

Apr 2, 2019

Credit Headlines: Keppel Corporation Ltd, Golden Agri-Resources Ltd, Olam International Ltd, Sembcorp Industries Ltd

Market Commentary

- The SGD swap curve steepened yesterday, with the shorter tenors trading 1bps higher while the belly and longer tenors traded 2-3bps higher (exception of the 12-year swap rate trading 4bps higher).
- The Bloomberg Barclays Asia USD IG Bond Index average OAS traded little changed at 135bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 1bps to 463bps.
- Flows in SGD corporates were moderate, with flows seen in LLCAU 3.9%'27s, SIASP 3.03%'24s and CMZB 4.875%'27s.
- 10Y UST yields surged 10bps to close the session at 2.50%, after declining safe haven demand and a treasury sell-off prompted by better-than-expected manufacturing activity data. The index on US domestic factory activity rose while China's manufacturing sector saw growth for the first time in four months.

Credit Headlines

Keppel Corporation Ltd ("KEP") | Issuer Profile: Neutral (4)

- KEP has announced that its wholly-owned subsidiary has entered into an agreement with Envision AESC to invest USD50mn (~SGD67.7mn) for an undisclosed minority stake in Envision AESC Group Ltd ("Envision"), an intelligent lithium ion-battery company, used mainly in electric vehicles. Envision AESC is a renewable energy player headquartered in Shanghai.
- Envision had recently acquired Automotive Energy Supply Corporation, a former venture between Nissan Motor Company and NEC and had also acquired a battery electrode manufacturing company owned by NEC. Envision AESC has a 80% stake in Envision while 20% is held by Nissan.
- While the transaction is very small versus KEP's total net assets of SGD11.6bn, it marks the first time KEP has entered into the battery sector and a continuation of a diversification theme at the company (eg: growth of asset management, bought mobile operator M1). In its recently published annual report, KEP's CEO has shared that KEP's long term goal is to have each key division contribute at most a 40%-stake to annual net profit to reduce its exposure to business-cycle risks. In 2018, profit before tax of its Property segment made up 96% of total profit before tax, which also helped offset losses from Offshore & Marine and the Investments segment. Infrastructure was a small net contributor at SGD184.4mn of profit before tax.
- While KEP's diversification strategy could be beneficial to its longer term outlook, we expect KEP's net gearing to rise in the short-medium term as it takes on debt to fund its business transformation. (Company, OCBC)

Credit Headlines (cont'd)

Golden Agri-Resources Ltd (“GGR”) | Issuer Profile: Neutral (5)

- GGR’s wholly-owned subsidiary Tree Oak Ventures (“Tree Oak”) has entered into agreements with Olympus General Partner as general partner of Olympus Fund, a fund established in the Cayman Islands for Tree Oak to participate in the fund (via non-cash assets and cash). The fund aims to develop a digitally enabled B2B market place, logistics and supply chain operation in Indonesia.
- The non-cash component consists of PT Sinarmas Distribusi Nusantara (a wholly-owned subsidiary of GGR which is the sole distributor of GGR consumer products in Indonesia) for an aggregate consideration of USD39mn. The cash contribution shall be USD15.7mn. While optically this looks to be a small investment, we would continue to monitor diversions of cash at GGR into technology related-funds as these are competing cash outflow to interest and principal payments on debt and are outside of disclosed capex plans.
- In December 2016, GGR had first subscribed for a limited partnership interest in another technology investment fund, RMDV Fund 1, L.P. (Company, OCBC)

Olam International Ltd (“OLAM”) | Issuer Profile: Neutral (5)

- OLAM has secured a three year digital-linked revolving credit facility of USD350mn, with reduction in interest cost linked to a digital maturity score. Effectively, OLAM and lending banks have agreed on an annual improvement target over the course of the facility. Per company, this is the first of its kind globally. While the deal is small versus OLAM’s total debt of SGD11.3bn as at 31 December 2018, it adds diversity in company’s funding sources which is a credit positive in our view. 7 banks are participating in this facility on an equal split basis. (Business Times, OCBC)

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

- SCI announced that its 90.9%-owned joint venture in China has signed a conditional agreement to transfer its municipal water plant to the Housing & Urban-Rural Development Bureau of Xinmin, a local government agency for RMB98.8mn (~SGD19.9mn). This is a small transaction for SCI and we see this as credit neutral. (Company, OCBC)

