Asia Credit Research

Credit Update: Oxley Holdings Ltd ("OHL")

Recommendation

- Following the announcement to sell the Stevens Road hotel and projects at Dublin Landings, the intent to deleverage looks clearer now with OHL expecting to reduce net gearing to 1x (1QFY2019: 2.45x) via divestments and sales, according to an interview by Bloomberg. We think this is a significant credit positive and **upgrade OHL's Issuer Profile to Neutral (5) from Negative (6)**.
- Although a significant pipeline of unsold residential units remains amidst a subdued Singapore residential near-term outlook, as discussed in the Singapore Credit Outlook 2019 and alluded by OHL, we think this will be manageable given OHL's sales track record and proceeds from divestments should give Oxley room to maneuver in case units do not move.
- With the expected improvements in credit profile, we are Overweight on OHLSP 5% '19s, OHLSP 5.15% '20s and OHLSP 5.7% '22s. We also think that OHLSP 6.375% '21s (USD) look interesting trading at ~12.3% yield, despite the 0.4 pts rally today.

Relative Value:

Bond	Maturity	Net gearing	Yield to Maturity	Spread
OHLSP 5% 2019	05/11/2019	2.45x	6.14%	423bps
OHLSP 5.15% 2020	18/05/2020	2.45x	6.03%	404bps
OHLSP 5.7% 2022	31/01/2022	2.45x	10.02%	802bps
OHLSP 6.375% 2021 (USD)	21/04/2021	2.45x	12.32%*	976bps*

Source: Bloomberg, Indicative prices as at 24 January 2019
**Yields in USD*

Issuer Profile: Neutral (5)

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 (41.9%-stake), its deputy CEO Mr Low See Ching (28.0%) and Mr Tee (11.4%) who appears to be a passive shareholder.

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Key Considerations

- **Looking to deleverage and backing it up:** According to OHL's interview with Bloomberg on 24 January 2019, OHL expects to reduce net gearing to 1.0x (1QFY2019: 2.45x) by end-2019. Although we had wrongly anticipated in Feb 2017 that OHL would deleverage based on guidance by management, talks of deleveraging this time are backed up with actions. Already, the announced transactions thus far (if completed) should cut net gearing to 1.5x. This includes the sale of its Stevens Road hotels for SGD950mn and sale of offices at No.4 and No.5 Dublin Landings for EUR204mn (~SGD315.6mn). In the same interview with Bloomberg, OHL also mentioned that it will be cautious on buying land and have turned cautious on the Singapore residential market. This is congruent with OHL's actions thus far since the latest round of property curbs were introduced in July 2018 and we note in recent news that OHL is rescinding the collective sale deal for the 43-unit Ampas Apartment. According to the Bloomberg interview, OHL also expects to achieve sales from Singapore residential projects (SGD2bn), projects in Cyprus, Cambodia, Malaysia and London (SGD500mn) and residential sales from Dublin Landings (OCBC estimates: ~SGD440mn). However, we think the deleveraging process may take somewhat longer as the sales proceeds from residential projects may not be immediate given their TOP dates in 2020-22.

- **Singapore properties still moving despite cooling measures:** OHL attained SGD1.68bn in property sales in Singapore in 2018. Aside from Verandah Residences (revenue: SGD249mn) which was sold out prior to the cooling measures, two major launches by OHL still fared decently thereafter. Affinity at Serangoon sold 91% of 300 units launched (SGD306mn) at ~SGD1500 psf and Riverfront Residences sold 99% of 800 units launched (SGD721mn) at ~SGD1300 psf. Overall, sales have been satisfactory thus far though a significant pipeline have yet to be launched (and remain unsold).

- **Keep watch on property sales:** While the launched and unsold landbank is small, in total SGD3.4bn landbank in Singapore remains unsold, mainly due to the units that have yet to be launched. It remains to be seen if the higher priced developments can be moved quickly. Mayfair Gardens moved just 106 out of 215 units launched (SGD165mn) at ~SGD1,930 psf while Kent Ridge Hill Residences moved 116 out of 250 units launched (SGD128mn) at ~SGD1,700 psf - we think that OHL may have cut prices to move units as the ASP previously guided in Oct 2018 was higher for Mayfair Gardens (SGD2,000 psf) and Kent Ridge Hill Residences (SGD1,850 psf). We are less worried about the unsold units at Affinity at Serangoon (SGD1.0bn in gross development value) and Riverfront Residences (SGD779.3mn) as these are targeted more at the mass market segment and we believe the units can be moved. We are more cautious over the unsold units at Kent Ridge Hill Residences (SGD675.4mn) and Mayfair Gardens (SGD449.2mn) with the overall property market sentiments turning weaker. Amongst the overseas projects, another SGD3.2bn of unsold units remains, including Deanston Wharf (SGD647mn) in UK, Dublin Landings (SGD891mn) in Ireland, a development in Cyprus (SGD736mn) and KLCC (SGD866mn) in KL.

- **Lacklustre 1QFY2019 results due to timing of revenue recognition:** 1QFY2019 revenue for the quarter ending 30 Sep 2018 declined 45% y/y to SGD170.3mn with lower revenue recognised from UK with Royal Wharf already substantially sold and handed over while revenue from Singapore projects also declined. Share of results from equity-accounted associates and joint ventures turned negative (losses of SGD3.7mn) due to absence of share of profit from The Bridge in Cambodia as it is nearly fully sold. Net profit fell more than revenue by 90% y/y to SGD4.8mn, due to SGD8.7mn FX losses while finance costs surged 147% y/y to SGD21.9mn due to increase in outstanding debt and higher interest rates. That said, the poor results are due to timing of revenue recognition as property sales have been decent, of which SGD2.8bn revenue has yet to be recognised.

- **Short-term liquidity still tolerable but note significant debt maturities ahead:** We think SGD234.7mn current debt may be repaid given cash balance of SGD232.3mn. However, SGD1.39bn debt will be due in FY2020, including the SGD300mn OHLSP 5% ‘19s, SGD150mn OHLSP 5.15% ‘20s and SGD365mn bank debt. If refinancing is not possible or prohibitive (OHLSP 6.375% ‘21s YTM: 12.3%), we think OHL can monetise its stakes in listed United Engineers Ltd (worth ~SGD310mn) and Chevron House (indicative value: SGD787mn), aside from the announced sale of Novotel Singapore / Mercure Singapore (SGD950mn), though the proceeds should be lower as these assets are likely secured. The remaining SGD576mn debt in FY2020 relates to project debt.

- **Weak credit metrics though improvements are expected:** As of 1QFY2019, net gearing increased q/q to 2.45x (4QFY2018: 2.17x) mainly due to increase in borrowings used to fund the Singapore development properties. Nevertheless, we think OHL has the potential to deleverage, if management chooses to, and the actions and communication thus far strongly suggest the intention to. Unbilled contracts amount to SGD2.8bn and continued sales and monetisation of the development projects will be crucial to support OHL’s credit profile going forward.

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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 securities in the above-mentioned issuer or company as at the time of the publication of this report.

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