Asian Credit Daily

OCBC Bank

February 24, 2017

Credit Headlines (Page 2 onwards): Malayan Banking Berhad, Sembcorp Industries Ltd.

Market Commentary: The SGD swap curve traded downwards yesterday, with swap rates trading 1-2bps lower across tenors. Flows in SGD corporates were heavy, with better buying seen in GENSSP 5.13%'49s, GUOLSP 4%'22s, UOBSP 3.5%'29s, better selling seen in FCLSP 4.15%'27s, SOCGEN 4.3%'26s, and mixed interest in YLLGSP 6.2%'17s, OLAMSP 6%'22s, FCLSP 5%'49s, BAERVX 5.75%'49s. In the broader dollar space, the spread on JACI IG corporates rose 1bps to 191bps while the yield on JACI HY corporates changed little at 6.69%. 10y UST yields fell 4bps to 2.37%, after US Treasury Secretary Steven Mnuchin floated the idea of issuing longer-term, "50- or 100-year" Treasuries.

New Issues: Aozora Bank Ltd. scheduled investor roadshows from 27 February for a potential USD 3-year bond issue. The expected issue ratings are 'A-/NR/NR'.

Rating Changes: Moody's withdrew Texhong Textile Group Limited's 'Ba3' corporate family rating for its own business reasons.

Table 1: Key Financial Indicators

	24-Feb	1W chg (bps)	1M chg (bps)		24-Feb	1W chg	1M chg
iTraxx Asiax IG	96	-6	-17	Brent Crude Spot ($/bbl)	56.46	1.16%	1.84%
iTraxx SovX APAC	25	-2	-8	Gold Spot ($/oz)	1,248.64	1.14%	3.28%
iTraxx Japan	51	-2	-5	CRB	191.63	-0.84%	-1.70%
iTraxx Australia	85	-4	-11	GSCI	403.74	-0.43%	0.89%
CDX NA IG	62	-2	-3	VIX	11.71	-2.17%	5.78%
CDX NA HY	108	0	1	CT10 (bp)	2.381%	-3.38	-8.43
iTraxx Eur Main	74	0	4	USD Swap Spread 10Y (bp)	-2	2	8
iTraxx Eur XO	293	-4	4	USD Swap Spread 30Y (bp)	-37	1	7
iTraxx Eur Snr Fin	94	1	9	TED Spread (bp)	54	3	0
iTraxx Sovx WE	21	-1	0	US Libor-OIS Spread (bp)	32	-2	-3
iTraxx Sovx CEEMEA	66	-2	-10	Euro Libor-OIS Spread (bp)	2	0	0
					24-Feb	**1W chg**	**1M chg**
				AUD/USD	0.771	0.54%	1.62%
				USD/CHF	1.007	-0.44%	-0.60%
				EUR/USD	1.058	-0.38%	-1.44%
				USD/SGD	1.409	0.69%	0.89%
Korea 5Y CDS	45	-3	-2	DJIA	20,810	0.96%	4.51%
China 5Y CDS	92	-8	-20	SPX	2,364	0.62%	3.67%
Malaysia 5Y CDS	108	-8	-22	MSCI Asiax	569	1.28%	4.99%
Philippines 5Y CDS	83	-4	-16	HSI	24,115	0.34%	5.08%
Indonesia 5Y CDS	128	-10	-23	STI	3,132	0.77%	2.95%
Thailand 5Y CDS	53	-10	-20	KLCI	1,707	-0.04%	1.57%
				JCI	5,373	-0.10%	1.52%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
22-Feb-17	Mizuho Financial Group Inc.	"A-/A1/NR"	USD1.5bn	5-year	CT5+105bps
22-Feb-17	Mizuho Financial Group Inc.	"A-/A1/NR"	USD1.25bn	5-year	3mL+94bps
22-Feb-17	Mizuho Financial Group Inc.	"A-/A1/NR"	USD500mn	10-year	CT10+125bps
22-Feb-17	China Jinmao Holdings Group Ltd.	"NR/Baa3/BBB-"	USD500mn	5-year	CT5+170bps
22-Feb-17	United Overseas Bank Ltd.	"NR/Aaa/AAA"	EUR500mn	5-year	MS+10bps
22-Feb-17	United Overseas Bank Ltd.	"NR/Aaa/AAA"	USD500mn	3-year	MS+45bps
22-Feb-17	Xinhu Zhongbao Co. Ltd.	"B-/B3/B"	USD700mn	3-year	99.595
21-Feb-17	Korea Development Bank	"AA/Aa2/AA-"	USD500mn	3-year	3mL+45bps

