

Aug 11, 2017

Credit Headlines (Page 2 onwards): National Australia Bank Ltd, Singapore Telecommunications Ltd, Ezion Holdings Ltd, Nam Cheong Ltd, Banyan Tree Holdings Ltd

Market Commentary: The SGD swap curve traded little changed yesterday, with the biggest movement seen in the 15-year and 20-year tenors, which fell by approximately 1bps. Flows in SGD corporates were heavy, with better buying seen in OLAMSP 5.5%-PERPs, better selling seen in HSBC 4.7%-PERPs, BAERVX 5.75%-PERPs, and mixed interest seen in STANLN 4.4%'26s. In the broader dollar space, the spread on JACI IG Corporates rose 1bps to 188bps. Similarly, the yield on JACI HY Corp rose 1bps to 7.02%. 10y UST yields fell 5bps to 2.20%, as investors switched to safe haven assets in light of US President Donald Trump's rhetoric against North Korea.

New Issues: Greenland Global Investment Ltd has priced a USD500mn 3-year bond (guaranteed by Greenland Holding Group Company Ltd) at 4.9%, tightening from initial guidance of 5.3%. The expected issue ratings are 'NR/Ba2/NR'. China Huiyuan Juice Group Limited has priced a USD150mn 3-year bond at 6.5%, tightening from initial guidance of 6.75%. The expected issue ratings are 'NR/B1/B+'. Medco Strait Services Pte Ltd has priced a USD300mn 5NC3 bond (guaranteed by PT Medco Energi Internasional Tbk) at 8.75%, tightening from initial guidance of 8.875% area. The expected issue ratings are 'B/B2/B'.

Rating Changes: Moody's has affirmed BOC Group Life Assurance Co Ltd's (BOC Life) insurance financial strength rating at 'A2' while revising the outlook to positive from stable. The rating action reflects Moody's expectation that BOC Life will continue to improve the stability of its profitability, as well as further diversify its distribution channels and maintain its strong capitalization.

Table 1: Key Financial Indicators

	11-Aug	1W chg (bps)	1M chg (bps)		11-Aug	1W chg	1M chg
iTraxx Asiax IG	84	4	-3	Brent Crude Spot (\$/bbl)	51.71	-1.35%	8.82%
iTraxx Sovx APAC	21	2	-1	Gold Spot (\$/oz)	1,286.31	2.18%	5.63%
iTraxx Japan	42	2	1	CRB	178.91	-0.96%	2.87%
iTraxx Australia	77	1	-7	GSCI	381.93	-0.67%	3.15%
CDX NA IG	62	4	0	VIX	16.04	53.64%	47.29%
CDX NA HY	107	-1	0	CT10 (bp)	2.198%	-2.37	-17.55
iTraxx Eur Main	58	6	1	USD Swap Spread 10Y (bp)	-4	-1	0
iTraxx Eur XO	248	17	-6	USD Swap Spread 30Y (bp)	-32	-1	0
iTraxx Eur Snr Fin	56	5	2	TED Spread (bp)	28	4	1
iTraxx Sovx WE	5	0	-1	US Libor-OIS Spread (bp)	15	0	1
iTraxx Sovx CEEMEA	47	5	-11	Euro Libor-OIS Spread (bp)	3	0	0
					11-Aug	1W chg	1M chg
				AUD/USD	0.785	-0.91%	2.78%
				USD/CHF	0.961	1.19%	0.25%
				EUR/USD	1.177	-0.04%	2.62%
				USD/SGD	1.363	-0.16%	1.37%
Korea 5Y CDS	66	8	8	DJIA	21,844	-0.83%	2.03%
China 5Y CDS	67	3	-3	SPX	2,438	-1.37%	0.52%
Malaysia 5Y CDS	81	1	-4	MSCI Asiax	649	-1.20%	3.15%
Philippines 5Y CDS	72	2	-3	HSI	27,062	-1.82%	4.58%
Indonesia 5Y CDS	113	3	-7	STI	3,292	-1.53%	2.26%
Thailand 5Y CDS	62	1	-1	KLCI	1,769	-0.30%	0.81%
				JCI	5,776	-0.03%	0.04%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
10-Aug-17	Greenland Global Investment Ltd	'NR/Ba2/NR'	USD500mn	3-year	4.9%
10-Aug-17	China Huiyuan Juice Group Limited	'NR/B1/B+'	USD150mn	3-year	6.5%
10-Aug-17	Medco Strait Services Pte Ltd	'B/B2/B'	USD300mn	5NC3	8.75%
9-Aug-17	Country Garden Holdings Co Ltd	'NR/Ba1/BB+'	USD100mn	COGARD 4.75%'22s	99.875
8-Aug-17	Gold Ridge Pte Ltd	Not Rated	SGD100mn	6-year	2.9%
8-Aug-17	Gemstones International Limited	'NR/B3/B+'	USD225mn	3-year	8.5%
7-Aug-17	Agile Group Holdings Ltd	'B+/B1/NR'	USD200mn	5NC3	5.125%
7-Aug-17	Export-Import Bank of India	'NR/Baa3/BBB-'	USD400mn	5-year	3mL+100bps

