Asian Credit Daily

Jul 25, 2017

Credit Headlines (Page 2 onwards):, Starhill Global REIT, Mapletree Logistics Trust, CWT Limited, Frasers Centrepoint Trust, Julius Baer Group Ltd

Market Commentary: The SGD swap curve traded downwards yesterday, with swap rates trading 1-3bps lower across all tenors. Flows in SGD corporates were heavy, with better buying seen in HSBC 4.7%-PERPs, WINGTA 4.08%-PERPs, better selling seen in SBREIT 3.6%'21s, and mixed interest seen in STHSP 3.95%-PERPs, NOLSP 4.4%'21s, HYFSP 6%-PERPs, SCISP 3.7%-PERPs. In the broader dollar space, the spread on JACI IG Corporates traded little changed at 191bps. Similarly, the yield on JACI HY Corporates little changed at 6.86%. 10y UST yields rose 2bps to 2.26% yesterday, as treasuries lacked directional catalysts and investors look towards the FOMC meeting on 27 July.

New Issues: The Industrial Bank of Korea priced a USD300mn Perp NC5 at 3.95%, tightening from initial guidance of 4.375%. The expected issue ratings are 'NR/Ba2/BB+'.

Rating Changes: S&P has downgraded China Hongqiao Group Ltd's (Hongqiao) corporate credit rating and issuer rating on its senior unsecured notes to 'B' from 'B+'. The ratings remain on CreditWatch with negative implications. The rating action reflects Hongqiao's increased management and governance risks following an unexpected change in auditor, and also a possible increase in liquidity risk if it fails to file its financial statements by 31 Aug. S&P has affirmed Small Business Corp's (Small) issuer credit rating at 'AA'. The outlook is stable. S&P then withdrew the ratings at Small's request. S&P has assigned Noah Holdings Ltd (Noah) a long-term and short-term issuer credit rating of 'BBB-' and 'A3' respectively. The outlook is stable. The rating action reflects Noah's market position as a leading privately owned wealth management service provider in China, as well as its unique market positioning, good risk management practices and prudent risk appetite.

Table 1: Key Financial Indicators

	25-Jul	1W chg (bps)	1M chg (bps)		25-Jul	1W chg	1M chg
iTraxx Asiax IG	85	-1	0	Brent Crude Spot ($/bbl)	48.88	0.08%	7.33%
iTraxx SovX APAC	21	0	2	Gold Spot ($/oz)	1,255.32	1.03%	0.85%
iTraxx Japan	40	0	0	CRB	176.23	0.20%	5.06%
iTraxx Australia	78	-2	-5	GSCI	371.21	-0.63%	4.92%
CDX NA IG	57	-1	-3	VIX	9.43	-3.97%	-5.89%
CDX NA HY	108	0	0	CT10 (bp)	2.248%	-1.09	10.58
iTraxx Eur Main	53	0	-1	USD Swap Spread 10Y (bp)	-4	2	-2
iTraxx Eur XO	238	1	5	USD Swap Spread 30Y (bp)	-32	3	0
iTraxx Eur Snr Fin	51	0	-1	TED Spread (bp)	15	-12	-20
iTraxx Sovx WE	5	0	-2	US Libor-OIS Spread (bp)	15	0	1
iTraxx Sovx CEEMEA	54	-1	3	Euro Libor-OIS Spread (bp)	3	0	0
					25-Jul	**1W chg**	**1M chg**
				AUD/USD	0.793	0.16%	4.54%
				USD/CHF	0.947	0.85%	2.70%
				EUR/USD	1.165	0.85%	4.20%
				USD/SGD	1.362	0.35%	1.94%
Korea 5Y CDS	57	-1	5	DJIA	21,513	-0.54%	0.55%
China 5Y CDS	66	-1	-1	SPX	2,470	0.44%	1.30%
Malaysia 5Y CDS	84	0	1	MSCI Asiax	654	1.18%	4.24%
Philippines 5Y CDS	73	-1	-3	HSI	26,866	1.29%	4.66%
Indonesia 5Y CDS	116	-1	2	STI	3,322	0.50%	3.52%
Thailand 5Y CDS	65	2	4	KLCI	1,762	0.42%	-0.97%
				JCI	5,793	-0.50%	-0.63%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
25-Jul-17	Industrial Bank of Korea	'NR/Ba2/BB+'	USD300mn	Perp NC5	3.95%
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%

