Asian Credit Daily

November 15, 2017

Credit Headlines (Page 2 onwards): Market views, Olam International Limited, ASL Marine Holdings Ltd, Nam Cheong Ltd, Singapore Post Ltd, CWT Ltd

Market Commentary: The SGD swap curve traded upwards yesterday, with swap rates trading 1-3bps higher across all tenors. The largest rise in yields were seen in the 7-year and 12-year tenors. Flows in SGD corporates were heavy, with mixed interest seen in GESP 4.6%'26s, HSBC 4.7%-PERPs, EREIT 4.6%'PERPs, HRAM 3.8%'25s and CNQCHK 4.9%'20s. seen in In the broader dollar space, the spread on JACI IG Corp fell 1bps to 178bps, while the yield on JACI HY Corp traded little changed at 6.96%. 10Y UST yields fell 3bps to 2.37%, as weaknesses in oil prices and USD reversed the gains in yields due to stronger-than-expected PPI data.

New Issues: WTT Investment Ltd has priced a USD670mn 5NC3 bond (guaranteed by WTT Development Ltd, WTT Cayman Corp, WTT HK Ltd, COL Ltd) at 5.50%, tightening from initial guidance of 5.875% area. The expected issue ratings are 'NR/B1/B+'. Trafigura Group Pte Ltd has priced a USD200mn re-tap of its TRAFIG 6.875%-PERP at 103.625, in line with initial guidance. Tianqi Finco Co has scheduled investor meetings for potential USD bond issuance (guaranteed by Tianqi Lithium Corporation) from 15 Nov. The expected issue ratings are 'NR/Baa3/NR'. SNTON International Finance I (BVI) Company Ltd has scheduled investor meetings for potential USD bond issuance (guaranteed by Shandong SNTON Group Co Ltd) from 15 Nov. The expected issue ratings are 'NR/NR/BB+'.

Rating Changes: Moody's has placed Anton Oilfield Services Group's (Anton) 'Caa1' corporate family rating and senior unsecured rating on review for upgrade following Anton's debt exchange offer announcement. The debt exchange does not constitute a default event under Moody's definition, and Moody's views it as credit positive as the debt exchange should extend Anton's debt maturity profile. Moody's has affirmed China National Gold Group Corporation's (CNG) 'Baa3' issuer rating, while changing the outlook to stable from negative. The rating action reflects CNG's stable operating profile and ongoing deleveraging as metal prices strengthened from 2016 to date.

Table 1: Key Financial Indicators

	15-Nov	1W chg (bps)	1M chg (bps)		15-Nov	1W chg	1M chg
iTraxx Asiax IG	80	1	3	Brent Crude Spot ($/bbl)	61.45	-3.21%	7.49%
iTraxx SovX APAC	16	0	0	Gold Spot ($/oz)	1,282.25	0.07%	-1.04%
iTraxx Japan	48	0	-2	CRB	189.06	-1.45%	2.29%
iTraxx Australia	69	2	0	GSCI	421.84	-1.34%	4.73%
CDX NA IG	57	2	3	VIX	11.59	17.19%	20.60%
CDX NA HY	107	-1	-1	CT10 (bp)	2.359%	2.50	8.63
iTraxx Eur Main	53	1	-3	USD Swap Spread 10Y (bp)	-2	1	1
iTraxx Eur XO	249	15	6	USD Swap Spread 30Y (bp)	-25	2	6
iTraxx Eur Snr Fin	53	1	-6	TED Spread (bp)	18	-3	-11
iTraxx Sovx WE	4	0	-1	US Libor-OIS Spread (bp)	10	-1	-3
iTraxx Sovx CEEMEA	53	3	14	Euro Libor-OIS Spread (bp)	3	#N/A N/A	0
					15-Nov	1W chg	1M chg
				AUD/USD	0.758	-1.24%	-3.41%
				USD/CHF	0.989	1.15%	-1.33%
				EUR/USD	1.180	1.74%	0.01%
				USD/SGD	1.359	0.18%	-0.55%
Korea 5Y CDS	71	-2	1	DJIA	23,409	-0.63%	2.35%
China 5Y CDS	62	3	5	SPX	2,579	-0.45%	1.01%
Malaysia 5Y CDS	69	2	4	MSCI Asiax	699	-0.62%	1.51%
Philippines 5Y CDS	69	2	4	HSI	29,005	0.34%	1.86%
Indonesia 5Y CDS	101	1	2	STI	3,383	-1.13%	1.91%
Thailand 5Y CDS	50	0	1	KLCI	1,730	-0.80%	-1.43%
				JCI	6,003	-0.77%	1.33%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
14-Nov-17	WTT Investment Ltd	'NR/B1/B'	USD670mn	5NC3	5.50%
14-Nov-17	Trafigura Group Pte Ltd (re-tap)	Not Rated	USD200mn	TRAFIG 6.875%-PERP	103.625
13-Nov-17	Easy Tactic Ltd	'NR/NR/BB'	USD500mn	5NC3	5.875%
9-Nov-17	Pacific International Lines (Private) Limited	Not Rated	SGD60mn	3-year	8.50%
9-Nov-17	China Development Bank	'NR/A1/NR'	USD500mn	5-year	CT5+78bps
9-Nov-17	China Development Bank	'NR/A1/NR'	EUR1bn	4-year	MS+43bps
9-Nov-17	China Minsheng Banking Corp (Hong Kong Branch)	'BBB-/NR/NR'	USD450mn	3-year	3mL+92bps
9-Nov-17	China Minsheng Banking Corp (Hong Kong Branch)	'BBB-/NR/NR'	USD250mn	3-year	CT3+115bps
9-Nov-17	Jiayuan International Group Ltd	'NR/B2/NR'	USD300mn	364-day	8.25%

