

Nov 7, 2018

Credit Headlines: World Class Global Ltd, Aspiat Corp Ltd, BreadTalk Group Ltd, Industry Outlook – Financial Institutions

Market Commentary

- The SGD swap curve steepened on Monday, with swap rates trading 2-3bps higher across most tenors (with the exception of the 30-year swap rates trading 1bps higher).
- Flows in SGD corporates on Monday were heavy, with better buying seen SLHSP 4.5%'25s and METRO 4.0%'21s.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 148bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 1bps to 577bps.
- Overall, 10Y UST yields rose 2bps to close at 3.23% on Tuesday on the back of supply pressure from a record USD27bn 10-year bond auction.

Credit Headlines:

World Class Global Ltd (“WCG”) | Not Rated and Aspiat Corp Ltd (“Aspiat”) | Issuer Profile: Negative (6)

- WCG, which is 81.1%-owned by Aspiat, reported 3Q2018 results. WCG recognised SGD236.1mn of revenue in 3Q2018 (3Q2017: nil), with SGD169.3mn cash generated from operating activities mainly from the settlement of purchasers of AVANT and Australia 108.
- The cash inflow, together with existing cash on the balance sheet, was used to repay SGD190.0mn in net debt as well as SGD75.1mn in amounts due to Aspiat, in-line with Aspiat's guidance from its 2Q2018 results that [significant cash proceeds will be received](#). We think this should substantially improve Aspiat's credit profile. (Company, OCBC)

BreadTalk Group Ltd (“BREAD”) | Issuer Profile: Neutral (5)

- BREAD reported 3Q2018 results. Revenue increased 2.3% y/y to SGD157.7mn with increased contribution from (1) Food Atrium (+5.5% y/y to SGD40.9mn) likely due to the opening of 1 food atrium in Shenzhen and strong same store growth and (2) Restaurant (+9.7% y/y to SGD38.7mn) with the addition of 2 outlets (1 in Singapore, 1 in Thailand). Revenue from Bakery, however, declined 5.2% y/y to SGD73.0mn due to lower revenue from a reduction in direct operated outlets from 240 to 223 and decline in franchise outlets from 631 to 616 stores, lower revenue from certain direct operated stores in Greater China as well as lower franchise revenue from China.
- EBITDA growth (+0.6% y/y to SGD20.2mn) was lower than revenue growth. The main drag came from Restaurant (-20.9% y/y to SGD6.4mn) segment despite higher revenues due to certain one-off expenses related to the UK Din Tai Fung operations incurred ahead of its official opening in 4QFY2018. Meanwhile, EBITDA from Food Atrium segment grew 17.9% y/y to SGD8.1mn due to higher revenue (driven by same store growth, likely resulting in Food Atrium EBITDA margin increasing 2ppt to 19.7%). Bakery segment surprised on the upside, with EBITDA growing 22.5% y/y to SGD7.8mn, reversing trends of decline seen in 2Q2018 (which saw EBITDA plunging 40% y/y to SGD4.1mn), likely due to progress from closure of underperforming stores in China (which depresses revenue but increases EBITDA margin).
- BREAD saw an improvement in net gearing to 0.20x q/q (2Q2018: 0.24x), mainly from strong operating cashflows (SGD18.5mn). Net debt / reported 9M2018 EBITDA (annualised) is also healthy at 0.6x. However, in the 3Q2018 results BREAD affirmed its [guidance](#) that additional capex will be put in, with short term earnings volatility while streamlining operations in certain underperforming areas. We also note that BREAD has committed to subscribe for a [5%-stake in a Perennial-led China JV](#), which may require SGD80mn in capital.
- As such, we continue to hold BREAD at a Neutral (5) Issuer Profile. (Company, OCBC)

Credit Headlines (cont'd):

Industry Outlook – Financial Institutions:

- The European Banking Authority (“EBA”) published the results of its biennial EU wide stress test for 2018 on 2 November 2018.
- The test is performed on 48 EU banks covering 70% of total banking sector assets to assess each bank’s ability to withstand an adverse EU scenario including a 2.7% cumulative fall in GDP over three years, 9.7% unemployment by 2020, cumulative inflation over 3 years at 1.7% and a 19.1% and 20% cumulative fall in residential and commercial real estate prices respectively.
- The overall results showed an adverse capital impact of 395bps on a fully loaded basis over a three year timeframe (410bps on a transitional basis) between the 2017 fully loaded starting capital position (including the impact of IFRS9) of 14.0% (14.4% on a transitional basis) and the 2020 ending fully loaded capital position of 10.1% (10.3% on a transitional basis). This was due mostly to capital depletion from credit losses as well as an increase in the risk exposure amount. As a comparison, the 2016 EBA EU wide stress test results across 51 banks showed a capital depletion or adverse impact of 340bps against the 2015 fully loaded starting capital position of 12.6% to 9.2% as the 2018 ending fully loaded capital position.
- The larger adverse impact in the 2018 stress test was due to tougher parameters used compared to the 2016 test but nevertheless show a stronger starting and ending capital position compared to the last test.
- As per EBA statements, the test is for supervisory and disclosure purposes to provide a consistent comparison of the capital strength of major EU banks. The output is meant to guide as an input for Pillar 2 capital requirements for banks which are supplemental to Pillar 1 minimum capital requirements, individually specific to each bank and determined by each bank’s respective regulatory authority as part of the Supervisory Review and Evaluation Process and in combination with each bank’s capital management strategy.
- The notable weak performer in terms of our coverage was Barclays PLC which had an adverse restated capital impact of 604bps due to its higher exposure to the UK and Brexit. Other assessments under our coverage include Landesbank Baden-Württemberg (-547bps), HSBC Holdings PLC (-520bps), Groupe BPCE (-448bps), Commerzbank AG (-417bps), Société Générale S.A. (-378bps), BNP Paribas S.A. (-297bps), and ABN Amro Group N. V. (-269bps). (OCBC, EBA)

