# Asian Credit Daily

**Aug 4, 2017**

**Credit Headlines (Page 2 onwards):** OUE Limited, Chip Eng Seng Corp Ltd, DBS Group Holdings Ltd, Lippo Malls Retail Trust, Hong Kong Holdings Ltd, Oxley Holdings Ltd, CK Hutchison Holdings Limited, Ascendas Hospitality Trust, Mapletree Logistics Trust

**Market Commentary:** The SGD swap curve traded mixed yesterday, with 1-year and 1.5-year tenors trading 1bps higher, and longer tenors trading 1bps lower. Flows in SGD corporates were heavy, with better buying seen in BAERVX 5.9%-PERPs, and mixed interest seen in OLAMSP 5.5%-PERPs, HSBC 4.7%-PERPs, STHSP 3.95%-PERPs. In the broader dollar space, the spread on JACI IG Corporates fell 1bps to 187bps. Similarly, the yield on JACI HY Corporates fell 1bps to 7.00%. 10y UST yields fell 5bps to 2.22%, after a report released by the Wall Street Journal stated that Special Counsel Robert Mueller, who is probing Russia's interference in the 2016 US elections, has impaneled a grand jury.

**New Issues:** Vedanta Resources Plc has priced a USD1bn 7NC4 bond at 6.125%, tightening from initial guidance of 6.375%. The expected issue ratings are 'B+/B3/NR'. PT Gajah Tunggal Tbk has priced a USD250mn 5NC3 bond (guaranteed by PT Prima Sentra Megah) at 8.375%, tightening from initial guidance of 8.5%. The expected issue ratings are 'B-/Caa1/NR'. Canara Bank, acting through its London Branch has priced a USD400mn 5-year bond at CT5+150bps, tightening from initial guidance of CT5+175bps. The expected issue ratings are 'NR/Baa3/BBB-'. eHi Car Services Ltd has priced a USD400mn 5NC3 bond (guaranteed by certain of its subsidiaries outside the PRC) at 5.875%, tightening from initial guidance of 6.25%. The expected issue ratings are 'BB-/NR/BB-'. Gemstones International Ltd has scheduled investor meetings for potential USD bond issuance (guaranteed by LVGEM (China) Real Estate Investment Company Ltd) from 4 Aug. The expected issue ratings are 'NR/B3/B+'.

**Table 1: Key Financial Indicators**

| | 4-Aug | 1W chg (bps) | 1M chg (bps) | | 4-Aug | 1W chg | 1M chg |
|---|---|---|---|---|---|---|---|
| iTraxx Asiax IG | 80 | -3 | -8 | Brent Crude Spot ($/bbl) | 51.90 | -1.18% | 4.62% |
| iTraxx SovX APAC | 19 | -1 | -3 | Gold Spot ($/oz) | 1,267.92 | -0.14% | 3.64% |
| iTraxx Japan | 41 | 0 | 0 | CRB | 180.65 | -0.27% | 2.55% |
| iTraxx Australia | 75 | -2 | -9 | GSCI | 383.17 | -0.89% | 1.44% |
| CDX NA IG | 57 | 0 | -3 | VIX | 10.44 | 3.26% | -6.95% |
| CDX NA HY | 108 | 0 | 1 | CT10 (bp) | 2.225% | -6.42 | -12.52 |
| iTraxx Eur Main | 52 | 0 | -3 | USD Swap Spread 10Y (bp) | -3 | 1 | 0 |
| iTraxx Eur XO | 233 | 0 | -13 | USD Swap Spread 30Y (bp) | -31 | 3 | -2 |
| iTraxx Eur Snr Fin | 50 | 0 | -2 | TED Spread (bp) | 24 | 2 | -4 |
| iTraxx Sovx WE | 5 | 1 | -1 | US Libor-OIS Spread (bp) | 15 | 0 | 2 |
| iTraxx Sovx CEEMEA | 41 | -7 | -14 | Euro Libor-OIS Spread (bp) | 3 | 0 | 0 |
| | | | | | 4-Aug | 1W chg | 1M chg |
| | | | | AUD/USD | 0.797 | -0.24% | 4.76% |
| | | | | USD/CHF | 0.968 | 0.09% | -0.24% |
| | | | | EUR/USD | 1.188 | 1.09% | 4.70% |
| | | | | USD/SGD | 1.358 | -0.07% | 1.85% |
| Korea 5Y CDS | 58 | 1 | 1 | DJIA | 22,026 | 1.05% | 2.55% |
| China 5Y CDS | 63 | -1 | -8 | SPX | 2,472 | -0.13% | 1.78% |
| Malaysia 5Y CDS | 79 | -1 | -8 | MSCI Asiax | 654 | 0.28% | 5.50% |
| Philippines 5Y CDS | 69 | -2 | -9 | HSI | 27,529 | 2.04% | 8.43% |
| Indonesia 5Y CDS | 108 | -3 | -10 | STI | 3,334 | 0.11% | 3.84% |
| Thailand 5Y CDS | 60 | -1 | -3 | KLCI | 1,772 | 0.29% | 0.58% |
| | | | | JCI | 5,796 | -0.60% | -1.19% |

