Asian Credit Daily

May 15, 2017

Credit Headlines (Page 2 onwards): Genting Singapore PLC, Olam International Ltd, Pacific Radiance Ltd., Croesus Retail Trust, Singapore Post Ltd.

Market Commentary: The SGD swap curve traded downwards last Friday, with swap rates trading 2-4bps lower across tenors. Flows in SGD corporates were heavy, with better buying seen in CHIPEN 4.9%'22s, BAERVX 5.9%'49s, mixed interest in UOBSP 3.5%'29s, ANZ 3.75%'27s. In the broader dollar space, the spread on JACI IG corporates fell 1bps to 194bps, while the yield on JACI HY corporates added 11bps to 6.77%. 10y UST yield fell 6bps to 2.33% last Friday, after April core CPI and retail sales rose less than forecast and March real average weekly earnings were revised to negative from flat.

New Issues: BOC Aviation Ltd. scheduled investor meetings from 15 May for potential USD bond issuance. The expected issue ratings are 'BBB+/NR/A-'. Mingfa Group International Co Ltd plans to issue up to USD220mn worth of bonds, due 2021. ANZ Bank has mandated banks for potential 3-year and 5-year USD bond issuance.

Rating Changes: S&P downgraded Australia-based sandalwood producer Quintis Ltd.'s (Quintis) corporate credit rating and the ratings on the company's senior secured notes to 'B' from 'B+'. In addition, S&P placed the ratings on CreditWatch with negative implications. The rating action reflects S&P's belief that the risk of cash flows being lower than what the company expects has heightened because of protracted delays in sandalwood sales into China. Moody's upgraded Qantas Airways Ltd.'s (Qantas) issuer rating, senior unsecured debt rating, and backed senior unsecured bank credit facility ratings to 'Baa2' from 'Baa3'. The outlook on all ratings is stable. The rating action reflects Qantas Group's strong domestic position, and diversification provided by the loyalty program.

Table 1: Key Financial Indicators

	15-May	1W chg (bps)	1M chg (bps)		15-May	1W chg	1M chg
iTraxx Asiax IG	89	-2	-11	Brent Crude Spot ($/bbl)	51.66	4.70%	-7.57%
iTraxx SovX APAC	21	0	-3	Gold Spot ($/oz)	1,230.20	0.32%	-4.24%
iTraxx Japan	43	0	-4	CRB	181.69	2.12%	-3.24%
iTraxx Australia	81	0	-9	GSCI	379.50	2.26%	-5.50%
CDX NA IG	63	0	-5	VIX	10.4	-1.61%	-34.84%
CDX NA HY	108	0	1	CT10 (bp)	2.326%	-6.11	8.83
iTraxx Eur Main	63	0	-14	USD Swap Spread 10Y (bp)	-8	-2	-4
iTraxx Eur XO	257	2	-37	USD Swap Spread 30Y (bp)	-46	-2	-5
iTraxx Eur Snr Fin	69	2	-25	TED Spread (bp)	31	2	-3
iTraxx Sovx WE	8	0	-5	US Libor-OIS Spread (bp)	15	0	-6
iTraxx Sovx CEEMEA	45	-2	-6	Euro Libor-OIS Spread (bp)	3	1	0
					15-May	1W chg	1M chg
				AUD/USD	0.740	0.16%	-2.50%
				USD/CHF	1.001	-0.22%	0.35%
				EUR/USD	1.093	0.05%	2.70%
				USD/SGD	1.403	0.20%	-0.36%
Korea 5Y CDS	56	-2	-4	DJIA	20,897	-0.53%	2.17%
China 5Y CDS	79	-1	-9	SPX	2,391	-0.35%	2.66%
Malaysia 5Y CDS	103	-5	-12	MSCI Asiax	608	1.19%	4.18%
Philippines 5Y CDS	78	-1	-8	HSI	25,287	2.88%	4.22%
Indonesia 5Y CDS	128	4	-10	STI	3,268	1.17%	3.10%
Thailand 5Y CDS	56	0	-2	KLCI	1,772	0.54%	2.38%
				JCI	5,671	-0.21%	0.98%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
12-May-17	Centurion Corp Ltd. (re-tap)	Not Rated	SGD20mn	5.25%'20s	NA
12-May-17	The Bank of East Asia Ltd.	"BB/Ba2/NR"	USD500mn	Perp NC5	5.625%
11-May-17	Radiant Access Ltd.	"NR/A2/NR"	USD1.5bn	Perp NC3	4.60%
11-May-17	Huachen Energy Co. Ltd.	"NR/B2/NR"	USD500mn	3-year	6.625%
10-May-17	Global Prime Capital Pte. Ltd. (re-tap)	"NR/Ba3/BB-"	USD70mn	5.5%'23s	101.625+accr.
9-May-17	FMG Resources (August 2006) Pty Ltd.	"BB+/Ba2/BB+"	USD750mn	5-year	4.75%
9-May-17	FMG Resources (August 2006) Pty Ltd.	"BB+/NR/BB+"	USD750mn	7-year	5.125%
9-May-17	CK Hutchison Capital Securities (17) Ltd.	"BBB/Baa2/BBB"	USD1bn	Perp NC5	5.25%

