Asian Credit Daily

March 29, 2017

Credit Headlines (Page 2 onwards): Central China Real Estate Ltd, Bank of Communications Co. Ltd.

Market Commentary: The SGD swap curve traded upwards yesterday, with swap rates trading 1-3bps higher across all tenors. Flows in SGD corporates were heavy, with better selling seen in ABNANV 4.7%'22s, and mixed interest in UOBSP 3.5%'29s, FCLSP 4.15%'27s, FCLSP 4.25%'26s, GUOLSP 3.62%'21s, BNP 3.65%'24s. In the broader dollar space, the spread on JACI IG corporates held steady at 196bps while the yield on JACI HY fell 1bps to 6.63%. 10y UST yields rose 4bps to 2.42%, after U.S Federal Reserve Vice Chairman Stanley Fischer said on CNBC that he agreed with the median estimate of two more interest-rate increases this year.

New Issues: Yango (Cayman) Investment Ltd. priced a USD300mn 3Put2 bond (guaranteed by Fujian Yango Group Co.) at 6.85%, tightening from initial guidance of 7.25%. Korea Resources Corp hired banks for a potential USD bond issuance.

Rating Changes: S&P upgraded PT Japfa Comfeed Indonesia Tbk's (Japfa) corporate credit rating and issue rating on the guaranteed senior unsecured debt to 'BB-' from 'B+'. The rating outlook is stable. In addition, S&P affirmed Japfa's foreign currency corporate credit rating for the new USD bonds. The rating action reflects Japfa's lengthened debt maturity profile and reduced refinancing risk following its recent fund-raising transaction. Fitch also assigned Japfa's senior unsecured notes a final rating of 'BB-'.

Table 1: Key Financial Indicators

	29-Mar	1W chg (bps)	1M chg (bps)		29-Mar	1W chg	1M chg
iTraxx Asiax IG	96	-2	-1	Brent Crude Spot ($/bbl)	51.53	1.76%	-7.30%
iTraxx SovX APAC	21	0	-5	Gold Spot ($/oz)	1,248.86	0.00%	0.03%
iTraxx Japan	45	-1	-7	CRB	184.08	-0.11%	-3.43%
iTraxx Australia	86	-4	2	GSCI	380.04	0.48%	-5.51%
CDX NA IG	67	-2	5	VIX	11.53	-7.54%	-10.76%
CDX NA HY	107	0	-1	CT10 (bp)	2.420%	1.46	2.97
iTraxx Eur Main	74	-3	1	USD Swap Spread 10Y (bp)	-3	1	-1
iTraxx Eur XO	291	-8	-1	USD Swap Spread 30Y (bp)	-38	1	-1
iTraxx Eur Snr Fin	87	-5	-5	TED Spread (bp)	37	-3	-7
iTraxx Sovx WE	11	-1	-10	US Libor-OIS Spread (bp)	23	-1	-2
iTraxx Sovx CEEMEA	52	4	-13	Euro Libor-OIS Spread (bp)	2	1	0
					29-Mar	**1W chg**	**1M chg**
				AUD/USD	0.764	-0.46%	-0.18%
				USD/CHF	0.992	-0.08%	1.37%
				EUR/USD	1.082	0.18%	2.27%
				USD/SGD	1.398	0.02%	0.39%
Korea 5Y CDS	50	-2	5	DJIA	20,702	0.16%	-0.53%
China 5Y CDS	84	-3	-8	SPX	2,359	0.62%	-0.21%
Malaysia 5Y CDS	107	-2	-3	MSCI Asiax	586	0.52%	3.86%
Philippines 5Y CDS	83	-3	-2	HSI	24,388	0.28%	2.73%
Indonesia 5Y CDS	129	-3	-1	STI	3,175	1.81%	2.52%
Thailand 5Y CDS	54	-2	-1	KLCI	1,751	0.18%	3.40%
				JCI	5,580	0.66%	3.58%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
28-Mar-17	Yango (Cayman) Investment Ltd.	Not Rated	USD300mn	3Put2	6.85%
27-Mar-17	Huantaihu International Investment Co. Ltd.	Not Rated	USD150mn	3-year	5.75%
27-Mar-17	KEB Hana Bank	"A+/A1/NR"	USD500mn	3-year	3mL+72.5bps
24-Mar-17	FCT MTN Pte. Ltd.	"BBB+/NR/NR"	SGD90mn	3-year	2.365%
24-Mar-17	China Evergrande Group	"NR/B3/B-"	USD1bn	7NC4	9.5%
23-Mar-17	PT Japfa Comfeed Indonesia Tbk	"BB-/NR/BB-"	USD150mn	5NC3	5.625%
23-Mar-17	Emperor International Holdings Ltd.	Not Rated	USD200mn	5-year	5%
22-Mar-17	The Republic of Indonesia	"NR/Baa3/BBB-"	USD2bn	5-year	3.40%
22-Mar-17	The Republic of Indonesia	"NR/Baa3/BBB-"	USD1bn	10-year	4.15%

