Asian Credit Daily

OCBC Bank

Feb 05, 2016

Market Commentary: The SGD swap curve bull-steepened yesterday, with the shorter-end rates decreasing by 2bps-3bps and the longer-end rates unchanged. In the broader dollar space, JACI IG corporates widened by 1bp to 240bps while the yield on the JACI HY corporates decreased by 1bp to 8.32%. 10y UST yield decreased by 5bp to 1.83%.

Rating Changes: Fitch downgraded Zoomlion Heavy Industry to "B+" from "BB". This is due to poorer financial profile with no signs of recovery in 2015. Outlook is negative. S&P lowered Glencore PLC's long and short term corporate credit ratings to "BBB-"/"A3" from "BBB"/"A2" respectively. This is due to a lower price assumptions for copper and other metals, reflecting the challenging market outlook and the increased uncertainty about demand.

Table 1: Key Financial Indicators

	5-Feb	1W chg (bps)	1M chg (bps)		5-Feb	1W chg	1M chg
iTraxx Asiax IG	159	8	20	Brent Crude Spot ($/bbl)	34.46	1.68%	-7.42%
iTraxx SovX APAC	80	3	6	Gold Spot ($/oz)	1,155.72	3.35%	7.25%
iTraxx Japan	87	4	10	CRB	163.45	-1.07%	-6.33%
iTraxx Australia	150	12	22	GSCI	293.70	-0.87%	-5.15%
CDX NA IG	109	8	18	VIX	21.84	-2.59%	5.51%
CDX NA HY	99	-1	-2	CT10 (bp)	1.840%	-13.89	-40.33
iTraxx Eur Main	105	13	25	USD Swap Spread 10Y (bp)	-10	3	-1
iTraxx Eur XO	405	37	76	USD Swap Spread 30Y (bp)	-45	3	-4
iTraxx Eur Snr Fin	108	16	31	TED Spread (bp)	33	4	-12
iTraxx Sovx WE	26	5	9	US Libor-OIS Spread (bp)	23	0	-1
iTraxx Sovx CEEMEA	194	2	9	Euro Libor-OIS Spread (bp)	15	1	4
					5-Feb	**1W chg**	**1M chg**
				AUD/USD	0.720	1.61%	0.38%
				USD/CHF	0.994	2.97%	1.40%
				EUR/USD	1.120	3.39%	3.99%
				USD/SGD	1.398	1.92%	2.00%
Korea 5Y CDS	67	4	10	DJIA	16,417	2.16%	-4.27%
China 5Y CDS	139	13	27	SPX	1,915	1.17%	-4.83%
Malaysia 5Y CDS	185	3	-1	MSCI Asiax	456	-1.28%	-5.92%
Philippines 5Y CDS	130	4	19	HSI	19,183	-0.07%	-9.47%
Indonesia 5Y CDS	243	9	8	STI	2,558	-0.15%	-9.73%
Thailand 5Y CDS	163	4	22	KLCI	1,657	1.36%	-0.54%
				JCI	4,666	1.37%	2.37%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
2-Feb-16	Export-Import Bank of Korea	AA-/Aa2/AA-	USD400mn	5-year	CT5+87.5bp
2-Feb-16	Westpac Banking Corp.	AA-Aa2/NR	CNH130mn	4-year	5.40%
1-Feb-16	HNA Group	NR/NR/NR	USD35mn	2-year	8.125%
29-Jan-16	Vista Land & Lifescapes Inc.	NR/NR/NR	USD125mn	6-year	7.375%
29-Jan-16	Kookmin Bank	A/A1/A	USD500mn	5-year	MS+95bps
28-Jan-16	China Development Bank Corp (CDB)	AA-/Aa3/A+	USD1bn	4-year	CT4+85bps
28-Jan-16	China Development Bank Corp (CDB)	AA-/Aa3/A+	EUR1bn	2-year	MS+75bps
28-Jan-16	ANZ New Zealand (International) Ltd	AA-/Aa2/AA-	USD750mn	3-year	CT3+115bps

Source: OCBC, Bloomberg

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Credit Headlines:

