Asian Credit Daily

Mar 1, 2018

Credit Headlines: Malayan Banking Berhad, Citic Envirotech Ltd, CIMB Group, Soilbuild Business Space REIT

Market Commentary: The SGD swap curve flattened yesterday, with swap rates for the short tenors trading 1-3bps higher while the longer tenors traded 1bps higher. Flows in SGD corporates were moderate, with buying better seen in FPLSP 3.95%'21s and better selling seen in HSBC 4.7%-PERPs. In the broader dollar space, the Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 112bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 6bps to 337bps. 10Y UST yields fell 3bps to 2.86%, on the back of typical month-end buying to rebalance portfolios. The choppy trading on Wall Street also fed demand for longer-dated Treasuries.

New issues: Logan Property Holdings Co Ltd has priced a USD250mn 3NC2 bond (guaranteed by certain offshore subsidiaries of issuer) at 6.375%, tightening from its initial guidance of 6.625%. The expected issue ratings are 'NR/NR/BB-'. Agile Group Holdings has priced a USD300mn Perp NC5 bond at 6.875%, tightening from its initial guidance of 7%. The expected issue ratings are 'NR/B1/NR'. Guojing Capital (BVI) Ltd has priced a USD200mn re-tap of its GUOCAP 3.95%'22 bond (keepwell provider: China Reform Holdings Corp Ltd) at CT5+210bps, tightening from its initial guidance of CT5+235bps area. Clifford Capital Pte Ltd has priced a USD300mn 10-year bond (guaranteed by the Government of Singapore) at CT10+49bps, tightening from its initial guidance of CT10+55-60bps area. The expected issue ratings are 'AAA/NR/NR'. Mizuho Financial Group has priced a three-tranche deal with the USD850mn 5-year FXD priced at CT5+90bps, tightening from its initial guidance of CT5+105bps area; the USD850mn 5-year FRN priced at 3mL+79bps, in line with its initial guidance of 3mL+79bps area and the USD1.3bn 10-year bond priced at CT10+115bps area, tightening from its initial guidance of CT10+130bps area. The expected issue ratings are 'A-/A1/NR'. Rail Transit International Development Co Ltd has scheduled for investor meetings from 2 Mar for its potential euro green bond issuance (guaranteed by Tianjin Rail Transit Group (Hong Kong) Co Ltd). The expected issue ratings are 'NR/Baa1/A'.

