OCBC TREASURY RESEARCH

Asian Credit Daily

Friday, February 28, 2020

Market Commentary

- The SGD swap curve bull-steepened yesterday, with the shorter and the belly tenors trading 6-8bps lower, while the longer tenors traded 2-3bps lower (with the exception of the 12-year tenor trading 9bps lower).
- The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 5bps to 131bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 8bps to 523bps. The HY-IG Index Spread widened 3bps to 392bps.
- Flows in SGD corporates were heavy, with flows in UBS 4.85%-PERPs, CS 5.625%-PERPs, SPHSP 3.2%'30s, STANLN 5.375%-PERPs, BREAD 4%'23s, SOCGEN 6.125%-PERPs, F 4.125%'24s, HPLSP 4.4%-PERPs and HSBC 4.7%-PERPs.
- 10Y UST Yields fell 8bps to 1.26%, and at one point reached another record low of 1.24% intra-day, amidst more global COVID-19 developments which include California monitoring over 8000 people for infection.

Credit Research

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Credit Summary:

- **Olam International Limited ("Olam") | Issuer Profile: Neutral (5):** Olam announced results for 4Q2019 and 2019. Revenue was up by 3.3% y/y in 4Q2019 while reported EBITDA was up 49.2% y/y. As at 31 December 2019, Olam's unadjusted net gearing was 1.4x levels.
- **Hotel Properties Ltd ("HPL") | Issuer Profile: Neutral (4):** HPL reported 2019 results with revenue declining 4.0% y/y. Credit metrics look manageable with net gearing declining q/q to 32%, and cash still sufficient to cover short-term borrowings. We expect HPL's operating results to be impacted by the COVID-19 outbreak though operating cashflows are still expected to remain positive.
- **Wheelock & Co Ltd ("WHEELK") | Issuer Profile: Positive (2) and Wharf Holdings Ltd ("WHARF") | Issuer Profile: Neutral (3):** WHEELK's partly-owned subsidiaries Wharf Real Estate Investment (Issuer profile: Unrated) and WHARF have announced a proposed take-private of WHEELK by way of a scheme of arrangement. We are likely to downgrade our Positive (2) Issuer Profile on WHEELK as we think it is likely for the take-private attempt to be successful.
- **Golden Agri-Resources Ltd ("GGR") | Issuer Profile: Neutral (5):** GGR announced results for 4Q2019 and 2019. Revenue was up by 3.0% y/y in 4Q2019 while reported EBITDA was up 93.2% y/y. Based on our calculation, we find EBITDA/Interest at 4.3x for 4Q2019 and 2.7x for the full year, within historical norms. Since the outbreak of COVID-19, palm oil prices have declined 21% and the company has guided a 20% decline in revenue from China in 2020. Nonetheless, the company expects other markets, particularly the domestic Indonesian market to offset the expected decline from China.
- **Standard Chartered PLC ("StanChart") | Issuer Profile: Neutral (4):** StanChart announced its 4Q2019 and FY2019 results and while results were constructive, the 5-7% 2020 income growth target and return on tangible equity target of 10% looks challenging according to management. For the full-year, profit before tax was up 46% y/y. On an underlying basis (excludes restructuring impacts), profit before tax rose 8% y/y. Given y/y loans growth, StanChart's CET1 ratio of 13.8% as at 31 December 2019, was down 40bps y/y but still above StanChart's minimum CET1 requirement and within its 13-14% management target range.

Credit Headlines

Olam International Limited ("Olam") | Issuer Profile: Neutral (5)

