Asian Credit Daily

OCBC Bank

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Credit Headlines (Page 2 onwards): Hong Fok Corp Ltd, Golden Agri-Resources Ltd, Starhill Global REIT, ASL Marine Holdings Ltd, Nam Cheong Ltd., Yanlord Land Group Ltd

Market Commentary: The SGD swap curve bull-flattened yesterday, with swap rates trading 1-6bps lower across tenors. Flows in SGD corporates were heavy, with better buying seen in CHIPEN 4.9%'22s, better selling seen in GENSSP 5.13%'49s, mixed interest in CENSUN 7.2%'18s, LBBW 3.75%'27s, OLAMSP 4.25%'19s. In the broader dollar space, the spread on JACI IG corporates rose 1bps to 195bps, while the yield on JACI HY corporates changed little, at 6.78%. 10y UST yield rose 1bps to 2.34% yesterday, alongside the rally in oil prices.

New Issues: Australia & New Zealand Banking Group Ltd priced a USD2bn 4-tranche deal, with the USD600mn 3.25-year piece at CT3.25+73bp, tightening from initial guidance of CT3.25+80bps; the USD400m 3.25-year piece at 3mL+50bps, tightening from initial guidance of 3mL+60bps; the USD500mn 5-year piece at CT5+78bps, tightening from initial guidance of CT5+90bps; and the USD500mn 5-year piece at 3mL+71bps, tightening from initial guidance of 3mL+80bps. The expected issue ratings are 'AA-/Aa2/NR'. ICBC Dubai (DIFC) Branch launched a new deal for a potential USD 3-year and 5-year floating rate bond. The expected issue ratings are 'NR/A1/NR'. GS Caltex Corporation scheduled investor roadshows from 23 May for potential USD bond issuance.

Rating Changes: S&P downgraded PT MNC Investama Tbk.'s (MNC Investama) corporate credit rating to 'CCC+' from 'B-'. In addition, S&P downgraded the issue rating on the notes (guaranteed by MNC Investama) issued by its wholly-owned subsidiary, Ottawa Holdings Pte. Ltd. to 'CCC+' from 'B-'. The outlook is negative. The rating action reflects MNC Investama's lack of progress on articulating and implementing a comprehensive and credible repayment or refinancing strategy for the guaranteed USD365mn senior secured notes maturing in mid-May 2018.

Table 1: Key Financial Indicators

	16-May	1W chg (bps)	1M chg (bps)		16-May	1W chg	1M chg
iTraxx Asiax IG	89	0	-11	Brent Crude Spot ($/bbl)	51.95	6.61%	-7.05%
iTraxx SovX APAC	21	0	-3	Gold Spot ($/oz)	1,233.60	1.01%	-3.98%
iTraxx Japan	43	0	-4	CRB	182.74	2.59%	-2.68%
iTraxx Australia	81	0	-8	GSCI	382.63	3.73%	-4.72%
CDX NA IG	62	0	-6	VIX	10.42	6.65%	-34.71%
CDX NA HY	108	0	1	CT10 (bp)	2.331%	-6.67	9.36
iTraxx Eur Main	62	0	-14	USD Swap Spread 10Y (bp)	-8	-1	-4
iTraxx Eur XO	253	0	-42	USD Swap Spread 30Y (bp)	-47	-2	-6
iTraxx Eur Snr Fin	68	2	-26	TED Spread (bp)	30	1	-6
iTraxx Sovx WE	9	1	-5	US Libor-OIS Spread (bp)	14	-1	-7
iTraxx Sovx CEEMEA	47	-1	-4	Euro Libor-OIS Spread (bp)	3	0	0
					16-May	**1W chg**	**1M chg**
				AUD/USD	0.742	0.97%	-2.28%
				USD/CHF	0.995	1.24%	0.94%
				EUR/USD	1.099	1.09%	3.29%
				USD/SGD	1.398	0.99%	0.01%
Korea 5Y CDS	58	2	-2	DJIA	20,982	-0.14%	2.58%
China 5Y CDS	79	-1	-9	SPX	2,402	0.12%	3.15%
Malaysia 5Y CDS	103	-2	-12	MSCI Asiax	612	1.28%	4.80%
Philippines 5Y CDS	78	0	-8	HSI	25,308	1.68%	4.31%
Indonesia 5Y CDS	129	4	-9	STI	3,232	-0.14%	2.00%
Thailand 5Y CDS	56	0	-2	KLCI	1,776	0.44%	2.59%
				JCI	5,674	-0.60%	1.01%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
15-May-17	Australia & New Zealand Banking Group Ltd	"AA-/Aa2/NR"	USD600mn	3.25-year	CT3.25+73bps
15-May-17	Australia & New Zealand Banking Group Ltd	"AA-/Aa2/NR"	USD400mn	3.25-year	3mL+50bps
15-May-17	Australia & New Zealand Banking Group Ltd	"AA-/Aa2/NR"	USD500mn	5-year	CT5+78bps
15-May-17	Australia & New Zealand Banking Group Ltd	"AA-/Aa2/NR"	USD500mn	5-year	3mL+71bps
12-May-17	Centurion Corp Ltd. (re-tap)	Not Rated	SGD20mn	5.25%'20s	NA
12-May-17	The Bank of East Asia Ltd.	"BB/Ba2/NR"	USD500mn	Perp NC5	5.625%
11-May-17	Radiant Access Ltd.	"NR/A2/NR"	USD1.5bn	Perp NC3	4.60%
11-May-17	Huachen Energy Co. Ltd.	"NR/B2/NR"	USD500mn	3-year	6.625%
10-May-17	Global Prime Capital Pte. Ltd. (re-tap)	"NR/Ba3/BB-"	USD70mn	5.5%'23s	101.625+accr.

