Asian Credit Daily

OCBC Bank

February 23, 2017

Credit Headlines: Genting Singapore PLC, Aspial Corp Ltd, Ezion Holdings Ltd, BreadTalk Group Ltd, Sembcorp Industries/Sembcorp Marine, City Developments Ltd.

Market Commentary: The SGD swap curve traded downwards yesterday, with swap rates trading 1-2bps lower across tenors. Flows in SGD corporates were heavy, with better buying seen in UOBSP 3.5%'29s, FCLSP 4.15%'27s, better selling seen in SOCGEN 4.3%'26s, and mixed interest in BPCEGP 4.5%'26s, GUOLSP 4%'22s, BAERVX 5.75%'49s, GEMAU 5.5%'19s, STANLN 4.4%'26s. In the broader dollar space, the spread on JACI IG corporates rose roughly 1bps to 190bps while the yield on JACI HY corporates fell 2bps to at 6.69%. 10y UST yields fell 2bps to 2.41%, after dovish Federal Open Market Committee's (FOMC) meeting minutes of a "fairly soon" rate hike failed to match US Federal Reserve Chairwoman Janet Yellen's hawkish tone.

New Issues: Mizuho Financial Group Inc. priced a USD3.25bn 3-tranche deal, with the USD1.5bn 5-year piece priced at CT5+105bps, tightening from initial guidance of CT5+120bps; a USD1.25bn 5-year piece at 3mL+94bps; and a USD500bn 10-year piece at CT10+125bps, tightening from initial guidance of CT10+140bps. The expected issue ratings are 'A-/A1/NR'. China Jinmao Holdings Group Ltd. priced a USD500mn 5-year bond at CT5+170bps, tightening from initial guidance of CT5+200bps. The expected issue ratings are 'NR/Baa3/BBB-'. UOB priced a EUR500mn 5-year covered bond at MS+10bps, and USD500mn 3-year covered bonds at MS+45bps, tightening from initial guidance of MS+14bps and MS +50bps respectively. The expected ratings are 'NR/Aaa/AAA'. Chinese residential property developer Xinhu Zhongbao Co. Ltd. priced a USD700mn 3-year bond at 99.595, tightening from initial guidance in the 6.5% area. The expected issue ratings are 'B-/B3/B'. Central Nippon Expressway Co. Ltd. (wholly owned by Japanese government) may be pricing a potential USD bond issuance tomorrow. Shinhan Financial Group Co. Ltd. scheduled investor meetings from 27 February for a potential USD bond issue. Chugoku Electric Power scheduled investor roadshows from 27 February for a potential USD 3-year bond issue. The expected issue ratings are 'NR/A3/NR'.

Table 1: Key Financial Indicators

	23-Feb	1W chg (bps)	1M chg (bps)		23-Feb	1W chg	1M chg
iTraxx Asiax IG	96	-6	-19	Brent Crude Spot ($/bbl)	56.31	1.19%	1.96%
iTraxx SovX APAC	26	-1	-8	Gold Spot ($/oz)	1,237.06	-0.16%	1.55%
iTraxx Japan	52	-1	-4	CRB	191.23	-0.55%	-1.65%
iTraxx Australia	85	-3	-13	GSCI	401.58	-0.87%	0.70%
CDX NA IG	63	-1	-4	VIX	11.74	9.31%	-0.25%
CDX NA HY	108	0	1	CT10 (bp)	2.409%	-3.73	1.23
iTraxx Eur Main	74	1	4	USD Swap Spread 10Y (bp)	-3	3	7
iTraxx Eur XO	295	1	2	USD Swap Spread 30Y (bp)	-37	3	7
iTraxx Eur Snr Fin	94	2	7	TED Spread (bp)	54	3	0
iTraxx Sovx WE	23	0	4	US Libor-OIS Spread (bp)	32	-2	-4
iTraxx Sovx CEEMEA	67	1	-11	Euro Libor-OIS Spread (bp)	2	0	0
					23-Feb	1W chg	1M chg
				AUD/USD	0.768	-0.23%	1.21%
				USD/CHF	1.011	-1.38%	-1.44%
				EUR/USD	1.055	-1.14%	-1.98%
				USD/SGD	1.416	0.06%	0.14%
Korea 5Y CDS	44	-3	-3	DJIA	20,776	1.32%	4.93%
China 5Y CDS	92	-6	-20	SPX	2,363	1.08%	4.31%
Malaysia 5Y CDS	107	-9	-23	MSCI Asiax	569	0.93%	5.50%
Philippines 5Y CDS	82	-5	-18	HSI	24,100	-0.03%	5.25%
Indonesia 5Y CDS	127	-11	-24	STI	3,119	0.73%	3.10%
Thailand 5Y CDS	56	-8	-18	KLCI	1,709	0.09%	2.27%
				JCI	5,362	-0.30%	2.11%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
22-Feb-17	Mizuho Financial Group Inc.	"A-/A1/NR"	USD1.5bn	5-year	CT5+105bps
22-Feb-17	Mizuho Financial Group Inc.	"A-/A1/NR"	USD1.25bn	5-year	3mL+94bps
22-Feb-17	Mizuho Financial Group Inc.	"A-/A1/NR"	USD500mn	10-year	CT10+125bps
22-Feb-17	China Jinmao Holdings Group Ltd.	"NR/Baa3/BBB-"	USD500mn	5-year	CT5+170bps
22-Feb-17	United Overseas Bank Ltd.	"NR/Aaa/AAA"	EUR500mn	5-year	MS+10bps
22-Feb-17	United Overseas Bank Ltd.	"NR/Aaa/AAA"	USD500mn	3-year	MS+45bps
22-Feb-17	Xinhu Zhongbao Co. Ltd.	"B-/B3/B"	USD700mn	3-year	99.595
21-Feb-17	Korea Development Bank	"AA/Aa2/AA-"	USD500mn	3-year	3mL+45bps

