Asian Credit Daily

Aug 28, 2017

Credit Headlines (Page 2 onwards): GuocoLand Ltd, Lendlease Group Ltd, Bank of East Asia Ltd, China Vanke Co Ltd, Sabana Shari'ah Compliant Industrial REIT

Market Commentary: The SGD swap curve traded upwards on Friday, with swap rates trading 2-4bps higher across all tenors. Flows in SGD corporates were heavy, with better buying seen in HSBC 4.7%-PERPs, WINGTA 4.35%-PERPs, and mixed interest seen in OUECT 3.03%'20s. In the broader dollar space, the spread on JACI IG Corporates fell 1bps to 188bps. Similarly, the yield on JACI HY Corp fell 1bps to 6.95%. 10y UST yields fell 3bps to 2.17%, after Yellen and Draghi both failed to offer any insight regarding policies at the Jackson Hole Economic Symposium.

New Issues: Keppel Telecommunications & Transportation Ltd has priced a SGD100mn 7NC5 bond at 2.85%, tightening from initial guidance of 3%.

Rating Changes: S&P has affirmed Hitachi Ltd's (Hitachi) 'A-' corporate credit rating. The outlook has been revised to positive from stable. The rating action reflects Hitachi's improved profitability following the reshuffling of its company's business portfolio, as seen by the improvement in Hitachi's EBITDA margin. S&P has downgraded the financial strength and counterparty credit ratings of Arch MI Asia Ltd (Arch MI) to 'A' from 'A+'. S&P has removed the ratings from CreditWatch, where they were placed with negative implications. The outlook is stable. The rating action follows the acquisition of Arch MI by Arch Capital Group Ltd (ACGL) from American International Group. S&P treats Arch MI as highly strategic to ACGL, and as such, Arch MI would be rated one notch below the ratings on ACGL's core operating subsidiaries. The negative outlook reflects the negative outlook on ACGL. Moody's has affirmed Woodside Finance Limited's (Woodside) 'Baa1' backed senior unsecured ratings. At the same time, Moody's has assigned Woodside Petroleum Ltd a 'Baa1' issuer rating. The outlook remains negative. The rating action reflects Moody's expectation that Woodside will generate solid earnings and cash flow due to the low production costs, but it is balanced by Woodside's higher net debt on the back of increased growth spending.

Table 1: Key Financial Indicators

	28-Aug	1W chg (bps)	1M chg (bps)		28-Aug	1W chg	1M chg
iTraxx Asiax IG	78	-6	-5	Brent Crude Spot ($/bbl)	52.56	1.74%	0.08%
iTraxx SovX APAC	20	-2	0	Gold Spot ($/oz)	1,294.26	0.18%	1.94%
iTraxx Japan	43	-2	2	CRB	177.83	0.19%	-2.36%
iTraxx Australia	72	-5	-4	GSCI	379.06	0.68%	-1.96%
CDX NA IG	60	-3	2	VIX	11.28	-20.90%	9.62%
CDX NA HY	107	1	-1	CT10 (bp)	2.171%	-1.06	-11.78
iTraxx Eur Main	56	-2	4	USD Swap Spread 10Y (bp)	-6	-1	-2
iTraxx Eur XO	242	-8	9	USD Swap Spread 30Y (bp)	-35	-1	-3
iTraxx Eur Snr Fin	55	-1	5	TED Spread (bp)	31	0	15
iTraxx Sovx WE	6	0	1	US Libor-OIS Spread (bp)	16	0	1
iTraxx Sovx CEEMEA	45	-2	-3	Euro Libor-OIS Spread (bp)	3	0	0
					28-Aug	1W chg	1M chg
				AUD/USD	0.794	-0.03%	-0.63%
				USD/CHF	0.956	0.62%	1.33%
				EUR/USD	1.193	0.93%	1.48%
				USD/SGD	1.356	0.33%	0.04%
Korea 5Y CDS	59	-5	2	DJIA	21,814	0.64%	-0.08%
China 5Y CDS	59	-7	-5	SPX	2,443	0.72%	-1.18%
Malaysia 5Y CDS	73	-6	-7	MSCI Asiax	660	1.76%	1.18%
Philippines 5Y CDS	64	-4	-7	HSI	28,049	3.70%	3.96%
Indonesia 5Y CDS	104	-7	-7	STI	3,263	0.49%	-2.04%
Thailand 5Y CDS	55	-4	-7	KLCI	1,769	-0.13%	0.12%
				JCI	5,908	0.80%	1.32%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
25-Aug-17	Keppel Telecommunications & Transportation Ltd	Not Rated	SGD100mn	7NC5	2.85%
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%

