Asian Credit Daily

Jul 21, 2017

Credit Headlines (Page 2 onwards): Industry Outlook – Singapore Residential Property, First Real Estate Investment Trust, Keppel Corp, CapitaLand Mall Trust

Market Commentary: The SGD swap curve bear-flattened yesterday, with swap rates trading 2-3bps higher across all tenors. Flows in SGD corporates were heavy, with better buying seen in OLAMSP 5.5%-PERP, and mixed interest seen in OLAMSP 6%'18s, NTUCSP 3.65%'27s, LMRTSP 6.6%-PERPs, HSBC 4.7%-PERPs. In the broader dollar space, the spread on JACI IG Corporates traded little changed at 190bps, while the yield on JACI HY Corporates fell 1bps to 6.88%. 10y UST yields fell 1bps to 2.26% yesterday, as European Central Bank President (ECB) Mario Draghi took a less hawkish stance in yesterday's ECB meeting and results from the 10Y TIPs auction came in poor.

New Issues: Oceanwide Holdings International 2017 Co has priced a USD400mn 3-year bond (guaranteed by Oceanwide Holdings Co) at 7.75%, widening from initial guidance of 7%. The expected issue ratings are 'B/NR/B'. China Life Insurance (Overseas) Company Ltd, Hong Kong Branch has priced a USD250mn 10NC5 bond at 3.35%, tightening from initial guidance of 3.8% area. The expected issue ratings are 'A/NR/NR'. China Jinjiang Environment Holding Company Ltd has priced a USD200mn 3-year bond at 6.25%, tightening from initial guidance of 6.5% area. The expected issue ratings are 'BB-/Ba3/NR'. Parkway Pantai Ltd has priced a USD500mn Perp NC5 at 4.25%, tightening from initial guidance of 4.625% area.

Rating Changes: S&P has affirmed Intime Retail (Group) Company Limited's (Intime) corporate credit rating at 'BBB-'. The outlook is stable. The rating action reflects S&P's view that Intime will maintain its good market position as a leading department store operator in China with a relatively diversified retail format and a favorable concessionaire sales model. S&P then withdrew the ratings on the company's request. S&P has upgraded China Aoyuan Property Group Ltd's (Aoyuan) corporate credit rating to 'B+' from 'B', while upgrading its senior unsecured notes to 'B' from 'B-'. The outlook is stable. The rating action reflects S&P's view that Aoyuan's leverage will continue to improve based on sales performance and a disciplined approach to land acquisition.

