Asian Credit Daily

February 23, 2018

Credit Headlines: OUE Limited, Sembcorp Industries Ltd, Barclays PLC

Market Commentary: The SGD swap curve rose yesterday, with swap rates for the shorter tenors trading 2-3bps higher, while the longer tenors traded 4bps higher. Flows in SGD corporates were heavy yesterday, with better buying seen in HSBC 4.7%-PERPs and better selling in RHTSP 4.5%'18s and MAPLSP 4.5%-PERPs. In the broader dollar space, the Bloomberg Barclays Asia USD IG Bond Index average OAS traded little changed at 111bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 4bps to 343bps. 10Y UST yields fell 3bps to 2.92%, as the bond market took a breather from Wednesday's selloff on the back of better-than-expected US Manufacturing PMI and hawkish FOMC meeting minutes. The rebound in treasuries prices suggest that the sell-off could be a knee-jerk reaction, and not a potential return to the declines that pressured global markets at the start of the month.

New issues: Perusahaan Penerbit SBSN Indonesia III has priced its USD1.25bn 5-year Green Sukuk bond (obligor: The Government of the Republic of Indonesia represented by the Ministry of Finance) at 3.75% and its USD1.75bn 10-year bond at 4.40% , tightening from its initial guidance of 4.05% and 4.70% respectively. The expected issue ratings are 'BBB-/Baa3/BBB'. Far East Horizon Ltd has priced its USD200mn 5-year bond at CT5+175bps, tightening from its initial guidance of CT5+200bps area. The expected issue ratings are 'BBB-/NR/NR'. It has also priced its CNH630mn 3-year bond at 4.90%, tightening from its initial guidance of 5.20%. Redco Properties Group Ltd has priced its USD300mn 364-day bond at 6.375%, tightening from its initial guidance of 6.75%. BNZ International Funding Ltd (London Branch) has priced its USD500mn 5-year bond (guaranteed by Bank of New Zealand) at CT5+85bps, tightening from its initial guidance of CT5+95bps area. The expected issuer ratings are 'AA-/A1/NR'.

Rating Changes: Moody's has placed HSBC Bank Plc's (HSBC Bank) baseline credit assessment (BCA) and the long-term counterparty risk assessment (CRA) on review for downgrade. The rating action reflects Moody's view of the likely impact on the bank

Table 1: Key Financial Indicators

	23-Feb	1W chg (bps)	1M chg (bps)		23-Feb	1W chg	1M chg
iTraxx Asiax IG	71	2	8	Brent Crude Spot ($/bbl)	66.35	2.33%	-5.16%
iTraxx SovX APAC	13	0	2	Gold Spot ($/oz)	1,328.93	-1.34%	-0.92%
iTraxx Japan	48	0	5	CRB	195.27	1.50%	-0.85%
iTraxx Australia	61	0	7	GSCI	448.84	1.66%	-1.50%
CDX NA IG	57	4	10	VIX	18.72	-2.80%	68.65%
CDX NA HY	107	-1	-2	CT10 (bp)	2.928%	5.31	31.49
iTraxx Eur Main	54	1	10	USD Swap Spread 10Y (bp)	1	0	-1
iTraxx Eur XO	269	3	39	USD Swap Spread 30Y (bp)	-17	-2	-4
iTraxx Eur Snr Fin	56	3	13	TED Spread (bp)	31	3	-1
iTraxx Sovx WE	20	1	0	US Libor-OIS Spread (bp)	32	2	7
iTraxx Sovx CEEMEA	33	-1	1	Euro Libor-OIS Spread (bp)	3	1	1
					23-Feb	**1W chg**	**1M chg**
				AUD/USD	0.783	-0.94%	-2.11%
				USD/CHF	0.934	-0.78%	2.50%
				EUR/USD	1.231	-0.79%	0.07%
				USD/SGD	1.321	-0.70%	-0.23%
Korea 5Y CDS	52	0	7	DJIA	24,962	0.28%	-4.76%
China 5Y CDS	59	1	9	SPX	2,704	0.20%	-4.76%
Malaysia 5Y CDS	64	3	9	MSCI Asiax	727	0.07%	-5.56%
Philippines 5Y CDS	66	4	10	HSI	31,252	2.41%	-5.10%
Indonesia 5Y CDS	89	1	8	STI	3,523	2.32%	-1.91%
Thailand 5Y CDS	42	1	1	KLCI	1,858	1.08%	1.09%
				JCI	6,649	0.87%	0.21%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
23-Feb-18	BNZ International Funding Ltd (London Branch)	'AA-/A1/NR'	USD500mn	5-year	CT5+85bps
23-Feb-18	Redco Properties Group Ltd	'B/NR/B'	USD300mn	364-day	6.375%
23-Feb-18	Far East Horizon Ltd	'BBB-/NR/NR'	CNH630mn	3-year	4.90%
23-Feb-18	Far East Horizon Ltd	'BBB-/NR/NR'	USD200mn	5-year	CT5+175bps
23-Feb-18	Perusahaan Penerbit SBSN Indonesia III	'BBB-/Baa3/BBB'	USD1.75bn	10-year	4.40%
23-Feb-18	Perusahaan Penerbit SBSN Indonesia III	'BBB-/Baa3/BBB'	USD1.25bn	5-year	3.75%
22-Feb-18	United Overseas Bank Ltd	'NR/Aaa/NR'	GBP350mn	5-year	3mL+24bps
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

