Asian Credit Daily

February 27, 2017

Credit Headlines (Page 2 onwards): OUE Ltd., Pacific Radiance Ltd., Golden Agri-Resources Ltd., CWT Limited.

Market Commentary: The SGD swap curve traded downwards Friday, with swap rates trading 1-4bps lower across tenors. Flows in SGD corporates were heavy last Friday, with better buying seen in UOBSP 3.5%'29s, GUOLSP 4%'22s, better selling seen in FCLSP 4.15%'27s, and mixed interest SCISP 4.75%'49s. In the broader dollar space, the spread on JACI IG corporates rose 1bps to 192bps while the yield on JACI HY corporates changed little at 6.69%. 10y UST yields fell 6bps to 2.31%, as traders remain skeptical of a rate hike in March despite several committee members' comments that a March hike is still "on the table".

New Issues: Majid Al Futtaim Holding LLC scheduled investor meetings from 27 February for a potential USD Perp issuance. The expected issue ratings are 'BB+/NR/BB+'. Korea National Oil Corp. engaged banks for a potential USD/EUR bond issuance. China Cinda Asset Management Co. Ltd. engaged banks for a potential USD senior bond issuance. Grand China Air (Hong Kong) Ltd. scheduled investor meetings for a potential USD bond issuance. The potential bonds will be guaranteed by Grand China Air Co. Ltd. Macquarie Bank Ltd. scheduled investor meetings commencing on 27 February, for a potential USD NC10 AT1 Perp issuance.

Rating Changes: S&P revised the outlook on Mitsubishi Motors Corp.'s 'BB-' corporate credit rating to stable from negative. In addition, S&P affirmed the corporate credit rating on the company. The rating action reflects S&P's view that the automaker's operating performance and financial standing face a reduced risk of further material deterioration. Moody's affirmed the ratings of five securities firms in China and Hong Kong, following the publication on 22 February of its new securities industry market makers rating methodology. Moody's has changed the outlooks on the following securities firms to stable from negative: CITIC Securities Company Limited, Everbright Securities Company Limited, Guotai Junan Securities Co., Ltd., China International Capital Corporation Ltd., Guotai Junan International Holdings Limited.

Table 1: Key Financial Indicators

	27-Feb	1W chg (bps)	1M chg (bps)		27-Feb	1W chg	1M chg
iTraxx Asiax IG	97	-5	-14	Brent Crude Spot ($/bbl)	56.01	-0.30%	0.88%
iTraxx SovX APAC	25	-2	-7	Gold Spot ($/oz)	1,258.06	1.58%	5.61%
iTraxx Japan	52	-2	-2	CRB	190.93	-0.95%	-1.29%
iTraxx Australia	85	-3	-9	GSCI	401.83	-0.46%	1.10%
CDX NA IG	63	-1	-1	VIX	11.47	-2.47%	8.41%
CDX NA HY	108	0	1	CT10 (bp)	2.324%	-9.06	-16.02
iTraxx Eur Main	75	1	5	USD Swap Spread 10Y (bp)	-2	2	6
iTraxx Eur XO	296	-1	4	USD Swap Spread 30Y (bp)	-38	0	2
iTraxx Eur Snr Fin	95	2	8	TED Spread (bp)	55	1	2
iTraxx Sovx WE	23	0	1	US Libor-OIS Spread (bp)	31	-2	-4
iTraxx Sovx CEEMEA	66	-2	-10	Euro Libor-OIS Spread (bp)	2	0	0
					27-Feb	1W chg	1M chg
				AUD/USD	0.768	-0.05%	1.76%
				USD/CHF	1.007	-0.43%	-0.77%
				EUR/USD	1.057	-0.40%	-1.19%
				USD/SGD	1.404	0.97%	1.93%
Korea 5Y CDS	46	-1	-1	DJIA	20,822	0.98%	3.62%
China 5Y CDS	92	-7	-17	SPX	2,367	0.86%	3.17%
Malaysia 5Y CDS	109	-6	-19	MSCI Asiax	567	0.50%	3.32%
Philippines 5Y CDS	84	-4	-12	HSI	23,841	-1.26%	2.06%
Indonesia 5Y CDS	128	-7	-18	STI	3,102	0.19%	1.23%
Thailand 5Y CDS	54	-10	-18	KLCI	1,700	-0.74%	0.81%
				JCI	5,386	0.65%	1.38%

