

February 22, 2018

Credit Headlines: Sembcorp Industries/ Sembcorp Marine, BreadTalk Group Ltd

Market Commentary: The SGD swap curve flattened yesterday, with swap rates trading 2bps higher for the 1 year tenor while the medium to longer tenors traded 2-3bps lower. Flows in SGD corporates were moderate yesterday. In the broader dollar space, the Bloomberg Barclays Asia USD IG Bond Index average OAS traded little changed at 111bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 4bps to 339bps. 10Y UST yield rose 6bps to 2.95%, as the release of the Fed minutes yesterday indicated that the Fed is upbeat on the economic outlook and are increasingly more optimistic about achieving their inflation target.

New issues: United Overseas Bank Ltd has priced a GBP350mn 5-year FRN covered bond at 3mL+24bps, tightening from its initial guidance of 3mL+26bps. Industrial Bank Co Ltd has plans to issue USD denominated senior bonds.

Rating Changes: Moody's has withdrawn Viva Industrial Real Estate Investment Trust's (VI-REIT) 'Ba1' corporate family rating and stable outlook, citing that the withdrawal was due to its own business reasons. S&P has assigned its 'A-' long-term issuer credit rating to Sumitomo Mitsui Finance and Leasing Co Ltd. The outlook is stable. The rating action is attributed to Sumitomo's close financial and operational ties with Sumitomo Mitsui Financial Group Inc (SMFG), diversified revenue sources in terms of both business fields and geographic regions as well as its leading position in the domestic leasing industry in terms of business scale.

Table 1: Key Financial Indicators

	22-Feb	1W chg (bps)	1M chg (bps)		22-Feb	1W chg	1M chg
iTraxx Asiax IG	70	-2	6	Brent Crude Spot (\$/bbl)	65.42	1.65%	-4.65%
iTraxx SovX APAC	13	0	2	Gold Spot (\$/oz)	1,325.44	-2.09%	-0.64%
iTraxx Japan	47	-2	4	CRB	194.17	2.28%	-1.04%
iTraxx Australia	61	-4	6	GSCI	444.57	2.98%	-1.72%
CDX NA IG	55	-2	8	VIX	20.02	-19.82%	81.51%
CDX NA HY	107	0	-2	CT10 (bp)	2.945%	3.50	29.45
iTraxx Eur Main	53	-3	9	USD Swap Spread 10Y (bp)	3	1	-2
iTraxx Eur XO	269	-7	39	USD Swap Spread 30Y (bp)	-16	0	-5
iTraxx Eur Snr Fin	53	-3	10	TED Spread (bp)	28	2	-4
iTraxx Sovx WE	20	0	--	US Libor-OIS Spread (bp)	31	3	6
iTraxx Sovx CEEMEA	32	-4	1	Euro Libor-OIS Spread (bp)	2	-1	0
					22-Feb	1W chg	1M chg
				AUD/USD	0.780	-1.88%	-2.76%
				USD/CHF	0.939	-1.85%	2.38%
				EUR/USD	1.227	-1.87%	0.08%
				USD/SGD	1.325	-1.19%	-0.44%
Korea 5Y CDS	52	-2	7	DJIA	24,798	0.64%	-5.40%
China 5Y CDS	59	-2	8	SPX	2,701	1.44%	-4.65%
Malaysia 5Y CDS	64	0	8	MSCI Asiax	734	0.88%	-2.89%
Philippines 5Y CDS	65	0	9	HSI	31,432	6.69%	-2.97%
Indonesia 5Y CDS	88	-3	7	STI	3,516	2.96%	-1.49%
Thailand 5Y CDS	42	0	1	KLCI	1,858	1.37%	1.36%
				JCI	6,643	0.99%	2.20%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
22-Feb-18	United Overseas Bank Ltd	'NR/Aaa/NR'	GBP350mn	5-year	3mL+24bps
21-Feb-18	Sprint Corp	'B/B3/B+'	USD1.5bn	8-year	7.625%
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

Source: OCBC, Bloomberg

Credit Headlines:

Sembcorp Industries (“SCI”) / Sembcorp Marine (“SMM”): SMM (61%-owned by SCI) reported 4Q2017 / full-year 2017 results. For 4Q2017, revenue declining 21.1% y/y to SGD655.0mn. The quarter saw weakness at both its Rigs & Floaters segment (-17.9% y/y to SGD407.3mn) as well as its Offshore Platforms segment (-45.2% y/y to 109.6mn). Management had indicated that if not for the bulk sale of 9 rigs to Borr Drilling Ltd (“BORR”) and termination of 3 jack-up rigs to customers, 4Q2017 revenue would have fallen further by 33%. The decline in revenue recognized for drilling assets was largely expected, with yards such as SMM facing difficulty winning new orders for drilling assets given the existing over-supply in the industry. For example, the nine rigs sold to BORR include six rigs that were originally sold to other customers (which had faced stress and had difficulty completing the contracts). As such, the decline in revenue reflects the consumption of SMM’s existing orderbook. The Offshore Platform had also underperformed due to fewer projects on hand. The Repairs & Upgrades segment was the one bright area, with revenue up 8.9% to SGD119.9mn, with SMM improving its revenue per vessel due to better vessel mix and more high value works. The slump in revenue caused SMM to generate a gross loss of SGD48.2mn for 4Q2017 (4Q2016: gross profit of SGD34.7mn). If not for the positive FX impact of SGD19.9mn for the quarter, operating loss would have been worse than the SGD43.6mn reported. In aggregate, SMM reported a net loss of SGD35.0mn for the quarter. For the full year, SMM reported SGD2.39bn in revenue, showing trends similar to 4Q2017 with the Rigs & Floaters segment (-41.8% y/y to SGD1.10bn) and Offshore Platforms segment (-34.4% y/y to SGD732.1mn) both showing declines. The decline in full year revenue caused gross profit to plunge 79.3% to just SGD60.5mn. With financing cost higher at SGD95.5mn due to higher borrowings, SMM generated a pre-tax loss of SGD15.6mn for the full year. Losses were only mitigated in part by the one-off gain of SGD46.8mn from SMM’s divestment of its 30% stake in Cosco Shipyard Group in January 2017. A tax credit of SGD25.6mn recognized for the year helped SMM grind out a net profit of SGD9.9mn. SMM’s net order book stood at SGD7.58bn, declining slightly from SGD7.84bn a year ago. These numbers include SGD3.13bn worth of orders related to the distressed Sete Brasil. That said, the quality of the balance of the order book (~SGD4.45bn) has greatly improved given the BORR transaction (SGD1.77bn impact) as well as the sale of the West Rigel rig (announced on 26/12/17) for USD500mn. Previously, the majority of these rigs were on order by stressed customers who may not have been able to take delivery. Though SMM had to recognize some losses selling these rigs to the new customers (such as the SGD24mn loss for the West Rigel), this would help SMM monetize its balance sheet and deleverage. Already, there are some signs of this, with BORR paying the USD500mn deposit for the transaction during 4Q2017. This allowed SMM to generate SGD539.0mn in operating cash flow during 4Q2017, or SGD49.6mn for the full-year 2017. Though full-year capex of SGD177.9mn meant that SMM generated negative free cash flow of SGD128.3mn, this was mitigated in part by the SGD205.7mn received from the Cosco Shipyard divestment. The strong operating cash flow generated in 4Q2017 was used to pay down debt. As such, net gearing improved q/q to 111% (3Q2017: 131%) though it remains weak on absolute terms (4Q2016: 113%). More deleveraging is expected to take place with the completion of the West Rigel sale, though some working capital needs are required given the BORR transaction as well as accelerating work on Transocean’s two drillships. In aggregate, SMM deleveraging would in turn support SCI’s credit profile. OCBC currently does not cover SMM, while SCI is held at a Neutral (4) Issuer Profile. (Company, OCBC)

Credit Headlines (cont'd) :

BreadTalk Group Ltd (“BGL”): BGL reported 4Q2017 results. Revenue declined 2.0% y/y to SGD150.3mn, dragged down by poorer results in Bakery (-4.5% y/y to SGD74.1mn). This is likely due to lower revenues from fewer direct operated stores at Shanghai, Beijing and Hong Kong (with number of direct operated stores falling 7.7% y/y to 240), as well as the closure of underperforming franchisees (which had contributed revenue). Revenue at other segments remained largely stable, including Food Atrium (-0.6% y/y to SGD36.9mn) and Restaurant (+1.4% y/y to SGD35.9mn). Despite the small declines in the topline numbers, reported EBITDA declined 30.4% y/y to SGD19.6mn. BGL recorded declines across all major segments, including Bakery (-41.0% y/y to SGD4.5mn), Food Atrium (-15.4% y/y to SGD7.4mn) and Restaurant (-9.7% y/y to SGD7.9mn). This was due to an increase in the distribution and selling expenses (+3.8% y/y to SGD62.3mn) and administrative expenses (+5.4% y/y to SGD18.6mn). BGL’s management explained that the EBITDA margin compression (overall EBITDA margins declined y/y to 13.0% from 18.3% in 4Q2017) is due to store closure, and we think that part of the decline may also be attributable to BGL’s expansion plans. Going forward, BGL is undertaking a number of expansions. For the Food Atrium segment, 2 new outlets opened in Shenzhen in 4Q2017 (MIXC World, Uniwalk), which may contribute more in FY2018 when they are fully ramped up, BGL is also looking to open more direct operated restaurants. Following the addition of one restaurant outlet in Thailand in 2017, one more Din Tai Fung outlet will be opened in Thailand (to be operational in 3Q2018). As of Jan 2018, another two outlets had opened (Northpoint City in Singapore, Thonglor in Bangkok). BGL had also opened its first Song Fa Bak Kut Teh outlet in Shanghai (under a JV with Song Fa) in Jan 2018, with plans to open more outlets in Shanghai, China and Thailand. In addition, BGL has planned to collaborate with Shinmei Corp – while we await more details to be shared, management expects ~SGD1mn cost savings through purchase of ingredients together with Shinmei (which is a trading company). Net debt to reported EBITDA is healthy at 0.49x in FY2017 (FY2016: 0.70x). Nevertheless, we expect BGL’s leverage profile to increase with a planned SGD96.2mn of capital into property (refer to [BreadTalk Group Ltd Credit Update on 31 Jan 2018](#)) and SGD70mn capex guided for 2018. Assuming the bond proceeds will be fully deployed and EBITDA contribution from the potential investments will be zero in the near-term, we expect net debt/EBITDA to increase to ~2.0x. Net gearing may also increase to ~1.0x (4Q2017: 0.26x). Nevertheless, we recognise that BGL’s profile remains supported by multiple performing brands which contribute EBITDA, with strong operating cashflows (FY2017: SGD84.4mn). As such, we continue to hold BGL at a Neutral (5) Issuer Profile. (Company, OCBC)

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