

Asian Credit Daily

Friday, October 18, 2019

Market Commentary

- The SGD swap curve bear-steepened yesterday, with the shorter tenors traded 2-4bps higher, while the belly and longer tenors traded 4-7bps higher.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS was unchanged at 132bps and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 1bps to 527bps.
- Flows in SGD corporates were heavy, with large ticket flows in CAPLSP 3.65%-PERP. We also saw flows in HPLSP 4.4%-PERPs, UBS 4.85%-PERPs, ARASP 5.6%-PERPs, F 4.125%'24s, PILLSP 8.5%'20s, STANLN 5.375%-PERPs, OCBCSP 3.8%-PERPs, SOCGEN 6.125%-PERPs, STTGDC 3.59%'24s, TMGSP 4.8%'22s, FULIN 3.7%'23s and UOBSP 3.58%-PERPs.
- 10Y USTs yields rose to as much as 1.799% last night on the back of a Brexit deal agreement being reached between the EU and the UK, but yields fell back to 1.75% (1bps higher for the day) after concerns that the UK parliament may not support the agreement.

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Credit Summary:

- [Keppel Corporation Limited](#) | **Neutral (4)** : KEP announced its 9M2019 and third quarter financial results. Gross revenue was up 25.5% y/y in 9M2019 to SGD5.4bn, and profit before tax for 9M2019 was down by 33.8% y/y to SGD716.0mn. Based on our calculation, 9M2019 EBITDA (which does not include other income and other expenses) was SGD819.2mn while interest expense (including lease liabilities) was SGD236.5mn, which leads us to derive EBITDA/Interest coverage of 3.5x (9M2018: 4.1x). KEP's unadjusted net gearing (inclusive of lease liabilities) was 0.88x as at 30 September 2019 versus 0.82x as at 30 June 2019 (end-2018: 0.48x). We are reviewing KEP's issuer profile.
- [Singapore Press Holdings Ltd](#) | **Not rated**: SPH reported FY2019 results for the year ended 31 Aug 2019. Revenue fell 2.4% y/y to SGD959.3mn, with the Media segment adjusted reported PBIT (before fair value changes and share of results from associates and joint ventures) falling 43.6% y/y to SGD55.7mn. The property segment's adjusted reported PBIT rose to SGD214.6mn, but was insufficient to offset the decline in Media as well as the Treasury and Investment segment (Adjusted reported PBIT: -92.0% y/y to SGD8.1mn). Due to the weakness in the Media segment, SPH will undertake restructuring to reduce staff numbers in the Media segment by 5%. In addition, overall dividends have been reduced to SGD12 cts/share for FY2019 (FY2018: SGD13 cts/share).

Credit Headlines

Keppel Corporation Limited (“KEP”) | Issuer Profile: Neutral (4)

- KEP announced its 9M2019 and third quarter financial results. Gross revenue was up 25.5% y/y in 9M2019 to SGD5.4bn on the back of higher revenue from all of KEP’s main segments, namely Investments, Infrastructure, Offshore & Marine and Property. On a profit before tax basis (“PBT”), KEP’s profit before tax for 9M2019 was down by 33.8% y/y to SGD716.0mn.
- The decline was driven by the Property segment, with the other three segments all seeing PBT increase. As part of KEP’s business model, it sells properties en bloc and in 9M2018, KEP recorded gains from the sale of en bloc development projects and gains from divestment of a commercial property development in Beijing. On a property trading level, 3,520 units were sold in 9M2019, up 12% y/y, mainly in China and Vietnam. While having reduced, property continues to be the biggest profit driver at KEP, contributing 65% of PBT (9M2018: 90%).
- In 9M2019, KEP’s infrastructure business including its share of associates from Keppel Infrastructure Trust (“KIT”) was the largest driver for the Infrastructure business, on the back of contributions from Energy and Environmental Infrastructure and data centre businesses, which offset declines in Infrastructure Services and the logistics services. Offshore & Marine generated a PBT of SGD12.7mn in 9M2019 against a loss before tax of SGD16.1mn in 9M2018 from higher contract wins, particularly in the LNG and renewables related projects. With regards to the settlement agreement with Sete Brasil, KEP continues to view that its SGD476mn in provisions previously taken is adequate. For Investments, KEP recorded a PBT of SGD74.9mn in 9M2019 against a loss before tax of SGD15.0mn.
- Based on our calculation, 9M2019 EBITDA (which does not include other income and other expenses) was SGD819.2mn while interest expense (including lease liabilities) was SGD236.5mn, which leads us to derive EBITDA/Interest coverage of 3.5x (9M2018: 4.1x).
- KEP’s unadjusted net gearing (inclusive of lease liabilities) was 0.88x as at 30 September 2019 versus 0.82x as at 30 June 2019 (end-2018: 0.48x). The q/q change was mainly due to higher investing outflow with KEP making further advances and investments into an associated company while working capital continues to be consumed for its Offshore & Marine business. We are reviewing KEP’s issuer profile. (Company, OCBC).

