Asian Credit Daily

February 20, 2017

Credit Headlines: Bank of East Asia Ltd, Oxley Holdings Ltd., Sabana Shari'ah Compliant Industrial REIT, G8 Education Ltd., Chip Eng Seng Corp Ltd., OUE Ltd., Ezion Holdings Ltd., Ezra Holdings Ltd.

Market Commentary: The SGD swap curve was relatively flattish last Friday, with the shorter end of the curve trading 1-2bps higher while the medium and longer tenors traded 1bp lower. Flows in SGD corporates were heavy, with better buying seen in GENSSP 5.13%'49s, GUOLSP 4%'22s, better selling seen in FCLPSP 4.25%'26s, FCLSP 3.95%'21s, MAPLSP 4.5%'49s, and mixed interest in AREIT 4.75%'49s. In the broader dollar space, the spread on JACI IG Corporates rose 1bps to 190bps while the yield on JACI HY Corporates held steady at 6.71%. 10y UST yield fell 3bps last Friday to 2.41%, taking direction from European debt markets as European Government Bonds (EGB) rallied on safe haven demand due to France political risk.

New Issues: Xinhu Zhongbao Co. Ltd. scheduled investor roadshows from 20 February for potential USD bond issuance. The expected issue ratings are 'B-/B3/B'. China Cinda Asset Management Co. Ltd. has approached banks to submit proposals for multi-tranche deals.

Rating Changes: Moody's assigned Xinhu Zhongbao Co. Ltd. (Xinghu Zhongbao) a 'B2' corporate family rating and a '(P)B3' senior unsecured rating to the proposed USD notes to be issued by Xinhu (BVI) Holding Co. Ltd. (guaranteed by Xinhu Zhongbao), a subsidiary of Xinhu Zhongbao. The rating outlook is stable. The rating action reflects the company's good track record in sales execution on residential properties in the Yangtze River Delta, and the higher-than-peer average gross profit margin for its property developments. Fitch assigned an Issuer Default Rating (IDR) of 'B' while S&P assigned a corporate credit rating of 'B' to Xinghu Zhongbao. The rating outlooks by both rating agencies are stable.

Table 1: Key Financial Indicators

	20-Feb	1W chg (bps)	1M chg (bps)		20-Feb	1W chg	1M chg
iTraxx Asiax IG	102	2	-12	Brent Crude Spot ($/bbl)	55.80	0.38%	0.56%
iTraxx SovX APAC	27	0	-7	Gold Spot ($/oz)	1,234.14	0.72%	1.97%
iTraxx Japan	54	2	-2	CRB	192.12	-0.99%	-0.98%
iTraxx Australia	88	-1	-10	GSCI	403.03	-1.18%	0.90%
CDX NA IG	64	0	-2	VIX	11.49	5.90%	-0.43%
CDX NA HY	107	0	1	CT10 (bp)	2.415%	-2.11	-5.21
iTraxx Eur Main	74	1	5	USD Swap Spread 10Y (bp)	-4	3	6
iTraxx Eur XO	298	3	12	USD Swap Spread 30Y (bp)	-38	3	10
iTraxx Eur Snr Fin	93	1	7	TED Spread (bp)	54	4	5
iTraxx Sovx WE	22	-1	1	US Libor-OIS Spread (bp)	34	-1	-2
iTraxx Sovx CEEMEA	67	0	-11	Euro Libor-OIS Spread (bp)	2	0	0
					20-Feb	1W chg	1M chg
				AUD/USD	0.767	0.45%	1.58%
				USD/CHF	1.003	0.25%	-0.16%
				EUR/USD	1.061	0.14%	-0.84%
				USD/SGD	1.418	0.44%	0.60%
Korea 5Y CDS	47	3	1	DJIA	20,624	1.75%	4.02%
China 5Y CDS	99	0	-13	SPX	2,351	1.51%	3.52%
Malaysia 5Y CDS	116	0	-13	MSCI Asiax	562	0.48%	4.96%
Philippines 5Y CDS	88	0	-13	HSI	24,118	1.72%	5.38%
Indonesia 5Y CDS	138	3	-11	STI	3,102	-0.30%	3.03%
Thailand 5Y CDS	63	-2	-10	KLCI	1,711	0.04%	2.77%
				JCI	5,369	-0.06%	2.18%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
16-Feb-17	FCL Treasury Pte. Ltd.	Not Rated	SGD348mn	10-year	4.15%
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

Source: OCBC, Bloomberg

Rating Changes (Cont'd):

Moody's downgraded Yuexiu Real Estate Investment Trust's (Yuexiu REIT) issuer rating to 'Baa3' from 'Baa2', senior unsecured rating on the notes issued under the program to 'Baa3' from 'Baa2', and the senior unsecured rating on the MTN program of Yuexiu REIT MTN Company Limited to '(P)Baa3' from '(P)Baa2'. The rating outlooks are stable. The rating action reflects Moody's expectation that Yuexiu REIT will show only slow improvements to its elevated debt leverage position over the next 12 to 18 months. According to Moody's, the high leverage resulting from the debt-funded acquisition of Yuexiu Tower no longer supports the trust's previous 'Baa2' issuer rating.

