Asian Credit Daily

November 10, 2016

Credit Headlines (Page 2 onwards): Cambridge Industrial Trust, Nam Cheong Ltd., City Development Ltd., Swissco Holdings Ltd., Ezion Holdings

Market Commentary: The SGD swap curve bear-steepened yesterday with swap rates trading 1-5bps higher on the short-end to middle-end rates while the longer-term rates traded 8-10bps higher. Flows in the SGD corporates were quiet during US election results day. In the broader dollar space, the spread on JACI IG corporates increased 2bps to 208bps while the yield on JACI HY corporates increased 7bps to 6.64%. The US treasuries saw a huge sell-off following the unexpected Trump Presidency victory with a view to a deluge of future supply and higher inflation on potential fiscal spending plans. 10y UST yield increased 22bps to 2.07%. Given inflation expectations and despite prevailing uncertainty over the election results, market is still pricing a 82% chance of interest rate hike after dipping below 50% mid-day.

New Issues: CMB Financial Leasing has scheduled investor meetings from 10 November onwards for a potential USD bond issue with expected issue ratings of "BBB+/Baa1/NR".

Rating Changes: S&P downgraded Singapore Post Ltd.'s corporate credit rating to "BBB+" from "A-" with a stable outlook. The downgrade reflects S&P's view that the company's emphasis on reducing leverage has diminished. Singapore Post's debt-to-EBITDA ratio as of 30 Sep, 2016 was about 3.0x, and S&P believes it is unlikely to fall below 2.0x in the next 12-18 months. Moody's has placed Beijing Enterprises Holding Ltd.'s (BEHL) "A3" issuer rating and Beijing Enterprises Group (BCI) Co. Ltd.'s "A3" issuer rating on review for downgrade. The review for downgrade is driven by BEHL's wholly owned subsidiary, Beijing Gas Group Co. Ltd.'s 20% investment in Verkhnechonskneftegaz for USD1.1bn. Moody's expects the transaction to be mainly debt-funded, which will further pressure BEHL's weak financial profile to levels that would no longer be consistent with an "A3" issuer rating.

Table 1: Key Financial Indicators

	10-Nov	1W chg (bps)	1M chg (bps)		10-Nov	1W chg	1M chg
iTraxx Asiax IG	119	1	3	Brent Crude Spot ($/bbl)	46.36	-1.07%	-10.73%
iTraxx SovX APAC	37	0	4	Gold Spot ($/oz)	1,274.57	-2.16%	1.18%
iTraxx Japan	59	2	4	CRB	183.99	-0.16%	-2.30%
iTraxx Australia	106	0	3	GSCI	356.55	0.46%	-4.11%
CDX NA IG	74	-6	0	VIX	14.38	-25.57%	6.68%
CDX NA HY	104	1	0	CT10 (bp)	2.028%	21.62	30.96
iTraxx Eur Main	73	-2	0	USD Swap Spread 10Y (bp)	-12	2	4
iTraxx Eur XO	328	-8	-3	USD Swap Spread 30Y (bp)	-60	-5	-4
iTraxx Eur Snr Fin	97	-3	-2	TED Spread (bp)	47	-7	-9
iTraxx Sovx WE	20	1	-1	US Libor-OIS Spread (bp)	35	-3	-6
iTraxx Sovx CEEMEA	90	-2	-1	Euro Libor-OIS Spread (bp)	4	0	0
					10-Nov	1W chg	1M chg
				AUD/USD	0.765	-0.43%	0.55%
				USD/CHF	0.985	-1.11%	-0.23%
				EUR/USD	1.092	-1.69%	-1.99%
				USD/SGD	1.399	-1.11%	-1.74%
Korea 5Y CDS	47	2	7	DJIA	18,590	3.51%	1.91%
China 5Y CDS	109	-3	5	SPX	2,163	3.11%	0.44%
Malaysia 5Y CDS	128	-1	10	MSCI Asiax	529	-1.08%	-5.06%
Philippines 5Y CDS	115	-2	-2	HSI	22,415	-1.73%	-6.02%
Indonesia 5Y CDS	160	--	10	STI	2,790	-0.61%	-2.80%
Thailand 5Y CDS	93	-3	10	KLCI	1,648	-0.72%	-1.06%
				JCI	5,414	0.16%	1.00%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
7-Nov-16	EXIM Korea (Re-tap of SGD60mn)	"NR/Aa2/AA-"	SGD310mn	3-year	2.04%
7-Nov-16	Mapletree Commercial Trust	"NR/Baa1/NR"	SGD85mn	7-year	2.795%
4-Nov-16	China Nuclear Engineering	"NR/NR/NR"	CNH1.5bn	3-year	4.3%
3-Nov-16	Intl. Bank for Reconstruction & Dev.	"NR/Aaa/NR"	SGD500mn	3-year	1.12%
3-Nov-16	Bank of China Ltd.	"NR/Aa3/NR"	USD500mn	3-year	CT3+95bps
3-Nov-16	Huishang Bank Corp.	"NR/NR/NR"	USD888mn	Perp-NC5	5.5%
1-Nov-16	Wuhan Metro Group Co. Ltd.	"NR/NR/A"	USD290mn	3-year	CT3+180bps
1-Nov-16	Central China Real Estate	"B+/Ba3/NR"	USD200mn	5NC3	6.75%
31-Oct-16	Chalco Hong Kong Investment Co. Ltd.	"NR/NR/BBB"	USD500mn	Perp-NC5	4.25%

