Asian Credit Daily

OCBC Bank

Aug 29, 2017

Credit Headlines (Page 2 onwards): CK Hutchison Holdings Limited, Mapletree Logistics Trust, Ezion Holdings Ltd, United Engineers Ltd/ Oxley Holdings Ltd/ Yanlord Land Group Ltd/ Perennial Real Estate Holdings Ltd, Bank of East Asia Ltd, CIMB Group Holdings Berhad, Landesbank Baden-Württemberg

Market Commentary: The SGD swap curve traded downwards yesterday, with swap rates trading 4-5bps lower across all tenors. Flows in SGD corporates were heavy, with better buying seen in WINGTA 4.35%-PERPs, OLAMSP 5.5%-PERPs, HRAM 3.2%'21s, and mixed interest seen in HSBC 4.7%-PERPs, UOBSP 3.5%-PERPs, SIASP 3.13%'21s. In the broader dollar space, the spread on JACI IG Corporates rose 1bps to 190bps, while the yield on JACI HY Corp fell 2bps to 6.92%. 10y UST yields fell 1bps to 2.16%, after strong demand was seen in the five-year note auction.

New Issues: Keppel Land Limited has priced a SGD150mn 6-year bond at 2.843%. Woodside Finance Ltd has scheduled investor meetings for potential USD bond issuance from 30 Aug. Westpac Banking Corp has hired banks for potential EUR 5.5-year and 10-year issuance. The expected issue ratings are 'AA-/Aa3/NR'. Origin Energy Ltd has scheduled investor meetings for a debt investor update on 31 Aug.

Rating Changes: S&P has downgraded MIE Holdings Corp's (MIE) corporate credit rating to 'SD' from 'CC' following the completion of an exchange offer for its senior unsecured notes due 2018 and 2019. Fitch has assigned the Postal Savings Bank of China (PSBC) an issuer default rating of 'A+'. The outlook is stable. The rating action reflects Fitch's expectation that the central government of China would support the bank in the event of stress.

Table 1: Key Financial Indicators

	29-Aug	1W chg (bps)	1M chg (bps)		29-Aug	1W chg	1M chg
iTraxx Asiax IG	77	-4	-5	Brent Crude Spot ($/bbl)	52.10	0.44%	-0.80%
iTraxx SovX APAC	18	-3	-1	Gold Spot ($/oz)	1,317.22	2.50%	3.76%
iTraxx Japan	42	-2	2	CRB	178.01	0.83%	-2.26%
iTraxx Australia	72	-2	-5	GSCI	376.96	0.12%	-2.50%
CDX NA IG	59	-1	2	VIX	11.32	-14.18%	10.01%
CDX NA HY	107	0	-1	CT10 (bp)	2.133%	-8.03	-15.61
iTraxx Eur Main	56	-2	3	USD Swap Spread 10Y (bp)	-6	0	-2
iTraxx Eur XO	241	-6	7	USD Swap Spread 30Y (bp)	-35	-1	-2
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	-1	-3	Euro Libor-OIS Spread (bp)	3	0	0
					29-Aug	1W chg	1M chg
				AUD/USD	0.793	0.29%	-0.86%
				USD/CHF	0.953	1.63%	1.50%
				EUR/USD	1.197	1.77%	1.08%
				USD/SGD	1.355	0.54%	0.01%
Korea 5Y CDS	63	-1	5	DJIA	21,808	0.48%	-0.10%
China 5Y CDS	58	-6	-7	SPX	2,444	0.65%	-1.13%
Malaysia 5Y CDS	72	-3	-8	MSCI Asiax	660	0.91%	1.15%
Philippines 5Y CDS	63	-4	-8	HSI	27,863	2.61%	3.28%
Indonesia 5Y CDS	103	-5	-9	STI	3,251	-0.39%	-2.39%
Thailand 5Y CDS	54	-3	-7	KLCI	1,765	-0.53%	-0.13%
				JCI	5,903	0.72%	1.24%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
28-Aug-17	Keppel Land Limited	Not Rated	SGD150mn	6-year	2.843%
25-Aug-17	Keppel Telecommunications & Transportation Ltd	Not Rated	SGD100mn	7NC5	2.85%
24-Aug-17	OUE CT Treasury Pte Ltd	Not Rated	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%

