

May 11, 2017

Credit Headlines (Page 2 onwards): Industry Outlook – Australian Banks, Groupe BPCE, Sabana Shari'ah Compliant Industrial REIT, Aspiat Corp Ltd, Frasers Centrepoint Limited , CWT Ltd

Market Commentary: The SGD swap curve bear-steepened on Tuesday, with swap rates trading 1-4bps higher across all tenors. Singapore markets were closed yesterday due to public holiday. Flows in SGD corporates were heavy, with mixed interest in FCLSP 4.15%'27s, BAERXV 5.9%'49s. In the broader dollar space, the spread on JACI IG corporates fell 1bps to 194bps yesterday, while the yield on JACI HY corporates added 2bps to 6.64%. 10y UST yield rose 1bps to 2.41% yesterday, paring early flight-to-quality bids driven by North Korean geopolitical tensions and the firing of U.S FBI Director James Comey with 10Y UST yields rising after weaker demand seen in Treasuries auctions.

New Issues: Global Prime Capital Pte. Ltd. priced a USD70mn re-tap of existing bond due 2023 (guaranteed by PT Bumi Serpong Damai Tbk) at 101.625, tightening from initial guidance of 101.375. The expected issue ratings are 'NR/Ba3/BB-'. The Export-Import Bank of Korea scheduled investor roadshow from 15 May for potential EUR Intermediate Tenor bond issuance. Hunan Xiangjiang New Area Investment Group Co Ltd. is planning to issue USD bonds. On Tuesday, FMG Resources (August 2006) Pty Ltd. (Fortescue Metals Group Ltd.) priced a USD1.5bn two-tranche deal; with the USD750mn 5-year piece at 4.75%, tightening from initial guidance of 5 – 5.25% range; the USD750mn 7-year piece at 5.125%. CK Hutchison Capital Securities (17) Ltd. priced a USD1bn Perp NC5 (guaranteed by CK Hutchison Holdings Ltd.) at 4%, tightening from initial guidance of 4.375%. The expected issue ratings are 'BBB/Baa2/BBB'.

Rating Changes: S&P raised Australian engineering and construction company (E&C) CIMIC Group Ltd.'s (CIMIC) long term corporate credit ratings to 'BBB/A-2' from 'BBB-/A-3' yesterday. The rating outlook is stable. The rating action reflects S&P's consideration of CIMIC's status as a core member of the Actividades de Construcción y Servicios S.A. (ACS) group, from its previously insulated subsidiary status.

Table 1: Key Financial Indicators

	11-May	1W chg (bps)	1M chg (bps)		11-May	1W chg	1M chg
iTraxx Asiax IG	89	-4	-10	Brent Crude Spot (\$/bbl)	50.41	4.20%	-10.35%
iTraxx SovX APAC	20	-1	-2	Gold Spot (\$/oz)	1,219.61	-0.70%	-4.33%
iTraxx Japan	42	-1	-2	CRB	179.51	-0.49%	-4.51%
iTraxx Australia	81	-1	-6	GSCI	375.54	2.10%	-6.26%
CDX NA IG	62	-2	-5	VIX	10.21	-4.40%	-32.25%
CDX NA HY	108	0	1	CT10 (bp)	2.394%	4.03	9.82
iTraxx Eur Main	62	-2	-15	USD Swap Spread 10Y (bp)	-8	-3	-4
iTraxx Eur XO	253	-4	-41	USD Swap Spread 30Y (bp)	-46	-1	-6
iTraxx Eur Snr Fin	66	-4	-27	TED Spread (bp)	29	-2	-6
iTraxx Sovx WE	8	0	-5	US Libor-OIS Spread (bp)	14	-2	-7
iTraxx Sovx CEEMEA	48	1	-4	Euro Libor-OIS Spread (bp)	3	0	1
					11-May	1W chg	1M chg
				AUD/USD	0.734	-0.92%	-2.11%
				USD/CHF	1.009	-2.19%	-0.10%
				EUR/USD	1.087	-1.01%	2.54%
				USD/SGD	1.411	-0.76%	-0.53%
Korea 5Y CDS	56	-2	-1	DJIA	20,943	-0.07%	1.41%
China 5Y CDS	79	-3	-7	SPX	2,400	0.48%	1.95%
Malaysia 5Y CDS	103	-4	-11	MSCI Asiax	604	0.97%	4.17%
Philippines 5Y CDS	77	-2	-9	HSI	25,077	1.59%	4.10%
Indonesia 5Y CDS	125	-1	-10	STI	3,269	0.95%	2.74%
Thailand 5Y CDS	55	-2	0	KLCI	1,779	0.37%	2.27%
				JCI	5,653	0.10%	0.45%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
10-May-17	Global Prime Capital Pte. Ltd. (re-tap)	"NR/Ba3/BB-"	USD70mn	6-year	101.625
9-May-17	FMG Resources (August 2006) Pty Ltd.	"BB+/Ba2/BB+"	USD750mn	5-year	4.75%
9-May-17	FMG Resources (August 2006) Pty Ltd.	"BB+/NR/BB+"	USD750mn	7-year	5.125%
9-May-17	CK Hutchison Capital Securities (17) Ltd.	"BBB/Baa2/BBB"	USD1bn	Perp NC5	5.25%
8-May-17	Oxley MTN Pte. Ltd. (re-tap)	Not Rated	USD100mn	4-year	6.375%
8-May-17	Bank of Communications Co. Ltd. (Hong Kong)	"A/A2/NR"	USD700mn	3-year	3mL+78bps
8-May-17	Bank of Communications Co. Ltd. (Hong Kong)	"A/A2/NR"	USD300mn	5-year	3mL+88bps
8-May-17	Woori Bank	"BB+/Ba3/NR"	USD500mn	Perp NC5	5.25%

