

Market Commentary

- The SGD swap curve steepened yesterday, with the shorter and the belly tenors trading 4-7bps higher, while the longer tenors traded 0-1bps higher (with the exception of the 20-year tenor trading 2 bps lower).
- The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 2bps to 144bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 4bps to 569bps. The HY-IG Index Spread tightened 6bps to 425bps.
- Flows in SGD corporates were heavy, with flows in SOCGEN 6.125%-PERPs, UBS 4.85%-PERPs, CAPLSP 3.65%-PERPs, CS 5.625%-PERPs, STANLN 5.375%-PERPs and SUNHUN 3.25% 21s.
- 10Y UST Yields fell 16bps to a record low of 1.0%, despite the Federal Reserve cutting rates by 50bps in an emergency move to combat the global economic risks brought about by the outbreak of COVID-19. 10Y UST Yields at one point fell below 1.0% intra-day for the first time.

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- **Keppel Corp Ltd ("KEP") | Issuer Profile: Neutral (4):** In [August 2018, KEP announced that it has entered into an agreement to acquire a 50%-stake in a US-based operator of retirement communities](#). KEP announced that it has completed the acquisition although the aggregate purchase price had been increased. While this is a smaller scale transaction, it marks KEP's first acquisition in the senior living sector and is in line with KEP's move to expand into this growing sector.
- **Sembcorp Industries Ltd ("SCI") | Issuer Profile: Neutral (5):** SCI has announced the appointment of a new Non-Executive and Non-Independent director Mr. Nagi Hamiyeh. Mr. Hamiyeh is concurrently joint head of Temasek's Investment Group and Head of Portfolio Development, and also sits on Olam International Ltd. In our view, the appointment of Mr. Hamiyeh may speed up the re-jigging of SCI along with its subsidiaries in a bid to generate an acceptable return to shareholders.
- **Olam International Ltd ("Olam") | Issuer Profile: Neutral (5):** Olam is selling its remaining 50%-stake in Indonesian sugar joint venture, Far East Agri, to its joint venture partner for a total consideration of USD82.5mn to USD85mn. Olam is expected to book a one-off non-cash gain of ~USD37.5mn upon completion. Olam's sale is in conjunction with its strategic review to exit the sugar business.
- **Hong Fok Corp Ltd ("HFC") | Issuer Profile: Neutral (5):** HFC had announced full-year results for FY2019. Revenue fell 14% y/y while profit before tax fell 56% y/y. Based on our calculation, EBITDA/Total interest was 1.5x (FY2018: 1.8x). Given that HFC still has more than sufficient cash on hand to cover its short term borrowings of SGD781,000, we think its credit metrics are still manageable. HFC had also guided future expectations in view of COVID-19.
- **Industry Outlook – Financial Institutions:** The Reserve Bank of Australia [cut official interest rates](#) to a record low of 0.5% yesterday with an easing bias to combat the impact of COVID-19 on the Australian economy. The current environment looks to impact Australian banks in three ways – one is by reducing net interest margins through the rate cut, two is business volumes if Australia's economy is threatened by recession and three is through a rise in credit costs and non-performing loans.

Asian Credit Daily**Credit Headlines****Keppel Corp Ltd (“KEP”) | Issuer profile: Neutral (4)**

- In [August 2018, KEP announced that it has entered into an agreement to acquire a 50%-stake in a US-based operator of retirement communities](#), namely Watermark Retirement Communities, Inc (“Watermark”) and 50% of the minority interests held by the owners of Watermark in certain retirement communities (ie: the underlying hard assets itself) for a purchase price of up to ~USD77.3mn (~SGD105.6mn).
- On 3 March 2020, KEP announced that via an indirect wholly owned subsidiary within its asset management arm (namely, Keppel Capital Senior Living LLC), it has completed the acquisition although the aggregate purchase price had been increased to ~USD84.6mn (~SGD117.2mn) as the vendors would solely be responsible for future capital call obligations by the minority interests at the joint ventures. The final purchase price also takes into account minority joint venture interests which have been excluded from the transaction.
- While this is a smaller scale transaction, it marks KEP’s first acquisition in the senior living sector and is in line with KEP’s move to expand into this growing sector. (Company, OCBC)

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

- SCI has announced the appointment of a new Non-Executive and Non-Independent director Mr. Nagi Hamiyeh to its board of directors. Mr. Hamiyeh is concurrently joint head of Temasek’s Investment Group and Head of Portfolio Development, a new function that was set up in 2019 to actively enhance the value of core assets through partnerships, innovation, growth strategies and/or restructuring across Temasek’s portfolio.
- Apart from SCI, Mr. Hamiyeh also sits on Olam International Ltd (“Issuer profile: Neutral (5)”)’s board.
- Temasek is the single largest shareholder of SCI holding a ~50%-stake in the company and was also announced as a subscriber to SCI’s most recent bond issue, the SCISP 3.55% ‘24s priced in June 2019.
- In our view, the appointment of Mr. Hamiyeh may speed up the re-jigging of SCI along with its subsidiaries in a bid to generate an acceptable return to shareholders. We continue to monitor the situation. (Company, OCBC)

