Asian Credit Daily

November 15, 2016

Credit Headlines (Page 2 onwards): Hong Fok Corp. Ltd., Golden Agri-Resources Ltd., Yanlord Land Group Ltd., Swissco Holdings Ltd.

Market Commentary: The SGD swap curve traded upwards yesterday, swap rates traded 15-23bps higher across all tenors as the dollar appreciated on strong buying momentum, spurred by rising treasury yields. In the broader dollar space, the spread on JACI IG corporates remained relatively unchanged at 202bps while the yield on JACI HY corporates increased 23bps to 6.93%. 10y UST yields increased a further 10bps to 2.25%.

New Issues: Westpac Banking Corp. has indicated that it plans to issue a USD 15NC10 Tier-2 bond.

Rating Changes: Moody's has affirmed Yanlord Land Group Ltd.'s "Ba3" corporate family rating with a positive outlook, concluding the review initiated on 18 August, 2016. The positive outlook reflects Yanlord's strong contracted sales growth and a better financial profile than its "Ba3" Chinese property peers. Additionally, the outlook also takes into account that the business environment could become less favourable with the introduction of regulatory measures that are intended to cool the property market.

Table 1: Key Financial Indicators

	15-Nov	1W chg (bps)	1M chg (bps)		15-Nov	1W chg	1M chg
iTraxx Asiax IG	135	20	17	Brent Crude Spot ($/bbl)	44.43	-3.73%	-14.48%
iTraxx SovX APAC	46	11	11	Gold Spot ($/oz)	1,224.42	-4.02%	-2.50%
iTraxx Japan	58	2	3	CRB	180.26	-1.23%	-4.71%
iTraxx Australia	115	11	10	GSCI	349.77	-0.89%	-6.88%
CDX NA IG	78	2	1	VIX	14.48	-35.67%	-5.73%
CDX NA HY	103	-1	-1	CT10 (bp)	2.261%	43.53	46.37
iTraxx Eur Main	79	6	5	USD Swap Spread 10Y (bp)	-13	1	4
iTraxx Eur XO	349	24	13	USD Swap Spread 30Y (bp)	-55	0	2
iTraxx Eur Snr Fin	103	7	4	TED Spread (bp)	44	-8	-9
iTraxx Sovx WE	22	2	2	US Libor-OIS Spread (bp)	36	0	-6
iTraxx Sovx CEEMEA	107	17	12	Euro Libor-OIS Spread (bp)	4	0	0
					15-Nov	1W chg	1M chg
				AUD/USD	0.757	-2.49%	-0.79%
				USD/CHF	0.997	-1.93%	-0.81%
				EUR/USD	1.075	-2.54%	-2.31%
				USD/SGD	1.414	-1.95%	-1.74%
Korea 5Y CDS	55	10	13	DJIA	18,869	3.34%	4.03%
China 5Y CDS	125	18	16	SPX	2,164	1.53%	1.46%
Malaysia 5Y CDS	168	45	44	MSCI Asiax	514	-4.99%	-5.45%
Philippines 5Y CDS	134	23	14	HSI	22,222	-2.54%	-4.35%
Indonesia 5Y CDS	197	45	43	STI	2,787	-0.49%	-0.99%
Thailand 5Y CDS	98	8	-2	KLCI	1,617	-2.06%	-2.55%
				JCI	5,116	-5.02%	-5.26%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
14-Nov-16	Jiangsu Hanrui Investment (Re-Tap)	"NR/NR/BB+"	USD190mn	3-year	5.3%
10-Nov-16	Gansu Provincial Highway	"BBB-/NR/BBB-"	USD500mn	3-year	CT3+195bps
7-Nov-16	EXIM Korea (Re-tap of SGD60mn)	"NR/Aa2/AA-"	SGD310mn	3-year	2.04%
7-Nov-16	Mapletree Commercial Trust	"NR/Baa1/NR"	SGD85mn	7-year	2.795%
4-Nov-16	China Nuclear Engineering	"NR/NR/NR"	CNH1.5bn	3-year	4.3%
3-Nov-16	Intl. Bank for Reconstruction & Dev.	"NR/Aaa/NR"	SGD500mn	3-year	1.12%
3-Nov-16	Bank of China Ltd.	"NR/Aa3/NR"	USD500mn	3-year	CT3+95bps
3-Nov-16	Huishang Bank Corp.	"NR/NR/NR"	USD888mn	Perp-NC5	5.5%
1-Nov-16	Wuhan Metro Group Co. Ltd.	"NR/NR/A"	USD290mn	3-year	CT3+180bps

Source: OCBC, Bloomberg

Credit Headlines:

Hong Fok Corp. Ltd. ("HFC"): HFC reported its 3Q2016 results with revenue down 2.8% y/y to SGD14.0mn (3Q2015: SGD14.4mn), mainly due to the decrease in property management income which was partially offset by an increase in rental income from the leasing of the residential units of Concourse Skyline. As a result, EBITDA was also lower at SGD3.9mn, which is a 10.6% y/y decrease over the previous period (3Q2015: SGD4.4mn). HFC continues to generate an operating loss (SGD1.1mn) as operating profit was insufficient to cover the cost of financing. Revenue for 9M2016 amounts to SGD42.1mn, a 7.3% y/y drop from SGD45.4mn in 9M2015. This is mainly reflective of the disposal made last year in September 2015 of Winfoong International Limited which totaled SGD81.9mn. Operating cash flow (OCF) for 3Q2016 was positive at SGD11.3mn but was mainly due to delay in payments made to payables and interest expense. Despite positive OCF, overall cash generation was still negative at SGD69.8mn due to payment of construction costs for YOTEL Singapore (Capex of SGD17.9mn, resulting in Negative Free Cash Flow of SGD14.2mn) and net redemption of borrowings amounting to SGD55.0mn. Thus, Net Gearing continues to inch higher over the last few quarters at 33% (2Q2016: 32%, 1Q2016: 31%). HFC has about SGD5.4mn in short term borrowings, which we believe can easily be met by its SGD90.9mn in cash balance. Though HFC's leverage profile continues to be manageable with relatively low gearing and short-term debt obligations, its cash needs (capex, interest service and dividends) continue to be consistently funded via additional borrowings or existing resources due to poor EBITDA generation. This would likely persist until YOTEL Singapore is completed in 1H2017, or rental income at Concourse Skyline strengthens further. As such, we will retain our Negative Issuer Profile on HFC for now. (Company, OCBC)