*Source: OCBC, Bloomberg*

**Table 2: Recent Asian New Issues**

| Date | Issuer | Ratings | Size | Tenor | Pricing |
|---|---|---|---|---|---|
| 3-Aug-17 | Vedanta Resources Plc | 'B+/B3/NR' | USD1bn | 7NC4 | 6.125% |
| 3-Aug-17 | PT Gajah Tunggal Tbk | 'B-/Caa1/NR' | USD250mn | 5NC3 | 8.375% |
| 3-Aug-17 | Canara Bank | 'NR/Baa3/BBB-' | USD400mn | 5-year | CT5+150bps |
| 3-Aug-17 | eHi Car Services Ltd | 'BB-/NR/BB-' | USD400mn | 5NC3 | 5.875% |
| 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% |

*Source: OCBC, Bloomberg*

**Rating Changes:** Moody's has affirmed Yingde Gases Group Company Limited's (Yingde Gases) 'B3' corporate family rating and 'Caa1' backed senior unsecured rating. The outlook is positive. The rating action reflects Yingde Gases' reduced risk of default following a change of ownership and management to PAG Asia II LP, and that its revenue is expected to grow as operating conditions stabilize. Moody's has affirmed Samsung Electronics Co Ltd's (SEC) senior unsecured debt rating at 'A1', while revising the outlook to positive from stable. The rating action reflects SEC's improved operating stability and profitability, as well as its exceptionally strong financial buffers against high capex needs and cyclicality. Moody's has assigned LVGEM (China) Real Estate Investment Company Limited (LVGEM) a corporate family rating and backed senior unsecured rating of 'B2' and 'B3' respectively. The outlook is stable. The rating action reflects LVGEM's strong profitability and track record of executing urban redevelopment projects in Shenzhen, as well as its stable recurring rental income from its investment properties. However, the ratings are constrained by the company's volatile property development operating performance. Moody's has assigned Hanwha Total Petrochemical Co Ltd (HTP) an issuer rating of 'Baa1'. The outlook is stable. The rating action reflects HTP's high profitability and low financial leverage, but is constrained by its exposure to the inherently volatile market conditions of petrochemical products. Moody's has upgraded CIMIC Group Limited's (CIMIC) issuer rating to 'Baa2' from 'Baa3', while upgrading CIMIC Finance (USA) Pty Ltd's (CIMIC USA) backed senior unsecured notes to 'Baa2' from 'Baa3'. The outlook on all ratings remain stable. The rating action reflects CIMIC's strong operating performance and balance sheet management, as well as Moody's view that any increase in CIMIC's financial leverage will be limited. Moody's has affirmed China Merchants Port Holdings Company Limited's (CMPH) 'Baa1' issuer and senior unsecured ratings, as well as the negative outlook on the ratings. The rating action reflects Moody's expectation that CMPH will continue to receive a high level of support from China Merchants Group, and that its credit profile will weaken due to its aggressive acquisition appetite. Moody's has upgraded Chandra Asri Petrochemical Tbk's (P.T.) (Chandra Asri) corporate family rating to 'Ba3' from 'B1'. The outlook is stable. The rating action reflects Chandra Asri's improvement in cash flow generation, financial leverage and liquidity profile since the completion of its cracker expansion.

