

Feb 21, 2019

Credit Headlines: Sembcorp Industries Ltd, City Developments Ltd

Market Commentary

- The SGD swap curve flattened yesterday, with the shorter tenors trading within 1bps lower. The longer tenors was for the most part little changed.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS and the Bloomberg Barclays Asia USD HY Bond Index average OAS saw little change at 145bps and 503bps respectively.
- Flows in SGD corporates were light yesterday, with flows seen only in MAPLSP 3.95%-PERPs.
- 10Y UST yields rose 1bps to 2.65%, after the publication of minutes from the Federal Open Market Committee's January policy meeting revealed that a rate hike is still possible this year, as members of the committee remained undecided.

Credit Headlines

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

- SCI announced its 4Q2018 results. Gross revenue was higher by 6.7% y/y to SGD2.6bn on the back of a 13% y/y increase in Utilities revenue, while the Marine segment (61%-owned Sembcorp Marine Ltd ("SMM")) saw a marginally higher revenue growth of 0.2% y/y. These help offset the lower revenues at Urban Development and Others. Utilities revenue was boosted by higher revenue in Utilities-Singapore and Teeside and contribution from UK Power Reserve ("UKPR") which was acquired in June 2018.
- Reported gross profit was SGD227mn in 4Q2018 (GP margin of 9%) against SGD331mn (GP margin of 14%) in 4Q2017 although 4Q2017 was boosted by net positive effects of contract termination of three rigs at SMM. 3Q2018 GP margin was 8% and 4Q2018's gross profit margin compares favourably. We think q/q comparison is a better reflection for this quarter as it takes out effect from the contract termination at SMM as well as timing of completion of UKPR.
- While general and administrative expenses have been narrowed to SGD94mn against SGD135mn in 4Q2017, finance costs was 21% higher y/y mainly from higher average debt levels, which also attributed to an overall drag in profit before tax ("PBT") at SGD96mn against SGD186mn in 4Q2017.
- Taking away the impact from SMM, we find SCI's PBT ("Adjusted PBT") at SGD102mn in 4Q2018, which compares favourably with 4Q2017's Adjusted PBT of SGD58mn.
- On a net profit to owners basis, the Utilities segment reported a net profit of SGD65mn against SGD39mn in 4Q2017 and of the increase was attributable to a much narrower net loss from India. Utilities-India reported a smaller net loss of SGD6mn (4Q2017: net loss of SGD35mn, y/y +SGD29mn impact), the Middle East and Africa (+SGD5mn impact) which helped offset lower net profit from China (-SGD20mn impact), rest of Asia (-SGD9mn impact) and the UK & the Americas (UKPR made a loss) and a significant reduction in amounts charged as Corporate (-SGD30mn impact). Excluding the Corporate amounts, the Utilities segment would report a -SGD5mn reduction in net profit.
- As at 31 December 2018, net gearing was 1.1x, relatively steady q/q. Cash flow from operations (before interest and tax) was SGD407mn while net investing outflows was SGD147mn. While SCI incurred capex of SGD329mn and spent SGD55mn investing more into joint ventures and associates, during the quarter, it also received SGD131mn in proceeds from the disposal of subsidiaries (eg: Sembcorp Design and Construction, Sembcorp Siza Water etc). SCI took on new borrowings of SGD1.4bn during the quarter of which SGD968mn went towards repaying of debt and perpetuals, the net increase in borrowings was largely attributable to SMM. We are reviewing our issuer profile on SCI. (Company, OCBC)

Credit Headlines (cont'd)

City Developments Ltd (“CDL”) | Issuer Profile: Positive (2)

