Asian Credit Daily

Feb 27, 2019

Credit Headlines:

OUE Ltd, Standard Chartered PLC, Olam International Ltd, Golden Agri-Resources Ltd, Keppel Corporation Ltd, CITIC Envirotech Ltd, Hotel Properties Ltd

Market Commentary

- The SGD swap curve steepened yesterday, with most tenors trading within 1bps higher (with the exception of the 15-year and 20-year swap rate relatively unchanged albeit trading lower).
- The Bloomberg Barclays Asia USD IG Bond Index average OAS traded little changed at 144bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 3bps to 515bps.
- Flows in SGD corporates were heavy, with flows seen in DBSSP 3.98%-PERPs, UBS 5.875%-PERPs, FPLSP 4.15%'27s and SINTEC 5.0%-PERPs.
- 10Y UST yields fell 2bps to 2.64%, after Federal Reserve Chair Jerome Powell reiterated the central bank's "patient" stance regarding its interest rate hike policy. Strong demand for the USD32.0bn of US 7-year treasury notes sold also drove the decline in bond yields.

Credit Headlines

OUE Ltd ("OUE") | Issuer Profile: Neutral (4)

- OUE announced its 2018 results. Revenue declined 14.7% y/y to SGD642.9mn, mainly from a decline in development property income due to lower sales completed in 2018 while no new residential projects have been launched. While 4Q2018 numbers were not directly provided, backing out the numbers, we find revenue in 4Q2018 to have declined 13.4% y/y to SGD163.3mn. Additionally healthcare income (from OUE's 64%-owned subsidiary OUE Lippo Healthcare Ltd ("OUE-LH") also reduced 59% y/y to only SGD4.6mn in 4Q2018. This was driven by lower revenue recorded by its China operations. OUE-LH had deconsolidated Wuxi New District Phoenix Hospital Co. Ltd ("Wuxi") since 3Q2018 as OUE-LH was deemed to have lost control over Wuxi.
- OUE ended the period with profit before tax and net profit to owners of SGD55.2mn and SGD28.3mn respectively in 4Q2018. Nonetheless, a SGD16.7mn other comprehensive loss was recorded. We think this was due to continued recognition of fair value losses on its stake in Chinese property developer Gemdale, albeit this is a non-cash item.
- Based on our calculation which does not include other income and other expenses, we find EBITDA to have declined 71% y/y to SGD15.7mn in 4Q2018, which was insufficient to cover finance expense of SGD32.0mn. We expect OUE to receive significant amounts in cash from units at the OUE TwinPeaks project that was sold under deferred payment schemes previously. While the exact number yet to be collected is undisclosed, we estimate this at ~SGD300-350mn, which should boost OUE's near term liquidity, despite the stretched interest coverage profile (EBITDA/Interest of 0.5x for 4Q2018 and 1.2x for 2018). Further liquidity could come from the proposed sale of US Bank Tower which OUE has begun marketing. As at 31 December 2018, the property, which is located in Los Angeles was independently valued at USD650mn (~SGD877mn).
- As at 31 December 2018, unadjusted net gearing was 0.60x, coming in somewhat lower than our expected 0.62x (30 September 2018: 0.68x). In October 2018, OUE completed the sale of the office components of OUE Downtown to OUE-CT (commercial REIT which is 56%-owned by OUE). The purchase by OUE-CT was 61%-equity funded, including by minority investors of OUE-CT while cash at OUE level was boosted from the sale. We maintain OUE's issuer profile at Neutral (4), though would adjust this downwards should the expected monetisation of OUE assets does not transpire. (Company, OCBC)

Credit Headlines (cont'd)

Standard Chartered PLC ("StanChart") | Issuer Profile: Neutral (4)