Source: OCBC, Bloomberg

Rating Changes (cont'd):

Moody's assigned a first time issuer rating of "Aa2" to Australian Catholic University with a stable outlook. The rating reflects the supportive institutional framework for universities in Australia, its important market niche of supplying nurses and teachers to Australian institutions, a healthy financial performance and moderate debt levels. The rating also incorporates the low levels of international liquidity held by the university, which provides only a minimal cushion in the event of unforeseen circumstances.

Credit Headlines:

Cambridge Industrial Trust ("CREIT"): Philip Levinson, the CEO at CREIT's manager is leaving the company to pursue other interest. Mr. Levinson has been the CEO and Executive Director since March 2014. Current Chief Operating Officer and Chief Financial Officer Shane Hagan will be appointed acting CEO by the Board of Directors. Mr. Hagan joined the REIT manager in early-2016. Immediately prior to joining CREIT, he was the CEO at Soilbuild Business Space REIT and was earlier the CFO at Mapletree Commercial Trust. In September 2016, Warburg Pincus was reportedly in talks to acquire CREIT's REIT manager, though to date no deal has been culminated. In mid-October, e-Shang Redwood Group, a logistics investment company backed by Warburg Pincus entered into an option agreement with three existing unitholders which gives e-Shang Redwood Group the rights to acquire up to ~10.7% stake in the REIT. CREIT, as an independent REIT (not attached to a real estate developer) has been professionally run since inception, as such we see the change in CEO and possible introduction of Warburg Pincus as new shareholder of the REIT manager as credit neutral events. We continue to maintain CREIT at Neutral for now and will re-assess the view should CREIT opts to internalize management given cost and funding structure implications. CREIT had in 1Q2016 appointed an investment bank to undertake a strategic review and this is on-going. (Company, OCBC)

