

Aug 29, 2018

Credit Headlines: Bank Of China, CapitaLand Ltd, Wing Tai Holdings Limited

Market Commentary

- The SGD swap curve steepened yesterday, with swap rates for the shorter tenors trading 1-2bps higher while the longer tenors traded 3-5bps higher.
- Flows in SGD corporates were heavy yesterday, with better buying seen in OCBCSP 4.0%-PERPs and HSBC 4.7%-PERPs.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 137bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 3bps to 478bps.
- 10Y UST yields rose 3bps to close at a two-week high of 2.88% on the back of trade tensions easing somewhat after the United States and Mexico agreed on an overhaul of the North America Free Trade Agreement (NAFTA) and supply pressure weighing on 10Y UST yields. Demand for the auction for USD37bn of 5-year notes was fair, coming on the back of Monday's USD36bn 2-year notes auction. A further USD31bn 7-year notes auction would be held on Wednesday.

Credit Headlines:

Bank Of China ("BOC") | Issuer Profile: Neutral (4)

- BOC reported its 1H2018 results with operating income up 1.2% y/y to RMB251.5bn due to solid growth in net interest income of 7.1% due to higher net interest margins (1.88% in 1H2018 vs 1.84% in 1H2017) and loans growth. This mitigated a 10.3% fall in non-interest income due to (1) a 22.1% y/y fall in other non-interest income due to the sale of Chiyu Banking Corporation Limited in 1H2017 and the related gain on the investment disposal as well as lower net gains from foreign exchange derivative trading; and (2) lower net fee and commission income (-2.0% y/y).
- Operating expenses rose 0.6% while impairment losses on assets also rose 4.9% y/y, driven by a 19.8% rise in impairment losses on loans and advances. As such, operating income growth was marginally lower at 1.0%. BOC's cost to income ratio was marginally weaker at 25.8% (1H2017: 25.59%) but nevertheless remains solid compared to peers under our coverage.
- By segment, the 1H2018 y/y operating income growth was driven by improved performance in Personal Banking (+7.0% y/y) and Corporate Banking (+2.0% y/y) which mitigated softer y/y performance in Treasury Operations (-4.5% y/y) and Investment Banking and Insurance (-11.0% y/y). Personal Banking (42.2% of total operating income) and Corporate Banking (34.4%) continues to be the main driver of operating income, with Personal Banking's contribution increasing (+1.8ppt) which is in line with BOC's strategy to improve the contribution of Personal Banking to comprehensive income.
- As mentioned above, loans growth of 4.6% h/h anchored BOC's total h/h asset growth of 4.3%. Impaired loans (which comprises substandard, doubtful and loss) growth was lower by 3.1% h/h and as a result, BOC's non-performing loan ratio improved h/h to 1.43% as at 30 June 2018 from 1.45% as at 31 December 2017. Due to the higher impairment losses in BOC's income statement, allowances for loan impairment losses rose 6.7% h/h and as such the allowance coverage ratio for loan impairment losses to non-performing loans strengthened to 164.8% as at 30 June 2018 from 159.2% as at 31 December 2017. Supporting the higher impairment provisions, special-mention loans grew 5.3% h/h indicating some caution in the bank's wider loan portfolio as well as implementation of IFRS9 (forward looking assessment of expected credit losses and related allowances).
- Capital ratios weakened h/h with BOC's CET1/CAR ratio at 11.0%/13.8% for 1H2018 against 11.2%/14.2% as at FY2017 due to growth in risk weighted assets outpacing growth in capital through earnings. Ratios however remain well above expected 2018 minimum requirements of 8.5%/11.5% for CET1/CAR ratios respectively including a fully phased in capital conservation buffer of 2.5%. Minimums however do not include any counter cyclical capital buffer (yet to be finalized) nor any capital buffer requirement as a global systemically important bank (currently 1.5% with compliance date in January 2025). (OCBC, Company)

Credit Headlines (cont'd):

CapitaLand Ltd (“CAPL”) | Issuer Profile: Neutral (3)

