Asian Credit Daily

31 Jul 2017

Credit Headlines (Page 2 onwards): Sabana Shari'ah Compliant Industrial Trust, Mapletree Greater China Commerical Trust, BNP Paribas SA, Starhill Global REIT, Gallant Venture Ltd

Market Commentary: The SGD swap curve traded upwards on Friday, with swap rates trading 1-2bps higher across all tenors (with the exception of 7Y swaps). Flows in SGD corporates were heavy, with better buying seen in HSBC 4.7%-PERPs, WINGTA 4.08%-PERPs, GUOLSP 3.62%'21s and better selling seen in OLAMSP 5.5%-PERPs, GRCHAR 6%'17s. In the broader dollar space, the spread on JACI IG Corporates fell 1bps to 188bps, while the yield on JACI HY Corporates was flattish at 6.90%. 10y UST yields fell 2bps to 2.29% at Friday close, as GDP price index for the second quarter came in lower than expected.

New Issues: Olam International Limited priced a SGD50mn re-tap of its existing SGD300mn 5.5% Perp NC5 at 100.25, for a yield of 5.44%. Powerlong Real Estate Holdings Ltd has priced a USD100mn re-tap of its PWRLNG 5.95%'20s at 99.196. The issue ratings are 'B-/B2/NR'. PT Tunas Baru Lampung Tbk has scheduled investor meetings for potential SGD bond issuance from 31 Jul to 1 Aug. PT Medco Energi Internasional Tbk has scheduled investor meetings for potential USD bond issuance from 31 Jul. The expected issue ratings are 'B/B2/B'. Jiangsu Nantong Sanjian Engineering Jobbing Co Ltd has scheduled investor meetings for potential USD bond issuance from 31 Jul.

Rating Changes: S&P has affirmed Australian Gas Networks' (AGN) 'BBB+' credit ratings while revising the outlook to positive from stable. The rating action reflects the possibility of AGN's rating going up by one notch, as its major shareholders, CK Infrastructure Holdings and Power Assets Holdings (together referred to as the CKI Group) have their outlooks revised to positive from stable. S&P has assigned PT Medco Energi Internasional Tbk (Medco) a corporate credit rating and senior unsecured rating of 'B'. The rating action reflects Medco's operations which are concentrated in a few fields, and its elevated investment appetite despite high leverage. However, these risks are tempered by Medco's good operating track record, growing cash flows, creditworthy and good standing in credit markets.

Table 1: Key Financial Indicators

	31-Jul	1W chg (bps)	1M chg (bps)		31-Jul	1W chg	1M chg
iTraxx Asiax IG	82	-2	-4	Brent Crude Spot ($/bbl)	52.70	8.44%	9.97%
iTraxx SovX APAC	20	-1	-2	Gold Spot ($/oz)	1,269.39	1.12%	2.24%
iTraxx Japan	40	0	0	CRB	182.12	3.09%	4.20%
iTraxx Australia	77	-1	-7	GSCI	386.62	4.15%	3.83%
CDX NA IG	58	1	-3	VIX	10.29	9.94%	-7.96%
CDX NA HY	108	0	1	CT10 (bp)	2.278%	2.30	-2.55
iTraxx Eur Main	52	-1	-4	USD Swap Spread 10Y (bp)	-4	-1	-2
iTraxx Eur XO	233	-4	-14	USD Swap Spread 30Y (bp)	-34	-2	-4
iTraxx Eur Snr Fin	50	0	-3	TED Spread (bp)	23	8	-6
iTraxx Sovx WE	5	-1	-2	US Libor-OIS Spread (bp)	15	0	1
iTraxx Sovx CEEMEA	48	-6	-7	Euro Libor-OIS Spread (bp)	3	0	0
					31-Jul	1W chg	1M chg
				AUD/USD	0.798	0.71%	3.78%
				USD/CHF	0.968	-2.27%	-1.05%
				EUR/USD	1.174	0.82%	2.72%
				USD/SGD	1.357	0.36%	1.40%
Korea 5Y CDS	57	1	5	DJIA	21,830	1.16%	2.25%
China 5Y CDS	64	-2	-5	SPX	2,472	-0.02%	2.01%
Malaysia 5Y CDS	80	-4	-5	MSCI Asiax	653	-0.19%	4.35%
Philippines 5Y CDS	70	-3	-7	HSI	27,186	1.26%	5.52%
Indonesia 5Y CDS	112	-5	-6	STI	3,325	0.42%	3.05%
Thailand 5Y CDS	61	-4	-1	KLCI	1,765	0.18%	0.09%
				JCI	5,837	0.61%	0.12%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
31-Jul-17	Olam International Limited (re-tap)	Not Rated	SGD50mn	OLAMSP 5.5%-Perp	100.25
28-Jul-17	Powerlong Real Estate Holdings Ltd (re-tap)	'B-/B2/NR'	USD100mn	PWRLNG 5.95%'20s	99.196
27-Jul-17	BNZ International Funding Ltd	'NR/A1/NR'	USD650mn	5.25-year	CT5.25+85bps
27-Jul-17	Incitec Pivot Finance LLC	'BBB/Baa2/NR'	USD400mn	10-year	CT10+167.5bps
27-Jul-17	Azure Power Energy Ltd	'NR/Ba3/BB-'	USD500mn	5.25NC3	5.5%
27-Jul-17	Shougang Group	'NR/NR/A-'	EUR400mn	3-year	CT3+145.2bps
26-Jul-17	Suntec REIT MTN Pte Ltd	Not Rated	SGD100mn	6-year	2.85%
25-Jul-17	CDBL Funding 2	'NR/A2/A+'	USD600mn	5-year	CT5+125bps

