Asian Credit Daily

August 5, 2016

Credit Headlines (Page 2 onwards): Singapore Post Ltd., Genting Singapore PLC, AIMS AMP Capital Industrial Trust, China Vanke Co. Ltd., Olam International Ltd., Perennial Real Estate Holdings Ltd., Gallant Venture Ltd.

Market Commentary: The SGD dollar swap curve traded upwards yesterday with swap rates trading 1-3bps higher across all tenors. Flows in the SGD corporates were heavy with better buying seen in OLAMSP 6%'22s while mixed interests were seen in TRAFIG 7.5%'49s, UOBSP 4%'49s and OUESP 3.8%'20s. In the broader dollar space, the spread on JACI IG corporates increased by 2bps to 217bps while the yield on JACI HY corporates decreased 2bps to 6.5%. 10y UST yield decreased by 4bps to 1.50% as investors' demand for treasuries surged following the Bank of England's decision to cut key interest rates and expand stimulus measures after last week's reported economic indicators showed that the UK economy shrank the fastest in 7 years.

New Issues: UBS Group Funding (Jersey) Ltd. has priced a two-tranche deal yesterday with the USD2bn 5-year bond priced at CT5+160bps while the USD500mn 5-year tranche was priced at 3mL+153bps. The ratings for the issues are "A-/NR/A". On the other hand, UBS Group AG priced a USD1bn Perpertual-NC5 bond at 7.125%, tightening from initial guidance at 7.25%. The ratings for the issue are "BBB+/A1/BBB+".

Rating Changes: S&P has assigned a "BBB-" corporate credit rating to Xinjiang Goldwind Science & Technology Co. Ltd. with a stable outlook. The rating reflects Goldwind's strong market position in China's large wind turbine generator market, its competitive products and larger production scale with integrated supply chain, favourable government policy towards renewable energy, and its first-mover advantage. S&P has assigned "BBB" issuer credit ratings to Guotai Junan International Holdings Ltd. (GTJAI) with stable outlook. The rating reflects S&P's view of the company's status as a core subsidiary of Guotai Junan Securities Co. Ltd. S&P expects potential extraordinary government support to the parent to be indirectly available to GTJAI and therefore levelled its ratings on GTJAI with that on its parent company. Fitch has placed Banca Monte dei Paschi di Siena's (MPS) "B-" issuer default rating on Rating Watch Evolving (RWE) and downgraded the bank's viability rating to "ccc" from "b-". The rating actions follow the announcement by MPS of its plans to dispose of its entire stock of doubtful loans and increase capital by up to EUR5bn through a new share issue. The RWE reflects Fitch's expectation that the ratings could be upgraded if the transaction is successful, but also, failure to do so would increase the risk of the bank failing and losses being imposed on junior and senior creditors.

