Asian Credit Daily

October 28, 2016

Credit Headlines (Page 2 onwards): GuoccoLand Ltd., Wing Tai Holdings Ltd., Mapletree Greater China Commercial Trust, Sembcorp Industries, Singapore Post Ltd., Australia and New Zealand Banking Group Ltd., United Overseas Bank Ltd., China Vanke Ltd., Ascendas Real Estate Industrial Trust, AIMS AMP Capital Industrial, Industry Outlook – Singapore Industrial

Market Commentary: The SGD swap curve bear-steepened yesterday with swap rates trading 1-6bps higher across all tenors. Flows in the SGD corporates were heavy with better selling seen in TATAIN 4.95%'23s and SOCGEN 4.3%'26s while mixed interests were seen in BAERVX 5.75%'49s, OCBCSP 4%'49s and SCISP 4.75%'49s. In the broader dollar space, the spread on JACI IG corporates remained relatively unchanged at 205bps while the yield on JACI HY corporates increased 4bps to 6.62%. 10y UST yield increased 6bps to 1.85% on increasing confidence that the Federal Reserve will raise interest rates this coming December, following a report that showed the British's economy grew more than forecasted in the third quarter. Implied probability for an interest rate hike in December stands at 73% as of yesterday.

New Issues: Guangxi Communications Group Corp. Ltd. has priced a USD300mn 3-year bond at CT3+202.5bps, tightening from its initial guidance at CT3+230bps. The expected issue ratings are "NR/Baa3/BBB". Li & Fung Ltd. has priced a USD650mn perpetual, non-callable for 5-years, at 5.25%, tightening from its initial price guidance at 5.625%. The expected issue ratings are "BBB-/Baa3/NR". China Development Bank Corp. (Hong Kong) has priced a USD350mn 5-year bond at CT5+70bps, tightening from its initial guidance at CT5+95bps. The expected issue ratings are "AA-/Aa3/NR". Bank of East Asia Ltd. has priced a USD500mn 10NC5 tier-2 bond at CT10+270bps, tightening from its initial guidance at CT10+285bps. The expected issue ratings are "BBB-/NR/NR". Bright Galaxy International Ltd. has priced a USD500mn 5-year bond at CT5+225bps, tightening from its initial guidance at CT5+260bps. The expected issue ratings are "NR/NR/BBB-".

