OCBC Bank

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Credit Headlines: DBS Group Holdings Ltd, Ascendas Hospitality Trust, Oxley Holdings Ltd, Mapletree Logistics Trust, China Eastern Airlines**,** City Developments Ltd, Bank Of China

Market Commentary

- The SGD swap curve broadly flattened, with the 5-12 year tenors trading 1-2bps lower while the longer end trading 4bps lower.
- Flows in SGD corporates were moderate last Friday.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS traded little changed at 1.30% while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 3bps to 380bps.
- 10Y UST yield fell 2bps to 2.96%, as a result of the month-end demand for longer-dated Treasuries.

Credit Headlines

DBS Group Holdings Ltd ("DBS") | Issuer Profile: Positive (2)

- DBS's 1Q2018 results were strong with total income up 16% y/y, driven by broad based growth across net interest income (loan growth and 9bps y/y improvement in net interest margins ('NIM') to 1.84%; NIMs also improved q/q by 5bps), net fee and commission income (wealth management) and other non-interest income (net trading income).
- Expenses grew at a slower pace (+12% y/y due to higher staff costs and business growth; cost to income ratio fell to 41.6% for 1Q2018 against 43.2% and 44.4% for 1Q2017 and 4Q2017 respectively) while allowances for credit losses continued to fall (-18% y/y and -27% q/q) and this, along with strong income growth, translated into profit before tax improving 25% y/y. Segment wise, all segments recorded growth in PBT y/y due to either business growth or improved expense performance (including allowances for credit losses).
- As mentioned above, DBS's balance sheet grew which indicates a solid operating environment with total assets up 10% y/y which was driven by a 10% y/y growth in customer loans. Growth was still decent q/q with total assets and customer loans up 2%. Y/y loan growth was even across Consumer Banking / Wealth Management and Institutional Banking while the latter contributed to the bulk of loans growth q/q. Deposit growth was also strong (+10% y/y and +1% q/q) and as such the loan to deposit ratio was broadly stable at 87.3%. Average cost of interest bearing liabilities spiked due to higher fixed deposits although growth in current and savings accounts was also solid.
- Loan quality metrics were weaker y/y but improved q/q to 1.6% – y/y weakness relates to the higher pro-active recognition of oil and gas support services exposures as non-performing in line with the implementation of Financial Reporting Standard 109 (which requires provisioning to be based on expected future credit losses rather than actual credit losses). Q/q, non-performing loans fell 2.3% due to improvements outside Singapore. NPL's rose in Singapore slightly q/q by 2.6%.
- Despite solid earnings performance, total capital growth was moderate (+3% y/y and +2.4% q/q) due to the full phasing in of CET1 regulatory adjustments from 1 January 2018. As such the movement in capital ratios (which was also driven by 2.5% q/q and 8.2% y/y growth in risk weighted assets) on a fully phased in basis was not as much as the reduction in transitional ratios. The fully phased in CET1 ratio as at 1Q2018 was 14.0% against 13.9% for 4Q2017 (14.2% as at 1Q2017).

Credit Headlines (cont'd):

Ascendas Hospitality Trust ("ASCHTSP") | Issuer Profile: Neutral (4)

