Asian Credit Daily

Aug 10, 2017

Credit Headlines (Page 2 onwards): Oxley Holdings Ltd, ABN Amro Group NV, ABN Amro Bank NV, Aspial Corp Ltd, The Wharf Holdings Ltd, Fraser and Neave Ltd

Market Commentary: The SGD swap curve traded downwards on Tuesday, with swap rates trading approximately 1bps lower across all tenors (with the exception of the 1-year tenor, which rose 1bps). Singapore markets were closed yesterday for the national day holiday. Flows in SGD corporates were heavy on Tuesday, with better selling seen in GEMAU 5.5%'19s, and mixed interest seen in BAERVX 5.9%-PERPs. In the broader dollar space, the spread on JACI IG Corporates traded little changed on Tuesday, before rising 1bps to 187bps on Wednesday. The yield on JACI HY Corp traded little changed at 7.00% on both days. 10y UST yields rose 1bps to 2.26% on Tuesday amid a day of heavy issuance in the USD space. 10y UST fell 1bps on Wednesday as an early risk-off advance due to geopolitical concerns between the US and North Korea was erased by a sloppy 10y auction later in the day.

New Issues: Country Garden Holdings Co Ltd has priced a USD100mn re-tap of its COGARD 4.75%'22s at 99.875, tightening from its initial guidance of 99.75. The expected issue ratings are 'NR/Ba1/BB+'. Gold Ridge Pte Ltd has priced a SGD100mn 6-year bond at 2.9%, tightening from initial guidance of 3% area. Gemstones International Limited has priced a USD225mn 3-year bond (guaranteed by LVGEM (China) Real Estate Investment Company Ltd and certain of its offshore subsidiaries) at 8.5%, tightening from initial guidance of high 8% area. The expected issue ratings are 'NR/B3/B+'.

Rating Changes: S&P has downgraded Global A&T Electronics Ltd's (GATE) corporate credit rating to 'D' from 'CCC-'. The rating action follows GATE's failure to make an interest payment on its senior secured notes on 1 August 2017. GATE has proposed a consensual restructuring of the notes, and this constitutes a default under S&P's definitions.

Table 1: Key Financial Indicators

	10-Aug	1W chg (bps)	1M chg (bps)		10-Aug	1W chg	1M chg
iTraxx Asiax IG	83	3	-5	Brent Crude Spot ($/bbl)	52.74	1.40%	12.50%
iTraxx SovX APAC	21	2	-2	Gold Spot ($/oz)	1,276.56	0.63%	5.12%
iTraxx Japan	41	1	0	CRB	181.56	-0.23%	5.10%
iTraxx Australia	77	2	-8	GSCI	386.89	0.97%	5.44%
CDX NA IG	60	3	-2	VIX	11.11	8.07%	0.00%
CDX NA HY	107	-1	0	CT10 (bp)	2.247%	2.53	-12.65
iTraxx Eur Main	55	3	-1	USD Swap Spread 10Y (bp)	-4	0	0
iTraxx Eur XO	240	7	-14	USD Swap Spread 30Y (bp)	-32	1	0
iTraxx Eur Snr Fin	54	3	0	TED Spread (bp)	27	2	-1
iTraxx Sovx WE	5	0	-1	US Libor-OIS Spread (bp)	15	0	1
iTraxx Sovx CEEMEA	44	2	-15	Euro Libor-OIS Spread (bp)	3	0	0
					10-Aug	1W chg	1M chg
				AUD/USD	0.787	-0.96%	3.52%
				USD/CHF	0.965	0.37%	0.07%
				EUR/USD	1.174	-1.13%	2.96%
				USD/SGD	1.365	-0.46%	1.45%
Korea 5Y CDS	64	6	5	DJIA	22,049	0.15%	2.99%
China 5Y CDS	65	3	-4	SPX	2,474	-0.14%	1.92%
Malaysia 5Y CDS	81	2	-5	MSCI Asiax	657	0.43%	5.49%
Philippines 5Y CDS	71	2	-6	HSI	27,305	-0.82%	7.08%
Indonesia 5Y CDS	112	4	-8	STI	3,324	-0.75%	2.93%
Thailand 5Y CDS	61	1	-2	KLCI	1,776	0.21%	1.05%
				JCI	5,824	0.74%	0.90%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
9-Aug-17	Country Garden Holdings Co Ltd	'NR/Ba1/BB+'	USD100mn	COGARD 4.75%'22s	99.875
8-Aug-17	Gold Ridge Pte Ltd	Not Rated	SGD100mn	6-year	2.9%
8-Aug-17	Gemstones International Limited	'NR/B3/B+'	USD225mn	3-year	8.5%
7-Aug-17	Agile Group Holdings Ltd	'B+/B1/NR'	USD200mn	5NC3	5.125%
7-Aug-17	Export-Import Bank of India	'NR/Baa3/BBB-'	USD400mn	5-year	3mL+100bps
3-Aug-17	Vedanta Resources Plc	'B+/B3/NR'	USD1bn	7NC4	6.125%
3-Aug-17	PT Gajah Tunggal Tbk	'B-/Caa1/NR'	USD250mn	5NC3	8.375%
3-Aug-17	Canara Bank	'NR/Baa3/BBB-'	USD400mn	5-year	CT5+150bps

