

## Asian Credit Daily

Monday, September 02, 2019

### Market Commentary

- The SGD swap curve bear-steepened last Friday, with the shorter tenors traded 1-3bps higher, while the longer tenors (>5yr) traded 4-5bps higher.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS was unchanged at 135bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 6bps to 570bps.
- Flows in SGD corporates were heavy, with large ticket flows in UBS 4.85%-PERPs, ARASP 5.65%-PERPs, CAPLSP 3.15%'29s, HSBC 4.7%-PERPs, UOBSP 3.58%-PERPs, and ARASP 5.2%-PERPs. We also saw flows in STANLN 5.375%-PERPs, SOCGEN 6.125%-PERPs, MAPLSP 3.15%'31s, FPLSP 4.98%-PERPs, GUOLSP 4.6%-PERPs, HSBC 5.0%-PERPs, KITSP 4.75%-PERPs, UBS 5.875%-PERPs, SPHRSP 4.1%-PERPs and SPHSP 4.1%-PERPs.
- 10Y UST yields were relatively unchanged at 1.5%, with investors waiting to see if there will be a de-escalation of the US-China trade war. Spread between the 2-year treasury notes and 10-year treasury notes remains inverted, with the spread narrowing to 1bps, while the spread between 3-month treasury bills and 10-year treasury notes has widened to -48bps.

### Credit Research

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### Credit Summary:

- [BreadTalk Group Ltd](#) | **Neutral (5)**: BGL is acquiring a 100%-stake in Food Junction Management Pte Ltd ("FJM") for SGD80mn. FJM operates 12 food courts in Singapore and 3 food courts in Malaysia. FJM is currently 98.1%-owned by Auric Pacific Group Ltd. The net asset value of FJM is SGD12.3mn while the net profit is SGD3.2mn. If the acquisition goes through, it will be negative to the credit metrics of BGL as the proforma net tangible asset (without goodwill on acquisition of FJM) of BGL will shrink to SGD89.0mn, and we think net tangible gearing may exceed 2x. While we consider the transaction to be credit negative given the significant acquisition size relative to BGL's net assets, we continue to hold BGL at a Neutral (5) Issuer Profile, noting that BGL holds SGD128.1mn of cash as of 30 June 2019.
- [Wing Tai Properties Ltd](#) | **Neutral (4)**: WTP reported 1H2019 results. Revenue fell 9.7% y/y to HKD423.9mn, our calculated EBITDA have fallen 27.5% y/y to SGD146.2mn, and net profit fell significantly more by 77.0% y/y to HKD245.4mn. Net gearing rose to 8.4% h/h from 7.5% as at end-2018. WTP expects the Hong Kong property market to become more challenging in view of the ongoing developments at Hong Kong and trade tension. Meanwhile, WTP's credit profile continues to be anchored by Landmark East, which maintains a healthy occupancy of 97% (end-2018: 93%), which is WTP's flagship property. We continue to maintain WTP at Neutral (4) Issuer Profile.
- [Century Sunshine Group Holdings Ltd](#) | **Negative (6)**: CENSUN announced its interim financials for 1H2019, revenue was down 4.2% y/y to HKD2.12bn and gross profit was down by only 2.5% y/y to HKD535.1mn. Although revenue declined, reported selling and marketing expenses and administrative expenses had declined 22.6% y/y and 3.4% y/y respectively, leading to an increase in profit before tax by 12.8% y/y. EBITDA based on our calculations was up 0.9% y/y to HKD483.3mn, finance costs were reduced by 10.2% y/y. Gross gearing was slightly lower than end-2018 at 0.50x. Short term debt at CENSUN was HKD1.1bn, 51% of total debt and very significant in our view, amidst CENSUN's still large capital commitments. We continue to see significant refinancing risk at CENSUN and are maintaining our Negative (6) issuer profile of the company.

