Asian Credit Daily

August 26, 2016

Credit Headlines (Page 2 onwards): Malayan Banking Berhad, Bank of Communication Co. Ltd., Sabana Shari'ah Compliant Industrial REIT

Market Commentary: The SGD dollar swap curve traded downwards yesterday with swap rates traded 3-6bps lower across all tenors. Flows in the SGD corporates were light with better buying seen in HYFSP 5.75%'49s and mixed interests seen in GENSSP 5.13%'49s. In the broader dollar space, the spread on JACI IG corporates increased 2bps to 200bps while the yield on JACI HY corporates remained levelled at 6.37%. 10y UST yield increased 1bps to 1.57%.

New Issues: Development Bank of Japan Inc. priced a dual-tranche issue yesterday, with the USD550mn 5-year bond priced at CT5+57bps while the 10-year USD1.1bn tranche was priced at CT10+41bps. Korea National Oil Corp. has scheduled investor meetings from 6 September for potential USD bond issuance.

Rating Changes: S&P assigned Viva Energy Holdings Pty Ltd. a "BBB-" corporate credit rating with a stable outlook. The rating reflects Viva Energy's solid market position in Australian fuel retailing and commercial fuels, where it holds about 25% market share in both segments by volume and has an integrated fuel-supply business throughout the supply chain. S&P has placed China XD Plastics Co. Ltd.'s (CXDC) "B+" long-term corporate credit rating on CreditWatch with negative implications. The CreditWatch placements reflects S&P's view that a shortened debt maturity profile and less than adequate liquidity expose CXDC to meaningful refinancing risk. Moody's upgraded St. Barbara Ltd.'s corporate family rating and senior secured rating to "B2" from "B3" with a stable outlook. The upgrade reflects the significant improvement in the company's financial profile, following its efforts to reduce debt, and the continued improvement in its operating costs. Moody's downgraded China Zhengtong Auto Services Holdings Ltd.'s corporate family rating to "B1" from "Ba3" with a stable outlook. The rating downgrade reflects Moody's conclusion that ZhengTong's automotive dealership business will show a weakened level of credit metrics over the next 12-18 months.

Table 1: Key Financial Indicators

	26-Aug	1W chg (bps)	1M chg (bps)		26-Aug	1W chg	1M chg
iTraxx Asiax IG	114	2	-7	Brent Crude Spot ($/bbl)	49.62	-2.48%	10.59%
iTraxx SovX APAC	41	-3	-8	Gold Spot ($/oz)	1,322.82	-1.39%	0.19%
iTraxx Japan	54	-1	-6	CRB	186.24	-1.64%	2.77%
iTraxx Australia	101	1	-11	GSCI	363.15	-2.05%	5.46%
CDX NA IG	72	1	-3	VIX	13.63	19.25%	4.44%
CDX NA HY	105	0	1	CT10 (bp)	1.566%	-1.19	0.51
iTraxx Eur Main	68	0	-1	USD Swap Spread 10Y (bp)	-14	0	-4
iTraxx Eur XO	308	-2	-12	USD Swap Spread 30Y (bp)	-54	-1	-11
iTraxx Eur Snr Fin	91	-2	-6	TED Spread (bp)	52	0	11
iTraxx Sovx WE	25	0	-1	US Libor-OIS Spread (bp)	38	-2	5
iTraxx Sovx CEEMEA	117	2	-14	Euro Libor-OIS Spread (bp)	6	0	0
					26-Aug	1W chg	1M chg
				AUD/USD	0.763	0.01%	1.68%
				USD/CHF	0.967	-0.66%	2.64%
				EUR/USD	1.129	-0.30%	2.78%
				USD/SGD	1.352	-0.38%	0.49%
Korea 5Y CDS	45	1	-6	DJIA	18,448	-0.80%	-0.14%
China 5Y CDS	103	1	-9	SPX	2,172	-0.67%	0.15%
Malaysia 5Y CDS	122	3	-19	MSCI Asiax	543	-0.51%	2.76%
Philippines 5Y CDS	91	3	-12	HSI	22,815	-0.90%	3.10%
Indonesia 5Y CDS	147	10	-19	STI	2,877	1.41%	-1.93%
Thailand 5Y CDS	88	2	-5	KLCI	1,680	-0.86%	1.14%
				JCI	5,454	-0.13%	4.40%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
25-Aug-16	Development Bank of Japan	"NR/NR/NR"	USD550mn	5-year	CT5+57bps
25-Aug-16	Development Bank of Japan	"NR/NR/NR"	USD1.1bn	10-year	CT10+41bps
24-Aug-16	ASB Finance Ltd.	"NR/Aa3/AA-"	USD650mn	5-year	CT5+105ps
24-Aug-16	Xinyuan Real Estate Co.	"B-/NR/B"	USD300mn	3-year	8.13%
23-Aug-16	China Orient Asset Management Holdings	"NR/Baa1/A"	USD650mn	5-year	CT5+138bps
23-Aug-16	Hyundai Capital Services	"A-/Baa1/NR"	USD400mn	3-year	CT3+83bps
22-Aug-16	Small and Medium Business Corp.	"NR/Aa2/AA-"	USD500mn	10-year	CT10+68bps
21-Aug-16	Modernland Realty Tbk PT	"B/B2/B"	USD57mn	3-year	CT3+108bps

Source: OCBC, Bloomberg

Credit Headlines:

Malayan Banking Berhad ("Maybank"): Maybank announced 2Q2016 results with numbers dragged down by higher impairment allowances which doubled to MYR1.18bn. This overshadowed 9.4% growth in net operating income and translated to 2Q2016 operating profit falling 25.7% y/y to MYR1.54bn. Operating income performance was supported by a 7.4% rise in net interest income from 4.3% y/y growth in gross loan volumes as well as a 21% rise in other operating income from unrealized mark-to market gains on revaluation of financial assets, derivatives and financial liabilities (compared to unrealized mark-to-market losses in 2Q2015) which resulted in pre-provision operating profit rising 10.2% y/y to MYR2.722bn. Higher allowances however were necessitated by a 23.5% rise in impaired loans which rose to MYR10.567bn in the 6 months to 30 June 2016 from MYR8.555bn as at 31 Dec 2015. This saw the group's impaired loan ratio rise to 2.34% as at 30 June 2016 (from 1.86% as at 31 Dec 2015) although this was entirely due to a 34bps rise in restructured and rescheduled loans. Impaired loans grew the most from fixed asset purchases as well as loans related to construction and working capital with problem loans concentrated in Malaysia and Singapore. Group non-performing loans was at 1.32% as at 30 June 2016, also up albeit marginally from 1.15% as at 31 Dec 2015. In terms of the balance sheet, the weak external environment continues to impact loan volumes with total net loans and advances down 2% from 31 Dec 2015. This, along with Tier 2 issuance in 1H2016, helped Maybank retain its relatively solid capital ratios with CET1/CAR ratios as at 30 June 2016 of 13.8%/19.2%, higher than levels as at 31 Mar 2016 (13.0%/17.9%) and 31 Dec 2015 (12.8%/17.7%). Management has indicated a challenging outlook for the bank with slower domestic demand likely to restrain consumer spending and private investment but nevertheless remain optimistic of a pick-up in loan growth in 2H2016. In our view, growth in operating income across all of Maybank's business segments (community financial services, corporate banking, investment banking, asset management, insurance and Takaful) highlights Maybank's solid market positions. That said, the industry challenges are starting to hit on Maybank's credit profile through slower growth and weakening asset quality, particularly domestically. We expect profitability will remain under pressure in 2H2016 but maintain our neutral issuer profile for now. (Company, OCBC)

Bank of Communications Co., Ltd. (BoCom): BoCom reported its 2016 interim results for the 6 months to 30 June 2016 with profit before tax rising 0.4% y/y to RMB48.5bn. Sector trends remain intact with profit performance impacted by a 4% fall in net interest income from the ongoing fall in net interest margins from government policies, the slowing economy and rising competition. Impairment losses also continued to rise, growing by 29.3% y/y to RMB14.8bn. These developments mitigated the solid performance in net fee and commission income which rose 8.1% y/y driven by growth in agency (fee income from insurance agency services) and management (asset management and agency wealth management) services and lower fee and commission expense. Other points to note for 1H2016 performance was the success in BoCom's strategic initiatives with profits from overseas businesses and non-banking subsidiaries increasing 29.7% and 22.8% respectively and strong growth in its personal banking segment with profit before tax up 88.4% y/y due to a 36.2% rise in net fee and commission income and personal loans rising 9.5% from 31 Dec 2015, mostly from growth in mortgage loans. Despite the slowing Chinese economy, BoCom's balance sheet continues to grow with total assets up 7% from 31 Dec 2015, driven by the 7.1% rise in loans and advances to customers over the same period. This growth was slightly lower than the growth in impaired loans which rose 9.2% and as such the NPL ratio increased marginally to 1.54% from 1.51% for FY2015 while the loan loss coverage ratio fell from 155.6% at 31 Dec 2015 to 150.5% as at 30 June 2016, still above the regulatory minimum. In terms of loan composition changes since 31 Dec 2015, most loan growth occurred in financial institutions (up 100%), transportation, storage and postal service sector (up 11%), water conservancy, environmental and other public utilities (up 18.3%) and personal housing mortgages (up 13.8%). Interestingly loans to real estate remained stable while loans to wholesale and retail continued to fall, decreasing by 12% over the past 6 months. Capital ratios have weakened due to loan growth and weaker profitability as risk weighted assets rose higher than capital with CET1/CAR ratios at 10.9%/13.2% as opposed to 11.1%/13.5% as at 30 June 2015. Our take on the results is largely positive with growth in BoCom's international and personal banking segments balancing out the generally weak operating environment (NPL ratio in the personal banking business was reported at 1.27% vs 1.64% in the corporate banking segment). While asset quality concerns for China's banking sector remain, the more moderate performance of BoCom's loan portfolio has continued with overall impaired loans and loans overdue by more than 90 days falling in the 6 months to 30 June 2016 as the rise in impaired loans was softened by a 6.6% fall in loans overdue by more than 90 days. We therefore maintain our neutral issuer profile on BoCom and look to more evidence of broad sector trends as other Chinese banks report in the coming week. (Company, OCBC)

Credit Headlines:

Sabana Shari'ah Compliant Industrial REIT ("SSREIT"): SSREIT announced that they have entered into a new financing arrangement with banks for new facilities of up to SGD108mn (i) 3.5 year term Commodity Murabaha facility of up to SGD90mn (ii) 3.8 year revolving Commodity Murabaha facility of up to SGD18mn. We view the announcement as credit positive as this removes SSREIT's short term refinancing risk. As at 30 June 2016, short term borrowings at SSREIT amounted to SGD97.5mn. (Company, OCBC)

Andrew Wong
Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6530 4736
wongVKAM@ocbc.com

Nick Wong Liang Mian, CFA
Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6530 7348
NickWong@ocbc.com

Ezien Hoo, CFA
Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6722 2215
EzienHoo@ocbc.com