Asian Credit Daily

OCBC Bank

May 13, 2016

Market Commentary: The SGD swap curve traded downwards yesterday, trading 4bps-7bps lower across all tenors. Flows in SGD corporates were heavy with the primary market driving activity. There were better buyers in the newly issued SOCGEN 4.3%'26s, GEMAU 5.5%'19s, STANLN 4.4%'26s, better sellers in ABNANV 4.75%'26s, FRESHK 4.25%'19s and OCBC 3.8%'49s. We also saw mixed interests in BAERVX 5.9%'49s, OHLSP 5.1%'17s and UCGIM 5.5%'23s. In the broader dollar space, the spread on JACI IG corporates tightened by 1bp to 214bps, while the yield on the JACI HY corporate decreased 4bps to 7.18%. 10y UST increased by 2bps to 1.75% following renewed talk of potential US rate hikes in 2016 and a relatively strong week for oil prices.

New Issues: National Australia Bank Ltd priced a SGD450mn Tier 2 12NC7 bond at 4.15%, tightening from an initial guidance of 4.3%. The issue is rated "BBB+/A3/NR". Sun Hung Kai & Co. Ltd has announced that it is planning to issue a USD 5-year bond, with minimum coupon of 4.75%, to refinance its USD350mn 6.375%'17s notes. GSH Corp has scheduled investor meetings in Singapore on 16 May 2016. Zhejiang Geely has scheduled for investor meetings in Asia and Europe from 13 May 2016. Australia and New Zealand Banking Group Ltd priced a USD1.5bn 10 year Tier-2 issue at 4.4% to yield 265bps over UST, slightly tighter than initial guidance of the high 200s.

Rating Changes: S&P downgraded its rating on Shanghai Huayi Group to "BBB-" from "BBB". S&P downgraded its rating on Huayi Group Hong Kong Ltd to "BB+" from "BBB-", with no further information furnished on Bloomberg. Moody's upgraded GS Caltex Corp. to "Baa2" from "Baa3" with a stable outlook. The upgrade reflects GS Caltex's stronger financial profile from lower debt and steady earnings.

Table 1: Key Financial Indicators

	13-May	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	144	-4	6
iTraxx SovX APAC	53	-2	-3
iTraxx Japan	73	-3	-6
iTraxx Australia	134	-3	-1
CDX NA IG	81	-4	2
CDX NA HY	102	1	0
iTraxx Eur Main	77	-2	3
iTraxx Eur XO	327	-5	12
iTraxx Eur Snr Fin	97	-3	3
iTraxx Sovx WE	26	0	-2
iTraxx Sovx CEEMEA	133	-2	-3
Korea 5Y CDS	63	-2	2
China 5Y CDS	127	-4	8
Malaysia 5Y CDS	157	-6	11
Philippines 5Y CDS	113	-4	16
Indonesia 5Y CDS	183	-10	-12
Thailand 5Y CDS	124	-1	3

	13-May	1W chg	1M chg
Brent Crude Spot ($/bbl)	48.08	6.82%	7.59%
Gold Spot ($/oz)	1,268.17	-1.62%	2.07%
CRB	183.65	2.64%	4.55%
GSCI	362.92	4.34%	6.12%
VIX	14.41	-9.43%	4.12%
CT10 (bp)	1.748%	-3.08	-1.58
USD Swap Spread 10Y (bp)	-14	1	0
USD Swap Spread 30Y (bp)	-48	1	-2
TED Spread (bp)	36	-8	-4
US Libor-OIS Spread (bp)	24	0	-1
Euro Libor-OIS Spread (bp)	8	-1	-2

	13-May	1W chg	1M chg
AUD/USD	0.732	-0.64%	-4.36%
USD/CHF	0.971	0.18%	-0.41%
EUR/USD	1.138	-0.24%	0.91%
USD/SGD	1.374	-0.95%	-1.72%
DJIA	17,721	0.34%	-1.05%
SPX	2,064	0.66%	-0.88%
MSCI Asiax	484	-0.40%	-5.13%
HSI	19,915	-2.61%	-5.88%
STI	2,745	-0.81%	-5.02%
KLCI	1,649	0.24%	-4.30%
JCI	4,803	-0.19%	-1.02%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
12-May-16	National Australia Bank Ltd	BBB+/A3/NR	SGD450mn	12-year	4.15%
12-May-16	ANZ Banking Group Ltd	NR/A3/A+	USD1.5bn	10-year	CT10+265bps
11-May-16	CICC Hong Kong Finance 2016 MTN Ltd	BBB+/NR/BBB+	USD500mn	3-year	CT3+192.5bps
11-May-16	State Grid Overseas Investment (2016) Ltd	AA-/Aa3/A+	USD500mn	5-year	CT5+95bps
11-May-16	State Grid Overseas Investment (2016) Ltd	AA-/Aa3/A+	USD500mn	10-year	CT10+125bps
11-May-16	Societe Generale	BBB/A-/Baa3	SGD425mn	10NC5	4.3%
11-May-16	Commonwealth Bank of Australia	AA-/Aa2/AA-	USD1bn	10-year	CT10+112.5bps
11-May-16	United Overseas Bank Ltd	NR/A3/BBB	SGD750mn	PERPNC5	4.0%