- StanChart announced its FY2018 results, with fundamentals on an improving trend. Operating income was up 5% y/y due to a 8% y/y rise in net interest income (improved net interest margin as well as better performance in Cash Management and Deposits and Wealth Management) and 1% y/y rise in other income.
- Overall operating expenses rose at a slower pace up 3% y/y as higher investment expenditure on technology was balanced by cost control with the 38% y/y fall in credit impairments from lower impairments in Corporate & Institutional Banking reflecting the bank's focus on high-quality origination driving a noticeable y/y improvement in underlying profit before taxation, up 28% y/y to USD3.86bn.
- Overall however, y/y statutory profit growth was lower and up 6% y/y to USD2.5bn due to the setting aside of USD900mn in its 4Q2018 results to cover potential regulatory fines related to legacy financial crime control matters and FX trading issues.
- By segment, operating income improvement was broad based with Corporate & Institutional Banking income up 6% y/y from higher interest rates that drove a 22% y/y rise in Cash Management and Custody income that offset asset margin compression in Corporate Finance and Trade Finance. Retail Banking and Commercial Banking income was up 4% y/y from better performance in Greater China & North Asia and ASEAN & South Asian that mitigated lower y/y operating income from Africa & Middle East on difficult macro-economic conditions.
- Loan quality continues to improve partially due to the aforementioned focus on high-quality new origination (StanChart has stated that exposure to investment grade clients rose to 62% from 57%) but also from the reduction of exposures in the liquidation portfolio with the liquidation portfolio reducing by 39% while loans from ongoing business rose 1.8%. Impaired loans fell 13.7%.
- StanChart's CET1 ratio improved to 14.2% as at 31 December 2018 from 13.6% as at 31 December 2017, above StanChart's target CET1 range of 13-14%. The improvement was driven by lower credit risk weighted assets that reduced more than capital as a result of regulatory adjustments. Overall, StanChart's capital position is in line with their constructive results from the Bank of England stress test in late 2018 in our view.
- Aside from presenting the full year results, StanChart also announced its new 3 year strategic plan which is focused on further transformation following a focus on turnaround in the prior 3 year plan over 2015-2018. Key financial targets include a CET1 target ratio of 13%-14%, USD700mn gross cost reduction and 5-7% CAGR in income. While the plan appears to have received a lukewarm response from the market, this is somewhat understandable as banks face a challenging and low return environment going forward. The plan is not unlike other revised strategic plans announced by banks where the overall aim appears to be to under promise and over deliver than over promise and under deliver. (OCBC, Company)

Olam International Ltd ("OLAM") | Issuer Profile: Neutral (5)

- OLAM has announced the proposed acquisition of a 85%-stake in YTS Holdings Pte Ltd ("YTS") for USD90mn (~SGD121.4mn) in cash. YTS owns 100% of PT Bumitangerang Mesindotama ("BT"), a cocoa processor in Indonesia. The remaining 15%-stake will be held by the founding members of BT (Piter Jasman and family). YTS/BT transaction is significant relative to the investing outflow at OLAM although the company has the financial resources to complete the transaction without new debt if it so choose to. Expansion of cocoa processing is within the strategic plan of OLAM. In 9M2018, OLAM spent SGD143.5mn in investing outflow. We will review OLAM's issuer profile alongside the release of its 4Q2018 financials expected tomorrow. (Company, OCBC)

Credit Headlines (cont'd)

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

- GGR announced its 4Q2018 and FY2018 results. Revenue for 4Q2018 declined 14.1% y/y to USD1.7bn driven by declines in Plantations and Palm Oil mills as well as Palm and Laurics & Others. From 4Q2018 onwards, GGR no longer splits out the results of Oilseeds and Others (but has lumped this together with Palm and Laurics). In 4Q2018, CPO prices based on FOB Price per MT had declined 29% y/y to USD468 per MT although this was partly offset by the increase in palm product output which rose 25% y/y to 813,000 MT. Palm and Laurics & Others saw a large improvement in reported EBITDA margin to 7.4% in 4Q2018 against 1.3% in 3Q2018 and 2.0% in 4Q2017 (estimated). Per company, this was mainly due to additional contribution from biodiesel and destination sales, removal from export levy as CPO reference price is below USD570 per tonne and fair value gains on financial assets. Using company's reported segment EBITDA of USD184mn, 65% of these were recorded in 4Q2018. In 2018, USD131.5mn in fair value gains for financial assets were recorded and we infer that USD133.3mn was attributable to 4Q2018. There was no further disclosure as to what these financial assets relate to although the existence of a large gain (non-cash) may have skewed reported EBITDA from this segment.
- Based on our EBITDA calculation which does not take into account of other income and other expenses, we find EBITDA at USD107.8mn (down 16.4% y/y) in 4Q2018 while finance expense had increased by 17.2% to USD42.8mn mainly due to higher borrowing costs at GGR. We find EBITDA/Interest lower at 2.5x in 4Q2018 versus 3.5x in 4Q2017. GGR also took a significantly smaller impairment of USD1.3mn versus USD45.6mn in 4Q2017. This helped boost profit before tax to USD109.9mn (4Q2017: USD32.5mn).
- As at 31 December 2018, optically net gearing was lower at 0.66x (0.76x as at 30 September 2018), this was driven by a 3.4% reduction in gross debt as well as a 9% increase in book value equity. In 4Q2018, GGR raised USD83.4mn in equity at its partly-owned subsidiary Gemini Edibles and Fats India Private Limited ("Gemini"). Nonetheless, we do not factor in credit uplift from this equity infusion as the investor has an option to sell back all shares to Gemini as one of its exit options. The remaining equity boost largely came from comprehensive income (via fair value gains). Taking net debt-to-market value of equity, we find net gearing at 0.77x, which at this juncture we think is a better measure of gearing levels for GGR. We are reviewing GGR's issuer profile. (OCBC, Company)