Table 1: Key Financial Indicators

	5-Aug	1W chg (bps)	1M chg (bps)		5-Aug	1W chg	1M chg
iTraxx Asiax IG	118	-1	-24	Brent Crude Spot ($/bbl)	44.14	3.96%	-7.96%
iTraxx SovX APAC	47	-1	-7	Gold Spot ($/oz)	1,360.27	0.67%	0.28%
iTraxx Japan	57	-1	-9	CRB	181.35	1.19%	-4.38%
iTraxx Australia	112	2	-13	GSCI	340.67	1.19%	-6.49%
CDX NA IG	73	1	-6	VIX	12.42	-2.36%	-20.28%
CDX NA HY	104	0	1	CT10 (bp)	1.503%	4.94	12.75
iTraxx Eur Main	69	1	-13	USD Swap Spread 10Y (bp)	-11	0	-2
iTraxx Eur XO	321	3	-34	USD Swap Spread 30Y (bp)	-46	-2	-5
iTraxx Eur Snr Fin	92	-1	-23	TED Spread (bp)	51	5	11
iTraxx Sovx WE	24	-1	-8	US Libor-OIS Spread (bp)	37	1	9
iTraxx Sovx CEEMEA	122	-1	-6	Euro Libor-OIS Spread (bp)	5	-1	-2
					5-Aug	1W chg	1M chg
				AUD/USD	0.764	0.61%	2.40%
				USD/CHF	0.974	-0.47%	0.28%
				EUR/USD	1.113	-0.38%	0.51%
				USD/SGD	1.342	-0.14%	0.69%
Korea 5Y CDS	48	-2	-8	DJIA	18,352	-0.57%	2.87%
China 5Y CDS	108	-3	-15	SPX	2,164	-0.27%	3.62%
Malaysia 5Y CDS	137	-3	-17	MSCI Asiax	527	-0.02%	4.34%
Philippines 5Y CDS	98	-2	-12	HSI	21,832	-1.74%	5.21%
Indonesia 5Y CDS	156	-5	-28	STI	2,832	-2.97%	-1.14%
Thailand 5Y CDS	93	0	-16	KLCI	1,655	-0.19%	0.28%
				JCI	5,374	1.41%	8.09%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
4-August-16	UBS Group Funding (Jersey) Ltd.	"A-/NR/A"	USD2bn	5-year	CT5+160bps
4-August-16	UBS Group Funding (Jersey) Ltd.	"A-/NR/A"	USD500mn	5-year	3mL+153bps
4-August-16	UBS Group AG	"BBB+/A1/BBB+"	USD1bn	PNC5	7.13%
3-August-16	PT Lippo Karawaci Tbk	"B+/Ba3/BB-"	USD260mn	5-year	CT5+104bps
3-August-16	Fenghui Leasing	"NR/B2/B"	USD150mn	3-year	8.25%
3-August-16	Road King Infrastructure Ltd.	"BB-/NR/NR"	USD450mn	3-year	5%
3-August-16	ICBC Ltd. (Singapore)	"NR/A1/NR"	USD500mn	3-year	CT3+118bps
2-August-16	Housing & Development Board	"Aaa/NR/NR"	USD700mn	7-year	1.91%

Source: OCBC, Bloomberg

Credit Headlines:

Singapore Post Limited ("SPOST"): SPOST reported 1QFY2017 results for the quarter ending June 2016. Revenue jumped 30.9% y/y to SGD333.4mn, largely driven by acquisitions made in the eCommerce business segment (Trade Global in November 2015, Jagged Peak in March 2016). The acquisitions caused the eCommerce segment revenue to jump from SGD7.8mn (1QFY2016) to SGD65.3mn (1QFY2017). The logistics segment grew as well by 11.9% y/y to SGD156.7mn, driven by organic growth at Quantium Logistics and Couriers Please, as well as via the inclusion of a new subsidiary at Famous Holdings. The core postal segment saw revenue remain steady at SGD137.0mn, with the 30.3% y/y growth in international mail revenue offsetting the structural decline in domestic mail revenue (-4.3% y/y). It is worth noting that international mail revenue of SGD65.5mn now exceeds domestic mail revenue of 64.0mn. Overseas revenue is now 50.2% of total revenue. Operating margin continues to decline from 22.7% (1QFY2016) to 14.8% (1QFY2017) due to the rotation away from the profitable but declining postal segment (30.7% operating margin) to logistics (5.2% operating margins) and eCommerce (still loss making). As expense growth (+33.6%) outpaced revenue growth (+30.9%), largely due to higher expenses from outsourced services due to the Jagged Peak and Couriers Please acquisition, this led to net income falling 21.5% to SGD37.0mn. Operating cash flow (including interest service) has improved q/q from SGD55.3mn (4QFY2016) to SGD78.1mn (1QFY2016). This was largely due to SGD20.9mn in cash extracted from working capital. SPOST managed to generate 13.7mn in free cash flow during the period (SGD64.4mn in capex spend during the quarter on the eCommerce Logistics Hub and development of SPC retail mall). It should be noted that despite generating positive free cash flow, gross borrowings increased 31.2% q/q to SGD367.6mn as SPOST boosted its cash balance to SGD232.8mn (4QFY2016: SGD126.6mn) in anticipation for future committed capex. Net gearing has improved slightly q/q from 10% to 8%, as cash borrowed has not yet been deployed. It is worth noting that SPOST has stated it is reviewing its dividend policy to ensure a clear link between dividends paid and underlying earnings. In the past, SPOST paid SGD0.07 per share per annum or SGD167mn in dividends for FY2016. We note that SPOST's earnings face structural pressure as it shifts away from its highly profitable core postal business, while the new business lines take time to turn profitable. We also note that the firm remains in transition, still working through the corporate governance issues reported in 1H2016 as well as still seeking a new group CEO. Though absolute levels of leverage remain low, we will continue to hold SPOST's Issuer Profile at Neutral. (Company, OCBC)

