

May 31, 2019

Credit Headlines: CMA CGM

Market Commentary

- The SGD swap curve bear-steepened yesterday, with the shorter tenors trading within 2bps higher while the belly and longer tenors traded 2-3bps higher.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS was little changed at 138bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 2bps to 498bps.
- Flows in SGD corporates were heavy, with flows in SOCGEN 6.125%-PERPs, FPLSP 4.98%-PERPs, CMZB 4.2%'28s, WINGTA 4.35%-PERPs, HSBC 5.0%-PERPs and UBS 5.875%-PERPs.
- 10Y UST yields fell 5bps to 2.21%, holding out above 20-month lows as safe haven demand continued to be fuelled by concerns about the impact of the US-China trade war on global growth.

Credit Headlines

CMA CGM (acquired Neptune Orient Lines, “NOL”) | Issuer Profile: Neutral (5)

- CMA CGM announced first quarter results. Revenue grew 36.9% y/y to USD7.4bn, largely due to the impact of integrating CEVA Logistics (“CEVA”) which amounted to USD1.7bn. Excluding CEVA’s contribution, revenue would have grown by 5.5% y/y. This was largely on the back of a 4.4% y/y increase in volume transported due to strong development in the intra-regional routes and slight increase in revenue per container, particularly on the routes serving the United States and Africa.
- Operating expenses moved in tandem and rose by 27.6% y/y. Likewise, this was primarily due to the integration of CEVA. Excluding CEVA’s contribution, operating expenses were higher by ~6.5% y/y, due to the rise of bunker prices and volumes carried.
- With the integration of CEVA, core EBIT improved by 1.7x to SGD147.8mm, representing a core EBIT margin of 2.0%. Otherwise, core EBIT would have been lower at just USD64.1mn (vs 3M2018: USD86.0mn).
- CMA CGM reported net loss (before tax) of USD25.6mn as EBIT (USD252.9mn) was unable to cover its interest expenses on borrowings (USD321.7mn), though losses were lower y/y. The higher interest expenses on borrowings were largely due to IFRS 16 application (impacting operating lease contracts).
- Net operating cash flow was positive at USD714.4mn (3M2018: 247.6mn) while free cash flow was USD762.1mn. This was due to CMA CGM receiving capex cash inflow from business combination of USD330.6mn from the integration of CEVA under cash flow from investing activities. This offset USD101.8mn cash outflows from purchases of PPE and USD192.3mn cash outflows from other financial assets.

Credit Headlines (cont'd)

- Net gearing surged to 319% largely due to lease liabilities under IFRS 16. Eliminating the impact of IFRS 16, net gearing would have been 161% (2018: 142%, 2017: 128%). Current debt increased from USD1.02bn to USD4.44bn, with IFRS 16 contributing USD1.7bn and USD1.1bn in bank borrowings. For the year to date, total borrowings rose to USD19.9bn as at 31 March 2019 from USD9.2bn as at 1 January 2019. USD2.8bn of the increase was due to the CEVA acquisition and the remainder was due to first time application of IFRS16.
- CMA CGM has raised its savings targets of its performance improvement and cost control program to USD1.5bn, from the previously announced USD1.2bn.
- We are continuing to review the numbers and industry outlook in the context of prevailing negative sentiment towards global growth and the impacts from ongoing trade negotiations between the US and China. Note that we [had previously lowered CMA CGM's issuer profile](#) to Neutral (5) from Neutral (4) on the expectation that the weaker financial metrics due to additional leverage from the acquisition more than offsets any potential synergies from the business combination. (Company, OCBC)

Table 1: Key Financial Indicators

	31-May	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	77	3	12
iTraxx SovX APAC	50	2	8
iTraxx Japan	66	2	12
iTraxx Australia	76	2	9
CDX NA IG	67	2	9
CDX NA HY	105	-1	-2
iTraxx Eur Main	69	1	11
iTraxx Eur XO	302	8	54
iTraxx Eur Snr Fin	90	3	21
iTraxx Sovx WE	18	1	2
AUD/USD	0.691	-0.19%	-1.90%
EUR/USD	1.113	-0.62%	-0.72%
USD/SGD	1.379	-0.27%	-1.32%
China 5Y CDS	57	4	15
Malaysia 5Y CDS	70	3	15
Indonesia 5Y CDS	112	4	16
Thailand 5Y CDS	36	-1	0

	31-May	1W chg	1M chg
Brent Crude Spot (\$/bbl)	66.28	-3.51%	-8.96%
Gold Spot (\$/oz)	1,290.90	0.46%	0.57%
CRB	178.76	-0.44%	-2.98%
GSCI	421.88	-0.19%	-5.50%
VIX	17.3	17.29%	31.86%
CT10 (bp)	2.180%	-14.00	-32.16
USD Swap Spread 10Y (bp)	-5	1	-4
USD Swap Spread 30Y (bp)	-28	1	-4
US Libor-OIS Spread (bp)	17	2	-1
Euro Libor-OIS Spread (bp)	5	-1	0
DJIA	25,170	-2.35%	-5.35%
SPX	2,789	-2.36%	-5.33%
MSCI Asiax	615	-0.18%	-9.05%
HSI	27,074	-1.02%	-8.84%
STI	3,129	-1.28%	-7.96%
KLCI	1,643	2.79%	0.04%
JCI	6,163	2.16%	-4.53%

New issues

- Hejun Shunze Investment Co Ltd (parent guarantor: Sichuan Languang Development Co Ltd) has priced a USD220mn re-tap of its existing LGUANG 12%'21s at 11.125%, tightening from IPT of 11.625% area.
- Perfect Point Ventures Ltd (parent guarantor: C C Land Holdings Ltd) has priced USD250mn 3-year bond at 6.35%, tightening from IPT of 6.625% area.
- Xinjiang Zhongtai (Group) Co Ltd has priced a USD380mn 3-year bond at 7.25%, in line with final price guidance.
- Singapore Press Holdings Ltd has priced a SGD150mn NC5-perpetual bond at 4.50%, tightening from IPT of 4.75% area.

<u>Date</u>		<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
30-May-19	Hejun Shunze Investment Co Ltd	USD220mn	LGUANG 12%'21s	11.125%
30-May-19	Perfect Point Ventures Ltd	USD250mn	3-year	6.35%
30-May-19	Xinjiang Zhongtai (Group) Co Ltd	USD380mn	3-year	7.25%
30-May-19	Singapore Press Holdings Ltd	SGD150mn	NC5-perpetual	4.50%
29-May-19	Xi Yang Overseas Ltd	USD500mn	5-year	4.43%
29-May-19	GS Caltex Corp	USD300mn	5-year	T+100bps
29-May-19	Bank of China Ltd of Macau	USD200mn	2-year	2.50%
29-May-19	Credit Suisse Group AG	SGD750mn	NC5-perpetual	5.625%
28-May-19	Chongqing Nan'an Urban Construction & Development Group Co Ltd	USD500mn	5-year	4.80%
28-May-19	KEB Hana Bank	USD400mn	5-year	3M-US LIBOR+75bps
28-May-19	Delhi International Airport Ltd	USD350mn	10-year	6.45%
28-May-19	Export-Import Bank of China	USD100mn	5-year	3M-US LIBOR+65bps
27-May-19	Agile Group Holdings Ltd	USD600mn	NC4.5-perpetual	8.375%
27-May-19	RongXingDa Development BVI Ltd	USD175mn	RISSUN 8.0%'22s	8.75%

Source: OCBC, Bloomberg

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