- Olam announced results for 4Q2019 and 2019. Revenue was up by 3.3% y/y in 4Q2019 to SGD8.7bn while reported EBITDA was up 49.2% y/y to SGD493.3mn. Nonetheless, the overall reported EBITDA was also boosted by the adoption of SFRS(1) 16, on a like-for-like basis (removing the SFRS(1) 16 impact), reported EBITDA would have increased by 42% y/y to SGD468.6mn in 4Q2019. Olam reported significant one-off gains and one-off costs in relation to exits of businesses in 4Q2019. One-off gains were mainly from the sale of permanent water rights in Australia, sale of real estate assets of its onion and garlic processing facility in California and the partial sale of Gabon assets to the Africa Finance Corporation. Olam's one-off costs mainly consist of impairments/exit/closure costs from its deprioritised businesses as identified in the strategic plan (including dairy in Uruguay, Olam tomato processing in the US, coffee plantations in Zambia, Brazil, Tanzania and Laos and edible oils processing in Mozambique) amounting to SGD298.5mn. These have resulted in a net exceptional item of SGD83.7mn in 4Q2019 which has helped drive reported net profit to SGD525.2mn.
- For the full year 2019, reported EBITDA grew 25.6% y/y to SGD1.6bn (17.5% y/y on a like-for-like basis), with EBITDA growth driven by Confectionary & Beverage (up 26.6% y/y), growth in Food staples and packaged foods (up 57.4% y/y) and Commodity Financial Services which had turned profitable with EBITDA of SGD19mn against loss before interest, tax, depreciation and amortisation of SGD13.1mn in FY2018. Edible Nuts and Spices saw a small uptick of 0.7% y/y while Industrial Raw Materials, Infrastructure and Logistics ("IRM") was down 1.5% y/y. On an interest expense of SGD628.4mn, we find reported EBITDA/Interest at 2.5x for 2019 (2018: 2.3x).
- As at 31 December 2019, Olam's unadjusted net gearing was 1.4x (similar to end-September 2019) levels. In January 2020, the company has announced that it will be re-organising its businesses into two operating groups, one focusing on Food Ingredients ("Olam Food Ingredients") and the other focusing on the agri-businesses ("Olam Global Agri"). OLAM, the SGD-bond issuer will continue to hold the two new operating groups while continuing to develop gestating businesses and incubate new businesses. Olam would evaluate its debt structure in conjunction with the carve out though it is too early to say if debt will be pushed down to the operating levels.
- For now, we are maintaining OLAM's issuer profile at Neutral (5) given that OLAM still holds 100% of its businesses though expect the re-organisation to facilitate a decrease in ownership of OLAM in these businesses (eg: via an IPO). (Company, OCBC)

Credit Headlines

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

- HPL reported 2019 results. Revenue declined 4.0% y/y to SGD556.4mn, mainly due to decline in revenue from the property segment (-60.8% y/y to SGD28.5mn) as the remaining units at Tomlinson Heights were fully sold in 2018 though we are not overly concerned as hotel revenue grew (+4.1% y/y to SGD527.8mn).
- Meanwhile, profit before income tax and fair value changes declined 46.5% y/y to SGD80.6mn as share of results from associates and jointly controlled entities decreased y/y to SGD28.9mn (2018: SGD92.8mn) due to lower contributions from Holland Park Villas development in London.
- Credit metrics look manageable with net gearing declining q/q to 32% (3Q2019: 43%), mainly due to SGD160mn HPLSP 4.4% PERP issued in Oct 2019 though EBITDA/Interest fell to 3.7x (2018: 5.0x) due to increase in interest expense as net debt grew 27.5% y/y . Cash of SGD192.3mn is sufficient to cover SGD156.6mn of short-term borrowings.
- The COVID-19 outbreak is expected to significantly impact the hospitality industry, with Singapore Tourism Board warning of 25-30% fall in visitor arrival while global travel demand may fall. We expect HPL's operating results to be impacted though operating cashflows are still expected to remain positive. We continue to hold HPL at a Neutral (4) Issuer Profile. (Company, OCBC)

Wheelock & Co Ltd ("WHEELK") | Issuer Profile: Positive (2) and Wharf Holdings Ltd ("WHARF") | Issuer Profile: Neutral (3)

