

Mar 15, 2019

Credit Headlines: Julius Baer Group Ltd, CMA CGM, Oxley Holdings Ltd

Market Commentary

- The SGD swap curve steepened yesterday, as most tenors traded 1-2bps higher, with the exception of the 30-year swap rate trading 3bps higher.
- 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 9bps to 474bps.
- Flows in SGD corporates were heavy, with flows seen in CELSP 3.9%-PERPs, MAPLSP 3.58%'29s, OCBCSP 4.0%-PERPs, UOBSP 4.0%-PERPs and GUOLSP 4.6%-PERPs.
- 10Y UST yields rose 1bps to close the session at 2.63%, as the heavy pipeline of corporate issuances this week and in the upcoming weeks pressured the treasuries' sell-off, in a bid to push prices lower. The end of the Japanese fiscal year also induced Japanese investors to bolster their balance sheets by selling foreign bonds.

Credit Headlines

Julius Baer Group Ltd ("JBG") | Issuer Profile: Neutral (3)

- It has been reported that Julius Baer has commenced succession planning for its current CEO and former chief risk officer Bernhard Hodler. While the news is interesting given the current CEO has only been in the job for just over a year; it is also somewhat unsurprising given (1) JBG has a new incoming chairman in Romeo Lacher; and (2) BAER's performance has been lackluster since the current CEO's appointment. Its [annual results announced a month](#) ago saw a decline in AuM by 2% y/y (although this was mainly due to a decline from market performance in equity markets) while gross margins reduced as expenses rose faster than operating income.
- As much as markets have been challenging of late, recent performance highlights the influence of staff movements in private banking so given this news, we expect sentiment towards the name will remain cautious in the short term.
- We are maintaining the current Neutral (3) issuer rating on JBG but will monitor ongoing performance through FY2019 for an improvement in current trends and how management actions to address performance such as cost reductions impact future growth. (OCBC, Bloomberg)

CMA CGM (acquired Neptune Orient Lines, "NOL") | Issuer Profile: Neutral (5)

- According to the preliminary results for the tender offer, CMA CGM provisionally owns 89.47% of the Swiss group Ceva Logistics ("CEVA"). Definitive notice of interim results is to be published on March 19. As per the offer prospectus, the additional acceptance period of 10 trading days will start on March 20 and run until April 2.
- We think there is room for CMA CGM's stake to inch higher. Given that Swiss stock exchange regulations (which CEVA is listed on) appear to suggest that at least 20% of a listed company's issued stock has to be free float, we think CMA CGM may have to take CEVA private. Should that happen, we see net gearing at ~1.75x, up from 1.41x at the end of 2018.
- We [recently lowered CMA CGM's issuer profile](#) to Neutral (5) from Neutral (4) on the expectation that the weaker financial metrics due to additional leverage from the acquisition more than offsets any potential synergies from the business combination. (Company, OCBC)

Credit Headlines (cont'd)

Oxley Holdings Ltd ("OHL") | Issuer Profile: Neutral (5)

- OHL announced that its wholly-owned subsidiary Oxley Beryl Pte Ltd ("OHL Beryl") has accepted an expression of interest from a US-based real estate fund to buy 100%-stake in Beryl for SGD1.025bn. OHL Beryl owns Chevron House located in Raffles Place, a commercial building (office with retail podium) which is currently undergoing asset enhancement initiatives ("AEI"). This was an unsolicited offer and OHL Beryl will receive a refundable deposit amounting to SGD7.5mn in due course.
- The expression of interest is not legally binding and still subject to due diligence and the parties entering into a definitive sale and purchase agreement.
- OHL had bought Chevron House in March 2018 (first announced in December 2017) for SGD660mn. At time of acquisition, OHL had intended to increase the net lettable area off the property by at least 20%. We expect amounts spent on AEI to have been capitalised into Chevron House's asset value. Based on Oxley's disclosure released on 13 February 2019, the indicative valuation for Chevron House was SGD787mn. Assuming the deal goes through and the book value for Chevron House was recorded at SGD787mn, OHL may book a gain of SGD238mn (potentially more if book value was recorded lower). As at 31 December 2018, net gearing at OHL was 2.5x and ceteris paribus, net gearing may reduce to ~1.6x, assuming deal completion. OHL [announced its deleveraging plans in January 2019](#) and expects to reduce net gearing to 1.0x.
- Earlier in January 2019, OHL had announced that its wholly-owned subsidiary had accepted a non-binding letter of intent from a purchaser for Novotel/Mercure hotels at Stevens Road in Singapore for SGD950mn. Under the terms of the letter of intent, 1% of the consideration would be paid to OHL with the purchaser entitled to carry out property due diligence until 15 April 2019. 4% of the consideration (SGD38mn) would be paid on 28 February 2019, though as yet it is unknown if these amounts have been paid. Another 5% of the consideration (SGD47.5mn) would be paid upon signing date of the definitive sale and purchase agreement.
- Notwithstanding some uncertainty over the proposed hotel sale, we see the signing of the Chevron House expression of interest as a credit positive as the completion of either transaction would substantially improve OHL's net gearing and short term liquidity profile. We maintain OHL's issuer profile at Neutral (5). (Company, OCBC)

