Asian Credit Daily

February 14, 2018

Credit Headlines: Chip Eng Seng Corp Ltd, Lippo Malls Indonesia Retail Trust, United Overseas Bank Ltd, Groupe BPCE, Singapore Airlines Ltd , Keppel Corp Ltd

Market Commentary: The SGD swap curve bull-flattened yesterday, with swap rates for the shorter tenors trading 1-3bps lower while the longer tenors traded 4-5bps. Flows in SGD corporates were heavy yesterday, with better buying in HSBC 4.7%-PERPs. In the broader dollar space, the Bloomberg Barclays Asia USD IG Bond Index average OAS traded little changed at 113bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS traded tightened 2bps to 354bps. 10T UST yield fell 2.9bps to 2.83%, ahead of key US inflation reports which will be released today (14 Feb). These reports are expected to shed more light and help investors gauge the pace of future interest rate increases by the Federal Reserve.

New Issues: Billionaire Mori Family plans to sell bonds for the first time at its family real estate company, Mori Trust Holdings Inc.

Rating Changes: Moody's has upgraded GS Caltex Corporation's senior unsecured rating to 'Baa1' from 'Baa2'. The outlook is stable. The rating action reflects the further improvement in GS Caltex's financial profile in 2017 from the situation in 2016. It also reflects Moody's expectation that GS Caltex will maintain a robust financial profile over the next 1-2 years, driven by low debt levels and healthy earnings. S&P has downgraded HNA Group-owned Pactera Technology to 'CCC+' from 'B' . The outlook is negative. The rating action reflects Moody's expectation that the firm's leverage would stay high and cash flows would be in deficit over the next year. S&P considers Pactera a "moderately strategic" subsidiary of HNA and says it's unlikely that HNA will provide "any additional financial support to Pactera in the event of the company's financial distress". Fitch has upgraded Yanzhou Coal Mining Co Ltd's issuer default rating to 'B+' from 'B'. The outlook is stable. The rating action was driven by Fitch's assessment of the consolidated credit profile of Yanzhou's immediate parent, Yankuang Group Ltd at 'B+'. Yanzhou's rating was then equalized with that of Yankuang Group as Fitch assess the linkage between the two entities as strong, underpinned by solid strategic and operational ties.

Table 1: Key Financial Indicators

	14-Feb	1W chg (bps)	1M chg (bps)		14-Feb	1W chg	1M chg
iTraxx Asiax IG	74	4	13	Brent Crude Spot ($/bbl)	62.82	-4.11%	-10.09%
iTraxx SovX APAC	14	1	4	Gold Spot ($/oz)	1,335.04	1.26%	-0.37%
iTraxx Japan	49	3	6	CRB	189.84	-2.52%	-3.17%
iTraxx Australia	65	4	11	GSCI	431.70	-1.96%	-4.75%
CDX NA IG	59	4	12	VIX	24.97	-16.71%	145.77%
CDX NA HY	106	-1	-2	CT10 (bp)	2.817%	-1.92	27.05
iTraxx Eur Main	56	7	11	USD Swap Spread 10Y (bp)	1	-1	1
iTraxx Eur XO	279	24	47	USD Swap Spread 30Y (bp)	-18	-2	2
iTraxx Eur Snr Fin	57	8	13	TED Spread (bp)	27	0	-2
iTraxx Sovx WE	20	1	0	US Libor-OIS Spread (bp)	28	1	3
iTraxx Sovx CEEMEA	37	1	4	Euro Libor-OIS Spread (bp)	3	0	2
					14-Feb	1W chg	1M chg
				AUD/USD	0.788	0.70%	-1.09%
				USD/CHF	0.933	1.15%	3.20%
				EUR/USD	1.238	0.93%	0.93%
				USD/SGD	1.319	0.51%	0.20%
Korea 5Y CDS	54	3	11	DJIA	24,640	-1.09%	-4.51%
China 5Y CDS	63	4	15	SPX	2,663	-1.19%	-4.43%
Malaysia 5Y CDS	66	4	13	MSCI Asiax	709	-0.44%	-4.59%
Philippines 5Y CDS	67	4	12	HSI	30,123	-0.66%	-4.11%
Indonesia 5Y CDS	93	7	14	STI	3,419	1.05%	-2.88%
Thailand 5Y CDS	42	0	1	KLCI	1,834	-0.14%	0.63%
				JCI	6,577	0.65%	3.25%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
13-Feb-18	Ronshine China Holdings Ltd	'NR/NR/B+'	USD100mn	RONXIN 8.25%'21s	9%
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%

