

Mar 19, 2018

## Market Commentary

- The SGD swap curve flattened last Friday, with swap rates for the shorter tenors trading 1-2bps higher while the longer tenors traded 1bps higher (with the exception of 12Y swap rates which traded 2bps higher).
- Flows in SGD corporates were moderate last Friday, with better buying in MCTSP 3.28%'24s
- In the broader dollar space, the Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 118bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS traded little changed at 356bps.
- 10Y UST yield rose 2bps to 2.85% last Friday.

## Credit Headlines

### **CK Hutchison Holdings Ltd (“CKHH”) | Issuer Profile: Pos (2)**

- Including proportionate contribution from JVs and associates, CKHH reported a 9% y/y increase in FY2017 revenue to HKD414.8bn in HKD terms while EBITDA was up 10% y/y to HKD104.4bn. Proportionate EBITDA grew on the back of acquisitions and joint ventures from 3 Group Europe and in the Infrastructure segment (eg: DUET, Reliance in Canada and ista).
- Despite weaker performance in Hutchison Telecommunications Hong Kong Holdings Limited (“HTHKH”)’s mobile operations (mobile EBITDA down by 2% y/y), HTHKH reported a one-off disposal gain of HKD2.0bn from the sale of its fixed-line telecommunications business which help improve CKHH’s proportionate EBITDA.
- The Ports and related segments saw throughput increase 4% y/y and in conjunction with better cost management, sector EBITDA grew by 8% y/y.
- The Retail segment saw better overall comparable store sales growth of +0.9%, reversing the -0.8% in FY2016. This was partly attributable to negative comparable store sales growth in Health & Beauty - China and Other Retail narrowing in FY2017 versus the previous year and the continuous growth elsewhere.
- Encouragingly, Husky Energy (which was dragged down by low oil prices) has reinstated a modest quarterly dividend (CAD0.075 per share) for the three months ended 31 December 2017.
- As at 31 December 2017, CKHH’s headline net gearing was 0.30x (end-June 2017: 0.32x) and within our expectations. This was despite the Infrastructure spending spree as assets acquired were immediately contributing to CKHH’s bottom line. As at end-2017, CKHH faces HKD87.4bn in capex commitments, operating lease commitments and contingent liability items (ie: guarantees to associates and joint ventures). Adjusting these upwards as net debt, we find adjusted net gearing healthy at 0.44x.
- HTHKH did not pay a special dividend from the sale of the fixed line business as per widely expected by the market. Nonetheless, on an overall basis, we expect CKHH to continue reporting healthy cash flow from operations (“CFO”) in the next 12 months. We use the summation of consolidated EBITDA and dividend received from associates and joint ventures as a proxy for CFO before working capital and find FY2017 CFO to be HKD71.5bn, comfortably covering interest paid by 7.6x.
- Mr. Li Ka Shing announced his retirement and will step down as Chairman of CKHH in May 2018 but will stay on as an adviser. We see this development as having little day-to-day impact to CKHH’s business given that the company has been managed by a professional management team with a succession plan in place
- We continue to hold CKHH with an issuer profile of Positive (2).