Source: OCBC, Bloomberg

Credit Headlines:

National Australia Bank Ltd (“NAB”): NAB released its third quarter trading update (ended 30 June) with unaudited cash earnings of AUD1.7bn, up 5% y/y. Revenue was up 2% due to growth in lending and improved net interest margins from loan repricing and better funding conditions. This was offset by lower markets and treasury income as well as a 2% rise in expenses due to higher investment spend and redundancies. Bad and doubtful debt charges continue to fall, down 12% y/y to AUD173mn although the prior period bad and doubtful debt charges included higher collective provisions for commercial real estate exposures. This reflects overall improvement in asset quality trends with the ratio of 90+ days past due and gross impaired assets to gross loans and acceptances falling 5bps to 0.8% from March 2017 due to better performance of New Zealand dairy exposures. Capital ratios have weakened compared to 31 March 2017 due to payment of the 2017 interim dividend and higher risk weights on mortgages from model changes with NAB’s CET1 ratio at 9.7% as at 30 June 2017 (2Q2017: 10.1%; 3Q2016: 9.5%). Other regulatory ratios (leverage ratio, liquidity coverage ratio, net stable funding ratio) remain sound and above current and future minimum requirements. Management have noted NAB’s exposure to recent regulatory developments including the negative impact of the major bank levy and APRA’s announcement of a 10.5% future minimum CET1 ratio by January 2020, which in our view are balanced in terms of NAB’s exposure to regulatory risk. The results announcement does not alter NAB’s Neutral issuer profile in our view. We expect NAB to continue to proactively manage its business and capital position to mitigate the competitive operating environment. (Company, OCBC)

Singapore Telecommunications Ltd (“SingTel”): SingTel reported 1QFY18 results for the quarter ending 30 June. Revenue increased 8% y/y to SGD4.2bn, with reported core EBITDA (from Singapore & Australia) increasing 3% y/y to SGD1.3bn. The growth is mainly due to the Australian mobile sector with an increase in the number of subscribers (postpaid subscribers: +6.8% y/y to 5mn), with the Australian consumer segment revenue and EBITDA rising by 6% y/y and 3% y/y to AUD1.7bn and AUD595mn respectively. Singapore consumer segment revenue increased 1.6% y/y to SGD567mn though EBITDA fell 2.9% y/y to SGD209mn as revenue from the sale of equipment (which is a low-margin segment) surged 32.4% y/y to SGD57mn. We see some softness in SingTel’s Singapore mobile market with postpaid ARPU continuing to soften, down 8% y/y or 3% q/q, to SGD65/mth, though encouragingly SingTel’s market share for the post-paid segment inched up to 47.6% (4QFY17: 47.3%). Meanwhile, the Group Enterprise segment continues to deliver flattish performance, with revenue and EBITDA higher by 1.1% y/y and lower by 1.2% y/y to SGD1.6bn and SGD484mn respectively. However, net profit fell 6% y/y to SGD892mn, weighed down by the associated stake in Airtel (PBT down 42% y/y to SGD103mn) and partly due to staff restructuring costs of SGD19mn in Australia. Although Airtel has impacted SingTel’s profits, we think that the impact on the credit profile is limited as Airtel does not contribute much dividends to SingTel. Reported free cashflow (which includes associates dividends) increased 5% y/y to SGD1.3bn. Meanwhile, net debt/EBITDA & share of associates’ pre-tax profits remained stable at 1.3x (FY17: 1.3x). Post the 1QFY18 results, SingTel has raised SGD2.3bn from the NetLink NBN Trust IPO, and we understand that the proceeds will be used to fund M&A and capex. With a diversified profile, we think that SingTel’s credit profile remains resilient and continue to hold SingTel at a Positive Issuer Profile. (Company, OCBC)

Ezion Holdings Ltd (“EZI”): EZI has announced that it will divest 50% of its shareholdings in wholly-owned Teras Conquest 8 Pte Ltd and Teras Lyza Pte Ltd to Sea Explorer Ltd (Sea Explorer) for a cash consideration of USD10mn, subject to an adjustment of up to 120% based on the purchase price allocation. EZI will still have full commercial and operational control of these assets after the divestment. The carrying value of the 50% equity stake on EZI’s books is approximately USD625,000. Previously, EZI had divested its 50% effective interest in Teras Cargo Logistics Limited, Strategic Offshore Limited and Strategic Excellence Limited to Sea Explorer for a consideration of USD70mn (refer to [OCBC Asian Credit Daily \(3 Apr\)](#)). EZI has stated that Sea Explorer is a wholly-owned subsidiary of its Malaysian business partner in the offshore and marine sector. We view that the divestment will not have a significant impact on EZI’s credit profile, as its cash/ current borrowing still stands unchanged at 0.6x after the divestment. EZI has applied for a trading halt on 10 August, and trading has not resumed as at the time of writing. Per media reports, EZI has appointed RSM Singapore as financial adviser for a debt restructuring plan though this has not been confirmed by the company. We note that Ezion is due to report its 1H2017 financials before mid-August with the company’s minimum EBITDA-to-Interest covenant of 3.5x tested at each financial half and full year. We maintain EZI’s issuer profile at negative. (Debtwire, Company, OCBC)