Table 1: Key Financial Indicators

	21-Jul	1W chg (bps)	1M chg (bps)		21-Jul	1W chg	1M chg
iTraxx Asiax IG	84	-1	-2	Brent Crude Spot ($/bbl)	49.29	0.78%	9.97%
iTraxx SovX APAC	21	-1	3	Gold Spot ($/oz)	1,245.33	1.35%	-0.09%
iTraxx Japan	39	0	0	CRB	178.40	2.32%	6.55%
iTraxx Australia	78	-3	-7	GSCI	376.88	0.92%	6.86%
CDX NA IG	57	-1	-6	VIX	9.58	-3.23%	-10.88%
CDX NA HY	108	0	1	CT10 (bp)	2.257%	-7.48	9.37
iTraxx Eur Main	52	-2	-3	USD Swap Spread 10Y (bp)	-3	2	1
iTraxx Eur XO	235	-10	2	USD Swap Spread 30Y (bp)	-31	3	3
iTraxx Eur Snr Fin	49	-2	-10	TED Spread (bp)	17	-10	-9
iTraxx Sovx WE	5	-1	-2	US Libor-OIS Spread (bp)	14	0	1
iTraxx Sovx CEEMEA	54	-1	-2	Euro Libor-OIS Spread (bp)	3	0	0
					21-Jul	1W chg	1M chg
				AUD/USD	0.789	0.68%	4.40%
				USD/CHF	0.952	1.26%	2.21%
				EUR/USD	1.163	1.37%	4.11%
				USD/SGD	1.367	0.36%	1.63%
Korea 5Y CDS	57	-1	4	DJIA	21,612	0.27%	0.94%
China 5Y CDS	66	0	-3	SPX	2,473	1.05%	1.55%
Malaysia 5Y CDS	84	0	-3	MSCI Asiax	649	1.12%	3.92%
Philippines 5Y CDS	73	1	-5	HSI	26,688	1.13%	3.87%
Indonesia 5Y CDS	116	-1	-2	STI	3,303	0.47%	3.15%
Thailand 5Y CDS	64	2	3	KLCI	1,754	-0.04%	-1.20%
				JCI	5,803	-0.50%	-0.27%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
20-Jul-17	Oceanwide Holdings International 2017 Co	'B/NR/B'	USD400mn	3-year	7.75%
20-Jul-17	China Life Insurance (Overseas) Company Ltd, Hong Kong Branch	'A/NR/NR'	USD250mn	10NC5	3.35%
20-Jul-17	China Jinjiang Environment Holding Company Ltd	'BB-/Ba3/NR'	USD200mn	3-year	6.25%
20-Jul-17	Parkway Pantai Ltd	Not Rated	USD500mn	Perp NC5	4.25%
20-Jul-17	Mercatus Co-operative Ltd	Not Rated	SGD200mn	7-year	2.8%
19-Jul-17	Gemdale Ever Prosperity Investment Ltd	'NR/Ba3/NR'	USD200mn	5NC3	4.975%
19-Jul-17	Shandong Energy Australia Pty Ltd	'BB/NR/NR'	USD300mn	3-year	4.7%
19-Jul-17	Doosan Infracore Co	'NR/Aa2/NR'	USD300mn	3-year	CT3+102.5bps

Source: OCBC, Bloomberg

Credit Headlines:

Industry Outlook – Singapore Residential Property: In en bloc deal, The Albracca was sold for SGD69.1mn (SGD1,409 psf, inclusive of development charges). This brings the YTD en bloc deals to SGD1.6bn following the en bloc of Eunosville (SGD766mn), Rio Casa (SGD575mn), Goh & Goh Building (SGD101.5mn) and One Tree Hill Gardens (SGD65mn). (Today, Business Times, OCBC)

First Real Estate Investment Trust ("FIRT"): FIRT has announced the acquisition of Siloam Hospitals Buton and Lippo Plaza Buton ("the Property") from an indirect wholly-owned subsidiary of its Sponsor, PT Lippo Karawaci Tbk ("LK"). The property is made up of (1) A 160-bed hospital with ancillary healthcare related space and (2) A single-storey retail mall which provides amenities to visitors and patients of the hospital. The Property will be purchased via a wholly-owned subsidiary of FIRT and a conditional Sale and Purchase Agreement has been entered into on 20 July 2017. The Property is located in the city of Bau Bau (in Buton Island, Southeast Sulawesi) and total consideration (including transaction costs) is SGD29.4mn. The consideration will be paid in cash, via a combination of a drawdown from FIRT's committed debt facilities and internal cash. As at 30 June 2017, FIRT had a cash balance of SGD27.6mn and sufficient committed debt facilities. Assuming that all of the cash is applied to the acquisition, with the remainder debt-funded, we expect headline aggregate leverage to stay relatively constant. As at 30 June 2017, aggregate leverage was 31%. As the hospital only commenced operations in April 2016, we expect that it is still in the gestation phase. Master Leases for both the hospital and the retail portion have been entered into with LK entities. We maintain our Neutral issuer profile on FIRT. (Company, OCBC)