**CMA CGM (acquired Neptune Orient Lines, “NOL”) | Issuer Profile: Neutral (4)**

- CMA CGM reported 4Q2017 / full-year 2017 results with solid top line and bottom line performance as FY2017 revenue was up 32.1% y/y to USD21.1bn and net income improved to USD701mn from a loss of USD452mn in FY2016. It should be noted that results are not strictly comparable given the acquisition of NOL was completed in late 2Q2016.
- Key drivers for the improved top-line performance include a 21.1% y/y increase in volumes to almost 19mn containers with improved throughput across all lines within the Group. In addition, freight rates also improved as prior year industry consolidation likely improved the industry's demand/supply balance, translating into the average revenue per TEU increasing 9% y/y. This improved CMA CGM's core EBIT margin to 7.5% from 0.2% in FY2016.
- On a more like for like basis (comparison of 4Q2017 and 4Q2016), CMA CGM's improved performance is reinforced with 4Q2017 revenues up 19.9% y/y to USD5.5bn as volumes improved 10.9% y/y and core EBIT margin of 5.2% was up 1% y/y (albeit down from the Core EBIT margins of 10.0% and 8.9% in 3Q2017 and 2Q2017 respectively). Group net income for 4Q2017 rose 60% y/y to USD73mn. Volume growth was likely assisted by the 14.4% rise in fleet capacity in TEU from fleet expansion following acquisitions of APL, SOFRANA and Mercosul in 2017.
- Costs increased by ~23% y/y for FY2017 although this was due to the NOL acquisition as well as higher volumes and a 42% rise in fuel prices. Otherwise according to management, unit costs were more or less contained rising 1.6% y/y.
- Given improved operating conditions, operating cashflows recovered significantly y/y, and together with lower capex as well as proceeds from the completed divestment of 90% of the Global Gateway South (“GGs”) terminal in Los Angeles (USA) in December 2017, reported cashflow from investing activities was positive in FY2017. This allowed CMA CGM to further delever.
- The industry outlook is constructive in CMA CGM's view with 2018 expected to continue the momentum from 2017 with the group open to further inorganic expansion, although opportunities are expected to be less. The outlook however supports CMA CGM's order of nine 22,000 TEU vessels (delivery begins from 2020, with a total order value estimated to be ~USD1.2bn).
- We continue to hold CMA CGM's issuer profile at Neutral (4) for now and continue to review the numbers.

**GuocoLand Ltd (“GUOL”) | Issuer Profile: Neutral (5)**

- GUOL announced that it has acquired Pacific Mansion for SGD980mn (~SGD1,987 psf ppr), through a 40%-owned joint venture, via an enbloc acquisition. The other JV partners are related parties, including Intrepid Investments Pte Ltd (40%) and Hong Realty Pte Ltd (20%).
- Pacific Mansion can be redeveloped into a luxury condominium and is near to GUOL's Martin Modern project.
- Net gearing may increase to ~0.9x (2QFY2018: 0.84x). As mentioned in our [credit update on 22 Feb 2018](#), GUOL may continue expanding its development portfolio, which could pressure its net gearing. That said, we continue to hold GUOL at an issuer profile of Neutral (5) as we remain comfortable with its profile given recurrent income from Tanjong Pagar Centre and continued property sales supported by the rebounding property market. (Bloomberg, Company, OCBC)

## Wheelock & Co Ltd (“WHEELK”) | Issuer Profile: Positive (2)

- WHEELK reported 2017 results. Revenue increased 11.7% y/y to HKD71.0bn driven by higher contribution from development properties (+30.9% y/y to HKD47.8bn) mainly due to completions of properties including CAPRI (HKD4.1bn), ONE HOMANTIN (HKD5.8bn), SAVANNAH (HKD5.5bn), NAPA (HKD2.3bn) and Island Residence (HKD1.1bn) as well as increased sales in Mainland China (+8.0% y/y to HKD23.4bn). Investment properties also did well (+5.0% y/y to HKD16.5bn) anchored by growth from Harbour City (+5% y/y).
- Reported core profit increased 2% y/y to HKD12.0bn mainly due to higher contributions from Wharf Holdings Ltd (+18.2% y/y to HKD9.8bn) – [refer to our comments on its results on 9 Mar 2018](#). However, WHEELK’s own core profit declined 64% y/y to HKD1.1bn due to the recognition of One HarbourGate’s profit in 2016 (which was sold en-bloc).
- Net gearing remained largely unchanged at 14.9% (2016: 14.6%). This may increase to ~19% following the HKD12.5bn acquisition of a site in Kowloon Tong and HKD6.4bn acquisition of a site in Kai Tak. However, we continue to remain comfortable with WHEELK’s profile given the recurrent income from its investment properties (mostly held in Wharf REIC) as well as its healthy net gearing. We continue to hold WHEELK at a Positive (2) issuer profile (Company, OCBC)

