Asian Credit Daily

May 18, 2017

Credit Headlines (Page 2 onwards): Singapore Telecommunications Ltd

Market Commentary: The SGD swap curve bull flattened yesterday, trading 2-5bps lower across all tenors. Flows in SGD corporates were heavy, with better buying seen in UOBSP 3.5%'s, mixed interest in FCLSP 4.15%'27s, STANLN 4.4%'26s, MSFSSP 5.5%'20s. In the broader dollar space, the spread on JACI IG corporates rose 1bps to 196bps, while the yield on JACI HY corporates fell 2bps to 6.76%. 10y UST yields plunged 10bps to 2.22% yesterday, following reports that US President Donald Trump pressured former FBI head Comey to end an investigation before firing him last week. The odds of a Fed rate hike in June fell to as low as 58%.

New Issues: BOC Aviation Ltd. priced a USD500mn 5-year bond at CT5+130bps, tightening from initial guidance of CT5+155bps. The expected issue ratings are 'BBB+/NR/A-'. ICBC Dubai (DIFC) Branch priced a EUR500mn 3-year bond at 3mE+60bps, tightening from initial guidance of 3mE+75bps area. The expected issue ratings are 'NR/A1/NR'. Amber Treasure Ventures Ltd. hired banks for potential USD bond issuance (guaranteed by Nan Hai Corporation Ltd). Beijing Gas Singapore Capital Corporation scheduled investor roadshows from 18 May for potential USD bond (guaranteed by Beijing Gas Group Company Ltd.) issuance. The expected issue ratings are 'A-/A3/A'. Transportation Partners Pte Ltd scheduled investor roadshows from 18 May for potential USD bond issuance. Tower Bersama Infrastructure Tbk PT plans to issue up to USD500mn of bonds.

Rating Changes: S&P downgraded Chinese property developer KWG Property Holding Ltd.'s (KWG) corporate credit rating to 'B+' from 'BB-'. In addition, S&P downgraded the issue rating on the company's outstanding senior unsecured notes to 'B' from 'B+' The outlook is stable. The rating action reflects S&P's expectation that KWG's financial leverage will remain elevated for the previous 'BB-' rating category in the next 12-18 months following a material weakening in 2016.

Table 1: Key Financial Indicators

	18-May	1W chg (bps)	1M chg (bps)		18-May	1W chg	1M chg
iTraxx Asiax IG	92	3	-12	Brent Crude Spot ($/bbl)	52.06	2.54%	-5.16%
iTraxx SovX APAC	21	0	-3	Gold Spot ($/oz)	1,260.32	2.88%	-2.28%
iTraxx Japan	43	0	-5	CRB	183.24	2.08%	-1.77%
iTraxx Australia	83	2	-9	GSCI	384.35	1.60%	-3.08%
CDX NA IG	65	3	-4	VIX	15.59	52.69%	8.11%
CDX NA HY	107	0	0	CT10 (bp)	2.235%	-15.27	6.65
iTraxx Eur Main	63	1	-14	USD Swap Spread 10Y (bp)	-8	1	-3
iTraxx Eur XO	255	0	-45	USD Swap Spread 30Y (bp)	-47	-1	-5
iTraxx Eur Snr Fin	70	2	-25	TED Spread (bp)	29	-1	-7
iTraxx Sovx WE	8	0	-6	US Libor-OIS Spread (bp)	16	2	-6
iTraxx Sovx CEEMEA	49	2	-2	Euro Libor-OIS Spread (bp)	3	0	0
					18-May	1W chg	1M chg
				AUD/USD	0.745	1.02%	-1.40%
				USD/CHF	0.979	2.91%	1.74%
				EUR/USD	1.116	2.72%	3.97%
				USD/SGD	1.391	1.16%	0.32%
Korea 5Y CDS	58	3	-3	DJIA	20,607	-1.61%	0.41%
China 5Y CDS	81	2	-11	SPX	2,357	-1.78%	0.63%
Malaysia 5Y CDS	104	1	-13	MSCI Asiax	612	0.51%	5.66%
Philippines 5Y CDS	80	3	-8	HSI	25,216	0.36%	5.40%
Indonesia 5Y CDS	131	3	-9	STI	3,211	-1.82%	2.36%
Thailand 5Y CDS	58	2	-1	KLCI	1,768	-0.43%	1.56%
				JCI	5,607	-0.81%	0.01%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
17-May-17	BOC Aviation Ltd.	"BBB+/NR/A-"	USD500mn	5-year	CT5+130bps
17-May-17	ICBC Dubai (DIFC) Branch	"NR/A1/NR"	EUR500mn	3-year	3mE+60bps
16-May-17	National Australia Bank Ltd.	"AA-/Aa2/NR"	USD1bn	3-year	CT3+70bps
16-May-17	National Australia Bank Ltd.	"AA-/Aa2/NR"	USD1bn	3year	3mL+51bps
16-May-17	National Australia Bank Ltd.	"AA-/Aa2/NR"	USD1bn	5-year	CT5+78bps
16-May-17	National Australia Bank Ltd.	"AA-/Aa2/NR"	USD500mn	5-year	3mL+72bps
16-May-17	Korea Water Resources Corporation	"AA/Aa2/NR"	USD350mn	5-year	CT5+102.5bps
16-May-17	Sun Hung Kai Properties (Capital Market) Ltd.	"NR/A1/NR"	USD500mn	Perp NC3	4.45%
16-May-17	Logan Property Holdings Co. Ltd.	"NR/Ba3/BB-"	USD450mn	5.75NC3	98.773

