

July 25, 2019

Credit Headlines: Oxley Holdings Ltd, CITIC Envirotech Ltd

Market Commentary

- The SGD swap curve bear-steepened yesterday, with the shorter tenors and belly unchanged, while the longer tenors traded 0-1bps higher.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 128bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 1bps to 478bps.
- Flows in SGD corporates were heavy, with flows in FPLSP 4.98%-PERPs, FPLSP 3.95%-PERPs, FPLSP 4.38%-PERPs, OLAMSP 6.0%'22s, SIASP 3.13%'27s and SOCGEN 6.125%-PERPs.
- 10Y USTs fell 3bps to 2.05%, in line with European government bonds after the Euro zone released weaker than expected economic data, bolstering expectations for easing of monetary policy by the ECB. Spread between 3-month treasury bills and 10-year treasury notes has inverted as of yesterday, with the spread at -4bps.

Credit Headlines

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

- Following the announcement in [Jan 2019 that OHL was selling Blocks B and E of Dublin Landings for EUR175.5mn in Ireland to Greystar Europe Holdings Ltd](#) (“Greystar”), OHL announced yesterday that a contract of sale has been entered with GECR DL PROPCO B.V (“Purchaser”). However, there is no clarification in the announcement of the background of the Purchaser and if the Purchaser is related to Greystar.
- A deposit of EUR15.5mn (exclusive of value-added tax) has been paid by the Purchaser. Completion of the sale is expected to take place progressively from Nov 2019 to Jun 2020 when the blocks achieve practical completion.
- According to OHL, the proceeds from the sale will contribute positive to the cashflow and earnings of OHL.
- While we note the considerable delay in the contract of sale ([previously targeted to be exchanged on 27 Feb 2019](#)), we view this announcement as a positive signal given the expected completion (given the deposit paid) and the expected cash inflow. (Company, OCBC)

Credit Headlines (cont'd)**CITIC Envirotech Ltd (“CEL”) | Issuer Profile: Neutral (5)**

- CEL announced its second quarter results ended June 2019 (“2Q2019”), gross revenue was down 30.3% y/y to SGD202.8mn mainly due to the decline in the Engineering and Membrane segments (down by 29.8% y/y and 44.7% y/y respectively and collectively down 37.6% y/y). We think this was due to lower projects worked on as seen by the 42.8% y/y decline in Materials purchased, consumables used and subcontractors’ fees. The treatment revenue continued to be stable (up 0.5% y/y) to SGD56mn.
- Other operating expense was up 44% y/y to SGD31.5mn in part due to increase in net foreign exchange loss. In 2Q2019, net foreign exchange loss was SGD11.5mn (2Q2018: net foreign exchange loss of SGD6.4mn). Per company, its newly acquired 65%-owned subsidiary, Nantong Guoqi Environmental Protection Technology Co., Ltd (“Nantong Guoqi”) also pushed other operating expenses higher. Nantong Guoqi owns a hazardous waste treatment facility. The transaction was announced earlier in January 2019 although the transaction was completed in 2Q2019. In our view, the small transaction (only SGD16mn for the 65%-stake), though had led to an outside impact on other operating expenses. Per company, the acquisition led to a SGD3.1mn negative impact to other operating expenses.
- EBITDA (based on our calculation which does not include other income though includes other operating expenses) was SGD55.2mn in 2Q2019, down 29.9% y/y. Finance cost increased markedly by 80.7% y/y to SGD19.1mn, mainly from additional debt taken to finance new projects and new debt drawdown to fund the redemption of its USD-denominated perpetuals (called at first call) in November 2018. In 2Q2019, average debt balance was SGD1.65bn versus SGD723.4mn average debt balance in 2Q2018. Resultant EBITDA/Interest coverage was 2.9x (2Q2018: 7.5x) though [much improved from 1Q2019’s 0.8x](#) where EBITDA generation was meagre and insufficient to cover interest expense.
- CEL reported a 58% y/y decline in profit before tax income at SGD25.2mn. Net profit for 2Q2019 was SGD15.0mn (down 65.6% y/y) though higher than 1Q2019’s net profit for the period of SGD4.4mn. Currency translation loss, from the depreciation of the RMB against the SGD was SGD30.9mn, wiping out the net profit contribution to report a total comprehensive loss of SGD15.9mn.
- As at 30 June 2019, unadjusted net gearing (assuming perpetual as equity) was 0.88x, somewhat higher versus the 0.80x as at 31 March 2019. Adjusted net debt (assuming 100% of perpetual as debt) was 1.27x, up from 1.16x as at 31 March 2019. We think this is more reflective of the gearing levels at CEL in our view given they rank pari passu with all other present and future unsecured obligations of the issuer and a high step up margin. CEL faces SGD230.9mn in short term debt as at 30 June 2019 and this can be comfortably covered by the cash balance of SGD560.0mn. During the quarter, CEL had drawn down SGD281.1mn in additional debt (net of repayment of debt). We expect CEL to continue facing large capital commitments from its project commitments which limits its ability in generating free cash flow in the next 12 months though we are maintaining our issuer profile of Neutral (5) on CEL on the back of its improved access to debt financing since October 2018. (Company, OCBC)