Source: OCBC, Bloomberg

Rating Changes:

S&P downgraded BIS Industries Ltd. (BIS) corporate credit rating to ‘CCC-‘ from ‘B-‘. The rating outlook is negative. The rating action reflects S&P’s considerations of BIS' current capital structure, which is unsustainable due to the company's limited ability to materially improve its weak earnings and fully refinance its AUD615mn debt due in 2018. Moody’s downgraded Parkson Retail Group Limited's (Parkson) corporate family and senior unsecured debt ratings to ‘B3’ from ‘B2’. The rating outlook is negative. The rating action reflects the continued deterioration in Parkson's profitability and cash flows, which has weakened its financial profile to a level that is more commensurate with a B3 rating.

Credit Headlines:

Genting Singapore PLC (“GENS”): GENS reported its 4Q2016 / full-year 2016 results. Full-year revenue declined 7.2% to SGD2.23bn, with gaming revenues seeing a 9.2% decline. This was in part driven by GENS rotating away from the VIP market to focus on mass / premium mass. This allowed GENS to improve the impairment on its gaming receivables, which fell from SGD270.7mn (2015) to SGD235.1mn (2016). Performance was also supported by lower impairments on financial assets (SGD63.4mn loss in 2015 versus SGD13.6mn loss in 2016) as well as lack of fair value losses on derivative financial instruments (SGD239.3mn loss in 2015). These factors drove operating profit higher by 62.1% y/y to SGD547.4mn. 4Q2016 results were strong, with revenue up 1.9% y/y to SGD557.7mn, with strong gaming revenue (+6.6% y/y) offsetting weakness at non-gaming (-8.4% y/y). The former was driven by higher rolling win percentage for premium mass, while the latter could be caused by poorer visitation numbers (18,000 daily visitations versus 20,000 seen in 2014). Management had indicated that there are tentative plans to invest into Sentosa, and that more information will be provided in the near future. Adjusted EBITDA remained steady q/q at SGD233.7mn, but was up 28.9% y/y. The quarter’s results benefitted from FX gains off the cash balance (+SGD68.7mn). Absent the SGD79.8mn in loss generated from disposing investment financial assets in 4Q2015, profit before tax surged to SGD222.6mn (versus SGD28.3mn a year back). Operating cash flow continues to be strong with SGD255.1mn generated (including interest service) for the quarter. Coupled with SGD15.8mn in capex, free cash flow was SGD239.3mn for the quarter. About SGD193mn was paid out in dividends and perp distributions for the quarter, with the rest flowing into the cash balance. As such, GENS ended the year with SGD1.5bn in net cash (net of SGD1.2bn in debt and SGD2.3bn in perpetual securities). Furthermore, more cash can be expected in 1Q2017 due to the Jeju resort JV divestment, with GENS booking SGD96.3mn in divestment gains as well as receiving ~USD411mn in proceeds. In aggregate, it would seem that GENS has left the heightened gaming receivable impairments as well as investment losses of yesteryears behind. Cash flow generation has been robust and consistent, despite likely near-term capex needed for Sentosa and longer-term capital needs for any Japan IR bid. GENS has also indicated comfort at keeping dividends at current levels (SGD0.03 per share per annum, or SGD360.7mn per year). As such, we will retain our Positive Issuer Profile. (Company, OCBC).