**Credit Headlines:**

**OUE Limited ("OUE"):** OUE reported 2Q2017 results, with revenue up 39.5% y/y to SGD187.3mn. This was largely driven by the sharp jump in income from property development, which jumped 195% y/y to SGD55.2mn with OUE recognizing more sales of the Twin Peaks condominium ("Twin Peaks") being completed during the quarter. OUE continued to move units at the Twin Peaks, with 441 units sold (out of 462 units) as of end-June 2017. Hospitality income also improved, increasing 8.7% y/y to SGD48.7mn, supported by contributions from Mandarin Orchard, the enlarged Crowne Plaza, as well as the opening of Oakwood Premier OUE Singapore in June 2017. Investment Property income was flattish (-0.9% y/y) at SGD67.0mn, driven by weaker results at OUE-CT (OUE's 55.5%-owned commercial property trust). OUE-CT saw revenue decline 3.2% y/y to SGD44.2mn due to one-off income recognized in previous quarters. Finally, OUE now reports a new segment, Healthcare, reflecting the performance of recently acquired International Healthway Corporation ("IHC"). The new segment reported SGD11.2mn in revenue. Gross margin increased 18.3% to SGD68.3mn, driven by the growth in total revenue. However, due to higher administrative expenses (resulting from the consolidation of IHC as well as the opening of Oakwood Premier), mitigated by stronger contributions from JV / Associates (such as OUE Hospitality Trust), operating profit was up 31.6% y/y to SGD50.0mn. However, lacking the large SGD27.8mn impairment reversal on the Twin Peaks seen in 2Q2016, profit after tax declined 52.8% y/y to SGD14.9mn. Operating cash flow (including interest service) was fair at SGD56.7mn, with OUE continuing to monetize Twin Peaks. Investment cash flows into capex (SGD4.7mn) and additions to investment properties (SGD45.6mn) were drags on cash though. OUE had also spent SGD19.7mn on increasing its IHC stake as well as SGD30.2mn in dividends. As such, OUE had to fund the cash gap with additional net borrowings of SGD99.6mn (which includes the SGD200mn bond issued in April 2017). In aggregate, net gearing worsened only slightly to 61% (1Q2017: 60%). We will retain our Neutral Issuer Profile on OUE. (Company, OCBC)

**Chip Eng Seng Corp Ltd ("CES"):** CES has entered into a 50-50 JV with Roxy-Pacific Holdings Ltd to acquire a Grade A office building in New Zealand for NZD174.0mn (SGD176mn). The property is 96.37% leased. According to CES, the acquisition is to diversify operating risk while improving recurring income. Following this acquisition and after accounting for the acquisition of the land parcel at Woodleigh Lane for SGD700.7mn, we expect net gearing to increase to 1.4x-1.5x. As such, we are currently reviewing CES's issuer profile. (Company, OCBC)