- Following the impending retirement of Mr. Lim Ming Yan, CAPL's current President & Group CEO, CAPL has appointed Mr Lee Chee Koon as the new President & Group CEO and the appointment will take effect from 15 September 2018. Mr. Lee is currently the Group Chief Investment Officer at CAPL, having joined CAPL in February 2007 and was earlier the CEO of The Ascott Limited until 31 December 2017 (CAPL's subsidiary focusing on serviced residences and the Sponsor of Ascott Residence Trust). Prior to CAPL, Mr. Lee was in the civil service and the Monetary Authority of Singapore. (Company)

Wing Tai Holdings Limited (“WINGTA”) | Issuer Profile: Neutral (4)

- WINGTA reported its fourth quarter and full year results for the financial year ended June 2018 (“FY2018”). Revenue for FY2018 increased 42% y/y to SGD373.2mn largely due to higher contribution from Development Properties. In FY2018, Development Properties made up 51% of total revenue versus 29% contribution in FY2017. Additional units were sold in Le Nouvel Ardmore in Singapore and BM Mahkota in Penang. Investment revenue was relatively stable at SGD35.9mn while Retail revenue declined 5.4% y/y to SGD136.1mn. Reported gross profit was 32% higher y/y at SGD180.2mn while EBITDA (based on our calculation which does not include other income and other expenses) was SGD15.6mn versus a loss before interest, tax, depreciation and amortisation of SGD5.3mn in FY2017. Resultant EBITDA/Interest coverage was stronger at 1.9x.
- EBITDA growth aside, WINGTA reported a significantly higher other gains of SGD32.4mn (FY2017: SGD6.1mn) attributable to non-cash revaluation gains on investment properties and gains on disposal of subsidiaries (ie: sale of Huai Hai Road land). WINGTA owns a 34.4%-stake in Wing Tai Properties Ltd (“WTP”), which is recognised as an associated company. In FY2018, share of profits of associated and joint venture companies was SGD211.6mn (FY2017: SGD73.4mn) and this helped boost net profit after tax to SGD221.1mn (FY2017: SGD26.4mn). In FY2018, WTP had recognised profits from the sale of Winner Godown Building (an industrial building) and W Square (a Grade A office building), both in Hong Kong while Malaren Gardens residential units in Shanghai were handed over to buyers with profits recognised.
- As at 30 June 2018, the balance of development properties at WINGTA was down to SGD656.4mn against SGD739.9mn a year ago and SGD688.3mn as at 31 March 2018 and the company has been noticeably conservative in the recent en-bloc purchase cycle in Singapore.
- During the year, WINGTA generated SGD105.9mn in operating cash and received SGD272.6mn in disposal of subsidiary companies which was more than sufficient to fund its investing outflows. Net repayment of borrowings at WINGTA was SGD143.7mn while total financing outflows including dividend payments, interest payments and others amounted to SGD250.0mn. As at 30 June 2018, WINGTA still reported a cash surplus of SGD12.1mn (albeit narrowing from end-March 2018's SGD51.3mn). We maintain WINGTA at an issuer profile of Neutral (4). (Company, OCBC).

Table 1: Key Financial Indicators

	29-Aug	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	78	-1	0
iTraxx SovX APAC	10	0	-2
iTraxx Japan	54	-1	-2
iTraxx Australia	71	-3	-2
CDX NA IG	58	-1	-1
CDX NA HY	107	0	0
iTraxx Eur Main	65	-2	2
iTraxx Eur XO	286	-4	-2
iTraxx Eur Snr Fin	81	0	4
iTraxx Sovx WE	28	1	3
AUD/USD	0.734	-0.07%	-0.86%
EUR/USD	1.169	0.80%	-0.14%
USD/SGD	1.364	0.16%	-0.23%
China 5Y CDS	55	-3	-3
Malaysia 5Y CDS	86	-2	4
Indonesia 5Y CDS	115	-4	5
Thailand 5Y CDS	41	-1	-2