Credit Headlines:

Bank of East Asia Ltd ("BEA"): BEA reported its FY2016 results with operating profits after impairment losses falling 38% y/y to HKD3.0bn. This was due to multiple challenges at both the top line and expense levels. Top line performance was weaker y/y with net interest income down 7.0% (net interest margins (NIM) fell 6bps y/y to 1.60% due to a 17bps fall in BEA China's NIM to 1.65%) despite higher customer loans. Net fee and commission income was also down 10.7% due to weaker loans, overdrafts and guarantee fees as well as lower trade finance, securities and brokerage fees. Overall expenses including impairment losses rose 7.8% y/y due to a 70% rise in impairment losses on loans and receivables due to the challenging operating environment in both Hong Kong and Mainland China. This masked a 6.3% fall in operating expenses due to the bank's ongoing focus on digitisation and branch rationalisation. In all, BEA's net profit of HKD3.8bn was its lowest in over 5 years, with its China operations recording it's first loss since establishment in 2007 (operating loss after impairments of HKD1.3bn). Additional factors driving China's weaker performance include a contraction in loans (down 6.7% y/y) as well as a 77% rise in impairment allowances for China exposures (contributing 80% of the rise in total allowances for BEA in FY2016). That said, overall impaired advances rose lower than actual loan impairments y/y (36% against 70%), such that the allowance coverage ratio improved to 56.1% for FY2016 against 47.9% for FY2015. Segment wise, Hong Kong personal banking continues to be resilient though impairments also rose materially (+79.7% y/y) with operating profit after impairment losses rising 3.1% y/y. In contrast, Corporate banking and Treasury markets segment operating profit after impairment losses fell 26.6% and 51.5% y/y respectively. BEA's balance sheet contracted with total assets down 2% y/y to HKD765.7bn although as mentioned above, loans to customers grew y/y by 2.9%. Loan growth trends were skewed towards Hong Kong (+6.7%, mostly in property development) and other overseas exposures (+21.7%, mostly in UK and US) while China loans fell across the board and most noticeably in stressed sectors (wholesale and retail trade down 36% y/y, property investment down 13.5% and manufacturing down 13.1%) in line with management's active strategies to improve the risk profile of its loan portfolio by focusing on more stable 'priority' industries and those supported by national policies. Impaired loans composition changed in 2016 with 32% of total impaired loans in Hong Kong against 13% in FY2015. This was due to a material rise in impaired advances in Hong Kong that drove the overall impaired loan ratio to 1.49% in FY2016 from 1.13% in FY2015. CET1 capital ratios weakened marginally with risk weighted assets growing 2.9% and CET1 capital rising 2% while total capital ratios benefited from issuance of USD500mn in Tier 2 capital in 4Q2016 to meet upcoming maturity of capital instruments. CET1/CAR ratios were 12.1%/17.4% for FY2016 against 12.2%/17.2% for FY2015. In all, the performance of BEA's China exposures (both through BEA China and BEA HK) overshadows the still resilient Hong Kong personal banking segment. That said, some underlying trends in 2H2016 (operating income growth H/H, lower rate of new NPL formation in China, improved cost to income ratio) along with the prospect of higher interest rates should point to an improved performance in FY2017 (albeit from a low base). Although the bank continues to struggle with loan quality issues (now more prominently in HK), we note that security coverage against impaired advances remains solid at 145.3% and rises above 200% including impairment allowances. We continue to review the results and BEA's Neutral Issuer Profile and will update for any changes if necessary (Company, OCBC)

Oxley Holdings Ltd. ("OHL"): OHL will not be proceeding with the grant of SGD50mn convertible loan facility to International Healthway Corp ("IHC"). This is because OUE has made a mandatory unconditional cash offer for IHC. We do not currently cover OHL. (Company, OCBC)

Credit Headlines (Cont'd):

