# Asian Credit Daily

**August 15, 2016**

**Credit Headlines (Page 2 onwards):** National Australia Bank Ltd., Swissco Holdings, Hong Fok Corp. Ltd., Pacific Radiance, CWT Ltd., Frasers Hospitality Trust

**Market Commentary:** The SGD dollar swap curve flattened last Friday. Swap rates traded 1-5bps lower across all tenors with the exception of shorter tenors (less than a year) that traded 1-8bps higher. Flows in the SGD corporates were heavy with better buying seen in SANYPH 7%’17s and better selling seen in SCISP 4.75%’49s. Meanwhile, we also saw mixed interests in GENSSP 5.13%’49s, UOBSP 4%’49s and ABNANV 4.7%’22s. In the broader dollar space, the spread on JACI IG corporates decreased 3bps to 204bps while the yield on JACI HY corporates decreased 2bps to 6.42%. 10y UST decreased 5bps to 1.52%, erasing losses on Friday after weaker-than-forecasted figures for July’s retail sales and Production Price Index(PPI) that was released on Thursday.

**Rating Changes:** S&P has placed Mitsui Life Insurance Co. Ltd.’s (Mitsui) “A-“ financial strength and counterparty credit rating on CreditWatch with positive implications. The decision follows Mitsui’s issuance of subordinated bonds totalling JPY80bn in July and its borrowing of subordinated loans totalling JPY100bn in August, mainly to refinance its existing subordinated loans. The restructuring of Mitsui could lead to upward revision of its financial risk profile and stand-alone credit profile. Furthermore, the refinancing is likely to substantially ease Mitsui’s interest burden, which could boost S&P’s assessment of its prospective capital and earnings. Moody’s has placed Hua Han Health Industry Holdings Ltd.’s “Ba3” corporate family rating on review for downgrade. The decision follows the suspension of trading on Hua Han’s shares on 11 August, 2016 which could potentially stress the company’s liquidity position, because any prolonged suspension could accelerate the company’s repayments under its convertible bonds. Additionally, there were allegations of irregularities in Hua Han’s reported financial statement which in turn could delay the completion and filing of Hua Han’s FY2016 financial statements, triggering further suspension of share trading.

**Table 1: Key Financial Indicators**

| | 15-Aug | 1W chg (bps) | 1M chg (bps) | | 15-Aug | 1W chg | 1M chg |
|---|---|---|---|---|---|---|---|
| iTraxx Asiax IG | 115 | 1 | -6 | Brent Crude Spot ($/bbl) | 47.23 | 4.05% | -0.80% |
| iTraxx SovX APAC | 44 | -1 | -3 | Gold Spot ($/oz) | 1,337.54 | 0.17% | 0.01% |
| iTraxx Japan | 52 | -- | -1 | CRB | 182.68 | 0.48% | -3.27% |
| iTraxx Australia | 103 | 0 | -7 | GSCI | 353.12 | 3.24% | -2.22% |
| CDX NA IG | 72 | 0 | -1 | VIX | 11.55 | 1.40% | -8.84% |
| CDX NA HY | 105 | 0 | 0 | CT10 (bp) | 1.510% | -8.19 | -4.08 |
| iTraxx Eur Main | 67 | 2 | -4 | USD Swap Spread 10Y (bp) | -12 | -1 | 3 |
| iTraxx Eur XO | 308 | 0 | -17 | USD Swap Spread 30Y (bp) | -49 | -3 | -4 |
| iTraxx Eur Snr Fin | 89 | 2 | -9 | TED Spread (bp) | 54 | 1 | 15 |
| iTraxx Sovx WE | 23 | 0 | -2 | US Libor-OIS Spread (bp) | 41 | 2 | 12 |
| iTraxx Sovx CEEMEA | 116 | 1 | -2 | Euro Libor-OIS Spread (bp) | 5 | 0 | 0 |
| | | | | | **15-Aug** | **1W chg** | **1M chg** |
| | | | | AUD/USD | 0.765 | -0.05% | 0.91% |
| | | | | USD/CHF | 0.976 | 0.71% | 0.74% |
| | | | | EUR/USD | 1.116 | 0.63% | 1.11% |
| | | | | USD/SGD | 1.347 | -0.01% | 0.08% |
| Korea 5Y CDS | 44 | -1 | -4 | DJIA | 18,576 | 0.18% | 0.32% |
| China 5Y CDS | 104 | 0 | -6 | SPX | 2,184 | 0.05% | 1.03% |
| Malaysia 5Y CDS | 125 | -2 | -5 | MSCI Asiax | 546 | 1.26% | 4.34% |
| Philippines 5Y CDS | 90 | -2 | -9 | HSI | 22,765 | 1.20% | 5.11% |
| Indonesia 5Y CDS | 144 | -4 | -16 | STI | 2,865 | 1.29% | -2.07% |
| Thailand 5Y CDS | 89 | 1 | -7 | KLCI | 1,683 | 0.63% | 0.89% |
| | | | | JCI | 5,377 | -0.79% | 5.23% |

