

Mar 29, 2019

**Credit Headlines:** Century Sunshine Group Holdings Limited

## **Market Commentary**

- The SGD swap curve steepened yesterday, with the shorter tenors trading 2-3bps higher while the belly and longer tenors traded 4-5bps higher (with the exception of the 7-year swap rate trading 3bps higher).
- The Bloomberg Barclays Asia USD IG Bond Index average OAS traded little changed at 135bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 4bps to 466bps.
- Flows in SGD corporates were heavy, with flows in METRO 4.3%'24s, OCBCSP 4.0%-PERPs, DBSSP 3.98%-PERPs, ESRCA 6.75%'22s, LLCAU 3.9%'27s and CAPLSP 3.08%'27s.
- 10Y UST yields rose 3bps to close the session at 2.39%, as market risk sentiments improved despite little change in the equity markets and slowing growth in US GDP for the fourth quarter. The yield curve between the 3-month and 10-year treasury yields remained inverted by 6bps.

## **Credit Headlines**

### **Century Sunshine Group Holdings Limited (“CENSUN”) | Issuer Profile: Neutral (5)**

- CENSUN reported its 2018 financials. Revenue increased 35.2% y/y to HKD4.7bn, driven by volume and average selling price (“ASP”) growth for both of CENSUN’s key segments. Specifically, the Fertiliser business saw sales volume increased by 20.5% y/y while ASP grew by 13.8% y/y. Magnesium Product Business saw volume grow 21.8% y/y while ASP grew 11.2% y/y.
- Reported gross profit margin was relatively steady at 24.5%, with gross profit growing in line with revenue. EBITDA (based on our calculation which excludes other income and expenses) was HKD1.1bn, up 54% y/y. Despite the 4% increase in finance cost (including capitalised interest) which was driven by the higher average debt in 2018, we find EBITDA/Interest coverage to have improved to 6.6x from 5.0x in 2017.
- CENSUN reported profit before tax was HKD691.8mn (2017: HKD399.4mn), though this was driven by significant one-off gains from disposal of property, plant and equipment (“PPE”) & land use rights, fair value changes on derivatives and disposal of a subsidiary. In July 2018, CENSUN had sold its legacy electronic product business. Removing such gains, we think profit before tax would have been HKD591.8mn against HKD330.3mn in 2017.
- As at 31 December 2018, CENSUN’s adjusted net gearing (excludes pledged cash) was 0.40x, somewhat higher than the 0.35x as at 30 June 2018 (31 December 2017: 0.38x). That being said, CENSUN’s market value of equity is significantly lower than its book value at HKD1.0bn as at 29 March 2019. Of CENSUN’s total assets of HKD7.5bn, HKD3.8bn comprise of PPE, of these PPE, HKD1.3bn are construction-in-progress, which in our view limits the marketability of the asset class if not completed. While market value of equity is volatile, taking net debt over market value of equity as at 29 March 2019, we find this to be high at 1.5x.
- On a cash flow basis, CENSUN’s Gross Debt-to-EBITDA was encouragingly lower at 1.9x in 2018, lower than the 2.9x in 2017. In 2018, CENSUN spent HKD699.8mn in purchase of PPE while capex commitments in end-2018 was HKD179.2mn.
- CENSUN faces significant short term debt of HKD1.1bn and represents 53% of its total gross debt against unpledged cash balance of only HKD558.9mn in end-2018. A recent pulled deal to raise USD funding adds to uncertainty over refinancing in our view. We are reviewing the issuer profile of CENSUN for a possible downgrade. (Company, OCBC).

