

Sept 10, 2018

**Credit Headlines:** Singapore Airlines Ltd, CMA CGM

## Market Commentary

- The SGD swap curve flattened last Friday, with swap rates for the shorter tenors trading within 1bps while the longer tenors traded 1-2bps lower (with the exception of the 20-year swap rates trading 4bps lower).
- Flows in SGD corporates were heavy last Friday, with better buying seen in OCBCSP 4.0%-PERPs and DBSSP 3.98%-PERPS and better selling seen in HRAM 3.2%'21s.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 141bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 5bps to 491bps.
- 10Y UST yields rose 7bps to close at 2.94% on Friday, the highest in almost a month on the back of a better-than-expected US non-farm payrolls report as well as data showing the largest annual increase in wages since 2009.

## Credit Headlines:

### **Singapore Airlines Ltd ("SIA") | Issuer Profile: Neutral (3)**

- SIA has reportedly closed a SGD900mn bank loan facility last week. SIA had projected capex of SGD6.2bn (92% for aircraft) for the full financial year ended March 2019 ("FY2019"), not including [amounts that Vistara](#) (SIA's 49%-owned joint venture, Tata holds 51%) intends to spend.
- In 1QFY2019, SIA had spent SGD1.9bn of cash in capex. We expect this new bank loan to go towards funding capex and continue to assume that more debt will be taken to fund the remaining capex plan at both SIA and Vistara. (Bloomberg, OCBC)

### **CMA CGM (acquired Neptune Orient Lines, "NOL") | Issuer Profile: Neutral (4)**

- CMA CGM announced 2Q2018 results. Revenue increased 7.4% y/y to USD5.70bn, largely driven by the 9.6% y/y boost in volumes traded. Comparatively, revenue per container transported decreased slightly by 2.1% y/y.
- Operating expenses however surged 16.9% y/y to USD5.49bn, caused by the very sharp spike in bunker fuel prices (up 27.7% y/y) and an increase of volumes carried. Appreciation of EUR against USD has also negatively impacted some components of operating expenses which were incurred in EUR such as handling and stevedoring. This caused core EBIT to plunge sharply by 85.8% to USD67.1mn, or an EBIT margin of just 1.2% (versus 8.9% in 2Q2017). The sharp fall in operating profit drove CMA CGM to a net profit of USD32.8mn for the quarter, down 85.1% y/y.
- For the quarter, CMA CGM managed to generate USD423.9mn in operating cash flow (including interest service) versus USD456.5mn in 2Q2017. Coupled with USD103.8mn in capex, they managed to generate USD123.6mn in free cash flow (USD279.3mn in 2Q2017). The sharp fall in EBITDA though, drove EBITDA / Interest coverage significantly lower to 1.7x (2Q2018) versus 5.0x (2Q2017).
- Net gearing inched lower to 129% (1Q2018: 132%) despite higher bank borrowings due to higher cash. As mentioned previously, CMA CGM acquired a ~25% stake in CEVA Logistics in May 2018, which would in turn further deteriorate CMA CGM's credit profile. That said, management anticipate improvements in operating margin, on the back of rise in freight rates and sustained volumes. The implementation of an exceptional surcharge to counter higher bunker fuel prices may also contribute to operating margin improvement.
- CMA CGM has expanded its fleet in Q2 with the delivery of the CMA CGM Jean Mermoz, a 20,600 TEU capacity container ship designed to operate on the Asia-Europe trades. It also took delivery of another Ice-Class vessel. (Company, OCBC).

