

Feb 28, 2019

**Credit Headlines:** Olam International Ltd, Banyan Tree Holdings Ltd, Frasers Centrepoint Trust

## **Market Commentary**

- The SGD swap curve bear-steepened yesterday, with shorter tenors and the belly trading 2bps higher while the longer tenors traded 3bps higher.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 142bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 5bps to 510bps.
- Flows in SGD corporates were heavy, with flows seen in UOBSP 3.5%'29s, ESR CAY 6.75%'22s and DBSSP 3.98%-PERPs.
- 10Y UST yields rose sharply by 5bps to 2.68%, in anticipation of today's release of US fourth-quarter gross domestic product figures. The rise in yields was observed despite a widening US goods trade deficit in December as revealed by yesterday's report, mainly attributable to technical factors leading to a selloff in treasuries.

## **Credit Headlines**

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

- OLAM announced its 4Q2018 and 2018 financials. Revenue grew 16.9% y/y to SGD8.5bn in 4Q2018 while reported EBITDA was up by 5.7% y/y SGD330.7mn, driven by increase in EBITDA in the Confectionary and Beverage segment which offset the decline in other segments. In 4Q2018, Confectionary and Beverage EBITDA was SGD165mn versus SGD79mn in 4Q2017. Interest cost though increased 28.4% y/y to SGD159.3mn, despite the reduction in average debt balance in 4Q2018 versus 4Q2017, indicating that the increase was driven by increase in interest rates. EBITDA/Interest coverage was thus lower at 2.1x versus 2.5x in 4Q2017.
- Reported EBITDA though was boosted by a SGD70.9mn in gain of fair value of biological assets versus a fair value loss of SGD14.2mn in 4Q2017. Taking away these fair value gains, adjusted EBITDA would be lower at only SGD259.8mn in 4Q2018 (down 20.6% y/y).
- 4Q2017 was boosted by a large SGD121.2mn gain on disposal of subsidiary and SGD27.7mn gain in disposal of property, plant and equipment and intangible assets (small impact in 4Q2018). Additionally, share of results from joint venture and associates was down by 37% y/y to SGD29.3mn, all of which curtailed profits in 4Q2018.
- OLAM ended the quarter with profit before tax ("PBT") of only SGD75.1mn versus SGD282.5mn in 4Q2017. Other comprehensive losses of SGD97.0mn (largely due to foreign currency translation losses) wiped out profits and negatively impacted book value of equity by SGD24.9mn.
- As at 31 December 2018, unadjusted net gearing was 1.36x versus 1.42x as at 30 September 2018, mainly due to the decline in net debt. During the quarter, OLAM's net repayment of debt was SGD602.5mn. Notwithstanding the lower profitability in 4Q2018 which had reduced OLAM's interest coverage, we view the company's stated goals of keeping net gearing at below 2.0x and the re-focusing of OLAM's business segments as announced in its 2019-2024 strategic plan as a credit positive. We are reviewing OLAM's issuer profile. (Company, OCBC)

## Credit Headlines (cont'd)

### **Banyan Tree Holdings Limited ("BTH") | Issuer Profile: Neutral (5)**

- BTH announced its 4Q2018 and 2018 results. Revenue increased 4% y/y to SGD92.8mn in 4Q2018 driven by higher revenue from property sales but partly offset by a 13% y/y decline in Hotel Investments and a 5% y/y decline in Fee-based revenue (particularly from Design and Other fees). In 4Q2018, 41 units of sales were recognised in revenue versus 31 units in 4Q2017.
- In 4Q2018, BTH recognised one-off items within other income. BTH recorded gains on disposal of assets in Seychelles and an 18.6% interest in Banyan Tree Assets (China) Holdings Pte Ltd (earlier a 50:50 joint venture between BTH and China Vanke Co. Ltd). 4Q2018 other income was SGD24.3mn, while in contrast only SGD9.0mn of other income were recognised in 4Q2017.
- Based on our calculation which does not include other income and other expenses, we find BTH's EBITDA for 4Q2018 at SGD5.0mn against SGD15.0mn in 4Q2017. During the quarter, finance cost was SGD26.1mn, though per company, 4Q2018 finance cost was impacted by one-off items while actual finance cost is in line with 4Q2017's SGD6.9mn.
- BTH ended the quarter with a profit before tax ("PBT") of SGD11.0mn although we think a PBT of ~SGD6.0mn would better reflect BTH's profitability levels for 4Q2018 (adjusting for the one-off in other income and adjusting finance cost downwards to ~SGD6.9mn).
- As at 31 December 2018, net gearing was 0.47x, lower than 0.68x in the previous quarter. This was mainly due to the reduction of debt levels at BTH. In 4Q2018, net repayment of borrowings was SGD34.7mn. Despite reporting a negative operating cash flow, BTH received SGD165.7mn from asset disposals.
- The company faces short term debt of SGD215.2mn as at 31 December 2018 (including SGD125mn in SGD-bond due in June 2019) against cash balance of SGD206.2mn. BTH's internal liquidity is stretched while we think BTH's stake in Laguna Resorts & Hotels Pcl and SGD408.4mn of the the company's physical property assets have been used as collateral to raise bank loans, with limited additional assets available to be used as security.
- BTH would need to refinance short term debt (at least in part), rather than pay down the short term debt in full. We continue to hold BTH's issuer profile at Neutral (5), although may revise this downwards should 1Q2019 results underperform. (Company, OCBC)