Source: OCBC, Bloomberg

Rating Changes (cont'd): S&P downgraded Yuexiu Property Co. Ltd.'s (Yuexiu) corporate credit rating to 'BB+' from 'BBB-'. The rating outlook is stable. In addition, S&P removed all of Yuexiu's ratings from CreditWatch. The rating action reflects the company's intention to continue purchasing land despite high leverage, S&P's expectation for slower revenue recognition and only a mild margin recovery in 2017-2018, partly as a result of the company offering more fully furnished units, which have a longer development cycle. S&P upgraded Energy Partnership (Gas) Pty Ltd.'s (EPG) issuer credit rating to 'BBB' from 'BBB-', following the completion of the acquisition by a consortium led by Cheung Kong Infrastructure Holdings Ltd. (CKI). In addition, S&P upgraded the underlying issue ratings on all of the company's outstanding senior unsecured debt to 'BBB' from 'BBB-', and removed all ratings from CreditWatch. The rating outlook is stable. The rating action reflects S&P's expectation of continued stability in the company's underlying cash flows from operations under a strong regulatory framework. Moody's assigned Metallurgical Corporation of China Ltd. (MCC) a first-time 'Baa2' issuer rating. In addition, Moody's assigned a 'Baa2' rating to the proposed USD senior unsecured notes to be issued by MCC Holding (Hong Kong) Corporation Limited and guaranteed by MCC. The rating action incorporates its standalone credit strength (which is equivalent to a 'Ba2' rating level) and a three-notch uplift, based on Moody's expectation that the company will receive strong support from its parent, China Metallurgical Group Corporation, in times of stress. Moody's placed United Photovoltaics Group Limited's (United PV) 'Ba3' corporate family rating and 'B1' senior unsecured rating on review for downgrade. The rating review follows United PV's proposal to engage in the hydropower business, in addition to its core solar power business, its high level of capital expenditure in 2017 and the potential heightening in execution risks from such a rapid expansion.

Credit Headlines:

Singapore Telecommunications Ltd ("SingTel"): SingTel reported 4QFY17 results for the quarter ending 31 Mar. Headline figures look decent with operating revenue and EBITDA (which comprise the core Singapore and Australia businesses) growing 5% and 4% y/y to SGD4.3bn and SGD1.3bn respectively. However, net profit, which includes associates, grew by a smaller 2% mainly due to significantly poorer results by Airtel (PBT: -51% y/y to SGD90mn), mitigated by a strong showing by Telkomsel (PBT: +17% y/y to SGD371mn). Group Consumer segment delivered 7.1% and 7.4% y/y higher revenue and EBITDA respectively to SGD2.5bn and SGD908mn respectively due mainly to a stronger AUD (+6% y/y) against the SGD. Performance was relatively stable with a flattish y/y performance at Singapore's mobile communications segment despite increasing competition as the number of subscribers grew 1.2% q/q though market share remained constant at 48.6%. Meanwhile EBITDA increased 2.2% at the Australia consumer segment with continued National Broadband Network ("NBN") customer growth. Group Enterprise segment revenue grew 2.6% y/y to SGD1.7bn, mainly due to growth in ICT revenue from the Singapore segment with higher demand for cyber security. However, EBITDA fell 1.9% y/y to SGD466mn as the Australia Enterprise segment continued to deliver softer results, with competition from the prior consolidation of tier-2 players sustaining intense price competition (and hence margin pressures). Overall, credit metrics remain healthy with reported net debt to EBITDA & shares of associates pre-tax profits steady at 1.3x in FY17 (FY16: 1.2x) and net debt/reported FCF also stable at 3.4x (FY16:3.3x). Despite the longer-term challenges from the entry of TPG (from 2H2018 onwards) into the Singapore and Australia market, SingTel expects the next 12 months outlook to remain relatively sanguine with revenue and EBITDA expected to grow by mid and low single digit. Free cash flow (excluding dividends from associates) is also expected to grow to SGD1.8bn (FY17: SGD1.7bn). Within the next 12 months, we may also expect the SingTel to complete the divestment of NetLink Trust to less than 25% - which may see SingTel pare down some debt. We continue to hold SingTel at a Positive Issuer Profile, supported by its healthy credit metrics and diversified business profile. (Company, OCBC)

Andrew Wong
Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6530 4736
wongVKAM@ocbc.com

Nick Wong Liang Mian, CFA
Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6530 7348
NickWong@ocbc.com

Ezien Hoo, CFA
Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6722 2215
EzienHoo@ocbc.com

Wong Hong Wei
Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6722 2533
WongHongWei@ocbc.com