*Source: OCBC, Bloomberg*

**Table 2: Recent Asian New Issues**

| Date | Issuer | Ratings | Size | Tenor | Pricing |
|---|---|---|---|---|---|
| 11-Aug-16 | China Construction Bank Corp ( Singapore) | “NR/NR/NR” | CNH1bn | 2-year | 3.25% |
| 11-Aug-16 | HNA Group (International) Co. | “NR/NR/NR” | USD300mn | 3-year | 6.0% |
| 11-Aug-16 | Standard Chartered Plc | “BB-/Ba1/BBB-” | USD2bn | Perp-NC6.5 | 7.5% |
| 11-Aug-16 | Westpac Banking Corp. | “NR/Aa2/NR” | USD1.5bn | 3-year | 1.6% |
| 11-Aug-16 | Westpac Banking Corp. | “NR/Aa2/NR” | USD500mn | 3-year | 3mL+56bps |
| 11-Aug-16 | Westpac Banking Corp. | “NR/Aa2/NR” | USD1.5bn | 5-year | 2.0% |
| 11-Aug-16 | Westpac Banking Corp. | “NR/Aa2/NR” | USD500mn | 5-year | 3mL+85bps |
| 10-Aug-16 | Bank of Communications Co Ltd | “NR/A2/A” | USD500mn | 3-year | 3mL+90bps |

*Source: OCBC, Bloomberg*

**Credit Headlines:**

**National Australia Bank Ltd ("NAB")**: NAB released its third quarter trading update in which unaudited cash earnings for continuing operations of AUD1.6bn was 3% lower than the quarterly average for the March 2016 half year result and the prior corresponding period. While revenue was flat as loan growth mitigated lower net interest margins due to higher funding costs, earnings were impacted by a 21% rise in bad and doubtful debts to AUD228mn. Management indicated that the higher bad debts were driven by higher provisions for loans in the mining and agribusiness segment. Capital levels were slightly lower q/q at 9.5%/13.2% for CET1/CAR (9.7%/13.3% as at 31 Mar 2016) due to dividend declaration but remain above NAB's ratio target. Overall, NAB's results reflect two things in our view; the current operating environment for Australian banks and NAB's strong business franchises in Australia and New Zealand which should provide ongoing earnings support despite growth challenges. (Company, OCBC)