Source: OCBC, Bloomberg

Rating Changes (cont'd): S&P assigned University of New South Wales (UNSW) a 'AA+' long-term foreign and local currency rating yesterday. The outlook on the rating is stable. The rating action reflects S&P's view of UNSW's stand-alone credit profile of 'AA+', and S&P's opinion that there is a high likelihood of extraordinary support for UNSW from the Australian government in a distress scenario.

Credit Headlines:

Industry Outlook – Australian Banks: In the recent Federal Budget (disclosed on 09/05/17), the Australian government announced a variety of measures aimed at improving competition in Australia's banking sector. Somewhat foreshadowed in earlier parliamentary inquiries on banking industry conduct and in response to public angst on the sector's rising profits, the most contentious of the proposals (which also include misconduct penalties, new complaints tribunal, and measures addressing senior executive pay and conduct) is the government's proposed 6bps levy on certain classes of liabilities with over AUD100bn in aggregate. The levy applies only to Australia's 5 largest banks (Australia & New Zealand Banking Group Ltd. (ANZ), Commonwealth Bank of Australia, Macquarie Group Ltd., National Australia Bank Ltd. (NAB) and Westpac Banking Corp.(WBC)) with the government explaining that (1) such a levy is consistent with taxes imposed in other jurisdictions such as Europe; (2) represents a fair contribution from banks' strong profits; and (3) will improve competition in Australia's banking sector for smaller banks. The levy, which applies only to corporate bonds, commercial paper, certificates of deposit, Tier-2 capital instruments, and the proportion of individual's deposits in excess of AUD250,000, is expected to raise around AUD6.2bn over the next four years and potentially lower after tax earnings for the 5 largest banks by between 3-5%. Although the exact impact is still unknown with the government meeting with bank representatives today to explain the details further, reaction from the affected banks and the Australian Banker's Association has been terse with the CEOs of ANZ, WBC and NAB voicing opposition and concern that the politically driven levy will ultimately impact customers, shareholders and employees who could ultimately bear the cost of the additional tax through higher fees, lower dividends and additional cost cuts. The proposal is still subject to legislative approval through the senate, therefore the final form and eventual implementation is far from certain. While lower profits could ultimately impact the bank's ability to generate capital and meet rising capital requirements, we do not foresee this measure as materially impacting the credit profiles of Australian banks under our coverage for the time being. We expect the banks to employ measures to preserve earnings depending on the final form of the levy. At the very least however, it highlights banks' ongoing exposure to regulatory risk. (Company, Bloomberg, OCBC)

