

February 26, 2018

Credit Headlines: G8 Education Ltd, Banyan Tree Holdings Limited, Sembcorp Industries Ltd, United Engineers Ltd/ Oxley Holdings Ltd

Market Commentary: The SGD swap curve bull-flattened last Friday, with swap rates for the shorter tenors trading 2bps lower while the longer tenors traded 2-3bps lower. Flows in SGD corporates were heavy last Friday, with better buying in GEMAU 5.5%19s and better selling seen in HSBC 4.7%-PERPs. In the broader dollar space, both the Bloomberg Barclays Asia USD IG Bond Index average OAS and the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 2bps to 113bps and 345bps respectively. 10Y UST yields fell 5bps to 2.86%, extending the decline from the prior day as a semi-annual report on monetary policy from the Federal Reserve noted that the economy may be beyond full employment but that wage increases and inflation risks were moderate.

New issues: KEB Hana Bank has priced a USD425mn 5-year FRN Formosa at 3mL+80bps, tightening from its initial guidance of 3mL+83bps area. The expected issue ratings are 'A+/NR/NR'. PT Toba Bara Sejahtra Tbk PT has scheduled for investor meetings from 26 Feb for its potential USD issuance. The expected issue ratings are 'NR/B3/B-'.

Rating Changes: Moody's has assigned a 'B3' corporate family rating to PT Toba Bara Sejahtra Tbk (Toba Bara) and a 'B3' rating to its proposed senior secured bond. The outlook is stable. The rating action reflects Toba Bara's scale and concentration risks as well as its acquisitive strategy. Fitch also assigned a 'B-' issuer default rating to Toba Bara with a stable outlook. Fitch has affirmed PT Saka Energi Indonesia's (Saka) 'BB+' issuer default rating. The outlook has been revised to stable from positive. The outlook revision follows Fitch linking Saka's rating to its parent – PT Perusahaan Gas Negara Tbk's (PGN) standalone credit profile of 'BBB-' rather than PGN's issuer default rating. The linkage arises largely from Saka's mandate to improve the vertical integration of PGN, together with substantial financial assistance provided to Saka by PGN to expand its scale since its inception in 2011. The rating action reflects Fitch's belief that Saka's linkages with PGN will continue to be strong as well as Fitch's recent

