

Market Commentary

- Other than the 1 year tenor which traded 1bps higher, shorter tenors on the SGD swap curve broadly traded 0-1bps lower while the belly and longer tenors traded 1-2 bps lower.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 128bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 5bps to 507bps. The HY-IG Index spread widened 4bps to 379bps.
- Flows in SGD corporates were heavy, with large ticket flows in CAPLSP 3.65%-PERPs and MCTSP 3.05%'29s. We also saw flows in SPHSP 4.0%-PERPs and UBS 4.85%-PERPs.
- 10Y UST Yields fell by 6bps to 1.82%, over reports that the US and China are struggling to finalise the phase one trade deal.

Credit Research

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Credit Summary:

- [Fraser and Neave Ltd](#) | **Neutral (4)**: FNN reported FY2019 results for the year ended 30 Sep. Revenue rose 3.7% y/y to SGD1.9bn, while gross profit grew more than revenue at +7.0% y/y to SGD623.7mn. Net gearing fell q/q to 12.3%. We continue to hold FNN at a Neutral (4) Issuer Profile.
- [Sembcorp Industries Ltd](#) | **Neutral (5)**: SCI reported 3Q2019 results. Revenue fell 18.9% y/y to SGD2.5bn, while reported profit from operations saw a 7.4% decline y/y to SGD201mn. EBITDA/Interest coverage was 2.0x (somewhat lower than 2Q2019's 2.1x).
- [Singapore Telecommunications Ltd](#) | **Positive (2)**: SingTel reported 2QFY2020 results for the quarter ended 30 Sep. Revenue fell 2.8% y/y, while reported EBITDA grew 2.9% y/y to SGD1.16bn but the biggest headline though is the net loss of SGD674.0mn. Reported net gearing rose q/q to 31.2%.
- [OUE Ltd](#) | **Neutral (5)**: OUE reported 3Q2019 results. 3Q2019 overall revenue was SGD282.5mn, while EBITDA (based on our calculation which does not include other income and other expenses) was SGD130.0mn, with EBITDA/Interest coverage at 1.0x.
- [Hong Fok Corp Ltd](#) | **Neutral (5)**: HFC reported third quarter 2019 results. Revenue fell by 15% y/y to SGD41.4mn, and overall reported net profit declined 54% y/y to SGD5.6mn from SGD12.1mn a year ago. EBITDA/Interest fell from 3.4x a year ago to 2.2x, while while net gearing improved both q/q and y/y to 29.5% .

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Credit Headlines

Fraser and Neave Ltd (“FNN”) | Issuer Profile: Neutral (4)

- FNN reported FY2019 results for the year ended 30 Sep. Revenue rose 3.7% y/y to SGD1.9bn, with broad-based increase in the major segments including Beverages (+6.5% y/y to SGD470.7mn) and Dairies (+3.6% y/y to SGD1.15bn) while Printing & Publishing remains relatively unchanged at SGD277.4mn (FY2018: SGD279.1mn)
 - Beverages: Significant growth mainly due to 23.9% y/y revenue growth in Singapore with higher 100PLUS sales and introduction of new products as well as higher beer sales to general retail outlets.
 - Dairies: Main increase was due to Thailand with successful marketing and branding initiatives, capacity expansion and favourable translation effect.
- Gross profit grew more than revenue (+7.0% y/y to SGD623.7mn) due to lower input costs. By reported PBIT, FNN reported growth of 31.7% y/y with Dairies as the largest contributor.
 - Dairies: Reported PBIT grew 19.3% y/y to SGD275.5mn, fuelled by 16.6% y/y growth in share of results of associated companies to SGD113.9mn which is mostly attributable to Vinamilk as well as 36.6% reported PBIT growth in Thailand with higher sales and favourable input costs.
 - Beverages: Reported PBIT surged to SGD6.7mn (FY2019: SGD0.4mn) with higher sales in most countries including Malaysia, Singapore, Indonesia and Myanmar.
- Net gearing fell q/q to 12.3% (3QFY2019: 15.2%), mainly from fall in net debt with SGD88.8mn cash generated from operating activities. We continue to hold FNN at a Neutral (4) Issuer Profile.