Source: OCBC, Bloomberg

Credit Headlines:

Chip Eng Seng Corp Ltd ("CES"): CES reported 4Q2017 results. Revenue rose 2.4% y/y, with the increase from property development (+31.4% y/y to SGD194.0mn) and hospitality (+95.4% y/y to SGD13.7mn) outweighing the decline from construction (-49.6% y/y to SGD46.6mn). The surge in property development revenue was due to the progressive recognition of High Park Residences (fully sold) and Grandeur Park Residences (87.5% sold), as well as sales of Fulcrum (fully sold) and progressive handover of townhouses of Williamsons Estate. Construction revenue dipped due to the absence of revenues (which were recorded in 4Q2016) from Bukit Batok N1C13 & N2C23 and Sembawang N1C10. Hospitality revenue increased mainly due to contribution from Grand Park Kodhipparu Resort which opened in 2017 (refer to OCBC Asian Credit Daily – 7 Oct 2017) and improvements in occupancy at Park Hotel Alexandra. In the near term, revenue from property development may remain supported with the handover of the remaining townhouses at Williamsons Estate and Willow Apartments. The 60%-owned Woodleigh Lane site is expected to launch by mid-2018 and the **c**ompletion of the collective sale of Changi Garden is expected in 2Q2018. However, there remains no update to the 100%-owned 581-unit Tower Melbourne, which CES terminated due to objection 581-unit Tower Melbourne, which CES terminated due to objection by the owner of the adjoining property (refer to OCBC Asian Credit Daily – 3 Nov 2017). The construction order book declined q/q to SGD397.1mn (3Q2017: SGD458.3mn) though further declines may be mitigated as CES won a SGD168mn design and build contract from HDB. Net gearing surged to 1.58x (3Q2017: 0.86x) due to a surge in debt with SGD741.9mn cash used for development properties, which should be mainly in relation to the land acquisitions of Woodleigh Lane (refer to OCBC Asian Credit Daily – 12 Jul 2017) and Changi Garden (refer to OCBC Asian Credit Daily – 17 Oct 2017). CES also recorded ~SGD45mn investing outflows due to the purchase of The Sebel Mandurah hotel in Western Australia and acquisition of an office building in Auckland, New Zealand. While we expect CES's results to be supported by its development and pipeline pipeline, we continue to hold CES at a Negative (6) Issuer Profile due to elevated net gearing levels. (Company, OCBC)

