Asian Credit Daily

December 1, 2017

Credit Headlines (Page 2 Onwards): Lippo Malls Indonesia Retail Trust, Industry Outlook – Singapore Residential Property, ASL Marine Holdings Ltd, Century Sunshine Group Holdings Limited, Malayan Banking Berhad

Market Commentary: The SGD swap curve bear-steepened yesterday, with swap rates trading 1-4bps higher across most tenors. The shorter 1-year and 2-year tenors traded little changed. Flows in SGD corporates were heavy, with mixed interest seen in UOBSP 3.5%'29s, and HSBC 4.7%-PERPs. In the broader dollar space, the spread on JACI IG Corp rose 2bps to 182bps, while the yield on JACI HY Corp fell 3bps to 6.94%. 10Y UST yields rose 2bps to 2.41%, as prospects for the tax reform being passed rose after Republican Senator John McCain stated that he would support the tax bill.

New Issues: Adani Abbot Point Terminal Pty Ltd has priced a USD500mn 5-year bond (guaranteed by Mundra Port Holdings Pty Ltd in its capacity as trustee of Mundra Port Holing Trust) at CT5+245bps, in line with initial guidance of CT5+245bps area. The expected issue ratings are 'BBB-/NR/BBB-'. Gansu Provincial Highway Aviation Tourism Investment Group Co Ltd has priced a EUR410mn 3-year bond at MS+200bps, tightening from initial guidance of MS+210bps area. The expected issue ratings are 'BBB-/NR/BBB-'. KWG Property Holding Ltd has stated that it plans to issue a USD150mn re-tap of its KWGPRO 6%'22s. The issue ratings are 'B+/B2/BB-'.

Rating Changes: S&P has downgraded Mitsubishi UFJ Morgan Stanley Securities Co. Ltd, MUFG Securities EMEA plc, MUFG Securities Americas Inc, and Master Trust Bank of Japan Ltd's issuer credit rating to 'A' from 'A+', while downgrading the issuer credit rating on Mitsubishi UFJ Securities Holdings Co Ltd and Mitsubishi UFJ Lease & Finance Co Ltd to 'A-' from 'A'. The outlook on the ratings are stable. The rating action follows the downgrade on Mitsubishi UFJ Financial Group, which is the parent of these six entities.

Table 1: Key Financial Indicators

	1-Dec	1W chg (bps)	1M chg (bps)		1-Dec	1W chg	1M chg
iTraxx Asiax IG	74	-2	0	Brent Crude Spot ($/bbl)	62.83	-1.61%	3.87%
iTraxx SovX APAC	14	-1	-1	Gold Spot ($/oz)	1,276.22	-0.94%	0.12%
iTraxx Japan	46	-1	-1	CRB	189.17	-1.27%	0.65%
iTraxx Australia	64	-2	-1	GSCI	424.26	-1.11%	2.19%
CDX NA IG	52	0	-1	VIX	11.28	14.17%	10.59%
CDX NA HY	108	0	0	CT10 (bp)	2.408%	6.61	3.58
iTraxx Eur Main	48	-1	-2	USD Swap Spread 10Y (bp)	-1	-1	1
iTraxx Eur XO	231	-5	7	USD Swap Spread 30Y (bp)	-23	-2	4
iTraxx Eur Snr Fin	47	-1	-3	TED Spread (bp)	21	3	-8
iTraxx Sovx WE	3	0	-1	US Libor-OIS Spread (bp)	11	-1	0
iTraxx Sovx CEEMEA	46	-2	3	Euro Libor-OIS Spread (bp)	1	-2	-2
					1-Dec	1W chg	1M chg
				AUD/USD	0.756	-0.70%	-1.46%
				USD/CHF	0.984	-0.43%	1.99%
				EUR/USD	1.191	-0.21%	2.49%
				USD/SGD	1.348	-0.19%	0.96%
Korea 5Y CDS	58	-5	-12	DJIA	24,272	3.17%	3.57%
China 5Y CDS	57	-2	5	SPX	2,648	1.94%	2.64%
Malaysia 5Y CDS	63	-3	0	MSCI Asiax	696	-3.06%	-0.49%
Philippines 5Y CDS	63	-3	0	HSI	29,210	-2.20%	2.15%
Indonesia 5Y CDS	93	-4	0	STI	3,449	0.20%	1.69%
Thailand 5Y CDS	48	-1	0	KLCI	1,718	-0.20%	-1.49%
				JCI	5,952	-1.83%	-1.42%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
30-Nov-17	Adani Abbot Point Terminal Pty Ltd	'BBB-/NR/BBB-'	USD500mn	5-year	CT5+245bps
30-Nov-17	Gansu Provincial Highway Aviation Tourism Investment Group Co Ltd	'BBB-/NR/BBB-'	EUR410mn	3-year	MS+200bps
29-Nov-17	Alibaba Group Holding Ltd	Not Rated	USD700mn	5.5-year	CT5+73bps
29-Nov-17	Alibaba Group Holding Ltd	Not Rated	USD2.55bn	10-year	CT10+108bps
29-Nov-17	Alibaba Group Holding Ltd	Not Rated	USD1bn	20-year	CT20+118bps
29-Nov-17	Alibaba Group Holding Ltd	Not Rated	USD1.75bn	30-year	CT30+138bps
29-Nov-17	Alibaba Group Holding Ltd	Not Rated	USD1bn	40-year	CT30+158bps
29-Nov-17	Third Pakistan International Sukuk Company Ltd	'B/B3/NR'	USD1bn	5-year	5.625%
29-Nov-17	Third Pakistan International Sukuk Company Ltd	'B/B3/NR'	USD1.5bn	10-year	6.875%
28-Nov-17	Fortune Star (BVI) Ltd	'BB/NR/NR'	USD300mn	3-year	5.375%

