# Asian Credit Daily

**November 6, 2017**

**Credit Headlines (Page 2 onwards):** DBS Group Holdings Ltd, Société Générale SA, Westpac Banking Corporation, ABN Amro Group NV, Chip Eng Seng Corp Ltd, BreadTalk Group Ltd, Heeton Holdings Ltd, Perennial Real Estate Holdings Ltd

**Market Commentary:** The SGD swap curve traded upwards on Friday, with swap rates trading 1-4bps higher across all tenors. The belly of the curve moved less as compared to the shorter and longer-ends of the curve. Flows in SGD corporates were heavy, with better buying seen in HRAM 3.8%'25s, and mixed interest seen in HSBC 4.7%-PERPs, OLAMSP 5.5%-PERPs, and PILLSP 7.25%'18s. In the broader dollar space, the spread on JACI IG Corp rose 1bps to 178bps, while the yield on JACI HY Corp fell 1bps to 6.85%. 10Y UST yields fell 1bps to 2.33% on Friday, after Non-Farm Payroll data came in weaker than expected.

**New Issues:** Kaisa Group Holdings Ltd has priced re-taps on four-tranches of existing bonds, with the USD30mn re-tap of its KAISAG 7.25%'20s priced at 99.5; the USD100mn re-tap of its KAISAG 7.875%'21s priced at 99.5; the USD215mn re-tap of its KAISAG 8.50%'22s priced at 99.5; and the USD274mn ret-tap of its KAISAG 9.375%'24s priced at 100.0. China Wanda International Funding Pte Ltd has scheduled investor meetings for potential USD bond issuance from 6 Nov. Telstra Corp Ltd has scheduled investor meetings for potential USD bond issuance from 6 Nov. QBE Insurance Group has scheduled investor meetings for potential USD Perp AT1 issuance from 6 Nov. The expected issue ratings are 'NR/Baa3/BBB-'.

**Rating Changes:** There are no rating changes on 3 Nov 2017.

**Table 1: Key Financial Indicators**

| | 6-Nov | 1W chg (bps) | 1M chg (bps) | | 6-Nov | 1W chg | 1M chg |
|---|---|---|---|---|---|---|---|
| iTraxx Asiax IG | 75 | 0 | -3 | Brent Crude Spot ($/bbl) | 62.23 | 2.18% | 11.88% |
| iTraxx SovX APAC | 15 | 0 | -2 | Gold Spot ($/oz) | 1,270.19 | -0.48% | -0.51% |
| iTraxx Japan | 48 | 0 | 3 | CRB | 189.38 | 1.33% | 4.66% |
| iTraxx Australia | 65 | 0 | -4 | GSCI | 420.59 | 1.64% | 7.34% |
| CDX NA IG | 53 | 0 | -1 | VIX | 9.14 | -6.73% | -5.28% |
| CDX NA HY | 108 | 0 | 0 | CT10 (bp) | 2.336% | -3.23 | -2.28 |
| iTraxx Eur Main | 50 | -1 | -8 | USD Swap Spread 10Y (bp) | -2 | 0 | 2 |
| iTraxx Eur XO | 224 | -4 | -24 | USD Swap Spread 30Y (bp) | -26 | 3 | 7 |
| iTraxx Eur Snr Fin | 50 | -2 | -10 | TED Spread (bp) | 22 | -6 | -7 |
| iTraxx Sovx WE | 4 | 0 | -1 | US Libor-OIS Spread (bp) | 10 | -1 | -4 |
| iTraxx Sovx CEEMEA | 45 | 3 | 5 | Euro Libor-OIS Spread (bp) | 3 | 0 | 0 |
| | | | | | 6-Nov | 1W chg | 1M chg |
| | | | | AUD/USD | 0.766 | -0.42% | -1.43% |
| | | | | USD/CHF | 1.001 | -0.64% | -2.10% |
| | | | | EUR/USD | 1.161 | -0.32% | -0.99% |
| | | | | USD/SGD | 1.364 | -0.25% | 0.06% |
| Korea 5Y CDS | 69 | -4 | -1 | DJIA | 23,539 | 0.45% | 3.36% |
| China 5Y CDS | 54 | 3 | -5 | SPX | 2,588 | 0.26% | 1.51% |
| Malaysia 5Y CDS | 64 | 1 | -2 | MSCI Asiax | 700 | 1.62% | 3.48% |
| Philippines 5Y CDS | 64 | 1 | 0 | HSI | 28,437 | 0.35% | -0.08% |
| Indonesia 5Y CDS | 95 | 1 | -5 | STI | 3,374 | -0.07% | 2.51% |
| Thailand 5Y CDS | 48 | 1 | -1 | KLCI | 1,743 | -0.30% | -1.18% |
| | | | | JCI | 6,052 | 1.31% | 2.48% |

