Asian Credit Daily

Aug 14, 2018

Credit Headlines: Industry Outlook – Financial Institutions, Heeton Holdings Ltd, Australia & New Zealand Banking Group Ltd, National Australia Bank Ltd, Banyan Tree Holdings Limited, Golden Agri-Resources Ltd, Hotel Properties Ltd, Olam International Ltd, CapitaLand Ltd

Market Commentary

- The SGD swap curve flattened yesterday, with swap rates for the shorter tenors trading around 1bps higher while the longer tenors traded 1-2bps lower (with the exception of the 30-year swap rates trading within 1bps).
- Flows in SGD corporates were moderate yesterday, with better buying seen in UOBSP 4%-PERPs.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 2bps to 140bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 6bps to 477bps.
- Overall, 10Y UST yields rose 2bps to close at 2.89%, recovering from its four-week low on the back of easing concerns over the Turkish crisis after Turkey's central bank announced measures to stabilize the Lira.

Credit Headlines:

Industry Outlook – Financial Institutions:

- Challenges in Turkey's financial sector stem from the sector's recent rapid credit growth which was funded by overseas borrowings with a significant rise in the sector's external liabilities and Turkey's loan to deposit ratio increasing from below 100% in 2010 to ~127% in 2017.
- This has increased the sector's vulnerabilities due to the depreciation of the Lira and rising interest rates with a two-fold negative impact on bank profitability through (1) rising loan losses and asset quality concerns for non-financial corporates; and (2) higher funding costs with more than USD33bn of debt maturing by the end of 2019 per Bloomberg estimates. As an example, foreign currency bad debts have increased by 5x over the past 2 months.
- Around 60% of external liabilities to Turkey's financial sector are from Spain, Italy and France. However, stresses within Turkey's financial sector are expected to be contained for now and unlikely to result in contagion risk for the wider banking sector:
    - Spain's exposure is through Banco Bilbao Vizcaya Argentaria, S.A's ("BBVA" – unrated by OCBC) 49.9% ownership in Turkiye Garanti Bankasi A.S. (Garanti Bank), Turkey's second largest bank by total loans. While Turkey contributed 16.3% of gross income, 15.3% of net income and 11.6% of total loans in FY2017, the rest of BBVA's exposures are relatively diverse with 47.7% of total assets from Spain, 11.7% from the US, 12.9% from Mexico and 10.8% from South America. The improved domestic operating environment contributed to rating upgrades for BBVA earlier in 2018 by external rating agencies.
    - Italy's exposure is through UniCredit SpA's (unrated by OCBC) 41% ownership in Yapi ve Kredi Bankasi AS (Yapi Kredi), Turkey's fourth largest bank by total loans. Exposure is limited however at 2% of total revenues.
    - France's exposure is through BNP Paribas SA's ("BNPP" - Neutral (3)) 50% ownership in TEB Holdings, the 9th largest bank in Turkey by total loans. Exposure is also limited with Turkey contributing 2.5% of gross income and 1.2% of pre-tax operating income in FY2017. In addition, BNPP fully wrote down its goodwill in TEB Holdings in 2017 given weaker growth prospects.
- As for other European banks under our coverage, their direct exposure to Turkey is minimal. This includes the other French banks under our coverage (Groupe BPCE, Société Générale), HSBC Holdings PLC and Commerzbank AG. (OCBC, Bloomberg, Company)

Credit Headlines (cont'd):

Heeton Holdings Ltd ("HHL") | Issuer Profile: Neutral (5)