Source: OCBC, Bloomberg

Rating changes (Cont'd): S&P has downgraded Tianjin Binhai New Area Construction & Investment Group Co Ltd (BHCI) to 'BBB+' from 'A-'. The outlook is stable. S&P has also lowered the company's senior unsecured rating to 'BBB+' from 'A-'. The rating action reflects S&P's view that BHCI's rating reflects the credit profile of the Binhai Government, which deteriorated due to its widening budget deficit. Moody's has confirmed Baidu Inc's (Baidu) 'A3' issuer and senior unsecured debt ratings, as well as its negative outlook. The rating action reflects Moody's expectation that Baidu's Financial Services Group's (FSG) business will weaken Baidu's financial profile and raise execution risks. Moody's has assigned PT Medco Energi Internasional Tbk (Medco) a corporate family rating and secnior unsecured rating of 'B2'. The outlook is stable. The rating action reflects Medco's improving scale of production and modest degree of visibility on its cash flow, but are constrained by Medco's high leverage. Moody's has assigned QT Mutual Bank Limited (QTMB) a senior unsecured rating of 'Baa1'. The outlook is stable. The rating action reflects QTMB's mutual ownership structure, which allows it to maintain its low-risk model, as well as its above-average capital levels and conservative funding. However, the ratings are constrained by the bank's small scale. Moody's has assigned Spyder (BC) BidCo Pty Ltd (Spyder), the holding company of the combined Camp Australia Group, a corporate credit rating of 'B2'. At the same time, Moody's has assigned 'B2' ratings to its first lien senior secured term loan facility and senior secured revolving credit facility, as well as a 'B3' rating to its second lien senior secured term loan facility. The outlook is stable. The rating action reflects Camp Australia Group's track record of strong cash flow generation and solid margins, but is constrained by its relatively high financial leverage. Fitch has assigned PT Medco Energi Internasional Tbk (Medco) an issuer default rating (IDR) of 'B'. A similar rating was assigned to its proposed US dollar notes. The outlook is stable. The rating action reflects Medco's business profile as a small upstream producer and its high leverage, which the company is reducing. Fitch has assigned PT Tunas Baru Lampung Tbk (TBLA) an issuer default rating and a senior unsecured rating of 'BB-'. Fitch has also assigned a 'BB-' rating to TBLA's proposed senior unsecured notes. The outlook is stable. The rating action reflects the beneficial regulatory environment for sugar in Indonesia, as well as TBLA's small but well-diversified palm operations and healthy debt leverage.