**Credit Headlines (Cont'd):**

**DBS Group Holdings Ltd. ("DBS"):** DBS reported its 2Q2017 results which continue to be impacted by loan quality concerns but nevertheless remain stable overall with flat total income performance y/y and q/q. This was due to better net interest income performance from loans growth, which mitigated the fall in net interest margins by 13bps y/y and 8bps q/q (due to lower SGD interest rates on interest bearing assets as well as an 8bps y/y and 2bps q/q rise in average rates on interest bearing liabilities). Net fee and commission income was down 4% q/q due to primarily to lower loan-related fees while other non-interest income was up 3% q/q due to better net trading income. For the 1H2017, total income was also flat y/y as stable net interest income and better net fee and commission income (mostly wealth management) was offset by lower other non-interest income (lower net trading income). Expenses were more or less contained due to ongoing digitalization and productivity initiatives with the cost to income ratio falling y/y (43.4% vs. 44% for 2Q2016 ) and marginally up q/q (43.4% vs. 43.2% for 1Q2017) with 1H2017 cost to income ratio improved (43.3% vs. 44.1% for 1H2016). Allowances for loan losses were down 17% y/y due to the high base in 2Q2016 but rose noticeably by 52% q/q. Allowance growth was entirely for specific allowances with the rise in allowances coming from Hong Kong and South and SEA Asia for exposures in the oil and gas support services sector. As a result of the loan loss performance, PBT was 7% up y/y but 6% down q/q. In terms of Segment wise total income performance, Consumer Banking/Wealth Management (lower y/y non-interest income from investment sales) and Institutional Banking (lower y/y loan-related and investment banking activities) was down q/q but assisted by stronger performance in Treasury Markets (increased interest rate and foreign exchange activities). Balance sheet growth was solid y/y indicating better operating conditions with total assets up 8% y/y and 1% q/q. This was driven by customer loans growth of 6% y/y and 2% q/q with broad based growth y/y and q/q growth in loans to manufacturing, building & construction, and general commerce segments. Housing loans were stable q/q. By geography, loans growth was concentrated in Singapore and Greater China. As mentioned previously, loan quality continues to be a challenge with non-performing loans up 2.5% q/q to SGD4.47bn with new NPL formation (mostly from South and South East Asia) offset by write-offs and recoveries. This resulted in the NPL ratio weakening marginally to 1.5% in 2Q2017 from 1.4% in previous quarters. Both specific and general allowances fell q/q and as such allowance coverage for NPLs fell to 108% for 2Q2017 from 114% for 1Q2017. Total allowances over unsecured NPA's remains strong however at 234%, a q/q improvement from 217% in 1Q2017. Funding and liquidity remains strong for DBS with 11% deposit growth y/y (likely a consequence of the y/y rise in average rates on interest bearing liabilities) and stable deposits q/q. Combined with loans growth trends, the loan to deposit ratio fell y/y (88.4% vs. 91.8% in 2Q2016) but was up marginally q/q (88.4% vs. 87.1% in 1Q2017). DBS' all currency liquidity coverage ratio was at 150%, up from 138% in 1Q2017. Given loans growth, capital ratios weakened marginally with risk weighted assets growth higher than the growth in Common Equity Tier 1 capital and Total capital. CET1/CAR ratios were 14.4%/16.5% for 2Q2017 against 14.6%/16.6% for 1Q2017 (14.1%/16.2% as at FY2016). On a fully loaded basis, DBS' CET1 ratio was 14.0% as at 1Q2017, well above the regulatory minimum of 8.0%. Additionally, DBS' leverage ratio of 7.9% remains well above the minimum Basel III requirement of 3%. In all, we expect robust earnings and DBS' solid and well-funded balance sheet to mitigate still elevated non-performing loans. These strengths support our Neutral Issuer Profile on DBS. (Company, OCBC)

**Lippo Malls Retail Trust ("LMRT"):** LMRT reported 2Q2017 results. Revenue and NPI increased 6.6% y/y and 8.6% y/y to SGD49.9mn and SGD46.8mn respectively, mainly due to the acquisition of Kuta and positive rental reversions (2Q2017: +13.0%). With a positive outlook for retail growth, occupancy has inched up q/q to 94.3% (1Q2017: 93.8%). On the back of strong reversions and outlook, we think that LMRT will manage the 18% of leases that will expire in 2017. Aggregate leverage improved to 30.6% (1Q2017: 32.2%) mainly due to the issuance of a SGD120mn perpetual bond. However, if we account for the perpetual bond as half debt, half equity, aggregate leverage would increase to 36.7% (1Q2017: 35.7%). With strong performance and a positive retail outlook, we continue to hold LMRT at a Neutral Issuer Profile. (Company, OCBC)