- HHL reported 2Q2018 results. Revenue declined 33.6% y/y to SGD12.6mn, mainly due to a SGD6.4mn y/y decline in revenue from the sale of Onze@Tanjong Pagar as this development was substantially sold in 2017. Revenue from rentals also declined SGD0.7mn y/y due to the divestment of The Woodgrove in Feb 2018. Meanwhile, HHL reported SGD1.5mn higher hotel operation income due to contribution from Luma Concept Hotel Hammersmith London which commenced operation from Apr 2017. However, other operating expenses rose 29.2% y/y to SGD5.8mn, in part due to Luma Concept Hotel Hammersmith London. As a result, PBIT before fair value changes declined ~58% y/y to SGD1.8mn. Including the fair value gains of SGD5.0mn from Tampines Mart, net profit still declined 43.5% y/y to SGD6.2mn as 2Q2017 recorded a higher fair value gain of SGD7.8mn.
- Despite the property cooling measures commencing in July 2018, HHL reported that sales of 5%-owned 1052 units Affinity at Serangoon and 20%-owned 805 units Park Colonial are within expectations. According to the URA caveats, the former recorded 159 sales while the latter sold 440 units.
- Net gearing continued to fall q/q to 47% (1Q2018: 52.7%), mainly due to repayment of debt with SGD36.0mn dividends received from associated companies and JVs. We think this is likely largely due to the associates in partnership with Oxley which undertook developments including Newest, KAP and KAP Residences. Despite credit metrics improving tremendously with strong property sales at its associates, we continue to hold HHL at Neutral (5) Issuer Profile as it is still exploring more acquisition opportunities. (Company, OCBC)

Australia & New Zealand Banking Group Ltd ("ANZ") | Issuer Profile: Positive (2)

- ANZ published its Basel III Pillar 3 disclosure as at 30 June 2018 with its CET1 ratio marginally improved by 3bps to 11.07% as at 30 June 2018 as the -67bps impact from interim dividend payment and share buy-back was offset by 75bps accretion to capital ratios from earnings growth and receipt of proceeds from the sale of One Path Life. Risk weighted assets ("RWA") also fell marginally due to improved risk profile in Institutional and Retail businesses with lower credit RWAs predominantly in the Corporate segment and Residential Mortgages.
- On a proforma basis including announced divestments yet to complete and a further AUD1.5bn in share buybacks previously announced, ANZ's APRA compliant CET1 ratio as at 30 June 2018 was 11.5%.
- Credit quality appears sound with total provisions in 3QFY2018 of AUD121mn the lowest quarterly charge since 2014 which, according to management, is due to improved loan portfolio quality as well as the benign operating environment. Provisions include individual charges of AUD160mn and one-off recoveries and writebacks of AUD39mn, mostly from the Institutional loan book. Gross impaired assets continue to fall down 8% q/q and 21% YTD, mostly due to improvements in the Institutional segment while Residential Mortgage and Retail exposures continue to see some pressure.
- In line with the general improvement in ANZ's loan exposures and fall in RWA, Owner Occupier Principal & Interest housing loans grew 4.1% compared to 4QFY2018 while investor housing loans fell 2.5% over the same period. Overall housing lending growth for ANZ continues to be below overall housing system growth, and has been less than half of system growth so far in FY2018.
- ANZ's performance continues to reflect the benefits of management's active repositioning strategies. We currently have ANZ on a Positive (2) issuer profile. (Company, OCBC)

Credit Headlines (cont'd):

National Australia Bank Ltd ("NAB") | Issuer Profile: Positive (2)

- NAB announced its 3QFY2018 trading update with unaudited cash earnings (excluding discontinued operations and other non-recurring items) of AUD1.65bn, down 3% y/y. Key drivers for the performance were higher revenues (growth in SME lending and New Zealand Banking which mitigated a fall in net interest margins from higher short-term wholesale funding costs and home loan competition) though this was offset by elevated costs from investments in productivity and growth, and higher compliance costs.
- Credit impairment charges also rose 9% y/y and included forward looking adjustments on collective provisions although asset quality appears to remain sound with the 90+ days past due and gross impaired assets to gross loans and acceptances ratio steady q/q at 0.71% and improved y/y from 0.80% in 3QFY2017.
- NAB's APRA compliant CET1 ratio was weaker at 9.7% in 3QFY2018 compared to FY2017 (10.1%) and 2QFY2018 (10.2%) due to solid loan growth as well as payment of NAB's interim dividend.
- We previously highlighted the impact of ongoing restructuring and industry margin pressures on NAB's future performance, which will be somewhat amplified by outcomes from the ongoing Royal Commission into misconduct in the Banking industry. We see however NAB's strong market position in Business Banking as an ongoing offset to any pressure on NAB's fundamentals. We currently have NAB on a Positive (2) issuer profile. (Company, OCBC)

