Thursday, July 23, 2020

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COVID-19: Liquidity Risk II

Impact of COVID-19 has become broader and deeper, where to from here?

- In the nearly five months since we published our COVID-19 Liquidity Situation and six months since our Credit Impact from the 2019 Novel Coronavirus, the virus has spread to new epicentres, taking its toll on lives and economic livelihoods.
- Central banks and governments globally have announced monetary easing policies and pumped billions into their respective economies via fiscal stimulus.
- At the beginning of the year, we covered 72 SGD-bond issuers. Year-to-date, within our SGD-bond coverage, we downgraded 14 issuers and upgraded two issuers. The downgrades were concentrated in the travel and hospitality sectors where future income within 12 months had become highly uncertain. Several issuers downgraded were highly levered issuers or had other pre-existing fundamental weaknesses, whose liquidity profile had been simultaneously impacted by a more difficult refinancing market, with the negative implications from COVID-19 accelerating the change in issuer profiles.
- Since the publication on 4 March 2020 focusing on the liquidity situation of selected issuers, we have seen the liquidity pictures materialize or evolve. For example, CMA CGM SA and Singapore Airlines Ltd saw their liquidity situation improved via external funding while others turned negative, for example, Century Sunshine Group Holdings Ltd.
- At that point, COVID-19 was just beginning its global spread and ever since then the **negative impact has broadened to beyond liquidity stress**. As such, we have **expanded our watch list** to issuers whose credit profile is also exposed to weaker industry dynamics, higher leverage and a weaker balance sheet as well as some measure of liquidity risk. These include Heeton Holdings Ltd, Frasers Property Limited, Frasers Hospitality Trust, OUE Ltd, First Real Estate Investment Trust, Olam International Ltd and GuocoLand Ltd.

Update

The markets have seen indiscriminate selling as investors fled to safety. Consequential impact rippled through the markets with 10 year UST down, margin calls triggered leading to deleveraging and funding channels impaired. While markets were in a tailspin, the Federal Reserve surprised with an unscheduled rate cut by 150bps to a range of 0-0.25% and on 23 March, announced an unprecedented move to purchase an unlimited amount of Treasuries and mortgage-backed securities and new programs to purchase corporate bonds in the primary and secondary markets (with a capacity of USD4.5trillion).

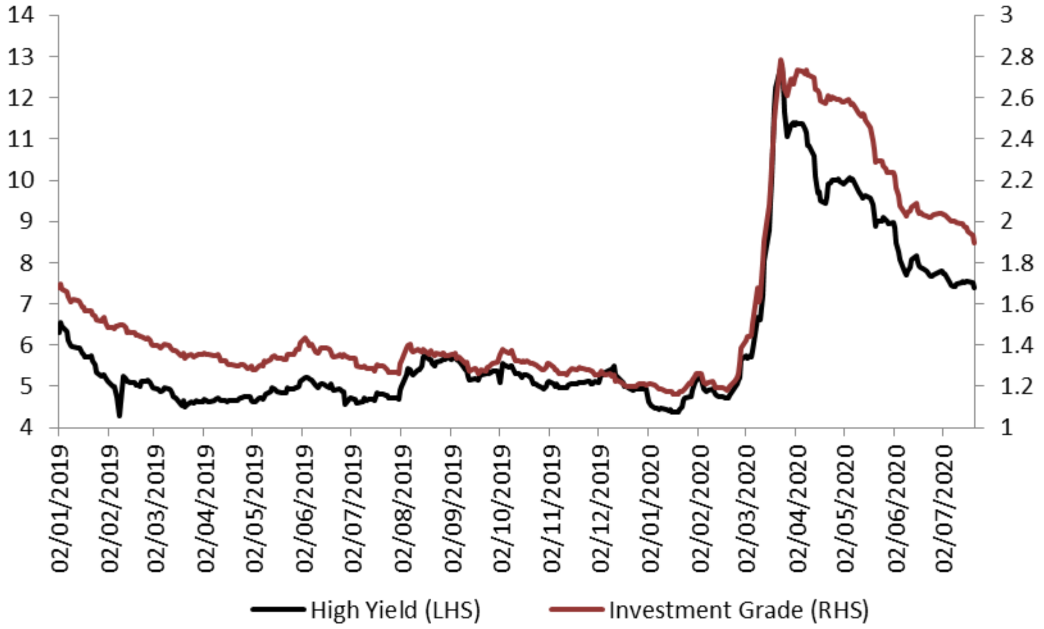
The move by the Fed has effectively eased market dislocations, brought back investor appetite and restored market functioning. With that, the peak in credit spreads is now behind us. However, this has also perhaps unintendedly brought about a divergence between market fundamentals and market technicals. While in economic downturns, deterioration in operating performance and credit fundamentals are inevitable, the fact that the Fed is backstopping segments of the bond market have resulted in a bond bonanza.