Source: OCBC, Bloomberg

Rating Changes (cont'd) :

of the UK's so called ring-fencing legislation. Moody's stated that HSBC Bank will become the non-ring-fenced bank, further increasing its dependence on wholesale debt and deposit funding and its reliance on riskier wholesale and capital markets activities. Moody's has placed Barclays Bank PLC's (Barclays) 'Baa2' long-term issuer and senior unsecured debt ratings on review for downgrade. The rating action reflects Barclays ongoing credit weaknesses and likely impact of ring-fencing implementation, which have been the main drivers for the negative outlook since last September. Moody's has placed the 'AA3' ratings of Standard Chartered Bank (Singapore) (SCBSL) on review for downgrade. The rating action reflects the higher risk profile for a post-merger company, whereby the enlarged bank's balance sheet will almost triple in size and additional exposures will subject SCBSL to higher credit risk compared to its current lower-risk and retail focused operations in Singapore. S&P has assigned its 'A' preliminary long-term issuer credit ratings to Standard Chartered Bank (Singapore) (SCBS). The outlook is stable. The rating action reflects S&P's expectation that SCBS will become a core subsidiary of its wider banking group and be of moderate systemic importance to the Singapore banking system.

Credit Headlines:

OUE Limited ("OUE"): OUE reported full-year 2017 results, with revenue down 14.7% y/y to SGD754.1mn. The decline was largely due to lower contribution from development property income (-47.9% y/y to SGD209.5mn), which was absent the SGD205.0mn recognized from the divestment of the Crowne Plaza Changi Airport Extension in 2016. Revenue recognized from OUE Twin Peaks was 6.4%% higher though at SGD209.5mn (OUE Twin Peaks units were fully sold by October 2017). Looking forward, we expect development property income to be driven largely by the units of OUE Twin Peaks sold under Deferred Payment Schemes (OUE can only recognized revenue from such units when legal completion of the sale occurs) with an estimate of ~SGD480mn in revenue to be recognized over the next 18 months. That being said, it would seem that more of this revenue will only be recognized in 2019 versus 2018, hence development property revenue would likely slump in the near term. Investment property income was up 2.4% y/y to SGD271.0mn due to contribution from OUE Downtown and Downtown Gallery. This helped mitigate the weaker results at OUE-CT (OUE's 55.8%-owned commercial property trust), which saw revenue decline 0.9% y/y to SGD176.3mn. This was potentially due to lower retail rental income due to lower occupancy at One Raffles Place Shopping Mall (which reported committed occupancy 86.4%). Hospitality income increased 9.1% to SGD220.1mn due to better performance at Mandarin Orchard, the Crowne Plaza Changi Airport as well as maiden contribution from Oakwood serviced apartments at OUE Downtown (opened June 2017). Group revenue was also supported by maiden revenue contribution of SGD33.8mn from healthcare income, derived from the acquisition of International Healthway Corporation in 1Q2017. The division remains listed and has been renamed OUE Lippo Healthcare Limited, "OLH". Gross margin had remained stable at 36%, though gross profit fell 15.4% due to lower revenue. Operating profit however plunged 53.3% to SGD97.3mn. This was driven by the increase in administrative expense (+48.4% to SGD83.7mn) as well as other operating expense (increased to SGD58.8mn from SGD12.3mn a year back). The former was driven by the consolidation of OLH (+SGD18.3mn impact) while the latter was driven by one-off legal provisions totalling SGD46.0mn taken at OLH (refer to OCBC Asian Credit Daily (13 Feb 2018)). Net profit was supported by reversal of impairment losses on the OUE Twin Peaks (+SGD20.4mn impact), as well as fair value gains on OUE's investment properties (+SGD112.2mn impact). This helped reduced the decline to 9.0% y/y for SGD161.2mn in profit after tax realized for 2017. Operating cash flow (including interest service) was SGD124.5mn (2016: SGD358.6mn), sharply lower y/y due to the absence of the Crowne Plaza Changi Airport Extension divestment. OUE also saw investing cash outflow of SGD173.3mn due largely to the OLH acquisition as well as additions to investment properties. OUE had also paid out SGD59.9mn in dividends during the year. The cash gap was funded by both a rights issue done at OUE-CT (SGD150mn impact) as well as ~SGD300mn in additional net borrowings. In aggregate though, net gearing remained stable at 60% (3Q2017: 61%). Cash to current borrowing ratio is weak at 0.5x as OUE had SGD1.08bn in short-term borrowings versus SGD527.3mn in cash. That said, OUE commented that SGD0.5bn worth of such borrowings are at the OUE-CT level (due 2H2018) which they believe can be refinanced. A further SGD0.3bn are due in 1Q2018, which OUE will refinance with cash and debt. In essence, we believe that though OUE will be facing weaker development property income in 2018, this is mitigated by the unrecognized revenue from OUE Twin Peaks. Furthermore, OUE has assets which it can potentially inject into its REITs if it needs to recycle its balance sheet. These assets include OUE Downtown (valued at SGD1.59bn) as well as US Bank Tower (valued at USD605mn). As such, we will retain our Neutral (4) Issuer Profile. (OCBC, Company)