Source: OCBC, Bloomberg

Rating Changes (cont'd): Moody's placed Baidu Inc.'s ‘A3’ issuer and senior unsecured bond ratings on review for downgrade. The rating review reflects Baidu’s fast-growing finance business, which has higher financial and execution risks when compared with its core businesses. Moody's downgraded Noble Group Limited's (Noble) corporate family rating and senior unsecured bond ratings to ‘Caa1’ from ‘B2’. In addition, Moody’s downgraded the rating on the company’s senior unsecured medium-term note (MTN) program to ‘(P)Caa1’ from ‘(P)B2’. The ratings outlook remains at negative. The rating action reflects heightened concern over Noble's liquidity stemming from its weak operating cash flow and large debt maturities over the next 12 months.

Credit Headlines:

Hong Fok Corp Ltd (“HFC”): HFC reported 1Q2017 results for the quarter ended 31 Mar. Revenue increased by 1% y/y to SGD14.2mn due to rental income increase. However, net loss worsened by 168% y/y to SGD3.3mn as other expenses surged 15% y/y SGD11.5mn, due to costs incurred for renovation of a property in Hong Kong while the costs for Yotel are expensed off. Moving forward, we expect Yotel to open in 2H17 and begin to contribute while construction expense related to Yotel would decrease. Meanwhile, net gearing inched up to 0.34x (4Q16: 0.32x), with SGD189mn in loans and borrowings (which includes SGD100mn of HFCSP ‘18s) due within the next 12 months. HFC mentioned that it can repay these from its available undrawn facilities and/or refinance them. However, due to the weak profitability, we continue to hold HFC at a Negative Issuer Profile. (Company, OCBC)

