Asian Credit Daily

Aug 8, 2018

Credit Headlines: Starhub Ltd, Singapore Telecommunications Ltd, City Developments Ltd, CapitaLand Ltd, Fraser and Neave Ltd, Commerzbank AG

Market Commentary

- The SGD swap curve traded within 0-2 bps of the prior day curve with the exception of the 30-year swap rates which traded 3bps higher.
- Flows in SGD corporates were heavy yesterday, with better buying seen in HSBC 4.7%-PERPs and better selling seen in MLTSP 4.18%-PERPs.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 2bps to 137bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 8bps to 473bps.
- Overall, 10Y UST yields rose 3bps to close at 2.97% on the back of scaled back demand for safe havens due to higher stock prices as well as the sale of treasuries notes as part of government refunding this week.

Credit Headlines:

Starhub Ltd ("STHSP") | Issuer Profile: Neutral (3)

- STHSP reported its 2Q2018 results. Revenue increased 5% y/y to SGD597.3mn, led by increase in sales of equipment (up 27% y/y to SGD130.5mn and making up 22% of total revenue). Sales of equipment have risen due to higher volume of premium handsets sold and sales of smart home equipment.
- Overall service revenue (makes up 78% of total revenue) only increased 1% y/y to SGD466.8mn. All sub-segments saw flat-to-declining y/y growth, with the exception of Enterprise Fixed which saw revenue up 22% at SGD122.5mn, led by the consolidation of D'Crypt Pte Ltd ("D'Crypt") since January 2018 and the consolidation of Accel Systems & Technologies Pte Ltd ("Accel") from July 2017. D'Crypt is a cryptographic and digital security firm (65%-stake) while Accel is a cyber-security system integrator. Removing the impact from D'Crypt and Accel, service revenue from Enterprise Fixed will have increased 8.5% y/y.
- Mobile, which is the traditional main contributor to Service Revenue, saw revenue decline by 7% y/y to SGD213.5mn, making up only 46% of overall service revenue (49% in 2Q2017). Pay TV, a smaller contributor though important in STHSP's bundling strategy saw revenue decline by 5% y/y to SGD84.7mn. Both Mobile and Pay TV have been facing intense competition, with Mobile facing competition from new entrants such as mobile virtual network operators and price cuts offered by competitors while Pay TV is facing competition from over-the-top media providers such as Netflix, Apple TV and Amazon Video. Broadband was flat y/y with revenue at SGD46.1mn.
- While Overall Service EBITDA was SGD141.0mn (down 13% y/y), Reported EBITDA (which includes contribution from Sales of Equipment) was SGD155.3mn (down 10% y/y). Interest expense though also fell 9% y/y to SGD7.4mn from lower overall gross debt, resulting in EBITDA/Interest of 21.0x, down slightly from 21.4x in 2Q2017.
- As at 30 June 2018, net debt-to-EBITDA was 1.2x, rising from 1.0x as at 31 March 2018. While gross debt levels had stayed constant q/q, STHSP had used existing cash balance to help fund cash outflows during the quarter. STHSP generated net cash flow from operations of SGD147.8mn though investing outflows (mostly for capex) was SGD47.8mn while STHSP paid out SGD138.4mn in cash dividends. STHSP ended the quarter with cash balance of SGD244.mn (starting cash balance of SGD293.9mn). (Company, OCBC)

Credit Headlines (cont'd):

Singapore Telecommunications Ltd ("SingTel") | Issuer Profile: Positive (2)

