

July 19, 2019

Credit Headlines: Keppel Corporation Ltd, National Australia Bank Ltd

Market Commentary

- The SGD swap curve bull-flattened yesterday, with the shorter tenors and belly traded 2-3bps lower, while the longer tenors traded 3bps lower.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 130bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 9bps to 483bps.
- Flows in SGD corporates were light, with flows in FPLSP 3.95%-PERPs, MAPLSP 3.95%-PERPs and METRO 4.3%'24s.
- 10Y USTs fell 2bps to 2.02%, after dovish comments by New York Fed President, John Williams, pushing the case for more rate cuts. Spread between 3-month treasury bills and 10-year treasury notes remains inverted, with the spread narrowing to -2bps.

Credit Headlines

Keppel Corporation Ltd ("KEP") | Issuer Profile: Neutral (4)

- KEP announced its first half 2019 and second quarter financial results. Gross revenue was up 11% y/y in 1H2019 to SGD3.3bn on the back of higher revenue from the Infrastructure and Investments Division. For the Infrastructure Division, KEP recorded higher sales in the power and gas businesses as well as revenue recognised from its Keppel Marina East Desalination Plan project (85% completed) and the Hong Kong Integrated Waste Management Facility project. The higher y/y revenue was also driven by the consolidation of M1 (since February 2019) and higher revenue from asset management. For 2Q2019, KEP reported increase in revenue of 17% y/y, driven by the Property, Infrastructure and Investments Divisions to SGD1.8bn.
- On a profit before tax basis, KEP's 2Q2019 saw a 31% y/y decline to SGD206.2mn (2Q2018: SGD297.1mn). As part of KEP's business model, it sells properties en bloc and in 2Q2019 there were no significant en-bloc sales, unlike in 2Q2018 when KEP sold en-bloc projects in Shenyang.
- While reported recurring income for 2Q2019 was not provided, 1H2019 recurring income was SGD145mn (1H2018: SGD114mn), driven by an increase in Infrastructure, Connectivity and Asset Management businesses.
- Based on our calculation, 2Q2018 EBITDA (which does not include other income and other expenses) was SGD285.6mn while interest expense (including lease liabilities) was SGD81.6mn, which leads us to derive EBITDA/Interest coverage of 3.5x (2Q2018: 3.7x).
- KEP's unadjusted net gearing (inclusive of lease liabilities) was 0.82x as at 30 June 2019, up from 0.72x as at 31 March 2019. Along with higher working capital needs, KEP had taken on debt to fund the take private of Keppel Telecommunication and Transportation (SGD223.7mn impact), deferred payment on M1's acquisition (SGD83.2mn), additional investments into associates (SGD149.6mn impact, we think due to equity raising at Keppel Infrastructure Trust (Issuer profile: Neutral (4))).
- Keppel Offshore & Marine ("KOM") had been winning new contracts. As at 30 June 2019, net orderbook excluding Sete Brasil was SGD5.5bn versus SGD4.7bn as at 31 March 2019 and SGD4.3bn in end-2018. We expect KEP's net gearing to climb to approach 0.9x by year end from working capital, payment for an [announced but yet completed property acquisition](#) and [subscription of units in Prime US REIT](#). For now we maintain KEP's issuer profile at Neutral (4). (Company, OCBC)

Credit Headlines (cont'd):

National Australia Bank Ltd ("NAB") | Issuer Profile: Positive (2)

- NAB announced the appointment of Ross McEwan as Group Chief Executive Officer and Managing Director. Mr McEwan is currently Chief Executive Officer for Royal Bank of Scotland (since 2013) although resigned from this position in April 2019. As per NAB's statements, Mr McEwan is expected to commence his role with NAB no later than April 2020 once his obligations to Royal Bank of Scotland have ended.
- Mr McEwan has previously worked in senior roles with Commonwealth Bank of Australia and is expecting to lead NAB's transformation program which is influenced by industry developments and outcomes from the Royal Commission on misconduct in the Banking industry. (OCBC, Company)