**Table 1: Key Financial Indicators**

	10-Sep	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	82	-1	-1
iTraxx SovX APAC	13	2	2
iTraxx Japan	54	0	0
iTraxx Australia	73	-1	0
CDX NA IG	60	0	-2
CDX NA HY	107	0	0
iTraxx Eur Main	64	-4	-4
iTraxx Eur XO	287	-11	-17
iTraxx Eur Snr Fin	75	-9	-11
iTraxx Sovx WE	26	-2	-2
AUD/USD	0.712	-1.36%	-2.55%
EUR/USD	1.156	-0.53%	1.26%
USD/SGD	1.379	-0.52%	-0.40%
China 5Y CDS	59	-2	-5
Malaysia 5Y CDS	102	7	14
Indonesia 5Y CDS	141	11	21
Thailand 5Y CDS	42	0	-1

	10-Sep	1W chg	1M chg
Brent Crude Spot (\$/bbl)	77.25	-1.15%	6.10%
Gold Spot (\$/oz)	1,195.28	-0.50%	-1.26%
CRB	190.36	-1.27%	-0.70%
GSCI	461.03	-1.76%	0.62%
VIX	14.88	9.98%	13.07%
CT10 (bp)	2.942%	8.20	6.92
USD Swap Spread 10Y (bp)	6	-1	0
USD Swap Spread 30Y (bp)	-7	-2	-1
TED Spread (bp)	20	-3	-11
US Libor-OIS Spread (bp)	21	0	-8
Euro Libor-OIS Spread (bp)	4	0	0
DJIA	25,917	-0.27%	2.38%
SPX	2,872	-1.02%	1.36%
MSCI Asiax	644	-2.62%	-3.64%
HSI	26,973	-3.28%	-4.91%
STI	3,134	-2.46%	-4.58%
KLCI	1,799	-1.13%	-0.36%
JCI	5,851	-2.77%	-3.71%

## New issues

- China Construction Bank Corporation has scheduled for investor meetings from 10 Sept for its potential USD and EUR bond issuance.
- Fuqing Investment Management Ltd has scheduled for investor meetings from 10 Sept for its potential USD Perp bond issuance (guaranteed by Pingan Real Estate Capital Ltd, keepwell deed provider: Ping An Real Estate Company Ltd).
- Xingsheng (BVI) Company Ltd has scheduled for investor meetings from 10 Sept for its potential USD bond issuance (guaranteed by JIC Leasing Company Ltd, keepwell provider: China Jianyin Investment Ltd).
- CSSC Capital One Ltd and CSSC Capital Two Ltd have scheduled for investor meetings from 10 Sept for their potential USD 3-year and EUR 5-year bond issuances respectively (keepwell provider: China State Shipbuilding Corporation Ltd).

<u>Date</u>	<u>Issuer</u>	<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
6-Sept-18	Toyota Tsusho Corp	USD500mn	5-year	CT5+95bps
6-Sept-18	Anhui Transportation Holding Group (H.K.) Ltd	USD350mn	3-year	5.0%
6-Sept-18	Export-Import Bank of China	USD300mn	5-year	3mL+70bps
5-Sept-18	Sinopec Group Overseas Development (2018) Limited	USD750mn	5-year	CT5+110bps
5-Sept-18	Sinopec Group Overseas Development (2018) Limited	USD500mn	7-year	CT7+135bps
5-Sept-18	Sinopec Group Overseas Development (2018) Limited	USD750mn	10-year	CT10+145bps
5-Sept-18	Sinopec Group Overseas Development (2018) Limited	USD400mn	30-year	4.60%
5-Sept-18	Credit Suisse Group AG	USD1.5bn	PerpNC7	7.25%
5-Sept-18	Mizuho Financial Group Inc	USD1.1bn	6NC5	CT6+115bps
5-Sept-18	Mizuho Financial Group Inc	USD650mn	6NC5	3mL+100bps
5-Sept-18	Mizuho Financial Group Inc	USD1bn	11NC10	CT11+135bps
5-Sept-18	Granda Century Ltd	USD300mn	3-year	7.5%
5-Sept-18	Future Land Development Holdings Ltd	USD300mn	2-year	7.0%
5-Sept-18	HSBC Holdings PLC	USD2bn	3NC2	3mL+65bps
5-Sept-18	HSBC Holdings PLC	USD2.5bn	8NC7	CT8+145bps
5-Sept-18	HSBC Holdings PLC	USD750mn	8NC7	3mL+138bps

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