Aug 10, 2018

Credit Headlines: Wharf Holdings Ltd, Frasers Property Ltd, Aspial Corp Ltd

Market Commentary

- The SGD swap curve steepened on Wednesday, with swap rates for the shorter tenors trading slightly higher (within 1bps) while the longer tenors traded 1-2bps higher.
- Flows in SGD corporates were light on Wednesday.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS was unchanged at 137bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 3bps to 470bps.
- 10Y UST yields fell 3bps to close at 2.93% on Thursday following the USD18bn 30-year bond auction which was relatively well received. The 30-year bond auction came on the heels of Wednesday's bumper USD26bn 10-year bond auction, which saw stronger than expected demand from investors and kept 10-year yields below 3.00%.

Credit Headlines:

Wharf Holdings Ltd ("WHARF") | Neutral (3)

- WHARF reported 1H2018 results. Revenue increased by 4% y/y to HK$7,823mn (excluding Wharf REIC's contribution), due to increase in revenue from investment properties by 27% y/y to HK$1.69bn and 4% increase for development properties to HK$3.9bn, partly offset by lower logistics revenue which is down 8% y/y to HK$1.3bn and exit from the CME segment. Contributions from investment properties are largely driven by the maturing Chengdu International Finance Square ("IFS") and the newly-opened Changsha IFS. Lower logistics revenue came about from lower throughput handled by Modern Terminals and a lower yield.
- Core profit (excluding Wharf REIC's contribution), on the other hand, fell by 9% y/y to HK$2,527mn. The decline is attributable to the development properties and logistics segments which declined by 24% y/y and 21% y/y respectively. Lower contribution from the Mount Nicholson joint venture in Hong Kong upon deferral of sales recognition from the signing of formal agreement to the completion of assignment under the new accounting standard led to the fall in core profit for development properties. That said, we expect this to be one-off.
- Mount Nicholson in Hong Kong continued to sell well with accumulated sales of 13 Houses at an average of HKD94,300psf and 32 Apartments at an average of HKD87,200psf for HKD22.7bn (2017: 5 houses and 14 apartments). On the retail front, sales continue to drive mall performance and we expect this to translate into stronger figures. Changsha IFS, opened in May 2018, has 97% retail area leased and strong monthly sales of approximately twice that of Chengdu IFS at full operation. In addition, Hotel Niccolo Changsha which will be opening in 4Q2018 and may possibly boost performance. Chengdu IFS saw sales growth 23% y/y to RMB2.9bn and 19% increase in foot traffic, evidently growth momentum continues to be strong.
- In 1H2018, WHARF made RMB14bn (approximately HKD16.1bn) new land acquisitions in various cities in China, including Foshan, Guangzhou, Hangzhou and Suzhou. We expect this trend to continue as WHARF has projected to spend another HKD10.8bn on China development properties.
- Net debt increased h/h to HK$29.3bn leading to net gearing ratio of 20.1% (end-2017: net cash). Cash was used for reinvestment in development properties projects in Hong Kong and the Mainland as well as in equity investments. Excluding non-resource debts, net debt is HK$22.5bn (end-2017: net cash). Although debt distribution is skewed towards the short term with HK$19.7bn maturing within 1 year, it should be manageable as WHARF continues to have healthy liquidity with HK$15.7mn of bank deposits and cash available. (Company, OCBC)

Credit Headlines (cont'd):

Frasers Property Ltd ("FPL") | Issuer Profile: Neutral (4)

- Reported 3QFY2018 results. Revenue was relatively flattish, declining 2.7% y/y to SGD1.4bn, though the results of the various businesses look mixed. For the Singapore SBU, revenue surged to SGD680.1mn (3QFY2017: SGD243.1mn) mainly due to the settlement of Parc Life EC and progressive profit recognition from Seaside Residences. The underperformer is Australia SBU, with revenue having declined to SGD288.3mn (3QFY2017: SGD682.5mn), due to the lumpiness of revenue and profit recognition of development projects. Hospitality SBU was flattish at SGD197.8mn (3QFY2017: SGD199.5mn). Europe & rest of Asia's revenue is down to SGD195.1mn (3QFY2017: SGD273.4mn), mainly due to the absence of completion of certain projects last year (e.g. settlement of Vauxhall Sky Gardens in UK).
- In-line with revenue trends, reported EBIT before fair value changes and exceptional items was flattish at SGD360.5mn (3QFY2017: SGD356.6mn). However, due to surge in net interest expense by 111.6% y/y to SGD70.4mn due to higher debt position y/y, profit before fair value changes, tax and exceptional items fell 10.3% y/y to SGD290.1mn.
- Net gearing fell to 91% q/q (from 96%), mainly due to higher net cash from operating activities of SGD729.8mn with (1) SGD380.7mn unlocked from properties held for sale, mainly from settlement of Parc Life EC though partly offset by cost recognition of Sunbury Fields and Cove in Australia and (2) increase in payables of SGD231.8mn due to higher amounts due to an associate in China.
- We continue to maintain FPL at Neutral (4) Issuer Profile, albeit precariously with the still somewhat high net gearing, due to the strong recurring income which forms 67% of PBIT, diversified portfolio of assets by geography and asset class as well as REIT vehicles which allow FPL to recycle assets. (Company, OCBC)

Aspial Corp Ltd ("Aspial") | Issuer Profile: Negative (6)

