Asian Credit Daily

May 16, 2016

Market Commentary: The SGD swap curve bear flattened last Friday, with the short-term rates trading 3bps higher while the middle-term rates traded 1bps lower and the long-term rates traded 1-2bps lower. Flows in the SGD corporates were heavy, where we saw better buyers in SOCGEN 4.3%'26s, STANLN 4.4%'26s, FHREIT 4.45%'49s and better sellers in GEMAU 5.5%'19s. We also saw mixed interests in UOB 4%'49s, ABNANV 4.75%'26s, DBSSP 3.1%'23s and OLAMSP 6%'22s. In the broader dollar space, the spread on JACI IG corporates tightened by 1bps to 227bps, while the yield on the JACI HY Corporate decreased 5bps to 7.22%. 10y UST yields decreased by 6bps to 1.70% as the S&P 500 ended the week on a soft note.

New Issues: ValueMax has scheduled investor meetings in Singapore on May 17 2016.

Rating Changes: Moody's has reaffirmed Baidu's "A3" rating, while revising its outlook to stable from positive. The change in the rating outlook reflects Moody's expectation of weaker revenue growth over the next 12-18 months due to potential negative impacts on Baidu's reputation and revenue related to controversy from its medical advertisements. Moody's confirmed its "Aa3" ratings of China Shenhua Energy Company Limited, concluding a review for downgrade announced on 17 February 2016. The confirmation of the rating reflects Shenhua's resilient credit profile amidst weak coal prices, its relatively healthy leverage ratio and lastly the four notches of uplift including parent company (Shenhua Group) and Chinese government support. Outlook remains negative. S&P downgraded Toshiba Corporation's ratings 2 notches to "B" from "B+", maintaining their view that Toshiba's business risk profile is at the lower end of the rating category. S&P expects EBITDA margins to improve but likely to remain below 8% this fiscal year. Outlook is negative. S&P lowered Chesapeake Energy Corp.'s corporate credit rating to "SD" from "CCC" following the completion of its distressed exchange offer.

Table 1: Key Financial Indicators

	16-May	1W chg (bps)	1M chg (bps)		16-May	1W chg	1M chg
iTraxx Asiax IG	145	-1	7	Brent Crude Spot ($/bbl)	47.88	9.74%	11.09%
iTraxx SovX APAC	54	-1	-4	Gold Spot ($/oz)	1,273.95	0.80%	3.36%
iTraxx Japan	73	-5	-4	CRB	182.55	1.47%	5.13%
iTraxx Australia	134	-1	-2	GSCI	361.72	3.17%	7.57%
CDX NA IG	83	-1	5	VIX	15.04	2.17%	10.43%
CDX NA HY	102	0	-1	CT10 (bp)	1.704%	-4.72	-4.83
iTraxx Eur Main	77	-2	5	USD Swap Spread 10Y (bp)	-13	3	2
iTraxx Eur XO	324	-6	15	USD Swap Spread 30Y (bp)	-48	2	-1
iTraxx Eur Snr Fin	98	-1	11	TED Spread (bp)	36	-7	-4
iTraxx Sovx WE	26	0	-1	US Libor-OIS Spread (bp)	24	-1	-1
iTraxx Sovx CEEMEA	134	-3	1	Euro Libor-OIS Spread (bp)	8	-1	-2
					16-May	1W chg	1M chg
				AUD/USD	0.727	-0.59%	-6.15%
				USD/CHF	0.976	-0.48%	-1.19%
				EUR/USD	1.131	-0.62%	-0.01%
				USD/SGD	1.373	-0.11%	-1.60%
Korea 5Y CDS	65	--	1	DJIA	17,535	-1.16%	-2.02%
China 5Y CDS	129	0	9	SPX	2,047	-0.51%	-1.64%
Malaysia 5Y CDS	159	-3	-4	MSCI Asiax	479	-1.34%	-6.70%
Philippines 5Y CDS	115	-3	15	HSI	19,719	-1.94%	-7.49%
Indonesia 5Y CDS	187	-4	-14	STI	2,735	0.15%	-6.46%
Thailand 5Y CDS	126	0	2	KLCI	1,628	-1.28%	-5.77%
				JCI	4,762	-1.26%	-1.28%