Golden Agri-Resources Ltd. ("GGR"): GGR reported its 3Q2016 and 9M2016 results yesterday. For the 9M2016, GGR reported a marginal increase in revenue of 2.3% to USD5.1bn (9M2015: USD4.9bn) although EBITDA (based on company's calculation) declined 2.1% to USD393mn (9M2015: USD402mn). The decline in EBITDA was mainly attributable to the reduction in harvested fruits and the impact from Indonesia's implementation of an export levy (since July 2015). Despite the small decline in EBITDA, GGR's profit before tax swung into positive USD142.7mn from a loss before tax of USD18.0mn in 9M2015. This was largely due to the absence of foreign exchange loss in 9M2016, wherein GGR made a foreign exchange gain of USD50.5mn. Cash flow from operations before interest (CFO) for 9M2016 was lower at USD238.3mn (9M2016: USD562.7mn) on account of higher working capital requirement for the downstream operations. We believe this was due to the tight palm supply situation which had caused a knock-on effect on COGS. CFO/Gross interest coverage deteriorated to 2.7x from 7.2x in (9M2016). GGR's gross debt-to-total equity decreased to 0.7x (31 December 2016: 0.8x) while net debt-to-equity held steady at 0.7x. Inclusive of short term investments, cash/current borrowings was thinner at 26.7% versus 33.1% as at 31 December 2016. GGR faces heavy bond maturities in 2017 totaling to ~USD450mn. Our base case remains that such debts are unlikely to be meaningfully pared down and will need to be refinanced. At this stage we think financing markets remain open to GGR (albeit the company is likely to attract higher cost of financing). We maintain our Negative issuer profile on GGR and are Neutral both the '17s and '18s. (Company, OCBC)

Yanlord Land Group Ltd. ("YLLG"): YLLG reported its 3Q2016 and 9M2016 results. Revenue increased by 148% to RMB15.8bn (9M2015: RMB6.3bn) while EBITDA (excluding other income and expenses) increased 170% during the same period. The strong performance during the 9M2016 reflects the increase in gross floor area delivered and higher average selling price from the earlier red-hot property market in China. Gross profit margin during the period declined to 24% from 31%, which we think was driven by higher land cost during the period, in addition to lower resettlement income. In 9M2016, YLLG's investing cash flow was significant at RMB5.0bn against only RMB375mn in 9M2015, with the increase largely going towards advances to associates and joint ventures (ie: YLLG is a lender to such joint ventures and associates). Such outflows were funded partially by higher borrowings taken during the year. Gross debt-to-total equity was higher at 61.2% against 59.8% as at 31 December 2016. In addition to higher borrowings, YLLG also took a RMB227.6mn loss in comprehensive income (from currency translation difference) which lowered book value equity to RMB30.3bn (31 December 2015: RMB30.5bn). Accumulated pre-sales pending recognition as at 30 September 2016 was healthy at RMB29.4bn (31 December 2015: RMB22.1bn) which should keep YLLG's operating income robust during the remaining term of the SGD bonds (matures in August 2017). We are currently reviewing the issuer profile of the company. (Company, OCBC)

Credit Headlines:

Swissco Holdings Ltd. ("SWCH"): SWCH released 3Q2016 results. Revenue fell 63.5% y/y to USD3.8mn, as the Drilling segment generated no revenue. SWCH's two wholly-owned drilling rigs have been off-charter so far this year, with the rigs off-charter since 2Q2015 and 4Q2016. SWCH reported as well that the two 50%-owned rigs were off charter since 4Q2015 and 2Q2016. As for SWCH's other drilling assets, the 3 JV rigs with Ezion are still on-charter, but charter collections have not been received since September 2015. SWCH's OSV segment saw sales fall as well by 27% to USD3.8mn, driven by low utilization and low charter rates due to the difficult environment. During the quarter, SWCH took a USD181.0mn impairment loss. About USD153.6mn of the losses relate to the impairment of SWCH's rigs and vessels. The balance USD27.4mn relates to the loss on receivables and loans to the Ezion JV rigs. The latter loss relates to the sale of SWCH's 50% stake in the Ezion JV to Ezion on 26 October 2016 (this was not previously disclosed). In addition, SWCH recognized an additional loss of USD107.3mn from its associates (USD48.4mn) and JVs (USD59.7mn) due to impairments at the associate and JV levels. As such, during the quarter SWCH recognized ~USD288.3mn in impairment related expenses, resulting in a net loss of USD296.0mn. This wiped out total equity, with SWCH reporting USD29.1mn in negative total equity. As part of its 3Q2016 filing, management has indicated that SWCH has reached an impasse with its major lenders and was unable to get an agreement on the terms of the restructuring plan. As such, SWCH has decided to file for an interim judicial management order, with the documentation to be filed to courts at the end of this week or early next week. We are currently reviewing the situation and will update accordingly. (Company, OCBC)

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