Asian Credit Daily

February 27, 2018

Credit Headlines: Aspial Corp Ltd, Keppel Corp, Pacific Radiance, Golden Agri-Resources Ltd, Hotel Properties Ltd, Olam International Limited

Market Commentary: The SGD swap curve bull-flattened yesterday, with swap rates for the shorter tenors trading 2-3bps lower while the longer tenors traded 4-5bps lower. Flows in SGD corporates were heavy yesterday, with better buying seen in AREIT 3.14%'25s, HSBC 4.7%-PERPs and CAPLSP 3.08%'27s. In the broader dollar space, the Bloomberg Barclays Asia USD IG Bond Index average OAS traded little changed at 113bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 1bps to 344bps. 10Y UST yield fell 4bps to 2.83% earlier in the day as traders reduced their bearish bond positions in advance Fed Chairman Jerome Powell's semi-annual monetary policy testimony before Congress this week. Towards the latter part of the day, 10Y UST yield retraced 3bps and closed at 2.86% due to commentary from Randas Quarles, a member of Fed Board of Governors, who said there is a possibility that the US economy will shift to a higher growth trajectory and hence potentially a higher long-term terminal rate. Overall, 10Y UST yields was little changed at 2.86%

New issues: Mitsubishi UFJ Financial Group Inc (MUFG) has priced a USD3.5bn four-tranche deal, with the USD1.5bn 5-year FXD priced at CT5+85bps, tightening from its initial guidance of CT5+100bps area; the USD750mn 5-year FRN priced at 3mL+74bps, in line with its initial guidance of 3mL+74bps; the USD750mn 7-year bond priced at CT7+100bps, tightening from its initial guidance of CT7+110-115bps area and the USD500mn 10-year bond priced at CT10+110bps, tightening from its initial guidance of CT10+120bps area. The expected issue ratings are 'A-/A1/A'. Industrial and Commercial Bank of China Ltd (acting through Industrial and Commercial Bank of China Ltd Dubai (DIFC) Branch) has priced a USD700mn 3-year FRN at 3mL+75bps, tightening from its initial guidance of CT3+100bps area and a USD700mn 5-year FRN at 3mL+85bps, tightening from its initial guidance of CT5+110bps area. The expected issue ratings are 'NR/A1/NR'. Central China Real Estate Ltd has priced a USD300mn 3-year bond (guaranteed by certain of the

Table 1: Key Financial Indicators

	27-Feb	1W chg (bps)	1M chg (bps)		27-Feb	1W chg	1M chg
iTraxx Asiax IG	67	2	4	Brent Crude Spot ($/bbl)	67.50	2.79%	-4.28%
iTraxx SovX APAC	13	0	2	Gold Spot ($/oz)	1,334.87	0.43%	-0.41%
iTraxx Japan	48	2	6	CRB	196.75	1.64%	-1.88%
iTraxx Australia	60	2	5	GSCI	453.68	2.27%	-2.11%
CDX NA IG	54	2	8	VIX	15.8	-18.81%	42.60%
CDX NA HY	107	0	-2	CT10 (bp)	2.864%	-2.54	20.43
iTraxx Eur Main	54	2	11	USD Swap Spread 10Y (bp)	0	-1	-2
iTraxx Eur XO	266	2	35	USD Swap Spread 30Y (bp)	-20	-3	-6
iTraxx Eur Snr Fin	55	3	13	TED Spread (bp)	32	2	-1
iTraxx Sovx WE	20	1	1	US Libor-OIS Spread (bp)	35	4	10
iTraxx Sovx CEEMEA	33	0	0	Euro Libor-OIS Spread (bp)	2	-1	0
					27-Feb	1W chg	1M chg
				AUD/USD	0.787	-0.23%	-2.83%
				USD/CHF	0.937	-0.09%	0.06%
				EUR/USD	1.233	-0.02%	-0.40%
				USD/SGD	1.315	0.30%	-0.34%
Korea 5Y CDS	51	-1	6	DJIA	25,709	1.94%	-3.41%
China 5Y CDS	56	1	5	SPX	2,780	1.73%	-3.25%
Malaysia 5Y CDS	61	2	6	MSCI Asiax	741	2.24%	-4.50%
Philippines 5Y CDS	63	3	7	HSI	31,499	1.23%	-4.99%
Indonesia 5Y CDS	85	0	6	STI	3,556	1.95%	-0.32%
Thailand 5Y CDS	41	0	1	KLCI	1,860	0.15%	0.33%
				JCI	6,555	-2.01%	-1.59%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
26-Feb-18	Shui On Development (Holding) Ltd	Not rated	CNH1.6bn	3NC2	6.875%
26-Feb-18	Bank of China Ltd (Macau Branch)	'A/A1/A'	CNH2.5bn	3-year	4.65%
26-Feb-18	Bank of China Ltd (Macau Branch)	'A/A1/A'	CNH1.5bn	1-year	4.45%
26-Feb-18	Hyundai Capital Services Inc	'A-/Baa1/NR'	USD500mn	5-year	CT5+120bps
26-Feb-18	Hubei Science & Technology Investment Group (HK) Co Ltd	Not rated	USD300mn	3-year	CT3+205bps
26-Feb-18	Industrial Bank Co. Hong Kong Branch	'NR/Baa3/NR'	Multiple tranche	Multiple	Multiple
26-Feb-18	Central China Real Estate Ltd	'NR/B1/BB-'	USD300mn	3-year	6.5%
26-Feb-18	Industrial and Commercial Bank of China Ltd	'NR/A1/NR'	USD700mn	5-year	3mL+85bps
26-Feb-18	Industrial and Commercial Bank of China Ltd	'NR/A1/NR'	USD700mn	3-year	3mL+75bps
26-Feb-18	Mitsubishi UFJ Financial Group Inc	'A-/A1/A'	Multiple tranche	Multiple	Multiple

