OCBC TREASURY RESEARCH

OCBC Bank

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Market Commentary

- The SGD swap curve bull-steepened yesterday, with the shorter and the belly tenors trading 1-7bps lower, while the longer tenors traded 0-1bps lower.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 2bps to 163bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 1bps to 661bps. The HY-IG Index Spread tightened 3bps to 498bps.
- Flows in SGD corporates were heavy, with flows in SOCGEN 6.125%-PERPs, UBS 4.85%-PERPs, STANLN 5.375%-PERPs, FPLSP 4.98%-PERPs, UBS 5.875%-PERPs, BAERVX 5.75%-PERPs, HSBC 5%-PERPs, CAPLSP 3.65%-PERPs, DBSSP 3.98%-PERPs, HSBC 4.7%-PERPs, SINTEC 5%-PERPs, FPLSP 3.95%-PERPs and OLAMSP 6%'22s.
- 10Y UST Yields gained 7bps to 0.87% despite the World Health Organization classifying the outbreak of COVID-19 as a pandemic and stocks slumping, possibly suggesting that investors are being forced to unload their most easily traded assets in stressed market conditions.

Credit Research

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Credit Summary:

- **Wheelock & Co Ltd ("WHEELK") | Issuer Profile: Neutral (3):** WHEELK announced 2019 results. Revenue was steady at +0.1% y/y and EBITDA rose 9.0% y/y while overall profit for 2019 was down by 55.4% y/y. Net debt decrease by HKD4.8bn to HKD88.2bn as at 31 Dec 2019. While WHEELK's credit metrics remain intact, we have earlier lowered its issuer profile to Neutral (3) from Positive (2) on the back of sizeable asset loss following the proposal of the privatization of WHEELK.
- **Cathay Pacific Airways Ltd ("CATHAY") | Issuer Profile: Unrated:** CATHAY reported its preliminary full year financial results for 2019. With 2H2019 impacting full year results, CATHAY's full year operating profit and net profit to shareholders was down 7.5% y/y and 27.9% y/y respectively. Based on our calculation, we find full year EBITDA/Interest coverage still manageable at 5.4x. The company is expecting an extremely challenging 1H2020 exacerbated by the COVID-19. Despite sharply reducing capacity and taking other short term measures, CATHAY expects to incur a substantial loss for 1H2020. In our view, CATHAY would face a tight liquidity situation in 1H2020.
- **Industry Outlook – Financial Institutions:** As the operating environment weakens, stresses are continuing to mount for Financial Institutions. In addition to the earnings pressures from lower net interest margins, underlying weaker credit demand and rising credit costs and non-performing loans, there is now news of heavily affected borrowers drawing down on committed lines to ensure they have sufficient liquidity to ride out the current market volatility. Companies drawing down on committed lines includes Boeing Co., Hilton Worldwide Holdings Inc. and Wynn Resorts Ltd. One of Wynn's lenders is reportedly Deutsche Bank AG, who announced yesterday that it would not be calling its USD1.25bn DB 6.25% PERPc20s Additional Tier 1 notes on 30 April. As we wrote in our "Perpetuals Tetralogy: Step-ups Matter", we believe that more issuers will likely not exercise the call, assuming spreads do not compress.

Credit Headlines

Wheelock & Co Ltd ("WHEELK") | Issuer Profile: Neutral (3)

- WHEELK announced 2019 results. Revenue was steady at +0.1% y/y to HKD48.5bn. Overall profit for 2019 though was down by 55.4% y/y to HKD12.0bn as WHEELK recorded a HKD4.9bn impairment provision for certain development properties in Hong Kong and Mainland China held by subsidiaries, associates and joint ventures, compared to a HKD9.2bn gain in fair value in 2018.
- Investment Properties saw a slight increase in revenue (+2% y/y to HKD18.8bn). Performance of Investment Properties in Hong Kong was weaker amid the prevailing adverse economic condition. Times Square recorded a 3% y/y fall in revenue while Harbour City performed just at par. In Mainland China, Chengdu International Finance Square ("IFS") and Changsha IFS did well.
- Higher revenue from Development Properties in Hong Kong (+40.8%y/y) driven by the delivery of residential units in Oasis Kai Tak and Monterey was offset by the decline seen in contributions from Mainland China (-41.2% y/y) with less projects completed for recognition.
- EBITDA rose 9.0% y/y to HKD28.2bn on the back of lower direct costs and operating expenses (-11.4% y/y to HKD17.2bn).
- WHEELK saw net debt decrease by HKD4.8bn to HKD88.2bn as at 31 Dec 2019. Excluding the net debt of WHARF and Wharf REIT (which have no recourse of WHEELK), Wheelock-Own's net debt decreased by HKD6.0bn and net gearing improved to 9.9% from 13.0% a year ago.
- While WHEELK's credit metrics remain intact, we have earlier lowered its issuer profile to Neutral (3) from Positive (2) on the back of potential sizeable asset loss following the proposal of the privatization of WHEELK which can lead to the deconsolidation of WHARF and Wharf REIC from WHEELK's books. We maintain WHEELK at Neutral (3) Issuer Profile. (Company, OCBC)

