

Aug 31, 2018

Credit Headlines: China Eastern Airlines Co., Ltd, CapitaLand Ltd, Keppel Corp Limited

Market Commentary

- The SGD swap curve was range-bound yesterday, with swap rates trading 0-2bps higher across most tenors.
- Flows in SGD corporates were heavy yesterday, with flows seen in CAPG 7.15%'21s and better buying seen in OCBCSP 4.0%-PERPs.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 139bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 2bps to 479bps.
- Overall, 10Y UST yields fell 2bps to close at 2.86% on the back of safe-haven demand after Argentina's central bank raised its interest rates to 60% (from 45%) which led to renewed fears over emerging markets, as well as reports that President Donald Trump planned to impose tariffs on USD200bn worth of Chinese goods next week.

Credit Headlines:

China Eastern Airlines Co., Ltd ("CHIEAS") | Issuer Profile: Neutral (4)

- CHIEAS announced its 1H2018 financials. Revenue was up 12.5% y/y to RMB54.5bn in 1H2018, where 90% was made up of passenger revenue. Passenger revenue increased 13.8% y/y, driven by passenger traffic volume which increased 11.0% y/y to 97,957.3mn passenger-kilometres. Bulk of passenger revenue was derived from CHIEAS' main full-service airline, though its budget arm China United Airlines continued to grow with revenue up 13.2% y/y to RMB2.7bn (representing 5% of total revenue). Net profit though from China United Airlines was RMB440mn (up 23.4% y/y) and made up a larger portion of CHIEAS' net profit at 18%.
- Despite the stronger top line growth, reported operating expenses increased 11.9% y/y to RMB52.4bn, led by a 25.6% y/y increase in aircraft fuel, a 15.1% y/y increase in depreciation & amortisation and a 11.0% y/y increase in wages, salaries and benefits. Like its other Big Three Chinese airline peers, CHIEAS does not hedge fuel cost. Reported operating profit (including subsidy income) was lower at RMB5.4bn (1H2017: RMB6.3bn).
- EBITDA (based on our calculation which include subsidy income but excluding non-subsidy other income) was up 14.3% y/y at RMB12.4bn though on the back of higher debt and finance leases, interest expense was 26.1% higher y/y at RMB2.3bn (excluding foreign exchange impact and adding back capitalised interest). Resultant EBITDA/Interest coverage was lower at 5.4x versus 6.0x in 1H2017. CHIEAS ended the period with net profit of RMB2.5bn against RMB4.6bn in 1H2017.
- As at 30 June 2018, unadjusted net gearing was 1.0x, optically manageable. Finance leases and operating leases though are significant, adjusting these as debt, we find adjusted net gearing at 2.5x, stable versus end-2017. CHIEAS is in the midst of raising new equity via a private placement of up to ~RMB14.5bn (largely for plane purchases), assuming the placement is fully executed, we may see net gearing fall to ~2.0x. The proposed equity placement comprises of an A-share tranche of up to RMB11.8bn and a H-share tranche of up to ~HKD3.55bn. Bulk of the new A-shares (up to RMB9.8bn) is proposed to be placed out to private companies, namely Juneyao Airlines, Juneyao Group (parent of Juneyao Airlines) and a Juneyao Group subsidiary while the remaining RMB2.0bn is proposed to be placed to the China Structural Reform Fund, a state-backed private equity fund which had taken stakes in other state-owned companies as part of China's mixed ownership reform.
- CHIEAS is currently ~56.4%-owned by a Chinese state-owned enterprise though we estimate that this may reduce to 49%-post the equity placement. In any case, we had only considered the government grant (which contributes to income) but not a further uplift from the state in our issuer profile for CHIEAS. For now we are maintaining CHIEAS's issuer profile at Neutral (4). (Company, OCBC)

Credit Headlines (cont'd):

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

- CapitaLand acquired a residential site in Binh Trung Dong Ward in District 2 of Ho Chi Minh City for SGD81.4mn; in line with its strategy to replenish its land bank and strengthen foothold in high-growth developed and emerging markets.
- The development, CapitaLand's 13th residential development in Vietnam, is expected to yield more than 100 landed residential units, targeted for completion by 2021. The acquisition is credit neutral with no material impact on CapitaLand. (Company)

Keppel Corp Limited (“KEP”) | Issuer Profile: Neutral (3)

- KEP announced that its wholly-owned subsidiary has entered into a sale and purchase agreement with a placement agent to sell 55.1mn existing units in Keppel DC REIT (“KDC”). The 55.1mn units represent ~4.08% of KDC's total issued units and the sale price per unit is at least SGD1.36 per unit or higher. In total, KEP is targeted to receive at least SGD75.0mn in consideration (before excluding transaction cost). Assuming a 2% placement agent fee, we think KEP may pocket SGD73.5mn in cash from the sale. KEP has estimated that it may recognise a gain of SGD17mn from the sale assuming the shares are sold at SGD1.36 per unit.
- Post-transaction, KEP's deemed interest in KDC will decrease to ~25.2% from ~29.3% currently. At time of KDC's December 2014 IPO, KEP's deemed interest was 35% though this has successively decline, including from dilution effects from KDC's May 2018 private placement. We see this transaction as credit neutral to KEP. (Company, OCBC)