Table 1: Key Financial Indicators

	26-Feb	1W chg (bps)	1M chg (bps)		26-Feb	1W chg	1M chg
iTraxx Asiax IG	71	5	8	Brent Crude Spot (\$/bbl)	67.52	2.82%	-4.25%
iTraxx SovX APAC	13	0	2	Gold Spot (\$/oz)	1,337.11	-0.69%	-0.89%
iTraxx Japan	48	2	6	CRB	195.99	1.31%	-2.26%
iTraxx Australia	62	4	7	GSCI	451.53	2.26%	-2.57%
CDX NA IG	57	5	11	VIX	16.49	-13.80%	48.83%
CDX NA HY	107	-1	-2	CT10 (bp)	2.853%	-2.17	19.33
iTraxx Eur Main	56	4	13	USD Swap Spread 10Y (bp)	1	-1	-2
iTraxx Eur XO	274	11	43	USD Swap Spread 30Y (bp)	-19	-4	-5
iTraxx Eur Snr Fin	58	7	17	TED Spread (bp)	32	2	-1
iTraxx Sovx WE	21	1	1	US Libor-OIS Spread (bp)	35	4	10
iTraxx Sovx CEEMEA	34	1	1	Euro Libor-OIS Spread (bp)	3	0	1
					26-Feb	1W chg	1M chg
				AUD/USD	0.787	-0.61%	-3.02%
				USD/CHF	0.934	-0.47%	-0.16%
				EUR/USD	1.232	-0.73%	-0.89%
				USD/SGD	1.318	-0.32%	-0.78%
Korea 5Y CDS	51	-1	6	DJIA	25,310	0.43%	-4.91%
China 5Y CDS	58	3	7	SPX	2,747	0.59%	-4.37%
Malaysia 5Y CDS	63	4	8	MSCI Asiax	737	1.15%	-5.07%
Philippines 5Y CDS	65	5	9	HSI	31,406	0.93%	-5.27%
Indonesia 5Y CDS	88	3	9	STI	3,552	1.84%	-0.42%
Thailand 5Y CDS	41	1	1	KLCI	1,861	0.22%	0.41%
				JCI	6,601	-1.32%	-0.90%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
23-Feb-18	KEB Hana Bank	'A+/NR/NR'	USD425mn	5-year	3mL+80bps
23-Feb-18	Ascendas Real Estate Investment Trust	'NR/A3/NR'	SGD200mn	7-year	3.14%
23-Feb-18	BNZ International Funding Ltd (London Branch)	'AA-/A1/NR'	USD500mn	5-year	CT5+85bps
23-Feb-18	Redco Properties Group Ltd	'B/NR/B'	USD300mn	364-day	6.375%
23-Feb-18	Far East Horizon Ltd	'BBB-/NR/NR'	CNH630mn	3-year	4.90%
23-Feb-18	Far East Horizon Ltd	'BBB-/NR/NR'	USD200mn	5-year	CT5+175bps
23-Feb-18	Perusahaan Penerbit SBSN Indonesia III	'BBB-/Baa3/BBB'	USD1.75bn	10-year	4.40%
23-Feb-18	Perusahaan Penerbit SBSN Indonesia III	'BBB-/Baa3/BBB'	USD1.25bn	5-year	3.75%
22-Feb-18	United Overseas Bank Ltd	'NR/Aaa/NR'	GBP350mn	5-year	3mL+24bps
21-Feb-18	FCOT Treasury Pte Ltd	'NR/NR/NR'	SGD60mn	5-year	3.185%

Source: OCBC, Bloomberg

Rating Changes (cont'd):

publication of its rating criteria for Government Related Entities. This resulted in PGN's 'BBB-' issuer default ratings being affirmed while its outlook was revised to stable from positive.

Credit Headlines:

G8 Education Ltd ("G8"): G8 reported 2017 results, which showed signs of weaknesses as guided by the trading update in Dec 2017 (refer to [OCBC Asian Credit Daily – 4 Dec 2017](#)). Although revenue increased 2.4% y/y to AUD795.8mn, this was mainly due to acquisitions in 2016 (AUD29mn in incremental revenue) and 2017 (AUD18mn in incremental revenue). As at end 2017, G8 has 495 centres in Australia, after acquiring 36 centres and disposing 22 centres in Australia in 2017. Although tuition fees were increased, revenues were offset by lower LFL occupancy (lower by 3.2% to 76.7%). G8's revenue was also offset by increased discounting (AUD5mn), increased training investment and Long Day Care Professional Development Program ("LDCPDP") grant net funding impact of AUD9mn (which is a one-off impact) and divested centres revenue (AUD15mn). As expenses increased 4.6% y/y to AUD644.9mn due to staff ratio change and increases in depreciation (+19.2% y/y to AUD14.0mn), reported EBIT fell 6.1% y/y to AUD150.9mn and underlying EBIT softened to AUD156.0mn (2016: AUD160.7mn). Although we estimate that net debt/EBITDA improved y/y to 1.5x (2016: 2.2x), this was mainly due to AUD195mn equity raised. Going forward, G8 targets to open 30 new greenfield centres in 2018 at a capital cost of AUD120mn. Minimal contribution is expected from these centres as they are in the starting up phase, and as such we expect net debt/EBITDA to deteriorate to 2.3x, assuming G8 funds the development with debt. In our view, this may pressure G8's credit profile given the oversupply situation, though the increase in supply is expected to slow down in 2018. It remains to be seen if the Jobs for Families Package (which improves affordability) that will be implemented in Jul 2018 would stimulate demand sufficiently. Non-cancellable operating leases surged to AUD629.1mn (2016: AUD493.3mn). However, as G8 still generate healthy operating cashflows (2017: AUD92.0mn) and manageable net debt/EBITDA, we continue to hold G8 at a Neutral (5) Issuer Profile, albeit precariously due to continued pressures on occupancy. (Company, OCBC)