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

Credit Headlines:

OUE Ltd. ("OUE"): On 24/02/17, a wholly-owned subsidiary of OUE, Treasure International Holdings Limited, entered into a shareholder loan agreement with International Healthway Corp ("IHC"). OUE has acquired a majority stake in IHC, and is currently in the process of making a mandatory offer for the rest of IHC. The shareholder loan has a SGD50mn notional amount, and pays an interest of 4% per annum. The loan is secured against a fixed and floating charge over IHC's assets. The loan was indicated to be used for IHC's working capital requirements and/or day-to-day operations. Incidentally, IHC has SGD50mn IHCSP'17s maturing on 27/04/17. In addition, due to OUE's acquisition of IHC, this triggered a change-of-shareholder event, which provides IHC's bondholders the option of early redemption (relevant documents have to be submitted by 04/03/17). As such, the SGD50mn IHCSP'18s due 06/02/18 could be tendered as well. As mentioned previously, we are currently reviewing OUE's Neutral Issuer Profile to consider the impact of the acquisition, and will update accordingly. (Company, OCBC)

Pacific Radiance Ltd. ("PACRA"): For 4Q2016, PACRA generated USD12.1mn in revenue, a decline of 44.2% y/y. This was also a 36.0% q/q decline. The market of OSV remains challenged due to still muted offshore upstream activity, coupled with the oversupply situation for OSVs. 4Q2016 also captures part of the low activity winter season. As COGS was relatively sticky, PACRA generated a gross loss of USD14.5mn for the quarter. Though SG&A expenses were trimmed by ~30% y/y, PACRA took USD12.2mn in impairments on doubtful receivables and amounts due from related party as well as USD6.8mn in net loss on the disposal of a subsidiary. Coupled with higher financing expense due to additional borrowings, PACRA generated a net loss of USD33.9mn for the quarter. For the full year, PACRA generated USD69.4mn in revenue, down 43.0% y/y, due to competition suppressing utilization rates for PACRA's fleet as well as low charter rates. This drove PACRA to a gross loss of USD31.8mn for the year. In aggregate, PACRA also took USD23.5mn in provision on receivables as well as USD28.7mn in impairments on its fleet. This drove PACRA to a full-year loss of USD121.7mn. We note that as PACRA generated negative EBITDA, PACRA would have to hold 2 coupon's worth of cash into escrow in order to cure its interest coverage covenant. For the year, PACRA generated USD44.0mn in operating cash out flow and spent USD126.3mn in capex. The cash gap was plugged in by USD57.1mn in vessel sales, USD10.6mn in deposits claimed over vessel order rescissions and USD114.9mn in additional borrowings. Due to PACRA refinancing part of its bank facilities in 4Q2016, short-term debt is currently USD49.2mn, sharply lower compared to USD103.5mn in 3Q2016. Cash increased q/q as well to USD50.6mn due to ~USD21mn in fixed asset sales (likely vessels). However, due to the losses generated in 4Q2016 consuming shareholder's equity, net gearing worsened q/q to 161% (3Q2016: 149%). It is worth noting that PACRA was able to write-back USD4.2mn in impairments during 4Q2016, potentially due to PACRA selling vessels at above the impaired value. In aggregate, the environment for OSV fleet owners remains challenging, suppressing PACRA's ability to improve its credit profile. As such, we will continue to hold PACRA's Issuer Profile at Negative. (Company, OCBC)

OCBC Bank

Credit Headlines (Cont'd):