Table 1: Key Financial Indicators

	25-Jul	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	59	-6	-9
iTraxx SovX APAC	38	-2	-5
iTraxx Japan	55	-4	-8
iTraxx Australia	59	-4	-6
CDX NA IG	50	-4	-9
CDX NA HY	108	0	1
iTraxx Eur Main	46	-4	-10
iTraxx Eur XO	237	-17	-26
iTraxx Eur Snr Fin	54	-8	-15
iTraxx Sovx WE	15	1	-2
AUD/USD	0.698	-1.41%	0.20%
EUR/USD	1.114	-1.24%	-2.02%
USD/SGD	1.365	-0.58%	-0.74%
China 5Y CDS	40	-3	-8
Malaysia 5Y CDS	49	-3	-10
Indonesia 5Y CDS	83	-4	-11
Thailand 5Y CDS	32	-1	-2

	25-Jul	1W chg	1M chg
Brent Crude Spot (\$/bbl)	63.18	-0.75%	-2.59%
Gold Spot (\$/oz)	1,425.45	-1.43%	0.14%
CRB	178.22	-0.67%	-1.47%
GSCI	417.72	-0.52%	-1.63%
VIX	12.07	-13.60%	-25.86%
CT10 (bp)	2.041%	1.68	5.60
USD Swap Spread 10Y (bp)	-7	0	1
USD Swap Spread 30Y (bp)	-36	0	-1
US Libor-OIS Spread (bp)	22	-7	7
Euro Libor-OIS Spread (bp)	7	-1	2
DJIA	27,270	0.18%	2.72%
SPX	3,020	1.18%	3.50%
MSCI Asiax	652	0.58%	0.95%
HSI	28,524	-0.24%	1.20%
STI	3,368	0.11%	1.94%
KLCI	1,652	-0.31%	-1.44%
JCI	6,385	-0.15%	1.02%

New issues:

- China Great Wall International Holdings IV Ltd (Guarantor: China Great Wall AMC (International) Holdings Co., Ltd) has priced a USD400mn NC5-Perpetual bond at 3.95% (tightening from IPT at 4.2% area), and a USD200mn 5-year bond at T+132.5bps (tightening from IPT at T+155bps area).
- Bright Scholar Education Holdings Ltd has priced a USD300mn 3-year bond at 7.45%, tightening from IPT at 7.875% area.
- Unican Ltd (Guarantor: Haitong UT Capital Group Co Ltd) has priced a USD150mn 3-year bond at 3.8%.
- GCL Intelligent Energy Co., Ltd has scheduled investor roadshows commencing on 25 July for its potential USD bond issuance.

<u>Date</u>		<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
24-Jul-19	China Great Wall International Holdings IV Ltd	USD400mn USD200mn	NC5-Perpetual 5-year	3.95% T+132.5bps
24-Jul-19	Bright Scholar Education Holdings Ltd	USD300mn	3-year	7.45%
24-Jul-19	Unican Ltd	USD150mn	3-year	3.8%
23-Jul-19	PT Pertamina Persero	USD750mn USD750mn	10-year 30-year	3.65% 4.7%
23-Jul-19	Hanwha Energy USA Holdings Corporation	USD300mn	3-year	T+70bps
23-Jul-19	Agricultural Bank of China Ltd Hong Kong Branch	USD1.0bn	3-year FRN	3M-US LIBOR+68bps
23-Jul-19	Frasers Property Treasury Pte. Ltd	SGD200mn	FPLSP 4.98%-PERP	4.85%
22-Jul-19	Dalian Deta Holding Co., Ltd	USD300mn	3-year	6.0%
22-Jul-19	KWG Group Holdings Ltd	USD300mn	4.6NC2.6	7.45%
22-Jul-19	Greenko Solar (Mauritius) Ltd	USD500mn	5.5NC2.5	5.55%
22-Jul-19	China Development Bank Corporation of Hong Kong	USD150mn USD230mn	3-year FRN 5-year FRN	3M-US LIBOR+54bps 3M-US LIBOR+64bps
22-Jul-19	Coastal Emerald Ltd	USD100mn	10NC7	4.3%

Source: OCBC, Bloomberg

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