Golden Agri-Resources Ltd (“GGR”): GGR reported its 1Q2017 results. Revenue was up 37% y/y to USD2.05bn driven by increase in crude palm oil (“CPO”) market prices coupled with the continued recovery in palm production within GGR’s plantation segment. CPO Free on Board (“FOB”) for the company was USD734 per MT in 1Q2017, up 23% against 1Q2016 while palm product output increased 26% to 696,000 MT. EBITDA per company’s calculation (excludes gains/losses in fair value of biological assets and foreign exchange gains/losses) was USD182.8mn in 1Q2017, up 29% from 1Q2016. Despite slightly higher interest expense of USD35.5mn (1Q2016: USD32.2mn), EBITDA/Interest improved to 5.2x versus 4.4x. Due to the absence of a large foreign exchange gain (foreign exchange loss of SGD1.2mn in 1Q2017 against USD51.9mn in 1Q2016) and lower other operating income, profit before tax saw a 32% decline to USD53.8mn against USD79.1mn in 1Q2016. The plantations and palm oil mills segment saw EBITDA margin rise to 30% versus 25% in 1Q2016. GGR’s average age of plantations is now 16 years and the company aims to replant 10,000 hectares this year with higher quality seed. Adjusting for inter-segment eliminations, we estimate that the plantations and palm oil mills segment contributed 77% to overall EBITDA. GGR’s palm and lauric segment saw EBITDA margin decline to 2.1% in 1Q2017 from 4.9% in 1Q2016 largely due to the higher CPO prices (CPO is an input for plam and lauric). This drove EBITDA for the segment 37% lower to USD39mn (1Q2016: USD62mn) and contributed 21% of overall EBITDA. The oilseeds and others segment was a small contributor to EBITDA at USD2mn (down from USD4mn in 1Q2016 but turnaround from the negative USD6mn in 4Q2016), this continues to be a challenging segment for GGR, largely due to lack of scale amidst a highly competitive Chinese market. For the full year FY2017, the company has guided capex of USD150mn (lower than the projected capex of USD180mn in FY2016 and significantly lower than the USD300mn in FY2015). During 1Q2017, investing outflows was USD62mn. Driven by a tax refund of USD63.2mn, GGR was able to record a net increase in cash during the quarter. As at 31 March 2017, cash balance at the company (excluding pledged cash and deposits) was USD183mn (end-December 2016: USD122.7mn). As at 31 March 2017, net gearing was relatively flat at 0.7x, though cash as a percentage of short term debt had improved to 12% from only 9% in end-December 2016). Of GGR’s debt, company has guided that USD926mn relates to debt for working capital purposes, we view these to be largely self-liquidating. Adjusting net gearing downwards for such debt, we find adjusted net gearing at 0.4x, slightly lower than 0.5x in end-December 2016. Our base case assumes GGR short term debt will need to be refinanced and the company will be able to do so. GGR’s asset base provide sufficient buffer should the company need to raise secured debt. We estimate that gross debt over total adjusted asset base (we exclude intangible assets, bearer plants and long term investments from total assets) was 0.5x as at 31 March 2017. In our view, the improvement in palm volumes have led to an overall improvement in credit profile though financial flexibility from equity markets has been weighed down from expectation of lower palm oil prices. GGR’s listed equity is still seen as a direct proxy to CPO prices by equity market participants. OCBC Treasury Research is maintaining palm oil forecast at MYR2,650/MT by year end (currently MYR2,816/MT). We are reviewing GGR’s issuer profile. (Company, OCBC)

Credit Headlines (cont'd):

Starhill Global REIT ("SGREIT"): SGREIT announced that it sold its Harajuku Secondo property in Tokyo for SGD5.1mn, at a premium of 22.4% to its latest valuation, or at a NPI yield of 2.5%. The asset was one of the four remaining Japanese assets that SGREIT had, and was only 0.1% of portfolio value. The divestment was in line with SGREIT's aim of streamlining its portfolio. Since 2013, it had sold SGD57mn worth of Japanese assets, redeploying the capital largely in Australia. Total Japanese exposure (for the remaining 3 assets) is just 1.9% of portfolio value. Looking forward, we expect SGREIT to continue to pare down its non-core exposures in Japan and China. SGREIT had indicated that the sale proceeds would be largely used to repay JPY borrowings, with aggregate leverage expected to fall from 35.3% to 35.2%. We currently hold SGREIT at Neutral Issuer Profile. (Company, OCBC)

