# OCBC TREASURY RESEARCH

## Asian Credit Daily

Thursday, August 15, 2019

### Market Commentary

- The SGD swap curve flattened yesterday, with the shorter tenors and belly traded 1-2bps higher, while the longer tenors traded 0-2bps lower.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS was unchanged at 137bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 10bps to 551bps.
- Flows in SGD corporates were heavy, with large ticket flows in UOBSP 3.58%-PERPs and CS 5.625%-PERPs. We also saw flows in STANLN 5.375%-PERPs and MAPLSP 3.95%-PERPs.
- 10Y USTs fell 13bps to close at 1.58%, after weak economic data from China and Europe sparked fears of a recession, with the 2Y and 10Y yields briefly inverted. Spread between 3-month treasury bills and 10-year treasury notes remains inverted, with the spread widening to -36bps.


**Credit Research**

**Andrew Wong**
+65 6530 4736
WongVKAM@ocbc.com

**Ezien Hoo, CFA**
+65 6722 2215
EzienHoo@ocbc.com

**Wong Hong Wei, CFA**
+65 6722 2533
WongHongWei@ocbc.com

**Seow Zhi Qi**
+65 6530 7348
zhiqiseow@ocbc.com


### Credit Summary:

- **Hotel Properties Ltd | Neutral (4):** HPL announced 2Q2019 results. Revenue fell 8.9% y/y to SGD124.9mn, profit before tax however surged to SGD11.4mn from SGD8.3mn in 2Q2018. Net gearing rose q/q to 34%. We remain comfortable with HPL's credit profile as profit before working capital changes still well-covers finance costs.

- **Hong Fok Corp Ltd | Neutral (5):** HFC reported 2Q2019 results. Revenue fell by 35% y/y to SGD20.0mn, EBITDA fell by 23.4% y/y to SGD9.1mn. Interest expenses rose 22.3% y/y to SGD7/7mn, as a result EBITDA/Interest expense fell to 1.2x from 1.9x in 2Q2018. Net gearing rose slightly q/q to 30.4%.

- **Keppel Corporation Ltd, Kris Energy Ltd | Neutral (4), Unrated:** KrisEnergy, 40% owned by KEP, yesterday applied to the High Court for a debt moratorium to undertake a 6 month court supervised debt re-organisation. For now we think the impact of a writedown in KEP's exposures to KrisEnergy will still keep KEP within our issuer profile of Neutral (4) given that KrisEnergy is a small associate within the Keppel conglomerate and KEP's business profile is more diverse than at KrisEnergy's prior out of court restructuring.

- **Sembcorp Industries Ltd | Neutral (4):** SCI announced its 2Q2019 results. Revenue was down 29% y/y to SGD2.4bn, however reported profit from operations was up 21% y/y to SGD232mn. Net gearing was at 1.08x, similar to 31 March 2019 numbers. We are reviewing our Neutral (4) issuer profile on SCI for a potential downgrade.

- **Golden Agri-Resources Ltd | Neutral (5):** GGR announced its 2Q2019 results. Revenue was down by 17% y/y to USD1.5bn, and reported gross profit fell 31% y/y to USD151.8mn. Net gearing was at 0.67x, slightly higher than 0.64x at 31 March 2019. We maintain GGR at an issuer profile of Neutral (5).