Genting Singapore ("GENS"): The company reported SGD480.9mn in revenue for 2Q2016 results, a decline of 16.8% y/y. This was largely driven by the gaming segment, which saw revenue decline 22.5% y/y to SGD331.9mn. On a q/q basis, the decline in gaming revenue was also sharp at 26.3%. Though GENS was able to maintain volumes at its premium mass and mass segments, performance was significantly impacted by a low win percentage. This resulted in RWS generating just SGD480.4mn in revenue and SGD123.5mn in adjusted EBITDA. On a theoretical normalised hold basis, RWS would have generate SGD552.9mn in revenue and adjusted EBITDA of SGD192.3mn. Management indicated that though visitor arrivals to Singapore have improved, the visitor mix trended towards lower spend on average. Non-gaming revenues remained steady y/y at SGD148.5mn (though it declined q/q). Occupancy at the Sentosa and Jurong hotels remained stable at 93% and 95% respectively, but RevPar was affected by competition in the hospitality sector. Gross margins fell sharply from 30.3% (2Q2015) to 19.3% (2Q2016), driven by the lower win percentage. On the bright side, impairments on gaming receivables have improved sharply q/q from SGD92.4mn (1Q2016) to SGD53.6mn (2Q2016) which management indicated would be expected levels for 2H2016. The lack of the SGD95.0mn in losses on financial instruments and SGD84.0mn in FX losses (seen in 2Q2015) were also supportive of earnings. These helped reduce the decline in operating profit to just 4.4% despite the sharp fall in gross profit. Net profit (before share of profits to perpetuals) increased 51.3% y/y to SGD18.9mn, supported by lower financing expense and taxes. Operating cash flow remains strong at SGD285.2mn for the quarter (including interest service). GENS spent about SGD22.3mn on capex (refurbishing its Hard Rock Café Hotel) and SGD176.7mn into its 50% share of the Jeju resort development (USD125mn). As such free cash flow was lower at just SGD86.2mn for the quarter. During the period, GENS also paid out SGD193mn in dividends and perpetual distributions. As such, its cash balance fell to SGD4.87bn. Currently, GENS has about SGD1.5bn in debt and SGD2.3bn in perpetual securities. We will continue to hold GENS at Positive Issuer Profile given its strong operating cash flow generation. (Company, OCBC)

Credit Headlines:

AIMS AMP Capital Industrial Trust (“AAREIT”): AAREIT announced that it is building its first greenfield property, a build-to-suit (“BTS”) development for Beyonics International Pte Ltd (“Beyonics”). Beyonics, is a private-equity backed precision part and manufacturing solutions provider, headquartered in Singapore. The property has an approximate cost of SGD39.4mn (including land and associated transaction cost) and is expected to have a gross development value upon completion of SGD42.9mn. The transaction is subjected to the successful acquisition of land at Marsiling (of which an option to purchase has been executed). Boustead Projects Limited has been appointed as contractor and the construction is targeted to complete in the second half of 2017. Beyonics has committed to a 10-year Master Lease, with two further options, each of 5 years (ie: 10+5+5) on the entire property. As at 30 June 2016, AAREIT’s aggregate leverage was 33.1%. Assuming full funding via debt, the aggregate leverage will increase to 35%, which is manageable, albeit higher than AAREIT’s 7-year historical average. We maintain a Neutral issuer profile on AAREIT. (Company, OCBC)

China Vanke Co Ltd (“VANKE”): In a filing to the Hong Kong Stock Exchange, China Evergrande Group (“Evergrande”) announced that up to 4 August 2016, it has (via a subsidiary) acquired 516.9mn of A-shares in Vanke for RMB9.11bn (~SGD1.8bn). The acquisition represents a 4.68%-stake in Vanke, with Evergrande becoming Vanke’s fourth largest shareholder. Evergrande (market cap: SGD12.19bn) is a major property developer in China in the mass-market segment and a competitor to Vanke. Evergrande has been acquisitive with its credit rating downgraded to B2/negative outlook by Moody’s on the back of its highly aggressive debt-funded strategies for acquisitions. We continue to hold our earlier view that China Resources (which is also a significant residential real estate developer via CR Land) would continue to seek to protect its interests. We continue to hold Vanke’s issuer profile at Neutral though the emergence of yet another real estate developer adds complexity to the battle of control for Vanke. We see the protracted battle as limiting upside potential on the bonds (Evergrande filings, OCBC)