Credit Headlines:

Sabana Shari'ah Compliant Industrial REIT ("SSREIT"): SSREIT has announced that Mr Steven Lim Kok Hoong, Chairman of the Board and Independent Director of SSREIT's REIT Manager has resigned as director of the board effective on 28 July 2017. According to the company's disclosures, the resignation is due to health reasons. Mr Yong Kok Hoon, the remaining Independent Director of the REIT Manager, will be appointed as the new Chairman of the Board, in place of Mr Lim. Mr Lim has also stepped down as member of SSREIT's Audit Committee, Nominating and Remuneration Committee and Strategic Review Committee. SSREIT's strategic review is still on-going. (Company)

Mapletree Greater China Commercial Trust ("MAGIC"): MAGIC reported 1QFY2018 results for the quarter ending 30 June. Overall results were decent, with revenue increasing 4.6% y/y to SGD88.9mn while net property income increased 3.7% y/y to SGD72.0mn. Overall occupancy also improved to 98.8% (4QFY2017: 98.6%), largely due to the improvements at Gateway Plaza (+1.9pp q/q to 98.8%) though Sandhill Plaza softened to 97.5% from a high base (4QFY2017: 100%). With tenant sales improving 2.1% y/y to HKD1.2bn (1QFY2017: HKD1.1bn) and footfall increasing 4.6% y/y to 9.0mn (1QFY2017: 8.6mn), recovery may be underway for HK retail. Rental reversion remains positive for Festival Walk (+9%), Gateway Plaza (+10%) and Sandhill Plaza (+13%). Going forward, MAGIC still believe that rental rates will continue to increase at Festival Walk and Gateway Plaza, though the rate of increase may moderate. Meanwhile, aggregate leverage remains flattish at 39.4% (4QFY17: 39.2%) while reported interest cover improved slightly to 3.8x (4QFY17: 3.6x). There are also no more maturities remaining in FY18 after MAGIC refinanced HKD510mn bank debt. As such, we continue to hold MAGIC at a Neutral Issuer Profile. (Company, OCBC)

OCBC Bank

Credit Headlines (Cont'd):

BNP Paribas SA ("BNPP"): BNPP announced its 2Q2017 results with total revenue of EUR10.9bn down 3.4% y/y (although based on operating divisions, total revenue for 2Q2017 were up 2.5% y/y). Similar to 1Q2017, performance was weighed by soft domestic market performance (revenues down 0.3% y/y) due to low interest rates, which masked otherwise solid volume trends with loans up 5.7% y/y in retail and specialised businesses, and deposits up 9.2% y/y. On the other hand, International Financial Services (broad based improvement with loans and deposit growth in Personal Finance and International Retail Banking; capital gains and a 6.8% y/y rise in assets under management in Insurance/Wealth and Asset Management) and Corporate & Institutional Banking segment (better performance in Corporate Banking and Securities Services, weaker y/y performance from Global Markets) performance continues to be strong, with revenues up 3.2% and 4.6% respectively. Overall operating expenses were more or less stable y/y as business growth driven expenses were mitigated by cost savings measures and the 2020 transformation plan (including the CIB transformation plan). Cost of risk continues to fall down 16.3% y/y for 2Q2017 due to net write backs at CIB, risk controls at loan origination, low interest rates and continued improvement in operating conditions. However due to the top line performance and stable operating expenses as well as prior period exceptional gain from the sale of Visa Europe Shares, operating income was down 6.9% y/y. By operating division performance however, which excludes Corporate Centre revenues (credit adjustments, capital gains) and expenses (restructuring and transformation costs), operating income was up 16.4% y/y for 2Q2017 reflecting the solid underlying performance trends. In terms of loan trends, French Retail Banking growth was driven mostly by individual customer loan growth (up 12.6% y/y from a 13.4% rise in mortgages) while Corporate loans grew 3.6%. Other domestic markets saw more balanced loan growth overall. BNPP's capital ratios continued to improve, with the bank's CET1/CAR ratios at 11.8%/14.7% for 2Q2017 against 11.6%/14.5% for FY2016. On a fully loaded basis, the CET1 ratio of 11.7% for 2Q2017 was up 10bps from 1Q2017. This was due to earnings as well as a marginal fall in risk weighted assets. BNPP's earnings outlook remains supported by its solid business profile and diversified business segments as well as recovering conditions in France and Europe. The results do not alter our view of BNPP's Neutral issuer profile. (Company, OCBC)