Source: OCBC, Bloomberg

Rating changes (Cont'd): Moody's has affirmed the bank deposit ratings and counterparty risk assessment of seven Indian public sector banks at 'Baa3'. These seven banks are: Bank of Baroda, Bank of India, Canara Bank, Oriental Bank of Commerce, Punjab National Bank. Syndicate Bank, and Union Bank of India. Moody's has also downgraded the bank deposit ratings of Indian Overseas Bank and Central Bank of India to 'Ba3' from 'Ba1'. Furthermore, Moody's has changed the outlook on Bank of Baroda and Canara Bank to stable from positive, while changing the outlook on Bank of India and Oriental Bank of Commerce to negative from positive, and the outlook on Indian Overseas Bank to stable from negative. The outlook for Central Bank of India was maintained at stable. Moody's has assigned Leap Legal Software Pty Ltd (LEAP) a corporate family rating of 'Ba3', while assigning a provision 'Ba3' rating to its proposed backed senior secured term loan facility. The outlook is stable. The rating action reflects LEAP's leading position in Australia's market for legal practice management platforms for smaller firms, strong position in search and services platforms for professionals; solid cash flow generation and high barriers to entry due to its first-mover advantage. However, the ratings are constrained by LEAP's high debt-to-EBITDA leverage. Fitch has placed Guangzhou R&F Properties Co's (R&F) issuer default rating, senior unsecured rating and ratings of all its outstanding notes issued by its subsidiaries on Rating Watch Negative. The rating action reflects R&F's plan to acquire Dalian Wanda Commercial Property Co Ltd's hotel assets, which would push up R&F's total debt level and leverage near Fitch's threshold.

Credit Headlines:

Starhill Global REIT ("SGREIT"): SGREIT announced that it has entered into a SGD700mn unsecured facility with a club of seven banks. The facility consists of 1) 4-year term loan facility of SGD200mn; 2) 5-year term loan facility of SGD260mn; and 3) 5-year revolver of SGD240mn (of which SGD50mn in uncommitted). These new facilities will be used to refinance SGD200mn and SGD250mn term loans in September 2017 ahead of their respective maturities in September 2018 and June 2018. Coupled with the AUD145mn 4-year secured term loan with National Australia Bank Limited announced earlier on 30/06/17, SGREIT's debt maturity profile would be lengthened from the current 2.8 years (as of end-March 2017) to 4.8 years. SGREIT would also not have significant refinancing needs until June 2019. The actions taken by SGREIT removes some refinancing uncertainty as FY2018 was the peak year for maturity for SGREIT. SGREIT is currently rated at Neutral Issuer Profile (Company, OCBC).

Mapletree Logistics Trust ("MLT"): MLT announced its results for the quarter ended June 2017 ("1QFY2018"). Gross revenue was up 7.0% to SGD95.8mn y/y on the back of higher revenue from existing properties, completed acquisitions in Australia, Malaysia and Vietnam and higher translated revenue from a stronger HKD, AUD and KRW though these were partly offset by lower revenue contribution in Korea, absence of some revenue from Ouluo Building in China which is undergoing redevelopment and currency impact from MYR and RMB. EBITDA (based on our calculation which does not include other income and other expenses) was SGD70.6mn (up 7.5% y/y) while interest expense was 9.6% higher at SGD12.9mn (increase in borrowings to fund acquisitions). Despite the improvement in EBITDA, we saw EBITDA/Interest slightly lower at 5.5x (1QFY2017: 5.6x). Perpetuals make up 11% of total capital and we find EBITDA/(Interest plus 50% of perpetual distribution) at 4.6x. Headline aggregate leverage as at 30 June 2017 was 39%, relatively flat against the 38.5% as at 31 March 2017. Adjusting 50% of perpetuals as debt, we find adjusted aggregate leverage relatively flat at 44%. Including perpetuals, MLT remains the highest levered Industrial REIT in our coverage. All debt though remains unsecured, which could provide financial flexibility for the REIT to raise secured debt if need be. In 1QFY2018, cash flow from operations (before interest paid) was SGD58.9mn, this was insufficient to pay out all the sources of capital. Distributions to unitholders, minority interest, perpetual holders and debtholders was collectively SGD63.5mn. During the quarter MLT also spent SGD13.6mn on capex. The cash gap was funded by a slight increase in borrowings. In July 2017, MLT had announced the proposed divestment of Zama Centre and Shiroishi Centre for ~SGD165.4mn (net proceeds expected at ~SGD153.7mn). The REIT expects the transaction to complete by 2QFY2018 and the capital recycled may be used to fund committed investments and/or reduce existing debt. In 1QFY2018, net property income contribution from Australia has increased to 10.7% from 5% in 1Q2017, following the acquisitions in FY2017. As at 30 June 2017, SGD216.2mn of debt is due in the next 12 months, representing only 9.8% of MLT's total gross debt. We maintain MLT's issuer profile at Neutral. (Company, OCBC)

