Asian Credit Daily

March 17, 2017

Credit Headlines (Page 2 onwards): National Australia Bank Ltd., CapitaLand Ltd., CWT Limited, China Vanke Co Ltd, Central China Real Estate Limited, Soilbuild Business Space REIT

Market Commentary: The SGD swap curve bull-flattened yesterday, with swap rates trading 5-9bps lower across all tenors. Flows in SGD corporates were moderate, with better buying seen in UOBSP 3.5%'29s, BNP 3.65%'24s, better selling seen in FCLSP 4.15%'27s, and mixed interests in PILLSP 5.9%'17s, GENSSP 5.13%'49s. In the broader dollar space, the spread on JACI IG corporates rose 2bps to 193bps while the yield on JACI HY corporates fell 5bps to 6.73%. 10y UST yields rose 5bps yesterday to 2.54%, amid steeper declines for U.K. bonds after the Bank of England moved closer to raising rates.

New Issues: Retail real estate developer and owner Scentre Management Ltd. priced a USD500mn 10-year bond (guaranteed by Scentre Group Ltd.) at CT10+130bps tightening from initial guidance of CT10+150bps. The expected issue ratings are 'A/A1/NR'. Fortune Star (BVI) Ltd. priced a USD800mn 5NC3 bond (guaranteed by Fosun International Ltd.) at 5.25%, tightening from initial guidance of 5.5%. The expected issue ratings are 'BB/NR/NR'. APT Pipelines Ltd. priced a USD850mn 10-year bond (guaranteed by Australian Pipeline Ltd.) at CT10+180bps, tightening from initial guidance of CT10+200bps.

Rating Changes: S&P affirmed Beijing Enterprises Holdings Ltd.'s (BEH) 'BBB+' corporate credit rating and issue rating yesterday. In addition, S&P revised the ratings outlook of BEH to stable from negative. The rating action reflects S&P's expectation for the company's parent, Beijing Enterprises Group Co. Ltd. (BEG), to maintain its credit profile over the next two years. S&P believes that BEG's importance to the Beijing municipal government has increased and the group's interest coverage will improve slightly after worsening in the past three years. S&P revised the stand-alone credit profile of Toho Bank Ltd. (Toho) to 'BBB+' from 'A-'. Subsequently, S&P withdrew the ratings at the bank's request.

Table 1: Key Financial Indicators

	17-Mar	1W chg (bps)	1M chg (bps)		17-Mar	1W chg	1M chg
iTraxx Asiax IG	88	-7	-15	Brent Crude Spot ($/bbl)	51.84	0.91%	-7.11%
iTraxx SovX APAC	26	-2	-1	Gold Spot ($/oz)	1,226.97	1.85%	-0.62%
iTraxx Japan	52	0	-2	CRB	184.04	0.45%	-4.21%
iTraxx Australia	81	-3	-7	GSCI	382.26	-0.09%	-5.15%
CDX NA IG	62	-3	-2	VIX	11.21	-8.86%	-2.44%
CDX NA HY	107	0	0	CT10 (bp)	2.535%	-3.97	12.01
iTraxx Eur Main	71	-1	-3	USD Swap Spread 10Y (bp)	-4	-2	0
iTraxx Eur XO	278	-5	-20	USD Swap Spread 30Y (bp)	-39	-2	-2
iTraxx Eur Snr Fin	86	-1	-7	TED Spread (bp)	42	2	-12
iTraxx Sovx WE	14	-3	-8	US Libor-OIS Spread (bp)	23	0	-10
iTraxx Sovx CEEMEA	62	-2	-5	Euro Libor-OIS Spread (bp)	2	1	0
					17-Mar	1W chg	1M chg
				AUD/USD	0.768	1.78%	0.16%
				USD/CHF	0.996	1.48%	0.64%
				EUR/USD	1.077	0.90%	1.44%
				USD/SGD	1.403	0.72%	1.14%
Korea 5Y CDS	43	-4	-4	DJIA	20,935	0.37%	1.51%
China 5Y CDS	81	-7	-19	SPX	2,381	0.70%	1.29%
Malaysia 5Y CDS	103	-8	-13	MSCI Asiax	581	3.60%	3.29%
Philippines 5Y CDS	79	-5	-8	HSI	24,363	3.37%	1.37%
Indonesia 5Y CDS	124	-7	-14	STI	3,169	1.12%	1.96%
Thailand 5Y CDS	51	-4	-12	KLCI	1,741	1.35%	1.94%
				JCI	5,518	2.14%	3.13%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
16-Mar-17	Scentre Management Ltd.	"A/A1/NR"	USD500mn	10-year	CT10+130bps
16-Mar-17	Fortune Star (BVI) Ltd.	"BB/NR/NR"	USD800mn	5NC3	5.25%
16-Mar-17	APT Pipelines Ltd.	Not Rated	USD850mn	10-year	CT10+180bps
15-Mar-17	Fujuan Zhanglong Group Co. Ltd. (re-tap)	"NR/NR/BB+"	USD200mn	2.75-year	99.233
14-Mar-17	Azure Nova International Finance Ltd.	"NR/A2/A"	USD700mn	3-year	CT3+140bps
14-Mar-17	Azure Nova International Finance Ltd	"NR/A2/A"	USD1.05bn	5-year	CT5+150bps
14-Mar-17	Azure Nova International Finance Ltd	"NR/A2/A"	USD250mn	10-year	CT10+172.5bps
14-Mar-17	Guorui Properties Ltd.	"B-/NR/B"	USD300mn	3-year	7%
14-Mar-17	Trafigura Group Pte. Ltd.	Not Rated	USD600mn	Perp NC5	6.875%
9-Mar-17	Lenovo Group Ltd.	Not Rated	USD500mn	5-year	CT5+180bps

