Asian Credit Daily

Sep 18, 2017

Credit Headlines (Page 2 onwards): Gallant Venture Ltd, Hotel Properties Ltd, OUE Limited, Ezion Holdings Ltd, Swissco Holdings Ltd, CMA CGM SA, Australia and New Zealand Banking Group Ltd

Market Commentary: The SGD swap curve bear-steepened on Friday, with swap rates trading 1-4bps higher across all tenors. Flows in SGD corporates were heavy, with better buying seen in OLAMSP 5.5%-PERPs, SIASP 3.13%-27s, OUECT 3.03%'20s, FCLSP 4%-PERPs, better selling seen in GRCHAR 6%'17s, BAERVX 5.9%-PERPs, FCLSP 4.88%-PERPs, HSBC 4.7%-PERPs, and mixed interest seen in CTRAIJ 4.85%'21s, ABANV 4.75%-PERPs, WINGTA 4.35%-PERPs, WINGTA 4.08%-PERPs. In the broader dollar space, the spread on JACI IG Corp fell 1bps to 189bps. Similarly, the yield on JACI HY Corp fell 1bps to 6.79%. 10Y UST yields rose 2bps to 2.20%, following the rise in yields of UK gilts as BOE rate-hike expectations were brought forward.

New Issues: Tianjin Lingang Investment Holding Co Ltd has priced a USD360mn 360-day bond at 4.5%, unchanged from initial guidance of 4.5% area

Rating Changes: S&P has affirmed ABN AMRO Group NA's rating, while revising the outlook to positive from stable. The rating action follows the revision of outlook for various Dutch banks as S&P believes that the economic risk trend for the Dutch banking industry is now positive rather than stable. Moody's has affirmed IOI Corporation Berhad's (IOI) 'Baa2' issuer rating, the 'Baa2' senior unsecured bond ratings of IOI Investment (L) Berhad, and the 'Baa2' senior unsecured bank credit facility rating of IOI Ventures (L) Berhad. The outlook has been revised to stable from negative. The rating action reflects Moody's expectation that IOI is well-positioned to be removed from the watch list of the Roundtable on Sustainable Palm Oil (RSPO). Moody's has placed Cromwell Property Group's (Cromwell) 'Baa3' Issuer Rating on review for downgrade. Similarly, Moody's has placed Cromwell Property Securities Limited and CDPT Finance Pty Ltd's 'Baa2' senior secured ratings on review for downgrade. The rating action follows Cromwell's recording of high financial leverage and the fact that it is funding its investments with short-term loans.

Table 1: Key Financial Indicators

	18-Sep	1W chg (bps)	1M chg (bps)		18-Sep	1W chg	1M chg
iTraxx Asiax IG	73	-2	-10	Brent Crude Spot ($/bbl)	55.63	3.32%	5.52%
iTraxx SovX APAC	18	-1	-3	Gold Spot ($/oz)	1,319.14	-0.63%	2.73%
iTraxx Japan	43	-1	-1	CRB	184.05	1.59%	3.69%
iTraxx Australia	67	0	-10	GSCI	395.90	2.25%	4.00%
CDX NA IG	56	-1	-6	VIX	10.17	-16.09%	-28.68%
CDX NA HY	107	0	1	CT10 (bp)	2.202%	15.16	-7.05
iTraxx Eur Main	51	-1	-7	USD Swap Spread 10Y (bp)	-3	1	2
iTraxx Eur XO	227	-1	-23	USD Swap Spread 30Y (bp)	-33	2	1
iTraxx Eur Snr Fin	49	-2	-7	TED Spread (bp)	30	2	0
iTraxx Sovx WE	5	0	-1	US Libor-OIS Spread (bp)	16	0	0
iTraxx Sovx CEEMEA	41	-2	-6	Euro Libor-OIS Spread (bp)	3	0	#N/A N/A
					18-Sep	1W chg	1M chg
				AUD/USD	0.802	-0.17%	1.08%
				USD/CHF	0.961	-0.47%	0.40%
				EUR/USD	1.194	-0.08%	1.56%
				USD/SGD	1.345	0.14%	1.32%
Korea 5Y CDS	69	1	5	DJIA	22,268	2.16%	2.74%
China 5Y CDS	55	-3	-11	SPX	2,500	1.58%	3.08%
Malaysia 5Y CDS	65	-3	-14	MSCI Asiax	671	0.50%	3.64%
Philippines 5Y CDS	59	-2	-9	HSI	27,971	0.06%	3.42%
Indonesia 5Y CDS	94	-4	-17	STI	3,232	0.11%	-0.61%
Thailand 5Y CDS	48	-4	-12	KLCI	1,781	-0.07%	0.29%
				JCI	5,872	0.26%	-0.36%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
15-Sep-17	Tianjin Lingang Investment Holding Co Ltd	Not Rated	USD360mn	360-day	4.5%
14-Sep-17	FCL Treasury Pte Ltd	Not Rated	SGD308mn	Perp NC5	3.95%
14-Sep-17	Harvest Operations Corp	'AA/Aa2/NR'	USD285mn	5-year	CT5+127.5bps
14-Sep-17	Hong Kong Red Star Macalline Universal Home Furnishings Ltd	'NR/NR/BBB'	USD300mn	5-year	CT5+170bps
13-Sep-17	PT Ciputra Development Tbk	'NR/NR/BB-'	SGD150mn	4-year	4.85%
13-Sep-17	Cagamas Berhad	Not Rated	SGD200mn	1-year	1.52%
13-Sep-17	Estate Sky Ltd	Not Rated	USD200mn	Perp NC5	5.75%
13-Sep-17	Wynn Macau Limited	Not Rated	USD600mn	7NC3	4.875%
13-Sep-17	Wynn Macau Limited	Not Rated	USD750mn	10NC5	5.5%
13-Sep-17	Shinhan Bank	'BBB+/Baa1/NR'	USD350mn	10-year	CT10+167.5bps