**Swissco Holdings ("SWCH")**: 2Q2016 results showed revenue plunging 72.8% y/y to USD5.0mn. This was due to both of SWCH's wholly-owned drilling rigs falling off charter, which resulted in the drilling segment reporting no revenue. It is worth noting that two of SWCH's 50% JV drilling rigs are off-charter. On a q/q basis however, revenue was up 4.0%. The slight increase was driven by SWCH's OSV chartering business (+4.2% q/q to USD5.0mn). The segment however remains weak due to poor utilization and low charter rates. As the two wholly-owned rigs are not operating, this has resulted in SWCH generating an operating loss of USD9.0mn, comparable to the previous quarter's operating loss of USD9.7mn. Note that SWCH faces high depreciation costs (non-cash) of ~USD6mn per quarter due to its rigs and OSV fleet. SWCH also spent USD2.6mn in stacking and mobilization costs for its rigs (management last mentioned redeploying the rigs to the Middle East) in order to find charters for them. As such, we expect these expenses to be necessary for SWCH to seek new contracts for its rigs as well as to be non-recurring. Share of results from its JV assets (drilling rigs and accommodation rigs) helped support earnings, contributing USD9.3mn (1Q2016: USD9.7mn). This helped trim net loss to USD2.1mn (1Q2016: USD1.9mn). SWCH generated negative USD3.5mn in operating cash flow for the quarter (including finance costs), largely driven by its interest service. After factoring USD2.4mn in capex, free cash flow was negative USD5.9mn. SWCH also paid down USD9.7mn in borrowings. This was funded by USD1.8mn in asset disposals (likely vessels) as well as by drawing down on its cash balance. As a result, SWCH ended the quarter with just USD9.6mn in cash balances. With the additional borrowings as well as net loss, net gearing inched higher q/q to 78% (1Q2016: 76%). SWCH has USD72.5mn in short-term borrowings due (~80% is secured vessel / rig financing), compared to USD9.6mn in cash balances. Management has indicated that they expect to rollover USD42.6mn in short-term borrowings and are in active discussions for the balance. SWCH also announced that it was unable to come to an agreement regarding the VM Marine International acquisition. We believe demand for drilling assets to remain weak in the near future, making it difficult for SWCH to find new contracts for its rigs. Management has been preserving cash, reducing operating cash burn. However, given the short-term debt due, we expect continued asset divestments. We will continue to hold SWCH's Issuer Profile at Negative given the challenging environment and liquidity pressures. (Company, OCBC)

**Hong Fok Corp. Ltd ("HFC")**: HFC reported 2Q2016 results with revenue down 8.4% y/y to SGD14.0mn and EBITDA down 20% y/y to SGD4.1mn. HFC continues to generate an operating loss as operating profit was insufficient to cover cost of financing. Revenue from investment properties was impacted by one of its properties in Hong Kong undergoing renovation works. Its disposal of Winfoong International Limited in September 2015 has also impacted revenue. For its development segment (mainly the Concourse Skyline and the Jewel of Balmoral), management has indicated that the sales of residential units will continue to be weak. Operating cash flow (including interest service) was negative SGD1.0mn. Coupled with SGD10.3mn in capex, free cash flow was negative SGD11.3mn for the quarter. In addition, HFC paid out SGD6.9mn in dividends. The cash gap was largely financed by SGD14.5mn in additional borrowings as well as drawing down on its cash balance. As a result, net gearing inched slightly higher to 32% (1Q2016: 31%). HFC has about SGD5.5mn in short term borrowings, which we believe can easily be met by its SGD159.1mn in cash balance. It is worth noting that capex has been lower than expected given the development of Yotel (to be completed in 1H2017). Though HFC's leverage profile is manageable, it has been meeting its capex, interest service and dividend needs via additional borrowings due to the poor EBITDA generation. This would likely persist till the Yotel comes online, or its sale of units at the Concourse Skyline picks up. As such, we will retain our Negative Issuer Profile on HFC for now. (Company, OCBC)

