Asian Credit Daily

February 28, 2017

Credit Headlines (Page 2 onwards): Hotel Properties Ltd, Nam Cheong Ltd.

Market Commentary: The SGD swap curve traded downwards yesterday, with swap rates trading 1-3bps lower across all tenors. Flows in SGD corporates were heavy, with better buying seen in UOBSP 3.5%'29s, GUOLSP 4%'22s , better selling seen in GEMAU 5.5%'19s, OLAMSP 7%'49s, and mixed interest in STAN 4.4%'26s. In the broader dollar space, the spread on JACI IG corporates remained stable at 193bps while the yield on JACI HY corporates fell 3bps to 6.66%. 10y UST yields rose 6bps to 2.37%, as Federal Reserve's Robert Kaplan reiterated his view that accommodation should be removed gradually and patiently without mentioning the March 15 meeting.

New Issues: Westpac Banking Corp priced a USD3.25bn 3-tranche deal; with the USD1.65bn 3-year tranche priced at CT3+72bps, tightening from initial guidance of around CT3+85bps; the USD600mn 3-year tranche priced at 3mL+43bps; and the USD1bn 10-year tranche at CT10+100bps, tightening from initial guidance of CT10+120bps. The expected issue ratings are 'AA-/Aa2/NR'. China Development Bank (Hong Kong Branch) priced a USD2bn 2-tranche deal; with the USD850mn 3-year tranche at 3mL+55bps, tightening from initial guidance of 3mL+75bps; and the USD1.15bn 5-year tranche at 3mL+70bps, tightening from initial guidance of around 3mL+95bps. The expected issue ratings are 'AA-/Aa3/NR'. Hyundai Capital Services Inc priced a USD600mn 5-year bond at CT5+125bps, tightening from initial guidance of CT5+145bps. The expected issue ratings are 'A-/Baa1/NR'. Sumitomo Mitsui Trust Bank priced a USD1.5bn 2-tranche deal; with the USD1bn 2-year tranche at CT2+87.5bps, tightening from initial guidance of CT2+105bps; and the USD500mn 2-year tranche at 3mL+51bps. The expected issue ratings are 'A/A1/NR'. Republic of Indonesia scheduled investor meetings from 6 March for a potential USD bond issuance. Pacific Century Premium Developments Ltd. scheduled investor meetings for a potential USD bond issuance. China Reinsurance Co Ltd. scheduled investor roadshows from 27 February for a potential USD bond issuance.

Table 1: Key Financial Indicators

	28-Feb	1W chg (bps)	1M chg (bps)		28-Feb	1W chg	1M chg
iTraxx Asiax IG	96	-2	-19	Brent Crude Spot ($/bbl)	56.06	-1.06%	0.65%
iTraxx SovX APAC	26	-1	-6	Gold Spot ($/oz)	1,252.96	1.39%	3.49%
iTraxx Japan	52	-1	-3	CRB	189.88	-1.17%	-1.12%
iTraxx Australia	85	-2	-8	GSCI	401.06	-0.49%	1.32%
CDX NA IG	62	0	-4	VIX	12.09	5.22%	0.83%
CDX NA HY	108	0	1	CT10 (bp)	2.363%	-6.58	-12.11
iTraxx Eur Main	74	1	1	USD Swap Spread 10Y (bp)	-2	0	7
iTraxx Eur XO	294	-2	-7	USD Swap Spread 30Y (bp)	-38	-2	4
iTraxx Eur Snr Fin	93	0	3	TED Spread (bp)	55	1	2
iTraxx Sovx WE	22	0	1	US Libor-OIS Spread (bp)	29	-4	-5
iTraxx Sovx CEEMEA	65	-3	-11	Euro Libor-OIS Spread (bp)	2	0	0
					28-Feb	1W chg	1M chg
				AUD/USD	0.769	0.13%	1.32%
				USD/CHF	1.009	0.06%	-1.97%
				EUR/USD	1.058	0.45%	-1.99%
				USD/SGD	1.405	1.10%	0.33%
Korea 5Y CDS	45	0	-3	DJIA	20,837	1.03%	4.90%
China 5Y CDS	92	-3	-20	SPX	2,370	0.79%	3.99%
Malaysia 5Y CDS	109	-3	-25	MSCI Asiax	565	0.06%	3.45%
Philippines 5Y CDS	84	-1	-15	HSI	23,953	-0.05%	2.53%
Indonesia 5Y CDS	129	-2	-24	STI	3,100	0.18%	1.74%
Thailand 5Y CDS	54	-5	-20	KLCI	1,695	-0.71%	1.37%
				JCI	5,383	0.44%	1.68%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
27-Feb-17	Westpac Banking Corp	"AA-/Aa2/NR"	USD1.65bn	3-year	CT3+72bps
27-Feb-17	Westpac Banking Corp	"AA-/Aa2/NR"	USD600mn	3-year	3mL+43bps
27-Feb-17	Westpac Banking Corp	"AA-/Aa2/NR"	USD1bn	10-year	CT10+100bps
27-Feb-17	China Development Bank (HK Branch)	"AA-/Aa3/NR"	USD850mn	3-year	3mL+55bps
27-Feb-17	China Development Bank (HK Branch)	"AA-/Aa3/NR"	USD1.15bn	5-year	3mL+70bps
27-Feb-17	Hyundai Capital Services Inc.	"A-/Baa1/NR"	USD600mn	5-year	CT5+125bps
27-Feb-17	Sumitomo Mitsui Trust Bank	"A/A1/NR"	USD1bn	2-year	CT2+87.5bps
27-Feb-17	Sumitomo Mitsui Trust Bank	"A/A1/NR"	USD500mn	2-year	3mL+51bps