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### Credit Headlines

#### **BreadTalk Group Ltd (“BGL”) | Issuer Profile: Neutral (5)**

- BGL is acquiring a 100%-stake in Food Junction Management Pte Ltd (“FJM”) for SGD80mn. FJM operates 12 food courts in Singapore and 3 food courts in Malaysia.
- FJM is currently 98.1%-owned by Auric Pacific Group Ltd (“APGL”), which is in turn 50.3%-owned by Lippo China Resources Ltd, which is in turn 74.99%-owned by Lippo Ltd. The remaining 49.7% of APGL is owned by Dr. Stephen Riady and his son-in-law, Dr. Andy Adhiwana.
- The deal is subject to approval by the shareholders of BGL, Lippo China Resources and Lippo Ltd.
- The net asset value of FJM is SGD12.3mn while the net profit is SGD3.2mn. As such, if the acquisition (SGD80mn) goes through, this will be negative to the credit metrics of BGL as the proforma net tangible asset (without goodwill on acquisition of FJM) of BGL will shrink to SGD89.0mn (before acquisition: SGD156.7mn). Together with projected capex of SGD60mn-SGD80mn p.a., we think net tangible gearing may exceed 2x upon completion of the acquisition (2Q2019: 0.65x). Although FJM’s net profit appears weak, we consider EBITDA to be a better metric of profitability given that depreciation can be significant for food courts.
- While we consider the transaction to be credit negative given the significant acquisition size relative to BGL’s net assets, we continue to hold BGL at a Neutral (5) Issuer Profile, noting that BGL holds SGD128.1mn of cash as of 30 June 2019. (Company, OCBC)

#### **Wing Tai Properties Ltd (“WTP”) | Issuer Profile: Neutral (4)**

- WTP reported 1H2019 results. Revenue fell 9.7% y/y to HKD423.9mn, mainly due to 15.7% y/y decline in property investment and management to HKD314.5mn as a result of disposal of W Square in Feb 2018. Consequently, we calculated EBITDA to have fallen 27.5% y/y to SGD146.2mn.
- Net profit fell significantly more by 77.0% y/y to HKD245.4mn, mainly due to a fall in fair value gains to SGD49.5mn (1H2018: SGD232.5mn) and HKD693.3mn gain on disposal which should be due to W Square.
- As an update, WTP disclosed that 100%-owned The Carmel with 159k sq ft in saleable area has been 78% sold and 100%-owned OMA OMA with 264k sq ft in saleable area has been 50% sold.
- Net gearing rose to 8.4% h/h (end-2018: 7.5%). Adding HKD8.08bn due to contingent liability (which should be mostly related to 50%-interest in the commercial project through the tender of Site C of the Gage Street/Graham Street project at the Central) and reclassifying the SGD260mn WINGTA 4.35% PERP which are senior as debt, we calculate adjusted net gearing of WTP at 44.0% (end-2018: 43.3%).
- WTP expects the Hong Kong property market to become more challenging in view of the ongoing developments at Hong Kong and trade tension. Meanwhile, WTP’s credit profile continues to be anchored by Landmark East, which maintains a healthy occupancy of 97% (end-2018: 93%), which is WTP’s flagship property. We continue to maintain WTP at Neutral (4) Issuer Profile. (Company, OCBC)

## Credit Headlines

**Century Sunshine Group Holdings Limited (“CENSUN”) | Issuer Profile: Negative (6)**

- CENSUN announced its interim financials for 1H2019. For 1H2019, CENSUN reported revenue that was down 4.2% y/y to HKD2.12bn though gross profit was only down by 2.5% y/y to HKD535.1mn. Per company, production and sales of its Shandong Hongri subsidiary had been gradually reduced with capacity moved to its Jiangxi and Jiangsu bases instead.
- Sales volume for the fertiliser and magnesium business had declined 5.4% y/y and 11.1% y/y respectively though average sale prices had increased 4.1% y/y and 2.9% y/y respectively.
- Despite the decline in top line, reported selling and marketing expenses and administrative expenses had declined 22.6% y/y and 3.4% y/y respectively, leading to an increase in profit before tax by 12.8% y/y to HKD330.7mn and net profit of HKD228.1mn (up 6.0% y/y).
- EBITDA (based on our calculation which does not take into account other income and other expenses) was HKD483.3mn (up 0.9% y/y), while finance costs reduced by 10.2% y/y to HKD82.4mn despite average gross debt staying relatively constant y/y. Per company, the decline was due to lower quantum of financing by bills, which we think led to an overall lower interest cost. Resultant EBITDA/Interest was 5.9x in 1H2019 versus 5.2x in 1H2018.
- As at 30 June 2019, CENSUN’s gross gearing was 0.50x, slightly lower than end-2018, however, adjusted net gearing which accounts for only unpledged cash was 0.40x, increasing from 0.38x in end-2018. However, CENSUN’s market cap implied equity value is a lot lower at HKD957.5mn, implying net debt-to-market value of equity of 1.79x.
- CENSUN’s net cash generated from operating activities was HKD191.7mn against HKD273.8mn in net investing outflows while net outflows for financing activities was HKD42.2mn, implying that the gap was filled by a net drawdown of cash.
- Short term debt at CENSUN was HKD1.1bn, 51% of total debt and very significant in our view, amidst CENSUN’s still large capital commitments. As at 30 June 2019, capital commitments was HKD122.2mn, with unpledged cash of HKD426.8mn. We continue to see significant refinancing risk at CENSUN and are maintaining our Negative (6) issuer profile of the company. (Company, OCBC)

