Asian Credit Daily

November 9, 2017

Credit Headlines (Page 2 onwards): ABN Amro Group NV, Fraser and Neave Ltd, Singapore Telecommunications Ltd, Soilbuild Business Space REIT, Aspial Corp Ltd, Suntec Real Estate Investment Trust, Ezion Holdings Ltd

Market Commentary: The SGD swap curve bull-steepened slightly yesterday, with the shorter 1-year and 2-year tenors trading 1bps higher, while the longer tenors traded 1-2bps lower. Flows in SGD corporates were heavy, with better buying seen in HRAM 3.8%'25s. In the broader dollar space, the spread on JACI IG Corp traded little changed at 180bps. Similarly, the yield on JACI HY Corp traded little changed at 6.83%. 10Y UST yields rose 2bps to 2.34%, as the rise in oil prices pushed yields higher across the treasury curve.

New Issues: Suntec REIT, acting through HSBC Institutional Trust Services (Singapore) Limited, has priced a SGD300mn 7-year convertible bond at 100.0. The bonds will bear interest at 1.75%, and the initial conversion price is set at SGD2.189 for each new unit. ICBCIL Finance Co has priced a two tranche deal (supported with a keepwell, liquidity support deed/deed of asset purchase undertaking by ICBC Financial Leasing Co), with the USD700mn 5-year bond priced at CT5+115bps, tightening from initial guidance of CT5+140bps area; and the USD250mn 10-year bond priced at CT10+132.5bps, tightening from initial guidance of CT10+150bps area. The expected issue ratings are 'NR/A2/A'. Redco Properties Group Ltd has priced a USD250mn 364-day bond at 7.00%, tightening from initial guidance of 7.5% area.

Rating Changes: S&P has upgraded Energy Partnership (Gas) Pty Ltd's (EPG) issuer credit rating to 'BBB+' from 'BBB'. The outlook is stable. The rating action reflects EPG's operational and financial improvement on the back of a supportive tariff reset. S&P has affirmed Melco Resorts (Macau) Ltd's (Melco Resorts) 'BB' long-term corporate credit rating, while revising the outlook to stable from negative. The rating action reflects S&P's view that the operating cash flow of its immediate parent, Melco Resorts & Entertainment Ltd (MLCO) will provide a sufficient financial buffer against the group's high dividend payouts.