Source: OCBC, Bloomberg

Rating Changes (Cont'd): Moody's assigned a 'A3' issuer rating to BoCom Leasing Development Hong Kong Company Limited (BLDHK), with a negative outlook. The rating assignment reflects the very high likelihood of extraordinary support from its parent, BoCom Leasing, and ultimate parent, BoCom, given (1) BLDHK's integral role and strategic importance to the group's offshore leasing business, (2) BoCom's liquidity and capital commitments to BoCom Leasing, and (3) a keepwell agreement provided by BoCom Leasing, while the company has a relatively short history and weak standalone credit profile of 'b2'. Moody's revised the outlook on Alinta Energy Finance Pty Ltd.'s (AEF) 'Ba3' senior secured bank credit facility rating and Alinta Holdings' (Alinta) 'Ba3' corporate family rating to developing from positive. The rating action comes after an announcement by Chow Tai Fook Enterprises of its agreement to acquire 100% of Alinta's equity interests from existing shareholders. According to Moody's, "The developing outlook reflects the possibility that Alinta's credit profile could materially change post acquisition, which we (Moody's) believe would most likely result from changes to the company's capital structure under the new owner."

Credit Headlines:

National Australia Bank Ltd. ("NAB"): NAB announced yesterday it was raising home loan rates for both existing owner occupiers as well as residential investors while lowering home loan rates for first home buyers. Investor rates will rise 25bps from 5.55%pa to 5.8%pa while standard variable mortgage rates for owner-occupiers will increase 7bps from 5.25%pa to 5.32%pa. NAB explained the increases as both risk and return based, with the increase in variable rates for residential investment home loans expected to curb strong lending demand from property investors (these accounted for more than half of new home loans in January according to the Australian Bureau of Statistics). At the same time, the higher cost is expected to more fairly compensate NAB for the built up risks in Australia's over heating housing market from rapidly appreciating house prices. Further, the move is consistent with the Australian banking regulator's previous measures to curb property investment lending, which has been driving property prices higher. As these measures have not yet slowed down property prices, Australia's Reserve Bank has flagged the potential for lending standards to tighten further to cool the housing market. This is consistent with our previously highlighted view that Australia's banks remain exposed to regulatory risk in 2017 from strong competition in a narrowing playing field to chase a better risk-reward balance. Australian housing loans comprised 52% of NAB's total loans for FY2016. While we expect these measures to help in part to relieve ongoing earnings pressure (net interest margins ('NIM') were down y/y in FY2016 and NAB's recent first quarter unaudited cash earnings of AUD1.6bn were ~1% lower y/y) from increased regulation and funding costs as well as NIM compression from competition, the announcement does not alter our view of NAB's Neutral issuer profile. (Company, OCBC)

CapitaLand Ltd. ("CAPL"): It was reported that CAPL is said to be in exclusive negotiations with BlackRock to acquire Asia Square Tower 2. CAPL had originally been a bidder for Asia Square Tower 1, which was ultimately sold to the Qatar Investment Authority ("QIA") at ~SGD2700 psf or SGD3.4bn in total. CAPL was reported as agreeing to pay more than SGD2700 psf for Asia Square Tower 2. The quantum of the deal should be lower than what QIA paid though, as The Westin hotel (level 32 to 46), had already been sold to the Daisho Group in 2013. The recent strong bid for the greenfield Central Boulevard site (just beside Asia Square) by IOI Properties Group (which paid SGD1,689 psf ppr) at ~70% above the reserve price may have given CAPL additional confidence in making a bid for Asia Square Tower 2. Asia Square Tower 2 was reported to have an occupancy of ~90% as of end-October 2016. The office space in Asia Square Tower 2 totals 784,100 sqft, which implies a quantum of SGD2.1bn. Due to CAPL's strong 4Q2016 results, operating cash flow drove cash balance higher to SGD4.79bn and net gearing lower to 41%. As such, should a transaction occur, CAPL has more than adequate balance sheet to absorb the asset. That said, it is likely that part of the transaction would be debt funded, given the lower NPI yields on prime office assets. In aggregate though, we will hold our Positive Issuer Profile on CAPL for now. Should the deal occur, it is also possible that Asia Square Tower 2 would eventually be injected into CapitaLand Commercial Trust ("CCT"). We will update accordingly when more details emerge. (OCBC, The Business Times

