Asian Credit Daily

November 27, 2017

Credit Headlines (Page 2 Onwards): CMA CGM SA, Oxley Holdings Ltd, ESR-REIT, Sabana Shari'ah Compliant Industrial REIT, Golden Agri-Resouces Ltd

Market Commentary: The SGD swap curve traded marginally higher last Friday, with swap rates trading 1-2bps higher across all tenors. Flows in SGD corporates were moderate, with mixed interest seen in SCISP 3.7%-PERPs. In the broader dollar space, the spread on JACI IG Corp rose 2bps to 180bps, while the yield on JACI HY Corp traded little changed at 6.93%. 10Y UST yields rose 2bps to 2.34% in a short trading session that lacked directional catalysts.

New Issues: Nanjing Yangzi State-owned Assets Investment Group Co Ltd has priced a two tranche deal, with the USD300mn 5-year bond priced at CT5+185bps, tightening from initial guidance of CT5+215bps area; and the USD200mn 10-year bond priced at CT10+235bps, tightening from initial guidance of CT10+265bps area. Tewoo Group No 4 Ltd has priced a USD500mn 3-year bond (supported with a keepwell deed by Tewoo Group Co and a standby letter of credit by ICBC Tianjin Branch) at CT3+130bps, tightening from initial guidance of CT3+155bps. The expected issue ratings are 'NR/A1/NR'. China Reform Holdings Corp Ltd has scheduled investor meetings for potential bond issuance from 27 Nov.

Rating Changes: S&P has downgraded Korea Resources Corp's (KORES) corporate credit rating and ratings on the company's senior unsecured bonds to 'A' from 'A+'. The outlook is stable. The rating action reflects S&P's view that KORES's financial metrics will remain weak due to ongoing losses from its overseas mineral resources exploration and production projects, as well as its ongoing investment outlays.

Table 1: Key Financial Indicators

	27-Nov	1W chg (bps)	1M chg (bps)		27-Nov	1W chg	1M chg
iTraxx Asiax IG	76	-3	1	Brent Crude Spot ($/bbl)	63.81	2.56%	5.58%
iTraxx SovX APAC	15	-1	-1	Gold Spot ($/oz)	1,288.13	0.88%	1.16%
iTraxx Japan	47	-2	-2	CRB	192.22	2.11%	2.85%
iTraxx Australia	66	-2	1	GSCI	431.23	2.98%	4.66%
CDX NA IG	52	-3	-1	VIX	9.67	-17.77%	-1.33%
CDX NA HY	108	0	0	CT10 (bp)	2.344%	-2.30	-6.28
iTraxx Eur Main	49	-2	-2	USD Swap Spread 10Y (bp)	0	0	3
iTraxx Eur XO	236	-8	3	USD Swap Spread 30Y (bp)	-21	0	8
iTraxx Eur Snr Fin	47	-3	-7	TED Spread (bp)	21	2	-5
iTraxx Sovx WE	4	0	-1	US Libor-OIS Spread (bp)	11	0	0
iTraxx Sovx CEEMEA	48	-2	4	Euro Libor-OIS Spread (bp)	3	0	0
					27-Nov	1W chg	1M chg
				AUD/USD	0.761	0.76%	-0.91%
				USD/CHF	0.981	1.31%	1.78%
				EUR/USD	1.192	1.55%	2.64%
				USD/SGD	1.347	0.76%	1.35%
Korea 5Y CDS	63	-3	-9	DJIA	23,558	0.42%	0.53%
China 5Y CDS	59	-2	10	SPX	2,602	0.65%	0.83%
Malaysia 5Y CDS	66	-3	4	MSCI Asiax	718	1.71%	4.73%
Philippines 5Y CDS	66	-3	3	HSI	29,866	2.29%	5.02%
Indonesia 5Y CDS	97	-2	4	STI	3,442	1.64%	1.65%
Thailand 5Y CDS	48	-1	2	KLCI	1,717	-0.07%	-1.66%
				JCI	6,067	0.25%	1.54%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
24-Nov-17	Nanjing Yangzi State-owned Assets Investment Group Co Ltd	Not Rated	USD300mn	5-year	CT5+185bps
24-Nov-17	Nanjing Yangzi State-owned Assets Investment Group Co Ltd	Not Rated	USD200mn	10-year	CT10+235bps
24-Nov-17	Tewoo Group No 4 Ltd	'NR/A1/NR'	USD500mn	3-year	CT3+130bps
23-Nov-17	Yankuang Group (Cayman) Ltd	Not Rated	USD400mn	3-year	5%
22-Nov-17	Binhai Investment Company Ltd	'NR/NR/BBB-'	USD300m	3-year	4.45%
22-Nov-17	Hongkong International (Qingdao) Company Ltd	'NR/NR/BBB+'	USD300mn	3-year	CT3+195bps
22-Nov-17	Hongkong International (Qingdao) Company Ltd	'NR/NR/BBB+'	USD500mn	5-year	CT5+220bps
22-Nov-17	Orient HuiZhi Ltd	'NR/Baa3/NR'	USD500mn	5-year	CT5+170bps
22-Nov-17	Times Property Holdings Ltd	'B/B2/B+'	USD300mn	5NC3	6.625%
21-Nov-17	Singapore Management University	'NR/Aaa/NR'	SGD150mn	5-year	1.945%

