OCBC CREDIT RESEARCH

SGD Special Interest Commentary

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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

COVID-19: Liquidity Situation

As COVID-19 spreads globally and the public panics, will financial markets follow suit?

- In the month since we published our Credit Impact from the 2019 Novel Coronavirus, the virus has changed name and expanded its reach.
- As countries respond to rising infections, so have central banks stepped up accommodative measures that culminated in an emergency 50bps rate cut by the US Federal Reserve.
- While we continue to monitor companies in our coverage for a downgrade in credit profile due to their exposure to the transportation, travel and hospitality sectors or to operations in and/or cashflows from China, we are **increasingly monitoring several weaker companies with stretched liquidity** and who may find refinancing more difficult if the situation deteriorates or is prolonged.
- While fundamental cues are obviously a strong determinant in an issuer's ongoing access to liquidity, in times like these sentiment plays an almost equal part as was the case during the Global Financial Crisis ("GFC"), particularly for companies who already were facing stretched liquidity pre-COVID-19.
- While we do not believe we are at the point of another GFC, the concern in our view is whether liquidity providers today may feel like they are knowing more but are thinking less.

Update

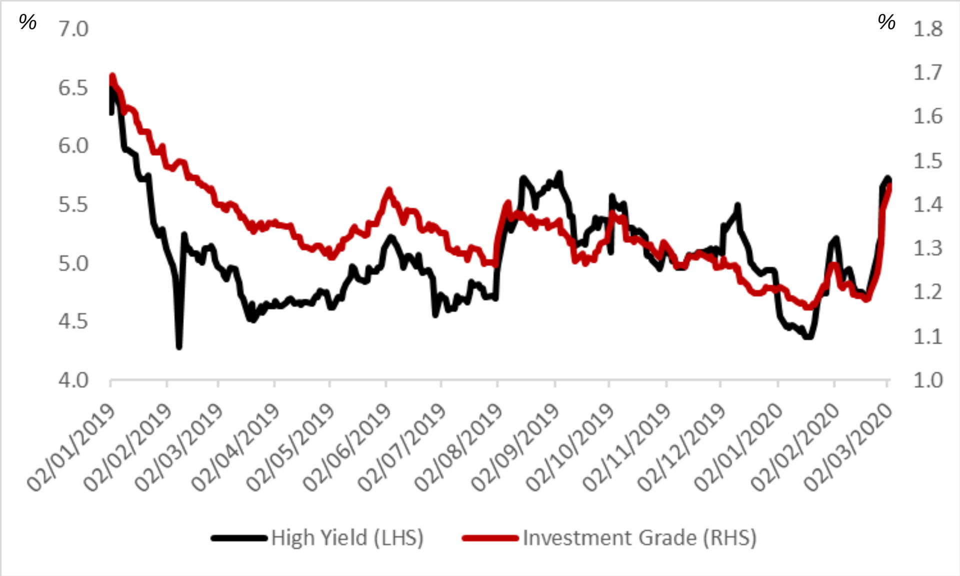
Since our prior report on the then-named 2019 Novel Coronavirus ("2019-nCoV"), we have seen a mix of news on the spread of the virus, the least of which being the World Health Organisation announcing a name for the virus – "COVID-19". While our macro-economic research colleague at OCBC Treasury Research has been routinely sharing the progress of the virus at its supposed source and the continued improvement in China at a solid pace, this news has unfortunately been overshadowed by the rise in cases in other parts of the world with the virus having gone global with the spread through Asia (South Korea and Japan) into Europe and the Middle East with first local transmissions happening on US soil. This has seen mirror images of panic in these regions that happened in early February throughout Asia.

With building concerns on the economic impact, central banks have responded with accommodative measures to contain the virus impact, which have mostly been monetary in nature. While this is seeking to stimulate consumer demand and hence economic activity, the issue remains more supply side in nature. Hence, the impacts of interest rate cuts may do little 'real' work to help fundamentals of issuers until these supply side constraints are resolved. Until they do, issuers will need to grapple with the prospect of declining revenues whilst carrying record levels of debt due to a prolonged low interest rate environment. Earlier this year, the Institute of International Finance estimated global debt would reach an all-time high in 1Q2020.

And while the prospect of even lower interest rates may help debt serviceability, they do not necessarily help issuers to pay their short term debt maturities when they come due, especially in the midst of an economic crisis. The International Monetary Fund in its half yearly Global Financial Stability Report from October 2019 highlighted a build-up of corporate sector vulnerabilities with USD19trillion or around 40% of total corporate debt in several major countries (including China and the US) becoming unserviceable (ie borrowers unable to cover interest expense with earnings) in a material economic downturn. Together with stretched valuations, the IMF noted the increased possibility of "sharp, sudden adjustments in financial conditions." High yield and emerging market issuers remain most susceptible to any quick and unexpected tightening in liquidity conditions.

