Asian Credit Daily

Wednesday, November 6, 2019

Market Commentary

- The SGD swap curve steepened yesterday, with the 1-year and 2-year tenors traded 1-2bps lower, while the belly and longer tenors traded 1-6bps higher.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 128bps and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 5bps to 501bps. The HY-IG Index spread tightened 4bps to 373bps.
- Flows in SGD corporates were heavy, with large ticket flows in SPHSP 4.0%-PERPs, CAPLSP 3.65%-PERPs and HPLSP 4.4%-PERPs. We also saw flows in KITSP 4.75%-PERPs, FPLSP 4.98%-PERPs, STTGDC 3.59%'24s, SOCGEN 6.125%-PERPs, SPHRSP 4.1%-PERPs, ACAFP 3.8%'31s, UOBSP 3.58%-PERPs and FULIN 3.7%'23s.
- 10Y USTs rose 8bps to 1.86% after ISM's services sector report for October beat expectations, adding to optimism over US economic growth and improving risk sentiment.

Credit Research

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Credit Summary:

- **Perennial Real Estate Holdings Ltd | Neutral (5):** PREH reported 3Q2019 results. Revenue rose 74% y/y to SGD38.7mn, reported EBIT less disposal gains and fair value gains increased 111% y/y to SGD11.8mn as a result. However, this is still insufficient to cover SGD31.1mn of financing costs. As a result, PREH incurred a loss before tax of SGD4.8mn. Net gearing inched up to 77% (2Q2019: 76%). We continue to remain wary of PREH's credit profile. PREH faces SGD1.3bn in maturities in 2020, including SGD560mn of bonds coming due. We continue to hold PREH's Issuer Profile at Neutral (5), albeit precariously.
- **StarHub Ltd | Neutral (3):** StarHub reported 3Q2019 results. Revenue fell 1.6% y/y to SGD572.6mn. That said, the decline in the traditional core segments is mitigated by strong growth in the Enterprise business and sales of equipment which helped to drive profit before taxation higher by 1.7% y/y to SGD70.1mn. The key uncertainty will be the capex required for 5G, which is not clear yet. We continue to hold StarHub at a Neutral (3) Issuer Profile.
- **Singapore Airlines Ltd | Neutral (3):** SIA announced its second quarter results for the financial year ended 2020 ("2QFY2020"). On a y/y basis, SIA's gross revenue increased 3.9% to SGD4.2bn and reported operating profit declined by 8.5% y/y to SGD213.1mn. As at 30 September 2019, net gearing (with lease liabilities) was 61.2% (30 June 2019: 51.5%), increasing as debt was taken to help fund SIA's large capex spent. We continue to expect SIA to fund expansion at its joint venture, and in our view it is likely that SIA's net gearing will go beyond ~85%, based on capex and further investments into Vistara. We are monitoring SIA's issuer profile for a downgrade within the next 12 months and are likely to trigger this should profitability at SIA continue to lag its expansion plans. For the moment however, we maintain our Neutral (3) Issuer Profile.

Credit Headlines

Perennial Real Estate Holdings Ltd ("PREH") | Issuer Profile: Neutral (5)

- PREH reported 3Q2019 results. Revenue rose 74% y/y to SGD38.7mn, mainly due to higher revenue from Capitol Singapore (which was fully acquired in May 2018) as well as a sale of unit in Eden Residences Capitol. We note that the hotel at Capitol Singapore (Capitol Kempinski Hotel) was only opened in Oct 2018. In addition, revenue rose because of increased contribution from Perennial International Health and Medical Hub (which started ramping up after opening in 2Q2018), Perennial Qingyang Mall (Chengdu) and perennial Jihua Mall (Foshan).
- Reported EBIT less disposal gains and fair value gains ("Adjusted reported EBIT") increased 111% y/y to SGD11.8mn as a result. However, this is still insufficient to cover SGD31.1mn of financing costs. As a result, PREH incurred a loss before tax of SGD4.8mn.
- Net gearing inched up to 77% (2Q2019: 76%), mainly due to FX translation losses in 3Q2019 of SGD41.5mn due to depreciation of CNY against SGD. The movements in FX also resulted in associates and joint ventures recording other comprehensive loss of SGD24.8mn.
- We continue to remain wary of PREH's credit profile. PREH faces SGD1.3bn in maturities in 2020, including SGD560mn of bonds coming due. We believe that more divestments / financing will still be needed as the short term debt cannot be met by cash of SGD99.6mn and proceeds from the sale of 32.5%-effective stake in Yanlord Perennial Investment (Singapore) Pte Ltd for SGD202.7mn. We continue to hold PREH's Issuer Profile at Neutral (5), albeit precariously. (Company, OCBC)

