OCBC TREASURY RESEARCH

Asian Credit Daily

Friday, August 14, 2020

Market Commentary

- The SGD swap curve bull flattened yesterday, with most of the tenors trading 2-3bps lower while the 30-year traded 4bps lower.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 167bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 2bps to 660bps. The HY-IG Index Spread tightened 1bps to 493bps.
- Flows in SGD corporates were heavy, with flows in STTGDC 3.13%'28s, UBS 4.85%-PERPs, SOCGEN 6.125%-PERPs, CMZB 4.875%'27s, SPHRSP 4.1%-PERPs, FPLSP 4.15%'27s and NTUCSP 3.1%'50s.
- 10Y UST Yields gained 5bps to 0.72%, after the record supply of 30-year bonds drew tepid demand from investors.

Credit Research

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Credit Summary:

- **Golden Agri-Resources Ltd ("GGR") | Issuer Profile: Neutral (5):** GGR announced results for 1H2020. Revenue was up by 7.1% y/y in 1H2020 to USD3.4bn while reported EBITDA was down 4.4% y/y to USD189.2mn. Interest coverage was higher at 2.5x for 1H2020 mainly as interest expenses was down 14.1% y/y, on account of lower interest rates on borrowings. Reported operating profit was thin at USD11.7mn while GGR reported a large foreign exchange loss of USD48.3mn, resulting in loss to owners of USD156.9mn. As at 30 June 2020, unadjusted net gearing (with lease liabilities) was higher at 0.68x versus 0.65x as at 31 December 2019 although within historical norms. GGR faces a looming refinancing risk with short term debt of USD2.0bn (including the SGD150mn of bonds due in January 2021), representing 63% of total debt and somewhat higher than the past two years.
- **Telstra Corp Ltd ("Telstra") | Issuer Profile: Positive (2):** Telstra reported FY2020 results for the year ended 30 June. On a reported lease adjusted basis, underlying EBITDA fell 9.7% y/y to AUD7.4bn with the larger segments seeing declines. The outlook for earnings remains weak and Telstra has reduced the ROIC target from 10% to 7%. Although earnings have weakened significantly, reported net debt to EBITDA at 1.9x (FY2019: 1.8x) remains healthy with interest coverage increasing to 11.7x (FY2019: 10.5x). Cash and unused bank facilities of AUD4.3bn look ample for now, which covers AUD2.8bn in current borrowings.
- **National Australia Bank Ltd ("NAB") | Issuer Profile: Positive (2):** NAB released its 3Q2020 trading update with unaudited cash earnings of AUD1.55bn, down 7.0% y/y. Excluding tax and credit impairment charges, cash earnings rose 5% y/y. 3Q2020 credit impairment charges of AUD570mn were down 2% compared to the 1H2020 quarterly average. Providing some offset from the deteriorating loan book is a noticeable rise in NAB's APRA compliant CET1 to 11.6% as at 30 June 2020 against 10.4% as at 31 March 2020 and 30 September 2019. Other credit ratios remain sound with the quarterly average liquidity coverage ratio at 132% and the net stable funding ratio at 120%, above the 100% minimum requirement.

Credit Headlines

Golden Agri-Resources Ltd ("GGR") | Issuer Profile: Neutral (5)

- GGR announced results for 1H2020. Revenue was up by 7.1% y/y in 1H2020 to USD3.4bn while reported EBITDA was down 4.4% y/y to USD189.2mn. Reported EBITDA was down on account of declines at the Palm and laurics and others segment (down 42.1% y/y) to USD58.2mn, with sales volume negatively affected by COVID-19 related lockdowns. The upstream Plantations and Palm Oil Mills segment saw EBITDA increase 36.2% y/y to USD131.7mn, mainly from higher CPO prices with CPO Free on Board ("FOB") prices increasing 24% y/y to USD616/MT despite lower plantation output.
- Based on our calculation of EBITDA (which does not take into account of the fair value gain on financial assets), we find 1H2020 EBITDA at USD178.6mn with EBITDA/Interest at 2.5x for 1H2020 (1H2019: 2.1x), within historical norms. Interest coverage was higher mainly as interest expenses was down 14.1% y/y, on account of lower interest rates on borrowings.
- However, factoring in depreciation and amortisation expense (albeit non-cash), reported operating profit was thin at USD11.7mn (1H2019: USD21.1mn) while GGR reported a large foreign exchange loss of USD48.3mn (per company, unrealised translation loss and fair value loss on forward foreign currency contracts), resulting in loss to owners of USD156.9mn (1H2019: loss to owners of USD46.4mn).
- As at 30 June 2020, unadjusted net gearing (with lease liabilities) was higher at 0.68x versus 0.65x as at 31 December 2019 although within historical norms. GGR faces a looming refinancing risk with short term debt of USD2.0bn (including the SGD150mn of bonds due in January 2021), representing 63% of total debt and somewhat higher than the past two years. We note from company that working capital-related debt is approximately at USD1.6bn, which tends to get rolled-over, implying USD0.4bn needs to be refinanced in the short term. As at 30 June 2020, unpledged cash was USD278.2mn, higher than our estimated number of USD178.8mn as at 31 March 2020 (end-2019: USD207.1mn). We continue to review GGR results. (Company, OCBC)

