Asian Credit Daily

Aug 3, 2017

Credit Headlines (Page 2 onwards): StarHub Ltd, CapitaLand Ltd, BreadTalk Group Ltd, Commerzbank AG, Société Générale SA, Genting Singapore PLC

Market Commentary: The SGD swap curve traded little changed yesterday, with the biggest change seen in the 1-year swap rates, which rose 1bps. Flows in SGD corporates were heavy, with better buying seen in WINGTA 4.08%-PERPs, BAERVX 5.9%-PERPs, OLAMSP 5.5%-PERPs, HSBC 4.7%-PERPs, better selling seen in GRCHAR 6%'17s, and mixed interest seen in BAERVX 5.75%-PERPs, RHTSP 4.5%'18. In the broader dollar space, the spread on JACI IG Corporates rose 1bps to 188bps, while the yield on JACI HY Corp fell 2bps to 7.01%. 10y UST yields rose 2bps to 2.27%, after minutes released by the Treasury Borrowing Advisory Committee did not mention any potential for ultra-long bond issuance.

New Issues: HSBC Institutional Trust Services (Singapore) Ltd, in its capacity as the trustee of Ascendas REIT, has priced a SGD200mn 6-year bond at 2.47%, unchanged from initial guidance. The expected issue ratings are 'NR/A3/A3'. Sunac China Holdings Ltd has priced a two tranche deal (guaranteed by its restricted subsidiaries outside of the PRC), with the USD400mn 3-year bond priced at 7.25%, tightening from initial guidance in the 7.5% area; and the USD600mn 5NC3 bond priced at 8.2%, tightening from initial guidance in the 8.5% area. The expected issue ratings are 'B/B3/BB-'.

Rating Changes: Moody's has affirmed COFCO (Hong Kong) Limited's (COFCO HK) 'A3' issuer and senior unsecured ratings, while revising the outlook on the ratings to stable from negative. The rating action reflects COFCO HK's improved leverage and Moody's expectation that COFCO HK's focus on efficiency and profitability, and implementation of state-owned enterprise reforms, will allow the company to sustain its net debt/EBITDA ratio.

Table 1: Key Financial Indicators

	3-Aug	1W chg (bps)	1M chg (bps)		3-Aug	1W chg	1M chg
iTraxx Asiax IG	80	-2	-7	Brent Crude Spot ($/bbl)	52.25	1.48%	5.17%
iTraxx SovX APAC	19	-1	-2	Gold Spot ($/oz)	1,262.16	0.24%	3.44%
iTraxx Japan	41	1	1	CRB	181.98	1.41%	3.31%
iTraxx Australia	75	-1	-8	GSCI	385.77	0.48%	2.13%
CDX NA IG	56	-1	-4	VIX	10.28	7.08%	-8.38%
CDX NA HY	108	0	1	CT10 (bp)	2.257%	-5.36	-9.32
iTraxx Eur Main	52	1	-3	USD Swap Spread 10Y (bp)	-4	0	-1
iTraxx Eur XO	234	4	-10	USD Swap Spread 30Y (bp)	-33	1	-3
iTraxx Eur Snr Fin	50	0	-2	TED Spread (bp)	25	4	-4
iTraxx Sovx WE	5	1	-1	US Libor-OIS Spread (bp)	15	0	1
iTraxx Sovx CEEMEA	43	-6	-12	Euro Libor-OIS Spread (bp)	3	0	0
					3-Aug	1W chg	1M chg
				AUD/USD	0.793	-0.41%	3.56%
				USD/CHF	0.971	-0.61%	-0.74%
				EUR/USD	1.185	1.45%	4.24%
				USD/SGD	1.361	-0.09%	1.62%
Korea 5Y CDS	58	2	4	DJIA	22,016	1.41%	2.50%
China 5Y CDS	62	-1	-7	SPX	2,478	-0.01%	2.00%
Malaysia 5Y CDS	79	-1	-6	MSCI Asiax	659	0.19%	5.14%
Philippines 5Y CDS	69	-2	-8	HIS	27,537	1.49%	6.80%
Indonesia 5Y CDS	110	-1	-8	STI	3,338	-0.51%	3.55%
Thailand 5Y CDS	60	-1	-1	KLCI	1,770	0.02%	0.10%
				JCI	5,803	-0.29%	-1.82%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
2-Aug-17	Ascendas REIT	'NR/A3/A3'	SGD200mn	6-year	2.47%
2-Aug-17	Sunac China Holdings Ltd	'B/B3/BB-'	USD400mn	3-year	7.25%
1-Aug-17	Sunac China Holdings Ltd	'B/B3/BB-'	USD600mn	5NC3	8.2%
1-Aug-17	New Metro Global Ltd	'NR/Ba3/BB-'	USD200mn	5NC3	5.25%
1-Aug-17	China Logistics Property Holdings Co	'NR/B3/B'	USD100mn	3-year	8%
1-Aug-17	Axis Bank Ltd	'BBB-/Baa3/BBB-'	USD500mn	5-year	CT5+130bps
31-Jul-17	KT Corporation	'A-/A3/A-'	USD400mn	5-year	CT5+92.5bps
31-Jul-17	Olam International Limited (re-tap)	Not Rated	SGD50mn	OLAMSP 5.5%-Perp	100.25