We are also mindful of the impact of sentiment on credit markets. This could provide the fuel to the underlying fire that is burning from a fundamental standpoint and motivate a withdrawal of market liquidity. For now, sentiments seem somewhat in check. We still see that spread widening which has occurred due to the rates movement as still being somewhat within the bounds of credit market gyrations which occurred through 2019 and below levels seen in the market sell off of December 2018. Still we continue to monitor how sentiments shift given the potential for spreads to widen further.

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



Source: Bloomberg, OCBC Credit Research

With the above in play, we have taken another look at our initial list of companies that we are monitoring for a downgrade in credit profile due to their exposure to the transportation, travel and hospitality sectors or to operations in and/or cashflows from China. We have concentrated on those companies that have weak liquidity and are more exposed to tighter financing conditions in the table below.

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.

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
CMA CGM (Parent of Neptune Orient Lines Ltd)	Negative (6)	High	• Cash-to-short term borrowings was 0.32x as at 30 September 2019. • Given that CMA has historically kept ~USD600mn cash for day-to-day operations, we do not think the company can draw down all of its existing cash on hand. • Sources of funds for the next 12 months from 30 Sep 2019 amount to SGD1.4bn and uses of funds at USD2.3bn. Therefore, CMA CGM's liquidity position going forward is dependent on access to external sources of funds through vessel sale and leasebacks, sale of investment stakes in ten port terminals and a 50% stake in a logistics hub in India, and increase in CEVA's receivables securitisation program. • Sale of investment stakes in the ten port terminals must happen for CMA to be able to cope with all of its short term uses of fund as the other three transactions in aggregate will only add USD395mn liquidity.	• COVID-19 has had a notable impact on the shipping industry with manufacturing industries and port services in China disrupted and demand for shipping reduced. The Shanghai Shipping Exchange Shanghai (Export) Containerized Freight Index, which had recovered through December dropped 14.4% since Jan 3rd to Feb 28th from supply chain and global supply issues. • While removal of capacity and a resumption of manufacturing activities should signal the start of a recovery in the sector, and prolonged weakness in the sector will 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. • We may seek to downgrade further should CMA CGM's refinancing activities fall through or existing lender support looks questionable.
China Aoyuan Property Group Limited	Neutral (5)	High	• Unrestricted cash-to-short term and current amounts due to minority investors as at 30 June 2019 of 1.2x. • Significant contract liabilities of RMB68.6bn as at 30 June 2019 which in our view means unrestricted cash is needed to be set aside for working capital to deliver on units pre-sold. • In 1H2019, substantially all of its contracted sales were from China. • The core region of central and western China was 27% of total contracted sales in 1H2019. • Within the core central region of central and western China, CAPG focuses on the provinces of Sichuan, Hunan, Shaanxi and Chongqing city.	• We expect COVID-19 outbreak to lead to overall property market slowdown in China, leading to poorer generation of internal liquidity. The company has disclosed that in January 2020, the company achieved property sales of RMB5.06bn on contracted gross floor area ("GFA") sold of ~433,000 sqm, representing a y/y fall of 9.7% and 16.5% respectively. • Highly reliant on high yield bond market access. We have seen the Bloomberg Barclays High Yield Index widening 124bps since the official announcement of human-to-human transmission, however CAPG has managed to price a USD 363-day note at 4.8% on 17 February 2020, raising USD188mn and on 28 February 2020, priced RMB2.54bn (~USD366mn) of domestic bonds, 5 year senior bonds at 5.5%. Bond price performance suggest investors are still willing to provide financing to CAPG.
Century Sunshine Group Holdings Ltd	Negative (6)	High	• Unpledged cash-to-short term debt of 0.4x as at 30 June 2019, though if we include the SGD bond coming due in July 2020, this is 0.3x. • EBITDA/Interest of 5.9x for 1H2019 and expected to be still manageable for 2H2019.	• In April 2019, we had downgraded Century Sunshine to Negative (6) and had continued to maintain it as such. A further downgrade may be warranted if refinancing is not forthcoming. • As a secondary knock-on effect, the market for high yield issuers in the industrial sector especially for smaller players does not appear conducive. In the recent month single-B Chinese have issued at yields exceeding 10%. • A consent solicitation exercise to amend terms of the bond (eg: maturity extension) looks increasingly likely.
Aspial Corp Ltd	Negative (6)	High	• Cash balance of SGD146.2mn as of 31 Dec 2019 pales against SGD867.0mn debt maturing in 2020. • Excluding Maxi-Cash's SGD251.9mn short term debt, which is consolidated on Aspial's balance sheet, SGD615.1mn debt remains.	• Operating cashflow is insufficient to fully cover maturing debt, even if we assume a successful handover of Australia 108 which should realize AUD357mn (~SGD330mn) in proceeds. • A further balance of SGD139mn of cash will be needed. It is