Banyan Tree Holdings Limited ("BTH") | Issuer Profile: Neutral (5)

- BTH announced its 2Q2018 results. Revenue was down 2% y/y to SGD68.4mn due to the deconsolidation of BTH's China operations (license fees received partly offset for the deconsolidation). On a like for like basis excluding the China operations, BTH would have seen revenue increased by SGD7.6mn, driven by higher Property Sales (from completion of Phase 2 of Cassia Phuket and Cassia Bintan condominiums (units sold progressively handed over)), and higher Fee-based revenue from architectural and design fees (Greece, Turkey and Austria) projects.
- EBITDA based on our calculation which does not include other income was SGD8.1mn while interest expense was SGD8.0mn, resulting in a negligible EBITDA interest coverage. Interest expense was higher by 12% y/y due to additional debt taken to acquire additional shares in Laguna Resorts & Hotels Public Company Limited ("LRH"). Prior to the increased stake, BTH already consolidated LRH. Compounded by share of losses from associates and joint ventures of SGD1.2mn, BTH ended the quarter at a loss after tax of SGD5.6mn, though narrowed significantly from the loss after tax of SGD13.9mn in 2Q2017. The second and third quarter of a calendar year have historically been weak months for BTH given the seasonality of its business.
- As at 30 June 2018, gross gearing was 0.9x, significantly higher than the 0.7x as at 31 March 2018. This was driven by both the ~20% additional stake in LRH and the decline in minority interest (since BTH had effectively bought stakes from minority investors). Post quarter end, BTH had paid down the SGD70mn BTHSP 5.75%'18s and in July 2018, announced the proposed sale of its assets in Seychelles (resort and all land plots in Seychelles). As at 30 June 2018, BTH's collateralised properties have increased to SGD609.6mn from only SGD467.4mn as at 31 March 2018. With hard assets at BTH expected to fall further (from the sale of Seychelles assets), we expect BTH's financial flexibility to decline and as such are reviewing its issuer profile. (Company, OCBC)

Credit Headlines (cont'd):

Golden Agri-Resources Ltd ("GGR") | Issuer Profile: Neutral (5)

