Asian Credit Daily

OCBC Bank

Aug 25, 2017

Credit Headlines (Page 2 onwards): Wing Tai Holdings Ltd, Bank of Communications Co Ltd, Dah Sing Banking Group Ltd

Market Commentary: The SGD swap curve bear-flattened yesterday, with swap rates trading 1-3bps higher across shorter tenors, while longer tenors traded relatively unchanged. Flows in SGD corporates were heavy, with better buying seen in HSBC 4.7%-PERPs, SIASP 3.13%'27s, and mixed interest seen in WINGTA 4.35%-PERPs. In the broader dollar space, the spread on JACI IG Corporates fell 1bps to 189bps. Similarly, the yield on JACI HY Corp fell 1bps to 6.95%. 10y UST yields rose 3bps to 2.19%, as oil pared its losses mid-day, presidents from the Federal Reserve Bank of Kansas City and Dallas took differing sides of the inflation debate, and investors awaited speeches by Yellen and Draghi at Jackson Hole.

New Issues: OUE CT Treasury Pte Ltd has priced a SGD150mn 3-year bond at 3.03%, tightening from initial guidance in the 3.25% area. Franshion Brilliant Ltd has priced a USD200mn re-tap of its CHJMAO 4%-PERP (guaranteed by China Jinmao Holdings Group Ltd) at 100.09, tightening from initial guidance of 99.996. The issue ratings are 'NR/Baa3/NR'. China Great Wall International Holdings III Ltd has priced a 3-tranche deal (guaranteed by China Great Wall AMC (Intl) Holdings Co and supported with a keepwell deed by China Great Wall Asset Management Co Ltd), with the USD500mn 3-year bond priced at CT3+135bps, tightening from initial guidance of CT3+165bps area; the USD1bn 5-year bond priced at CT5+145bps, tightening from initial guidance of CT5+175bps area; and the USD500mn 10-year bond priced at CT10+180bps, tightening from initial guidance of CT10+210bps area. The expected issue ratings are 'BBB+/Baa1/A'. Kookmin Bank has scheduled investor meetings for potential USD bond issuance from 31 Aug. The expected issue ratings are 'A+/A1/NR'.

Rating Changes: S&P has assigned the Postal Savings Bank of China (PSBC) an 'A' issuer credit rating. The outlook is stable. The rating action reflects S&P's classification of PSBC as a government related entity, which gives it a three-notch uplift from its 'BBB' stand-alone credit profile, as well as S&P's view that PSBC will continue to benefit in China's counties and rural regions.

Table 1: Key Financial Indicators

	25-Aug	1W chg (bps)	1M chg (bps)		25-Aug	1W chg	1M chg
iTraxx Asiax IG	80	-3	-4	Brent Crude Spot ($/bbl)	52.39	-0.63%	4.36%
iTraxx SovX APAC	20	-1	0	Gold Spot ($/oz)	1,286.56	0.19%	2.92%
iTraxx Japan	43	-1	3	CRB	177.80	1.09%	0.07%
iTraxx Australia	74	-2	-4	GSCI	378.99	-0.45%	0.57%
CDX NA IG	60	-2	4	VIX	12.23	-21.35%	29.69%
CDX NA HY	107	0	-1	CT10 (bp)	2.187%	-0.70	-14.85
iTraxx Eur Main	57	-2	5	USD Swap Spread 10Y (bp)	-6	-1	-2
iTraxx Eur XO	245	-6	9	USD Swap Spread 30Y (bp)	-35	-1	-3
iTraxx Eur Snr Fin	56	0	6	TED Spread (bp)	31	-1	17
iTraxx Sovx WE	6	0	2	US Libor-OIS Spread (bp)	16	0	1
iTraxx Sovx CEEMEA	45	-2	-9	Euro Libor-OIS Spread (bp)	3	0	0
					25-Aug	1W chg	1M chg
				AUD/USD	0.790	-0.39%	-0.49%
				USD/CHF	0.965	-0.02%	-1.29%
				EUR/USD	1.180	0.30%	1.28%
				USD/SGD	1.361	0.15%	0.11%
Korea 5Y CDS	62	-2	5	DJIA	21,783	0.15%	0.79%
China 5Y CDS	62	-4	-4	SPX	2,439	0.37%	-1.54%
Malaysia 5Y CDS	75	-3	-9	MSCI Asiax	659	1.74%	0.99%
Philippines 5Y CDS	66	-3	-7	HSI	27,680	1.23%	3.09%
Indonesia 5Y CDS	107	-3	-8	STI	3,265	0.39%	-1.90%
Thailand 5Y CDS	56	-3	-8	KLCI	1,769	-0.39%	0.33%
				JCI	5,886	-0.13%	1.25%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
24-Aug-17	OUE CT Treasury Pte Ltd	'NR/Aaa/NR'	SGD150mn	3-year	3.03%
24-Aug-17	Franshion Brilliant Ltd	'NR/Baa3/NR'	USD200mn	CHJMAO 4%-PERP	100.09
24-Aug-17	China Great Wall International Holdings III Ltd	'BBB+/Baa1/A'	USD500mn	3-year	CT3+135bps
24-Aug-17	China Great Wall International Holdings III Ltd	'BBB+/Baa1/A'	USD1bn	5-year	CT5+145bps
24-Aug-17	China Great Wall International Holdings III Ltd	'BBB+/Baa1/A'	USD500mn	10-year	CT10+180bps
23-Aug-17	Housing & Development Board	'NR/Aaa/NR'	SGD600mn	5-year	1.825%
22-Aug-17	Mapletree Treasury Services Ltd	Not Rated	SGD300mn	8-year	2.85%
21-Aug-17	Olam International Limited	Not Rated	USD50mn	5-year	3.65%