Source: OCBC, Bloomberg

OCBC Bank

Credit Headlines:

CK Hutchison Holdings Limited ("CKHH"): On 02/12/2016, Hutchison Telecommunications International Limited ("HTIL"), an indirect wholly owned subsidiary of CKHH had received a draft assessment order from the Indian Tax Authorities ("ITA") on alleged gains in respect of the 2007 acquisition by Vodafone International Holdings BV ("Vodafone") of the entire issued share capital of CGP Investments (Holdings) Limited ("CGP"). CGP was acquired by Vodafone from an indirect wholly-owned subsidiary of HTIL. CGP holds a chain of companies in the telecommunications space (ie: Hutchison Essar). Subsequently on 13/02/2017, HTIL received an assessment order of ~INR79bn (HKD9.6bn) on capital gains in connection with the acquisition plus aggregate interest on CGT of ~INR164.3bn (HKD20bn). On 09/08/2017, a penalty order for a penalty of ~INR79bn (HKD9.6bn) relating to CGT was received by HTIL. Per legal advice obtained by HTIL, the above-mentioned orders of the ITA (issued on the basis of retrospective legislation seeking to overturn the judgment of the Supreme Court of India in January 2012, which ruled that the acquisition was not taxable in India) are in violation of the principles of international law. CKHH continues to believe that the orders would not have any effect on the company's financial condition. While the deal was transacted overseas and both buyer and seller are foreign entities, it concerns Indian-based underlying assets. The case itself has been on-going for the past ten years. Under a worst case scenario, CKHH would need to pay these taxes which may see its net gearing increase to 0.4x per our calculation. Net gearing was 0.3x as at 30 June 2017 and we maintain our Neutral issuer profile on the company. (Company, OCBC)

Mapletree Logistics Trust ("MLT"): MLT has entered into a conditional share purchase agreement with a wholly-owned subsidiary of its Sponsor to acquire Mapletre Logistics Hub Tsing Yi in Hong Kong for HKD4.8bn (~SGD834.8mn). Including acquisition-related expenses, the total acquisition cost is expected to be about HKD4.9bn (SGD847.6mn). The property has a committed occupancy of 100% and is expected to provide an NPI yield of 5.7%. Following the acquisition, Hong Kong will become the second largest income contributor to MLT accounting for 27% of its NPI, up from 17% previously. Funding for the acquisition would be via a combination of equity and debt. As at 30 June 2017, MLT's headline aggregate leverage was 39% and adjusting 50% of perpetuals as debt, we find adjusted aggregate leverage at 44%. MLT has also announced that it will redeem all the MLT 5.375%-PERP (outstanding amount of SGD350mn) on 19 September 2017 via a combination of straight equity and a smaller replacement perpetual. Total assets as at 30 June 2017 was SGD5.7bn and this proposed acquisition represents ~15% of its total assets. We are reviewing MLT's issuer profile. (Company, OCBC)

Ezion Holdings Ltd ("EZI"): EZI held informal stakeholder meetings with bondholders yesterday. EZI explained that the last 18 months net cash generated from operating activities of USD170mn was insufficient to meet financial obligations to lenders (USD256mn), bondholders (USD39mn) and capex (USD82mn). We note that the net cash generated from 1H2017 operating activities was only USD24mn. Separately, EZI disclosed that only 26 out of its fleet of 79 are deployed, of which only 17 are not in arrears, with only 5 out of its fleet of 14 liftboats being utilised. As such, EZI is seeking to refinance the existing loans so that the repayment obligations are more manageable and obtain additional funding (e.g. secure additional credit facilities, raise additional equity). On the operational front, EZI will focus on fuller deployment and improving rates of its liftboats while minimising capex costs. EZI is also targeting to reduce the burn rates of its undeployed vessels. EZI has stated that it is still in discussion with other stakeholders and expects lenders and investors to have requests that will affect key stakeholders. EZI will make further updates when conclusive agreements have been reached. We continue to hold EZI's Issuer Profile at Negative and have withdrawn our bond recommendations on EZI's various bonds as we believe that a restructuring of its bonds could be imminent. We will continue to monitor the situation closely. (Company, OCBC)

