

Market Commentary

- The SGD swap curve fell last Friday, with the shorter dated tenors trading 1-2bps lower while the belly and longer dated tenors traded 3-4bps lower.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bp to 195bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 1bp to 755bps. The HY-IG Index Spread widened 2bps to 560bps.
- Flows in SGD corporates were heavy, with flows in NTUCSP 3.1%'50s, SINTEC 4.1%-PERPs, FPLSP 4.98%-PERPs, STANLN5.375%-PERPs and UBS 4.85%-PERPs.
- 10Y UST Yields gained 1bp to 0.63% amid growing concerns about the risk of inflation as suggested by the US economic data.

Credit Research

Andrew Wong

+65 6530 4736

WongVKAM@ocbc.com

Ezien Hoo, CFA

+65 6722 2215

EzienHoo@ocbc.com

Wong Hong Wei, CFA

+65 6722 2533

WongHongWei@ocbc.com

Seow Zhi Qi, CFA

+65 6530 7348

zhiqiseow@ocbc.com

Credit Summary:

- **[Semcorp Industries Ltd \("SCI"\)](#) | Issuer Profile: Neutral (4):** SCI announced their financial results for 1H2020. Revenue was down 27.4% y/y to SGD3.5bn while reported gross profit was down by 69.9% y/y to SGD160mn. This was driven by declines in both the Energy and Marine (~61%-owned Semcorp Marine Ltd ("SMM", Issuer profile: Unrated)) businesses of SCI. For the Energy business, revenue fell mainly due to the decrease in energy demand and prices from reduction in economic activity, particularly from the merchant business in Singapore, India and the UK on the back of COVID-19. As at 30 June 2020, SCI's unadjusted net gearing was 1.58x, significantly higher than 1.21x as at 31 December 2019. That being said with SMM due to be spin-off from SCI, we expect SCI-standalone unadjusted net gearing to fall as SMM-debt is removed from SCI's balance sheet.
- **[Cathay Pacific Airways Ltd \("Cathay"\)](#) | Issuer Profile: Unrated:** Cathay has announced that based on its unaudited results for 1H2020, the board of directors estimate that Cathay will record a net loss attributable to shareholders of HKD9.9bn (1H2019: HKD1.3bn). Per Cathay, the market for international aviation remains highly uncertain with border restrictions and quarantine measures still in place globally.
- **[Industry Outlook – Financial Institutions:](#)** The Australian government is increasing its support to SME with part-guaranteed 5-year loans of up to AUD1mn. These loans are an extension of the AUD40bn SME Guarantee Scheme first announced in the government's second stimulus package. The new scheme will begin on 1 October this year and will be made available until 30 June 2021. As US and Nordic banks have announced 2Q2020 results with mixed outcomes, what seems constant in the bank earnings so far is the ongoing influence of uncertainty on future results with regards to loan losses. This likely means that a balance will need to be struck between ongoing loan deferrals and eventual recognition of loan defaults however it remains difficult to see where that level will be.

Asian Credit Daily

Credit Headlines

Sembcorp Industries Ltd (“SCI”) | Issuer Profile: Neutral (4)

