

Market Commentary

- The SGD swap curve bull-flattened yesterday, with the shorter tenors and belly traded 2-5bps lower, while the longer tenors traded 7-11bps lower.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 137bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 1bps to 540bps.
- Flows in SGD corporates were heavy, with large ticket flows in STANLN 5.375%-PERPs and UOBSP 3.58%-PERPs. We also saw flows in CMZB 4.2%'28s, F 4.125%'24s, CENCHI 6.25%'20s, SOCGEN 6.125%-PERPs, CS 5.625%-PERPs, CAPLSP 3.08%'27s, TMGSP 4.8%'22s and HRINTH 3.8%'25s.
- 10Y USTs rose 6bps to close at 1.71%, after US President Donald Trump de-escalated the trade war with China by delaying tariffs on several Chinese goods. Spread between 3-month treasury bills and 10-year treasury notes remains inverted, with the spread narrowing to -29bps.

Credit Research

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Credit Summary:

- **[Aspial Corp Ltd](#) | Negative (6):** Aspial reported 2Q2019 results, revenue declined 35% y/y to SGD138.7mn, and pre-tax profits from the 3 core segments fell 72.3% y/y to SGD4.3mn. Net gearing declined to 2.23x (1Q2019: 2.54x), but liquidity looks tight with SGD303.4mn in short term debt due. We continue to hold Aspial Corp Ltd at a Negative (6) Issuer Profile.
- **[BreadTalk Group Ltd](#) | Neutral (5):** BGL announced that its CEO, Mr Chu Heng Hwee, will be resigning with effect from 31 Dec 2019. Dr George Quek Meng Tong, BGL's Group Executive Chairman, founder and major shareholder, will undertake the duties of the CEO after Mr Chu's resignation.
- **[Metro Holdings Ltd](#) | Neutral (4):** Metro announced 1QFY2020 results, with revenue up by 85.4% y/y to SGD55.9mn, overall profit before tax (including interest in associates and joint ventures) was down 43.6% y/y to SGD 12.3mn and net gearing rose higher to 0.08x from 0.02x.
- **[National Australia Bank Ltd](#) | Positive (2):** NAB announced its third quarter trading update for the 3 months ended 30 June, 2019. Unaudited cash earnings were up 1% against 1H2019 quarterly average to AUD1.65bn. Risk costs were up 10% against 1H2019 quarterly average (although down q/q by 3.5%). APRA CET1 ratio of 10.4% as at 30 June 2019 was stable q/q and improved from 10.2% as at 31 December 2018 and 30 June 2018 respectively. 3Q2019 unaudited statutory net profit was up 3.0% y/y to AUD1.70bn. We are maintaining our issuer profile of NAB at Positive (2).
- **[Olam International Ltd](#) | Neutral (5):** Olam International announced 2Q2019 results. Gross revenue was up 15.7% y/y to SGD8.6bn while reported EBITDA was up 14.0% y/y to SGD351.2mn. Finance costs increased by 38% y/y to SGD187.7mn while reported EBITDA/reported interest cost dropped to 1.9x compared to 3.0x reported in 1Q2019. Unadjusted net gearing was at 1.33x as at 30 June 2019, compared to 1.40x as at 31 March 2019. We maintain Olam's issuer profile at Neutral (5) for now.

Asian Credit Daily**Credit Headlines****Aspial Corp Ltd (“Aspial”) | Issuer Profile: Negative (6)**

- Aspial reported 2Q2019 results. Revenue declined 35% y/y to SGD138.7mn, mainly due to declines in the real estate segment (-50.1% y/y to SGD124.1mn) due to the absence of revenue from CityGate and AVANT which contributed to the previous period’s results. Revenue from Financial Services also declined (-16.8% y/y to SGD45.4mn) due to lower sales from retailing and trading of jewellery and branded merchandise while Jewellery Business also declined (-10.3% y/y to SGD33.2mn).
- Pre-tax profit from the 3 core segments fell 72.3% y/y to SGD4.3mn. While this is mainly due to the decline in revenue, we note that pre-tax profit for the real estate segment (-84.6% y/y to SGD1.6mn) fell more than revenue as Australia 108 likely commands lower margins than the projects that were contributing in the prior period.
- Net gearing declined to 2.23x (1Q2019: 2.54x) due to SGD43.5mn cash generated from operations, mainly from declines in working capital with completion of CityGate project and settlement of units for AVANT and Australia 108.
- While Aspial expects Australia 108 to contribute positively to revenue and profitability for FY2019 and FY2020, we note that Aspial no longer discloses the sale progress on Australia 108 and no longer provide the amount of unbilled contracts. Liquidity looks tight with SGD30.9mn cash (excluding Maxi-Cash Financial Services Corp Ltd and World Class Global Ltd) against SGD303.4mn in short term debt due (excluding Maxi-Cash Financial Services Corp Ltd and World Class Global Ltd). We continue to hold Aspial Corp Ltd at a Negative (6) Issuer Profile. (Company, OCBC)

