

May 30, 2019

Credit Headlines: Hyflux Ltd

Market Commentary

- The SGD swap curve bull-flattened yesterday, with the shorter tenors and belly trading 1-2bps lower while the belly and longer tenors traded 3bps lower.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 138bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS was little changed at 496bps.
- Flows in SGD corporates were heavy, with flows in SOCGEN 6.125%-PERPs, UBS 5.875%-PERPs, HSBC 5.0%-PERPs, BAERVX 5.75%-PERPs, and OCBCSP 4.0%-PERPs.
- 10Y UST yields dropped 1bps to 2.26%, paring an intraday rates rally with stock markets rebounding somewhat towards the end of the trading day. The US-China trade war continued to weigh in negatively on market sentiments as Chinese newspapers warned of retaliation against the US using rare earths. Of note, yield curve between 3-month treasury bills and 10-year treasury notes has inverted.

Credit Headlines

Hyflux Ltd (“HYF”) | Issuer Profile: Unrated

- HYF has received a further two month extension to its debt moratorium until August 2nd. Although this is less than the four month extension sought by HYF, it is longer than the previous short term extensions granted by the court. The debt moratorium has now been on-going for over 12 months since the initial application to the High Court for a court supervised restructuring on 22 May 2018.
- In HYF’s [most recent affidavit](#), management have confirmed that they are in advanced discussions with four potential investors and expected to enter a binding agreement in the short term. Two of these parties include Utico FZC and Oyster Bay Fund Ltd, previously named as interested parties who have issued non-binding letters of intent. These parties appear to be the most advanced based on the structure of their investment. Utico FZC appears to be the most pro-active with HYF confirming negotiations for a binding term sheet that may be finalized by end of May / early June and privately and publicly seeking perpetual and preference share holder support for any deal with an offer of part cash redemption and possible full redemption potential or additionally exit options. In response, HYF has so far confirmed that it has not signed any binding deal with Utico FZC and continues to engage with Utico FZC and other interested parties with a focus on those that wish to take control of the entire group rather than those with interest in only certain parts of HYF. In our view, Utico FZC’s recent public offers contain no firm details and the approach appears rather unconventional by approaching investors without finalizing binding terms with HYF management.
- HYF has further confirmed that Oyster Bay Fund Ltd has proposed to execute a binding agreement and HYF continues to be in negotiations to conclude an agreement by end of May / early June. In addition to any investment, Oyster Bay Fund Ltd is also proposing the provision of short term liquidity through the purchase of HYF’s stake in Hyfluxshop Holdings Ltd for up to SGD26mn. HYF has indicated that they have received regulatory approval for this transaction subject to the entire sale proceeds being used for the working capital requirements of HYF and confirmation that Oyster Bay Fund Ltd is not related to HYF, its directors or controlling shareholders and/or their respective associates.

Credit Headlines (cont'd)

- Other interested parties are varied and include a South American investment fund and four further infrastructure companies with interests in desalination, power, engineering and waste treatment respectively. Negotiations with these parties are not as advanced as those with Utico FZC and Oyster Bay Fund Ltd.
- While yesterday's debt moratorium extension indicates the court's view of comparatively favourable progress in HYFs restructuring negotiations in our view compared to prior periods, the extension is subject to (1) ongoing weekly updates with creditors; (2) monthly updates on restructuring costs; and (3) an update on the restructuring on 29 June 2019. Some of these conditions were previously flagged by the court in early May as being necessary for any future extensions along with the provision of an indicative timetable from end-May indicating an expected final completion date for the restructuring. As such, HYF has proposed the following timeline on the basis of its initial application for a four month extension:
 - Mid June – execute binding agreement with strategic investor
 - End June – engage stakeholders on proposed terms of the restructuring
 - July – file application with the courts to convene scheme meetings
 - August – Hold scheme and shareholder meetings to vote on the scheme
 - September – sanction of approved scheme
- Given the multiple interested investors as well as the multiple stakeholders and creditors in HYF, a variety of reorganization structures are being contemplated that differ in terms of asset ownership and where liabilities will sit. It is too early to opine on the impact to bond holders without clarity on the investor, the size and structure of any capital injection and the proposed asset organisational structure going forward.
- In summary, HYF now appears to have a selection of investors and structures to opine over which is an improvement from its previous position with SMI in our view. That said, liquidity remains tight with HYF indicating it only has sufficient liquidity to last until the end of July. As such, HYF is pursuing a concurrent stand-alone process to improve immediate liquidity through the aforementioned sale of HYF's stake in Hyfluxshop Holdings Ltd to Oyster Bay Fund Ltd or the provision of a secured loan from Utico FZC. Completion of interim liquidity relief is likely critical given the proposed timeline for the restructure which will stretch past end July as well as the conclusion of such likely to be used as a further application to extend the debt moratorium.
- In this regard, the courts appear to have given HYF additional breathing room to progress the restructure, while also keeping the company on a tight leash. (Company, OCBC)