### Credit Headlines

**Hotel Properties Ltd ("HPL") | Issuer Profile: Neutral (4)**

- HPL announced 2Q2019 results. Revenue fell 8.9% y/y to SGD124.9mn due to lower contributions from property division as Tomlinson Heights development were fully sold in the prior year, which resulted in gross profit falling by 5.7% y/y to SGD25.4mn.
- Profit before tax though surged to SGD11.4mn (2Q2018: SGD8.3mn).
  - The main positive drivers are (1) in other operating income to SGD10.6mn (2Q2018: 3.8mn) from non-recurring income of SGD9.0mn and investment income which rose to SGD1.4mn (2Q2018: 0.5mn) as well as (2) increase in share of results of associates and joint ventures to SGD11.1mn (2Q2018: SGD1.3mn) driven by profits from Holland Park Villas and Burlington Gate developments in London.
  - Drivers offsetting the positives though include net fair value loss of investments of SGD6.0mn and net fair value loss in held-for-trading investments of SGD1.6mn.
- Net gearing rose q/q to 34% (1Q2019: 26.2%), mainly due to acquisition of subsidiary of SGD31.3mn, which we think should be related to the purchase of Marriott Weligama Bay Resort & Spa, which is a 198-key 5-star resort at Sri Lanka, for USD22.6mn (~SGD31mn). In addition, during the quarter, HPL has placed SGD14.1mn deposits for investments.
- Thus far, we remain comfortable with HPL's credit profile. While cash from operating activities turned to a negative SGD3.9mn (2Q2018: +SGD45.5mn), this is mainly due to a significantly higher income tax paid of SGD14.8mn (2Q2018: SGD5.8mn), which is most likely due to under provision of tax in prior years, as well as cash used for working capital purposes of SGD25.1mn. Based on profit before working capital changes of SGD34.7mn, this still well-covers SGD10.0mn of finance costs in 2Q2019. (Company, OCBC)

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

- HFC reported second quarter 2019 results. Revenue fell by 35% y/y to SGD20.0mn from SGD30.9mn in 2Q2018 due to the absence of recognition sale of development properties in Singapore which was SGD13.0mn in 2Q2018. EBITDA based on our calculation also slumped by 23.4% y/y to SGD9.1mn from SGD11.9mn in the same corresponding period.
- That said, HFC still managed to generate net cash from operations amounting to SGD8.3mn, partly due to lower trade and other payables of SGD2.5mn. Over the quarter, SGD3.5mn was spent on purchasing other investments (i.e. share and bonds). HFC also took on more net borrowings of SGD24.4mn which helped to partially fund the SGD8.9mn of dividends paid, interest payment of SGD5.3mn and acquisition of interest in subsidiaries of SGD5.1mn. Overall though cash balance was higher at SGD51.0mn (1Q2018: SGD48.9mn).
- Interest expense rose 22.3% y/y to SGD7.7mn due to higher borrowings, higher interest rates and higher amortisation of interest on unsecured bonds. As a result, EBITDA/Interest expense fell to 1.2x from 1.9x a year ago. Net gearing was also slightly higher q/q at 30.4% (1Q2019: 29.4%).
- HFC expects to recognise revenue from the sale of some of the residential units of Concourse Skyline in 2H2019, and will take a cautious approach in search for investment properties. (Company, OCBC)

**Credit Headlines**

**Keppel Corporation Ltd ("KEP") | Issuer Profile: Neutral (4) and Kris Energy Ltd ("KrisEnergy") | Issuer Profile: Unrated**

- KrisEnergy, ~40% owned by KEP, yesterday applied to the High Court for a debt moratorium to undertake a 6 month court supervised debt re-organisation. KrisEnergy has indicated that the application is an event of default under various debt agreements including various revolving and term debt facilities as well as the SGD130mn 4.0% notes due 2022, the SGD200mn 4.0% notes due 2023 and the SGD139.5mn zero coupon notes due 2024.
- This follows their previous out of court debt restructuring in late 2016 to amend terms for the KRISSP'17s and KRISSP'18s. Since then, the operating environment for KrisEnergy which is a small upstream oil and gas company, has not recovered and as per its financial results so far in 2019 the company remains over leveraged and undercapitalised necessitating the appointment of independent advisors earlier in the year to look at its options, and its auditors to opine that there is a "Material Uncertainty Related to Going Concern" in the Company's audited consolidated financial statements for the financial year ended 31 December 2018. Recent performance for 2Q2019 shows reduced production, revenues and earnings before interest, tax, depreciation, amortisation and exploration ("EBITDAX") on lower oil prices, which was not offset by a fall in operating costs.
- In KEP's 1Q2019 results, the Investments Division recognised a SGD40mn net loss from share of KrisEnergy losses (KEP's holds a 40%-stake in this company which it deems as non-strategic) and a SGD19mn impairment of an unnamed associated company (in our view this is likely KrisEnergy). We believe KEP may need to take further impairments as (1) It is both an equity holder as well as a debtholder at the KrisEnergy level with SGD131mn in its direct investments which is KEP's valuation on its equity stake in KrisEnergy, bonds and warrants as at 30 June 2019; and (2) KEP is also responsible or has the key economic exposure for DBS' USD200mn revolving credit facility (recently upsized from USD179mn).
- For now we think the impact of a writedown in KEP's exposures to KrisEnergy will still keep KEP within our issuer profile of Neutral (4) given that KrisEnergy is a small associate within the Keppel conglomerate and KEP's business profile has become more diverse than at KrisEnergy's prior out of court restructuring in 2016. That said, if KEP decides to pump in additional money into KrisEnergy then we will need to review the situation. This would indicate a willingness above necessity to support this associate in our view. In addition to supporting the recent upsize of the revolving credit facility, KEP has confirmed its support for the debt moratorium per KrisEnergy's press release. We see the likelihood of KEP providing additional financial assistance as high given the precarious state of KrisEnergy and the likely reluctance by other capital providers to extend support in the absence of KEP. (OCBC, Company)