Table 1: Key Financial Indicators

	9-Nov	1W chg (bps)	1M chg (bps)		9-Nov	1W chg	1M chg
iTraxx Asiax IG	79	3	1	Brent Crude Spot ($/bbl)	63.63	4.97%	14.05%
iTraxx SovX APAC	16	1	-1	Gold Spot ($/oz)	1,280.98	0.38%	-0.24%
iTraxx Japan	48	0	3	CRB	191.89	2.10%	6.04%
iTraxx Australia	67	2	-2	GSCI	427.39	2.81%	8.90%
CDX NA IG	55	2	1	VIX	9.78	-4.12%	1.35%
CDX NA HY	108	0	0	CT10 (bp)	2.328%	-1.75	-3.14
iTraxx Eur Main	52	2	-5	USD Swap Spread 10Y (bp)	-2	0	3
iTraxx Eur XO	234	9	-14	USD Swap Spread 30Y (bp)	-26	-1	6
iTraxx Eur Snr Fin	52	2	-8	TED Spread (bp)	19	-4	-10
iTraxx Sovx WE	4	0	-1	US Libor-OIS Spread (bp)	9	-1	-5
iTraxx Sovx CEEMEA	49	7	8	Euro Libor-OIS Spread (bp)	3	#N/A N/A	0
					9-Nov	1W chg	1M chg
				AUD/USD	0.769	-0.34%	-0.85%
				USD/CHF	1.000	-0.03%	-1.99%
				EUR/USD	1.160	-0.51%	-1.21%
				USD/SGD	1.362	-0.21%	0.10%
Korea 5Y CDS	73	2	2	DJIA	23,563	0.55%	3.52%
China 5Y CDS	59	5	-1	SPX	2,594	0.58%	1.95%
Malaysia 5Y CDS	67	3	1	MSCI Asiax	703	0.76%	4.14%
Philippines 5Y CDS	67	3	2	HSI	29,148	2.21%	2.90%
Indonesia 5Y CDS	101	6	0	STI	3,425	1.30%	4.04%
Thailand 5Y CDS	50	2	1	KLCI	1,744	0.15%	-1.16%
				JCI	6,064	0.54%	2.52%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
8-Nov-17	Suntec REIT	Not Rated	SGD300mn	7-year	100.0
8-Nov-17	ICBCIL Finance Co	'NR/A2/A'	USD700mn	5-year	CT5+115bps
8-Nov-17	ICBCIL Finance Co	'NR/A2/A'	USD250mn	10-year	CT10+132.5bps
8-Nov-17	Redco Properties Group Ltd	Not Rated	USD250mn	364-day	7.00%
7-Nov-17	Eastern Air Overseas (Hong Kong) Corporation Limited	Not Rated	SGD500mn	3-year	2.8%
7-Nov-17	SMRT Capital Pte Ltd	'NR/NR/AAA'	SGD300mn	3-year	1.6%
7-Nov-17	KWG Property Holding Ltd	'NR/NR/BB-'	USD300mn	7NC4	5.875%
7-Nov-17	Yunnan Energy Investment Overseas Finance Company Ltd	'NR/NR/BBB+'	USD300mn	3-year	CT3+215bps
7-Nov-17	Yunnan Energy Investment Overseas Finance Company Ltd	'NR/NR/BBB'	USD300mn	5-year	CT5+235bps
6-Nov-17	OUE Treasury Pte Ltd	Not Rated	SGD200mn	5.5-year	3.55%

Source: OCBC, Bloomberg

Rating Changes (Cont'd): Moody's has affirmed Reliance Rail Finance Pty Ltd's (RRF) 'Ba2' senior secured debt and senior secured bank credit facility ratings, as well as its 'B1' senior subordinated debt rating, while revising the outlook to positive from stable. The rating action reflects Moody's view that there is an increased likelihood that RRF will be successful in refinancing, given supportive capital market conditions. Fitch has upgraded Emeco Holdings Limited's (Emeco) Long-Term Issuer Default Rating (IDR) to 'B-' from 'CCC'. The outlook is stable. The rating action reflects Fitch's view that Emeco's financial profile will continue to improve post its merger with Andy's Earthmovers (Asia Pacific) Pty Ltd and Orionstone Holdings Ltd, and its equity-funded acquisition of Force Equipment Pty Ltd.

Credit Headlines:

ABN Amro Group NV ("ABN"): ABN announced its 3Q2017 and 9M2017 results with 3Q2017 underlying net profit up 10.9% y/y to EUR673mn. Earnings performance was driven by improvements on the cost side with cost saving programs, IT transformation and a reduction in employees pushing operating expenses 12% lower y/y for 3Q2017 and reducing the underlying cost to income ratio to 56.9% for 3Q2017 against 61.8% in 3Q2016. Risk costs also reduced 80% y/y to just EUR5mn, in line with prior quarter trends given Netherland's improving economic fundamentals. Positive cost performance mitigated a 4% y/y fall in operating income due to a 1% y/y fall in net interest income. Net interest income fell mainly due to the sale of ABN's Asian private banking business in 2Q2017 amidst corporate banking and mortgage loans growth and improvement in underlying net interest margins by 4bps to 1.54%). Additionally, there was also a 9% fall in net fee and commission income (fee changes in retail banking, lower clearing fees, and lower markets related fees). Other operating income also fell 24%. Excluding the sale of its Asian private banking business and other non-recurring items (or "incidentals" as ABN terms them) such as provisions for discontinued securities financing activities and restructuring, insurance claim settlement and positive revaluation effects, net income performance improved y/y according to management. Q/q trends for 3Q2017 were weaker than y/y trends with net interest income lower q/q due to absence of private banking income in 3Q2017, higher releases of reserved net interest income in 2Q2017 and lower loan volumes which also impacted q/q trends in net fee and commission income. Operating income was down 15% q/q and operating profit before tax down 25% q/q. Year to date results however remain solid and reflect the stronger operating results in 1H2017 with operating income up 7% y/y for 9M2017 (loan volume growth and divestment proceeds) and overall operating expenses (including impairment charges) down 3% and translating into operating profit before tax for 9M2017 improving 25% y/y. Overall loans were stable q/q and remain up by 1.7% from FY2016 with lower corporate and institutional banking loans (due to USD depreciation) offset by corporate banking and mortgage loans growth. In constant currency terms, corporate and institutional banking loans would have grown marginally. Loan quality indicators were stable q/q and remain improved compared to FY2016 with the reported past due ratio at 1.3% as at 3Q2017 (FY2016: 1.4%) and the reported impaired ratio at 2.9% as at 3Q2017 (FY2016: 3.3%). Owing to risk costs declining faster than the decline in impaired loans, the reported impaired loan coverage ratio fell to 34.7% in 3Q2017 from 38.4% in FY2016. Lower impaired loans was due to a combination of write-offs, impaired exposures returning to performing status and (to a lesser extent) currency movements. Risk weighted assets ("RWA") grew 1.7% q/q and 1.4% since FY2016 with movements in credit RWAs mitigating movements in operational RWAs while market RWAs continued to decline throughout FY2017 YTD. This, combined with the solid earnings generation, contributed to ABN's capital ratios improving compared to FY2016 with ABN's fully loaded CET1 ratio of 17.6% for 3Q2017, 60bps up from 17.0% for FY2016. This remains well above its current minimum Supervisory Review and Evaluation Process CET1 requirements of 9% with capital ratios for 3Q2017 excluding the call of ABN's SGD1bn Tier 2 (called in October) and issuance of a EUR1bn AT1 instrument in September and settled in October. As mentioned previously, (refer to Asian Credit Daily – 06 Nov 2017), 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.) had no impact on ABN's CET1 capital ratio although its Tier 1 Capital Ratio and Total Capital Ratio will be revised lower for FY2017. Despite slight weakness in 3Q2017 results q/q, the YTD trends remain consistent with improvement in ABN's operating environment and we maintain ABN's Neutral issuer profile. (Company, OCBC)

Credit Headlines (Cont'd):