**Table 1: Key Financial Indicators**

	19-Mar	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	66	1	2
iTraxx SovX APAC	11	0	-1
iTraxx Japan	48	-1	2
iTraxx Australia	57	0	-1
CDX NA IG	54	-1	-2
CDX NA HY	107	-2	-12
iTraxx Eur Main	50		
iTraxx Eur XO	252	2	0
iTraxx Eur Snr Fin	52	1	1
iTraxx Sovx WE	19	1	-7
AUD/USD	0.770	-2.16%	-2.65%
EUR/USD	1.227	-0.54%	-1.12%
USD/SGD	1.319	-0.44%	-0.39%
China 5Y CDS	56	2	1
Malaysia 5Y CDS	63	0	4
Indonesia 5Y CDS	90	1	5
Thailand 5Y CDS	39	0	-1

	19-Mar	1W chg	1M chg
Brent Crude Spot (\$/bbl)	65.86	1.40%	0.29%
Gold Spot (\$/oz)	1,311.03	-0.91%	-2.63%
CRB	194.46	-0.36%	0.45%
GSCI	444.63	0.05%	0.23%
VIX	15.8	7.92%	-18.81%
CT10 (bp)	2.852%	-1.63	-2.31
USD Swap Spread 10Y (bp)	4	1	3
USD Swap Spread 30Y (bp)	-14	2	2
TED Spread (bp)	43	0	14
US Libor-OIS Spread (bp)	51	7	21
Euro Libor-OIS Spread (bp)	3	0	1
DJIA	24,947	-1.54%	-1.08%
SPX	2,752	-1.24%	0.72%
MSCI Asiax	746	-0.04%	2.37%
HSI	31,370	-0.71%	0.82%
STI	3,496	-1.24%	0.24%
KLCI	1,847	-0.77%	-0.56%
JCI	6,305	-2.00%	-5.75%

Source: OCBC, Bloomberg

## New issues

- Yango Justice International Ltd has priced a USD200mn 1.5-year bond (guaranteed by Yango Group Ltd) at 9.5%, in line with its initial price guidance.
- Qinghai Provincial Investment Group Co Ltd has priced a USD250mn 3P2NC2 bond at 7.875%, tightening from its initial guidance of 8% area.
- First Abu Dhabi Bank PJSC has priced a CNH900mn 3-year bond at 4.8%, in line with its initial guidance.
- Shinhan Bank has scheduled for investor meetings for its potential USD bond issuance.
- Industrial & Commercial Bank of China Ltd has scheduled for investor meetings from 20-23 Mar for its potential USD bond issuance.
- Tsinghua Tongfang has scheduled for investor meetings from 19 Mar for its potential USD bond issuance.

**Table 2: Recent Asian New Issues**

<u>Date</u>	<u>Issuer</u>	<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
19-Mar-18	First Abu Dhabi Bank PJSC	CNH900mn	3-year	4.8%
19-Mar-18	Qinghai Provincial Investment Group Co Ltd	USD250mn	3P2NC2	7.875%
19-Mar-18	Yango Justice International Ltd	USD200mn	1.5-year	9.5%
15-Mar-18	Asciano Finance Ltd	USD400mn	10-year	CT10+205bps
15-Mar-18	Rural Electrification Corp Ltd	USD300mn	10-year	CT10+200bps
15-Mar-18	Mapletree Commercial Trust Treasury Co Pte Ltd	SGD120mn	6.5-year	3.28%
14-Mar-18	Korea Expressway Corp	CNH1.3bn	3-year	4.73%
13-Mar-18	Greenland Global Investment Ltd	CNH1.5bn	3-year	7.2%
13-Mar-18	HuaSing International Holdings Co Ltd	USD200mn	5-year	CT5+260bps
13-Mar-18	HuaSing International Holdings Co Ltd	USD300mn	3-year	CT3+225bps
13-Mar-18	Rail Transit International Development Co Ltd	EUR400mn	4.25-year	MS+145bps
13-Mar-18	Chengdu Xingcheng Investment Group Co Ltd	EUR135mn	5-year	MS+285bps
13-Mar-18	Chengdu Xingcheng Investment Group Co Ltd	EUR365mn	3-year	MS+250bps

Source: OCBC, Bloomberg

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