- SingTel's 1QFY2019 results were on trend with FY2018 with ongoing competition eroding margins despite top line resilience. Revenue of SGD4.1bn was broadly stable y/y but up 2% in constant currency terms due to solid performance in Australia mobile. EBITDA at SGD1.2bn however was down 3% y/y (1% in constant currency terms) due to challenges in Group Enterprise from absence of large infrastructure project and ongoing data substitution of traditional services (eg. international and national phone). Results were also impacted by marginally unfavourable FX movements in all major exposures (AUD, USD, IDR, INR, PHP). As such, SingTel's EBITDA margin declined to 29.2% in 1QFY2019 against 29.8% in 1QFY2018.
- Segment wise, Singapore Consumer continues to face pressure from weaker mobile service revenue (postpaid ARPU down 5% y/y) although overall revenues improved 2% y/y from better performance in equipment sales and fixed (broadband, residential Pay TV, payphone, fixed line calls) with EBITDA down 3% from absence of Premier League sub-licensing. Conversely, Australia Consumer EBITDA rose 3% y/y although this was lower than y/y growth in revenues (+5% y/y) from mobile customer growth and higher equipment sales with EBITDA margins reduced to 33.3% in 1QFY2019 against 34.2% in 1QFY2018. Group Enterprise continues to unexcited with revenues and EBITDA down 3% and 7% y/y respectively on broad based softness across Infocomm Tech and Carriage. Weakness in Group Digital was driven by timing of marketing spend by Amobee customers with revenue down 6% but EBITDA losses slightly improved.
- Associate performance also continues to be soft with market share gains eroded by competitive dynamics in Indonesia (-38% y/y) and India with pre-tax earnings of associates down 42% y/y (39% in constant currency terms) to SGD391mn. This contributed to EBITDA & share of associates pre-tax earnings falling 17.6% y/y and underlying profit for 1QFY2019 down 19% y/y to SGD733mn.
- Despite margin pressures, operating cashflows remain solid due to higher dividends received from associates (+23% y/y) while cashflows from investing activities was materially lower y/y (-78%). This allowed SingTel to repay SGD1.3bn in debt and maintain stable credit metrics with reported net debt to EBITDA & share of associates pre-tax profits at 1.3x (FY2018: 1.3x). We currently hold SingTel at a Positive (2) Issuer Profile. (Company, OCBC)

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

- CDL reported 2Q2018 results. Revenue increased 59.2% y/y to SGD1.44bn, mainly due to the increase in revenue from the property development segment (+170% y/y to SGD818.7mn). This was due to significant contribution from New Futura (92 units sold), The Tapestry (488 units sold), Gramercy Park (estimated: 153 units sold) and Phase 2 of Hong Leong City Centre (248 units handover) in Suzhou, China that was completed in May 2018. The strong performance at property development more than offset 2.7% y/y declines in hotel operations to SGD420.7mn, which suffered due to London hotels seeing lower corporate business and phased closure of Millennium Hotel London Mayfair. Net profit increased 48.9% y/y to SGD235.0mn, lifted by 192% y/y increase in PBT from property development with reported EBITDA increasing 55.7% y/y to SGD401.8mn.
- However, we note that net gearing surged q/q from ~12% to ~22%. While deposits for land have already been paid in 1Q2018, we note SGD1.5bn payment in 2Q2018 for development properties (full payment of recent land sites acquired), which should include Amber Park (purchase price: SGD906.7mn), Sumang Walk (SGD509.37mn), West Coast Vale (SGD472.4mn) and Handy Road (SGD212.2mn).
- Going forward, CDL mentioned that past property cooling measures tended to depress sales volume while CDL has 2600 units in the pipeline available for launch. That said, we continue to like CDL for its strong credit metrics and hold it at Positive (2) issuer Profile. (Company, OCBC)

Credit Headlines (cont'd):

CapitaLand Ltd ("CAPL") | Issuer Profile: Neutral (3)

- CAPL reported 2Q2018 results. Revenue increased 35.3% y/y to SGD1.3bn, mainly due to higher handover of units in China and rental revenue from newly opened properties in Singapore, China and Germany.
- Correspondingly, CapitaLand Singapore, Malaysia and Indonesia ("CL SMI") revenue rose 27.6% y/y to SGD486.8mn and CapitaLand China ("CL China") saw revenue rising 40.2% y/y to SGD588.0mn. In total, Singapore and China contribute ~90% of total 2Q2018 reported EBIT.
- For CapitaLand International ("CL International"), while revenue rose 46.1% y/y to SGD269.5mn due to two newly acquired office properties in Germany and higher rentals from office and retail properties in Japan, reported EBIT fell 2.9% y/y to SGD84.8mn due to foreign exchange loss and absence of portfolio gains from divestment of 18 rental housing properties in Japan in 2Q2017.
- As a result, net profit increased 32.9% y/y to SGD1.08bn, also buoyed by higher net fair value gains of SGD620.1mn (2Q2017: SGD422.9mn).
- Net gearing inched up to 0.50x (1Q2018: 0.49x), mainly due to SGD504.1mn dividends paid for the declared full year dividends of 12cts per share. Reported interest coverage ratio fell to 7.8x (FY2017: 8.2x) though this remains healthy. (Company, OCBC)

Fraser and Neave Ltd ("FNN") | Issuer Profile: Neutral (4)

