Asian Credit Daily

April 3, 2017

Credit Headlines (Page 2 onwards): Industry Outlook – Hong Kong Residential Property, Industry Outlook – Singapore Residential Property, AIMS AMP Capital Industrial Trust, Sembcorp Industries Ltd, Ezion Holdings Ltd, Bank of China Ltd

Market Commentary: The SGD swap curve traded upwards last Friday, with swap rates trading 2-5bps higher across all tenors. Flows in SGD corporates were heavy, with better buying seen in BNP 3.65%'24s and mixed interest in FCLSP 4.15%'27s, UOBSP 3.5%'29s. In the broader dollar space, the spread on JACI IG corporates fell 2bps to 193bps while the yield on JACI HY fell 3bps to 6.59%. 10y UST yields fell 3bps to 2.39% last Friday, after US Federal Reserve's William Dudley said "a couple" more interest-rate increases this year "seems reasonable" and that there's no "great urgency" to tighten monetary policy.

New Issues: Kookmin Bank scheduled an investor roadshow from 5 April for potential USD covered bond issuance. The expected issue ratings are 'NR/ Aaa/AAA'. Damac Properties Dubai Co. PJSC scheduled investor roadshow from 4 April for potential USD 5-year Sukuk issuance.

Rating Changes: S&P placed China-based Guotai Junan Securities Co. Ltd.'s (GTJA) and its subsidiary Guotai Junan International Holdings Ltd.'s (GTJAI) 'BBB' issuer credit rating on CreditWatch with positive implications. The rating actions reflect S&P's estimate that new equity issuance will boost GTJA's risk-adjusted capital (RAC) ratio before adjustments by around 3 percentage points, other things being equal, in addition to its good financial performance and modest asset growth in 2016. S&P affirmed Quintis Ltd.'s (Quintis) 'B+' corporate credit rating and 'B+' issue rating on the company's senior secured notes. In addition, S&P revised the rating outlook on Quintis Ltd. to negative from stable. The rating action reflects the potential impact of the recent resignation of Quintis' CEO and possible delays in the sale of Indian sandalwood, which could undermine plantation investor confidence and affect the ability of the company to manage its working capital commitment in a seasonal business where the majority of cash flows are realized during the second half of the year.

Table 1: Key Financial Indicators

	3-Apr	1W chg (bps)	1M chg (bps)		3-Apr	1W chg	1M chg
iTraxx Asiax IG	95	-2	0	Brent Crude Spot ($/bbl)	53.45	5.32%	-4.38%
iTraxx SovX APAC	21	0	-5	Gold Spot ($/oz)	1,248.15	-0.53%	1.08%
iTraxx Japan	44	-1	-8	CRB	185.88	1.32%	-2.02%
iTraxx Australia	84	-4	1	GSCI	388.22	3.06%	-2.59%
CDX NA IG	66	-2	6	VIX	12.37	-4.55%	12.86%
CDX NA HY	107	1	-1	CT10 (bp)	2.395%	1.64	-8.34
iTraxx Eur Main	74	-1	4	USD Swap Spread 10Y (bp)	-1	2	2
iTraxx Eur XO	290	-4	16	USD Swap Spread 30Y (bp)	-36	3	2
iTraxx Eur Snr Fin	89	0	3	TED Spread (bp)	40	0	-5
iTraxx Sovx WE	12	1	-9	US Libor-OIS Spread (bp)	22	-2	-3
iTraxx Sovx CEEMEA	52	2	-13	Euro Libor-OIS Spread (bp)	2	0	0
					3-Apr	1W chg	1M chg
				AUD/USD	0.761	-0.07%	0.22%
				USD/CHF	1.001	-1.57%	0.66%
				EUR/USD	1.068	-1.70%	0.54%
				USD/SGD	1.396	-0.19%	1.05%
Korea 5Y CDS	51	0	5	DJIA	20,663	0.32%	-1.63%
China 5Y CDS	82	-2	-7	SPX	2,363	0.80%	-0.86%
Malaysia 5Y CDS	108	-1	-1	MSCI Asiax	582	-0.17%	4.06%
Philippines 5Y CDS	82	-3	-2	HSI	24,221	0.11%	2.84%
Indonesia 5Y CDS	128	-2	1	STI	3,184	1.82%	1.97%
Thailand 5Y CDS	52	-3	-3	KLCI	1,741	-0.21%	1.93%
				JCI	5,609	0.75%	4.03%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
30-Mar-17	Keppel REIT MTN Pte. Ltd.	Not Rated	SGD75mn	7-year	3.275%
30-Mar-17	Frasers Centrepoint Ltd. (re-tap)	Not Rated	SGD75mn	10-year	4.15%
30-Mar-17	CK Hutchison International (17) Ltd.	"A-/A3/A-"	USD1bn	5-year	CT5+95bps
30-Mar-17	CK Hutchison International (17) Ltd.	"A-/A3/A-"	USD800mn	3-year	CT10+115bps
30-Mar-17	Indonesia Eximbank	"NR/Baa3/BBB-"	USD500mn	7-uear	3.9%
30-Mar-17	Hesteel Hong Kong Co.	Not Rated	USD500mn	10NC5	5%
30-Mar-17	Blue Skyview Company Ltd.	Not Rated	USD315mn	Perp NC3.5	7.12%
30-Mar-17	Fullerton Health Corporation Ltd	Not Rated	USD175mn	Perp NC3	7%
30-Mar-17	Tewoo Group Finance No 3 Ltd.	"NR/NR/BBB-"	USD300mn	3-year	CT3+335bps

