OCBC TREASURY RESEARCH

Asian Credit Daily

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Credit Research

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Market Commentary

- The SGD swap curve bear steepened yesterday, with the shorter and belly tenors trading 1-3bps higher while the longer tenors traded 3-5bps higher.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS remained mostly unchanged at 167bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 2bps to 661bps. The HY-IG Index Spread tightened 2bps to 494bps.
- Flows in SGD corporates were heavy, with flows in HSBC 4.7%-PERPs, SOCGEN 4.3%'26s, UBS 4.85%-PERPs, CMZB 4.875%'27s, STTGDC 3.13%'28s, STANLN 5.375%-PERPs, NOLSP 4.4%'21s and IOCLIN 4.1%'22s.
- 10Y UST Yields gained 3bps to 0.67% driven by the record USD38bn 10-year notes auction.

Credit Summary:

- **Cathay Pacific Airways Ltd ("Cathay") | Issuer Profile: Unrated:** Cathay announced their preliminary 1H2020 results. Revenue was down 48% y/y to HKD27.7bn and the company reported a net loss of HKD9.9bn (including HKD2.5bn of impairments on 16 planes). Reported net gearing as at 30 June 2020 was 1.88x versus 1.3x in end-2019.
- **ABN Amro Bank N.V. ("ABN") | Issuer Profile: Neutral (3):** ABN announced its 2Q2020 results with profit before tax down 91% y/y to EUR83mn. Including EUR88mn in tax expense, net loss after tax was EUR5mn for 2Q2020. Impairment charges of EUR703mn is lower against EUR1,111mn in 1Q2020. The operating result was weaker in 2Q2020, down 22% y/y to EUR786mnon on a larger fall in operating income than the fall in operating expenses. Despite the weaker results, ABN's capital position was stable q/q with its CET1 ratio at 17.3% as at 30 June 2020. Separately, recently appointed CEO Mr. Robert Swaak announced a restructuring of ABN's Corporate & Institutional Banking to improve its risk profile .
- **City Developments Ltd ("CDL") | Issuer Profile: Neutral (3):** CDL reported 1H2020 results. Revenue declined 32.8% y/y to SGD1.07bn with reported adjusted EBITDA falling 66.2% y/y to SGD223.6mn due to a substantial decline in contribution from most business segments, especially in the hotel operations segment. Net gearing rose h/h to 73% due to the acquisition of Sincere. CDL has SGD2.7bn in cash balances , which exceeds SGD1.8bn in near-term borrowings.
- **Olam International Ltd ("OLAM") | Issuer Profile: Neutral (5):** Olam announced results for 1H2020. Revenue was up by 7.1% y/y in 1H2020 to SGD17.1bn while reported EBITDA was down 9.7% y/y to SGD696.3mn and reported EBIT was down 18.8% y/y to SGD423.7mn. Profit after tax to owners was up 44.4% y/y to SGD332.7mn in 1H2020, driven by exceptional items of SGD130.6mn. As at 30 June 2020, Olam's unadjusted net gearing was 1.28x, down from 1.36x as at end-2019. The company has SGD5.9bn in cash balances (similarly higher than usual) and SGD7.2bn of unutilized bank lines. Separately, Olam has proposed carve-outs of Olam Food Ingredients and Olam Global Agri with a view towards possible initial public offerings of the two within 36 months time.

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Credit Headlines

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

- Cathay announced their preliminary 1H2020 results. Revenue was down 48% y/y to HKD27.7bn and the company reported a net loss of HKD9.9bn (including HKD2.5bn of impairments on 16 planes).
  - Passenger revenue decreased by 72.2% y/y to HKD10.4bn in 1H2020, reflecting the impact of extension travel restrictions, border controls and quarantine arrangements implemented around the world due to COVID-19. Load factor fell to 67.3% in 1H2020 from 84.2% a year ago.
  - Cargo revenue for 1H2020 was HKD11.2bn, increasing 8.8% y/y due to imbalance between capacity and demand as belly hold capacity reduced as a result of extensive cuts to passenger flights. Overall tonnage carried fell by 31.9% to 667000 tonnes. Load factor rose 5.9% to 69.3%.
- Reported net gearing as at 30 June 2020 was 1.88x versus 1.3x in end-2019, though this is before the recapitalization funding from the Hong Kong government.
  - The recapitalisation of HKD39bn, comprising HKD19.5bn preference share issues (with attached warrants), HKD11.7bn rights issue and a HKD7.8bn bridging loan facility was completed on 12 Aug 2020.
- Cathay has implemented various cash preservation measures including significant capacity reductions, executive pay cuts, two voluntary special leave schemes (with an uptake of 80% and 90% respectively), suspension of projects and non-essential expenditures, concessions from suppliers and deferral of payments to them, and closure of outport crew bases. Cathay has reached an agreement with Airbus to defer delivery of planes while advanced negotiations are taking place with Boeing. This deferral of deliveries is expected to produce cash savings to Cathay in the short to medium term.
- The management will recommend to the board of directors by 4Q2020 the optimum size and shape of Cathay Pacific which would include rationalization of earlier planned capacity. (Company, OCBC)