- FNN reported 3QFY2018 results for the quarter ending 30 June. Revenue continues to remain flattish (+0.4% y/y SGD485.0mn), running largely only on one single segment - Dairies. Beverages revenue continued to fall by 5.4% y/y to SGD133.8mn, mainly due to the soft market sentiments and consumers postponing purchases as a result of changes in GST regulations and weaker sales to Indonesia due to depreciation of the IDR. Dairies remained the outperformer, increasing 5.2% y/y to SGD290.4mn as a result of higher export sales and favourable currency movements at Malaysia while Thailand Dairies also contributed more due to growth in export sales.
- By reported PBIT, Beverages improved y/y to SGD2.9mn (3QFY2017: SGD2.1mn) due to favourable sugar cost and currency movements though this segment's contribution remains a shadow of its former self (as an example, FY2014's PBIT for the segment was SGD174mn). Dairies headline reported PBIT declined to SGD73.6mn (3QFY2017: SGD79.8mn) despite stronger revenues mainly due to the reclassification of Vinamilk as an associate – FNN stopped recording dividend income in 3QFY2018 while 3QFY2017 recorded both dividend income and share of profits from associate. Without the effects of Vinamilk, we estimate Diaries contribution would have increased by ~38% y/y to SGD34mn. As a result, net profit before tax and exceptional items fell 5.2% y/y to SGD68.4mn.
- Net gearing increased marginally to 13.6% q/q (2QFY2018: 13.3%) despite generating net cash of SGD28.2mn from operations due to further purchases (SGD9.4mn) in stake in associated company (likely due to Vinamilk) as well as SGD36.5mn in total payments in dividends by FNN and its subsidiaries to non-controlling interests. We think FNN may continue gearing up (e.g. through acquiring more Vinamilk shares), with a gearing policy of up to 80% and we note that FNN now holds 20.01%-stake in Vinamilk. As such, despite the healthy credit metrics, we continue to hold FNN at Neutral (4) Issuer Profile. (Company, OCBC)

Credit Headlines (cont'd):

Commerzbank AG (CMZB) | Issuer Profile: Neutral (4)

- CMZB's 1H2018 results look positive although are influenced by certain specific items. Reported pre-tax profit for 1H2018 of EUR689mn is improved against a loss of EUR302mmn in 1H2017 although 1H2017 results include EUR807mn in restructuring expenses connected with implementation of CMZB's 4.0 strategy. Excluding these expenses, 1H2018 pre-tax profit of EUR689mn was still 36% higher than normalized 1H2017 pre-tax profit of EUR505mn. This is attributable to a substantial fall in risk costs (-55.5% y/y to EUR161mn).
- Elsewhere, net interest income improved 7.5% y/y to EUR2.2bn due to higher lending volumes in Private and Small Business Customers ("PSBC") from new business and acquisition in addition to a moderation in the impact of Germany's low interest rate environment. This mitigated a 6.2% y/y fall in net commission income to EUR1.6bn from the termination of a joint venture although according to CMZB the loss of commission income from this was offset by interest income from a loan portfolio acquired from the joint venture partner. Net income from financial assets and liabilities at fair value through profit or loss was down 9.8% y/y from remeasurement effects.
- Operating expenses rose 2.8% y/y, mostly due to higher investments in growth, digitalisation and technology as well as higher regulatory and compliance costs. Costs were also influenced by separation of the Equity Markets & Commodities business (sold to Société Générale).
- Segment wise, PSBC continues to perform well due to business growth while Corporate Clients' ("CC") performance was impacted by low interest rates, weaker capital market activity and hedging products and ongoing price competition. Despite weaker net interest income due to the continued wind-down of the portfolio, performance of CMZB's Asset & Capital Recovery ("ACR") segment continues to show an improved performance y/y with an operating profit of EUR76mn in 1H2018, reversing from a net operating loss of –EUR115mn in 1H2017 due to revaluation in the Ship Finance portfolio from the implementation of IFRS9 and absence of loan loss provisions (1H2017: EUR211mn)
- As mentioned above, risk costs improved and reflects the movement in risk costs within the ACR segment. Otherwise, risk costs in the PSBC segment rose marginally from the domestic instalment loan business. Risk costs in the Corporate Clients segment fell by EUR20mn due to improved quality of the CC loan portfolio.
- Balance sheet growth was solid with total assets of EUR487.5bn up 8.1% compared to 1 Jan 2018. This was driven by a 5.6% rise in loan and advances and debt securities. CMZB's loan risk profile has also further improved with NPL ratio of 0.9% as at 30 June 2018 (1.0% as at 31 March 2018 and 1.5% as at 30 June 2017).
- Given loans growth, capital ratios fell due to growth in risk weighted assets with the fully-phased in CET1 ratio at 13.0% as at 30 June 2018 (13.3% as at 1 March 2018). In all, CMZB's results continue to illustrate Germany's competitive banking environment and CMZB's efforts to minimize it. (OCBC, Company