*Source: OCBC, Bloomberg*

**Table 2: Recent Asian New Issues**

| Date | Issuer | Ratings | Size | Tenor | Pricing |
|---|---|---|---|---|---|
| 3-Nov-17 | Kaisa Group Holdings Ltd | Not Rated | USD30mn | KAISAG 7.25%'20s | 99.5 |
| 3-Nov-17 | Kaisa Group Holdings Ltd | Not Rated | USD100mn | KAISAG 7.875%'21s | 99.5 |
| 3-Nov-17 | Kaisa Group Holdings Ltd | Not Rated | USD215mn | KAISAG 8.50%'22s | 99.5 |
| 3-Nov-17 | Kaisa Group Holdings Ltd | Not Rated | USD274mn | KAISAG 9.375%'24s | 100.0 |
| 2-Nov-17 | HNA Group (International) Co | Not Rated | USD300mn | 363-day | 8.875% |
| 2-Nov-17 | Suncorp-Metway Ltd | 'A+/A1/A+' | USD500mn | 3-year | CT3+68bps |
| 2-Nov-17 | Heungkuk Life Insurance Co Ltd | 'NR/Baa3/BBB-' | 30-year NC5 | 30-year | 4.475% |
| 2-Nov-17 | Vanke Real Estate (Hong Kong) Company Ltd | 'BBB+/NR/NR' | USD1bn | 10-year | CT10+165bps |
| 2-Nov-17 | Indika Energy Capital III Pte Ltd | 'NR/B2/B+' | USD575mn | 7NC4 | 6.125% |
| 1-Nov-17 | Industrial and Commercial Bank of China Ltd | 'NR/A1/NR' | USD500mn | 3-year | 3mL+75bps |

*Source: OCBC, Bloomberg*

**Credit Headlines:**

**DBS Group Holdings Ltd ("DBS"):** DBS reported its 3Q2017 results which are characterized by a material jump in allowances for credit and other losses which were up 87% y/y to SGD815mn. This includes a SGD850mn writeback of general allowances meaning that specific allowances actually rose by SGD1.39bn to SGD1.66bn y/y in 3Q2017. Almost all of the increase occurred in Singapore (+SGD1.26bn y/y) with specific allowances also up for South and South East Asia exposures. According to management, the increase relates to oil and gas support service sector exposures and the higher recognition of these exposures as non-performing in line with the implementation of the Financial Reporting Standard 109 (which requires provisioning to be based on expected future credit losses rather than actual credit losses). As such, non-performing loans (NPLs) rose 43% y/y and 24% q/q to SGD5.55bn (in contrast United Overseas Bank Ltd NPLs grew 7.2% y/y and 8.1% q/q). This factor overshadowed DBS' otherwise solid revenue momentum with net interest income for 3Q2017 up 9% y/y and 5% q/q (due to solid loans growth of 8% y/y and 4% q/q and the acquisition effects of ANZ's wealth and retail banking businesses) and net fee income up 12% y/y and 8% q/q due to solid performance in wealth management and investment banking fees. Other non-interest income was down 20% y/y and stable q/q due to the inclusion of the property disposal gain in 3Q2016 and lower trading income. While expenses were also up 5% y/y due to revenue related and other costs, the higher allowances were ultimately the key driver of 3Q2017 profit before tax being lower by 24% y/y and 27% q/q. In terms of loan quality, DBS' NPL ratio deteriorated to 1.7% as at 30 September 2017 from 1.3% as at 30 September 2016 and 1.5% as at 30 June 2017 as the NPL recognition and NPL growth rate exceeded loan growth. Given the above trends in loans growth and earnings, capital ratios weakened as capital levels fell due to earnings being offset by dividends paid and redemption of capital instruments. At the same time, risk-weighted assets were higher due to loans growth and contribution from ANZ's wealth management and retail banking business. As at 30 September 2017, DBS' CET1/CAR ratios were 14.0%/15.6% for 3Q2017 against 14.4%/16.5% for 2Q2017 (14.1%/16.2% as at FY2016). On a fully loaded basis, DBS' CET1 ratio was 13.6% as at 3Q2017, well above the regulatory minimum of 8.0%. Additionally, DBS' leverage ratio of 7.5% remains well above the minimum Basel III requirement of 3%. In all, while loan quality continues to plague DBS results, its strong positions against regulatory requirements provides some mitigation. The results do not affect the neutral issuer profile for DBS. (Company, OCBC)

