 15% y/y to AUD13.5mn and this translated to stable EBITDA/interest cover of 4.9x y/y given the 14.4% y/y fall in EBITDA. However, the annualized net debt/EBITDA ratio weakened to 2.3x for 1H2018 against 1.4x for FY2017.
- Debt composition changed materially h/h with short term borrowings comprising 77% of total borrowings as at 30 June 2018 (16% as at 31 December 2017) due to SGD270mn GEMAU 5.5% '19s due 18th May 2019 but on a positive note, G8 has secured a 100% underwriting commitment from banks for AUD400mn to refinance the GSD bond. The commitment is also expected to cover G8's existing drawings from its AUD200mn club facility.
- Given industry conditions, management has guided that performance will likely remain under pressure from supply conditions and regulatory change until mid to late 2019. This, along with its investment pipeline, moderately aggressive dividend payout ratio (70-80% of underlying NPAT) and reduced financial flexibility from equity markets frames our Negative (6) issuer profile on G8 (Company, OCBC)

<u>Credit Headlines (cont'd):</u>

GuocoLand ("GUOL") | Issuer Profile: Neutral (5)

- GUOL reported its fourth quarter results for the financial year ended June 2018 ("4QFY2018"). Revenue was down 51.6% y/y to SGD197.0mn due to the significant reduction in completed residential projects compared to the previous corresponding quarter. At the beginning of 4QFY2018, GUOL had SGD585.0mn in inventories against SGD3.3bn at the beginning of 4QFY2017. Reported gross profit was 31.5% lower y/y at SGD68.2mn (representing gross profit margin of 34.5% for the quarter). EBITDA (based on our calculation which does not include other income and other expenses) was correspondingly lower by 38.5% y/y at SGD45.5mn.
- GUOL ended the quarter with profit after tax of SGD166.1mn (4QFY2017: SGD291.3mn), driven by the top line reduction as well as lower other income of only SGD147.2mn versus SGD264.7mn in 4QFY2017 as non-cash revaluation gains at Guoco Tower had reduced.
- Excluding capitalised interest, GUOL reported a lower interest expense of SGD11.8mn against SGD24.2mn in 4QFY2017. Though on a cash interest basis, we saw interest paid increase to SGD59.3mn (4QFY2017: SGD37.7mn). We think these were attributable to projects under construction (eg: Martin Modern in Singapore, Emerald Hills in Malaysia).
- As at 30 June 2018, unadjusted net gearing at GUOL was 1.0x, stable versus the quarter before. On an adjusted basis (assuming 50% of perpetual as debt, we find adjusted net gearing at 1.1x). Investment properties continue to be the largest component of total assets at SGD4.6bn (making up 44% of total assets). This mainly comprises of offices Guoco Tower and 20 Collyer Quay in Singapore with healthy occupancy rates of 99% and 93% respectively and a mixed-use development in Damansara City in Kuala Lumpur.
- GUOL had paid down debt during the quarter (amounting to SGD221.7mn) and only reported SGD36.8mn in investing outflow. Nonetheless, we expect investing outflow to increase in 1HFY2019. GUOL had been replenishing its landbank, though coming in late cycle, which may indicate somewhat lower margins may be required to move units when the development projects get launched. In March 2018, GUOL announced that it has won the bid for Pacific Mansion together with its substantial shareholder Hong Leong Investment Holdings Group for SGD980m. GUOL holds 40%-stake in the joint venture. Post quarter end, in July 2018, GUOL bought Casa Meyfort in another en bloc acquisition for ~SGD320mn. We maintain GUOL's issuer profile at Neutral (5). (Company, OCBC)

Credit Headlines (cont'd):

Wing Tai Properties Ltd ("WTP") | Issuer Profile: Neutral (4)