Source: OCBC, Bloomberg

Rating Changes (Cont'd): Moody's has assigned Asahi Group Holdings Ltd (Asahi) an issuer rating of 'Baa2'. The outlook is stable. The rating action reflects Asahi's diversified portfolio, its strong presence in the domestic beer market, and its stable cash flow generation. However, the rating is constrained by the company's high debt leverage and execution risks due to the acquisition of European beer businesses, low margins, and limited geographic diversification relative to its overseas peers.

Credit Headlines:

GuocoLand Ltd ("GUOL"): GUOL reported 4QFY2017 results. Results were strong, with revenues increasing 90% y/y to SGD407.4mn and gross profit increasing 134% y/y to SGD99.4mn. This is mainly due to higher sales and progressive revenue recognition from Singapore's residential projects. In particular, according to the URA caveats, in 4QFY2017 129 units were sold at Sims Urban Oasis for SGD149.8mn and 33 units were moved at Leedon Residence for SGD210.6mn. Net profit surged to SGD291.3mn (4QFY2016: SGD49.3mn), as other income surged to SGD264.7mn (4QFY2016: SGD47.2mn) mainly driven by higher fair value gains from Tanjong Pagar Centre's Guoco Tower. Meanwhile, net gearing improved q/q to 0.84x (3QFY2017: 1.01x) mainly due to the expanded equity base (+SGD397mn q/q to SGD3.8bn) while net debt decreased (lower by SGD228mn q/q to SGD3.2bn) due to cash collections from property sales. The expanded equity base is mainly from higher profits, increase from dilution of interest in a subsidiary without a change of control (SGD49.9mn), capitalisation of shareholder's loans from non-controlling interest (SGD37.4mn) and translation differences relating to foreign subsidiaries, associates and JVs (SGD18.3mn). Going forward, we think net gearing may stabilise under 1.0x even with capital commitments to develop Martin Place and progressive payments for the land parcel in Chongqing due to cash collections from the development projects. In the coming quarters, results should continue to be buoyed by property sales. According to the URA caveats, since Jul 2017, 59 units were sold for SGD79.3mn at Sims Urban Oasis and 7 units were sold for SGD50.9mn at Leedon Residence (which should be substantially sold out). At the same time, GUOL has sold 133 out of 450 units at Martin Modern at Martin Place since its first launch in Jul 2017 for SGD338.3mn. We understand that GUOL is moderating the releases of new units with the potential to raise selling prices. Meanwhile, the office and retail components at Guoco Tower should contribute to recurring income. At healthy commitment levels of more than 90%, we expect contributions of more than SGD20mn revenue per quarter going forward. Though net gearing remains high, with the strong set of results, we continue to hold GUOL at a Neutral Issuer Profile. (Company, OCBC)

Lendlease Group Ltd ("LLG"): LLG reported FY2017 results for the full year ended 30 June. Revenue increased 10.4% y/y to AUD16.7bn due to higher contributions from all 3 business segments, which include construction (+5% y/y to AUD12.6bn), development (+35.0% y/y to AUD3.4bn) and investments (+11.0% y/y to AUD566.7mn). As such, reported operating EBITDA surged 11% y/y to AUD1.4bn. Development segment reported EBITDA increased 10% y/y to AUD552.4mn mainly due to higher contributions from Australia (+27.2% y/y to AUD497.8mn) with Barangaroo South T1 completion and 5769 residential units completions (including 2533 apartments, of which 90% were settled with a default rate of less than 1%). The construction segment reported EBITDA also came in stronger, lifted by higher contributions from Europe and Americas at AUD137.1mn (FY2016: AUD61.9mn) as EBITDA margin for Europe and Americas improved to 2.4% (FY2016: 1.1%), boosted by successful project close outs. The investments segment reported EBITDA grew 8.2% y/y to AUD495.3mn mainly due to higher contributions from Australia (+12.9% y/y to AUD393.3mn) with solid growth in the retirement living business. Meanwhile, net gearing declined to 5.0% (FY2016: 6.5%) and continues to undershoot its 10%-15% target. Liquidity remains ample with AUD1.2bn cash balance and undrawn debt facilities of AUD2.2bn and reported interest coverage of 10.3x. Going forward, there continues to be earnings visibility anchored by AUD4.8bn presales from development, AUD20.6bn backlog from construction and AUD26.1bn in funds under management. We do not currently cover LLG. (Company, OCBC)