Source: OCBC, Bloomberg

Rating Changes (Cont'd): Moody's has placed Lloyds Bank Plc's (Lloyds) 'A1' deposit and senior unsecured debt ratings, as well as its 'Baa1' baseline credit assessment on review for upgrade. The rating action follows Moody's action to affirm the rating of eight UK banks and building societies, as Moody's believes that the banks and building societies are now generally better positioned for a modest worsening in the UK operating environment. Moody's states that the rating action on Lloyds reflects Lloyds' improved asset risk and profitability, as well as its stable capital position despite expectations of a more challenging operating environment ahead.

Credit Headlines:

StarHub Ltd ("STH"): STH reported 2Q17 results. Revenue declined 1.1% y/y to SGD579.1mn while net profit and EBITDA declined 21% and 6.1% y/y to SGD85.7mn and SGD180.3mn respectively. The revenue in its major segments of mobile (-0.9% y/y to SGD302.7mn), pay TV (-7.9% y/y to SGD87.9mn) and broadband (-1.6% y/y to SGD52.8mn) have weakened, with only the Enterprise Fixed segment holding steady at SGD99.2mn (+0.6% y/y). We note that profitability (net profit, EBITDA) declined more than revenue as revenue is cushioned by the increase in sales of equipment (+14.1% y/y to SGD36.5mn), which is a low margin segment. There has been a significant deterioration in credit metrics, with reported net debt / TTM EBITDA increasing to 0.82x (2Q16: 0.65x). Capex cash payments have also increased 137% y/y to SGD115mn, while we note that cash outlay could increase with StarHub bidding SGD349.6mn for the general spectrum auction in Apr 2017. Meanwhile, we also note a slight uptick in churn rates, with StarHub losing 7,000 post-paid mobile subscribers q/q. We do not currently cover StarHub. (Company, OCBC)

CapitaLand Ltd ("CAPL"): CAPL reported 2Q2017 results, with revenue down 12.3% y/y to SGD992.4mn (though it's up 10.6% q/q). Like the previous quarter, lower revenue from Singapore development projects was a drag on sales, though this is mitigated by higher contribution from development projects in China, as well as from newly acquired/opened properties. This can be seen with revenue from CapitaLand Singapore slumping 34.8% y/y to SGD246.3mn (comparable absolute level with 1Q2017) while revenue from CapitaLand China jumped 29.1% to SGD338.1mn (down 23.9% q/q though). In terms of geographical split (capturing other SBUs), China contributed 45% of total revenue, compared to 30% from Singapore. As mentioned in previous quarters, CapitaLand Singapore's declining revenue is consistent with our view that CAPL's inventory of Singapore residential projects is steadily depleting. 102 units in Singapore were sold for 2Q2017 (versus 82 units sold in 2Q2016) with units moved at Carinhill Nine and Victoria Park Villas. The take up rate for Marine Blue looks soft, with only 6 units sold during the quarter. CAPL's Singapore inventory stood at ~SGD1.0bn (1Q2017: ~SGD1.3bn). For CapitaLand China, revenue jumped 29.1% to SGD338.1mn, with CAPL handing over 1,088 units (2Q2016: 1,657 units) from developments such as Beaufort in Beijing, Sky Habitat in Hangzhou and Dolce Vita in Guangzhou. Looking forward, CAPL has about ~3,000 launch-ready units in China for 2H2017 as well as ~RMB2.3bn worth of pre-sold revenue to be recognized over the period (the pipeline looks softer compared to end-1Q2017). As such, 2H2017 CapitaLand China's revenue for 2H2017 could slow. For CapitaLand Mall Asia, revenue increased 8.7% y/y to SGD161.5mn, driven by recent acquisitions (four office and retail properties in Japan acquired in February 2017) as well as newly opened malls in China. Ascott continued to see revenue decline (-27.3%) to SGD240.2mn as Cairnhill Nine project (50% stake) already obtained TOP in 4Q2016 hence had lower contribution. In aggregate, operating PATMI (which excludes divestments, revaluation and impairments) increased 20.5% to SGD206.8mn, largely due to the higher handover from development projects in China. CFO (including interest service) was strong at SGD469.0mn, driven partially by the delivery of development properties as well as the stretching of trade payables. The disposal of investment properties during the quarter (which includes the 50% stake sale of One George Street as well as Innov Tower in Shanghai) generated SGD1.03bn in cash. Comparatively, CAPL paid down ~SGD621mn in net debt during the quarter, as well as paid out SGD424.7mn in dividends. Cash balance also grew SGD487.8mn q/q to SGD4.8bn. As such, CAPL's net gearing improved distinctly to 39% (1Q2017: 44%). As such, we retain our Positive issuer profile on CAPL. (Company, OCBC)