Fraser and Neave Ltd ("FNN"): FNN reported results for the financial year ended 30 September 2017 ("FY2017") results. Stripping out the exceptional gains due to the reclassification of Vinamilk (refer to OCBC Asian Credit Daily – 10 Aug 2017), core operating results (less Vinamilk) appears to be distinctively weaker. 4QFY2017 revenue was lower by 3.6% y/y to SGD468.9mn, dragged down by the softening in the Beverages segment (-15.4% y/y to SGD105.2mn). This was mainly due to weaknesses from Malaysia, which saw revenue lower by 19% y/y (-15% y/y in local currency ("LCL")), impacted by weak consumer sentiments and we think this is exacerbated by competition (e.g. Coke and Pepsi slashing prices). The overall decline in Beverages was somewhat mitigated due to revenue growth from CHANG beer sales and contribution from the Warburg vending machines, though soft drink sales in Singapore remains weak. Dairies and Publishing & Printing segments remain relatively unchanged at SGD279.1mn and SGD84mn respectively though the performance of the underlying geographies differs. For the Dairies segment, similar to the Beverages segment, Malaysia reported 7% y/y lower revenue (-3% in LCL) with domestic market impacted by subdued consumer confidence and competitive pricing though Thailand performed better with revenues higher by 4% y/y (+1% in LCL) due to double digit increase in exports with increasing distribution in IndoChina. For the full year, revenues were lower by 4.1% y/y to SGD1.9bn mainly due to the softening in the Beverages segment (-12.7% y/y to SGD499.3mn). While PBIT was lower by 1.6% y/y to SGD173.6mn for FY2017. Removing the contribution from associates, which include Vinamilk, PBIT (core) would have declined 31.8% y/y to SGD120.4mn. Instead of contributing to product diversification in earnings, Vinamilk's profitability as of FY2017 was contributed solely by the Dairies segment, with PBIT losses in Beverages at SGD3.9mn (FY2016 PBIT: +SGD23.0mn). Nevertheless, the overall business remains cashflow generative and with the receipt of SGD32.6mn dividends from Vinamilk, net gearing improved q/q to 5.4% (3QFY2017: 6.2%). Despite the weak core results, we recognise that FNN has not made further purchases of shares in Vinamilk following its reclassification as an associate stake. The CFO of FNN, according to Bloomberg, has also commented that Sabeco's market price (which FNN may see as an acquisition target) is far in excess of its fair value. As such, despite weakening profitability, we continue to hold FNN at a Neutral Issuer profile due to its healthy net gearing and still cashflow generative Dairies business. (Company, Bloomberg, OCBC)

Singapore Telecommunications Ltd ("SingTel"): SingTel reported 2QFY2018 results for the quarter ending 30 September. Overall results remain decent with SingTel's diversity of revenue sources. Revenue is higher by 6.9% y/y to SGD4.4bn, mainly due to growth in the Group Consumer (+2.3% y/y to SGD2.4bn) and Group Enterprise segments (+5.5% y/y to SGD1.7bn) while Group Digital Life also did well (+105.5% y/y to SGD277mn). The good performance from the Group Consumer segment was mainly due to the stronger AUD relative to SGD, with operating revenues lower in Singapore (-2.1% y/y to SGD564mn) due to lower equipment sales (due to timing of smartphone launches) and voice revenues and Australia (-1.0% y/y to AUD1.7bn) with lower sales of equipment (also due to timing of smartphone launches). Group Enterprise reported better results, mainly driven by growth in ICT services (+13.8% y/y to SGD811mn) in Singapore and Australia. For Group Digital Life, the increase is fuelled mainly by SGD392mn acquisition of Turn in April 2017 and growth in Amobee's media business. SingTel's overall EBITDA grew 4.8% y/y to SGD1.3bn, mainly due to growth in the Group Consumer segment (+8.7% y/y to SGD846mn) though Group Enterprise (-5.4% y/y to SGD476mn) struggled. Group Consumer posted stronger EBITDA due to the timing of smartphone launches in Singapore (sales of smartphones contribute negative EBITDA due to the hefty subsidies), though we expect this to reverse in the next quarter with the recent launch of iPhone X, as well as stronger performance in Australia due to lower selling and administrative expenses. Group Enterprise reported poorer EBITDA due to the increased mix of ICT revenue as well as higher operating expenses, though we think that this could also be due to increased competition from StarHub (StarHub's Enterprise revenue grew 11.3% y/y to SGD109.4mn). Group Digital Life continues to see small negative EBITDA of SGD14mn, though this is an improvement from the negative EBITDA of SGD27mn a year ago with Amobee turning EBITDA positive of SGD11mn. Contribution from associates pre-tax profits fell 9.1% y/y to SGD659mn mainly due to Airtel as it struggled with continued price competition in India. Otherwise, other associates performed well, such as Telkomsel (+1.7% y/y to SGD371mn), AIS (+15.5% y/y to SGD83mn) while Intouch which was acquired in Nov 2016 began to contribute (SGD24mn). Reported net gearing improved to 23.8% (1QFY2018: 26.8%) which was impacted by SGD2.0bn divestment gains on NetLink Trust (with SingTel receiving net sales proceeds of SGD1.1bn in Jul 2017 and a SGD1.1bn loan that was repaid by NetLink Trust to SingTel). Net debt to EBITDA also improved marginally to 1.2x (from 1.3x in 1QFY2018). Due to the healthy credit metrics and diversified profile, we continue to maintain SingTel at a Positive Issuer Profile. (Company, OCBC)