Banyan Tree Holdings Limited ("BTH"): BTH announced its intention to acquire all the remaining ordinary shares in Laguna Resorts & Hotels Public Company ("LRH") which it does not already own for THB40 per share in cash. Currently, LRH is a partly-owned subsidiary of BTH whose financials are consolidated at the BTH level. BTH and its wholly-owned subsidiary, Banyan Tree Resorts & Spas (Thailand) Company Limited (together, "the Offeror") now holds 65.75%-stake in LRH. Of these, 54.2% are held directly by the Offeror, while 11.5% is held by nominees on behalf of BTH (including its subsidiaries). Excluding transaction cost, total cash outlay for the acquisition of the remaining 57.1mn shares (representing 34.25%-stake) is THB2.3bn (~SGD95.5mn). This is to be fully debt-funded via a bank loan from a Thai bank. LRH's principal activities is in hotel and property development (eg: Laguna Phuket integrated resort on Phuket Island, holding of Banyan Tree Bangkok hotel). LRH listed on the Stock Exchange of Thailand ("SET") and a tender offer will be carried out. The Offeror has no plans to delist shares of LRH from the SET. Additionally, volume weighted average price for the one year leading up to 22 February 2018 (immediately prior to announcement) was THB26.8 and the THB40 offer price already prices in a significant uplift for shareholders. Net-net, we do not expect the Offerors to further revise the offer price upwards. Certain corporations in which BTH's controlling shareholder/director own an equity interest of 30% or more hold a stake in LRH. These corporations are thus considered as interested persons of BTH. Nonetheless, these shareholding is minimal and below the required SGX threshold for shareholders' approval at BTH. As at 30 September 2017, reported debt-to-equity was 0.8x while net gearing was 0.6x. We expect gearing levels to increase to ~1.0x due to (1) Additional borrowings of ~SGD95.5mn to fund the acquisition and (2) Reduction in book value of equity at BTH level. The exact impact though, will be determined by adjustments to the carrying amount of non-controlling interest and equity. Assuming a cost of debt of 4.7% p.a on SGD95.5mn, additional interest at BTH would be SGD4.5mn, bringing total interest expense p.a to ~SGD33mn, further stressing BTH's already tight liquidity situation. Apart from additional interest expense, we do not expect other changes to the income to common shareholders. We currently have BTH's issuer profile at Neutral (5) though are in the midst of reviewing BTH in light of the proposed acquisition and the pending release of BTH's full year financial results. (Company, OCBC)

Credit Headlines (cont'd) :

Sembcorp Industries Ltd (“SCI”): As part of SCI’s earnings call for their 4Q2017 / full-year results, there was more clarity regarding their intended IPO for their India power business. Specifically, it would seem that SCI intends to retain a controlling stake in the business post-IPO and hence would continue to consolidate the business on their balance sheet. As mentioned previously (refer to [OCBC Asian Credit Daily – 19 January 2018](#)), had SCI decided to divest a majority stake in the India power business post IPO, SCI’s credit profile would see a sharp improvement. That said, even though SCI would not be benefiting as greatly from the IPO, SCI would still be receiving proceeds from the IPO (USD500mn – USD600mn) as well as various announced divestments at the Utilities segment, as well as rig deliveries at the Marine segment. As such, SCI’s leverage profile is still expected to improve over the next 12 – 24 months as its balance sheet get monetized. We currently hold SCI at Neutral (4) Issuer Profile. (Company, OCBC)

United Engineers Ltd (“UE”) / Oxley Holdings Ltd (“OHL”): The voluntary cash offer for WBL Corp Ltd (“WBL”), for WBL to be a wholly-owned subsidiary of UE, was not approved at UE’s EGM held on 23 Feb 2018. 67.4% of the votes were cast against the resolution as OHL, which has a 15% stake in UE, voted against the resolution while only 27% of the total UE shares voted during the EGM. We currently do not cover UE. (Company)

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

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