Source: OCBC, Bloomberg

Rating Changes (cont'd): Moody's downgraded Chiyu Banking Corporation Ltd.'s (Chiyu Bank) standalone baseline credit assessment (BCA) to 'Baa1' from 'A3' and adjusted BCA to 'Baa1' from 'A2'. The ratings outlook is stable. The rating action follows the joint announcement by Bank of China Limited and BOC Hong Kong (Holdings) Limited in relation to the completion of the disposal of their 70.49% interest in Chiyu Bank. The rating actions reflects 1) ongoing pressure on the bank's standalone credit assessment, in view of rising asset risk 2) Moody's expectation that the transaction will lead to changes in the bank's risk profile as it expands in Mainland China; 3) the uncertainties related to the bank's transformation of its business model and the execution risks in the integration process; as well as 4) the change in support uplift incorporated in the ratings, given the change in ownership. Moody's revised the outlook on China Vanke Co. Ltd.'s (China Vanke) 'Baa1' issuer rating and 'Baa2' senior unsecured rating on the bonds issued by Vanke Real Estate (Hong Kong) Co. Ltd. (wholly owned subsidiary of China Vanke) and Bestgain Real Estate Limited. In addition, Moody's has affirmed the above ratings. The rating action reflects Moody's expectation that China Vanke's existing management team, business strategy and financial policy will likely continue in the next 12 to 18 months despite possible changes to the board of directors under the latest shareholder composition. Moody's affirmed Jingrui Holdings Limited's (Jingrui) 'B3' corporate family rating and 'Caa1' senior unsecured debt rating. In addition, Moody's revised the ratings outlook of Jingrui to stable from negative. The rating action reflects Moody's expectation that Jingrui's improved sales execution for property in higher-tier cities in China can be sustained, and will improve the company's credit metrics. Moody's affirmed Li & Fung Limited's (Li & Fung) 'Baa1' issuer rating, provisional '(P)Baa1' senior unsecured MTN rating, 'Baa1' senior unsecured ratings on its bonds, and the 'Baa3' rating on its subordinated perpetual capital securities. The ratings outlook is changed to negative from stable. The rating action reflects Moody's concern that Li & Fung's levels of revenues and profits will continue to decline over the next 12 to 18 months, given the ongoing structural change among its core customer base of department stores and apparel retailers whose profit margins and market share are being pressured by online competitors. Moody's withdrew all ratings of Citibank Japan Limited, which includes the 'Baa2' Baseline Credit Assessment and 'Baa2' Adjusted Baseline Credit Assessment ratings. Moody's withdrew Hua Han Health Industry Holdings Limited's (Hua Han) 'Caa1' corporate family and senior unsecured ratings with a negative outlook. Moody's withdrew the ratings because it believes it has insufficient or otherwise inadequate information to support the maintenance of the ratings. Hua Han has not released its annual results for the fiscal year ended 30 June 2016.