Source: OCBC, Bloomberg

Credit Headlines:

Dyna-Mac Holdings ("DMHL"): The issuer reported 1Q2016 results, which showed revenue increasing sharply by 117.9% y/y to SGD86.7mn. The sharp increase in revenue was driven by the accelerated progress on all the projects delayed last year due to the delay in engineering drawings and free issued materials from customers. On a q/q basis though, revenue declined 20.7%. Gross margins plunged sharply to 9.7% (1Q2015: 36.6%) as COGS increased due to project variation orders, with confirmed revenue from the project only upon completion in the later part of the year. DHML also faced SGD6.9mn in foreign exchange translation losses on current assets. These two factors drove DHML to a net loss of SGD6.1mn for the quarter. Operating cash flow for the quarter was strong with the firm generating SGD34.4mn (including interest service). This was largely driven by the reduction of working capital. Given minimal capex of SGD0.825mn, DMHL generated SGD33.6mn in free cash flow. As such, DMHL's cash balance jumped q/q from SGD85.2mn to SGD119.5mn. The company remains net cash, with just SGD84.8mn in gross debt (of which SGD35mn is short-term). As such, DMHL does not face liquidity pressure. Net order book stands at SGD77mn at the end of the quarter, falling from SGD175mn as of end-2015. It would be difficult for DMHL to win new contracts going forward given the tough O&G environment. We do not currently cover DMHL. (Company, OCBC).

Hotel Properties Ltd ("HPL"): HPL reported a soft set of 1Q2016 numbers which was generally in line with its hospitality peers facing a challenging operating environment. 1Q2016 revenue was down 10% y/y to SGD143.7mn; with EBITDA down 13% y/y to SGD49.6mn. Management cited lower contributions from Tomlinson Heights (TOP in March 2014, 28 units unsold) and the Group's resorts in the Maldives for the softer results. HPL's credit profile weakened slightly as a result with LTM net debt/EBITDA increasing to 6.5x from 6.3x as of end-2015 while net gearing was stable at 46%. LTM EBITDA interest coverage was still healthy albeit weakening slightly to 4.0x from 4.2x as of end-2015. We have a Neutral issuer profile on HPL and continue to believe that recurring cash flows from its portfolio of externally managed hotels will buffer weakness from Singapore residential development which is still a relatively small part of its business (17% of 2015 revenue). For investors looking to go down the credit curve for spread/yield pickup from CAPLSP and CITSP, we have Overweights on HPLSP 3.50% '18s (yield: 2.42%, i-spread: 85bps) and HPLSP 3.95% '19s (yield: 3.15%, i-spread:136bps). (Company, OCBC)

Aspial Corp Ltd ("Aspial"): Aspial reported 1Q2016 results with revenue increasing 25% y/y to SGD125.6mn while EBITDA was up ~2x to SGD4.8mn. Revenue was boosted by a 48.9% y/y increase in property development revenue to SGD39.3mn due to the TOP of Urban Vista and a 30% y/y increase in contribution from the pawn broking business to SGD37.3mn. The jewelry business in contrast continues to drag on profitability with stable revenue but an 87% plunge in pre-tax profit to SGD0.1mn with Aspial still looking to rationalize that part of the business. Leverage remained elevated despite the improvement in profitability for the quarter with LTM net debt/EBITDA improving to 66.0x from 75.0x as of end-2015 while net gearing was 319%. Aspial has heavy refinancing requirements of SGD681.6mn over the next 4 quarters including the SGD100mn ASPSP 5.00% '16 in July and the SGD80mn 4.50% '17 in January. Current cash levels (SGD144mn), SGD100mn cash from the TOP of Urban Vista and current rate of EBITDA generation will be insufficient to cover that amount notwithstanding ongoing capital requirements, so we expect the company to look to refinance some of that debt as it comes due. That said we anticipate that the company should be able to roll over the secured portion (SGD501.6mn) of debt coming due with the uncertainty coming from the SGD180mn of unsecured SGD bonds which the company currently just has enough resources to cover. We maintain a Negative issuer profile on Aspial with Underweights across the curve. (Company, OCBC)