Source: OCBC, Bloomberg

Credit Headlines:

Malayan Banking Berhad ("Maybank"): Maybank reported its 4Q2016 and FY2016 results with operating income for 4Q2016 broadly stable y/y at MYR6.7bn as better y/y performance in Islamic Banking offset lower other operating income (higher unrealized mark-to-market loss on revaluation of financial assets and derivatives, lower net gain on disposal of PPE and lower fee income). Combined with lower net insurance benefits and claims incurred, net operating income improved 8.1% y/y for 4Q2016 to MYR6.1bn. Net interest income was up marginally y/y by 0.9% likely due to loan growth and a slightly better deposit mix (better CASA composition) which mitigated the ongoing pressure on net interest margins which compressed for the full year to 2.27% from 2.31% in FY2015. Expense performance for 4Q2016 was improved y/y with total expenses falling 5.1% y/y due to lower personnel and establishment costs that offset higher admin and general expenses. The improvement also mitigated to some extent the 20% rise in allowances for impairment losses and translated to a 21.3% y/y improvement in 4Q2016 operating profit to MYR2.8bn. For the full year however, the impact of rising allowances for impairment losses on FY2016 results was more significant with a 50% y/y rise in FY2016 allowances driving a 3.0% y/y fall in operating profit for FY2016. Top line performance for FY2016 was otherwise somewhat resilient with total operating income up 5.4% y/y and operating profit before impairment losses up 6.7% y/y to MYR11.7bn. Segment wise contributions to total performance for the full year was broadly stable y/y with profit before income tax (PBT) for Community Financial Services (53% of group PBT) up 2.9% y/y for FY2016 due to higher net interest income from loan growth and higher other operating income. Corporate Banking & Global Markets (60% of group PBT) also rose 1.2% as higher allowances for impairments eroded an 8.2% rise in operating income. Elsewhere, losses in head office and others segment rose 46%. Maybank registered solid loan growth for FY2016 with total gross loans and advances up 5.7% y/y and 5.3% q/q indicating a pick-up in loan growth towards the end of FY2016. Net loan growth however was slightly weaker due to the rise in allowances. Loans for personal use, working capital and purchase of transport vehicles, landed properties, and fixed assets grew in FY2016, while loans for purchase of securities, construction and mergers and acquisitions all fell y/y. Location wise, loan growth occurred in Malaysia (+6.3%) and International (+5.3%) with solid growth in Singapore and Indonesia (+6.7% and +15.3% respectively y/y) while loans to Hong Kong fell sharply by 25% and loans to China grew below the total loan growth average at 2.2% y/y. Gross impaired loans rose 29.2% as new impaired loans rose 14.5% y/y and amounts recovered and written off fell y/y. As a result, the calculated NPL ratio for Maybank rose to 1.53% from 1.39% in FY2015. Impaired loans grew higher in loans for landed properties, construction and working capital, and rose substantially in Singapore as well as in Malaysia and Hong Kong in FY2016. As such, the calculated NPL ratios for Malaysia, Singapore and Hong Kong exposures rose to 2.1% (FY2015: 1.8%), 1.3% (0.5%) and 9.5% (5.9%) respectively. Similar to loan growth trends, impaired loans growth occurred mostly towards the end of FY2016 with management stating that this was in part due to their proactive stance on asset quality by restructuring or rescheduling accounts that were exposed to current operating conditions. Due to the material rise in allowances however, the loan loss coverage ratio remained stable y/y at 72% in FY2016. Maybank's capital ratios improved y/y as an 11.3% and 10.6% rise in CET1 and Total Capital respectively overshadowed a 1.7% rise in risk weighted assets with Maybank's CET1/CAR ratios before proposed dividend at 14%/19.3% for FY2016 (12.8%/17.7% in FY2015), well above minimum requirements. Maybank's results continue to reflect the bank's strong earnings capacity although higher allowances negated some of this benefit in FY2016. That said, what's pleasing to note is the improved cost performance, the potential stabilisation of loan quality trends in 2H2016 and strengthening of the capital ratios. Management are expecting an improved operating environment in 2017 forecasting higher loan growth of 6-7% than that achieved in FY2016. This should continue to buffer Maybank's credit profile as it navigates still challenging operating conditions and likely ongoing pressure on net interest margins in FY2017. We therefore maintain our Neutral Issuer Profile on Maybank. (Company, OCBC)

