

May 28, 2018

**Credit Headlines:** CMA CGM, Keppel Corp

## **Market Commentary**

- The SGD swap curve flattened last Friday, with swap rates trading 2bps lower across most tenors.
- Flows in SGD corporates were heavy last Friday, with better buying seen in HSBC 4.7%-PERPs, HRAM 3.8%'25s and CMZB 4.875%'27s while better selling seen were in STHSP 3.95%-PERP and ASPSP 5.05%'19s.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 135bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 2bps to 417bps.
- 10Y UST yields fell 5bps to 2.93% as uncertainty about Italy's new government and leadership challenge in Spain drove safe haven bids.

## **Credit Headlines**

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

- CMA CGM announced 1Q2018 results. Revenue increased 17.1% y/y to USD5.41bn, largely driven by the 15.0% y/y boost in volumes traded. Comparatively, revenue per container only rose slightly y/y.
- Operating expenses however surged 22.5% y/y to USD5.19bn, caused by the spike in bunker fuel prices (up 19.4% y/y). This caused core EBIT to plunge sharply by 55.7% to USD115.1mn, or an EBIT margin of just 1.6% (versus 5.5% in 1Q2017).
- The sharp fall in operating profit drove CMA CGM to a net loss of USD67.2mn for the quarter. The challenges look sectorial though, as peer A.P Maersk reported a net loss of USD239mn (excluding discontinued operations), also due to fuel prices. It is worth noting that both CMA CGM and A.P Maersk have separately announced price increases to manage the surge in fuel cost.
- For the quarter, CMA CGM managed to generate USD136.0mn in operating cash flow (including interest service) versus a small USD1.3mn outflow seen in 1Q2017. Coupled with USD63.1mn in capex, they managed to generate USD72.9mn in free cash flow. The sharp fall in EBITDA though, drove EBITDA / Interest coverage lower to 1.9x (1Q2018) versus 3.4x (1Q2017).
- The quarter also saw a cash draw down of USD113.4mn, driven by USD113.1mn pay down in net borrowings, as well as USD80.6mn in dividends paid. This caused net gearing to inch higher to 131% (4Q2017: 125%). 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.
- It should also be reminded that CMA CGM had resumed its capacity expansion, having a new order of nine 22,000 TEU vessels made last year (with commitments for its order book at USD446.9mn for 2018). We will hold CMA CGM at Neutral (4) for now, though we note downside risks depending on CMA CGM's 1H2018 performance (Company, OCBC).

## Credit Headlines (cont'd):

### **Keppel Corp ("KEP") | Issuer Profile: Neutral (3)**

- KEP announced that it has sold a call option to the purchaser for 51% of the HK Aether asset (which owns and is developing a Beijing commercial plot). The option price is USD94.1mn (~SGD125.2mn), with the purchaser having 120 days to exercise the option. Should the purchaser exercise the option, KEP and the purchaser will enter into a sales and purchase agreement to complete the sale within 5 business days.
- The consideration for the purchase of the 51% stake (which is all that KEP owns) has been set at USD297.9mn. It is worth noting that as part of the option agreement, the purchaser has to set aside USD282.3mn in escrow for the purchase consideration.
- Should the transaction be completed, KEP expects to book SGD114mn divestment gain. Though it would be a positive for KEP's credit, it does not warrant a change from its current credit profile. (Company, OCBC)

**Table 1: Key Financial Indicators**

	28-May	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	76	0	2
iTraxx SovX APAC	12	0	0
iTraxx Japan	50	1	2
iTraxx Australia	66	0	2
CDX NA IG	63	1	3
CDX NA HY	107	0	0
iTraxx Eur Main	65	6	11
iTraxx Eur XO	299	18	28
iTraxx Eur Snr Fin	76	8	19
iTraxx Sovx WE	25	3	8
AUD/USD	0.756	-0.33%	0.36%
EUR/USD	1.169	-0.88%	-3.24%
USD/SGD	1.341	-0.07%	-1.13%
China 5Y CDS	56	-1	-1
Malaysia 5Y CDS	85	0	13
Indonesia 5Y CDS	117	-8	13
Thailand 5Y CDS	45	0	1

Source: OCBC, Bloomberg

	28-May	1W chg	1M chg
Brent Crude Spot (\$/bbl)	76.02	-4.04%	1.85%
Gold Spot (\$/oz)	1,298.68	0.47%	-1.27%
CRB	203.34	-0.17%	0.97%
GSCI	482.07	-1.44%	1.88%
VIX	13.22	-1.49%	-14.21%
CT10 (bp)	2.931%	-12.83	-2.55
USD Swap Spread 10Y (bp)	4	1	1
USD Swap Spread 30Y (bp)	-9	-1	3
TED Spread (bp)	43	-2	-10
US Libor-OIS Spread (bp)	43	-1	-10
Euro Libor-OIS Spread (bp)	4	0	0
DJIA	24,753	0.15%	1.82%
SPX	2,721	0.31%	1.93%
MSCI Asiax	715	-0.08%	0.47%
HSI	30,588	-1.14%	1.02%
STI	3,513	-0.45%	-1.79%
KLCI	1,797	-3.08%	-3.55%
JCI	5,976	3.33%	0.95%

## New issues

- There were no new issuances over 25 May 2018.

<u>Date</u>	<u>Issuer</u>	<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
24-May-18	Tokyo Metropolitan Government	USD500mn	5-year	MS+42bps
24-May-18	China Overseas Grand Oceans Finance IV Cayman Ltd	USD500mn	3-year	CT3+225bps
24-May-18	Housing & Development Board	SGD500mn	12-year	3.08%
23-May-18	QNB Finance Ltd	CNH600mn	3-year	5.2%
23-May-18	Logan Property Holdings Co Ltd (re-tap)	USD100mn	LOGPH 6.875%'21	7.5%
23-May-18	FPC Capital Ltd	USD175mn	7NC4	5.75%
23-May-18	China Merchants Bank Co Ltd/Hong Kong	USD500mn	3-year	3mL+77.5bps
23-May-18	Export-Import Bank of Korea	USD700mn	5-year	3mL+77.5bps
23-May-18	Export-Import Bank of Korea	USD800mn	3-year	3mL+57.5bps
18-May-18	DBS Bank Ltd	USD100mn	2-year	3.12%
17-May-18	Top Yield Ventures Ltd	USD120mn	364-day	9.75%
17-May-18	China South City Holdings Ltd	USD150mn	2-year	11%
17-May-18	QNB Finance Ltd	USD1.5bn	3-year	3mL+135bps
17-May-18	Vanke Real Estate Hong Kong Co Ltd	USD650mn	5-year	3mL+155bps
17-May-18	China Great Wall International Holdings III Ltd	USD600mn	5-year	CT5+155bps

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