Source: OCBC, Bloomberg

Rating Changes (Cont'd): Moody's has upgraded Gajah Tunggal Tbk (P.T.)'s (Gajah Tunggal) corporate family rating to 'B2' from 'Caa1'. The outlook is stable. The rating action follows Gajah Tunggal's successful issuance of its senior secured notes and reflects Gajah Tunggal's leading position in the Indonesian motorcycle tire market.

Credit Headlines:

Wing Tai Holdings Ltd ("WTH"): WTH reported FY2017 results ending 30 June. Revenue decreased 52% y/y to SGD263.2mn, which is largely due to a decline in revenue from development properties to SGD76.4mn (FY2016: SGD329.8mn). The lower revenue from development properties is due to the absence of revenue from projects that were sold/completed in FY16 (e.g. The Lakeview in China, Phase 2 of Jesselton Hills in Penang) while in FY2016 the revenue from development properties were due to progressive sales recognized from The Tembusu, additional units sold in Le Nouvel Ardmore in Singapore, and Verticas Residences in Malaysia. The lower revenue was also partly attributable to investment properties which declined 6.2% y/y to SGD35.1mn and the retail segment which declined 15.2% y/y to SGD143.9mn. With weaker revenues, WTH sank into an operating loss of SGD11.8mn for the full year (FY2016 operating profit: SGD27.5mn), mainly due to EBIT loss from development properties of SGD15.7mn (FY2016 EBIT gain: SGD22.9mn). We note this is partly due to an impairment charge of SGD3.2mn, likely due to additional buyer's stamp duty payable related to The Crest. Performance was also weighed down by SGD4.0mn fair value losses on investment properties. Meanwhile, retail EBIT performance surged to SGD27.5mn (FY2016: SGD4.2mn), as management reported that G2000 is doing well while Uniqlo's performance has not been affected. Nevertheless, net profit surged 69% y/y to SGD26.4mn, with associated and JV companies reporting a 24% y/y increase in share of profits to SGD73.4mn while WTH recorded a SGD6.7mn tax credit (FY2016 tax expense: SGD25.7mn). For 4QFY2017, net gearing improved to 2.4% (3QFY2017: 6.3%) due to cash collection from properties sold and the issuance of the SGD150mn perpetual bond. If we account for the perpetual bond as half debt and half equity, then net gearing would still have declined slightly to 5.2% (from 6.3%). We expect net gearing (accounting for the perpetual as full equity) to stabilise at around 3.0% going forward. This is after accounting for (1) an estimated SGD223mn that WTH will need to pay for a residential site in Serangoon (in a JV with Keppel); (2) a further SGD70mn post the 4Q2017 results that we estimate WTH will need to privatise Wing Tai Malaysia ("WTM"); and (3) also taking into consideration the SGD270mn that WTH will receive from a sale of a site in Shanghai. Going forward, with the recovery in the Singapore property market, we think that WTH may continue to move more units at Le Nouvel Ardmore (35 units remaining out of 43), and we expect WTH to continue to move more units at the 469 unit The Crest, which is 43% sold. WTH has also sold more than 90% of the 189 units launched in Phase 1 of Malaren Gardens in China. This may support revenues going forward with revenue recognised upon completion, as we note that the value of sales in China surged to SGD167mn in FY2017 (FY2016: SGD26mn). With a healthy balance sheet, we continue to hold WTH at a Neutral Issuer Profile. (Company, Straits Times, OCBC)

Credit Headlines (Cont'd):