Credit Headlines (Cont'd):

United Engineers Ltd ("UE") / Oxley Holdings Ltd ("OHL") / Yanlord Land Group Ltd ("YLG") / Perennial Real Estate Holdings Ltd ("PREH"): OHL further boosted its stake in UE to 12.91%. Based on UE trading at SGD2.71 / share, the market value of OHL's stake is SGD223.0mn. Mr Low See Ching, who is the deputy CEO of OHL with 28.9% stake in OHL, owns another 1.02% stake in UE. Separately, the YLG-led consortium (with PREH) will be extending the mandatory conditional cash offer (SGD2.60 / share) for UE shares to 12 Sep 2017. As a recap, the YLG-led consortium holds a 33.43% stake in UE. As of 28 Aug 2017, the acceptance for the offer represents 1.21% of the total number of UE shares. While UE's share price trades above the offer price, we think it is unlikely to see a significant increase in the acceptance rate for the offer. As mentioned previously (refer to OCBC Asian Credit Daily – 10 Aug 2017), we understand that the YLG-led consortium is not acting in concert with OHL. We do not currently cover UE. (Company, OCBC)

Bank of East Asia Ltd ("BEA"): BEA issued a notice of redemption for its SGD800mn BNKEA 4.25% 22c17 Tier 2 paper to redeem the bond on the call date of 13 Sep 2017. As per BEA's recent results announcement (refer OCBC Asian Credit Daily – 28 Aug 2017), BEA's capital ratios have improved from solid earnings performance (supported by asset sale proceeds including Tricor Holdings Limited) as well as issuance of capital instruments (USD500mn Additional Tier 1). This strengthened BEA's capital position more than the rise in risk weighted assets, with BEA's CET1/CAR ratios at 12.3%/17.5% for 1H2017 against 12.1%/17.4% for FY2016. Our estimate of BEA's minimum transitional CET1 requirement for 2017 is 7.5% including Basel III requirements as well as transitional minimums for the capital conservation buffer, countercyclical buffer and the additional specific capital requirement for domestic systemically important banks applicable to BEA. (Company, OCBC)

