OCBC TREASURY RESEARCH

Asian Credit Daily

Monday, June 08, 2020

Market Commentary

- The SGD swap curve bear-steepened last Friday, with the shorter and the belly tenors trading 2-9bps higher while the longer tenors traded 10-12bps higher.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 5bps to 208bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 17bps to 808bps. The HY-IG Index Spread tightened 12bps to 600bps.
- Flows in SGD corporates were heavy, with flows in HSBC 5%-PERPs, UBS 5.875%-PERPs, SOCGEN 6.125%-PERPs, OLAMSP 6%'22s, STANLN 5.375%-PERPs, SPHSP 4%-PERPs, BACR 3.75%'30s, FPLSP 4.25%'26s and HSBC 4.7%-PERPs.
- 10Y UST Yields gained 7bps to 0.9%, driven by a lower than expected May unemployment rate in the U.S. as businesses reopened.

Credit Research

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Credit Summary:

- Singapore Airlines Ltd ("SIA") **| Issuer Profile: Neutral (5):** SIA announced that the company has raised an additional SGD900mn of long term loans secured on some of its aircraft while it has also arranged new committed lines of credit and a short term unsecured loan from banks amounting to more than SGD500mn. Separately, all existing committed lines of credit that were due to mature in 2020 have been renewed. Additionally, SIA still has the option to raise a further SGD6.2bn in additional mandatory convertible bonds.
- Keppel Corp Ltd ("KEP") **| Issuer Profile: Neutral (4):** Keppel Offshore & Marine Limited ("KOM"), the offshore marine arm of KEP, has entered into a Framework Deed with Borr Drilling Limited ("Borr") and certain of Borr's subsidiaries where KOM has agreed to defer the scheduled delivery of five jackup rigs to Borr to 2022. We continue to think Borr's counterparty credit risk has increased, with the company's market cap as at 5 June 2020 at USD130mn against its gross debt of USD1.7mn as at end-2019.
- CMA CGM (acquired Neptune Orient Lines, "NOL") **| Issuer Profile: Negative (6):** CMA CGM announced 1Q2020 results. Revenue fell 3.0% y/y, dragged by lower container shipping volume as factories in Asia shutdown in Feb and Mar 2020 due to COVID-19, while operating expenses fell 6.3% y/y on the back of operational efficiency. Net gearing of CMA CGM has improved q/q at 3.33x from 3.46x at end 2019 (1Q19: 3.19x). While CMA CGM expects volumes to decline by ~10% over 1H2020, it is also expecting operating performance to improve on the back of the industry's discipline and the company's cost control policy.
- Shangri-La Asia Limited ("SHANG") **| Issuer Profile: Neutral (4):** SHANG announced a negative profit warning. The company disclosed that it may report a loss for 1H2020 compared to a profit of USD115.1mn for 1H2019 mainly due to the severe business disruptions caused by COVID-19. SHANG guided that if the COVID-19 outbreak continues to severely impact operations, it may also report a loss in its full year results.
- Industry Update - REITs**:** The COVID-19 (Temporary Measures) (Amendment) Bill was passed in Parliament. The Bill seeks to provide a rental relief framework for Small and Medium Enterprises (SMEs) and to enhance the relief available for those who are unable to fulfil their contractual obligations because of COVID-19. While the Amendment Bill has mandated REITs to grant eligible SME tenants a rental waiver, we think 1-2 months is reasonable and manageable for the REITs we cover.

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Credit Headlines

Singapore Airlines Ltd ("SIA") | Issuer Profile: Neutral (5)

- SIA announced that in addition to the completion of the rights issue on 5 June 2020, raising SGD8.8bn of new funds, the company has raised an additional SGD900mn of long term loans secured on some of its aircraft while it has also arranged new committed lines of credit and a short term unsecured loan from banks amounting to more than SGD500mn.
- Separately, all existing committed lines of credit that were due to mature in 2020 have been renewed until 2021 or later. SIA still has the option to raise a further SGD6.2bn in additional mandatory convertible bonds if need be until July 2021. Similarly to the competed rights issue, this SGD6.2bn would also be underwritten by its majority shareholder Temasek. (Company, OCBC)

