

### Market Commentary

- The entire SGD swap curve rose 0-1bp last Friday.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 203bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 4bps to 785bps. The HY-IG Index Spread tightened 3bps to 581bps.
- Flows in SGD corporates were moderate, with flows in SIASP 3.145%'21s and CS 5.625%-PERPs.
- 10Y UST Yields fell 1bp to 0.7%, as the U.S. economic recovery could take longer than hoped due to the spread of COVID-19 in some U.S. states.

### Credit Research

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### Credit Summary:

- **HSBC Holdings PLC ("HSBC") | Issuer Profile: Neutral (3):** HSBC has announced changes to its segment reporting with four global businesses consolidated to three. While Commercial Banking (CMB) and Global Banking and Markets (GB&M) remain intact, Retail Banking and Wealth Management and Global Private Banking have been merged into Wealth and Personal Banking. Amongst this announcement which is most likely related to its ongoing restructuring, HSBC is under multiple internal and external influences as it deals with the pandemic. While the impact of potential political pressures from multiple angles is not certain, there could be an impact on fundamentals given it could raise execution risk for the bank's strategic plan of pivoting towards Asia, which is now more necessary than before given COVID-19.
- **Keppel Corp Ltd ("KEP") | Issuer Profile: Neutral (4):** KEP is in the midst of being partially taken over by its current single largest shareholder Temasek, which if successful, will see Temasek owning a ~51%-stake in KEP. On 21 June 2020, Morgan Stanley ("MS"), the sole financial adviser to Kyanite Investment Holdings Pte. Ltd, the Offeror entity (an indirect wholly-owned subsidiary of Temasek) issued a clarification letter on the Material Adverse Change ("MAC") clause specified for the transaction. It is suggested that impairments at KEP could trigger the MAC clause, posing a transaction execution risk to the partial takeover. Certain of KEP's associates at its offshore and marine ("KOM") arm are facing elevated risk of impairments this financial year. The relevant threshold by which the MAC could be triggered would be the net asset value ("NAV") and cumulative net profit after tax but before non-controlling interest ("Cumulative PAT") based on KEP's consolidated latest available financial statements when all other pre-conditions have been satisfied ("Latest Subsequent Financials"). In the worst case scenario where the MAC is triggered, the Offeror has the discretion to waive the pre-conditions.

## Asian Credit Daily

### Credit Headlines

#### HSBC Holdings PLC (“HSBC”) | Issuer Profile: Neutral (3)

- HSBC has announced changes to its segment reporting with four global businesses consolidated to three. While Commercial Banking (CMB) and Global Banking and Markets (GB&M) remain intact, Retail Banking and Wealth Management and Global Private Banking have been merged into Wealth and Personal Banking.
- Amongst this announcement which is most likely related to its ongoing restructuring, HSBC is under multiple internal and external influences as it deals with the pandemic. We previously mentioned UK and US government uneasiness with its support for HKSAR’s security laws, however most recently it has now come under criticism in China following rumours that its accelerated 35,000 staff reduction program will hurt its China business and combine with its involvement in US government actions against Huawei Technologies Co to push HSBC out of China. HSBC has since come out and pledged to continue investing in its Chinese business and continue with its strategic plan of pivoting towards Asia. In particular, China is an important component of this re-orienting of HSBC’s businesses towards better returns.
- [We lowered our views on HSBC](#) earlier this year to Neutral (3) from Positive (2) to reflect the weaker operating environment and multiple challenges to HSBC’s credit profile. We did not factor in the complications from potential political pressures from multiple angles – while the impact of these is not certain, there could be an impact on fundamentals given it could raise execution risk for the bank’s strategic plan which is now more necessary than before given COVID-19. (Company, Bloomberg, OCBC)