Credit Headlines

ABN Amro Bank N.V. (“ABN”) | Issuer Profile: Neutral (3)

- ABN announced its 2Q2020 results with profit before tax down 91% y/y to EUR83mn. Including EUR88mn in tax expense, net loss after tax was EUR5mn for 2Q2020. For 1H2020, ABN reported a net loss before tax of EUR404mn given the 1Q2020 net loss before tax of EUR487mn, while the net loss after tax was EUR400mn for 1H2020.
- While 2Q2020 looks an improvement on 1Q2020, this is due to lower impairment charges of EUR703mn against EUR1,111mn in 1Q2020. Otherwise, the operating result was weaker in 2Q2020, down 22% y/y to EUR786mn on a larger fall in operating income (-15% y/y) than the fall in operating expenses (-8% y/y). While operating expenses benefited from ongoing cost management, operating income was impacted by lower net interest margins and slightly lower average loan volumes. Net fee and commission income was also lower y/y (-9% y/y) due to lower credit card usage in Retail Banking and lower asset management fees in Private Banking. Finally, the large fall in other operating income was due to the EUR130mn book gain on sale included in 2Q2019.
- Impairment charges in 2Q2020 were elevated from the impact of a single client file in Germany which has since been sold and stage 3 impairments from ongoing weakness in oil prices (EUR227mn). COVID-19 impairments were relatively low at EUR70mn although the higher stage 3 impairments were due to a review of stage 2 exposures that were pro-actively recognized in 1Q2020 as the pandemic accelerated. According to management, 2H2020 impairments are expected to trend down with overall impairments for FY2020 expected to be around EUR3bn. Loan quality metrics have weakened as expected with the Stage 3 coverage ratio at 3.2% as at 30 June 2020 against 2.8% as at 31 March 2020 and 2.5% as at 31 December 2019 although this was also due to a fall in loans and advances, mainly from a decline in corporate loans from a reversal of drawdowns on committed lines in 1Q2020. Given the significant impairment charges raised in 1H2020, the stage 3 coverage ratio improved to 34.3% against 30.4% as at 31 March 2020 and 29.6% as at 31 December 2019. Of note is the forbearance ratio which was 3.5% as at 30 June 2020 against 2.5% as at 31 March 2020 and 2.4% as at 31 December 2019.
- Despite the weaker results, ABN’s capital position was stable q/q with its CET1 ratio at 17.3% as at 30 June 2020 (17.3% as at 31 March 2020 and 18.0% as at 30 June 2019). Risk weighted assets rose slightly despite the fall in loans and advances due to a rise in credit risk. This offset falls in operational risk and market risk weighted assets. The CET1 ratio excludes the reserved final dividend reserve of EUR639mn (with a decision on dividends postponed to January 2021) and is now below the bank’s capital target range of 17.5%-18.5%. That said, the CET1 ratio remains well above the 2020 revised Maximum Distributable Amount (MDA) trigger level of 9.6% per ECB and DNB capital relief measures (previously 12.09%). Per the Minimum Requirement for own funds and Eligible Liabilities (“MREL”) framework, its estimated ratio of 28.3% as at 30 June 2020 was also above its MREL ambition of 27.0% by 2022 while its 12-month rolling average liquidity coverage ratio at 133% was also above the regulatory minimum as at 30 June 2020.
- Recently appointed CEO Mr. Robert Swaak commenced in April and amongst the priorities he set was a review of ABN’s strategy that was announced as part of FY2019 results. In line with this, Mr Swaak announced a restructuring of ABN’s Corporate & Institutional Banking to improve its risk profile and be more focused in breadth and scale. Key aspects include:

(To be continued on the next page…)

Credit Headlines

ABN Amro Bank N.V. ("ABN") | Issuer Profile: Neutral (3)

- Focusing on clients in Northwest Europe with strong links to the Netherlands and exiting all non-European (United States, Asia, Australia and Brazil) corporate banking activities, except for Clearing which will remain a global business.
- Exiting Trade & Commodity Finance activities apart from Natural Resources and Transportation & Logistics businesses for European clients.
- Implementing stricter lending criteria and credit limits depending on credit assessments, collateral and location.
- Splitting of remaining CIB businesses into core and non-core that will be managed separately with the CIB non-core exposure (currently around 45% of CIB's client loans volume) to be wound down over 3-4 years. While the wind-down of non-core exposures is subject to regulatory approval, around 80% of CIB non-core exposures will mature by 2023 so the bulk of the wind-down will happen through natural attrition. Core business identified include those in the Netherlands as well as mid-sized clients in Northwest Europe in the Financial Institutions, Shipping, TMT and Real Estate sectors.

- While ABN's announced restructuring will occur over time, management expect near term results to be impacted with additional loan impairments of EUR400mn to be raised in 2H2020 (already included in management's FY2020 overall impairment expectation of EUR3bn) and an approximately EUR300mn provision to be booked in 3Q2020 for staff-related costs and an impairment of deferred tax assets. Management expect however that the non-core CIB wind-down will ultimately be capital accretive.
- While restructuring should be beneficial in theory with the profitability of the non-core CIB exposures noticeably lower than the core exposures, it nevertheless comes with execution risk and additional costs. This along with the challenging operating environment going forward that could necessitate higher provisions will cap ABN's future performance in our view. We continue to view ABN's capital position and the strong support orientation from the government as key credit drivers for the Neutral (3) issuer profile rating we maintain. That said, we continue to monitor ABN closely given we view the issuer profile as somewhat stretched at this point in time. (Company, OCBC)

Credit Headlines

City Developments Ltd ("CDL") | Issuer Profile: Neutral (3)

- CDL reported 1H2020 results. Revenue declined 32.8% y/y to SGD1.07bn with reported adjusted EBITDA falling 66.2% y/y to SGD223.6mn (profit before tax down 97.2% y/y to SGD13.8mn) due to a substantial decline in contribution from most business segments, especially in the hotel operations segment.
  - **Hotel operations:** Revenue fell 54.8% y/y to SGD355.3mn with profit before tax sinking to a loss of SGD208.2mn from 1H2019's profit of SGD29.5mn due to travel restrictions severely impacting RevPAR (-56.6% y/y to SGD60.3). The segment also took an impairment loss of SGD33.9mn with assumptions of RevPAR revised down.
  - **Property development:** Revenue fell 13.5% y/y to SGD463.7mn with pre-tax profit declining by 36.0% y/y to SGD115.0mn. The decline in revenue is due to timing of profit recognition and the steeper fall in profits is due to thinner margins for the contributing projects this year. We also note that sales volumes were lower in Singapore due to closure of sales galleries.
  - **Investment properties:** While revenue fell 10.6% y/y to SGD185.5mn attributable to rental rebates, profit before tax fell by a significantly larger amount (-89.8% y/y to SGD26.3mn) due to lower divestment gains (1H2019 recognised SGD153.9mn deferred gain on sale of investment properties).
- Despite the negative goodwill of SGD43.2mn on acquisition of 51.01%-stake in Sincere Property Group, net profit plunged 99.9% y/y to SGD0.4mn due to weaker profitability.
- The outlook remains murky with losses expected to continue through end-2020 for hospitality despite cost-cutting measures being undertaken. Non-essential capex has meanwhile been deferred and CDL has focused on cash preservation and cost-containment.
- Net gearing rose h/h to 73% (2019: 63%) due to the acquisition of Sincere (even though the acquisition contributed gains from negative goodwill of SGD43.2mn, CDL booked impairment losses of SGD33.9mn which offset the gain). We think further impairments may be possible though the amounts could be contained given that CDL still report substantial headroom over fair value for most assets in its commercial portfolio. Meanwhile, we remain comfortable given cash of SGD2.7bn (SGD4.0bn including undrawn committed bank facilities), which exceeds SGD1.8bn in near-term borrowings.
- That said, we are monitoring CDL for a downgrade in Issuer Profile, given the weaker outlook and weakened credit metrics with reported interest cover falling to 3.9x (2019: 14.7x) and the rise in net gearing. (Company, OCBC)