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

- Keppel Offshore & Marine Limited ("KOM"), the offshore marine arm of KEP, through KOM's wholly-owned subsidiaries has entered into a Framework Deed with Borr Drilling Limited ("Borr") and certain of Borr's subsidiaries where KOM has agreed to defer the scheduled delivery of five jackup rigs to Borr to 2022.
- These five jackup rigs are part of 11 which was ordered by Borr (six has been delivered to date).
- Originally, three out of five rigs were scheduled for delivery by 3Q2020 with two by 1Q2020. Under the Framework Deed, the delivery of one rig will be deferred to 2Q2022 while the remaining four rigs are to be delivered by 3Q2022.
- Three out of the six delivered rigs are considered to be paid in full, though remains partially financed by KOM through a credit arrangement of ~USD273mn (~SGD380mn). Two out of the five rigs to be delivered in 2022 will be on delivery partially financed by KOM and the intention is for another two out of the five rigs would also be on delivery partially financed by KOM. These seller's credit arrangements will amount to ~USD415.3mn (~SGD578.5mn) where KEP has a first lien on the rigs.
- While we do not cover Borr, we continue to think Borr's counterparty credit risk has increased, with the company's market cap as at 5 June 2020 at USD130mn against its gross debt of USD1.7mn as at end-2019.
- The Framework Deed will become effective upon satisfaction of certain conditions.
- In our most recent credit update of KEP dated 18 May 2020, we have factored in assets-at-risk as the ones which have higher counterparty credit risk amounting to SGD2.8bn at KOM (including Floatel International Ltd) and SGD0.2bn being the carrying value of KrisEnergy Ltd and the latest loan extended by Kepinvest into our worst-case scenario in maintaining our Neutral (4) issuer profile on KEP. With the announcement of this deferral, we think there is an increased likelihood that asset corrosion may eventuate as the base case. We continue maintaining our Neutral (4) issuer profile on KEP, albeit with a cautious outlook. (Company, OCBC)

Credit Headlines

CMA CGM (acquired Neptune Orient Lines, "NOL") | Issuer Profile: Negative (6)

- CMA CGM announced 1Q2020 results. Revenue fell 3.0% y/y to USD7.2bn, dragged by lower container shipping volume as factories in Asia shutdown in Feb and Mar 2020 to contain the spread of COVID-19. Over the quarter, operating expenses fell 6.3% y/y on the back of operational efficiency. This more than offset the increase in bunker costs in sync with the application of IMO2020 and the resulting switch to low sulphur fuel.
- As a result EBITDA (before gains or losses on disposal of PPE and subsidiaries) was up 24.9% y/y. EBITDA margin was 13.5% up from 10.5% a year ago and stable from the preceding quarter. CMA CGM's profit in 1Q2020 represented USD55.6mn, a reversal of the net loss of USD53.3mn a year ago. This though includes a USD184.9mn gain from the disposal of terminals.
- CMA CGM's business has been classified into three operating segments
    - Container shipping activity: Revenue fell ~2.2% y/y to USD5.54n with volumes carried down 4.6%y/y due to the impact of COVID-19. That said, revenue per carried container improved slightly due to the application of fuel surcharges. EBITDA margin rose to 14.2% from 10.2% a year ago. The performance reflects the full impact of the cost reduction plan implemented throughout 2019 and still continuing over 1Q2020. CMA CGM has also managed to quickly adapt the capacity of fleet deployed over the challenging COVID-19 breakout in 1Q2020.
    - Logistics: Revenue fell 7.1% y/y to USD1.7bn while EBITDA margin fell to 8.2% from 9.4% a year ago. CEVA Logistics continues to be loss making with loss for 1Q2020 (excluding IFRS 16 application) at USD36.6mn. CEVA Logistics would have recorded a larger loss of USD43.3mn if we were to include IFRS 16 application.
    - Other activities: Revenue rose 10.7% y/y to USD169.1mn with EBITDA margin of 33.0% (1Q2019: 25.1%).
- Net gearing of CMA CGM has improved q/q at 3.33x from 3.46x at end 2019 (1Q19: 3.19x). Excluding liabilities under IFRS16, net gearing was 1.65x (4Q19: 1.78x and 1Q19: 1.75x). This was in part due to its larger cash balance (1Q2020: USD2.3bn vs 4Q2019: USD1.8bn) and lower debt (1Q2020: USD19.1bn vs 4Q2019: USD19.5bn). We note that the net gearing does not include the EUR1.05bn loan from a consortium of 3 banks (HSBC, BNP Paribas and Société Générale) which took place after 31 March 2020. Of the debt CMA CGM has (excluding liabilities under IFRS16), USD2.6bn are short term. Including the recent EUR1.05bn loan, we estimate CMA CGM to have ~USD3.5bn cash on hand which can more than cover its short term debt. The recent loan has greatly improved CMA CGM's liquidity position in the short term. That said, CMA CGM continues to fall within the Negative (6) Issuer Profile on account of its highly leveraged balance sheet.
- Although the impact of COVID-19 during 1Q2020 has been contained, the full extent of the impact remains difficult to predict. The business impact will depend on the pace at which economies resume globally and on the various government measures to support that recovery. For 2Q2020, lockdown measures were taken by more countries and that weigh on global consumption and increased uncertainties. While CMA CGM expects volumes to decline by ~10% over 1H2020, it is also expecting operating performance to improve on the back of the industry's discipline and the company's cost control policy. (Company, OCBC)