In recent months, the pandemic has continued to terrorize the world as countries struggle to navigate the new normal. Second and third waves of the outbreak of the virus were reported in various cities across the world bringing its people back into a lockdown situation. In the meantime, companies have been reducing costs, cutting headcounts and taking impairments. Banks too have announced larger provisions. We have also seen a pickup in casualties as more firms file for Chapter 11. While some of these firms belong to the harder hit sectors such as Tourism & Hospitality and F&B, the impact of the pandemic has been very broad based and very few businesses are unaffected in our view.

For the SGD bond market, deals were finally priced in the primary market in late April. Investor confidence has also returned since with strong demand seen for investment grade names and bid-ask spreads narrowing.

Looking ahead, we expect credit spreads to remain elevated and susceptible to small pull backs on the back of infection headlines. In times like this, credit selection is crucial to distinguish between opportunities and traps as bond investors continue to be exposed to idiosyncratic risks which can evolve as discoveries on the virus, the vaccine and policy changes happen. As we enter 3Q2020, we think the government may reassess the level and type of support to be provided going forward.

Figure 1: Movement in the Bloomberg Barclays Asia USD Bond Index Average OAS



Source: Bloomberg, OCBC Credit Research

With that, we have refreshed the list of companies that we are monitoring closely for a downgrade in credit profile due to the impact of the pandemic on their operations, cashflows and access to funding.

We will continue to update our analysis should developments with regards COVID-19 warrant us to do so. We also continue to encourage readers to keep up to date with the COVID-19 Monitor that is being published daily by OCBC Treasury Research while this outbreak persists.

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Table 1: SGD Bond Issuers Under the Spotlight – Liquidity Situation in the Next 6 Months