- GGR announced its 2Q2018 results. Revenue was up 5.9% y/y to USD1.9bn, driven by revenue increase in Palm and Laurics, which helped offset revenues declines in Oilseeds and Plantations & Palm Oil Mills. Reported gross profit though fell 14.0% y/y to USD219.9mn while overall reported EBITDA fell 19.7% y/y growth to USD116.8mn.
- Despite the 8% y/y decline in CPO FOB price at USD618 per MT, palm product output had increased 10% y/y in 2Q2018. Plantations and Palm Oil Mills saw a 1% y/y in segment EBITDA at USD103.9mn. The largest EBITDA declines was observed in the Palm & Laurics segment (down 50% y/y to USD20.0mn) and Oilseeds which saw a loss before interest, tax, depreciation and amortisation at USD6.9mn (versus EBITDA of USD2.1mn in 2Q2017). Per management, the Palm & Laurics segment was negatively affected by unanticipated market disruption by import tax increase in India (lower demand for palm) and export tax suspension in Malaysia (which makes Indonesia palm products less competitive). Specifically, GGR had entered into purchase agreements with third party suppliers at higher prices versus the eventual selling price of products. As a result, 2Q2018 Palm & Laurics EBITDA margin had fallen to 1.2% versus 2.6% in 2Q2017. For the oilseeds segment, GGR buys soybeans and have them crushed in China. The segment saw a loss due to higher feedstock prices resulting from a 25% import tax on US soybeans.
- Interest expense was 12% higher y/y at USD40.1mn, on the back of higher average gross debt levels in 2Q2018 versus 2Q2017. This resulted in lower EBITDA/Interest coverage of 2.9x versus 4.1x in 2Q2018.
- GGR ended the quarter with a loss after tax of USD37.8mn versus a profit after tax of USD22.3mn, dragged by decline in operating performance as well as a SGD22.2mn foreign exchange losses.
- As at 30 June 2018, GGR's unadjusted net gearing was 0.75x, having increased steadily from the beginning of the year when unadjusted net gearing was 0.72x. Short term debt looks significant at USD1.7bn though we assume that USD1.0bn relates to working capital requirement. This leaves ~USD700mn that will need to be refinanced against unpledged cash balance of USD156.3mn. Post quarter end, GGR would have paid down MYR500mn (~USD122mn) in bonds due on 3rd August 2018, leaving ~USD578mn in short term debt to be refinanced. Adjusted tangible assets (we exclude intangible assets, bearer plants and long term investments) was USD6.3bn as at 30 June 2018 against gross debt of USD3.2bn, which should help GGR to still gain access to debt markets, despite the weaker 2Q2018 results. We maintain GGR's issuer profile at Neutral (5).

Hotel Properties Ltd ("HPL") | Issuer Profile: Neutral (4)

- HPL reported 2Q2018 results. Revenue fell 27.9% y/y to SGD137.2mn due to the absence of sale from Tomlinson Heights development in 2Q2017 as well as weaker performance of resorts in Maldives and Bali, which were affected by adverse political and environmental conditions. As a result, gross profit fell ~37% y/y to SGD27.0mn. Despite recording SGD2.7mn fair value gain in investments, net profit plunged to SGD4.7mn (2Q2018: SGD16.3mn), more than the fall in gross profits as costs were mostly constant y/y, including administrative expenses (SGD16.1mn) and finance costs (SGD7.0mn).
- Net gearing inched up slightly to 26.6% q/q (1Q2018: 24.7%) despite SGD45.5mn net cash from operations and SGD33.8mn net repayment from associates and jointly controlled entities due to (1) SGD52.1mn dividends paid, (2) SGD14.8mn additions to investments and (3) SGD26.7mn of capex. Overall, credit metrics remain manageable and we continue to hold HPL at a Neutral (4) Issuer Profile. (Company, OCBC)

Credit Headlines (cont'd):

Olam International Ltd ("OLAM") | Issuer Profile: Neutral (5)

- OLAM announced its 2Q2018 results. Revenue was up 13.9% y/y to SGD7.4bn while overall reported EBITDA was down 17.6% y/y at SGD307.9mn. The increase in revenue was driven by volume-led improvements in the Food Staples and Packaged Foods sector, though this did not translate into stronger EBITDA for the segment. Segment EBITDA was down 33% y/y to SGD66.9mn. With the exception of Confectionary & Beverages, other segments also saw EBITDA declining. Interest expense increased somewhat by 2.2% driven by higher interest rates, despite the lower average gross debt in 2Q2018 versus 2Q2017. Resultant EBITDA/Interest coverage was lower at 2.3x versus 2.8x in 2Q2018.
- Other expenses (comprising both overhead expenses and other operating expenses) was SGD476.6mn (SGD365.8mn in 2Q2018), driven by depreciation of local emerging market currencies which OLAM operates in and increased investment in digitalisation and sustainability-based solutions. Compounded by a decline in share of results from associates and joint ventures (from 50%-sale of Nauvu Investments to Wilmar in March 2018), OLAM ended the quarter with net profit of SGD86.0mn (down 36% y/y).
- While OLAM is a price taker in agricultural commodity markets, it manages working capital needs via the cash conversion cycle days. In 2Q2018, this was 100 days, faster than the 109 days in 1Q2018 and significantly faster than the 129 days in 2Q2017. As at 30 June 2018, unadjusted net gearing was 1.5x, stable against 31 March 2018. Despite higher cash balances of SGD2.4bn against SGD1.9bn as at 31 March 2018, OLAM had took up net borrowings of SGD392.4mn during the quarter which remained unutilised as at quarter end. As of writing, there are no significant announced acquisitions which remains to be paid. We think the borrowings will go towards OLAM's organic expansion of its current businesses. We maintain OLAM's issuer profile at Neutral (5). (Company, OCBC)

