

Mar 13, 2018

Credit Headlines: Hongkong Land Holdings Ltd, IOI Properties Group Bhd , Oxley Holdings Limited, Industry Outlook – Financial Institutions

Market Commentary: The SGD swap curve steepened yesterday, with swap rates for the shorter tenors trading 1-2bps while the longer tenors traded 3-6bps higher. Flows in SGD corporates were heavy yesterday, with better buying in FPLSP 3.95%'21s and better selling in STHSP 3.95%-PERP. In the broader dollar space, the Bloomberg Barclays Asia USD IG Bond Index average OAS traded widened 1bps to 116bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 1bps to 354bps. 10Y UST fell 3bps to 2.87% as 10Y UST notes drew its highest yield at auction since 2014.

New issues: Commonwealth Bank of Australia (CBAU) has priced a USD2.25bn deal across three-tranches with the USD500mn 5-year FXD at CT5+85bps, tightening from its initial price guidance of CT5+95bps area; the USD750mn 5-year FRN priced at 3mL+70bps, in line with its initial price guidance and the USD1bn 10-year FXD priced at CT10+105bps, tightening from its initial price guidance of CT10+115bps area. The expected issue ratings are 'AA-/Aa3/AA-'. Kookmin Bank (CITNAT) has priced a USD300mn 5-year FRN priced at 3mL+78bps area, tightening from its initial price guidance of 3mL+78-80bps area. The expected issue ratings are 'NR/A1/NR'. NPTC Ltd (NTPCIN) has priced a USD400mn 10-year bond at CT10+170bps, tightening from its initial price guidance of CT10+180bps area. The expected issue ratings are 'BBB-/Baa2/BBB-'. Toyota Industries Corp (TOYAUT) has priced a USD1bn deal across two-tranches, with the USD500mn 5-year bond at CT5+60bps, tightening from its initial price guidance of CT5+70-75bps area and the USD500mn 10-year bond at CT10+70bps, tightening from its initial price guidance of CT10+85bps area. The expected issue ratings are 'AA-/A1/NR'. Xinyuan Real Estate Co Ltd (XIN) has priced a USD200mn 2-year bond (guaranteed by certain of the issuer's restricted subsidiaries outside of the PRC) at 9.875%, in line with its initial guidance. The expected issue ratings are 'B-/NR/B'. Land Transport Authority of Singapore has priced a SGD1.2bn dual-tranche deal with the SGD300mn 10-year bond priced at 2.75% and the SGD900mn 30-year bond priced at 3.35%. China Huayang Economic and Trade

Table 1: Key Financial Indicators

	<u>13-Mar</u>	<u>1W chg (bps)</u>	<u>1M chg (bps)</u>		<u>13-Mar</u>	<u>1W chg</u>	<u>1M chg</u>
iTraxx Asiax IG	64	-5	-10	Brent Crude Spot (\$/bbl)	64.76	-1.57%	3.25%
iTraxx Sovx APAC	11	-1	-2	Gold Spot (\$/oz)	1,323.57	-0.82%	-0.45%
iTraxx Japan	47	-4	-5	CRB	194.53	-1.09%	2.47%
iTraxx Australia	56	-4	-10	GSCI	441.50	-1.50%	2.27%
CDX NA IG	54	-2	-4	VIX	15.78	-15.75%	-36.80%
CDX NA HY	107	0	0	CT10 (bp)	2.876%	-1.08	4.61
iTraxx Eur Main	49	-5	-5	USD Swap Spread 10Y (bp)	4	2	3
iTraxx Eur XO	248	-21	-22	USD Swap Spread 30Y (bp)	-15	3	3
iTraxx Eur Snr Fin	49	-7	-5	TED Spread (bp)	43	5	16
iTraxx Sovx WE	19	-2	-1	US Libor-OIS Spread (bp)	43	1	15
iTraxx Sovx CEEMEA	32	-1	-4	Euro Libor-OIS Spread (bp)	2	-1	0
					<u>13-Mar</u>	<u>1W chg</u>	<u>1M chg</u>
				AUD/USD	0.788	0.66%	0.28%
				USD/CHF	0.947	-0.63%	-1.25%
				EUR/USD	1.234	-0.52%	-0.11%
				USD/SGD	1.313	0.24%	0.75%
Korea 5Y CDS	41	-10	-15	DJIA	25,179	1.22%	2.18%
China 5Y CDS	54	-2	-11	SPX	2,783	2.28%	4.51%
Malaysia 5Y CDS	62	-1	-5	MSCI Asiax	746	3.05%	5.19%
Philippines 5Y CDS	63	-1	-5	HSI	31,592	3.54%	5.87%
Indonesia 5Y CDS	87	0	-6	STI	3,541	1.41%	3.69%
Thailand 5Y CDS	38	-2	-5	KLCI	1,860	0.64%	1.48%
				JCI	6,461	-0.61%	-1.79%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

