Asian Credit Daily

July 29, 2016

Credit Headlines (Page 2 onwards): Hong Kong Land Holdings Ltd., Sembcorp Marine, City Development Limited, Guocoland Group, DBS, UOB

Market Commentary: The SGD dollar swap curve traded downwards yesterday. Swap rates traded 2-6bps lower across all tenors as the Federal Reserve held rates steady and hinted that future rate increases will be gradual. Flows in SGD corporates were heavy with better buying seen in BPCEGP 4.5%'26s and better selling seen in HACLSP 6.5%'19s, NOLSP 4.4%'19s and PILLSP 5.9%'17s. Meanwhile we also saw mixed interests in, SOCGEN 4.3%'26s, UOBSP 4%'49s, TRAFIG 7.%'49s and OLAMSP 6%'22s. In the broader dollar space, the spread on JACI IG corporates increased by 1bps to 214bps while the yield on JACI HY corporates decreased by 2bps to 6.38%. 10y UST yield remained relatively unchanged at 1.5%.

New Issues: Adani Transmission has priced a USD500mn 10-year bond at CT10+260bp, tightening from its initial guidance at CT10+290bps. The expected issue ratings are "BBB-/Baa3/BBB-"..

Rating Changes: S&P revised its outlook on ING Bank (Australia) Ltd. (IBAL) to positive from stable and affirmed its "A-" rating on the bank. The positive outlook reflects a one-in-three chance that S&P will raise the long-term issuer credit rating on IBAL to "A", driven by its strengthening business franchise and market position. S&P affirmed its "BB+" corporate credit rating on Kingboard Chemical Holdings Ltd. with stable outlook and subsequently withdrew its rating on the company. The affirmed rating prior withdrawal reflect S&P's view that Kingboard will maintain its market position in the laminate and printed circuit board segments. S&P downgraded PT Lippo Karawaci (Lippo) to "B+" from "BB-" with a stable outlook. The downgrade reflects S&P's expectation that Lippo's leverage will stay high and its interest-servicing capacity will remain thin in 2016 amid soft property sales and delayed asset sales. S&P affirmed Mingfa Group's "CCC+" rating and removed the company from negative watch. The rating action is in view that Mingfa's track record of refinancing and improved sales performance so far this year has somewhat tempered imminent risks for the company. S&P affirmed Shimao Property Holdings Ltd. "BB+" issuer rating and "BB" long term issue rating but revised the outlook to negative on an expectation of leverage remaining higher than tolerable at the current rating.

Table 1: Key Financial Indicators

	29-Jul	1W chg (bps)	1M chg (bps)		29-Jul	1W chg	1M chg
iTraxx Asiax IG	119	1	-21	Brent Crude Spot ($/bbl)	42.70	-7.58%	-12.10%
iTraxx SovX APAC	49	1	-2	Gold Spot ($/oz)	1,337.12	1.09%	1.36%
iTraxx Japan	58	0	-11	CRB	179.21	-2.42%	-7.92%
iTraxx Australia	109	-1	-17	GSCI	336.68	-4.05%	-11.48%
CDX NA IG	74	4	-7	VIX	12.72	-0.16%	-23.56%
CDX NA HY	104	-1	1	CT10 (bp)	1.499%	-6.70	-1.62
iTraxx Eur Main	70	2	-16	USD Swap Spread 10Y (bp)	-11	-2	1
iTraxx Eur XO	323	4	-51	USD Swap Spread 30Y (bp)	-45	-2	3
iTraxx Eur Snr Fin	95	3	-21	TED Spread (bp)	47	9	8
iTraxx Sovx WE	26	0	-6	US Libor-OIS Spread (bp)	33	3	7
iTraxx Sovx CEEMEA	131	2	5	Euro Libor-OIS Spread (bp)	6	0	-2
					29-Jul	**1W chg**	**1M chg**
				AUD/USD	0.752	0.71%	0.86%
				USD/CHF	0.980	0.73%	-0.02%
				EUR/USD	1.108	0.94%	-0.40%
				USD/SGD	1.351	0.53%	-0.24%
Korea 5Y CDS	50	2	-5	DJIA	18,456	-0.33%	4.30%
China 5Y CDS	110	1	-8	SPX	2,170	0.23%	4.79%
Malaysia 5Y CDS	139	4	-13	MSCI Asiax	532	1.13%	7.22%
Philippines 5Y CDS	101	1	-11	HSI	22,174	0.79%	8.51%
Indonesia 5Y CDS	163	0	-19	STI	2,919	-0.74%	4.51%
Thailand 5Y CDS	93	4	-19	KLCI	1,659	0.06%	0.99%
				JCI	5,299	1.58%	6.41%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
28-July-16	Adani Transmission	"BBB-/Baa3/BBB-"	USD500mn	10-year	CT10+260bps
27-July-16	CDB Capital	"AA-/NR/A+"	USD500mn	5-year	CT5+115bps
27-July-16	China Minsheng Investment	"NR/NR/NR"	USD500mn	3-year	3.8%
26-July-16	Bank of America Corp.	"NR/Baa1/A"	AUD550mn	5-year	3mBBSW+155bps
26-July-16	Bank of America Corp.	"NR/Baa1/A"	AUD200mn	5-year	3.3%
25-July-16	Kookmin Bank	"A/A1/NR"	USD500mn	3-year	CT3+88bps
22-July-16	ANZ Ltd.	"AA-/Aa3/AA-"	USD750mn	5-year	CT5+105bps
22-July-16	ANZ Ltd.	"AA-/Aa3/AA-"	USD250mn	5-year	3mL+101bps