**Société Générale SA ("SG")**: SG announced its 3Q2017 results last Friday with net banking income down 0.9% y/y to EUR5.96bn. As per prior quarters, overall group performance was held back by soft performance in French Retail Banking (-5.0% due to a 13.9% y/y fall in net interest income from low interest rates and an exceptional adjustment for hedging costs which was partially offset by a 4% y/y rise in commissions) and Global Banking and Investor Solutions (-14.9% y/y from lower trading activity and asset and wealth management income although financing and advisory revenues were stable) while International Retail Banking & Financial Services continues to perform solidly with net banking income up 3.8% due to broad based y/y improvement across retail banking and insurance. Operating expenses were contained and actually fell y/y for 3Q2017 by 0.4% as cost savings plans in Global Banking & Investor Solutions mitigated ongoing retail banking investments. However due to the higher fall in net banking income, gross operating income fell 1.9% y/y to EUR1.96bn. SG's underlying commercial cost of risk continues to improve in line with better operating conditions at all of SG's business segments, particularly the International Retail Banking and Financial Services segment with the net cost of risk of EUR212mn 49% lower y/y. In line with the lower cost of risk, SG's reported gross doubtful outstandings ratio was lower y/y at 4.5% for 3Q2017 (3Q2016: 5.1%) however risk costs falling further than gross doubtful outstandings meant that the reported gross coverage ratio for doubtful outstandings fell to 62% in 3Q2017 against 65% for 3Q2016. Reported cost of risk however was up 22.8% to EUR512mn as it includes an additional EUR300mn provision for litigation disputes with the US Government and this operating income for 3Q2017 down 8.4% y/y to EUR1.45bn. CET1 ratios were stable q/q and up marginally from FY2016 with 3Q2017 fully loaded CET1/CAR ratios at 11.7%/17.6% (2Q2017: 11.7%/17.7%; FY2016: 11.5%/17.9%) from a combination of earnings generation and lower risk weighted assets. Including senior non-preferred debt issues and other TLAC adjustments (senior preferred and others), SG's reported TLAC ratio was 21.6% as at 30 September 2017, slightly down from 21.9% as at 30 June 2017 but remaining above the 2019 minimum requirement of 19.5%. We maintain our Neutral issuer profile although the results show some weakness which could provide context ahead of the presentation of the bank's strategic plan at the end of November 2017. (OCBC, Company)

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

**Westpac Banking Corporation ("WBC")**: WBC released its 2HFY2017 and FY2017 results with reported cash net operating income stable h/h and up 2% y/y to AUD10.8bn and AUD21.6bn respectively. This was driven by solid net interest income performance (up 4% h/h and 2% y/y due to solid loans growth which mitigated lower net interest margins from higher funding costs (deposit competition wholesale funding), inclusion of the bank levy, the need to maintain higher liquid balances and lower interest rates) which mitigated softer non-interest income (-9% h/h and -1% y/y as provisions for customer refunds and lower wealth management income overshadowed divestment gains for BT Investment Management Limited (BTIM), higher trading income and positive movements in economic hedges). Operating expenses were up 2% due to revenue related expenses and higher investment, regulatory and compliance costs but the driver of WBC's better earnings performance for FY2017 with operating profit before income tax up 4% y/y was a 24% fall in impairment charges. Reflecting the lower impairments, the reported impaired assets to gross loans ratio fell 10bps to 0.22% evidencing solid loan quality with the ratio of gross impaired assets provisions to gross impaired assets falling to 46.3% in FY2017 against 49.4% in FY2016. Segment wise, cash earnings grew strongest y/y in WBC's business bank from loans growth and improved fee income while consumer bank segment cash earnings grew 5% y/y as revenue growth from higher lending volumes was above expense growth. With the solid earnings performance, WBC's capital position remains strong with FY2017 APRA compliant CET1 capital ratio at 10.6%, compared to 10.0% for 1HFY2017 and 9.5% for FY2016 and above APRA's recently announced minimum 10.5% CET1 benchmark for 'unquestionably strong' capital ratios which are to be in place by January 2020. Based on international Basel III standards, WBC's CET1 ratio remains strong at 16.2% as at 30 September 2017 (15.3% as at 1HFY2017 and 14.4% in FY2016). Capital ratios benefited from a 100bps increase from cash earnings which mitigated a 50bps impact from interim dividends while risk weighted assets were stable h/h and fell y/y due to regulatory modelling changes. While we continue to go through the numbers, we do not expect to alter our Neutral issuer profile rating on WBC. (Company, OCBC)

**ABN Amro Group NV ("ABN"):** ABN has announced that due to the European Banking Authority's view on certain capital regulations as it relates to bank holding companies and the consolidation of capital instruments issued by subsidiaries (namely ABN AMRO Bank N.V.), ABN's Tier 1 Capital Ratio and Total Capital Ratio will be revised lower for FY2017. Fully loaded Tier 1 and Total Capital ratios for ABN as at 30 June 2017 are expected to be revised down to 18.9% and 22.4% respectively from the previously reported values of 19.5% and 25.7%. The interpretation relates to the maximum amount of outstanding Additional Tier 1 and Tier 2 instruments issued by ABN AMRO Bank N.V. which can contribute to ABN's capital ratios with the amount capped by ABN's own minimum own funds requirement. The interpretation does not impact ABN AMRO Bank N.V.'s current capital ratios or ABN's CET1 ratio and does not influence our Neutral issuer profile on ABN. (OCBC, Company)