Credit Headlines

Cathay Pacific Airways Ltd ("CATHAY") | Issuer Profile: Unrated

- CATHAY reported its preliminary full year financial results for 2019. With 2H2019 impacting full year results, CATHAY's full year operating profit and net profit to shareholders was down 7.5% y/y to HKD3.3bn and down 27.9% y/y to HKD1.7bn respectively.
- For 2H2019 which was marred by months of unrest in HKSAR, reduction in visitors and lower cargo performance, CATHAY's operating profit and net profit to shareholders was down 70.6% y/y to HKD853mn and 86.8% y/y to HKD344mn respectively.
- Based on our calculation which does not include other income and other expenses, we find EBITDA at HKD17.5bn for 2019 with full year EBITDA/Interest coverage still manageable at 5.4x.
- CATHAY's gross gearing was 1.5x as at 31 December 2019, with gross debt increasing HKD6.5bn from 30 June 2019. In July 2019, CATHAY had completed the acquisition of low cost carrier HK Express and we think the increase in debt mostly reflects this acquisition.
- The company is expecting an extremely challenging 1H2020 exacerbated by the significant negative impact from COVID-19. Despite sharply reducing capacity and taking other short term measures such as unpaid leave for staff, CATHAY expects to incur a substantial loss for 1H2020. We think this is due to the high fixed cost base at airlines which means the ability of CATHAY to cut down expenses is curtailed.
- In our view, CATHAY would face a tight liquidity situation in 1H2020, with cash balance of only HKD8.9bn as at 31 December 2019. Post end-2019, we expect refunds to have dwindled cash balance further while the company faces reduced advanced bookings. The company has HKD5.3bn of committed undrawn facilities and we estimate about ~HKD6.0bn of other liquid funds which are in debt securities managed by investment managers which may help although need to be offloaded in difficult market conditions to generate liquidity. Net-net though, we think CATHAY would still need to seek external funding to tide over 1H2020. (Company, OCBC)

Credit Headlines

Industry Outlook – Financial Institutions

- As the operating environment weakens, stresses are continuing to mount for Financial Institutions. In addition to the earnings pressures from lower net interest margins, underlying weaker credit demand and rising credit costs and non-performing loans (refer to our Monthly Credit View), there is now news of heavily affected borrowers drawing down on committed lines to ensure they have sufficient liquidity to ride out the current market volatility. This includes travel and transportation companies Boeing Co. seeking to draw down the remaining USD6.3bn on a recently approved USD13.8bn term loan and Hilton Worldwide Holdings Inc. and Wynn Resorts Ltd seeking to draw on USD1.75bn and USD850mn in facilities respectively. The concern is if or when other less directly exposed industries become impacted. It has also been reported that Blackstone Group Inc. and Carlyle Group Inc. are also advising their portfolio companies impacted by the virus to tap on availability liquidity in case markets tighten further. Banks may be increasingly relied upon with bond markets looking largely closed.
- One of Wynn's lenders is reportedly Deutsche Bank AG ("Unrated" by OCBC Credit Research), who announced yesterday that it would not be calling its USD1.25bn DB 6.25% PERPc20s Additional Tier 1 notes on 30 April. At the same time, it announced it would redeem its USD800mn 6.55% Trust Preferred Securities. Per the bank's statement, the respective decisions reflect that the bank is driven primarily by economic considerations for call decisions as opposed to what we feel are other considerations for Financial Institutions in calling their bank capital instruments at first call. These considerations include reputational and regulatory ones. In our view, the heavy influence of economic considerations for Deutsche Bank AG reflect its weakened credit profile and weaker earnings generation that make it more susceptible to the cost of capital than peers. This was one of the drivers for the merger talks between Deutsche Bank AG and Commerzbank AG ("CMZB" | Issuer Profile: Neutral (4)) in 1H2019 that subsequently ended in late April 2019. Another driver is Germany's fragmented and competitive banking sector that results in generally weak returns for German banks. The merger was seen by the government as well as both Deutsche Bank AG and CMZB as improving their competitive position although the economic rationale for a combination at the time was not compelling. We continue to watch developments in Germany given the already challenging environment and German Chancellor Angela Merkel's statement that up to 70% of Germany's population could contract the virus.
- The non-call announcement by Deutsche Bank AG was not the first time that Deutsche Bank has influenced markets. It is also not the first time that it has not called a capital instrument, previously choosing not to call a EUR1bn lower tier 2 issue in 2008 again due to economic considerations. Given where rates and credit spreads are currently, we think it may not be the last either. As we wrote in our "Perpetuals Tetralogy: Step-ups Matter", we believe that more issuers will treat perpetuals as more equity-like in today's environment and will likely not exercise the call, assuming spreads do not compress. This is because we think it looks uneconomical to call and refinance with another perpetual, especially for bank capital instruments that do not contain any step-ups at the call and/or reset date. Combining this with what was mentioned earlier as happening with impacted corporates, we also think the incentive to call in today's markets is lowered by the need to keep a larger liquidity and equity cushion to ride through a downturn (if any). We think cash is king as liquidity has largely withdrawn from the market. (BBC, Euromoney, Company, Bloomberg OCBC)