Table 1: Key Financial Indicators

	28-Oct	1W chg (bps)	1M chg (bps)		28-Oct	1W chg	1M chg
iTraxx Asiax IG	116	0	-2	Brent Crude Spot ($/bbl)	50.48	-2.51%	3.68%
iTraxx SovX APAC	34	0	2	Gold Spot ($/oz)	1,269.53	0.24%	-3.94%
iTraxx Japan	57	0	-2	CRB	190.05	0.67%	2.23%
iTraxx Australia	103	-2	-2	GSCI	373.74	-0.09%	3.75%
CDX NA IG	76	2	1	VIX	15.36	11.71%	23.97%
CDX NA HY	104	-1	0	CT10 (bp)	1.847%	11.18	27.46
iTraxx Eur Main	72	1	-1	USD Swap Spread 10Y (bp)	-15	1	0
iTraxx Eur XO	326	6	-10	USD Swap Spread 30Y (bp)	-55	1	1
iTraxx Eur Snr Fin	95	2	-6	TED Spread (bp)	60	4	0
iTraxx Sovx WE	18	0	-7	US Libor-OIS Spread (bp)	38	-1	-3
iTraxx Sovx CEEMEA	90	-4	0	Euro Libor-OIS Spread (bp)	4	0	0
					28-Oct	1W chg	1M chg
				AUD/USD	0.760	-0.12%	-1.21%
				USD/CHF	0.994	0.02%	-2.26%
				EUR/USD	1.090	0.18%	-2.79%
				USD/SGD	1.394	-0.01%	-2.51%
Korea 5Y CDS	41	0	1	DJIA	18,170	0.04%	-0.92%
China 5Y CDS	105	-2	0	SPX	2,133	-0.39%	-1.77%
Malaysia 5Y CDS	121	-1	1	MSCI Asiax	545	-0.78%	-2.03%
Philippines 5Y CDS	113	-4	-1	HSI	23,132	-1.04%	-2.06%
Indonesia 5Y CDS	152	1	4	STI	2,810	-0.75%	-1.69%
Thailand 5Y CDS	94	-3	10	KLCI	1,671	0.06%	0.36%
				JCI	5,417	0.24%	-0.16%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
27-Oct-16	Guangxi Communications Group Corp.	"NR/Baa3/BBB"	USD300mn	3-year	CT3+202.5bps
27-Oct-16	Li & Fung Ltd.	"BBB-/Baa3/NR"	USD650mn	Perp-NC5	5.25%
27-Oct-16	China Development Bank Corp.	"AA-/Aa3/NR"	USD350mn	5-year	CT5+70bps
27-Oct-16	Bank of East Asia Ltd.	"BBB-/NR/NR"	USD500mn	10NC5	CT10+270bps
27-Oct-16	Bright Galaxy International Ltd.	"NR/NR/BBB-"	USD500mn	5-year	CT5+225bps
27-Oct-16	Golden Wheel Tiandi Holdings Co. Ltd.	"NR/B2/B"	USD100mn	3-year	8.25%
27-Oct-16	Sirius International Group. Ltd.	"BBB/NR/BBB-"	USD400mn	10-year	CT10+285bps
27-Oct-16	Japan Bank Intl' Cooperation	"A+/A1/NR"	USD1bn	5-year	MS+63bps
27-Oct-16	Japan Bank Intl' Cooperation	"A+/A1/NR"	USD1.8bn	10-year	MS+64bps

Source: OCBC, Bloomberg

New Issues (cont'd): Golden Wheel Tiandi Holdings Co. Ltd. has priced a USD100mn 3-year bond at 8.25% with expected issue ratings at "NR/B2/B". Sirius International Group. Ltd. has priced a USD400mn 10-year bond at CT10+285bps with expected issue ratings of "BBB/NR/BBB-". Japan bank for International Cooperation (JBIC) has priced a two-tranche deal yesterday with the USD1bn 5-year bond priced at MS+63bps while the other tranche of USD1.8bn 10-year bond was priced at MS+64bps. The expected issue ratings are "A+/A1/NR". Wuhan Metro has scheduled investor meetings from 28 October onwards for potential USD bond issue with expected issue ratings of "NR/NR/A".

Rating Changes: S&P assigned Li & Fung Ltd.'s proposed issuance of subordinated perpetual capital securities a "BBB-" issue rating. The rating is two notches below the corporate credit rating on Li & Fung Ltd., reflecting the subordinated nature and optional deferability feature of the securities. Moody's has similarly assigned a "Baa3" rating to the notes. Fitch has affirmed Future Land Development Holdings Ltd.'s issuer default ratings at "BB-", and revised its outlook to positive from stable. The outlook revision reflects Fitch's view of Future Land's strategic positioning in the Yangtze River Delta region. Its positioning continues to support its scale, which compares well against "BB" rated peers. Fitch has assigned issuer default ratings of "A" with a stable outlook to Wuhan Metro Group Co. Ltd. (WMG).