Credit Headlines (Cont'd):

Soilbuild Business Space REIT ("SBREIT"): SBREIT announced that DBS Trustee Limited (in its capacity as trustee of SBREIT) had on 12 September 2017 issued a letter of demand to NK Ingredients Pte Ltd (Master Leasee at NK Ingredients building) for arrears amounting to SGD3.4mn. The Trustee holds a security deposit in the form of an insurance guarantee amounting to SGD5.1mn. SGD3.4mn had been called on 18 September 2017, in connection with non-observance of the lease agreement. Since then the SGD3.4mn from its claim has been received. As the tenant has not topped-up the security deposit amount, SBREIT's Trustee has called on the remaining balance of SGD1.7mn on 8 November 2017. In terms of next step, we expect SBREIT to re-market the building to new tenants, particularly in the chemical sector. We had factored in the non-continuation of NK Ingredients as a tenant and updated our view on SBREIT (please refer to OCBC Asia Credit - Soilbuild REIT Credit Update (23 Oct)). Despite the heightened counterparty credit risk at certain properties, we are maintaining SBREIT's issuer profile at Neutral. The issuer is within our parameters of Neutral under our downside scenario. (Company, OCBC)

Aspial Corp Ltd ("ACL"): Reported 3Q2017 results for the quarter ending 30 Sep. Revenue declined by 34% y/y to SGD109.4mn, mainly due to the real estate segment which saw revenues declining to SGD39.3mn (3Q2016: SGD98.8mn). However, we are not concerned as this is likely due to the timing issue in revenue recognition. Financial services segment (e.g. pawnshop) continues to contribute, increasing 11% y/y to SGD45.6mn. This segment may continue to grow as ACL intends to invest up to SGD30mn in 4Q2017 for its secured lending business. Meanwhile, jewellery segment remains lacklustre, with revenues declining 8.6% y/y to SGD26.3mn. Net profit fell 91% y/y to SGD1.3mn due to the lower revenue as well as lower foreign exchange gain of SGD0.8mn (3Q2016: SGD4.4mn) and absence of fair value gain on investment properties (3Q2016: SGD3.1mn). Net gearing remains high at 3.1x, largely unchanged q/q. Nevertheless, we expect ACL's credit profile to improve. As mentioned previously when we commented on World Class Global's results (refer to OCBC Asian Credit Daily – 7 Nov 2017), ACL is expected to receive more than SGD700mn in sales proceeds from its Australia projects in 2018. Together with the completions from the Singapore projects, the 2018 completions will contribute SGD900mn sales proceeds. ACL intends to use part of the sales proceeds to repay outstanding loans (SGD507.4mn loans and borrowings are current) and cover the remaining development costs for the projects. We also understand that ACL is likely to make substantial profits from these development projects. Though we expect gearing to strengthen when debt levels trend down (with repayment from sales proceeds) and equity to increase (when profits are recorded), we continue to hold ACL at a Negative Issuer Profile due to its current elevated levels of net gearing. (Company, OCBC)