- ASCHTSP announced that it would be acquiring the KY-Heritage Hotel Dongdaemun ("KY") for KRW73.0 bn (~SGD90.1mn) from KY-Development Co. Ltd, a South Korean company. An independent property valuer has valued the hotel at KRW75.4bn (~SGD93.1mn) as at 31 March 2018. ASCHTSP's business trust ("A-HBT") would hold 98.7% of the purchasing entity while Sponsor would hold 1.3%. A-HBT proportion of the purchase consideration is KRW72.1bn (~SGD89.0mn), with total cost at KRW81.6bn (~SGD100.7mn), including fees and transaction costs. A 10% deposit has been paid to vendor and the balance consideration payable is expected to occur by end-June 2018.
- ASCHTSP would enter into a temporary leaseback agreement with vendor up to end-June 2018 and then the hotel will be master leased to an established hotel management company (from 1 July 2018 onwards). The identity of the hotel management company has not been disclosed.
- The hotel is a 215-room, 4-star freehold asset located in Dongdaemun, a major shopping and tourist destination (within the vicinity of Dongdaemun Design Plaza and Doota Mall).
- The rent structure would have both a fixed rent plus variable component though the fixed rent portion is undisclosed.
- Funding for the acquisition will be initially fully funded by bank borrowings. As at end-2017, ASCHTSP's aggregate leverage was 33.2% and the South Korean acquisition would raise aggregate leverage to 37.1%. ASCHTSP earlier announced the divestment of two hotels in Beijing for RMB1.2bn (~SGD241.5mn), with completion expected to take place in the second half of 2018. Assuming the completion of the Beijing transaction and that proceeds are used to repay debt amounting to SGD160mn instead of being distributed to stapled security holders, proforma aggregate leverage is expected to decline to 28.8%.
- Despite the possibility of a reduction in aggregate leverage, we are keeping ASCHTSP's issuer profile at Neutral(4) for now, until the Beijing transaction is completed.

Oxley Holdings Ltd ("OHL") | Issuer Profile: Negative (6)

- OHL reported 3QFY2018 results for the quarter ending 31 March. Overall, results were lacklustre, mainly due to the timing of the recognition of revenue. Revenue declined 38% y/y to SGD238.8mn as 3QFY2018 revenue from The Royal Wharf Phase 1A and 1B is lower than the revenue from The Flow and Floraville/Floraview/Floravista in 3QFY2017. Net profit also fell 33% y/y to SGD30.4mn.
- Net gearing surged to 2.4x (2QFY2018: 1.9x), with the largest use of cash being the addition of SGD712.6mn in investment properties (mainly due to the completion of the SGD660mn acquisition of Chevron House). We continue to reiterate our expectations for net gearing to peak at ~2.9x in 4QFY2018, mainly due to the settlement of the land purchases.
- Nevertheless, we view the pickup in the Singapore property market as a significant credit positive for OHL, with strong sales achieved at Verandah Residences (82% sold) that was launched in Apr 2018. OHL will be launching a number of projects in 2Q-3QCY2018. OHL estimates a total of SGD5.2bn in remaining gross development value (less recognised billings and future progress billings) for Singapore projects. If OHL continues to achieve strong sales and monetise its landbank quickly, and if commitment is shown to deleverage, we see the potential for OHL's credit to improve.

Credit Headlines (cont'd):

Mapletree Logistics Trust ("MLT") | Issuer Profile: Neutral (4) and Mapletree Industrial Trust ("MINT") | Issuer Profile: Neutral (3)

- MLT announced that the option to purchase granted to its Sponsor, Mapletree Investments Pte Ltd, for 7 Tai Seng has been novated from the Sponsor to MINT. Both MLT and MINT share the same Sponsor. Effectively, MINT is now the proposed purchaser for 7 Tai Seng (rather than Sponsor)
- 7 Tai Seng was originally proposed in August 2017 to be sold to Sponsor for SGD68.0mn (representing 114% of valuation as at 31 March 2017). The property is a 21 year old seven-storey warehouse served by three cargo lifts. Given the large uplift in valuation over book, it was likely that the property would be converted for another purpose beyond warehousing and logistics.
- MINT has shared that it has entered into a lease agreement with a tenant in the information and communications ("ICT") sector for an initial 25-year term for 100% of the space, subject to extension of land lease for an additional 30 years, approvals from JTC and completion of upgrading works in the second half of 2019.
- Total cost of the proposed acquisition and upgrading works is expected to cost MINT SGD95.0mn and assuming this is fully debt funded, will lead MINT's aggregate leverage higher to 34.6% (31 March 2018: 33.1%).
- The novation of the option to purchase is considered an interest person transaction, though as the aggregate value of all transactions entered into by MLT with MIT for the financial year ending 31 March 2019 is less than the requisite thresholds, as such approvals from both MLT and MINT's unitholders are not required. (Company, OCBC)