Bank of Communications Co Ltd ("BoCom"): BoCom reported its 2017 interim results. Net interest income was down 8% y/y due to a 40bps y/y fall in net interest margins to 1.57% in 1H2017 from 1.97% in 1H2016. This was due to (1) a 20.3% rise in interest expense from higher y/y average balances due to banks and other financial institutions as well as a higher cost on those balances; and (2) higher interest expenses on interest bearing liabilities from higher average balances. Net fee and commission income rose 1.4% y/y with weaker investment banking and agency services mitigated by higher management services and strong growth in the bank cards business (+37.9%) from higher card issuance and development of the card consumption business. The cost to income ratio for 1H2017 of 27% is still low comparatively, but rose 2.1% from 24.9% for 1H2016. This was due to a 7.3% rise in operating costs while impairment losses on loans and advances to customers fell 1.1% y/y as a 2.5% rise in collective impairments was overshadowed by a 3.7% fall in individual impairments. Nevertheless, the weaker net interest income dragged down profit before tax which was 2.4% lower y/y at RMB47.4bn. BoCom's internationalization strategy continues with net profits from overseas increasing by 11.0% y/y and accounting for 7.6% of group net profit. This was driven by a 16.2% rise in assets at BoCom's overseas banking locations with the bank setting up 20 new overseas subsidiaries. The balance sheet continues to grow with total assets up 6.3%. This was driven by a 6.5% increase in loans and advances to customers with management emphasizing a change in loan mix to "support structural reform on the supply side" with loans for infrastructure and civil purposes increasing 10.7% for the six months to 30 Jun 2017 and personal loans to support the economy and consumption, namely credit cards and housing mortgage loans rising 12.9% and 8.6% respectively. Conversely, loans to overcapacity industries decreased by RMB5.13 billion from the end of FY2016. Loans to corporates grew 5.5% while overall personal loans grew 9.0%. The impaired loans ratio improved marginally to 1.51% as at 30 Jun 2017 from 1.52% as at 31 Dec 2016 while the impaired loan coverage ratio was more or less stable at 151% over the same period. Corporate loan impaired loans ratio was 1.64% while the personal loans impaired ratio was 1.19% (impaired loans ratio for the bank's overseas exposures was 0.3%). Owing to balance sheet growth and muted earnings performance, BoCom's capital ratios weakened due to growth in risk weighted assets of 6.1% outpacing growth in capital with CET1/CAR ratios for 1H2017 of 10.6%/13.9% against 11.0%/14.0% for FY2016 and 10.9%/13.6% for 1Q2017. We do not currently cover BoCom. (OCBC, Company)

Credit Headlines (Cont'd):

Dah Sing Banking Group Ltd ("DSBG"): DSBG reported its 1H2017 results which were fairly solid and against recent trends which were impacted by weaker performance in China and some contagion from China's economic slowdown towards its domestic business. Net interest income grew 6.3% y/y from higher loan balances as net interest margins were constant y/y at 1.94% while net fee and commission income was 14.8% y/y due to higher fees from credit cards, securities brokerage, insurance, retail investment and wealth management. Operating expenses rose 9.8% from higher employee compensation, however another pleasing development was the 51.4% fall in loan impairment losses. This was driven by a 90% reduction in individual impairments while collective impairments fell 14%. Within these numbers, new and additional provisions (which includes amounts directly written off during 1H2017) fell 33% while releases more than doubled compared to 1H2016. This along with the 8.8% rise in total operating income (which includes net interest income, net fee and commission income and trading income (which benefited from a large gain arising from financial instruments designated at fair value through the P&L)), contributed to a 33.4% rise in operating profit after impairment losses and a 21.2% rise in profit before tax (which includes gains/losses on disposals and share of results of associates and jointly controlled entities). Segment wise, operating income was supported by solid performance in Personal Banking and Overseas Banking (Macau, China) which offset weaker topline performance in Commercial Banking. Segment operating profit after impairment losses for Commercial Banking however registered a strong 37% y/y improvement for 1H2017 due to materially lower loan impairment losses. Consistent with the lower impairments, impaired loans fell in 1H2017 compared to FY2016 by 20% and this translated to the impaired loans and advance ratio falling to 0.82% of total loans and advances to customers for 1H2017 compared to 1.05% for FY2016. Gross advances overdue also declined from FY2016 and translated to a fall in the ratio of gross advances overdue-to-total loans (0.84% as at 30 Jun 2017, compared to 0.96% as at 31 Dec 2016). Overall advances rose 3.4% for 1H2017 with growth concentrated in property development and investment as well as wholesale and retail trade in Hong Kong while domestic loans to individuals was stable. Trade finance loans rose 7.2% while loans for use outside Hong Kong rose 3.2% for the 6 months to 30 Jun 2017. Capital ratios improved with CET1/CAR ratios of 13.1%/17.8% as at 30 June 2017 against 12.7%/18.3% as at 31 Dec 2016 due to the increase in retained earnings as well as slower asset growth which limited risk weighted asset levels. Total capital ratios were weaker due to the redemption of two subordinated bonds in 1H2017, and regulatory adjustments on non-Basel III compliant Tier 2 capital instruments. We do not currently cover Dah Sing Banking Group Ltd.

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