Credit Headlines (Cont'd):

BreadTalk Group Ltd ("BGL"): BGL reported 2Q17 results, which we think is good overall. Revenue declined by 1.5% y/y to SGD147.6mn, mainly due to the decline in revenues from the Bakery division (-3.3% y/y to SGD72.3mn) and Food Atrium division (-2.7% y/y to SGD37.4mn). This was because of weaker performance for the Bakery stores at Shanghai and Beijing while the franchise agreements of underperforming Bakery franchisees in China were terminated. Nevertheless, profitability improved despite lower revenues (mainly due to closure of underperforming Food Atrium outlets in China), with reported EBITDA from the 3 core F&B segments (Bakery, Food Atrium, Restaurant) increasing 22% y/y to SGD19.4mn. Core F&B net profit surged 35.1% y/y to SGD4.0mn. With a highly cashflow generative business, and partly helped by SGD25.2mn cash inflow from sale of TripleOne Somerset, reported net Debt/EBITDA continued to trend down to 0.36x (1Q17: 0.54x) while net gearing reduced to 0.22x (1Q17: 0.35x). We also think that it is a credit positive that BGL has reiterated its focus to maintain outlet openings at a cautious pace (which contains capex) and is no longer aggressively expanding. If BGL were to sell its 5.3% stake in AXA Tower (refer to Asian Credit Daily – 01 Aug 2017), we expect further significant improvements in BGL's liquidity and gearing profile. Despite the positives, we continue to hold BGL at Neutral Issuer Profile as it is a small-cap company. (Company, OCBC)

Commerzbank AG (CMZB): CMZB announced its 2Q2017 results in what management have termed a 'transitional year.' Operating profit for 2Q2017 was 35.5% down y/y to EUR183mn due to weaker market conditions. For 1H2017, operating profit was down 18.6% to EUR515mn as net interest and trading income growth of 3.5% y/y was overshadowed by a 2% fall in net commission and investment income as well as an 8.1% rise in provisions for loan losses (mostly for ship financing exposures). Operating expenses were more or less stable, falling 0.3% y/y despite higher spending on strategic development. Segment wise, the Private and Small Business Customers segment benefited from customer growth although operating profit was down y/y due to the 1H2016 non-recurring gain from the sale of Visa Europe shares and higher investments in growth initiatives. Operating profit performance in the Corporate Clients segment was also weaker y/y due to low interest rates as well as a weaker operating environment which impacted client activity in Fixed Income and Currencies. The Asset & Capital Recovery ('ACR') segment continued to shrink with the ship finance and commercial real estate finance portfolios down EUR1.5bn y/y in 1H2017. The ACR segment's operating loss position also improved y/y to EUR115mn against a loss of EUR251mn for 1H2016 due to lower expenses and funding costs from the reduced credit portfolio as well as a EUR68mn one-off gain in 1Q2017 from the write-back of a previously written off position. Owing to restructuring charges of EUR810mn in 2Q2017 for staff rationalization measures related to implementation of the "Commerzbank 4.0" strategy, CMZB generated a consolidated pre-tax loss of EUR292mn for 1H2017 against a pre-tax profit of EUR593mn in 1H2016. Despite the consolidated loss from restructuring charges, CMZB's capital ratios were stable to improved with its CET1/CAR ratios for 1H2017 at 13.9%/17.4% against 13.9%/16.9% as at FY2016. On a fully loaded basis, the CET1 ratio improved to 13.0% from 12.3% largely due to the continued reduction in risk weighted assets from active portfolio management in credit risk and favourable currency movements. As mentioned in our Mid-Year 2017 Credit Outlook, CMZB's earnings are influenced by its volatile business risk and restructuring initiatives that are necessary to improve its underlying fundamentals. These have somewhat overshadowed decent volume growth in the bank's customer lending business and lower loan loss provisions in the Corporate Client segment. While earnings remain somewhat vulnerable, we maintain our Neutral issuer profile for now on CMZB (Company, OCBC)

Credit Headlines (Cont'd):