Groupe BPCE ("GBPCE"): GBPCE reported its 1Q2017 results with underlying income before tax (excluding the impact of non-economic and exceptional items) up 11.6% y/y to EUR1.3bn. Net banking income improved 4.9% y/y while operating expenses grew slower y/y at 2.6% (higher regulatory costs and growth in Investment Solutions and Corporate & Investment Banking division expenses) and marginally improving GBPCE's cost/income ratio to 68.3% for 1Q2017 (1Q2016: 69.8%). Segment wise, (1) Retail banking performance was softer (revenues -0.8% y/y) as expected given low interest rates but this was mitigated by improved commissions, operating expense control and a 4.5% y/y rise in loan outstandings (mainly from housing, equipment and consumer loans); (2) Investment Solutions revenues grew 8.1% y/y due to solid asset management performance in Europe and improved insurance activities, and; (3) revenues in Corporate & Investment Banking grew a strong 25.9% y/y from global markets (+38% due to Fixed Income, Commodities & Treasury, and Equity) while Global Finance & Investment banking performance was also solid despite a y/y fall in new loan production (+10% from global finance origination and investment banking). Overall provisioning costs were down 1.6% y/y reflecting the improving operating environment within retail banking in France as well as absence of elevated oil and gas provisions in 1Q2016 within Corporate & Investment Banking. The fall in provisioning costs was consistent with the ongoing improvement in loan quality with the reported ratio of non-performing loans to gross loan outstandings falling to 3.4% in 1Q2017 from 3.6% in 1Q2016. GBPCE's impaired loans coverage ratio (including guarantees related to impaired outstandings) also improved marginally to 82.5% from 82.3% over the same period. Due to the solid earnings and issuance of cooperative shares together with stable risk weighted assets, GBPCE's capital ratios improved marginally with the bank's CET1/CAR capital ratio for 1Q2017 at 14.4%/18.7% on a fully loaded basis (FY2016: 14.3%/18.7%). TLAC position remains solid with the reported fully loaded TLAC ratio of 19.7% now above the minimum requirement of 19.5% by January 2019. GBPCE's results reflect solid broad-based performance from its business segments and reflects its strong domestic market positions in retail and diverse business segments. We maintain our Neutral Issuer Profile for now on GBPCE. (Company, OCBC)

Credit Headlines (cont'd):

Sabana Shari'ah Compliant Industrial REIT ("SSREIT"): SSREIT announced its 1Q2017 financials. Revenue decreased by 7% to SGD22.0mn on the back of lower contribution from properties divested in 2016, lower contribution from 5 properties and lower contribution from 39 Ubi Road 1 which was converted into a multi-tenanted lease arrangement in 4Q2016. Net property income ("NPI") however, decreased by 12% to SGD13.3mn as a result of both lower revenue and a 2.5% increase in property expenses. Higher net impairment losses on trade receivables (arrears in excess of securities of deposits held) were recorded in 1Q2017, along with higher operating expenses as a building was converted into a multi-tenanted lease arrangement. For 1Q2017, the REIT Manager had elected to forgo 75% of its management fees, rendering operating expenses lower for SSREIT at SGD0.4mn (1Q2016: SGD1.5mn). EBITDA based on our calculation which does not take into account of other income and other expenses was SGD12.9mn (against SGD13.7mn in 1Q2016), while interest expense was relatively constant at SGD5.3mn. This resulted in a drop in EBITDA/Interest coverage to 2.4x from 2.6x. As at 31 March 2017, aggregate leverage reduced to 36.1% (31 December 2016: 43.2%). Following the completion of SSREIT's rights issue and pending deployment of the cash for acquisitions, SGD60mn of the SGD80.2mn in gross proceeds was used to repay debt due in August 2017. In December 2016, 3 acquisitions were announced in December 2016, of which one (ie: 47 Changi South) was to be acquired from the Sponsor. To date, 2 of the acquisitions are pending completion and the 47 Changi South deal has been terminated following unitholder feedback about the proposed acquisition. As at 31 March 2017, SSREIT faces (1) SGD57.8mn of debt due in the next 9 months; and (2) Purchase obligation of SGD57mn for the remaining 2 properties but is also due to receive SGD14.8mn from the divestment of 218 Pandan Loop. Net-net, we see a cash gap of ~SGD93mn (cash balance as at 31 March 2017: SGD7.5mn). Post the conclusion of its Extraordinary General Meeting ("EGM") which saw unitholders voting in favour of the REIT Manager staying put, SSREIT has resumed discussions with lenders to refinance the debt coming due. As at 31 March 2017, SSREIT still has SGD331.5mn in unencumbered assets which provides financial flexibility for the REIT to raise secured funding, if need be. As at 31 March 2017, 36.3% of leases are due to expire (by Net Lettable Area ("NLA")) by end-2017. Of SSREIT's 21 properties, 1 is in the process of being sold, 3 are Master Leased to Sponsor while 2 properties under Master Leases to third parties are "at-risk" in our view (due to rent in arrears incurred). As SSREIT is undergoing a Strategic Review, there is no certainty that the Sponsor will renew its Master Leases (all 3 due to expire within the year). On 9 May 2017, Mr. Kevin Xayaraj, the CEO and Executive Director of SSREIT's REIT Manager tendered his resignation as CEO and Executive Director. Mr. Xayaraj's last date at the company will be on 31 December 2017 or an earlier date as may be agreed with the board. The search for a suitable CEO candidate will be held in conjunction with SSREIT's on-going Strategic Review process. We see it as a credit positive that unitholder revolt has subsided for now but continue to hold our issuer profile of SSREIT at Negative in light of the still uncertain outcome from its on-going Strategic Review and potential knock-on effects (eg: lease renewals at the REIT). (Company, OCBC)