Credit Headlines

Telstra Corp Ltd ("Telstra") | Issuer Profile: Positive (2)

- Telstra reported FY2020 results for the year ended 30 June. On a reported lease adjusted basis, underlying EBITDA (excluding one-off national broadband network income and restructuring costs) fell 9.7% y/y to AUD7.4bn with the larger segments seeing declines.
- Mobile EBITDA fell by 6.7% y/y to AUD3.5bn due to ARPU pressure from intense price competition exacerbated by the fall in international roaming. Fixed EBITDA (excl one-off national broadband network cost to connect) fell 56.8% y/y to AUD1.5bn largely due to nbn migration. Meanwhile Data & IP EBITDA fell 17.5% y/y to AUD1.5bn, in line with the fall in revenue (-13% y/y) due to declines in legacy calling. Network Applications and Services though was a brighter segment (+64.7% y/y to AUD593mn) due to improved product mix with a focus on more profitable products. Similarly, Global Connectivity (+24.7% y/y to AUD454mn) EBITDA grew with a focus on the more profitable products.
- According to Telstra, the estimated impact on underlying EBITDA from COVID-19 was AUD200mn for FY2020 and the impact would grow to AUD400mn in FY2021. Underlying EBITDA for FY2021 is guided to be in the range of AUD6.5bn to AUD7.0bn, which implies further falls from FY2020. Telstra continues to guide for capex/sales of 14% (excluding spectrum).
- The outlook for earnings remains weak and Telstra has reduced the ROIC target from 10% (which is the target for its T22 strategic plan) to 7% (FY2020 underlying ROIC: 5.4%). That said, we think the focus to cut costs may partly alleviate earnings pressure with Telstra citing that it is still on track to achieve another AUD700mn in net cost reduction while direct workforce as of June 2020 is 5,700 lower than June 2018.
- Although earnings have weakened significantly, reported net debt to EBITDA at 1.9x (FY2019: 1.8x) remains healthy with interest coverage increasing to 11.7x (FY2019: 10.5x). Cash and unused bank facilities of AUD4.3bn look ample for now, which covers AUD2.8bn in current borrowings. We continue to hold Telstra at a Positive (2) Issuer Profile. (Company, OCBC)

Credit Headlines

National Australia Bank Ltd ("NAB") | Issuer Profile: Positive (2)

- NAB released its 3Q2020 trading update with unaudited cash earnings (which better reflects underlying performance) of AUD1.55bn, down 7.0% y/y. Excluding tax and credit impairment charges, cash earnings rose 5% y/y. Compared to the 1H2020 quarterly average and excluding notable items (customer-related remediation costs), cash earnings rose 24% y/y or 17% y/y excluding credit impairment charges.
- Improvement against the 1H2020 quarterly average was due to a 10% rise in revenue from higher Markets & Treasury Income due to reversal of unrealised mark-to-market losses which offset lower net interest income from lower interest rates and margins and higher competition. At the same time, expenses only rose 2% due to staff expenses related to additional customer support and workout staffing during the pandemic. According to management, this support included loan deferrals covering 92,000 home loans (around 12% of total portfolio, down from 13% in May 2020) and 41,000 business loans (around 16% of total portfolio and up from 15% in May 2020) worth AUD58bn. In addition, 6,000 business support loans have been disbursed under the Australian Government's Small and Medium Enterprises Guarantee Scheme. Around 16% of home loan deferral customers have commenced repayments as NAB continues to monitor the deferred portfolio. We expect such monitoring measures to increase as banks evaluate those deferrals that should be extended and those that should enter workout arrangements. Key sectors under deferral include Commercial Real Estate, Property & Business Services and Construction loans (45% of total exposures), Retail Trade, Tourism, Hospitality and Entertainment (12%), and Agri including food manufacturing (22%).
- 3Q2020 credit impairment charges of AUD570mn were down 2% compared to the 1H2020 quarterly average – influencing the result was the absence of a COVID-19 economic adjustment reflecting the weaker economic outlook in 2Q2020 and overall spike in credit impairment charges in 2Q2020 of AUD976mn although stress appears to be building in NAB's loan portfolio with higher collective charges for retail exposures and specific charges for some single name exposures. In line with ongoing reviews of loan deferrals, other exposures appear to have been re-rated downwards causing credit impairment charges to rise. Overall, the ratio of 90+ days past due and gross impaired assets to gross loans and acceptances has risen 9bps to 1.06%, driven by home loan delinquencies on non-deferred loans. Watch loans as a percentage of gross loans and acceptances also rose by 3bps to 1.06% as outflows of watch loans reduced more than the fall in inflows. Management have indicated that provisioning reviews are ongoing with a detailed review update expected in November on the release of NAB's FY2020 results.
- Providing some offset from the deteriorating loan book is a noticeable rise in NAB's APRA compliant CET1 to 11.6% as at 30 June 2020 against 10.4% as at 31 March 2020 and 30 September 2019. This was driven mostly by the AUD4.25bn capital raising (+98bps of CET1) via an institutional placement (AUD3bn) and share purchase plan (AUD1.25bn) that was upsized from AUD3.5bn following strong demand from the retail focused share purchase plan. This, along with NAB reducing its dividend payout per share by around 64% is in line with new CEO Ross McEwan's desire to have a strong balance sheet both entering and exiting the crisis. Other movements positively influencing the CET1 ratio include capital generation net of dividends and risk weighted asset growth (+12bps) as well as FX translation and mark-to-market reversals (+21bps of CET1). The ratio is now well above APRA's 10.5% benchmark for 'unquestionably strong' capital ratios in Australia's banking sector that will be implemented in 1 Jan 2023. Other credit ratios remain sound with the quarterly average liquidity coverage ratio at 132% and the net stable funding ratio at 120%, above the 100% minimum requirement.