Golden Agri-Resources Ltd ("GGR"): GGR reported its full year 2016 results. Revenue was up 10.7% to USD7.2bn on the back of stronger performance at the downstream palm and laurics and oilseeds segment. Based on our calculation of EBITDA (which does not include share of results of associates/JVs and other operating income and expenses), we find EBITDA to have increased 8.6% to USD524.8mn. EBITDA improvement was largely driven by stronger performance of GGR's downstream segment, which saw revenue improving 12% to USD6.3bn and EBITDA improving 66% to USD181mn. For FY2016, EBITDA margin was 2.9% against only 1.9% in FY2015. Per company, this was driven by refining assets being more efficient and expanded destination market presence. Output from the plantation and palm oil mills is largely used internally for the downstream segment. Not taking into account of inter-segment elimination, revenue of the upstream segment impoved 3.6% to USD1.5bn, driven by higher average crude palm oil price ("CPO"). Up 16% at USD664 per tonne. Despite the higher revenue, cash cost was higher due to lower production volumes, resulting in lower EBITDA of USD379mn (FY2015: USD415mn). In FY2016, FFB Yield was 19 tonnes/ha while it was 21.8 tonnes/ha in FY2015. The oilseeds business (largely China-based and operating in a challenging environment) reported a 10% decrease in EBITDA to USD10.2mn despite a 17% increase in revenue to USD753mn. Interest expense was relatively stable at USD131.3mn, leading to an improvement in EBITDA/Interest of 4.0x (FY2015: 3.7x). During the year, GGR also closed down a small refinery in Zhuhai which was a non-core asset for the group (took a USD34.3mn allowance for impairment loss). Despite the impairment loss, net profit for the year was boosted by (1) USD47.2mn gain in foreign exchange (FY2015: loss of USD91.8mn) due to fair value gain on forward foreign currency contracts entered to hedge the currency exposure of MYR and IDR and (2) USD262.5mn in tax credit. In 2015, GGR revalued some of its plantation assets in Indonesia (to take advantage of a tax incentive, 3% tax rate of revalued assets versus 10%) and consequently substantial deferred income tax assets were recognized. Per company, 1Q2017 would see taxes on its income statement revert to the 25% statutory tax rates. As at 31 December 2016, we find net debt to equity decrease slightly to 0.7x (31 December 2015: 0.75x). Excluding intangible assets and bearer plants, we find adjusted assets at USD7.0bn (up from USD6.6bn as at 31 December 2015). This was largely boosted by a USD245mn increase in deferred tax assets. With total debt levels largely stable, find debt to adjusted assets at 0.44x, decreasing slightly from 0.46x as at 31 December 2015. About 1/3 of debt at GGR relates to working capital debt and this is routinely rolled-over. Excluding such debt, GGR faces USD806.7mn in short term debt due. This includes SGD150mn bonds due in April 2017, IDR900bn (~USD68mn) bond due in July 2017 and MYR1.5bn (~USD338mn) due in November 2017. Per company, it is in discussions with commercial banks for the refinancing of near-term bonds due. We think GGR's asset base provide sufficient buffer should the company need to take on secured debt. While refinancing risk continues to be an overhang, our base case remains that the company is able to do so. In FY2016, CFO (before interest and tax) over interest was 1.9x, lower than 6.7x in FY2015. Capex for PPE (taken for GGR's biodiesel plants) was USD215mn versus USD449mn in FY2015. This was slightly higher than the guidance at the beginning of 2016 of USD180mn. For FY2017, the company has guided capex of USD150mn, which should help boost cash flow in FY2017. OCBC Commodities Research projects CPO prices at MYR2,650 by end-2017 (currently MYR2,952). While GGR's listed share price has a high correlation with palm oil prices (seen as a pure-play CPO company), we think higher production volumes this year and the improvement in its downstream business should keep GGR's credit profile relatively stable from current levels. We are currently reviewing GGR's Negative issuer profile for any potential changes. (Company, OCBC)

Credit Headlines (Cont'd):