Credit Headlines (cont'd) :

Sembcorp Industries Ltd ("SCI"): SCI has reported 4Q2017 / full-year 2017 results. For 4Q2017, SCI reported SGD2.12bn in revenue, up 4.8% y/y. Performance was supported by the Utilities segment (+23.9% y/y to SGD1.39bn), which mitigated the decline seen at the Marine segment (-21.1% y/y to SGD655mn). Utilities performance was boosted by stronger performance in Singapore (+10.5% to SGD807.2mn) driven by higher heavy sulphur fuel oil ("HSFO") prices which drove domestic electric tariffs higher. Utilities contribution from India was also higher due to Sembcorp Gayatri Power ("SGPL") commencing commercial operation (started in February 2017). For the Marine segment (mainly Sembcorp Marine, "SMM"), there was weakness at both its Rigs & Floaters segment as well as at its Offshore Platforms segment (refer to OCBC Asian Credit Daily – 22 February 2018). The former remains challenged by weak demand for drilling assets due to oversupply in the market while the latter was weighed down by fewer projects. One bright area would be better performance at Repairs & Upgrades due to better vessel mix and more high value works. 4Q2017 gross margin fell to just 7% (4Q2016: 12%) due to the gross loss generated at Marine as well as losses at SGPL weighing on Utilities. SG&A expenses also surged 48.3% y/y to SGD134.9mn, driven by SGD25.4mn in provisions for fines / claims arising over alleged environmental offence for discharging off-specification wastewater at an overseas water business. This caused operating profit to slump 76.3% y/y to SGD53.1mn (mitigated in part by SGD25.4mn gain from positive FX movements). In aggregate, 4Q2017 profit before tax fell to just SGD120k (4Q2016: SGD165.2mn). For the full year, revenue was up 5.5% to SGD8.35bn. Segment trends were similar to 4Q2017, with Marine reporting SGD2.39bn in revenue (-32.6% y/y), with the Rigs & Floaters segment (-41.8% y/y to SGD1.10bn) and Offshore Platforms segment (-34.4% y/y to SGD732.1mn) both reporting declines. The Utilities segment surged 37.9% y/y to SGD5.67bn, driven largely by the jump in Energy segment of 44.3% y/y to SGD5.00bn due to stronger performance at Singapore as well as new capacity at India. Gross margin compressed to 11% (2016: 14%) largely due to weakness at Marine as well as losses at SGPL. In aggregate, SCI reported SGD244.7mn in profit after tax, down 44.0% y/y, with results mitigated by the SGD46.8mn divestment gain from SMM's 30% stake in Cosco Shipyard Group in January 2017. For the full year, operating cash flow (including interest service) was SGD166.1mn, down from SGD466.1mn generated in 2016. The worsening in cash flow was driven by SGD821.4mn increase in receivables. Coupled with SGD736.0mn in capex, free cash flow was negative SGD569.9mn. SCI had also paid out SGD204.4mn in dividends and perpetual securities distribution during 2017. The cash gap was funded in part by SGD200mn in perpetual securities issued and SGD779.1mn increase in borrowings. SCI had also made various divestments of investment assets, and received dividends. In aggregate, net gearing improved to 87% (2016: 90%). Cash / current borrowings remains healthy at 1.7x though we note that this excludes the SGD200mn SCISP 5%-perp which is reaching first call on 21/08/18. On a forward looking basis, the Marine segment looks to have stabilized in terms of its working capital and capex needs. Instead, we can expect the Marine segment / SMM to deleverage further as Borr Drilling Ltd takes more delivery of the 9 rigs it has purchased, as well as the sale proceeds from the divestment of the West Rigel rig (USD500mn sale price). On the Utilities side, it is worth noting that as part of SCI's strategic review, management has cited the intention to IPO SCI's India power business (more details are to follow). SCI also intends to divest SGD0.5bn worth of peripheral utility assets over the next two years. As such, we can expect SCI to broadly seek its credit profile improve over the next 12 to 24 months, though we note that SCI's earnings are likely to remain weak given the challenges at SMM as well as the competitive India power market dragging down Utilities profitability. We will retain our Neutral (4) Issuer Profile. (Company, OCBC)

