

May 7, 2019

Credit Headlines: Hyflux Ltd, Singapore Post Limited, BreadTalk Group Ltd

Market Commentary

- The SGD swap curve bull-flattened yesterday, with the shorter tenors trading 1bps lower, while the belly and longer tenors traded 2-4bps lower.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 2bps to 130bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 9bps to 470bps.
- Flows in SGD corporates were heavy, with large flows from SOCGEN 6.125%-PERPs. The other flows seen were DBSSP 3.98%-PERPs, UBS 5.875%-PERPs, SLHSP 4.5%'25s, and HSBC 4.7%-PERPs.
- 10Y UST yields fell 6bps to 2.47%, on the back safe haven demand driven by fresh trade tensions between China and the United States. With US President Donald Trump threatening to increase tariffs on USD200bn of Chinese-made goods from 10% to 25%, fears of a global slowdown in the event of derailed trade talks between the two largest economies in the world became the focus of the market. The drop in yields, however, was offset by the upcoming USD84bn treasury supply this week.

Credit Headlines

Hyflux Ltd (“HYF”) | Issuer Profile: Unrated 26 April

- As a recap, [HYF's debt moratorium was extended](#) until 24 May 2019 based on on-going discussions with possible new investors which may result in a new restructuring plan.
- HYF has now announced further details of its discussions including the receipt of a non-binding letter of intent for a SGD400mn investment from Utico FZC. According to HYF, Utico FZC is a Middle Eastern full service utility and developer with experience in the water and power industries. It is privately owned by entities linked to the governments of Oman, Saudi Arabia, Bahrain and Brunei.
- Proposed use of the SGD400mn is for equity, working capital and interim liquidity. While key terms of the investment are yet to be announced, HYF has indicated that Utico FZC is proposing for existing HYF management to be retained and for a workable solution to be arrived at with HYF's creditors and investors.
- As the letter of intent is non-binding (not disclosed if this is a reciprocal intent), HYF continues to be engaged in discussions with other investors.
- Separately, BNP Paribas SA has submitted a claim to HYF for USD57.7mn in relation to a claim on a performance bond issued by BNP Paribas SA by the project company for the Magtaa Project. HYF is disputing this claim and has filed an injunction against BNP Paribas SA.
- Impact of both the discussions and the claim by BNP Paribas are material to the outcome of HYF's restructuring. This is given the short term extension of the debt moratorium but also HYF's current liquidity situation as disclosed in its [most recent affidavit dated 30 April 2019](#).
- Given the lack of details, it remains uncertain how the terms will impact existing creditors of HYF. While we maintain that HYF could find it highly challenging to convince financing markets and customers alike in winning new business, even if it continues as an on-going concern, the ability to fully opine on any new proposal will depend on full and adequate disclosure on (1) the future performance of HYF's current assets; (2) detailed financial terms of the restructure and going forward capital structure; and (3) how HYF management proposes to strategically benefit from any new investor. (Company, OCBC)

Credit Headlines (cont'd)**Singapore Post Limited (“SPOST”) | Issuer Profile: Positive (2)**