#### Keppel Corp Ltd (“KEP”) | Issuer Profile: Neutral (4)

- KEP is in the midst of being partially taken over by its current single largest shareholder Temasek, which if successful, will see Temasek owning a ~51%-stake in KEP.
- On 21 June 2020, Morgan Stanley (“MS”), the sole financial adviser to Kyanite Investment Holdings Pte. Ltd, the Offeror entity (an indirect wholly-owned subsidiary of Temasek) issued a clarification letter on the Material Adverse Change (“MAC”) clause specified for the transaction.
- The clarification was in response to a media article citing equity research sources. The article suggested that impairments at KEP could trigger the MAC clause, posing a transaction execution risk to the partial takeover. Certain of KEP’s associates at its offshore and marine (“KOM”) arm are facing elevated risk of impairments this financial year.
- Per MS, the SGD500mn threshold for provision for proceedings relates only to total provisions attributable to any claim, litigation, investigation or proceeding to which KEP, its subsidiaries and associated companies is subject to.
- Potential additional accounting impairments of its associates Floatel International Ltd (“Floatel”) and KrisEnergy Ltd (both which are undergoing debt restructuring) would not be taken into account in determining whether this SGD500mn threshold is met.

*(To be continued on the next page...)*

**Asian Credit Daily****Credit Headlines****Keppel Corp Ltd ("KEP") | Issuer Profile: Neutral (4)**

- Per MS, such accounting impairments would typically affect net asset value ("NAV") and net profit after tax. The relevant threshold by which the MAC could be triggered would be the NAV and cumulative net profit after tax but before non-controlling interest ("Cumulative PAT") based on KEP's consolidated latest available financial statements when all other pre-conditions have been satisfied ("Latest Subsequent Financials"). Specifically for this transaction:
  - i. If NAV at the end of the financial period in the latest financial period is lower than SGD10.3bn (representing decrease in NAV by at least 10% from that as at 30 September 2019); or
  - ii. If Cumulative PAT is lower than SGD556.9mn (representing a decrease of at least 20%) from LTM Cumulative PAT ending 30 September 2019 of SGD696mn.
- In our view, impairment testing is highly subjective and hinges on when testing is completed. As a recap, the longstop date on this transaction is 21 October 2020. In our view, this means that if the pre-conditions have been satisfied and/or waived earlier (before the impairment testing is completed), there is a chance that impairments would not be included in the Latest Subsequent Financials (even if impairments were taken in the future after the transaction is no longer pre-conditional).
- While the recent crash in oil prices caught the market by surprise, we think it was unlikely for the Offeror and its financial adviser to be unaware of the possibility of future impairments at KOM. For example, KrisEnergy entered into debt restructuring for the second time in August 2019 while Floatel's publicly traded bonds were already trading at distressed levels since September 2019. Both of these occurred before the pre-conditional partial offer were announced on 21 October 2019.
- Temasek is also a long-time investor in the offshore and marine space (via Sembcorp Industries Ltd (Issuer profile: Neutral (4)) which allows it institutional knowledge on broad sector developments.
- Net-net, in our view, the NAV threshold allows more buffer, though impairments at KOM may put KEP at risk of triggering the Cumulative PAT threshold. Apart from heightened counterparty credit risk on contracts, as at 31 March 2020, Floatel's carrying value was ~SGD0.5bn while the carrying value of KrisEnergy together with an announced loan to be extended by a KEP subsidiary to KrisEnergy amounted to ~SGD0.2bn. That being said, aside from quantitative threshold, in our view, the strategic rationale for Temasek in making this pre-conditional partial takeover needs to be considered.
- In the worst case scenario where the MAC is triggered, the Offeror has the discretion to waive the pre-conditions. Our base case continues to assume that the transaction would be completed and for now we maintain KEP's issuer profile at Neutral (4), albeit precariously. (Company, OCBC)