<u>Date</u>	<u>Issuer</u>	<u>Ratings</u>	<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
12-Mar-18	Land Transport Authority of Singapore	Not rated	SGD900mn	30-year	3.35%
12-Mar-18	Land Transport Authority of Singapore	Not rated	SGD300mn	10-year	2.75%
12-Mar-18	Xinyuan Real Estate Co Ltd	'B-/NR/B'	USD200mn	2-year	9.875%
12-Mar-18	Toyota Industries Corp	'AA-/A1/NR'	USD500mn	10-year	CT10+70bps
12-Mar-18	Toyota Industries Corp	'AA-/A1/NR'	USD500mn	5-year	CT5+60bps
12-Mar-18	NPTC Ltd	'BBB-/Baa2/BBB-'	USD400mn	10-year	CT10+170bps
12-Mar-18	Kookmin Bank	'NR/A1/NR'	USD300mn	5-year	3mL+78bps
12-Mar-18	Commonwealth Bank of Australia	'AA-/Aa3/AA-'	USD1bn	10-year	CT10+105bps
12-Mar-18	Commonwealth Bank of Australia	'AA-/Aa3/AA-'	USD750mn	5-year	3mL+70bps
12-Mar-18	Commonwealth Bank of Australia	'AA-/Aa3/AA-'	USD500mn	5-year	CT5+85bps

Source: OCBC, Bloomberg.

New issues (cont'd): Group Co Ltd has scheduled for investor meetings from 13 Mar for its potential USD bond issuance. The expected issue ratings are 'B+/NR/NR'. Gangtai Group Co Ltd has scheduled for investor meetings from 13 Mar for its potential USD 3-year bond issuance. The expected issue ratings are 'NR/NR/B'. JSW Steel Ltd has scheduled for investor meetings from 12 Mar for its potential USD 5-year/10-year bond issuance. The expected issue ratings are 'NR/Ba2/BB'. Rh International (Singapore) Corp Pte Ltd has scheduled for investor meetings from 15 Mar for its potential USD 10-year bond issuance (guaranteed by Ratchaburi Electricity Generating Holding Public Co Ltd).

Rating Changes: Moody's has affirmed the 'Baa3' issuer ratings for Nan Fung International Holdings Ltd, the 'Baa3' perpetual capital security rating of Nan Fung Treasury (II) Ltd and the 'Baa3' senior unsecured ratings. The outlook has been revised to stable from negative. The rating action reflects Moody's expectation that Nan Fung's financial position will improve over the next 12-18 months because of the stronger cash inflow projected from its latest residential presales pipeline. Moody's has affirmed Bumi Serpong Damai Tbk PT (BSD)'s 'Ba3' corporate family rating and the 'Ba3' backed senior unsecured rating of the 2020 notes and 2023 notes issued by Global Prime Capital Pte Ltd. The outlook has been revised to positive from stable. The rating action reflects BSD's established position as one of the largest property developers in Indonesia, with diversification across multiple projects and property segments. Moody's has cut Daiichi Sankyo Co Ltd's rating to 'A2' from 'A1' on patent expiry of Olmesartan. The rating action reflects weaker than expected sales growth in new products that could make the drug maker more reliant on the Japan market, where pricing pressure will likely increase due to regulatory reforms of the drug pricing system.

