

Mar 28, 2018

Market Commentary

- The SGD swap curve bull-flattened yesterday, with swap rates trading 4bps lower across most tenors.
- Flows in SGD corporates were moderate yesterday, with better buying in HSBC 4.7%- PERP.
- In the broader dollar space, the Bloomberg Barclays Asia USD IG Bond Index average OAS traded little changed at 124bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 4bps to 380bps.
- 10Y UST yield fell 8bps to 2.78%, hitting its lowest levels in over six weeks as investors sought safe haven upon Wall Street stocks souring. This was driven by the technology sector faltering on government scrutiny over political consultants' use of Facebook's user data.

Credit Headlines

Century Sunshine Group Holdings Limited ("CSG") | Issuer Profile: Neutral (5)

- CSG reported 2017 results. Revenue increased 45.7% y/y to HKD3.77bn. This was driven by higher contribution from both its fertilizer segment (+59.1% y/y to HKD2.23bn) as well as its magnesium segment (+27.1% y/y to HKD1.16bn).
- Fertilizer performance was driven largely by the Shandong Hongri ("SDHR") acquisition completed in April 2017 (excluding the acquisition segment revenue would have fallen 5.4% y/y due to a production line halt at the existing Jiangsu facility due to technology upgrades). This caused volume to surge 54.1% to 1,066,541 tonnes. ASP also improved slightly by 3.3% y/y to HKD2,087 per tonne. That said, gross margin fell sharply by 5.2 ppt to 23.2%. The main driver for this is due to the shift in product mix upon the SDHR acquisition which increased the contribution from general compound fertilizer, which has lower margins compared to CSG's existing organic and silicon magnesium fertilizer products. The fall in margin was anticipated (refer to [OCBC Asia Credit - Century Sunshine Credit Update \(13 Sep 2017\)](#)) as margins would only recover when operations at SDHR and the new Jiangxi facility stabilize (which would allow for product mix tweaks to improve margins)
- Magnesium performance was also driven by incremental volumes from its Xinjiang acquisition (made in 2016 with production ramp up in 2017). This caused volumes to increase 39.4% y/y to 50,483 tonnes (12,583 tonnes were attributed to Xinjiang). However, as the Xinjiang facility focused on simpler magnesium ingots during its ramp-up phase (these have lower margins), ASP has fallen by 7.9% y/y to HKD22,468 per tonne. This in turn caused magnesium gross margin to fall 4.7ppt to 24.3%.
- In aggregate, due to shifts in product mix for both core segments of CSG, this led to gross margin compress with group gross margin falling 4.9ppt to 24.4%. The surge in revenue though meant that gross profit was up 20.9% y/y to HKD918.7mn. That said, the sizable increase in the organization due to SDHR and Xinjiang, as well as the completion in Jiangxi, meant that SG&A expenses surged 71.0% y/y to HKD434.1mn. This, coupled with negative FX impact (-HKD43.0mn) as well as higher finance cost (+28.9% y/y to HKD151.5mn due to the increase in borrowings) caused net profit to decline 16.4% y/y to HKD261.6mn. Capex for the year was HKD973.2mn (~65% was for the fertilizer segment, potentially due to Jiangxi). Capex and working capital needs caused gross borrowings to increase 32.9% y/y to HKD2.05bn (with HKD626.4mn in short-term debt). Comparatively, CSG reported HKD930.9mn in cash balance as of end-2017. The increase in borrowings caused net gearing to worsen from 21% (end-2016) to 31% (end-2017). This was in line with our previous expectations as we had expected borrowings to increase given the working capital needs of its acquisitions as well as the capex into green-field Jiangxi, with the associated revenue generation only coming in subsequently. We will retain our Neutral (5) Issuer Profile.

Mapletree Greater China Commercial Trust (“MAGIC”) | Issuer Profile: Neutral (4)

- MAGIC announced that it will be acquiring for JPY62.3bn (SGD770.5mn) a 98.47% stake in a portfolio of 6 freehold office assets in the greater Tokyo area (3 in Tokyo, 1 in Yokohama, 2 in Chiba).
- The Japan portfolio has a WALE of 5.8 years and 99.9% occupancy, which will boost MAGIC’s overall portfolio’s WALE and occupancy to 3.1 years and 98.0% respectively.
- MAGIC intends to fund this via a mix of equity and loans. At the illustrative SGD323.1mn funding from equity and JPY35.7bn (SGD441.6mn) from loans, we expect aggregate leverage to increase to 41.3% (31 Dec: 39.3%). We also estimate that net debt/EBITDA will increase to ~9.0x (9M2018: 8.7x).
- The acquisition has a slightly negative impact on MAGIC’s credit profile, in our view, due to the increase in aggregate leverage and net debt/EBITDA though this is partly mitigated by improvements in portfolio WALE, occupancy and geographical diversification. We continue to hold MAGIC at a Neutral (4) Issuer Profile. (Business Times, Company, OCBC)