Aspial Corp Ltd ("Aspial"): Aspial reported 1Q2017 results for the quarter ending 31 Mar. Overall, the results are decent with revenue increasing by 12% y/y to SGD141mn on the back of stronger performance in the real estate business (+16% y/y to SGD67.9mn) due to revenue recognition of sales from CityGate and Waterfront@Faber, as well as better performance in the financial service business (+18% y/y to SGD44.1mn) due to higher interest income from pawnbroking and sales from the retail and trading of gold. However, the Jewellery business segment struggled, with revenue decreasing by 12.5% y/y to SGD30.2mn. Due to the strong headline numbers, profit increased 96% y/y to SGD7.9mn. Together with below the line (other comprehensive income) gains of SGD6.5mn which include fair value gains on available for sale financial assets and FX gains, net gearing fell to 3.04x (4Q16: 3.14x) while net debt levels remained largely unchanged. Aspial expects its cash and debt position to strengthen due to the projects that will be completed in 2017-2018. In the near term, we think net gearing will trend down due to the projects in Singapore with SGD228mn in locked-in revenue. For example, TOP of Waterfront@Faber in 1H17 will contribute about SGD95mn in cashflow, while CityGate should continue to post revenue and profit contribution in 2017 and 2018. In the longer term (2018-2020), Aspial has locked in AUD1.1bn of sales from Australia 108 and Avant. While we expect further improvements to the credit profile, we continue to hold Aspial at a Negative Issuer Profile as net gearing levels are likely to remain elevated (>1x) till at least 2018. (Company, OCBC)

Credit Headlines (cont'd):

