

Mar 4, 2019

Credit Headlines: CMA CGM

Market Commentary

- The SGD swap curve bear-steepened last Friday, with shorter tenors trading 1-3bps higher while the belly and the longer tenors traded 4-5bps and 5-7bps respectively.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 140bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 6bps to 498bps.
- Flows in SGD corporates were heavy, with flows seen in UBS 5.875%-PERPs, HSBC 4.7%-PERPs, SINTEC 5.0%-PERPs, UOBSP 3.5%'29s, KRISPP 4.0%'22s, DBSSP 3.98%-PERPs, FPLSP 4.15%'27s and LLCAU 3.9%-27s.
- 10Y UST yields rose 4bps to 2.75%, on the back of advances in negotiations in the US-China trade talks, despite soft economic data pertaining to US manufacturing, personal income and spending.

Credit Headlines

CMA CGM (acquired Neptune Orient Lines, “NOL”) | Issuer Profile: Neutral (4)

- CMA CGM announced full year 2018 results. Annual revenue increased 11.2% y/y to USD23.5bn, while in 4Q2018, revenue rose 14.9% q/q to USD6.3bn. This was largely on the back of a 9.3% y/y increase in volumes carried in particular the Transpacific, India/Oceania and Africa lines compared to 2017.
- Operating expenses rose by 17.5% y/y to USD22.3bn, mainly due to the sharp rise of bunker prices by 33% in 2018 and costs such as handling, logistics and transportation expenses. Consequentially, core EBIT plunged 61.2% y/y to USD610.4mn, representing a core EBIT margin was 2.6%. Reported net profit (before tax) was down 79.1% y/y. EBITDA/Interest coverage was also lower y/y at 2.36x versus 4.3x in 2017, due to 45.4% lower y/y EBITDA (before disposal of property and equipment and subsidiaries) while interest was somewhat stable.
- Although net operating cash flow was positive at USD1.2bn (2017: USD1.59bn), CMA CGM only generated positive free cash flow of USD236.9mn largely because of the additional investment in CEVA Logistics which raised its aggregate stake to 32.9% as at 31 December 2018.
- Net gearing inched higher to 142% (2017: 128%). With the ongoing Public Tender Offer for CEVA Logistics shares at CHF30.00 per share, we think net gearing is likely to continue to climb even though CMA CGM technically has sufficient cash on hand (USD1.3bn as at 31 Dec 2018) to fully fund the acquisition. Separately, we note that CMA CGM has entered into additional derivative instruments on 4 January 2019 to obtain more than 50% ownership of CEVA, when aggregating with the shares already owned by CMA CGM.
- CMA CGM has also announced the implementation of a global plan to improve its operational performance (and profitability) with a cost savings objective of USD1.2bn through the optimization of lines and brands, and by further streamlining its processes. We are reviewing the Neutral (4) issuer profile. (Company, OCBC)

Table 1: Key Financial Indicators

	4-Mar	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	70	0	-8
iTraxx SovX APAC	52	-3	-7
iTraxx Japan	58	-1	-2
iTraxx Australia	68	-1	-8
CDX NA IG	59	-1	-6
CDX NA HY	106	0	0
iTraxx Eur Main	63	-1	-9
iTraxx Eur XO	280	-2	-32
iTraxx Eur Snr Fin	76	-2	-13
iTraxx Sovx WE	21	-2	-3
AUD/USD	0.709	-1.02%	-1.83%
EUR/USD	1.137	0.06%	-0.64%
USD/SGD	1.354	-0.27%	-0.05%
China 5Y CDS	49	0	-5
Malaysia 5Y CDS	63	-4	-17
Indonesia 5Y CDS	100	-5	-12
Thailand 5Y CDS	44	-2	3

	4-Mar	1W chg	1M chg
Brent Crude Spot (\$/bbl)	65.36	0.93%	4.56%
Gold Spot (\$/oz)	1,296.28	-2.36%	-1.22%
CRB	181.50	-1.39%	0.49%
GSCI	421.35	0.19%	2.10%
VIX	13.57	0.44%	-13.73%
CT10 (bp)	2.762%	9.96	3.87
USD Swap Spread 10Y (bp)	0	0	-2
USD Swap Spread 30Y (bp)	-21	0	-2
US Libor-OIS Spread (bp)	19	-4	-14
Euro Libor-OIS Spread (bp)	5	0	0
DJIA	26,026	-0.02%	3.12%
SPX	2,804	0.39%	2.89%
MSCI Asiax	656	-0.92%	2.48%
HSI	29,148	0.65%	4.14%
STI	3,244	-0.86%	1.87%
KLCI	1,695	-1.73%	0.66%
JCI	6,496	-0.45%	0.23%

New issues

- Zhenro Properties Group Ltd has priced a USD200mn 3NC2 bond (subsidiary guarantors: certain non-PRC restricted subsidiaries of the issuer) at 9.95%, tightening from IPT of 10.5% area.
- Centurion Corp Ltd has priced a SGD4mn re-tap of its existing CENSP 5.5%'22s at 5.5%.
- Nuoxi Capital Ltd has scheduled investor meetings from 4 Mar for its potential USD re-tap of its existing PKFOUN 5.8%'22s (guarantor: Peking University Founder Group Co Ltd).

<u>Date</u>	<u>Issuer</u>	<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
1-Mar-19	Zhenro Properties Group Ltd	USD200mn	3NC2	9.95%
1-Mar-19	Centurion Corp Ltd	SGD4mn	CENSP 5.5%'22s	5.5%
28-Feb-19	Vanke Real Estate (Hong Kong) Co Ltd	USD600mn	5.25-year	CT5+175bps
28-Feb-19	Tuspark Forward Ltd	USD350mn	2-year	7.9%
28-Feb-19	Sunrise (Cayman) Ltd	USD500mn	5-year	CT5+285.5bps
28-Feb-19	Agile Group Holdings Ltd	USD500mn	3NC2	6.7%
28-Feb-19	Jubilant Pharmaceuticals Ltd	USD200mn	5NC3	6.0%
27-Feb-19	Sichuan Languang Development Co Ltd	USD150mn	LGUANG 11.0%'20s	12.625%
27-Feb-19	Mitsui Sumitomo Insurance Co Ltd	USD910mn	NC10-perpetual	4.95%
27-Feb-19	Emirates NBD PJSC	SGD130mn	4-year	3.05%
26-Feb-19	Bi Hai Co	USD600mn	3-year	6.25%
26-Feb-19	ICBCIL Finance Co	USD700mn USD800mn	3-year 5-year	CT3+125bps CT5+142.5bps
26-Feb-19	Zhaojin Mining International Finance Ltd	USD300mn	3-year	5.5%
26-Feb-19	Mitsubishi UFJ Financial Group	USD1.5bn USD500mn USD1.5bn USD1.5bn USD500mn	3-year 3-year 5-year 10-year 20-year	CT3+77bps 3M-LIBOR+70bps CT5+95bps CT10+110bps CT20+115bps

Source: OCBC, Bloomberg

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