Table 1: Key Financial Indicators

	7-Nov	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	86	-5	1
iTraxx SovX APAC	10	-1	0
iTraxx Japan	61	0	2
iTraxx Australia	78	-3	2
CDX NA IG	64	-4	2
CDX NA HY	106	1	-1
iTraxx Eur Main	69	-5	-2
iTraxx Eur XO	285	-13	-2
iTraxx Eur Snr Fin	88	-4	-2
iTraxx Sovx WE	26	-1	-1
AUD/USD	0.724	2.32%	2.25%
EUR/USD	1.144	1.11%	-0.47%
USD/SGD	1.373	0.92%	0.76%
China 5Y CDS	65	-7	0
Malaysia 5Y CDS	109	-4	5
Indonesia 5Y CDS	146	-12	-2
Thailand 5Y CDS	43	-1	-1

	7-Nov	1W chg	1M chg
Brent Crude Spot (\$/bbl)	72.13	-4.98%	-14.29%
Gold Spot (\$/oz)	1,227.77	1.07%	3.34%
CRB	191.21	-0.29%	-3.93%
GSCI	446.97	-2.79%	-9.58%
VIX	19.91	-14.73%	34.35%
CT10 (bp)	3.213%	6.98	-1.95
USD Swap Spread 10Y (bp)	6	-1	2
USD Swap Spread 30Y (bp)	-11	1	1
TED Spread (bp)	27	6	7
US Libor-OIS Spread (bp)	28	2	11
Euro Libor-OIS Spread (bp)	3	-1	-1
DJIA	25,635	3.06%	-3.07%
SPX	2,755	2.71%	-4.51%
MSCI Asiax	605	3.61%	-2.57%
HSI	26,121	6.25%	-1.70%
STI	3,061	2.65%	-4.65%
KLCI	1,709	1.49%	-3.85%
JCI	5,924	2.33%	3.35%

New issues

- Chengdu Hi-Tech Investment Group Co Ltd has priced a USD300mn 3-year bond at 6.5%, tightening from its initial price guidance of 6.625%.
- Jiayuan International Group Limited has priced a USD70mn re-tap of its JIAYUA 12.0%'20s (guaranteed by certain restricted subsidiaries incorporated outside of the PRC) at 12.0%.
- Industrial Bank Co Ltd has scheduled for investor meetings from 9 Nov for its potential USD bond issuance.

Date	Issuer	Size	Tenor	Pricing
6-Nov-18	Chengdu Hi-Tech Investment Group Co Ltd	USD300mn	3-year	6.5%
6-Nov-18	Jiayuan International Group Limited	USD70mn	JIAYUA 12.0%'20s	12.0%
1-Nov-18	Chang Development International Ltd	USD400mn	3-year	5.7%
1-Nov-18	Shangri-La Hotel Limited	SGD825mn	7-year	4.5%
31-Oct-18	PT Pertamina (Persero)	USD750mn	30-year	6.65%
31-Oct-18	REC Limited	USD700mn	5-year	CT5+240bps
31-Oct-18	Agricultural Bank of China Ltd Hong Kong Branch	USD500mn	3-year	3mL+74bps
31-Oct-18	Agricultural Bank of China Ltd Hong Kong Branch	USD300mn	5-year	3mL+85bps
31-Oct-18	Bluestar Finance Holdings Ltd	USD300mn	PerpNC3	6.375%
31-Oct-18	Guohui International (BVI) Co Ltd	USD600mn	363-Day	5.7%
31-Oct-18	CFLD (Cayman) Investment Ltd	USD100mn	CHFOTN 9.0%'21s	9.0%
31-Oct-18	Mirae Asset Daewoo Co Ltd	USD300mn	3-year	CT3+135bps
30-Oct-18	Scenery Journey Ltd	USD565mn	2-year	11.0%
30-Oct-18	Scenery Journey Ltd	USD645mn	4NC2	13.0%
30-Oct-18	Scenery Journey Ltd	USD590mn	5NC3	13.75%
30-Oct-18	China CITIC Bank International Ltd	USD500mn	PerpNC5	7.1%
30-Oct-18	Soar Wise Ltd	USD350mn	3-year	CT3+175bps

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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