

June 29, 2018

Credit Headlines: Pacific Radiance Ltd , Keppel Telecommunications & Transportation Ltd

Market Commentary

- The SGD swap curve traded little changed with only the 12-year swap rates trading 1bps higher.
- Flows in SGD corporates were heavy yesterday, with better buying seen in CMZB 4.875%'27s and CRCTSP 3.25%'22s and better selling seen in HSBC 4.7%-PERPs.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 2bps to 147bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 25bps to 514bps.
- 10Y UST yields fell 1bps to 2.82% initially, nearing one-month lows as fears about trade wars as well as higher-than-expected US jobless claims kept up demand for safe haven bonds. However, yields rose 2bps to close at 2.84% subsequently as the gain in stocks reduced demand for treasuries.

Credit Headlines:

Pacific Radiance Ltd (“PACRA”) | Issuer Profile: Unrated

- PACRA released its Annual Report 2017, financials for 2017 and 1Q2018 results this morning, which provided fresh updates to its financials since its [3Q2017 results in 10 Nov 2017](#).
- **Negative equity:** As of 1Q2018, PACRA's equity stands at a negative USD71.3mn, worsening from end-2017's negative USD57.5mn (3Q2017 equity: USD250.8mn). The sharp deterioration is mainly due to USD271.2mn impairments in 4Q2017, which mainly comprise impairments of plant, property and equipment (USD178.1mn) and impairments of amounts due from related companies (USD65.9mn).
- **Negative EBITDA with negative operating cashflows:** Operating cashflows before changes in working capital was negative at USD2.7mn in 1Q2018 (2017: -USD2.9mn), mainly due to negative EBITDA of USD3.6mn in 1Q2018 (2017: -USD2.5mn). After working capital changes, taxes and interest, operating cashflows is worse at USD6.5mn in 1Q2018 (2017: USD22.9mn).
- **Deterioration of results:** Revenue declined 16% y/y to USD11.8mn, mainly due to the decline in the revenue of the Subsea Business by 53% y/y to USD2.1mn due to lower charter rates of vessels. Revenue from the Shipyard business also declined by 51% y/y to USD1.6mn. The declines were marginally offset by the increase in revenue from the Offshore Support Business by 12% y/y to USD8.9mn with higher utilisation of vessels.
- **Disclaimer of opinion:** The auditor included a disclaimer of opinion as it is not able to conclude if the use of the going concern assumption is appropriate. The reasons include assets exceeding liabilities with a negative operating cash flow and a net loss in 2017. In addition, USD356.1mn of assets are mortgaged with the banks, which are entitled (but yet to) to enforce their rights as the terms of the bank loans have been breached. Also, the outcome of the restructuring exercise has yet to be concluded.
- **Substantial assets pledged to banks with significant contingent liabilities:** Bank loans of USD453.5mn are secured against majority of the assets, which include (1) vessels with net book value of USD292.6mn, (2) escrow mortgages of buildings, ship repair yard and plant and equipment with net book value of USD60.8mn and (3) cash of USD5.2mn. In addition, PACRA has given corporate guarantees of USD40.2mn as of 2017 (at the group level). At the company level, the corporate guarantees amount to USD486.6mn as of 2017.

Credit Headlines (cont'd):

Keppel Telecommunications & Transportation Ltd (“KPTT”) | Issuer Profile: Neutral (4)

- KPTT (the holding company), has announced that its wholly-owned subsidiary, Keppel Data Centres Pte Ltd (“KDC”) has entered into a loan agreement with a wholly-owned subsidiary of Keppel Land Limited (“Keppel Land”) to provide a SGD378mn loan to Keppel Data Centre Holding Pte Ltd (“the Borrower”) over a 5 year period.
- Via KDC, the Borrower is 70%-owned by KPTT and the remaining 30% is owned by Keppel Land. Keppel Land sits outside the KPTT structure though both are sister companies and owned by the same controlling shareholder, namely Keppel Corp (“KEP”).
- KDC’s portion of the loan is SGD264.6mn while Keppel Land’s portion is SGD113.4mn. The KDC portion is interest bearing and we expect Keppel Land’s portion to be interest bearing as well.
- The Borrower had committed to provide USD280mn to Alpha DC Fund Private Limited (“ADCF”), the private equity fund focused on data centres and the loan would allow the Borrower to meet its [capital commitment](#).
- Given that the Borrower is already consolidated into KPTT, SGD264.6mn will be eliminated at the consolidated level though Keppel Land’s portion will be recorded as additional “amounts owing to holding and related companies” at KPTT at a consolidated level which we take as debt.
- In our view, KPTT itself though would need to raise the SGD264.6mn externally to have sufficient sums to on-lend to the Borrower. We expect net gearing at KPTT to rise to ~0.7x (31 March 2018: 0.4x). (Company, OCBC)