Table 1: Key Financial Indicators

| | 31-Aug | 1W chg (bps) | 1M chg (bps) |
|--------------------|--------|--------------|--------------|
| iTraxx Asiax IG | 82 | 2 | 2 |
| iTraxx SovX APAC | 10 | 0 | 0 |
| iTraxx Japan | 54 | -1 | -2 |
| iTraxx Australia | 72 | -2 | -2 |
| CDX NA IG | 60 | 1 | 2 |
| CDX NA HY | 107 | 0 | 0 |
| iTraxx Eur Main | 67 | 2 | 7 |
| iTraxx Eur XO | 294 | 9 | 13 |
| iTraxx Eur Snr Fin | 83 | 3 | 10 |
| iTraxx Sovx WE | 28 | 0 | 4 |
| | | | |
| AUD/USD | 0.726 | -0.97% | -2.24% |
| EUR/USD | 1.167 | 0.37% | -0.22% |
| USD/SGD | 1.368 | -0.15% | -0.45% |
| | | | |
| China 5Y CDS | 59 | 1 | 1 |
| Malaysia 5Y CDS | 92 | 4 | 9 |
| Indonesia 5Y CDS | 123 | 3 | 11 |
| Thailand 5Y CDS | 42 | 0 | -1 |

| | 31-Aug | 1W chg | 1M chg |
|----------------------------|----------|--------|--------|
| Brent Crude Spot (\$/bbl) | 77.52 | 2.24% | 4.40% |
| Gold Spot (\$/oz) | 1,199.66 | -0.47% | -2.00% |
| CRB | 192.80 | 1.21% | -0.89% |
| GSCI | 469.29 | 2.18% | 0.96% |
| VIX | 13.53 | 9.02% | 5.46% |
| CT10 (bp) | 2.853% | 4.33 | -10.67 |
| USD Swap Spread 10Y (bp) | 7 | 0 | 1 |
| USD Swap Spread 30Y (bp) | -5 | 0 | 0 |
| TED Spread (bp) | 20 | -5 | -16 |
| US Libor-OIS Spread (bp) | 21 | -2 | -13 |
| Euro Libor-OIS Spread (bp) | 4 | 0 | 0 |
| | | | |
| DJIA | 25,987 | 1.29% | 2.25% |
| SPX | 2,901 | 1.55% | 3.01% |
| MSCI Asiax | 669 | 1.59% | -0.78% |
| HSI | 28,164 | 1.34% | -1.47% |
| STI | 3,226 | -0.74% | -2.84% |
| KLCI | 1,820 | 0.49% | 1.98% |
| JCI | 6,019 | 0.60% | 1.39% |

New issues

- Vigorous Champion International Ltd has priced a USD500mn 5-year bond (guaranteed by China Ping An Insurance Overseas Holdings Ltd) at CT5+167.5bps, tightening from its initial price guidance of CT5+190bps area.
- Chalco Hong Kong Investment Co Ltd has priced a USD400mn 3-year bond (guaranteed by Chalco HongKong Limited, Keepwell provider: Aluminium Corporation of China Limited) at CT3+235bps, tightening from its initial price guidance of CT3+275bps area.
- Gemdale Ever Prosperity Investment Limited has priced a USD150mn 3NC2 bond (guaranteed by Famous Commercial Limited, Keepwell provider: Gemdale Corporation) at 6.0%, in line with its final price guidance.
- Central Japan Railway Co Ltd has priced a USD350mn 5-year bond at CT5+65bps, tightening from its initial price guidance of CT5+90bps area.
- Singtel Optus Pty has price a AUD500mn 5-year MTN at ASW+102bps, tightening from its initial price guidance of ASW+105 to 110bps area.
- Development Bank of Japan Inc has hired banks for its potential USD/EUR 5-7 year sustainability bond issuance.
- Bangkok Bank PCL has scheduled for investor meetings from 3 Sept for its potential USD bond issuance.
- Bank of China (Hong Kong) Ltd has scheduled for investor meetings from 3-7 Sept for its potential USD AT1 bond issuance.

| <u>Date</u> | <u>Issuer</u> | <u>Size</u> | <u>Tenor</u> | <u>Pricing</u> |
|-------------|--|-------------|--------------|----------------|
| 30-Aug-18 | Vigorous Champion International Ltd | USD500mn | 5-year | CT5+167.5bps |
| 30-Aug-18 | Chalco Hong Kong Investment Co Ltd | USD400mn | 3-year | CT3+235bps |
| 30-Aug-18 | Gemdale Ever Prosperity Investment Limited | USD150mn | 3NC2 | 6.0% |
| 30-Aug-18 | Central Japan Railway Co Ltd | USD350mn | 5-year | CT5+65bps |
| 30-Aug-18 | Singtel Optus Pty | AUD500mn | 5-year | ASW+102bps |
| 29-Aug-18 | China Aoyuan Property Group Ltd | USD225mn | 3NCNP2 | 7.95% |
| 29-Aug-18 | China Aoyuan Property Group Ltd | SGD100mn | 3NCNP2 | 7.15% |
| 29-Aug-18 | Asahi Mutual Life Insurance Co Ltd | USD430mn | Perp NC5 | 6.5% |
| 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% |

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

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC Bank, its related companies, their respective directors and/or employees (collectively "Related Persons") may or might have in the future interests in the investment products or the issuers mentioned herein. Such interests include effecting transactions in such investment products, and providing broking, investment banking and other financial services to such issuers. OCBC Bank and its Related Persons may also be related to, and receive fees from, providers of such investment products.

This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "**Relevant Materials**") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "**Relevant Entity**") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("**MiFID**") and the EU's Markets in Financial Instruments Regulation (600/2014) ("**MiFIR**") (together referred to as "**MiFID II**"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).