Asian Credit Daily**Credit Headlines****Singapore Press Holdings Ltd (“SPH”) | Not rated**

- SPH reported FY2019 results for the year ended 31 Aug 2019. Revenue fell 2.4% y/y to SGD959.3mn mainly due to declines in Media (-12.0% y/y to SGD576.9mn). This has resulted in the Media segment reported PBIT before fair value changes and share of results from associates and joint ventures (“Adjusted reported PBIT”) falling 43.6% y/y to SGD55.7mn.
- While SPH has stepped up the focus on property resulting in the segment revenue increasing y/y to SGD296.5mn (FY2018: SGD242.4mn) and adjusted reported PBIT rising to SGD214.6mn (FY2018: SGD182.8mn), this has not been sufficient to offset the declines in the Media as well as the Treasury and Investment segment (Adjusted reported PBIT: -92.0% y/y to SGD8.1mn). As such, SPH’s overall financial performance has weakened significantly.
- Due to the weakness in the Media segment, SPH will undertake restructuring to reduce staff numbers in the Media segment by 5%. In addition, overall dividends have been reduced to SGD12 cts/share for FY2019 (FY2018: SGD13 cts/share).
- While we acknowledge that SPH will be reducing operating expenses and cash outflow, if the dividend rate is maintained, this implies ~SGD191mn dividends to be paid p.a. Unless core performance improves (which we think could be challenging as the Media segment still continues to face headwinds), total adjusted reported PBIT of SGD246.0mn as of FY2019 is unable to fully cover (1) dividends to shareholders of SGD191mn, (2) dividends to minorities of SGD53.3mn, (3) interest expense of SGD49.3mn and perpetual distribution of SGD19.0mn, (4) capex of SGD25.8mn.
- Although SPH is looking to expand into aged care and healthcare in Japan with a seed funding of SGD50mn, the results remain to be seen. Thus far, SPH’s wholly-owned Orange Valley, which is Singapore’s largest nursing home operator, has incurred SGD22.8mn of impairment charges in FY2019.
- Net gearing of SPH fell q/q to 31.9% (3Q2019: 47.5%). However, this is mainly due to perpetuals raised by SPH (SGD150mn) and SPH’s subsidiary SPH REIT (SGD300mn). Accounting for the perps at SPH REIT as debt, adjusted net gearing of SPH would have fallen by a lower amount to 40.9% instead.
- Please refer to our [Special Interest Commentary on SPH](#) for further information. Please note that we do not currently cover SPH. (Company, OCBC)

