Asian Credit Daily

Mar 2, 2018

Credit Headlines: Keppel Corp/Sembcorp Industries, Sabana Shari'ah Compliant REIT, Ezra Holdings Ltd, Nam Cheong Limited, Hong Fok Corp Ltd, First Real Estate Investment Trust, Landesbank Baden-Württemberg

Market Commentary: The SGD swap curve bull-flattened yesterday, with swap rates trading 2bps higher for the 1-year tenor while the medium to longer tenors traded 4-6bps lower. Flows in SGD corporates were heavy yesterday, with better buying seen in FPLSP 3.95%'21s and UOBSP 4.75%-PERPs. In the broader dollar space, the Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 114bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 5bps to 344bps. 10Y UST yields fell 5bps to 2.81% as President Trump's pledge to impose stiff tariffs on foreign metals (25% duties on steel and 10% duties on aluminum) sparked fears of a potential global trade war.

New issues: Fantasia Holdings Group Co Ltd has priced a USD350mn 3-year bond at 8.375%, tightening from its initial price guidance of 8.5% area. The expected issue ratings are 'B+/B3/NR'. Franshion Brilliant Ltd has priced a CNH1.25bn 3-year bond (guaranteed by China Jinmao Holdings Group Ltd) at 5.2%, in line with its initial price guidance. The expected issue ratings are 'BBB-/NR/NR'. Bank Of China Ltd, Hong Kong Branch has priced a USD2.25bn deal across 3-tranches, with the USD1bn 3-year FRN priced at 3mL+75bps, tightening from its initial guidance of 3mL+100bps area; the USD1bn 5-year FRN priced at 3mL+85bps, tightening from its initial guidance of 3mL+110bps area and the USD250mn 10-year bond priced at CT10+125bps area, , tightening from its initial guidance of CT10+145bps area. The expected issue ratings are 'A/A1/A'. UPL Corp Ltd has priced a USD300mn 10-year bond at CT10+173bps, tightening from its initial guidance of CT10+200bps area. The expected issue ratings are 'BBB-/NR/BBB-'. Agile Group Holdings Ltd has sold an additional USD100mn senior perp bond and will form a single series with the USD300mn 6.875% senior perp bond. Chengdu Xingcheng Investment Group Co Ltd has scheduled for investor meetings from 2 Mar for its potential EUR bond issuance. The expected issue ratings are 'NR/NR/BBB+'. Toyota Industries has

Table 1: Key Financial Indicators

	2-Mar	1W chg (bps)	1M chg (bps)		2-Mar	1W chg	1M chg
iTraxx Asiax IG	69	-2	5	Brent Crude Spot ($/bbl)	63.83	-3.86%	-8.36%
iTraxx SovX APAC	12	-1	1	Gold Spot ($/oz)	1,317.45	-0.85%	-1.20%
iTraxx Japan	49	1	6	CRB	193.95	-0.68%	-1.77%
iTraxx Australia	60	-2	3	GSCI	441.04	-1.74%	-3.39%
CDX NA IG	58	0	10	VIX	22.47	20.03%	29.81%
CDX NA HY	106	0	-2	CT10 (bp)	2.819%	-4.73	-2.24
iTraxx Eur Main	53	-1	10	USD Swap Spread 10Y (bp)	1	0	-3
iTraxx Eur XO	267	-2	28	USD Swap Spread 30Y (bp)	-19	0	-5
iTraxx Eur Snr Fin	54	-2	12	TED Spread (bp)	38	9	2
iTraxx Sovx WE	20	0	1	US Libor-OIS Spread (bp)	40	6	15
iTraxx Sovx CEEMEA	33	0	1	Euro Libor-OIS Spread (bp)	3	0	2
					2-Mar	1W chg	1M chg
				AUD/USD	0.776	-1.05%	-2.14%
				USD/CHF	0.942	-0.64%	-1.14%
				EUR/USD	1.227	-0.23%	-1.57%
				USD/SGD	1.323	-0.23%	-0.20%
Korea 5Y CDS	50	-2	2	DJIA	24,609	-1.42%	-3.57%
China 5Y CDS	56	-3	2	SPX	2,678	-0.97%	-3.06%
Malaysia 5Y CDS	63	-1	6	MSCI Asiax	728	-1.14%	-4.32%
Philippines 5Y CDS	65	-1	6	HSI	31,044	0.25%	-4.78%
Indonesia 5Y CDS	87	-1	7	STI	3,514	0.73%	-0.45%
Thailand 5Y CDS	40	-2	-2	KLCI	1,861	0.31%	-0.51%
				JCI	6,606	0.20%	-0.34%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
1-Mar-18	Agile Group Holdings Ltd	'NR/B1/NR'	USD100mn	Perp NC5	100+accrued interest
1-Mar-18	UPL Corp Ltd	'BBB-/NR/BBB-'	USD300mn	10-year	CT10+173bps
1-Mar-18	Bank Of China Ltd (HK Branch)	'A/A1/A'	USD250mn	10-year	CT10+125bps
1-Mar-18	Bank Of China Ltd (HK Branch)	'A/A1/A'	USD1bn	5-year	3mL+85bps
1-Mar-18	Bank Of China Ltd (HK Branch)	'A/A1/A'	USD1bn	3-year	3mL+75bps
1-Mar-18	Franshion Brilliant Ltd	'BBB-/NR/NR'	CNH1.25bn	3-year	5.2%
1-Mar-18	Fantasia Holdings Group Co Ltd	'B+/B3/NR'	USD350mn	3-year	8.375%
28-Feb-18	Mizuho Financial Group	'A-/A1/NR'	USD1.3bn	10-year	CT10+115bps
28-Feb-18	Mizuho Financial Group	'A-/A1/NR'	USD850mn	5-year	3mL+79bps
28-Feb-18	Mizuho Financial Group	'A-/A1/NR'	USD850m	5-year	CT5+90bps

