Quick Read

Dow climbs for 8th straight week amid trade optimism

NEW YORK: Wall Street stocks finished another strong week on a positive note on Saturday rising again on optimism over US-China trade talks. The Dow Jones Industrial Average jumped 443.86 points (1.74 per cent) to 25,883.25 to close its eighth straight week of gains. The broad-based S&P 500 advanced 29.87 points (1.09 per cent) to finish at 2,775.60, while the tech-rich Nasdaq Composite Index won 45.46 (0.61 per cent) to end at 7,472.41. US President Donald Trump said trade negotiations with China were going "extremely well" and again offered the possibility of extending the Mar 1 deadline for a sharp rise in punitive tariffs. It was the latest positive sign on the closely-watched, high-stakes talks. "There is a lot of optimism that a deal will be done," said Bill Lynch on Hinsdale Associates. "I'll believe it when I see it but it seems that a deal is fairly close." Investors also greeted Trump's decision to sign a spending bill that averts another government shutdown. Meanwhile, Trump's decision to declare a national emergency to fund a wall along the Mexican border, which is expected to face legal challenges, is a "side issue," Lynch said. Gainers in the Dow were fairly broad-based and included JPMorgan Chase, McDonald's, United Technologies and Verizon, all of which climbed at least two percent. Mattel dived 18.3 per cent on disappointment with its 2019 forecast. The toymaker projected 2019 sales to flat as it signalled that several key product lines continue to face challenges. The "American Girl" franchise will see lower sales in 2019 and is in a "multi-year turnaround," according to a company presentation. Deere & Company fell 2.1 per cent after its earnings per share lagged analyst estimates. The company said worries about tariffs dented demand for farm equipment. **—AFP**

HNA cuts stake in Deutsche Bank to 6.3 percent

FRANKFURT: Chinese conglomerate HNA has cut its stake in Deutsche Bank to 6.3 percent, according to a filing with the US Securities and Exchange Commission. That marks a reduction from 7.64 percent of voting rights reported in the most recent filing in Germany. HNA, even with the reduced holding, would remain one of the largest shareholders in Germany's largest lender. Spokesmen for HNA in Germany and Deutche Bank declined to comment. The SEC filing was published on Feb. 15 but the date of the reduction was Feb. 12. HNA initially bought into Deutsche Bank in early 2017, amassing a stake of close to 10 percent. But it has since trimmed its stake in instalments. High debts at the conglomerate have fuelled speculation about the future of its Deutsche stake as it reduces or exits some of its other holdings. The fund C-Quadrat manages the stake on behalf of HNA, which has voting rights in Deutsche through a mix of ordinary shares and financial instruments. HNA's interests in the bank are represented through a member sitting on Deutsche Bank's supervisory board. Other major shareholders include the royal family of Qatar, BlackRock, and Cerberus. **—Reuters**

Brazil's Usiminas more than doubles profit in 2018

SAO PAULO: Brazilian steelmaker Usinas Siderurgicas de Minas Gerais on Saturday reported a profit of 830 million reais ($223 million) for 2018, more than double its earnings from a year ago. The company is optimistic that prices will continue to rise, executives said separately in a conference call with analysts, forecasting they may increase up to 10 percent in the second half of the year. Brazil's steelmakers benefited from higher metal prices in 2018 amid the trade dispute between the United States and China. Although its main competitors, Gerdau and Companhia Siderurgica Nacional, have yet to post 2018 results, the industry as a whole has posted significant profits in recent quarters. Company executives also said they were close to finalizing an agreement with Brazil's auto industry for a 25 percent price increase for the steel used for carmaking. **—Reuters**

Air Canada beats profit estimates, sees higher costs

OTTAWA: Air Canada beat analysts' estimates for quarterly profit on Saturday, helped by more high-paying passengers, but the carrier forecast higher costs for 2019. Canada's largest airline said it is focused on improving margins while growing capacity on key domestic and international routes amid stiff competition from rival WestJet Airlines. Transatlantic flights were the carrier's best performing market during the fourth quarter ended Dec. 31, Chief Commercial Officer Lucie Guillemette told analysts. "Despite all of the backdrop of the noise that we hear about fears of a recession and the trade wars and the rest of it, we do see a fairly strong and bullish market," Chief Executive Calin Rovinescu said. But rising customer service expenses stemming from this year's expected introduction of a new Canadian passengers' bill of rights called C49, risk eating into the company's profits in 2019. Air Canada shares initially dipped 3.2 percent at the start of trade, but those losses had reversed by mid morning. Montreal-based Air Canada said it expects full-year 2019 adjusted CASM, or cost per available seat mile, to increase between 2 and 3 percent, compared with 2018, due to the new Canadian rules, Chief Financial Officer Michael Rousseau said. Canada wants airlines to compensate passengers for lengthy delays. An unintended consequence is that the new Canadian law would drive fares up, Rovinescu added. Rising competition and volatile fuel prices led to about C$1 billion in additional costs in 2018 compared with 2017. In the fourth quarter, the company's yield – a key industry metric – rose 3.4 percent, while revenue passenger mile rose about 7.2 percent. Last week, rival WestJet Airlines beat analysts' estimate for profit in the fourth

EU trade surplus with US reaches new record in 2018

BRUSSELS: The EU's trade surplus with the United States reached a record level in 2018, data showed on Saturday increasing the risk that US President Donald Trump's anger could reignite a trade war.