Source: OCBC, Bloomberg

Rating Changes: S&P has affirmed China Life Insurance Co Ltd's (China Life) 'A+' insurer financial strength and issuer credit ratings, as well as the 'A-' long-term issue rating on China Life's outstanding unsecured Core Tier 2 notes. S&P has removed the ratings from CreditWatch, where they were placed with negative implications. The outlook is negative. The rating action reflects S&P's expectation that China Life's capital adequacy will remain at current levels, albeit with thinning capital buffers, given China Life's asset-growth plans and reserving provisions over the period. The negative outlook reflects S&P's view that China Life's capitalization will remain highly sensitive to volatility in the investment market and interest rates as China Life's allocation to high-risk assets has been rising. Moody's has upgraded ITOCHU Corporation's issuer rating to 'A3' from 'Baa1'. The outlook has been revised to stable from positive. The rating action reflects ITOCHU's stable earnings and cash flow that are supported by assets that are not prone to commodity-price fluctuations, as well as ITOCHU's strong relationships with its main banks. Moody's has affirmed Sojitz Corporation's (Sojitz) 'Ba1' issuer rating. The outlook is stable. The rating reflects Sojitz's diverse but limited scale of operations and modest credit metrics relative to its peers.

Credit Headlines:

Lippo Malls Indonesia Retail Trust ("LMRT"): LMRT announced that the consent solicitation exercise (refer to OCBC Asian Credit Daily – 1 Nov 2017) has been passed by all the affected noteholders, including LMRTSP 4.1% '20s ("Series 005"), LMRTSP 4.5% '18s ("Series 001"), LMRTSP 7% PERP ("Series 002") and LMRTSP 6.6% PERP ("Series 003"). (Company)

Industry Outlook – Singapore Residential Property: According to the MAS Financial Stability Review ("FSR"), there is uncertainty if the new supply in the market can be fully absorbed by the market, and this could weigh on rentals and property prices. The additional supply is projected to be 20,000 new private housing units, which will more than double the number of unsold units in the pipeline in 1-2 years, and will come from the redevelopment of the en-bloc sites and government land sales. Meanwhile, MAS has flagged that population growth has slowed, with compound annual growth rate of population moderating from 3.0% (2007-2012) to 1.1% (2012-2017). Nevertheless, we think that the market need not be overly alarmed on the housing market in relation to the MAS FSR. According to the URA, only 16,301 units remained unsold as at 3Q2017. A doubling of the unsold stock would only bring the unsold units in-line with the preceding 10Y (2007-2016) average of 32,771 units. Next, the expected increase in the housing stock will only be completed in 2012-2022. In the short to medium term, we think there is sufficient room for the market to digest as the completions over 2018-2020 is 9,473 units p.a., which is lower than the 11,018 new sales over 4Q2016-3Q2017. We also believe that homeowners have strong holding power. MAS found that the banking system would be resilient to a sharp drop in property prices of 50% over a three-year period. Meanwhile, asset quality of housing loans remains strong, with low NPLs of 0.4% and loans in arrears of 1.0%. (MAS, URA, OCBC)

ASL Marine Holdings Ltd ("ASL"): As mentioned previously (refer to OCBC Asian Credit Daily – 15 November 2017), ASL had been in violation of certain covenants on its SGD99mn club term loan facility. ASL has announced that on 29/11/17, ASL had formally received a waiver letter that stipulated that the club term loan facility lenders have no intentions to 1) direct the facility agent to issue a default declaration 2) with respect to the covenant breach, cancel or demand immediate repayment of the facility. ASL also stated that they continue to service the facility as per the monthly repayment schedule as stated in the facility agreement. (Company)