Sembcorp Industries Ltd (“SCI”) | Issuer Profile: Neutral (5)

- SCI reported 3Q2019 results. Revenue fell 18.9% y/y to SGD2.5bn, led by decline in the Marine segment (ie: [61%-owned Sembcorp Marine Ltd \(“SMM”\)](#)), down 38.9% y/y to SGD717mn while the Energy segment (previously known as Utilities) was down 7.2% y/y to SGD1.7bn.
- SCI though saw a 7.4% decline y/y in reported profit from operations to SGD201mn. The Energy segment continue to be the largest contributor to PFO (after exceptional items) at SGD238mn, up 3.5% y/y, with the increase attributable to new assets in Myanmar and Bangladesh, offsetting lower performance from India (driven by certain one-off settlements), UK and absence of revenue from divested businesses. Marine though saw a large loss from operations of SGD53mn (down SGD30mn versus 3Q2018) which offset the gains in Energy.
- Based on our calculation which does not include other operating income and expenses, EBITDA was SGD295mn in 3Q2019, which interest expenses was SGD151mn (minimal impact from interest on lease liabilities). As such resultant EBITDA/Interest coverage was 2.0x (somewhat lower than 2Q2019’s 2.1x).
- As at 30 September 2019, unadjusted net gearing was 1.14x, higher than 30 June 2019’s 1.08x. We think this was mainly driven by cash reduction at the SMM-level as cash was used for working capital purposes. On a standalone basis, we estimate SCI’s cash balance at SGD1.2bn, though have not factored in the SGD0.5bn to be allocated for SMM’s working capital purposes. We expect SCI’s consolidated net debt to increase to 1.2x post this cash allocation to SMM. We had on [26 August 2019 lowered our issuer profile of SCI to Neutral \(5\)](#) and are maintaining it as such. (Company, OCBC)

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Credit Headlines

Singapore Telecommunications Ltd (“SingTel”) | Issuer Profile: Positive (2)

- SingTel reported 2QFY2020 results for the quarter ended 30 Sep. Revenue fell 2.8% y/y mainly due to declines in Group Enterprise (-5.3% y/y to SGD1.49bn) and Group Digital Life (-7.7% y/y to SGD289mn) though Group Consumer did better with growth in Singapore (+1.6% y/y to SGD563mn) and Australia (+4.8% y/y to AUD1.92bn).
- However, reported EBITDA grew 2.9% y/y to SGD1.16bn mainly due to outperformance in Australia Consumer though this is due to NBN migration revenues. Without the NBN migration revenues, we estimate that reported EBITDA would have fallen ~10% y/y instead.
 - Group Consumer: Singapore Consumer reported EBITDA grew 4.5% y/y to SGD191mn due to revenue growth as well as decline in indirect costs with TV content costs (excl. World Cup) down 13% through contract negotiations and receipt of share of infrastructure costs. For Australia Consumer, reported EBITDA grew 19.2% y/y to AUD684mn mainly due to NBN migration revenues of AUD187mn for the quarter (2QFY2019: AUD23mn). Without this, we estimate that reported EBITDA from Australia Consumer would have fallen by 9.8% y/y instead due to intense competition on mobile.
 - Group Enterprise: Reported EBITDA fell 11.5% y/y to SGD389mn mainly due to declines in Australia Enterprise which faced a challenging market with pricing pressure and steep decline in mobile service revenue in Singapore and Australia.
 - Group Digital: Reported EBITDA is still negative though smaller y/y by 28.3% to SGD25mn from cost management.
- The biggest headline though is the net loss of SGD674.0mn, which is mainly due to SGD1.93bn provision for Airtel due to regulatory demands related to spectrum fees and licenses. We understand that SingTel is still seeking further clarification and relief on this matter. Aside from Airtel, most of the remaining major associates are doing better or stable. Telkomsel reported stable pre-tax profit (-0.2% y/y to SGD290mn) while AIS (pretax profit: +30.7% y/y to SGD103mn), Intouch (+32.0% y/y to SGD29mn) and Globe (+17.6% y/y to SGD104mn) did well. We continue to assess the ongoing developments at Airtel, which could materially impact SingTel’s credit profile.
- Meanwhile, guidance has been shaded down considerably, with revenue guided to be stable (1QFY2020: grow by mid-single digit) with stable EBITDA (1QFY2020: grow by high single digit).
- Reported net gearing rose q/q to 31.2% (1QFY2020: 28.4%) with reported net debt to EBITDA & share of associates’ pre-tax profits rising to 2.1x (1QFY2020: 1.9x) with payment of SGD735mn to subscribe to Airtel’s rights issue. With Airtel recording a significant provision, it remains to be seen if the provision will eventually materialise and undertake another capital call. If SingTel continues to fund future capital calls of Airtel, we may revise SingTel’s Issuer Profile lower though we keep it at Positive (2) for now, albeit precariously. (Company, OCBC)

