May 18, 2018

Credit Headlines: Singapore Airlines Ltd, Groupe BPCE, First Real Estate Investment Trust, AIMS AMP Capital Industrial Trust, ESR-REIT, VIVA Industrial Trust

Market Commentary

- The SGD swap curve bear-steepened yesterday, with swap rates for the shorter tenors trading 2-3bps higher while the longer tenors traded 3-4bps higher.
- Flows in SGD corporates were moderate yesterday, with better buying seen in CMZB 4.875%'27s.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 1.33% while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 2bps to 410bps.
- 10Y UST yield rose 2bps to 3.11%, hitting its 7-year high on the back of strong US economic data earlier in the week.

Credit Headlines

Singapore Airlines Ltd ("SIA") | Issuer Profile: Neutral (3)

- SIA reported its 4th quarter and full year financial results for the year ended March 2018 ("4QFY2018"). In 4QFY2018, revenue increased 8% y/y to SGD4.0bn, driven by top line growth in the main airline SQ, SIA Cargo and the low cost carrier arm Scoot. Reported operating profit grew significantly by 677% to SGD214.5mn (4QFY2017: SGD27.6mn) from higher contribution from SQ, SIA Cargo and Scoot. For 4QFY2018 and FY2018, SIA Cargo is still a separate business segment though since 1 April 2018, the segment has been re-merged into SQ.
- EBITDA was up 56% y/y to SGD670mn in 4QFY2018 while interest expense almost doubled to SGD22mn, rendering a still very healthy though lower interest coverage of 30.2x against 33.8x in 4QFY2017. SQ's fuel hedging gains of SGD84.1mn (against a fuel hedging loss of SGD10.4mn in 4QFY2017) helped keep a lid on fuel costs despite the rising fuel prices. Net fuel cost was relatively stable at 25% in 4QFY2018. Going forward for FY2019, only 20% of jet fuel had been hedged at USD65/BBL (against 40.7% hedged at USD65/BBL in 4QFY2018) which may indicate higher unit cost.
- In addition to the stronger operating results, profit before tax was boosted by (1) healthier share of profits from joint ventures and associates (SGD21.6mn in 4QFY2018 against SGD1.2mn in 4QFY2017) and (2) the absence of a SGD148.7mn non-operating loss (provision for fines at SIA Cargo) that existed in 4QFY2017. SIA reported a profit before tax of SGD236.5mn in 4QFY2018 against a loss before tax of SGD132.1mn in 4QFY2017.
- As at 31 March 2018, unadjusted net gearing at SIA was 4%, still very low, though had turned from the cash surplus position at the beginning of the financial year. Optically, cash balance at SIA was still reasonable at SGD2.6bn, though sales in advance of carriage and deferred revenue (eg: sale of KrisFlyer miles) totalled SGD3.0bn. These represent services which SIA would need to carry out down the road. SIA has shared that it targets to spend SGD6.2bn in FY2019 and SGD5.7bn p.a on average over the next five years on capital expenditure, largely on aircraft purchases. We expect SIA's net gearing levels to increase as cash flow generated from operations is insufficient to fund the large capex needs and simultaneously sustain its dividend payments. In FY2018, SIA's net cash flow from operations was SGD2.6bn and SGD248.3mn of cash was paid in dividends to shareholders. SIA had also proposed to pay a final dividend of SGD0.30 per share (representing a further SGD355mn to be paid out in August 2018, likely to be approved by shareholders).
- There has been no further announcements with regards to SIA's initial possible interest in Air India. The Air India deal itself has been delayed from the original timeline with bid conditions relaxed. (Company, OCBC)

Credit Headlines (cont'd):

Groupe BPCE ("GBPCE") | Issuer Profile: Neutral (4)