Credit Headlines (Cont'd):

CWT Ltd ("CWT"): On 24 July 2017, news outlets have reported that three domestic Chinese lenders have decided to stop extending new loans to HNA Group (HNA Group has announced a pre-conditional voluntary general offer to acquire CWT). This comes on the back of earlier reports on 20 July 2017 stating that a foreign bank headquartered in the USA has halted its bankers from working with the the HNA Group. Nonetheless, HNA Group's CEO in an interview on 24 July 2017 with Reuters maintained that HNA Group's relationship with its main "Wall Street" lenders remain strong and that reports of lenders scaling back credit to the group were not true. Subsequent to the negative headlines, HNA Group shared further information about its ownership. Based on Fortune's reporting, Hainan Province-based Cihang Foundation (a charitable organisation) owns 52.25% of HNA (22.75% held by Cihang's branch registered in China and 29.5% held by the international foundation registered in New York). HNA's co-founders Mr. Chen Feng and Mr. Wang Jian each holds 14.98% and CEO holds 2.95%. Nine other directors hold 14.63% in aggregate and the Hainan Airlines Holding Company owns 0.25%. Back in April 2017 (refer to CWT Limited: Credit Update), we had no evidence to suggest that HNA Group would face difficulties in raising financing for the CWT transaction. Nonetheless, financing is an important determinant of whether or not the deal would go through. There are no change of control on the bonds and bondholders would have to contend with new shareholders. Whilst CWT is a relatively small transaction for HNA Group, we are now on the fence as to whether the deal would happen (ie: we are 50:50). (1) In the scenario should the deal be terminated, this is a credit positive for both of CWT's bonds (2) In the alternative scenario where the deal is successful, there is no certainty that existing (and future) debt facilities at CWT would stay intact on existing terms and pricing levels. Availability of financing is imperative for a commodities trading firm such as CWT. As both bonds are trading above par, we see this is as an opportune time for bondholders to take profit rather than ride through the event risk and subsequent post-acquisition implications. We maintain CWT's issuer profile at Neutral though we are updating our view to Underweight both bonds, namely the CWT 3.9% '19s and CWT 4.8% '20s. (South China Morning Post, Fortune, Reuters, OCBC)

Frasers Centrepoint Trust ("FCT"): FCT reported 3QFY2017 results, with gross revenue falling 3.3% y/y to SGD43.6mn for the quarter. If the SGD0.466mn revenue contribution from the Yishun 10 Retail Podium acquisition (completed in November 2016) was excluded, portfolio gross revenue would have declined -4.3%. As per the previous quarters, the decline was largely driven by lower occupancy at Northpoint due to its on-going AEI (3QFY2017: 64.8% versus 3QFY2016: 81.3%, these numbers exclude Yishun 10 podium). In general, portfolio performance was weak, with only Causeway Point seeing positive property income growth during the quarter. Aside from the -9.2% property revenue impact from Northpoint, Bedok Point continues to deteriorate, seeing a -20.1% impact on property revenue. In aggregate, portfolio occupancy remained q/q steady at 87.1% (2QFY2017: 87.2%), though we note a sharp deterioration at Changi City Point's occupancy which fell to 84.0%. The 7.8% decline in property expenses (largely driven by write-back of property tax provision no longer required) helped to mitigate part of the revenue decline, resulting in the 1.3% decline in portfolio NPI to SGD30.8mn (or -2.5% if we excluded Yishun 10). The Northpoint AEI's impact on occupancy has been worse than management's projections, with 3QFY2017 realized occupancy on average 5ppt per month lower than projections. In fact, management revised lower their projections for 4QFY2017 on average by ~4ppt per month. We expect Northpoint to remain a drag for 4QFY2017, as even though the AEI would have completed by September 2017, it would take time for Northpoint's new tenants to fit out and occupy the space. FCT's average rental reversion of +0.4 for 3QFY2017 was distinctly weaker q/q (2QFY2017: +4.1%) for 5.2% of portfolio NLA. Bedok Point's performance was particularly poor with -30.2% rental reversion for 22.0% of property NLA. FCT's 3 largest assets, namely Causeway Point, Northpoint and Changi City Point continue to see positive rental reversions (+5.8%, +3.8% and +8.3% respectively), barely keeping portfolio rental reversions positive for the quarter. With one more quarter to go, 6.4% of NLA remains due for renewal. This is mitigated by ~70% being attributable to Causeway Point, FCT's largest and best performing asset. Shopper traffic continues to dip for the portfolio, declining 2.8% y/y. That said, if Northpoint was excluded, shopper traffic increased 3.7%y/y. Aggregate leverage was stable q/q at 30.0% (1QFY2017: 29.4%), with total borrowings inching slightly higher q/q. It is worth noting that FCT tapped bond markets and issued SGD30mn 5Y bond late June. This was used to repay FCT's SGD90mn unsecured loan facility due June 2017. For the rest of CY2017, FCT has SGD30mn in bonds due June 2017 and SGD60mn in bonds due December 2017. This compares with SGD14.2mn in cash (as of end-2QFY2017). We believe that FCT should have no problem refinancing given its access to capital markets. Reported EBIT / Interest remains stable at 7.6x (2QFY2017: 7.6x). We will retain FCT's Issuer Profile at Neutral. (Company, OCBC)