Credit Headlines

National Australia Bank Ltd ("NAB") | Issuer Profile: Positive (2)

- The mix of positives and negatives highlight the uncertainty facing NAB and other Australian banks. This has necessitated an apparent desire to accelerate restructuring plans focused on reducing costs to ensure a buffer against earnings pressures from ongoing low interest rates, reduced credit demand and rising loan losses. We currently maintain a Positive (2) issuer profile on NAB although see the credit profiles of all banks under our coverage as fluid in the current operating environment (Company, OCBC).

Key Market Movements

	14-Aug	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	65	-2	-16
iTraxx SovX APAC	36	-2	-8
iTraxx Japan	59	-2	-2
iTraxx Australia	68	-2	-14
CDX NA IG	67	2	-7
CDX NA HY	104	-1	5
iTraxx Eur Main	53	-1	-9
iTraxx Eur XO	336	-7	-38
iTraxx Eur Snr Fin	63	-2	-11
iTraxx Eur Sub Fin	131	-6	-21
iTraxx Sovx WE	15	0	-4
USD Swap Spread 10Y	-2	-3	0
USD Swap Spread 30Y	-40	-2	6
US Libor-OIS Spread	18	1	-1
Euro Libor-OIS Spread	-2	-1	-6
China 5Y CDS	39	-2	-6
Malaysia 5Y CDS	51	-4	-17
Indonesia 5Y CDS	104	-6	-25
Thailand 5Y CDS	39	-1	-4

	14-Aug	1W chg	1M chg
Brent Crude Spot ($/bbl)	45.16	1.71%	5.27%
Gold Spot ($/oz)	1,956.54	-3.88%	8.13%
CRB	148.94	0.23%	6.39%
GSCI	352.05	0.79%	4.85%
VIX	22.13	-2.30%	-25.03%
CT10 (%)	0.719%	15.51	9.58
AUD/USD	0.715	-0.14%	2.47%
EUR/USD	1.181	0.23%	3.63%
USD/SGD	1.373	-0.01%	1.40%
AUD/SGD	0.981	0.14%	-1.03%
ASX 200	6,116	1.85%	2.94%
DJIA	27,897	1.86%	4.71%
SPX	3,373	0.72%	5.50%
MSCI Asiax	716	0.68%	3.40%
HSI	25,231	1.20%	-0.97%
STI	2,596	2.50%	-0.92%
KLCI	1,576	-0.76%	-1.40%
JCI	5,239	1.18%	3.15%
EU Stoxx 50	3,343	3.16%	0.65%

Source: Bloomberg

New Issues

- Yunnan Energy Investment Overseas Finance Co Ltd (Guarantor: Yunnan Provincial Energy Investment Group Co Ltd) priced a USD150mn 3-year at 3.58%, tightening from IPT of 4.2% area and another USD150mn PerpNC3 at 4.8%, tightening from IPT of 5.2% area respectively.

Date	Issuer	Size	Tenor	Pricing
13-Aug-20	Yunnan Energy Investment Overseas Finance Co Ltd (Guarantor: Yunnan Provincial Energy Investment Group Co Ltd)	USD150mn USD150mn	3-year PerpNC3	3.58% 4.8%
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%
7-Aug-20	BPHL Capital Management Limited (Guarantor: Beijing Properties (Holdings) Limited)	USD150mn	BEIPRO 5.95%'23s	6.00%
7-Aug-20	E-House (China) Enterprise Holdings Limited (Guarantors: Fangyou Information Technology Holdings Ltd and Hong Kong Fangyou Software Technology Co Ltd)	USD100mn	EHOUSE 7.625%'22s	8.375%
6-Aug-20	Huatong International Investment Holdings Co. (Guarantor: Qingdao China Prosperity State-owned Capital Operation (Group) Co., Ltd)	USD200mn	3-year	3.35%

Source: OCBC, Bloomberg

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