**Chip Eng Seng Corp Ltd ("CES"):** Revenue increased 37.8% y/y to SGD209.2mn, mainly contributed by property developments (+114.7% y/y to SGD145.8mn) and hospitality (+47.6% y/y to SGD10.4mn) though construction revenues declined 31.9% y/y to SGD50.4mn. The increase in property development revenue was mainly due to progressive recognition of High Park Residences which was mostly sold. Meanwhile, Fulcrum sold more units (17 units worth SGD23.1mn in 3Q2017) and Grandeur Park Residences began to recognise revenues (which sold 34 units worth SGD45.8mn in 3Q2017). Net profit surged 105.7% y/y to SGD18.7mn due to increase in revenues and SGD13.8mn income from disposal of 420 St Kilda Road. Net gearing inched up to 0.86x (2Q2017: 0.82x) despite SGD70.8mn proceeds from disposal of 420 St Kilda Road as trade and other receivables increased by SGD219.6mn, which is mainly due to the deposit paid for the land parcel at Woodleigh Lane, which CES's 60%-owned subsidiary won for SGD700.7mn (refer to OCBC Asian Credit Daily – 12 Jul 2017). We expect net gearing to increase to ~1.4x after the remaining payments for the Woodleigh land parcel, SGD248.8mn for the enbloc acquisition of Changi Garden (refer to OCBC Asian Credit Daily – 17 Oct 2017) and SGD88mn for the acquisition of a Grade A office building in New Zealand (refer to OCBC Asian Credit Daily – 4 Aug 2017). Although we project that net gearing will be elevated, we continue to hold CES at a Neutral Issuer Profile, albeit precariously, as we believe CES will benefit from the recovery in the Singapore property market to move more units at Grandeur Park and Fulcrum. (Company, OCBC)

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

**BreadTalk Group Ltd ("BGL"):** BGL reported 3Q2017 results. Results were overall somewhat lacklustre though we think the credit profile remains intact. Revenue declined 2.0% y/y to SGD154.3mn, mainly due to Bakery (-1.7% y/y to SGD77.2mn) and Food Atrium (-4.5% y/y to SGD38.8mn) though Restaurant remains flattish (+0.9% y/y to SGD35.3mn). The decline in Bakery segment is likely due to lower revenue from direct operated stores at Shanghai and Beijing as well as franchise agreements of underperforming franchisees which still contributed revenue in China were terminated. For the Food Atrium, while same store sales has improved, revenue likely declined due to the decrease in the number of outlets by 3 y/y to 54. Reported EBITDA declined 4.6% y/y to SGD20.1mn. This is mainly due to the decline in the Bakery segment (-22.3% y/y to SGD7.4mn) and negative SGD1.7mn contribution from other segments of businesses (3Q2016: negligible EBITDA contribution) which include Sanpoutei Ramen, Carls Jr and Jumbo Seafood, though Food Atrium (+52.7% y/y to SGD5.9mn) and Restaurant (+9.3% y/y SGD8.3mn) continued to do well. Bakery's decline in EBITDA is due to weaker revenues, higher raw materials cost, closure of underperforming franchisees (which contribute high EBITDA margin) and lower profitability from direct operated stores in Singapore and Shanghai. Food Atrium's outsized improvements were due to same store sales recovery in China. Despite weaker EBITDA, net profit surged by 22.2% y/y to SGD4.0mn while core F&B net profit surged 30.0% y/y to SGD6.2mn, contributed by declines in depreciation (-12.9% y/y to SGD10.5mn). Net gearing remained unchanged q/q at 0.22x while reported net debt/EBITDA for 9M2017 improved to 0.71x (9M2016: 1.74x). While BGL intends to expand in UK (via Din Tai Fung) and China (via Song Fa) in 2018, we note that capex remains contained at SGD7.5mn in 3Q2017 (9M2017: SGD23.4mn). With a strong cashflow generation (9M2017 net cash from operating activities: SGD49.1mn), we continue to maintain BGL at a Neutral Issuer Profile. (Company, OCBC)

**Heeton Holdings Ltd ("HHL"):** HHL owns 20% of the development at High Park Residences. As CES reported strong results in property development that was contributed by progressive recognition from High Park Residences, we think that HHL may similarly report a significant contribution from this development. (OCBC)

**Perennial Real Estate Holdings Ltd ("PREH"):** PREH announced that it will be acquiring an additional 5.49% stake in Chinatown Point Mall for SGD8.5mn, which will increase its stake to 50.64%. (Company)

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