## Asian Credit Daily

## Key Market Movements

	22-Jun	1W chg (bps)	1M chg (bps)		22-Jun	1W chg	1M chg
iTraxx Asiax IG	86	-2	-22	Brent Crude Spot (\$/bbl)	42.22	6.29%	20.18%
iTraxx SovX APAC	45	-5	-14	Gold Spot (\$/oz)	1,749.79	1.43%	0.87%
iTraxx Japan	56	-7	-23	CRB	137.97	2.72%	6.52%
iTraxx Australia	87	-8	-23	GSCI	327.64	4.25%	9.98%
CDX NA IG	78	7	-10	VIX	35.12	-2.69%	24.72%
CDX NA HY	100	-2	5	CT10 (%)	0.689%	-3.27	2.97
iTraxx Eur Main	66	-4	-14				
iTraxx Eur XO	385	-16	-94	AUD/USD	0.682	-1.47%	4.28%
iTraxx Eur Snr Fin	76	-6	-19	EUR/USD	1.117	-1.32%	2.50%
iTraxx Eur Sub Fin	161	-7	-39	USD/SGD	1.399	-0.51%	1.86%
iTraxx Sovx WE	20	-1	-8	AUD/SGD	0.954	0.95%	-2.33%
USD Swap Spread 10Y	-2	-1	-2	ASX 200	5,931	3.70%	7.90%
USD Swap Spread 30Y	-50	-1	-5	DJIA	25,871	1.04%	5.75%
US Libor-OIS Spread	23	2	-9	SPX	3,098	1.86%	4.81%
Euro Libor-OIS Spread	8	-4	-11	MSCI Asiax	650	3.90%	10.58%
				HSI	24,644	1.41%	7.47%
China 5Y CDS	50	-5	-4	STI	2,635	-1.86%	5.40%
Malaysia 5Y CDS	72	-8	-25	KLCI	1,507	-2.51%	4.91%
Indonesia 5Y CDS	125	-14	-55	JCI	4,942	1.27%	8.72%
Thailand 5Y CDS	42	-5	-13	EU Stoxx 50	3,269	3.66%	12.52%
Australia 5Y CDS	0	0	-2				

Source: Bloomberg

## Asian Credit Daily

### New Issues

- Jingrui Holdings Limited priced a USD110mn 2.25-year bond at 12.0%, tightening from IPT of 12.75% area.
- Sino-Ocean Capital Holding Limited has arranged investor calls commencing 18 June 2020 for its proposed USD bond offering.

Date	Issuer	Size	Tenor	Pricing
19-Jun-20	Jingrui Holdings Limited	USD110mn	2.25-year	12.0%
18-Jun-20	COSL Singapore Capital Ltd. (Guarantor: China Oilfield Services Limited)	USD500mn USD300mn	5-year 10-year	T+158bps T+190bps
18-Jun-20	Taiyuan Longcheng Development Investment Group Co., Ltd.	USD300mn	3-year	3.70%
18-Jun-20	Haitong International Securities Group Ltd.	USD400m	3-year	T+195bps
18-Jun-20	Jollibee Worldwide Pte. Ltd (Guarantor: Jollibee Foods Corporation)	USD300mn USD300mn	5-year 10-year	4.125% 4.75%
18-Jun-20	Bank Of China Limited, Hong Kong Branch	USD400mn USD600mn	3-year 5-year	3m-US LBOR+75bps T+103bps
17-Jun-20	Standard Chartered PLC	USD1bn	PerpNC5	6.0%
17-Jun-20	Shengzhou Investment Holdings Co., Ltd.	USD250mn	3-year	4.08%
17-Jun-20	China Construction Bank Corporation	USD2bn	10NC5	T+215bps
17-Jun-20	Bluestar Finance Holdings Limited (Guarantor: China National Bluestar (Group) Co., Ltd.)	USD500mn	PerpNC3	3.875%
17-Jun-20	Zhongliang Holdings Group Company Limited	USD250mn	364-day	9.25%
17-Jun-20	Neijiang Investment Holding Group Co., Ltd.	USD95mn	3-year	7.5%
16-Jun-20	Perusahaan Penerbit SBSN Indonesia III (Obligor: The Government of the Republic of Indonesia, represented by the Ministry of Finance)	USD750mn USD1bn USD750mn	5-year 10-year 30-year	2.30% 2.80% 3.80%
16-Jun-20	Xianyang Financial Holding Group Co., Ltd	USD100mn	3-year	3.8%

Source: OCBC, Bloomberg

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