Table 1: Key Financial Indicators

	1-Mar	1W chg (bps)	1M chg (bps)		1-Mar	1W chg	1M chg
iTraxx Asiax IG	67	-4	3	Brent Crude Spot ($/bbl)	64.67	-2.59%	-7.15%
iTraxx SovX APAC	12	-1	1	Gold Spot ($/oz)	1,314.62	-1.31%	-2.53%
iTraxx Japan	48	0	5	CRB	193.95	-0.12%	-2.22%
iTraxx Australia	59	-3	2	GSCI	443.38	-1.22%	-3.66%
CDX NA IG	56	-1	8	VIX	19.85	-0.85%	47.36%
CDX NA HY	107	0	-1	CT10 (bp)	2.864%	-5.65	7.46
iTraxx Eur Main	52	-2	9	USD Swap Spread 10Y (bp)	2	0	-2
iTraxx Eur XO	264	-5	25	USD Swap Spread 30Y (bp)	-18	-1	-6
iTraxx Eur Snr Fin	53	-3	11	TED Spread (bp)	38	9	2
iTraxx Sovx WE	19	-1	1	US Libor-OIS Spread (bp)	39	5	13
iTraxx Sovx CEEMEA	32	0	0	Euro Libor-OIS Spread (bp)	3	0	2
					1-Mar	1W chg	1M chg
				AUD/USD	0.773	-1.45%	-3.82%
				USD/CHF	0.945	-1.29%	-1.97%
				EUR/USD	1.220	-1.09%	-2.52%
				USD/SGD	1.325	-0.46%	-1.29%
Korea 5Y CDS	50	-2	2	DJIA	25,029	0.93%	-4.42%
China 5Y CDS	55	-4	0	SPX	2,714	0.46%	-3.83%
Malaysia 5Y CDS	61	-3	4	MSCI Asiax	729	0.27%	-4.30%
Philippines 5Y CDS	63	-3	4	HSI	30,817	-0.48%	-5.59%
Indonesia 5Y CDS	85	-4	4	STI	3,498	0.28%	-1.38%
Thailand 5Y CDS	39	-2	-2	KLCI	1,859	0.23%	-0.49%
				JCI	6,623	0.45%	0.37%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
28-Feb-18	Mizuho Financial Group	'A-/A1/NR'	USD1.3bn	10-year	CT10+115bps
28-Feb-18	Mizuho Financial Group	'A-/A1/NR'	USD850mn	5-year	3mL+79bps
28-Feb-18	Mizuho Financial Group	'A-/A1/NR'	USD850m	5-year	CT5+90bps
28-Feb-18	Clifford Capital Pte Ltd	'AAA/NR/NR'	USD300mn	10-year	CT10+49bps
28-Feb-18	Guojing Capital (BVI) Ltd	Not rated	USD200mn	GUOCAP 3.95%'22	CT5+210bps
28-Feb-18	Agile Group Holdings	'NR/B1/NR'	USD300mn	Perp NC5	6.875%
28-Feb-18	Logan Property Holdings Co Ltd	'NR/NR/BB-'	USD250mn	3NC2	6.375%
27-Feb-18	Korean Air Lines Co Ltd	Not rated	USD300mn	3-year	6%
27-Feb-18	Coastal Emerald Ltd	Not rated	USD400mn	363-day	4%
27-Feb-18	Yuzhou Properties Co Ltd	'B+/NR/BB-'	USD375mn	3NC2	6.375%

Source: OCBC, Bloomberg

Rating Changes: Moody's has raised the issuer rating and senior unsecured debt rating for China Resources Gas Group Ltd to 'A3' from 'Baa1'. The outlook was changed to stable from positive. The rating action reflects its improved operating performance and credit metrics. Fitch has upgraded COFCO (Hong Kong) Limited's long-term foreign-currency issuer default rating (IDR) and senior unsecured rating to 'A' from 'A-'. The Outlook on the IDR is Stable after removing it from Rating Watch Positive. The rating action follows an upgrade in Fitch's internal assessment of COFCO HK's sole owner, COFCO Corporation, after the publication of the Government Related Entities Rating Criteria on 7 Feb 2018. Fitch has upgraded Tenaga Nasional Berhad's long-term foreign and local-currency issuer default ratings to 'A-' from 'BBB+', removing it from Rating Watch Positive. The outlook is stable. The rating action follows the publication of the Government Related Entities Rating Criteria on 7 Feb 2018. Tenaga's credit profile is equalized to that of Malaysia to reflect its strong linkages with the sovereign. Fitch has upgraded AVIC International Holding Corporation's (AVIC International) long-term foreign and local currency issuer default ratings to 'A-' from 'BBB+'. The outlook is stable. The rating action follows Fitch's internal assessment of the consolidated credit profile of AVIC International's immediate parent, Aviation Industry Corporation of China (AVIC) under the Government-Related Entities Rating Criteria released on 7 Feb 2018. Fitch has downgraded Greenland Holding Group Co Ltd's long-term foreign and local currency issuer default ratings, as well as its senior unsecured rating to 'BB-' from 'BB', removing all the ratings from Rating Watch Negative. The outlook is negative. The rating action reflects Greenland's persistently high leverage of above 60% as the company has remained aggressive in expanding its land bank and took on more debt for its non-property business.