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:

Golden Agri-Resources Limited ("GGR"): GGR released its first quarter results Friday evening. Revenue was down by ~4% quarter-on-quarter, on the back of softer crude palm oil ("CPO") prices. In Q12016, CPO on a Free on Board ("FOB") basis was USD596/MT, against USD636/MT in Q12015. However, driven by margin improvements in the downstream palm and laurics segment, EBITDA saw an increase of 17% to USD126m from USD108m. Consolidated gross profit margins improved to 18% from 13% while consolidated EBITDA margins increased to 8.4% from 6.9%. Based on our house-view, CPO prices may hit MYR2800/MT (~USD694/MT) by end of 2016, with upside potential, driven by likely lower production volume from unfavorable weather. Based on our estimates, the upstream business still contributes about half of overall EBITDA, after stripping out the effects from intercompany related transactions. GGR's downstream palm and laurics business relies on its upstream plantation business for inputs. Unlike Wilmar, we believe GGR's downstream business is less reliant on third party inputs, hence margins are likely to be held intact despite CPO prices heading upwards. GGR Q12016's financial statements reflected the adoption of accounting standard IAS16 for Bearer Plants where the company has restated its biological assets at historical cost less accumulated depreciation. This change has no impact on cash flow. On a like-for-like basis, debt-to-equity stood at 0.77x as at 31 March 2016, improving slightly from 0.81x as at 31 March 2015. Cash to current borrowings remains thin at 0.1x, however, bulk of short term borrowings relate to working capital and are self-liquidating. GGR's coverage ratio is reasonable at EBITDA/Gross Interest of 4.0x, improving from 3.5x in Q12015. GGR generated CFO (before interest and tax) of USD101.7m, while declining somewhat from USD126m in Q12015, remains comfortable in servicing interest burden. Whilst near term liquidity remains under control, GGR faces significant refinancing risk next year. In addition to USD205m of bank borrowings repayable in 2017, USD666m of bonds will also come due the same year. We continue to hold GGR with a Negative issuer profile (Company, OCBC)

Genting Singapore ("GENS"): The company reported SGD608.0mn in revenue for 1Q2016 results, a decline of 4.9% y/y. This was mainly driven by the gaming segment, which saw revenue decline by 9.0 y/y to SGD450.5mn. However, on a q/q basis, gaming revenue recovered strongly, increasing by 20.5% over 4Q2015. Management believes that its strategy of increasing premium and mass gaming customers (versus VIP) is gaining traction. Non-gaming revenue (which is mainly hospitality and hence seasonal) was up 9.1% y/y to SGD157.1mn, supported by the opening of the Jurong hotel in May last year. Hotel occupancy held steady at 92% (1Q2015 93%), while the Jurong hotel saw occupancy continue to ramp up to 90% (4Q2015: 78%). Management indicated that its attractions business was strong, with Universal Studios recording its best first quarter since opening in terms of both revenue and attendance. In aggregate, gross margin fell slightly to 28.1% (1Q2015: 28.5%) due to the shifts in market segment for its gaming segment. Performance was also affected by both SGD43.5mn in FX losses, as well as higher impairments on its gaming receivables of SGD92.4mn (1Q2015: 76.3mn). This was a disappointment as our original expectation was that 2015 would have seen the worst of impairments on gaming receivables given that GENS has been shifting focus away from VIP gaming. Management has indicated that they continue to pursue delinquent accounts aggressively, and expect to continue to make impairments through the rest of 2016. These drove GENS's net profit lower by 56.1% y/y to USD40.2mn (before share of profits to perpetuals). Operating cash flow remains strong at SGD260.2mn for the quarter (including interest service). GENS spent about SGD18.0mn on capex and SGD66.4mn largely to renew its casino licence for another 3 years, hence free cash flow was ~SGD176mn. GENS also paid down debt by about SGD87.5mn. Currently, GENS has about SGD1.5bn in debt and SGD2.3bn in perpetual securities. Comparatively, GENS has SGD5.1bn in cash. We will continue to hold GENS at Positive Issuer Profile given its strong operating cash flow generation and the expectation that other new projects aside from the Jeju integrated resort will take some time before investment commences. (Company, OCBC)