**Table 1: Key Financial Indicators**

	29-Mar	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	71	-1	1
iTraxx SovX APAC	47	0	-6
iTraxx Japan	62	2	1
iTraxx Australia	77	1	9
CDX NA IG	66	-2	6
CDX NA HY	106	0	0
iTraxx Eur Main	68	-2	6
iTraxx Eur XO	279	-5	2
iTraxx Eur Snr Fin	83	-5	9
iTraxx Sovx WE	20	0	-2
AUD/USD	0.708	-0.03%	-0.18%
EUR/USD	1.123	-0.64%	-1.24%
USD/SGD	1.356	-0.24%	-0.27%
China 5Y CDS	45	-3	-4
Malaysia 5Y CDS	62	-3	-2
Indonesia 5Y CDS	106	2	2
Thailand 5Y CDS	43	-2	-2

	29-Mar	1W chg	1M chg
Brent Crude Spot (\$/bbl)	68.01	1.46%	3.00%
Gold Spot (\$/oz)	1,291.88	-1.66%	-1.63%
CRB	183.33	-1.10%	0.32%
GSCI	432.80	-1.28%	1.51%
VIX	14.43	5.87%	-2.37%
CT10 (bp)	2.395%	-4.44	-32.04
USD Swap Spread 10Y (bp)	-1	1	-2
USD Swap Spread 30Y (bp)	-25	1	-5
US Libor-OIS Spread (bp)	21	0	0
Euro Libor-OIS Spread (bp)	5	0	0
DJIA	25,717	-0.94%	-0.77%
SPX	2,815	-1.38%	1.11%
MSCI Asiax	656	-1.23%	0.44%
HSI	28,813	-1.03%	0.63%
STI	3,212	0.01%	-0.01%
KLCI	1,647	-1.18%	-3.56%
JCI	6,481	-0.32%	0.58%

## New issues

- Vertex Capital Investment Ltd has priced a USD500mn 5-year bond (guarantor: Guangzhou Industrial Investment Fund Management) at 4.75%, tightening from IPT of 5.3% area.
- Country Garden Holdings Co Ltd (subsidiary guarantors: certain of company's restricted subsidiaries outside the PRC) has priced a USD550mn 5NC3 bond at 6.50% (tightening from IPT of 6.75% area) and a USD950mn 7NC4 bond at 7.25% (tightening from IPT of 7.5% area).
- Bank of Baroda has priced a USD500mn 3-year bond at CT3+145bps (tightening from IPT of +165bps area) and a USD300mn 5-year bond at CT5+170bps (tightening from IPT of +190bps area).
- Caiyun International Investment Ltd has priced a USD800mn 3-year bond (guarantor: Yunnan Metropolitan Construction Investment Group Co Ltd) at 5.6%, tightening from IPT of 6.0% area.
- Power Best Global Investments Ltd has priced a USD100mn 2-year bond (guarantor: Hong Kong JunFa Property Co Ltd) at 13.0%, in line with the final guidance.
- ESR Cayman Ltd has priced a USD250mn 3-year bond at 8.0%, in line with IPT.
- IndusInd Bank Ltd has scheduled investor meetings from 29 March for its potential USD bond issuance.

<u>Date</u>	<u>Issuer</u>	<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
28-Mar-19	Vertex Capital Investment Ltd	USD500mn	5-year	4.75%
28-Mar-19	Country Garden Holdings Co Ltd	USD550mn USD950mn	5NC3 7NC4	6.50% 7.25%
28-Mar-19	Bank of Baroda	USD500mn USD300mn	3-year 5-year	CT3+145bps CT5+170bps
28-Mar-19	Caiyun International Investment Ltd	USD800mn	3-year	5.6%
28-Mar-19	Power Best Global Investments Ltd	USD100mn	2-year	13.0%
28-Mar-19	ESR Cayman Ltd	USD250mn	3-year	8.0%
27-Mar-19	Zhenro Properties Group Ltd	USD420mn	3.8NC2	8.65%
27-Mar-19	Mei Nian Investment Ltd	USD200mn	2-year	8.5%
27-Mar-19	CMT MTN Pte Ltd	USD300mn	10-year	CT10+122.5bps
27-Mar-19	Yango Justice International Ltd	USD250mn	2-year	10.25%
27-Mar-19	CFLD (Cayman) Investment Ltd	USD350mn USD650mn	3-year 5-year	7.125% 8.60%

Source: OCBC, Bloomberg

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