

Apr 5, 2019

Credit Headlines: Commerzbank AG, Hyflux Ltd

Market Commentary

- The SGD swap curve flattened yesterday, with most tenors trading 1-2bps lower.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS and the Bloomberg Barclays Asia USD HY Bond Index average OAS were little changed at 135bps and 464bps respectively.
- Flows in SGD corporates were heavy on perpetuals, with large flows seen in FPLSP 4.88%-PERPS. The rest of the flows are FPLSP 3.95%-PERPs, SINTEC 5.0%-PERPs, FPLSP 4.38%-PERPs, FPLSP 4.15%'27s, FPLSP 5.0%-PERPs, GUOLSP 4.6%-PERPs and SIASP 3.03%'24s.
- 10Y UST yields were little changed, falling 1bps to close the session at 2.52%, as trade negotiations between China and the United States proceeded to the latest round of negotiations and investors await further developments on Brexit. Economic data has been mixed, with US jobless claims dropping to a 49-year low last week although German industrial orders in February saw their steepest drop in over two years.

Credit Headlines

Commerzbank AG (“CMZB”) | Issuer Profile: Neutral (4)

- Talks are continuing between CMZB and Deutsche Bank AG (Unrated by OCBC Credit Research) regarding a possible merger with 9th April mentioned as a possible target date for CMZB’s board to decide whether to accelerate talks or cease them. Similarly, it has been reported that Deutsche Bank is also targeting sometime in late April to determine if a merger should proceed, such steps seen by both banks as an attempt to reduce uncertainty surrounding each bank’s future.
- Messages remain somewhat mixed on the possibility of a merger and there continues to be additional noise surrounding the merger that has raised uncertainty as discussions continue. This is because of the many stakeholders involved in the transaction involving both banks, their employee unions, the German government and regulatory authorities. In this regard, latest reports indicate that the European Central Bank will require Deutsche Bank to raise capital before approving a merger with CMZB. This is not unexpected given a merged entity will likely be subjected to additional minimum capital requirements given its enlarged scale and higher systemic importance as well as potential execution risks and costs during the merger process. This is in addition to potential revaluation of assets on a combination which could negatively impact capital ratios.
- Separately, it was also announced that Italian bank UniCredit AG (Unrated by OCBC Credit Research) is preparing to bid for a controlling stake in CMZB should negotiations with Deutsche Bank and CMZB cease. This is [not the first time](#) that UniCredit AG has expressed an interest in CMZB although it appears this time their approach is more measured given one consideration for the merger is somewhat nationalistic. Interest has remained from UniCredit AG given Germany is a solid contributor to UniCredit AGs business contributing 21% to total revenues in FY2018 (behind Italy at 49%). Business are also somewhat complimentary with 13% of total revenues for UniCredit AG coming from Commercial Banking Germany. Corporate Clients contributed 50% of CMZB’s operating profits.
- As it stands, there is still no clear view on whether the benefits will outweigh the costs of such a complex merger and if the two banks can ultimately combine to become a stronger one. We continue to monitor developments. (OCBC, Bloomberg)

Credit Headlines (cont'd)

Hyflux Ltd (“Hyflux”) | Unrated

- HYF has announced the termination of the Restructuring Agreement with SM Investments Pte Ltd (“SMI”). According to HYF, this followed repeated attempts to gain assurances from SMI that they would honour the terms of the Restructuring Agreement if the scheme meetings voted in favour of HYF’s restructuring plan. From SMI’s point of view, their contention for not providing such assurance was the apparent existence of material new information including the occurrence of “Prescribed Occurrences” as per the terms of the Restructuring Agreement.
- Based on statements so far, it appears HYF has terminated the Restructuring Agreement without any confirmed plan. While they intend to re-engage with previous interested parties, the commercial dynamics, negotiating positions and perceptions have no doubt changed. This is likely to impact the terms of any new interest by strategic investors, especially with SMI’s terms publicly disclosed.
- Investors have now been placed again in limbo. While outcomes have become uncertain and prior information provided by the company and its advisors is largely no longer applicable, what remains relevant for investors and is perhaps more in focus are the prospects of recovery (or lack of thereof) in liquidation as opposed to recovery in a restructuring.
- The next key date in our view is April 30th, which is the end of the debt moratorium period and court protection from creditors. Whether the judge chooses to extend further will likely to depend firstly on HYF applying for the extension and more importantly showing the court cause for why the extension should be granted. We note that in the last extension application in late November 2018 that the unsecured working group (comprising the bank creditors) sought to have the original extension only to mid-January 2019. We think chances of an extension could be slim if there is no tangible plan. If no extension is granted, and no other investor steps forward then the company may be forced into liquidation. (OCBC, Company)