	29-Aug	1W chg	1M chg
Brent Crude Spot (\$/bbl)	76.00	1.63%	2.30%
Gold Spot (\$/oz)	1,202.49	0.56%	-1.55%
CRB	191.71	0.90%	-1.26%
GSCI	463.33	2.10%	-0.29%
VIX	12.5	-2.80%	-4.07%
CT10 (bp)	2.877%	5.78	-7.75
USD Swap Spread 10Y (bp)	7	0	1
USD Swap Spread 30Y (bp)	-6	1	0
TED Spread (bp)	22	-4	-14
US Libor-OIS Spread (bp)	23	-2	-11
Euro Libor-OIS Spread (bp)	3	-1	0
DJIA	26,064	0.94%	2.41%
SPX	2,898	1.21%	2.79%
MSCI Asiax	672	1.71%	-0.99%
HSI	28,352	2.16%	-1.57%
STI	3,248	1.34%	-2.33%
KLCI	1,827	2.20%	3.26%
JCI	6,043	2.55%	0.89%

New issues

- Lingang Wings Inc has priced a USD300mn 3-year bond (guaranteed by Shanghai Lingang Economic Development Group Co Ltd) at a reoffer yield of 4.88%. Final price guidance was 4.9%, tightening from an initial price guidance of 5.3%.
- Huafa Group 2018 I Company Ltd has priced a USD500mn 3-year bond (guaranteed by Zhuhai Huafa Group Co Ltd) at a reoffer yield at 5.4%, in line with final price guidance.
- Nan Fung Treasury Ltd has priced a USD500mn 10-year bond (guaranteed by Nan Fung International Holding Ltd) at CT10+227.5bps, tightening from its initial price guidance of CT10+250bps area.
- Bank of the Philippine Islands has priced a USD600mn 5-year bond at CT5+160bps, tightening from its initial price guidance of CT5+185bps area.
- HSBC Institutional Trust Services (Singapore) Ltd (in its capacity as trustee-manger of RCS Trust) has priced a SGD150mn 6-year bond at 3.05%, in line with its final price guidance.
- Asahi Mutual Life Insurance Company has scheduled for investor calls from 28 Aug for its potential USD bond issuance.
- Aozora Bank Ltd has scheduled for investor calls from 28 Aug for its potential 3-year USD bond issuance.
- CITIC Envirotech Ltd has scheduled for investor meetings from 30 Aug for its potential USD/SGD perpetual issuance.
- DSSP Power Sumsel PT has scheduled for investor meetings from 29 Aug for its potential USD bond issuance.

Date	Issuer	Size	Tenor	Pricing
28-Aug-18	Lingang Wings Inc	USD300mn	3-year	4.88%
28-Aug-18	Huafa Group 2018 I Company Ltd	USD500mn	3-year	5.4%
28-Aug-18	Nan Fung Treasury Ltd	USD500mn	10-year	CT10+227.5bps
28-Aug-18	Bank of the Philippine Islands	USD600mn	5-year	CT5+160bps
28-Aug-18	HSBC Institutional Trust Services (Singapore) Ltd (in its capacity as trustee-manger of RCS Trust)	SGD150mn	6-year	3.05%
23-Aug-18	Redco Properties Group Ltd	USD200mn	2-year	11.0%
23-Aug-18	Mapletree Treasury Services Ltd	SGD300m	8-year	3.4%
23-Aug-18	Perennial Real Estate Holdings Ltd	SGD10mn	PREHSP 5.95%'20s	5.95%
22-Aug-18	National Australia Bank Ltd	EUR750mn	5-year	MS+36bps
22-Aug-18	National Australia Bank Ltd	EUR1.25bn	10-year	MS+53bps
21-Aug-18	JGC Ventures Pte Ltd	USD150mn	3NC1	10.75%

Source: OCBC, Bloomberg

Andrew Wong

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

Ezien Hoo, CFA

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

Wong Hong Wei, CFA

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

Seow Zhi Qi

Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6530 7348
zhigiseow@ocbc.com

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