May 16, 2018

Credit Headlines: ASL Marine Holdings Ltd, Keppel Corp, Viva Industrial Trust, Commerzbank AG

Market Commentary

- The SGD swap curve steepened yesterday, with the swap rates for the shorter tenors (1-5yr) trading 4-5bps higher while the longer tenors (5-12yr) traded 6-8bps higher. The 15yr and 20yr traded around 5.5 bps higher.
- Flows in SGD corporates were heavy yesterday, with better buying seen in HSBC 4.7%-PERP.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 1.33% while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 7bps to 405bps.
- 10Y UST yields rose 9bps to 3.09%, the highest since 2011, before closing at 3.07%. The movement in yields were attributable to positive US data, trade concerns and rising geopolitical tensions.

Credit Headlines

ASL Marine Holdings Ltd ("ASL") | Issuer Profile: Negative (6)

- ASL has reported 3QFY2018 results (ending March 2018). Revenue fell 22.5% y/y to SGD65.2mn, largely driven by the slump in Shipbuilding (-67.1% y/y to SGD13.8mn) which had been affected by continued weak market conditions (as demand for newbuild OSVs remain anaemic due to oversupply) and lower contract value on existing projects (as these vessels are smaller and less sophisticated).
- Other segments helped to mitigate the weakness with Shiprepair & Conversion up 27.2% y/y to SGD16.2mn, Shipchartering up 17.4% y/y to SGD30.2mn and Engineering up 28.5% y/y to SGD5.1mn. Management had indicated that with fewer new ships being built, demand for repair work on older vessels has increased. Offshore infrastructure work in the region had also supported ASL's charter fleet of tug boats and barges.
- Margins however have weakened with total gross margin falling to 6.9% (3QFY2017: 9.3%), largely driven by the gross margin at Shipbuilding plunging to just 0.3% (3QFY2017: 13.0%). This was caused by sub-contractor cost overruns as well as lower pricing on projects completed due to competition. Gross margins for Shiprepair & Conversion had also weakened on higher manpower overheads. As a result, gross profit fell 42.1% y/y to SGD4.5mn. ASL however was able to trim net losses down to SGD4.6mn (3QFY2017: SGD11.4mn net loss), largely due to administrative expenses being slashed down by 49.1% y/y to SGD4.6mn. Reported adjusted EBITDA had also improved 83.0% y/y to SGD18.9mn. Operating cash flow (including interest service) was also stronger at SGD24.5mn, though part of it was due to ASL monetizing its working capital. After factoring SGD7.5mn in capex, ASL was able to generate SGD17.0mn in free cash flow.
- ASL had utilized the cash generated to pay down debt by SGD15.9mn. As such, net gearing inched lower to 131% (2QFY2018: 135%). Short-term debt burden remains high at SGD205.1mn versus SGD51.3mn in cash, though the bulk of these borrowings are secured and relate to shipbuilding (and should be paid down when the vessels are delivered).
- Like previous quarters, ASL was in breach of one of its financial covenant 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 3QFY2018 results. For 9MFY2018, adjusted EBITDA / Interest stands at 3.0x. (Company, OCBC)

Credit Headlines (cont'd):

Keppel Corp ("KEP") | Issuer Profile: Neutral (3)

- KEP announced that it has entered into an agreement to sell five existing jack-up rigs to Borr Drilling Ltd ("BORR") for USD745mn, subject to certain closing conditions. This potential transaction has been reported by the Business Times since the beginning of the year, with the contention then being the price for each unit. KEP was reportedly seeking USD150mn – USD160mn for each rig then.
- It should be noted that the confirmed price of USD745mn, or USD149mn per rig, excludes down payments made by the original buyers of these rigs. KEP would likely have a claim to these down payments as the original clients have not been able to fulfil the contracts and had been deferring deliveries. KEP stated that the transaction is not expected to result in any write-downs on the rigs upon disposal. BORR will be making a down payment of USD288mn as part of the transaction.
- Similar to Sembcorp Marine's bulk sale of jack-up rigs to BORR last year, it would seem that KEP will be providing vendor financing, with BORR having up to 5 years upon the delivery of each rig to make balance payment (while paying KEP market interest rate for the financing).
- In aggregate, the transaction is a credit positive as KEP is able to provide clarity to these five rigs, given the uncertainty of the original buyers' ability to complete their respective transactions. The disposal of these rigs also furthers KEP's trend of deleveraging, though it should be noted that only the USD288mn down payment would be realized in the near-term, given the long payment leeway offered by KEP to BORR. There is also increased client risk given that BORR had signed a contract with KEP one year back to purchase 5 jack-up rigs originally intended for Transocean. (Company, OCBC)