Table 1: Key Financial Indicators

| | 5-Apr | 1W chg (bps) | 1M chg (bps) |
|--------------------|-------|--------------|--------------|
| iTraxx Asiax IG | 67 | -4 | 0 |
| iTraxx SovX APAC | 44 | -2 | -6 |
| iTraxx Japan | 58 | -2 | 2 |
| iTraxx Australia | 71 | -4 | 4 |
| CDX NA IG | 61 | -2 | 0 |
| CDX NA HY | 107 | 0 | 1 |
| iTraxx Eur Main | 61 | -3 | 1 |
| iTraxx Eur XO | 255 | -13 | -18 |
| iTraxx Eur Snr Fin | 77 | -2 | 2 |
| iTraxx Sovx WE | 19 | -1 | -2 |
| AUD/USD | 0.712 | 0.37% | 0.54% |
| EUR/USD | 1.123 | 0.07% | -0.73% |
| USD/SGD | 1.354 | 0.10% | 0.09% |
| China 5Y CDS | 43 | -2 | -4 |
| Malaysia 5Y CDS | 57 | -4 | -3 |
| Indonesia 5Y CDS | 97 | -6 | 2 |
| Thailand 5Y CDS | 41 | -1 | -3 |

| | 5-Apr | 1W chg | 1M chg |
|----------------------------|----------|--------|--------|
| Brent Crude Spot (\$/bbl) | 69.16 | 1.13% | 5.01% |
| Gold Spot (\$/oz) | 1,290.83 | -0.12% | 0.22% |
| CRB | 187.04 | 2.03% | 2.83% |
| GSCI | 443.93 | 2.26% | 4.60% |
| VIX | 13.58 | -5.89% | -7.87% |
| CT10 (bp) | 2.526% | 12.08 | -19.11 |
| USD Swap Spread 10Y (bp) | -2 | -2 | -3 |
| USD Swap Spread 30Y (bp) | -25 | -2 | -5 |
| US Libor-OIS Spread (bp) | 19 | -1 | 0 |
| Euro Libor-OIS Spread (bp) | 5 | 0 | 0 |
| DJIA | 26,385 | 2.59% | 2.24% |
| SPX | 2,879 | 2.27% | 3.22% |
| MSCI Asiax | 678 | 2.15% | 2.90% |
| HSI | 29,936 | 4.04% | 3.37% |
| STI | 3,329 | 3.63% | 2.95% |
| KLCI | 1,644 | 0.02% | -2.47% |
| JCI | 6,493 | 0.19% | 0.80% |

New issues

- Xinyuan Real Estate Co Ltd has priced a USD200mn 2.5-year bond at 14.2%, tightening from IPT of 14.5% area.
- Frasers Property Treasury Pte Ltd has priced a SGD400mn NC5-perpetual bond (guarantor: Frasers Property Ltd) at 4.98%, tightening from IPT of 5.25% area.
- Vedanta Resources Finance II Plc (guarantor: Vedanta Resources Ltd) has scheduled investor meetings from 5 April for its potential USD bond issuance.

| <u>Date</u> | <u>Issuer</u> | <u>Size</u> | <u>Tenor</u> | <u>Pricing</u> |
|-------------|--|---|--|---|
| 4-Apr-19 | Xinyuan Real Estate Co Ltd | USD200mn | 2.5-year | 14.2% |
| 4-Apr-19 | Frasers Property Treasury Pte Ltd | SGD400mn | NC5-perp | 4.98% |
| 3-Apr-19 | Tencent Holdings Ltd | USD1.25bn USD750mn USD500mn USD3.0bn USD500mn | 5-year 5-year 7-year 10-year 30-year | T+95bps 3M-LIBOR+91bps T+115bps T+145bps T+160bps |
| 3-Apr-19 | PT Bank Mandiri | USD750mn | 5-year | T+165bps |
| 3-Apr-19 | Mongolian Mining Corporation and Energy Resources LLC | USD440mn | 5NC3 | 9.25% |
| 3-Apr-19 | GMR Hyderabad International Airport Ltd | USD300mn | 5-year | 5.375% |
| 3-Apr-19 | Xinjiang Transportation Construction Investment Holding Co Ltd | USD160mn | 3-year | 7.8% |
| 3-Apr-19 | Future Land Development Holdings Ltd | USD200mn | 4NC2 | 6.15% |
| 2-Apr-19 | Resorts World Las Vegas LLC | USD1.0bn | 10-year | CT10+222.5bps |
| 2-Apr-19 | Jisco SR Pearl Ltd | USD300mn | 3-year | 7.3% |
| 2-Apr-19 | BOC Aviation Ltd | USD750mn | 5.5-year | CT5+135bps |

Source: OCBC, Bloomberg

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