Asian Credit Daily

August 11, 2016

Credit Headlines (Page 2 onwards): Nam Cheong Ltd, Ezion Holdings Ltd, Aspial Corp Ltd, City Developments Ltd

Market Commentary: The SGD dollar swap curve traded downwards yesterday with swap rates trading 2-9bps lower across all tenors. Flows in the SGD corporate space yesterday was light with mixed interests seen in UOBSP 4%'49s, OLAMSP 6%'22s, HYFSP5.75%'49s, and GUOLSP4.2%'20s. In the broader dollar space, the spread on JACI IG corporates was level at 207bps while the spread on JACI HY corporates decreased 4bps to 6.45% yesterday. The 10y UST yield decreased 4bps to 1.51%.

New Issues: Bank of Communications has set final pricing guidance for its expected USD500mn 3yr Fixed Rate Note at 3mL+90bps, tightening from IPT of 3mL+115bps. The issue is expected to be rated (NR/A2/A).

Rating Changes: Fitch has affirmed Westfield Corp's rating at "BBB+" and then withdrew it for business reasons. Westfield Corp, listed in Australia is a property trust that manages retail shopping centres. Moody's has upgraded South Korea's MagnaChip Semiconductor to "Caa1" with a Stable outlook. The upgrade reflects indications of increasing traction in MagnaChip's operational turnaround. Fitch stated that while Singapore banks second quarter results showed pressure on profitability and asset quality, their credit profiles should remain resilient despite the weaker operating environment. Fitch further added that while they expect the banking sector's oil and gas loans to remain vulnerable amid weak sector fundamentals, they believe the rated Singapore banks are positioned well to meet rising credit risks from stresses in the sector because capital buffers are strong and underwriting procedures are disciplined.

Table 1: Key Financial Indicators

	11-Aug	1W chg (bps)	1M chg (bps)		11-Aug	1W chg	1M chg
iTraxx Asiax IG	114	-4	-16	Brent Crude Spot ($/bbl)	43.83	-1.04%	-5.23%
iTraxx SovX APAC	44	-3	-7	Gold Spot ($/oz)	1,343.93	-1.27%	-0.85%
iTraxx Japan	54	-3	-6	CRB	179.55	-0.13%	-3.83%
iTraxx Australia	103	-9	-18	GSCI	341.63	0.28%	-4.01%
CDX NA IG	72	-1	0	VIX	12.05	-6.30%	-11.00%
CDX NA HY	105	0	0	CT10 (bp)	1.507%	-3.46	14.95
iTraxx Eur Main	67	-1	-8	USD Swap Spread 10Y (bp)	-11	-1	0
iTraxx Eur XO	311	-10	-22	USD Swap Spread 30Y (bp)	-47	-1	-5
iTraxx Eur Snr Fin	88	-4	-17	TED Spread (bp)	54	2	14
iTraxx Sovx WE	25	1	-7	US Libor-OIS Spread (bp)	40	3	12
iTraxx Sovx CEEMEA	114	-9	-6	Euro Libor-OIS Spread (bp)	5	0	-2
					11-Aug	1W chg	1M chg
				AUD/USD	0.771	1.01%	2.30%
				USD/CHF	0.975	-0.04%	0.85%
				EUR/USD	1.118	0.42%	1.08%
				USD/SGD	1.343	-0.04%	0.66%
Korea 5Y CDS	45	-3	-5	DJIA	18,496	0.77%	1.47%
China 5Y CDS	104	-3	-11	SPX	2,175	0.54%	1.79%
Malaysia 5Y CDS	125	-12	-14	MSCI Asiax	543	3.02%	6.25%
Philippines 5Y CDS	92	-6	-12	HSI	22,494	3.03%	7.73%
Indonesia 5Y CDS	144	-12	-26	STI	2,856	1.02%	-0.69%
Thailand 5Y CDS	90	-3	-14	KLCI	1,675	1.16%	1.25%
				JCI	5,446	1.34%	7.43%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
10-Aug-16	Bank of Communications Co Ltd	"NR/A2/A"	USD500mn	3-year	3mL+90bps
9-Aug-16	Chongqing Nan'An	"BBB+/NR/BBB+"	USD200mn	10-year	4.8%
9-Aug-16	ANZ Banking Group Ltd.	"NR/Aa2/NR"	AUD250mn	5-year	2.8%
9-Aug-16	ANZ Banking Group Ltd.	"NR/Aa2/NR"	AUD2.45bn	5-year	3mBBSW+113bps
9-Aug-16	Royal Bank of Canda	"NR/Aa3/AA"	AUD600mn	1-year	3mBBSW+48bps
4-Aug-16	FCOT Treasury Pte. Ltd.	"NR/Baa2/NR"	SGD100mn	5-year	2.84%
4-Aug-16	UBS Group Funding (Jersey) Ltd.	"A-/NR/A"	USD2bn	5-year	CT5+160bps
4-Aug-16	UBS Group Funding (Jersey) Ltd.	"A-/NR/A"	USD500mn	5-year	3mL+153bps