Credit Headlines (Cont'd):

Bank of East Asia Ltd ("BEA"): BEA reported its 1HFY2017 results, with operating profit before impairment losses up 19.5% y/y to HKD3.8bn. This was due to a 4.7% rise in net interest income due to higher net interest margins (1.64% for 1H2017 against 1.59% for 1H2016) and higher average interest bearing assets as well as a 54.3% rise in other income (due to strong growth in net trading profits). At the same time, total expenses fell 7.9% due to lower staff and other costs due to the bank's ongoing focus on digitisation and branch rationalisation as part of BEA's 3 year HKD700mn cost reduction program which is just over half way done. Including impairment losses, overall expenses were down 13.8% due to a 33.7% fall in impairment losses from improved economic conditions as well as the bank's focus on risk management and tightening of its credit process. This translated into BEA's cost-to-income ratio declining to 51.2% for 1H2017 against 59.4% in 1H2016. Segment wise, the strong y/y pick up in performance was driven by Personal Banking in Hong Kong as well as Treasury markets. BEA's China operations continue to drag, with operating profit before impairment losses down 41.2% y/y although this was mitigated by a 34.1% improvement in overseas operations (Macau, Taiwan, US, UK and Singapore). BEA's China performance could have been driven by funding conditions depressing net interest margins ("NIM") y/y while loan balances decreased marginally y/y. H/h trends for BEA's China business were more positive however, considering the first ever loss since establishment was recorded by its China operations in FY2016, with NIMs up h/h to 1.76% for the 6 months to June 2017 from 1.71% for the 6 months to December 2016 and loans growth evident. BEA's balance sheet grew with total assets up 4.2% y/y and 3.0% h/h. This was driven by 4.0% and 2.7% y/y and h/h growth respectively in total gross loans and advances. Total allowances were more or less stable as specific allowances fell 8.7% while general allowances rose 6.1% indicating management's optimistic outlook for the operating environment. Most loans growth occurred in Hong Kong property development, which is not surprising given the buoyant performance of Hong Kong's property market. As mentioned above, loans in Mainland China fell marginally by 0.6% y/y as loans for property investment and to wholesale and retail trade and manufacturing fell while property development loans rose 6.2% y/y. The h/h trends for Mainland China loans were broadly similar, with loans to the property investment, wholesale and retail trade and manufacturing segments falling while loans to property development and others rose 6.2% and 9.7% respectively and translating into a 4.0% rise h/h in loans to Mainland China. Within the broadly positive results, non-performing loans continue to rise albeit appear to be stabilizing, up 25.8% y/y and 2.8% h/h. The sharp rise in non-performing loans (NPLs) y/y reflected deterioration in BEA's Hong Kong exposures and a rise in NPLs in China although the h/h trends appear more palatable with NPL's declining marginally in Hong Kong and growing only 0.8% in China. The market value of collateral held against impaired advances to customers however rose 7.5% h/h translating to a better collateral coverage ratio of 76.5% as at 30 Jun 2017 against 73.1% as at 31 Dec 2016. BEA's NPL ratio also stabilized at 1.49% as at 30 Jun 2017 following the noticeable rise in the previous half (31 Dec 2016: 1.49%; 30 Jun 2016: 1.23%) with slight h/h improvements in NPL ratios in Hong Kong and China mitigated by a higher NPL ratio for BEA's exposures to other countries. With NPL's rising marginally h/h and total allowances more or less stable, the allowance coverage ratio fell h/h to 54.3% as at 30 Jun 2017 from 56.1% as at 31 Dec 2016. On the funding side, deposit growth was marginally lower than loans growth with BEA's loan-to-deposit ratio weakening slightly to 84.3% as at 30 Jun 2017 from 84.1% as at 31 Dec 2016, but nevertheless still indicating a well-funded balance sheet. Owing to the solid earnings performance (supported by asset sale proceeds including Tricor Holdings Limited) as well as issuance of capital instruments (USD500mn Additional Tier 1), BEA's capital position strengthened more than the rise in risk weighted assets, translating to improved capital ratios with BEA's CET1/CAR ratios at 12.3%/17.5% for 1H2017 against 12.1%/17.4% for FY2016. In summary, the 1H2017 results are a contrast to FY2016 results where operating profits were impacted by multiple challenges at both the top line and expense levels due to a challenging operating environment in both Hong Kong and Mainland China which saw net interest income and net fee and commission income down and impairment losses rise 70%. While management's focus on improving the risk profile of its exposures appears to be delivering results, more track record is needed in our view to indicate the improving trend is sustainable. BEA's credit profile continues to be supported by its resilient Hong Kong personal banking segment and solid balance sheet. We maintain BEA's Neutral Issuer Profile. (Company, OCBC)