Source: OCBC, Bloomberg

OCBC Bank

Credit Headlines:

CMA CGM S.A. (acquired Neptune Orient Lines, "NOL"): CMA CGM reported 3Q2017 results, with revenue jumping 27.7% y/y to USD5.70bn. Unlikely prior periods, revenue growth was not driven by the acquisition of NOL (as the acquisition closed in 2Q2016). Instead, the strong performance was driven by both a 11.6% y/y increase in volumes carried (almost 4.98mn TEU) as well as a 14.4% y/y increase in average revenue carried per container. This was despite the 5.6% decrease in the Shanghai Containerized Freight Index seen during 3Q2017, potentially reflecting CMA CGM's relative pricing power given the growth in both average revenue per container as well as volume carried. Management guidance was for 2017 results to show strong improvement over 2016 results (consistent with the quarters seen thus far). Due to the strong revenue growth, core EBIT (excludes disposals, impairments and non-recurring elements) swung to USD568mn for the quarter, compared to a EBIT loss of USD86mn in 3Q2016. Core EBIT margins have continued to expand as well to 10.0%, up from 8.9% in 2Q2017. EBIT margin expansion as well as revenue growth boosted EBITDA, with CMA CGM reporting USD706.8mn in EBITDA for 3Q2017 (3Q2016: USD71.8mn). In terms of operating cash flow generation (including interest service), CMA CGM generated USD468.6mn. Coupled with USD186.9mn in cash capex spent during the quarter, free cash flow was USD281.7mn. In aggregate, gross acquisitions made during the quarter was USD375.5mn, of which ~2/3 was spent on leased vessels while ~1/3 was spent on containers. The cash generated was used in part to reduce borrowings, with ~USD142mn in net borrowings being paid down during the quarter. Based on 9M2017 reported EBITDA, interest coverage was 4.8x (1H2017: 4.2x) while net debt / EBITDA was 3.27x (1H2017: 3.75x). Net gearing also improved further from 141% (2Q2017) to 132% (3Q2017). Cash / current borrowings stood at 1.0x. We note that the partial divestment of its Global Gateway South ("GGS") terminal in Los Angeles (USA) (refer to OCBC Asian Credit Daily – 4 Jul 2017) in which CMA CGM would receive USD817mn in cash proceeds (completion is expected in 4Q2017)~~ is still pending~~. The cash proceeds from the divestment is expected to be used to further deleverage CMA CGM, as part of its financial deleveraging plan as communicated during end-2015 as part of the NOL acquisition. That said, we remain aware of the nine 22,000 TEU vessels that CMA CGM has committed to buy (delivery begins from 2020, with a total order value estimated to be ~USD1.2bn). CMA CGM continues to have good access to capital markets, having called the SGD300mn NOLSP'19s (to be redeemed on 07/12/17), to be financed via its EUR750mn 5.25% 2025 bond issue (issued during 4Q2017). We have previously mentioned that we believe the early redemption of the NOLSP'19s was opportunistic, as the distinct improvement to CMA CGM's recent results coupled with the recent credit rating upgrades, has lifted the CMA CGM curve. We also mentioned that for the remaining two SGD bonds, their coupons are lower at 4.4% and 4.65%, which makes calling them less attractive at this point in time. We will continue to hold CMA CGM's Issuer Profile at Neutral as even though CMA CGM had shown commitment towards its deleveraging plans, absolute leverage remains high and CMA CGM had started to focus on funding growth. 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. This view was recently further reinforced given the early redemption of the NOLSP'19s via the issue of parent debt (the new CMACG'25s) reflecting CMA CGM's commitment towards NOL's obligations. We continue to Overweight the NOLSP'20s and NOLSP'21s. (Company, OCBC)