CIMB Group Holdings Berhad ("CIMB"): CIMB reported 2Q2017 and 1H2017 results with 2Q2017 total operating income up 10.9% y/y to MYR4.3bn. This was mostly due to 14.1% growth in net interest income (loans growth and improved net interest margin) as well as 24.9% growth in income from Islamic Banking Scheme operations. Net non-interest income was relatively flat y/y. For 1H2017, total operating income was up 13.9% y/y again due to growth in net interest income (+12.5% due to growth in net interest margin to 2.71% for 1H2017 from 2.63% for 1H2016) but also due to 15.8% growth in net non-interest income (higher commissions and fees on loans, advances and financing). Expenses for 2Q2017 and 1H2017 grew 8.2% and 7.8% respectively y/y from higher personnel and establishment costs but owing to the solid operating income growth, CIMB's cost to income ratio for 2Q2017 and 1H2017 both fell y/y, towards its strategic target of 50% under its T18 strategy. In line with previous reporting periods, the operating period appears to be improving with total allowances for 2Q2017 and 1H2017 declining 3.6% and 7.1% y/y respectively although this was influenced by allowances written back for commitments and contingencies. Otherwise, actual allowances made for impairment losses on loans, advances and financing rose 7.2% y/y for 2Q2017. Segment wise (breakdown only for 1H2017), all of CIMB's segments registered growth in operating income with growth coming mainly from Consumer Banking and Wholesale Banking (revenue growth in Commercial Banking was offset by higher provisions). Overall profit before tax for CIMB rose 31.8% with most coming from Wholesale Banking due to better capital markets activity, loans growth and materially lower allowances y/y. Non-Malaysia contribution to overall profit before tax increased to 34% in 1H2017 compared to 25% in 1H2016 due to strong growth in Indonesia, Thailand and Singapore. CIMB's balance sheet registered solid growth y/y but more moderate growth h/h with total assets up 3.1% h/h and total net loans and advances down slightly by 0.3%. This was due to h/h falls in syndicated loans and other loans/financing which offset continued growth in housing loans to individuals. Geographic wise, loans growth occurred exclusively in Malaysia while loans fell in all of CIMB's major markets h/h (Singapore -9.9%, Indonesia -3.4%, Thailand -1.8%). Impaired loans grew 10% y/y as at 30 Jun 2017 but were down 2.7% h/h as amounts reclassified as not impaired and amounts written off were higher than new loans classified as impaired. H/h trends were influenced by lower impaired loans in Indonesia while Thailand loan quality continues to present concerns with NPLs from Thailand up 10% h/h. Due to impaired loans falling more than total net loans and advances, CIMB's non-performing loan ratio improved marginally to 3.21% as at 30 Jun 2017 from 3.29% as at 31 Dec 2016. CIMB's capital ratios remain solid and well above minimum requirements with CIMB's reported CET1/CAR capital ratios at 11.2%/16.4% (FY2016 11.6%/16.2%) with risk weighted assets falling 0.4% and CET1 capital impacted by higher regulatory adjustments. In all, CIMB's solid results reflect improved operating conditions as well as the positive impacts on its T18 strategic initiatives. We maintain our Neutral Issuer Profile on CIMB. (Company, OCBC)

Credit Headlines (Cont'd):

Landesbank Baden-Württemberg ("LBBW"): LBBW reported its 1H2017 results with net interest income down 2.1% y/y due to continuing low interest rates and Germany's competitive banking sector. This was offset to an extent by a 3.9% rise in net fee and commission income as well as 42.8% higher other operating income (including net gains/losses from financial instruments measured at fair value through profit or loss and net gains/losses from financial investments and net income/expenses from investments accounted for using the equity method). This drove the better total operating income performance before allowances for losses on loans and advances which improved 6.2% y/y to EUR1.35bn. Loan quality continues to present some challenges with allowances up by EUR39mn y/y to EUR40mn. Overall expenses rose 1.9% and this was driven by elevated restructuring expenses and IT modernization/digitization. Elsewhere administrative expense growth was 1.7% y/y while guarantee commission for the State of Baden-Württemberg and expenses for bank levy and deposit guarantee continued to fall. Segment wise, the Corporates segment continues to generate the bulk of profit before tax (63.5%) and was 14% lower y/y as higher loan and deposit volumes was offset by higher allowances for losses and higher expenses for IT transformation. These expenses also impacted LBBW's Retail/Savings bank which generated a loss of EUR15mn for 1H2017 while LBBW's capital markets business was the most improved with profit before tax of EUR184mn up from EUR30mn in 1H2016 due to stronger capital markets and treasury activities. LBBW's balance sheet grew with total assets up 4.7% in the 6 months to 30 Jun 2017 however risk weighted assets were down 1.9%. This, along with issuance of AUD and SGD capital instruments, contributed to an improvement in LBBW's fully loaded CET1/CAR capital ratios at 15.8%/22.6% as at 30 Jun 2017 compared to 15.2%/21.5% as at 31 Dec 2016. We are continuing to review the numbers and will update our Neutral Issuer Profile if necessary. (OCBC, Company)

Andrew Wong
Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6530 4736
wongVKAM@ocbc.com

Nick Wong Liang Mian, CFA
Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6530 7348
NickWong@ocbc.com

Ezien Hoo, CFA
Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6722 2215
EzienHoo@ocbc.com

Wong Hong Wei
Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6722 2533
WongHongWei@ocbc.com