**Credit Headlines (cont'd)**

**Sembcorp Industries Ltd ("SCI") | Issuer Profile: Neutral (4)**

- SCI announced its 2Q2019 results. Revenue was down by 29% y/y to SGD2.4bn mainly due to the decline in top line from its Marine segment (ie: 61%-owned Sembcorp Marine Ltd which is consolidated into SCI) and a 6% y/y decline in the Energy segment (previously known as Utilities).
- SCI though saw a 21% y/y overall increase in reported profit from operations ("PFO") to SGD232mn. The Energy segment continued to be the largest contributor to PFO at SGD231mn (up 7% y/y), with the increase attributable to Myanmar, Bangladesh, China and India, with India's second thermal power plant achieving higher spreads with lower cost of coal and stronger performance in renewable power. This though was offset by weaker UK performance and higher operating expenses in Singapore. Marine saw a smaller loss from operations of SGD7mn versus a loss from operations of SGD52mn in 2Q2018.
- Based on our calculation which does not include other operating income and expenses, EBITDA was SGD310mn in 2Q2019, while interest expense was SGD147mn (minimal impact from interest on lease liabilities). As such resultant EBITDA/Interest coverage was 2.1x, somewhat lower than 1Q2019's 2.3x.
- As at 30 June 2019, unadjusted net gearing was 1.08x, at very similar levels to 31 March 2019 numbers. However, SCI's 30 June 2019 has not factored in SGD1.5bn in new bonds that was proposed to be privately placed to investors. On a standalone basis, we estimate SCI's cash balance at SGD1.3bn (SGD1.2bn as at 31 March 2019), which in our view has also not factored in SGD0.5bn to be allocated for SMM's working capital purposes.
- As a recap, on 21 June 2019, SCI announced that it will be lending SMM SGD2.0bn, of which SGD0.5bn will be for working capital and general corporate purposes. SMM though had drawndown on the loan facility from its parent SCI in July 2019 and as such we assume that the SGD1.5bn in new debt would have been taken by SCI at time of writing.
- We assume that post quarter end, SCI's consolidated net debt would have increased by SGD1.1bn. Our assumption is premised on (1) SGD900mn of short term debt that has been repaid at SMM (2) SGD1.5bn in new bonds placed at the SCI level and (3) SGD0.5bn in cash to be allocated from SCI to SMM for SMM's working capital. Under this scenario, we expect SCI's consolidated net debt to increase to 1.2x. We are reviewing our Neutral (4) issuer profile on SCI for a potential downgrade. (Company, OCBC)