Source: OCBC, Bloomberg

New Issues (cont'd): company's restricted subsidiaries outside the PRC) at 6.5%, tightening from its initial guidance of 6.875%. The expected issue ratings are 'NR/B1/BB-'. Industrial Bank Co. Hong Kong Branch has priced a multi-tranche deal with the USD600mn 3-year FXD priced at CT3+115bps, tightening from its initial guidance of CT3+135bps area; the USD250mn 5-year FXD priced at CT5+123bps,tightening from its initial guidance of CT5+145bps area ; USD500mn 5-year FRN priced at 3mL+105bps, tightening from its initial guidance of 3mL+132.5bps area and the EUR250mn 3-year FRN priced at 3m€+75bps, tightening from its initial guidance of 3m€+95bps area. The expected issue ratings are 'NR/Baa3/NR'. Hubei Science & Technology Investment Group (Hong Kong) Company Ltd has priced a USD300mn 3-year bond (guaranteed by Hubei Science & Technology Investment Co Ltd) at CT3+205bps area, tightening from its initial guidance of CT3+230bps area. Hyundai Capital Services Inc has priced a USD500mn 5-year bond at CT5+120bps, tightening from its initial guidance of CT5+135bps area. The expected issue ratings are 'A-/Baa1/NR'. Bank of China Ltd (Macau Branch) has priced a CNH1.5bn 1-year bond at 4.45%, tightening from its initial guidance of 4.7% and a CNH2.5bn 3-year bond at 4.65%, tightening from its initial guidance of 4.9%. The expected issue ratings area 'A/A1/A'. Shui On Development (Holding) Ltd has priced a CNH1.6bn 3NC2 bond (guaranteed by Shui On Land Ltd) at 6.875%, , tightening from its initial guidance of 7.125%. CNAC (HK) Finbridge Company Ltd China has scheduled for investor meeting from 27 Feb for its potential USD bond issuance (guaranteed by National Chemical Corporation Ltd). The expected issue ratings are 'BBB/NR/A-'. IL&FS Transportation Networks Ltd has hired banks for its first USD bond issuance. NTPC Ltd has hired banks for its potential USD 10-year bond issuance.

Rating Changes: S&P has stated that its 'B' corporate credit rating and stable outlook on Sprint Corp are not affected by their recent outlook revision on SoftBank. The rating action reflects S&P's view that SoftBank would provide Sprint with some degree of support if it falls into financial difficulty but does not necessarily imply a long-term commitment of support by Softbank.