ASL Marine Holdings Ltd ("ASL"): 3QFY2017 results showed revenue decreasing 6.6% y/y to SGD84.1mn. On a q/q basis though, revenue was stable (+0.5%). The shipbuilding segment was stable y/y, generating SGD41.8mn in revenue (+0.3%). The bulk of revenue was generated from the building of tugs and barges, with the revenue recognized from building OSV anaemic (just SGD1.4mn). Though it is commendable that ASL is able to generate revenue away from OSVs, given the challenging environment, competition is making it difficult for ASL to sustain margins and rebuild its order book. Net shipbuilding order book has declined to SGD107mn (2QFY2017: 146mn) across 15 vessels with progressive deliveries till end-4QFY2018. Shiprepair and conversion segment revenue fell 32.4% y/y to SGD12.7mn due to lower-value repair jobs executed during the period. Shipchartering segment managed to sustain the revenue growth seen in the previous quarter, with revenue up 22.1% y/y to SGD25.7mn (though it was flattish q/q). Demand remains sustained for tugs and barges with ASL benefitting from the commencement of large marine infrastructure projects in Singapore and South Asia during 4QFY2016. ASL also benefitted from trade sales relating to the marine infrastructure contracts mentioned. OSV demand remains weak, with one AHT off charter (since July 2016) and one AHTS being leased out at a lower rate (since November 2016). Shipchartering net order book also slipped q/q to SGD127mn (2QFY2017: SGD136mn). Gross margins have continued to decline to 9.3% (3QFY2016: 14.4%, 2QFY2017: 12.0%), with ASL generating just SGD7.8mn in gross profits. Though shipbuilding margins continued to see further q/q expansion from 12.4% to 13.0%, shiprepair and conversion margins have fallen to 19.3%. In addition, the shipchartering segment swung to a gross loss of SGD414,000, largely driven by its OSVs, potentially due to seasonal factors (winter lull), as well as low utilization of its dredgers. In aggregate, ASL generated a loss before tax of SGD10.5mn (compared to SGD2.9mn profit before tax in 3QFY2016). The losses were driven by some one-off expenses, such as SGD3.7mn on fees relating to ASL's bond consent solicitation. ASL was also hit by SGD3.1mn in unrealized FX losses, as well as SGD2.4mn share of losses from associates / JVs. During the period, ASL generated operating cash outflow of SGD11.4mn (including interest service) due to ASL meeting payables, compared to SGD36.6mn inflow generated in 2QFY2017 and flat OCF generated in 3QFY2016. After factoring capex, ASL saw negative free cash flow of SGD14.0mn for the quarter. The cash gap was funded with SGD22.4mn net increase in borrowings / trust receipts. As a result, net gearing worsened q/q to 116% (2QFY2017: 110%), though it remains distinctly lower compared to the peak of 140% seen in 3QFY2016. Current borrowings have declined sharply q/q to SGD247.6mn (2QFY2017: SGD339.2mn), largely due to the extension of SGD100mn worth of bonds by 3 years. ~SGD160mn worth of current borrowings are related to shipbuilding / vessel & asset financing. ASL had reported that it had drew down SGD37.1mn of the new 5-year SGD99.9mn club facility form the 3 local banks. It had also received a 6-year Spring Bridging Loan of SGD5mn. Liquidity remains tight, with ASL reporting just SGD46.8mn in cash while our calculated EBITDA / Interest coverage stood at 2.5x for the quarter. One positive news is that ASL received approval from principal lenders to re-profile its existing term loans, based on a ten-year profile with 4 years repayment term. The terming out of its bank debt would help ASL manage its short-term liabilities. Management had indicated that they do not expect the operating environment for their business to improve meaningfully over the next 12 months, which is consistent with our view that the broader offshore marine industry remains difficult. As such, we will retain our Negative Issuer Profile on ASL. (Company, OCBC)

Credit Headlines (cont'd):