- Following the trading halt of WHEELK, WHEELK's partly-owned subsidiary Wharf Real Estate Investment (Issuer profile: Unrated) and WHEELK's partly-owned subsidiary WHARF, WHEELK's largest shareholder the Woo family (via Admiral Power Holdings Limited, an unlisted company incorporated in the British Virgin Islands, the "Offeror") has announced a proposed take-private of WHEELK by way of a scheme of arrangement.
- In addition to the take-private proposal at a consideration of HKD12 per share in cash, the Woo family is proposing a dividend-in-specie to shareholders of one Wharf Real Estate Holdings Investment Co ("Wharf REIC") share and one Wharf Holdings Ltd ("Wharf") share for each WHEELK share held as well.
- As at announcement date, the Woo family along with its concert parties (including stakes held by a trust related to the Woo family) held 69.56%-stake in WHEELK while independent shareholders, comprising dispersed institutional and retail shareholders make up the remaining 30.44% shareholding. 32.51% of the shares though are subject to the scheme.
- There is no intention to raise the offer price with the scheme expected to become binding and effective on or before 30 September 2020.
- We are likely to downgrade our Positive (2) Issuer Profile on WHEELK as we think it is likely for the take-private attempt to be successful given that the offer price with dividend-in-specie is ~52% higher than the previous trading day. We do not see any immediate impact to WHARF's Neutral (3) Issuer Profile although will continue to monitor the situation, especially if this leads to a further asset reorganisation impacting WHARF. (Company, OCBC)

Credit Headlines

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

- GGR announced results for 4Q2019 and 2019. Revenue was up by 3.0% y/y in 4Q2019 to USD1.7bn while reported EBITDA was up 93.2% y/y to USD392.0mn. For the full year 2019, GGR's revenue was down 10.3% y/y to USD6.4bn while reported EBITDA was up 21.6% y/y to USD696.7mn.
- For 2019, the higher contribution of EBITDA was from the Palm and laurics and others segment (USD397.9mn in 2019 versus USD184.2mn in 2018), on the back of contribution from biodiesel, destination sales and included fair value gain on financial assets recognised (though this is non-cash). The upstream Plantations and palm oil mills segment saw a 23% y/y decline in 2019 EBITDA to USD299.0mn on the back of a 4% y/y decline in palm product output and 7% y/y decline in CPO FOB prices.
- However, 4Q2019 itself saw a strong performance, with CPO FOB prices up 29% y/y (24% q/q) which more than offset the 3% y/y (5% q/q) decline in product output.
- Based on our calculation of EBITDA (which does not take into account of the fair value gain on financial assets), we find EBITDA/Interest at 4.3x for 4Q2019 and 2.7x for the full year, within historical norms. As at 31 December 2019, unadjusted net gearing was 0.67x, in line with 30 September 2019 levels.
- Since the outbreak of COVID-19, palm oil prices have declined 21%, wiping up much of the gains in 4Q2019 though still 34% higher than the troughs in 4Q2018. The company has guided a 20% decline in revenue from China in 2020 mainly from logistics disruptions. China is the third largest market for GGR by sales (making up 13% of 2019 and 12% of 2018 revenue). Nonetheless, the company expects other markets, particularly the domestic Indonesian market to offset the expected decline from China. We maintain GGR's issuer profile at Neutral (5) for now. (Company, OCBC)

