Asian Credit Daily

OCBC Bank

March 3, 2017

Credit Headlines (Page 2 onwards): Industry news (China Property), Hongkong Land Holdings Ltd., Frasers Hospitality Trust

Market Commentary: The SGD swap curve was range bound yesterday, with the shorter to medium term tenors trading upwards by 1-2bps while the longer end of the swap curve traded downwards by 1-5bps. Flows in SGD corporates were heavy, with better buying seen in UOBSP 3.5%'29s, FCLSP 4.15%'27s, better selling seen in SCISP 4.75%'49s, OLAMSP 7%'49s, and mixed interest in OLAM 6%'22s, GUOLSP 4%'22s. In the broader dollar space, the spread on JACI IG corporates fell 2bps to 191bps while the yield on JACI HY corporates rose 1bps to 6.63%. 10y UST yields rose 3bps to 2.48%, with the reserve rate increase on March 15 nearly fully priced in following comments late Wednesday by Federal Reserve Governor Lael Brainard, who said an increase "will likely be appropriate soon".

New Issues: ICICI Bank Ltd., through its Dubai Branch, priced a USD300mn 5.5-year bond at CT5+135bps, tightening from initial guidance of CT5+155bps. The expected issue ratings are 'BBB-/Baa3/NR'. China Cinda Finance (2017) I Ltd. priced a USD3bn 4-tranche deal (guaranteed by China Cinda Asset Management Co. Ltd.); with the USD300mn 3-year piece at CT3+150bps, tightening from initial guidance of CT3+180bps; the USD1.3bn 5-year piece at CT5+165bps, tightening from initial guidance of CT5+195bps; the USD700mn 7-year piece at CT7+180bps, tightening from initial guidance of CT7+210bps; and the USD700mn 10-year piece at CT10+195bps, tightening from initial guidance of CT10+225bps. The expected issue ratings are 'A-/Baa1/A'. Aozora Bank Ltd. priced a USD300mn 3-year bond at CT3+120bps, tightening from initial guidance of CT3+140bps. The expected issue ratings are 'A/NR/NR'. China Reinsurance Finance Corp Ltd. priced a USD800mn 5-year bond at CT5+150bps, tightening from initial guidance of CT5+175bps. China South City Holdings Ltd. priced a USD300mn 3-year bond at 6.125%, tightening from initial guidance of 6.5%. The expected issue ratings are 'B-/NR/B'. PCPD Capital Ltd. priced a USD500mn 5-year bond (guaranteed by Pacific Century Premium Developments Ltd.) at 4.75%, tightening from initial guidance of 5%. Lastly, the Government of Mongolia priced a USD600mn 7-year bond at 7.625%, tightening from initial guidance of 8.25%. The expected issue ratings are 'B-/NR/B-''.

Table 1: Key Financial Indicators

	3-Mar	1W chg (bps)	1M chg (bps)		3-Mar	1W chg	1M chg
iTraxx Asiax IG	94	-3	-15	Brent Crude Spot ($/bbl)	55.21	-1.39%	-2.82%
iTraxx SovX APAC	26	1	-5	Gold Spot ($/oz)	1,233.05	-1.92%	1.04%
iTraxx Japan	51	-1	-3	CRB	188.81	-1.47%	-2.27%
iTraxx Australia	83	-2	-10	GSCI	396.12	-1.89%	-1.06%
CDX NA IG	60	-3	-4	VIX	11.81	0.85%	7.66%
CDX NA HY	108	1	1	CT10 (bp)	2.489%	17.70	2.39
iTraxx Eur Main	70	-5	-1	USD Swap Spread 10Y (bp)	-2	0	6
iTraxx Eur XO	276	-20	-14	USD Swap Spread 30Y (bp)	-38	1	4
iTraxx Eur Snr Fin	87	-8	0	TED Spread (bp)	47	-7	-5
iTraxx Sovx WE	22	-1	-1	US Libor-OIS Spread (bp)	25	-6	-10
iTraxx Sovx CEEMEA	65	-1	-7	Euro Libor-OIS Spread (bp)	2	0	1
					3-Mar	1W chg	1M chg
				AUD/USD	0.755	-1.59%	-1.64%
				USD/CHF	1.013	-0.52%	-1.96%
				EUR/USD	1.051	-0.46%	-2.49%
				USD/SGD	1.414	-0.63%	-0.28%
Korea 5Y CDS	45	-1	-1	DJIA	21,003	0.93%	4.64%
China 5Y CDS	89	-3	-17	SPX	2,382	0.77%	3.68%
Malaysia 5Y CDS	108	-2	-17	MSCI Asiax	564	-0.37%	2.85%
Philippines 5Y CDS	84	-1	-9	HSI	23,546	-1.75%	1.80%
Indonesia 5Y CDS	127	-1	-16	STI	3,108	-0.29%	2.17%
Thailand 5Y CDS	55	1	-12	KLCI	1,711	0.76%	1.56%
				JCI	5,399	0.24%	0.71%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
2-Mar-17	ICICI Bank Ltd	"BBB-/Baa3/NR"	USD300mn	5.5-year	CT5+135bps
2-Mar-17	China Cinda Finance (2017) I Ltd.	"A-/Baa1/A"	USD300mn	3-year	CT3+150bps
2-Mar-17	China Cinda Finance (2017) I Ltd.	"A-/Baa1/A"	USD1.3bn	5-year	CT5+165bps
2-Mar-17	China Cinda Finance (2017) I Ltd.	"A-/Baa1/A"	USD700mn	7-year	CT7+180bps
2-Mar-17	China Cinda Finance (2017) I Ltd.	"A-/Baa1/A"	USD700mn	10-year	CT10+195bps
2-Mar-17	Aozora Bank Ltd.	"A/NR/NR"	USD300mn	3-year	CT3+120bps
2-Mar-17	China Reinsurance Finance Corp Ltd.	Not Rated	USD800mn	5-year	CT5+150bps
2-Mar-17	China South City Holdings Ltd.	"B-/NR/B"	USD300mn	3-year	6.125%
2-Mar-17	PCPD Capital Ltd.	Not Rated	USD500mn	5-year	4.75%
2-Mar-17	Government of Mongolia	B-/NR/B-"	USD600mn	7-year	7.625%