Issuer	Issuer Profile	Liquidity Risk	Liquidity Situation	OCBC Credit Research Commentary
Aspial Corp Ltd	Negative (6)	High	• 2019 results were lackluster with reported EBIT down 22.7% y/y to SGD60.9mn due to declines in real estate segment (- 59.4% y/y). • Cash balance of SGD146.2mn as of 31 Dec 2019 pales against SGD867.0mn debt maturing in 2020. • This includes the SGD150mn ASPSP 5.25% '20s maturing 28 Aug. • Excluding Maxi-Cash's SGD251.9mn short term debt, which is consolidated on Aspial's balance sheet, another more than SGD400mn debt remains. • Net gearing is somewhat elevated at 2.36x.	• Aside from lackluster results, liquidity is the primary concern with operating cashflow insufficient to fully cover maturing debt, even if we assume a successful handover of Australia 108. • Though Australia 108 reportedly topped out in early June, COVID-19 is expected to impact sales and delay settlements. • Following redemption of ASPSP 5.3% '20s, likely financed by cash of SGD146.2mn and issuance of SGD50mn ASPSP 6.5% '23s, another ~SGD700mn remains to be repaid in 2020. • It is unclear if assets can be easily divested for liquidity, which includes SGD60.8mn of investment properties, SGD9.7mn of investment securities and 64.7%-stake in Maxi-Cash worth SGD93.8mn. • COVID-19 outbreak also does not help Aspial's Jewellery business due to closure of retail outlets from circuit breaker and weaker consumer sentiments. • Credit profile looks precarious at Negative (6).
First Real Estate Investment Trust	Negative (6)	Moderate-to-High	• As at 30 June 2020, FIRT had SGD195.7mn of short term debt, consisting of bank loans due in March 2021. FIRT is negotiating with banks for the refinancing of this debt, representing ~40% of its gross debt. • EBITDA/Interest was 3.3x in 1H2020 based on our calculation. • Similar to other REITs which structurally hold little cash on their balance sheet, FIRT's cash balance was only SGD17.8mn as at 30 June 2020. • FIRT faces first call of its perpetual in July 2021.The perpetuals (amount outstanding of SGD60mn) has low market liquidity. • In May 2020, PT Lippo Karawaci Tbk ("LK"), its main tenant, unilaterally announced that as a result of the COVID-19 outbreak in Indonesia and its material negative impact on PT Siloam International Hospitals Tbk ("Siloam"), LK will be initiating a restructuring process with FIRT with regards to the significant rental support that LK provides to FIRT. • LK was historically FIRT's Sponsor. Siloam is LK's subsidiary who mainly operates the hospitals owned by FIRT. • In July 2020, FIRT announced a rental relief of two months for all tenants. Further rental relief may also be provided in 2H2020.	• EBITDA/Interest looks manageable on the surface, despite the rental relief, although FIRT faces significant counterparty credit risk from LK. LK is externally rated as a high yield company. • Refinancing from bank lenders for the debt coming due in May 2021 is crucial, though reduced rental income may lead to lower asset values and constrain the amount of debt which bank lenders may be willing to extend to FIRT. • Based on our estimates, unencumbered assets were minimal, leaving little financial flexibility to raise secured debt from these assets. • Our base case is a non-call at first call on the perpetuals.

