Asia Credit Research

Earnings Review: CWT International Ltd (Parent of CWT Pte Ltd)

Issuer Profile: Negative (6)

Ticker: **CWTSG**

Background

CWTI International Ltd ("CWTI") is the holding company of CWT Pte Ltd (previously CWT LTD when it was publicly listed "CWT SG"). CWT SG is an integrated logistics solutions provider and a provider of ancillary businesses, including commodity marketing, financial services and engineering services. CWTI is listed in Hong Kong and controlled by the HNA Group Co., Ltd via its group entities ("HNA").

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Recommendation

- We are taking a judgment call that CWTI's immediate liquidity concerns have been alleviated via the sale and leaseback of five of CWT SG's warehouses and new HKD1.4bn borrowings due in October 2019. Cash balance at CWTI of HKD1.7bn is a welcome buffer against the ~HKD580mn (SGD100mn) in bond due on 18 April 2019 (ie: the CWTSP 3.9% '19s).
- We have limited access to the financials at CWT SG given it is now an unlisted entity, although in our view EBITDA had shrunk in part due to rental payments to MLT. CWT SG now pays rental payments on previously owned warehouses.
- We continue to consider CWT SG as a stressed issuer with CWTI financials still indicating the existence of material uncertainty over its ability to continue as a going concern. We think further assets need to be sold (including the sale of CWT SG itself) before we are able to give a definitive view that the CWTSP 4.8% '20s which matures in March 2020 would be able to be redeemed. We maintain CWTSP's issuer profile at Negative (6).

Relative Value:

Bond	Maturity/Call date	Net gearing	Ask Yield to Maturity	Spread (bps)
CWTSP 4.8% '20s	18/03/2020	1.5x	25.35%	2,340

Indicative prices as at 2 April 2019 Source: Bloomberg
Net gearing based on latest available quarter
The CWTSP 3.9% '19s with a maturity date on 18 April 2019 is still trading at below par at 92.4

Key Considerations

- **Losses continue to mount:** CWTI announced their preliminary 2018 financial results. 2018 numbers are not comparable y/y due to the acquisition of CWT Pte. Limited and its subsidiaries ("CWT SG") in September 2017. In 2018, CWTI recorded HKD71.4bn in revenue (1H2018: HKD36.3bn in revenue), HKD1.7bn in gross profit and a loss before tax of HKD931.3mn. Key drivers for CWTI's loss was a HKD401.4mn in other losses (predominantly due to fair value loss on investment properties and a foreign exchange loss) though offset by HKD300.4mn in gains from disposals of subsidiaries, associates and joint ventures at CWT SG. For example during the year CWT SG had sold off its stakes in Cache Logistics Trust' property manager, REIT Manager and the REIT itself.

- **Interest expense declined h/h:** Encouragingly though, finance cost had declined 18.5% on a h/h basis to HKD368.2mn in 2H2018. Based on our calculation of EBITDA (which does not take into account of other income and other expenses), we find CWTI 2018 EBITDA at HKD519.3mn which was still insufficient to cover finance cost off HKD819.7mn.

- **Lower unadjusted net gearing:** As at 31 December 2018, CWTI's unadjusted net gearing was 1.5x, lower than the 2.4x as at 30 June 2018 and lower than 2.1x as at end-2017. Per company, CWTI's USD561mn (~HKD4.4bn) of acquisition debt which it took to buy CWT SG has also been repaid via proceeds from the CWT SG warehouses that was sold to Mapletree Logistics Trust ("MLT") under a sale and leaseback and new borrowings of HKD1.4bn which would be due in October 2019. In our view, CWTI is effectively kicking a smaller can down the road. CWTI's cash balance in end-2018 was HKD1.7bn (excluding pledged cash) against HKD7.9bn in short term debt. While we see cash buffer as a credit positive, there is no disclosure as to where this cash sits within the corporate structure.

- **CWTI has other assets but takes time to be monetised:** CWTI is in the process of selling its UK investment property (book value of HKD1.2bn although the property has been pledged to secure borrowings of HKD744.8mn, indicating net proceeds of ~HKD454mn. In our view, uncertainties over Brexit may put a dampener to any quick sale. CWT SG had also conferred MLT a right of first refusal (“ROFR”) over its logistics hub at 47 Jalan Buroh, a substantial asset (market value of SGD438mn as at 9 September 2017). This ROFR though is subject to a prior right of first refusal to JTC (ie: JTC would need to give up its rights to buy the asset first before MLT can buy).

- **Shrinkage of CWT SG’s EBITDA:** We estimate that in 2018 CWT SG’s four business units collectively contributed revenue of HKD71.2bn and profit before tax of HKD193.2mn. Profit before tax though was impacted by significant one-off gains from disposal and impairments. Adjusting these out though including share of profit from associates and joint ventures, we think CWT SG would have recorded a small loss before tax of HKD12.3mn in 2018. We estimate CWT SG’s 2018 EBITDA at HKD490.3mn, with interest expense at HKD270.3mn, this represented EBITDA/Interest coverage of 1.8x. This indicates an EBITDA margin of 1.0%, lower than its historical 1.5-1.8%. A lower EBITDA margin though is expected as CWT SG had sold five of its crown jewel warehouses to Mapletree Logistics Trust (Issuer profile: Neutral (4)) in September 2018 under a sales and leaseback and CWT SG would have had to pay rents on its previously owned warehouses. Assuming full year of rental payment to MLT of HKD280mn, we estimate proforma Logistics EBITDA at ~HKD171mn with proforma CWT SG EBITDA at ~HKD282mn. Very simplistically, if we assume that gross debt for CWT SG had stayed at 3Q2017’s SGD1.4bn (~HKD7.9bn), we find gross debt-to-total EBITDA significant at 28.1x.

- **Material uncertainty over ability to continue as a going concern unresolved:** CWTI’s financials continue to indicate the existence of material uncertainty over its ability to continue as a going concern, although in our view its immediate liquidity concerns at CWTI has been alleviated with the new borrowings and sale of warehouses. This is particularly crucial and a credit positive for the SGD100mn in bonds due on 18 April 2019. We think further assets need to be sold (including the sale of CWT SG itself) before we are able to give a definitive view that the CWTSP 4.8% ‘20s which matures in March 2020 would be able to be redeemed.

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Explanation of Issuer Profile Rating ("IPR") / Issuer Profile Score ("IPS")

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.

Negative ("Neg") – The issuer's credit profile is either weaker or highly geared on an absolute basis, or expected to deteriorate to a weak or highly geared position over the next six months.

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

Explanation of Bond Recommendation

Overweight ("OW") – The performance of the issuer's specific bond is expected to outperform the issuer's other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

Neutral ("N") – The performance of the issuer's specific bond is expected to perform in line with the issuer's other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

Underweight ("UW") – The performance of the issuer's specific bond is expected to underperform the issuer's other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

Other

Suspension – We may suspend our issuer rating and bond level recommendation on specific issuers from time to time when OCBC is engaged in other business activities with the issuer. Examples of such activities include acting as a joint lead manager or book runner in a new issue or as an agent in a consent solicitation exercise. We will resume our coverage once these activities are completed.

Withdrawal ("WD") – We may withdraw our issuer rating and bond level recommendation on specific issuers from time to time when corporate actions are announced but the outcome of these actions are highly uncertain. We will resume our coverage once there is sufficient clarity in our view on the impact of the proposed action.

Analyst Declaration
The analyst(s) who wrote this report and/or her or his respective connected persons did not hold financial interests in the above-mentioned issuer or company as at the time of the publication of this report.

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