Asian Credit Daily

OCBC Bank

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Credit Headlines (Page 2 onwards): DBS Group Holdings Ltd., Industry Outlook – Singapore Property, Lippo Malls Indonesia Retail Trust,

Market Commentary: The SGD dollar swap curve traded lower yesterday, with swap rates falling 1-2bps lower across all tenors. Flows in SGD corporates were heavy, with better buying seen in GENSSP 5.13%'49s, and mixed interest seen in SOCGEN 4.3%'26s. In the broader dollar space, the spread on JACI IG Corporates fell 3bps to 188bps while the yield on JACI HY Corporates rose 2bps to 6.73%. 10y UST yields rose 3bps to 2.50% yesterday, following better than expect U.S CPI results. Based on Bloomberg Fed OIS data, March rate hike odds jumped again while a June rate hike has been fully priced in.

New Issues: Mitsubishi UFJ Financial Group Inc. (MUFG) priced a USD2.5bn 3-tranche deal, with the USD1bn 5-year piece priced at CT5+100bps, tightening from initial guidance of CT5+120bps; the USD500mn 5-year piece priced at 3mL+92bps; and the USD1bn 10-year piece priced at CT10+118bps, tightening from initial guidance of CT10+135bps. The expected issue rating are 'NR/A1/A'. Qinghai Provincial Investment Group Co Ltd priced a USD300mn 3-year bond at 7.25%, tightening from initial guidance of 7.5%. The expected issue ratings are 'BB-/NR/NR'. Vodafone is said to have priced a USD 30-year bond at 5.35% in Taiwan; its second Formosa bond issuance since December 2015. Guorui Properties Ltd is planning for a potential USD bond issuance. Xinyuan Real Estate scheduled investor roadshows from 16th February for a potential USD bond issuance.

Rating Changes: S&P assigned a 'B-' issue rating to Xinyuan Real Estate Co. Ltd.'s (Xinyuan) proposed U.S dollar denominated senior unsecured notes. The ratings outlook has been changed to stable from negative. The rating action reflects S&P's expectation that the company will mildly increase sales and margins over the next 12 months and leverage will remain stable but high over the period owing to its need for land-reserve replenishment and construction expenditure. Fitch assigned Xinyuan's proposed US dollar senior notes a 'B(EXP)' rating as well.