CapitaLand Ltd ("CAPL") | Issuer Profile: Neutral (3)

- CAPL announced that it has acquired two prime residential sites in Guangzhou, China for RMB2.05bn (SGD409.3mn), which will yield 1,300 units by 2021. This follows a RMB5.7bn purchase in Chongqing, China, in June 2018. According to CAPL, this is part of capital recycling into higher yielding investments.
- CAPL continues to expect that over half of 8,000 units worth RMB16.2bn (SGD3.2bn) will be handed over in 2H2018.
- We expect CAPL's net gearing to continue maintaining around 50% post-transaction. (Company, OCBC)

OCBC Bank

Table 1: Key Financial Indicators

	14-Aug	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	83	2	-7
iTraxx SovX APAC	11	0	-3
iTraxx Japan	57	1	-6
iTraxx Australia	76	2	-6
CDX NA IG	62	3	2
CDX NA HY	107	0	0
iTraxx Eur Main	70	5	5
iTraxx Eur XO	308	12	16
iTraxx Eur Snr Fin	89	9	12
iTraxx Sovx WE	29	3	4
AUD/USD	0.727	-2.03%	-2.01%
EUR/USD	1.140	-1.71%	-2.65%
USD/SGD	1.376	-0.86%	-1.03%
China 5Y CDS	64	1	-3
Malaysia 5Y CDS	90	6	-7
Indonesia 5Y CDS	124	10	5
Thailand 5Y CDS	43	0	-2

	14-Aug	1W chg	1M chg
Brent Crude Spot ($/bbl)	72.79	-2.49%	-3.37%
Gold Spot ($/oz)	1,193.25	-1.46%	-3.84%
CRB	190.30	-1.87%	-1.77%
GSCI	455.09	-2.03%	-1.79%
VIX	14.78	31.14%	21.35%
CT10 (bp)	2.880%	-9.26	5.33
USD Swap Spread 10Y (bp)	6	0	0
USD Swap Spread 30Y (bp)	-8	-2	-3
TED Spread (bp)	28	-6	-10
US Libor-OIS Spread (bp)	28	-4	-9
Euro Libor-OIS Spread (bp)	4	0	0
DJIA	25,188	-1.23%	0.67%
SPX	2,822	-1.00%	0.74%
MSCI Asiax	656	-1.98%	-2.37%
HSI	27,937	0.42%	-2.06%
STI	3,245	-0.62%	-0.46%
KLCI	1,783	0.20%	3.57%
JCI	5,861	-3.93%	-1.39%

New issues

- BCEG HongKong Co Ltd has priced a USD600mn 3-year bond (guaranteed by Beijing Construction Engineering Group Co Ltd) at 5.75%, in line with its initial price guidance.
- Granda Century Ltd has scheduled for investor meetings from 15 Aug for its potential USD bond issuance (guaranteed by Suning Appliance Group Co Ltd).

Date	Issuer	Size	Tenor	Pricing
13-Aug-18	BCEG HongKong Co Ltd	USD600mn	3-year	5.75%
10-Aug-18	Nimble City Ltd	USD250mn	2NC1	9%
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

Source: OCBC, Bloomberg

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