

Nov 2, 2018

Credit Headlines: Sembcorp Industries Ltd, Mapletree Logistics Trust, Singapore Post Limited

Market Commentary

- The SGD swap flattened yesterday, with swap rates trading 1-2bps lower across most tenors.
- Flows in SGD corporates were heavy yesterday, with better buying seen in HSBC 5.0%-PERPs, DBSSP 3.98%-PERPs and SIASP 3.16%'23s
- The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 151bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 22bps to 588bps.
- Overall, 10Y UST yields fell 2bps to close at 3.13% after data showed a slowed down in US manufacturing, construction and productivity.

Credit Headlines:

Sembcorp Industries Ltd ("SCI") | Issuer Profile: Neutral (4)

- SCI announced its 3Q2018 financial results. In 3Q2018, revenue increased 36.3% y/y to SGD3.0bn driven by revenue at both the Utilities segment (grew 26.7% y/y) and Marine segment (up 60.2% y/y).
- Despite revenue growth from the Marine segment, a gross loss of SGD12.8mn was recognised at 61%-owned [Sembcorp Marine Ltd \("SMM"\) in 3Q2018](#). Reported gross profit at SCI was SGD241.9mn against SGD348.0mn in 3Q2018. SCI's reported operating profit of SGD54.7mn (up 22.0% y/y) was driven by the Utilities segment and to an extent the Urban Development segment.
- The revenue increase in Utilities was mainly due to higher revenue in Singapore, higher power generation in India and the UK, new facilities in China and the UK (UK Power Reserve acquisition). Net profit before exceptional items for Utilities was SGD91.0mn (2Q2017: SGD27.5mn), driven by Utilities - India which reported a net profit of SGD28.9mn versus a loss of SGD2.7mn in 3Q2017. Utilities – India though partly improved due to one-off settlements with an operation and maintenance contractor.
- General and administrative expenses though climbed 49.2% y/y to SGD132.8mn, among others, due to higher staff cost, digital transformation cost, costs related to the UK Power Reserve transaction and additional provision for fines of SGD25.0mn. In October 2018, SCI announced that a majority-owned joint venture has been served with a [further claim alleging an environment offence](#). In 3Q2018, SCI has provision an additional SGD25.0mn for this matter (bringing total provisions for fines relating to this matter to SGD50.0mn).
- EBITDA (based on our calculation which does not include other income and other expenses) was down 37.1% y/y at SGD250.4mn.
- Finance cost was down 5.4% y/y to SGD120.0mn as a result of reduction of debt outstanding in India. At SCI's group level, average gross debt was up slightly by 0.5% in 3Q2018 versus 3Q2017. Resultant EBITDA/Interest was lower at 2.1x (3.1x in 3Q2017).
- As at 30 September 2018, SCI's unadjusted net gearing continues to be high at 1.1x (30 June 2018: 1.0x). Perpetuals at SCI amounted to SGD809.6mn (4% of total capital). Management has a ~SGD500mn divestment plan over the next two years to deleverage the company. We are reviewing SCI's issuer profile. (Company, OCBC)

Credit Headlines (cont'd):

Mapletree Logistics Trust ("MLT") | Issuer Profile: Neutral (4)

- MLT announced that it has entered into a conditional asset transfer agreement with Unilever Vietnam for MLT to buy a warehouse in Vietnam-Singapore Industrial Park I, Binh Duong province, Vietnam for VND725.1bn (~SGD43mn). The property is intended to be leased to Unilever Vietnam for 10 years. This Vietnam property will be funded by debt and expected to complete by 4QFY2019.
- This comes on the back of MLT's announcement on 29 October 2018 on the proposed acquisition of [Coles Distribution Centre for ~SGD102.2mn](#) in Brisbane.
- Assuming the completion of the acquisition of Binh Duong, Coles Distribution Centre and the divestment of 531 Bukit Batok Street 23 (completed on 18 October 2018), MLT's aggregate leverage may rise to 38.9% (30 September 2018: 38.1%). (Company, OCBC)

Singapore Post Limited ("SPOST") | Issuer Profile: Positive (2)

- SPOST announced its second quarter results for the financial year ended March 2019 ("2QFY2019"). Revenue increased 2.2% y/y to SGD368.7mn on the back of stronger contributions from international mail (+4.7% y/y) due to cross-border eCommerce deliveries and Property segment (+20.7% y/y) due to the SingPost Centre retail mall which reopened in October 2017 and has a committed occupancy rate of 99.1% as at 30 September 2018.
- EBITDA (based on our calculation) increased sharply by 21.1% y/y to SGD51.3mn mainly as a result of lower selling expenses. Since interest expense declined 14.4% to SGD2.5mn, EBITDA/Interest improved significantly to 20.7x versus 14.6x in 2QFY2018.
- Much like 1QFY2019, Post & Parcel which reported operating profit before exceptional items of SGD42.1mn (+5.1% y/y) and Property which contributed SGD13.3mn (+54.1% y/y) continued to compensate for the wider operating losses at eCommerce. In fact, the eCommerce segment recorded SGD11.2mn operating losses (-227.0% y/y and -20.6% q/q), largely due to the US Businesses which saw pricing pressures as well as incurred cost to fund automation and ongoing initiatives to integrate TradeGlobal and Jagged Peak. That said, overall SPOST still saw a 33.5%y/y growth in operating profit before exceptional items to SGD40.0mn.
- However, SPOST's reported net profit to owners was dragged by share of loss of associated companies and JV of SGD3.6mn versus a gain of SGD4.9mn in 2QFY2018 as well as exceptional losses of SGD3.0mn versus an exceptional gain of SGD0.9mn in 2QFY2018. SPOST ended the quarter with net profit to owners of SGD25.1mn (-12.9% y/y).
- As at 30 September 2018, gross debt-to-equity was 0.17x. SPOST was in a net debt position of SGD8.5mn largely due to SGD92.2mn paid to trade creditors as well as dividends worth SGD56.6mn paid to shareholders (30 June 2018: cash surplus of SGD129.4mn). Perpetuals make up 17.2% of total capital as at 30 September 2018 and adjusting net debt upwards for the perpetuals (which rank pari passu as unsecured debt at the SPOST holding company level), we find adjusted net gearing at 0.21x. We maintain SPOST at an issuer profile of Positive (2). (Company, OCBC)