Credit Headlines

Olam International Ltd ("OLAM") | Issuer Profile: Neutral (5)

- Olam announced results for 1H2020. Revenue was up by 7.1% y/y in 1H2020 to SGD17.1bn while reported EBITDA was down 9.7% y/y to SGD696.3mn and reported EBIT was down 18.8% y/y to SGD423.7mn.
- Despite lower profits at the operating level, profit after tax to owners was up 44.4% y/y to SGD332.7mn in 1H2020, driven by exceptional items of SGD130.6mn. In 1H2020, Olam reported gains from divestments following the sale of its remaining stake in its sugar refinancing business in Indonesia and partial stake sale of ARISE P&L, offset by one-off exit costs of deprioritised businesses.
- In January 2020, Olam announced that it will be re-organising its business, with Olam International Ltd (the current listed entity and bond issuer) holding two operating companies namely Olam Food Ingredients ("OFI") and Olam Global Agri ("OGA"). Olam has proposed carve-outs of OFI and OGA with a view towards possible initial public offerings of the two within 36 months time (ie: by 2023). From 1H2020 onwards, Olam had provided more information on OFI and OGA on a standalone basis as well.
  - **OFI:** Comprising Cocoa, Coffee, Nuts, Spices and Dairy, OFI offers sustainable, natural, value-added food products and ingredients. Per company, products under OFI shares commonality in terms of customers served among other commonalities. In 1H2020, overall OFI saw sales volume improve 3.9% y/y though its reported EBIT had fallen 40.1% y/y to SGD263.1mn. Both the sub-segments within OFI, namely Ingredient Sourcing & Supply Chain and Value-added Food Ingredients & Solutions, saw declines in reported EBIT.
  - **OGA:** overall OGA focuses on food, feed and fibre agri-businesses (especially in emerging markets such as Africa). In 1H2020, OGA saw sales volume up by 6.5% y/y while its reported EBIT increased 55.4% y/y to SGD228.9mn. OGA's performance was driven by higher EBITDA from the Food & Feed – Processing & Value-added sub-segment (low base effect) and Food & Feed – Origination & Merchandising though the Fibre & Ag Services sub-segment saw reported EBIT down 10.4% y/y as a result of shipment delays and counterparty defaults.
- As at 30 June 2020, Olam's unadjusted net gearing was 1.28x, down from 1.36x as at end-2019. Working capital days at Olam was 63 days as at 30 June 2020 versus 70 days as at 31 December 2019, with the company tightening working capital norms in 1H2020 amidst market volatility from COVID-19. Reported EBITDA/Interest was 2.4x in 1H2020 vis-à-vis 2.3x in 1H2019.
- Bulk of debt at Olam remains unsecured with only 1.1% of secured debt as a proportion of total debt. It is still too early to tell how much debt (if any) would get pushed down to OFI and OGA though shared services functions including treasury functions would be retained at the Olam level.
- At SGD9.0bn, short term debt coming due as a proportion of total debt is larger than usual at 62% (historically at between 30-55%). We think Olam had drawn down debt in 1H2020 (net of debt repayment of SGD2.1bn), much which was unutilized by period end. As at 30 June 2020, the company has SGD5.9bn in cash balances (similarly higher than usual) and SGD7.2bn of unutilized bank lines (historically 15-20% are committed). We see manageable refinancing risk in the short term.
- For now, we are maintaining OLAM's issuer profile at Neutral (5) given that OLAM still holds 100% of its businesses though expect the re-organisation to facilitate a decrease in ownership of OLAM in these businesses (eg: via an IPO). (Company, OCBC)

