Asian Credit Daily

May 23, 2017

Credit Headlines (Page 2 onwards): Industry Outlook – Australian Banks, Julius Baer Group Ltd, China Vanke Co. Ltd, AIMS AMP Capital Industrial Trust , Wing Tai Holdings Ltd, AusGroup Limited, CMA CGM S.A.

Market Commentary: The SGD swap curve traded downwards yesterday, with swap rates falling by 2-3bps across all tenors. Flows in SGD corporates were heavy, with better buying seen in UOBSP 3.5%'29s, mixed interest seen in GENSSP 5.13%'49s. In the broader dollar space, the spread on JACI IG corporates fell 1bps to 197bps, while the yield on JACI HY corporates rose 2bps to 6.80%. 10y UST yields rose 2bps to 2.26% yesterday, pushed by a heavy Investment Grade issuance slate, along with elevated equities and European Government Bond (EGB) weakness.

New Issues: Hong Seng Ltd. priced a USD250mn 3-year bond (guaranteed by Hong Yang Group Company Ltd) at 8.25%, deviating from initial guidance of low 8% area. The expected issue ratings are 'B-/NR/B'. Korea Eximbank priced a EUR750mn 5-year bond at MS+40bps, tightening from initial guidance of MS+45bps. The expected issue ratings are 'AA/Aa2/AA-'. Nan Fung Treasury (II) Ltd. priced a USD500mn perp NC3 (guaranteed by Nan Fung International Holdings Ltd) at 5.5%, tightening from initial guidance of 5.7%. The expected issue ratings are 'NR/Baa3/NR'. MCC Holding (Hong Kong) Corporation Ltd. priced a USD500mn 3-year bond (guaranteed by Metallurgical Corporation of China Ltd) at CT3+155bps, tightening from initial guidance of CT3+185bps. The expected issue ratings are 'NR/Baa2/NR'. Dr.Peng Holding Hongkong Ltd. scheduled investor calls from 23 May for potential USD bond issuance. The expected issue ratings are 'BB/Ba2/NR'. Agung Podomoro Land Tbk PT scheduled investor roadshows from 23 May for potential USD bond issuance. Nanyang Commercial Bank Ltd scheduled investor meetings from 23 May for potential USD AT1 bond issue. The expected issue ratings are 'NR/Ba2/NR'.

Table 1: Key Financial Indicators

	23-May	1W chg (bps)	1M chg (bps)		23-May	1W chg	1M chg
iTraxx Asiax IG	90	1	-5	Brent Crude Spot ($/bbl)	53.68	3.93%	3.31%
iTraxx SovX APAC	20	0	-3	Gold Spot ($/oz)	1,262.27	2.02%	-1.10%
iTraxx Japan	42	0	-3	CRB	186.07	1.82%	2.31%
iTraxx Australia	83	2	-1	GSCI	393.67	3.12%	2.78%
CDX NA IG	62	1	-2	VIX	10.93	4.89%	-25.29%
CDX NA HY	108	0	0	CT10 (bp)	2.240%	-8.60	-0.83
iTraxx Eur Main	63	1	-5	USD Swap Spread 10Y (bp)	-6	2	-4
iTraxx Eur XO	253	4	-20	USD Swap Spread 30Y (bp)	-46	0	-3
iTraxx Eur Snr Fin	68	2	-10	TED Spread (bp)	29	-1	-9
iTraxx Sovx WE	9	1	0	US Libor-OIS Spread (bp)	13	-2	-7
iTraxx Sovx CEEMEA	46	0	0	Euro Libor-OIS Spread (bp)	3	0	0
					23-May	1W chg	1M chg
				AUD/USD	0.749	0.92%	-1.02%
				USD/CHF	0.973	1.37%	2.39%
				EUR/USD	1.125	1.50%	3.51%
				USD/SGD	1.387	0.56%	0.38%
Korea 5Y CDS	56	0	1	DJIA	20,895	-0.42%	1.69%
China 5Y CDS	78	1	-4	SPX	2,394	-0.35%	1.93%
Malaysia 5Y CDS	102	1	-6	MSCI Asiax	615	0.22%	5.52%
Philippines 5Y CDS	78	2	-2	HSI	25,479	0.56%	5.98%
Indonesia 5Y CDS	125	-2	-2	STI	3,231	0.11%	2.91%
Thailand 5Y CDS	56	1	2	KLCI	1,772	-0.36%	0.89%
				JCI	5,759	1.98%	1.67%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
22-May-17	Hong Seng Ltd.	"B-/NR/B"	USD250mn	3-year	8.25%
22-May-17	Korea Eximbank	"AA/Aa2/AA-"	EUR750mn	5-year	MS+40bps
22-May-17	Nan Fung Treasury (II) Ltd.	"NR/Baa3/NR"	USD500mn	Perp NC3	5.5%
22-May-17	MCC Holding (Hong Kong) Corporation Ltd	"NR/Baa2/NR"	USD500mn	3-year	CT3+155bps
19-May-17	Housing & Development Board of Singapore	"NR/Aaa/NR"	SGD500mn	10-year	2.35%
18-May-17	Amber Treasure Ventures Ltd.	"NR/Baa2/NR"	USD500mn	3NC1.5	CT1.5+180bps
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