Source: OCBC, Bloomberg

Rating Changes (cont'd): Moody's affirmed Crown Resorts Ltd.'s "Baa2" credit rating with a stable outlook and removed the company from under review for downgrade. The rating action reflects Crown's solid business profile that should mitigate the reduced scale and diversification following the demerger of the group's assets. Moody's downgraded the issuer rating of Asciano Ltd. (IBAL) to "Baa3" from "Baa2" with stable outlook. The downgrade reflects the increase in Asciano's business and financial risk owing to lost earnings, reduced diversification and increased exposure to coal haulage, thereby raising its counterparty risk exposure. Moody's has placed the ratings of four Chinese financial leasing companies on review for upgrade, (1) China Development Bank Financial Leasing's "A1" issuer rating, (2) ICBC Financial Leasing Co. Ltd.'s "A2" issuer rating, (3) CCB Financial Leasing Corporation Ltd.'s "A2" issuer rating and CMB Financial Leasing Co. Ltd.'s "Baa2" issuer rating. The rating actions reflect a re-evaluation of their importance to the parent banks.

Credit Headlines:

Hongkong Land Holdings Ltd ("HKL"): HKL reported a 13.5% decline in revenue to USD782.8mn (1H2015: USD905.1mn), driven by lower sales of properties. Rental income from HKL's investment portfolio remained defensible at USD427.7mn (USD422mn). HKL's investment portfolio is largely made up of prime commercial properties located in Central (Hong Kong) and Singapore, intended to be held as long term investments. EBITDA (excluding change in fair value of properties) was relatively unchanged at USD455.5mn against USD456.2mn in 1H2015. Interest expenses remained low at USD54.4mn against its stable EBITDA generation ability. Nevertheless, operating profit saw a significant jump to USD1.44bn (1H2015: USD542.4mn), driven by a change in fair value of investment properties of USD986.2mn. As a result of higher equity buffer from the positive fair value change in properties and lower net debt, net debt-to-equity declined to 7.8% as at 30 June 2016 from 9.3% as at 30 June 2015. HKL's ample cash balance of USD1.6bn provides significant buffer against its USD473.2mn of committed capex and minimal debt due in the next 12 months of USD18.8mn. Following the earlier announcement in November 2015, Y.K Pang will be stepping down as CEO formally on 31 July 2016 to move to Jardine Matherson Holdings as deputy Managing Director but will remain a non-executive Director of HKL. He will be succeeded by Robert Wong, a veteran of the Jardine Group of companies and instrumental in HKL's residential development business. We continue to hold HKL's issuer profile at Positive and prefer the HKLSP'20s against AREITSP'20s. Both are rated A3/Stable by Moody's. (Company, OCBC)