Credit Headlines:

Aspial Corp Ltd ("ACL"): ACL reported 2017 results. Overall, results appeared weak though this is in part due to timing of recognition of revenue. Revenue declined 22% y/y to SGD485.1mn, mainly due to declines in the real estate business (-45.1% y/y to SGD185.7mn) as ACL recorded more revenues in the prior year from progress recognition of sales of CityGate and Waterfront@Faber. Jewellery business also struggled, declining 10.9% y/y to SGD118.4mn due to weaker consumer sentiments and retail network consolidation. Financial services remained the bright spot, growing 15.4% y/y to SGD188.4mn with higher interest income and sales from retail and trading of jewellery and branded merchandise. Corresponding to the movements in revenue, net profit from real estate fell to SGD4.2mn (2016: SGD7.0mn), with a deeper loss at the jewellery segment of SGD9.7mn (2016 loss: SGD4.8mn) while financial services net profit increased 16.7% y/y to SGD13.4mn. However, despite the fall in revenue, net profit grew 21% y/y to SGD5.8mn. This was helped by a decrease in finance cost (-25% y/y to SGD26.9mn) due to higher interest capitalised for the Australian development properties. Net gearing deteriorated to 3.35x (3Q2017: 3.11x), mainly due to cash deployed to construct the overseas real estate projects (e.g. AVANT, Australia 108) and increase in the pledgebook for the pawnshop business and provision of secured loans for the financial service business. In the coming 12 months, we expect ACL to deliver better results. Avant (Melbourne) topped out on 7 Feb 2018, and both stages are expected to be handed over in 2018. 3 out of 6 stages for Australia 108 is also expected to be completed in 2018 – which will deliver more than SGD700mn in sales proceeds. In total, ACL has SGD1.2bn of unbilled contracts in Singapore and Australia. As such, while liquidity looks stretched with SGD777.2mn borrowings due within a year, we expect this to be met by SGD700mn from sales proceeds of the development, SGD54.9mn cash on hand and SGD177.8mn from investment securities. If need be, we think ACL can also obtain liquidity by scaling back its loan book and financial services segment, which we estimate to be ~SGD273mn (in trade and other receivables). We are not concerned over the sizeable receivables as these are typically over collateralised. Due to the high net gearing levels, we continue to hold ACL at a Negative (6) Issuer Profile. However, we recognise that net gearing may fall to ~1.9x on the looming SGD700mn in sales proceeds, and ACL has the ability to deleverage further with the balance SGD500mn in unbilled contracts (and if so, we would upgrade our view of the credit profile), though this would be contingent on completion of sales and management's commitment to deleverage. (Company, OCBC)

Credit Headlines (cont'd) :

Keppel Corp ("KEP"): As mentioned previously (refer to OCBC Asian Credit Daily – 21 Nov 2017), KEP's attempt to divest its 80% effective stake in a residential cum marina development on Modao Island, Zhongshan City, China, had been impeded by the 20% stakeholder, Sunsea Yacht Club (Hong Kong) Co Ltd ("Sunsea") via a lawsuit. The most recent update was that the lawsuit has moved to the Court of Appeal. The Court of Appeal dismissed Sunsea's appeals, with costs awarded to KEP entities. KEP had indicated that given the outcomes, steps will be taken to complete the divestment. As a reminder, the divestment would be to Delight Prime Limited for a total consideration of RMB2.9bn (~SGD597.4mn). The transaction is expected to yield a divestment gain of ~SGD290mn. Though the divestment is a credit positive, it would not change our current rating of Neutral (3) Issuer Profile.

Pacific Radiance ("PACRA"): PACRA has announced that both resolutions of its Consent Solicitation Exercise ("CSE", refer to OCBC Asia Credit - Pacific Radiance Credit Update (7 Feb 2018)) has failed to pass. As mentioned in our earlier report, part of Resolution #2 relates to the waiver of events of default that may have resulted from the attempted bond restructuring via the CSE. As such, given that Resolution #2 has failed, PACRA is at risk of being in technical default. We are reviewing the situation and will revert shortly. (Company, OCBC).