Source: OCBC, Bloomberg

New Issues (Cont'd): China Cinda Asset Management Co. Ltd. scheduled investor roadshows from 28 February – 1 March for a potential USD bond issuance. The potential bond issues will be issued by China Cinda Finance (2017) I Ltd., and guaranteed by China Cinda (HK) Holdings Co. Ltd. The expected issue ratings are 'A-/Baa1/A'.

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.

Credit Headlines:

Hotel Properties Ltd ("HPL"): HPL reported FY2016 results. For the full year, revenue inched down 0.3% to SGD577.6mn as the Maldives resorts were hit by softer demand and on-going refurbishment works. Meanwhile, cost of sales continued to rise by 4.3% y/y, pushing gross profit lower by 12.5% y/y to SGD141.5mn, though gross profit margin remains manageable at 24.5%. Despite the weaker topline, net profit rose 19.6% to SGD108.6mn, lifted by other operating income which surged to SGD62mn (FY2015: SGD22mn) mainly due to the disposal of 2 plots of land in Bangkok, Thailand. With the disposal, HPL recorded a gain of SGD41.3mn and SGD58.8mn of proceeds from disposal, which pushed down net gearing to 0.43x (3Q2016: 0.47x). Going forward, we expect contributions from the developments of Holland Park Villas (50% stake) and Burlington Gate (65% stake) in London as they are expected to be completed in 2017, with strong sales already achieved by Mar 2016. We also expect small earnings accretion with HPL acquiring a 73.99% effective stake in Boathouse Kata Co Ltd in Dec 2016, which owns a 38 key boutique resort with a market value of THB605mn. We find HPL's credit metrics manageable and hence we hold HPL at a Neutral Issuer Profile. (Company, OCBC)

Credit Headlines (Cont'd):