Credit Headlines:

Otto Marine ("OTML"): 1Q2016 results showed revenue declining 35.9% to USD94.9mn, driven by the sharp decline in shipyard revenue (-56.1% to USD46.6mn for the quarter). This was driven by both the challenging environment for newbuild OSVs as well as OTML's stated intention to focus on lower execution risk projects in the repair and maintenance, conversion and fabrication space for its shipyard. The OSV chartering division's revenue grew 12.9% to USD44.9mn and is now ~50% of firm revenue, with management indicating stronger utilization y/y. Net order book for the quarter stood at USD216mn, slightly lower than the USD235mn seen end-2015. These are mainly orders for the OSV chartering division. Gross margins for the shipyard business improved sharply to 35.0% (1Q2015: 7.6%), driven by a vessel sold during the quarter. The OSV chartering division though generated a slight gross loss (though smaller than 1Q2015's). The firm has aggressively reduced costs, with SG&A lower by ~30% y/y. FX losses, likely from its SGD denominated borrowings when the USD weakened against the SGD through the quarter, dragged the bottom line with a loss of USD4.7mn. In aggregate, the firm managed to grind out a net profit of USD0.4mn for the quarter (before non-controlling interest), which is commendable given the challenging environment. The firm generated USD13.6mn in operating cash flow (including interest service) and roughly the same amount of free cash flow given minimum capex. It used the cash generated to reduce net borrowings, with gross borrowings lower by USD12.1mn. Net gearing was unchanged at 281% q/q. The issuer does have USD251.8mn in short-term borrowings, including its SGD70mn bond due on 01/08/16. Comparatively, the firm has USD21.4mn in total cash. Interest coverage currently stands at 2.2x. We are currently holding OTML at Negative Issuer Profile given the challenging environment for offshore marine, as well as given the high leverage of the issuer. (Company, OCBC)

CWT Limited ("CWT"): CWT announced that its controlling shareholders namely, C&P Holdings Pte Ltd (and its controlling shareholders) ("C&P") have entered into exclusive negotiations with a subsidiary of HNA Group Co. in relation to a potential transaction of C&P's stake in CWT. There is no certainty that such negotiations will result in a consummation of a deal between the parties. (Company, OCBC)

Perennial Real Estate Holdings Ltd ("Perennial"): Perennial reported a decent set of 1Q2016 numbers with revenue up 9% y/y to SGD29.5mn and net profit up 257% y/y to SGD12.1mn. The increase in revenue was driven by improved performance from Perennial Qingyang Mall in Chengdu (China revenue up 19.1% y/y to SGD7.6mn) and higher revenue from its fee-based management business (+29.5% y/y to SGD9.8mn). The huge jump in net profit was due to the SGD7.5mn in fair value gains recognized by its JV with Shanghai Summit from change of use of Chengdu Plot D2 from residential strata sale to investment property for an eldercare and retirement home. Net debt/equity increased to 55% (end-2015: 45%) mainly due to a SGD200mn increase in borrowings. Key events to look out for going forward: 1) Perennial will be commencing strata sales of units in AXA Tower and TripleOne Somerset in June 2016 as and when leases come due, 2) major additional contributions in China will probably come online in 1Q2017 with Perennial International Health and Medical Hub and the initial phase of Chengdu Plot D2 (elderly care home) slated for completion in end-2016 and commencement of operations in 1Q2017 and 3) the on-going deadlock with Pontiac Land over Capitol Singapore valued at SGD743.5mn (excluding the residential portion) with the company either looking to buy out its JV partner's 50% stake or sell its existing 50% stake. We have a Neutral issuer profile on Perennial. (Company, OCBC)

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