Source: OCBC, Bloomberg

Rating Changes (Cont'd): Moody's has assigned Tianqi Lithium Corporation (Tianqi Litium) an issuer rating of 'Baa3', while assigning a 'Baa3' senior unsecured rating to the proposed bonds to be issued by Tianqi Finco Co Ltd and guaranteed by Tianqi Lithium. The rating action reflects Tianqi Litium's robust profitability and low leverage, as well as the positive demand outlook for lithium chemical products.

Credit Headlines:

Market Views: High yield credit has seen a sell-off in the past week with the spread on JACI HY Corps rising 11bps since November 7th to 6.96%. At the same time, the spread on JACI IG Corp has fallen 1bps to 178bps. Amidst the spread widening was the withdrawal of several high yield issues due to non-conducive market conditions (NRG Energy Inc., PT Sawit Sumbermas Sarana Tbk). We see such developments as more sentiment-driven, mixed with both the strong technical environment seen so far in 2017 and year end positioning. Conversely, we see no real event risk or underlying fundamental concerns on the back of a generally optimistic outlook for global economic growth and recent solid earnings results. In fact, the recent withdrawal of high yield issues shows that investors are cautious and rationale and market complacency does not appear to exist, notwithstanding the yield compression seen so far this year. In the SGD space, a similarly strong technical environment has seen a buoyant year so far for primary issuance and solid support for secondary activity and while the market is primed for a correction, we feel such widening in yields will be restrained. Fundamentals are generally supportive based on stable to improving regional economic conditions and recent results while market liquidity remains high in our view following recent large maturities/calls in the SGD space (ABNANV 4.7% '22c17, GENSSP 5.125% PERPc17). While the breadth of issuers in the SGD space in 2017 has been better than last year, we have not seen any irrationality in the issuance trends in our view and there still remains some level of discipline in terms of names tapping the market and the yields that get priced owing to the ongoing stresses in the oil and gas space. That said, the prospect of rising rates in 2018 and a large pipeline of supply (we estimate that approximately SGD22.4bn in bonds (excluding MAS bills, Singapore Government Bills and Singapore T-bills) will mature or be callable 2018) could put downward pressure on bond prices in the future. (OCBC)