Table 1: Key Financial Indicators

	30-May	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	78	2	13
iTraxx SovX APAC	51	2	9
iTraxx Japan	67	4	13
iTraxx Australia	76	1	10
CDX NA IG	67	2	10
CDX NA HY	105	-1	-2
iTraxx Eur Main	71	2	13
iTraxx Eur XO	308	10	59
iTraxx Eur Snr Fin	92	3	23
iTraxx Sovx WE	18	0	1
AUD/USD	0.692	0.30%	-1.79%
EUR/USD	1.114	-0.36%	-0.66%
USD/SGD	1.380	0.07%	-1.36%
China 5Y CDS	57	3	16
Malaysia 5Y CDS	72	3	17
Indonesia 5Y CDS	114	5	19
Thailand 5Y CDS	37	-1	1

	30-May	1W chg	1M chg
Brent Crude Spot (\$/bbl)	69.69	2.85%	-4.27%
Gold Spot (\$/oz)	1,278.61	-0.38%	-0.38%
CRB	180.34	-0.89%	-2.12%
GSCI	429.51	-3.07%	-3.80%
VIX	17.9	19.73%	36.43%
CT10 (bp)	2.259%	-5.98	-24.31
USD Swap Spread 10Y (bp)	-5	0	-3
USD Swap Spread 30Y (bp)	-27	1	-4
US Libor-OIS Spread (bp)	16	1	-2
Euro Libor-OIS Spread (bp)	5	0	0
DJIA	25,126	-2.90%	-5.51%
SPX	2,783	-2.84%	-5.53%
MSCI Asiax	613	-0.20%	-9.32%
HSI	27,319	0.19%	-8.01%
STI	3,158	-0.09%	-7.12%
KLCI	1,625	1.41%	-1.08%
JCI	6,104	2.77%	-5.44%

New issues

- Xi Yang Overseas Ltd has priced a USD500mn 5-year bond (guarantor: Nanjing Yangzi State-owned Assets Investment Group Co Ltd) at 4.43%, tightening from IPT of 4.8% area.
- GS Caltex Corp has priced a USD300mn 5-year bond at T+100bps, tightening from IPT of T+125bps area.
- Bank of China Ltd of Macau has priced a USD200mn 2-year bond at 2.50%.
- Credit Suisse Group AG has priced a SGD750mn NC5-perpetual bond at 5.625%, tightening from IPT of 5.875% area.
- Guangdong Energy Group Co Ltd has scheduled investor meetings from 30 May for its potential USD bond issuance.

<u>Date</u>		<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
29-May-19	Xi Yang Overseas Ltd	USD500mn	5-year	4.43%
29-May-19	GS Caltex Corp	USD300mn	5-year	T+100bps
29-May-19	Bank of China Ltd of Macau	USD200mn	2-year	2.50%
29-May-19	Credit Suisse Group AG	SGD750mn	NC5-perpetual	5.625%
28-May-19	Chongqing Nan'an Urban Construction & Development Group Co Ltd	USD500mn	5-year	4.80%
28-May-19	KEB Hana Bank	USD400mn	5-year	3M-US LIBOR+75bps
28-May-19	Delhi International Airport Ltd	USD350mn	10-year	6.45%
28-May-19	Export-Import Bank of China	USD100mn	5-year	3M-US LIBOR+65bps
27-May-19	Agile Group Holdings Ltd	USD600mn	NC4.5-perpetual	8.375%
27-May-19	RongXingDa Development BVI Ltd	USD175mn	RISSUN 8.0%'22s	8.75%
23-May-19	Huarong Finance 2019 Co. Ltd	USD300mn USD900mn USD700mn	3-year 5-year 10-year	CT3+135bps CT3+165bps CT10+220bps
23-May-19	ESR Cayman Ltd	SGD47.75mn	ESRCAY 6.75%'22s	6.75%

Source: OCBC, Bloomberg

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