Sembcorp Industries / Sembcorp Marine ("SCI, SMM"): SMM reported 2Q2016 results with revenue declining 24.8% y/y to SGD908.5mn. Revenue continues to be pressured by the slump in O&G upstream activities impacting demand for newbuild drilling assets. In addition, sector pressures have led to clients making rig delivery deferral requests, resulting in further revenue pressure. The decline in revenue was lower than Keppel's O&M segment (revenue fell 54% y/y). SMM's operating profit fell sharply by 63.6% y/y to SGD53.6mn, due to the fall in revenue and foreign exchange losses (SGD35.0mn worth). This was mitigated by the trimming of the general and administrative expenses by 29.4% y/y. In aggregate, operating margins compressed further to 5.9% (1Q2016: 7.8%, 2Q2015: 12.2%). SMM was able to generate SGD30.0mn in operating cash flow during the quarter, an improvement over the negative SGD72.9mn seen in 1Q2016. Capex remains high at SGD87.5mn, largely due to work on the Brazilian yard as well as the Tuas extension. This resulted in negative SGD57.5mn in free cash flow for the quarter. Management has indicated that going forward yard capex will be limited to those related to executing secured contracts while non-essential capex will be deferred. They have also indicated that total capex for 2016 is expected to be less than half that of 2015. As such, we can expect SMM's free cash flow generation to see some improvements. It is worth noting that SMM paid out a further SGD41.8mn in dividends during the quarter. The cash outflow was funded by ~SGD120mn in additional borrowings. This drove net gearing higher q/q from 107% to 111%. Management has guided that due to the Noble Lloyd rig delivery as well as other work done in July, operating cash flow continued to improve and reduced net gearing to lower than 100% as of reporting date. Net order book continues to decline due to the lack of demand for drilling assets in general. It fell from SGD9.7bn (end-1Q2016) to SGD9.2bn (end-2Q2016). Management also disclosed that their net order exposure to Sete Brasil is SGD3.2bn, and that the provisions taken of SGD329mn remain adequate. They are currently pursuing the twin paths of arbitration as well as engaging Sete Brasil outright with regards to Sete Brasil's bankruptcy restructuring. In aggregate, SMM's performance would likely to continue to drag on SCI's performance (with SCI reporting 2Q2016 results in a couple of weeks). With SCI still making investments into its India power assets, we can expect FCF to remain weak, while gearing is expected to creep higher. (Company, OCBC)

Credit Headlines:

City Development Limited ("CDL"): The Business Times ("BT") reported that CDL is considering profit participation securities ("PPS") to monetize the Nouvel 18 condo project. This was one of the potential outcomes that we foresaw, ever since CDL bought out their JV partner, Wing Tai Holdings, paying SGD411mn early July this year for the 50% of Nouvel 18 that CDL does not already own. The Nouvel 18 project had received TOP status near the end of 2014, and would have been subjected to QC extension charges (8% of land cost for the first extension) by November 2016. BT reported that their sources indicate a valuation of SGD965mn for the Nouvel 18, or SGD2750 psf. The PPS would be a 5-year structure, that includes SGD118.4mn in "equity" (12% of the structure), to be sold via private banking channels to HNW clients. These clients would have to be Singapore citizens or Singapore-incorporated private companies wholly-owned by Singaporeans. The "equity" investors would receive 3.5% per annum for the five years. CDL would be the next most subordinated in the structure, holding junior mezzanine bonds (14% of the structure, or SGD135mn). There would also be senior mezzanine bonds (14% of the structure, or SGD135mn), guaranteed by CDL, paying 3.5%. The balance 60% will be funded by bank debt. "Equity" and junior mezzanine investors would split gains above the SGD2750 psf cost price. In the event that units are sold below SGD2750, junior mezzanine bond holders (CDL basically) would take the first up-to SGD300 psf loss. Should prices go below this, "equity" investors would start to take losses as well. It is worth noting that at SGD411mn for 50% of Nouvel 18, Wingtai Holding's exit price implies a valuation of SGD2350 psf. Do note as well that the PPS structure would also have to divert cash flow towards debt service (for example interest payments). Should the deal be completed, CDL would likely book a gain on the sale of the property, as well as receive SGD965mn in proceeds. Part of the proceeds will be reinvested into the SGD270mn in junior and senior mezzanine bonds. The balance would still be ~SGD700mn in cash. This would be a credit positive for CDL, with CDL reporting SGD2830mn in net debt as of 1Q2016 (though this number does not include the SGD411mn paid to Wing Tai Holdings in July). (Business Times, OCBC).

GuocoLand Group ("GUOL"): The company announced that the pre-commitment level as well as leases under advance negotiations total more than 60% of the office space available at Guoco Tower. The last time pre-commitment numbers were shared was 18% in an April 2016 news report. With the whole Tanjong Pagar Centre looking to go operational soon, we can expect the integrated development to contribute to GUOL's results in 2H2016. (Company, OCBC)

Financial Institutions: In the ongoing fallout from Swiber Holdings filing for liquidation yesterday, both DBS and UOB have made disclosures of their respective exposures with DBS' total exposure of SGD700mn including loans, bonds and off-balance sheet items. DBS expects to recover half of this exposure given some of the exposures are secured. UOB's disclosure was less transparent with UOB CEO Wee Ee Cheong indicating that UOB's exposure was manageable. DBS is due to report its 2Q2016 results on August 8th. As at 31 March 2016, DBS reported total allowances of SGD4.09bn made up of SGD908mn in specific and SGD3.18bn in general allowances. Its allowance coverage ratio to total non-performing assets was 134% as at the same date. While we expect Swiber's liquidation to hit DBS' profitability for the remainder of the year and raise short term questions on the quality of its oil and gas exposure, we do not see this event as having any immediate fundamental impact to DBS credit profile. (Company, OCBC)

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