Keppel Corporation Ltd ("KEP") | Issuer Profile: Neutral (4)

- KEP announced that its indirect wholly-owned subsidiary First FLNG Holdings Pte Ltd ("First FLNG") held through Keppel Capital has entered into a conditional agreement with Gimi MS Corporation ("Gimi MS") and Golar LNG Limited ("Golar") to subscribe 30% of the shares in Gimi MS. Golar is a large independent owner and operator of LNG infrastructure and will subscribe 70% in Gimi MS.
- Gimi Ms is undertaking the development, construction and operation of a floating liquefied natural gas facility ("FLNG") to be located in Block C8. Gimi MS will acquire and own an LNG carrier which would be converted into a FLNG by Keppel's O&M arm.
- The anticipated project budget is ~USD1.3bn (excluding of financing costs) and First FLNG is committed to invest up to USD250mn in the project, including the subscription price of the 30% proposed stake in Gimi MS.
- Effectively, for this project, KEP is mobilising its asset management arm to invest alongside its customer Golar. In end-2018, KEP's net gearing was 0.48x and we expect this to tilt upwards following KEP's purchase of M1, take-private of KPTT, investments into Keppel Infrastructure Trust and expansion of Keppel Capital (including this proposed transaction). (Company, OCBC)

Credit Headlines (cont'd)

CITIC Envirotech Ltd ("CEL") | Issuer Profile: Neutral (5)

- CEL announced its results for 2018. Gross revenue increased 46.9% y/y to SGD994.5mn for 2018, due to the increase in revenue from all three segments. While 4Q2018 revenue was not directly provided, we think there were some reversal of membrane revenue.
- EBITDA based on our calculation which does not include other income and other expenses was SGD195.9mn, 52% y/y increase versus 2017 while we estimate that 4Q2018 EBITDA at SGD48.0mn while interest expense was SGD10.5mn (up 7.6% y/y), largely from the increase in average debt balance. We find EBITDA/Interest at 4.6x.
- Engineering and membrane system sales collectively contributed SGD128.5mn (or 58.4% of total) company's reported segment result. We take segment results as a proxy of operating profit. SGD91.4mn was attributable to the Treatment segment, the most stable segment for CEL. We take some comfort that Treatment operating profit alone is sufficient to cover total interest expense by 1.9x.
- In 4Q2018, CEL took a SGD29.4mn in impairment loss, net of reversal on financial assets and other items subject to estimated credit loss. Another SGD6.9mn in impairment loss was taken on intangible assets. While these are non-cash for now, it does indicate heightened counterparty credit risk among some CEL's customers. As at 31 December 2018, intangible assets and financial assets in relation to service concession amounted to SGD923.0mn.
- As at 31 December 2018, CEL's unadjusted net gearing was 0.7x, up from 0.2x as at 30 September 2018 and this was largely due to the replacement of CEL's perpetual with straight debt in November 2018. Perpetuals now only make up 8% of CEL's total capital. We think additional debt was also taken to help fund CEL's contract wins. We think this would constrain CEL's free cash flow in the next 12 months, with net gearing tilting beyond 1.0x. (Company, OCBC)

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

- HPL reported 2018 results. Revenue fell 12.1% y/y to SGD579.5mn due to lower property sales as Tomlinson Heights have been mostly sold. Reported PBIT before fair value changes fell more than revenue (-28.2% y/y to SGD150.5mn) due to decline in contribution from associates and jointly controlled entities (-30.5% y/y to SGD92.8mn) as HPL recorded lower profits from the Burlington Gate development in London.
- Splitting by core segments, both Hotels and Properties saw declines in performance. Despite revenue rising 3.7% y/y for Hotels, likely due to contribution from acquisitions made in 2017-18, reported PBIT for the segment fell to SGD64.7mn (2018: SGD73.6mn). Unsurprisingly with properties revenue falling to SGD72.6mn (2018: SGD170.2mn), reported PBIT for the segment fell to SGD14.4mn (2018: SGD27.3mn).
- Net gearing rose to 28.7% q/q (3Q2018: 24.5%) despite generating ~SGD21.5mn cash from operating activities in 4Q2018, due to cash outflows including SGD56.2mn cash outflow from investing activities mainly due to the acquisition of a 50-key 5 star hotel in Nov 2018 for EUR39.5mn (~SGD62.0mn) in a 50-50 JV, outflow for interest paid (SGD7.0mn) and SGD3.5mn distribution to perpetual holders. Overall, credit metrics still look healthy with HPL generating healthy cashflows each quarter and a manageable balance sheet. (Company, OCBC)