Lippo Malls Indonesia Retail Trust ("LMRT"): LMRT reported 4Q2017 results. Revenue rose 1.2% y/y to SGD49.3mn, due mainly to increase in gross rental income of 1.5% y/y with the acquisitions of Kuta, Kendari and positive rental reversions though the weaker IDR has dampened the overall revenue growth. While carpark income fell 22.2% y/y to SGD5.3mn, other rental income rose 78.4% y/y to SGD3.5mn from the rental of electrical, mechanical and mall operating equipment. As a result, net property income rose 0.8% y/y, roughly in-line with revenue. Rental reversions has also slowed down to 2.6% in 4Q2017 (down from ~7% on average seen in 2016), in-line with the slowdown in the Indonesia Retail Sales Survey (which declined to the low-single digit region since Aug 2017). Occupancy has also dipped slightly to 93.7% (3Q2017: 94.3%) though we are not concerned as lease profile remains healthy, with just 15% of leases expiring in 2018 and WALE of 4.13 years. LMRT also performed an annual asset valuation exercise, which saw the reduction in fair value of investment properties by SGD30.4mn (continuing the trend from 4Q2016's fair value loss on investment properties of SGD48.0mn), which we think is likely due to the limited length of leases for certain assets. The value of investment properties have also been weighed down by the decline in the IDR against the SGD in 2017, and we note that the trend has continued in YTD2018. Aggregate leverage increased to 33.7% (3Q2017: 28.7%), mainly due to debt taken on to acquire SGD100.4mn in investment properties, which should be mostly related to the acquisition of Lippo Plaza Jogja and Kediri Town Square (refer to OCBC Asian Credit Daily – 16 Oct 2017). We also note SGD28.7mn in capex, which is likely partly attributable to the AEI works at Ekalokasari Plaza (refer to OCBC Asian Credit Daily – 10 Oct 2017). In relation to the potential downgrade of LMRT's "Baa3" credit rating by Moody's, we continue to see a 2 in 3 probability for LMRT to be downgraded (refer to OCBC Asian Credit Daily – 08 Jan 2017). As a recap, we mentioned that 2 out of 3 criteria from Moody's review looks unlikely to be satisfied, namely 1) reduction in exposure to the Lippo group of companies, 2) reduction in adjusted aggregate leverage well below 40%. We still maintain that both criteria looks unlikely to be satisfied. Firstly, Lippo Karawaci ("LK")'s B1 rating by Moody's has been placed on a negative outlook as of 5 Feb 2018 and LMRT has reiterated in the financial results that it has no reason to believe that the Lippo group of companies will not be able to fulfil their payment obligations. Next, due to the increase in aggregate leverage, the adjusted aggregate leverage (by adjusting perpetuals as half equity, half debt) has hit 40%, according to our calculations. Given the deteriorating credit outlook at LK, we would not be surprised if LK continues to divest assets into LMRT, which may push LMRT's aggregate leverage up further. The third criterion, namely the refinancing of the 2018 debt maturities, has yet to be satisfied with

Credit Headlines (cont'd) :

~SGD100mn debt undertaken for the acquisitions and the SGD100mn LMRTSP 4.5% '18s coming due within a year. As a result, borrowings due within the next 12 months spiked q/q to SGD268.5mn (3Q2017: SGD74.9mn). Nevertheless, our base case remains that LMRT will be able to refinance the near-term maturities. Despite seeing an elevated chance of a downgrade by Moody's, we maintain that we are not overly worried (refer to OCBC Asian Credit Daily – 02 Jan 2018) as we are still comfortable with LMRT and continue to hold LMRT with a Neutral (5) Issuer Profile. (Company, OCBC)

United Overseas Bank Ltd ("UOB"): UOB reported its 4Q2017 and FY2017 results with total income for FY2017 up 10% y/y and 3% q/q driven by growth in both net interest income and fee and commission income. Higher net interest income growth was attributed to higher loan volumes and higher interest margins. Loans grew 5% y/y and 1% q/q driven by broad-based increases across most markets and industries while net interest margin ("NIM") expansion rose 6bps y/y to 1.77% and 2bps q/q to 1.81%. Fee and commission income rose 12% y/y and 6% q/q, as the wealth management segment saw strong income growth of 36% due to higher sales of treasury products and unit trusts. Overall other non-interest income rose to SGD1.16bn due to higher net gains from disposal of investment securities. Higher income growth was however partially offset by higher expenses which were up 9% y/y due to higher staff cost, IT-related and revenue-related expenses. Additionally, total allowance grew 23% y/y but fell 36% q/q due to higher specific allowance recorded. This resulted from an increase in non-performing assets ("NPA") from the oil and gas shipping sectors, coupled with collateral valuation being marked down in 4Q2017. Specific allowances rose 49% y/y to SGD1.48bn . Contribution from associated companies increased significantly to SGD110mn from SGD6mn, mainly due to the low base in the previous year (from investment losses in associated company). That said, NPL ratio rose to 1.8% as at 31 December 2017 against 1.6% in 3Q2017 and 1.5% in 4Q2016 due to one-off recognition of oil and gas as per DBS in 3Q2017 which drove the higher NPL ratio and explains the general allowance writeback. Top line performance along with AT1 issuance in October 2017 drove CET1 ratio higher to 15.1% (OCBC: 13.9%; DBS: 14.3%) which is now highest of the local banks. Leverage ratio is now 8%, well above Basel 's minimum requirement of 3%. We maintain our Positive (2) Issuer Profile rating for now. (Company, OCBC)