Credit Headlines:

Industry Outlook – Hong Kong Residential Property: According to Hong Kong's Rating and Valuation Department, private domestic prices rose by 1.1% m/m in February, which represents the 11th consecutive month of increase, bringing the total y/y increase to 14.3%. Thus far, property prices have defied the government's attempts at cooling the market, which includes raising the stamp duty for second-home buyers to 15%. We think this is in part due to the bypassing of the government's regulations, as developers have offered home loans of up to 95% of a flat's value according to South China Morning Post. We note that while the HKMA have raised concerns over increasing risk in the local property financing sector, HKMA's purview only extends to banks (which in turn lends to property developers). Meanwhile, Li Ka-Shing, Chairman/Founder of Cheung Kong Property Holdings Ltd, has been quoted by Bloomberg that he "cannot see how property prices would fall in the coming one to two years" as the "force from buyers is very strong". According to Justin Chiu, executive director of Cheung Kong Property Holdings, the primary market has seen stronger demand as developers can adjust prices while "nobody can get financing in the secondary market". Carrie Lam, who is Hong Kong's newly-selected leader, is reportedly determined to solve the housing affordability issue through increasing supply, though she will only take office in July. While she currently views that Hong Kong's property tightening measures thus far has been inadequate in suppressing prices, with negative side effects, we do not rule out the potential for further tightening moves from the government. Thus far, in-line with the buoyant primary market, the Hong Kong developers under our coverage have reported good sales with a strengthening balance sheet. (Rating and Valuation Department, Bloomberg, Reuters, South China Morning Post, OCBC)

Credit Headlines (cont'd):

Industry Outlook – Singapore Residential Property: According to the URA 1Q2017 flash estimates, private residential property prices declined 0.5% q/q, which represents the 14th consecutive quarter of decline with a cumulative 11.7% fall in prices since its peak it 3Q2013. While the pace of decline in 1Q2017 for the overall market is consistent with the previous quarter, the performance of the individual market appears to be diverging. Prices of non-landed residential properties appeared to have stabilised after posting declines in the previous quarter, while prices of landed residential properties fell 2.8% compared to a 0.8% increase in the previous quarter. (URA, OCBC)

AIMS AMP Capital Industrial Trust ("AAREIT"): (1) The board of directors of AAREIT's REIT Manager has announced that Mr Tan Kai Seng will retire and step down from his position as Non-Executive Lead Independent Director and Chairman of the Audit, Risk and Compliance Committee ("ARCC"). Mr Tan has served AAREIT for more than 10 years. Per the company, Mr Tan's retirement is part of the REIT Manager's regular board review process to ensure board independence and governance (2) Mr Norman Ip Ka Cheung (currently a Non-Executive Independent Director) will be re-designated as the Non-Executive Lead Independent Director and Chairman of the ARCC. As part of the re-designation, Mr Ip will step down as Chairman of the Nominating and Remuneration Committee ("NRC"). (3) Mr Eugene Paul Lai Chin Look (a current Non-Executive Independent Director), will fill the position as Chairman of the NRC (4) A new Non-Executive Independent Director, Mr Heng Peter Michael will be appointed. Mr Heng will also be appointed as a member of the ARCC. (Company, OCBC)