Source: OCBC, Bloomberg

Rating Changes (cont'd): Moody's has placed Yanzhou Coal Mining Company Limited's (Yanzhou Coal) 'B2' corporate family rating and senior unsecured rating under review for upgrade. The rating action follows Yanzhou Australia's (a subsidiary of Yanzhou Coal) announcement to raise equity to fund its acquisition of Coal & Allied Industries Limited. Moody's expects that Yanzhou Australia's financial profile and operations will improve upon completion of the acquisition. Moody's has downgraded MNC Investama TBK's (PT) (BHIT) corporate family rating and the ratings on its backed senior secured notes (issued by Ottawa Holdings Pte Ltd and guaranteed by BHIT) to 'Ca' from 'Caa3'. The outlook is negative. The rating action reflects BHIT's significant refinancing risk over the next 12 months, and the increasing likelihood of a debt restructuring exercise being required.

Credit Headlines:

Oxley Holdings Ltd ("OHL"): OHL reported that the aggregate cost of the Group's quoted investments increased to SGD152.7mn after further acquisition of quoted investments (prior to acquisition: SGD120.3mn). We note that previously OHL has announced a SGD120.2mn acquisition of 7.11% stake in United Engineers (refer to Asian Credit Daily – 4 Aug 2017). If the most recent acquisition of stakes is entirely related to the acquisition of the stakes in United Engineers, this implies that OHL now holds about 9% of United Engineers. Separately, we understand from the Yanlord-led consortium which took a 33.5% stake in United Engineers (refer to Asian Credit Daily – 14 Jul 2017) that they are not acting in concert with OHL. We continue to hold OHL at a Negative Issuer Profile as net gearing is expected to increase to 2.6x (2Q17: 1.8x). (Company, OCBC)

