

Asian Credit Daily

28 February 2024

Market Commentary:

- The SGD SORA curve traded higher yesterday, with short tenors trading 3-4bps higher, belly tenors trading 3bps higher and 10Y trading 3bps higher.
- Flows in SGD corporates were heavy, with flows in QNBK 4.02% '26s, OCBCSP 4.05%-PERP, STTGDC 5.7%-PERP, BNP 4.75% '34s, UBS 5.75%-PERP, UBS 4.85%-PERP.
- According to Bloomberg, the interest payment on Vedanta Group's USD894mn bond due on 9 February 2024 was processed with a delay of seven days. The delay was due to a discrepancy in information. The group clinched a deal with creditors in January to extend the maturities of three dollar bonds. As part of the agreement, Vedanta paid investors USD57mn up front for bond due in August 2024 and extended the maturity of the remaining USD894mn in principal to 2027 – 2028.
- Yesterday, Bloomberg Asia USD Investment Grade spreads remained flat at 92bps while the Asia USD High Yield spreads widened by 2bps to 594bps, per Bloomberg.

Credit Summary:

- **City Developments Ltd ("CDL"):** CDL reported 2023 results, which revealed strong underlying performance though net gearing levels has trended higher due to acquisitions.
- **Hotel Properties Ltd ("HPL"):** HPL reported 2023 results. While results revealed significant recovery and credit metrics have improved, HPL made a loss from its associate/JV and faces higher financing costs.
- **Olam Group Ltd ("OG"):** OG reported its 2H2023 and 2023 financial results. Reported EBITDA (excluding exceptional items) in 2H2023 was SGD1.3bn, higher by 13.4% y/y while reported EBIT (excluding exceptional items) was SGD952.3mn, increasing by 19.3% y/y in 2H2023.

Key Market Movements

	28-Feb	1W chg (bps)	1M chg (bps)		28-Feb	1W chg	1M chg
iTraxx Asiax IG	98	0	-4	Brent Crude Spot (\$/bbl)	83.2	0.2%	-0.5%
	0	0	0	Gold Spot (\$/oz)	2,029	0.1%	-0.2%
iTraxx Japan	53	-2	-3	CRB Commodity Index	276	2.1%	1.1%
iTraxx Australia	64	-2	-5	S&P Commodity Index - GSCI	561	0.7%	0.0%
CDX NA IG	52	-1	-2	VIX	13.4	-12.9%	1.3%
CDX NA HY	106	0	0	US10Y Yield	4.29%	-3bp	16bp
iTraxx Eur Main	56	-1	-3				
iTraxx Eur XO	308	-6	-12	AUD/USD	0.651	-0.7%	-1.6%
iTraxx Eur Snr Fin	65	-1	-2	EUR/USD	1.082	0.0%	-0.1%
iTraxx Eur Sub Fin	118	-5	-8	USD/SGD	1.346	-0.1%	-0.4%
				AUD/SGD	0.876	0.6%	1.2%
USD Swap Spread 10Y	-38	-2	4	ASX200	7,660	0.7%	1.4%
USD Swap Spread 30Y	-73	-1	3	DJIA	38,972	1.1%	2.3%
				SPX	5,078	2.1%	3.8%
China 5Y CDS	66	0	0	MSCI Asiax	643	0.8%	4.9%
Malaysia 5Y CDS	40	0	-6	HSI	16,547	0.3%	3.7%
Indonesia 5Y CDS	71	-1	-6	STI	3,141	-2.4%	-0.6%
Thailand 5Y CDS	43	-1	0	KLCI	1,548	-0.3%	2.8%
Australia 5Y CDS	15	0	-1	JCI	7,314	-0.5%	2.5%
				EU Stoxx 50	4,886	2.3%	5.4%