Credit Headlines:

GuocoLand Ltd. ("GUOL"): GUOL announced yesterday that it will be subscribing for a 27% stake in Eco World International Berhad ("EWI") when the IPO is launched (expected in 1Q17). The IPO proceeds of more than RM2bn (SGD666mn) will be used to fund four development projects in London and Sydney. While this allows GUOL to diversify from the lackluster Singapore property market, this will put further pressure on GuocoLand's net gearing levels. As a recap, net gearing has already risen q/q to 0.84x in the latest results (from 0.7x a quarter ago). After funding this transaction and also paying about SGD100mn of dividends, we expect net gearing to rise to 0.93x. This is highest amongst its peers under our coverage. In the meantime, we are maintaining GUOL's issuer profile at Neutral as we expect higher recurring income from the completion of Tanjong Pagar Centre. (Company, OCBC)

Wing Tai Holdings Ltd. ("WINGTA"): WINGTA announced 1QFY2017 results yesterday. Revenue plunged 59% y/y to SGD70.2mn as fewer properties were sold, with revenue due mainly from progressive sales from The Tembusu this quarter. The bottomline was hit harder, with profits of only SGD667k. It is not surprising for results to remain lackluster given that the property market in Singapore remains subdued. However, the credit story for WINGTA is less about profitability and more about the strength of the balance sheet. Net gearing improved to 0.05x (from 0.2x a quarter ago) mainly due to the sale of its half share in the developer of Nouvel 18 to CDL for SGD411mn, and the disposal of a 40% interest in a company by its China subsidiary for SGD89.3mn. With the cash inflow, the proceeds were used to repay debt and reduce its current borrowings to a minimal level. We also note that WINGTA has acquired a freehold commercial building in Melbourne Australia for about SGD33.6mn, which may boost recurring income. We think that WINGTA's strong balance sheet will tide it through the down cycle in Singapore's property market, and we maintain WINGTA's issuer profile at Neutral. (Company, OCBC)

Mapletree Greater China Commercial Trust ("MGCCT"): MGCCT announced 2QFY2017 results yesterday. Revenue grew 4.6% y/y to SGD168mn mainly due to the acquisition of Sandhill Plaza and higher income from Festival Walk. However, Gateawy Plaza significantly underperformed with its 1H2017 contribution with revenue lower by 10.9% y/y, in part due to tenant churn while occupancy at the property declined to 90.5% (1QFY2017: 95.0%). Hit with a double whammy, Gateway Plaza had to fork out an additional property tax of SGD1.5mn due to the change in property tax basis. Otherwise, the overall portfolio remains healthy with positive rental reversions and high levels of occupancy maintained at Festival Walk and Sandhill Plaza. We do not currently cover MGCCT. (Company, OCBC)

Credit Headlines:

Sembcorp Industries ("SCI"): For 3Q2016, SCI reported SGD2.14bn in revenue, down 10.8% y/y. On a q/q basis though, SCI was able to grow revenue by 15.9%. The marine segment revenue remains weak, falling 21.4% y/y to SGD887.9mn, pressured by weak E&P activity and oversupply of drilling assets leading to poor demand for newbuild rigs. The utilities segment was firmer, seeing a 3.4% y/y increase in segment revenue to SGD1.20bn. This was driven by a 5% increase in Energy contribution. There are some signs of stabilization based on the q/q revenue growth, with the marine segment revenue down just 2.2% for the quarter while the utilities segment jumped 34.0%. The biggest swing factor would be utilities contribution from the Rest of Asia geographical segment, which jumped from zero to SGD179.7mn in revenue. This is likely to be construction revenue recognition from SCI's Myanmar project. We also observed incremental q/q improvements in contributions from Singapore and India for the utilities segment. Management guided that the former will continue to face strong competition in the power market while the latter will continue to ramp up with Sembcorp Gayatri Power Limited ("SGPL")'s plants coming online soon. We note that there seems to be some delay to SGPL's ramping up, as for 1H2016 SGPL's Unit 3 and Unit 4 plants were guided for a commercial operations date ("COD") of 3Q2016 and 4Q2016. For 3Q2016 earnings release, these plants were delayed to 4Q2016 and early 2017 respectively. On the plus side, SCI's other India asset, TPCIL, managed to recover to a load factor of 80% after being affected by some idiosyncratic factors in 2Q2016. Improvements in utilities revenue helped the segment generate SGD108.9mn in net profit, up 50.0% y/y (excluding divestment gains seen in 3Q2015) and up 46.0% q/q. This helped offset the losses generated at the marine segment, with SCI generating SGD58.4mn in net profit for the quarter (down 58.1% y/y). We note as well, that SCI's 12% stake in Gallant Venture was marked lower by SGD46.2mn during the quarter, which affected net income. For the quarter, SCI was able to generate SGD748.0mn in operating cash flow (including interest service). This was largely driven by cash received from a rig delivery at the marine segment. After factoring SGD207.6mn in capex (SGD120.0mn due to utilities, SGD82.4mn due to marine), SCI generated SGD540.4mn in free cash flow. These were largely retained on the balance sheet, with cash balance increasing 24.4% q/q to SGD2093.9mn. In aggregate, net gearing remained stable at 85% (2Q2016: 86%). Management reported interest cover remained stable as well at 3.4x. Cash / current borrowings stood at 1.2x. We will review SCI's current Neutral Issuer Profile for potential changes. (Company, OCBC)