Credit Headlines (Cont'd):

Nam Cheong Ltd ("NCL"): NCL's wholly-owned subsidiary, Nam Cheong Dockyard Sdn Bhd (NCD), has received a writ of summons dated 7 August 2017 by AmBank (M) Berhad (AmBank). AmBank is claiming against NCD as borrower under credit facilities for the sum of RM70.4mn. NCL states that it will continue to engage with stakeholders (including AmBank) in relation to the refinancing and/or restructuring of existing loans (refer to [OCBC Asian Credit Daily \(20 Jul\)](#) and [OCBC Asia Credit - Nam Cheong Limited Credit Update \(9 May\)](#) for more details about the restructuring process). The writ of summons by AmBank follows another writ of summons filed by a local bank that was dated 2 June 2017 for the sum of over USD10mn, on another of NCL's wholly-owned subsidiary, Nam Cheong International Limited. We reiterate our negative issuer profile on NCL. (Company, OCBC)

Banyan Tree Holdings Ltd ("BTH"): BTH announced its 2Q2017 results. Revenue was up 6% y/y to SGD69.8mn in 2Q2017, driven largely by growth in the Hotel Investments, Spa/Gallery operations and Design and Others segments which helped offset lower Property Sales recognised during the period. BTH reported a narrower loss before interest, tax, depreciation and amortisation (based on our calculations with does not include other income) of SGD169,000 (2Q2016: negative SGD4.8mn). This was a result of cost containment, led by lower sales and marketing and lower salaries related expenses which helped offset higher other operating expenses (eg: repair and maintenance, music entertainment, booking agent commissions). Furthermore, BTH reported a SGD1.2mn write-back of provision for doubtful debts following payments by several hotel owners in China. Net-net, total SG&A declined 3% in y/y. With finance cost relatively constant at SGD7.2mn, BTH reported a loss before tax of SGD12.4mn, narrowing from a loss before tax of SGD15.7mn in 2Q2016. As at 30 June 2017, BTH's gross gearing and net gearing was relatively constant versus end-March 2017 at 0.9x and 0.7x respectively. Secured assets though had increase to 33% of total tangible assets based on our estimation (up from 29% as at 31 March 2017). Cash flow from operations (before tax and interest paid) was weak at negative SGD6.3mn (2Q2016: SGD3.2mn). Investing outflows was contained at SGD2.6mn. During the quarter, BTH paid down its SGD50mn bonds due in May 2017 and SGD9.9mn in bank loans. The cash gap at the company was funded via new bank loans and drawing down of existing cash balances. As at 30 June 2017, BTH had cash balances of SGD91.6mn (excluding cash that forms assets held for disposal into a joint venture with China Vanke Ltd ("VNRLE")). In early 2017, BTH had flagged a proposed 50:50 joint venture with VNRLE to create Banyan Tree China ("BTC") which would hold BTH's China hotels and assets. On 10 August 2017, BTH announced that it has executed and completed the definitive agreements with VNRLE. As part of the transaction, BTH sold assets into BTC and VNRLE had injected SGD72mn (subject to post-completion adjustments) in return for a 50%-stake in BTC. VNRLE had also injected a further SGD18mn into two operating companies which are now 40%-owned by BTC. We assume that BTH continues to consolidate the 60%-stake of these two operating companies. At the listed-entity level, BTH would also issue new shares equivalent to a 4.99% equity stake in BTH to VNRLE for SGD24mn. On 2 August 2017, BTH had completed the issuance of a mandatory convertible debenture amounting to SGD24mn to Accor SA, a global hospitality group. This debenture would be recorded as debt prior to being converted. Net-net, we think BTH would receive SGD138mn in cash following completion of the agreements with VNRLE and Accor SA which should help alleviate near-term liquidity pressures. As at 30 June 2017, short term debt was SGD99.9mn. Both VNRLE and Accor had been granted options to further subscribe for new shares in BTH. If exercised, VNRLE and Accor will each hold a ~10%-stake in BTH respectively on a fully diluted basis and BTH will have a ~SGD49mn in cash injection. Despite the still-stressed cash flow situation at BTH, we are maintaining BTH's issuer profile on Neutral on expectation that the company's leverage levels will decline and its franchise value remain intact. (Company, OCBC)

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