Source: OCBC, Bloomberg

Rating Changes: Fitch placed the 'BBB+' ratings of Sime Darby Berhad (Sime Darby) on Rating Watch negative. The rating action follows Sime Darby's announcement on 27 February 2017 that it will completely divest its stake in previously 100%-owned subsidiaries Sime Darby Plantations (SD Plantation) and Sime Darby Property (SD Property). Fitch stated that Sime Darby's business profile will weaken considerably as the remaining businesses exhibit (1) higher volatility and cyclicality compared with the plantation business; (2) smaller scale; and (3) lower diversification post-divestment..

Credit Headlines:

Industry news (China Property): China has extended property curbs to two more satellite cities, namely Zhuzhou (satellite city of Beijing) and Lianjiang (satellite city of Fuzhou). This follows concerns over speculative money flows into smaller surrounding cities of key Tier 1 and Tier 2 cities. On 2 March 2017, Hangzhou announced new property cooling measures (1) In relation to number of homes-owned, broadening the geographical scope to cover the whole of Hangzhou (versus just a few districts); and (2) Limit local residents from owning more than two properties. Broadly, we think transaction volumes this year may decline but prices of key Tier 1 and key Tier 2 cities are likely to stay relatively constant in light of limited supply (against pent-up demand). (Caixin, OCBC)

Hongkong Land Holdings Ltd ("HKL"): Hongkong Land reported FY2016 results. Full year revenue increased 3.2% y/y to USD2.0bn mainly due to higher revenues from sale of properties (USD1.0bn, +5.2% y/y). Net profit surged by a much larger 64% y/y to USD3.5bn, mainly due to USD2.5bn increase in fair value of investment properties due to cap rate compression. However, underlying profit fell 6% y/y to USD848mn due to absence of a gain from the redevelopment of a residential property, which resulted in operating profit from residential property declining 9.6% y/y to USD229mn. Nevertheless, we think HKL's credit profile remains well-supported by contribution from its commercial property segment, consisting mainly of leasing of offices in Central, which contributed USD803.1mn (+0.3% y/y) in operating profit. This more than covers the financing charges of USD110.4mn by 7.3x. In particular, Central portfolio vacancy declined to 2.2% (3Q2016: 3.5%), with average office rent increasing to HKD103 psf (2015: HKD101 psf). This affirms management's views that the office supply, which are mostly outside Central, does not compete directly with HKL's portfolio. Meanwhile, Singapore's portfolio vacancy reduced to 0.1% from 3.0%, though average rent declined to SGD9.3 psf (2015: SGD9.5 psf). Looking ahead, Hongkong Land expects improved profits from mainland China due to higher completions, with unrecognised contracted sales increasing to USD1.1bn from USD0.8bn from China. The retail component of WF CENTRAL in Beijing is scheduled to open in late 2017 while the hotel component (Mandarin Oriental Hotel) is scheduled to open in 2018. In Jakarta, the fifth tower at Jakarta Land (50% stake) is scheduled for completion in 2018. However, the positive impact from China is expected to be offset by lower contributions from other regions. As HKL continued to generate healthy free cash flow from monetising its properties while maintaining a steady stream of income, net debt declined to USD2.0bn (1H16: USD2.3bn). Coupled with revaluation gains which boosted the equity base, net debt to equity inched down to 0.06x from 0.08x. With a very healthy balance sheet and a steady stream of recurring cashflows, we continue to hold HKL at a Positive Issuer Profile. (Company, OCBC)

Frasers Hospitality Trust ("FHT"): FHT announced that the Master Lessee of the retail component of ANA Crowne Plaza Kobe (ie: Y.K. Toranomon Properties "YK", a 100%-owned subsidiary of TCC Group) plans to commit up to ~SGD53.1mn towards asset enhancement initiatives ("AEI") at the building. ANA Crowne Plaza Kobe is made up of (1) retail component and (2) hotel component. Per the company, this AEI undertaken by Master Lessee/YK is in line with FHT's plans to rejuvenate the hotel component (eg: to drive higher footfall). TCC Group (via various related entities) are major unitholders of FHT. As the retail component is yet to stabilize, the existing Master Lease is structured such that the Master Lessee/YK would assume all the economic benefits and losses attributable to Kobe retail mall (FHT interfaces with YK only). However, when the retail property reaches stabilization and no later than 31 December 2023, FHT is obliged to terminate the Master Lease and pay for the AEI works (capped at SGD53.1mn). Net-net there is no immediate capital outlay and cash flow impact to FHT though in our view this is a "deferred capital expenditure" from the perspective of FHT. We see this transaction as credit neutral given the small transaction size against FHT's total assets of SGD2.3bn as at 31 December 2016. (Company, OCBC)

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