Credit Headlines

Shangri-La Asia Limited ("SHANG") | Issuer Profile: Neutral (4)

- SHANG announced a negative profit warning. The company disclosed that it may report a loss for 1H2020 compared to a profit of USD115.1mn for 1H2019 mainly due to the severe business disruptions caused by COVID-19 to the operations of SHANG's hotel properties particularly for March and April 2020 where the company's effective share of revenue decreased by ~80% compared to its monthly average effective share of revenue for 2019.
- SHANG was able to lower operating costs in China by ~50% in February 2020 and in March and April 2020 it was able to extend similar cost cutting measures to other regions.
- The company guided that if the COVID-19 outbreak continues to severely impact operations, SHANG may also report a loss in its full year results.
- As at 30 April 2020, the company has cash and cash equivalents of USD1.1bn and USD840mn in committed undrawn facilities which provides a liquidity buffer to the company during this time. Furthermore, as at 30 April 2020, its short term debt coming due in 2020 had been reduced to USD230mn from USD375mn as at end-2019.
- We maintain SHANG's issuer profile at Neutral (4) for now though may review this should the COVID-19 outbreak escalates and extend without a corresponding solution. (Company, OCBC)

Credit Headlines

Industry Update - REITs

- The COVID-19 (Temporary Measures) (Amendment) Bill was passed in Parliament on 5 June 2020. The Amendment Bill seeks to provide a rental relief framework for Small and Medium Enterprises (SMEs) and to enhance the relief available for businesses, organisations and individuals who are unable to fulfil their contractual obligations because of COVID-19.
- Under the rental relief framework for SMEs, eligible SMEs in retail properties can receive a total of 4 months' waiver of base rental while those in industrial and office properties can receive a total of 2 months.
  - Eligible SME tenants refers to tenants with (1) SGD100mn turnover in 2019 or less, (2) 35% or more y/y drop in average monthly revenue in April and May 2020 and (3) tenancy in force on 1 April 2020 and entered into before 25 March 2020.
  - The breakdown of the base rental waiver are as follows:
    - Retail SME tenants: 1.2 months through Property Tax Rebate, 0.8 months through cash grant from the Government and 2 months to be provided by landlord (including any previous direct monetary assistance provided by landlord to tenants from Feb 2020 onwards).
    - Industrial and Office SME tenants: 0.36 months through Property Tax Rebate, 0.64 months through cash grant from the Government and 1 months to be provided by landlord (including any previous direct monetary assistance provided by landlord to tenants from Feb 2020 onwards).
  - While the Amendment Bill has mandated REITs to grant eligible SME tenants a rental waiver, we think 1-2 months is reasonable and manageable for the REITs we cover. In fact, some REITs e.g. Mapletree Commercial Trust ("MCT") has already done so by providing ~2.4 months of rent waiver excluding property tax rebate. The government has too provided 2 months of support which we view as sharing the pain of the REITs. The eligible SME tenants directly benefit from the additional government support while the REITs too benefit from their eligible SME tenants being in a better financial position as a result in part due to the cash grant from government. (Ministry of Law, OCBC)