Olam International Limited ("Olam"): Olam reported its 9M2017 results. Revenue was up 31.5% y/y to SGD14.5bn while reported EBITDA was up 18.9% to SGD1.0bn. This was on account of stronger sales volume (up 31.3% overall) compared to 9M2016, largely driven by improvements in trading volumes in grains and edible oils. Three of five of the business segments at Olam saw EBITDA improving in 9M2017. The confectionary and beverage segments saw a 6.5% decline. Despite stronger cocoa processing business, this was offset by margin pressures at cocoa (both supply chain and products trading) and tougher trading conditions for coffee. Based on our estimation, all four of Olam's non-financial businesses reported positive cash flow from operations. Per company, overall working capital fell compared to end-2016 and this was attributable to seasonality, lower inventory levels and lower commodity prices. In 9M2017, Olam recorded net cash flow from operations of SGD1.9bn versus SGD435.2mn in 9M2016. Finance costs was 25.4% higher at SGD407mn, largely due to debt-funded investments made in FY2016, increase in benchmark interest rates and an increase in higher-cost local currency borrowings. Despite the higher EBITDA generation, EBITDA/Interest was lower at 2.5x in 9M2017 versus 2.6x in the previous corresponding period. Olam reported profit after tax of SGD295.5mn in 9M2017, up 25% from 9M2016. As at 30 September 2017, book value equity was SGD5.8bn (up 4% against end-Dec 2016). Olam's headline net debt was also lower at SGD10.5bn (end-2016: SGD11.5bn), these helped reduce net gearing to 1.8x versus the 2.0x in end-2016. Nonetheless, we expect net debt to inch back up in as the lower seasonal working capital needs in 3Q2017 may be reversed come 4Q2017. Net-net though, we take comfort that the company is making progress towards working capital optimisation. Additionally, Olam had been more disciplined with acquisitions during 9M2017. The company spent SGD667mn in capex during 9M2017, significantly lower than the SGD901.4mn spent in 9M2016. Post quarter end in October 2017, Temasek (its current major shareholder) exercised all of its outstanding warrants into straight equity. This would have generated ~SGD418mn of new equity for the company for 4Q2017. Post the exercise of warrants, Temasek will hold ~56.6%-stake in the company versus 52% prior. We maintain Olam's issuer profile at Neutral. (Company, OCBC)

Credit Headlines (Cont'd):

ASL Marine Holdings Ltd ("ASL"): ASL reported 1QFY2018 results for the quarter ending September 2017. Revenue declined 25.3% y/y to SGD72.3mn, mainly due to the decline from Shipbuilding (-18.3% y/y to SGD18.3mn), Shipchartering (-16.4% y/y to SGD23.2mn) and Engineering (-58.8% y/y to SGD3.5mn) while Shiprepair & conversion consecutively continued as the main revenue contributor (+90.1% y/y to SGD27.2mn). The declines at shipbuilding were driven largely by the various stages of completion of its tugs (some completed, some just commenced), which in turn influenced the percentage-of-completion revenue recognized for the quarter. Though Shiprepair & conversion saw strong growth for the quarter, management reiterated that it was due to the higher valued jobs executed during the quarter, and that segment revenue may be lumpy. The Shipchartering segment remains impacted by the weak OSV market, with ASL reporting utilization of just 35% as well as lower charter rates. This was somewhat offset by higher demand for landing crafts for precast shipments from Batam to Singapore. Engineering segment was hit by the lack of revenue recognized for newbuild dredgers. On a q/q basis, ASL's total revenue decline was more controlled at 7.1%. The weaker top line caused total gross profit to decline 60.0% y/y to SGD5.2mn (though better than 4QFY2017's SGD2.7mn) with shipchartering continuing to generate a gross loss of SGD563k (1QFY2017 gross profit: SGD2.1mn) while margins were squeezed at Shipbuilding and Shiprepair & conversion, which saw gross margin shrinking to 5.4% (1QFY2017: 11.3%) and 13.5% (1QFY2017: 23.8%). The gross loss from shipchartering was mainly due to gross loss from the OSV segment (which includes compensation paid to a charter due to late delivery of two AHTS) and the lower utilisation rate of grab dredgers. Margins were squeezed at Shipbuilding largely due to the shift in product mix to Tugs and Barges. Finally, margins for Shiprepair & conversion were impacted by competition for high-value repair jobs. Loss for the quarter was SGD7.1mn (versus profit of SGD235k for 1QFY2017), largely due to the slump in gross profits. JV and associates had also contributed a loss of SGD2.0mn for the quarter. Despite the weak results, ASL was still able to generate positive operating cash flow (net of interest service) of SGD18.7mn as well as free cash flow of SGD8.4mn for the quarter. ASL had paid down SGD3.0mn in net borrowings during the quarter. In aggregate, cash balance increased to SGD44.3mn. Net gearing remained stable q/q at 137%, with the cash generated helping to offset the losses shrinking the equity base. Liquidity remains tight with SGD44.3mn of cash on hand versus SGD252.5mn in short term borrowings. This however includes SGD64.7mn in longer-term borrowing classified as short-term due to covenant violations on its SGD99mn club term loan facility (refer to OCBC Asian Credit Daily – 13 October 2017). ASL lenders had previously waived this covenant violation, with ASL seeking for further waivers post the results announcement. EBITDA / Interest coverage was 2.75x for the quarter. Looking forward, though ASL was able to generate positive cash flow, the operating environment remains challenging while ASL's liquidity remains tight and net gearing remains high. As such, we will retain our Negative Issuer Profile. (Company, OCBC)