ABN Amro Group NV, ABN Amro Bank NV ("ABN"): ABN announced its 2Q2017 and 1H2017 results with overall positive trends continuing in underlying results (which exclude material and non-recurring items). Underlying net profit was up 56% and 45% respectively q/q and y/y and includes a EUR200mn book gain from the sale of its Private Banking Asia (to LGT Group). Excluding this gain, underlying net profit improved 24% and 15% q/q and y/y respectively. While net interest margins continue to be suppressed due to low interest rates, underlying performance was supported by improving economic fundamentals and sentiments in the Netherlands with growth in mortgage and commercial banking loan books. The Corporate & Institutional Banking (C&IB) loan book also had underlying growth although fell in local currency terms due to the weaker USD and lower commodity prices. Loan growth, along with releases of reserved net interest income and low to negative interest rates on liabilities translated to a 1% rise in net interest income y/y while net interest income was flat q/q. Net fee and commission income fell 4% and 3% q/q and y/y respectively primarily due to absence of contribution from Private Banking Asia while other operating income was influenced by the divestment gain. Underlying cost to income ratio was down to 54.9% from 60.2% in Q12017 and 57.2% in Q22016 from cost saving plans including work force reductions and digital transformation and despite higher restructuring charges, divestment related expenses and elevated regulatory levies. Underlying cost of risk was negative due to impairment releases on corporate loans and residential mortgages as a number of previously classified non-performing loans are now performing, further indicating ABN's positive view of the operating environment, rising house prices and model refinements on SME lending and mortgages. Impairments for exposures to Energy, Commodities & Transportation Clients also fell 12% y/y although rose 39% q/q indicating still challenging conditions for the one weak spot in ABN's otherwise solid loan mix. 1H2017 result trends y/y were consistent with 2Q2017 y/y results with underlying profit up 39% from 1H2016 from divestment gains, lower impairments and loan volume growth. As mentioned above, residential mortgages continue to grow q/q and y/y within ABN's loan book up 0.2% q/q and mitigated q/q falls in consumer loans, C&IB loans and loans to professionals. Residential mortgages is the largest component of ABN's loan book comprising 56% of total loans and receivables to customers as at 30 June 2017 (Corporate loans is next largest at 31%). Impairment allowances fell 10% q/q and 15% compared to 4Q2016 given better loan quality with ABN's reported impaired loans ratio at 3.0% marginally improved from 1Q2017 and 4Q2016 (3.1% and 3.2% respectively). Liquidity remains adequate with ABN's loan to deposit ratio stable q/q at 112% and the Liquidity Coverage Ratio and Net Stable Funding Ratio both above 100% for 2Q 2017. ABN's capital ratios improved through a mix of retained earnings and lower risk weighted assets from a decline in credit risk from lower loan volume at C&IB and lower retail banking RWA's from higher collateral values and improved credit quality. ABN's fully loaded CET1 ratio of 17.6% for 2Q2017 was 70bps up from 16.9%, and remains well above its current minimum Supervisory Review and Evaluation Process CET1 requirements of 9%. The results are within our expectations for ABN's neutral issuer profile. (Company, OCBC)

Credit Headlines (Cont'd):

Aspial Corp Ltd ("ACL"): ACL reported 2Q2017 results. Revenue declined 29% y/y to SGD104.6mn mainly due to a decline in real estate revenue to SGD29.5mn (2Q16: SGD78.6mn), likely driven by absence of revenue contribution from The Hillford and Urban Vista projects. The decline is however somewhat mitigated by the increase in revenue from the financial services segment to SGD49.3mn (2Q2016: SGD39.0mn). Nevertheless, 2Q2017 loss after tax was maintained y/y at SGD6.3mn. The weak showing is due mainly to the reduced revenue, while ACL recorded IPO expenses of SGD1.7mn for World Class Global, SGD1.2mn one-off impairment for investment securities while its Jewellery segment continued to struggle with SGD1.8mn in pre-tax losses. While the results paint a slightly credit negative story for ACL, we think that the losses may not be sustained with ACL expecting to remain profitable in 2017. In addition, we think that the lower revenues and profits are due to timing issues, with SGD1.4bn of sales locked-in from its projects in Singapore and Australia, of which most are expected to be recorded over 2018-2020. However, as net gearing remains very high at 3.1x (1Q2017: 3.0x), we continue to hold ACL at a Negative Issuer Profile (Company, OCBC)