- SPOST announced its fourth quarter results for the financial year ended March 2019 (“3QFY2019”). Revenue decreased 2.1% y/y to SGD374.1mn, with decline seen across all business segments except Property (Post and Parcel: -0.2% y/y, Logistics: -2.9% y/y, eCommerce: -7.7% y/y, Property: +2.2% y/y). Overall profit on operating activities declined 53.4% y/y in 4QFY2019 to SGD14.9mn (4QFY2018: SGD32mn).
- Post and Parcel segment saw profit on operating activities fall by 8.3% y/y (from SGD34.4mn to SGD37.5mn), due to higher expenses to improve service quality. Specifically, costs were incurred to hire additional postmen and increase incentive payments.
- Logistics segment’s losses on operating activities rose from SGD0.2mn a year ago to SGD4.7mn, mainly due to drop in overall trade activity and volumes at Famous and one-off costs of ~SGD2mn for relocation, reinstatement, staff redundancy and professional fees.
- The eCommerce segment recognised an operating loss of SGD18mn (-162.8% y/y), largely due to the US businesses which continue to face intensifying competitive pressures and increase in customer bankruptcies. SPOST is in the process of selling this segment and have recorded a total impairment of SGD98.7mn to the carrying value of TradeGlobal and Jagged Peak. SPOST expects to continue to incur operating losses on these US businesses until it completes its exit.
- Under the Property segment, profit on operating activities rose 1.7% y/y (from SGD13.1mn to SGD13.3mn), due to rental income from the SingPost Centre retail mall, which commenced operations in October 2017 after a period of redevelopment and is 98.9% occupied as at 31 Mar 2019.
- SPOST ended the quarter with a net loss to owners of SGD75.1mm (vs SGD31.8mn in Q4FY2018) due largely to impairment taken for its US businesses (Exceptional loss was SGD92.2mn). Excluding which, it would have been a net profit to owners of SGD17.1mn which translates to a -46.2% y/y change.
- As at 31 March 2019, gross debt-to-equity was stable 0.175x. SPOST is in a net cash position of SGD101.3mn (31 Dec 2018: net cash SGD52.7mn, 30 Sep 2018: net debt SGD8.5mn, 30 June 2018: net cash SGD129.4mn). Perpetuals make up 17.1% of total capital as at 31 March 2019 and adjusting net debt upwards for the perpetuals (which rank pari passu as unsecured debt at the SPOST holding company level), we find adjusted net gearing at 0.165x (30 Dec 2018: 0.171x) as there is slightly more available cash balance than the amount of perpetuals. We maintain SPOST at an issuer profile of Positive (2). (Company, OCBC)

Credit Headlines (cont'd)

BreadTalk Group Ltd (“BGL”) | Issuer Profile: Neutral (5)

- BGL reported 1Q2019 results. Revenue increased 6.1% y/y to SGD157.6mn with increased contributions from Bakery, Food Atrium and Restaurant.
 - For Bakery, revenue was up 2.3% y/y to SGD72.0mn due to consolidation of revenue from the Thailand Bakery business following the acquisition of 50% interest in BTM (Thailand) Ltd from Minor Food Group. Excluding this, revenue would have fallen 5.7% y/y due to lower revenue from direct operated stores in Beijing and franchise business in China.
 - For Food Atrium, revenue increased 3.1% y/y to SGD38.6mn with the opening of 1 direct operated restaurant in Shanghai. Meanwhile, same stores sales were strong in North China, East China and Hong Kong and stall vacancy remains low.
 - For Restaurant, revenue was up 9.8% y/y to SGD40.5mn with full quarter revenue contribution by opening of Din Tai Fung outlet in London and Bangkok in Dec 2018. Same store growth in Singapore is at high single digits.
 - Growing from a small base, 4orth segment revenue was up 102.6% y/y to SGD5.5mn (1Q2018: SGD2.7mn). This was due to commencement of Song Fa Bak Kut Teh operations in Beijing, China and Bangkok.
- There were significant accounting changes in this quarter though with the adoption of SFRS (I) 16 – Leases. Reported EBITDA rose 188.9% y/y to SGD47.2mn primarily due to the reclassification of lease-related expenses as depreciation and interest expense. As a result, we note that in 1Q2019, while cost of sales declined 21.8% y/y to SGD51.1mn (without lease-related expenses), BGL recorded SGD29.0mn depreciation of right-of-use assets (previously: none) and SGD3.6mn of interest expense recorded in 1Q2019 was due to leases. As 1Q2018 results are not restated, y/y comparison of EBITDA is not meaningful. The other impact of the change in accounting is that book value of equity fell SGD13.6mn (using 1 Jan 2019 figures) with the booking of SGD360.5mn of lease liabilities on the balance sheet along with SGD348.3mn of right-of-use assets.
- In the quarter, we note that BGL repaid SGD75mn of BREAD 4.6% ‘19s, which was largely refinanced with SGD65mn of long-term loans. Meanwhile, liquidity remains ample with SGD151.2mn of cash covering near-term loans and borrowings of SGD20.7mn. BGL remains cashflow generative with SGD47.3mn cash generated before working capital changes covering SGD10.3mn in capex, SGD21.1mn repayment of lease obligations and SGD5.9mn of interest expense (including lease liabilities). We continue to hold BGL at a Neutral (5) Issuer Profile. (Company, OCBC)

