OCBC Bank

June 21, 2018

Credit Headlines: CMA CGM SA, Hyflux Ltd

Market Commentary

- The SGD swap curve bear-steepened yesterday, with swap rates for the shorter tenors trading 1-2bps higher while the longer tenors traded 2-4bps higher.
- Flows in SGD corporates were light yesterday.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS was unchanged at 141bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 2bps to 459bps.
- 10Y UST yields rose 4bps to 2.94% after Fed Chairman Jerome Powell said that the Fed should continue with a gradual pace of interest rate increases given that the labour market does not seem to be overly tight.

Credit Headlines:

CMA CGM SA (acquired Neptune Orient Lines, "NOL") | Issuer Profile: Neutral (4)

- CMA CGM has entered into an agreement to acquire Containerships from Container Finance Ltd Oy.
- The Finland based container shipping and logistics business is a short sea specialist focused in the intra-European market, in particular the Baltic market, Russia, Northern Europe, North Africa and Turkey.
- With 15 containerships that are mostly below 1,000 twenty foot equivalent ('TEU') capacity, Containerships is small compared to CMA CGM's existing fleet of 494 vessels and 2.53mn TEU capacity. It's FY2017 net sales of EUR227mn represents less than 2% of CMA CGM's FY2017 revenues therefore the acquisition is not material to CMA CGM's credit profile. Nevertheless, the transaction continues to show the desire for consolidation within the container shipping industry to address supply concerns and because scale is important in the industry.
- In general, the recent wave of consolidation over the past few years along with solid global economic growth (improves global trade flows and container demand) has improved operating conditions and the demand/supply balance within the container shipping industry. This has seen a structural improvement in container freight rates through 2017 and 1H2018 after the lows of 2016 although intra-year movements are still volatile. CMA CGM's credit ratings have improved recently as a result.
- That said, the outlook is muted with profitability so far in FY2018 hurt by rising bunker fuel prices and recent trade tensions potentially reducing global trade flows and container demand. CMA CGM's leverage may also potentially rise with the company shifting to investment mode. (OCBC, Company)

Credit Headlines (cont'd):

Hyflux Ltd ("HFY") | Issuer Profile: Unrated

- On 22 May 2018, HFY (the holding company) and five of its subsidiaries namely (1) Hydrochem (S) Pte Ltd ("Hydrochem") (2) Hyflux Engineering Pte Ltd (3) Hyflux Membrane Manufacturing (S) Pte. Ltd. (4) Hyflux Innovation Centre Pte. Ltd. and (5) Tuaspring Pte. Ltd ("Tuaspring") had applied to the courts to commence an in-court reorganisation of their liabilities and businesses ("Applications").
- At the court hearing on 19 June 2019, a six-month moratorium had been obtained by HFY and four subsidiaries (aside from Tuaspring). The Tuaspring application was postponed for two weeks to another date. The date has not been fixed as of time of writing. We note the importance of Tuaspring as the proposed sale of Tuaspring (timing and especially sale price) and to a lesser extent, sale of other assets would be key in determining recovery values.
- An all-bank lender's meeting and various other meetings with project lender meetings had been held prior to the court hearing. Six lenders have sent letters supporting the Applications (in varying degrees of support), these six lenders include the second and third largest lenders. Collectively, the six lenders make up 33.5% of total senior debt of SGD1.8bn (excluding the SGD265mn in bonds). In our view, these lenders have shown their willingness to come to the negotiation table. The SGD1.8bn is held by commercial banks, development banks and specialist financiers.
- Noticeably, the lenders who had sent letters in support are those who are also exposed to holding company debt and the engineering, procurement and construction entities.
- Lenders at the entities directly holding main infrastructure projects/assets-in-progress (eg: Tuaspring, TuasOne, Qurayyat and Tianjin Dagang) are likely to hold debt which are secured on these project assets. From what we observe, bulk of these lenders did not send in letters of support at time of hearing.
- As far as the hard assets at these project entities are concerned, the holding company lenders, perpetuals, preference shareholders and ordinary shareholders are structurally subordinated to project lenders. In other words, in a downside liquidation scenario of the project entities, stakeholders at holding company can only be paid until after project lenders are paid and there are leftover assets to be distributed upwards.
- We take comfort that HFY now has some breathing room to continue negotiations with its various stakeholders. We maintain that a negotiated outcome (via the in-court restructuring) is likelier to give perpetual and preference shareholders a better recovery value versus an outright liquidation.
- In our view, the company has shown willingness to engage the perpetual and preference holders and acknowledges that funding raised from retail investors partly went towards the Tuaspring project. That being said, given the divergent incentives between all-parties (eg: secured lenders and the rest), we expect restructuring negotiations to be time consuming and demanding.
- The company is also seeking ~SGD200mn in rescue financing, which we think is vital given that cash at the company as reported by the media has dwindled to only SGD18.6mn (as at 4 June 2018). As at 31 March 2018, HFY holding company's balance sheet showed SGD105.1mn in cash while HFY Group on a consolidated basis had SGD233.8mn of cash. Even if we take away the portion that was restricted at that point in time, this would be SGD168.1mn in HFY Group cash. Rescue financing though would take priority over SGD bondholders, perpetuals and preference shares should the company eventually go into liquidation (assuming the restructuring fails).
- On 11 June 2018, it was shared that a notice of default was sent by trustee of the perpetuals stemming from non-payment of SGD15.0mn in distribution on 28 May 2018. We now believe this may be triggered by the six-month look-back clause as HFY had paid out a dividend-in-specie in HyfluxShop Holdings Pte. Ltd shares to ordinary shareholders in February 2018. Otherwise, a non-payment of distribution in itself would not be cause for a default.
- Three town hall meetings will be held: (1) HFY's bondholders on 19 July 2018 (2) perpetual and preference shareholders (also on 19 July 2018) and (3) ordinary shareholders on 20 July 2018.
- We will continue monitoring this developing situation (Company, Business Times, OCBC)