Source: OCBC, Bloomberg

New Issues (cont'd) : scheduled for investor meetings from 5 Mar for its potential USD bond issuance. The expected issue ratings are 'AA-/A1/NR'. Trafigura Group Pte Ltd has scheduled for investor meetings from 5 Mar for its potential USD 5-7 year bond. PT Bumi Serpong Damai Tbk has hired banks for its potential USD bond issuance.

Credit Headlines:

Keppel Corp ("KEP") / Sembcorp Industries ("SCI"): It was reported that Petrobras's board had approved the main terms of a possible deal with Sete Brasil. Though the deal remains subject to certain conditions and approvals, the main two terms are that 1) Petrobras will maintain the charter and operation contracts for 4 rigs. The balance 24 rig contracts will be cancelled. 2) The contracts will be valid for 10 years at a daily rate of USD299,000 per rig including charter and operation of the units. This was sharply lower than the reported original daily rate of USD530,000. We note that due to high local content requirement for the rigs, the cost of construction for these deepwater drilling assets was already higher than norm. With the potential sharp reduction in day rates, it is likely that the final transacted price for the rigs between Sete Brasil and its partner yards (which include KEP and SCI) could be decisively lower versus the original contract price. With Sete Brasil currently in court-driven restructuring, such contracts would likely be renegotiated as part of Sete Brasil's restructuring. As a reminder, KEP and SCI (via Sembcorp Marine, "SMM") currently have 6 semi-submersibles and 7 drillships orders contracted with Sete Brasil respectively. The net order book exposure for KEP is ~SGD3.9bn while for SCI / SMM its ~SGD3.1bn. Based on updates provided some time back, 3 of the semi-submersibles by KEP and 4 of the drillships by SMM were majority-completed. KEP had stopped work for Sete Brasil in 4Q2015 while SMM stopped work for Sete Brasil in 2Q2016. Both KEP and SMM had not received payments from Sete Brasil since November 2014. The receivables due to KEP and SMM from Sete Brasil have not been disclosed. That said, KEP already took SGD228mn in provisions over the Sete Brasil contract in 2015 and took a further SGD81mn in additional provisions in 4Q2017 for SGD309mn in total provisions. SMM took SGD329mn in provisions during 4Q2015 over their Sete Brasil exposure and stated as recently as 4Q2017 that these are adequate. Looking forward, we believe that KEP and SMM have good chances of selling the 4 rigs to Sete Brasil (possibly two each) as it would seem that KEP and SMM were the furthest along in terms of construction amongst Sete Brasil's partner yards. That being said, the uncertainty remains the pricing which the rigs get transacted, and the future of the "undesired" largely completed rigs (1 semi-submersibles by KEP, 2 drillships by SMM). One silver lining, is that interest in Brazil's pre-salt deepwater oil assets is reviving given the increase in crude oil prices as well as the slump in the exploration and extraction costs for such assets. As such, KEP and SMM could still potentially find interested parties for these rigs. It would ultimately boil down to price. (OCBC, Bloomberg)

Sabana Shari'ah Compliant REIT ("SSREIT"): SSREIT announced that it has entered into a conditional sales and purchase agreement for the proposed divestment of 6 Woodlands Loop for SGD13.8mn. The property, which was vacant in end-2017, was earlier reclassified into "Investment properties held for Divestment" in 3Q2017 as SSREIT had been actively looking to sell the asset. The divestment is conditional upon approvals from relevant authorities and is targeted to be completed in 1H2018. As at 31 December 2017, the property has a book value of SGD12.9mn and the sale consideration is ~7.0% above book value. SSREIT though is realizing the asset at a lower value compared to the original purchase consideration of SGD14.8mn in December 2011. As at 31 December 2017, SSREIT faces short term debt of SGD117.5mn (including SGD90mn of sukuk due on 19 March 2018), SGD130mn collectively has been raised from various banking facilities in November and December 2017 which in our view will go towards refinancing. We maintain SSREIT's issuer profile at Neutral(5). (Company, OCBC)

