

June 24, 2019

Credit Headlines: Australia & New Zealand Banking Group Ltd, Sembcorp Industries Ltd

Market Commentary

- The SGD swap curve bear-steepened over last Friday, with the shorter tenors and belly trading 2-4bps higher, while the longer tenors traded 4bps higher.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 134bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 5bps to 492bps.
- Flows in SGD corporates were light, with flows in FPLSP 4.98%-PERPs.
- 10Y UST yields gained 4bps to 2.05%, with investors taking profits after yields dropped to multi-year lows in the previous trading days, coupled with upbeat US existing home sales data painting a backdrop of a still solid US economy.

Credit Headlines

Australia & New Zealand Banking Group Ltd (“ANZ”) | Issuer Profile: Positive (2)

- ANZ has announced that it is working with the Reserve Bank of New Zealand with regards to ANZ Bank New Zealand Limited’s capital models and attestation process and an independent review of such. Such review is under section 95 of the RBNZ Act under which the Reserve Bank of New Zealand can request an independent review of the compliance with capital adequacy requirements and the Directors’ attestation and assurance framework at ANZ Bank New Zealand Limited (“ANZ”).
- The context to this action is a prior failure by ANZ to comply with or use approved internal models to model risk capital requirements that necessitated the Reserve Bank of New Zealand to require ANZ to move from internal to standardised models. On a broader level, the indirect context is also a recent proposal by the Reserve Bank of New Zealand to increase minimum capital requirements and use standardized approaches as opposed to internal models to calculating risk capital to improve bank strength
- While the recent move to a standardized risk model approach will negatively impact capital ratios, they do not do so to the point of weakening ANZ’s fundamentals in our view. It’s current capital position remains solid and well above APRA’s minimum 10.5% CET1 benchmark for ‘unquestionably strong’ capital ratios in Australia’s banking sector (comes into force January 2020). Its APRA CET1 ratio improved to 11.5% as at 31 March 2019 against 11.4% as at 30 September 2018 and 11.0% as at 31 Mar 2018.
- This point was emphasized by ANZ with capital of NZD12.4bn as at 31 March 2019 NZD3.5bn above current regulatory requirements. (OCBC, Company)

Credit Headlines (cont'd)**Sembcorp Industries Ltd (“SCI”) | Issuer Profile: Neutral (4)**

- SCI announced that it will be providing its ~61%-owned subsidiary Sembcorp Marine Ltd (“SMM”, Issuer Profile: Unrated) with a five year subordinated loan facility of SGD2.0bn which aims to improve SMM’s financial position. Of the SGD2.0bn, SGD1.5bn will be used by SMM to refinance borrowings (“Facility A”) and the balance SGD500mn (“Facility B”) will be used for working capital and general corporate purposes.
- The monies which SCI will extend to SMM will come from SGD1.5bn of bonds to be issued by SCI and SGD500mn will be funded by SCI’s internal cash flows and existing facilities. The SGD1.5bn of bonds will be issued via a private placement to DBS Bank as sole lead manager and initial purchaser of these SCI bonds.
- Per company, one of the investors of the bonds include Temasek, SCI’s largest shareholder who holds a ~49%-stake in SCI although the quantum invested by Temasek in in the new SCI bond is undisclosed.
- The SGD1.5bn bonds is ranked as senior unsecured, issued at an interest rate of 3.55% p.a, payable semi-annually with maturity in July 2024. In turn, SMM will pay SCI a fixed rate of 3.55% p.a for Facility A and a floating rate of SOR + 1.91% p.a on Facility B.
- In our view, at a consolidated level, this is a “left-hand to right-hand” transaction, given that SMM’s debt had been taken into account at the SCI level. This is unlikely to have a significant change to SCI’s credit metrics in our view.
- While SMM’s operating environment looks to be more stabilised, it has yet to turnaround decisively. Earlier, we had raised that SMM was due to receive cash from Borr Drilling (Issuer Profile: Unrated, “Borr”) over the next five years (SGD1.2bn from rigs sold and delivered by SMM). The exact payment schedule is not disclosed although the last payment will be received in 2024. We are turning cautious over the financial health of Borr, with its market cap down 29% from [our last update in May 2019](#). The SGD1.2bn cash infusion is not factored into our Neutral (4) issuer profile for SCI and is a potential upside in our view.
- At its standalone level, as at 31 March 2019, SMM faced short term debt of ~SGD875mn (representing 22% of gross debt) against SGD524.0mn of cash, significantly lower than debt envisaged to be refinanced by Facility A.
- While we do not have the information on unutilised facilities at SMM on a standalone basis, for SCI on a consolidated basis, unutilised funded facilities and unutilised trade-related facilities amounted to SGD3.5bn and SGD2.7bn respectively in end-2018. While this had declined from 2017 levels, it is still significant in our view.
- Conceptually, a parent company financially supporting its subsidiary is par for course, though it does strike us as unusual that SMM’s refinancing (including non-current debt) needed to be fulfilled via a new privately place bond rather than via existing facilities and banking relationships.
- In our view, this announcement could signal that lenders are more comfortable assuming SCI-risk (or an entity guaranteed by SCI) rather than SMM which is a subsidiary of SCI, though without an outright guarantee by SCI. Net-net, debt outstanding at SMM is “swapped” into SCI debt.
- For now we are maintaining SCI’s issuer profile at Neutral (4). We may downgrade SCI should the company diverge from its deleveraging path and take on more debt (eg: to support its subsidiaries) beyond what our methodology would support for a Neutral (4) issuer profile. (Company, OCBC)