Groupe BPCE ("GBPCE"): GBPCE reported its 4Q2017 and FY2017 results with broadly solid results as performance in its Asset & Wealth Management and Corporate & Investment Banking segments offset somewhat on-going weak segment performance in Retail Banking & Insurance. Overall reported net banking income (excluding non-economic and exceptional items) rose 2.1% y/y to EUR23.9bn in FY2017 as a 1.2% fall in net banking income from Retail Banking & Insurance was mitigated by a 14.5% and a 7.3% rise y/y in net banking income from the Asset & Wealth Management in Corporate & Investment Banking segments respectively. Loan momentum from the Retail Banking & Insurance segment was strong, with a 5.1% y/y rise in loan outstandings (+4.8% y/y for home loans, +5.4% y/y for equipment loans, +9.8% y/y for consumer finance loans) while insurance activity was robust. Despite the unfavourable interest rate environment, the negative impact was partly offset by commission income earned and payment processing activities. The Asset & Wealth Management segment saw asset under management relatively steady at EUR831bn. Fee rates for Europe increase 2.1 bps y/y to 28.5bps (excluding Life Insurance) and North America increase 1.5bps y/y to 39.5bps. Corporate & Investment Banking revenue generation was driven by growth in all activities (eg: fixed income, equity, global finance and M&A). Operating expenses rose 1.7% y/y due to business growth and combined with an 8.0% y/y fall in risk costs, underlying income before tax rose 4.1% y/y to EUR6.1bn. Supporting the lower risk costs, the ratio of non-performing loans-to-gross outstanding loans fell marginally to 3.3% y/y for FY2017 (FY2016: 3.4%). However, the impaired loans coverage ratio weakened to 82% from 83.5% over the same period. Solid earnings performance along with issuance of co-operative shares translated to an estimated CET1 ratio of 15.4% for FY2017 (up from 14.2% in FY2016) while GBPCE's TLAC position also remains solid with the estimated reported TLAC ratio of 20.8% for FY2017 (20.3% for 3Q2017; 19.3% for FY2016) and remaining above the minimum requirement of 21.5% by January 2019. In terms of capital planning, management has stated that the impact of IFRS9 is not material and in order to meet its TLAC target by January 2019, it will be issuing EUR4-5bn per annum of senior non-preferred debt. We continue to review the numbers but in view of its solid results, we maintain our Neutral (4) Issuer Profile for now on GBPCE. (Company, OCBC)

Credit Headlines (cont'd) :

