Asian Credit Daily

February 21, 2018

Credit Headlines: Pacific Radiance Ltd, Lendlease Group Ltd , HSBC Holdings Plc

Market Commentary: The SGD swap curve steepened higher yesterday, with swap rates trading 8bps higher across most tenors. Flows in SGD corporates were moderate yesterday, with better buying seen in HSBC 4.7%-PERPs. In the broader dollar space, the Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 111bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 5bps to 343bps. 10Y UST yield rose 2bps to 2.89%. Yields rose to a high of 2.92%, as the government began a record week of auctions with USD151bn of short-term bills and USD28bn of two-year notes. Yields however fell 3bps to close at 2.89% as money managers are reportedly looking at the highest US yields in years as buying opportunities in a world where Japanese and German notes still carry negative yields.

New issues: Sprint Corp priced USD1.5bn in 8-year senior notes at 7.625%, inside of initial guidance of 7.75% and upsized from USD1bn.

Table 1: Key Financial Indicators

	21-Feb	1W chg (bps)	1M chg (bps)		21-Feb	1W chg	1M chg
iTraxx Asiax IG	69	-5	5	Brent Crude Spot ($/bbl)	65.25	4.03%	-4.90%
iTraxx SovX APAC	13	-1	2	Gold Spot ($/oz)	1,329.98	-1.54%	-0.30%
iTraxx Japan	47	-3	4	CRB	193.67	2.43%	-0.94%
iTraxx Australia	61	-4	6	GSCI	444.21	3.18%	-1.37%
CDX NA IG	54	-5	7	VIX	20.6	-19.56%	82.79%
CDX NA HY	107	1	-1	CT10 (bp)	2.890%	6.02	23.04
iTraxx Eur Main	53	-3	9	USD Swap Spread 10Y (bp)	1	0	-3
iTraxx Eur XO	270	-9	40	USD Swap Spread 30Y (bp)	-17	0	-5
iTraxx Eur Snr Fin	55	-1	13	TED Spread (bp)	31	4	-1
iTraxx Sovx WE	20	-1	0	US Libor-OIS Spread (bp)	30	2	5
iTraxx Sovx CEEMEA	34	-3	2	Euro Libor-OIS Spread (bp)	3	0	1
					21-Feb	**1W chg**	**1M chg**
				AUD/USD	0.788	-0.57%	-1.70%
				USD/CHF	0.936	-0.75%	2.71%
				EUR/USD	1.234	-0.93%	0.60%
				USD/SGD	1.319	-0.37%	-0.01%
Korea 5Y CDS	52	-3	6	DJIA	24,965	1.48%	-4.25%
China 5Y CDS	58	-5	8	SPX	2,716	2.27%	-3.35%
Malaysia 5Y CDS	63	-4	7	MSCI Asiax	725	0.70%	-4.10%
Philippines 5Y CDS	64	-3	8	HSI	30,874	4.63%	-4.28%
Indonesia 5Y CDS	87	-6	6	STI	3,477	2.70%	-2.08%
Thailand 5Y CDS	41	-1	1	KLCI	1,856	1.41%	1.49%
				JCI	6,663	2.14%	2.65%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
21-Feb-18	Sprint Corp	'B/B3/B+'	USD1.5bn	8-year	7.625%
13-Feb-18	Ronshine China Holdings Ltd	'NR/NR/B+'	USD100mn	RONXIN 8.25%'21s	98.688 + accrued interest
09-Feb-18	Golden Energy and Resources Ltd	'NR/B1/B+'	USD150mn	5NC3	9.375%
09-Feb-18	Fantasia Holdings Group Co Ltd	'B+/B2/NR'	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	100+ accrued interest
2-Feb-18	Greenland Global Investment Ltd	'NR/Ba2/NR'	USD400mn	3-year	5.25%

Source: OCBC, Bloomberg

Credit Headlines:

Pacific Radiance Ltd ("PACRA"): PACRA announced that its application to delay the filing of its full year 2017 results as well as 1Q2018 results has been approved by the SGX-ST. PACRA will now have up to 02/07/18 to file both its unaudited full year results ending 31st December 2017 as well as its unaudited first quarter results for the period ending 31st March 2018. PACRA will also have up to 16th July 2018 to hold its annual general meeting. PACRA's reason for the delays to filing its financial statements is as follows:

" As the Group progresses with its Restructuring through engagements with potential investors, existing lenders and noteholders, it is anticipated that ongoing discussions of terms will require more time to reach a conclusion. Release of financial results prior to the conclusion of the main terms of the Restructuring may potentially reflect incomplete information. An extension will therefore allow the Group to release its financial results after the main terms of the Restructuring are finalised and presented to all stakeholders, including the existing shareholders, enabling the market to better assess the financial impact of the Restructuring."