Ezra Holdings Ltd ("EZRA"): It was reported that EZRA's restructuring proposal includes transferring existing assets into a creditor trust for the benefit of creditors. This would unencumber the existing EZRA entity (which would effectively become a shell company with no operating assets or liabilities). Asia Fund Space would invest SGD1mn to get 92% of shares in the unencumbered EZRA shell entity while creditors and existing shareholders would each receive 4% stake. EZRA would then acquire new businesses in an RTO deal via new shares, to be completed no later than 2018. The above proposal is subject to EZRA shareholder, creditor as well as US and Singapore court approvals. (Company)

Credit Headlines (cont'd) :

Nam Cheong Limited ("NCL"): NCL announced 4Q2017 / full-year 2017 results. The biggest takeaway for the quarter is that NCL took a further MYR946.0mn in impairments. The larger items include MYR577.6mn written down on inventories, MYR239.2mn on impairments on amounts due from contract customers, MYR57.6mn in prepayment written off, MYR34.1mn on PPE and MYR31.1mn on contract termination expenses. They have also made MYR35.8mn in provisions for mooring charges. As such, despite a gross profit generated of MYR10.7mn, NCL reported a net loss of MYR1.04bn for the quarter. For the whole of 2017, NCL had taken MYR2.83bn in impairments in all, which drove NCL to a full year loss of MYR3.16bn. In aggregate, NCL reported MYR1.73bn in net liabilities (in other words, negative book equity due to huge accumulated losses). Total borrowings outstanding was MYR1.64bn (of which 65% is unsecured). Looking forward, management had indicated that during February 2018, NCL had successfully cancelled certain shipbuilding contracts, with would allow NCL to derecognize certain inventories as well as the accrual of trade payables related to these cancelled vessels. This would allow for the reversal of approximately MYR600mn in inventory impairments which NCL had taken. Another positive area is that NCL had been able to complete the sale of three vessels during 2017, which resulted in full-year revenue increasing 84% y/y to MYR313.1mn. These sales helped NCL generate MYR69.5mn in positive operating cash flow (which includes interest service) for the full year. Coupled with certain asset divestments, it allowed NCL to end the year with a slightly higher cash balance of MYR183.0mn. This is despite paying down net debt by ~MYR64mn during the year. To be clear, NCL remains in a challenging situation. The outlook for vessels orders and sales for its shipbuilding segment remains weak, while competition would likely pressure their vessel chartering business margins. The company remains under restructuring, as even though its Scheme of Arrangements (refer to OCBC Asian Credit Daily (25 Jan 2018)) had been successfully approved, the effectiveness of the Schemes were still subject to court sanction in their respective regimes, with currently no certainty with regards to timeline. Please refer to our previous report on NCL for more details (OCBC Asia Credit - Nam Cheong Credit Update (6 Dec 2017)). (Company, OCBC)

Hong Fok Corp Ltd ("HFC"): HFC reported 2017 results. Revenue increased 20% y/y to SGD70.0mn, mainly due to higher contributions from development properties (+101% y/y to SGD18.7mn). It appears that the rebounding property market has supported HFC's development property segment as according to the URA caveats, HFC sold 12 units at the Concourse Skyline in 2017. Revenue from property investment increased 3.4% y/y to SGD49.2mn, with the maiden contribution from YOTEL (which commenced operations in 4Q2017). Net profit surged to SGD223.3mn (2016: SGD82.0mn), mainly due to revaluation gains of SGD233.5mn with large gains from Yotel (due to its completion) and revaluation gains from other investment properties including Concourse and International Building. Without the fair value gains, HFC would have reported a loss before tax of SGD5.8mn (2016 loss before tax: SGD14.3mn). Nevertheless, we note that this is partly due to a 15% y/y increase in other expenses to SGD51.7mn due to the pre-opening and other costs incurred for YOTEL. As mentioned in our Singapore Credit Outlook 2018, employee benefit (including remuneration for key management personnel) is still likely to be the largest expense item (which constituted 47.5% of 2016's other expenses). When YOTEL stabilises (hotels may take ~3Y), we expect contributions to increase. We also see the potential for HFC to continue monetising more units at Concourse Skyline, which may support near-term performance. Meanwhile, despite redeeming the SGD100mn notes in Jan 2018, it appears that this has been refinanced into a short-term loan with loans and borrowings due within the next 12 month remaining high at SGD178.2mn - liquidity appears tight with only SGD50.6mn of cash on hand and SGD10.2mn cashflows generated from operations in 2017. Nevertheless, we remain comfortable with HFC as net gearing looks manageable, declining q/q to 33% (3Q2017: 36%) due to an expanded equity base (from the sizeable fair value gains). As such, we continue to hold HFC at a Neutral (5) Issuer Profile. (Company, OCBC)