Credit Headlines:

Hongkong Land Holdings Ltd ("HKL") / IOI Properties Group Bhd ("IOI PG"): The Edge reported that IOI PG has secured SGD1.6bn out of the SGD1.9bn funding needed from bank lenders for its proposed joint venture in Singapore to develop a mixed-use development (envisaged to comprise prime office towers and a small retail area) in the Marina Bay financial district. HKL is the intended joint venture partner for the project holding a 33%-stake. In November 2016, IOI PG won the land bid in a public tender for SGD2.57bn and in June 2017, IOI PG and HKL entered into a Memorandum of Understanding to jointly develop the proposed project. As Singapore's Urban Redevelopment Authority has imposed a 7-year deadline for projects on tenders to be completed, obtainment of funding is a significant step towards the project progressing. HKL has guided for net debt to increase modestly due to committed land purchases, with total capital commitments increasing to USD1.4bn from USD623mn in FY2016. Per media reports, HKL reportedly may inject SGD940mn (~USD715mn) into the JV, bringing total commitments at HKL to USD2.1bn. Assuming the joint venture is finalised with IOI PG and total commitment stays at USD2.1bn, we expect HKL's net gearing to rise somewhat to ~12% (end-December 2017: 7%). In our view ~USD715mn is likely to be at the low end, given construction costs involved, as such net gearing HKL could stretch somewhat higher. That being said, net gearing would still remain at very healthy levels in our view and as such we are keeping our Positive(2) issuer profile on HKL. We do not cover IOI PG though expect its leverage levels to rise significantly. (The Edge, OCBC)

Oxley Holdings Limited ("OHL"): OHL provided an update regarding its Dublin Landings development. The GDV of Dublin Landings is expected to be EUR835mn, across Blocks D1, D2, A, B and E. OHL had already entered into an agreement to lease the entire Block D2 for 20 years (with WeWork Companies Inc as a guarantor to the tenant). They are also in the final stages of negotiations for the sale of Block D2. Construction of D1 and D2 is expected to be completed by May 2018 while the other blocks are expected to be completed between 4Q2019 and 2Q2020. It is the intent of OHL to sell the blocks when they are complete. We have previously reviewed OHL's credit profile (refer to [OCBC Asia Credit - Oxley Holdings Ltd Credit Update \(14 Feb 2018\)](#)) given their numerous land acquisitions as well as development projects. We had rated OHL with a Negative (6) Issuer Profile, reflecting our expectations that OHL's credit metrics would be significantly stretched in the near term given capital commitments, and that its longer term credit profile would hinge on the sales performance of its upcoming launches as well as intent to utilize development proceeds to deleverage. (Company, OCBC)

Credit Headlines (cont'd):

Industry Outlook – Financial Institutions: The Bank for International Settlements (“BIS”) recently released its Quarterly Review for March. In the report, it analyzed early warning indicators for banking sector crises with certain indicators determining both the extent of an overheated financial cycle and the vulnerability of a banking sector in that stage of the cycle to stress as a result of this exuberance. These indicators were primarily (1) the gap between the current credit to GDP ratio against the long term (and sustainable) trend and debt service ratio; (2) level of household indebtedness and the household debt service ratio; and (3) amount of international or foreign currency debt to GDP. These were then cross referenced to current property prices. The study outcome was that banking sectors in Canada, China and Hong Kong were most vulnerable to a crisis based on broad based weakness across these factors as financial imbalances from elevated systemic leverage was amplified by recent property price appreciation. Other countries also had specific weaknesses in certain indicators although these were compensated for by other factors being better placed and lowering overall vulnerability. Switzerland was highlighted as having a high credit to GDP ratio against its long term trend although this is not so much of a concern in our view given it's a high wealth economy. Interestingly, Australia fared relatively well despite recently being in the news for its high household leverage, potential property bubbles in its Eastern states and its banks being heavily exposed to Australia's housing sector through mortgage lending. The outcome of this study is relevant because according to Bloomberg, there will be around USD41bn in bonds from financial institutions maturing in the next 4 weeks. The bulk of these come from US banks including Goldman Sachs (USD4bn), Bank of America (USD2.8bn) and Morgan Stanley (USD3.5bn) with the US Banking sector scoring well in the BIS study. Other notable banks with heavy debt maturities include UBS (USD3.3bn) and Commonwealth Bank (USD2bn). Using debt maturities as a proxy for supply then we expect these banks to issue actively in the coming months. As for the banks under our coverage, we recently mentioned in our [Monthly Credit View for March 2018](#) that given the recent favorable trends in bank earnings we remain risk on and favor the bank capital instruments for the yield. We remain overweight in certain European names, in particular ABN Amro Bank NV and BPCE SA in the Tier 2 space and Julius Baer Group Ltd in the AT1 space. (OCBC, BIS, Bloomberg)

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