Suntec Real Estate Investment Trust ("SUN"): SUN announced that it priced SGD300mn in convertible bonds (with potentially SGD50mn additional to be raised over the next 30 days due to the upsize option). The bond has a maturity of 7 years and cash coupon of 1.75%. The strike price of the convertible bond is SGD2.189 per share, or ~12% premium to SUN's last closing price of SGD1.955. Bondholders also have the option to put the bond back to the issuer on 30/11/20. We estimate that the effective return on the bond to be ~3.3% or ~120bps above 7 year SGD swaps. The bond would increase SUN's aggregate leverage to ~40%, though we note that SUN had stated that part of the proceeds will be used for refinancing. SUN has SGD105mn in bonds maturing on 12/11/18 and a SGD500mn loan facility due in 2018. Should the proceeds from the bond issue be used for refinancing, there would be no impact on SUN's credit profile. That said, we note that SUN may potentially acquire a further 25% - 50% stake in the Southgate, Melbourne. SUN had previously paid AUD154.9mn for their initial acquisition of 25% of Southgate (another 25% is currently held by a fund managed by Ara Asset Management, the manager of SUN), with the transaction completed on 04/11/16. The seller of the Southgate has 480 days following 04/11/16 to put the balance 50% to either SUN and/or the fund managed by Ara Asset Management. SUN also has the option from 510 days after 04/11/16 to buy the balance of Southgate from the seller. Any further Southgate stake acquisition would erode the aggregate leverage headroom which SUN has versus the 45% cap. (Company, OCBC)

Credit Headlines (Cont'd):

Ezion Holdings Ltd ("EZI"): EZI had reported 3Q2017 results. In our view, the biggest development would be the acknowledgement by management that impairment losses on EZI's assets are being assessed, across EZI's underutilized service rigs as well as offshore logistic vessels. Management has also acknowledged long overdue and disputed receivables on their balance sheet, and that these are also being assessed. We had flagged out our concerns over EZI's potential asset impairments a year ago (refer OCBC Asian Credit Daily - 10 November 2016), and most recently during our review of EZI's debt restructuring exercise (refer OCBC Asia Credit - Ezion Credit Update (24 Oct). Unfortunately, EZI would only finalize the assessment before the release of 4Q2017 results. This would mean however that EZI's 3Q2017 balance sheet figures are less than useful when ascertaining EZI's actual financial status. That said, EZI's income statement should reflect EZI's current performance. For 3Q2017, revenue declined sharply by 20.2% y/y to USD63.7mn (-5.5% q/q). This was due to the reduction in charter rates, drop in utilization of EZI's service rigs as well as further declines in utilization for EZI's OSVs. Comparatively, COGS remained sticky, declining just 5.7% y/y, causing gross profit to plunge by 88.0% y/y to just USD1.7mn (for a gross margin of 2.7%). Though EZI managed to trim SG&A expenses by 19.0% y/y, EZI faced a USD6.3mn FX loss due to the strengthening of the SGD against USD, resulting in FX losses on EZI's SGD-denominated bond liabilities. Even if we adjusted for the FX loss, EZI would have still generated an operating loss of USD3.3mn. These factors drove EZI to a net loss of USD13.7mn (3Q2016: USD9.4mn net profit). Operating cash flow (including interest service) was positive USD12.6mn for the quarter, recovering from -USD13.5mn seen in 2Q2017. After factoring USD9.5mn in capex though, free cash flow was just USD3.1mn. As a reference, EZI had paid out USD7.1mn in interest service during the quarter. EZI had also paid down USD47.3mn in net debt during the quarter. As a result, EZI's cash balance plunged further to just USD47.2mn. Comparatively, EZI has USD193.0mn in short-term secured debt (likely vessel financing) and USD97.3mn in short-term unsecured debt (including SGD60mn bond due 20/08/18). As such, EZI has significant liquidity needs in the near future, and is currently attempting to restructure and extend both its secured and unsecured debt. Net gearing has continued to worsen, inching higher to 106% (2Q2017: 104%) with EZI consuming its cash balance to plug its cash flow burn. That said though, with looming impairments likely to significantly reduce shareholder's equity, we expect net gearing to surge come 4Q2017 results. What's more key would be the outcome of the consent solicitation to restructure EZI's bonds, with the vote on 20/11/17. We will continue to monitor the situation closely and continue to hold EZI's Issuer Profile at Neutral. (Company, OCBC)

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