Nam Cheong Ltd ("NCL"): NCL reported 3Q2017 results. Please note that NCL had already been approved by the courts to proceed with its proposal for a Scheme of Arrangement (refer to OCBC Asian Credit Daily – 31 October 2017) and hence currently NCL is under a debt moratorium (for a total of six months) as well as had 3 months to convene a meeting of creditors to vote on the Scheme of Arrangement. As such, 3Q2017 results serve to update NCL's operational performance concurrently while NCL continues with its restructuring. Revenue for the quarter was MYR79.1mn, up sharply from MYR25.8mn y/y. This was largely due to revenue from the shipbuilding segment increasing 266% to MYR60.9mn (3Q2016: MYR16.6mn) resulting from the sale and delivery of one vessel in 3Q2017. Chartering revenue also increased to MYR18.2mn (3Q2016: MYR9.2mn) due to the addition of 3 vessels to the chartering fleet in 3Q2017. The improvements to top line helped boost gross profit to MYR3.9mn (3Q2016: MYR778k) though we note that gross margins for shipbuilding fell sharply to 4% (3Q2016: 15%). However, FX losses of MYR15.4mn drove NCL to an operating loss of MYR20.4mn for the quarter. This, coupled with sharply higher finance costs of MYR27.5mn (versus MYR4.7mn in 3Q2016) as NCL capitalizes lower amounts into cost of construction, caused NCL to report a net loss of MYR48.6mn (3Q2016: net profit of MYR760k). For the quarter, NCL was able to generate MYR11.9mn in operating cash flow, with NCL monetizing some receivables. No capex was done during the quarter, while MYR made MYR7.2mn in payments on its notes. The debt moratorium also resulted in no other principal pay down. As a result, cash balance increased slightly q/q to MYR166.7mn. In aggregate, NCL reported MYR1.67bn in total borrowings, all now current due to NCL's on-going restructuring. NCL is currently held at Negative Issuer Profile. We will continue to monitor the situation closely given the on-going restructuring. (Company, OCBC)

Credit Headlines (Cont'd):