Trump is a furious critic of Europe's high trade surpluses, accusing the EU - and especially Germany - of unfair practices against US workers, much like he does with China.

Last year, his government imposed punitive tariffs on steel and aluminium from Europe and other partners, and this was met with countermeasures by the EU, including duties on US motorcycles and denim jeans. In 2018, the EU trade surplus with the US reached €139.7 billion, 20.1 billion more than in 2017, according to the EU's Eurostat data agency.

The new data lands as the US Commerce department is reported to have found that auto imports into the US threaten national security, the first step toward possible auto tariffs by Washington. The report is expected to be delivered to the White House by a Sunday deadline and has been seen as a major risk for EU automakers. Trump would have 90 days to decide on taking the meas-

ures, with the latest surplus data likely to weigh in his decision.

"I like tariffs," Trump told reporters at press conference on Washington on Friday, saying they are bringing "many billions of dollars pouring into our Treasury."

Despite the tense situation, exports of goods from the 28 EU states last year reached 406.4 billion euros according to Eurostat. This was an increase of eight percent compared to the previous year.

Imports from the US also increased to a total of 266.7 billion euros, but the increase was significantly lower, which is why the EU trade surplus climbed to the fresh record. A spokesman for the European Commission did not want to speculate about the consequences for the ongoing trade talks with Washington. "I won't interpret any figures ... but trade relations are much more than trade surpluses or trade deficits," the spokesman said.

The EU Commission has been seeking to defuse the dispute with Trump through a "limited" trade agreement with the US and EU foreign trade ministers will discuss a negotiating mandate next week.

Foreign Trade Commissioner Cecilia Malmstrom has proposed abolishing all customs duties on industrial goods, including cars, and removing barriers to trade in technical standards. **—AFP**

NEW YORK: Traders work on the floor of the New York Stock Exchange.

Hyflux lays out restructuring plan to revitalise business, but retail investors lament big losses

SINGAPORE: Embattled water treatment firm Hyflux on Saturday morning announced its closely-watched restructuring plan which it said would help to resuscitate the company, but retail investors told Channel NewsAsia that this will see them suffering massive losses.

According to an affidavit filed by founder-CEO Olivia Lum to the High Court on Friday, holders of Hyflux's perpetual securities and preference shares will be allocated a cash payout of S$27 million and 10.26 per cent of the company's shares post-restructuring.

The latter includes a "top-up" of 1.26 per cent from Ms Lum and the company's board of directors, who had earlier said they would be contributing their stakes in the company, as well as entitlements from the restructuring, for redistribution among other stakeholders.

This large group of 34,000 retail investors are owed S$900 million, and have been worried about the possibility of steep haircuts given that they are at the bottom of the priority list. Saturday's announcement confirmed their earlier worries.

A retail investor told Channel NewsAsia that based on her own calculations, she could see a cash writedown of as much as "97 per cent". "I had prepared myself for a big writedown on cash, but (this) is too much to swallow," Ms Violet Seow said.

"We invested in preference shares and perpetual securities for the regular cash dividend and interest yields. New Hyflux will not be able to issue dividends for a while and the share price is expected to crash when trading resumes," said the retail investor, who declined to reveal how much she has invested for fear of letting her family know.

"The shares are meaningless to me." On whether the just-announced contribution from Ms Lum and the company's board will help, an angry Ms Seow said the company's top executives can do more, such as taking a pay cut. "In dire times like this when the company is so short of cash, I am shocked that they deem pay freeze and no variable bonus as sufficient sacrifice. I don't believe that they feel our pain."

Echoing that, another retail investor Martin Lee said: "It's a good gesture (from the board) but unfortunately, investors are still looking at a big haircut."

Meanwhile, under the proposed restructuring plan, unsecured creditors will receive S$232 million in cash and 27 per cent of shares. This group includes Hyflux's medium-term noteholders who are owed S$271 million. For ordinary shareholders, they will be given 2.74 per cent of the company's shares. Trade creditors of Hyflux's subsidiaries – Hydrochem, Hyflux Engineering and Hyflux Membrane Manufacturing – will be allocated S$13 million in cash to satisfy all claims. SM Investments – the Indonesian consortium which offered Hyflux a S$530 million lifeline last October – will get 60 per cent of the company post-restructuring.

Ms Lum, in her affidavit, said the proposed scheme hopes to, among others, provide better returns for scheme parties who may be entitled to lesser returns in an enforcement scenario, and allow Hyflux's businesses "to be revitalised and continue as a going concern from a larger and stronger platform". It is also intended for an "orderly" restructuring, and avoid "a free-for-all, catch-as-catch-can situation resulting from disparate proceedings within and across jurisdictions in which the Hyflux Group operates". The founder-CEO said the strategic partnership with SM Investments has been "carefully considered" by the company and is in the "best interests" of all parties.