Golden Agri-Resources Ltd ("GGR"): GGR announced its 4Q2017 and FY2017 results. GGR's full-year revenue increased 4.1% y/y to USD7.5bn while EBITDA (per company's calculation) increased 16.3% to USD665mn. This was driven by higher average crude palm oil ("CPO") price and stronger palm oil production during FY2017. Revenue for 4Q2017 though was down 10% y/y to USD1.9bn while reported gross profit was down 15.1% y/y to USD261.3mn. 4Q2017 results was negatively affected by a significant decline in production volumes of 26% y/y to 650,000 MT in 4Q2017. Per company, the reduction in production volumes was driven by a shift in production cycle where the seasonal lower production volumes typically exhibited in the first quarter of the year occurred in end-year instead. We observe other Indonesian focused plantation companies listed in Singapore recorded declines in the fourth quarter as well. 4Q2017 CPO FOB price of USD662/MT was flat on a q/q basis though this was a 6% decline y/y. In FY2017, the plantation and palm oil mills segment saw a 31.5% y/y growth in EBITDA to USD498.9mn, contributing 75% to total EBITDA. OCBC's Commodities Economist expects import demand from key importing nations to remain robust. Supplies are also expected to rise into April 2018. With a stronger MYR though, projections for CPO prices has been reduced by OCBC's Commodities Economist to MYR2,400 per MT (~USD614 per MT) into end-2018. The palm and lauric segment saw EBITDA decline y/y by 12.6% to USD157.9mn. For the quarter, EBITDA saw a 20% y/y decline to USD36mn though margin was at 2.2% and still within company's expectations for the segment for the year. In FY2017, the Oilseeds segment made an EBITDA of USD8.0mn on an EBITDA margin of 1.2%. GGR is in the midst of selling its Tianjin oilseeds business which had been a drag to the business. The business is targeted to be sold to Louis Dreyfus by 2Q2017 for USD111mn (subject to completion adjustments and government approvals). Despite a 6.1% y/y increase in interest expense from higher interest rates, the improvement in reported EBITDA led EBITDA/Interest stronger at 4.8x (FY2016: 4.4x). Despite the relatively weak 4Q2017, EBITDA/Interest was still manageable at 4.3x (4Q2016: 5.1x). As at 31 December 2017, GGR's net gearing was stable at 0.7x while GGR's adjusted asset base (excluding intangible assets, bearer plants and long term investments) provided a 2.0x coverage to gross debt. Short term debt as at 31 December 2017 was USD1.7bn though these largely consist of working capital related facilities which tend to be rolled forward. GGR faces two bonds due in 2018, namely the GGRSP'18s with an amount outstanding of SGD200mn (~USD152mn) due in April 2018 and the MYR-denominated MYR500mn (~USD128mn) sukuk due in August 2018. As at 31 December 2017, cash balance (excluding pledged cash and cash within assets held for sale) was USD159.2mn. Adding to cash coffers, GGR raised SGD150mn (~USD114mn) in new bonds in January 2018 and this is expected to go towards refinancing the bond due in April 2018. In FY2017, GGR spent USD315mn in investing outflows (9M2017: USD198.6mn), bulk was spent in the fourth quarter of the year. Of the total investing outflow, USD218mn was spent on bearer plants and other downstream related capex and the rest gone towards investment in a long-term fund (eg: limited partnership in a technology investment fund). These cash outflow, while significant, has been funded via internally generated cash flow from operations thus far, rather than taking on more debt at the GGR level. Given the existence of a competing cash outflow, we do not expect GGR to significantly pare down debt levels in the next 12 months. For FY2018, GGR projects to spend USD110mn for the upstream segment (replanting with higher-yield seeds) and USD110mn for downstream improvements. We maintain our issuer profile of GGR at Neutral(5). (Company, OCBC)

Credit Headlines (cont'd) :

Hotel Properties Ltd ("HPL"): HPL announced 2017 results. Full year revenue increased 14.1% y/y to SGD659.2mn, with higher property sales (+49.5% y/y to SGD170.2mn) and better performance from the hotels and resorts (+5.4% y/y to SGD489.0mn). The much stronger performance from the property segment is due to sale of completed units at Tomlinson Heights, with 14 units sold for SGD143.6mn in 2017, according to URA caveats. Recurring income from the hotel segment remains strong, with reported EBIT increasing 14.4% y/y to SGD73.6mn. Net profit surged 6.5% y/y to SGD179.5mn, contributed by higher revenue and share of results of associates of SGD128.9mn (2016: SGD34.7mn), due to completion of Burlington Gate and Holland Park Villas in London. HPL also recorded a SGD12.0mn fair value gain on Forum The Shopping Mall (valued at SGD420mn). Net gearing improved q/q to 0.36x (3Q2017: 0.44x) with HPL repaying debt on the back of strong operating cashflow in 4Q2017 of SGD147.4mn. Liquidity is ample with SGD210.0mn in cash covering SGD134.5mn in borrowings due in the short term. Going forward, HPL holds another 30% interest in 2 properties (Ludgate House and Sampson House) with a gross development value of £1.3bn (SGD2.4bn), with Temasek and Amcorp Properties as the other JV partners. We expect the hospitality segment to continue growing due to several acquisitions undertaken in 2017, including 50%-stake in Four Seasons Resort Langkawi (USD55mn), 80%-stake in Hilton London Olympia (£114.9mn) and 70%-stake in DoubleTree by Hilton Hotel London (£39.4mn). We continue to hold HPL at a Neutral (4) Issuer Profile. (Company, OCBC)

