OCBC TREASURY RESEARCH

Asian Credit Daily

Monday, August 17, 2020

Market Commentary

- The SGD swap curve bear steepened last Friday, with the shorter and belly tenors trading 1-4bps higher while the longer tenors traded 3-5bps higher.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 167bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 1bps to 661bps. The HY-IG Index Spread widened 1bps to 494bps.
- Flows in SGD corporates were heavy, with flows in NTUCSP 3.1%'50s, UBS 4.85%-PERPs, KEPSP 4%'42s and STTGDC 3.13%'28s.
- 10Y UST Yields fell 1bps to 0.71%, though remained relatively elevated after the USD112bn record supply of bonds completed on last Thursday.

Credit Research

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Credit Summary:

- Keppel Corporation Limited ("KEP") **| Issuer Profile: Neutral (4):** KEP's 50% owned associate Floatel International Ltd announced that it remains in constructive negotiations with its key stakeholders including its lenders under its credit facilities and committee representing its bondholders.
- Mapletree Industrial Trust ("MINT") **| Issuer Profile: Neutral (3):** Equinix Singapore Pte Ltd has exercised its option to purchase 26A Ayer Rajah Crescent in Singapore from MINT at SGD125.0mn. The property is a 7-storey data centre and contributed 2.2% to MINT's portfolio gross revenue in financial year ended 31 March 2020. Equinix Singapore is the sole tenant at the property.
- Singapore Telecommunications Ltd ("SingTel") **| Issuer Profile: Positive (2):** SingTel provided a business update for 3QFY2020 for the quarter ended 30 June. Operating revenue fell 13.9% y/y to SGD3.54bn with reported EBITDA down 24.2% y/y to SGD897mn, dragged by almost every business segment. The only better news came from regional associates, which collectively contributed lower pre-tax losses.
- Hong Fok Corp Ltd ("HFC") **| Issuer profile: Neutral (5):** HFC had announced results for 1H2020. Revenue fell 8%y/y to SGD43.6mn due to lower income from investment properties including YOTEL Singapore Orchard Road. Profit before tax was SGD5.2mn, down 40%y/y from SGD8.7mn in 1H2019. Based on our calculation, EBITDA/Total interest was 1.4x (2019: 1.5x, 2018: 1.8x). Given that HFC still has more than sufficient cash on hand to cover its short term borrowings, we think its credit metrics are still manageable.
- Commerzbank AG ("CMZB") **| Issuer Profile: Neutral (4):** CMZB has announced the permanent closure of 200 branches that were closed as a result of the COVID-19 pandemic. Reducing its branch network is a key component of CMZB's restructuring plan.
- Lendlease Group ("LLC") **| Issuer Profile: Neutral (3):** LLC reported FY2020 results for the year ended 30 June. Profit before tax fell 92% y/y to AUD92mn with reported EBITDA down 70% y/y to AUD405mn, dragged by poorer performance from weaker revenue in all key segments. While earnings have deteriorated, its credit metrics remain healthy with reported gearing of 5.7% with AUD5.8bn of liquidity.

Credit Headlines

Keppel Corporation Limited ("KEP") | Issuer Profile: Neutral (4)

- KEP's 50% owned associate Floatel International Ltd ("Floatel") announced that it remains in constructive negotiations with its key stakeholders including its lenders under its credit facilities and committee representing its bondholders.
- Previously, Floatel had entered into a forbearance agreement with this group of lenders and the agreement has been extended to 31 August 2020. (Company)

Mapletree Industrial Trust ("MINT") | Issuer Profile: Neutral (3)

- Equinix Singapore Pte Ltd has exercised its option to purchase 26A Ayer Rajah Crescent in Singapore from MINT at SGD125.0mn. The property is a 7-storey data centre and contributed 2.2% to MINT's portfolio gross revenue in financial year ended 31 March 2020. Equinix Singapore is the sole tenant at the property. This property is also MINT's only property with such option to purchase being granted to the tenant.
- The sale price of SGD125.0mn represents a 23.3% premium over the development cost of SGD101.4mn. The divestment is expected to take place in 4Q2020 subjected to approval by JTC Corporation. (Company, OCBC).

Singapore Telecommunications Ltd ("SingTel") | Issuer Profile: Positive (2)