- CDL reported 4Q2018 results. Revenue fell 40.6% y/y to SGD788.3mn, mainly due to the fall in property development revenue (-74% y/y to SGD197mn) due to the absence of contribution from The Brownstone EC (which contributed to revenue in entirety upon TOP in 4Q2017). Hotel operations revenue was largely stable at SGD452.9mn (4Q2017: SGD450.2mn) though rental properties saw an uptick in contribution (+19.4% y/y to SGD102.8mn) following the acquisition of Algate House (worth SGD328mn) and 125 Old Broad Street (SGD693mn) in the UK, as well as the reopening of Le Grove Serviced Apartments (Jul 2018) and opening HLCC’s retail mall (Jun 2018).
- Profit before tax (“PBT”) fell 50.4% y/y to SGD110.6mn. The dip in contribution from property development (-41.7% y/y to SGD103.1mn) is mainly due to the fall in revenue. However, hotel operations PBT fell to a negative SGD53.2mn (4Q2017: +SGD1.4mn) mainly due to impairment loss of SGD94.1mn made on hotels in the US and poorer UK hotels performance impacted by Brexit. Rental properties saw an increase of 45.9% y/y to SGD58.0mn on the back of increased revenue though it rose more than revenue due to contribution from First Sponsor Group Ltd and release of provision for bond interest support for PPS 2 platform.
- On the Singapore residential development front, sales at Whistler Grand is decent with 260 units sold out of 300 units launched, though there is a further 416 units that remains to be sold. According to CDL, 87% of buyers are Singaporeans, mainly first-time home buyers. However, the other developments are moving at a slower pace. For example, 33%-owned The Jovell sold only 58 units out of 250 units released while South Beach Residences sold 53 units out of 75 units released.
- As mentioned in our [Credit Outlook 2019](#), the outlook of Singapore residential property is subdued. As such, we are maintaining caution over CDL’s planned launches in 2019, especially the high end ones (which may not attract sufficient Singapore buyers). These include 80%-stake in 592-unit Amber Park, 100%-stake in 188-unit Haus on Handy, and 40%-stake in 154-unit Boulevard 88. CDL will also be launching the 680-unit Sengkang Central and 820-unit Sumang Walk though we are less concerned as these should be targeted to the mass market.
- Despite generating SGD278.9mn from operating activities, net gearing increased to 32.9% (3Q2018: 24.4%) due to SGD981.4mn consideration paid for the acquisition of subsidiaries, which includes 125 Old Broad Street, Central Mall Office Tower and Hotel Cerretani Florence. CDL also recorded SGD69.1mn in purchase of plant, property and equipment (4Q2017: SGD29.9mn), which likely increased due to AEI works at Republic Plaza which is expected to complete in 2H2019.
- Although net gearing has risen, we are holding CDL at Positive (2) Issuer Profile as its credit profile remains supported by recurring income (2018 EBITDA from recurring sources: SGD530mn), albeit precariously. We may review CDL’s credit if the acquisition path continues, noting that CDL is targeting a SGD900mn recurring income target by 2028 and CDL is moving closer to this target following SGD2.5bn of acquisitions made in 2018. (Company, OCBC)

Table 1: Key Financial Indicators

	<u>21-Feb</u>	<u>1W chg (bps)</u>	<u>1M chg (bps)</u>
iTraxx Asiax IG	73	-3	-13
iTraxx SovX APAC	57	-2	-7
iTraxx Japan	59	-1	-11
iTraxx Australia	71	-2	-13
CDX NA IG	61	-5	-11
CDX NA HY	106	0	2
iTraxx Eur Main	66	-5	-10
iTraxx Eur XO	292	-17	-27
iTraxx Eur Snr Fin	80	-9	-11
iTraxx Sovx WE	24	0	-1
AUD/USD	0.715	0.62%	-0.13%
EUR/USD	1.134	0.36%	-0.26%
USD/SGD	1.353	0.41%	0.50%
China 5Y CDS	52	-2	-7
Malaysia 5Y CDS	72	-5	-17
Indonesia 5Y CDS	109	-3	-14
Thailand 5Y CDS	47	2	5

	<u>21-Feb</u>	<u>1W chg</u>	<u>1M chg</u>
Brent Crude Spot (\$/bbl)	66.80	3.45%	6.47%
Gold Spot (\$/oz)	1,338.14	1.95%	4.50%
CRB	183.27	2.84%	0.58%
GSCI	427.10	4.08%	3.36%
VIX	14.02	-9.14%	-21.24%
CT10 (bp)	2.643%	-1.07	-14.13
USD Swap Spread 10Y (bp)	2	-1	-2
USD Swap Spread 30Y (bp)	-19	-1	-1
US Libor-OIS Spread (bp)	24	-5	-12
Euro Libor-OIS Spread (bp)	5	0	0
DJIA	25,954	2.08%	5.05%
SPX	2,785	1.46%	4.27%
MSCI Asiax	650	0.68%	4.29%
HSI	28,450	0.06%	4.61%
STI	3,269	0.50%	1.51%
KLCI	1,723	1.99%	1.80%
JCI	6,513	1.46%	0.96%