- SCI announced their financial results for 1H2020. Revenue was down 27.4% y/y to SGD3.5bn while reported gross profit was down by 69.9% y/y to SGD160mn. This was driven by declines in both the Energy and Marine (~61%-owned [Sembcorp Marine Ltd](#) (“SMM”, Issuer profile: Unrated)) businesses of SCI.
- For the Energy business, revenue fell mainly due to the decrease in energy demand and prices from reduction in economic activity, particularly from the merchant business in Singapore, India and the UK on the back of COVID-19.
- EBITDA (based on our calculation which does not include other income and other expenses though adding back non-cash write offs within cost of goods sold) was down 48.1% y/y to SGD335mn. Finance costs was up slightly by 1.4% y/y on the back of capitalised transaction costs and interest on lease liabilities, with resultant EBITDA/Interest down to only 1.1x. We estimate that the loss before interest, tax, depreciation and amortisation at SMM was SGD140.8mn, removing which, standalone-SCI EBITDA/Interest would have been higher at 2.2x.
- As at 30 June 2020, SCI’s unadjusted net gearing was 1.58x, significantly higher than 1.21x as at 31 December 2019. While net debt had increased, book value of SCI’s equity had also reduced by 16% to SGD6.6bn as at 30 June 2020 from SGD7.9bn as at 31 December 2019. In 1H2020, SCI had redeemed SGD818mn of perpetuals (these were recorded as equity in its books) while net new borrowings (proceeds from borrowings less repayment of borrowings) was SGD1.4bn, part of which we think was taken to redeem the perpetuals. That being said with SMM due to be spin-off from SCI, we expect SCI-standalone unadjusted net gearing to fall as SMM-debt is removed from SCI’s balance sheet.
- Excluding exceptional items, Energy profit from operations (“PFO”) only fell by 9% y/y to SGD410mn in 1H2020. However, SCI took large exceptional losses of SGD191mn, much of which came from the Energy business. Among these, SCI took a SGD81mn hit from its Oman power and water business following deterioration of operating conditions in Oman (fall in oil price and where the sovereign credit rating of the country had been cut in June 2020). SGD38mn hit was taken on the write-down of gasoil inventory, SGD44mn hit was taken due to uncertainty on recoverability of gasoil inventory stored at Hin Leong Trading, a troubled Singapore-based oil trader who is under debt restructuring. SCI on a consolidated basis ended 1H2020 with a net loss of SGD201mn (1H2019 net profit of SGD199mn).
- While we take comfort that SCI’s Energy business provides income resiliency, it is not loss on us that SCI had been reporting write-offs and impairments on its overseas Energy business. The Energy segment impairments while non-cash highlight that investment decisions for infrastructure assets can be fraught with business risk. This is especially the case for infrastructure assets that are in deregulated markets. Energy businesses which were impaired in 4Q2019 included UK Power Reserve and its asset in Chile.
- The independent auditors for SMM’s Brazilian subsidiary [Estaleiro Jurong Aracruz Ltda](#) (“EJA”), have issued a disclaimer of opinion in their independent auditors' report in relation to the financial statements of EJA for the financial year ended December 31, 2019. The auditors had issued this disclaimer of opinion as it was unable to obtain sufficient appropriate audit evidence from the ongoing work and from other sources about the potential impact from Operation Car Wash on EJA. While this remains as an event risk to SMM in our view, we are less concern about its impact to SCI given the impending spin-off. We maintain SCI’s issuer profile at Neutral (4). (Company, OCBC)

Asian Credit Daily

Credit Headlines

Cathay Pacific Airways Ltd (“Cathay”) | Issuer Profile: Unrated

- Cathay has announced that based on its unaudited results for 1H2020, the board of directors estimate that Cathay will record a net loss attributable to shareholders of HKD9.9bn (1H2019: HKD1.3bn).
- This includes impairment charges amounting to HKD2.4bn mainly relating to 16 aircraft that are unlikely to re-enter meaningful economic service again before the 2021 summer season.
- For June 2020, passenger load factor was 27.3% (May 2020: 29.6% and June 2019: 86.7%). Passenger capacity as measured in available seat kilometres decreased by 96.1 y/y.
- Per Cathay, the market for international aviation remains highly uncertain with border restrictions and quarantine measures still in place globally.
- Cargo and mail load factor was 74.5% in June 2020 while for May 2020 this was 73.0%(June 2019: 62.8%). (Company, OCBC)

Industry Outlook – Financial Institutions

- The Australian government is increasing its support to SME with part-guaranteed 5-year loans of up to AUD1mn. These loans are an extension of the AUD40bn SME Guarantee Scheme first announced in the government’s second stimulus package which included guaranteed 3-year loans for SME’s up to AUD250,000 with repayments not required for six months. The new scheme will begin on 1 October this year and will be made available until 30 June 2021. Other government support measures including JobSeeker and JobKeeper, are expected to be extended and revamped becoming a tiered payment, rather than a flat payment scheme. The eligibility test for the wage subsidy will also be tightened.
- As US and Nordic banks have announced 2Q2020 results with mixed outcomes, what seems constant in the bank earnings so far is the ongoing influence of uncertainty on future results with regards to loan losses. This is because of three factors (1) the economic environment, (2) the extent of government support in terms of duration and quantum and (3) an element of subjectivity in the bank’s decision making process. This likely means that a balance will need to be struck between ongoing loan deferments and eventual recognition of loan defaults however it remains difficult to see where that level will be. (ABA, Bloomberg, OCBC)