Source: OCBC, Bloomberg

Rating Changes (cont'd): S&P took various rating actions on four German banks in relation to a retroactive change in German law which improves the loss absorbing capacity buffers for the bank and its senior creditors. The rating actions include: (1) Raising the long-term rating on Commerzbank AG to 'A-' from 'BBB+' with a negative outlook as well as raising to 'A-' from 'BBB+' the issue ratings on numerous senior unsecured issues and lowering the ratings to 'BBB' from 'BBB+' on issues reclassified as senior subordinated; (2) Raised the long-term rating on Deutsche Bank AG to 'A-' from 'BBB+' with a negative outlook as well as raising to 'A-' from 'BBB+' the issue ratings on several senior unsecured issues, and lowering the ratings to 'BBB-' from 'BBB+' on numerous other issues reclassified as senior subordinated; (3) Raising the long-term rating on Deutsche Pfandbriefbank AG (PBB) to 'A-' from 'BBB' with a negative outlook as well as raising to 'A-' from 'BBB' the issue ratings on several senior unsecured issues and lowering ratings to 'BBB-' from 'BBB' on other issues reclassified as senior subordinated; and (4) affirming the 'BBB' long-term ratings on UniCredit Bank AG with a developing outlook as well as affirming the 'BBB' issue ratings on some of UniCredit Bank's senior unsecured issues and lowering the ratings to 'BBB-' on numerous other issues reclassified as senior subordinated. Moody's affirmed Toshiba Corporation's 'Caa1' corporate family rating, senior unsecured debt rating, and 'Ca' subordinated debt rating. The rating outlook is negative. The rating confirmation reflects Toshiba's very poor capital structure and significant risks regarding potential cash outflows associated with the restructuring of its overseas nuclear power business, which could materially pressure the company's financial profile and liquidity. Moody's affirmed Quintis Limited's (Quintis) corporate family and senior secured debt rating at 'B2'. In addition, Moody's revised Quintis' rating outlook to negative from stable. The rating action reflects the uncertainty in the strategic direction of the company, given the resignation of the Managing Director, who was also a founder of the company. Fitch downgraded China-based Red Star Macalline Group Corporation Ltd.'s (RSM) foreign-currency issuer default rating (IDR) and senior unsecured rating, to 'BBB' from 'BBB+'. The outlook for the IDR is stable. The rating action reflects Fitch's expectation that the mall operator's leverage will increase in 2017 instead of decreasing as previously expected. According to Fitch, the sustained increase in its leverage, as measured by net debt/recurring EBITDA, to above 4.0x,is likely to result from its slower-than-expected recurring EBITDA growth and higher capex and dividends payout. Fitch assigned United Overseas Bank Limited's (UOB) AUD300mn senior unsecured notes a rating of 'AA-'. The notes are rated at the same level as UOB's 'AA-' Long-Term Issuer Default Rating (IDR), as they constitute direct, unsecured and unsubordinated obligations of the bank, and will rank equally with all its other unsecured, unsubordinated obligations.