Table 1: Key Financial Indicators

| | 2-Nov | 1W chg (bps) | 1M chg (bps) |
|--------------------|-------|--------------|--------------|
| iTraxx Asiax IG | 90 | -3 | 10 |
| iTraxx SovX APAC | 10 | 0 | 1 |
| iTraxx Japan | 62 | -2 | 7 |
| iTraxx Australia | 82 | -2 | 7 |
| CDX NA IG | 67 | -3 | 8 |
| CDX NA HY | 106 | 1 | -2 |
| iTraxx Eur Main | 72 | -5 | 3 |
| iTraxx Eur XO | 292 | -13 | 12 |
| iTraxx Eur Snr Fin | 89 | -6 | 1 |
| iTraxx Sovx WE | 26 | -1 | 1 |
| AUD/USD | 0.721 | 1.66% | 0.28% |
| EUR/USD | 1.140 | -0.01% | -1.26% |
| USD/SGD | 1.377 | 0.21% | -0.29% |
| China 5Y CDS | 71 | -2 | 14 |
| Malaysia 5Y CDS | 113 | 0 | 19 |
| Indonesia 5Y CDS | 157 | -1 | 23 |
| Thailand 5Y CDS | 44 | 0 | 3 |

| | 2-Nov | 1W chg | 1M chg |
|----------------------------|----------|---------|---------|
| Brent Crude Spot (\$/bbl) | 72.77 | -6.25% | -14.19% |
| Gold Spot (\$/oz) | 1,232.68 | -0.07% | 2.44% |
| CRB | 191.64 | -1.62% | -4.16% |
| GSCI | 450.82 | -3.07% | -9.46% |
| VIX | 19.34 | -20.15% | 60.50% |
| CT10 (bp) | 3.138% | 6.24 | 7.48 |
| USD Swap Spread 10Y (bp) | 7 | 0 | 1 |
| USD Swap Spread 30Y (bp) | -11 | 0 | -3 |
| TED Spread (bp) | 24 | 5 | 4 |
| US Libor-OIS Spread (bp) | 25 | 1 | 7 |
| Euro Libor-OIS Spread (bp) | 3 | -1 | -1 |
| DJIA | 25,381 | 1.59% | -5.20% |
| SPX | 2,740 | 1.29% | -6.26% |
| MSCI Asiax | 593 | 3.32% | -7.82% |
| HSI | 25,416 | 1.69% | -6.31% |
| STI | 3,061 | 1.59% | -5.61% |
| KLCI | 1,707 | 1.21% | -5.07% |
| JCI | 5,836 | 1.41% | -0.68% |

New issues

- Chang Development International Ltd has priced a USD400mn 3-year bond (guaranteed by Changchun Urban Development & Investment Holdings (Group) Co Ltd) at 5.7%, tightening from its initial price guidance of 5.9%.
- Shangri-La Hotel Limited has priced a SGD825mn 7-year bond at 4.5%, tightening from its initial price guidance of 4.625%.

| <u>Date</u> | <u>Issuer</u> | <u>Size</u> | <u>Tenor</u> | <u>Pricing</u> |
|-------------|---|-------------|-----------------|----------------|
| 1-Nov-18 | Chang Development International Ltd | USD400mn | 3-year | 5.7% |
| 1-Nov-18 | Shangri-La Hotel Limited | SGD825mn | 7-year | 4.5% |
| 31-Oct-18 | PT Pertamina (Persero) | USD750mn | 30-year | 6.65% |
| 31-Oct-18 | REC Limited | USD700mn | 5-year | CT5+240bps |
| 31-Oct-18 | Agricultural Bank of China Ltd Hong Kong Branch | USD500mn | 3-year | 3mL+74bps |
| 31-Oct-18 | Agricultural Bank of China Ltd Hong Kong Branch | USD300mn | 5-year | 3mL+85bps |
| 31-Oct-18 | Bluestar Finance Holdings Ltd | USD300mn | PerpNC3 | 6.375% |
| 31-Oct-18 | Guohui International (BVI) Co Ltd | USD600mn | 363-Day | 5.7% |
| 31-Oct-18 | CFLD (Cayman) Investment Ltd | USD100mn | CHFOTN 9.0%'21s | 9.0% |
| 31-Oct-18 | Mirae Asset Daewoo Co Ltd | USD300mn | 3-year | CT3+135bps |
| 30-Oct-18 | Scenery Journey Ltd | USD565mn | 2-year | 11.0% |
| 30-Oct-18 | Scenery Journey Ltd | USD645mn | 4NC2 | 13.0% |
| 30-Oct-18 | Scenery Journey Ltd | USD590mn | 5NC3 | 13.75% |
| 30-Oct-18 | China CITIC Bank International Ltd | USD500mn | PerpNC5 | 7.1% |
| 30-Oct-18 | Soar Wise Ltd | USD350mn | 3-year | CT3+175bps |

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