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Key Market Movements

	18-Oct	1W chg (bps)	1M chg (bps)		18-Oct	1W chg	1M chg
iTraxx Asiax IG	71	-3	17	Brent Crude Spot (\$/bbl)	59.75	-1.26%	-6.05%
iTraxx SovX APAC	33	-1	-2	Gold Spot (\$/oz)	1,492.36	0.23%	-0.11%
iTraxx Japan	60	-1	6	CRB	175.53	1.42%	-1.18%
iTraxx Australia	62	-4	5	GSCI	407.09	1.23%	-2.38%
CDX NA IG	56	-1	5	VIX	13.79	-26.02%	-1.15%
CDX NA HY	107	0	0	CT10 (%)	1.741%	1.23	-5.48
iTraxx Eur Main	53	-1	5				
iTraxx Eur XO	234	-6	-14	AUD/USD	0.683	0.53%	0.03%
iTraxx Eur Snr Fin	61	0	3	EUR/USD	1.113	0.78%	0.89%
iTraxx Eur Sub Fin	126	-2	0	USD/SGD	1.365	0.63%	0.75%
iTraxx Sovx WE	12	-1	-2	AUD/SGD	0.932	0.06%	0.73%
USD Swap Spread 10Y	-8	0	5	ASX 200	6,649	0.64%	-0.48%
USD Swap Spread 30Y	-38	0	6	DJIA	27,026	2.00%	-0.45%
US Libor-OIS Spread	38	2	6	SPX	2,998	2.04%	-0.29%
Euro Libor-OIS Spread	4	0	-1	MSCI Asiax	636	2.00%	0.97%
				HSI	26,848	4.44%	0.35%
China 5Y CDS	42	-2	3	STI	3,126	1.19%	-1.29%
Malaysia 5Y CDS	47	-2	5	KLCI	1,575	1.46%	-1.56%
Indonesia 5Y CDS	85	-2	8	JCI	6,181	2.61%	-1.52%
Thailand 5Y CDS	28	0	1	EU Stoxx 50	3,589	2.71%	1.72%
Australia 5Y CDS	18	-3	0				

Source: Bloomberg

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New Issues

- CITIC Securities Finance MTN Co., Ltd (Guarantor: CITIC Securities Co., Ltd) priced a USD500mn 3-year bond at T+127.5bps (tightening from IPT of T+160bps area), and a USD200mn 5-year bond at T+142.5bps (tightening from IPT of T+175bps area).
- Yibin Emerging Industry Investment Group Co., Ltd (Guarantor: Yibin State-Owned Assets Management Co., Ltd) priced a USD300mn 364-day bond at 5.0%, tightening from IPT of 5.2%.
- Health and Happiness (H&H) International Holdings Ltd (Subsidiary Guarantees: Joint and several, on a subordinated basis) priced a USD300mn 5NC2 bond at 5.625%, tightening from IPT of 6.125% area.
- State Elite Global Limited (Guarantor: China Construction Bank Corporation, Hong Kong Branch) priced a USD700mn 5-year FRN at 3m-US LIBOR+77bps, tightening from IPT of 3m-US LIBOR+105bps area.
- Soar Wise Limited (Guarantor: AVIC International Leasing Co., Ltd) priced a USD200mn NC3-Perpetual bond at 3.45%, tightening from IPT of 3.9% area.

Date	Issuer	Size	Tenor	Pricing
17-Oct-19	CITIC Securities Finance MTN Co., Ltd	USD500mn USD200mn	3-year 5-year	T+127.5bps T+142.5bps
17-Oct-19	Yibin Emerging Industry Investment Group Co., Ltd	USD300mn	364-day	5.0%
17-Oct-19	Health and Happiness (H&H) International Holdings Ltd	USD300mn	5NC2	5.625%
17-Oct-19	State Elite Global Limited	USD700mn	5-year FRN	3m-US LIBOR+77bps
17-Oct-19	Soar Wise Limited	USD200mn	NC3-Perpetual	3.45%
16-Oct-19	Industrial Bank of Korea	USD300mn USD300mn	5-year 3-year FRN	T+60bps 3m-US LIBOR+45bps
16-Oct-19	Sunny Express Enterprises Corp	USD300mn USD300mn	NC3-Perpetual 10-year	3.35% T+135bps
15-Oct-19	Hotel Properties Ltd	SGD135mn	NC5-Perpetual	4.4%
15-Oct-19	China Construction Bank Corporation Hong Kong Branch	USD1.0bn	3-year FRN	3m-US LIBOR+66bps
15-Oct-19	HPCL-Mittal Energy Ltd	USD300mn	7NC4	5.45%
15-Oct-19	Kaisa Group Holdings Ltd	USD400mn	3NC2	12.25%
15-Oct-19	China Development Bank Corporation of Hong Kong	USD100mn	2-year 4-month FRN	3m-US LIBOR+45bps

Source: OCBC, Bloomberg

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