Key Market Movements

	13-Aug	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	65	-2	-14
iTraxx SovX APAC	37	-2	-6
iTraxx Japan	59	-1	-1
iTraxx Australia	68	-3	-13
CDX NA IG	65	1	-10
CDX NA HY	105	0	5
iTraxx Eur Main	52	-3	-9
iTraxx Eur XO	335	-13	-34
iTraxx Eur Snr Fin	61	-5	-12
iTraxx Eur Sub Fin	128	-9	-23
iTraxx Sovx WE	15	-1	-3
USD Swap Spread 10Y	-2	-2	0
USD Swap Spread 30Y	-40	0	7
US Libor-OIS Spread	18	0	-3
Euro Libor-OIS Spread	-1	-1	-5
China 5Y CDS	41	0	-4
Malaysia 5Y CDS	51	-3	-14
Indonesia 5Y CDS	105	-4	-18
Thailand 5Y CDS	40	-1	-3

	13-Aug	1W chg	1M chg
Brent Crude Spot ($/bbl)	45.42	0.73%	6.32%
Gold Spot ($/oz)	1,930.81	-6.43%	7.10%
CRB	148.36	-0.23%	5.46%
GSCI	351.82	0.43%	4.64%
VIX	22.28	-3.09%	-30.79%
CT10 (%)	0.674%	13.74	5.52
AUD/USD	0.718	-0.80%	3.43%
EUR/USD	1.181	-0.58%	4.09%
USD/SGD	1.371	-0.19%	1.39%
AUD/SGD	0.985	0.60%	-1.98%
ASX 200	6,140	1.62%	2.72%
DJIA	27,977	2.85%	7.25%
SPX	3,380	1.58%	7.14%
MSCI Asiax	715	-1.04%	2.12%
HSI	25,244	0.56%	-2.05%
STI	2,563	1.89%	-2.58%
KLCI	1,557	-0.73%	-3.10%
JCI	5,233	2.08%	3.34%
EU Stoxx 50	3,363	2.90%	0.39%

Source: Bloomberg

New Issues

- China Great Wall International Holdings V Ltd (Guarantor: China Great Wall AMC International Holdings Co Ltd) priced a USD500mn 10-year bond at T+172.5bps, tightening from IPT of T+215bps area.
- Hanhui International Limited (Guarantor: Guotai Leasing Limited Company) priced a USD200mn 3-year benchmark bond at 4%, tightening from IPT of 4.35% area.
- YUNDA Holding Investment Ltd. (Guarantor: YUNDA Holding Co.) priced a USD500mn 5-year bond at T+197.5bps, tightening from IPT of T+245bps area.
- MTR Corp Ltd priced a USD1.2bn 10-year green bond at T+108bps, tightening from IPT of T+150bps area.
- Axiata SPV2 Berhad Axiata SPV5 (Labuan) Limited (Guarantor: Axiata Group Berhad) priced a USD500mn 10-year Sukuk at T+148bps, tightening from IPT of T+200bps area and another USD1bn 30-year bond at T+170bps, tightening from IPT of T+220bps area respectively.
- Keong Hong Holdings Ltd. priced a SGD48mn 3-year bond at 6.25%.
- Yunnan Energy Investment Overseas Finance Co. (Guarantor: Yunnan Provincial Energy Investment Group Co.) has arranged investor calls commencing 12 August 2020 for its proposed USD bond offering.

Date	Issuer	Size	Tenor	Pricing
12-Aug-20	China Great Wall International Holdings V Ltd (Guarantor: China Great Wall AMC International Holdings Co Ltd)	USD500mn	10-year	T+172.5bps
12-Aug-20	Hanhui International Limited (Guarantor: Guotai Leasing Limited Company)	USD200mn	3-year	4%
12-Aug-20	YUNDA Holding Investment Ltd. (Guarantor: YUNDA Holding Co.)	USD500mn	5-year	T+197.5bps
12-Aug-20	MTR Corp Ltd	USD1.2bn	10-year	T+108bps
12-Aug-20	Axiata SPV2 Berhad Axiata SPV5 (Labuan) Limited (Guarantor: Axiata Group Berhad)	USD500mn USD1bn	10-year 30-year	T+148bps T+170bps
12-Aug-20	Keong Hong Holdings Ltd.	SGD48mn	3-year	6.25%
11-Aug-20	Li & Fung Ltd	USD300mn	5-year	4.50%
11-Aug-20	Fantasia Holdings Group Co Ltd	USD200mn	FTHDGR 7.95%'22s	7.98%
11-Aug-20	Redco Properties Group Limited	USD300mn	364-day	9.70%
11-Aug-20	Export-Import Bank of Korea	USD100mn	4-year	0.825%

Source: OCBC, Bloomberg

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