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### Key Market Movements

	02-Sep	1W chg (bps)	1M chg (bps)		02-Sep	1W chg	1M chg
iTraxx Asiax IG	64	-2	2	Brent Crude Spot (\$/bbl)	58.92	0.37%	-4.80%
iTraxx SovX APAC	40	-2	-1	Gold Spot (\$/oz)	1,525.02	-0.15%	5.84%
iTraxx Japan	61	-2	2	CRB	170.36	1.04%	-1.73%
iTraxx Australia	63	-3	0	GSCI	397.06	0.94%	-2.60%
CDX NA IG	54	-2	-3	VIX	18.98	-4.48%	7.78%
CDX NA HY	107	1	0	CT10 (%)	1.496%	-3.90	-34.91
iTraxx Eur Main	48	-4	-5				
iTraxx Eur XO	252	-18	-18	AUD/USD	0.673	-0.72%	-1.10%
iTraxx Eur Snr Fin	61	-3	-5	EUR/USD	1.099	-0.99%	-1.04%
iTraxx Sovx WE	16	-2	0	USD/SGD	1.390	-0.11%	-0.89%
USD Swap Spread 10Y	-12	-3	-3				
USD Swap Spread 30Y	-42	-3	-5	DJIA	26,403	3.02%	-0.31%
US Libor-OIS Spread	29	2	5	SPX	2,926	2.79%	-0.19%
Euro Libor-OIS Spread	7	2	1	MSCI Asiax	609	1.91%	-1.58%
China 5Y CDS	46	-3	0	HSI	25,725	0.17%	-4.44%
Malaysia 5Y CDS	50	-4	-5	STI	3,089	0.79%	-5.27%
Indonesia 5Y CDS	89	-4	0	KLCI	1,612	0.17%	-0.90%
Thailand 5Y CDS	30	-1	-1	JCI	6,328	1.16%	-0.18%

Source: Bloomberg

### New Issues

- Changchun Urban Development & Investment Holdings (Group) Co., Ltd has scheduled investor meetings commencing on 3 Sep for its potential USD bond issuance.

Date	Issuer	Size	Tenor	Pricing
29-Aug-19	Suzhou City Construction Investment Group (Holding) Co., Ltd	USD300mn	3-year	4.6%
29-Aug-19	Bocom Leasing Management Hong Kong Co., Ltd	USD200mn USD400mn	5-year 5-year	T+135bps 3m-US LIBOR+117.5bps
29-Aug-19	United Overseas Bank Ltd	USD500mn	3-year	MS+32bps
29-Aug-19	ARA Asset Management Ltd	SGD350mn	NC7-Perpetual	5.6%
28-Aug-19	Hysan (MTN) Ltd	USD500mn	10-year	T+140bps
28-Aug-19	Korean Air Lines Co.	USD300mn	3-year	T+70bps
28-Aug-19	Times China Holdings Ltd	USD100mn	TPHL 6.75%'23s	6.75%
28-Aug-19	PSA Treasury Pte. Ltd	USD500mn	10-year	T+77.5bps
28-Aug-19	UBS Group AG	SGD750mn	NC5-Perpetual	4.85%
27-Aug-19	Chengdu Economic & Technological Development Zone Construction Development Co. Ltd	USD200mn	3-year	6.4%
26-Aug-19	Mapletree Treasury Services Ltd	SGD300mn	12-year	3.15%

Source: OCBC, Bloomberg

# Treasury Research & Strategy

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