Nam Cheong Ltd. ("NCL"): 3Q2016 results showed revenue plunging 86.4% to MYR25.8mn (3Q2015: MYR189.3mn). This was largely driven by the slump in shipbuilding revenue, which fell to just MYR16.6mn (3Q2015: MYR182.1mn, 2Q2016: MYR114.0mn) which management attributed to slower revenue recognition from vessels sold. This could potentially be driven by NCL deferring the schedule of deliveries of vessels under construction at customers' requests. On the bright side, the vessel chartering segment seems to be picking up, with segment revenue up 28.7% y/y to MYR9.2mn due to higher vessel utilization. This was also sharply higher than the MYR3.4mn in chartering revenue generated in 2Q2016. As such, gross profit from shipbuilding plunged to MYR2.5mn for the quarter (gross margin of 15%), while the gross loss generated from vessel chartering reduced to MYR1.7mn, with NCL generating MYR0.8mn in gross profit for the quarter. Due to cost cutting measures (which brought SG&A lower by 34% y/y) as well as FX gains (MYR12.2mn impact), NCL was able to generate MYR5.6mn in operating profit (-32% y/y) and MYR0.8mn in net profit (+85% y/y) for the quarter. Looking forward, though energy markets have shown some stabilization, management expects capital spending in the sector to remain muted, and demand for vessels to remain slow heading into 2017. NCL's current order book remains at MYR1.05bn with vessels to be delivered through end-2018. Like previous periods, management has indicated delaying deliveries from its partner Chinese yards, at both end-client requests as well as for NCL build-to-stock ("BTS") vessels, in order to preserve cash flow. During the period, NCL generated negative operating cash flow of MYR62.2mn (2Q2016: -MYR125.4mn). This was an improvement q/q, and was largely driven by NCL paying down its receivables as well as servicing its interest expense. Capex for the quarter was minimal, with NCL generating some cash from the disposal of financial assets (MYR29.8mn generated). In addition, NCL drew down on its bank facilities to raise net debt by about MYR124mn, which allowed NCL to add to its cash balance. In aggregate, due to the increase in borrowings, net gearing increased slightly from 110% to 112% q/q. As NCL has SGD90mn in bonds due in August 2017, these bonds (~MYR270mn) are now current, increasing short-term borrowings sharply q/q to MYR902.0mn (2Q2016: MYR505.4mn). Comparatively, NCL reported a total cash balance of MYR337.9mn. The balance of the short-term borrowings aside from the bond are related to either vessel financing or vessel construction. As such, it continues to be pivotal for NCL to monetize the ~MYR1.9bn worth of BTS vessels in its inventory, as well as obtain dues from its customers (MYR658.5mn) given the tight liquidity situation. We note that 2017 would likely see NCL resume taking delivery of some of its BTS vessels from its partner yards, pressuring cash flows. As such, we will continue to hold NCL's Issuer Profile at Negative. (Company, OCBC)

Credit Headlines:

City Developments Ltd. ("CDL"): 3Q2016 results showed revenue increasing 14.0% y/y to SGD922.8mn, largely driven by y/y improvements in the property development segment. The property development segment revenue was up 63.1% y/y to SGD371.8mn, driven by maiden contributions from both the Gramercy Park development at Grange Road (38 sold out of 40 units released, out of a total of 174 units) as well as by the Hanover House in Reading, UK (82 units, 100% sold). There were also contributions from Coco Palms, D'Nest and The Venue Residences and Shoppes. Segment PBT improved by 47.9% as well to SGD94.8mn. It should be noted that q/q the segment slowed down, lacking the contribution from the Lush Acres EC that TOP in 2Q2016. Looking forward, CDL's JV condo Forest Woods sold well, having sold 71% after being launched in October 2016. The formal launch of Gramercy Park, as well as South Beach Residences (TOP by end 2016) also support the Singapore pipeline. For international developments, CDL expects to complete Hong Leong City Centre Phase 1 (72% sold) in 4Q2016. The hospitality segment (Millennium & Copthorne Hotels ("M&C")) continues to show weakness with segment revenue down 3.1% y/y to SGD424.0mn, driven by competitive trading conditions in London, New York and Singapore. RevPar on a constant currency basis fell by 3.2% YTD, reflecting competition. PBT for the segment continues to dip as well, down 6.7% y/y to SGD55.3mn. Despite the challenging environment, ongoing AEI work to refresh some of CDL's hospitality assets could support future performance. Revenue from CDL's rental properties fell as well by 9.2% y/y to SGD92mn, largely driven by divestments made in leasehold interests in Tampines Grande and Manulife Centre. Segment PBT fell as well by 16.9% y/y to SGD33.2mn. In aggregate, operating profit increased sharply by 57.3% y/y to SGD245.3mn. This was in part driven by SGD49.5mn in divestment gains recognized when CDL disposed its 52.5% stake in City E-Solutions Limited. This drove net income higher by 56.4% y/y to SGD203.4mn. Management reported EBITDA was strong at SGD313mn, up 34% y/y. CDL continues to have sizable recurring income generating assets (51% of total assets), generating 62% of EBITDA (YTD). This helps to support CDL's liquidity profile. Singapore's contribution to CDL's performance is falling as well to 57% of EBITDA / 54% of total assets, allowing for income diversification. CDL saw operating cash flow (including interest service) jump to SGD499.7mn during the quarter, with CDL generating SGD444.1mn in free cash flow. During the quarter though, CDL spent SGD410.4mn net acquiring the balance of the Nouvel 18 JV that it did not already own, as well as paid down about SGD315mn in debt. CDL also paid SGD63.8mn in dividends. In aggregate, net gearing remained stable at 27% (2Q2016: 28%). Net debt / EBITDA remains low at 2.3x when compared to peers. Interest coverage remains strong at 10.9x for the quarter, while cash / current borrowings stood at 1.6x. Looking forward, CDL has announced that it will be monetizing its Nouvel 18 (156 unit luxury development on Anderson Road) via CDL's third Profit Participation Securities ("PPS"). The transaction is valued at SGD977.6m and is a credit positive for CDL, though CDL does retain some exposure via holding mezzanine notes. This transaction should be reflected in the 4Q2016 numbers and could drive CDL's leverage profile lower. We will retain our Positive Issuer Profile on CDL. (Company, OCBC)