Credit Headlines (cont'd) :

First Real Estate Investment Trust ("FIRT"): Effectively on 1 March 2018, HSBC Institutional Trust Services (Singapore) Limited has retired as trustee of First REIT and Perpetual (Asia) Limited ("Perpetual") has been appointed as the new trustee of First REIT. Similarly, Perpetual has also been appointed as the new trustee of Lippo Malls Indonesia Retail Trust ("LMIRT"). LMIRT is a sister REIT to First REIT, with Lippo Karawaci as the Sponsor for both. Notwithstanding the weakening credit profile of the Sponsor, we view the change in the trustee of FIRT as not to impact FIRT's credit profile. We observe that Perpetual is the trustee of other Singapore REITs and business trusts including Frasers Hospitality Trust and Viva Industrial Trust and has a long track record in the Singapore market. (Company, OCBC)

Landesbank Baden-Württemberg ("LBBW"): LBBW announced a summary of its FY2017 results with total operating income of EUR2.51bn down 2.9% y/y. Key drivers for the performance was a 4.9% y/y fall in net interest income from ongoing low interest rates and Germany's competitive banking environment, a 16.6% fall in results from financial investments and higher allowances for losses on loans (+81.1%). This mitigated higher gains from financial instruments measured at fair value through the P&L. Overall expense performance improved y/y as stable administrative expenses, lower bank levy and deposit guarantee, state guarantee commission and restructuring expenses resulted in underlying profit before tax ('PBT') down 1.1% y/y to EUR515mn. Including impairment of goodwill in FY2016 related to LBBW's previous acquisition of SachsenLB, LBBW's profit before tax rose 263% y/y. That said, LBBW's cost to income ratio weakened slightly to 74.8% in FY2017 from 74.3% in FY2016. On a segment basis, the marginally weaker PBT was driven by weaker performance in the Corporates segment (-10.3% y/y), which contributed the bulk of consolidated PBT and Corporate Items segment. This overshadowed improved performance in the Retail segment (growth in net interest income from higher deposits and margins, mainly in the private banking business) and Credit Investment segment although both segments continue to generate losses, albeit smaller in FY2017. Corporate segment performance was dragged down by low interest rates and competition although lending volumes grew (total Corporate segment assets up 4.1% y/y) as well as higher allowances for loan losses and higher administrative expenses. Going forward, the reporting of LBBW's operating segments will change with the Corporates segment evenly split into Corporate Customers and Real Estate/Project Finance exposures. The weaker result from the Corporates segment also overshadowed a strong year for LBBW's Capital Markets business with PBT up 76% y/y largely due to higher net fee and commission income, higher y/y gains from financial instruments measured at fair value through P&L and lower restructuring expenses. Total assets fell 2.4% y/y following the disposal of almost all of LBBW's legacy credit substitute business and distressed loans to an SPV (Sealink Funding) provided during the Global Financial Crisis. This negated higher lending volumes in Corporates. Given better earnings in FY2017 and the ongoing rationalization of its risk weighted asset portfolio which saw risk weighted assets fall 2.2% y/y, capital ratios improved with LBBW's fully loaded CET1/CAR capital ratios at 15.7%/22.2% as at 31 Dec 2017 compared to 15.2%/21.5% as at 31 Dec 2016. This remains above regulatory minimum capital requirements, which have increased in line with the EU's Capital Requirements Regulations, which are set annually by the ECB on the basis of the Supervisory Review and Evaluation Process (SREP) with LBBW's phased in CET1/CAR 2018 capital requirement of 8.80%/12.30%. Minimum requirements include a Pillar 2 Requirement of 1.75%, Capital conservation buffer of 1.88% and a other systemically important institutions buffer of 0.67%. LBBW's leverage ratio as at 31 Dec 2017 of 4.6% also exceeds the minimum 3.0% target. Going forward, despite ongoing competitive challenges and prevailing low interest rates, profitability is expected to improve as guarantee commission expenses will be mostly absent in 2018 following the disposal of LBBW's Sealink portfolio. Although fundamentals face challenges, LBBW's capital position continues to be a source of comfort and we maintain our Neutral (4) issuer profile on LBBW. On a spread basis, we still like the CMZB Tier 2 27c22s which currently offer a ~38bps pick up against the LBBW Tier 2 27c22s, which we think is decent compensation for the slightly weaker (albeit improving) credit profile of CMZB (OCBC, Company)

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