Issuer	Issuer Profile	Liquidity Risk	Liquidity Situation	OCBC Credit Research Commentary
Golden Agri-Resources Ltd	Neutral (5)	Moderate-to-High	• As at 31 December 2019, GGR's cash-to-short term debt was 0.1x while short term debt as a proportion of gross debt was ~60%. While this looks significant, it is only slightly higher than historical levels. • EBITDA/Interest was 2.7x for 2019 based on our calculation. We estimate that for 1Q2020, EBITDA/Interest was 2.0x. • The company has guided that for 2020, its sales from China may be negatively affected by 20% although demand from other markets may help buffer the expected fall from China. China contributed 13% to GGR's total revenue in 2019. • GGR faces the maturity of its sole bond in January 2021. The bond (amount outstanding of SGD150mn) has low market liquidity.	• Palm oil prices have rebounded to December 2019 levels (near to five-year peak), despite the earlier fall from the outbreak of COVID-19. • We estimate working capital-related debt at ~USD905mn-USD1bn, which tends to get rolled-over. This implies that another ~USD0.8bn of short term debt would need to be refinanced. We see no reason for banks to pull working capital at this stage. This is especially more so as the company is the second largest plantation company globally by planted area. • We expect GGR to be reliant on alternative financing sources (eg: bank financing) to fund the redemption of its sole SGD bond. • Apart from the SGD bonds, competing financing needs at the company include expenditure for replanting and diversions into GGR's technology fund. The higher financing needs may lead cost of funding to increase at GGR.
CMA CGM SA (Parent of Neptune Orient Lines Ltd)	Negative (6)	Moderate	• Net gearing of CMA CGM has improved q/q at 3.33x as at 30 March 2020 from 3.46x at end 2019 (1Q19: 3.19x). Excluding liabilities under IFRS16, net gearing was 1.65x (4Q19: 1.78x and 1Q19: 1.75x). • Cash-to-short term borrowings was 1.35x as at 30 March 2020 based on our estimation, including the EUR1.05bn loan it recently obtained which has significantly improved its liquidity position in the short term. • While we are comfortable with CMA CGM's liquidity position for now, we note that shipping volumes are expected to decline by ~10% over 1H2020 and the full extent of the impact of COVID-19 on the shipping industry remains difficult to predict. Therefore, even though CMA CGM has sufficient funds to repay its short term debt at present, we think it remains very possible that the liquidity situation could take a turn for the worse in the future. • Also, having sold its investment stakes in eight port terminals in March 2020, CMA CGM is left with fewer divestible assets while its balance sheet remains highly levered.	• COVID-19 has had a notable impact on the shipping industry with manufacturing industries and port services disrupted and demand for shipping reduced. • The Shanghai Shipping Exchange Shanghai (Export) Containerized Freight Index, which had recovered through December dropped 20.0% since Jan 3rd to Apr 24th from supply chain and global supply issues in part due to lockdowns happening across the globe, before rebounding by 26.6% as of 17 July 2020 .Evidently, the shipping industry is very volatile. • While removal of capacity, a resumption of manufacturing activities and lifting of lockdown measures should signal the start of a recovery in the sector, COVID-19 infections continue to occur. Therefore, we think the risk of prolonged weakness within the sector remains and it would be detrimental to CMA CGM given its high leverage. • We downgraded CMA CGM twice in 2019 on its weak credit metrics and high refinancing risk amidst industry challenges.
Heeton Holdings Ltd	Negative (6)	Moderate	• While 2019 results look decent with revenue rising 17.7% y/y to SGD64.8mn, this was driven by newly acquired hotels in 2018-19. • We note that the hospitality segment was not profitable in the first place, reporting negative SGD0.3mn of losses before tax in 2019 though this was likely due to the new hotels in the portfolio which may take time to stabilize. • Cash and fixed deposits of SGD116.9mn covering short term debt of SGD94.9mn. • Adjusted EBITDA (reported PBT before depreciation, interest and fair value changes) of SGD26.2mn is barely sufficient to cover SGD20.8mn in interest expense.	• Credit profile is weighed down by weak profitability. This should weaken further with investment properties likely to see dampened recurring income. • The thrust towards hospitality turned out untimely as hospitality demand will likely be curbed in the near term, and we expect HHL's hospitality assets to deliver operating losses if occupancy remains depressed for a significant time. • Although investment properties and hospitality assets worth SGD648.9mn covers SGD509.2mn in gross debt, asset divestment may be tricky in today's environment.