Oxley Holdings Ltd ("OHL"): OHL had announced that the reported transaction to acquire Chevron House (refer to OCBC Asian Credit Daily – 24 Nov 2017) was not definite, as OHL is still in negotiations with the owner of the asset and is currently conducting due diligence review on the asset. OHL had also exited trading halt. As mentioned previously, assuming OHL takes a 100% stake in Chevron House and funds the acquisition entirely by debt, coupled with other recent acquisitions of Mayfair Gardens (refer to OCBC Asian Credit Daily – 20 Nov 2017), Rio Casa, Pasir Panjang and Serangoon Ville (refer to OCBC Asian Credit Daily – 2 Nov 2017), net gearing may reach 2.5x. We continue to hold OHL at a Negative Issuer Profile (Company, OCBC)

Credit Headlines (Cont'd):

ESR-REIT ("EREIT") and Sabana Shari'ah Compliant Industrial REIT ("SSREIT"): Both REITs have announced that the discussions between EREIT and SSREIT with regards to SSREIT's on-going strategic review have ended. While the discussions with EREIT has ended, SSREIT remains open to considering proposals from prospective strategic partners. SSREIT is also stepping up its process of searching for a new CEO (resignation of current CEO/Executive Director would be effective on 31 December 2017). Concurrently, SSREIT's three leases with the Sponsor (namely Vibrant Group Limited) due on 26 November 2017 has been renewed. While we take some comfort that the three leases have been renewed, these were renewed at lower rates. 51 Penjuru Road, 33 & 35 Penjuru Lane and 18 Gul Drive were renewed at SGD2.93mn, SGD4.04mn and SGD1.87mn respectively for a one year period until 25 November 2018 (in aggregate SGD8.8mn). In FY2016, these three properties contributed a total of SGD10.1mn in gross rental income. Given the ending of discussions between EREIT and SSREIT, event risk at EREIT has subsided in our view, which should be supportive for EREIT bond prices. We are maintaining EREIT's issuer profile at Neutral and reviewing SSREIT's issuer profile. (Company, OCBC)

Golden Agri-Resources Ltd ("GGR"): GGR's indirectly wholly-owned subsidiary, Sinarmas Natural Resources (China) Investment Co., Ltd has entered into a conditional agreement with a subsidiary of Louis Dreyfus Company Asia Private Limited ("Louis Dreyfus") for the sale of Sinarmas Natural Resources Foodstuff Technology ("Sinarmas Natural Resources") to Louis Dreyfus. GGR is disposing its non-core oilseed asset and operations in Tianjin. China has been a market in which GGR has faced intense competition in the past few years. In 9M2017, the oilseeds segment only contributed USD8.0mn to EBITDA (against total 9M2017 EBITDA of USD508mn). Completion of the proposed disposal is subject to the fulfilment of conditions precedent (including governmental approvals). The consideration for the proposed sale was determined at an enterprise value of USD111mn (on a debt free, cash free basis), though the final consideration is subject to completion adjustment (eg: working capital). As at 30 September 2017, cash balance at GGR was USD142.9mn and assuming GGR receives the full USD111mn, may bring cash levels up to ~USD254mn. Short term debt at the company was USD2.1bn as at 30 September 2017, though bulk of this relates to working capital debt which are routinely rolled over. Working capital aside, per management ~USD500mn would need to be refinanced in the next 12 months (including the SGD200mn bond coming due in April 2018). USD500mn represents 16% of total gross debt of USD3.1bn as at 30 September 2017. OCBC's Commodities Economist is projecting CPO prices at MYR3,000 (~USD716 per MT) by end-2017, with prices potentially edging higher into 2018. Additionally, palm demand is expected to stay stable in the next 12 months. We continue to maintain that debt at GGR is refinanceable and hence are keeping GGR's issuer profile at Neutral. (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