Source: OCBC, Bloomberg

Credit Headlines:

Nam Cheong Ltd ("NCL"): 2Q2016 results showed revenue declining 39.1% y/y to MYR117.4mn (2Q2015: MYR192.7mn). The shipbuilding segment saw revenue fall 36.4% y/y to MYR114.0mn, largely due to lower progressive revenue recognition due to lower volumes of work. Gross margins for the segment improved though to 19% (2Q2015: 15%). The vessel chartering segment saw revenue slump sharply by 74.9% y/y to MYR3.4mn. This was largely driven by the challenging market for OSVs, which faces pressure from both weak demand and oversupply. The segment faced a gross loss of MYR5.7mn due to poor utilization. In aggregate, gross margin declined to 13.4% (2Q2015: 15.9%). NCL has aggressively continued to control costs, slashing SG&A expenses by 57.9% y/y to MYR10.9mn. However, given the absence of a MYR10.9mn fair value gain on derivatives seen in 2Q2015, operating profit fell 60.6% to MYR7.3mn. This led to net income falling 74.5% to MYR2.7mn. It should be noted that net income was supported by higher proportion of interest expense being capitalized into a vessel's cost of construction, which led to finance costs falling 43% y/y to MYR3.5mn. Management continues to view demand for newbuild OSVs to be weak given soft energy prices. Like previous periods, management has indicated delaying deliveries from its partner Chinese yards, at both end-client requests as well as for NCL build-to-stock ("BTS") vessels. This is in an effort to preserve cash flow. NCL's order book remains stable at MYR1.1bn, with vessels to be delivered through end-2018. During the period, NCL generated negative operating cash flow of MYR125.4mn. This was largely due to MYR186.9mn increase in amounts due from customers on contracts. The cash gap was funded by MYR44.1mn in proceeds from the sale of held-to-maturity financial assets, and NCL drawing down MYR83.4mn from its cash balance. As such, though gross borrowings remained relatively stable at MYR1666.2mn q/q, net gearing climbed higher to 110% (1Q2016: 102%). NCL has about MYR505.4mn in short-term borrowings, of which most of it is secured borrowings related to either vessel financing or vessel construction. In comparison, NCL had MYR260.5mn in cash. It is worth noting that NCL has SGD90mn in bonds due in August 2017, so these bonds (~MYR270mn) will be reflected under short-term borrowings from 3Q2016 onwards. We estimate interest coverage (including capitalized interest) to be 0.5x for the quarter. Though management's efforts to control expenses has been commendable, operating cash burn has worsened over the last few quarters (4Q2015: MYR26.7mn, 1Q2016: -MYR93.1mn, 2Q2016: -MYR125.4mn). It would be pivotal for NCL to monetize the BTS vessels in its inventory (MYR1.9bn) as well as to obtain dues from customers (MYR617.3mn), given the tight liquidity situation. We will continue to hold NCL's Issuer Profile at Negative. (Company, OCBC)