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Table 1: Key Financial Indicators

	21-Jun	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	79	2	3
iTraxx SovX APAC	13	1	1
iTraxx Japan	53	1	5
iTraxx Australia	71	2	5
CDX NA IG	63	2	1
CDX NA HY	107	0	0
iTraxx Eur Main	68	2	8
iTraxx Eur XO	301	11	21
iTraxx Eur Snr Fin	78	2	10
iTraxx Sovx WE	23	-1	1
AUD/USD	0.737	-1.39%	-2.74%
EUR/USD	1.157	0.01%	-1.88%
USD/SGD	1.360	-1.10%	-1.46%
China 5Y CDS	57	2	0
Malaysia 5Y CDS	102	5	18
Indonesia 5Y CDS	133	6	8
Thailand 5Y CDS	46	1	1

	21-Jun	1W chg	1M chg
Brent Crude Spot ($/bbl)	74.61	-1.75%	-5.82%
Gold Spot ($/oz)	1,267.28	-2.69%	-1.96%
CRB	194.98	-2.55%	-5.21%
GSCI	463.76	-2.19%	-5.94%
VIX	12.79	-1.16%	-2.22%
CT10 (bp)	2.944%	0.93	-11.52
USD Swap Spread 10Y (bp)	6	0	3
USD Swap Spread 30Y (bp)	-7	-2	1
TED Spread (bp)	42	-1	-3
US Libor-OIS Spread (bp)	40	-2	-4
Euro Libor-OIS Spread (bp)	3	0	0
DJIA	24,658	-2.16%	-1.42%
SPX	2,767	-0.30%	1.26%
MSCI Asiax	694	-2.17%	-3.07%
HSI	29,846	-2.86%	-4.44%
STI	3,311	-2.41%	-6.69%
KLCI	1,702	-3.50%	-8.18%
JCI	5,909	-2.96%	3.05%

Source: OCBC, Bloomberg

New issues

- GS Caltex Corp has priced a USD300mn 5-year bond at CT5+120bps, tightening from its initial price guidance of CT5+150bps area.
- Guangsha Holding Group Co Ltd has priced a USD300mn 364-day bond at 7%.
- Zhenro Properties Group Ltd held investor meetings on 20 Jun for its potential USD 2-year bond issuance.
- Hongkong Baorong Development Ltd has scheduled for investor meetings on 21 Jun for its potential USD bond issuance (guaranteed by Tianjin Free Trade Zone Investment Holding Group Co Ltd).
- Shinhan Financial Group Co Ltd has hired banks from 25 Jun for its potential USD AT1 bond issuance.

Date	Issuer	Size	Tenor	Pricing
20-Jun-18	Guangsha Holding Group Co Ltd	USD300mn	364-day	7.0%
20-Jun-18	GS Caltex Corp	USD300mn	5-year	CT5+120bps
19-Jun-18	Korea Development Bank	CNH1.75bn	3-year	4.6%
19-Jun-18	Greenland Hong Kong Holdings Ltd	USD200mn	364-day	7.875%
15-Jun-18	Greenland Global Investment Ltd	USD250mn	3.25-year	3mL+485bps
14-Jun-18	CFLD Cayman Investment Ltd	USD200mn	3-year	9.0%
13-June-18	Industrial & Commercial Bank of China Asia Ltd	HKD2.6bn	2-year	3.0%
13-June-18	Industrial & Commercial Bank of China Asia Ltd	USD200mn	5-year	3mL+85bps
13-June-18	Industrial & Commercial Bank of China Asia Ltd	USD200mn	3-year	3mL+75bps
12-June-18	Mapletree Treasury Services Ltd	SGD200mn	3-year	2.888%
12-June-18	New Metro Global Ltd	USD200mn	3.75-year	8.0%
11-June-18	National Australia Bank Ltd/New York	USD500mn	3.25-year	CT3+80bps
11-June-18	National Australia Bank Ltd/New York	USD750mn	5-year	CT5+90bps
11-June-18	National Australia Bank Ltd/New York	USD350mn	3.25-year	3mL+58bps
11-June-18	Qingdao Jiaozhou Bay Development Co Ltd	USD120mn	3-year	6.9%
11-June-18	China Aoyuan Property Group Ltd (re-tap)	USD225mn	CAPG 7.5%'21	8.25%

Source: OCBC, Bloomberg

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