Credit Headlines

StarHub Ltd ("StarHub") | Issuer Profile: Neutral (3)

- StarHub reported 3Q2019 results. Revenue fell 1.6% y/y to SGD572.6mn. This is mainly dragged down by its traditional core segments (Mobile, Pay TV, Broadband).
  - Mobile: Revenue declined 11.1% y/y to SGD190m due to declines in legacy segments (e.g. lower IDD, voice), as well as lower excess data usage. In particular, although average smartphone data usage grew strongly to 8.8GB/mth (3Q2018: 5.9GB/mth), post-paid ARPU fell to SGD39/mth (3Q2018: SGD44/mth). StarHub also saw a y/y and q/q fall in market share to 25.1% (2Q2019: 25.8%, 3Q2018: 26.7%) with post-paid customers declining to 1.44mn in 3Q2019 (2Q2019: 1.48mn) on the back of increased monthly churn rate to 1.6% (2Q2019: 1.1%).
  - Pay TV: Revenue plunged 24.8% y/y to SGD56.1mn due to 18% y/y fall in subscribers to 347k while ARPU fell to SGD40/mth (3Q2018: SGD47/mth). We think subscribers may continue to fall given alternatives in the market (e.g. Netflix). However, the decline in this segment is not necessarily negative for StarHub as we understand that Pay TV has not been a profitable segment. In fact, StarHub has been renegotiating the price it is paying for content into variable and lower cost to turn the segment profitable and sustainable.
  - Broadband: Revenue declined 7.8% y/y to SGD43.2mn mainly due to declines in ARPU to SGD27/mth (3Q2018: SGD32/mth) with promotional offers.
- That said, the decline in the traditional core segments is mitigated by strong growth in the Enterprise business and sales of equipment which helped to drive profit before taxation higher by 1.7% y/y to SGD70.1mn.
  - Enterprise business: Revenue grew 16.7% y/y to SGD145.5mn, mainly due to growth in Cyber security (+135% y/y to SGD38.8mn). As this growth comes from a small base, there is still opportunity to win new customers. Losses from cyber security narrowed y/y to SGD3.6mn (3Q2018: SGD4.4mn).
  - Sales of equipment: Revenue grew 12.5% y/y to SGD137.9mn with higher mix of premium handsets. As such, profits from sales of equipment grew to SGD17.7mn (3Q2018: SGD14.8mn)
- Overall, results are decent with service EBITDA margin (including mobile, broadband, pay TV, enterprise business) up 1.8ppts, excluding the impact of SFRS (I) 16 accounting changes. We think that cost savings (e.g. headcount reduction) has also helped to keep margins intact.
- That said, StarHub is guiding service revenue to decline by 2-3% (from stable to decline of 2%), which we think is due to intensifying competition on the mobile front. However, capex is expected to reduce to 8-9% (from 11-12%) of revenue for 2019. According to StarHub, the lower capex will stay until investments in 5G is required (which we think may be relevant from early 2020s), which may push capex to double digit levels again.
- Given the guidance, we believe that guided reported EBITDA (SGD687mn-SGD741mn) will be sufficient to cover ~SGD200mn in capex, SGD156mn in dividends, ~SGD46mn in interest and distribution to perpetuals as well as SGD282mn in spectrum payments. However, the key uncertainty will be the capex required for 5G, which is not clear yet.
- We continue to hold StarHub at a Neutral (3) Issuer Profile. (Company, OCBC)