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Credit Headlines

OUE Ltd (“OUE”) | Issuer Profile: Neutral (5)

- OUE reported 3Q2019 results. Following the merger of OUE Commercial Trust (“OUE-CT”, REIT sponsored and consolidated by OUE) and OUE Hospitality Trust (“OUE-HT”, formerly an associate of OUE), OUE-HT is no longer recorded as an associate but a subsidiary of OUE (ie: similar treatment as OUE-CT standalone). As such we find y/y overall comparison to be less useful for 3Q2019.
- 3Q2019 overall revenue was SGD282.5mn, of which SGD133.9mn was attributable to the Development property segment where OUE recorded a SGD95mn sale of 26A Nassim Road (sold to OUE Chairman), indicating that SGD38.9mn was attributable to the recognition of revenue from OUE Twin Peaks units sold under deferred payment schemes in 3Q2019 (3Q2018: SGD43.6mn). No new development projects have been launched post OUE Twin Peaks. We estimate there is another ~SGD170mn cash yet to be collected from the OUE Twin Peaks project.
- The second largest revenue contributor was Investment properties at SGD72.3mn mainly due to the consolidation of Mandarin Gallery (held at the enlarged OUE-CT) while Hospitality was SGD62.5mn. Healthcare held up at SGD5.0mn (3Q2018: SGD4.9mn).
- During the quarter, OUE recognised SGD81.7mn in share of results of equity-accounted investees (3Q2018: SD9.8mn). Since 31 May 2019, OUE had bought more stakes in Gemdale Properties and Investment Corporation Limited (“Gemdale”), with Gemdale becoming an associate company. OUE owns ~22%-stake in Gemdale. These led to higher profit after tax to owners of SGD124.1mn in 3Q2019 (3Q2018: SGD2.1mn)
- EBITDA (based on our calculation which does not include other income and other expenses) was SGD130.0mn in 9M2019, with resultant EBITDA/Interest coverage of only 1.0x (2Q2019: 0.9x). OUE reported a large one-off gain from de-recognition of right of use assets and other liabilities amounting to SGD90.9mn during the quarter due to merger effects. This is a non-cash item though and is credit neutral in our view. As at 30 September 2019, unadjusted net gearing (inclusive of lease liabilities) was 0.65x (30 June 2019: 0.79x). We had on [17 September 2019 lowered our issuer profile of OUE to Neutral \(5\)](#) and are maintaining it as such. (Company, OCBC)

Hong Fok Corp Ltd (“HFC”) | Issuer Profile: Neutral (5)

- HFC reported third quarter 2019 results. Revenue fell by 15% y/y to SGD41.4mn from SGD48.8mn in 3Q2018 due to lower contribution from sales of its development properties although revenue from its investment properties (including YOTEL Singapore Orchard Road) has increased. EBITDA based on our calculation slumped by 30% y/y to SGD17.0mn from SGD24.1mn in 3Q2018, partly due to higher maintenance expenses (+22.4% y/y). Overall reported net profit declined 54% y/y to SGD5.6mn from SGD12.1mn a year ago.
- Although HFC still managed to generate net cash from operations amounting to SGD27.3mn, SGD26.0mn was used to repay loans and borrowings. Over the quarter HFC also paid SGD7.3mn of interest. As such, cash balance fell from SGD51.0mn in the preceding quarter to SGD46.7mn. EBITDA/Interest fell from 3.4x a year ago to 2.2x due to lower EBITDA and higher interest expenses (+10.0% y/y), while net gearing improved both q/q and y/y to 29.5% (2Q2019: 30.4%. 3Q2018: 33.1%). HFC also has more than sufficient cash on hand to cover its short term borrowings of SGD2.2mn.
- Looking forward, HFC continues to expect to recognise revenue from the sale of its the residential units of Concourse Skyline. Contributions from its investment properties is also expect to remain positive. We continue to hold HFC at Neutral (5) Issuer Profile. (Company, OCBC)