Table 1: Key Financial Indicators

	8-Aug	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	80	0	-11
iTraxx SovX APAC	10	-1	-4
iTraxx Japan	54	-2	-10
iTraxx Australia	73	-1	-10
CDX NA IG	58	0	-4
CDX NA HY	107	0	1
iTraxx Eur Main	63	3	-4
iTraxx Eur XO	292	10	-11
iTraxx Eur Snr Fin	77	3	-4
iTraxx Sovx WE	25	1	1
AUD/USD	0.743	0.35%	-0.50%
EUR/USD	1.161	-0.45%	-1.23%
USD/SGD	1.364	-0.13%	-0.51%
China 5Y CDS	60	2	-7
Malaysia 5Y CDS	82	-1	-18
Indonesia 5Y CDS	111	-1	-15
Thailand 5Y CDS	43	0	-4

	8-Aug	1W chg	1M chg
Brent Crude Spot ($/bbl)	74.65	0.54%	-3.19%
Gold Spot ($/oz)	1,212.58	-0.28%	-3.59%
CRB	194.49	-0.02%	-1.80%
GSCI	466.67	0.40%	-2.92%
VIX	10.93	-14.81%	-18.25%
CT10 (bp)	2.969%	-3.71	14.76
USD Swap Spread 10Y (bp)	6	-1	-2
USD Swap Spread 30Y (bp)	-6	-2	-3
TED Spread (bp)	33	-2	-7
US Libor-OIS Spread (bp)	31	-2	-7
Euro Libor-OIS Spread (bp)	4	0	0
DJIA	25,629	0.84%	4.79%
SPX	2,858	1.50%	3.57%
MSCI Asiax	669	-0.70%	1.22%
HSI	28,249	-1.17%	-0.24%
STI	3,340	0.61%	4.64%
KLCI	1,791	0.38%	7.65%
JCI	6,091	2.61%	6.96%

New issues

- Shinhan Financial Group has priced a USD500mn Perp NC5 AT1 at 5.875%, tightening from its initial price guidance of 6.25%.
- Tuspark Forward Ltd has hired banks for its potential USD bond issuance (guaranteed by Tus-Holdings Co Ltd).

Date	Issuer	Size	Tenor	Pricing
7-Aug-18	Shinhan Financial Group	USD500mn	Perp NC5	5.875%
6-Aug-18	SK Broadband Co Ltd	USD300mn	5-year	CT5+117.5bps
2-Aug-18	Power Finance Corp Ltd	USD300mn	10-year	CT10+235bps
2-Aug-18	Sands China Ltd	USD1.8bn	5-year	CT5+175bps
2-Aug-18	Sands China Ltd	USD1.8bn	7-year	CT7+220bps
2-Aug-18	Sands China Ltd	USD1.9bn	10-year	CT10+245bps
2-Aug-18	Wuhan Real Estate Development Investment Group Co Ltd	USD430mn	3-year	5.7%
2-Aug-18	Bank of China Ltd/Macau	USD300mn	3-year	3mL+75bps
31-Jul-18	Lotte Property & Development Co Ltd	USD200mn	3-year	3mL+92.5bps
31-Jul-18	KWG Group Holdings Limited	USD350mn	3NC2	7.875%
31-Jul-18	China Mengniu Dairy Co Ltd	USD500mn	5-year	CT5+148bps
30-Jul-18	CMHI Finance BVI Co Ltd	USD900mn	5-year	CT5+162.5bps
30-Jul-18	CMHI Finance BVI Co Ltd	USD600mn	10-year	CT10+215bps
30-Jul-18	Woori Bank	USD300mn	10-year	CT10+220bps
27-Jul-18	Legend Fortune Ltd	USD300mn	3-year	3mL+128bps
26-Jul-18	Trade Horizon Global Ltd (JUDA)	USD400mn	3-year	3mL+257.5bps
26-Jul-18	China Aoyuan Property Group Ltd (re-tap)	USD175mn	CAPG 6.35%'20s	98.516
26-Jul-18	Industrial Bank of Korea	USD500mn	3-year	3mL+60bps

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