Société Générale SA ("SG"): SG announced its 2Q2017 results with net banking income down slightly by 0.5% y/y to EUR6.4bn. Similar to earlier quarters, performance continues to benefit from balanced contributions from its three core businesses with soft performance in French Retail Banking (-1.8% y/y due to a 6.6% y/y decline in net interest income from low interest rates that was partially offset by higher commissions income) and weaker results from Global Banking & Investor Solutions (-4.3% y/y due to strong market performance in 2Q2016 and lower market activity in 2Q2017) offset by strong growth in International Retail Banking (+6.2% from European loan growth in International Retail Banking, higher outstandings and acquisition of 50% stake in Antarius in insurance, and business momentum in financial services to corporates). Operating expense growth was restrained at 1.2% and the commercial cost of risk fell 59% to EUR191mn from EUR464mn in 2Q2016 due to better operating environments at all of SG's business segments, particularly the International Retail Banking and Financial Services segment. Including a net writeback of provisions for disputes of EUR450mn for the Libyan Investment Authority Settlement, the net cost of risk was actually positive at EUR259mn. Excluding non-economic items (divestment gain from Visa Europe sale in 2Q2016 of EUR725mn and settlement with Libyan Investment Authority in 1Q2017 of EUR963mn which allowed for the writeback in 2Q2017), underlying group net income of EUR1.2bn for 2Q2017 was 11% up y/y. Including non-economic items however, group net income of EUR1.1bn for 2Q2017 was down 27.6% y/y. For 1H2017, underlying group net income was up 32.6% y/y. In line with the lower cost of risk, SG's gross doubtful outstandings ratio fell to 4.6% for 2Q2017 from 5.1% as at 2Q2016, while the gross coverage ratio for doubtful outstandings stood at 62%. CET1 ratios improved marginally q/q from a combination of earnings generation and lower risk weighted assets with 2Q2017 fully loaded CET1/CAR ratios at 11.7%/17.7% (1Q2017: 11.6%/17.8%; FY2016: 11.5%/17.9%). Including senior non-preferred debt issues and other TLAC adjustments (senior preferred and others), SG's reported TLAC ratio was 21.9% as at 30 June 2017, improved from 21.5% as at 31 March 2017 due to recent senior preferred issuance and remaining above the 2019 minimum requirement of 19.5%. SG's leverage ratio was 4.2%, broadly stable with 1Q2017 and 4Q2016. SG's results continue to be in line with the overall improving operating environment in Europe and we maintain our Neutral issuer profile. (OCBC, Company)

Genting Singapore PLC ("GENS"): GENS reported its 2Q2017 results. Revenue jumped 24.0% y/y to SGD596.1mn, with gaming revenue surging 33.3% y/y to SGD442.3mn. Management had indicated that GENS benefitted from a higher rolling win percentage in the premium mass segment. Non-gaming revenues also grew 2.8% y/y, reversing the declines seen in 1Q2017. There seemed to be some improvements in GENS' hospitality assets, with its hotels reporting over 95% occupancy for the quarter, compared to 92% for 1Q2017. Adjusted EBITDA generation was strong at SGD292.7mn for the quarter (2Q2017: SGD116.1mn), driven in part by sharply lower impairments on gaming receivables of SGD14.7mn (2Q2016: SGD53.6mn). As mentioned in the previous quarter, this was driven by both the company's rotation away from the VIP market, as well as tweaks to its credit provision policy to incentivise early repayment. Management had also mentioned that the VIP business remains stable. In aggregate, net profit surged to SGD172.7mn (2Q2016: SGD18.9mn) due to the strong gaming revenue generated. Though 2Q2017 net profit was lower than the SGD210.2mn generated in 1Q2017, the previous quarter benefitted from the SGD96.3mn divestment gain from the sale of its stake in the Jeju resort JV and hence is not comparable. Operating cash flow continues to be robust with SGD256.7mn generated (including interest service) for the quarter. Coupled with SGD14.4mn in capex, free cash flow was SGD242.3mn for the quarter. In terms of cash outflow, SGD12.8mn was paid to perpetual securities while SGD180.4mn was paid out in dividends. As such, cash balance only increased slightly q/q from SGD5.64bn to SGD5.69bn. Looking forward, management had reiterated that there are plans to refresh their Singapore assets, and are in the midst of preparing a 5-year strategic roadmap (with details to be shared before year end). As such, we expect that GENS would ramp up its capex in the near future. They have also reiterated that their dividend policy would remain unchanged. As a reminder, GENS had already announced that it will be calling its SGD2.3bn in perpetual securities at first call (in September and October). We will retain our Positive Issuer Profile, and would hold the GENSSP-perp at Neutral with the expectation that GENS would easily be able to call the securities based on their current cash balance. (Company, OCBC)

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