Table 1: Key Financial Indicators

	27-Feb	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	71	-2	-14
iTraxx SovX APAC	55	-2	-7
iTraxx Japan	59	-1	-8
iTraxx Australia	70	-1	-13
CDX NA IG	61	0	-13
CDX NA HY	106	0	1
iTraxx Eur Main	63	-3	-14
iTraxx Eur XO	277	-15	-51
iTraxx Eur Snr Fin	76	-4	-16
iTraxx Sovx WE	22	-2	-1
AUD/USD	0.718	0.21%	0.20%
EUR/USD	1.138	0.33%	-0.46%
USD/SGD	1.348	0.27%	0.35%
China 5Y CDS	49	-3	-10
Malaysia 5Y CDS	67	-4	-19
Indonesia 5Y CDS	106	-2	-13
Thailand 5Y CDS	46	-1	4

	27-Feb	1W chg	1M chg
Brent Crude Spot ($/bbl)	65.48	-2.39%	6.23%
Gold Spot ($/oz)	1,326.61	-0.88%	1.78%
CRB	181.40	-0.46%	0.40%
GSCI	421.51	-1.31%	2.89%
VIX	15.17	1.95%	-12.92%
CT10 (bp)	2.630%	-1.44	-12.82
USD Swap Spread 10Y (bp)	1	-2	-2
USD Swap Spread 30Y (bp)	-21	-3	-3
US Libor-OIS Spread (bp)	23	-3	-11
Euro Libor-OIS Spread (bp)	5	0	0
DJIA	26,058	0.64%	5.34%
SPX	2,794	0.51%	4.85%
MSCI Asiax	660	1.56%	4.58%
HSI	28,730	0.76%	4.21%
STI	3,257	-0.64%	1.72%
KLCI	1,713	-0.79%	0.68%
JCI	6,527	0.21%	0.68%

New issues

- Bi Hai Co has priced a USD600mn 3-year bond (guarantor: Yunnan Provincial Investment Holdings Group Co) at 6.25%, tightening from IPT of 6.75% area.
- ICBCIL Finance Co has priced a USD700mn 3-year bond at CT3+125bps (tightening from IPT +165bps area) and a USD800mn 5-year bond at CT5+142.5bps (tightening from IPT of +180bps area).
- Zhaojin Mining International Finance Ltd has priced a USD300mn 3-year bond (guarantor: Zhaojin Mining Industry Co Ltd) at 5.5%, tightening from IPT of 5.8% area.
- Mitsubishi UFJ Financial Group has priced a USD1.5bn 3-year bond at CT3+77bps (IPT +95bps area), a USD500mn 3-year FRN at 3-month LIBOR +70bps (in line with IPT), a USD1.5bn 5-year bond at CT5+95bps (IPT +110-115bps area), a USD1.5bn 10-year bond at CT10+110bps (IPT +125-130bps area) and a USD500mn 20-year bond at CT20+115bps (IPT of +130-135bps area).
- Mitsui Sumitomo Insurance Co has scheduled investor meetings from 26 Feb for its potential USD perpetual NC10 bond issuance.

Date	Issuer	Size	Tenor	Pricing
26-Feb-19	Bi Hai Co	USD600mn	3-year	6.25%
26-Feb-19	ICBCIL Finance Co	USD700mn USD800mn	3-year 5-year	CT3+125bps CT5+142.5bps
26-Feb-19	Zhaojin Mining International Finance Ltd	USD300mn	3-year	5.5%
26-Feb-19	Mitsubishi UFJ Financial Group	USD1.5bn USD500mn USD1.5bn USD1.5bn USD500mn	3-year 3-year 5-year 10-year 20-year	CT3+77bps 3M-LIBOR+70bps CT5+95bps CT10+110bps CT20+115bps
25-Feb-19	Ronshine China Holdings Ltd	USD300mn	3-year	10.5%
25-Feb-19	Redsun Properties Group Ltd	USD300mn	2-year	12.625%
25-Feb-19	Guorui Properties Ltd	USD160mn	3-year	14.5%
25-Feb-19	Golden Wheel Tiandi Holdings Co Ltd	USD160mn	GWTH 7.0%'21s	13.85%
25-Feb-19	Woodside Finance Ltd	USD1.5bn	10-year	CT10+185bps
25-Feb-19	Commonwealth Bank of Australia	USD750mn USD500mn	5.25-year 5.25-year	CT5+88bps 3M-LIBOR+82bps
21-Feb-19	The Chugoku Electric Power Co	USD300mn	5-year	CT5+100bps

Source: OCBC, Bloomberg

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