Table 1: Key Financial Indicators

	16-Feb	1W chg (bps)	1M chg (bps)		16-Feb	1W chg	1M chg
iTraxx Asiax IG	101	-6	-15	Brent Crude Spot ($/bbl)	55.72	0.16%	-0.25%
iTraxx SovX APAC	27	-2	-8	Gold Spot ($/oz)	1,235.08	0.55%	2.69%
iTraxx Japan	54	1	-1	CRB	193.26	0.52%	-0.66%
iTraxx Australia	87	-3	-11	GSCI	405.48	1.68%	1.41%
CDX NA IG	63	-2	-3	VIX	11.97	4.54%	6.59%
CDX NA HY	108	0	1	CT10 (bp)	2.483%	8.77	8.61
iTraxx Eur Main	72	-2	2	USD Swap Spread 10Y (bp)	-6	1	5
iTraxx Eur XO	290	-10	0	USD Swap Spread 30Y (bp)	-40	2	6
iTraxx Eur Snr Fin	90	-3	3	TED Spread (bp)	50	0	0
iTraxx Sovx WE	24	0	3	US Libor-OIS Spread (bp)	31	-3	-4
iTraxx Sovx CEEMEA	65	-5	-17	Euro Libor-OIS Spread (bp)	2	0	1
					16-Feb	1W chg	1M chg
				AUD/USD	0.772	1.18%	3.18%
				USD/CHF	1.004	-0.24%	0.76%
				EUR/USD	1.062	-0.38%	0.13%
				USD/SGD	1.419	0.11%	0.81%
Korea 5Y CDS	46	-1	-1	DJIA	20,612	2.78%	3.65%
China 5Y CDS	98	-7	-16	SPX	2,349	2.38%	3.28%
Malaysia 5Y CDS	117	-5	-15	MSCI Asiax	562	1.11%	5.48%
Philippines 5Y CDS	88	-4	-13	HSI	24,127	2.56%	6.20%
Indonesia 5Y CDS	138	-2	-15	STI	3,094	0.47%	2.70%
Thailand 5Y CDS	65	-3	-10	KLCI	1,706	1.02%	2.82%
				JCI	5,381	-0.01%	2.04%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
15-Feb-17	Mitsubishi UFJ Financial Group Inc. (MUFG)	"NR/A1/A"	USD500mn	5-year	CT5+100bps
15-Feb-17	Mitsubishi UFJ Financial Group Inc. (MUFG)	"NR/A1/A"	USD500mn	5-year	3mL+92bps
15-Feb-17	Mitsubishi UFJ Financial Group Inc. (MUFG)	"NR/A1/A"	USD1bn	10-year	CT10+118bps
15-Feb-17	Qinghai Provincial Investment Group Co Ltd	"BB-/NR/NR"	USD300mn	3-year	7.25%
14-Feb-17	Ronshine China Holdings Ltd. (re-tap)	"B/B2/B+"	USD225mn	3-year	8%
14-Feb-17	Proven Glory Capital Ltd.	Not Rated	USD1bn	5-year	CT5+132.5bps
14-Feb-17	Proven Glory Capital Ltd.	Not Rated	USD500mn	10-year	CT10+162.5bps
13-Feb-17	RKP Overseas Finance 2016 (A) Ltd.	"NR/B1/NR"	USD300mn	PNC5	7.95%

Source: OCBC, Bloomberg

Rating Changes (Cont'd):

Moody's affirmed Aurizon Holdings Limited's (Aurizon) and Aurizon Network Pty Ltd's (Network) 'Baa1' issuer ratings, as well as Aurizon Finance Pty Ltd's (Aurizon Finance) 'Baa1' senior unsecured bank credit facility rating. In addition, Moody's changed to stable from negative the outlook of Aurizon, Network and Aurizon Finance. The rating action reflects Moody's expectation that Aurizon will manage its capital structures in a manner that supports the ratings, including maintaining financial metrics within rating parameters. expectation that the company will mildly increase sales and margins over the next 12 months. We expect the company's leverage to remain stable but high over the period owing to its need for land-reserve replenishment and construction expenditure.

Credit Headlines:

DBS Group Holdings Ltd. ("DBS"): DBS reported its 4Q2016 and FY2016 results which were overshadowed by a material rise in provisions for both the quarter and full year. This masked relatively solid pre-provision profits which grew 10% y/y for both 4Q2016 and FY2016. Solid 4Q2016 pre-provision income performance was due to a 6% y/y rise in net fee and commission income to SGD515mn (higher wealth management/bancassurance and cards fees) as well as a 40% y/y rise in other non-interest income to 437mn (higher trading income and gains from investment securities). Expenses also fell 2% due to digitization and cost management initiatives. These developments helped mitigate a 2% y/y fall in 4Q2016 net interest income to SGD1.82bn as a 13bps y/y fall in net interest margins to 1.71% (from lower SGD interest rates) drove net interest income lower. This was despite a 6.3% y/y rise in average interest bearing assets in 4Q2016. As mentioned, the story in the results was the rise in provisions which rose SGD215mn or 87% y/y for the quarter to SGD462mn. This was due to ongoing stresses in DBS' oil and gas support services exposures with specific allowances rising significantly in Singapore (+SGD150mn). No general allowances were made in 4Q2016. Effectively all allowances were raised in DBS' Institutional Banking segment driving segment performance sharply lower (-56% y/y to SGD291mn) as a part of DBS' consolidated profit performance as DBS Consumer Banking/Wealth Management division performance was supported by volume growth and higher net interest margins y/y as well as stronger non-interest income. Balance sheet growth continues with total assets up 3% q/q and 5% y/y to SGD481.6bn as at 31 December 2016. This was driven by growth in customer loans by 4% q/q and 6% y/y to SGD301.5bn as at 31 December 2016 with growth concentrated in housing and building and construction loans by industry and Singapore by geography. On the liabilities side, customer deposit growth was higher than customer loans rising 7% q/q and 9% y/y to SGD347.5bn as at 31 December 2016 and this translated to an improved loan to deposit ratio of 86.8% for FY2016 (89.5% for 3Q2016 and 88.5% for FY2015). In line with the rise in provisions, the non-performing loan ratio rose to 1.4% for FY2016 from 0.9% for FY2015 (1.3% as at 3Q2016). Owing to solid asset growth, risk weighted assets grew 1.7% y/y. However, due to 6.9% growth in capital due to retained earnings, capital instrument issuance as well as scrip election for dividends, DBS' capital ratios improved y/y with CET1/CAR ratio at 14.1%/16.2% for FY2016 (13.5%/15.4% as at FY2015). On a fully loaded basis, DBS' CET1 ratio was 13.3% as at FY2016, well above the regulatory minimum of 7.2%. In our view, despite the rise in provisions and y/y fall in net profit, we think DBS fundamentals remain intact. Top line performance for FY2016 benefited from solid performance in both interest and non-interest income. Its solid balance sheet position evidences DBS' strong business franchise and ability to grow despite still challenging market conditions. We expect capital generation to remain supported in FY2017 by DBS' diversified market positions as well as the prospect of rising interest rates, solid loan growth momentum in 4Q2016 and higher assets under management. This should mitigate ongoing concerns with asset quality. We continue to review the results but for now maintain our Neutral Issuer Profile on DBS. (Company, OCBC)

Industry Outlook – Singapore Property: According to the URA, 381 new units were sold in January, which is an increase of 17.6% y/y or 3.8% m/m. This follows data by the SRX Property's flash estimates which showed condominium resale prices rising 1.1% from December, with 526 units transacted (+29.9% y/y, +9.1% m/m). Nevertheless, we think that it may be difficult to extrapolate one month's of data, and we prefer to reassess the market when the full quarter's data is out. The government has yet to give cues on the lifting of the property cooling measures, and CapitaLand's CEO shared the view that "there is no compelling reason for the government" to do so. It may be premature to call for a rebound in property price as developers may continue to cut prices to avoid the hefty penalties. (Straits Times, Urban Redevelopment Authority, Bloomberg, SRX Property, OCBC)

Credit Headlines (Cont'd):

Lippo Malls Indonesia Retail Trust ("LMRT"): LMRT reported its 4Q2016 results for the quarter ending 31 Dec. 4Q2016 revenue and net property income increased 9.1% y/y and 10.9% to SGD48.7mn and SGD44.6mn respectively mainly due to the rental reversions from the existing malls and a stronger IDR against the SGD. Compared to 3Q2016, revenue and NPI are also higher by 3.6% and 2.9% mainly due to a stronger IDR. Riding on the retail growth in Indonesia, LMRT is still posting a healthy 6.7% rental reversion in 4Q2016 although the rate of growth has moderated (4Q15: +13.2%), with portfolio occupancy still healthy at 94.3%. As such, we think LMRT will manage the 23% leases by NLA that will be expiring in 2017. Due to a stronger IDR, revaluation gains on the portfolio, and net repayment of SGD44.3mn debt (mainly due to SGD150mn bonds redeemed in Oct 2016 while debt was borrowed again to fund the acquisition of Kuta in 29 Dec), asset leverage inched down to 31.5% (3Q2016: 32.7%). If we account for the perpetual bond as half debt and half equity, asset leverage would have declined to 34.9% (3Q2016: 35.9%). However, as we expect LMRT to continue acquiring, the improvement in asset leverage may be temporary depending on the capital structure used to fund future acquisitions. We maintain LMRT at a Neutral Issuer Profile. (Company, OCBC)

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