Credit Headlines:

Central China Real Estate Ltd ("CENCHI"): CENCHI (as borrower) and certain subsidiaries (as original guarantors) has entered into a USD150mn 42-months term loan facility. As part of the term loan agreement, CENCHI has undertaken to procure that Mr. Wu Po Sum, the controlling shareholder of CENCHI, shall at all times (1) directly/indirectly own at least 40% voting share capital or has power to direct the policies and management of the company, (2) be the single largest beneficial shareholder of the company and (3) be the Chairman of the board of directors. CENCHI would also procure that CapitaLand Limited ("CapitaLand") maintains not less than a 20% beneficial shareholding interest in the company. Failure to comply constitutes as an event of default ("EoD"). Mr. Wu and CapitaLand currently owns ~47% and ~27% respectively in CENCHI. We see this fundraising exercise as a credit positive. While there is no outright Change of Control clause in the SGD bond (CENCHI 6.5% '17s) in relation to CapitaLand, a cross-default clause exists. An EoD on this USD150mn term loan is likely to cause an acceleration on the SGD bond, unless cured/waived. In our view, this means that any change in major shareholders beyond the percentage stipulated would likely need to be put through a bondholder's vote. Furthermore, the term loan CoC signals on-going commitment by both Mr. Wu and CapitaLand to maintain their shareholding in the company. It also decreases the likelihood of CENCHI being a takeover target (especially useful if acquirer is detrimental to bondholder interest). We maintain our Negative issuer profile on CENCHI on the back of CENCHI's weakened credit profile. (OCBC, Company)

Credit Headlines (cont'd):

Bank of Communications Co. Ltd. ("BoCom"): BoCom reported its FY2016 results with net profit up 1% y/y to RMB67.6bn as volume growth and other income mitigated margin compression. Within the earnings, net interest income fell 6.5% y/y as net interest margins fell 34bps to 1.88% for FY2016 due to interest rates on BoCom's interest earning assets from ongoing industry and regulatory pressures falling more than the fall in interest rates on BoCom's liabilities. This was somewhat mitigated by a 10.2% rise in loans and advances to customers. Net fee and commission income was up 5% y/y due to strong growth in management and agency services while other income also grew strongly by 45.8% y/y due to better performance in BoCom's insurance business and other income. All told, this translated to stable operating income performance for BoCom in FY2016 (RMB194.1bn vs RMB194.6bn in FY2015) with net interest income contribution to total operating income falling to 69.5% from 74.1% in FY2015. Segment wise, corporate banking operating income was more or less flat while personal banking operating income grew 14.3%. This mitigated weaker operating income performance in treasury business. Expenses rose 4%, which translated to the cost to income ratio rising to 31.8% for FY2016 (FY2015: 30.5%). However, the efficiency ratios for BoCom (and other Chinese banks) continue to be better than non-Chinese peers. Impairment losses on loans and advances rose for the year, up 4.9% in total with specific impairments rising 29.2% and general allowances falling 24%. This did not keep pace with the growth in impaired loans which rose 11% (driven by a 67% rise in loans classified as loss) and as a result the provision coverage ratio for impaired loans fell to 150.5% from 155.6%. As mentioned, loans and advances grew 10.2% and at a somewhat similar pace to growth in impaired loans, translating to only a minor increase in the impaired loans ratio to 1.52% (FY2015: 1.51%). Loans growth was pronounced in personal loans (+23.1% y/y) and in particular mortgages while corporate loans also grew (+6.9%) and this marginally improved the contribution of personal loans to total loans for BoCom to 26% in FY2016 (FY2015: +24%). The composition of corporate loans also continues to evolve in line with management's strategy to reduce exposure to higher risk loans with loans to the manufacturing and wholesale and retail segments falling y/y. That said, the manufacturing segment continues to contribute the highest segment exposure to corporate loans, accounting for 58% of total corporate loans together with loans to transportation, storage and postal service, wholesale and retail and services businesses. Of note was the y/y falls in loans to real estate and construction sectors. Despite the solid loans growth, capital ratios were stable to slightly improved with BoCom's CET1/CAR ratios for 2016 at 11.0%/14.0% against 11.1/14.0% as net capital growth of 15.3% was higher than the 10.9% growth in risk weighted assets. In all, the results continue to be on trend with strategic initiatives such as improving contributions from overseas businesses and personal banking bearing through in the results. We remain mindful, however, of challenges to future balance sheet growth given the potential downward pressure on mortgage lending from property cooling measures. With net interest margins likely to remain under pressure, earnings and capital ratio performance could be depressed. That said, capital ratios are expected to remain well above minimum requirements and we maintain our neutral issuer profile on BoCom. (Company, OCBC)

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