Source: OCBC, Bloomberg

Rating Changes (Cont'd): Fitch has assigned Red Star Macalline Group Corporation Ltd's (RSM) senior unsecured notes a 'BBB' rating. The outlook is stable. The rating action reflects RSM's hybrid business model of owning malls and managing malls it does not own, which enables RSM to expand with low capex commitments. However, the rating is constrained by RSM's high leverage ratio.

Credit Headlines:

Gallant Venture Ltd ("GALV"): Indomobil Multi Jasa Tbk PT ("IMJS", an indirectly owned subsidiary of GALV listed on the Jakarta Stock Exchange) has announced a proposed rights issue. The rights issue is expected to raise up to IDR346bn (~SGD35.6mn). IMJS is 89.6% owned by Indomobil Sukses International Tbk Pt ("IMAS"). IMAS is in turned ~72%-owned by GALV. Effectively, GALV owns 64.5% in IMJS. IMJS will offer up to 692mn shares at IDR500 each, equivalent to 13.79% of paid-up capital after the rights issue. Each shareholder holding 25 existing shares is eligible for four new shares in the rights issue. IMAS has committed that it will take up its proportionate stake under the rights issue. IMJS will be using the proceeds from the rights issue to (1) Repay debt obligations owed to its major shareholder IMAS and (2) Strengthen the capital structure of its 99.9%-subsidiary, namely PT SCM Corporatama ("CSM") which focuses on vehicle rentals. While the quantum of debt repayment to IMAS is not specified, IMJS's loan from related parties (eg: IMAS) stood at IDR333.75mn (~SGD34.4mn) as at 30 June 2017. Post the rights issue, we expect IMJS' contractual debt obligations towards IMAS to be substantially reduced. From the perspective of GALV and other IMAS' shareholders, the net impact is that IMAS is effectively "equitizing" loans that were extended to IMJS. The ability of IMAS to upstream cashflow to GALV continues to be curtailed, in our view. We continue to hold GALV's issuer profile at Negative. We do not cover IMAS and IMJS. (Company, OCBC)

Hotel Properties Ltd ("HPL"): Kingdom Holding Company ("KHC") , founded and managed by HRH Prince Alwaleed Bin Talal, announced that it was selling its 90% interest in Four Seasons Resort Langkawi, Malaysia, to Leisure Ventures Pte Ltd ("LVPL") , a 50%-owned associate of HPL. The gross consideration paid by LVPL was USD90mn, before factoring the assumption of property-level debt. In aggregate, it is unlikely that the acquisition would have a material impact of HPL's credit profile given HPL's SGD3.1bn in assets and that HPL would only need to fund for half the acquisition. We currently hold HPL at a Neutral Issuer Profile. (Company, OCBC)

OUE Limited ("OUE"): It was announced that International Healthway Corporation ("IHC"), 86.2%-owned subsidiary of OUE, will be changing its name to OUE Lippo Healthcare Limited, reflecting IHC's ties to the OUE group of companies and the Lippo group of companies. The name change is subject to an EGM to be held, with the motion likely to be passed. (Company)

Ezion Holdings Ltd ("EZI"): Building on the previous informal meeting with bondholders (refer to OCBC Asian Credit Daily – 29 Aug 2017), EZI has announced that it would be holding a second informal meeting with bondholders on 02/10/17. It is worth noting that the holders of EZI's perpetual securities (which are subordinated in the capital structure) will be met first in a separate meeting at 4:30pm – 6:00pm, while the holders of the straight bonds (these are senior unsecured) will be met at 7:00pm – 8:30pm. It is also worth noting that these meetings exclude the holders of the SGD120mn 3.65% 2020 bonds which are backed by a committed funding facility by DBS. EZI's management has indicated that the meetings are to provide an update on the developments of the refinancing proposal with the company's lenders since the previous informal meeting, as well as to present the refinancing proposal to bondholders for their consideration. We continue to hold EZI's Issuer Profile at Negative and have previously withdrawn our bond recommendations on EZI's various bonds as we had believed that a restructuring of its bonds was imminent. We will monitor for the terms of the proposal post the next informal meeting and will update accordingly. (Company, OCBC)