Wing Tai Holdings ("Wing Tai"): Wing Tai reported 1HFY2016 results with revenue up 1% y/y to SGD290.9mn. Contributions to revenue was mainly due to the property segment with progressive recognition from The Tembusu, additional units sold in Le Nouvel Ardmore in Singapore, Lakeview in China and contribution from Phase 2 of Jesselton Hills in Penang. EBITDA was up 16% y/y to SGD35.8mn as the company rationalized its underperforming retail segment (29.4% of 2015 revenue with operating losses in 2015 and 2014 of SGD8.8mn and SGD2.6mn, respectively) with lower rentals from closure of retail outlets in Singapore reducing distribution expenses. Net income was down 75% y/y, but this was mainly due to a one-off SGD21.1mn gain from the disposal of a property subsidiary in Indonesia in the corresponding period. Cash balance declined to SGD594.4mn as of December 2015 from SGD880.6mn in June 2015 mainly due to capital injection into joint venture companies and a SGD32.8mn reduction in debt. As a result LTM net debt/EBTIDA increased to 7.09x from 4.10x in 2015 although gross debt reduced slightly to SGD1.15bn. Net gearing increased to 16% from 9%. That said, we take comfort from the company's strong liquidity profile, with SGD594.4mn in cash sufficient to cover SGD37.2mn in short-term debt by 16x. Furthermore, Wing Tai's debt maturity profile is well termed out with SGD bonds maturing only from 2021 onwards. We maintain our Neutral rating on Wing Tai's issuer profile and curve with FY2015 probably marking the trough in the company's EBITDA generation. (Company, OCBC)

Singapore Post Limited ("SPOST"): 3QFY2016 results show revenue up 32.0% y/y to SGD316.2mn, driven by acquisitions in the logistics segment as well as the retail & eCommerce segment. The shift in revenue mix has continued to lead to margin compression, with operating margin falling from 21.3% (3QFY2015) to 17.3% (3QFY2016). As such, net profit only increased 2.1% y/y to SGD44.7mn. The logistics segment is now the largest revenue contributor at 46.7% of total revenue. This is followed by the mail segment (37.6% of sales) and retail & eCommerce segment (15.7% of sales). During the quarter, SPOST generated SGD50.0mn in operating cash flow and consumed SGD59.2mn in capex, leading to negative 9.2mn in free cash flow. In addition, the firm spent SGD233.1mn in acquisitions as well as paid out SGD32.4mn in dividends, leading to a cash outflow of ~SGD275mn. This was funded in part by SGD121.9mn increase in borrowings as well as SGD141.5mn decrease in cash balance. As such, SPOST has turned net debt (SGD176.0mn) with a net gearing of 12%. Net debt / EBITDA remains strong at 0.64x. It should be noted that they declared a further SGD32.4mn worth of dividends to be paid, though it should be offset by the second Alibaba investment (SGD187.1mn for another 5% in SPOST, which looks to be delayed yet again with SPOST indicating that the two parties are working towards extending the existing long-stop date of 29/02/16). We will continue to rate SPOST at Neutral for its Issuer Profile, based on the expectation that the second Alibaba investment would eventually go through (Company, OCBC).

ASL Marine ("ASL"): 2QFY2016 results showed SGD99.7mn in total revenue (not comparable with 2QFY2015 which saw negative revenue due to revenue reversal). Profits from shiprepair as well as engineering segments helped to offset weakness at the shipchartering segment. Despite the challenging environment, the firm managed to generate SGD1.9mn in net profit during the period. ASL generated SGD21.4mn of EBITDA during the period, with an interest coverage of 4.4x. However, due to working capital needs, the firm generated negative SGD16.3mn in operating cash flow. It has also spent 36.4mn in capex during the period, resulting in negative SGD52.7mn in free cash flow. The cash gap was funded by SGD60.4mn increase in gross borrowings q/q. As a result, net gearing increased from 125% to 139% q/q. With SGD291.7mn in short-term borrowings, ASL's liquidity situation remains tight. We will continue to hold the issuer at Negative Issuer Profile. (Company, OCBC).

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