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Key Market Movements

	15-Nov	1W chg (bps)	1M chg (bps)		15-Nov	1W chg	1M chg
iTraxx Asiax IG	66	3	-7	Brent Crude Spot (\$/bbl)	62.51	0.00%	6.42%
iTraxx SovX APAC	30	2	-3	Gold Spot (\$/oz)	1,468.18	0.63%	-0.87%
iTraxx Japan	55	1	-5	CRB	180.09	-0.24%	3.05%
iTraxx Australia	58	2	-6	GSCI	417.15	-0.37%	3.42%
CDX NA IG	52	1	-4	VIX	13.05	3.41%	-3.62%
CDX NA HY	107	0	0	CT10 (%)	1.843%	-9.89	7.18
iTraxx Eur Main	50	1	-3				
iTraxx Eur XO	240	8	4	AUD/USD	0.680	-0.98%	0.64%
iTraxx Eur Snr Fin	61	4	1	EUR/USD	1.103	0.07%	-0.06%
iTraxx Eur Sub Fin	126	9	4	USD/SGD	1.361	-0.13%	0.73%
iTraxx Sovx WE	13	1	0	AUD/SGD	0.925	0.81%	0.09%
USD Swap Spread 10Y	-10	0	-3	ASX 200	6,780	0.83%	1.92%
USD Swap Spread 30Y	-39	0	-2	DJIA	27,782	0.39%	2.80%
US Libor-OIS Spread	37	2	2	SPX	3,097	0.37%	3.37%
Euro Libor-OIS Spread	5	-1	1	MSCI Asiax	646	-2.63%	2.48%
				HSI	26,324	-5.47%	-0.68%
China 5Y CDS	40	4	-3	STI	3,232	-0.99%	3.71%
Malaysia 5Y CDS	43	4	-6	KLCI	1,594	-1.01%	1.74%
Indonesia 5Y CDS	74	3	-11	JCI	6,099	-1.08%	-0.96%
Thailand 5Y CDS	26	1	-2	EU Stoxx 50	3,689	-0.48%	2.51%
Australia 5Y CDS	17	0	-3				

Source: Bloomberg

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New Issues

- Adani Transmission Limited priced a USD500mn 16.5-year bond at 4.25%, tightening from IPT of 4.5% area.
- Shanghai Electric Group Global Investment Limited priced a USD500mn 5-year bond at T+102.5bps, tightening from IPT of T+135bps area.
- Chalico Hong Kong Corporation Limited (Guarantor: China Aluminum International Engineering Corporation Limited; Keepwell deed provider: Aluminum Corporation of China) priced a USD350mn NC3.5-Perpetual bond at 5.0%, tightening from IPT of 5.5% area.
- Korea Railroad Corp. priced a USD150mn 5-year FRN at 3m-US LIBOR+70bps.
- Xinyi City Investment & Development Co., Ltd scheduled investor meetings commencing 18 Nov for its proposed USD bond issuance.

Date	Issuer	Size	Tenor	Pricing
14-Nov-19	Adani Transmission Limited	USD500mn	16.5-year	4.25%
14-Nov-19	Shanghai Electric Group Global Investment Limited	USD500mn	5-year	T+102.5bps
14-Nov-19	Chalico Hong Kong Corporation Limited	USD350mn	NC3.5-Perpetual	5.0%
14-Nov-19	Korea Railroad Corp	USD150mn	5-year FRN	3m-US LIBOR+70bps
13-Nov-19	Fantasia Holdings Group Co., Ltd	USD150mn	FTHDGR 12.25%'22s	13.7%
13-Nov-19	ICBCIL Finance Co. Limited	USD600mn	5-year FRN	3m-US LIBOR+105bps
13-Nov-19	Nanyang Commercial Bank, Limited	USD700mn	10NC5	T+218bps
13-Nov-19	Tata Motors Limited	USD300mn	5.5-year	5.875%
13-Nov-19	Mapletree Commercial Trust	SGD250mn	10-year	3.05%
12-Nov-19	Doosan Infracore Co., Ltd	USD300mn	3-year	T+60bps
12-Nov-19	Hongkong Ideal Investment Limited	USD40mn	BJHKWY 14.75%'22s	14.75%
11-Nov-19	RKPF Overseas 2019 (E) Limited	USD300mn	NC5-Perpetual	7.75%
11-Nov-19	Dexin China Holdings Company Limited	USD100mn	DEXICN 12.875%'21s	13.875%
11-Nov-19	XI HAI AN 2019 LIMITED	USD300mn	3-year	3.9%

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