Olam International Limited ("Olam"): Olam reported its 4Q2017 and FY2017 financials. Gross revenue increased 28% y/y to SGD26.3bn while reported EBITDA increased 10.4% y/y to SGD1.3bn. This was driven by EBITDA improvements in four out of five business segments, namely, the Edible Nuts, Spices & Vegetable Ingredients ("Edible Nuts & SVI"), Food Staples and Packaged Foods ("Food"), Industrial Raw Materials and Infrastructure ("IRM") and Commodity Financial Services ("CFS"). Collectively, these four segments saw a SGD205mn increase to SGD1.0bn while the Confectionary and Beverage segment saw a 19.5% y/y decline in EBITDA to SGD328mn. Per company, this was due to significantly lower contribution from coffee. Cocoa saw its processing business performing well though supply chain/trading business saw margin compression. While average debt balance had fallen, finance cost at Olam increased 19.0% y/y to SGD531.2mn mainly due to higher benchmark interest rates. EBITDA/Interest fell to 2.5x from 2.7x in FY2016 despite the stronger EBITDA generation. As at 31 December 2017, perpetuals made up ~6% of total capital (end-2016: 5%), which is still manageable. Assuming Olam pays out SGD55mn in perpetual distributions per annum and we adjust these distributions as interest, we find adjusted EBITDA/Interest at 2.3x. Olam generated higher interest income from deposits and higher share of results from jointly controlled entities and associates ("JCE") as two new ports at the Gabon Special Economic Zone had started operations. This helped drive profit before tax higher to SGD630.9mn (FY2016: SGD433.4mn). Within other comprehensive income, Olam reported a large net gain on fair value changes during the period of SGD336.1mn (FY2016: net loss on fair value changes of SGD44.2mn), which was driven by increase in share prices of Pure Circle, helping to offset negative foreign currency translation adjustment of SGD357.7mn. Net-net, Olam reported total comprehensive income of SGD527.5mn (FY2016: comprehensive loss of SGD84.9mn) which partly drove book value equity higher in end-December 2017. Additionally, Olam received SGD585.5mn in equity proceeds (from the conversion of warrants by shareholders, bulk of it from Temasek). At SGD11.6bn, gross debt as at end-2017 was 15.2% lower versus the beginning of the financial year, largely due to the reduction in working capital. Proceeds related to one-off disposals / divestments also help generate cash of at least ~SGD400mn based on our estimation. Additionally, Olam pared back on investing outflows. In FY2016, Olam spent SGD1.3bn on capex and the acquisition of subsidiaries, collectively only SGD951mn was spent in FY2017 for these purposes. As at 31 December 2017, Olam's cash cycle reduced by 53 days to 97 days. As at 31 December 2017, Olam's unadjusted net gearing was down to a much healthier 1.5x (end-2016: 2.1x). We take comfort that the company has made progress in generating cash and working capital optimisation, though a significant contributor to the reduction in working capital was also due to lower commodity prices (commodity prices are beyond company's control). Higher commodity prices tend to lead to higher working capital needs which subtracts from cash flow from operations before interest and tax ("CFO"). We observe that in FY2017, Confectionary and Beverage, Food and IRM were the largest contributor to CFO making up 90% of CFO. In FY2017, the working capital intensive supply chain business made up a third of Olam's total EBITDA, reducing from 42% in FY2016. We maintain Olam's issuer profile at Neutral (5). (Company. OCBC)

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

Nick Wong Liang Mian, CFA
Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6530 7348
NickWong@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