

## Issuer Profile: Olam International Ltd (“Olam”)

Neutral (5)

### Ticker:

OLAMSP

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### New Issue

- Olam is looking to price a **SGD perpetual NC5.5Y with IPG at the 5.5% area**. The perpetuals are unsecured and subordinated.
- Proceeds will be used for debt refinancing and/or other purposes as allowed under its EMTN programme.
- Distribution deferral is at issuer's discretion, subject to dividend stopper and dividend pusher with a three-month lookback period. Deferred distributions are cumulative and compounding. Per Bloomberg data, Olam's last dividend omission was in February 2011 with the company paying dividends at least once a year since November 2011.

### Recommendation

- We think the new Olam proposed issue at IPG of 5.5% looks attractive, we **expect the proposed new perpetual with a non-call at 5.5Y to tighten from IPG, with fair value at ~5.0-5.15% YTC**.
- Olam has an existing perpetual with a short first call date in July 2022 which is trading at a YTC of 4.23%. For a four-year extension in first call date, investors will be getting a yield pickup 127bps (at IPG). At IPG, the implied senior-sub spread of the new proposed perpetual against the OLAMSP 4.0% '26s which matures in February 2026 is 148bps. There is very little secured debt at Olam.
- In our view, there are no direct peers within the SGD bond market that operate in the same industry as Olam, though we compare the issuer to other issuers who we similarly hold at a Neutral (5) issuer profile whom we like as “crossover” names. We prefer picking up yield in the “crossover” space in this environment without the need to stretch duration.

### Relative Value:

Bond / Perpetual	Maturity / Call date	Issuer Profile	Ask YTC/YTW	Spread	Recommendation
Olam new 5.5Y perpetual issue	July 2026	Neutral (5)	5.5% (IPG)	495bps	NA
OLAMSP 5.5%-PERP	11/07/2022	Neutral (5)	4.23%	403bps	OW
OLAMSP 4.0% '26s	24/02/2026	Neutral (5)	3.99%	347bps	OW
OLAMSP 4.375% '23s-USD bond	09/01/2023	Neutral (5)	2.85%-SGD implied terms	263bps	NA
FPLSP 4.25% '26s	21/04/2026	Neutral (5)	3.17%	263bps	N*
GUOLSP 3.4% '25s	10/08/2025	Neutral (5)	2.96%	249bps	OW*

Indicative prices as at 11 January 2021 Source: Bloomberg

\*Based on latest recommendation as of [Monthly Credit View 11 January 2021](#)

### Background

- Listed on the SGX with a market cap of SGD5.0bn as at 11 January 2021, although the company's free float adjusted market cap was ~SGD869mn.
- Temasek is the largest shareholder with a ~53.4%- stake, followed by Mitsubishi Corp with ~17.4%. Kelwaram Chanrai Group (a co-founder of Olam) retains a 7%-stake. Orbis Asset Management, a privately-owned asset manager has been a long-time investor in Olam holding a ~6%-stake while Olam International Limited (“Olam”)’s Group CEO/Co-founder and CEO of Olam Food Ingredients (“OFI”) collectively holds ~5%.
- Olam is a diversified, vertically-integrated agri-commodities merchandiser, producer and trader. It also generates income from the sale of packaged food products, commodity financial services and holding minority stakes in longer term investments.
- The company is in the midst of a restructuring which has seen the business re-organised into two groups, OFI, focusing on Food Ingredients and the other focusing on the agri-

businesses (namely, Olam Global Agri, “OGA”). Olam, the listed holding company and SGD-bond issuer continues to hold the two new operating groups. It will also develop gestating businesses and incubate new businesses. 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 by 2023).

- Bulk of debt at Olam remains unsecured with only 1.1% of secured debt as a proportion of total debt. It is still too early to tell how much debt (if any) would get pushed down to OFI and OGA though shared services functions including treasury functions would be retained at the Olam level.
- On 23 December 2020, [Olam announced a negative profit guidance for 2H2020](#). Following a periodic review of the carrying values of certain assets, Olam will record a one-off, non-cash and non-recurring impairment arising from its investment palm oil in Gabon amounting to ~USD350mn (~SGD462.3mn). Olam will report a loss in 2H2020 though expect FY2020 net profit to remain positive. Olam’s net profit was SGD317.4mn for 3Q2019 and 4Q2019 collectively while for FY2019, Olam’s net profit was SGD525.2mn.
- Despite the impending hit to net profit in 2H2020, we are maintaining Olam’s issuer profile at Neutral (5) in light of expectations that this is a sub-10% impact to book value equity where we expect unadjusted net gearing will still be contained at less 1.5x, using its latest available financials as at 30 June 2020 as starting point and assuming that the recent announced acquisition of Mizkan America Inc, a maker of condiments and sauces is fully paid for.
- In 1H2020, Olam’s operating results were relatively resilient amidst COVID-19’s disruption. Revenue was up by 7.1% y/y in 1H2020 to SGD17.1bn while reported EBITDA was down 9.7% y/y to SGD696.3mn while reported EBIT was down 18.8% y/y to SGD423.7mn. Despite lower profits at the operating level, profit after tax to owners was up 44.4% y/y to SGD332.7mn in 1H2020, driven by exceptional items of SGD130.6mn.
- As at 30 June 2020, Olam’s unadjusted net gearing was 1.36x, down from 1.44x as at end-2019, with the company tightening working capital norms in 1H2020 amidst market volatility from COVID-19. Reported EBITDA/Interest was 2.4x in 1H2020 vis-à-vis 2.3x in 1H2019.

#### Recent Write-ups on comparable issuers from OCBC Credit Research

- [Singapore Credit Outlook 2021](#)
- [Frasers Property Ltd Credit Update](#)
- [Olam International Ltd Asian Credit Daily](#)
- [Olam International Ltd Credit Update](#)

### Explanation of Issuer Profile Rating / Issuer Profile Score

**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 into a 7 point Issuer Profile Score scale.

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

Please note that Bond Recommendations are dependent on a bond’s price, underlying risk free rates and an implied credit spread that reflects the strength of the issuer’s credit profile. Bond Recommendations may not be relied upon if one or more of these factors change.

### Explanation of Bond Recommendation

**Overweight (“OW”)** – The bond represents **better relative value** compared to other bonds from the same issuer, or bonds of other issuers with similar tenor and comparable risk profile.

**Neutral (“N”)** – The represents **fair relative value** compared to other bonds from the same issuer, or bonds of other issuers with similar tenor and comparable risk profile.

**Underweight (“UW”)** – The represents **weaker relative value** compared to other bonds from the same issuer, or bonds of other issuers with similar tenor and comparable risk profile.

### 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.

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#### 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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