**Credit Headlines (cont'd)**

**Golden Agri-Resources Ltd ("GGR") | Issuer Profile: Neutral (5)**

- GGR announced its 2Q2019 results. Revenue was down by 17% y/y to USD1.5bn, mainly driven by the fall of palm prices. CPO Free on Board ("FOB") price per metric tonne was USD479 in 2Q2019, falling by 22% y/y though the 6% y/y decline in palm product output (albeit from a high base in 2018) did not help either. Reported gross profit fell 31% y/y to USD151.8mn as cost was unable to be spread across a larger production base per company.
- While GGR's gross profit had declined y/y, this was smaller than other Indonesia focused palm oil peers listed on the Singapore Stock Exchange. Notably, despite the fall in CPO prices, GGR's Palm, Laurics and Others segment managed to squeeze a higher EBITDA margin of 2.7% in 2Q2019 versus 2Q2018, which helped buffer the fall somewhat. In 2Q2019, reported EBITDA from this segment was USD41.0mn (2Q2018: USD12mn). Per company this was in part attributable to biodiesel (85% of GGR capacity is catered for the biodiesel mandate in Indonesia) and stronger demand for its sustainability products.
- Reported EBITDA fell by 26% y/y to USD77.3mn, which is the worst quarter in the past three years, though interest cost held steady at USD40.0mn, which resulted in a much thinner EBITDA/Interest coverage of 1.9x (2Q2018: 2.9x and 1Q2019: 2.9x).
- In 1H2019, USD125mn had been incurred in capex and the company is in the midst of refreshing its capex plans from its earlier projections of USD250mn for the full year. We continue to view GGR's outflows into the technology fund as a competing outflow to debt and interest repayment. So far in 1H2019, USD81.7mn had been investment in financial assets (we think large portion went to the fund).
- As at 30 June 2019, unadjusted net gearing was 0.67x, slightly higher than the 0.64x as at 31 March 2019, though we take some comfort this is below the >0.70x seen in 2018. Short term debt was high at USD1.8bn as at 30 June 2019, however post quarter end, we note that MYR375mn (~SGD124mn) in MYR-denominated bonds had been redeemed while we estimate ~USD1.0bn relates to working capital which tends to get rolled forward. Excluding the working capital related debt, we think GGR still has USD0.7bn in short term debt (representing 22% of total debt) though we expect the company to refinance this rather than pay the debt down given its thin cash flow generation versus its investment plans. Though short term debt coming due appears high, it is not unusually large relative to GGR's recent history. We maintain GGR at an issuer profile of Neutral (5). (Company, OCBC)

### Key Market Movements

| | 15-Aug | 1W chg (bps) | 1M chg (bps) |
|---|---|---|---|
| **iTraxx Asiax IG** | 71 | 5 | 8 |
| **iTraxx SovX APAC** | 44 | 2 | 5 |
| **iTraxx Japan** | 64 | 2 | 5 |
| **iTraxx Australia** | 68 | 1 | 7 |
| **CDX NA IG** | 63 | 5 | 9 |
| **CDX NA HY** | 105 | -1 | -2 |
| **iTraxx Eur Main** | 58 | 3 | 9 |
| **iTraxx Eur XO** | 293 | 18 | 50 |
| **iTraxx Eur Snr Fin** | 75 | 7 | 16 |
| **iTraxx Sovx WE** | 19 | 2 | 4 |
| **USD Swap Spread 10Y** | -11 | 1 | -5 |
| **USD Swap Spread 30Y** | -40 | 2 | -6 |
| **US Libor-OIS Spread** | 29 | 4 | 6 |
| **Euro Libor-OIS Spread** | 6 | 0 | 0 |
| **China 5Y CDS** | 55 | 5 | 13 |
| **Malaysia 5Y CDS** | 61 | 4 | 10 |
| **Indonesia 5Y CDS** | 100 | 7 | 15 |
| **Thailand 5Y CDS** | 31 | -1 | -2 |

| | 15-Aug | 1W chg | 1M chg |
|---|---|---|---|
| **Brent Crude Spot ($/bbl)** | 58.90 | 2.65% | -11.40% |
| **Gold Spot ($/oz)** | 1,522.85 | 1.46% | 7.69% |
| **CRB** | 170.64 | 1.64% | -6.79% |
| **GSCI** | 398.07 | 2.74% | -7.63% |
| **VIX** | 22.1 | 13.39% | 74.29% |
| **CT10 (bp)** | 1.564% | -15.32 | -52.47 |
| **AUD/USD** | 0.677 | -0.43% | -3.78% |
| **EUR/USD** | 1.114 | -0.33% | -1.02% |
| **USD/SGD** | 1.389 | -0.53% | -2.38% |
| **DJIA** | 25,479 | -2.03% | -6.87% |
| **SPX** | 2,841 | -1.50% | -5.76% |
| **MSCI Asiax** | 596 | -1.36% | -8.64% |
| **HSI** | 24,946 | -4.50% | -12.64% |
| **STI** | 3,091 | -2.50% | -7.66% |
| **KLCI** | 1,585 | -1.26% | -5.25% |
| **JCI** | 6,267 | 1.02% | -2.35% |