Singapore Post Ltd ("SPOST"): SPOST reported 2QFY2018 results for the quarter ending September 2017. 2QFY2018 revenue increased 10.2% y/y to SGD354.7mn (flat q/q), with growth at the postal and logistics segments mitigating weakness at the eCommerce segment. Specifically, the postal segment revenue was up strongly by 16.9% y/y to SGD148.3mn, driven by the surge in international mail (+45.2% sales y/y) which offset the structural decline in domestic mail (-7.8% sales y/y). Similar to the previous quarter, the boost in international mail was driven in part by higher volumes with the Alibaba Group. However, due to the continued shift in product mix (domestic mail is more lucrative), though postal operating profit still managed to grow 5.3% y/y to SGD35.1mn, operating margins continued to compress to 23.6% (2QFY2017: 26.2%). The current revenue split between domestic and international mail is 40% / 60%. For the logistics segment, revenue was up 7.6% to SGD165.9mn, driven by higher volumes due to eCommerce deliveries recognized in Singapore (SP Parcels) and Australia (Couriers Please), as well as higher freight forwarding volumes. However, there was continued weakness at Quantium Solutions with revenue declining 13.7% due to competitive pressures at its Hong Kong operations. Logistics segment operating profit actually swung to an operating loss of SGD4.2mn driven by a doubtful debt provision for a key Quantium Solutions Hong Kong customer. Even adjusting for this provision, segment operating profit would have been just SGD1.0mn (2QFY2017, SGD5.0mn, 1QFY2018: SGD4.4mn). In aggregate, segment performance was a disappointment, with the inorganic revenue growth from the Couriers Please and Famous Holdings acquisitions not translating into overall segment profits. The eCommerce segment, which used to be the driver of group revenue growth, continued to see segment revenue decline, falling 0.8% y/y to SGD63.5mn (-2% q/q). Though Jagged Peak managed to continue to grow its revenue by 15.8%, TradeGlobal continued to be a drag, declining 11.2%. The eCommerce segment continued to generate operating losses (SGD2.9mn worth) due to continued pressure at TradeGlobal. On the bright side, segment operating losses continued to improve q/q (1QFY2018: SGD4.2mn loss), with management executing its turnaround plan for the segment. In aggregate, SPOST's operating profit margin fell to 8.4% (2QFY2017: 11.8%) with volume-related expenses as well as SG&A expenses growing faster than revenue growth. For the quarter, SPOST generated SGD9.2mn in operating cash outflow (including interest service). Capex was SGD12.5mn hence free cash flow was negative SGD21.7mn. SPOST had also paid out SGD34.5mn in dividends / perp distributions as well as paid down SGD24.3mn in net debt. The cash gap was fund via drawing down SGD82.0mn from their cash balance, which fell to SGD282.3mn. This drove SPOST back to a net debt company, though net gearing remains very low at just 1.4%. Looking forward, we continue to believe that SPOST would continuing to face structural pressures on its margins (given the shift away from the lucrative domestic postal business), and this would in turn pressure cash flow. It is disappointing that despite the significant investments made into the Logistics and eCommerce segments, both segments are loss-making. Furthermore, the revenue growth that was expected from these two segments was not evident. We will continue to hold SPOST's Issuer Profile at Neutral, balancing SPOST's challenged business versus its current low absolute levels of leverage. (Company, OCBC)

Credit Headlines (Cont'd):

CWT Ltd ("CWT"): CWT reported its 9M2017 financials. Revenue was up 27% y/y to SGD8.3bn though reported gross profit saw a 9.1% decline to SGD222.1mn. We had observed that during 1H2017, revenue and gross profit increased by 22% and 11% y/y and as such the weakness in 9M2017 is largely attributable to weakness in 3Q2017. In 3Q2017, gross profit plunged 42% to SGD54.6mn (3Q2016: SGD93.7mn). Per company's disclosures, there was a few reasons for the decline in gross profit, namely (1) Lower gross profit from base metal concentrates trading despite higher volume traded as few deals were finalised and unrealised mark-to-market was recognised in 3Q2017 (2) Lower contribution from the higher margin financial services segment (3) Start-up costs in relation to CWT's new integrated logistics hub and (4) Lower contribution from contract logistics and freight logistics. In 9M2017, EBITDA (based on our calculations which does not include other income and other expenses) was SGD113.8mn, only a 1% y/y fall versus 9M2016. This was despite the decline in gross profit as administrative expenses were lower by 12.7%, thus helping to buffer operating results. Together with lower finance cost to SGD39.1mn (9M2016: SGD46.4mn), EBITDA/Interest was stronger at 2.9x versus 9M2016. As at 30 September 2017, net gearing at CWT spiked back to 1.1x (0.8x as at 30 June 2017 and 31 March 2017), though this was still within historical levels. We had been disinclined to suggest that CWT's lower net gearing in the last two quarters signified a deleveraging trend given the volatile working capital nature of the business. As at 9 November 2017, the total number of CWT shares owned and valid acceptances to the takeover offer by the acquirer (namely, HNA Belt and Road Investments (Singapore) Pte Ltd ("HNA")) represented a ~98.1%-stake in CWT. HNA is in the midst of compulsorily acquiring remaining shares in CWT and CWT is likely to eventually delist from the SGX. However, it would be subsumed into a Hong Kong listed entity. Hence we cease coverage on CWT but would continue to provide coverage of the Hong Kong listed entity (to be renamed as CWT International Limited). CWT's standalone credit risk is manageable in our view. Nonetheless, until such time we have more certainty that being part of HNA Group does not unduly compromise CWT's credit standing, we are maintaining our Negative issuer profile on CWT. (Company, OCBC)

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