- SingTel provided a business update for 3QFY2020 for the quarter ended 30 June. Operating revenue fell 13.9% y/y to SGD3.54bn with reported EBITDA down 24.2% y/y to SGD897mn, dragged by almost every business segment.
  - **Singapore Consumer:** Revenue fell 21.6% y/y to SGD406mn with reported EBITDA down 13.9% y/y to SGD162mn (even after including SGD17mn of Jobs Support Scheme credits) due to the circuit breaker, fall in roaming and lower prepaid usage. Postpaid mobile ARPU has fallen to SGD29/mth (3QFY2019: SGD40/mth).
  - **Australia Consumer:** Revenue fell 13.3% y/y to SGD1.6bn with reasons similar to Singapore Consumer, affected by lower roaming and continuing data price competition. Australia also noted lower handset sales. Reported EBITDA fell more than revenue (-33.8% y/y to SGD410mn) due to fixed margin erosion (migration of customers from Optus' proprietary networks to NBN) and operating expenses related to COVID-19 (e.g. onshore care agents and debt provisions from financial hardship). Postpaid mobile ARPU has fallen to AUD35/mth (3QFY2019: AUD38/mth).
  - **Group Enterprise:** Revenue fell 4.5% y/y to SGD1.38bn with reported EBITDA down 12.9% y/y to SGD363mn. This is mainly due to declines in carriage services dragged by weak business sentiment. Mobile service was impacted with steep declines in roaming and voice while ICT revenue growth was affected by delayed projects and deferments.
- The only better news came from regional associates, which collectively contributed lower pre-tax losses (-32.6% y/y to SGD80mn) as Airtel's losses shrunk 37.8% y/y to SGD66mn due to higher mobile ARPU.
- While earnings have weakened significantly, we believe SingTel's healthy credit metrics (reported net debt to EBITDA and share of associates' pre-tax profits of 2.0x as of 1HFY2020) should provide some buffers. We continue to hold SingTel at a Positive (2) Issuer Profile for now, pending the full year results update. (Company, OCBC)

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Credit Headlines

Hong Fok Corp Ltd ("HFC") | Issuer profile: Neutral (5)

- HFC had announced results for 1H2020. Revenue fell 8%y/y to SGD43.6mn due to lower income from investment properties including YOTEL Singapore Orchard Road. HFC also recognised a SGD1.6mn decrease in fair value of other investments at fair value through profit or loss versus a gain of SGD3.7mn a year ago. This was due to recognition of loss in fair value upon disposal of certain investments and valuation of its investments at fair value as at 30 June 2020. Profit before tax was SGD5.2mn, down 40%y/y from SGD8.7mn in 1H2019.
- Over 1H2020, HFC recorded strong cash inflow of SGD27.8mn vs SGD1.1mn a year ago leading to cash on hand rising to SGD69.3mn from SGD40.4mn even though cash from operating activities was lower at SGD9.9mn vs SGD13.5mn. The increase was largely due to proceeds from disposal of other investments of SGD26.4mn and a net increase in loan and borrowings of SGD36.0mn.
- Based on our calculation, EBITDA/Total interest was 1.4x (2019: 1.5x, 2018: 1.8x). Gross debt rose 5.3% to SGD822.9mn. The increase was solely in short term debt (1H2020: SGD42.9mn) as loans were drawn down to maintain adequate cash and cash equivalents for working capital purposes. The proportion of secured debt rose slightly to 82.8% from 82.3% a year ago. HFC has sufficient cash to repay all of its short term debt. Net debt to equity ratio as at 30 June 2020 remained within historical norms of 0.3x. Given that HFC still has more than sufficient cash on hand to cover its short term borrowings, we think its credit metrics are still manageable.
- Management expects operation of YOTEL to remain challenging until the COVID-19 pandemic is controlled with vaccines widely available, international borders re-open with no travel restriction and tourism confidence returns for its key markets. Sales of residential units of Concourse Skyline will continue to be adversely affected amid uncertainty wrought by COVID-19.
- We continue to monitor the situation and are maintaining HFC's issuer profile at Neutral (5). (Company, OCBC)

Commerzbank AG ("CMZB") | Issuer Profile: Neutral (4)

- CMZB has announced the permanent closure of 200 branches that were closed as a result of the COVID-19 pandemic. Effectively, it means these branches will not re-open.
- Reducing its branch network is a key component of CMZB's restructuring plan that was being finalized by current Chief Executive Officer Martin Zielke, who has announced that he will step down from the role either at the end of the year or when a successor is appointed. This will reduce the branch network by 20% from the existing network of 1,000 branches and will come 3 years ahead of initial plans to close this number by 2023.
- Across our coverage universe we continue to see increasing credit dispersion between stronger credits and ones with underlying fundamental weaknesses, especially in our Financial Institutions coverage. In recent results for Commonwealth Bank of Australia ("CBA") and ABN Amro Bank N.V. ("ABN"), we see three key themes influencing bank credit profiles: (1) a new refocusing of business models towards better return businesses which are mostly domestic oriented; (2) possible liquidity pressure on commodity and trade finance issuers as banks withdraw from this business; and (3) acceleration of existing restructuring plans with more urgency around reducing exposure to weaker return and higher risk businesses. These themes will likely pressure results for weaker banks that will be incorporating both current operating challenges as well as heightened restructuring charges going forward. (Bloomberg, OCBC)

Credit Headlines

Lendlease Group ("LLC") | Issuer Profile: Neutral (3)

