Asian Credit Daily

OCBC Bank

February 15, 2018

Credit Headlines: ASL Marine Holdings Ltd, StarHub Ltd

Market Commentary: The SGD swap curve flattened yesterday, with swap rates trading 1-2bps lower across multiple tenors. Flows in SGD corporates were moderate, with better buying seen in HSBC 4.7%-PERPs. In the broader dollar space, the Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 111bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS traded tightened 8bps to 346bps. 10Y UST yield rose 7bps to 2.90%, after inflation data took the markets by surprise with headline month-on-month reading coming in at 0.5%. This was more than twice the pace of December revised 0.2% number. The rise in inflation sparked the bond market sell-off, causing 10Y UST yields to reach a four-year high.

New Issues: Syngenta AG has plans to sell USD5bn bonds in 1H2018.

Rating Changes: S&P has lowered its issue-level rating on TTM Technologies Inc's first-lien debt to 'BB+' from 'BBB-'. The outlook is stable. The rating action reflects S&P's view of TMM's plan to increase its first-lien term loan by USD600mn to USD950mn, versus the previous assumption of a USD300mn increase. S&P has placed Arab Bank Australia Ltd's (ABA) long-term issuer credit rating at 'BB+' and placed ABA on CreditWatch with developing implications. S&P has also affirmed the 'B' short-term issuer credit rating on the bank. The rating action follows Arab Bank Plc's plans for a potential sales of ABA. S&P stated that if the sales go ahead, ABA would no longer regarded as core to the Arab Bank group and would no longer equalise their rating on ABA with those on Arab Bank. Fitch has downgraded PT Lippo Karawaci Tbk long-term issuer default rating to 'B+' from 'BB-'. The outlook is stable. The rating action reflects Fitch's expectations of significantly reduced cash flow access from property sales following the company's strategic decision to divest a substantial stake of its flagship Meikarta project.

Table 1: Key Financial Indicators

	15-Feb	1W chg (bps)	1M chg (bps)		15-Feb	1W chg	1M chg
iTraxx Asiax IG	71	2	11	Brent Crude Spot ($/bbl)	64.36	-1.76%	-7.89%
iTraxx SovX APAC	13	1	3	Gold Spot ($/oz)	1,353.83	2.66%	1.03%
iTraxx Japan	49	4	7	CRB	192.39	0.02%	-1.87%
iTraxx Australia	64	4	11	GSCI	439.14	-0.27%	-3.11%
CDX NA IG	57	3	10	VIX	19.26	-30.54%	89.57%
CDX NA HY	107	0	-2	CT10 (bp)	2.910%	8.55	36.33
iTraxx Eur Main	55	8	11	USD Swap Spread 10Y (bp)	2	0	2
iTraxx Eur XO	276	26	44	USD Swap Spread 30Y (bp)	-16	2	3
iTraxx Eur Snr Fin	56	10	13	TED Spread (bp)	27	0	-2
iTraxx Sovx WE	20	1	-1	US Libor-OIS Spread (bp)	26	-1	1
iTraxx Sovx CEEMEA	36	4	4	Euro Libor-OIS Spread (bp)	3	0	2
					15-Feb	1W chg	1M chg
				AUD/USD	0.793	1.94%	-0.41%
				USD/CHF	0.929	0.81%	3.70%
				EUR/USD	1.246	1.73%	1.59%
				USD/SGD	1.314	1.30%	0.54%
Korea 5Y CDS	54	3	10	DJIA	24,893	0.00%	-3.53%
China 5Y CDS	61	3	14	SPX	2,699	0.63%	-3.14%
Malaysia 5Y CDS	64	3	11	MSCI Asiax	720	1.23%	-3.13%
Philippines 5Y CDS	65	3	10	HSI	30,516	0.63%	-2.63%
Indonesia 5Y CDS	91	6	11	STI	3,403	0.56%	-3.78%
Thailand 5Y CDS	42	0	1	KLCI	1,835	-0.10%	0.49%
				JCI	6,594	0.91%	3.32%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
13-Feb-18	Ronshine China Holdings Ltd	'NR/NR/B+'	USD100mn	RONXIN 8.25%'21s	98.688 + accrued interest
09-Feb-18	Golden Energy and Resources Ltd	'NR/B1/B+'	USD150mn	5NC3	9.375%
09-Feb-18	Fantasia Holdings Group Co Ltd	'B+/B2/NR'	USD300mn	1-year	7.25%
07-Feb-18	Full Dragon (Hong Kong) International Development Ltd	'NR/NR/BB+'	USD300mn	3-year	5.85%
07-Feb-18	Shangrao Investment Holdings International Co Ltd	Not rated	USD200mn	3-year	6.4%
07-Feb-18	Daegu Bank Ltd	'A-/A2/NR'	USD300mn	5.5-year	CT5+135bps
06-Feb-18	Sunshine 100 China Holdings	Not rated	USD165mn	SUNCH 8.5%'20s	100+ accrued interest
2-Feb-18	Greenland Global Investment Ltd	'NR/Ba2/NR'	USD400mn	3-year	5.25%

Source: OCBC, Bloomberg

Credit Headlines:

ASL Marine Holdings Ltd ("ASL"): ASL reported 2QFY2018 results for the quarter ending December 2017. Revenue declined 24.1% y/y to SGD63.5mn, mainly due to the decline from Shipbuilding (-83.8% y/y to SGD5.7mn) and Engineering (-76.6% y/y to SGD1.7mn). Better performance at Shipchartering (+18.0% y/y to SGD31.4mn) and Shiprepair & conversion (+67.8% y/y to SGD24.7mn) helped mitigate the decline. Reviewing the various segments, the declines at Shipbuilding were partly due to on-going projects being early stage, and hence having lower percentage-of-completion revenue recognized for the quarter. That said, 1HFY2018 Shipbuilding revenue had been sharply weaker y/y, down 70.4% to SGD24.0mn as it remains difficult for ASL to win new OSV orders given the oversupply in the OSV market. Shiprepair & conversion segment continued its prior quarter strength, with management reiterating that segment revenue may be lumpy. That said, management had also commented that the segment benefited from fewer new ships being built which supported the repair work for older vessels. The Shipchartering segment's revenue improvements were driven by better OSV utilization, with 3 AHTS being deployed to India during the period, as well as the chartering of some OSVs for ad-hoc towage jobs. Revenue from tug boats and barges showed growth due to various on-going infrastructure projects around the region. The Engineering segment continued to be weak due to the lack of revenue recognized for newbuild dredgers. Like previous periods, the weaker top line caused total gross profit to decline 80.0% y/y to SGD2.0mn for a gross margin of just 3.2%. The low segment revenue drove Shipbuilding to a gross loss of SGD1.2mn for the quarter due to overheads. Shiprepair & conversion saw gross margin shrinking to 9.2% (2QFY2017: 20.2%) with ASL being affected for competition as well as higher manpower needs. Shipchartering returned to gross profit due to more vessel deployment, generating SGD480k (though gross margin remains weak at 1.5% partly due to mix of lower-margin jobs). Net loss for the quarter was SGD6.7mn (versus profit of SGD574k for 2QFY2017), largely due to the slump in gross profits. JV and associates had also contributed a loss of SGD653k for the quarter. Despite the weak results, ASL was still able to generate positive operating cash flow (net of interest service) of SGD22.4mn as well as free cash flow of SGD12.4mn for the quarter. ASL had paid down SGD10.3mn in net borrowings during the quarter. In aggregate, total cash balance increased SGD4.1mn to SGD48.4mn. Net gearing improved slightly q/q to 135% (1QFY2018: 137%) though it remains elevated. Liquidity remains tight with SGD48.4mn of cash on hand versus SGD210.0mn in short term borrowings. This, however, includes SGD82.2mn in longer-term borrowing classified as short-term due to covenant violations on its SGD99mn club term loan facility. ASL lenders had previously waived this covenant violation, with ASL receiving further waiver as of the filing date of ASL's 2QFY2018 results. EBITDA / Interest coverage was 2.81x for 1HFY2018. Looking forward, though it is commendable that ASL had been 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 (6) Issuer Profile. (Company, OCBC)

Credit Headlines (cont'd) :

StarHub Ltd ("STH"): STH reported 4Q2017 results. Overall, revenues are mixed across segments though the impact to EBITDA is disappointing. Revenue increased 2.2% y/y to SGD649.0mn as the increase in sales of equipment (+14.1% y/y to SGD77.3mn) and enterprise fixed (+20.9% y/y to SGD129.6mn) helped offset the decline in mobile (-3.5% y/y to SGD301.0mn) and Pay TV (-7.4% y/y to SGD86.9mn) with broadband remaining unchanged y/y (SGD54.2mn). However, operating expenses surged 9.3% y/y to SGD624.0mn, resulting in EBITDA and net profit falling 29% y/y and 74% y/y to SGD97mn and SGD14mn respectively. This was mainly due to increase in cost of equipment sold (+10.5% y/y to SGD175.8mn with negative impact on EBITDA margins due to handset subsidies) as well as increase in cost of services (+23.0% y/y to SGD137.6mn) which corresponds to the increase in enterprise segment and cost under fibre broadband. Despite flattish revenue, staff costs surged 15.0% y/y to SGD84.7mn in a bid to rationalise and retain talent. There was also a one-off impact on operating leases, which surged 39.9% y/y to SGD40.1mn due to one-off provisions in 2017 and reversal of accruals no longer required in 2016. Without the one-off provision, operating leases reduced by 11.5% y/y. Going forward, STH may continue to see pressure on mobile and pay TV segments though we recognise that diversification efforts into enterprise fixed may partly alleviate the declines in EBITDA. While we expect STH to defend its mobile market share (4Q2017: 27.6%) due to binding contracts and introduction of contract plans for the SIM only segment, ARPU may continue to erode due to competition. We note that post-paid ARPU has fallen to SGD68 (3Q2017: SGD69, 2Q2017: SGD70), with voice, roaming and IDD expected to face downward pressures. Pay TV is also unlikely to see a respite due to alternative viewing options (e.g. Netflix, Amazon Prime). Service revenue is guided to be 1%-3% lower y/y, likely due to our expectations of weaknesses in mobile and pay TV. EBITDA margin is guided to be between 24%-26% (EBITDA estimated at ~SGD600mn based on FY2017's total revenue of SGD2.4bn) for FY2018 (down from FY2017's 27.9%) with capex (excluding spectrum of SGD282.0mn) at about 11% of total revenue (~SGD260mn based on FY2017's total revenue of SGD2.4bn). Dividend is guided at 4cts per quarter, which amounts to SGD277mn in FY2018. As such, net debt may climb as forecasted EBITDA (~SGD600mn) looks insufficient to cover capex (~SGD260mn), spectrum (~SGD282.0mn), dividends (~SGD277mn), interest and perpetual distribution payments (FY2017: SGD34.0mn) and taxes (FY2017: SGD65.3mn). Nevertheless, reported net debt to EBITDA looks healthy still at 1.03x, allowing room to take on more debt for now. Although STH is facing revenue and EBITDA pressure, we recognise that its businesses are still cashflow generative (reported 2017 FCF: SGD221mn) with diversification into the Enterprise segment. As such, we maintain STH at an Issuer Profile of Neutral (3) for now, though we may look to revise the ratings down in the future should net debt continue to increase and operating metrics continue to weaken over the longer term. (Company, OCBC)

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