			• Near-term debt includes SGD382.32mn of bonds. • Net gearing is somewhat elevated at 2.36x.	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 does not help the situation as Aspial's Jewellery business will be impacted and a risk-off environment may dampen the appetite in extending financing to Aspial. • Credit profile looks precarious at Negative (6).
Perennial Real Estate Holdings Ltd	Negative (6)	High	• SGD1.3bn debt matures in 2020, which includes SGD560mn in bonds while cash balance is SGD119.8mn. • Development projects in China comprise 41.8% of its total property value, which may face extended construction delays due to COVID-19. • Net gearing at 75% though profitability is low with net debt/EBITDA at 153x.	• Downgraded Issuer Profile to Negative (6) on 21 Feb 2020. • Several levers can be pulled to resolve liquidity situation include asset divestment and financing from sponsor. • However, no concrete plans have been announced in divesting assets, which decreases the likelihood that liquidity can be raised through disposals because property (as an asset class) is generally not liquid; asset disposals on short notice are unlikely. • While we are increasingly wary, an outright default is currently not in our base case. We think PREH may still explore refinancing via bank loans. • In the worst case, we think Perennial Real Estate Holdings Ltd may reach out to its key sponsors (including Wilmar International Ltd) for a bridge loan.
BreadTalk Group Ltd	Negative (6)	Moderate	• Cash of SGD157.6mn is sufficient to cover SGD137.9mn of short term loans. • However, due to the technical breach of financial covenants, SGD100mn in BREAD 4% '23s and SGD109.4mn in long-term loans can become immediately payable. • Thus far, bondholders have yet to accelerate bond payments. • A consortium (comprising the co-founders and Thailand-based Minor International PCL) is leading the offer to privatize the company. If the privatization were to be successful, bondholders can put back at par plus accrued.	• We think that it is likely that the privatization will be successful as (1) the consortium already holds a very sizeable stake of 70.53% while (2) the offer price of SGD0.77 per share is 19.4% higher than the prior closing share price of SGD0.645 • Assuming the privatization is successful, we think bondholders are sufficiently protected by the delisting put, which should provide the floor for the bond. • Meanwhile, the outlook of BGL's F&B outlets looks challenging given the COVID-19 outbreak. If BGL remains aggressive in expansion, significant capex and start-up costs could be incurred which could further weigh on margins.
Lippo Malls Indonesia Retail Trust	Negative (6)	Moderate	• Cash of SGD109.7mn covers unsecured borrowings of SGD74.8mn • Aggregate leverage is 35.9% with EBITDA/Total Interest at 4.0x. • Proposing to acquire Lippo Mall Puri (SGD430mn in transaction cost) which could happen in 1H2020.	• No immediate liquidity concerns as Lippo Malls Indonesia Retail Trust is cashflow generative with cash more than covering near-term borrowings. • However, very sizeable acquisition of SGD430mn compared to net assets of SGD1.08bn could shake up the credit profile. • Liquidity position and credit profile depends on the eventual funding mix used to acquire Lippo Mall Puri.
Oxley Holdings Ltd	Neutral (5)	Moderate	• 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. • Elevated net gearing of 1.94x.	• Expect the gap between near-term debt and cash to be plugged as OHL may receive ~SGD300mn from the second tranche sale of Chevron House, ~SGD360mn from Royal Wharf and over SGD100mn from Dublin Landings while SGD184mn of investment property loan maturing in 2020 is likely to be refinanced. • Issuance of SGD75mn loan likely to provide further liquidity