Olam International Ltd (“Olam”) | Issuer profile: Neutral (5)

- Olam is selling its remaining 50%-stake in Indonesian sugar joint venture, namely Far East Agri to its joint venture partner, Thailand-based Mitr Phol Sugar Corporation for a total consideration of USD82.5mn to USD85mn (~SGD114mn to ~SGD117mn), subject to final adjustments. Olam is expected to book a one-off non-cash gain of ~USD37.5mn (~SGD52mn) upon completion.
- Olam’s sale is in conjunction with its strategic review to exit the sugar business and follows on from a range of corporate actions the company has taken in 2019 to re-jig and shed its portfolio of businesses. (Company, OCBC)

Asian Credit Daily**Credit Headlines****Hong Fok Corp Ltd ("HFC") | Issuer profile: Neutral (5)**

- HFC had announced full-year results for FY2019. Revenue fell 14% y/y to SGD113.2mn, mainly due to lower contribution from sales of its development properties even though revenue from its investment properties and dividend income have increased. Profit before tax ("PBT") was SGD119.8mn, down 56% y/y from SGD273.6mn in FY2018. Excluding exchange loss, gain on revaluation of investment properties, changes in fair value of other investments and impairment losses, adjusted PBT fell 27% y/y from SGD23.5mn in FY2018 to SGD17.1mn in FY2019.
- Segment wise, PBT for Property Investment fell 55% y/y from SGD261.5mn to SGD115.7mn though reported revenue increased 14% y/y, Property Development and Construction fell 63% from SGD22.4mn to SGD8.3mn, Property Management PBT was slightly more negative at SGD0.28mn (FY2018: -SGD0.17mn, and Other Operations PBT was less negative at SGD4.0mn (FY2018: -SGD10.2mn).
- For the full-year, cash outflow was SGD9.5mn as compared to FY2018's outflow of SGD1.4mn mainly due to a 32% drop in operating cashflow ("OCF") to SGD55.2mn. The drop in OCF was largely due to lower contributions from sale of development properties. Cash on hand as a result fell 20% y/y to SGD40.4mn.
- Based on our calculation, EBITDA/Total interest was 1.5x (FY2018: 1.8x) as EBITDA fell 11% y/y to SGD44.9mn while interest expense rose 8% to SGD30.5mn. Gross debt increased slightly while short-term debt fell as HFC had drawn down loans and issued a SGD100mn bond to redeem its SGD120mn 4.75%'19s. Net debt to equity ratio as at 31 December 2019 remained within historical norms of 0.3x. Given that HFC still has more than sufficient cash on hand to cover its short term borrowings of SGD781,000 (excluding lease liabilities of SGD1.0mn), we think its credit metrics are still manageable.
- In view of COVID-19 which had resulted in travel restrictions for visitors from China and Korea, HFC expects YOTEL Singapore Orchard Road to experience negative pick-up to a certain extent. The sales of residential units of Concourse Skyline may also be affected.
- We continue to monitor the situation and are maintaining HFC's issuer profile at Neutral (5). (Company, OCBC)

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Credit Headlines

Industry Outlook – Financial Institutions:

- The Reserve Bank of Australia [cut official interest rates](#) to a record low of 0.5% yesterday with an easing bias to combat the impact of COVID-19 on the Australian economy and in particular the tourism and education sectors. Additional impacts are likely to come from mining, which is dependent on commodity prices and demand from China which is suffering some supply side constraints, as well as domestic consumption.
- With Australia's big four banks having little reputational capacity at the moment following the outcomes of the recent Royal Commission as well as numerous investigations by Australia's financial regulators, the rate cut has been passed on in full to its customers with Westpac Banking Corporation (Issuer Profile: Positive (2)) the first to announce it was doing so.
- The current environment looks to impact Australian banks in three ways – one is by reducing net interest margins through the rate cut, two is business volumes if Australia's economy is threatened by recession and three is through a rise in credit costs and non-performing loans. This will add to earnings pressure which is already impacted by competition and rising compliance costs.
- We continue to monitor the challenging operating environment for Australian banks as well as ongoing efforts by the government through potential fiscal stimulus and the Reserve Bank of Australia in maintaining financial system liquidity. Offsetting industry pressures at the moment to an extent are the banks' solid capital position and the presence of a pro-active regulator in the Australian Prudential Regulation Authority ("APRA") who continues to seek an improvement in minimum capital requirements. (RBA, OCBC)