Table 1: Key Financial Indicators

	<u>2-Apr</u>	<u>1W chg (bps)</u>	<u>1M chg (bps)</u>
iTraxx Asiax IG	68	-2	1
iTraxx SovX APAC	45	-1	-6
iTraxx Japan	59	-2	2
iTraxx Australia	73	-3	7
CDX NA IG	62	-6	2
CDX NA HY	107	1	1
iTraxx Eur Main	62	-6	0
iTraxx Eur XO	256	-20	-20
iTraxx Eur Snr Fin	77	-9	1
iTraxx Sovx WE	19	0	-2
AUD/USD	0.711	-0.41%	0.20%
EUR/USD	1.120	-0.57%	-1.22%
USD/SGD	1.355	-0.23%	-0.04%
China 5Y CDS	43	-2	-4
Malaysia 5Y CDS	59	-2	-1
Indonesia 5Y CDS	101	1	4
Thailand 5Y CDS	41	-1	-2

	<u>2-Apr</u>	<u>1W chg</u>	<u>1M chg</u>
Brent Crude Spot (\$/bbl)	69.24	1.87%	6.41%
Gold Spot (\$/oz)	1,287.50	-2.14%	0.06%
CRB	185.46	0.62%	2.18%
GSCI	439.70	0.59%	4.35%
VIX	13.4	-17.94%	-1.25%
CT10 (bp)	2.478%	5.47	-27.54
USD Swap Spread 10Y (bp)	0	4	-1
USD Swap Spread 30Y (bp)	-24	5	-3
US Libor-OIS Spread (bp)	20	0	1
Euro Libor-OIS Spread (bp)	5	0	0
DJIA	26,258	2.91%	0.89%
SPX	2,867	2.46%	2.26%
MSCI Asiax	671	2.28%	2.21%
HSI	29,601	3.62%	2.74%
STI	3,263	1.95%	1.32%
KLCI	1,638	-0.69%	-3.66%
JCI	6,480	0.16%	-0.30%

New issues

- Kaisa Group Holdings Ltd has priced a USD350mn 3NC2 bond (subsidiary guarantors: certain restricted subsidiaries incorporated outside the PRC) at 11.375%, tightening from IPT of 11.625% area.
- China SCE Group Holdings Ltd has priced a USD350mn 5NC3 bond (subsidiary guarantors: certain non-PRC incorporated subsidiaries of issuer) at 7.375%, tightening from IPT of 7.625% area.
- Jingrui Holdings Ltd has priced a USD200mn 2.5-year bond (subsidiary guarantors: certain non-PRC subsidiaries of the issuer) at 11.2%, tightening from IPT of 11.5% area.
- Tencent Holdings Ltd has scheduled investor meetings from 2 April for its potential USD bond issuance.
- PT Bank Mandiri (Persero) Tbk has scheduled investor meetings from 2 April for its potential USD bond issuance.

<u>Date</u>	<u>Issuer</u>	<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
1-Apr-19	Kaisa Group Holdings Ltd	USD350mn	3NC2	11.375%
1-Apr-19	China SCE Group Holdings Ltd	USD350mn	5NC3	7.375%
1-Apr-19	Jingrui Holdings Ltd	USD200mn	2.5-year	11.2%
28-Mar-19	Vertex Capital Investment Ltd	USD500mn	5-year	4.75%
28-Mar-19	Country Garden Holdings Co Ltd	USD550mn USD950mn	5NC3 7NC4	6.50% 7.25%
28-Mar-19	Bank of Baroda	USD500mn USD300mn	3-year 5-year	CT3+145bps CT5+170bps
28-Mar-19	Caiyun International Investment Ltd	USD800mn	3-year	5.6%
28-Mar-19	Power Best Global Investments Ltd	USD100mn	2-year	13.0%
28-Mar-19	ESR Cayman Ltd	USD250mn	3-year	8.0%
27-Mar-19	Zhenro Properties Group Ltd	USD420mn	3.8NC2	8.65%
27-Mar-19	Mei Nian Investment Ltd	USD200mn	2-year	8.5%
27-Mar-19	CMT MTN Pte Ltd	USD300mn	10-year	CT10+122.5bps

Source: OCBC, Bloomberg

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