

May 14, 2019

Credit Headlines: Golden Agri-Resources Ltd, Olam International Ltd, Oxley Holdings Ltd, Heeton Holdings Ltd

Market Commentary

- The SGD swap curve bull-flattened yesterday, with the shorter tenors trading 3bps lower while the belly and longer tenors traded 4-5bps lower.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS was widened 1bps to 133bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 6bps to 488bps.
- Flows in SGD corporates were heavy, with flows seen in SOCGEN 6.125%-PERPs, KEPSP 3.66%'29s UBS 5.875%-PERPs and UOBSP 3.5%'26s.
- 10Y UST yields fell 7bps to 2.40%, hitting a six-week low on the back of large safe-haven demand as China announced retaliatory measures on the tariff increase imposed by the US on Friday. Beijing plans to slap import tariffs ranging from 5% to 25% on 5,140 US products worth USD60bn, unsettling investors further over the sudden deterioration of negotiations between the US and China. Meanwhile, 10-year treasury yields fell below that of the 3-month treasury bills.

Credit Headlines

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

- GGR announced its results for the first quarter ended March 2019 (“1Q2019”), revenue was down 11% y/y to USD1.6bn mainly as a result of lower crude palm oil (“CPO”) prices (down 21% y/y) to USD512 free on board (“FOB) per MT while palm product output was 3% higher y/y at 629,000 MT. Reported EBITDA though was relatively consistent at USD120.6mn versus USD121.1mn in 1Q2018 as the Palm, Laurics and Others segment saw an increase in EBITDA margin of 3.7% versus 1.6% in 1Q2018. Per GGR the increase in EBITDA margin was due to additional contribution from biodiesel and the removal of export levy in Indonesia since end-2018. Since 1Q2019, GGR had adopted SFRS(1) 16 Leases though the impact is minimal.
- Despite the relatively consistent reported EBITDA, interest expense was 12.4% higher y/y at USD41.8mn mainly due to higher interest rates at GGR. As a result, EBITDA/Interest was lower at 2.9x in 1Q2019 versus 3.3x in 1Q2018.
- GGR’s 1Q2018 results was also mainly boosted by a USD18.2mn in foreign exchange gain and a USD11.4mn in gain from a transfer of a subsidiary into a technology fund which it is invested in resulting in a 93.6% y/y increase in profit before tax to USD33.7mn.
- Unadjusted net gearing was slightly lower at 0.64x versus 0.66x in end-2018 and lower than the ~0.71-0.79x level we saw for most of 2018 and 2017. We find net debt-to-market value of equity for GGR manageable at 0.79x as at 14 May 2019.
- Short term debt was USD1.7bn as at 31 March 2019 versus cash (excluding pledged cash) of USD204.9mn. While optically this look like a large mismatch, it is within GGR’s historical norms and a large portion of the short term debt relates to working capital. We continue to expect this year to be a more challenging year for GGR in terms of generating internal cash flow given our softer CPO outlook and expect GGR to continue being reliant on refinancing markets being opened. We maintain GGR’s issuer profile at Neutral (5). (Company, OCBC)

Credit Headlines (cont'd)**Olam International Ltd (“OLAM”) | Issuer Profile: Neutral (5)**