Credit Headlines (Cont'd):

Swissco Holdings Ltd ("SWCH"): The judicial managers for SWCH have announced on 15/09/17 that the Singapore High Court, on 13/09/17, have granted further orders allowing for (1) further extension of the judicial management order period till 18/03/18 (from 18/01/18), (2) further extension of time until 31/10/17 (shifted from 16/09/17) to present to creditors a statement of proposals (3) further extension of time until 14/11/17 (shifted from 30/09/17) to convene meetings with creditors to consider the proposals. SWCH had previously announced that the entity that used to hold its rig-related business, Scott and English Energy Limited, has been placed in provisional liquidation. (Company)

CMA CGM S.A. (acquired Neptune Orient Lines, "NOL"): CMA CGM reported 2Q2017 results, with revenue surging 56.8% y/y to USD5.55bn. As per previous periods, a large contributor to growth was the acquisition of NOL (which was completed in mid-June 2016). That said, excluding the contribution from NOL, CMA CGM was still able to generate USD4.14bn, up 23.7% y/y. Volume shipped growth was also strong at +33.3% to 4.73mn TEU. The recovery of freight rates have also resulted in average revenue per container up 12.5% y/y. This was consistent with the 9.3% increase in the Shanghai Containerized Freight Index seen during 2Q2017. Looking forward, management had guided that 2H2017 looked positive. Due to the strong revenue growth, core EBIT (excludes disposals, impairments and non-recurring elements) swung to USD472mn for the quarter, compared to a EBIT loss of USD81mn in 2Q2016. Core EBIT margins have continued to expand as well to 8.9%, up from 5.5% in 1Q2017. It is worth noting that NOL contributed USD137mn to group core EBIT, or a core EBIT margin of 9.7% (even higher than the group's). The strong earnings improvement drove EBITDA growth, with CMA CGM generating USD611.1mn reported EBITDA for 2Q2017. In terms of operating cash flow generation (including interest service), CMA CGM generated USD457.5mn. About USD117.2mn in cash capex was reported during the quarter, which translates into USD340.3mn in free cash flow. During the quarter, we noted that CMA CGM took delivery of three 14,000 TEU vessels via finance leases (quantum was USD342.5mn). CMA CGM had reported USD646.5mn in total committed capex for 2017 (as of end-2016). The cash generated was used in part to reduce borrowings, with ~USD272mn in net borrowings being paid down during the quarter (this includes the SGD400mn NOLSP'17s that matured). Based on 1H2017 reported EBITDA, interest coverage was 4.2x (1Q2017: 3.4x) while net debt / EBITDA was 3.75x (1Q2017: 4.7x). Net gearing also improved slightly from 146% (1Q2017) to 141% (2Q2017). Cash / current borrowings stood at 0.9x. Looking forward, the partial divestment of its Global Gateway South ("GGS") terminal in Los Angeles (USA) (refer to OCBC Asian Credit Daily – 4 Jul 2017) would result in CMA CGM receiving USD817mn in cash proceeds (completion is expected in 2H2017). Management had indicated that the divestment would help CMA CGM complete its financial deleveraging plan, as communicated during end-2015 as part of the NOL acquisition. Though we would consider this a credit positive, we note that interestingly, due to CMA CGM's strong performance as well as improving shipping environment, rather than discuss about cost cuts, CMA CGM had now refocused on growth, announcing that its board had approved for an order of nine 22,000 TEU vessels. The first of these vessels will come into service in 2019. News reported that these vessels were ordered at Shanghai's top two yards, Waigaoqiao and Hudong-Zhonghua, and cost USD133.3mn each, with a total cost of ~USD1.2bn. We will continue to hold CMA CGM's Issuer Profile at Neutral as even though CMA CGM has a clear deleveraging trajectory, absolute leverage remains high, while CMA CGM may now focus on capacity growth instead. As mentioned previously, though CMA CGM has not provided a corporate guarantee on NOL's outstanding bonds, as a material wholly-owned subsidiary to CMA CGM, we believe that NOL would likely receive support from CMA CGM. (Company, OCBC)

Australia and New Zealand Banking Group Ltd ("ANZ"): Media reports suggest that ANZ has reportedly received final offers for its Australian wealth management business in the AUD4bn range and above. While the quantum and timeline is consistent with previous expectations (refer OCBC Asian Credit Daily – 5 April 2017 and OCBC Asian Credit Daily – 6 July 2017) , ANZ has released a statement indicating that the process is on-going and that the bank is exploring a number of options with regards its wealth management business in Australia. This is likely to delay any finalization in the near term. We currently hold the issuer profile for ANZ at neutral and believe that the solid progress in ANZ's restructuring and business repositioning is fully reflected in the current valuation for its ANZ 3.75% 27c22 compared to peers. ANZ's financial year end is September 30. (Company, OCBC, Australian Financial Review, Bloomberg)

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