Issuer	Issuer Profile	Liquidity Risk	Liquidity Situation	OCBC Credit Research Commentary
China Aoyuan Group Limited	Negative (6)	Moderate	• Unrestricted cash-to-short term debt and current amounts due to minority investors, joint ventures and associates as at 31 December 2019 was 0.9x. • Significant contract liabilities of RMB86.1bn as at 31 December 2019. In our view, this means that unrestricted cash is needed to be set aside for working capital to deliver on units pre-sold. • Unadjusted gross gearing has risen to 2.6x as at 31 December 2019 from 2.2x as at 30 June 2019. • On 22 May 2020, we downgraded our issuer profile on CAPG as the higher leverage and the more adverse offshore financing market meant that CAPG no longer met our Neutral (5) issuer profile. • In 2019, bulk of CAPG's sales was from China. The COVID-19 outbreak had earlier led to an overall property market slowdown in China.	• Encouragingly, with China's ability to suppress the virus and the gradual reopening of its economy, property sales have returned to the China market. • For CAPG, 1H2020 contracted sales were at ~RMB50.87bn (1H2019: RMB53.63bn). • The offshore China property high yield bond market is currently exhibiting a sense of normalcy with primary deals being printed and dealer bid-ask spreads narrowed. • Since 22 May 2020, the Bloomberg Barclays Asia USD High Yield Index tightened a further 160bps to 740bps as of writing. This is still wider than the past five years. • CAPG is highly reliant on high yield bond market access though we expect the current environment to be conducive. • CAPG faces a put on its sole SGD bond and a USD bond tranche in September 2020 (aggregate amount outstanding of ~SGD790mn). • Investors who wish to put the bonds back to the company should contact their trustee.
Lippo Malls Indonesia Retail Trust	Negative (6)	Moderate	• As at 31 March 2020, cash-to-short term debt was 1.3x. • Aggregate leverage was 42.1% as at 31 March 2020, sharply increasing from 35.9% as at 31 December 2019 following the sharp depreciation of the IDR against SGD and the drawdown from its revolving credit facility. • EBITDA/Interest based on our calculation was 3.3x in 1Q2020. LMRT had largely closed its retail malls and retail spaces amidst COVID-19 over late-March to May 2020, though many malls have resumed business operations as of end-June 2020. • LMIRT is proposing to acquire Lippo Mall Puri (SGD430mn in transaction cost). While this did not happen in 1H2020, it could still occur in 2H2020.	• LMRT is 32.3%-owned by its Sponsor, LK. Sponsor-related parties account for ~20% of LMRT's gross revenue. • No immediate liquidity concerns as cash more than covers short-term borrowings. • As COVID-19 continues to spread in Indonesia, we expect retail sales to remain lackluster, with tenants facing cash flow issues and resulting in rental payment delays to LMRT. • The sizeable acquisition of Lippo Mall Puri (SGD430mn) relative to net assets (SGD0.9bn) could impact LMRT's credit profile. • Liquidity position and credit profile depends on the eventual funding mix used to acquire Lippo Mall Puri. • Our base case assumes that the LMRT perpetual would not be called at first call date in September 2021.
Oxley Holdings Ltd	Negative (6)	Moderate	• Weaker results for 2QFY2020 with revenue falling 12% y/y to SGD311.2mn, due to lower revenue from Royal Wharf. Gross margins fell to 11.9% (2QFY2019: 13.1%) as we estimate the Singapore projects are averaging 10-15% in margins. • Near-term debt maturing of SGD828.3mn exceeds cash of SGD323.8mn • Raised a SGD75mn 3-year bond issue at 6.75% in Feb 2020. • Credit metrics are somewhat stretched with net gearing at 1.94x as of 2QFY2020. • SGD2.2bn of unbilled sales over the next 3 years.	• Expect the gap between near-term debt and cash to be plugged by issuance of SGD75mn OHLSP 6.5% '23s, GBP30mn (~SGD52.7mn) from sale of Galliard and expected refinancing of SGD184mn investment property loan maturing in 2020. • OHL should also receive ~SGD200mn proceeds from the sale of Chevron House while other projects may deliver cashflows too including over SGD300mn from Royal Wharf in the UK and over SGD100mn from Dublin Landings in Ireland. • However, completion and handover of above-mentioned projects will be key given COVID-19 has likely slowed sales volumes significantly.