- OLAM announced its results for the first quarter ended March 2019 (“1Q2019”), revenue was up 16.7% y/y to SGD7.3bn while reported EBITDA was up 14.2% y/y to SGD420.3mn. Reported EBITDA though included effects from the SFRS(I)16 Leases that was adopted in 1Q2019 while 1Q2018 numbers were not restated and as such is not on a like-for-like basis. Excluding the effects of SFRS(I)16, reported EBITDA for 1Q2019 would have been SGD395.7mn (up 7.5% y/y).
- The increase in reported EBITDA was driven by an increase in the Edible Nuts & Spices, Confectionary & Beverage Ingredients and Commodity Financial Services segments. The two remaining segments namely Food Staples & Packaged Foods and Industrial Raw Materials, Infrastructure and Logistics saw a decline in reported EBITDA.
- For Edible Nuts & Spices, sales volumes and revenue grew 7.1% and 10% y/y respectively in 1Q2019 with EBITDA up mainly due to cashew, almonds, hazels and spices business. For Confectionary & Beverage Ingredients, despite lower volumes of 8.3% y/y and lower revenue of 9.4% y/y (dragged by cocoa and coffee prices as well), EBITDA more than double in 1Q2019 to SGD134mn (1Q2018: SGD61mn) in part due to margins improvement in the cocoa business. The Commodity Financial Services business saw a higher reported EBITDA of SGD10.2mn in 1Q2019 against SGD4.5mn in 1Q2018 due to stronger performance of its quantitative funds business, with the fundamental funds business closed in 1Q2019.
- Growth in volume and revenue for the Food Staples and Packaged Foods business was strong at 25.3% y/y and 32.5% y/y respectively, driven by Grains trading. Reported EBITDA though was down by 18% y/y due to lower contribution from Sugar and Rice (eg: sugar trading business closed in 1Q2019) while per company volumes from rice reduced.
- Despite the higher reported EBITDA, interest expense had increase 28.7% y/y to SGD141.1mn due to higher interest rates and an increase in finance charges of SGD7.5mn from the adoption of SFRS(I) 16. Taking away the impact of SGD7.5mn, interest expense would have increased 21.8% y/y. Resultant EBITDA/Interest was lower at 3.0x (1Q2018: 3.4x), though stronger than the 2.1x in 4Q2018. Average gross debt in 1Q2019 had declined 5% versus 1Q2018.
- As at 31 March 2019, OLAM’s unadjusted net gearing was 1.29x, lower than the 1.36x in end-2018. In 1Q2019, net investing outflows was SGD191.8mn mainly due to the acquisition of a 85%-stake in YTS Holdings Pte Ltd (indirectly owns the largest cocoa processor in Indonesia). In April 2019, OLAM announced a binding offer to [buy a 100%-stake in Dangote Flour Mills Plc \(“Dangote”\)](#), leading flour and pasta manufacturer in Nigeria which may increase its unadjusted net gearing back to end-2018 levels in our view.
- With regards to its 2019-2024 Strategic Plan, OLAM has appointed two investment banks as joint financial advisors to explore options to maximise value for shareholders. This would include certain divestments of non-prioritised businesses. We continue to hold Olam’s issuer profile at Neutral (5) though may review this should Olam’s capex (including inorganic acquisitions) exceeds beyond plan. (Company, OCBC)

Credit Headlines (cont'd)

Oxley Holdings Ltd (“OHL”) | Issuer Profile: Neutral (5)

- OHL reported 3QFY2019 results for the quarter ending 31 Mar. Revenue fell 75% y/y to SGD59.9mn mainly due to depletion of inventory at Royal Wharf, which has been mostly handed over to buyers already. However, net profit rose 118% y/y to SGD66.1mn with SGD91.7mn fair value gain on [Chevron House, which is in the process of being sold](#).
- Overall, OHL reported SGD7.0bn presales, of which SGD3.7bn remains in future progress billings which will support results in the future. This includes SGD2.4bn sales secured in Singapore (future progress billings: SGD2.0bn)
- Net gearing fell to 2.49x (2Q2019: 2.55x) due to expanded equity base, despite net cash outflows from investing activities of SGD80.6mn mainly due to Chevron House, which is undergoing asset enhancement. We are still reviewing the results – several key factors which we will look out for include information on the progress of sales of development properties as well as the sale of Chevron House and the hotels at Stevens Road. (Company, OCBC)

Heeton Holdings Ltd (“HHL”) | Issuer Profile: Neutral (5)

- HHL reported 1Q2019 results. Revenue fell 6.1% y/y to SGD11.1mn mainly due to decrease in development sales revenue as Onze@Tanjong Pagar has been mostly sold and rental revenue decreased due to disposal of investment property, The Woodgrove in Feb 2018. The fall in revenue was partly mitigated by increase in hotel operation income due to newly acquired hotels in Scotland (2), Tokyo (1).
- However, the acquisition of the hotels also pushed other operating costs up (+49.8% y/y to SGD3.9mn). Share of results of associated companies and joint ventures fell 85% y/y to SGD0.5mn, mainly due to share of losses on expenses for new residential projects (Park Colonial, Affinity@Serangoon), lower profit recognition of fully sold residential projects, High Park Residences and Westwood Residences. Other operating income also fell 86.6% y/y to SGD0.6mn due to absence of gain on disposal (SGD4.15mn) of The Woodgrove. As such, net profit fell 92.5% y/y to SGD0.5mn.
- According to HHL, the 3 on-going JV projects (Park Colonial, Affinity@Serangoon, High Park Residences) are performing within expectations. Despite a weak residential outlook, HHL mentioned it will remain focused on the positive long-term prospects of the local property market.
- Net gearing (including fixed deposits) remained unchanged q/q at 0.59x. However, we note that OHL may continue expanding its hospitality portfolio (potentially to Japan, Thailand) and this may results in net gearing increasing going forward. (Company, OCBC)