Source: OCBC, Bloomberg

Rating Changes: S&P lowered the long-term corporate credit rating on Noble Group Ltd. (Noble) to 'CCC+' from 'B+' and lowered the long-term issue rating on Noble's outstanding senior unsecured notes to 'CCC' from 'B'. The outlook on the corporate credit rating is negative. The rating action reflects Noble's unsustainable capital structure, weak liquidity and high refinancing risk with high execution risk for the company's strategic plan to stabilize cash flows and profitability and address losses. S&P raised the long-term corporate credit rating and issue ratings on Australia-based Goodman Group to 'BBB+' from 'BBB' and removed the ratings from CreditWatch, where they were placed with positive implications on May 12, 2017. The ratings outlook is stable. The rating action reflects S&P's expectation that the company's credit metrics will strengthen above previous expectations. S&P suspended Chinese developer Mingfa Group (International) Co. Ltd's (Mingfa) 'CCC+' corporate credit rating and 'CCC' issue rating on the company's outstanding senior unsecured notes. The suspension reflects the lack of sufficient, timely, and reliable information to maintain the ratings on Mingfa. Moody's assigned a first-time 'Ba3' corporate family rating to Agung Podomoro Land Tbk (P.T.) (APL). In addition, Moody's assigned a 'Ba3' rating to the proposed USD-denominated bonds to be issued by APL Realty Holdings Pte. Ltd., a wholly owned subsidiary of APL. The outlook on the ratings is stable. The rating action reflects the company's established market position as a developer of mixed-use projects in Jakarta, its diversification across multiple projects, property segments, and customers across the price spectrum. Fitch assigned APL a 'BB-' Issuer Default Rating and a 'BB-(EXP)' expected rating to the proposed notes, with a stable outlook. Fitch affirmed the Issuer Default Ratings (IDRs) on 1) Nomura Holdings, Inc. (Nomura Holdings) and its wholly owned subsidiary Nomura Securities Co., Ltd. (Nomura Securities) and Nomura Financial Products & Services Inc., and 2) Daiwa Securities Group Inc. (Daiwa Securities Group) and its wholly owned subsidiary Daiwa Securities Co. Ltd. (Daiwa Securities), at 'A-'. In addition, Fitch revised the outlooks on the above entities to Stable from Negative. The rating action follows the affirmation of Japan's sovereign rating at 'A' and revision of the Outlook to Stable from Negative on 27 April 2017.

Credit Headlines:

Industry Outlook – Australian Banks: As mentioned previously (refer to OCBC Asian Credit Daily - 11 May 2017), the Australian government announced a variety of measures aimed at improving competition in Australia's banking sector in its recent Federal Budget (disclosed on 09/05/17). One involved the contentious proposal of a 6bps levy on certain classes of liabilities with over AUD100bn in aggregate for Australia's 5 largest banks (Australia & New Zealand Banking Group Ltd. (ANZ), Commonwealth Bank of Australia, Macquarie Group Ltd., National Australia Bank Ltd. (NAB) and Westpac Banking Corp.(WBC)). Following subsequent meetings between bank representatives and the government, Australia's big 4 banks have released their estimates of the potential impact of the levy on annual after tax profits (based on 2016 results). The impact ranges from AUD220mn (CBA) to AUD260mn (WBC) depending on balance sheet composition. This represents around 3.5% of each banks after tax cash earnings. The actual cost will still not be known until the legislation is finalized and approved by the senate. Until then, the banks continue to lobby the government for more refinement and highlight the ultimate costs to bank stakeholders. As we previously stated, we expect the banks to employ measures to mitigate this levy and preserve earnings depending on the final form of the levy. (Company, Bloomberg, OCBC)