- Aspial reported 2Q2018 results. Revenue rose 103% y/y to SGD212.3mn. This is mainly due to the strong performance from the property segment (+321% y/y to SGD124.1mn) due to the settlement and handover of units for Avant and Australia 108 projects in Australia. The financial service business also did better (+10.5% y/y to SGD54.5mn) with higher interest income from pawnbroking, secured lending business and higher sales from retail and trading of jewellery and branded merchandise. Jewellery segment also did better (+31.2% y/y to SGD37.0mn) due to the maiden recognition of sales from Niessing brand and increase in sales from Aspial's gold bullion business.
- Due to the strong revenues, Aspial turned a net profit of SGD8.0mn (2Q2017: net loss of SGD6.3mn). This is mainly due to the surge of pre-tax profit of SGD10.4mn from real estate (2Q2017: pre-tax loss of SGD2.6mn), better performance from financial service division with SGD4.1mn pre-tax profit (2Q2017: SGD2.5mn) and a turnaround in the Jewellery segment with pre-tax profit at SGD1.0mn (2Q2017: pre-tax loss of SGD1.8mn).
- However, credit metrics remains weak with net gearing increasing q/q to 3.37x (1Q2018: 3.26x) due to interest payments made (SGD32.3mn) and increased trade and other receivables (SGD17.5mn). Aspial had extended higher amounts of secured loans for its financial service business while working capital for its overseas real estate business had risen. That said, in 2H2018, Aspial expects SGD690mn cash proceeds from settlement and handover of units for Avant and Australia 108, SGD350mn from CityGate project in Singapore with its TOP by end 2018. Apsial's intention is to use part of the cash proceeds to purchase some of the remaining term notes and bonds, including those in 2018, 2019 and 2020. We think this will be highly favourable for Aspial's credit profile, potentially pushing net gearing down to ~1x handle. However, while net gearing remains elevated, we continue to hold Aspial at a Negative (6) Issuer Profile, for now. (Company, OCBC)

Table 1: Key Financial Indicators

	10-Aug	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	80	-4	-11
iTraxx SovX APAC	10	-1	-4
iTraxx Japan	54	-2	-10
iTraxx Australia	72	-5	-10
CDX NA IG	59	0	-3
CDX NA HY	107	0	0
iTraxx Eur Main	64	1	-4
iTraxx Eur XO	293	2	-9
iTraxx Eur Snr Fin	80	2	-1
iTraxx Sovx WE	26	1	2
AUD/USD	0.737	-0.46%	-1.19%
EUR/USD	1.153	-0.37%	-1.86%
USD/SGD	1.367	-0.10%	-0.75%
China 5Y CDS	60	-4	-7
Malaysia 5Y CDS	83	-4	-17
Indonesia 5Y CDS	113	-5	-13
Thailand 5Y CDS	42	-2	-4

	10-Aug	1W chg	1M chg
Brent Crude Spot ($/bbl)	71.96	-1.71%	-8.75%
Gold Spot ($/oz)	1,212.86	-0.17%	-3.40%
CRB	192.43	-0.12%	-2.96%
GSCI	457.17	-1.05%	-4.88%
VIX	11.27	-7.55%	-10.84%
CT10 (bp)	2.926%	-6.01	6.94
USD Swap Spread 10Y (bp)	6	-2	-2
USD Swap Spread 30Y (bp)	-7	-2	-4
TED Spread (bp)	30	-4	-9
US Libor-OIS Spread (bp)	30	-2	-8
Euro Libor-OIS Spread (bp)	4	0	0
DJIA	25,509	0.72%	2.37%
SPX	2,854	0.93%	2.14%
MSCI Asiax	674	1.83%	0.40%
HSI	28,607	3.22%	-0.26%
STI	3,327	-0.07%	3.03%
KLCI	1,805	1.51%	6.98%
JCI	6,065	0.89%	3.12%

OCBC Bank

New issues

- Tuspark Forward Ltd has priced a USD350mn 3-year bond (guaranteed by Tus-Holdings Co Ltd) at 8.50%, tightening from its initial price guidance of 8.75%.
- Powerlong Real Estate Holdings Ltd has priced a USD250mn re-tap of its PWRLNG 5.95%'20s (guaranteed by certain non-PRC subsidiaries of the issuer) at 9%, in line with its initial price guidance.

Date	Issuer	Size	Tenor	Pricing
8-Aug-18	Tuspark Forward Ltd	USD350mn	3-year	8.50%
8-Aug-18	Powerlong Real Estate Holdings Ltd	USD250mn	PWRLNG 5.95%'20s	9%+accrued interest
7-Aug-18	Shinhan Financial Group	USD500mn	Perp NC5	5.875%
6-Aug-18	SK Broadband Co Ltd	USD300mn	5-year	CT5+117.5bps
2-Aug-18	Power Finance Corp Ltd	USD300mn	10-year	CT10+235bps
2-Aug-18	Sands China Ltd	USD1.8bn	5-year	CT5+175bps
2-Aug-18	Sands China Ltd	USD1.8bn	7-year	CT7+220bps
2-Aug-18	Sands China Ltd	USD1.9bn	10-year	CT10+245bps
2-Aug-18	Wuhan Real Estate Development Investment Group Co Ltd	USD430mn	3-year	5.7%
2-Aug-18	Bank of China Ltd/Macau	USD300mn	3-year	3mL+75bps
31-Jul-18	Lotte Property & Development Co Ltd	USD200mn	3-year	3mL+92.5bps
31-Jul-18	KWG Group Holdings Limited	USD350mn	3NC2	7.875%
31-Jul-18	China Mengniu Dairy Co Ltd	USD500mn	5-year	CT5+148bps
30-Jul-18	CMHI Finance BVI Co Ltd	USD900mn	5-year	CT5+162.5bps
30-Jul-18	CMHI Finance BVI Co Ltd	USD600mn	10-year	CT10+215bps
30-Jul-18	Woori Bank	USD300mn	10-year	CT10+220bps
27-Jul-18	Legend Fortune Ltd	USD300mn	3-year	3mL+128bps

Source: OCBC, Bloomberg

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