Frasers Centrepoint Limited ("FCL"): FCL reported 2QFY2017 results (ending-March 2017), with total sales declining 21.4% y/y SGD705.8mn. This was largely driven by lower development revenue recognized at the Singapore SBU and International segments. Specifically, the Singapore SBU reported SGD175.3mn in revenue (-55.3% y/y), with Singapore development properties revenue and PBIT declining 77% y/y and 87% y/y to SGD66mn and SGD7mn respectively. 2QFY2016 was a difficult to beat quarter due to the TOP of the Twin Fountains EC. Looking forward, with the construction of North Park Residences ramping up (79% sold, 37% completed), it could be supportive of Singapore development revenue and PBIT. It is worth noting that FCL launched the last of its Singapore land bank, the Siglap plot (40% JV), as the Seaside Residences, on 22/04/17. Unless FCL acquires more land, the Singapore development contribution would taper off in the future. Revenue and PBIT for the Singapore Commercial Properties (largely recurring in nature) increased 4% y/y and 11% y/y respectively to SGD109mn and SGD78mn, benefitting from higher contributions from The Centrepoint (post its AEI). The expected completion of Northpoint City (retail) in 2H2017 as well as Frasers Tower in 1H2018 would be additive to performance in the future. The Australia SBU reported SGD306.5mn in revenue, up 69.9% y/y, largely driven by the completion and settlement of ~500 units during 2QFY2017. Near-term revenue looks firm, with a further ~2180 units expected for completion and settlement for 2HFY2017. Recurring PBIT from Frasers Logistics and Industrial Trust continues to drive segment performance though at ~55% of segment PBIT for 1HFY2017. The Hospitality SBU saw revenue and PBIT increase 4% y/y and 51% y/y to SGD189mn and SGD33mn respectively. Performance benefitted from acquisitions (in Melbourne and Dresden) by Frasers Hospitality Trust. There was distinct weakness in FCL's directly held hospitality assets (majority UK based such as the MHDV Group), with the weaker GBP hitting PBIT. As for the International segment, after a strong showing in 1QFY2017, segment revenue and PBIT both plunged 75% y/y to SGD35mn and SGD18mn respectively, largely due to timing issues with development profit recognized in both China and the UK. In fact, China only contributed SGD2.4mn in PBIT for 2QFY2017 compared to SGD126.2mn in 1QFY2017. Non-China segment PBIT was driven higher by the complete half-year contribution by recently acquired Thai associate Golden Land. In aggregate, FCL's PBIT fell 20.8% y/y to SGD179.3mn, again largely due to weaker development contributions out of the Singapore SBU and International. Operating cash flow (including interest service) was flattish at just SGD5.5mn for the quarter, with FCL paying down payables. Cash out flow was largely SGD208.0mn in acquisition / development on investment properties (such as Northpoint City) and SGD540.0mn in JV / Associates (mainly consists of the SGD520mn TICON acquisition). The cash gap was largely funded by SGD231.0mn draw down on cash balance as well as SGD545.6mn in bonds issued during the quarter (SGD398mn done at the FCL level, SGD150mn done at the Frasers Commercial Trust level). As such, net gearing increased from 68% to 74% q/q. Cash / current borrowings stands at 0.8x. The weaker EBITDA generation also worsened EBITDA / Interest cover to 5.0x (1QFY2017: 8.6x). Looking forward, with development income volatile and FCL still pursuing both organic and inorganic growth, it is possible for FCL's credit profile to deteriorate further. That said, we don't expect sharp deterioration from current levels. FCL is also supported by SGD0.6bn and SGD2.5bn in unrecognized revenue in Singapore and Australia, as well as its sizable recurring income stream (63% of 1HFY2017 PBIT was reported to be recurring). We will retain our Neutral Issuer Profile. (Company, OCBC)

Credit Headlines (cont'd):

CWT Ltd ("CWT"): CWT announced its 1Q2017 financials. Revenue increased by 39% to SGD2.6bn largely driven by increases in CWT's commodity marketing segment and logistics business. The increase in revenue for the commodity marketing segment (up 46% from 1Q2016) was due to higher trading volume (especially naphtha) and significant increase in commodity price. Relative to 1Q2016, two sub-segments within logistics, namely freight logistics and commodity logistics saw revenue increases which helped offset the weaker warehousing and integrated logistics segment. Financial services though, which had been an increasingly sizeable contributor to CWT's gross profit over the past few years saw a decline in revenue to SGD21mn (1Q2016: SGD32mn). Per company, despite higher volume for both the brokerage and trade services business, revenue in 1Q2017 was lower mainly due to fewer structured trade opportunities. Engineering services saw a decline in revenue of 7% due to completion of a project in 4Q2016. Despite the large increase in headline revenue, gross profit at CWT was down 1% to SGD91.9mn, as a result of lower contribution from the high-margin financial services business (1Q2017 gross margin of 30.5%). Based on our calculation of EBITDA which does not include other income and other expenses, we find CWT's 1Q2017 EBITDA at SGD50.7mn (1Q2016: SGD49.9mn), and with finance cost held steady, EBITDA/Interest was healthy at 3.9x. As at 31 March 2017, gross debt dropped sharply to SGD1.1bn (1Q2016: SGD1.9bn), resulting in net gearing of 0.8x against 1.7x as at 31 December 2016. This was a result of declines in short term debt utilized for the commodity marketing and financial services business. By business nature, working capital (and hence short term debt to fund working capital) for these segments tend to be volatile. As such, it is premature to see this as a deleveraging trend. Adjusting net debt downwards for self-liquidating collateralised short term debt, we find adjusted net gearing at 0.2x (similar levels to end-December 2016). HNA Group via its Hong Kong-listed subsidiary HNA Holding Group Co. Limited has announced a pre-conditional voluntary general offer to acquire CWT. There are no change of control on CWT's bonds and assuming the deal gets done, CWT will be subsumed as an indirect subsidiary of HNA Group (Refer to [OCBC Asia Credit – CWT Limited Credit Update \(20 Apr\)](#)). We are keeping CWT's issuer profile at Neutral, though may adjust this downwards should we see evidence of a deterioration in the credit profile of HNA Holding Group Co. Limited. (Company, OCBC)

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