- GBPCE reported its 1Q2018 results with net profit, after restating the impact of IFRIC 21 impact, up 0.9% y/y to EUR946mn. Within these results, the group's 1Q2018 revenue was impacted by weakness in the USD against the EUR with net banking income down 0.8% y/y. However, upon expressing the numbers at constant exchange rates to better reflect the underlying performance of the business operations, net banking income in fact increased by 0.9% y/y.
- On a constant exchange rate basis, the rise in net banking income was driven by solid performance in the Asset & Wealth Management (+20.2% y/y), Specialised Financial Services (+5.2% y/y), and Insurance divisions (+7.7% y/y). The insurance segment continues to maintain good profitability with its gross operating income up 6.7% y/y due to an increase in premiums collected for its Life and Personal Protection insurance. The Retail Banking & Insurance division (-3% y/y) continues to be a drag due to the impact of persistently low interest rates on net interest income.
- 1Q2018 operating expenses were up 1.2% y/y to EUR4.6bn (+2.5% y/y on constant exchange rate basis). As a result, the cost to income ratio has risen to 69% (4Q2017: 68.3%). Excluding the Single Resolution Fund (SRF) contribution which rose 31% y/y, operating expense remained steady at EUR4.2bn (-0.7% on current exchange rates, +0.7% y/y at constant exchange rates). With the rise in operating expenses coupled with lower net banking income generated in 1Q2018, gross operating income fell 6.3% y/y (-3.6% y/y at constant exchange rates).
- Cost of risk, after restating to reflect the impact of IFRIC 21, fell 29.2% y/y to EUR259mn driven by reduction mainly in the Retail Banking & Insurance division. This led to PBT rising 0.8% y/y to EUR1.2bn. The non-performing loan ratio also improved to 3.0% as at 31 Mar 2018 from 3.2% as at 31 Dec 2017 while the reported impaired loans coverage ratio (including guarantees related to impaired outstandings) actually improved to 74.2% as at 31 Mar 2018 from 71.4% as at 31 Dec 2017.
- GBPCE continues to maintain solid capital adequacy ratios and total loss-absorbing capacity. The CET1 ratio for 1Q2018 decreased marginally to 15.1% (4Q2017: 15.4%) due to first time application of IFRS 9 (-17 bps) and reductions to regulatory capital due to contribution to the Single Resolution Fund and Deposit Guarantee and Resolution Fund (FGDR) recognised as irrevocable payment commitments (IPC) by supervisory authorities (-12bps). Absent these one-off impacts, the underlying CET1 ratio was stable as the rise in risk-weighted assets (-17bps q/q) were offset by issues of cooperative shares (+14bps y/y) and retained earnings (+13bps y/y). GBPCE's estimated Total Loss-Absorbing Capacity (TLAC) ratio, including the impact of deduction of IPC, rose to 21.5% (4Q2017: 20.8%). This is close to the target fixed in its TEC 2020 strategic plan of more than 21.5% by early 2019. (OCBC, Company)

First Real Estate Investment Trust ("FIRT") | Issuer Profile: Negative (6)

- FIRT has announced that it has entered into a facility agreement with a bank lender in respect of a term loan facility of SGD100mn. Encouragingly, we think this term loan would go towards redeeming the SGD100mn of bonds that is coming due on 22 May 2018.
- Among the covenants contained in the facility, (1) a mandatory prepayment event is triggered if the current REIT Manager ceases to be manager of FIRT (unless prior written consent is obtained) and (2) an event of default is triggered if PT Lippo Karawaci Tbk (its Sponsor, "LK") ceases to own (whether directly or indirectly) at least 25% of units in FIRT. As at 8 March 2018, LK holds 218.8mn units of FIRT, representing a 28%-stake. (Company, OCBC)

Credit Headlines (cont'd):

AIMS AMP Capital Industrial Trust ("AAREIT") | Issuer Profile: Neutral (4)

- AAREIT has announced its intentions to redevelop 3 Tuas Avenue 2 into a modern ramp-up industrial facility (due for completion in the second half of 2019). The current plot ratio of the property is 0.92 and it is intended to be redeveloped to the maximum plot ratio of 1.40. Gross floor area will increase by 52% to 24,890 sqm.
- The redevelopment will cost SGD48.2mn.
- As at 31 March 2018, AAREIT's aggregate leverage was 33.5% though factoring this proposed redevelopment and taking into account the balance needed to fund the other redevelopments, this would rise to 35.0%, which is still manageable in our view. (Company, OCBC)

ESR-REIT ("EREIT") | Issuer Profile: Neutral (4)

VIVA Industrial Trust ("VIT") | Issuer Profile: Neutral (5)

- EREIT and VIT announced a proposed merger by way of a trust scheme of arrangement ("Scheme"). The deal is subject to approval by unitholders of both EREIT and VIT. The Scheme would also require sanction by the Singapore court.
- This is largely a share deal (90% equity, 10% cash) and the proposed merger, when completed, would create the 4th largest Industrial REIT listed in Singapore with ~SGD3.0bn in total assets.
- Assuming completion, VIT would be owned by EREIT Trustee and be delisted from the SGX after the deal is completed. From a credit angle, we like the deal and think the merged entity would have higher financial flexibility from better access to both equity and debt markets post-completion. (Company, OCBC)