Table 1: Key Financial Indicators

	29-Jun	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	95	15	16
iTraxx SovX APAC	15	1	2
iTraxx Japan	54	2	11
iTraxx Australia	81	9	11
CDX NA IG	68	4	0
CDX NA HY	106	-1	0
iTraxx Eur Main	76	5	3
iTraxx Eur XO	328	23	11
iTraxx Eur Snr Fin	94	12	3
iTraxx Sovx WE	26	2	-6
AUD/USD	0.735	-1.22%	-2.08%
EUR/USD	1.157	-0.69%	0.27%
USD/SGD	1.368	-0.67%	-1.61%
China 5Y CDS	71	14	14
Malaysia 5Y CDS	113	11	26
Indonesia 5Y CDS	143	12	25
Thailand 5Y CDS	50	5	5

	29-Jun	1W chg	1M chg
Brent Crude Spot (\$/bbl)	77.85	6.57%	3.39%
Gold Spot (\$/oz)	1,248.95	-1.70%	-3.84%
CRB	198.89	2.31%	-1.45%
GSCI	481.55	4.52%	0.94%
VIX	16.85	15.10%	-1.00%
CT10 (bp)	2.840%	-5.48	5.91
USD Swap Spread 10Y (bp)	7	1	4
USD Swap Spread 30Y (bp)	-6	2	5
TED Spread (bp)	42	1	-1
US Libor-OIS Spread (bp)	40	0	-5
Euro Libor-OIS Spread (bp)	3	0	0
DJIA	24,216	-1.00%	-0.60%
SPX	2,716	-1.22%	0.98%
MSCI Asiax	661	-4.08%	-7.36%
HSI	28,497	-2.73%	-6.52%
STI	3,258	-1.29%	-7.42%
KLCI	1,666	-1.57%	-6.20%
JCI	5,667	-2.66%	-6.61%

New issues

- Posco has hired banks for its potential USD bond issuance.

<u>Date</u>	<u>Issuer</u>	<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
27-Jun-18	CapitaLand Retail China Trust	SGD130mn	4-year	3.25%
27-Jun-18	Korea National Oil Corp	USD400mn	5-year	3mL+87.5bps
26-Jun-18	Huarong Finance 2017 Co Ltd (re-tap)	USD150mn	HRAM 4.75%'27	CT9+245bps
26-Jun-18	Huarong Finance 2017 Co Ltd	USD550mn	5-year	3mL+132.5bps
26-Jun-18	Huarong Finance 2017 Co Ltd	USD400mn	3-year	3mL+117.5bps
25-Jun-18	Far East Horizon Ltd	USD400mn	3-year	3mL+200bps
21-Jun-18	Agile Group Holdings Ltd	USD100mn	Perp NC3	8.55%
21-Jun-18	Horse Gallop Finance Ltd	USD700mn	3-year	3mL+118bps
21-Jun-18	Zhenro Properties Group Ltd	USD250mn	2-year	11.5%
20-Jun-18	Guangsha Holding Group Co Ltd	USD300mn	364-day	7.0%
20-Jun-18	GS Caltex Corp	USD300mn	5-year	CT5+120bps
19-Jun-18	Korea Development Bank	CNH1.75bn	3-year	4.6%
19-Jun-18	Greenland Hong Kong Holdings Ltd	USD200mn	364-day	7.875%
15-Jun-18	Greenland Global Investment Ltd	USD250mn	3.25-year	3mL+485bps
14-Jun-18	CFLD Cayman Investment Ltd	USD200mn	3-year	9.0%
13-June-18	Industrial & Commercial Bank of China Asia Ltd	HKD2.6bn	2-year	3.0%
13-June-18	Industrial & Commercial Bank of China Asia Ltd	USD200mn	5-year	3mL+85bps
13-June-18	Industrial & Commercial Bank of China Asia Ltd	USD200mn	3-year	3mL+75bps

Source: OCBC, Bloomberg

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