Sabana Shari'ah Compliant Industrial REIT ("SSREIT"): The REIT has responded to SGX's earlier queries. (1) Extraordinary General Meeting ("EGM"): The Manager has responded that an EGM as per unitholder requisition letter will be convened as soon as possible and a circular that is subject to review by SGX is being prepared. (2) Strategic Review: Manager has disclosed that a Strategic Review Committee has been formed to undertake a review of options available for SSREIT to enhance unitholder value. This committee is made up of 3 directors (of which 2 are independent directors). This committee is tasked to review various options to improve the performance of SSREIT and to source and consider proposals from potential strategic partners. (3) Property revaluation loss: SGX' further queried on whether property revaluation loss as a percentage of acquisition costs are in line with percentage movements in the general market conditions for industrial properties. To which SSREIT replied that the majority of revaluation loss occurred in FY2015 when market conditions were challenging and only 6 master leases (out of 11 master leases) were renewed. It added that the trend of revaluation loss is in line with performance of other Singapore-focused industrial REITs and of a similar size. (4) Proposed Acquisition of 47 Changi South from Sponsor: SGX had asked for SSREIT's audit committee's view on whether the proposed acquisition cost of SGD23mn versus book value of SGD10.9mn is on normal commercial terms, not prejudicial to REIT and unitholders and if the property can be easily disposed at SGD23mn in the open market. To this, the Manager has responded that the property is proposed to be injected into the REIT under a sales and leaseback arrangement for 10 years and which the valuation was arrived from independent property valuation exercises. The REIT Manger views that the book value is irrelevant as the property valuation had been arrived based on rental that the property will be generating. It added that subject to opinion from an independent financial adviser and unitholder's approval, the audit committee is satisfied that the proposed acquisition in on market terms and in the interest of SSREIT, given the steady income of 10 years. We continue to hold SSREIT with a Negative issuer profile and are underweight the curve. (Company, OCBC)

G8 Education Ltd. ("G8"): G8 reported FY2016 results for the year ended 31 Dec 2016. FY2016 revenue increased 10.2% to AUD778.5mn mainly due to fee increases and acquisitions (21 centres were acquired in 2016, bringing the total centres to 510). Despite the topline growth, net profit fell 9.1% y/y to AUD80.3mn, mainly due to the absence of AUD10.5mn profit on sale of financial assets in FY2015 (largely attributable to sale of shares in Affinity). Removing the one-off impacts which include the Affinity sale, G8's calculated underlying net profit after tax grew 7.1% y/y to AUD93.3mn, with the growth lower than revenue due to higher financing costs. However, occupancy on a like for like basis declined 2.2pp y/y to 79.7%, mainly due to increased supply in Australian Capital Territory and market-wide weakness in Western Australia and North Queensland. Mitigating the fall in occupancy, G8 implemented a 2% fee increase at the beginning of February and is looking forward to raise fees by another 4% in 2H2017. Meanwhile, China First Capital Group ("CFCG") will be injecting AUD212mn in new money into G8 via two tranches of share placement, with 30% to be settled on 24 Feb and the remaining 70% on 17 May 2017. CFCG would hold 12.45% stake in G8 after the completion. CFCG is listed on the Hong Kong Stock Exchange with a market cap of HKD13bn, which has made investments in the education sector in China and offers financial services. With the share placement proceeds, G8 intends to pay down AUD50mn bond that is due for repayment in Feb 2018 and AUD40mn of the Bankwest working capital facility. The remainder would be used to fund committed acquisition and capex in Australia, which approximates AUD200mn over 2017-2018, of which about AUD80mn may be completed in 2017. Post placement of the shares to CFCG, net debt/EBITDA would reduce from 2.2x as of FY2016 to 1.7x while G8 intends to maintain the gearing around this level. This is a significant credit positive in our view. However, in view of G8's dividend payout (FY2016: 24 AUD cts per share, or AUD92.5mn) and weakening occupancy trend, we keep G8's Issuer Profile at Neutral. (Company, OCBC)

Chip Eng Seng Corp Ltd. ("CES"): The launch of Grandeur Park (720-unit condominium) on 18th Feb hit news headlines as Straits Times reported that 10,000 people attended the launch over 2 days. The average price is about SGD1,350 psf, which appears to be attractively priced. While sales would only start on 4 March, we are optimistic that the project would sell well. However, we keep CES's Issuer Profile at Neutral as we factor its net debt/equity (0.89x) amidst the challenging construction market. (Straits Times, OCBC)

Credit Headlines (Cont'd):