Issuer	Issuer Profile	Liquidity Risk	Liquidity Situation	OCBC Credit Research Commentary
Olam International Ltd	Neutral (5)	Moderate	• As at 31 December 2019, Olam's cash-to-short term debt was 0.5x while short term debt as a proportion of gross debt was ~55%, somewhat higher than historical levels (43% on average over the past two years). • EBITDA/Interest was 1.8x for 2019 based on our calculation. Company's reported net gearing was 1.53x as at 31 March 2020, higher than end-2019, driven by higher working capital and weakening of the SGD against USD. • Secured debt at the company remains minimal.	• Olam being a food and agriculture business is not directly in the eye of the storm of COVID-19, although we expect lower volumes and some disruption in supply chains as this outbreak drags on in the US, a key end-demand market. • We still expect the company's refinancing risk to be manageable given its strong bank access and the reputation it has built outside of traditional sources of bank debt. • However, as at 31 March 2020, its unutilized bank lines had fallen to SGD7.5bn (as at 31 December 2019 this was SGD9.4bn). Historically, 15-20% of these lines are committed. • In our view, part of the lines were drawn down in 1Q2020 and kept as cash balance.
GuocoLand Ltd	Neutral (5)	Low	• 2QFY2020 results were strong with revenue rising 110% y/y to SGD299.6mn and net profit surging to SGD26.4mn (2QFY2019: SGD7.4mn) due to strong property sales. • Cash balance of SGD690.4mn as of end 30 Dec 2019 is lower than short term debt of SGD776.6mn. • Net gearing is somewhat elevated at 97%. • Expected to generate cashflows from existing pre-sales such as Wallich Residences. • Guoco Tower may still generate ~SGD100mn recurring income p.a.	• Lower transaction volumes and softer prices are expected going forward with GUOL yet to fully sell several developments including Meyer Mansion, Midtown Bay, Pacific Mansion and Tan Quee Lan Street. • Property leasing demand will likely weaken, which may somewhat impact rental income generated by Guoco Tower. • That said, we expect GUOL to maintain financing access to refinance short term debt of SGD776.6mn recently securing a SGD730mn green loan. • In the worst case scenario, we believe GUOL can sell assets, such as Guoco Tower and 20 Collyer Quay. In April, it sold Guoman Hotel in Shanghai for RMB1.44bn (~SGD290.7mn).
OUE Ltd	Neutral (5)	Moderate	• As at 31 December 2019, OUE's cash-to-short term debt was 0.3x. • EBITDA/Interest was 1.3x in 2019 based on our calculation. • While OUE's bottom line is boosted by associates (eg: from its ~23.8%-stake in Gemdale Properties & Investment Corp Ltd ("Gemdale"), dividend income from this associate is limited. Gemdale is a China property developer. • Our preliminary asset-to-debt coverage calculation shows a manageable asset-to-debt coverage ratio of 2.6x.	• OUE is negatively affected by COVID-19, being the master lessee of two hotels and providing tenant assistance to its retail properties held by OUE-CT. • In our view, OUE's credit profile continues to be underpinned by its asset base though in this environment, actual executable valuations are uncertain. • In July 2020, the company announced the sale of US Bank Tower for ~SGD597.7mn, which if completed would help its near term liquidity needs. The purchase consideration though is lower than the last valuation as at 31 December 2019 by 34%.