Table 1: Key Financial Indicators

	19-Jul	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	65	1	-3
iTraxx SovX APAC	40	0	-3
iTraxx Japan	59	0	-7
iTraxx Australia	63	2	-3
CDX NA IG	53	0	-2
CDX NA HY	107	0	0
iTraxx Eur Main	50	0	-5
iTraxx Eur XO	254	8	-2
iTraxx Eur Snr Fin	62	3	-6
iTraxx Sovx WE	15	-1	-2
AUD/USD	0.708	0.80%	2.83%
EUR/USD	1.127	-0.04%	0.35%
USD/SGD	1.357	0.04%	0.48%
China 5Y CDS	43	1	-1
Malaysia 5Y CDS	52	2	-8
Indonesia 5Y CDS	87	2	-7
Thailand 5Y CDS	33	1	-1

	19-Jul	1W chg	1M chg
Brent Crude Spot (\$/bbl)	63.14	-5.37%	2.14%
Gold Spot (\$/oz)	1,443.69	1.97%	6.12%
CRB	177.45	-3.39%	1.15%
GSCI	412.60	-5.07%	1.00%
VIX	13.53	4.64%	-5.58%
CT10 (bp)	2.040%	-8.21	1.65
USD Swap Spread 10Y (bp)	-7	-1	-1
USD Swap Spread 30Y (bp)	-36	-1	-3
US Libor-OIS Spread (bp)	27	5	7
Euro Libor-OIS Spread (bp)	8	3	3
DJIA	27,223	0.50%	2.71%
SPX	2,995	-0.16%	2.35%
MSCI Asiax	648	0.06%	1.05%
HSI	28,722	0.88%	1.84%
STI	3,373	0.45%	2.57%
KLCI	1,655	-0.88%	-0.71%
JCI	6,431	0.90%	1.44%

New issues:

- FWD Group Ltd has priced a USD250mn re-tap of its existing FWDGRP 5.75%'24s at 5.5%, in line with IPT.
- Jingrui Holdings Ltd has priced a USD260mn 3-year bond at 12.0%, in line with final guidance.
- Xingsheng (BVI) Company Ltd (guarantor: JIC Leasing Company Ltd) has priced a USD500mn 3-year bond at T+160bps, tightening from IPT of T+185bps area.
- China Oil and Gas Group Ltd has priced a USD320mn 3.5NC2 bond at 5.7%, tightening from IPT of 6.0% area.
- REC Ltd has priced a USD650mn 5-year bond at T+167.5bps, tightening from IPT of T+195bps area.
- Eastern Creation II Investment Holdings Ltd (guarantor: Beijing Infrastructure Investment (Hong Kong) Ltd) has priced a USD100mn re-tap of its existing BEIJHK 2.8%'22s at 2.8%.
- Korea Expressway Corporation has priced a USD150mn 3-year FRN at 3-month US LIBOR+64bps.

Date		Size	Tenor	Pricing
18-Jul-19	FWD Group Ltd	USD250mn	FWDGRP 5.75%'24s	5.5%
18-Jul-19	Jingrui Holdings Ltd	USD260mn	3-year	12.0%
18-Jul-19	Xingsheng (BVI) Company Ltd	USD500mn	3-year	T+160bps
18-Jul-19	China Oil and Gas Group Ltd	USD320mn	3.5NC2	5.7%,
18-Jul-19	REC Ltd	USD650mn	5-year	T+167.5bps
18-Jul-19	Eastern Creation II Investment Holdings Ltd	USD100mn	BEIJHK 2.8%'22s	2.8%
18-Jul-19	Korea Expressway Corporation	USD150mn	3-year	3-month US LIBOR+64bps
17-Jul-19	NWD Finance (BVI) Ltd	USD400mn	NWDEVL 6.25%-PERP	5.9%
17-Jul-19	China Grand Automotive Services Ltd	USD75mn	CHIGRA 8.625%'22s	10.0%
17-Jul-19	Wanda Group Overseas Ltd	USD400mn	3-year	7.875%

Source: OCBC, Bloomberg

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