CWT Limited ("CWT"): CWT announced its full year 2016 ("FY2016") results. CWT's revenue decreased by 6.8% to SGD9.3bn, largely due to decrease in revenue from the Commodities Marketing segment (from lower naptha trading volumes). Gross profit ("GP") had a narrower decline of 4.6% to SGD320.8mn following the increase contribution from Financial Services which is a higher margin business (GP margin of 46.1%). In FY2016, Financial Services contributed 20% to gross profit against 17.5% in FY2015. Based on our calculation of EBITDA, which does not factor other income and other expenses, CWT's EBITDA was SGD174.7mn (down 12.5% against SGD199.8mn in FY2015). This was driven by decrease in overall GP and increase in administrative expenses of 4%. Interest expense was SGD56.3mn, 10.5% higher than FY2015. This follows the higher debt taken by CWT for its Financial Services and Commodity Marketing business as well as foreign exchange losses. As a result, interest coverage as measured by EBITDA/Interest was thinner at 3.1x against 3.9x in FY2015. Profit after tax was SGD79.0mn against SGD113.9mn in FY2015. Profit after tax was down SGD35mn (or 31%), driven by lower operating profits (down SGD10mn), higher net finance expense (higher interest expense and absence of gain from sale in REIT units in FY2016, collectively up SGD15mn), lower share of profit from associates (down SGD2mn) and higher income tax expense (withholding tax expenses incurred for dividend declared by an overseas subsidiary, up SGD8mn). **Logistics:** Excluding share of profit in joint ventures and associates, we estimate that the EBITDA margin for the Logistics Segment at 13% in FY2016, better than levels observed historically. We infer that the Logistics Segment would have contributed about SGD109mn (or 2/3 of company-wide EBITDA). While Logistics Segment revenue was down 4.2% mainly due to lower volume experienced in freight logistics and general logistics, this was offset by stronger earnings from warehousing and commodity logistics. We estimate that EBITDA was up 9.7% y/y. As the Logistics business also has less volatile working capital needs, this business underpins the cash flow stability of the company. On a standalone basis, the Logistics EBITDA provided 1.9x interest coverage (in line with FY2015). Going forward, and especially from 2018 onwards, we expect earnings from the Logistics segment as CWT's mega integrated logistics hub (2.3mn sqft) is on track for completion by 1H2017. Based on our estimates, we see EBITDA contribution of SGD3.0-3.5mn contribution from this property when stabilized. **Commodity marketing:** The combination of a topline decrease by 7.2% to SGD8.2bn, margin contraction to 1.1% (against 1.2% in FY2015) and a SGD6.7mn in impairment losses of amount receivables led to an overall pullback in EBITDA by 27% (profit before tax down 39%). While trading volume for base metal non-concentrates was stable, naptha (a key petrochemical feedstock) volumes fell significantly. **Engineering services:** Driven by the lower revenue for engineering services decrease 8% to SGD130.3mn, attributable to fewer design and build projects. Engineering services contributed 5.6% to gross profit in FY2016, declining from 7.3% in FY2015. **Financial services:** This segment was stable in FY2016 against FY2015 with revenue reported at SGD129mn and profit before tax of SGD34.2mn (FY2015 PBT of SGD33.4mn). Per company, trading volumes for both the derivatives brokerage and structured trade services businesses remained stable. As at 31 December 2016, adjusted net capital of Straits Financial LLC (a Futures Commission Merchant ("FCM") which forms the core of the Financial Services business amounted to USD23.3mn, representing 2.6x of its minimum required net capital. Though lower than the sector median of 5.4x, this has improved from 2.2x in 30 September 2016. Net debt to equity has risen to 1.7x from 1.3x as at 31 December 2015 through the increase was largely due to collateralized short-term trade facilities taken to fund working capital and as such we are not overly concerned with the headline increase. Adjusting downwards for such debt, we find Adjusted net debt to equity at 0.2x against 0.4x as at 31 December 2016. Since the company's latest withholding statement that the major shareholders of CWT are still in talks with the HNA Group on 9th February 2017, there has been no updates to the potential deal. We remain comfortable that CWT's upcoming SGD100mn bond due in March 2017 would be repaid (31 December 2016 cash balance stood at SGD344mn). CWT's issuer profile is kept at Neutral and within the CWT curve we see value in the '20s versus the '19s (spread pick-up of 46 bps). (Company, OCBC)

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