Source: OCBC, Bloomberg

Rating Changes (cont'd): Moody's upgraded Indosat Tbk. P.T.'s (Indosat) issuer rating to 'Baa3' from 'Ba1'. The rating outlook is stable. In addition, Moody's has withdrawn the company's 'Ba1' corporate family rating. The rating action reflects the continued strengthening of Indosat's operational metrics as well as the ongoing stabilization of its financial profile, including lower leverage levels. Moody's downgraded MNC Investama Tbk. P.T.'s (BHIT) corporate family rating to 'Caa2' from 'Caa1'. In addition, Moody's downgraded the senior secured rating on the notes (guaranteed by BHIT) issued by its wholly-owned subsidiary, Ottawa Holdings Pte. Ltd. to 'Caa3' from 'Caa2'. The rating outlook is negative. The rating action reflects the significant and pressing level of refinancing risk throughout the group. Fitch affirmed Shizuoka Bank Ltd's (Shizuoka) Long-Term Issuer Default Rating (IDR) at 'A'. In addition, Fitch revised the outlook for Shizuoka to Stable from Negative. Fitch also affirmed Suruga Bank Ltd.'s (Suruga) IDR at 'A-' with a Stable Outlook. The rating action follows the affirmation of Japan's sovereign rating at 'A' and revision of the Outlook to Stable from Negative on 27 April 2017.

Credit Headlines:

Genting Singapore PLC ("GENS"): GENS reported its 1Q2017 results. Revenue declined slightly by 3.7% y/y to SGD586.6mn, with gaming revenue and non-gaming revenue both slipping 3.6% y/y. Management had indicated that lower revenue from attractions had impacted non-gaming revenue for the quarter. Hotel occupancy remained unchanged at 92% q/q. On a q/q basis though revenue growth was strong, up 5.3% y/y, with gaming revenue up 9.0%. Management reported solid performance at the VIP and premium mass segment, with growth seen all around (from various customer geographies). The long term rotation away from the VIP market has continued to reduce impairments on gaming receivables, which fell sharply to SGD15.0mn (1Q2016: SGD92.4mn). Management had indicated that its current credit provision policy, as well as tweaks to incentivise early repayment (via the rebates given) have aided the reduction of impairments, and believe that current levels of impairments are sustainable. As such, gross profit surged 52.3% y/y to SGD260.9mn. GENS also booked a divestment gain of SGD96.3mn, from the sale of its stake in the Jeju resort JV. In aggregate, net profit surged to SGD210.2mn for the quarter (1Q2016: SGD40.2mn). Operating cash flow continues to be strong with SGD277.6mn generated (including interest service) for the quarter. Coupled with SGD18.0mn in capex, free cash flow was SGD259.6mn for the quarter. That said, the Jeju JV disposal brought in SGD596.3mn in cash. In terms of cash outflow, SGD45.7mn was paid to perpetual securities while SGD87.5mn was used to pay down debt. In aggregate though, the strong cash inflow drove total cash balance to SGD5.8bn. As such, GENS ended the quarter with SGD2.4bn in net cash (net of SGD1.1bn in debt and SGD2.3bn in perpetual securities). It should be noted that GENS has announced that it will be calling its SGD2.3bn in perpetual securities (first call for the two tranches are in September and October this year) utilizing cash on the balance sheet rather than refinancing. Management had indicated that they will need to see how the Japan IR bidding resolves (bidding is expected to be around the middle of 2018) before deciding on their capital structure needs. Aside from this, management had also indicated that they are considering capex to refresh Resort World Singapore, but that the plans require certain regulatory approval, and hence would be shared at a later date. They have also indicated a desire to keep to the current dividend policy (SGD0.03 per share per annum, or SGD360.7mn per year). The quarter highlights GENS' strong and consistent cash flow generation, and removed the uncertainty with regards to the first call date of the perpetual securities. We will retain our Positive Issuer Profile, and would hold the GENSSP-perp at Neutral with the expectation that GENS would easily be able to call the securities based on their current cash balance. (Company, OCBC)

Credit Headlines (cont'd):