Credit Headlines (Cont'd):

Sembcorp Industries Ltd. ("SCI"): For 4Q2016, SCI reported SGD2.03bn in revenue, down 16.3% y/y. On a q/q basis, revenue was also down 5.1%. The marine segment remained challenged with revenue falling 37.5% y/y to SGD829.9mn. Despite the recovery in global energy prices, still weak offshore E&P activity, coupled with the oversupply situation in drilling assets has led to difficulty in winning new orders as well as clients requesting for delivery deferral. In aggregate, the marine segment still contributed a net profit of SGD21.0mn, versus the loss of SGD327.5mn seen in 4Q2015 (due to the impairments / provisions taken the previous year). The utilities segment continued to show growth, with revenue up 14.3% y/y to SGD1.13bn. However, on a q/q basis segment revenue dipped 5.8%. Specifically, Energy contribution fell 7.6% q/q to SGD959.5mn. Looking into geographical contribution, India was a disappointment, seeing a y/y revenue decline of 6.5% to SGD165.4mn despite having more assets online during the quarter. In fact, utilities net profit contribution from India generated a net loss of SGD37.1mn for the quarter (versus a profit of SGD18.2mn seen in 3Q2016), dragging full year utility profit contributions from India into a net loss of SGD16.1. It would seem that performance at Thermal Powertech Corporation India (TPCIL) is as expected with 86% of net capacity supported by long-term PPAs. However, for Sembcorp Gayatri Power (SGPL) long-term PPAs are yet to be secured resulting in earnings volatility. Currently, management has guided that due to a current oversupply of capacity in India (likely region specific), spot and short-term power tariffs are expected to remain weak till utilization improves over the next couple of years. On the bright side, the domestic power business seems to have turned a corner, with revenue up 14.5% y/y to SGD730.5mn (though net profit was down 16.3% y/y to SGD39.6mn). In aggregate, net profit for the utilities segment was down to SGD89.2mn (4Q2015: SGD395.2mn), lacking the previous periods divestment gains. Urban development had a strong quarter, seeing net profit increase over 70% to SGD27.3mn due to strong Vietnam performance. In aggregate, SCI generated SGD153.0mn in net profit for the quarter, versus a net loss of SGD145.7mn for 4Q2015. During the quarter, SCI generated operating cash outflow of SGD339.2mn, largely due to working capital needs (~50% due to marine). After factoring capex, free cash flow was negative SGD467mn for the quarter. The use of cash was funded in part by increased borrowings as well as cash on the balance sheet. As such, net gearing inched higher q/q to 90% (3Q2016: 85%). Management reported interest coverage was 3.3x, lower than the 7.2x seen in 2015, in part due to higher finance costs of SGD402mn (2015: SGD238mn). Cash / current borrowings worsened q/q from 1.2x to 0.9x. We will review SCI's current Neutral Issuer Profile for potential changes. (Company, OCBC)

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