				buffer. • However, completion and handover of the above-mentioned projects will be key. We note that one of the projects, namely The Peak, has been facing delays as the previous main contractor was in financial difficulties.
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 4.3x for 4Q2019 and 2.7x for 2019 based on our calculation. • China contributed 13% to GGR's total revenue in 2019. 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.	• Palm oil prices have fallen 19% since the outbreak of COVID-19 although from a high base where December 2019 was near to five-year peak. • Based on our expectations, working capital is about 20% of sales, indicating working capital needs of USD1.0bn – USD1.3bn for 2020. • With impact of COVID-19 outbreak in China being supply-shock led (rather than lack of demand), we expect demand for palm oil to recover as such see no reason for banks to pull working capital at this stage. • Assuming working capital debt gets rolled over, this implies ~USD0.7bn would need to be refinanced. Taking only this amount of debt, cash-to-short term debt was 0.3x.
Singapore Airlines Ltd	Neutral (4)	Moderate	• Cash-to-short term debt as at 31 December 2019 of 1.9x. • EBITDA/Interest of 18.0x for the latest quarter ended 31 December 2019 though this is highly uncertain over the next two quarters. • However, sale in advanced of carriage (a current liability item) was SGD2.6bn as at 31 December 2019. • Expect refunds/deferrals in the midst of COVID-19 outbreak which means an obligation needs to be fulfilled on this cash balance. SIA has so far not commented on what it is seeing in terms of refunds/deferrals. • SIA may seek to defer pre-delivery payments for aircraft and source better supplier payment terms. Have announced pay cuts and freeze in hiring.	• Downgraded SIA's issuer profile to Neutral (4) on 2 March 2020. • OCBC Credit Research focus on external sources of funding and asset coverage in our analysis for airlines. • In our view, SIA's short-term credit facilities should help the company tide over this period (31 March 2019: SGD1.6bn). • Debt (including lease liabilities)-to-asset coverage (we take property, plant and equipment and right-of-use assets) at 0.36x is at manageable levels. Underlying young fleet of aircraft assets provides the bulk of asset buffer. • On a secured basis, loan-to-value ratio can be as high as 0.8x in aircraft financing markets. • Despite expectations of underlying performance being hit hard by COVID-19, we see SIA's overall liquidity risk as moderate over the next six months.
High grade REITs	Neutral (4) and above	Moderate	• REITs structurally have very weak internal liquidity as cash balance tends to be kept to a minimum. • At least 90% of taxable income needs to be distributed to unitholders to qualify for tax transparency treatment. • REITs rely heavily on external liquidity sources from capital markets and bank loan markets (both secured and unsecured). • Median EBITDA/Interest of 4.4x for the 16 higher grade REITs under our coverage. • Median reported aggregate leverage of 35% for the latest available quarter.	• OCBC Credit Research focus on external sources of funding, aggregate leverage and asset quality in our analysis for REITs. • Currently, REITs are subject to an aggregate leverage cap of 45% which provides an asset buffer to REITs. • High grade REITs in our coverage typically have little secured debt which adds to financial flexibility as assets can be used to raise secured funding if needed. • Based on current median reported aggregate leverage of 35%, asset values will need to fall more than 22% before the 45% cap is breached. • No committed but yet unfunded asset acquisitions currently. This reduces liquidity risk in a risk-off environment.

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

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

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.

Explanation of Bond Recommendation

Overweight ("OW") – The performance of the issuer's specific bond is expected to outperform the issuer's other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

Neutral ("N") – The performance of the issuer's specific bond is expected to perform in line with the issuer's other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

Underweight ("UW") – The performance of the issuer's specific bond is expected to underperform the issuer's other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

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.

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.

OCBC CREDIT RESEARCH

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Treasury Research & Strategy

Macro Research

Selena Ling
Head of Strategy & Research
LingSSSelena@ocbc.com

Tommy Xie Dongming
Head of Greater China Research
XieD@ocbc.com

Terence Wu
FX Strategist
TerenceWu@ocbc.com

Howie Lee
Thailand, Korea & Commodities
HowieLee@ocbc.com

Wellian Wiranto
Malaysia & Indonesia
WellianWiranto@ocbc.com

Carie Li
Hong Kong & Macau
carierli@ocbcwh.com

Dick Yu
Hong Kong & Macau
dicksnyu@ocbcwh.com

Credit Research

Andrew Wong
Credit Research Analyst
WongVKAM@ocbc.com

Ezien Hoo, CFA
Credit Research Analyst
EzienHoo@ocbc.com

Wong Hong Wei, CFA
Credit Research Analyst
WongHongWei@ocbc.com

Seow Zhi Qi
Credit Research Analyst
ZhiQiSeow@ocbc.com

Analyst Declaration

The analyst(s) who wrote this report and/or her or his respective connected persons held financial interests in the following above-mentioned issuers or companies as at the time of the publication of this report: Singapore Airlines Ltd, GuocoLand Ltd, Perennial Real Estate Holdings Ltd, Frasers Hospitality Trust, United Overseas Bank Ltd, BreadTalk Group Ltd and Ascott Residence Trust.

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