Key Market Movements

	12-Mar	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	106	35	58
iTraxx SovX APAC	66	27	39
iTraxx Japan	96	38	54
iTraxx Australia	116	47	69
CDX NA IG	116	42	72
CDX NA HY	97	-7	-13
iTraxx Eur Main	104	35	63
iTraxx Eur XO	480	156	270
iTraxx Eur Snr Fin	117	37	69
iTraxx Eur Sub Fin	245	85	146
iTraxx Sovx WE	22	8	12
USD Swap Spread 10Y	-3	-3	2
USD Swap Spread 30Y	-51	-11	-20
US Libor-OIS Spread	53	15	40
Euro Libor-OIS Spread	12	5	7
China 5Y CDS	75	25	41
Malaysia 5Y CDS	124	69	89
Indonesia 5Y CDS	172	81	111
Thailand 5Y CDS	69	30	44
Australia 5Y CDS	38	14	22

	12-Mar	1W chg	1M chg
Brent Crude Spot ($/bbl)	33.85	-32.29%	-39.33%
Gold Spot ($/oz)	1,636.11	-2.16%	4.47%
CRB	147.80	-10.24%	-13.95%
GSCI	313.29	-14.23%	-20.09%
VIX	53.9	68.49%	292.29%
CT10 (%)	0.759%	-15.35	-87.48
AUD/USD	0.646	-2.27%	-4.05%
EUR/USD	1.131	0.68%	4.04%
USD/SGD	1.399	-1.15%	-0.90%
AUD/SGD	0.904	1.15%	3.30%
ASX 200	5,323	-16.78%	-24.91%
DJIA	23,553	-13.06%	-20.30%
SPX	2,741	-12.42%	-18.88%
MSCI Asiax	617	-7.01%	-10.85%
HSI	24,263	-9.36%	-12.80%
STI	2,676	-11.33%	-16.97%
KLCI	1,425	-4.40%	-7.62%
JCI	4,950	-12.20%	-16.28%
EU Stoxx 50	2,906	-15.06%	-24.62%

Source: Bloomberg

New Issues

- China Cinda (2020) I Management Ltd. (Guarantor: China Cinda (HK) Holdings Co.) priced a deal across four tranches: (1) a USD700mn 3-year bond at T+160bps, (2) a USD500mn 5-year bond at T+195bps, (3) a USD300mn 7-year bond at T+240bps, and (4) a USD500mn 10-year bond at T+255bps, tightening from IPT of T+190bps, T+225bps, T+255bps, T+275bps area respectively.
- Beijing Capital Polaris Investment Co. Ltd. (Guarantor: Beijing Capital Group Co. Ltd.) priced a USD300mn 3-year green bond at 2.8%, tightening from IPT of 3.15% area.
- Xiang Sheng Holding Limited (Guarantor: Shinsun Real Estate Group Co. Ltd.) priced a USD53mn re-tap of its SHXREG 12.5%'22s at 12.5%.
- Jiangsu Zhongnan Construction Group Co. arranged investor calls commencing 11 Mar for its proposed USD bond offering.

Date	Issuer	Size	Tenor	Pricing
11-Mar-20	China Cinda (2020) I Management Ltd. (Guarantor: China Cinda (HK) Holdings Co.)	USD700mn USD500mn USD300mn USD500mn	3-year 5-year 7-year 10-year	T+160bps T+195bps T+240bps T+255bps
11-Mar-20	Beijing Capital Polaris Investment Co. Ltd. (Guarantor: Beijing Capital Group Co. Ltd.)	USD300mn	3-year	2.8%
11-Mar-20	Xiang Sheng Holding Limited (Guarantor: Shinsun Real Estate Group Co. Ltd.)	USD53mn	SHXREG 12.5%'22s	12.5%
10-Mar-20	Huantaihu International Investment Co., Ltd. (Guarantor: Huzhou Economic Development Group Co., Ltd.)	USD200mn	3-year	4.5%
09-Mar-20	Aspial Corporation Limited	SGD50mn	3-year	6.5%
09-Mar-20	PSA Treasury Pte. Ltd. (Guarantor: PSA International Pte Ltd)	SGD500mn	10-year	1.63%
06-Mar-20	Zensun Enterprises Limited	USD200mn	2.5-year	13%
06-Mar-20	Xi'an Aerospace Science & Technology Industry Company	USD200mn	3-year	6.5%
05-Mar-20	Industrial and Commercial Bank of China Limited of Luxembourg	USD150mn	3-year	3m-US LIBOR+50bps
05-Mar-20	Haitong International Finance Holdings 2015 Limited (Guarantor: Haitong Securities Co.,Ltd.)	USD670mn	5-year	T+142.5bps
05-Mar-20	MCC Holding (Hong Kong) Corporation Limited (Guarantor: Metallurgical Corporation of China Ltd.)	USD400mn	PERPNC3	3.25%

Source: OCBC, Bloomberg

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