Aspial Corp Ltd (“Aspial”): Aspial reported FY2016 results. For the full year, revenue increased 34% to SGD621mn due to higher contributions from the real estate business with progress recognition of sales from CityGate and Waterfront@Faber and final recognition of sales from The Hillford and Urban Vista. However, the profits declined 47% y/y to SGD4.8mn as the real estate business recorded 46% lower pretax profit of SGD7.4mn. The margins for the real estate business were lower while Aspial had a loss of rental income from the demolition of the old Keypoint building. Despite good results from the financial service business (pre-tax profits higher by 204.7% to SGD13.1mn), this was dragged down by Jewellery business reporting a pre-tax loss of SGD5.3mn due to higher expenses for marketing. 4Q2016 results were disappointing, with losses of SGD7.4mn due to pre-tax losses for the Jewellery segment (SGD1.5mn) while interest cost increased q/q to SGD9.9mn (3Q2016: SGD6.5mn). Nevertheless, there is some near-term relief on liquidity as Aspial secured two construction loans in Sep2016 and Jan 2017 worth AUD335mn to fund its projects at Australia 108 and Avant. In the longer-term, Aspial’s credit profile may improve if it completes the Singapore and Australian projects, as SGD1.5bn of sales have been locked in. Net gearing improved to 3.14x for FY2016 (3Q2016: 3.34x) and Aspial expects its cash and debt position to further strengthen as its projects complete in 2017 and 2018. Although we acknowledge the improvements in net gearing and liquidity, we think the credit profile remains stretched with SGD503mn of debt due over the next 12 months, while the Australian projects which comprise most of the pre-sales (AUD1.1bn out of SGD1.5bn) will only begin to contribute from 2018. As such, we maintain a Negative Issuer Profile on Aspial. (Company, OCBC)

Credit Headlines (Cont'd):

Ezion Holdings Ltd. ("EZI"): 4Q2016 results showed revenue falling 14.3% y/y to USD72.6mn. On a q/q basis, revenue fell as well by 9.0%. Management had indicated that the y/y decline in revenue was driven by lower charter rates for its fleet of liftboats and drilling rigs, as well as delays in the modification and upgrade of some of its rigs / liftboats. Given the pressure seen by peers in the space, it is likely that EZI also faced utilization pressure for its fleet. In general, despite the stabilization of global energy markets, the industry remains pressured by the oversupply of drilling assets. Gross margins have continued to slide, falling to 12.1% (4Q2015: 23.8%) with COGS increasing due to more service rigs deployed, but lower charter rates mean less revenue per unit. The quarter also saw EZI take USD70.9mn in impairments / provisions over its PPE and receivables (lower than the USD81.1mn taken in 4Q2015) as well as USD6.6mn in disposal losses. These factors resulted in EZI generating a net loss of USD66.6mn (versus the USD63.5mn loss seen in 4Q15). The above factors also drove full-year 2016 results lower, with revenue down 9.4% and EZI generating a full-year loss of USD33.6mn. Operating cash flow (including interest service) has slumped sharply q/q from USD36.7mn (3Q2016) to USD14.4mn. This drove free cash flow negative to –USD7.5mn. In addition, EZI paid down USD28.1mn in net borrowings as well as made USD10.1mn investments into its joint ventures. As such, EZI's cash balance fell USD46.3mn to USD205.0mn, compared to USD331.1mn in short-term borrowings. Net gearing worsened q/q as well due to the impairments taken, increasing to 98% (3Q2016: 93%). Looking forward, EZI announced that it has completed discussions with all its bankers to reduce its annual principle repayment as well as extended its loan facilities. EZI was also able to renew its working capital facilities with its principal bankers. The lower amortization burden should help EZI manage its cash burn going forward, given the charter rate pressure that EZI is facing. In addition, EZI also announced that it is reducing planned capex by USD270mn, via indefinitely postponing 4 units of service rigs. Though the previous factors are credit positive for EZI, the elephant in the room remains the joint venture, Strategic Offshore Limited ("SOL"), which EZI has with Swissco Holdings ("Swissco"). The most recent disclosure EZI provided (AR2015) booked SOL's carrying value at USD60.5mn. In addition, AR2015 disclosed that EZI made USD55.5mn in shareholder loans to its JVs, with SOL being the only material JV that EZI had as of end-2015. As of end-2016, EZI's exposure to its JVs in aggregate was USD171.6mn. Swissco Holdings had previously disclosed that the 3 rigs held in SOL were on charter, but the charterer had not been making payments. As such, the fate of SOL remains uncertain, with EZI potentially needing to review the value of its stake in SOL. As such, we will continue to hold EZI's Issuer Profile at Negative. (Company, OCBC)