China Eastern Airlines ("CHIEAS") | Issuer Profile: Neutral (4)

- CHIEAS has announced its first quarter results for the period ended March 2018 based on China Accounting Standards for Business Enterprise. While this accounting standard differs from International Financial Reporting Standards ("IFRS") which CHIEAS uses for its annual and interim results, we think the difference does not impede our credit analysis of CHIEAS.
- Revenue increased 9.0% y/y to RMB26.8bn driven by higher passenger traffic volume (up 9.1% y/y) while passenger load factor of 81.7% was relatively flat.
- Operating costs grew relatively in line with gross revenue (up 9.7% y/y) to RMB23.6bn. CHIEAS made a net finance income of RMB465mn in 1Q2018 primarily due to foreign exchange gains of RMB1.5bn (1Q2017: net finance cost of RMB507mn). Backing out the foreign exchange gains, we think CHIEAS's interest expense was RMB1.0bn in 1Q2018 (against RMB695mn in 1Q2017), we think interest expense was higher from both higher levels of debt and higher interest rates.
- Reported operating profit (including government grants for operating in certain routes) was up 8.4% y/y to RMB2.6bn. 1Q2018's reported operating profit though included government grants for CHIEAS' operations on certain routes (reclassified from non-operating income to other income) while 1Q2017's operating profit included a one-off investment gain (primarily from the sale of Eastern Air Logistics). For comparability, we take out both investment gain and the grant and find adjusted operating profit of CHIEAS RMB1.2bn versus an adjusted operating loss in 1Q2017.
- As at 31 March 2018, unadjusted net gearing was 0.9x (end-2017: 1.0x) while including finance leases was 2.0x (end-2017: 2.1x). Assuming non-cancellable operating leases of RMB21.0bn and adjusting net gearing upwards also for such operating leases, we find adjusted net gearing at 2.4x, slightly lower versus the 2.5x in end-2017.
- Finance lease obligations, while heavy, is typically secured against fixed assets (eg: aircraft). As at 31 March 2018, total fixed assets was RMB164.7bn (we estimate assets held under finance lease at RMB83.7bn), representing a finance lease over fixed asset coverage of 0.8x. We maintain CHIEAS's issuer profile (4), on account of the company's considerable market power as a Big Three Chinese airline in a profitable, growing industry.

Credit Headlines (cont'd):

City Developments Ltd ("CDL") | Issuer Profile: Positive (2)

- The Business Times reported that a JV (40: 60) between CDL and Alpha Investment Partners (owned by Keppel Corp) is seeking to divest the Manulife Centre in Bras Basah Road as well as 7 & 9 Tampines Grande. The JV is seeking for prices in excess of SGD550mn (SGD2,270 psf, 97 years tenure left) for the Manulife Centre and in excess of SGD450mn (SGD1,565 psf, 88 years tenure left) for 7 & 9 Tampines Grande.
- As a reference, these assets were sold by CDL to the JV in December 2015 for SGD487.5mn and SGD366mn for Manulife Centre and 7 & 9 Tampines Grande respectively. (The Business Times)

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

- Positive momentum in BOC's earnings for FY2017 carried through in 1Q2018 high level results released late last week. Net interest income of RMB86.1bn rose 9.5% y/y due to a 5bps increase in net interest margins to 1.85%. This mitigated a 21.4% fall in non-interest income due to trading losses and a fall in other operating income. Net fee and commission income was broadly stable y/y.
- Overall expense performance was positive, with the marginal increase (+1.0%) in operating expenses more than mitigated by a 30.3% reduction in expenses recognized for impairment losses.
- In line with the fall in impairment losses, BOC's non-performing loan ratio also improved to 1.43% for 1Q2018 (FY2017: 1.45%). The reported loan impairment loss coverage ratio remains solid at 168.10% (FY2017: 159.2%).
- Improvement in non-performing loan ratio can also be attributed to decent loans growth with loans and advances to customers up 2.2% q/q to RMB11.1tr.
- Despite CET1/CAR capital improvement q/q of 0.7%/0.4% respectively, capital ratios weakened on a likely higher rise in risk-weighted assets with the CET1/CAR ratio for 1Q2018 of 10.94%/13.87% against 11.15%/14.19% for FY2017. (OCBC, Company).

