Asian Credit Daily

Jul 20, 2017

Credit Headlines (Page 2 onwards): Fraser and Neave Ltd, Nam Cheong Ltd, Mapletree Logistic Trust, Ascott Residence Trust

Market Commentary: The SGD swap curve traded upwards yesterday, with swap rates trading 3-6bps higher across all tenors. Flows in SGD corporates were heavy, with better buying seen in HSBC 4.7%-PERPS, better selling seen in UOBSP 4.9%-PERPs, and mixed interest seen in WINGTA 4.08%-PERPs, RHTSP 4.5%'18s, OLAMSP 5.5%-PERPs. In the broader dollar space, the spread on JACI IG Corporates traded little changed at 190bps, while the yield on JACI HY Corporates fell 2bps to 6.88%. 10y UST yields rose 1bps to 2.27% yesterday, as treasuries lacked directional catalysts while awaiting the 20 July ECB meeting.

New Issues: Mercatus Co-operative Ltd has priced a SGD200mn 7-year bond at 2.8%, tightening from initial guidance of 2.95%. Gemdale Ever Prosperity Investment Ltd has priced a USD200mn 5NC3 bond (guaranteed by Famous Commercial Ltd) at 4.975%, tightening from initial guidance of 5.375%. The expected issue ratings are 'NR/Ba3/NR'. Shandong Energy Australia Pty Ltd has priced a USD300mn 3-year bond (guaranteed by Shandong Energy Group Co Ltd) at 4.7%, tightening from initial guidance of 5.05%. The expected issue ratings are 'BB/NR/NR'. Doosan Infracore Co has priced a USD300mn 3-year bond (guaranteed by Korea Development Bank) at CT3+102.5bps. The expected issue ratings are 'NR/Aa2/NR'. CDBL Funding 2 has scheduled investor meetings for potential USD bond issuance (guaranteed by Metro Excel Ltd) from 20 Jul. The expected issue ratings are 'NR/A2/A+'.

Rating Changes: Fitch has upgraded Shanghai Pudong Development Bank Co Ltd's (SPDB) Issuer Default Rating to 'BBB' from 'BBB-'. The outlook is stable. The rating action reflects Fitch's perception of a higher propensity for support to SPDB on the back of its tighter relationship with the Shanghai State-Owned Assets Supervision and Administration Commission (Shanghai SASAC) of the Shanghai Municipal Government.

Table 1: Key Financial Indicators

	20-Jul	1W chg (bps)	1M chg (bps)		20-Jul	1W chg	1M chg
iTraxx Asiax IG	85	0	-1	Brent Crude Spot ($/bbl)	49.66	2.56%	7.91%
iTraxx SovX APAC	21	-1	3	Gold Spot ($/oz)	1,239.02	1.76%	-0.32%
iTraxx Japan	39	-1	0	CRB	178.66	2.75%	5.30%
iTraxx Australia	80	-2	-4	GSCI	377.90	2.04%	5.82%
CDX NA IG	57	-2	-5	VIX	9.79	-4.95%	-9.85%
CDX NA HY	108	0	1	CT10 (bp)	2.264%	-8.01	10.78
iTraxx Eur Main	53	-2	-3	USD Swap Spread 10Y (bp)	-4	2	-1
iTraxx Eur XO	234	-9	2	USD Swap Spread 30Y (bp)	-32	3	1
iTraxx Eur Snr Fin	50	-1	-11	TED Spread (bp)	22	-5	-3
iTraxx Sovx WE	5	-1	-2	US Libor-OIS Spread (bp)	14	0	1
iTraxx Sovx CEEMEA	55	-1	-1	Euro Libor-OIS Spread (bp)	3	0	0
					20-Jul	1W chg	1M chg
				AUD/USD	0.794	2.69%	4.74%
				USD/CHF	0.955	1.26%	2.08%
				EUR/USD	1.152	1.08%	3.48%
				USD/SGD	1.369	0.37%	1.48%
Korea 5Y CDS	57	-1	6	DJIA	21,641	0.50%	0.81%
China 5Y CDS	67	0	0	SPX	2,474	1.25%	1.51%
Malaysia 5Y CDS	85	1	1	MSCI Asiax	650	1.56%	3.65%
Philippines 5Y CDS	73	0	-2	HSI	26,696	1.33%	3.30%
Indonesia 5Y CDS	116	-1	0	STI	3,321	2.65%	2.82%
Thailand 5Y CDS	64	1	4	KLCI	1,755	0.04%	-1.47%
				JCI	5,821	-0.15%	0.50%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
19-Jul-17	Mercatus Co-operative Ltd	Not Rated	SGD200mn	7-year	2.8%
19-Jul-17	Gemdale Ever Prosperity Investment Ltd	'NR/Ba3/NR'	USD200mn	5NC3	4.975%
19-Jul-17	Shandong Energy Australia Pty Ltd	'BB/NR/NR'	USD300mn	3-year	4.7%
19-Jul-17	Doosan Infracore Co	'NR/Aa2/NR'	USD300mn	3-year	CT3+102.5bps
18-Jul-17	Mitsubishi UFJ Financial Group Inc	'A/A1/A'	USD2bn	5-year	CT5+85bps
18-Jul-17	Mitsubishi UFJ Financial Group Inc	'A/A1/A'	USD1bn	5-year	3mL+79bps
18-Jul-17	Mitsubishi UFJ Financial Group Inc	'A/A1/A'	USD1bn	10-year	CT10+103bps
18-Jul-17	DBS Group Holdings Ltd	'AA-/Aa2/NR'	USD500mn	5-year	3mL+62bps