Olam International Ltd ("OLAM"): OLAM reported its 1Q2017 results. Revenue was up by 21.9% to SGD5.8bn, driven by increased trading volumes in the grains segment during the quarter. EBITDA based on company's calculation was up 19.8% to SGD398.6mn. Collectively, three segments, namely Edible Nuts, Spices and Vegetables Ingredients ("Edible Nuts and SVI"), Food Staples and Packaged Foods and Commodity Financial Services ("CFS") was up by SGD99mn to SGD261mn and this offset the weaker performance at Confectionary and Beverage Ingredients and Industrial Raw Materials, collectively down SGD33mn to SGD137mn. Nevertheless, company's calculated EBITDA includes the impact of other operating expenses. In 1Q2017, this was driven by unrealised foreign exchange gains booked as a result of currency appreciation. Taking out the impact of other operating expenses, we find EBITDA in 1Q2017 to have fallen by 3%. Finance cost during the quarter increased to SGD146.5mn (1Q2016: SGD120.4mn) due to the larger asset base, increase in interest rates and higher cost local currency borrowings. We estimate that OLAM's weighted average cost of debt is now ~4%. We find interest coverage using EBITDA per company's calculation at 2.7x (1Q2016: 2.8x). Profit for the period was 25% higher at SGD136.5mn. Coupled with a significantly lower other comprehensive loss (negative SGD12.5mn in 1Q2017 versus negative SGD141.0mn in 1Q2016), we find total comprehensive income at OLAM to have risen to SGD123.9mn in 1Q2017. Book value equity was higher at SGD5.7bn (end-Dec 2016: SGD5.6bn). As at 31 March 2017, OLAM's net gearing was 2.0x, flat against end-December 2016 and perpetuals still make up 5% of total capital. Cash flow from operations (before interest and tax) was SGD327.1mn (1Q2016: SGD309.9mn), this was driven largely by lower working capital needs during the quarter. Working capital cycle was down to 139 days during the quarter (end-Dec 2016: 150 days). Despite the stronger cash flow from operations (before interest and tax), after accounting for such items, OLAM's net cash flow from operations was lower at SGD143.7mn in 1Q2017 against SGD160.6mn in 1Q2016 and SGD184.4mn in the immediately preceding quarter. There was no inorganic acquisitions in 1Q2017, leading to a lower cash outflow from investing activities of SGD185.2mn (1Q2016: outflow of SGD444.3mn). The cash gap at OLAM during the quarter was funded via borrowings. We maintain OLAM's issuer profile at Neutral. (Company, OCBC)

Pacific Radiance Ltd. ("PACRA"): For 1Q2017, PACRA generated USD14.0mn in revenue, a decline of 23.9% y/y. The OSV division continued to be pressured, declining 53% y/y to USD9.1mn. This was mitigated by a pickup in its subsea division (mainly DSV), which saw revenue jump to USD4.4mn (1Q2016: USD1.0mn). PACRA's new shipyard (commenced 3Q2016) also contributed USD1.6mn in repair revenues. On a q/q basis, revenue saw 15.4% improvement, with management indicating a pickup in utilization for both its OSV and subsea divisions. In aggregate, revenue generation remains weak given the difficult environment, with offshore E&P activity remaining muted, while the OSV chartering industry continues to face overcapacity. In addition, seasonal factors (winter lull) also suppressed revenue generation. As COGS was relatively sticky (USD7.4mn of USD21.0mn was depreciation), PACRA generated a gross loss of USD7.0mn. Though this was wider y/y (1Q2016: USD1.3mn gross loss), it was an improvement over 4Q2016's gross loss of USD14.5mn. In aggregate, PACRA generated a net loss of USD15.2mn for the quarter. Cash flow generation remains weak, with PACRA seeing USD13.1mn in operating cash out flow and USD1.6mn in capex. PACRA also paid down USD18.6mn in borrowings during the quarter. To plug in the cash gap, PACRA generated USD6.4mn from asset / PPE divestments (PACRA had to book divestment losses) as well as drew on its cash balance. As a result, cash balance fell to just USD23.7mn. In aggregate, net gearing continued to climb higher to 174% (4Q2016: 161%). Currently, PACRA has USD44.9mn in short-term borrowings, as its SGD100mn in bonds will be due in August 2018. Though 2Q would likely show q/q improvements to revenue, given that operating cash flow remains negative, and that PACRA continues to have amortizing vessel financing to service, the current unencumbered cash balance of USD15.2mn does not provide much buffer. PACRA would likely have to step up its asset divestments to generate liquidity. We will continue to hold PACRA's Issuer Profile at Negative. (Company, OCBC)

Credit Headlines (cont'd):