Swissco Holdings Ltd. ("SWCH"): As a follow up to the tentative restructuring plans first disclosed to bondholders on 24/10/16, SWCH disclosed that it has presented its restructuring plan to bank lenders, but to-date bank lenders have not agreed to the proposed restructuring plan. SWCH currently has an informal standstill agreement with its bank lenders with regards to debt service. In a separate filing, SWCH disclosed that one of its vendors, X-Drill Holdings ("X-DRILL"), which SWCH has utilized to provide stacking and other services to four of SWCH's drilling rigs, has obtained a court order to arrest three of these drilling rigs. Specifically, the rigs held by Supreme Excellence 2 ("SE2", 100% owned), Supreme Excellence 3 ("SE3", 100% owned) and Supreme Excellence 4 ("SE4", 50% owned) will be seized, and may thereafter be subject to judicial sale. The claims from X-DRILL total SGD1.85mn. The tentative restructuring plan proposed by SWCH had included the disposal of the above mentioned three rigs. (Company, OCBC)

Credit Headlines:

Ezion Holdings ("EZI"): 3Q2016 results showed revenue falling 7.4% y/y to USD79.8mn. On a q/q basis, revenue fell as well by 4.7%. The y/y decline in revenue was driven by lower liftboat and drilling rig utilization due to modifications as well as routine class surveys. Management had also indicated poorer charter rates, likely driven by the continued slump in upstream O&G activities. In addition, management has indicated that delays to the commencement of one of the customer's projects had resulted in the delayed deployment of several of EZI's rigs. Gross margins continued to be squeezed to 17.5% (3Q2015: 29.0%) as COGS increased due to additional service rigs deployed. As the quarter also did not really benefit from asset disposal gains, operating income fell as well by 55.7% y/y to USD12.2mn. Coupled with the decline in share of results from JVs / Associates, net income fell sharply by 69.1% y/y to USD9.4mn. The firm was able to generate strong operating cash flow (including interest service) of USD36.7mn and ~USD26.3mn in free cash flow. In addition, EZI raised ~SGD140mn during a recent rights issue and paid down USD39.9mn in net debt. These allowed EZI to distinctly improve its net gearing to 93% (2Q2016: 109%). We estimate interest coverage to be 5.0x for the quarter. EZI has about USD352.9mn in short-term debt, with the majority being vessel financing, compared to USD255.4mn in cash. Though we note the improvements to EZI's credit profile, given the still challenging conditions for drilling assets, we believe it could take some time before utilization and charter rates improve. Management had indicated that they are reviewing further asset sales, potentially delaying / cancelling certain unviable projects or finding JV partners to co-own assets as ways to manage EZI's balance sheet. In addition, there could also be further impairments to EZI's fleet of service rigs when asset values are reviewed come year end. Finally, we believe that the 3 JV rigs that EZI co-owns with Swissco continue to face uncertainty given the latter's restructuring (management had released a general statement about the financial difficulties faced by its partners, and that it has in place contingency plans and does not expect to be materially affected). We will continue to hold EZI's Issuer Profile at Negative. (Company, OCBC)

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