Key Market Movements

	8-Jun	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	87	-15	-31
iTraxx SovX APAC	45	-9	-23
iTraxx Japan	62	-7	-17
iTraxx Australia	88	-14	-31
CDX NA IG	65	-14	-26
CDX NA HY	104	4	9
iTraxx Eur Main	59	-12	-27
iTraxx Eur XO	339	-73	-172
iTraxx Eur Snr Fin	67	-14	-40
iTraxx Eur Sub Fin	146	-28	-83
iTraxx Sovx WE	19	-3	-12
USD Swap Spread 10Y	-1	-1	3
USD Swap Spread 30Y	-48	1	2
US Libor-OIS Spread	25	-4	-14
Euro Libor-OIS Spread	12	-3	-11
China 5Y CDS	45	-7	-4
Malaysia 5Y CDS	67	-18	-41
Indonesia 5Y CDS	119	-38	-90
Thailand 5Y CDS	42	-9	-21
Australia 5Y CDS	29	-2	-2

	8-Jun	1W chg	1M chg
Brent Crude Spot ($/bbl)	42.85	11.82%	38.36%
Gold Spot ($/oz)	1,688.11	-2.96%	-0.86%
CRB	138.98	5.09%	11.41%
GSCI	325.54	5.92%	17.05%
VIX	24.52	-10.87%	-12.37%
CT10 (%)	0.895%	23.60	21.20
AUD/USD	0.697	2.56%	6.74%
EUR/USD	1.129	1.39%	4.17%
USD/SGD	1.393	1.01%	1.41%
AUD/SGD	0.971	-1.51%	-4.99%
ASX 200	5,999	4.22%	11.27%
DJIA	27,111	6.81%	11.42%
SPX	3,194	4.91%	9.02%
MSCI Asiax	646	4.98%	7.28%
HSI	24,920	5.00%	2.85%
STI	2,782	9.06%	7.34%
KLCI	1,556	5.64%	12.59%
JCI	5,067	6.59%	10.21%
EU Stoxx 50	3,384	10.95%	16.37%

Source: Bloomberg

New Issues

- Malayan Banking Berhad priced a USD200mn 40NC5 bond at 0%.
- UPL Corporation Limited arranged investor calls commencing 8 June for its proposed USD bond offering.
- Shanghai Construction Group Co., Ltd arranged investor calls commencing 8 June for its proposed USD bond offering.
- Zhengzhou Airport Economy Zone Xinggang Investment Group Co arranged investor calls commencing 9 June for its proposed USD bond offering.

Date	Issuer	Size	Tenor	Pricing
05-Jun-20	Malayan Banking Berhad	USD200mn	40NC5	0%
04-Jun-20	Zhenro Properties Group Limited	USD200mn	3.25NC2.25	8.3%
04-Jun-20	Amber Treasure Ventures Limited (Guarantor: Nan Hai Corporation Limited)	USD350mn	2NC1	2.9%
04-Jun-20	Seazen Group Limited	USD400mn	2-year	6.45%
04-Jun-20	PTTEP Treasury Center Co. (Guarantor: PTT Exploration and Production Public Co.)	USD500mn	7-year	T+195bps
04-Jun-20	Henderson Land MTN Limited (Guarantor: Henderson Land Development Co Ltd)	USD200mn	HENLND 2.375%'25s	2.375%
04-Jun-20	The Export-Import Bank of China	USD150mn	3-year	0.9%
03-Jun-20	Singtel Group Treasury Pte Ltd (Guarantor: Singapore Telecommunications Ltd.)	USD750mn	10-year	T+123bps
03-Jun-20	Kaisa Group Holdings Ltd	USD300mn	364-day	7.875%
03-Jun-20	Yinchuan Tonglian Capital Investment Operation Co., Ltd	USD260mn	3-year	4.45%
03-Jun-20	The Export-Import Bank of China	USD200mn	5-year	1.0%
02-Jun-20	Sands China Ltd	USD800mn USD700mn	5-year 10-year	T+350bps T+375bps

Source: OCBC, Bloomberg

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