**Credit Headlines (cont'd):**

**Pacific Radiance ("PACRA")**: For 2Q2016, PACRA generated USD20.0mn in revenue, a decline of 42.5% y/y. This was largely driven by low utilization and weak charter rates for its OSV chartering segment, driving segment revenue lower by 42.2% y/y. The environment continues to be challenging, with weak demand and oversupply. On a q/q basis, revenue improved slightly by 8.7%. PACRA generated a gross loss of USD7.7mn for the quarter, larger than the USD1.3mn gross loss seen in 1Q2016. Management has indicated that they expect the operating environment to remain challenging for the next 2-3 years and hence decided to take impairments on its OSV fleet, taking a charge of USD32.9mn for the quarter. PACRA also took USD9.3mn in provisions over doubtful receivables (likely receivables due from Swiber Holdings). These factors drove PACRA to a sharp operating loss of USD53.4mn. In addition, PACRA's JV vessels were also impaired, for a further USD3.8mn in losses. As such, PACRA generated a net loss of USD62.8mn. Even after adjusting for impairments / provisions, PACRA would have generated a net loss of USD16.9mn, higher than the USD6.9mn generated in 1Q2016. For the quarter, PACRA generated negative USD10.9mn in operating cash flow, better than the negative USD15.1mn generated in1Q2016. PACRA spent USD32.9mn in capex during the quarter (this could be the two vessels PACRA was committed to taking delivery of in the balance of 2016). PACRA also paid out USD5.3mn in dividends. The cash gap was funded by USD34.0mn in vessel divestments and USD28.3mn additional borrowings. Due to the large impairments / provisions taken as well as the additional borrowings, net gearing has increased to 137% (1Q2016: 106%). PACRA has USD101.2mn in short-term borrowings compared to USD30.1mn of cash balance. Management has indicated that it continues to enjoy the full support of bankers, and are working to refinance the loans, including the extension of repayment schedules. (Company, OCBC)

**CWT Ltd ("CWT")**: CWT's 1H2016 revenue declined by 15% to SGD4.2bn (1H2015: SGD5.0bn) while its 2Q2016 revenue also declined 15% to SGD2.4bn from SGD2.8bn in 2Q2015. Nevertheless, the fall in gross profit was smaller at 5% for 1H2016 and 11% for 2Q2016 due to the higher contribution from financial services, which is a higher margin business. Overall, gross profit margin improved to 3.6% in 1H2016 from 3.2% in 1H2015. Based on our calculations of EBITDA (excluding share of income from associates), we find EBITDA/Gross Interest weaker at 3.0x (1H2015: 3.7x). Higher levels of debt were taken to finance the building of the mega logistics hub and negative cash flows from operations (CWT's quarter-on-quarter working capital is erratic reflecting nature of the business). As such, net debt-to-equity has increased to 1.7x as at 30 June 2016 from 1.2x as at 31 March 2016. Nevertheless, SGD909mn (representing 70% of short term debt) consists of revolving short-term trade facilities. Adjusting downwards for such debt, we find that net debt-to-equity as at 30 June 2016 was 0.6x (rising from 0.4x as at 31 March 2016). At end-2015, off-balance sheet non-cancellable operating leases at CWT amounted to SGD535mn, we expect that this still persists. CWT's board has been informed that its major shareholder is continuing negotiations on the potential transaction with HNA Group and that there is no certainty that such negotiations will result in a definitive agreement. We continue to hold CWT at a Neutral issuer profile. The uncertainties surrounding the potential change of ownership limits the upside potential of the bonds above par. (Company, OCBC)

**Frasers Hospitality Trust ("FHT")**: Ratings on FHT's special purpose vehicle ("SPV") in Malaysia, namely Notable Vision Sdn Bhd has been reaffirmed by RAM Ratings. The SPV is Sponsored by FHT and holds the Westin KL under an asset-backed securitization structure. However, the rating outlook on its Class A Senior MTN (rated at AAA) and the Class B Junior MTN (rated at B2) has been revised from Stable to Negative while the outlook on Class C MTN's C3 rating remains Stable. The change in rating outlook reflects RAM Rating's concern that Westin KL's net property income may take longer than expected to recover, given the impending supply of new hotel rooms over the next two years. Westin KL only contributes 7% and 5% to portfolio by valuation and net property income respectively. In addition, the outstanding senior debt in relation to this SPV makes up ~4% of FHT's total borrowing and as such any future increase in cost of borrowings and deepening weakness at Westin KL is manageable and would not unduly affect FHT's credit profile, in our view. We maintain FHT's issuer profile at Neutral. (Company, OCBC)

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