OUE Ltd. ("OUE"): OUE reported full year 2016 results. Revenue surged to SGD884.2mn, more than double of SGD431.5mn generated the previous year. The strong gains were driven by development properties income, which jumped to SGD402.0mn, compared to just SGD23.6mn in 2015. The rise in development properties income was largely due to the divestment of the Crowne Plaza Changi Airport extension ("CPEX") into OUEHT for SGD205mn during 3Q2016, as well as strong sales of the Twin Peaks condo (resulting from the deferred payment scheme "DPS") introduced in April 2016). Management had indicated that 348 units of the Twin Peaks have been sold thus far (out of 462 units, or more than 75%) as of end-2016. For 4Q2016, we estimate that 80 units were sold, with SGD84.4mn in revenue recognized (it should be noted that the revenue derived from units sold under DPS will only be recognized upon completion, which can take up to 2 years due to DPS). Investment properties income jumped 36.9% y/y to SGD264.7mn, largely due to the consolidation of One Raffles Place into OUE's results. Hospitality income was softer due to lower room sales recorded by Mandarin Orchard (OUE operates the asset via management agreements with OUEHT), declining 1.3% y/y to SGD201.7mn. Though strong sales at Twin Peaks, coupled with the CPEX divestment gain of SGD66.7mn caused gross profit to surge to SGD319.8mn for 2016 (versus SGD150.7mn in 2015), net income was flattish at SGD177.1mn (versus SGD178.8mn in 2015). This was due to the sharp slump in share of results from equity-accounted investees, which fell from SGD207.6mn (2015) to SGD66.4mn. This was largely due to the lower share of negative goodwill recognized this period versus 2015 from the purchase of additional interest in Gemdale Properties. The 27.9% y/y increase in financing expense also dragged results. Cash flow from operations (CFO) (including interest service) surged to SGD358.6mn, though most of it was generated in 3Q2016 due to the cash proceeds from the CPEX divestment. We note as well that 4Q2016 saw OUE paying SGD56.6mn for two land parcels along Nassim Road. Comparatively, OUE spent about SGD153.9mn into investment properties (largely the AEI at OUE Downtown) as well as spent SGD78.5mn in participating in OUEHT's rights issue during 2Q2016. This was offset by OUE redeeming SGD216mn worth of investments in a mutual fund incrementally through 2016. For financing cash flows, OUE spent SGD166.0mn increasing its stake in OUECT in February 2016, paid out SGD73.8mn in dividends, and paid down ~SGD35mn in net borrowings. In aggregate, net gearing improved to 57% q/q from 60%. OUE as SGD656.0mn in short-term debt, compared to SGD239.0mn in cash, as at end-2016. We note that OUE had recently acquired 57.6% of International Healthway Corp ("IHC"), and hence will consolidate IHC's results in OUE's 1Q2017 results. Separately, IHC has announced that a change-of-shareholding event has occurred (notice date 17/02/17), which would allow IHC noteholders to exercise an option for early redemption on IHC's bonds (which totals SGD100mn). As such, OUE may have to spend SGD165.4mn in aggregate to acquire 100% of IHC, as well as a potentially a further SGD100mn to support IHC in redeeming its bonds. We are currently reviewing OUE's Neutral Issuer Profile to consider the impact of the acquisition, and will update accordingly. (Company, OCBC)

Ezion Holdings Ltd. ("EZI"): EZI has announced a profit guidance for 4Q2016 results, indicating that there would likely be a net loss recorded for 4Q2016 as well as full-year 2016 results. This is due to potential impairments to EZI's assets, due to continued uncertainties in the global oil & gas industry. We have noted previously (*see Singapore Credit Outlook 2017*) that there could be further impairments to EZI's fleet of service rigs (specifically the fleet of old jack-up rigs) that are facing both utilization as well as charter rate pressure. Though impairments are non-cash, it would still reduce EZI's equity, pressuring EZI's net gearing ratio (last reported at 93%). The 4Q2016 results will be announced on 23/02/17. We will review the results when they are released and update according. We currently hold EZI at Negative Issuer Profile. (Company, OCBC)

Credit Headlines (Cont'd):

Ezra Holdings Ltd. ("EZRA"): As mentioned previously on 13/12/16, EZRA's subsidiary EMAS Offshore ("EMAS") had announced an agreement with all its financial lenders to refinance its financial obligations over a period of 5 years from 12/12/16 onwards. The agreement is subject to documentation and conditions that would be set out in definitive terms within 60 days from 12/12/16. On 17/02/17, EMAS had provided an update regarding its refinancing efforts, indicating that EMAS as well as its financial lenders are still in the process of negotiating and finalising definite agreements. EMAS had requested its financial lenders to grant an extension of time to finalise the definitive agreements within 60 days from 10/02/17 (roughly an additional 2 months). USD554.9mn borrowings reported on EZRA's balance sheet is consolidated from EMAS. We consider the successful refinancing of EMAS's loan obligations to be a crucial part of EZRA's efforts to restructure. Time is of the essence as a few trade creditors to the EZRA group of companies have taken action against the latter due to sums overdue. We currently hold EZRA's Issuer Profile at Negative, and will continue to monitor the situation closely. (Company, OCBC)

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