Credit Headlines:

Swissco Holdings ("SWCH"): 1Q2016 results showed revenue plunging 74.8% y/y to USD4.8mn. This was due to both of SWCH's wholly-own drilling rigs falling off charter, which resulted in the drilling segment reporting no revenue. This can be somewhat misleading, as SWCH operates / manages 7 drilling rigs, but reports the revenue for only 2 as the rest are held in JVs. SWCH last reported 3 drilling rigs currently off charter. The next rig with its lease expiring will be towards late 2016. Given the slowdown in upstream O&G activity, it will be challenging for SWCH to lease out these rigs. Performance of the OSV division was weak as well, with segment revenue falling ~60% y/y, due to weak demand and oversupply of OSVs. The winter season also tends to be a seasonal low for OSV demand in general. SWCH also generated USD4.5mn in FX related losses, likely driven by the sharp appreciation of the SGD against USD during 1Q2016, which will result in losses on SWCH's SGD denominated borrowings. Share of results from its JV assets helped support earnings, contributing USD9.7mn (4Q2015: USD5.2mn). On aggregate, the off charter rigs and FX impact drove SWCH to a net loss of USD1.9mn for the period. SWCH generated negative USD1.5mn in operating cash flow for the quarter, and about negative USD3.0mn in free cash flow after factoring capex. SWCH also made USD7mn in loans to its JVs. SWCH paid down about USD6.3mn in debt as well during the quarter. SWCH mainly relied on its cash balance to fund the spending, resulting in cash declining from USD37.6mn to USD22.7mn q/q. As such, net gearing worsened from 71% (end-2015) to 76% (end-1Q2016). SWCH has about USD83.1mn in short-term borrowings, of which most are secured vessel financing. No further details have been disclosed regarding SWCH's non-binding MOU to acquire VM Marine International. The environment for drilling assets remains depressed, particularly after the sharp slump in oil prices in 1Q2016. In addition, SWCH has a liftboat which it will take delivery for in 2016. We will review SWCH's current Neutral Issuer Profile, and will update its rating depending on our findings. (Company, OCBC)

ASL Marine ("ASL"): 3QFY2016 results showed revenue increasing 42.1% y/y to SGD90.1mn. This was largely driven by increases in shipbuilding revenue (+200% y/y) to SGD41.7mn. It is worth noting that more than 90% of shipbuilding revenue generated was non-OSV, such as tugs and barges. This helped support ASL's overall performance, given the stress faced in the OSV sector. ASL's other segments were relatively stable, with shiprepair & conversion seeing a 9.6% y/y fall in revenue (due to the lower value of the contracts executed), shipchartering seeing a 18.0% y/y increase in revenue (with tugs and barges involved in marine infrastructure projects offsetting the slump in demand for O&G related vessels), and the engineering division seeing a 21.2% decline in revenue for the quarter (due to the lack of new build dredger orders). On a q/q basis though, revenue was lower by 9.6% due to lower shipbuilding revenue. Gross margin compressed from 19.0% (3QFY2015))to 14.4% (3QFY2016). Gross profit from shiprepair & conversion was lower due to the lack of a special one-off project while shipchartering gross profit was weaker due to poor utilization and weak charter rates for OSVs as well as lower utilization for the rest of the fleet in general. As a result, pre-tax profit was 17.5% higher y/y to SGD2.9mn for the period, lower than the growth in revenue. ASL generated about –SGD1.0mn in operating cash flow (including interest service) and spent SGD14.0mn on capex. As such, free cash flow for the period was negative SGD15.0mn. ASL also paid down net 11.4mn in borrowings. These uses of cash was funded by ASL's cash balance, which fell from SGD49.4mn (end-2QFY2016) to SGD28.2mn (end-3Q2016). As such, even though gross borrowings fell, net gearing remained unchanged q/q at 140%. Management has indicated that O&G contributes only 17% of ASL's revenue. The bulk of revenue is now generated from shipping / marine logistics and infrastructure / construction. The firm believes that the SGD25bn in spending on infrastructure as budgeted for by the Singapore government during the FY2015 budget has been flowing through and supporting ASL's business. That said, the other parts of ASL's business remains challenging due to the lack of orders for newbuilds as well as competition for jobs impacting ASL's other assets. We will retain our Negative Issuer Profile for now given the high absolute levels of leverage, as well as challenging environment limiting improvements to ASL's credit profile. (Company, OCBC)

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