Nam Cheong Ltd. ("NCL"): 4Q2016 results showed revenue plunging 50.3% to MYR120.3mn (4Q2015: MYR241.8mn), though it was higher than the MYR25.8mn generated in 3Q2016. In fact, revenue for 4Q2016 would have been stronger if NCL did not have to reverse some revenue due to Perdana Petroleum Berhad's ("Perdana") cancellation of its second Accommodation Work Barge ("AWB") order with NCL. As previously mentioned (refer OCBC Asian Credit Daily – 7 Dec 2016), the AWB was completed, with NCL sending the first Notice of Readiness on 26/10/16. However, Perdana sent a notice of cancellation on 01/12/16, which NCL described to be a breach of contract and is currently pursuing damages from Perdana. As a reminder, NCL reported negative MYR93.1mn in revenue during 1Q2016 due to Perdana's order cancellation of the first AWB on order. In aggregate, the two AWB were ordered in June 2014 for a contract value of USD84mn. As a result of the slump in revenue, NCL generated a gross loss of MYR12.2mn for the quarter. Other income of MYR 118.8mn helped offset the gross losses generated, with MYR68.3mn FX gain and MYR46.2mn forfeited deposit likely from the Perdana AWB cancellation. NCL however also wrote off MYR19.9mn in deposits / prepayments, MYR3.4mn impairment of associates, MYR59.8mn write down on inventory as well as MYR3.3mn write off of PPE. These drove NCL to a net loss of MYR6.8mn for 4Q2016. For full-year 2016 results, NCL reported MYR170.4mn in revenue, plunging 82.1% y/y. This was largely due to the cancellation of the two AWB's by Perdana during the fiscal year, as well as client requests for delivery delays leading to slower revenue recognition. Despite the slump in revenue, NCL was able to maintain its shipbuilding gross margins at 17% for the year, the same level as 2015. Comparatively, the ship chartering segment generated a gross loss of MYR16.9mn, reflecting the tough environment for OSV chartering. In aggregate, NCL generated a net loss of MYR42.8mn for the year (with MYR59.8mn in inventory impairments being a large drag) versus a net profit of MYR27.9mn for 2015. During 4Q2016, NCL generated MYR10.3mn in operating cash outflow. This was an improvement over the MYR62.2mn in operating cash out flow seen in 2Q2016 as well as the MYR125.4mn out flow seen in 1Q2016. Though for 4Q2016, inventory remains a drag on cash (MYR303.6mn impact, but likely included the transfer of the cancelled AWB from customer receivables to inventory), NCL controlled its cash burn by chasing its receivables and stretching its payables. During the quarter, NCL also paid down MYR62.6mn in net debt. The cash out flow was funded by total cash on the balance sheet, which declined to MYR285.7mn (3Q2016: MYR337.9mn). In aggregate, net gearing remained consistent at 111% q/q (3Q2016: 112%). The biggest challenge for NCL remains its short-term borrowings, which total MYR948.7mn (including the SGD90mn in bonds due 28/08/17). Though NCL has taken steps to reduce its quarterly cash burn, as well as delay delivery of vessels from partner yards, it would be difficult for NCL to generate enough cash flow to service its short-term borrowings without being more aggressive in monetizing its huge inventory (MYR2.4bn currently). In addition, we are concerned about NCL's interest coverage covenant. Though NCL has already amended the covenant to allow for a cure mechanism, should EBITDA / interest ratio fall below 1.0x, NCL would still be in default. We note that as per NCL's bond documents, interest expense was defined to include capitalised interest. Capitalised interest is typically not disclosed on a quarterly basis, but there is a distinct difference between finance expense (MYR5.5mn during 4Q2016) versus interest paid (MYR13.8mn during 4Q2016). Should the difference between the two be treated as capitalised interest, NCL could have very little headroom above 1.0x for its EBITDA / interest covenant, and may even be in violation of the covenant (the covenant also calls for several non-cash adjustments to EBITDA, which makes it difficult to be certain). Looking forward, we continue to believe that the OSV market continues to be challenged by oversupply and still weak upstream activity impacting demand. As such, it would be difficult for NCL to win new orders for its yards. It is worth noting that NCL stopped reporting its order book as part of the quarterly filing. NCL last reported its order book at MYR1.05bn during 3Q2016, but this likely included the AWB which Perdana subsequently cancelled. Furthermore, there remains uncertainty over NCL's looming bond maturity as well as current covenant status. As such, we will continue to hold NCL's Issuer Profile at Negative. (Company, OCBC)

Andrew Wong
Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6530 4736
wongVKAM@ocbc.com

Nick Wong Liang Mian, CFA
Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6530 7348
NickWong@ocbc.com

Ezien Hoo, CFA
Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6722 2215
EzienHoo@ocbc.com

Wong Hong Wei
Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6722 2533
WongHongWei@ocbc.com