Olam International Limited (“Olam”): Since May 2016 to date, Olam has bought back 28.6mn of its own shares for a total of ~SGD53.3mn (including transaction costs). The buy-back is part of Olam’s renewed share buyback mandate which gives it the flexibility to acquire up to 5% of its shares (138.7mn shares in total). Should the full buy-back limit be utilized, Olam would have spent SGD255mn on such moves. Whilst the amount spent thus far has been relatively contained, we are reviewing the company’s issuer profile, in particular on changes in capital structure as a knock-on effect from the share buyback. (Company, OCBC)

Perennial Real Estate Holdings Ltd (“Perennial”): Perennial reported its 2Q2016 results with a 72% y/y fall in net profit for the quarter to SGD2.4mn. This was driven by a 39% fall in revenues from a one-off acquisition fee for Axa Tower recognized in 2Q2015. Excluding this, revenue was instead around 13% lower y/y due to lower rental revenue from TripleOne Somerset as expiring leases were not renewed in advance of AEI initiatives and planned strata sales. Results from associates improved by 60% y/y to SGD4.9mn due to better contribution from the Shenyang Longemont Integrated Development as well as the group’s medical and healthcare investments. Overall results were also influenced by a 20% increase in net loans and borrowings following fixed rate note and retail bond issues in March and April 2016 respectively which pushed net debt/equity up to 64% as at 30 June 2016 from 50% at end 2015 and 55% as at 31 March 2016. Higher debt was used to meet current and future debt maturities and cover Perennial’s negative free cash flows from its ongoing developments in China. We will review Perennial’s results further and will adjust Perennial’s current Neutral Issuer Profile if required. Key factors in our analysis include 1) Perennial’s commencement of strata unit sales in AXA Tower and TripleOne Somerset and AEI initiatives at TripleOne Somerset; 2) ongoing development capex in China including Perennial International Health and Medical Hub (to commence operations in 2Q2017) and Chengdu Plot D2 (elderly care home – handover to commence 4Q2016); 3) the on-going deadlock with Pontiac Land over Capitol Singapore; and 4) impact of all these on the company’s leverage profile and gearing levels. (Company, OCBC)

OCBC Bank

Credit Headlines:

Gallant Venture Ltd ("GALV"): GALV reported a 15% decline in 1H2016 results to SGD898.14mn (1H2015: SGD1.07bn) and a 5% decline in gross profit to SGD151.4mn (1H2015: SGD158.8mn). Driven by the lack of other income and higher expenses, GALV reported a wider loss before tax of SGD44.0mn (1H2015: negative SGD29.1mn). In 1H2015, cash flow from operations ("CFO") before interest paid just managed to cover interest expenses, however, in 1H2016, GALV did not generate sufficient CFO to cover its interest expenses. The gap in cash flow was funded via the disposal from the Lao Xi Men project. Net debt-to-equity as at 30 June 2016 was 1.05x, reducing from 1.11x as at 31 March 2016, due to the reduction in book value equity (from losses incurred). GALV is subjected to two covenants (i) consolidated NTA shall not be less than SGD1bn and (ii) Net debt-to-NTA shall not exceed 2.25x. We find that NTA has contracted following consecutive losses and stands ~SGD180mn above covenanted though net debt-to-NTA has been fairly constant at 1.8x versus 31 March 2016. We remain concerned that there has been no meaningful improvement at IMAS to support the high leverage taken by GALV for the acquisition, especially as GALV's SGD bonds are structurally subordinated to IDR bonds issued by IMAS' auto financing and vehicle rental arm. We expect GALV leverage to continue at elevated levels and think the GALVSP 7 '18 should be trading at higher yields. We maintain our Negative issuer profile on the company.(Company, OCBC)

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