### **Frasers Centrepoint Trust ("FCT") | Issuer Profile: Neutral (3)**

- Frasers Centrepoint Trust is buying a 17.1312% stake in PGIM Real Estate AsiaRetail Fund Ltd for SGD342.5mn from shareholders of the fund.
- The fund owns and manages six retail malls (Tiong Bahru Plaza, White Sands, Liang Court, Hougang Mall, Century Square, Tampines 1), an office property (Central Plaza) in Singapore and four retail malls in Malaysia.
- The transaction is likely to be funded by a mix of debt and equity and estimated to be completed around 29 March 2019.
- Post-acquisition, aggregate leverage is expected to rise to 32% or higher (depending on the proportion of debt used) from its current low of 28.6% as at 31 Dec 2018.
- We note that sponsor, Frasers Property Ltd ("FPL"), announced the acquisition of a 17.8265% stake in this retail fund earlier last week. (Company, OCBC)

**Table 1: Key Financial Indicators**

|                    | 28-Feb | 1W chg (bps) | 1M chg (bps) |
|--------------------|--------|--------------|--------------|
| iTraxx Asiax IG    | 70     | -2           | -8           |
| iTraxx SovX APAC   | 55     | -2           | -4           |
| iTraxx Japan       | 60     | 0            | -5           |
| iTraxx Australia   | 69     | -2           | -8           |
| CDX NA IG          | 60     | -2           | -6           |
| CDX NA HY          | 106    | 0            | 0            |
| iTraxx Eur Main    | 62     | -4           | -8           |
| iTraxx Eur XO      | 275    | -17          | -32          |
| iTraxx Eur Snr Fin | 74     | -7           | -11          |
| iTraxx Sovx WE     | 23     | -1           | 0            |
| AUD/USD            | 0.714  | 0.69%        | -1.81%       |
| EUR/USD            | 1.137  | 0.34%        | -0.65%       |
| USD/SGD            | 1.349  | 0.33%        | -0.24%       |
| China 5Y CDS       | 50     | -2           | -4           |
| Malaysia 5Y CDS    | 65     | -6           | -14          |
| Indonesia 5Y CDS   | 105    | -4           | -5           |
| Thailand 5Y CDS    | 46     | -1           | 5            |

|                            | 28-Feb   | 1W chg | 1M chg  |
|----------------------------|----------|--------|---------|
| Brent Crude Spot (\$/bbl)  | 66.03    | -1.55% | 6.69%   |
| Gold Spot (\$/oz)          | 1,319.52 | -0.31% | -0.13%  |
| CRB                        | 183.23   | -0.02% | 2.00%   |
| GSCI                       | 426.77   | -0.33% | 4.63%   |
| VIX                        | 14.7     | 4.85%  | -11.29% |
| CT10 (bp)                  | 2.663%   | -2.88  | -8.14   |
| USD Swap Spread 10Y (bp)   | -22      | -2     | -1      |
| USD Swap Spread 30Y (bp)   | 0        | 0      | 0       |
| US Libor-OIS Spread (bp)   | 22       | -2     | -11     |
| Euro Libor-OIS Spread (bp) | 5        | 0      | 0       |
| DJIA                       | 25,985   | 0.12%  | 3.94%   |
| SPX                        | 2,792    | 0.28%  | 3.26%   |
| MSCI Asiax                 | 659      | 1.00%  | 2.89%   |
| HSI                        | 28,660   | 0.11%  | 2.57%   |
| STI                        | 3,224    | -1.63% | 1.07%   |
| KLCI                       | 1,709    | -1.24% | 1.53%   |
| JCI                        | 6,453    | -1.30% | -1.23%  |

## New issues

- Sichuan Languang Development Co Ltd has priced a USD150mn re-tap of its existing LGUANG 11.0%'20s at 12.625%, tightening from IPT of 13.0% area.
- Mitsui Sumitomo Insurance Co Ltd has priced a USD910mn NC10-perpetual bond at 4.95%, tightening from IPT of 5.25% area.
- Emirates NBD PJSC has priced a SGD130mn 4-year bond at 3.05%.
- Chongqing Energy Investment Group Co has scheduled investor meetings from 28 Feb for its potential USD bond issuance.
- Tus-Holdings Co Ltd has scheduled investor meetings from 27 Feb for its potential USD bond issuance.

| Date      | Issuer                                   | Size   | Tenor  | Pricing  |
|-----------|--|--|--|--|
| 27-Feb-19 | Sichuan Languang Development Co Ltd      | USD150mn   | LGUANG 11.0%'20s                                 | 12.625%  |
| 27-Feb-19 | Mitsui Sumitomo Insurance Co Ltd         | USD910mn   | NC10-perpetual                                   | 4.95%  |
| 27-Feb-19 | Emirates NBD PJSC                        | SGD130mn   | 4-year   | 3.05%  |
| 26-Feb-19 | Bi Hai Co                                | USD600mn   | 3-year   | 6.25%  |
| 26-Feb-19 | ICBCIL Finance Co                        | USD700mn<br>USD800mn                                     | 3-year<br>5-year                                 | CT3+125bps<br>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<br>USD500mn<br>USD1.5bn<br>USD1.5bn<br>USD500mn | 3-year<br>3-year<br>5-year<br>10-year<br>20-year | CT3+77bps<br>3M-LIBOR+70bps<br>CT5+95bps<br>CT10+110bps<br>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<br>USD500mn                                     | 5.25-year<br>5.25-year                           | CT5+88bps<br>3M-LIBOR+82bps  |
| 21-Feb-19 | The Chugoku Electric Power Co            | USD300mn   | 5-year   | CT5+100bps   |

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