Credit Headlines (Cont'd):

China Vanke Co Ltd ("VNKRLE"): VNKRLE reported its 1H2017 results. Revenue decreased by 4.5% to RMB67.6bn on the back of lower deliveries versus 1H2016. In 1H2017, VNKRLE completed an area of 6.37mn sqm, accounting for 26% of the completion targeted for 2017. Nonetheless, as sales were made when home prices were more favourable, VNKRLE managed to report higher gross margin of 30% in 1H2017 against 22% in 1H2016, resulting in a 31.5% increase in gross profit to RMB20.6bn. Profit before tax grew by 36% to reach RMB16.6bn on the back of higher gross profit, a RMB547mn increase in non-recurring operating income and a RMB200mn increase in share of profits from associates and joint ventures. The company is still targeting a full year delivery of 25mn sqm. As of 30 June 2017, amount of area sold but not yet recognised was 29.8mn sqm. This represented a contract amount of RMB383.8bn while cash receipts in advanced (a current liability item) was RMB357.9bn. As at 30 June 2017, cash balance at VNKRLE was RMB99.7bn and we maintain that such cash will need to go towards working capital for property development. As at 30 June 2017, gross gearing was relatively constant at 0.9x compared with 31 March 2017. In 1H2017, VNKRLE received RMB167.7bn in cash inflow from operations (largely from home sales) and paid RMB145.8bn in operating outflows, resulting in net cash flow from operations (before interest) of RMB21.9bn. Net investing outflows was RMB11.1bn, lower against the RMB15.5bn recorded in 1H2016. While investing outflows stayed at around RMB20.2bn, more cash was received from prior investments made. In FY2016, VNKRLE had been intensifying investments into joint ventures and associates as a way to increase its landbank at reasonable cost. In end-June 2017, VNKRLE announced the acquisition of certain property assets of Guangdong International Trust & Investment Corporation ("GITIC") for RMB55.1bn. VNKRLE may tie up with potential partner(s) to jointly develop the project. For now though, our base case assumes that the acquisition will be debt-funded (and/or with VNKRLE assuming existing debt on the assets). Furthermore, in July 2017, it was announced that VNKRLE will purchase 21.4%-stake for Global Logistics Properties ("GLP") as part of the winning consortium. This acquisition is in line with VNKRLE's strategy to diversify beyond the residential property market. We assume that VNKRLE would need to fund RMB16.8bn, being 21.4% of RMB78bn (~SGD16bn) of the acquisition price tag. Net-net, we expect VNKRLE's gross gearing to rise to 1.3x. In light of the strong market positioning, we are keeping VNKRLE's issuer profile at Neutral for now. (Company, OCBC)

Sabana Shari'ah Compliant Industrial REIT ("SSREIT"): SSREIT has announced that it will redeem the convertible sukuk on 25 September 2017. As of 25 August 2017, principal amount outstanding on the sukuk was SGD42.75mn. In our view, there is low likelihood for the sukuk to be converted into equity by holders. As at 30 June 2017, the conversion price of the sukuk was SGD0.8389 per unit versus SGD0.475 per unit as at 25 August 2017. As at 30 June 2017, aggregate leverage was 37%. The redemption will be funded via existing revolving credit facilities, which should keep aggregate leverage levels constant. (Company, OCBC)

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