Nam Cheong Ltd. ("NCL"): NCL reported 1Q2017 results, generating MYR17.9mn in revenue. In comparison, for 1Q2016 NCL generated negative MYR93.1mn in revenue due to an order cancellation. In absolute terms though, revenue generation was dismal, when considering that NCL generated MYR1.93bn in revenue for 2014 and MYR950.0mn in revenue for 2015. On a q/q basis, revenue plunged 85.1%, and that was despite 4Q2016 results being pressured by revenue reversal on Perdana Petroleum Berhad ("Perdana")'s cancellation of its second Accommodation Work Barge ("AWB") order. Despite the slump in revenue, NCL managed to generate a gross profit of MYR7.2mn, an increase of 69.7% y/y. It was also an improvement over the gross loss of MYR12.2mn seen in 4Q2016. The main driver of this would be the MYR7.5mn gross profit generated from NCL's shipbuilding segment, on segment revenue of MYR8.2mn, indicating a gross margin of 92%. We believe that the huge gross margin realized during the quarter could be a function of timing, and is not sustainable. For 2015 and 2016, shipbuilding gross margins were only 17%. The quarter was the first quarter that NCL's shipchartering revenue overtook shipbuilding revenues, generating MYR9.7mn. The segment looks to be picking up steam due to higher vessel utilization, with revenue up 30.6% q/q, and segment gross losses trimming sharply to MYR352,000 (4Q2016: gross loss of MYR3.0mn). In aggregate, NCL generated a net loss of MYR47.5mn, largely driven by the MYR42.7mn in unrealized FX losses, along with finance costs increasing to MYR6.1mn (1Q2016: MYR1.8mn) due to higher borrowings. During 1Q2017, NCL reported MYR69.9mn in operating cash outflow, worse than the MYR10.3mn seen in 4Q2016. Inventory continues to be a drag on cash (MYR69.8mn impact for 1Q2017 compared to MYR305.2mn for the whole of 2016). If NCL did not drag out its payables (MYR66.1mn), operating cash burn would have been worse. The cash gap was funded by NCL monetizing MYR18.0mn in financial assets (left with just MYR16.3mn), MYR7.1mn in additional borrowings as well as drawing down MYR44.3mn in cash. As such, NCL's cash balance continues to fall, ending the quarter at MYR259.7mn and net gearing deteriorated to 120% (4Q2016: 111%). NCL also faces sizable short-term borrowings of MYR941.3mn, of which MYR269.1mn is the SGD90mn NCLSP'17s due in August. Based on our calculations, NCL generated just MYR5.1mn in EBITDA for the quarter, compared to MYR6.1mn in interest expense and MYR1.58bn in net debt. As mentioned previously (Refer to OCBC Asia Credit – Nam Cheong Credit Update 9 May), NCL is currently reviewing steps to review its options to restructure its business, operations and balance sheet. With 1Q2017 results on hand, given NCL's continued operating cash burn as well as weak EBITDA generation, it is highly unlikely that NCL would be able to persist without some form of debt restructuring. We will continue to hold NCL on Negative Issuer Profile. As a reminder, we have withdrawn our bond-level recommendations on the NCLSP'17s, NCLSP'18s and NCLSP'19s given the uncertainty over the path of restructuring and the broad spectrum of recovery outcomes. (Company, OCBC)

Credit Headlines (cont'd):

Yanlord Land Group Ltd ("YLLG"): YLLG reported its 1Q2017 results. On the back of significant revenue recognition, YLLG's revenue rose 121.5% to RMB6.3bn. This was mainly due to increase in gross floor area ("GFA") delivered to customers in 1Q2017 and an increase in average selling price ("ASP"). In 1Q2017, 158,378 sqm of GFA was delivered (1Q2016: 80,187 sqm of GFA) while ASP was RMB38,339 per sqm versus RMB34,095 per sqm. Largely as a result of increase in ASP, gross profit margins also increased significantly to 49.5% vis-à-vis 28.6% in 1Q2016. We expect to see flat-to-compression in gross margin going forward (though from a high base) following China's spate of property cooling measures which we expect will cap ASP upside in major cities. EBITDA (based on our calculation which does not include other operating income and operating losses) was RMB2.8bn in 1Q2017 (1Q2016: RMB570.6mn). In 1Q2017, YLLG paid RMB501.5mn in cash interest versus RMB297.9mn in 1Q2016. We find EBITDA/Cash interest at 5.7x versus 1.9x in 1Q2016. Despite the significant earnings generated, working capital was large during the quarter due to property development requirements to deliver on pre-sold properties. After factoring in working capital changes, YLLG's cash flow from operations before interest and income tax was a negative RMB6.9bn (1Q2016: positive RMB3.7bn). Investing outflows (including advances to non-controlling shareholders of subsidiaries) was lower at RMB566.4mn. In 1Q2017, the company also acquired a non-controlling interest in a subsidiary for RMB1.4bn and repaid its ultimate holding company RMB671.9mn. The cash gap was funded via a combination of new debt as well as drawing down on existing cash balances. As at 31 March 2017, cash balance at YLLG was RMB13.1bn (end-December 2016: RMB17.6bn). Cash receipts due to advance from customers (a current liability item from pre-sales) was RMB20.8bn as at 31 March 2017. In the first 4 months of FY2017, the company made new pre-sales of RMB6.2bn. Per company, project launches at the company was slower due to the lengthened pre-sales license process, though this has not negatively impacted its financing plans. We continue to maintain that cash balances at the company will need to be set aside for production of houses for contractual delivery and any further funding needs (eg: geographical expansion into Wuhan, a second tier city located in Central China) by the company will need to be satisfied by external debt. Gross debt-to-equity as at 31 March 2017 has increased to 0.9x (end-December 2016: 0.8x) and net gearing for YLLG has increased to 0.5x versus 0.2x in end-December 2016. We maintain YLLG's issuer profile at Neutral. (Company, OCBC)

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