Credit Headlines:

Malayan Banking Berhad ("Maybank"): Maybank reported its 4Q2017 and FY2017 results. Total operating income rose 7.8% y/y with broad based growth across net interest income (+6.9% y/y to MYR12.1bn), income from Islamic banking operations (+17% to MYR4.9bn) and net earned insurance premiums (+18.2% to MYR5.3bn). Key drivers for the growth include improved net interest margin (+9bps y/y to 2.36%) while higher net earned insurance premiums, higher other operating income and higher net interest income drove insurance performance. Other operating income was marginally softer however (-4.2% y/y) as lower investment income and lower unrealized mark-to-market gain on revaluation of financial assets / liabilities at FVTPL and derivatives overshadowed gains on disposal of property, plant and equipment and higher realized gains on derivatives. Overhead expenses rose 8.3% due to higher personnel expenses and higher general and admin expenses but allowances continue to improve falling 32.7% y/y. This contributed to profit before tax and zakat (PBT) improving 14.2% to MYR10.1bn. Segment wise, PBT from Community Financial Services rose 23.4% y/y due to top line growth (net interest income, income from Islamic Banking) and lower impairment allowances which mitigated higher expenses. Similar drivers also pushed Corporate Banking & Global Markets PBT up 8.0% y/y while Investment Banking PBT fell 47.6% y/y from lower other operating income, higher expenses and higher impairment allowances. Loan balances were broadly stable to marginally higher y/y with total loans and advances up 1.6% y/y (lower than Maybank's targets) while the gross impaired loan ratio (includes restructured and rescheduled loans and impaired but performing loans due to triggers) weakened to 2.34% as at 31 December 2017 (2.28% as at 31 December 2016) given the bank's material exposure to oil and gas compared to domestic peers. The NPL ratio similarly weakened to 1.8% from 1.64% over the same period. Given the lower allowances through the P&L, the loan loss coverage ratio weakened to 71.5% as at 31 December 2017 from 72.0% as at 31 December 2016. On the liability side, overall deposits rose 3.4% with the mix improving as fixed deposits growth of 2.0% y/y was lower than growth in savings deposits (+5.1% y/y) and demand deposits (+3.9% y/y) and this contributed to the better net interest margins y/y. Owing to solid earnings performance, Maybank's capital ratios improved with CET1/CAR ratios (before proposed dividend) at 14.8%/19.4% for FY2017 against 14.0%/19.3% for FY2016 and remaining well above minimum requirements. We expect Maybank's solid performance to continue in 2018 given its strong market position in Malaysia positions the bank to take advantage of improving operating conditions domestically in 2018. We maintain our Neutral (3) Issuer Profile on Maybank. (Company, OCBC)

Credit Headlines (cont'd) :

Citic Envirotech Ltd ("CEL"): On 28 December 2017, CEL first announced a proposed equity placement of new shares in CEL to New Resources LLC amounting to SGD70.7mn (total of 83.2mn new shares at SGD0.85 per share). New Resources LLC is largely owned by Shandong Hi-speed CE Beijing Investment Fund Management Center (Limited Partnership) whose beneficial owners include Shandong State-Owned Assets Supervision and Administration Commission of the State Council and China Everbright Limited. Subsequently, the board has announced that CEL and the subscribers have agreed to amend agreements related to this placement to allow more time for conditions precedent to be fulfilled/waived. Conditions precedent for the transaction include (1) In-principle approval for the listing/quotation of the placement shares from the Singapore Stock Exchange (2) Regulatory approvals in China and (3) Cash injection of SGD70.38mn into New Resources LLC's Singapore bank account. Assuming the transaction is completed, New Resources LLC would hold 3.5% of the enlarged share capital in CEL. The transaction when completed, is a credit positive in our view, though insufficient to improve our issuer profile on the company. Similarly, we see no immediate urgency of cash from the equity raising and as such are credit neutral of the time delay. CEL faces SGD225mn bond due in April 2018 though as at 31 December 2017, CEL has SGD259.1mn in cash held at the Singapore listed entity. We hold CEL at Neutral(4). (Company, OCBC)