- WTP reported 1H2018 results. Revenue was down 14.0% y/y to HKD469.5mn (1H2017: HKD545.8mn) while profit from operations rose significantly by 126.7% y/y to HKD1090.1mn (1H2017: HKD480.9mn). Given the increase was mainly attributable to a one-off gain on the disposals of a subsidiary, W Square for HKD693mn, adjusted profit from operations was lower by 17.8% y/y. Property development saw lower sale of properties and project management income in Hong Kong, contributing only HKD16.4mn in 1H2018 versus HKD94.0mn in 1H2017. In fact, this segment made a HKD69mn loss before taxation. We expect results of the property development segment to improve as WTP launched La Vetta and the second phase of Le Cap which currently has 12% of its residential units sold since its sale launch in April 2018. WTP has a 35% interest in both of these residential projects, with a combined GFA of 460,000 sq ft.
- Property investment, the main contributor of gross profit (+153.7% y/y to HKD1256.4mn), was lifted by fair value changes in investment properties of HKD290.3mn (1H2017: HKD225.7mn) and financial instruments and a one-off gain on disposals of subsidiaries in 2018. However, without these gains, gross profit would have been relatively stable (declined marginally by of 0.1% y/y (HKD0.2mn) to HKD264.4mn). We saw mixed results in occupancy rate across the property investment and management portfolio over the past half year with improvements at Shui Hing Centre (1H2018: 96%, FY2017: 93%) and London properties – Savile Row/Vigo Street, Brook street and Berkeley Square (1H2018: 82%, FY2017: 75%) but the rate at Landmark East dipped by 1% to 98% and Fleet Place declined by 6% from full occupancy while the 33 units at Central Park, Beijing held constant at 91%. Landmark East, supported by quality tenant mix, continued to deliver steadily growing rental income along with high occupancy rates despite the slight dip.
- Net gearing fell further to 4.7% from 19.9% as at 31 December 2017 due to receipt of proceeds from the disposal of W Square which resulted in higher bank balances and cash. Adjusted net gearing for the HKD1513.7mn perpetual securities is 10.0% (25.3% as at 31 December 2017). Overall, WTP is in a strong financial position with significant cash on hand (bank balances and cash as at 30 June 2018: HKD3989.4mn) to pursue suitable opportunities to acquire yield-enhancing investment properties in Hong Kong and London for residential, commercial and hospitality developments. (Company, OCBC)

Credit Headlines (cont'd):

Oxley Holdings Limited ("OHL") | Issuer Profile: Negative (6)

- OHL reported its fourth quarter results for the financial year ended June 2018 ("4QFY2018"). Revenue was up 3.9% y/y to SGD233.1mn due to higher revenue contribution from its UK project, contribution from the Novotel/Mercure hotel in Stevens Road Singapore which commenced operations in end-2017, and Chevron House in Singapore (purchase completed in March 2018).
- Reported gross profit though was down 37.6% y/y at only SGD27.8mn, representing a gross profit margin of 12% in 4QFY2018 versus 20% in 4QFY2017. This is indicative that completed development projects in 4QFY2018 earned a lower margin versus the previous corresponding period. Additionally, given that the Singapore hotels are still in ramp-up phase, we think the gross profit margin for these are likely to be still thin, at best. For the full year 2018, reported gross margins was 15.6% versus 28.8% in FY2017 (eg: Floraville, bulk of Royal Wharf units were completed in FY2017).
- EBITDA (based on our calculation which excludes other income, other losses and other gains) was SGD9.4mn in 4QFY2018, down 69.8% y/y. Interest expense ballooned to SGD24.4mn (4QFY2017: SGD7.8mn), mainly due to higher level of debt taken to help fund OHL's acquisitions of properties and shares in other listed companies (eg: stakes in United Engineers Ltd, Aspen Group Holdings Ltd), loans extended to joint ventures in addition to higher market interest rates. EBITDA was insufficient to cover interest expense during the quarter versus an EBITDA/Interest coverage of 4.0x in 4QFY2017. OHL had ended the year with a profit after tax of SGD137.6mn (versus SGD43.6mn in 4QFY2017) though this was mainly attributable to SGD156.6mn in non-cash gains from revaluation of Chevron House, reversal of fair value loss on financial instruments and gain on sale of an investment property.
- Aided by the sale of an investment property asset for SGD194.9mn (en-bloc sale of No 1 Dublin Landings), as at 30 June 2018, OHL's net gearing was 2.2x, somewhat lower than the 2.4x reported in 3QFY2018, though we expect this to rise as OHL would still need to settle the purchases of two en-bloc purchases in Singapore totalling ~SGD730mn.
- While liquidity at OHL looks stretched, as at 30 June 2018, the company has a total of SGD1.2bn in investment properties (eg: Chevron House, Novotel/Mercure Hotel, Space@Tampines industrial building) and another SGD2.1bn in development properties that could be monetised. We are maintaining OHL's issuer profile at Negative (6). (Company, OCBC)