Credit Headlines

Singapore Airlines Ltd ("SIA") | Issuer Profile: Neutral (3)

- SIA announced its second quarter results for the financial year ended 2020 ("2QFY2020"). On a y/y basis, SIA's gross revenue increased 3.9% to SGD4.2bn on the back of passenger growth revenue (up 7.5% y/y) though partly offset by the fall in cargo revenue by 16.3% y/y. Reported operating profit though declined by 8.5% y/y to SGD213.1mn as expenditure increased by 4.7% y/y. SIA's expenditure had increased largely due to increase in capacity.
- In 2QFY2020, SIA's SIA business (passenger plus cargo) saw reported operating profit decline 2% y/y to SGD233mn while SilkAir reported y/y stable operating losses of SGD3.0mn. Despite improvement in SilkAir traffic growth which led revenue higher, these were offset by costs from the grounding of 737 MAX 8 planes per company. Scoot continued to drag overall results, with the segment reporting an operating loss of SGD39mn (operating loss of SGD11mn in 2QFY2019) as capacity-led revenue growth was offset by higher costs.
- In our view y/y EBITDA is less useful given the adoption of IFRS16 Leases from 1 April 2019. In 2QFY2020, we find SIA's EBITDA at SGD736mn, while interest expense (including finance charges on lease liabilities) was SGD57.2mn, resulting in an EBITDA/Interest coverage of 12.9x (1QFY2020: 12.2x), still highly manageable. Reported profit to owners was stronger at SGD94.5mn (2QFY2019: SGD56.4mn) mainly due to much narrower share of losses at associated companies (mainly Virgin Australia) of SGD49.7mn against prior year share of losses of associated companies of SGD117.1mn. Additionally, SIA recorded a SGD9.9mn share of profit from joint venture companies (eg: Vistara) versus a loss from joint venture companies of SGD0.5mn in 2QFY2019.
- As at 30 September 2019, net gearing (with lease liabilities) was 61.2% (30 June 2019: 51.5%), increasing as debt was taken to help fund SIA's large capex spent. As at 30 September 2019, SIA is projecting that it will spend SGD5.7bn in capex for FY2020 and SGD6.0bn for FY2021. Capex is predominantly for aircraft and excludes investments to associates and joint ventures. In 1HFY2020, SIA had spent SGD1.2bn in capex, indicating that the remainder targeted for the financial year will be back-loaded and we continue to expect net gearing (with lease liabilities) to increase to ~85% by end-FY2020, based on SIA's capex alone.
- We continue to expect SIA to fund expansion at its joint venture, especially Vistara which is not yet profitable and in a huge expansion phase including commencing international operations since August 2019, ordered more than 50 new aircraft in FY2019 and recently took over some of its competitors staff (reportedly also looking to take over some of the competitor's aircraft) when the competitor ceased operations. While we have less clarity over timing of further investments into Vistara, directionally, in our view it is likely that SIA's net gearing will go beyond ~85%.
- We are monitoring SIA's issuer profile for a downgrade within the next 12 months and are likely to trigger this should profitability at SIA continue to lag its expansion plans. For the moment however, we maintain our Neutral (3) Issuer Profile. (Company, OCBC, TTG Asia)

