Asia Credit Research

Earnings Review: Oxley Holdings Ltd ("OHL")

Issuer Profile: Negative (6)

Ticker: **OHLSP**

Background

Oxley Holdings Ltd ("OHL") is a property developer listed on the SGX in Oct 2010. Beginning with a portfolio of development projects in Singapore, OHL has expanded to overseas projects in the UK, Malaysia, Ireland, China, Cambodia, Myanmar and Indonesia. OHL is also building a pipeline of investment and hospitality properties. OHL's key shareholders are its CEO Mr Ching Chiat Kwong (41.1%-stake), its deputy CEO Mr Low See Ching (27.6%) and Mr Tee (11.6%) who appears to be a passive shareholder.

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Recommendation

- OHL's elevated net gearing of 2.2x remains a key consideration though this has improved q/q (3QFY2018: 2.4x) and beat our expectations due to sizeable fair value gains and disposal of Block D1 at Dublin Landings. As such, we retain OHL at Negative (6) Issuer Profile.
- We are comfortable about OHL's FY2019 maturities given SGD255.0mn of cash. We think OHL can tackle FY2020's maturities even without access to capital markets as OHL holds SGD2.0bn of assets which we think can be disposed, if the need arises. With a huge pipeline of development projects in Singapore and abroad, strong execution to move the units will be crucial – we expect mass market units to move though the more luxurious ones may face vulnerabilities.
- We turned Overweight on OHLSP 5% '19s with improvements in short term liquidity profile and prefer this over OHLSP 5.15% '20s as the former offers a higher yield. For investors comfortable with OHL and confident of its execution to monetize its pipeline of development properties, we think OHLSP 6.375% '21s (USD) offers better value with shorter maturity than OHLSP 5.7% '22s.

Relative Value:

Bond	Maturity	Net gearing	Yield to Maturity	Spread
OHLSP 5% 2019	05/11/2019	2.2x	6.38%	459bps
OHLSP 5.15% 2020	18/05/2020	2.2x	6.21%	424bps
OHLSP 5.7% 2022	31/01/2022	2.2x	8.28%	615bps
OHLSP 6.375% 2021 (USD)	21/04/2021	2.2x	10.10%*	718bps*

Source: Bloomberg, Indicative prices as at 11 September 2018
**Yields in USD*

Key Considerations

- **Lacklustre 4QFY2018 results mitigated by one-off gains:** OHL reported 4QFY2018 results for the quarter ending June 2018. Revenue increased 3.9% y/y to SGD233.1mn due to higher contribution from its UK project, Novotel/Mercure hotel (which commenced operations in end-2017) and Chevron House (purchase completion in Mar 2018) despite lower development revenue from Singapore due to timing of project completion. However, reported gross profit fell 37.6% y/y to SGD27.8mn (12% gross profit margin, down 8pp y/y), likely due to lower margins earned from the projects in 4QFY2018 while Singapore hotels are still in the ramp-up phase (which likely contributed thin margins). Net profit though surged 215% y/y to SGD137.6mn as a result of SGD111.2mn fair value gain on investment properties and SGD26.1mn fair value gain on financial instruments. While the fair value gains are non-recurring, we recognise the huge pipeline of projects in Singapore and abroad which may support results in the future.

- **Sales remain decent for Singapore development properties though strong execution in property sales will be crucial:** Encouragingly, OHL has sold SGD1.15bn of units in Singapore in FY2018. The 170-unit Verandah Residences has been fully sold (revenue to be recognised: SGD249mn) while good sales have been achieved at 40%-owned Affinity Residences (SGD208mn) which sold 180 out of 300 units in Phase 1 and 35%-owned Riverfront Residences (SGD615mn) which sold 686 out of 800 units in Phase 1. OHL will be launching substantially all the remaining Singapore projects by end-2018, which is estimated with a gross development value of SGD3.88bn. The largest projects by remaining revenue include Affinity Residences (SGD1.1bn), Riverfront Residences (SGD885mn), Vista Park (SGD803mn) and Mayfair (SGD614mn). Although the government has introduced further property cooling measures in July, we are not overly worried about Affinity Residences and Riverfront Residences which sold 39 units (worth SGD46.1mn) and 76 units (SGD74.5mn) in Aug. We remain comfortable with both projects as they are targeted more at the mass market and agree with OHL that the cooling measures will be more pronounced on the mid-to-high end segments. As such, we think Vista Park (expected launch: Sep 2018) and Mayfair (Sep 2018) may face vulnerabilities as their pricing (ASP: SGD1850-2000 psf) will be higher than the Affinity Residences or Riverfront Residences (SGD1300-1600 psf). Strong execution to move the pipeline of units will be crucial and we will be monitoring the launches. If the units do not move in the next 3 to 6 months, we think developers may start offering discounts.