Table 1: Key Financial Indicators

	24-Jun	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	67	-7	-7
iTraxx SovX APAC	43	-4	-6
iTraxx Japan	62	-6	-2
iTraxx Australia	65	-6	-9
CDX NA IG	55	-5	-10
CDX NA HY	108	1	2
iTraxx Eur Main	54	-7	-14
iTraxx Eur XO	255	-20	-39
iTraxx Eur Snr Fin	67	-9	-20
iTraxx Sovx WE	17	0	-1
AUD/USD	0.696	1.50%	0.42%
EUR/USD	1.138	1.48%	1.62%
USD/SGD	1.354	1.27%	1.60%
China 5Y CDS	43	-7	-9
Malaysia 5Y CDS	58	-8	-9
Indonesia 5Y CDS	92	-10	-16
Thailand 5Y CDS	34	-1	-3

	24-Jun	1W chg	1M chg
Brent Crude Spot (\$/bbl)	65.44	7.38%	-4.73%
Gold Spot (\$/oz)	1,405.63	4.92%	9.39%
CRB	178.52	2.12%	-0.06%
GSCI	421.16	4.10%	-1.40%
VIX	15.4	0.79%	-2.84%
CT10 (bp)	2.052%	-4.20	-26.80
USD Swap Spread 10Y (bp)	-7	-1	-1
USD Swap Spread 30Y (bp)	-34	-2	-5
US Libor-OIS Spread (bp)	19	1	4
Euro Libor-OIS Spread (bp)	5	0	0
DJIA	26,719	2.41%	4.43%
SPX	2,950	2.20%	4.40%
MSCI Asiax	650	4.30%	5.51%
HSI	28,584	4.98%	4.50%
STI	3,310	3.19%	4.43%
KLCI	1,676	2.28%	4.85%
JCI	6,313	1.99%	4.23%

New issues:

- Chongqing Casin Group Co., Ltd has priced a USD65mn 34-month bond at 4.0%, in line with final guidance.
- China Development Bank Corporation of Hong Kong has priced three USD100mn 3-year FRNs at 3-month US LIBOR+54bps.
- Mitsubishi Corporation has scheduled investor meetings commencing from June 25 for its potential USD bond issuance.

<u>Date</u>		<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
21-Jun-19	Chongqing Casin Group Co., Ltd	USD65mn	34-month	4.0%
21-Jun-19	China Development Bank Corporation of Hong Kong	USD100mn	3-year	3M-US LIBOR+54bps
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20-Jun-19	Liang Shan International Development Ltd	USD300mn	3-year	7.0%
20-Jun-19	CRCC Chengan Ltd	USD1.0bn	NC5-perpetual	3.97%
20-Jun-19	Kunming Traffic Investment Co., Ltd	USD300mn	3-year	6.2%
20-Jun-19	SriLankan Airlines Ltd	USD175mn	5-year	7.0%
20-Jun-19	Hopson Development Holdings Ltd	USD500mn	3NCNP2	7.5%
20-Jun-19	Philippine National Bank	USD750mn	5.25-year	T+165bps
20-Jun-19	Celestial Dynasty Ltd	USD650mn	10-year	T+230bps
20-Jun-19	Haichuan International Investment Co., Ltd	USD180mn	7.5%'21s	7.2%
20-Jun-19	Sichuan Railway Investment Group Co., Ltd	USD300mn	3-year	3.8%
20-Jun-19	The Export-Import Bank of China	USD100mn	4-year	3M-US LIBOR+60bps

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