BreadTalk Group Ltd ("BGL"): BGL announced 4Q2016 results. 4Q2016 revenue decreased 1.1% to SGD153.3mn, mainly due to an 11.1% decline in Food Atrium's revenue to SGD38.1mn as BGL closed unprofitable outlets. Despite the slight dip in revenue, we view this positively as the streamlining of operations resulted in EBITDA for Food Atrium surging 130.6% to SGD6.8mn. However, total EBITDA for BGL increased only 10.2% to SGD24.2mn as the Restaurant segment EBITDA fell by 37.6% y/y to SGD8.6mn. The restaurant segment likely faced an increase in distribution and selling expenses as revenues grew 5.0% y/y to SGD38.6mn. While the Bakery division saw EBITDA declining 8.2% y/y to 5.8mn, the poorer performance is due to SGD1.6mn bad debt written off (likely related to one-off write-off for BGL's franchisee). During the quarter, BGL added another 15 Bakery shops (2 direct, 13 franchise), with capex still relatively contained at SGD7.0mn. Moving forward, management guided that capex for 2017 is likely to be around the same levels as 2016 (SGD37mn), and we think capex is unlikely to escalate given BGL's focus on cost controls (to boost profitability) over pursuit of rapid revenue growth. As a result, cash position continues to build up to SGD121mn (3Q2016: SGD112mn), with net gearing improving substantially to 0.40x (3Q2016: 0.55x). If we consider the gains and proceeds from the divestment of the stake in TripleOne Somerset in January 2017 that is not captured in the 4Q2016 results, we expect net gearing to decrease to 0.22x. BGL has no concrete plans for its SGD121mn cash but may use this to fund potential M&As and dividends in 2017. Although we see material improvements in the credit profile, we maintain BGL at a Neutral Issuer Profile due to its small size. (Company, OCBC)

Credit Headlines (Cont'd):

Sembcorp Industries ("SCI") / Sembcorp Marine ("SMM"): SMM reported 4Q2016 results with revenue declining 37.5% y/y to SGD829.9mn. Though global energy prices have showed some recovery, E&P activity remains muted. This, coupled with the oversupply of drilling assets, has impacted demand for newbuild drilling assets, as well as caused clients to delay / defer delivery of such assets. The previous factors reduced SMM's revenue recognition on rig building projects, as well as made it challenging for SMM to grow its order backlog. Specifically, Rigs & Floaters segment saw revenue decline 41.9% y/y to SGD495.9mn while Repair & Upgrades segment and Offshore Platforms segment saw ~30% declines. The lower revenues drove SMM to generate just SGD34.7mn in gross profits, or 4.2% gross margin for the quarter. Net order book (including SGD3.1bn worth of Sete Brasil orders) has continued to decline from SGD8.4bn (end-3Q2016) to SGD7.8bn (end-4Q2016). SMM has updated that Sete Brasil submitted a revised plan on 23/12/16, with a general creditors meeting scheduled for later in February 2017. Management has reiterated that the SGD329mn in provisions taken in 4Q2015 over the Sete Brasil contracts remain adequate. There were also minimal new updates regarding the two jack-up rigs to be delivered to Perisai Petroleum Teknologi (currently in default), three jack-up rigs deferred by Oro Negro, as well as the West Rigel semi-submersible to North Atlantic Drilling. The standstill agreement with North Atlantic Drilling (first announced 03/12/15) has been extended yet again to 06/07/17. Management reiterated that the SGD280mn in provisions taken in 4Q2015 over non-Sete Brasil orders remain adequate. Comparatively, Keppel Corp took ~SGD200mn in new impairments and provisions over PPE and WIP (mostly in 4Q2016), largely related to its offshore marine segment. Operating profit was SGD67.1mn, higher than 3Q2016's SGD32.9mn as well as the SGD510.0mn operating loss seen in 4Q2015 (due to SGD609mn worth of provisions). Operating profit benefited from a SGD63.7mn FX gain during the quarter. This resulted in SMM reporting a pre-tax profit of SGD21.3mn for the quarter, or SGD90.5mn for the year. After the strong cash inflow seen in 3Q2016 due to the Noble Corporation rig delivery, operating cash flow has turned negative to SGD153.0mn for 4Q2016. This, coupled with SGD148.8 in capex for the quarter, resulted in SGD301.8mn in negative free cash flow. As such, SMM's cash balance fell to SGD1.22bn, causing net gearing to increase q/q to 113% (from 103%). The deterioration to SMM's leverage, profit and cash generation could impact SCI, though SCI's improving utilities segment could help offset the weakness. SCI is expected to announce its 4Q2016 earnings on 23/02/17 after the market closes. (Company, OCBC)