New issues

- China Construction Bank Corporation has priced a USD1.85bn 10NC5 Tier 2 bond at CT10+188bps, tightening from IPT of +220bps area.
- ENN Clean Energy International Investment Ltd has priced a USD250mn 2-year bond (parent guarantor: ENN Ecological Holdings Co) at 8.35%, tightening from IPT of 8.5% area.
- Guangzhou R&F Properties Co Ltd has priced a USD450mn 4-year bond at 8.125% and a USD375mn 5-year bond at 8.625%.
- Modern Land (China) Co Ltd has priced a USD200mn re-tap of its existing MOLAND 15.5%'20s (subsidiary guarantors: certain non-PRC restricted subsidiaries of issuer) at 14.0%, tightening from IPT of 14.625% area.
- Shriram Transport Finance Co has priced a USD400mn 3-year bond at 5.7%, tightening from IPT of 6.0% area.
- SP Group Treasury Pte Ltd has priced a USD600mn 10-year bond (guarantor: Singapore Power Ltd) at CT10+83bps, tightening from IPT of +105bps area.
- Woodside Finance Ltd has scheduled investor meetings from 21 Feb for its potential USD bond issuance.
- Mei Nian Investment Ltd (parent guarantor: Meinian Oneheath Healthcare Holdings Co) has scheduled investor meetings from 20 Feb for its potential USD bond issuance.

<u>Date</u>	<u>Issuer</u>	<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
20-Feb-19	China Construction Bank Corporation	USD1.85bn	10NC5	CT10+188bps
20-Feb-19	ENN Clean Energy International Investment Ltd	USD250mn	2-year	8.35%
20-Feb-19	Guangzhou R&F Properties Co Ltd	USD450mn USD375mn	4-year 5-year	8.125% 8.625%
20-Feb-19	Modern Land (China) Co Ltd	USD200mn	MOLAND 15.5%'20s	14.0%
20-Feb-19	Shriram Transport Finance Co Ltd	USD400mn	3-year	5.7%
20-Feb-19	SP Group Treasury Pte Ltd	USD600mn	10-year	CT10+83bps
19-Feb-19	China CITIC Bank International Ltd	USD500mn	10NC5	CT10+225bps
19-Feb-19	China Resources Land Ltd	USD300mn USD500mn	5.5-year 10-year	CT5+135bps CT10+160bps
19-Feb-19	GLP China Holdings Ltd	USD500mn	5-year	CT5+248bps
19-Feb-19	Kaisa Group Holdings Ltd	USD400mn	2-year	12.0%
19-Feb-19	Logan Property Holdings Co Ltd	USD300mn	3.5NC2	7.5%
19-Feb-19	Sun Hung Kai Properties (Capital Market) Ltd	USD500mn	10-year	CT10+118bps

Andrew Wong

Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6530 4736
wongVKAM@ocbc.com

Ezien Hoo, CFA

Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6722 2215
EzienHoo@ocbc.com

Wong Hong Wei, CFA

Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6722 2533
WongHongWei@ocbc.com

Seow Zhi Qi

Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6530 7348
zhiqiseow@ocbc.com

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC Bank, its related companies, their respective directors and/or employees (collectively "Related Persons") may or might have in the future interests in the investment products or the issuers mentioned herein. Such interests include effecting transactions in such investment products, and providing broking, investment banking and other financial services to such issuers. OCBC Bank and its Related Persons may also be related to, and receive fees from, providers of such investment products.

This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "**Relevant Materials**") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "**Relevant Entity**") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("**MiFID**") and the EU's Markets in Financial Instruments Regulation (600/2014) ("**MiFIR**") (together referred to as "**MiFID II**"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).