**Credit Headlines (Cont'd):**

**Hongkong Land Holdings Ltd ("HKL"):** HKL reported 1H2017 results. Revenue surged 66% y/y to USD1.3bn in 1H2017, mainly due to the increase in sale of properties to USD783.9mn (1H2016: USD290.2mn). Meanwhile, underlying profit increased by 31.6% y/y to USD517mn in 1H2017, contributed by both investment properties (+5.6% y/y to USD433.5mn) and development properties (+50.4% y/y to USD110.4mn). Including revaluation gains of USD2.6bn (1H2016: USD870mn), net profit to shareholders increased by 247% y/y to USD3.1bn. The good results from the investment properties was mainly due to the outperformance in the Central's office portfolio, with vacancy lower at 1.5% (end-FY2016: 2.2%) while average office rent rose to HKD106 psf (2H2016: HKD103 psf). Meanwhile, occupancy rates for the Central retail portfolio was 99.4% (end-2H2016: 100%), with rents increasing to HKD224 psf (2H2016: HKD220 psf). However, the Singapore office portfolio softened to SGD9.1 psf (2H2016: SGD9.2 psf). Development Properties did well with contracted sales in Mainland China increasing to USD701mn in 1H2017 (1H2016: USD43mn, 2H2016: USD673mn), with sold but unrecognised contracted sales increasing to USD1.4bn (end-FY2016: USD1.1bn). Meanwhile, revenue was recognised from LakeVille project, which completed in 1H2017. Sol Acres and Lake Grande projects also sold with satisfactory results. Net gearing improved marginally to 5% (end-FY2016: 6%), mainly due to the slight reduction in net debt to USD1.9bn (from USD2bn). We continue to hold Hongkong Land at a Positive Issuer Profile. (Company, OCBC)

**Oxley Holdings Ltd ("OHL"):** OHL reported that it has acquired 7.11% of United Engineers Ltd ("UE") through open-market purchases, with SGD120.2mn in total consideration. It remains to be seen if OHL will take any corporate actions, given that UE has also been an acquisition target of the Yanlord-led consortium. After accounting for the recent purchases of Rio Casa, Pasir Panjang, Serangoon Ville, we expect net gearing to increase to 2.6x (2Q2017: 1.78x), though net gearing is expected to fall thereafter to 1.6x when OHL collects the expected SGD1bn sales proceeds from Royal Wharf. With debt levels remaining elevated, we continue to hold OHL at a Negative Issuer Profile. (Company, OCBC)

**CK Hutchison Holdings Limited ("CKHH"):** CKHH reported its interim financials for FY2017 ("1H2017"). Including proportionate contribution from JVs and associates, CKHH reported a 5% increase in revenue to HKD190.1bn in HKD terms (up 9% in local currency terms). Reported EBITDA (including proportionate contributions) in HKD terms was up 2% to HKD45.3bn, largely attributable to growth in 3 Group Europe (contribution from the Wind Tre joint venture in Italy), acquisitions made in the Infrastructure segment and improvements in the performance of Husky Energy. This was partly offset by lower contribution of the telecommunications segment in Asia. In 1H2017, dividends from associates and joint ventures amounted to HKD8.4bn while consolidated EBITDA was HKD22.8bn. We sum these up to get to a proxy for cash flow from operations before interest, tax and working capital ("CFO"). In 1H2017, CFO was HKD31.2bn and we find CFO/Interest expense healthy at 7.7x (1H2016: 8.5x). During the period, capex, acquisitions and investments in associates and joint ventures was significant at HKD26.2bn, exceeding the amount spent in the whole of FY2016 of HKD22.5bn. As at 30 June 2017, net gearing has increased somewhat to 0.32x (from 0.28x as at 31 December 2016), which is still healthy in our view. July was a busy month for CKHH, with two acquisitions and one divestment announced. The media has also reported that CKHH's health and beauty arm is looking at potentially buying a UK-business though this has not been confirmed by the company. The two acquisitions relate to (1) 72%-owned CK Infrastructure Holdings Limited ("CKI")'s 25% acquisition of CKP (Canada) Holdings Limited, a holding company with subsidiaries engaged in the building equipment services business for CAD715mn (~HKD4.4bn); and (2) 35%-stake acquisition by CKI of Ista International GmbH, a smart-metering company. CKI's maximum financial commitment will be EUR1.6bn (~HKD14.5bn). On 31/07/2017, Hutchison Telecommunications Hong Kong ("HTHKH") also entered into an agreement to sell its fixed-line telecommunications business for ~HKD14.5bn in cash to a US-based infrastructure private equity firm. CKHH holds a 66%-stake in HTHKH. All three transactions are subject to shareholders approval. In addition to the announced acquisitions/divestments, the media has also reported that CKHH's 75%-owned subsidiary AS Watson Group is in talks to buy Holland & Barrett for GBP1bn (~HKD9.9bn). Including the possible acquisition for Holland & Barrett and factoring in the cash to be received from the disposal of HTHKH's fixed line business, net gearing should stay below 0.4x. We are reviewing CKHH's Neutral issuer profile. (Company, SkyNews, OCBC)