Table 1: Key Financial Indicators

	30-Apr	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	74	-1	-3
iTraxx SovX APAC	12	0	-1
iTraxx Japan	51	0	-5
iTraxx Australia	65	0	-5
CDX NA IG	60	-1	-5
CDX NA HY	107	0	1
iTraxx Eur Main	54	0	-5
iTraxx Eur XO	271	-3	-13
iTraxx Eur Snr Fin	56	-1	-10
iTraxx Sovx WE	17	0	-1
AUD/USD	0.757	-0.41%	-1.16%
EUR/USD	1.212	-0.71%	-1.46%
USD/SGD	1.324	0.13%	-0.85%
China 5Y CDS	58	-1	-5
Malaysia 5Y CDS	73	0	0
Indonesia 5Y CDS	106	7	5
Thailand 5Y CDS	44	-1	-2

	30-Apr	1W chg	1M chg
Brent Crude Spot ($/bbl)	74.35	-0.48%	5.81%
Gold Spot ($/oz)	1,323.48	-0.10%	-1.33%
CRB	201.39	-0.26%	3.08%
GSCI	473.15	-0.13%	4.46%
VIX	15.41	-8.71%	-22.83%
CT10 (bp)	2.957%	-0.34	18.15
USD Swap Spread 10Y (bp)	3	0	-1
USD Swap Spread 30Y (bp)	-11	2	4
TED Spread (bp)	56	0	1
US Libor-OIS Spread (bp)	53	-3	-6
Euro Libor-OIS Spread (bp)	3	1	0
DJIA	24,311	-0.62%	0.86%
SPX	2,670	-0.01%	1.10%
MSCI Asiax	712	-0.09%	-0.61%
HSI	30,281	-0.45%	0.62%
STI	3,577	0.11%	4.35%
KLCI	1,863	-1.29%	0.00%
JCI	5,919	-6.60%	-4.36%

Source: OCBC, Bloomberg

New issues

- Ease Trade Global Ltd has priced a USD150mn re-tap of its POLHON 5.2%’21 (guaranteed by (Poly Property Group Co Ltd, keepwell deed provided by China Poly Group) at 99.996.
- Hong Seng Ltd has priced a USD250mn 363-day note (guaranteed by Hong Yang Group Co Ltd) at 8.5%, tightening from its initial price guidance of 8.75%.
- Central American Bank for Economic Integration (CABEI) has priced a CNH2bn 5-year bond at 4.85%, in line with its initial price guidance.

Date	Issuer	Size	Tenor	Pricing
27-Apr-18	Central American Bank for Economic Integration	CNH2bn	5-year	4.85%
27-Apr-18	Hong Seng Ltd	USD250mn	363-day	8.75%
27-Apr-18	Ease Trade Global Ltd	USD150mn	POLHON 5.2%’21	99.996
25-Apr-18	CNOOC Finance 2015 USA LLC	USD1bn	10-year	CT10+140bps
25-Apr-18	CNOOC Finance 2015 USA LLC	USD450mn	5-year	CT5+105bps
25-Apr-18	GSH Corp Ltd	SGD50mn	3-year	5.15%
24-Apr-18	CAR Inc	CNH350mn	CARINC 6.5%’21	6.784%
24-Apr-18	Central China Real Estate Ltd	SGD150mn	2-year	6.25%
24-Apr-18	State Grid Overseas Investment 2016 Ltd	EUR350mn	12-year	MS+100bps
24-Apr-18	State Grid Overseas Investment 2016 Ltd	EUR500mn	7-year	MS+75bps
24-Apr-18	State Grid Overseas Investment 2016 Ltd	USD800mn	10-year	CT10+130bps
24-Apr-18	State Grid Overseas Investment 2016 Ltd	USD950mn	5-year	CT5+97.5bps

Source: OCBC, Bloomberg

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