Credit Headlines

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

- StanChart announced its 4Q2019 and FY2019 results and while results were constructive, of more relevance is StanChart's forward guidance. According to management, while they believe lower interest rates and global economic growth as well as the COVID-19 outbreak will be temporary, the 5-7% 2020 income growth target and return on tangible equity ("ROTE") target of 10% looks challenging. Although StanChart's ROTE for FY2019 improved 130bps y/y to 6.4% (from profit as well as a reduction in equity from a 2018 USD1bn buy back), it remains weak compared to StanChart's 10% target.
- StanChart reported FY2019 profit before tax of USD3.7bn was up 46% y/y. This was due to a 4% y/y growth in operating income while operating expenses fell 6% y/y translating to a solid improvement in the reported cost to income ratio (including the UK bank levy) to 70.9% in FY2019 against 78.8% in FY2018. This overshadowed a 39% y/y rise in credit impairment. Profit from associates and joint ventures also rose 24% y/y. Growth in operating income however came mostly from net trading income improvement from valuation gains.
- On an underlying basis (excludes restructuring impacts), profit before tax rose 8% y/y to USD4.17bn. Results were still solid with a 2% y/y rise in operating income (+6% y/y in other income from Financial Markets that offset a 2% y/y fall in net interest income from a 7bps fall in net interest margins to 1.62% in FY2019 despite increased loan volumes of 5% y/y) against a 1% y/y fall in operating expenses (including the UK bank levy) from ongoing cost containment. This helped to offset a 22% y/y rise in credit impairments from the weaker operating environment in Hong Kong that resulted in a downward revision in Hong Kong's GDP (although other impairments fell 74% y/y due to the discontinuation of StanChart's ship leasing business which is now reflected as a restructuring charge). The loan loss rate therefore rose to 27bps in FY2019 against 21bps in FY2018, although remains at historical lows. The cost to income ratio (excluding the UK bank levy) improved to 65.9% in FY2019 from 67.7% in FY2018.
- From a business and geographical segment perspective, all recorded y/y growth in underlying profit before tax including Greater China & North Asia despite the protest disruptions in HKSAR, although this was driven by a 1% y/y fall in expenses while income was stable.

(to be continued in the next page)

Credit Headlines

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

- Loan quality remains broadly solid with movements in credit impairments largely due to the weaker outlook for the macro-economic environment (which resulted in a rise in stage 1 and 2 impairments). Otherwise, specific or stage 3 impairments were lower y/y as the non-peforrming loan ratio (stage 3 loans and advances as a percentage of gross loans and advances) fell to 2.7% as at 31 December 2019 from 3.2% as at 31 December 2018. This was due to a 12% y/y fall in stage 3 loans and advances from repayments, writeoffs and upgrades to Stage 2 mainly in Corporate & Institutional Banking and Commercial Banking. The stage 3 coverage ratio increased to 68% from 66% over the same period. This ratio including collateral improves to 85% as at 31 December 2019, stable y/y. Loan quality metrics appear sound despite a USD141mn charge in 4Q2019 for a single exposure in ASEAN and South Asia.
- Given y/y loans growth, StanChart's CET1 ratio as at 31 December 2019 of 13.8%, down 40bps y/y but up 28bps compared to 13.5% as at 30 September 2019 due to movement in risk weighted assets (up 2% y/y but down 2% q/q). This still remains above StanChart's minimum CET1 requirement of 10.2% and within its 13-14% management target range.
- Given its capital position, StanChart announced a USD500mn share buyback which will reduce its CET1 ratio by 20bps. The announcement however is lower than market expectations of a USD1bn share buyback given the current and possible impact from COVID-19. Management also indicated the potential for additional capital returns on completion of the sale of PT Bank Permata Tbk.
- Prior period results for StanChart showed the positive effects of its strategic plan implemented in late 2015 to address historical shortcomings. This has translated to a stronger balance sheet and more resilient business as seen in consistently improving ROTE. That said, StanChart's forward guidance is cautious given prevailing risk events and its high exposure to Greater China and North Asia which contributed 58.3% to consolidated underlying profit before tax and where Hong Kong is StanChart's largest market.
- While we continue to see StanChart as remaining within our expectations for a Neutral (4) issuer profile, we will continue to monitor developments in its largest markets. Income performance is likely to be challenging, particularly with interest rates expected to be lower although this could alleviate pressure on liability rates which rose higher (+27bps y/y in FY2019) than asset yields. At the same time, credit costs should rise (albeit from a low base) and putting further strain on returns. This means a higher reliance on cost containment, with past performance providing some comfort for the time being. (Company, OCBC)