**Credit Headlines (Cont'd):**

**Ascendas Hospitality Trust ("ASCHT "):** ASCHT has announced its results for the quarter ended 30 June 2018 ("1QFY2018"). Revenue increased by 2.2% y/y to SGD53.5mn. In SGD terms, ASCHT saw an increase in gross revenue across Australia and Japan. Gross revenue in China though was flat (weaker RMB against SGD offset gains in underlying performance) and the Park Hotel in Singapore continued to be dragged by weaker corporate travel demand. Net Property Income ("NPI") fell 1.5% y/y, as the Australian and Singapore properties saw a 6.1% and 4.3% decrease in NPI respectively, but this was partially mitigated by NPI growth in China (up 12.3%) and Japan (up 4.3%). Australia contributed 48% to NPI in 1QFY2018, slightly below the 50% contributed in 1QFY2017. NPI margin for Australia dropped to 29% (1QFY2017: 32%) following higher staff cost and higher commission cost on room bookings. Overall, portfolio performance was flattish. Net profit before tax rose 30% y/y to SGD7.2mn, mainly due to lower financing costs and foreign exchange losses. As at 30 June 2017, aggregate leverage was relatively constant at 32.7% (31 March 2017: 32.2%). ASCHT has looming refinancing needs, with SGD110.6mn (representing 20% of gross debt) coming due in the next 12 months (4QFY2017: SGD64.3mn, 11.6% of gross debt). Weighted average debt maturity has decreased from 2.8 years in the previous quarter to 2.5 years this quarter, and cash/ current borrowings has fell from 1.3x to 0.6x over the same period. ASCHT paid out SGD33.9mn in distributions to stapled security holders (distributions are paid semi-annually), and this was funded via net cash flow from operations (after interest paid) of SGD19.0mn and a SGD17.2mn draw down in cash balances. However, we see refinancing risk as low as funding sources for ASCHT remain accessible. Management has stated that it is in negotiations to refinance its debt coming due. ASCHT has SGD885mn of unencumbered assets as of 31 March 2017. We think this figure had remained relatively constant as at 30 June 2017 as no new debt has been raised, and this could allow ASCHT to obtain secured bank borrowings, if need be. Alternatively, the group could refinance its current borrowings via the debt capital markets, which it did in 2QFY2017. In light of the manageable refinancing risk, we maintain ASCHT issuer profile at Neutral. (Company, OCBC)

**Mapletree Logistics Trust ("MLT"):** MLT has announced the proposed divestment of 4 Toh Tuck Link in Singapore for SGD14.5mn, slightly higher than the book value of SGD14mn as at 31 March 2017. The property is 60%-occupied following the expiry of a master lease in August 2016. In company's view, there is limited scope to increase the gross floor area of the property (current plot ratio of 1.5 as compared to the maximum allowable 1.6). This is a small transaction for MLT, whose total assets was SGD5.25bn as at 31 March 2017. The transaction is in line with MLT's efforts to rejuvenate its portfolio. (Company, OCBC)

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