Credit Headlines (Cont'd):

City Developments Ltd. ("CDL"): Full year 2016 results showed revenue surging 18.2% to SGD3.91bn, driven by the 68.3% increase in property development revenue. Singapore residential sales were strong with CDL achieving SGD1.25bn in sales value (including JV partners' share) across 1,017 units sold versus SGD691.5mn in sales value across 674 units seen in 2015. Sales were encouraging at the upmarket Gramercy Park, with 64% of launched units (50% launched) sold and the balance 50% to be launched by 1H2017. The Forest Woods project sold well, with 76% sold to date (as of 19/02/17). Of the projects that achieved TOP in 2016, only Gramercy Park and South Beach Residences (unlaunched) were not fully sold. In aggregate, CDL still has 737 units in unsold inventory for the Singapore market (launched units only) versus 668 units in 3Q2016 (increase due to the Forest Woods launch in October 2016). Outside Singapore, the Suzhou Hong Leong City Center (HLCC) phase 1 (76% sold, sales value RMB2.21bn)) was completed during 4Q2016 and contributed to performance. Looking into 2017, more contributions from CDL's Chinese residential assets are expected given completions, but aside from HLCC phase 1 the current percentage sold across the region is below 50%. As such, contributions could be lower in 2017 compared to 2016. Current proposed GFA split for residential properties is 22% domestic, balance international. The hospitality segment (Millennium & Copthorne Hotels ("M&C")) was soft, with revenue declining 3.9% to SGD1633.7mn. Conditions continued to be challenging (due to supply) at CDL's key gateway cities (i.e. New York, Singapore), and refurbishment / improvement works at certain assets have affected performance. In addition, the slump in GBP post BREXIT affected CDL when M&C's results were consolidated. For example, though M&C's global RevPar increased by 6.6% in GBP terms, it fell in constant currency terms by 2.3%. Looking forward, M&C is seeking to boost performance, particularly at New York and Singapore, by adjusting its strategy as well as by enhancing its e-commerce capability. 2017 could provide some surprise upside, with early signs of improvements in London, New York and Australasia markets. However, RevPar has continued to be weak in Singapore (-5.2% for January 2017). Rental property revenue slumped 10.5% during 2016 to SGD366.9mn. This was largely driven by asset divestments made during the year (Manulife Centre, Central Mall Office Tower etc). CDL's office portfolio occupancy fell from 97.2% (2015) to 95.9% (2016). Attempts to backfill space include new associate company, Distrii (24% stake acquired for RMB72mn in January 2017) setting up a co-working place at Republic Plaza, taking 60,000sqft. This should help mitigate the vacancy made by BTMU (occupying 150,000sqft currently, which was reported to be moving to Marina One mid-2017). In aggregate, CDL reported SGD1216mn in EBITDA for the year (versus SGD1272mn in 2015), of which 55% was derived from recurring income (hotel, rental properties). About 58% of EBITDA was generated overseas. CDL generated SGD1044mn in operating cash flow (including interest service) for the year. In addition, CDL made SGD318.1mn in investing cash flows (due to the Exchange Tower and Nouvel 18 divestments). CDL used the cash flow generated to deleverage, with gross borrowings falling to SGD5.75bn (2015: SGD6.50bn). As such, net debt / EBITDA improved to 1.5x (2015: 2.3x), while net gearing improved to 16% (2015: 26%). Interest coverage was strong at 9.8x. Current borrowings of SGD1.78bn can easily be met by CDL's cash pile of SGD3.67bn. Looking forward, with likely slower residential development sales in 2017 as well as lacking the catalyst from the Nouvel 18 divestment (via CDL's third Profit Participation Securities), we don't expect to see material improvements to CDL's credit profile. If anything, CDL had mentioned previously keeping resources on standby for opportunities that occur (such as CDL spending SGD300mn across two Chinese investments mid-February 2017). We will however keep CDL at Positive Issuer Profile, reflecting its low leverage levels as well as strong recurring EBITDA generation. (Company, OCBC)

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