Given the above, it is possible that noteholders will have to make decisions on their stakes in PACRA's bonds based on extremely stale financial information, given that the last financial results available was for the 3rd quarter ending September 2017. We will continue to monitor the situation closely. The meeting for PACRA's consent solicitation exercise is to be held on 26/02/18 (Monday). We note that the deadline for the Voting Instruction Form is earlier, being by 10am on 24/02/18 (Saturday). We have previously provided our views regarding PACRA's consent solicitation exercise (refer to OCBC Asia Credit – Pacific Radiance Credit Update (7 Feb 2018)). Separately, PACRA announced that the Securities Investors Association of Singapore ("SIAS") will be holding an informal meeting between noteholders and the management of PACRA at 10am on 23/02/18 (Friday). (Company, OCBC)

Lendlease Group Ltd ("LLG"): LLG reported 1HFY2018 results for the period ending 31/12/17. Revenue increased 9.4% y/y to AUD8.7bn, largely driven by stronger revenue at the Development segment (+52.4% y/y to AUD2.0bn) and modest growth at the Construction segment (+2.0% y/y to AUD6.4bn). These help offset the slump in the Investments segment (-28.3% y/y to AUD218.5mn). In aggregate, reported operating EBITDA increased 11.3% y/y to AUD800.0mn. Development segment reported EBITDA surged 70.3% y/y to AUD443.0mn mainly due to higher contributions from Australia (+32.4% y/y to AUD384.0mn) with 2871 residential units completions in Australia (up 54% compared to the previous period). Residential presales were lower at AUD4.0bn (versus AUD4.8bn as at end-FY2017) due to AUD1.5bn in completions versus AUD0.6bn of sales during 1HFY2018. Management guided that Asia and Americas remains in the investing phase with regards to the Development segment, with development completions not expected until FY2019 (starting July 2018). The pipeline looks healthy with LLG securing two new urbanisation projects in Europe with an estimated end value of AUD1.9bn for the London project and AUD3.5bn for the Milan project. In aggregate, the development pipeline increase 16% to AUD56.7bn (AUD40.3bn in urbanisation projects, AUD16.3bn in Communities and Retirement projects). The Construction segment reported an EBITDA loss for the period of AUD26.1mn (1HFY2017: EBITDA gain of AUD170.2mn). This was largely driven by poorer performance at Australia, which swung from EBITDA gain of AUD97.9mn in 1HFY2017 to EBITDA loss of AUD66.1mn. This was due to the impact of a number of engineering projects, with LLG reversing previously booked margin as well as recognizing expected losses. The affected projects are at least 50% complete, with LLG factoring the margin impact until expected project completion. Performance from the Americas was also weaker y/y due to timing of the pipeline, though this was offset by stronger performance out of Europe. Construction pipeline remains healthy with AUD8.8bn in new work secured during the period for a total backlog of AUD22.4bn. In addition, LLG has ~AUD12bn of work in preferred bidder status. Finally, the Investments segment reported EBITDA grew 32.8% y/y to AUD383.1mn, driven by contributions from both Australia (+9.4% y/y to AUD267mn) and Americas (+273% y/y to AUD97mn). Australia benefited from the increase in carry value of LLG's 75% remaining stake in its Retirement Living business due to the 25% stake divestment. This boosted Investments ownership EBITDA to AUD319mn. Growth in Investments operating EBITDA was more muted at 3% y/y to AUD64mn. Total borrowings fell from AUD2.15bn (end-FY2017) to AUD1.79bn (1HFY2018) due to strong operating cash flow of AUD340.4mn generated during the period, as well as investing cash inflows of AUD484.8mn (partly driven by the 25% stake sale in Retirement Living). The cash generated was used partly to retire debt . Meanwhile, net gearing declined to 4% (FY2017: 5%) and continues to undershoot its 10%-15% target.