Ezion Holdings ("EZI"): 2Q2016 results showed revenue falling 7.0% y/y to USD83.7mn. On a q/q basis, revenue was flattish, increasing 2.0%. The y/y decline in revenue was driven by lower liftboat and drilling rig utilization due to modifications as well as routine class surveys. We believe as well that the continued slump in upstream O&G activities may have also impacted utilization rates as well as lease rates. COGS increased 12.4% y/y to USD65.9mn, driven by the deployment of additional service rigs. As a result, gross margin continues to compress to 21.3% (2Q2015: 34.9%). Operating profit was boosted by a gain (USD14.6mn) realized from the completion of an asset held for sale (we believe this could be one of the liftboats that EZI highlighted for divestment in previous periods). The gain helped boost operating profit higher by 0.2% y/y to USD26.2mn (excluding the divestment gain though operating profit would have fallen ~55% y/y). Due to the sharp decline (-87.9%) in share of results from JVs / Associates (there were some impairment losses recognized), net income fell sharply by 31.5% y/y to USD19.8mn. The firm was able to generate operating cash flow (including interest service) of USD18.4mn and ~USD4.9mn in free cash flow. EZI also reduced gross debt by USD49.6mn by drawing on its cash balance. This caused net gearing to improve slightly q/q to 109% (1Q2016: 112%). We estimate interest coverage (based on interest paid) to be 5.5x for the quarter. EZI has about USD371.7mn in short-term debt, with the majority being vessel financing, compared to USD181.1mn in cash. It should be noted that the ~SGD140mn raised in the recent rights issue (to be reflected in 3Q2016 results) should help to further improve EZI's credit profile. We will however continue to hold EZI's Issuer Profile at Negative given the still challenging conditions for drilling assets, believing it could take some time before utilization and charter rates improve. (Company, OCBC)

Credit Headlines (cont.):

Aspial Corp Ltd ("Aspial"): Aspial reported 2Q2016 results with revenue increasing 47.8% y/y to SGD148.4mn while EBITDA was SGD1.1mn (comparable with 2Q2015's SGD1.5mn). Revenue was supported by the 105% y/y increase in property development revenue to SGD78.6mn, due to the progress recognition of sales at The Hillford and Waterfront@Faber (residential units for both 100% sold) as well as final recognition of sales at the Urban Vista (given TOP). It is worth noting that Aspial's development pipeline looks strong, with all of its Singapore and Australia developments fully launched, and ~100% of Singapore residential developments fully sold while the Australian developments 95% sold (revenue and profits to be booked during the completion phases in 2018 to 2020). The only softness is in its CityGate commercial units (188 units) of which only 60% is sold. For its Singapore developments, Aspial has locked in and expects to recognize SGD485mn in revenue progressively, while for Australia the amounts are AUD1.1bn. Final recognition of sales from the Singapore developments are expected sooner, with the Kensington Square project (residential units 100% sold) receiving TOP in August 2016, The Hillford in ~6 months and the Waterfront@Faber in ~12 months. As Aspial has received TOP for the Urban Vista project (in April), the asset has been reclassified from development properties to trade receivables, with management expecting to receive ~SGD100mn in cash from the final recognition of sales. For the quarter, revenue growth from the pawn broking business was strong as well at 30.6% y/y to SGD39.0mn. This was driven by higher interest income and sales from retailing and trading pre-owned jewellery / watches. The jewellery business remains soft, though it is worth noting Aspial actually opened two new stores during the quarter. For the quarter, operating loss widened to SGD10.0mn (2Q2015: SGD6.3mn loss), driven by the 78% y/y increase in materials and subcontract costs for Aspial's development projects to SGD115.2mn. Finance costs increased 50% y/y as well to SGD9.9mn, driven by additional borrowings. These factors drove Aspial to a net loss of SGD6.2mn for the period (2Q2015: SGD0.5mn net profit). Aspial managed to generate SGD14.5mn in operating cash flow for the quarter. Aspial also increased net borrowings by about ~SGD153mn (of which SGD200mn was due to a bond issue, with proceeds partially used to pay down term loans). Aspial used the cash generated to purchase about ~SGD195mn in investment securities, to park the cash in the interim till development needs require it. Net gearing jumped q/q to 388% (1Q2016: 319%), though if we net off investment securities net gearing would fall to 287%. Leverage also remained high on a net debt / LTM EBITDA basis at 77.4x due to current weak EBITDA generation. Short-term borrowings also remain elevated at SGD639mn (~70% secured), compared to the SGD102.5mn in cash and SGD355.8mn in investment securities. We believe however, with Aspial's strong development pipeline that these borrowings will refinanced. Near-term TOP of its Singapore developments should also generate liquidity. We will retain our Negative Issuer Profile due to Aspial's high leverage, though we have recently upgraded its ASPSP'17 bonds to Neutral, while retaining Underweight on the rest of the curve (Company , OCBC).