Table 1: Key Financial Indicators

	15-Mar	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	67	-5	-9
iTraxx SovX APAC	50	-4	-8
iTraxx Japan	57	-4	-5
iTraxx Australia	68	-4	-6
CDX NA IG	58	-5	-4
CDX NA HY	106	1	0
iTraxx Eur Main	60	-5	-9
iTraxx Eur XO	269	-20	-31
iTraxx Eur Snr Fin	71	-6	-15
iTraxx Sovx WE	20	0	-5
AUD/USD	0.708	0.48%	-0.87%
EUR/USD	1.131	0.68%	0.13%
USD/SGD	1.356	0.23%	0.07%
China 5Y CDS	46	-5	-7
Malaysia 5Y CDS	61	-5	-13
Indonesia 5Y CDS	97	-7	-14
Thailand 5Y CDS	44	-4	-4

	15-Mar	1W chg	1M chg
Brent Crude Spot (\$/bbl)	67.19	2.21%	1.42%
Gold Spot (\$/oz)	1,295.08	-0.25%	-2.07%
CRB	183.39	1.39%	1.13%
GSCI	431.81	2.36%	1.99%
VIX	13.5	-18.63%	-9.46%
CT10 (bp)	2.630%	0.18	-3.23
USD Swap Spread 10Y (bp)	1	-1	-2
USD Swap Spread 30Y (bp)	-22	-3	-5
US Libor-OIS Spread (bp)	21	2	-7
Euro Libor-OIS Spread (bp)	5	0	0
DJIA	25,710	0.93%	-0.67%
SPX	2,808	2.17%	1.18%
MSCI Asiax	653	1.64%	2.63%
HSI	28,852	2.21%	3.41%
STI	3,202	0.19%	-1.17%
KLCI	1,674	-0.34%	-0.86%
JCI	6,437	0.85%	0.75%

New issues

- Sunny Express Enterprises Corp has priced a USD500mn 3-year bond (guarantor: China National Travel Service Group Corporation Ltd) at CT3+110bps, tightening from IPT of +140bps area.
- Xinjiang Financial Investment Co Ltd has priced a USD200mn 3-year bond at 7.5%, in line with the final guidance.
- Yango (Cayman) Investment Ltd has priced a USD150mn 1.5-year bond (parent guarantor: Fujian Yango Group Co Ltd) at 12.75%, tightening from IPT of 13.25% area.
- Chengdu Communications Investment Group Co Ltd has priced a USD100mn re-tap of its existing CDCOMM 5.125%'21s at 100.954 (yield 4.75%).
- Mapletree Industrial Trust Treasury Company Pte Ltd has priced a SGD125mn 10-year bond (guarantor: DBS Trustee Limited) at 3.58%.
- Joint Stock Company Bank of Georgia has scheduled investor meetings from 18 March for its potential USD AT1 bond issuance.

Date	Issuer	Size	Tenor	Pricing
14-Mar-19	Sunny Express Enterprises Corp	USD500mn	3-year	CT3+110bps
14-Mar-19	Xinjiang Financial Investment Co Ltd	USD200mn	3-year	7.5%
14-Mar-19	Yango (Cayman) Investment Ltd	USD150mn	1.5-year	12.75%
14-Mar-19	Chengdu Communications Investment Group Co Ltd	USD100mn	CDCOMM 5.125%'21s	100.954
14-Mar-19	Mapletree Industrial Trust Treasury Company Pte Ltd	SGD125mn	10-year	3.58%
13-Mar-19	Joy Treasure Assets Holdings Inc	USD400mn USD300mn	5-year 10-year	CT5+150bps CT10+200bps
12-Mar-19	Guorui Properties Ltd	USD295mn	GUOPRO 13.5'22s	97
12-Mar-19	ANZ New Zealand (Int'l) Ltd	USD750mn	5-year	CT5+100bps
11-Mar-19	Chongqing Energy Investment Group Co Ltd	USD500mn	3-year	5.78%
11-Mar-19	AMTD Group Co Ltd	USD57.92mn	AMTDGC 5.0%'22s	5.0%
8-Mar-19	Nuoxi Capital Ltd	USD200mn	HKJHCC 7.5%'22s	7.5%
7-Mar-19	AMP Group Finance Services Ltd	USD300mn	2.5-year	CT3+160bps
7-Mar-19	XINHU (BVI) 2018 Holding Co Ltd	USD275mn	3NPNC2	11.0%

Source: OCBC, Bloomberg

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