Credit Headlines (cont'd) :

Liquidity remains ample with AUD1.54bn cash balance and undrawn debt facilities of AUD2.2bn. Reported interest coverage remains strong at 12.5x. That being said, LLG has announced a AUD500mn share repurchase programme. This would increase pro-forma net gearing to ~13%. We do not currently cover LLG. (Company, OCBC)

HSBC Holdings Plc ("HSBC"): HSBC reported its 4Q2017 and FY2017 results with FY2017 reported revenue up 7% y/y to USD51.4bn from USD48.0bn, lifted by a rebound in other operating income and net income from financial instruments designated at fair value (both had made losses in FY2016). Otherwise, net interest income (-5% y/y) and net trading income (-18% y/y) fell while net fee income was flat in FY2017. Net interest margin decreased 10bps y/y to 1.63% due to lack of Brazil contribution in FY2017, lower customer lending yields and margin compression in Europe and Asia as well as higher debt issuance and currency translation impacts. Excluding 2016 Brazil contribution and currency translation impacts (both classified as significant items), net interest margins fell only 3bps y/y. Net trading income performance was driven by a 31% fall in trading activities and while part of this is also attributable to the absence of the Brazil operations, overall trading performance was impacted by lower favourable movements y/y on hedges for foreign currency debt, lower trading activity (particularly in 4Q2017), and higher adverse movements in credit and funding valuation adjustments y/y. Revenue for other income improved on the back of favourable fair value movement of USD0.1bn on non-qualifying hedges versus the prior period which saw both adverse movement of USD0.7bn as well as loss of USD1.7bn recognised on the sale of operations in Brazil. Adjusted revenue climbed 5% to USD51.5bn from USD49.3bn, with growth across all of HSBC's main business segments. Retail Banking and Wealth Management ('RBWM) adjusted revenue increased 9% y/y, Commercial Banking ('CMB') adjusted revenue increased 5% y/y and Global Banking and Markets ('GBM') adjusted revenue increased 3% y/y. Reported loan impairment charges (LICs) were lowered 48% y/y primarily due to higher LICs incurred in 2016 due to exposures in oil and gas as well as mining sectors. Excluding the effect of significant items, LICs were down 32% y/y due to reduction in LICs in CMB, RBWN and Corporate Centre. Reported operating expenses fell 12% y/y due to lower significant items, which had included a USD3.2bn write-off of goodwill in Global Private Banking business in Europe in 2016. Adjusting for this, operating expenses were in fact up 4% y/y due to investments in business growth programmes and higher performance-related pay. All in all, while HSBC's reported profit before tax rose 141% y/y to USD17.2bn due to the aforesaid movements in other income items and lower LIC's, its adjusted profit before tax (which excluded transformational costs) was up 11% y/y to USD20.9bn from USD18.9bn in 2016. Higher profits were recorded for its three main global businesses. RBWM saw significant improvement as adjusted profit before tax rose 24% y/y on the back of deposit growth and solid wealth management performance along with lower LICs. CMB adjusted profit before tax grew 15% y/y, lifted by better performance in Global Liquidity and Cash Management as well as higher lending volume. The 5% better y/y performance in GBM was also due to better Global Liquidity and Cash Management performance as well as Securities Services improvement which offset weak global markets performance (from lower market volatility). Group profits were somewhat dragged by the Corporate Centre segment where revenue fell 17% y/y as a result of a USD0.4bn loss attributed to the reduction in the US run-off portfolio, following the disposal of the remaining portfolio. However these decreases were partly offset in other income which included revaluation gains on investment properties. On a quarterly basis, 4Q2017 net interest income rose by USD260mn q/q, mainly driven by growth in Hong Kong. This was however offset by weaker GBM performance and a 50% q/q increase in LICs as well as higher operating expenses. The rise in LICS were due to two individual corporates exposures in Europe although excluding these two corporates, LICs were lower primarily in RBWM. Operating expenses for 4Q2017 were up 13% q/q due to the UK bank levy and growth investments. Despite the higher LICs and operating expenses, adjusted profit before tax for 4Q2017 rose 29% y/y from higher revenues at CMB and RBWM and higher share of profits in associates and joint ventures. In terms of HSBC's balance sheet, total assets were up 6% y/y to USD2.5tn. This was driven by loans growth of 12% y/y to USD962bn while customer deposits rose 9% y/y. Improvement in HSBC'S capital ratios were observed due to solid earnings in FY2017 and positive impacts from FX translation (which mitigated dividend payments and share buy backs), with HSBC's CET1 ratio at 14.5% relative to 13.6 % in FY2016. Risk weighted assets (RWA) inched up 2% to USD871bn from USD857bn in FY2016, however CET1 capital grew 8.1% y/y. It should be noted though that excluding foreign currency differences, RWA reduced by USD13.6bn y/y from improvement in asset quality mix as well as RWA reduction initiatives such as an accelerated sell-down of consumer mortgage portfolio in the US. We continue to review the numbers but for now maintain our Positive (2) issuer profile. (Company, OCBC)

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