Credit Headlines (cont.):

City Developments Ltd ("CDL"): 2Q2016 results showed revenue increasing 32.4% y/y to SGD1092mn, driven by revenue and profit recognition of the Lush Acres EC, which achieved TOP during the quarter (for ECs, developers are only allowed to recognize revenue and profits upon TOP). This caused the property development segment revenue to surge 105.2% y/y to SGD551.5mn, while segment PBT jumped 35.5% to 105.8mn. However, these gains were offset by weaker performance at the Hospitality segment, with Millennium & Copthorne Hotels ("M&C") seeing weakness at its New York and Singapore assets. In aggregate, segment revenue fell 3.6% y/y to SGD406.6mn. Revenue from CDL's rental properties fell as well by 7.2% y/y to SGD92.8mn. This was largely driven by divestments made in leasehold interests in Tampines Grande and Manulife Centre. Segment PBT fell as well by 7.0% y/y to SGD31.9mn. In aggregate, operating profit increased 12.6% to SGD214.0mn. Net income was dragged lower by higher net finance costs as well as taxes, with net income flat y/y at SGD167.5mn. EBITDA generation was strong at SGD267.4mn (up 10.6% y/y). CDL generated SGD22.5mn in operating cash flow (including interest service) during the quarter, but generated negative free cash flow of SGD47.2mn after factoring capex. CDL also paid out SGD129.3mn in dividends during the quarter. These were funded by SGD186.5mn in net borrowings. As a result, net gearing inched up slightly q/q to 28% (1Q2016: 26%) though it remains low. Looking forward, it is worth noting that CDL has acquired the 50% balance in the Nouvel 18 development from Wing Tai Holdings for SGD411mn, and has been reported to consider utilizing a Profit Participating Security to monetize the asset via a deal worth SGD965mn. CDL also divested its stake in HKSE-listed City e-Solutions for a total consideration of ~SGD98.2mn in July. Management has also indicated that it believes any impact of BREXIT on CDL's UK property segment to be short-term. As for its hospitality exposures, RevPAR in London was actually up 9.1% on a constant currency basis for the first 3 weeks of July, reflecting resilient demand. We will retain our Positive Issuer Profile on CDL, as we believe the impact of BREXIT to be controlled, while any PPS relating to Nouvel 18 is likely to improve CDL's credit profile. In addition, CDL benefits from a robust and deep balance sheet as well as diverse operations. (Company, OCBC)

Andrew Wong
Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6530 4736
wongVKAM@ocbc.com

Nick Wong Liang Mian, CFA
Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6530 7348
NickWong@ocbc.com

Ezien Hoo, CFA
Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6722 2215
EzienHoo@ocbc.com