Viva Industrial Trust ("VIT") | Issuer Profile: Neutral (5)

- VIT announced their results for the first quarter 2018. Gross revenue increased 4.8% y/y to SGD28.7mn driven by higher rental contribution from 6 Chin Bee Avenue, higher revenue at VIVA Business Park and UE BizHub which partly offset decline in rents at Jackson Square. Net property income however only increased 3.5% y/y to SGD21.1mn as property expenses at UE BizHub and Jackson Square rose.
- EBITDA based on our calculation which does not include rental support income was up 3.8% y/y to SGD19.2mn in 1Q2018 while finance expenses was 5.8% higher at SGD5.2mn, resulting in a slightly lower EBITDA/interest coverage of 3.67x against 3.74x in 1Q2017. The higher finance expenses was driven by a small increase in debt taken to help fund asset enhancement at VIVA Business Park and the acquisition of 6 Chin Bee.
- As at 31 March 2018, aggregate leverage was 40.6%, slightly higher than the 39.8% in end-2017. Short term debt relates to the SGD100mn in VIT's sole bond due in September 2018 while cash balance was SGD11.3mn (excluding pledged deposits). With secured debt making up 34% of investment properties, VIT still has some financial flexibility to raise more secured debt if need be. We see manageable refinancing risk at VIT.
- On the proposed merger with ESR-REIT, the exclusivity had been extended to the earlier of (1) execution of definitive agreements or (2) 31 May 2018. Notwithstanding the successive extension in exclusivity, VIT has appointed an independent financial adviser to advise its board on the proposed merger. We see the proposed merger as a credit positive for both VIT and EREIT and deal completion as high. (Company, OCBC)

Credit Headlines (cont'd):

Commerzbank AG (CMZB) | Issuer Profile: Neutral (4)

- Commerzbank announced its 1Q2018 results, with revenue before loan loss provision down 3.7% y/y. This was due to weak performance across all segments, with a decrease in net interest income (-0.4% y/y), net commission income (-10.1% y/y) and net fair value result (-14.2% y/y). Excluding exceptional items due to IFRS impact, underlying revenue has inched up marginally by 0.8% y/y.
- As a result of operating expenses increasing +3.8% y/y to EUR1.9bn owing to higher investment in digitalisation and growth as well as higher costs for regulatory projects and bank levies, operating profit before taxes for 1Q2018 fell 12.3% y/y to EUR289mn.
- CMZB's operating profit was up 84.2% q/q due to the absence of restructuring expenses this quarter (4Q2017: EUR808mn).
- Its focus on its two core segments namely Private and Small Business Customers (PSBC) and Corporate Clients (CC) have proven to be effective as net new customers for PSBC grew to 712,000 (on track to meet its target of 1m net new customers by 2018). PSBC segment revenues grew to EUR1.2bn (1Q2017: EUR1.1bn) due to good loan growth, offsetting the impact of negative interest rates. Its CC segment gained 1,000 net new corporate clients, bringing total clients to 6500 (well ahead of its target to reach 7000 by year-end). Operating profit for CC was however down to EUR145mn (1Q2017: EUR267mn) due to competitive pricing and muted client demand for capital market products in 1Q2018.
- CMZB's Asset & Capital Recovery (ACR) segment made an operating profit of EUR18mn in 1Q2018, reversing from a net operating loss of –EUR 33mn in 1Q2017 due to revaluation in the Ship Finance portfolio from the implementation of IFRS9. The ACR segment did not generate any loan loss provisions in the quarter (1Q2017: EUR119mn)
- Capital ratios for CMZB remain strong. Owing to higher earnings as well as lower Risk-Weighted Assets ("RWA") from lower credit and market risk, the fully-phased in CET1 ratio rose 8bps y/y to 13.3% (1Q2017: 12.5%). This does not include the 8bps impact to CET1 ratios from IFRS9 implementation. CMZB's risk profile has also further improved with NPL ratio of 1.0% (4Q2017: 1.3%) (OCBC, Company)