Century Sunshine Group Holdings Limited ("CSG"): Following the shareholder approval obtained during the EGM (refer to OCBC Asian Credit Daily – 22 November 2017) regarding the injection of CSG's magnesium business into Group Sense International Limited ("GSIL"), it was announced that the transaction had been completed on 30/11/17. Due to the consideration for the transaction being GSIL shares, CSG's shareholdings in GSIL have increased to 72.4%. (Company)

Credit Headlines (Cont'd):

Malayan Banking Berhad ("Maybank"): Maybank reported its 3Q2017 and 9M2017 results. Total operating income for 3Q2017 grew 8.7% y/y and 1.4% q/q due to balanced growth across net interest income (+8.6% y/y due to loans growth), Islamic banking (+24.3% y/y from higher fees) and net earned insurance premiums (+28.4% y/y due to higher insurance premiums). Other operating income was down 12% y/y and 1.8% q/q due to lower other income which overshadowed an 18.9% y/y and 15.1% q/q rise in commissions. Expenses were up 7.9% y/y and 4.3% q/q due to higher personnel expenses and administration and other expenses while allowances were up 7.2% y/y (higher collective allowances) but down 53.4% q/q (material q/q fall in collective allowances and higher debt recoveries). As a result, operating profits rose 7.2% y/y and 19.3% q/q. For 9M2017, results remain sound with total operating income up 7.1% y/y due to broad based growth (higher net interest margins and loan volumes) and operating profit up 19.3% y/y due to lower provisions y/y (-20.6% y/y). Segment wise, Community Financial Services (Consumer Banking, SME Banking, Business Banking) continues to drive better y/y performance for 9M2017 (due to higher net interest income and lower impairments) along with better performance in Insurance and Takaful and head office and others. Conversely, Corporate Banking & Global Markets and Investment Banking performance continues to be somewhat depressed from lower other operating income and higher expenses. Balance sheet growth continues to be solid with total assets up 7.2% y/y and net loans and advances up 5.2% y/y (q/q growth was lower with net loans and advances up 1.2%). On a normalized basis (which excludes foreign currency translation effects), group loans were up 1.6% q/q, the first q/q rise in FY2017. Loan growth continues to be focused on housing loans, hire purchase receivables and revolving credits although loan growth is also relatively broad based with other segment loans also increasing. Roughly half of new loans have been provided to individuals with key uses of loans being for the purchase of transport vehicles and landed properties. These represent a better risk profile than Maybank's entire portfolio with the gross non-performing loan ratio for purchase of transport vehicles and landed properties at 0.67% and 1.22% respectively. Conversely Maybank's overall gross non-performing loan ratio (which includes restructured and rescheduled loans as well as performing loans impaired due to judgmental/obligatory triggers) was at 2.50% as at 30 September 2017, improving from 2.53% as at 30 June 2017 but weaker y/y (2.22% as at 30 September 2016) due to higher y/y growth in NPLs against overall loan growth. NPL ratios continue to be burdened by elevated NPL ratios in Business Banking and Corporate Banking (12.2% and 11.0% respectively as at 30 September 2017). That said, management has indicated that the YTD growth rates in gross impaired loans are slowing and NPL ratios in these segments have stabilized in FY2017. Most NPL growth so far in 2017 has occurred in Singapore and Indonesia while oil & gas continues to be a pain point for loan quality due to the YTD deterioration in the portfolio. Oil & gas exposures showed some q/q improvement however with Maybank classifying 40% of oil and gas exposures as 'normal' (37% as at 30 June 2017) while 42% are on watchlist and 15% are classified as impaired (40%% and 16% respectively as at 30 June 2017). Given these underlying loan quality issues, specific allowances have risen 30.1% y/y and 9.4% q/q. On the funding side, Maybank's improved net interest margin performance y/y for 9M2017 (+13bps to 2.39%) was due also to better funding sources with overall deposit growth of 2.7% y/y with lower cost savings and demand deposits growing 11.4% and 6.3% respectively (with solid growth in Malaysia and Singapore) while fixed deposits & negotiable instruments of deposit and structured deposits fell 3.2% collectively y/y. Similarly, money market deposits have almost doubled y/y and now contribute 4.0% to total deposit balances. Maybank's capital ratios remain solid and well above minimum requirements with Maybank's CET1/CAR ratios after proposed dividend at 13.5%/18.0% for 3Q2017 (13.6%/19.0% for 2Q2017; 14%/19.3% for FY2016). Ratios were weaker q/q due to lower capital (lower retained earnings and reserves, higher dividend payments and redemption of subordinated debt) and stable risk weighted assets but remain up on a y/y basis due to retained earnings growth above growth in risk weighted assets. As previously mentioned, Maybank's earnings generation continues to be robust, but loan quality concerns persist given the bank's material exposure to oil and gas compared to domestic peers. That said, Maybank's strong market position in Malaysia positions the bank well to take advantage of expected improvement in operating conditions domestically in 2018. We maintain our Neutral Issuer Profile on Maybank. (Company, OCBC)

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