Source: OCBC, Bloomberg

Credit Headlines:

Fraser and Neave Ltd ("FNN"): According to the Channel NewsAsia, Coca-Cola opened a USD57.5mn (SGD79mn) storage and distribution centre with a 6,000 sqm four-storey facility in Singapore. The existing plant has been serving 15 markets in the Asia-pacific region and the new plant can double Coca-Cola's output. As mentioned in our initiation report for FNN (refer to OCBC Asia Credit – Fraser and Neave Ltd Initiation Report (3 Jul)), FNN's beverages segment in Malaysia has struggled partly because Coca-Cola and Pepsi have been slashing prices, likely in an attempt to push volumes. We see stronger direct competition from Coca-Cola as it retails beverages including Coke, Sprite, Fanta, A&W, Minute Maid, Heaven and Earth, Aquarius and Dasani. As such, there may be no respite for FNN's beverages segment if Coca-Cola continues to increase capacity. Nevertheless, we continue to hold FNN at a Neutral Issuer Profile as the impact from the Beverages segment may be limited given that FNN's Dairies segment has overtaken the Beverages segment as the main driver of profitability in recent years, which account for 80% of FNN's PBIT in the LTM. (Company, OCBC)

Nam Cheong Ltd ("NCL"): NCL held the informal noteholders meeting on the evening of 19/07/17, to update noteholders on restructuring options. The company had subsequently shared the presentation deck used during the meeting, as well as made a separate filing regarding its intent for its bonds outstanding. Specifically, NCL has declared in its filing that while its restructuring is on-going (refer to OCBC Asia Credit – Nam Cheong Credit Update 9 May for more details regarding NCL's prior announcements regarding restructuring), **NCL will cease repayments on all of NCL's borrowings**. As such, NCL will not be making the coupon payment that is due on the 23/07/17 (for the NCLSP 6.5% '18 bonds), and by inference, will not be redeeming the NCLSP 5% ' 17 bonds upon its maturity next month on 28/08/17. The stated intent by NCL to cease repayments on all its borrowings could constitute as an **Event of Default under clause 9(f) of NCL's MTN** information memorandum (dated 30/06/15). In the Informal Noteholders Meeting presentation slides that was submitted to the SGX, some details regarding NCL's intent with regards to its restructuring was shared. NCL disclosed that it had shipbuilding contracts (for approximately 74 vessels at various stages of completion) outstanding mainly with China shipyards. These vessels are likely to be mostly NCL's Build-to-Stock ("BTS") orders (vessels orders made before there are firm end-client orders for them). NCL indicated that the unbilled contract sum for these vessels total ~USD770mn, and that this amount may be made immediately due and payable in certain scenarios, such as in a liquidation scenario. Comparatively, NCL had ~USD255mn in bonds outstanding and ~USD161mn in bank loans. Tentatively, NCL proposed for secured assets to be sold, to repay secured creditors. This means that the amounts held as part of the bonds' Interest Service Reserve Account (these should be two coupons' worth) will eventually be paid to Noteholders. NCL had also indicated that the portion of secured debt in excess of the value realized from the collateral will be treated pari-passu with unsecured debt (including the bonds). NCL had indicated that it intends to restructure via a Scheme of Arrangement ("SOA"), rather than via a consent solicitation. The SOA is a court-facilitated process, and would require 75% approval in value by NCL's creditors in order to pass. In a SOA, the incumbent board / management remains in control of the company. NCL tentative proposal for the debt restructuring via the SOA, would be:

- Existing unsecured debt to be split between "sustainable" (our word) portion based on expected future cash flows and assets of NCL and be restructured as reorganized debt, and "unsustainable" portion which may be converted into new shares of the company.
- Initial period of moratorium on principal repayment
- Interest to be paid in cash as and when due and as Redeemable Convertible Bonds
- A cash sweep mechanism on excess cash post the moratorium period
- An option provided to creditors who want to exit early by accepting a voluntary haircut in exchange for immediate cash or share conversion

The above proposal is very tentative with no details, such as conversion price, or amounts deemed "unsustainable" and so on. In our view, NCL's attempt at restructuring looks to be a blend of Scenario #3: Equitization and Scenario #4: Court / System Driven Restructuring, which we considered in our previous report on NCL (refer to OCBC Asia Credit – Nam Cheong Credit Update 9 May). NCL would likely have to revert with more details regarding its restructuring before a formal meeting with noteholders is called to put the SOA to a vote. For now, we will monitor the situation closely. We currently rate NCL with a Negative Issuer Profile. (Company, OCBC)

Credit Headlines (Cont'd):

Mapletree Logistics Trust ("MLT"): MLT has established a SGD3bn Euro MTN programme. Under the Programme, notes or perpetual securities denominated in any currency (as agreed with dealer(s)) may be issued from time to time. Our base case remains that the MLTSP 5.375%- PERPs would be called in September given the reset at SDSW5+418bps. We have lifted our issuer profile of MLT to **Neutral** on 8 July 2017 on the back of MLT's considerable financial flexibility and the levelling of MLT's adjusted aggregate leverage (including 50% of perpetual as debt). As at 31 March 2017, adjusted aggregate leverage was 44% versus end-December 2016's 43%. (Company, OCBC)

Ascott Residence Trust ("ART"): ART announced its 1H2017 and 2Q2017 results. Gross revenue had increase 4% y/y to SGD234.9mn in 1H2017 mainly due to acquisitions. On a "same-store" basis (removing the impact of acquisitions), revenue growth was flat. Stronger revenue in Vietnam and the Philippines had helped partially offset lower revenue from the UK and Singapore. On a "same-store" basis, Revenue per Available Unit ("REVPAU") decreased by 1%. In 1H2017, EBITDA was SGD93.0mn, relatively flat against 1H2016, though EBITDA/Interest improved to 4.0x from 3.7x in 1H2016. Interest expense was lower due to refinancing of bank loans at lower interest rates and repayment of bank loans using equity that was raised (from rights issue in April 2017) and divestment proceeds. Adjusting 50% of perpetual distribution, we find EBITDA/(Interest plus 50% perpetual distribution) at 3.3x (1H2016: 3.1x). Headline aggregate leverage as at 30 June 2017 was low at 32.4% (31 March 2017: 41.1%) though company has guided that headline aggregate leverage will rise to ~36% following asset movements announced but yet to complete. In 1H2017, ART reported cash flows from operating activities (before interest) of SGD87.9mn. During the six months, it paid out SGD22.0mn in cash interest, SGD72.6mn to unitholders, SGD1.6mn to non-controlling interest and SGD9.6mn to perpetual holders. The cash gap at ART was SGD17.8mn (1H2016: cash gap of SGD57.0mn). In 1H2017, ART spent SGD125.8mn on capex and the acquisition of German properties from Sponsor. Proceeds from divestment of serviced residence properties in Japan though contributed cash inflow of SGD147.2mn. Net-net ART reported a SGD38.6mn in cash inflow from investing activities. Excluding master leases, 55% of rental income was attributable to guests staying for less than a week. Historically, guests staying for less than a week was lower than 50%. Average length of stay across the portfolio is now ~3.2 months, coming down from the 4.0 months disclosed in 2Q2016. We think this is a reflection of a (1) Weaker extended-stay corporate travel segment (particularly in the Asia-Pacific region) and (2) Gradual portfolio tilt towards USA and Europe, where the REIT had purchased hotels rather than serviced residences. We maintain ART's issuer profile at Neutral. Moody's currently hold ART's credit rating at Baa3/Stable, having lifted its Negative rating outlook to Stable following ART's right issuance that alleviated Moody's concerns over ART's leverage profile. (Company, OCBC)

Andrew Wong
Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6530 4736
wongVKAM@ocbc.com

Nick Wong Liang Mian, CFA
Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6530 7348
NickWong@ocbc.com

Ezien Hoo, CFA
Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6722 2215
EzienHoo@ocbc.com

Wong Hong Wei
Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6722 2533
WongHongWei@ocbc.com