Julius Baer Group Ltd ("JBG"): JBG reported its interim management statement for the 4 months ended 30 April 2017. Investments in growth in 2H2016 are starting to pay off with assets under management (AuM) grew CHF20bn or 6% from 31 December 2016 to a record CHF356bn from both market performance as well as net inflows due to JBG's enlarged pool of relationship managers hired in 2016, mostly in Asia. While this hiring spike compressed margins in FY2016, the rise in AuM appears to have improved operating income with management stating that the gross margin to 30 April 2017 has recovered by 2bps to 90bps compared to 2H2016 and the cost to income ratio has reduced to 71% compared to 73% for 2H2016. Capital ratios also apparently improved by more than half a percentage point with JBG's BIS CET1/CAR capital ratios at 14.2%/17.8%, remaining well above JBG's management floors of 11%/15% and minimum CET1/CAR regulatory requirements of 8%/12.2%. In all, trends in JBG's reported ratios were positive in our view and appear to be inching toward management targets for cost efficiency and AuM growth. As such, we maintain our Neutral Issuer Profile on JBG. (Company, OCBC)

Credit Headlines (cont'd):

China Vanke Co. Ltd ("VNKRLE"): Two partnership agreements have been entered into with (i) Limited Partner 1 (a wholly-owned subsidiary of China Merchants Bank ("CMB")), (ii) Limited Partner 2 (a wholly-owned subsidiary of VNKRLE) and (iii) the General Partner (a wholly-owned subsidiary of CMB), in relation to the formation of two investment funds. VNKRLE is proposing to contribute RMB5.031 billion into the Investment Funds in aggregate through Limited Partner 2 for the purposes of carrying out asset and equity investments. Limited Partner 2 will invest RMB2.7bn (39% of total investments) into Investment Fund 1 and RMB2.3bn (39% of total investments) into Investment Fund 2. The two funds each have a 20 year term which can be extended or terminated in advance with consents from the General Partner and Limited partners who jointly hold more than 2/3 of the partnership interest. The investment funds intend to acquire mature commercial property projects held by VNKRLE as part of the company's plans to consolidate commercial properties. As at 31 March 2017, VNKRLE's total assets was RMB886.9bn (net assets of RMB162bn). This transaction forms less than 1% of total assets and we see it as credit neutral. Nonetheless, we believe this is one way for VNKRLE to monetise its investment properties in light of tighter financing conditions for the Chinese property sector (Company, OCBC).

AIMS AMP Capital Industrial Trust ("AAREIT"): Ms Regina Yap Siew Buay has decided to relinquish her role as Head of Finance and Company Secretary of AAREIT's REIT Manager to pursue other interests. Ms Stella Yeak Shuk Phin has been appointed as Vice President, Finance of the REIT Manager. Ms Yeak will be responsible for the financial accounting, reporting, taxation, capital management, compliance and corporate secretarial matters of AAREIT and the REIT Manager. Ms. Yeak was most recently Assistant Vice President, Finance, a role she assumed since February 2013. Ms Yeak and Ms Tanya Teow Xueting has been appointed as Joint Company Secretaries of AAREIT with effect from 31 May 2017. We view these management changes as credit neutral (Company, OCBC).

Wing Tai Holdings Ltd ("WINGTA"): WINGTA just announced a MYR290.7mn (SGD93.9mn) offer to take Wing Tai Malaysia ("WTM") private at MYR1.8 per share. Currently, WINGTA already owns about 66.13% of WTM, and we estimate WTM forms about 13% of the total assets (as of 3QFY17) and 19% of the 9MFY17 revenue of WINGTA. According to WINGTA, the offer would integrate both companies' financial and operational resources, which would result in cost savings and operational efficiencies. Extrapolating from WINGTA's 3QFY17's financials, we expect net gearing to increase to 9.1% (from 6.3%) due to the cash outflow for the offer. Overall, we think that the balance sheet remains healthy, and as such we will retain our Neutral Positive Issuer Profile on WINGTA. (Company, OCBC)