- LLC reported FY2020 results for the year ended 30 June. Profit before tax fell 92% y/y to AUD92mn with reported EBITDA down 70% y/y to AUD405mn, dragged by poorer performance from weaker revenue in all key segments.
  - Development (fell 59% y/y to AUD322mn): The segment was impacted from slower progress on conversion, fewer settlements/completions of communities (from 2523 lots to 1898 lots) and commercial buildings (from 164k sqm to 66k sqm) while trading conditions weakened.
  - Construction (fell 52% y/y to AUD101mn): While Australia saw a decline in reported EBITDA of 23% y/y to AUD97mn, the decline of the segment was mainly due to international segments (Asia, Europe, Americas) with mandated shutdowns impacting productivity, projects being put on hold and delays in commencement or securing of new projects.
  - Investments (fell 71% y/y to AUD140mn): The severe drop was mainly due to reduction in valuations of AUD188mn (LLC holds AUD4bn in investment portfolio, including co-investments). That said, we are not overly worried as reported EBITDA from operating earnings increased y/y to AUD198mn (FY2019: AUD144mn) propelled by completion of Paya Lebar Quarter in Singapore.
- The outlook remains somewhat challenging in the near term with LLC citing that communities settlements may continue to fall short of 3000-4000 lots target in FY2021 (FY2020: 1898 communities lots settled) and construction segment will likely remain subdued.
- That said, some income visibility remains with the development pipeline growing 48% y/y to AUD113bn with the addition of Thamesmead Waterfront in London and partnership with Google in San Francisco Bay Area (though this may take a longer time to convert/settle), construction backlog remaining substantial at AUD14bn (though margins are likely low) and the investments segment maintaining AUD36bn funds under management.
- While LLC is expecting AUD550mn in pre-tax impact from the Engineering segment, we think the worst may be over as LLC is progressing with the sale of the Engineering business with a sale price of AUD160mn, which is expected to be completed soon. We think this should de-risk the business given the volatile earnings of the segment.
- While earnings have deteriorated, we continue to hold LLC at a Neutral (3) Issuer Profile given its still healthy credit metrics with reported gearing of 5.7% with AUD5.8bn of liquidity (comprising cash of AUD1.6bn and undrawn debt facilities of AUD4.2bn). (Company, OCBC)

Key Market Movements

	17-Aug	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	65	-2	-13
iTraxx SovX APAC	37	-1	-7
iTraxx Japan	59	-2	-2
iTraxx Australia	69	0	-11
CDX NA IG	68	2	-3
CDX NA HY	104	-1	3
iTraxx Eur Main	55	0	-7
iTraxx Eur XO	345	-2	-23
iTraxx Eur Snr Fin	65	0	-6
iTraxx Eur Sub Fin	134	-3	-14
iTraxx Sovx WE	14	0	-4
USD Swap Spread 10Y	0	-2	1
USD Swap Spread 30Y	-40	-2	6
US Libor-OIS Spread	19	1	-1
Euro Libor-OIS Spread	-1	-1	-4
China 5Y CDS	40	-1	-3
Malaysia 5Y CDS	51	-3	-14
Indonesia 5Y CDS	106	-3	-22
Thailand 5Y CDS	40	-1	-2
Australia 5Y CDS	15	-1	-2

	17-Aug	1W chg	1M chg
Brent Crude Spot ($/bbl)	45.06	0.16%	4.45%
Gold Spot ($/oz)	1,935.84	-4.51%	6.93%
CRB	149.21	1.10%	5.95%
GSCI	352.17	2.03%	4.36%
VIX	22.05	-0.72%	-14.14%
CT10 (%)	0.709%	13.39	8.28
AUD/USD	0.719	0.50%	2.72%
EUR/USD	1.185	0.91%	3.65%
USD/SGD	1.370	0.26%	1.44%
AUD/SGD	0.985	-0.28%	-1.27%
ASX 200	6,104	-0.11%	1.16%
DJIA	27,931	1.81%	4.72%
SPX	3,373	0.64%	4.59%
MSCI Asiax	714	0.69%	3.96%
HSI	25,183	2.66%	0.37%
STI	2,581	0.87%	-1.42%
KLCI	1,565	-0.86%	-1.99%
JCI	5,248	2.02%	3.31%
EU Stoxx 50	3,305	1.61%	-1.80%

Source: Bloomberg

New Issues

- Lotte Shopping Co., Ltd. (Guarantor: Kookmin Bank) priced a USD100mn 3-year bond at 3m-US LIBOR+140bps.
- ICBC Financial Leasing Co. has arranged investor calls commencing 14 August 2020 for its proposed USD bond offering.

Date	Issuer	Size	Tenor	Pricing
14-Aug-20	Lotte Shopping Co., Ltd. (Guarantor: Kookmin Bank)	USD100mn	3-year	3m-US LIBOR+140bps
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%

Source: OCBC, Bloomberg

OCBC TREASURY RESEARCH

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