BreadTalk Group Ltd (“BGL”) | Issuer Profile: Neutral (5)

- BGL announced that its CEO, Mr Chu Heng Hwee, will be resigning with effect from 31 Dec 2019. The reason for resignation is ‘due to personal and health reasons’. Dr George Quek Meng Tong (“Dr Quek”) will undertake the duties of the CEO after Mr Chu’s resignation. We note that Dr Quek is BGL’s Group Executive Chairman, major shareholder and founder.
- We note that Mr Chu had only taken over as CEO of the BGL in Jul 2017. During his tenure, BGL undertook a series of [large scale partnerships/acquisitions](#) in 2018 and more recently also purchased a 20%-stake in NPPG. This follows the consolidation phase by BGL to slow down expansion and close underperforming outlets, which resulted in the stagnation of revenue over 2015-2017.
- We do not see immediate credit impact though we will monitor if BGL will be announcing any strategic shift going forward. (Company, OCBC)

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Credit Headlines (cont'd)

Metro Holdings Ltd (“METRO”) | Issuer Profile: Neutral (4)

- METRO announced results for first quarter results ended 30 June 2019 (“1QFY2020”). Revenue grew substantially by 85.4% y/y to SGD55.9mn from SGD30.2mn, on the back of SGD27.2mn revenue recognised from the sale of property rights of residential development properties in Bekasi and Bintaro, Jakarta, though partially offset by lower sales from the retail division.
- Share of joint ventures’ results (net of tax) though was down by 55.3% y/y to SGD7.3mn from SGD16.3mn in 1QFY2019. This was mainly due to losses incurred from The Crest, Singapore and absence of SGD2.3mn gain from the sales of Acero Works, United Kingdom. In 1QFY2020, there was also fair value loss (net of tax) on investment properties of SGD1.3mn relative to a gain of SGD0.6mn over the same period last year.
- Overall profit before tax (including interest in associates and joint ventures) was down by 43.6% y/y to SGD12.3mn from SGD21.7mn, due to higher finance costs of SGD4.5mn on the top of the above mentioned reasons.
- Credit health of METRO remains healthy though net gearing (excluding pledged fixed deposits of SGD37.2mn) rose higher to 0.08x from 0.02x as at 31 March 2019. The higher net gearing was largely due to the SGD200mn bond issuance on 2 April 2019. We think those funds were most likely used to purchase of [The Atrium in Chengdu](#) and [7 & 9 Tampines Grande in Singapore](#).
- Looking forward, we expect the newly acquired properties to contribute to the performance of METRO. (Company, OCBC)

Asian Credit Daily**Credit Headlines (cont'd)****National Australia Bank Ltd (“NAB”) | Issuer Profile: Positive (2)**

- NAB announced its third quarter trading update for the 3 months ended 30 June, 2019. Trading update results compare the most recent quarter against the average of the first two quarters results for FY2019 with the key number being underlying cash earnings given the impact of various extraordinary events such as customer-related remediation.
- For 3Q2019, unaudited cash earnings of AUD1.65bn (excluding customer-related remediation) were up 1% against the 1H2019 quarterly average and stable against 3Q2018. This was driven by a 1% rise in revenue on SME lending growth and better net interest margins on a fall in short term wholesale funding costs. At the same time, expenses were flat as productivity savings were offset by higher compliance and risk costs. Both the growth in SME lending and cost savings were a result of NAB's current strategy to focus on its core business banking segment and reduce costs from its transformation program.
- Loan quality metrics deteriorated with risk costs up 10% against the 1H2019 quarterly average (although reduced q/q by 3.5% due to the impairment of some large exposures within Corporate and Institutional Banking in 2Q2019) and the ratio of 90+ days past due and gross impaired assets to gross loans and acceptances up to 0.85% from 0.79%. This was driven by a rise in Australian mortgage delinquencies and lower home lending growth.
- Given earnings performance, the APRA CET1 ratio of 10.4% as at 30 June 2019 was stable q/q and improved from 10.2% as at 31 December 2018 and 30 June 2018. Management have mentioned that the ratio excludes AUD1bn of 1H2019 dividend reinvestment plan proceeds that were received in July. Including this, NAB's proforma APRA CET1 ratio would be 10.65% as at 30 June 2019 and above APRA's minimum 10.5% CET1 benchmark for 'unquestionably strong' capital ratios in Australia's banking sector (comes into force January 2020).
- 3Q2019 unaudited statutory net profit was AUD1.70bn, up 3.0% compared to 3Q2018. Management have flagged the recognition of additional provisions in 2H2019 for ongoing customer remediation and regulatory compliance programs. We are maintaining our issuer profile of NAB at Positive (2). (OCBC, Company)