Table 1: Key Financial Indicators

	14-May	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	73	4	10
iTraxx SovX APAC	48	3	6
iTraxx Japan	59	3	6
iTraxx Australia	72	2	5
CDX NA IG	65	4	9
CDX NA HY	106	-1	-2
iTraxx Eur Main	68	6	10
iTraxx Eur XO	291	24	43
iTraxx Eur Snr Fin	83	8	13
iTraxx Sovx WE	18	1	0
AUD/USD	0.695	-0.87%	-3.09%
EUR/USD	1.124	0.41%	-0.59%
USD/SGD	1.368	-0.40%	-1.13%
China 5Y CDS	51	6	10
Malaysia 5Y CDS	68	7	16
Indonesia 5Y CDS	109	8	14
Thailand 5Y CDS	41	1	3

	14-May	1W chg	1M chg
Brent Crude Spot (\$/bbl)	70.51	0.90%	-1.45%
Gold Spot (\$/oz)	1,298.55	1.10%	0.82%
CRB	177.64	-1.68%	-5.69%
GSCI	431.47	-0.84%	-4.64%
VIX	20.55	33.10%	71.11%
CT10 (bp)	2.412%	-4.45	-15.30
USD Swap Spread 10Y (bp)	-3	-2	-2
USD Swap Spread 30Y (bp)	-28	-4	-4
US Libor-OIS Spread (bp)	17	-1	-2
Euro Libor-OIS Spread (bp)	6	0	0
DJIA	25,325	-4.21%	-4.12%
SPX	2,812	-4.11%	-3.29%
MSCI Asiax	638	-3.98%	-6.45%
HSI	28,131	-3.69%	-5.95%
STI	3,209	-3.13%	-3.69%
KLCI	1,596	-2.62%	-2.07%
JCI	6,056	-3.83%	-5.46%

New issues

- There was no new Asia dollar issuance over 13th May 2019.

<u>Date</u>	<u>Issuer</u>	<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
10-May-19	Bank of China/Hong Kong	USD100mn	2-year	2.90%
10-May-19	Zhongrong International Bond 2019 Limited	USD301.41mn	3NP2	7.60%
9-May-19	Asian Infrastructure Investment Bank	USD2.5bn	5-year	MS+6bps
9-May-19	Yankuang Group (Cayman) Limited	USD500mn	YGCZCH 6.0%'22s	5.5%
9-May-19	E-House (China) Enterprise Holdings Limited	USD100mn	EHOUSE 7.75%'21s	8.5%
9-May-19	Industrial and Commercial Bank of China Limited	USD200mn	2-year	2.5%
8-May-19	CCBL (Cayman) 1 Corporation Ltd	USD500mn USD200mn	5-year 10-year	T+130bps T+195bps
8-May-19	MGM China Holdings Limited	USD750mn USD750mn	5NC2 7NC3	5.375% 5.875%
7-May-19	Car Inc	USD372.3mn	3-year	8.875%
7-May-19	Woori Financial Group Inc	USD450mn	5-year	3M-US LIBOR+77bps
7-May-19	Qingdao Jiaozhou Bay Development Group Co Ltd	USD80mn	QDJZWD 6.5%'21s	7.2%
2-May-19	Medco Oak Tree Pte Ltd	USD650mn	7NC4	7.70%
2-May-19	SD International Sukuk Ltd	USD300mn	3-year	6.30%
2-May-19	Alam Synergy Pte Ltd	USD125mn	ASRIIJ 6.625%'22s	95.176+accrued

Source: OCBC, Bloomberg

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