OCBC Bank

Key Market Movements

	6-Nov	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	63	-4	-15
iTraxx SovX APAC	29	-1	-7
iTraxx Japan	57	-3	-6
iTraxx Australia	56	-4	-13
CDX NA IG	52	-3	-9
CDX NA HY	108	0	1
iTraxx Eur Main	49	-3	-9
iTraxx Eur XO	229	-7	-24
iTraxx Eur Snr Fin	56	-4	-12
iTraxx Eur Sub Fin	116	-8	-28
iTraxx Sovx WE	12	0	-1
USD Swap Spread 10Y	-8	0	0
USD Swap Spread 30Y	-38	1	1
US Libor-OIS Spread	35	-1	-1
Euro Libor-OIS Spread	5	1	1
China 5Y CDS	37	-3	-13
Malaysia 5Y CDS	39	-4	-15
Indonesia 5Y CDS	73	-4	-22
Thailand 5Y CDS	26	-1	-4
Australia 5Y CDS	16	0	-3

	6-Nov	1W chg	1M chg
Brent Crude Spot ($/bbl)	62.73	3.50%	7.47%
Gold Spot ($/oz)	1,487.21	-0.57%	-0.42%
CRB	182.09	2.08%	4.95%
GSCI	421.93	1.92%	5.62%
VIX	13.1	-0.76%	-23.12%
CT10 (%)	1.842%	7.09	31.34
AUD/USD	0.689	-0.13%	2.39%
EUR/USD	1.107	-0.69%	0.94%
USD/SGD	1.358	0.31%	1.70%
AUD/SGD	0.936	0.42%	-0.69%
ASX 200	6,695	0.08%	2.73%
DJIA	27,493	1.56%	3.46%
SPX	3,075	1.24%	4.15%
MSCI Asiax	665	3.40%	8.29%
HSI	27,683	3.81%	7.21%
STI	3,254	1.45%	5.72%
KLCI	1,602	1.38%	2.84%
JCI	6,264	-0.27%	3.35%
EU Stoxx 50	3,677	1.50%	6.67%

Source: Bloomberg

New Issues

- Kaisa Group Holdings Ltd (Subsidiary Guarantors: Certain restricted subsidiaries incorporated outside the PRC) priced a USD150mn re-tap of its existing KAISAG 10.875%'23s at 12%, tightening from IPT of 12.25% area.
- HSBC Institutional Trust Services (Singapore) Limited (acting as trustee of AIMS APAC REIT) priced a SGD100mn 5-year bond at 3.6%, tightening from IPG of 3.7% area.
- Haitong International Securities Group Limited scheduled investor meetings commencing 6 Nov for its proposed USD bond issuance.
- China Huarong Asset Management Co., Ltd scheduled investor meetings commencing 6 Nov for its proposed USD bond issuance.
- Guangzhou Metro Group Co., Ltd scheduled investor conference calls for its proposed USD bond issuance.
- Sun Hung Kai & Co. Limited mandated banks for its proposed USD bond issuance.

Date	Issuer	Size	Tenor	Pricing
5-Nov-19	Kaisa Group Holdings Ltd	USD150mn	KAISAG 10.875%'23s	12.0%
5-Nov-19	HSBC Institutional Trust Services (Singapore) Limited (acting as trustee of AIMS APAC REIT)	SGD100mn	5-year	3.6%
4-Nov-19	POSCO	USD500mn	3-year	T+97.5bps
4-Nov-19	Sinopec Group Overseas Development 2018 Ltd	USD700mn USD1.0bn USD300mn	5-year 10-year 30-year	T+93bps T+122.5bps 3.44%
4-Nov-19	Hongkong International (Qingdao) Company Limited	USD300mn	3-year	3.90%
4-Nov-19	Vanke Real Estate (Hong Kong) Company Ltd	USD423mn USD300mn	5.5-year 10-year	T+160bps T+183bps
4-Nov-19	Kaisa Group Holdings Ltd	USD300mn	4NC2	11.95%
4-Nov-19	Greentown China Holdings Limited	USD600mn	364-day	4.55%
4-Nov-19	Yango Justice International Limited	USD250mn	3.25NP2	11.5% (YTP)
4-Nov-19	Powerlong Real Estate Holdings Limited	USD300mn	3NC2	7.3%
4-Nov-19	Shui On Development (Holding) Ltd	USD300mn	4NC2	5.75%

Source: OCBC, Bloomberg

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