Key Market Movements

	20-Jul	1W chg (bps)	1M chg (bps)		20-Jul	1W chg	1M chg
iTraxx Asiax IG	79	-2	-5	Brent Crude Spot (\$/bbl)	43.15	1.01%	2.28%
iTraxx SovX APAC	44	0	-1	Gold Spot (\$/oz)	1,809.03	0.35%	3.11%
iTraxx Japan	60	-2	4	CRB	140.83	-0.49%	2.07%
iTraxx Australia	81	-2	-4	GSCI	337.46	-0.13%	3.00%
CDX NA IG	73	-1	1	VIX	25.68	-5.90%	-26.88%
CDX NA HY	101	1	-1	CT10 (%)	0.623%	0.49	-7.04
iTraxx Eur Main	62	-2	-3				
iTraxx Eur XO	367	-10	-5	AUD/USD	0.700	0.85%	1.32%
iTraxx Eur Snr Fin	71	-6	-3	EUR/USD	1.143	0.78%	1.53%
iTraxx Eur Sub Fin	146	-13	-12	USD/SGD	1.390	0.05%	0.19%
iTraxx Sovx WE	20	2	1	AUD/SGD	0.973	-0.80%	-1.12%
USD Swap Spread 10Y	-1	1	0	ASX 200	6,036	0.98%	1.57%
USD Swap Spread 30Y	-46	1	3	DJIA	26,672	2.29%	3.09%
US Libor-OIS Spread	20	0	-3	SPX	3,225	1.25%	4.10%
Euro Libor-OIS Spread	3	-1	-5	MSCI Asiax	686	-1.93%	5.64%
				HSI	25,089	-2.48%	1.81%
China 5Y CDS	45	-1	-5	STI	2,618	-1.29%	-0.62%
Malaysia 5Y CDS	65	-2	-4	KLCI	1,596	0.28%	5.91%
Indonesia 5Y CDS	128	2	7	JCI	5,080	0.96%	2.78%
Thailand 5Y CDS	43	-1	-1	EU Stoxx 50	3,366	2.10%	2.95%

Source: Bloomberg

Asian Credit Daily

New Issues

- China Huarong Financial Leasing has arranged investor calls commencing 17 July 2020 for its proposed USD bond offering.

Date	Issuer	Size	Tenor	Pricing
16-Jul-20	Globe Telecom Inc	USD300mn USD300mn	10-year 15-year	T+190bps T+245bps
16-Jul-20	Redsun Properties Group Limited	USD155mn	REDSUN 9.7%'23s	10.2%
15-Jul-20	Greenland Global Investment Ltd. (Guarantor: Greenland Holding Group Co.)	USD400mn USD250mn	2.75-year 4.5-year	6.45% 7.5%
15-Jul-20	Goodman HK Finance (Guarantors: Goodman Hong Kong Logistics Fund and Goodman HK Investments)	USD300mn	10-year	T+240bps
14-Jul-20	Skyfame International Holdings Limited (Guarantor: Skyfame Realty (Holdings) Limited)	USD87.5mn	364-day	13%
14-Jul-20	Doosan Infracore Co., Ltd. (Guarantor: The Korea Development Bank)	USD300mn	3-year	T+87.5bps
14-Jul-20	CCBL (Cayman) 1 Corporation Limited (Guarantor: CCB Leasing (International) Corporation Designated Activity Company)	USD500mn	5-year	CT5+175bps
14-Jul-20	Yun-Top International Investment Co. (BVI) Ltd. (Guarantor: Yunnan Construction and Investment Holding Group Co.)	USD500mn	3-year	5.1%
14-Jul-20	Melco Resorts Finance Limited	USD500mn	8NC3	5.75%
13-Jul-20	VLL International Inc. (Guarantor: Vista Land & Lifescapes Inc.)	USD200mn	7NC4	7.25%
13-Jul-20	Bank of Communications Co., Ltd. Hong Kong Branch	USD650mn USD400mn	3-year 5-year	3m-US LIBOR+80bps 3m-US LIBOR+90bps
13-Jul-20	RongXingDa Development (BVI) Limited (Guarantor: RiseSun Real Estate Development Co., Ltd.)	USD250mn	364-day	9.25%
13-Jul-20	NongHyup Bank	USD500mn	5-year	T+100bps

Source: OCBC, Bloomberg

Treasury Research & Strategy

Macro Research

Selena Ling*Head of Research & Strategy*LingSSSelena@ocbc.com**Howie Lee***Thailand, Korea &**Commodities*HowieLee@ocbc.com**Tommy Xie Dongming***Head of Greater China**Research*XieD@ocbc.com**Carie Li***Hong Kong & Macau*carierli@ocbcwh.com**Wellian Wiranto***Malaysia & Indonesia*WellianWiranto@ocbc.com**Dick Yu***Hong Kong & Macau*dicksnyu@ocbcwh.com**Terence Wu***FX Strategist*TerenceWu@ocbc.com

Credit Research

Andrew Wong*Credit Research Analyst*WongVKAM@ocbc.com**Ezien Hoo***Credit Research Analyst*EzienHoo@ocbc.com**Wong Hong Wei***Credit Research Analyst*WongHongWei@ocbc.com**Seow Zhi Qi***Credit Research Analyst*ZhiQiSeow@ocbc.com

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC Bank, its related companies, their respective directors and/or employees (collectively "Related Persons") may or might have in the future interests in the investment products or the issuers mentioned herein. Such interests include effecting transactions in such investment products, and providing broking, investment banking and other financial services to such issuers. OCBC Bank and its Related Persons may also be related to, and receive fees from, providers of such investment products.

This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).