CIMB Group ("CIMB"): CIMB reported its 4Q2017 and FY2017 results with FY2017's net profit up by 25.6% (FY2017: MYR4.5bn vs FY2016: MYR3.6bn) attributed to strong growth in operating income (+9.7% y/y) and a fall in loan impairments (-7.4% y/y). Even though net interest margin remained flat at 2.63%, non-interest income (+12.8% y/y) and net interest income grew (+8.4% y/y) on the back of better capital market activity and improved fee income. Profits were partially offset by growing overhead expenses (+5.6% y/y) mainly due to higher personnel cost (+9%y/y) as well as poorer performance from its associates (-88.7% y/y). PBT surged 25.1% y/y to USD6.1bn, underpinned by growth across most business segments, particularly in Wholesale Banking (+53% y/y), Group Funding (+50.5%) and Consumer Banking (+11.8% y/y). CIMB's Consumer Banking performance was boosted by stronger non-interest income and net interest income from loans and deposit growth, with sustained cost management. Commercial Banking fell 18.1% y/y despite pre-provision operating profit increasing 12.2% y/y as profits were offset by increase in provisions (+26.1% y/y). Wholesale banking's PBT surged due to an increase in total income (+10%) as all its segments saw improved profitability particularly in its Investment Banking (+227.9% y/y) and Corporate Banking segment (+61.1% y/y). This was further supported by the reduction in provisions (-47.3%). Group Asset Management & Investments (GAMI) was a drag as PBT tumbled 39.4% y/y, due to soft performance in the private markets (-105.3% y/y) particularly due to weaker direct investments following the disposal of Bank of Yingkou. Group Funding PBT was higher due to lower funding costs and FX translation gains. As for the Group Islamic segment, PBT rose 21.8% to MYR1.2bn, as net financing and non-financing income grew by 19% y/y and 37.9% y/y respectively. PBT was supported by strong growth in Wholesale banking (+30% y/y), Commercial Banking (+30% y/y) and Group Funding (+73.3% y/y). CIMB Islamic has the 2nd largest total Islamic assets, with a market share of 12% as of 30 Sept 2017, behind Maybank Islamic (market share: 31%). CIMB Islamic asset expanded on the back of loan growth in Islamic Financing (+21.9% y/y) and Islamic Residential Mortgages (+20% y/y). CIMB's Non-Malaysian entities recorded improved profitability with overseas PBT contribution to total PBT rising to 31% in FY2017 (FY2016: 22%). This was attributed to significant growth particularly in Thailand (1214 y/y%) due to lower provisions as well as improved revenues in the Singapore segment (+46.9%). On the asset side, CIMB's overall gross loans were flattish (+0.2% y/y). Excluding FX effects however, loans growth were at 3.1% y/y . Growth in loans in consumer banking (+4% y/y) and commercial banking (+3.1% y/y) were offset by a fall in loan growth in wholesale banking (-5.9% y/y). On the liabilities side, deposits from customers rose 5.5% y/y to MYR357bn and this brought the loan to deposit ratio down to 90.8% (FY2016: 95.6%). Overall, as a result of solid earnings, cost to income ratio has fallen to 51.8% from 53.9% while CET1/CAR ratio has also strengthened to 12.2%/16.5% for FY2017 against 11.3%/16.6% for FY2016, remaining well above the minimum requirement. Both these indicators continue to show management's positive progress with its Target 2018 (T18) strategy. With CIMB's record operating income and PBT showing fundamentals remain intact, we maintain our Neutral (4) issuer profile on CIMB (OCBC, Company)

Credit Headlines (cont'd) :

Soilbuild Business Space REIT ("SBREIT"): SBREIT has completed the divestment of 61 Tuas Bay Drive & 71 Tuas Bay Drive ("KTL Offshore building") to the Sponsor. A deed of novation of the lease agreement in relation to the lease at KTL Offshore building has also been entered into. As at 31 December 2017, cash balance was SGD11.7mn and with the divestment, SBREIT's cash balance would have increased to SGD66.7mn. SBREIT would not be incurring divestment fee on the transaction. Short term debt at SBREIT amounts to SGD148.5mn (including the SGD93.5mn in bond due in May 2018 and ~SGD55mn in interest free loan due to Sponsor in August 2018). Additionally, SGD18.7mn in security deposits would also need to be refunded to the Sponsor with the pending Master Lease expiry of Solaris. While there is still refinancing risk at SBREIT over the next six months, we see this risk as manageable. Post sale of KTL Offshore, we estimate there is still ~SGD750mn in unencumbered investment properties which provides SBREIT with the financial flexibility to raise secured debt for refinancing, if need be.

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