Key Market Movements

	28-Feb	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	60	11	3
iTraxx SovX APAC	34	7	5
iTraxx Japan	52	9	5
iTraxx Australia	58	11	7
CDX NA IG	64	18	18
CDX NA HY	105	-4	-3
iTraxx Eur Main	56	13	11
iTraxx Eur XO	270	51	49
iTraxx Eur Snr Fin	67	18	14
iTraxx Eur Sub Fin	138	38	26
iTraxx Sovx WE	12	2	1
USD Swap Spread 10Y	-6	2	0
USD Swap Spread 30Y	-38	-1	-6
US Libor-OIS Spread	26	13	6
Euro Libor-OIS Spread	6	2	1
China 5Y CDS	45	10	7
Malaysia 5Y CDS	50	14	11
Indonesia 5Y CDS	79	19	14
Thailand 5Y CDS	33	7	9
Australia 5Y CDS	20	4	3

	28-Feb	1W chg	1M chg
Brent Crude Spot ($/bbl)	50.86	-13.06%	-14.54%
Gold Spot ($/oz)	1,640.78	-0.16%	4.70%
CRB	163.12	-6.64%	-6.14%
GSCI	367.90	-8.15%	-8.11%
VIX	39.16	151.67%	140.54%
CT10 (%)	1.241%	-23.05	-41.54
AUD/USD	0.652	-1.60%	-3.56%
EUR/USD	1.100	1.40%	-0.21%
USD/SGD	1.398	-0.04%	-2.90%
AUD/SGD	0.912	1.58%	0.70%
ASX 200	6,441	-9.77%	-7.91%
DJIA	25,767	-11.82%	-10.29%
SPX	2,979	-11.69%	-9.08%
MSCI Asiax	653	-3.30%	-4.65%
HSI	26,026	-4.70%	-6.88%
STI	3,025	-4.92%	-4.93%
KLCI	1,483	-3.12%	-4.40%
JCI	5,312	-9.70%	-13.08%
EU Stoxx 50	3,456	-9.60%	-7.08%

Source: Bloomberg

New Issues

- RKPF Overseas 2019 (A) Limited (Guarantor: Road King Infrastructure Limited) priced a USD300mn 5NC3 bond at 5.9%, tightening from IPT of 6.125% area.
- Geely Finance (Hong Kong) Limited (Guarantor: Zhejiang Geely Holding Group Company Limited) priced a USD400mn 5-year bond at T+200bps, tightening from IPT of T+215bps.
- Easy Tactic Ltd. (Guarantors: R&F Properties (HK) Co. and certain non-PRC subsidiaries of Guangzhou R&F Properties Co.) priced a USD400mn 4NC2 bond at 8.625%, tightening from IPT of 8.875% area.
- Modern Land (China) Co., Limited priced a USD150mn 4NC3 green bond at 11.95%.
- Excellence Commercial Management Ltd (Guarantor: Excellence Commercial Properties Co Ltd) priced a USD100mn 3-year bond at 6.8%.
- Lodha Developers International Limited arranged investor calls commencing 27 Feb for its proposed USD bond offering.
- Xinjiang Guanghui Industry Investment (Group) Co., Ltd has mandated banks for its proposed USD bond exchange offer.
- Pacific National Holdings Pty Ltd arranged investor meetings commencing 2 Mar for its proposed USD or GBP bond offering.

Date	Issuer	Size	Tenor	Pricing
27-Feb-20	RKPF Overseas 2019 (A) Limited (Guarantor: Road King Infrastructure Limited)	USD300mn	5NC3	5.9%
27-Feb-20	Geely Finance (Hong Kong) Limited (Guarantor: Zhejiang Geely Holding Group Company Limited)	USD400mn	5-year	T+200bps
27-Feb-20	Easy Tactic Ltd. (Guarantors including R&F Properties (HK) Co.)	USD400mn	4NC2	8.625%
27-Feb-20	Modern Land (China) Co., Limited	USD150mn	4NC3	11.95%
27-Feb-20	Excellence Commercial Management Ltd (Guarantor: Excellence Commercial Properties Co Ltd)	USD100mn	3-year	6.8%
26-Feb-20	XiAn Qujiang Culture Holdings Co.	USD300mn	3-year	5.5%
26-Feb-20	Bank of China Limited	USD2.82bn	PERPNC5	3.6%
26-Feb-20	Modern Land (China) Co., Ltd	USD150mn	4-year	12.85%

Source: OCBC, Bloomberg

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