Source: Bloomberg

Credit Headlines:**City Developments Ltd (“CDL”)**

- CDL reported 2023 results, which revealed **strong underlying performance though net gearing levels has trended higher due to acquisitions.**
- **Reported EBITDA excluding one-offs rose ~53% y/y to SGD1.0bn**, led by property development (+91% y/y to SGD466mn) while other segments also did well including Hotel operations (+62% y/y to SGD282mn) and Investment Properties (+27% y/y to SGD218mn). Adding back divestment gains and impairment losses, reported EBITDA fell 52% y/y to SGD1.1bn.
 - **Property development performance was supported by fully sold EC project.** Piermont Grant in Singapore (estimated SGD1.0bn revenue, TOP in Jan 2023) and sale of land at Shirokane in Japan (~SGD495.0mn revenue, Jul 2023) in total contributed SGD1.5bn in revenue, leading to property development segment revenue rising ~102% y/y to SGD2.79bn. Other projects contributing to the revenue include Amber Park, Boulevard 88 and Irwell Hill Residences. 730 units worth SGD1.5bn were sold in 2023 (2022: 1,487 units sold worth SGD2.9bn), which were mainly due to Tembusu Grand (sold 60% of 638 units) and The Myst (sold 51% of 408 units). Excluding the sale of land in Japan, Singapore remains the largest contributor, making up 91.9% of the property segment revenue. Inventory in China has already been substantially sold.
 - **Hotel operations performance RevPAR exceeded pre-pandemic levels by 22.0%**, with RevPAR up 25.3% y/y to SGD168.7, with average room rates up 10.4% y/y to SGD230.7 and occupancy up 8.7 ppts y/y to 73.1%. In particular, Asia, Europe and US regions RevPAR have exceeded 2019 pre-pandemic RevPAR levels. Growth in performance is also helped by three acquisitions (SGD159.2mn 416 rooms Sofitel Brisbane Central in Australia, SGD143.9mn 408 rooms Nine Tree Premier Hotel Myeongdong II in South Korea, SGD78.5mn 256 rooms Bespoke Hotel Osaka Shinsaibashi in Japan) and three hotels which opened (294 rooms M Social Suzhou in China, 418 rooms M Social Phuket in Thailand and 204 rooms The Singapore EDITION). There was a SGD54mn writeback of impairment loss.
 - **Investment properties performance was lifted by acquisitions**, which includes St Katharine Docks in the UK (GBP395mn (~SGD636mn), completed 9 March 2023) and living sector assets, including two Osaka PRS projects (SGD31.4mn). Occupancy remains strong for Singapore office (97.1%) and retail (97.6%) and Jungceylon Shopping Center in Phuket (over 90% committed occupancy). The living sector assets boasts SGD2.6bn total Gross Development Value, with 4,800 private rented sector units, 2,400 purpose built student accommodation with over 90% occupancy.
- **More property launches are ahead**, following the launch of Lumina Grand (512 units) which sold 55% of its units in January 2024. Champions Way (348 units, GLS acquired for SGD294.9mn) and Union Square Residences (366 units, former Central Mall and Central Square site) may launch in 2H2024. In addition, we understand that CDL is looking at an opportune time to launch Newport Residences (246 units, former Fuji Zerox Towers). There should be more launches still, with CDL acquiring Lorong 1 Toa Payoh for SGD968mn and we think CDL may likely participate in more land bids this year.
- **Net gearing rose due to acquisitions, though 2024 could be the year of divestments.** Net gearing including (fair value on investment properties) rose 10 ppts y/y to 61% while reported interest cover ratio was 2.8x (2022: 9.8x). Net gearing levels rose mainly due to acquisitions that were undertaken (e.g. St Katharine Docks, hotels). That said, we think that CDL may look to divest or monetise assets, with management communicating a SGD1bn divestment target, while noting its desire to grow existing platforms such as CDL Hospitality Trust and IREIT Global. We think this could also include opportunistic asset divestment from the hotel segment from the Millennium & Copthorne portfolio that was privatized in 2019. (Company, OCBC)

Hotel Properties Ltd ("HPL")

- HPL reported 2023 results. **While results revealed significant recovery and credit metrics have improved, HPL made a loss from its associate/JV and faces higher financing costs.**
- **Significant recovery driven by hotels:** Revenue rose 22.2% y/y to SGD642.1mn, with gross profit rising 39.2% y/y to SGD146.7mn. Hotel was the main driver, with segment revenue rising to SGD618.1mn (2022: SGD502.9mn) and segment reported PBIT increasing to SGD82.4mn (2022: SGD37.5mn). Meanwhile, Properties segment revenue rose y/y by a smaller extent at SGD24.1mn (2022: SGD22.6mn) while profit from the segment rose to SGD1.6mn (2022: loss of SGD0.1mn).
- **Loss from associates/JVs and higher financing costs:** HPL reported a gross loss before fair value gain on investment properties of SGD74.1mn, mainly due to SGD56.4mn share of loss from associates and jointly controlled entities and +65.5% y/y rise in financing costs to SGD98.3mn. The losses from associates/JVs was due to properties in London which were affected by higher capitalisation rates. Bankside Yards with residential tower of over 200 units will be pre-marketed to potential purchasers in 1H2024.
- **Significant amount of fair value gains booked:** A significant amount of fair value gains of SGD645.0mn was booked, with investment properties increasing y/y from SGD674.9mn to SGD1.32bn. The largest increase were for Forum The Shopping Mall, with valuations increasing from SGD413mn in 27 December 2022 to SGD948mn as of 31 December 2023, and HPL House Singapore with valuations increasing from SGD128mn in 31 December 2022 to SGD275mn as of 31 December 2023. We think that the trigger in revaluing these assets is due to HPL's plans in redeveloping Forum The Shopping Mall, voco Orchard Singapore and HPL House, with HPL having received the Grant of Provisional Permission to redevelop these into a mixed development comprising hotel, retail, office and residential components.
- **Headline credit metrics improved partly due to improved results and partly due to fair value gains:** Net gearing improved h/h to 59% (1H2023: 84%) mainly due to fair value gains. Separately, cash of SGD94.8mn covers short term debt of SGD49.5mn, noting that debt were refinanced. Net cash generated from operating activities of SGD136.5mn nearly covers capex of SGD139.2mn. (Company, OCBC)