Croesus Retail Trust ("CRT"): CRT announced 3QFY2017 results for the quarter ended 31 Mar 2017 with gross revenue and net property income (NPI) up 22.4% and 14.4% y/y to JPY3.0bn and JPY1.6bn respectively. Results continue to benefit from contributions from recent acquisitions (Fuji Grand Natalie, Mallage Saga, Feeeal Asahikawa) as well as higher variable rent from better tenant sales at Mallage Shobu and tenant compensation for early termination in Croesus Tachikawa. NPI growth was lower due to a 33.2% rise in operating expenses (higher expenses incurred for newly acquired properties). Profit before tax for 3QFY2017 was up 32.2% y/y to JPY1.0bn as fair value gains on derivatives (mark to market movements in forward currency contracts related to JPY depreciation with close to 100% of expected distributable income hedged to June 2019) and absence of trustee manager's fees following the internalisation of the Trustee-Manager mitigated higher financing costs and other administrative costs (expenses related to the aforesaid internalization). Asset performance continues to be solid with a high occupancy rate of 97.7%, with 6.5 years WALE by NLA. Debt to asset has remained stable q/q at 46.2% and up from 30 June 2016 (45.3%) due to additional borrowings from the SGD60mn retap of the '20s as well as a new JPY3.0bn term loan facility. Together with the redemption of the '17s in January 2017, CRT's all in cost of debt reduced to 1.68% from 1.9% as at 30 June 2016. We continue to hold CRT's Issuer Profile at Neutral. (Company, OCBC)

Singapore Post Ltd. ("SPOST"): SPOST reported 4QFY2017 / full-year FY2017 results for the period ended March 2017. The period was dominated by a few events. First, SPOST took SGD208.6mn in impairments, the bulk of which (SGD185.0mn) relates to SPOST's eCommerce subsidiary TradeGlobal. As mentioned previously (refer OCBC Asian Credit Daily – 13 Feb 2017), TradeGlobal (which was acquired in November 2015 for USD168.5mn) had underperformed sharply during the 3QFY2017 peak period and generated a significant loss instead of a projected profit. We have previously highlighted our discomfort over SPOST's eCommerce acquisitions (refer OCBC Asian Credit Daily – 8 Nov 2016), as they were acquired for growth, but had exhibited revenue declines. TradeGlobal had recently seen its CEO ("TG CEO") resign for health reasons (reported on 16/03/17), with SPOST paying TG CEO ~SGD2.5mn for TG CEO's 0.94% stake in TradeGlobal (among other things). It was also disclosed that as of end-Dec 2016, the TG CEO stake acquired had a book value of ~SGD2.3mn and a net tangible asset value of ~SGD0.20mn. The impairments taken were offset by SPOST booking a revaluation gain of SGD108.7mn, largely on SingPost Centre (redevelopment of its retail section is nearing completion). In addition, Alibaba also completed its second tranche of investments into SPOST in January 2017 (Alibaba now holds ~14.4% of SPOST), with SPOST issuing 107.6mn new shares to Alibaba Investment Limited (the investment amounted to SGD187mn). With these events in mind, the results can be reviewed as follows: 4QFY2017 revenue increased 2.0% y/y to SGD324.0mn (in part due to the Jagged Peak acquisition made in March 2016). As a result, eCommerce segment revenue was up 30.9% to SGD56.7mn. However, segment revenue fell 30.1% q/q potentially due to seasonal factors. Operating losses for the segment also continued to widen to SGD15.1mn (3QFY2017: -8.4mn) with SPOST taking one-off write downs on receivables at TradeGlobal due to customers' bankruptcy. The logistics segment fell 7.7% y/y to SGD154.7mn, with growth at Couriers Please and SP Parcels offset by declines at Quantium Solutions (due to competitive pressures) and Famous Holdings (due to depressed industry freight rates and volumes). Segment operating profit also fell, slumping sharply to just SGD2.6mn, due to the weak performance. Only the Postal segment remained resilient, with revenue flat (+0.6% y/y) at SGD136.8mn, and operating margin unchanged at ~27%. In fact, the postal segment operating profit of SGD36.8mn was the bulk of SPOST's operating profit. The current revenue split between domestic and international mail is 45% / 55%. In aggregate, excluding the impairments and revaluation gains, SPOST's operating profit margin fell to 8.0% (4QFY2016: 12.5%) with labour, volume-related and selling expenses trending higher despite weaker revenue growth. For the quarter, SPOST generated SGD44.8mn in operating cash flow (including interest service). However, capex was SGD35.7mn hence free cash flow was only SGD9.1mn. SPOST also paid out SGD18.7mn in perp distributions and dividends during the quarter, as well as paid down SGD50.6mn in net borrowings. These were funded by Alibaba's SGD187mn investment, which also boosted SPOST's cash balance to SGD366.6mn. As SPOST now only has SGD364.0mn in gross borrowings, SPOST has reverted into a net cash company. Looking forward, we continue to believe that SPOST would face structural pressures on its margins (given the shift away from postal to logistics and eCommerce), and this would in turn pressure cash flow. We will continue to hold SPOST's Issuer Profile at Neutral. (Company, OCBC)

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