Asian Credit Daily

August 12, 2016

Credit Headlines (Page 2 onwards): Olam International Ltd, Yanlord Land Group Ltd, Suntec Reit, Hotel Properties Ltd

Market Commentary: The SGD dollar swap curve was range-bounded yesterday, trading within 1-2 bps across all tenors. Flows in the SGD corporate space was heavy with better sellers in SCISP 4.75%'49s and mixed interests in FHREIT 4.45%'49s, GENSSP 5.125%'49s, FCLSP 5%'49s, GEMAU 5.5%'19s, NAB 4.15%'28s and TATAIN 4.95%'23s. In the broader dollar space, the spread on JACI IG corporates remained unchanged at 207bps while the spread on JACI HY corporates decreased 1bps to 6.44% yesterday. The 10y UST yield rose 5bps to 1.56%.

New Issues: HNA Group (International) Co. priced a USD300mn 3-year bond at 6.0%, tighter than IPT of 6.25%. The bond is guaranteed by HNA Group Co. and is unrated. China Construction Corp Singapore Branch priced a CNH1bn 2-year bond at 3.25%, tightening from IPT of 3.65%. The issue is unrated. Standard Chartered PLC has priced a USD2bn AT1 perpetual at 7.5%, inside IPT of ~8%. The issue is rated "BB-/Ba1/BBB-". Westpac Banking Corp has launched a USD5bn deal across 5 tranches with tenors of 3, 5 and 10 years.

Rating Changes: Moody's confirmed the "Baa2" rating on IOI Corporation Berhad with a negative outlook, concluding the review for downgrade initiated on 10 May 2016. The rating confirmation follows the company's announcement on 5 August 2016 that the Roundtable on Sustainable Palm Oil (RSPO) will lift the suspension on certifying IOI palm oil on 8 August 2016. The negative outlook reflects the potential for the suspension to be implemented again if IOI does not meet RSPO's requirements connected with the lifting of the suspension. S&P raised the long-term corporate credit rating on MISC Berhad to "BBB+" from "BBB" on the expectation that MISC's steady cash flows, moderate capex and prudent financial policies will support solid credit metrics for the next 3 years and a higher stand-alone credit profile. Outlook is stable.

Table 1: Key Financial Indicators

	12-Aug	1W chg (bps)	1M chg (bps)		12-Aug	1W chg	1M chg
iTraxx Asiax IG	114	-2	-11	Brent Crude Spot ($/bbl)	46.23	4.43%	-4.62%
iTraxx SovX APAC	44	-2	-5	Gold Spot ($/oz)	1,336.74	0.06%	0.27%
iTraxx Japan	54	0	-2	CRB	181.99	0.35%	-4.33%
iTraxx Australia	104	-5	-11	GSCI	349.71	2.65%	-4.33%
CDX NA IG	71	0	0	VIX	11.68	-5.96%	-13.80%
CDX NA HY	105	0	0	CT10 (bp)	1.554%	-3.43	4.42
iTraxx Eur Main	67	1	-4	USD Swap Spread 10Y (bp)	-12	-1	0
iTraxx Eur XO	311	-4	-10	USD Swap Spread 30Y (bp)	-49	-2	-6
iTraxx Eur Snr Fin	87	-1	-11	TED Spread (bp)	54	2	14
iTraxx Sovx WE	23	-2	-8	US Libor-OIS Spread (bp)	40	2	12
iTraxx Sovx CEEMEA	114	-5	-3	Euro Libor-OIS Spread (bp)	5	0	-2
					12-Aug	1W chg	1M chg
				AUD/USD	0.767	0.72%	0.67%
				USD/CHF	0.976	0.52%	1.37%
				EUR/USD	1.113	0.41%	0.64%
				USD/SGD	1.346	0.10%	0.05%
Korea 5Y CDS	45	-2	-3	DJIA	18,614	1.42%	1.45%
China 5Y CDS	104	-2	-7	SPX	2,186	1.00%	1.56%
Malaysia 5Y CDS	126	-7	-7	MSCI Asiax	544	1.84%	5.54%
Philippines 5Y CDS	91	-4	-11	HSI	22,581	3.43%	6.39%
Indonesia 5Y CDS	145	-7	-20	STI	2,870	1.49%	-1.10%
Thailand 5Y CDS	90	-2	-13	KLCI	1,679	1.42%	1.50%
				JCI	5,419	0.84%	6.27%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
11-Aug-16	China Construction Bank Corp Singapore Branch	"NR/NR/NR"	CNH1bn	2-year	3.25%
11-Aug-16	HNA Group (International) Co.	"NR/NR/NR"	USD300mn	3-year	6.0%
11-Aug-16	Standard Chartered Plc	"BB-/Ba1/BBB-"	USD2bn	Perp-NC6.5	7.5%
11-Aug-16	Westpac Banking Corp.	"NR/Aa2/NR"	USD1.5bn	3-year	1.6%
11-Aug-16	Westpac Banking Corp.	"NR/Aa2/NR"	USD500mn	3-year	3mL+56bps
11-Aug-16	Westpac Banking Corp.	"NR/Aa2/NR"	USD1.5bn	5-year	2.0%
11-Aug-16	Westpac Banking Corp.	"NR/Aa2/NR"	USD500mn	5-year	3mL+85bps

Source: OCBC, Bloomberg

Credit Headlines:

Olam International Ltd (“Olam”): 1H2016 revenue increased 6.7% to SGD9.7bn (1H2015: SGD9.1bn) while EBITDA (based on company’s calculation) was 2.1% higher at SGD648.4mn (1H2015: SGD635mn). Driven by lower exceptional charges in 1H2016, profit after tax and minority interest increased strongly to SGD229mn (1H2015: SGD132mn). Nevertheless, a large foreign currency translation adjustment of SGD524mn led to a larger loss in total comprehensive income of SGD295.5mn (1H2015: comprehensive loss of SGD137mn). Whilst there is no cash impact, this had a knock-on effect on shareholder’s equity which shrunk to SGD4.9bn as at 30 June 2016 (31 March 2015: SGD5.3bn). Net debt-to-equity was at 2.0x declining from 1.96x as at 31 March 2016. In July 2016, Olam issued USD500mn worth of perpetual securities which is treated as equity under accounting rules. Based on company’s calculation if the perpetuals were issued on or before 30 June 2016, the proforma net debt-to-equity would have been 1.62x. As at 30 June 2016, Olam’s working capital used for the business was lower at SGD7.7bn (31 March 2016: SGD8.4bn), with the change in working capital contributing to cash flow from operations. We are reviewing Olam’s credit profile for any changes.

Yanlord Land Group Ltd (“Yanlord”): 1H2016 revenue increased 206% to RMB10.3bn (1H2015: RMB3.4bn) while gross profit increased 85% to RMB2.3bn (1H2015: RMB1.2bn). Compared to its immediately preceding quarter, revenue in 2Q2016 increased 159% to RMB7.4bn (1Q2016: RMB2.8bn) while gross profit increased 83% to RMB1.5bn (1Q2016: RMB817mn). The jump in revenue was largely driven by increase in gross floor area (“GFA”) delivered to customers and an increase in average selling price over the corresponding period in 2015. Yanlord’s properties are concentrated in Shanghai, Tianjin, Suzhou; cities which have seen robust price increases following the upward trajectory seen since September 2015. Nevertheless, gross profit margin during the quarter declined to 20% from 35% in 2Q2015 largely due to the delivery of a higher-margin project in 2Q2015 (the Yanlord Yangtze Riverbay Town final phase). As at 30 June 2016, gross debt-to-equity increased to 60% from 53% as at 31 March 2016. Accumulated pre-sales proceeds received from customers was RMB24.4bn, rising 7% from 31 March 2016. As at June 2016, total land bank was 5.2m sqm, rising to levels more in line with historical norms (31 March 2016: 4.6mn). Given its focus on cities which have seen high price growth, Yanlord is susceptible to potential regulatory tightening of asset price growth. We have lowered Yanlord’s issuer profile to Neutral on 3 August 2016.

Suntec REIT (“SUN”): SUN has successfully priced SGD300mn in 5-year convertible bonds, paying a coupon of 1.75%. The strike price of the embedded option is SGD2.10 per share. If converted, the bond would dilute existing unitholders by ~5%. The convertible bond was raised to finance SUN’s acquisition of ~25% effective stake in the Southgate, Melbourne property. (Company)

Credit Headlines (cont.):

Hotel Properties Ltd ("HPL"): 2Q2016 results showed revenue declining 20.8% y/y to SGD129.7mn. This was driven by declining contributions from the Tomlinson Heights condominium project, weaker demand for its resorts in Maldives, as well as downtime resulting from on-going refurbishment work at the Four Seasons Resorts, Maldives. There was distinct gross margin compression to 19.6% (2Q2015: 24.8%), given the softness in both HPL's development and hospitality segments. As a result, EBITDA fell 37.8% y/y to SGD22.7mn. Net income was supported though by a jump in share of results from associates / JVs to SGD11.0mn (2Q2015: SGD1.0mn). This was largely driven by its JV developments with CapitaLand, The Interlace and d'Leedon, which saw a boost in sales post the introduction of Deferred Payment Schemes ("DPS") during the quarter. With QC extension charges for these projects looming in the latter part of this year, it is not surprising that DPS was introduced to facilitate the sale of the balance of units at the two JV developments. There remains about 175 units at d'Leedon and 121 units at The Interlace left unsold as of end-1H2016 (though units sold under the stay-then-pay DPS are not reflected in these numbers). The sale of these units though would be supportive of performance over 2H2016, helping to offset softness in the hospitality segment. Operating cash flow (including interest service) for the period was weak at SGD7.8mn (2Q2015: SGD15.3mn). In addition, HPL spent SGD14.3mn on capex (on hospitality assets) as well as SGD74.4mn in additional investments in associates / JVs for two commercial assets in London as well as a beach resort in Vietnam. The period also saw HPL pay out SGD46mn in dividends / perp distributions. The cash gap was funded by SGD86.7mn in net borrowings as well as a SGD40.6mn drawdown on its cash balance. As a result, net gearing increased distinctly to 53% (1Q2016: 46%). Net debt / LTM EBITDA has worsened as well to 8.1x (1Q2016: 6.5x), hurt by poorer EBITDA. This also caused interest coverage to fall to 2.9x for the quarter. HPL has about SGD235mn in short-term borrowings (mostly secured), compared to SGD72mn in cash balance. We expect that proceeds from the sale of units at d'Leedon and The Interlace would help support the refinancing of these borrowings. The recurring income from HPL's hospitality assets will also support liquidity. We will retain our Neutral Issuer Profile on HPL. (Company, OCBC)

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