*Source: Bloomberg*

### New Issues

- Greenko Mauritius Ltd (Guarantor: Greenko Energy Holdings) has priced a USD350mn 3.5NC1.5 bond at 6.25%, tightening from IPT at 6.5% area.
- Shandong Guohui Investment Co., Ltd has mandated banks for its potential USD bond issuance.

| Date | Issuer | Size | Tenor | Pricing |
|---|---|---|---|---|
| 14-Aug-19 | Greenko Mauritius Ltd | USD350mn | 3.5NC1.5 | 6.25% |
| 13-Aug-19 | Orient Securities Co., Ltd | USD300mn | 3-year FRN | 6M-US LIBOR+125bps |
| 13-Aug-19 | Zhenro Properties Group Ltd | USD110mn | ZHPRHK 9.15%'22s | 8.55% |
| 9-Aug-19 | Excellence Commercial Management Ltd | USD150mn | 3-year | 6.8% |
| 8-Aug-19 | Dongxing Voyage Co. Ltd | USD400mn | 5-year | T+180bps |
| 8-Aug-19 | Changde Economic Construction Investment Group Co., Ltd | USD200mn | 3-year | 6.6% |
| 1-Aug-19 | Central China Real Estate Ltd | USD300mn | 3NC2 | 7.25% |
| 1-Aug-19 | Sinopec Group Overseas Development (2018) Ltd | USD800mn<br>USD700mn<br>USD500mn | 5-year<br>10-year<br>30-year | T+88bps<br>T+110bps<br>3.68% |
| 31-Jul-19 | Fantasia Holdings Group Company Ltd | USD100mn | FTHDGR 11.75%'22s | 12.4% |
| 30-Jul-19 | China Aoyuan Group Ltd | USD250mn | CAPG 7.95%'23s | 6.5% |
| 30-Jul-19 | Dexin China Holdings Company Ltd | USD200mn | 2-year | 14.0% |
| 30-Jul-19 | Lotte Property & Development Co., Ltd | USD300mn | 3-year FRN | 3M-US LIBOR+77.5bps |
| 30-Jul-19 | Korea Land & Housing Corporation | USD100mn<br>USD100mn | 3-year FRN<br>2-year FRN | 3M-US LIBOR+66bps<br>3M-US LIBOR+47bps |
| 30-Jul-19 | Emirates NBD PJSC | SGD20mn | 7-year | 3.06% |

*Source: OCBC, Bloomberg*

# OCBC TREASURY RESEARCH

## Asian Credit Daily

# Treasury Research & Strategy

## Macro Research

**Selena Ling**
*Head of Strategy & Research*
*LingSSSelena@ocbc.com*

**Emmanuel Ng**
*Senior FX Strategist*
*NgCYEmmanuel@ocbc.com*

**Tommy Xie Dongming**
*Head of Greater China Research*
*XieD@ocbc.com*

**Terence Wu**
*FX Strategist*
*TerenceWu@ocbc.com*

**Howie Lee**
*Thailand, Korea & Commodities*
*HowieLee@ocbc.com*

**Alan Lau**
*Malaysia & Indonesia*
*AlanLau@ocbc.com*

**Carie Li**
*Hong Kong & Macau*
*carierli@ocbcwh.com*

**Dick Yu**
*Hong Kong & Macau*
*dicksnyu@ocbcwh.com*

## Credit Research

**Andrew Wong**
*Credit Research Analyst*
*WongVKAM@ocbc.com*

**Ezien Hoo, CFA**
*Credit Research Analyst*
*EzienHoo@ocbc.com*

**Wong Hong Wei, CFA**
*Credit Research Analyst*
*WongHongWei@ocbc.com*

**Seow Zhi Qi**
*Credit Research Analyst*
*ZhiQiSeow@ocbc.com*



Co.Reg.no.:193200032W