Starhill Global REIT ("SGREIT"): 4QFY2017 / full-year FY2017 results (for the period ending March 2017) were announced. For full-year FY2017, gross revenue fell 1.5% y/y to SGD216.4mn, while NPI fell 2.0% y/y to SGD166.9mn. The revenue decline was driven by weakness in SGREIT's Singapore office assets, which saw revenue decline 4.5% to SGD26.2mn largely due to the fall in occupancy to 92.9% (FY2016: 95.6%). Results were also pressured by AEI impacts and vacancies in Australia, as well as the conversion of SGREIT's sole China property from departmental store to single-tenant asset (there was downtime impacting rental). For 4QFY2017, revenue was down 0.1% y/y to 53.7mn while NPI was flat at SGD41.4mn, with the quarter largely reflecting full-year themes. SGREIT's Singapore segment reported 0.6% decline in revenue, largely due to weakness in its office assets at Wisma Atria (-6.3% y/y to SGD2.7mn) and Ngee Ann City (-3.1% to SGD3.7mn) as well as softness at Wisma Atria's retail segment (-2.4% y/y to SGD13.9,m). Both Australia and Malaysia segments reported increases in revenue, with the former supported by higher occupancy at David Jones Building while the latter was supported by the higher retail from the revised Master Lease (effective June 2016). Portfolio NPI largely followed trend, with the exception of Australia, which saw NPI decline 1.9% largely due to higher expenses and the AEI at Plaza Arcade. In aggregate, portfolio occupancy improved q/q to 95.5% (3QFY2017: 95.1%) due to improvements to SGREIT's Australia occupancy as well as at its Chengdu asset. WALE by NLA remains decent at 6.6 years, though we note that numbers are skewed by the relatively longer lease on the Toshin master lease as well as on Australian assets. Aggregate leverage remained unchanged q/q at 35.3%. Reported interest coverage declined slightly to 4.1x (2QFY2017: 4.2x). With regards to SGREIT's debt maturity profile, though previously SGREIT had a heavy maturity profile in 2018 (with SGD250mn term loan and AUD145mn loan due), it has since been refinanced (refer to OCBC Asian Credit Daily – 3 July 2017) with SGREIT entering into a SGD700mn unsecured loan facility with 7 banks as well as raising a AUD145mn 4-year secured term loan. As such, SGREIT no longer has to tap capital markets soon. We will reiterate SGREIT's Neutral Issuer Profile. (Company, OCBC)

Credit Headlines (Cont'd):

Gallant Venture Ltd ("GALV"): GALV's ~71%-owned subsidiary Indomobil Sukses Internasional Tbk ("IMAS") announced its 1H2017 financial results. IMAS' net revenues was down 6.3% y/y to IDR7.5bn (~SGD778.2mn) in 1H2017. Net revenues from the main automobiles, trucks and heavy duty equipment segment had declined significantly, with sales from third parties falling 14% to IDR4.4bn (~SGD452.0mn). Reported gross profit though grew 10.5% y/y to IDR1.5bn (~SGD155.1mn), with gross profit margin for the period higher at 20% versus 17% in 1H2016. Driven largely by the growth in gross profit and operating overheads contained at IDR1.3bn (~SGD135mn), reported operating income was 28.5% higher y/y at IDR380mn (~SGD39.4mn). Nonetheless, finance expenses at IMAS was 7.2% higher at IDR420mn (~SGD43.6mn), wiping out operating income. Share of loss from associates was significant at IDR288mn (~SGD29.8mn) (1H2016: loss of IDR32mn (~SGD3.3mn)). After accounting for taxes and share of losses from associates in 1H2017, IMAS reported loss after tax of IDR317mn (loss of ~SGD32.9mn) against a much narrower loss after tax of IDR79mn (~SGD8.2mn) in 1H2016. Cash flow from operations (before interest but after tax) was thin at IDR82mn (~SGD8.5mn) and was insufficient to fund interest payments. Investing outflows though had narrowed to IDR425mn (~SGD44.1mn) (1H2016: IDR707mn (~SGD73.4mn)). The cash gap at IMAS was plugged by additional borrowings and drawing down of existing cash balances. As at 30 June 2017, net gearing at IMAS was 2.7x, higher than the 2.2x as at end-2016. We continue to maintain that IMAS' ability to upstream dividend to GALV is severely limited and hold GALV's issuer profile at Negative. (Company, OCBC)

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