Credit Headlines (cont'd) :

Barclays PLC ("Barclays"): Barclays reported its 4Q2017 and FY2017 results. For FY2017, total income fell 2% to GBP21.1bn. Lower total income has been recorded across all divisions, primarily due to softer performance in both net interest income and net free commission and other income. This drove weaker performance at Barclays International, specifically in Corporate & Investment Bank with lower client activity leading to total income down 6% y/y. Elsewhere in Barclays International, Consumer, Card and Payments performance was solid on higher income from business growth and lower impairments. Similarly, Barclays UK performance was also weak with total income down 2% y/y although this was due to the inclusion of the gain on disposal of shares in Visa Europe in 2016. Excluding this, income in Barclays UK would have been broadly stable. Cost performance however was solid with total costs down 5% y/y due to lower non-core related operating expenses. Together with a 2% y/y fall in credit impairment charges and other provisions, Barclay's profit before tax improved 10% y/y to GBP3.5bn. The bottom line performance was weaker y/y however with Barclays sinking to a net loss of GBP 1.9bn from GBP1.6bn in profit FY2016. This was due to higher tax charges of GBP2.2bn in FY2017 from GB1.0bn in FY2016 as well as losses on discontinued operations. On a quarterly basis, despite net fee, commission and other income inching up 2% q/q, total income fell 3% q/q on the back of softer performance in net interest income (-8% q/q). Overall, Barclays UK income rose 1% q/q as growth in loans to customers (+1%) and customer deposits (+2%) were offset by weaker net fee, commission and other income (-6%). Barclays International's performance was soft with revenue marginally unchanged as gains in net trading income (+15%) were dragged by lower net interest income (-14%) as the Global Corporate and Investment Bank (GIB) segment was impacted by low volatility and client activity. Lower credit impairment charges for the quarter were offset by higher operating expenses (+30% q/q) due to an increase in litigation and conduct (+373%) and the presence of a UK bank levy of GBP365mn. This led to 4Q2017 profit before tax plummeting 92% q/q to GBP93mn from GBP1.1bn in 3Q2017. Owing to earnings performance and other factors, the banks fully loaded CET1 capital reduced by 8%. However, due to a larger reduction (-14%) in risk weighted assets from Barclay's restructuring and repositioning (sell down and proportional consolidation of Barclays' holding in Barclays Africa Group Limited to 14.9%), CET1 ratios improved 90bps y/y to 13.3%. We continue to hold Barclay's issuer profile at Neutral (4). (OCBC, Company)

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