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Credit Headlines (cont'd)

Olam International Ltd (“OLAM”) | Issuer Profile: Neutral (5)

- OLAM announced its 2Q2019 results. Gross revenue was up 15.7% y/y to SGD8.6bn while reported EBITDA was up 14.0% y/y to SGD351.2mn. The increase in EBITDA was driven by Food Staples & Packaged Foods (up 40% y/y), Industrial Raw Materials, Infrastructure & Logistics (up 66% y/y) and Commodity Financial Services (“CFS”) which reported EBITDA at SGD5.0mn versus a loss before interest, tax, depreciation and amortisation of SGD4.9mn in 2Q2018. The remaining two segments, namely Edible Nuts & Spices, Confectionary & Beverage though saw reported EBITDA declined by 1% y/y and 4% y/y respectively.
- Nonetheless, the overall reported EBITDA was also boosted by the adoption of SFRS(1) 16, on a like-for-like basis (removing the SFRS(1) 16 impact), reported EBITDA would have increased by 6% y/y instead to SGD326.3mn.
- Finance costs increased by 38% y/y to SGD187.7mn (SGD15mn was attributable to adoption of SFRS(1) 16), without which finance cost would have increased by 27% y/y. On a like-for-like basis, the increase was attributable to increase in higher interest rates (eg: higher benchmark rates) given that average debt balance at OLAM had declined y/y. Resultant reported EBITDA/reported interest cost which includes the cost in relation to lease liabilities was only 1.9x, lower than the 3.0x reported in 1Q2019, with the first quarter being a historically stronger quarter versus the second quarter.
- Unadjusted net gearing (including lease liabilities) was 1.33x as at 30 June 2019, lower than the 1.40x as at 31 March 2019. This was mainly due to the reduction in working capital. Cash conversion cycle starkly reduced to only 61 days in 2Q2019 against 100 days in 2Q2018 (1Q2019: 74 days). We think this is an aberration given the more typical 100-120 days which OLAM continues to target internally. We understand from company that the lower cash cycle in 2Q2019 was due to higher trading volumes in grain and overall lower commodity prices.
- Investing outflow in 2Q2019 was SGD163.3mn (2Q2018: SGD200.1mn), predominantly due to Olam’s purchase of an 85%-stake in YTS Holdings Pte Ltd (which holds the largest cocoa processor in Indonesia for USD90mn) and a 60%-stake in Cotonchad SN, a state-owned company in Chad for USD16mn (purchase announced in 2018, completed in 2Q2019).
- We though expect investing outflow to increase in 2H2019 with the proposed large acquisition of [Dangote Flour Mills](#) (“DFM”) for an enterprise value of NGN120bn (~USD331.4mn) and drive unadjusted net gearing (including lease liabilities) higher to ~1.5x. While it is too early to tell if OLAM would be able to turnaround the business, given DFM was loss-making in 2018, per company the purchase of Dangote is mainly to increase its presence in destination milling in Nigeria and fits in with its strategic plan to increase its presence in the Grains & Animal Feed segment.
- In 1H2019, certain businesses in relation to trading of sugar, rubber, fertiliser trading, part of CFS and wood products business has been closed, with one-off exit cost of SGD17.2mn taken. No significant divestments were announced in 1H2019 and we continue to expect profitable divestments to be a protracted process. As an update to its strategic plan announced in January 2019, Olam has appointed two financial advisors to explore options to maximise value for shareholders and expects to share further updates in 1Q2020. For now we maintain Olam’s issuer profile at Neutral (5) though would lower this should OLAM diverge from its capex and divestment plans. (Company, OCBC)

