

February 12, 2018

Credit Headlines: Fraser and Neave Ltd , Frasers Property Limited

Market Commentary: The SGD swap curve bear-flattened last Friday, with swap rates for the shorter tenors trading 4-5bps higher while the longer tenors traded 4bps higher. Flows in SGD corporates were heavy, with better buying seen in HSBC 4.7%-PERPs. In the broader dollar space, the Bloomberg Barclays Asia USD IG Bond Index average OAS widened 3bps to 112bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS traded widened 15bps to 360bps. 10Y UST yields rose 3bps to 2.85% last Friday, driven by signs of inflation amid an improving global backdrop and speculation on whether the Federal Reserve and other major central banks would act quicker to raise interest rates.

Rating Changes: Moody's has affirmed the long-term local and foreign currency bank deposit ratings of Central Bank of India (CBI) and Indian Overseas Bank (IOB) at 'Ba3', as well as IOB's senior unsecured debt at 'Ba3'. The outlook has been revised to positive from stable. The rating action reflects Moody's view on the expected evolution of the banks' balance sheets, including a stabilisation in asset quality, a moderate improvement in profitability metrics, and stable funding and liquidity positions. According to the recapitalisation plan announced in October 2017, the government has committed to infuse INR1.53 trillion into the public sector banks by March 2019.

Table 1: Key Financial Indicators

	12-Feb	1W chg (bps)	1M chg (bps)		12-Feb	1W chg	1M chg
iTraxx Asiax IG	79	12	19	Brent Crude Spot (\$/bbl)	63.23	-6.49%	-9.50%
iTraxx SovX APAC	14	2	3	Gold Spot (\$/oz)	1,320.44	-1.44%	-1.29%
iTraxx Japan	52	9	8	CRB	188.51	-4.52%	-3.85%
iTraxx Australia	68	10	15	GSCI	428.53	-6.13%	-5.45%
CDX NA IG	62	12	15	VIX	29.06	67.88%	186.02%
CDX NA HY	106	-2	-3	CT10 (bp)	2.851%	1.01	29.82
iTraxx Eur Main	54	10	10	USD Swap Spread 10Y (bp)	1	0	2
iTraxx Eur XO	270	23	40	USD Swap Spread 30Y (bp)	-19	-5	2
iTraxx Eur Snr Fin	55	11	12	TED Spread (bp)	27	-5	-2
iTraxx Sovx WE	20	1	-1	US Libor-OIS Spread (bp)	27	2	2
iTraxx Sovx CEEMEA	35	2	2	Euro Libor-OIS Spread (bp)	3	0	2
					12-Feb	1W chg	1M chg
				AUD/USD	0.783	-0.56%	-1.05%
				USD/CHF	0.938	-0.68%	3.11%
				EUR/USD	1.228	-0.74%	0.61%
				USD/SGD	1.326	-0.32%	-0.12%
Korea 5Y CDS	56	7	13	DJIA	24,191	-5.21%	-6.25%
China 5Y CDS	69	12	23	SPX	2,620	-5.16%	-5.98%
Malaysia 5Y CDS	73	13	21	MSCI Asiax	696	-6.06%	-6.30%
Philippines 5Y CDS	74	13	21	HSI	29,507	-8.49%	-6.06%
Indonesia 5Y CDS	100	17	22	STI	3,383	-2.87%	-3.91%
Thailand 5Y CDS	46	4	5	KLCI	1,826	-1.47%	0.18%
				JCI	6,506	-1.86%	2.13%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
09-Feb-18	Golden Energy and Resources Ltd	'NR/B1/B+'	USD150mn	5NC3	9.375%
09-Feb-18	Fantasia Holdings Group Co Ltd	Not rated	USD300mn	1-year	7.25%
07-Feb-18	Full Dragon (Hong Kong) International Development Ltd	'NR/NR/BB+'	USD300mn	3-year	5.85%
07-Feb-18	Shangrao Investment Holdings International Co Ltd	Not rated	USD200mn	3-year	6.4%
07-Feb-18	Daegu Bank Ltd	'A-/A2/NR'	USD300mn	5.5-year	CT5+135bps
06-Feb-18	Sunshine 100 China Holdings	Not rated	USD165mn	SUNCH 8.5% 20s	8.5%
2-Feb-18	Greenland Global Investment Ltd	'NR/Ba2/NR'	USD400mn	3-year	5.25%
2-Feb-18	GLL IHT Pte Ltd	Not Rated	SGD50mn	GUOLSP 4.6%-PERPs	100% + accrued interest
1-Feb-18	New Metro Global Ltd	Not Rated	USD300mn	364-day	4.75%

Source: OCBC, Bloomberg

Credit Headlines:

Fraser and Neave Ltd (“FNN”): FNN reported 1QFY2018 results, which appear mixed with the continued deterioration of the core segments mitigated by contribution from Vinamilk. Revenue declined 1.6% q/q to SGD487.1mn, which was mainly due to the decline in the beverages segment by 16% y/y to SGD116.8mn with intense price competition in Malaysia (Malaysia beverages revenue fell 17% y/y). Meanwhile, Dairies partly mitigated the revenue fall with segment revenue growth of 5.2% y/y to SGD293.0mn. By PBIT, FNN is running mainly on a single engine with Dairies contributing SGD50.5mn (1QFY2017: SGD39.4mn) as Beverages’ contribution has shrunk to just SGD1.6mn (1QFY2017: SGD8.7mn), which is even smaller than the publishing and print segment which posted a PBIT of SGD1.7mn (1QFY2017 loss: SGD2.3mn). However, the Dairies segment also appear lacklustre if we exclude the contributions from Vinamilk, as we estimate that PBIT for Dairies (excluding Vinamilk) would have fallen by about 16% to SGD33.2mn (despite increasing revenues). This is mainly due to weakness in Malaysia Dairies segment, which saw PBIT weakened 36% y/y to SGD8mn due to higher input prices of milk and tin packaging. Meanwhile net gearing inched up q/q to 8.1% (4QFY2017: 5.4%) mainly due to the acquisition of shares in Vinamilk for SGD78mn. FNN continues to gradually increase its stake in FNN, with the stake increasing to 19.5% as of 9 Feb. While FNN’s balance sheet continues to remain healthy, net gearing may continue to increase with acquisitions and we note that core segments (especially Beverages) face significant challenges. As such, we hold FNN at a Neutral (4) Issuer Profile. (Company, OCBC)

Frasers Property Limited (“FPL”): FPL, formerly known as Frasers Centrepoint Limited, reported 1QFY2018 results (ending-December 2017). Revenue fell 23.8% y/y to SGD740.0mn, largely driven by the plunge in contribution from the International segment with segment revenue and PBIT falling 80% y/y to SGD69mn and 70% y/y to SGD42mn respectively. This was largely driven by the absence of significant sales and settlements of development projects in China (specifically Phase 3C1 of Baitang One in Suzhou). This was mitigated in part by investment property contributions from Geneva Properties N.V and from the recent acquisitions of four UK business parks (completed 8 November). For the Singapore SBU, revenue increased 25% y/y to SGD253mn, though PBIT fell 12% to SGD93mn. Segment development revenue was boosted by progressive revenue recognized from North Park Residences, but the absence of contribution from development JV / Associates dragged segment PBIT lower. Segment investment revenue increased marginally by 2% to SGD107mn, though PBIT was dragged lower due to performance at FCOT (refer to [OCBC Asian Credit Daily \(23 Jan\)](#) for a review of FCOT’s 1QFY2018 results). For the Australia SBU, revenue declined 4% y/y to SGD207mn due to the timing of completions and settlements for FPL’s residential developments. Segment PBIT, however surged 65% to SGD65mn due to share of profits from JV / Associate projects. Finally, the Hospitality SBU reported revenue up 2% to SGD211mn while PBIT fell 25% to SGD37mn. Though revenue was supported by various acquisitions and completed assets over the past year (Novotel Melbourne, Capri Berlin), PBIT was affected by the absence of the mark-to-market derivative gain seen in 1QFY2017. The SBU also reported weaker results out of the UK. Please refer to [OCBC Asian Credit Daily \(25 Jan\)](#) for a review of FHT’s 1QFY2018 results. FPL saw an operating cash outflow of SGD238.3mn (including interest service) for the quarter, largely driven by working capital requirements (such as the increase in properties held for sale due to progressive development expenditure for projects in Australia and China) as well as the SGD77mn deposit made for the Jiak Kim Street site (refer to [OCBC Asian Credit Daily \(6 Dec 2017\)](#)). There was also an investing cash outflow of SGD549.4mn during the quarter, driven by the acquisition of various investment properties (SGD168.0mn impact) and the acquisition of subsidiaries (SGD555.5mn impact, with the largest impact being the acquisition of the four UK business parks). This was funded in part by various bond issuances by both FPL itself (such as the THB2.5bn bond) and its REITs (FCT issued SGD70mn while FHT issued SGD120mn). FPL had also drawn down on its cash balance by SGD485.1mn. This drove FPL’s net gearing sharply higher q/q from 73% to 85%. We are currently reviewing FPL’s balance sheet given the various transactions still pending (such as the balance of payment for the Jiak Kim Street Site and the recently announced additional TICON acquisition). We currently hold FPL at Neutral (4) Issuer Profile though may adjust this post completion of our review. (Company, OCBC)

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