Table 1: Key Financial Indicators

	7-May	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	67	3	0
iTraxx SovX APAC	44	2	0
iTraxx Japan	55	1	-2
iTraxx Australia	68	2	-3
CDX NA IG	59	1	-1
CDX NA HY	107	0	0
iTraxx Eur Main	59	1	-3
iTraxx Eur XO	253	4	-8
iTraxx Eur Snr Fin	70	2	-5
iTraxx Sovx WE	16	0	-2
AUD/USD	0.699	-0.78%	-1.88%
EUR/USD	1.120	-0.12%	-0.54%
USD/SGD	1.363	-0.18%	-0.65%
China 5Y CDS	44	3	1
Malaysia 5Y CDS	59	4	2
Indonesia 5Y CDS	99	4	0
Thailand 5Y CDS	37	1	-4

	7-May	1W chg	1M chg
Brent Crude Spot (\$/bbl)	71.02	-2.45%	0.97%
Gold Spot (\$/oz)	1,282.73	-0.06%	-1.14%
CRB	180.68	-1.90%	-3.73%
GSCI	439.66	-1.16%	-1.70%
VIX	15.44	17.77%	20.44%
CT10 (bp)	2.469%	-3.26	-2.62
USD Swap Spread 10Y (bp)	-2	-1	-1
USD Swap Spread 30Y (bp)	-25	-2	-1
US Libor-OIS Spread (bp)	17	0	-1
Euro Libor-OIS Spread (bp)	6	0	0
DJIA	26,438	-0.44%	0.05%
SPX	2,932	-0.36%	1.37%
MSCI Asiax	665	-1.61%	-2.15%
HSI	29,210	-1.33%	-2.43%
STI	3,291	-1.98%	-0.96%
KLCI	1,633	-0.34%	-0.55%
JCI	6,256	-2.26%	-3.36%

New issues

- Yankuang Group Co Ltd has scheduled investor meetings from 7 May for a potential re-tap of its existing USD 2022 bond.
- Delhi International Airport Ltd has scheduled investor meetings from 7 May for its potential USD 10-year bond issuance.
- State Development & Investment Corp Ltd (issuer: Rongshi International Finance Ltd) has scheduled investor meetings from 8 May for its potential USD bond issuance.

<u>Date</u>	<u>Issuer</u>	<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
2-May-19	Medco Oak Tree Pte Ltd	USD650mn	7NC4	7.70%
2-May-19	SD International Sukuk Ltd	USD300mn	3-year	6.30%
2-May-19	Alam Synergy Pte Ltd	USD125mn	ASRIIJ 6.625%'22s	95.176+accrued
29-Apr-19	Ronshine China Holdings Ltd	USD200mn	RONXIN 10.5%'22s	104.897+accrued
29-Apr-19	Mirae Asset Daewoo Co Ltd	USD300mn USD300mn	3-year 5-year	T3+95bps T5+112.5bps
29-Apr-19	Keppel Corp Ltd	SGD150mn SGD350mn	5-year 10-year	3.0% 3.66%
29-Apr-19	CDL Properties Ltd	SGD400mn	5-year	2.958%
26-Apr-19	Hanrui Overseas Investment Co Ltd	USD280mn	3-year	7.95%
25-Apr-19	Chengdu Tianfu New Area Investment Group Co Ltd	USD300mn	5-year	4.65%
25-Apr-19	Yango Justice International Ltd	USD150mn	SUNSHI 9.5%'21s	99.770+accrued
25-Apr-19	CICC Hong Kong Finance 2016 MTN Ltd	USD300mn USD700mn	3-year 3-year	T+115bps 3M-US LIBOR+117.5bps
25-Apr-19	Xinyuan Real Estate Co Ltd	USD100mn	XIN 14.2%'21s	103.932+accrued
24-Apr-19	Credit Agricole S.A.	SGD325mn	12NC7	3.8%

Source: OCBC, Bloomberg

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