Singapore Post Ltd. ("SPOST"): SPOST announced that the 34% sale of Quantium Solutions International ("QSI") to Alibaba has been completed on 27/10/16. New shares in QSI were issued to Alibaba, in exchange for a consideration of SGD86.2mn. We consider this a credit positive for SPOST. Alibaba's second investment into SPOST, a SGD187.1mn private placement which would bring Alibaba's stake in SPOST up to 14.4%, is still pending certain regulatory approvals. As such, the long stop date has again been extended from 31/10/16 to 28/02/17. SPOST will be reporting its 2QFY2017 results in the coming weeks. We currently hold SPOST's Issuer Profile at Neutral. (Company, OCBC)

Australia and New Zealand Banking Group Ltd. ("ANZ"): Foreshadowing its annual results announcement on 3 November 2016, ANZ has announced that it will be recording additional charges related to its ongoing restructuring initiatives of AUD360mn. These charges relate to a AUD168mn charge related to changes in the methodology it uses for calculating the fair value of derivatives as well as restructuring charges related to job reductions, software capitalization programs and divestments. We will wait for the full year results release before contemplating any changes to the Neutral Issuer Profile for ANZ. (Company, Bloomberg, OCBC)

Credit Headlines:

United Overseas Bank Ltd. ("UOB"): UOB reported its 3Q2016 results with operating income down 2.2% y/y to SGD2.04bn. Net interest income was stable from lower net interest margins which fell to 1.69% from 1.77% but higher loan volumes which rose 7.0% y/y. Non-interest income though was lower due to one-off gains in 3Q2015 as well as weaker trading and investment income which fell 19.3% y/y. YTD 9M2016 performance was broadly stable y/y. Allowances rose as expected by 15% q/q and 16% y/y due to stresses in UOB's oil and gas and shipping portfolio but of note was the material rise in specific allowances which grew by 138% q/q and 409% y/y to SGD290mn, mostly in Singapore. This was mitigated however by releases in general allowances. Overall loan quality deteriorated the most in the past quarter in Singapore and China as opposed to historically weaker performing loan portfolios in Malaysia, Thailand and Indonesia with overall non-performing loans rising by 14% q/q. This was higher than the rise in total allowances translating to a further fall in the ratio of total allowances as a % of non-performing assets to 111.4% from 124.7% as at 30 June 2016 and 130.7% for FY2015. Total allowances over unsecured non-performing assets however remains solid (albeit weaker than prior reporting periods) at 251.9%. Non-performing loans also rose faster than total loans and as such the NPL ratio rose to 1.6% from 1.3% as at 30 September 2015 and 1.4% for FY2015. Loan growth for UOB was pleasing with y/y growth in all geographies and mostly occurring in Singapore and in the building and construction segment. Despite loan growth, capital ratios have improved due to higher growth in capital which improved due to retained earnings, strong take up of scrip dividend and issuance of capital instruments with UOB's CET1/CAR ratios at 13.4%/16.6% compared to 13.0%/15.6% for FY2015. Overall, loan quality issues have weighed on UOB's relatively stable earnings performance. We remain mindful of further loan quality pressures which could weaken profitability and result in rising allowances in the coming quarters. That said, the strengthening of UOB's capital position and secured position against non-performing loans should provide solid protection against the current challenging operating environment, leading us to maintain our Neutral Issuer Profile on UOB. (Company, OCBC)