Credit Headlines (Cont'd):

Julius Baer Group Ltd (JBG): JBG reported 1H2017 results with operating income up 11.7% y/y to CHF1,591.8mn. This was driven by a 24.7% rise in net commission and fee income and a 11% rise in net interest and dividend income (mostly due to a rise in interest income on loans from higher loan volumes and credit spreads). The strong performance in net commission and fee income came from a 26.9% rise in advisory and asset-based management fees, a 32.6% rise in brokerage commissions and income from securities underwriting, as well as a full six months contribution from the acquisition of Kairos. Net trading income disappointed, down 23.4% due to a larger net trading losses from equity instruments. Overall expenses rose 17.0% due to a 20.9% rise in personnel expenses due to JBG's capacity building but also one-off pension costs. This contributed to an overall increase in operating expenses above the increase in operating income, which resulted in broadly stable y/y performance for profit before tax of CHF438.9mn (vs CHF439.9mn in 1H2016). Strong growth in net commission and fee income benefited JBG's gross margin (defined as annualized operating income divided by average AUM) which rose to 92bps in 1H2017 from 88bps in 2H2016. Margins were lower y/y due to the fair value adjustment for the Kairos acquisition exercised in 1H2016 – excluding this, margins were relatively unchanged y/y. Margin performance was commendable considering the strong growth in assets under management (AUM) which grew 5.5% or CHF18.5bn h/h to CHF354.7bn due to strong growth in net new money (+CHF10.2bn) and market performance (+16.8bn) which offset a CHF8.9bn negative currency impact from the weaker USD, with management indicating that the AUM growth (which exceeded prior periods results) reflects the benefits of JBG's prior period hiring activities. Net new money of 6.1% exceeded JBG's target range with strong net inflows from Asia, Middle East and Monaco as well as improved net inflows in Latin America. JBG's balance sheet remains robust despite total assets falling 3.2% h/h from FY2016 due to lower dues from banks with loans growth of 6.0% h/h due to 7.2% growth in Lombard lending. Dues to customers (including client deposits) fell 2.5% and as a result, JBG's reported loan to deposit ratio weakened slightly to 62% for 1H2017 from 57% in FY2016. Asset quality indicators improved noticeably with impaired loans down 48% h/h to CHF43.4mn due to CHF33.1mn in write-offs and as a result, allowances for credit losses fell 42.9% over the same period. Capital ratios remain above JBG's management floors of 11%/15% and minimum CET1/CAR regulatory requirements of 8%/12.2% with JBG's phased in CET1/CAR capital ratios at 14.9%/18.5% (11.9%/17.9% on a fully loaded basis) due to a reduction in credit risk weighted assets. Given the encouraging results, management remain bullish on the future with further growth opportunities from the higher AUM and larger resources base as well as expected growth within Asia as well as the UK due to Brexit. With growth investments paying off, JBG's fundamentals remain sound in the competitive private banking landscape. We maintain our Neutral Issuer Profile on JBG and remain overweight the BAERVX 5.9%-PERPs and BAERVX 5.75%-PERPs given the decent yield pick-up in the bank capital space despite the high cash price. (Company, OCBC)

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