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Key Market Movements

	14-Aug	1W chg (bps)	1M chg (bps)		14-Aug	1W chg	1M chg
iTraxx Asiax IG	68	-2	5	Brent Crude Spot (\$/bbl)	60.75	8.04%	-8.95%
iTraxx SovX APAC	44	-1	4	Gold Spot (\$/oz)	1,502.31	0.08%	6.24%
iTraxx Japan	65	3	6	CRB	173.09	1.49%	-6.12%
iTraxx Australia	71	2	9	GSCI	405.55	4.67%	-6.69%
CDX NA IG	57	-2	3	VIX	17.52	-13.14%	41.40%
CDX NA HY	106	0	-1	CT10 (bp)	1.671%	-6.32	-45.09
iTraxx Eur Main	54	-4	6				
				AUD/USD	0.679	0.49%	-3.54%
iTraxx Eur XO	275	-10	32	EUR/USD	1.118	-0.19%	-0.71%
iTraxx Eur Snr Fin	70	0	12	USD/SGD	1.385	-0.19%	-2.09%
iTraxx Sovx WE	19	2	4				
				DJIA	26,280	0.96%	-3.85%
USD Swap Spread 10Y	-10	3	-4	SPX	2,926	1.55%	-2.90%
USD Swap Spread 30Y	-39	3	-5	MSCI Asiax	593	-0.78%	-8.54%
US Libor-OIS Spread	26	-2	3	HSI	25,396	-2.31%	-10.80%
Euro Libor-OIS Spread	6	0	1	STI	3,149	-1.43%	-6.21%
China 5Y CDS	51	-2	9	KLCI	1,600	-0.75%	-4.18%
Malaysia 5Y CDS	57	-4	7	JCI	6,254	0.80%	-1.88%
Indonesia 5Y CDS	95	-4	10				
Thailand 5Y CDS	32	0	0				

Source: Bloomberg

New Issues

- Orient Securities Co., Ltd has priced a USD300mn 3-year FRN at 6-month US LIBOR+125bps, tightening from IPT at 3-month US LIBOR+165bps area.
- Zhenro Properties Group Ltd has priced a USD110mn re-tap of its existing ZHPRHK 9.15%'22s at 8.55%, tightening from IPT at 8.7% area.
- Korean Air Lines Co., Ltd has scheduled investor roadshows commencing on 19 Aug for its potential USD bond issuance that will be guaranteed by The Korea Development Bank.

Date	Issuer	Size	Tenor	Pricing
13-Aug-19	Orient Securities Co., Ltd	USD300mn	3-year FRN	6M-US LIBOR+125bps
13-Aug-19	Zhenro Properties Group Ltd	USD110mn	ZHPRHK 9.15%'22s	8.55%
9-Aug-19	Excellence Commercial Management Ltd	USD150mn	3-year	6.8%
8-Aug-19	Dongxing Voyage Co. Ltd	USD400mn	5-year	T+180bps
8-Aug-19	Changde Economic Construction Investment Group Co., Ltd	USD200mn	3-year	6.6%
1-Aug-19	Central China Real Estate Ltd	USD300mn	3NC2	7.25%
1-Aug-19	Sinopec Group Overseas Development (2018) Ltd	USD800mn USD700mn USD500mn	5-year 10-year 30-year	T+88bps T+110bps 3.68%
31-Jul-19	Fantasia Holdings Group Company Ltd	USD100mn	FTHDGR 11.75%'22s	12.4%
30-Jul-19	China Aoyuan Group Ltd	USD250mn	CAPG 7.95%'23s	6.5%
30-Jul-19	Dexin China Holdings Company Ltd	USD200mn	2-year	14.0%
30-Jul-19	Lotte Property & Development Co., Ltd	USD300mn	3-year FRN	3M-US LIBOR+77.5bps
30-Jul-19	Korea Land & Housing Corporation	USD100mn USD100mn	3-year FRN 2-year FRN	3M-US LIBOR+66bps 3M-US LIBOR+47bps
30-Jul-19	Emirates NBD PJSC	SGD20mn	7-year	3.06%

Source: OCBC, Bloomberg

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