Keppel Corp ("KEP"): KEP reported 2Q2017 results, with total revenue down slightly by 4.4% y/y to SGD1.55bn. On a q/q basis though, revenue has picked up, increasing 24.0%. Like the previous quarters, the decline in the offshore marine ("O&M") segment was a drag on group revenue, declining 37.6% to SGD449mn. Winning new orders for drilling assets remained difficult, though KEP was able to complete the novation of contracts for the 5 jack-up rigs formerly intended for Transocean Inc to Borr Drilling Ltd during the period, receiving USD275mn in down payments. The first two rigs will be delivered in 2018 while the third will be delivered in 2019, helping to support O&M revenue. That said, with the overall amount of order book to execute lower, profits for the segment continue to plunge with KEP generating just SGD1mn in O&M profits (2Q2016: SGD61mn), with management indicating that higher financing costs for the segment due to working capital needs was a drag. O&M net order book (excluding the Sete Brasil orders) continues to shrink, falling to SGD3.4bn (1Q2017: SGD3.5bn). YTD order wins was just SGD300mn, which includes orders for LNG carriers and FPSO conversions. The quarter also saw further customer delivery deferrals, with two semi-subs being pushed from 2019 to 2020, and one lift boat being delayed from 2018 to 2019. Property segment sales increased 15.6% y/y to SGD542mn, with KEP selling 1,490 homes during the quarter (2Q2016: 1,200) totaling ~SGD670 in sales value. China again provided the lion's share of sales with 1,080 homes sold (V City at Chengdu sold 705 units). KEP also managed to sell 90 units in Singapore (though slowing down from 130 units sold in 1Q2017). KEP was positive enough to launch the remaining balance of units at Corals at Keppel Bay (+116 units) and Highline Residences (+98 units). KEP indicated that it has pre-sales of 5860 foreign units sold to be recognized at completion through 2019. The pipeline remains healthy, with 62,000 homes, of which 17,000 are ready to launch through end-2019. Segment profits were up slightly by 5.4% to SGD97mn, in part supported by gains made from the 50% divestment of One George Street at K-REIT. Infrastructure segment performance continues to pick up, seeing revenue up 29.0% y/y to SGD521mn, driven by increased sales in the power and gas business. Segment profits dipped 7.4% to SGD25mn as a result of lower contributions from associates. In aggregate, KEP reported SGD154.7mn in net profit, down 29.4% y/y, driven almost entirely by the evaporation of profits at O&M. Cash flow generation for the quarter was strong with SGD222.2mn in operating cash flow generated, while free cash flow stood at SGD120.3mn. The boost in cash is likely to be due to the USD275mn received from Borr Drilling. However, SGD143.4mn in net debt was paid down and SGD218.1mn in dividends was paid, causing KEP to draw down cash balance. As such, net gearing inched higher to 58% (1Q2017: 57%). In general, we do not expect KEP's credit profile to deviate greatly from current levels, and hence will retain our Neutral Issuer Profile. (Company, OCBC)

Credit Headlines (Cont'd):

Capitaland Mall Trust ("CMT"): CMT announced its 2Q2017 results with gross revenue down 1.3% to SGD168.6mn while NPI was up 1.2% to SGD117.6mn. The decline in performance was largely driven by the absence of Funan DigitaLife Mall which closed on 01/07/16 for redevelopment, as well as underperformance at Bedok Mall. Excluding Funan, gross revenue would have been up 0.4% for 1H2017 while NPI would have been up 0.90%. Portfolio statistics showed some improvement, with occupancy increasing q/q to 98.6% (1Q2017: 97.7%). Performance at Westgate and Bedok Mall remained soft. Tenant's sales per square foot was flat during 1H201y7, while shopper traffic was up 0.4%. Rental reversion remained negative 1.6% for 1H2017, but was positive for 2Q2017. The rental reversion at Westgate (-10.0%) and Bedok Mall (-7.4%) for 1H2017 remained particularly weak. Aggregate leverage inched lower to 34.7% (1Q2017: 35.3%) due to portfolio valuations seen during 1H2017. We will continue to hold CMT's Issuer Profile at Neutral (Company, OCBC)

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