China Vanke Co Ltd ("VANKE"): VANKE reported a 47% increase in revenue to RMB40.3bn in 3Q2016 (3Q2015: RMB27.3bn) while gross profit was up 61% to RMB9.4bn (3Q2015: RMB5.9bn). During 3Q2016, VANKE realized a sales area of 5.832 million sqm, up 8.4% y/y, however, on lower average sales price per sqm of RMB12,486 per sqm (3Q2015: RMB13,123 per sqm). As at 30 September 2016, 25.06 million sqm had been sold but not yet booked (given that construction has yet to complete), these amounted to a total contract amount of ~RMB306.4bn, about 23% higher than the same time last year. We expect the next few quarter's results to remain steady as revenues are recognized in line with completed projects. However, we are expecting to see new sales moderating as China has entered into a property tightening cycle (including tightening of financial resources into the property development sector). As at 30 September 2016, gross debt-to-equity was somewhat higher at 61% versus end-December 2015 of 58%. The company has not provided further updates in relation to the power tussle at the company. We maintain VANKE's issuer profile at Neutral. (Company, OCBC)

Ascendas Real Estate Industrial Trust ("AREIT"): AREIT announced that it is proposing to sell A-REIT City@Jinqiao, a business park property located in Shanghai to China Vanke. The aggregate consideration for the divestment is ~SGD228mn, comprising (a) the sale of shares in the holding company which owns the property and (b) assignment of AREIT's shareholder loan to the holding company. Post-transaction, AREIT's will have fully exited China. The transaction is expected to complete next quarter. We view this transaction to be credit neutral to AREIT but sees it as further signaling that AREIT will concentrate its efforts in Singapore and Australia. (Company, OCBC)

Credit Headlines:

AIMS AMP Capital Industrial ("AAREIT"): AAREIT reported its second quarter financial results. On a y/y basis, revenue was down by 4.3% to SGD29.9mn while net property income ("NPI") was down 6.9% to SGD19.3mn. Taking out the effect of property tax refund, gross revenue was marginally lower by 1% in 2QFY2017 vs. the immediately preceding quarter. Excluding share of result from associate, EBITDA/Gross interest for 1HFY2017 improved slightly to 3.7x from 3.6x in 1HFY2016. Aggregate leverage as measured by total debt-to-total asset is somewhat higher at 34% against 32% as at 30 June 2016. Portfolio occupancy is stable at 92.7%, however, the REIT's lease expiry profile has weakened in our view. 29.4% of its leases by gross rental income will be expiring for the year ending March 2018. Given its relatively concentrated lease expiry profile, we see AAREIT's pricing power to be hampered and expect the REIT to take further hits on rental rates to prioritize occupancy. Nevertheless, we are maintaining AAREIT's issuer profile at Neutral given its relatively low leverage against its peers. (Company, OCBC)

Industry Outlook – Singapore Industrial: JTC issued its 3Q2016 industrial property market report. Price index is now 98.3 (fell 1.7% against the previous quarter) and represents the 6th consecutive quarter where prices have softened. The rental index has declined by 2% against the previous quarter, while vacancy has increased to 10.9% (2Q2016: 10.6%). Among the industrial property sub-segments, business parks have been held relatively steady. We expect to see further compression in rental rates, with Industrial REITs focusing on tenant retention to maintain portfolio occupancy. We continue to maintain our outlook that 2017 will still be a tough year due to impending supply, but supply-demand imbalances should rectify from 2018 onwards. (JTC, OCBC)

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