Issuer	Issuer Profile	Liquidity Risk	Liquidity Situation	OCBC Credit Research Commentary
Frasers Property Ltd	Neutral (5)	Low	• As at 31 March 2020, FPL's cash-to-short term debt was 0.8x. • EBITDA/Interest based on our calculation for the first six months of the financial year ended September 2020 ("1HFY2020") was 2.9x. • On 15 May 2020, we downgraded our issuer profile on FPL to Neutral (5) on the back of a weaker profitability outlook while net gearing had climbed to 1.12x as at 31 March 2020. As at 31 December 2019, this was 0.97x (30 September 2019: 0.86x). • FPL has not declared its usual interim equity dividend in a bid to conserve cash and has focused on cutting operating expenses.	• We expect FPL's Hospitality, Retail and Property Development segments to be negatively impacted, though expect its Industrial property portfolio to be resilient. • FPL's Sponsored REITs are very significant income contributors which upstream ~SGD130mn in dividends p.a. to FPL. However, a couple of its listed REITs have slashed dividend payout ratios to only 20% for FHREIT and 50% on Frasers Centrepoint Trust. • We expect FPL to maintain access to financing markets and would be able to refinance a substantial portion of its SGD4.7bn of debt maturing in the short term. The remainder may be repaid from its cash balance of SGD3.9bn as at 31 March 2020.
Frasers Hospitality Trust	Neutral (4)	Moderate	• As at 31 March 2020, FHREIT's cash-to-short term debt was highly manageable at 2.0x. There is no debt due in FY2021 though FHREIT faces first call on its sole perpetual in May 2021. • Revenue for the second quarter of the financial year ended September 2020 ("2QFY2020") was down by 41.5% y/y with EBITDA/Interest only at 2.0x. • Amidst the COVID-19 pandemic which has led to the travel and hospitality industry being highly challenged, FHREIT is highly reliant on the SGD49mn p.a in fixed rent which it receives from its Sponsor, FPL. • Secured debt at the company remains minimal.	• We are likely to downgrade the issuer profiles of hospitality issuers under our coverage as there are no material changes to the reopening of international borders. • Our earlier assumption that FHREIT may recover faster given that Australia is the largest contributor to its net property income is unlikely to come through in the near term. • While the fixed rent from Sponsor sufficiently covers FHREIT's interest and perpetual distribution, we see the counterparty credit risk on this fixed rent as heightened, given Sponsor's increasingly levered profile. • Unlike its immediate hospitality peers in the SGD bond market, FHREIT has minimal committed funding facilities. In May 2020, the REIT shared that it was in progress to convert SGD60mn of a revolving credit facility into a committed facility. • Our base case assumes that the perpetual will not be called at first call.

Source: Company financials, Bloomberg, annual reports and investor presentations, OCBC Credit Research

OCBC CREDIT RESEARCH

SGD Special Interest Commentary

Thursday, July 23, 2020

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Explanation of Issuer Profile Rating / Issuer Profile Score

Positive ("Pos") – The issuer's credit profile is either strong on an absolute basis or expected to improve to a strong position over the next six months.

Neutral ("N") – The issuer's credit profile is fair on an absolute basis or expected to improve / deteriorate to a fair level over the next six months.

Negative ("Neg") – The issuer's credit profile is either weaker or highly geared on an absolute basis or expected to deteriorate to a weak or highly geared position over the next six months.

To better differentiate relative credit quality of the issuers under our coverage, we have further sub-divided our Issuer Profile Ratings into a 7-point Issuer Profile Score scale.

IPR	Positive		Neutral			Negative	
IPS	1	2	3	4	5	6	7

Explanation of Bond Recommendation

Overweight ("OW") – The bond represents **better relative value** compared to other bonds from the same issuer, or bonds of other issuers with similar tenor and comparable risk profile.

Neutral ("N") – The bond represents **fair relative value** compared to other bonds from the same issuer, or bonds of other issuers with similar tenor and comparable risk profile.

Underweight ("UW") – The bond represents **weaker relative value** compared to other bonds from the same issuer, or bonds of other issuers with similar tenor and comparable risk profile.

Please note that Bond Recommendations are dependent on a bond's price, underlying risk-free rates and an implied credit spread that reflects the strength of the issuer's credit profile. Bond Recommendations may not be relied upon if one or more of these factors change.

Other

Suspension – We may suspend our issuer rating and bond level recommendation on specific issuers from time to time when OCBC is engaged in other business activities with the issuer. Examples of such activities include acting as a joint lead manager or book runner in a new issue or as an agent in a consent solicitation exercise. We will resume our coverage once these activities are completed. We may also suspend our issuer rating and bond level recommendation in the ordinary course of business if (1) we believe the current issuer profile is incorrect and we have incomplete information to complete a review; or (2) where evolving circumstances and increasingly divergent outcomes for different investors results in less conviction on providing a bond level recommendation.

Withdrawal ("WD") – We may withdraw our issuer rating and bond level recommendation on specific issuers from time to time when corporate actions are announced but the outcome of these actions are highly uncertain. We will resume our coverage once there is sufficient clarity in our view on the impact of the proposed action.