- **Significant pipeline in overseas markets:** Following the near-completion of sale and handing over of units at Royal Wharf in the UK, OHL's exposure to overseas market remain significant. SGD801mn revenue from overseas developments was achieved in FY2018, mainly attributed to Dublin Landings (SGD263mn) in Ireland as well as the retail (SGD106mn) and residential (SGD217mn) portions at The Peak in Cambodia. OHL is targeting to launch another SGD3.4bn of projects by end-2018, which include Deanston Wharf (remaining revenue: SGD647mn), KLCC (SGD876mn), Dublin Landings (SGD1.06bn) and Limassol Oxley Cyprus Development (SGD736mn). Other significant projects to be launched in the longer term include 90%-stake in Connolly in Ireland (SGD1.3bn), 27.5%-stake in Gaobeidian / Sino-Singapore Health City (SGD4.0bn), 30%-stake in a development project at Yangon Central Railways Station Area (SGD3.3bn). Similar to the Singapore developments, monetisation of these projects will be crucial in our view to support the cashflows and profitability. Thus far, sales have been managed well with SGD1.3bn in unbilled contract for overseas projects. In addition to Royal Wharf (GDV: SGD2.7bn), strong sales have been achieved at The Peak (SGD656.9mn) and The Bridge (SGD564.6mn) in Cambodia.

- **Liquidity position looks manageable, for now:** Cash of SGD255.0mn exceeds SGD246.8mn in short term debt. While current liabilities also include SGD475.9mn of other liabilities, we are not overly worried as most of this should relate to progress payments already received from buyers. Part of this should relate to the Royal Wharf project, which we expect further ~SGD500mn cash collections over the next 12 months. The challenge though will be the tower of SGD1.3bn debt that will mature in FY2020. Assuming SGD567mn of project debt will be rolled-over (or repaid with completion and handover of projects), SGD759mn of debt remains to be refinanced/repaid. These relate to SGD313mn of corporate level borrowings, SGD300mn OHLSP 5% '19s (maturing Nov 2019) and SGD150mn OHLSP 5.15% '20s (maturing May 2020). We opine that OHL may have to pay up significantly if it were to access the capital markets now. That said, we remain comfortable in the near term, as OHL can monetise its 19%-stake in the listed United Engineers Ltd (OHL's stake is worth SGD296.8mn), Novotel Singapore / Mercure Singapore (indicative valuation: SGD905mn) and Chevron House (SGD787mn).

- **Weak credit metrics with highly leveraged balance sheet:** Net gearing remains elevated at 2.2x, though this has improved q/q from 2.4x. This is mainly driven by SGD178.7mn increase in equity with the sizeable one-off gains in 4QFY2018. Meanwhile, net debt climbed to SGD3.21bn (3QFY2018: SGD3.03bn) due to (1) settlement of en-bloc purchases with SGD226.8mn of cash outflow to acquire development properties, (2) SGD83.8mn addition to investment properties (which we think relates to acquisition of Pei-Fu Industrial Building) and (3) SGD78.7mn from increase in available for sale financial assets due to acquisition of shares in United Engineers and Aspen Group Ltd, though the increase was partly mitigated by the sale of an investment property asset for SGD194.9mn with the sale of Block D1 at Dublin Landings which completed in May 2018. Interest expense ballooned to SGD24.4mn (4QFY2017: SGD7.8mn) mainly due to higher level of debt taken, surpassing EBITDA of SGD9.4mn (based on our calculation which excludes other income, other losses and other gains). Noting that OHL's financial policy and target is for declining total debt / capitalisation, the continual monetisation of the development projects will be crucial.

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Positive ("Pos") – The issuer's credit profile is either strong on an absolute basis, or expected to improve to a strong position over the next six months.

Neutral ("N") – The issuer's credit profile is fair on an absolute basis, or expected to improve / deteriorate to a fair level over the next six months.

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To better differentiate relative credit quality of the issuers under our coverage, we have further sub-divided our Issuer Profile Ratings ("IPR") into a 7 point Issuer Profile Score ("IPS") scale.

IPR	Positive		Neutral			Negative	
IPS	1	2	3	4	5	6	7

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Other

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