Table 1: Key Financial Indicators

	18-May	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	76	2	3
iTraxx SovX APAC	13	1	1
iTraxx Japan	50	-1	2
iTraxx Australia	66	1	2
CDX NA IG	61	1	1
CDX NA HY	107	0	0
iTraxx Eur Main	56	2	3
iTraxx Eur XO	272	5	0
iTraxx Eur Snr Fin	62	4	5
iTraxx Sovx WE	19	2	2
AUD/USD	0.751	-0.42%	-3.51%
EUR/USD	1.180	-1.18%	-4.62%
USD/SGD	1.343	-0.48%	-2.46%
China 5Y CDS	57	-1	-1
Malaysia 5Y CDS	85	-7	14
Indonesia 5Y CDS	123	8	26
Thailand 5Y CDS	45	0	1

	18-May	1W chg	1M chg
Brent Crude Spot ($/bbl)	79.57	3.18%	8.29%
Gold Spot ($/oz)	1,289.04	-2.29%	-4.47%
CRB	203.56	-0.47%	0.29%
GSCI	490.22	1.19%	3.25%
VIX	13.43	1.51%	-13.91%
CT10 (bp)	3.121%	15.10	24.77
USD Swap Spread 10Y (bp)	3	0	0
USD Swap Spread 30Y (bp)	-8	1	5
TED Spread (bp)	44	-4	-14
US Libor-OIS Spread (bp)	43	-4	-14
Euro Libor-OIS Spread (bp)	3	1	1
DJIA	24,714	-0.10%	-0.14%
SPX	2,720	-0.11%	0.42%
MSCI Asiax	716	-1.13%	-0.58%
HSI	30,988	-0.43%	2.32%
STI	3,524	-1.29%	-0.95%
KLCI	1,860	0.74%	-1.02%
JCI	5,816	-2.36%	-7.97%

Source: OCBC, Bloomberg

New issues

- China Great Wall International Holdings III Ltd has priced a USD600mn 5-year bond (guaranteed by China Great Wall AMC (International) Holdings Co Ltd) at CT5+155bps, tightening from its initial price guidance of CT5+180bps area.
- Vanke Real Estate Hong Kong Co Ltd (VANKE) has priced a USD650mn 5-year FRN (keepwell/EIPU provider: China Vanke Co Ltd) at 3mL+155bps, tightening from its initial price guidance of 3mL+185bps area.
- QNB Finance Ltd has priced a USD1.5bn 3-year FRN (guaranteed by Qatar National Bank) at 3mL+135bps, tightening from its initial price guidance of 3mL+150bps area.
- China South City Holdings Ltd (CSCHCN) has priced a USD150mn 2-year bond (guaranteed by certain restricted subsidiaries incorporated outside of the PRC) at 11%, in line with its initial price guidance.
- Top Yield Ventures Ltd has priced a USD120mn 364-day bond (parent guarantor: Nan Hai Corp Ltd) at 9.75%.
- Korea Western Power Co Ltd has scheduled for investor meetings from 21-22 May for its potential USD bond issuance.

Date	Issuer	Size	Tenor	Pricing
17-May-18	Top Yield Ventures Ltd	USD120mn	364-day	9.75%
17-May-18	China South City Holdings Ltd	USD150mn	2-year	11%
17-May-18	QNB Finance Ltd	USD1.5bn	3-year	3mL+135bps
17-May-18	Vanke Real Estate Hong Kong Co Ltd	USD650mn	5-year	3mL+155bps
17-May-18	China Great Wall International Holdings III Ltd	USD600mn	5-year	CT5+155bps
16-May-18	First Abu Dhabi Bank PSJC	CNH1.1bn	3-year	4.8%
16-May-18	Greenland Global Investment Ltd	USD500mn	363-day	6.75%
16-May-18	BlueScope Finance (Americas) LLC	USD300mn	5-year	CT5+180bps
15-May-18	Korean National Oil Corp	CHF500mn	5-year	MS+35bps
15-May-18	PT Perusahaan Listrik Negara	USD1bn	30-year	6.2%
15-May-18	PT Perusahaan Listrik Negara	USD1bn	10-year	5.5%
15-May-18	AVIC International Finance & Investment Ltd	USD400mn	3-year	CT3+175bps
14-May-18	NagaCorp Ltd	USD300mn	3NC2	9.625%
14-May-18	KDB Life Insurance	USD200mn	30NC5	7.5%

Source: OCBC, Bloomberg

Andrew Wong
Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6530 4736
wongVKAM@ocbc.com

Nick Wong Liang Mian, CFA
Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6530 7348
NickWong@ocbc.com

Ezien Hoo, CFA
Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6722 2215
EzienHoo@ocbc.com

Wong Hong Wei
Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6722 2533
WongHongWei@ocbc.com