Credit Headlines (cont'd):

CWT Limited ("CWT"): According to an article by Metal Bulletin (a trade publication), CWT's subsidiary company MRI Trading AG has confirmed that the company would most probably be included in any transaction, should a transaction happen with HNA Group. MRI Trading AG is a key operating company for CWT's commodity marketing arm (non-ferrous metal and naphtha trading business). While the news piece does not change the understanding that a transaction is still being negotiated between the major shareholders of CWT and the HNA Group, it adds some color that a transaction may occur by the end of 1H2017. A break-up of the company is still on the cards in our view, though our base case remains that a break-up (should it happen) would be put to a bondholders vote as each of CWT's four business segments are individually significant (with bondholders able to vote on the disposal of material/significant subsidiaries). There is no change in control clause on the bonds. CWT has successfully redeemed the SGD100mn CWTSP 4.0%'17s and two bonds remain outstanding. Both the CWT 4.8%'20s and the CWT 3.9%'19s are trading above par and we are Underweight on both on valuation. We think it is a good time to take profit given the still-uncertain outcome of negotiations. We hold CWT's issuer profile at Neutral and would monitor the situation closely (Metal Bulletin, OCBC)

China Vanke Co Ltd ("VNKRLE"): VNKRLE's second and third largest shareholders, namely, Shenzhen Metro Group Co. Ltd ("Shenzhen Metro") and subsidiaries of China Evergrande Group ("Evergrande") have entered into a Strategic Cooperation Framework Agreement ("Cooperation"). Shenzhen Metro and Evergrande hold 15.31% and 14.07% respectively in VNKRLE. Shenzhen Metro is a State-owned Enterprise under the supervision of the Shenzhen Municipal government while Evergrande is a large Chinese property developer. Insurer Baoneng, which VNKRLE's management see as a hostile party, holds ~25% stake in VNKRLE and is still the largest shareholder of the company. Regulators are scrutinizing the funding source of Baoneng's stake in VNKRLE and has barred Baoneng's Chairman Yao from the insurance industry for 10 years. Under the Cooperation, Evergrande will entrust to Shenzhen Metro certain rights (including voting rights, proposal rights, and rights to participate in general meetings) irrevocably for one year. While there is no change in percentage ownership, Shenzhen Metro will be entitled to exercise shareholder rights at its own discretion for a 29.38%-stake in VNKRLE for a one year period (effectively holding the single largest bloc of shareholders rights). In our view, the takeover spat at VNKRLE is coming to an end on the back of (1) Baoneng being highly unlikely to advance its stake in VNKRLE and (2) Cooperation between Evergrande and Shenzhen Metro firmed up. We see this development as a credit positive and continue to hold VNKRLE's issuer profile at Neutral. We think that spreads on VNKRLE's USD curve may tighten. (Company, OCBC)

Central China Real Estate Limited ("CENCHI"): Moody's has commented that CENCHI's recent profit warning (net income down 50% y/y due to delay in construction of certain projects in Zhengzhou, Henan Province) is a credit negative but does not immediately affect CENCHI's Ba3 rating or its stable ratings outlook. Moody's expect the delay to be a one-time event and that CENCHI will make up for lost time in FY2017. To recap, we see low refinancing risk of the SGD200mn CENCHI 6.5% '17s given that CENCHI had successfully raised USD200mn in November 2016. We are reviewing the issuer profile of CENCHI. (Company, OCBC)

Soilbuild Business Space REIT ("SBREIT"): The construction arm of SBREIT's Sponsor, namely Soilbuild Construction Group ("SOIL") has been awarded a SGD149.4mn contract by the Housing & Development Board ("HDB") to construct Bedok Food City, one of two public industrial projects in HDB's pipeline. Including this new contract, SOIL's orderbook stands at SGD562.2mn. SBREIT is exposed to counterparty risk from its Sponsor given that its Sponsor is Master Lessee at Bukit Batok Connection (has yet to stabilize). We continue to view the Sponsor's net outlay on Bukit Batok as manageable with the HDB contract award uplifting the Sponsor's credit profile. It was further disclosed that Bedok Food City will take about 32 months to complete (thereby pushing completion date to 2020 rather than 2018 as per disclosed in JTC's 4Q2016 market report). This takes away some of the near-term supply pressure in the industrial space sector, particularly among the multi-tenanted sector. (Company, OCBC)

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