AusGroup Limited ("AUSG", associate company of Ezion Holdings ("EZI")): AUSG has announced that it has launched a voluntary debt-to-equity exchange for its outstanding SGD110mn in bonds due 20/10/18. The issue price of the new shares would be SGD0.058 per share, which represents a premium of 6.6% over the last trading day of 18/05/17. Participating noteholders will receive new shares equal to their notional held as well as accrued interest. The exchange offer commenced on 22/05/17, and will expire on 08/06/17. The exchange offer is conditional on AUSG receiving at least 10% of its SGD110mn bonds outstanding. It was also announced that EZI intends to capitalize part of its shareholder loan (last reported to be AUD39.2mn as of end-March 2017) to AUSG, such that EZI's stake in AUSG will be no less than 20.0%, but not more than 29.9% of the enlarged capital base. EZI would be converting at the same price as bondholders. It should be noted that AUSG will have to hold an EGM to obtain shareholders' approval for the above two transactions. As a reminder, AUSG had recently restructured its SGD110mn in bonds in 4Q2016. A summary of the restructured terms for the bonds include a two year maturity extension to 20/10/18, AUSG's Australian port assets being provided as security to the bonds (with the bond's claim to the proceeds ranking behind potential new lenders of up to AUD20mn worth of fresh working capital) as well as step-up in interest rate by 50bps for the first year of extension (to 7.95%), and another 50bps for the second year (to 8.45%). We do not currently cover AUSG. (Company, OCBC)

Credit Headlines (cont'd):

CMA CGM S.A. (acquired Neptune Orient Lines, "NOL"): CMA CGM reported 1Q2017, with revenue up 35.9% y/y to USD4.62bn. The strong revenue was driven by the acquisition of NOL, with the acquisition completed late 2Q2016. This drove volumes carried 34.2% higher to 3.11mn TEU. Excluding NOL, CMA CGM would have seen revenue decline by 1.7% y/y to USD3.40bn (volumes carried fell 2.2%), but 1.6% higher q/q. We consider CMA CGM's performance to be strong. Though container freight rates (specifically the Shanghai Containerized Freight Index) have recovered from the lows seen in 2Q2016, 1Q2017 saw some intra-quarter correction. Management had indicated continued focus on profitability, resulting in higher revenue per container. Margins have continued to improve despite higher fuel costs, with CMA CGM's core EBIT (this excludes disposals, impairments and non-recurring elements) margin at 5.5%, +1.3ppt from 4Q2016. Operational improvements have also lifted NOL standalone performance , with NOL core EBIT margin expanding from 1.5% to 4.4% q/q. In fact, NOL generated USD26mn in net profit, out of CMA CGM's total net profit of USD86mn (4Q2016: USD45mn). With earnings improving, CMA CGM generated USD382.8mn in EBITDA during the quarter, up sharply from USD95.3mn in 1Q2016. Looking forward, CMA CGM would likely be able to continue the execution of its Agility plan, with USD1bn in cost cuts to be made by December 2017. In terms of operating cash flow generation (including interest service), CMA CGM was flat for the quarter. About USD102.7mn in cash capex was reported during the quarter, in part funded by USD78.3mn in PPE disposals. As mentioned previously, CMA CGM had postponed the delivery of 3 vessels from 2017 to 2018, while USD646.5mn in committed capex for 2017 had been backed by committed funding. Increase in net borrowings generated USD74.8mn in cash, funding the gap and adding to the cash balance. In aggregate, total borrowings increased from USD8.28bn to USD8.47bn q/q (including FX translation adjustments). As such, net gearing has worsened slightly from 141% (end-4Q2016) to 146% (end-1Q2017). Net debt / EBITDA stood at 4.7x for the quarter (4Q2016: 5.1x), while interest / EBITDA stood at 3.4x (4Q2016: 2.6x). Cash / current borrowings stood at 0.7x, though we note that CMA CGM has successfully redeemed NOL's SGD400mn in bonds due on 26/04/17. The balance of current borrowings look to be bank borrowings, financial leases as repayments on CMA CGM's securitization program. Though we believe that CMA CGM will continue to focus on deleveraging its balance sheet, it would seem that given operational improvements the pressure to cut debt sharply has eased. Rather than to aggressively divest assets (such as its terminal assets), CMA CGM could be more flexible in waiting for the right deal. We currently hold CMA CGM's Issuer Profile at Neutral and will update accordingly if required. As mentioned previously, though CMA CGM has not provided a corporate guarantee on NOL's outstanding bonds, as a material wholly-owned subsidiary to CMA CGM, we believe that NOL would likely receive support from CMA CGM. (Company, OCBC)

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