Olam Group Ltd ("OG")

- OG reported its 2H2023 and 2023 financial results. Reported EBITDA (excluding exceptional items) in 2H2023 was SGD1.3bn, higher by 13.4% y/y while reported EBIT (excluding exceptional items) was SGD952.3mn, increasing by 19.3% y/y in 2H2023. Y/y increase in EBIT was attributable to both the ofi as well as the Olam Agri businesses. For ofi, this was led by the Ingredients & Solutions sub-segment. With the increased focus on growing Ingredients & Solutions, this sub-segment contributed 64% of ofi's total EBIT in 2023. At the Olam Agri business, the Food & Feed – Origination & Merchandising and Food & Feed – Processing & Value-Added sub-segments saw higher EBIT y/y while Fibre, Agri-Industrials & Ag Services was profitable in 2H2023 against a loss before interest and tax in 2H2022.
- However, the Remaining Olam Group (which carries the de-prioritised, gestating and incubating businesses and assets) reported a loss before interest and tax in 2H2023 of SGD8.4mn against EBIT of SGD76.5mn in 2H2022.
- 2H2023 finance cost was significantly higher y/y at SGD684.9mn (2H2022: SGD522.4mn, 1H2023: SGD606.2mn) due to higher interest rates, with resultant reported EBITDA/Interest expense lower at 1.9x in 2H2023 versus 2.2x in 2H2022.
- In 2H2023, a share of loss from joint ventures and associates of SGD1.3mn was reported against a share of profits from joint ventures in 2H2023 of SGD10.7mn.
- Reported net gearing was relatively stable h/h at 1.74x as at 31 December 2023 although higher than the 1.47x as at 31 December 2022). As at 31 December 2023, OG has SGD6.5bn of short term debt due, representing ~40% of gross debt (including lease liabilities), in line with historical levels. That said, OG's unutilised bank lines of SGD9.7bn and existing cash balance and short-term fixed deposits of SGD3.6bn, which is sufficient to cover the short term debt due.

- OG announced that its planned initial public offering (“IPO”) and demerger of Olam Agri will no longer take place in 1H2024 as the regulatory framework is still being finalised in Saudi Arabia to enable the listing of foreign companies and the issuance of Saudi Depositary Receipts on the Saudi Exchange. OG was also planning a separate IPO and demerger of ofi. Per OG, it remains committed to listing both Olam Agri and ofi, although the company is also exploring other strategic options to unlock value. While details of the IPO is yet to disclosed, we understand that bulk is targeted for growth, with an amount to be set aside to further de-lever the Remaining Olam Group.
- Along with its results announcement, OG also announced that it will carry out further share buyback of ~170mn shares (per its current buyback mandate). OG’s current share price is ~SGD0.97 per share. We assume the buyback will be ~SGD170mn in outlay. Per management, source of funding for the buyback will be from existing cash balance. Unadjusted net gearing is only expected to increase marginally to 1.74x (assuming payment of dividends and after the buyback which will be over a period of time).
- As a recap, OG’s board of directors had directed the Audit and Risk Committee (“ARC”) to conduct a review of the allegations and the review by the ARC (conducted with the assistance of external counsels and independent external accountants) has been completed. Based on the scope of the review, the team did not identify evidence that establishes the allegations set out in the media articles. In September 2023, OG was subject to adverse local Nigerian media headlines (focused on round tripping of the Nigerian Naira). We understand from management that no charges have been brought against Olam Nigeria or any of its officers by the Nigerian authorities. All of OG businesses in Nigeria had been continuing to operate normally. Conclusion of the Olam Nigeria issue should reinstate secondary trading of OG’s perpetual in our view. (Company, OCBC)

New Issues:

Date	Issuer	Description	Currency	Size (mn)	Tenor	Final Pricing	Initial Pricing
27 Feb	BPCE SA (BPCEGP)	Fixed, Tier 2	SGD	400	10NC5	5%	5.3% area
27 Feb	Tianfeng Securities Co Ltd (TIANFS)	Fixed	USD	300	2Y	6.8%	4.1% area

Mandates:

- There are no Asiadollar mandates for today.
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