Oxley Holdings Ltd (“OHL”) | Issuer Profile: Negative (6)

- Through a collective sale, OHL has entered into an agreement to purchase Ampas Apartment for SGD95mn. This works out to SGD1,073 psf ppr, inclusive of development charge.
- The acquisition is not expected to have a material impact on OHL’s profile given that its total asset size is far larger (SGD4.7bn). (Business Times, Company, OCBC)

Table 1: Key Financial Indicators

	28-Mar	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	78	1	10
iTraxx SovX APAC	13	0	1
iTraxx Japan	50	-3	11
iTraxx Australia	69	2	11
CDX NA IG	66	11	11
CDX NA HY	106	-1	-1
iTraxx Eur Main	60	2	8
iTraxx Eur XO	287	1	23
iTraxx Eur Snr Fin	67	4	14
iTraxx Sovx WE	18	0	-1
AUD/USD	0.769	-0.99%	-0.95%
EUR/USD	1.241	0.60%	1.79%
USD/SGD	1.309	0.28%	1.21%
China 5Y CDS	64	0	9
Malaysia 5Y CDS	74	2	13
Indonesia 5Y CDS	102	0	17
Thailand 5Y CDS	46	2	5

	28-Mar	1W chg	1M chg
Brent Crude Spot (\$/bbl)	69.77	0.43%	6.07%
Gold Spot (\$/oz)	1,344.99	0.96%	2.02%
CRB	195.57	0.73%	0.83%
GSCI	453.05	1.55%	2.18%
VIX	22.5	23.63%	13.35%
CT10 (bp)	2.784%	-9.86	-7.62
USD Swap Spread 10Y (bp)	2	-2	0
USD Swap Spread 30Y (bp)	-17	-3	1
TED Spread (bp)	53	8	21
US Libor-OIS Spread (bp)	58	4	19
Euro Libor-OIS Spread (bp)	3	1	0
DJIA	23,858	-3.52%	-4.68%
SPX	2,613	-3.84%	-3.73%
MSCI Asiax	726	-1.93%	-0.29%
HSI	30,791	-2.41%	-0.17%
STI	3,439	-2.11%	-2.23%
KLCI	1,862	0.33%	0.34%
JCI	6,209	-0.55%	-5.88%

Source: OCBC, Bloomberg

New issues

- Baoxin Auto Finance I Ltd has priced a USD300mn 364-day note (guaranteed by China Grand Automotive Services Co Ltd) at 6.625%, tightening from its initial price guidance of 6.875%.
- Ease Trade Global Ltd has priced a USD350mn 3-year bond (guaranteed by Poly Property Group Cop Ltd, keepwell provider: China Poly Group Corp Ltd) at 5.2%, tightening from its initial price guidance of 5.3% area.

Table 2: Recent Asian New Issues

<u>Date</u>	<u>Issuer</u>	<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
27-Mar-18	Ease Trade Global Ltd	USD350mn	3-year	5.2%
27-Mar-18	Baoxin Auto Finance I Ltd	USD300mn	364-day	6.625%
26-Mar-18	Car Inc	CNH400mn	3NC2	6.95%
26-Mar-18	Agile Group Holdings Ltd	USD100mn	AGILE 6.875% Perp NC5	100+accrued interest
26-Mar-18	Huaxin Pharmaceutical (HK) Co Ltd	USD56mn	TAIHUA 6.8%'21	100+accrued interest
23-Mar-18	Land Transport Authority of Singapore	SGD300mn	LTAZSP 3.35%'48	100+accrued interest
22-Mar-18	Blue Skyview Co Ltd	USD60mn	HONAIR 7.125%-Perp NC 2020	100+accrued interest
22-Mar-18	Jinshine International Co Ltd	USD400mn	3NP2	6.75%
22-Mar-18	Lenovo Group Ltd	USD750mn	5-year	CT5+215bps
22-Mar-18	Baidu Inc	USD500mn	10-year	CT10+160bps
22-Mar-18	Baidu Inc	USD1bn	5.5-year	CT5.5+125bps
20-Mar-18	Inter-American Development Bank	AUD200mn	IADB 3.74%'28	ASW+41bps
20-Mar-18	Nederlandse Waterschapsbank NV	AUD100mn	NEDWBK 3.45%'28	3.261%

Source: OCBC, Bloomberg

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

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