"The Board took into serious consideration each of the offers on the table," according to the Feb 15 affidavit. "The investor's offer had taken into account the liabilities within the Hyflux Group, which was in excess of S$2.4 billion at the start of this reorganisation process, the existing assets and the potential funds needed to rehabilitate the business given the prevailing market conditions as well as the capital intensive nature of the business and upkeep of the Hyflux Group's assets."

Ms Lum said she understands that "there will be no further upward revision" to SM Investments' offer. The company's board will consider "any better offer made by any other party" before the proposed scheme meetings, but no other offers have been made to date, she added.

Hyflux's chief, who has been in the hot seat since the water treatment firm she founded in 1989 unexpectedly filed for bankruptcy protection last May, said the returns for investors under the proposed plan will likely be higher than that in a liquidation scenario. The company has previously said that in a liquidation scenario, senior unsecured creditors can expect returns of about 3.8 to 8.7 per cent. Those holding on to perpetual securities and preference share will, however, not be able to recover a single cent. "Due to the financing structure for the project investments … in the event of liquidation, very little, if any, of any proceeds realisable by a sale of the Hyflux Group's assets would be available to be applied towards the settlement of subordinated obligations at the Hyflux level and the estimated recovery for the holders of the debt securities claims is likely to be none," the affidavit said. **—Agencies**

Mexico to inject $3.9 billion in Pemex, seeks to prevent credit downgrade

MEXICO CITY: Mexico will inject $3.9 billion into ailing state oil company Pemex, officials said on Saturday, promising to strengthen its finances and prevent a further credit downgrade, although investors saw the plan as only a short-term fix.

Falling oil output, corruption and high labor costs have contributed to the decline of the company that was once a symbol of national pride. It now holds roughly $106 billion in financial debt, the highest of any national oil company in Latin America. Fitch and Moody's rate its credit one notch above junk.

Fitch said on Friday that the plan, which includes additional tax cuts, more government spending on the company and debt refinancing, would likely not be enough to prevent "continued deterioration" in Pemex's credit quality. The agency cited an ongoing "significant level of underinvestment" for Pemex. Pemex will receive $1.8 billion in pension liability monetization as part of the new plan and finances will be helped by a corruption clampdown, officials said in a presentation that was short on details. They vowed the Mexican government will not take on new debt in 2019.

Pemex must make more than $27 billion in debt payments over the next three years. Investors said they had expected stronger measures, and while encouraged by government vows of support, they said the plan offered only short-term relief. "The measures are not a long term fix and won't be enough to stabilize oil output," said Edward Glossop, Latin America economist at Capital Economics. If oil prices and output decline further, he estimated yields on Pemex bonds could rise by around 1 percent this year. The price fell after the announcement for Pemex's most heavily traded bond on Friday, maturing in 2047, as its yield rose 14 basis points, according to MarketAxess data.

The price on a Pemex bond maturing in 2024 also dropped, with its yield up 32 basis points, reflecting bondholder skepticism of the plan.

What's more, the measures will do little to shore up Pemex's standing with the ratings agencies, said Julie Murphy, a Latin America analyst at JP Morgan.

"We are extremely disappointed with the measures," she said.

The Mexican peso weakened by more than half a percent against the dollar after the announcement, before recovering later on Friday.

DO WHAT IT TAKES: Over time, Pemex taxes will go down and the capital injection will allow debt refinancing over the year, Finance Minister Carlos Urzua told a press conference.

If Pemex requires more help, the government will do whatever it takes to keep Pemex's finances healthy, he added. Fitch downgraded debt issued by Pemex by two steps last month, making it the second agency after Moody's to put the company just barely within its investment grade category.

The move stoked fears that further credit downgrades could significantly raise Pemex's financing costs and result in dire fiscal consequences for the government. President Andres Manuel Lopez Obrador, who took office in December and ran on a promise of strengthening Pemex, did not fully detail in his comments at the news conference how the government would finance the company's lower tax bill and capital injection.

He said efforts since late December to battle rampant fuel theft would result in savings of about $1.6 billion, however, while a plan to increase production will generate more resources. "It's injecting resources, it's lowering the tax obligation," Lopez Obrador said. "But above all, it's cleaning out corruption from Pemex."

Investors had expected a stronger response, said Luis Gonzali, a portfolio manager at Franklin Templeton Investments. Even so, he praised the administration's "unconditional support" to double down on relief measures if necessary. Wilbur Matthews, founder of Vaquero Global Investment, also saw the announcement as positive. "It is a good sign that the Lopez Obrador administration recognizes that Pemex needs to change profoundly," he said.

The company is in talks with lenders to potentially raise up to $7 billion this year, Refinitiv IFR reported on Friday. The company has previously said it would refinance around $6.6 billion in 2019. **—Reuters**