Table 1: Key Financial Indicators

	27-Aug	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	80	-4	3
iTraxx SovX APAC	11	-1	-2
iTraxx Japan	55	-1	1
iTraxx Australia	74	-1	1
CDX NA IG	60	-1	2
CDX NA HY	107	0	0
iTraxx Eur Main	66	-5	6
iTraxx Eur XO	286	-20	9
iTraxx Eur Snr Fin	81	-6	9
iTraxx Sovx WE	28	-1	3
AUD/USD	0.734	-0.03%	-0.84%
EUR/USD	1.164	1.36%	-0.16%
USD/SGD	1.365	0.32%	-0.24%
China 5Y CDS	58	-4	2
Malaysia 5Y CDS	88	-1	6
Indonesia 5Y CDS	120	-5	13
Thailand 5Y CDS	42	0	0

	27-Aug	1W chg	1M chg
Brent Crude Spot ($/bbl)	75.71	4.85%	1.91%
Gold Spot ($/oz)	1,206.43	1.34%	-1.45%
CRB	192.08	1.77%	-1.07%
GSCI	463.79	2.69%	-0.19%
VIX	11.99	-5.14%	-7.98%
CT10 (bp)	2.821%	0.17	-13.35
USD Swap Spread 10Y (bp)	8	0	2
USD Swap Spread 30Y (bp)	-5	1	1
TED Spread (bp)	23	-5	-11
US Libor-OIS Spread (bp)	23	-2	-10
Euro Libor-OIS Spread (bp)	4	0	0
DJIA	25,790	0.47%	1.33%
SPX	2,875	0.86%	1.98%
MSCI Asiax	659	1.12%	-2.92%
HSI	27,672	1.68%	-3.93%
STI	3,213	0.03%	-3.37%
KLCI	1,809	1.76%	2.23%
JCI	5,969	2.62%	-0.34%

New issues

- There were no new issuances over 24 Aug 2018.

Date	Issuer	Size	Tenor	Pricing
23-Aug-18	Redco Properties Group Ltd	USD200mn	2-year	11.0%
23-Aug-18	Mapletree Treasury Services Ltd	SGD300m	8-year	3.4%
23-Aug-18	Perennial Real Estate Holdings Ltd	SGD10mn	PREHSP 5.95%'20s	5.95%
22-Aug-18	National Australia Bank Ltd	EUR750mn	5-year	MS+36bps
22-Aug-18	National Australia Bank Ltd	EUR1.25bn	10-year	MS+53bps
21-Aug-18	JGC Ventures Pte Ltd	USD150mn	3NC1	10.75%
21-Aug-18	Fufeng Group Ltd	USD350mn	3-year	CT3+325bps
21-Aug-18	Logan Property Holdings Co Ltd	USD300mn	3NC2	7.75%
21-Aug-18	ABN Amro Group NV	USD1bn	3-year	CT3+75bps
21-Aug-18	ABN Amro Group NV	USD1bn	3-year	3mL+57bps
21-Aug-18	Commerzbank AG	EUR1.25bn	5-year	MS+35bps
21-Aug-18	Commerzbank AG	EUR500mn	10-year	MS+65bps
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%

Source: OCBC, Bloomberg

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