Key Market Movements

	04-Mar	1W chg (bps)	1M chg (bps)		04-Mar	1W chg	1M chg
iTraxx Asiax IG	66	9	11	Brent Crude Spot (\$/bbl)	52.52	-1.70%	-2.67%
iTraxx SovX APAC	38	7	9	Gold Spot (\$/oz)	1,644.04	0.19%	5.87%
iTraxx Japan	59	10	13	CRB	164.93	-2.11%	-1.79%
iTraxx Australia	68	11	17	GSCI	371.06	-3.07%	-2.44%
CDX NA IG	71	14	24	VIX	36.82	32.21%	129.41%
CDX NA HY	105	-2	-4	CT10 (%)	0.962%	-37.51	-63.71
iTraxx Eur Main	63	11	19				
iTraxx Eur XO	286	28	68	AUD/USD	0.660	0.83%	-2.09%
iTraxx Eur Snr Fin	70	10	19	EUR/USD	1.116	2.58%	1.07%
iTraxx Eur Sub Fin	143	20	34	USD/SGD	1.389	0.66%	-1.30%
iTraxx Sovx WE	14	3	3	AUD/SGD	0.916	-0.16%	0.78%
USD Swap Spread 10Y	-2	3	3	ASX 200	6,343	-5.45%	-8.72%
USD Swap Spread 30Y	-39	-2	-7	DJIA	25,917	-4.30%	-10.03%
US Libor-OIS Spread	48	35	32	SPX	3,003	-3.99%	-8.92%
Euro Libor-OIS Spread	11	5	5	MSCI Asiax	648	-1.03%	-3.31%
				HSI	26,171	-1.97%	-1.89%
China 5Y CDS	45	5	9	STI	3,012	-3.37%	-4.57%
Malaysia 5Y CDS	55	10	17	KLCI	1,480	-1.03%	-3.65%
Indonesia 5Y CDS	90	22	27	JCI	5,537	-2.67%	-6.50%
Thailand 5Y CDS	38	7	11	EU Stoxx 50	3,372	-5.61%	-9.65%
Australia 5Y CDS	23	4	5				

Source: Bloomberg

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New Issues

- Jinxinyue Development (BVI) Co., Limited (Keepwell provider: Ji'an Jinggangshan Development Zone Jinluling Economic Development Co., Ltd) priced a USD200mn 3-year bond at 4.0%.
- CNAC (HK) Finbridge Company Limited (Guarantor: China National Chemical Corporation Limited) priced a USD200mn re-tap of its HAOHUA 3.375%'24s at 2.65%.
- Gemstones International Ltd (Guarantors: LVGEM (China) Real Estate Investment Company Ltd. and certain of its offshore subsidiaries) priced a USD450mn 3-year bond at 12.0%, which comprises of USD222.6mn new notes and USD227.4mn exchange notes.
- Korea Development Bank Singapore priced a USD100mn 2-year bond at 3m-US LIBOR+33.5bps.

Date	Issuer	Size	Tenor	Pricing
03-Mar-20	CNAC (HK) Finbridge Company Limited (Guarantor: China National Chemical Corporation Limited)	USD200mn	HAOHUA 3.375%'24s	2.65%
03-Mar-20	Gemstones International Ltd (Guarantors include LVGEM (China) Real Estate Investment Company Ltd.)	USD450mn	3-year	12.0%
03-Mar-20	Korea Development Bank Singapore	USD100mn	2-year	3m-US LIBOR+33.5bps
02-Mar-20	Jinxinyue Development (BVI) Co., Limited (Keepwell provider: Ji'an Jinggangshan Development Zone Jinluling Economic Development Co., Ltd)	USD200mn	3-year	4.0%
28-Feb-20	The Bank of East Asia Limited	USD140mn	3-year	3m-US LIBOR+60bps
27-Feb-20	RKPF Overseas 2019 (A) Limited (Guarantor: Road King Infrastructure Limited)	USD300mn	5NC3	5.9%
27-Feb-20	Geely Finance (Hong Kong) Limited (Guarantor: Zhejiang Geely Holding Group Company Limited)	USD400mn	5-year	T+200bps
27-Feb-20	Easy Tactic Ltd. (Guarantors including R&F Properties (HK) Co.)	USD400mn	4NC2	8.625%
27-Feb-20	Modern Land (China) Co., Limited	USD150mn	4NC3	11.95%
27-Feb-20	Excellence Commercial Management Ltd (Guarantor: Excellence Commercial Properties Co Ltd)	USD100mn	3-year	6.8%
26-Feb-20	XiAn Qujiang Culture Holdings Co.	USD300mn	3-year	5.5%
26-Feb-20	Bank of China Limited	USD2.82bn	PERPNC5	3.6%
26-Feb-20	Modern Land (China) Co., Ltd	USD150mn	4-year	12.85%

Source: OCBC, Bloomberg

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