Singapore Airlines Ltd ("SIA"): SIA reported nine month results for the financial year ending March 2018 ("9MFY2018"). Reported revenue improved 6% y/y to SGD11.8bn while reported operating profit grew 42% y/y to SGD842.8mn. In 9MFY2018, adjustments to the KrisFlyer and PPS Club loyalty programme led to a net increase in operating income of SGD115mn while compensation for changes in aircraft delivery slots was SGD58mn. In the previous financial year, 1QFY2017 results was boosted by a one-off up-front recognition of SGD151mn from unutilised tickets as certain assumptions were revised. Taking out the one-off items, we find adjusted operating profit for 9MFY2018 at SGD670mn, up SGD220mn from 9MFY2017 (representing a 49% y/y increase). Bulk of the improvements was contributed by the SIA Cargo segment which grew to SGD120mn in 9MFY2018 from only SGD8mn in 9MFY2017. The SIA Cargo segment saw freight cargo load increase 5.5% y/y while cargo yield (in tonnes per km) improved 8.9% y/y, which indicates that SIA Cargo was making more money from each cargo load. SIA Engineering (77.8%-owned by SIA) saw operating profits improve 17% y/y to SGD56mn. The increase was due to the lower base effect in 9MFY2017 when SIA Engineering provided for higher staff costs (profit-linked component for staff from gain on divestment of Hong Kong Aero Engine Services Ltd). Adjusting for this one-off costs, operating profit for SIA Engineering in 9MFY2018 would have been SGD13.6mn lower y/y. Reported operating profits of the parent airline company ("SQ") increased 33% y/y to SGD566mn in 9MFY2018. Spreads between passenger load factor and passenger breakeven load factor was still a negative 0.2% in 9MFY2018, indicating that SQ is still not breaking-even on seats for scheduled services and operating profits is attributable to other items (eg: service fees, non-scheduled services, KrisFlyer, in-flight sales). Encouragingly though, negative spreads on scheduled services have narrowed from 9MFY2017 by 0.3%. While SQ is carrying more passengers (up 3.2% y/y), the passenger yield per passenger-km on scheduled services declined 1.9% y/y. Scoot's operating profit at SGD48mn in FY2018 was 4% higher y/y. Scoot is carrying more passengers (up 11.1% y/y), though passenger yield per passenger-km on scheduled services also declined (down 1.7% y/y). Scoot as a low cost carrier is better-able to generate operating profits incidental to scheduled services such as baggage fees, food & beverages, amenities and seat selection charges. Unlike the other two passenger airlines, operating profits of SilkAir declined 46% y/y to SGD40mn. This was despite the airline's ability to generate a profit on seats with passenger load factor of 73.7% against break-even load factor of 71.9%. Per company, SilkAir saw higher fuel, handling, aircraft maintenance and overhaul costs, due to expansion of operations which offset the growth in revenue. We observe that available seat-km (in millions) increased 13% y/y in 9MFY2018. Overall EBITDA (based on our calculation which does not include other income and other expenses) increased 17% y/y to SGD2.1bn. EBITDA/Interest was still healthy at 31.1x though has significantly narrowed from 53.6x in 9MFY2017. This is in line with the increase of new debt at SIA to fund its capex plans (largely for aircraft renewal). As at 31 December 2017, SIA turned into a net debt position as expected (leaving behind its cash surplus position of the past 10 years). Net gearing was still low at 0.05x, though with another ~SGD1.5bn in capex projected for 4QFY2018 and SGD6.0bn for FY2019, we expect to see net gearing rise above 0.3x by end-FY2019, assuming that cash balance stays relatively constant and that new capacity added is not immediately accretive to bottom line. The Indian government has put Air India ("AI"), the national flag carrier, up for sale and in January 2018 finally clarified that foreign buyers can buy up to 49%-stake in AI. SIA currently owns a 49%-stake in Vistara, an India-based airline with Tata as the other co-owner. As yet, there has been no official announcements by SIA/Vistara/Tata with regards to their intentions on AI, though it is worth noting that India forms a key part of SIA's multi-hub strategy. In our view, the proposed divestment of AI would be seriously looked at by SIA/Vistara/Tata. Currently, our base case assumes that SIA does not take on any major acquisitions beyond the capex plan that has been shared publicly and we keep SIA's issuer profile at Neutral (3). We would relook SIA's issuer profile should there be any further developments. (Company, OCBC)

Keppel Corp Ltd ("KEP"): KEP has been served with new lawsuit in the U.S. by eight funds managed by EIG Management Co LLC pursuant to Racketeer Influenced and Corrupt Organizations Act. KEP remains of the view that the reported cause of action is without merit. (Company)

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