The Wharf (Holdings) Ltd ("Wharf"): Wharf reported 1H2017 results. Revenue declined 15% y/y due to lower revenue from property development in China. Development property revenue fell by 29% y/y to HKD5.96bn, as property sales in China contracted due to the latest round of cooling measures by the Chinese government. However, profit before tax from the development property segment rose 108% y/y to HKD3.43bn, due to write-back on impairment provision on its development projects in Mainland China. Amid the marginally weaker retail market (with HK retail sales decreasing 0.6% y/y), the revenue at the retail components of Harbour City ("HC") and Times Square ("TS") came in mixed. HC retail revenue increased 5% y/y to HKD3.26bn, while retail revenue from TS decreased 2% y/y to HKD1.07bn. Office rental revenue in Hong Kong increased 4% y/y to HKD1.7bn due to positive rental reversions, while occupancy remained stable at 96%-98%. Revenue from investment properties in China rose 4% to HKD1.25bn and operating profit rose 6% to HKD732mn, partially due to stronger retail revenue from Chengdu International Finance Square, of which revenue increased 18% y/y to RMB367mn, and profit increased 24% y/y to HKD259mn. Profit for the investment property segment before fair value gains and taxation rose 6.5% to HKD6.08bn. Overall, Wharf's EBIT rose 6%, and profit before fair value gains on investment properties and taxes rose 19%. As at 30 June 2017, net gearing was stable although decreased further to 0.06x from 0.07x at 31 December 2016, while EBITDA/total interest fell to 12.0x in 1H2017 from 13.8x in 1H2016, due to higher interest expenses. Previously, we mentioned that Wharf was studying the potential listing of its investment properties and ended discussions to dispose i-CABLE (refer to OCBC Asia Credit - Singapore Mid-Year 2017 Credit Outlook (8 Jul)). In its latest financial statements, Wharf has disclosed that the Stock Exchange has approved Wharf's proposal of demerging its wholly-owned subsidiary, Wharf Real Estate Investment Company Limited (Wharf REIC), and Wharf is currently preparing its application for the listing and permission to deal in Wharf REIC shares. Wharf REIC will hold a portfolio of 6 investment properties (Harbour City, Times Square, Plaza Hollywood, Crawford House, Wheelock House, and The Murray, which is still currently under development), as well as a 72% stake in Harbour Centre Development Limited. These properties have a value of over HKD230bn, and contributes HKD5.92bn to total operating profit (69.4%) for the half ending 30 June 2017. We believe that the impact of the divestment could be credit negative, as HC and TS contributes significant cash flows to Wharf. Furthermore, WHARF has also chosen to divest its 73.84% stake in i-CABLE and distribute in specie all i-CABLE shares to shareholders. Based on the closing price of HKD0.35 per i-CABLE share, the aggregate market value of shares held by Wharf is approximately HKD520mn. We are currently keeping Wharf's issuer profile under review. (Company, OCBC)

Credit Headlines (Cont'd):

Fraser and Neave Ltd ("FNN"): FNN reported 3QFY2017 results for the quarter ended 30 June. Revenue fell 8.6% y/y to SGD483.1mn, with gross profits declining by 19.1% y/y to SGD165.5mn. This is mainly attributable to the decline in revenues (-17.1% y/y to SGD141.4mn) and PBIT (-76.6% y/y to SGD2.1mn) from the beverages segment, due to a significant decline from Malaysia due to weak consumer sentiment, weaker ringgit and price competition (likely from Coca-Cola). The Dairies segment (without Vinamilk) also saw some pressure, with revenues down 3.3% y/y to SGD276.1mn while we estimate that the Dairies segment PBIT fell 26% y/y to SGD25mn, mainly due to an estimated y/y decline in Malaysia's Dairies 3QFY2017 PBIT from SGD14mn to SGD7mn. Nevertheless, profit before tax and exceptional items surged 23.9% y/y to SGD75.4mn. This is mainly due to Vinamilk, with a y/y increase in stake from 10.95% to 18.74% and increased dividends received of SGD33.4mn (3QFY2016: SGD16.1mn) which is recorded as gross income from investments. The increase in stake also resulted in FNN recording 2.5 months of the share of Vinamilk's profits (previously recorded only dividends from Vinamilk) which we estimate to be worth SGD25mn. Meanwhile, net profit surged to SGD1.3bn (3QFY2016: SGD53.4mn) mainly due to SGD1.2bn of exceptional gains due to the reclassification of Vinamilk, which actualised the other comprehensive income over time for Vinamilk. As this is purely an accounting change, this has no impact to the credit profile of FNN. We note that q/q, current borrowings increased to SGD737mn (2QFY2017:492mn), which topped up the current cash balances and bank fixed deposits to SGD907.2mn (2QFY2017: SGD670.2mn). As such, we will not rule out FNN using the cash for further acquisitions. Due to continued acquisition of stakes in Vinamilk, net gearing increased to 6.2% (2QFY2017: 3.1%). With Vinamilk stabilising FNN's overall performance, we continue to hold FNN at a Neutral Issuer Profile (Company, OCBC)

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