Sembcorp Industries Ltd ("SCI") / Keppel Corp Ltd ("KEP"): Earlier on 24 May 2016 and 2 June 2016, Sembcorp Marine Ltd ("SMM") and its subsidiary, Jurong Shipyard Pte Ltd ("JSPL") had been named as defendants along with KEP and Keppel O&M and other shipyards and entities in a suit filed by EIG Management (an investment manager) against Petrobras with respect to their investments in Sete Brasil Participacoes SA ("Sete Brasil"). SMM is a 61%-owned subsidiary of SCI. Both SMM and KEP have announced that the United States District Court for the District of Columbia has ruled in favour of SMM and JSPL as well as KEP and Keppel O&M and accordingly, dismissed the claims against them. We hold SCI's and KEP's issuer profile at Neutral. (Company, OCBC)

Ezion Holdings Ltd ("EZI"): Following the acquisition of 50% remaining equity stakes in Strategic Offshore Ltd ("SOL") and Strategic Excellence Ltd ("SEL") on 28 Mar 2017 (refer OCBC Asian Credit Daily - 28 Mar 2017), EZI will be divesting 50% of its interests in the wholly-owned subsidiaries SOL, SEL as well as Teras Cargo Logistics Ltd ("TCL") to a Malaysia business partner in the offshore and marine sector. The sales consideration will be USD70mn, which is in-line with the estimated carrying value (approx. USD70mn) of the 50% equity stakes in these entities, subject to an adjustment of up to 120%. According to EZI's 2012 Annual Report, TCL's principal activities include "ship owner, provision of ship chartering services and cargo transportation". (Company, OCBC)

Credit Headlines (cont'd):

Bank of China Ltd ("BOC"): BOC reported its FY2016 results with operating income up 2.5% y/y to RMB485.6bn as industry pressures were somewhat amplified in 2016. Net interest income was weaker (-6.9% y/y) due to sharper net interest margin (NIM) compression which fell by 29bps to 1.83% in FY2016 against 2.12% in FY2015 (compared to a 13bps y/y fall in NIMs in FY2015) as average interest rates on interest earning assets fell more than the average interest rates on interest bearing liabilities. That said, a 23.6% rise in other income mitigated the fall in net interest income and translated to non-interest income contributing 37% to total operating income in FY2016 (30.6% in FY2015). The fall in net interest income also contributed to a fall in contribution from the Chinese Mainland to overall operating income and a 38.3% rise in operating income contribution from Hong Kong and a 7.3% rise in contributions from other countries in line with BOC's internationalization strategy. Segment wise, personal banking continues to drive improved operating income performance up 11% y/y while corporate banking grew 2.4% and treasury operations fell 41% y/y. Expenses continue to be contained with BOC's cost to income ratio improving slightly to 28.1% against 28.3% in FY2015 due to lower taxes and surcharges. Higher industry pressures were also evident in the 50.3% y/y rise in impairment losses to RMB89bn although this is largely a defensive action against possible asset deterioration in FY2017 as management indicated a more proactive and forward-looking approach to risk management with practically all of the total impairment losses coming from a rise in collectively-assessed impairment losses. As such, the loan impairment losses coverage ratio for non-performing loans (NPLs) improved to 162.8% in FY2016 against 153.3% in FY2015 although the higher impairment losses resulted in BOC's profit before tax declining 4% y/y, its first profit decline in more than 10 years. NPLs rose 11.5% y/y mostly due to a 56.5% rise in loans classified as loss. However, we note the 35.5% y/y rise in loans classified a special mention and this likely drove the higher impairment losses for FY2016 and management's concern for the operating environment in FY2017. Total gross loans growth was solid at 9.2% such that the NPL ratio rose slightly y/y by 3bps to 1.46% and this largely drove the 7.9% rise in total assets in FY2016. Despite the rises in total assets and gross loans, BOC's capital ratios improved y/y with the CET1/CAR ratios rising to 11.4%/14.3% in FY2016 (FY2015: 11.1%/14.1%) as growth in total capital was higher than growth in risk weighted assets largely due to a rise in undistributed profits. In summary, industry pressures continue for BOC but earnings remain resilient and have supported BOC's credit profile through improved capital ratios. Management is seeking to prepare for a challenging 2017 by increasing its loss absorbing buffers and we think this will continue to support BOC's credit profile at current levels. We maintain our Neutral issuer profile rating for now as we continue to look through the results. (Company, OCBC)

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