OCBC Bank

Table 1: Key Financial Indicators

	16-May	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	76	-1	1
iTraxx SovX APAC	12	-1	0
iTraxx Japan	50	-1	1
iTraxx Australia	65	-2	1
CDX NA IG	61	0	2
CDX NA HY	107	0	-1
iTraxx Eur Main	55	-1	1
iTraxx Eur XO	271	-2	0
iTraxx Eur Snr Fin	58	-2	2
iTraxx Sovx WE	18	0	0
AUD/USD	0.747	0.12%	-3.97%
EUR/USD	1.183	-0.19%	-4.45%
USD/SGD	1.343	0.25%	-2.41%
China 5Y CDS	59	-2	0
Malaysia 5Y CDS	87	-4	15
Indonesia 5Y CDS	121	-8	23
Thailand 5Y CDS	45	-1	1

	16-May	1W chg	1M chg
Brent Crude Spot ($/bbl)	78.31	1.42%	9.65%
Gold Spot ($/oz)	1,293.65	-1.45%	-3.88%
CRB	203.45	0.67%	1.96%
GSCI	487.51	0.38%	4.95%
VIX	14.63	-0.54%	-11.65%
CT10 (bp)	3.065%	6.07	23.82
USD Swap Spread 10Y (bp)	3	0	0
USD Swap Spread 30Y (bp)	-8	2	5
TED Spread (bp)	42	-9	-18
US Libor-OIS Spread (bp)	44	-5	-14
Euro Libor-OIS Spread (bp)	3	0	1
DJIA	24,706	1.42%	0.54%
SPX	2,711	1.48%	1.26%
MSCI Asiax	720	0.96%	0.34%
HSI	31,080	1.78%	2.52%
STI	3,537	-0.33%	1.13%
KLCI	1,853	0.38%	-1.35%
JCI	5,762	-0.21%	-8.34%

Source: OCBC, Bloomberg

New issues

- AVIC International Finance & Investment Ltd has priced a USD400mn 3-year bond (guaranteed by AVIC Intl Holding Corp) at CT3+175bps, tightening from its initial price guidance of CT3+200bps area.
- PT Perusahaan Listrik Negara has priced a USD2bn deal across two-tranches with the USD1bn 10-year bond at 5.5%, tightening from its initial price guidance of 5.8% and the USD1bn 30-year bond at 6.2%, tightening from its initial price guidance of 6.5%.
- Korean National Oil Corp has priced a CHF500mn 5-year bond at MS+35bps, tightening from its initial price guidance of MS+35-37bps area.

Date	Issuer	Size	Tenor	Pricing
15-May-18	Korean National Oil Corp	CHF500mn	5-year	MS+35bps
15-May-18	PT Perusahaan Listrik Negara	USD1bn	30-year	6.2%
15-May-18	PT Perusahaan Listrik Negara	USD1bn	10-year	5.5%
15-May-18	AVIC International Finance & Investment Ltd	USD400mn	3-year	CT3+175bps
14-May-18	NagaCorp Ltd	USD300mn	3NC2	9.625%
14-May-18	KDB Life Insurance	USD200mn	30NC5	7.5%
14-May-18	BOC Aviation Ltd	USD350mn	7-year	3mL+130bps
14-May-18	Industrial & Commercial Bank of China Ltd	USD350mn	ICBCAS FRN 16/04/2023	3mL+85bps
14-May-18	Industrial & Commercial Bank of China Ltd/ Sydney	USD300mn	3-year	3mL+75bps
11-May-18	Suntec REIT MTN Pte Ltd	SGD80mn	SUNSP 3.4%'23s	3.4%
10-May-18	HSBC Holdings PLC	USD2bn	6NC5	3mL+100bps
10-May-18	HSBC Holdings PLC	USD2bn	6NC5	3mL+112bps
10-May-18	HSBC Holdings PLC	USD2bn	3NC2	3mL+60bps
10-May-18	Australia and New Zealand Banking Group Ltd	USD750mn	3-year	3mL+46bps
10-May-18	Australia and New Zealand Banking Group Ltd	USD500mn	3-year	CT3+65bps

Source: OCBC, Bloomberg

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