

Mar 9, 2018

Credit Headlines: Wharf Holdings Ltd, Hongkong Land Ltd

Market Commentary: The SGD swap curve bear-steepened yesterday, with swap rates for the shorter tenors trading 2-3bps higher while the longer tenors traded 4-5bps higher. Flows in SGD corporates were heavy, with better selling seen in CACHE 5.5%-PERP. In the broader dollar space, the Bloomberg Barclays Asia USD IG Bond Index average OAS traded little changed at 115bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 40bps to 352bps, reversing from the prior day's sharp contraction of 18bps. 10Y UST yield fell 3bps to 2.86%, tracking its German counterpart as the ECB dropped a long-standing pledge to increase bond buying if economic circumstances warrant it.

New issues: The Export Import Bank of Korea has priced its USD400mn 5-year FRN at 3mL+74bps, tightening from its initial guidance of 3mL+90bps area. The expected issue ratings are 'AA/Aa2/NR'. Rizal Commercial Banking Corporation has priced a USD300mn 5-year + 1day bond at CT5+150bps, tightening from its initial guidance of CT5+165bps area. The expected issue ratings are 'NR/Baa2/NR'. Tewoo Group No 5 Ltd has priced a USD450mn Perp NC3 at 5.8%, tightening from its initial guidance of 6%. The expected issue ratings are 'NR/NR/BBB-'. Taizhou Huaxin Pharmaceutical Investment Co Ltd has priced a USD150mn 3-year bond (guaranteed by Huaxin Pharmaceutical (HK) Co Ltd) at 6.8%, tightening from its initial guidance of 6.9%. The expected issue ratings are 'NR/NR/BB+'. Shimao Property Ltd has priced a CNH950mn 3NC2 bond (guaranteed by certain of the company's restricted subsidiaries outside the PRC) at 5.75%, tightening from its initial guidance of 6.125%. The expected issue ratings are 'NR/NR/BBB-'. SKI Carbon Black (Mauritius) Ltd has scheduled for investor meetings from 9-13 Mar for its potential USD bond issuance. The expected issue ratings are 'BB/Ba2/BB'. The Republic of Indonesia has hired banks for its potential Euro-Denominated bond issuance.

Rating Changes: S&P has assigned its 'BBB' long-term issue rating to two proposed senior unsecured guaranteed notes under the global medium-term notes (GMTN) program of Thai Oil Public

Table 1: Key Financial Indicators

	9-Mar	1W chg (bps)	1M chg (bps)		9-Mar	1W chg	1M chg
iTraxx Asiax IG	69	-1	-5	Brent Crude Spot (\$/bbl)	63.61	-0.34%	-1.85%
iTraxx SovX APAC	12	0	-1	Gold Spot (\$/oz)	1,319.92	-0.21%	0.25%
iTraxx Japan	48	-1	2	CRB	193.66	-0.15%	2.73%
iTraxx Australia	59	-1	-7	GSCI	437.70	-0.76%	2.14%
CDX NA IG	57	-1	-3	VIX	16.54	-26.39%	-43.08%
CDX NA HY	107	0	1	CT10 (bp)	2.874%	0.92	2.23
iTraxx Eur Main	52	-1	1	USD Swap Spread 10Y (bp)	3	2	2
iTraxx Eur XO	260	-8	-4	USD Swap Spread 30Y (bp)	-16	3	3
iTraxx Eur Snr Fin	52	-2	2	TED Spread (bp)	40	2	12
iTraxx Sovx WE	19	-1	0	US Libor-OIS Spread (bp)	42	0	15
iTraxx Sovx CEEMEA	34	2	1	Euro Libor-OIS Spread (bp)	3	0	1
					9-Mar	1W chg	1M chg
				AUD/USD	0.779	0.35%	-0.33%
				USD/CHF	0.951	-1.47%	-1.35%
				EUR/USD	1.232	-0.02%	0.51%
				USD/SGD	1.318	0.19%	0.77%
Korea 5Y CDS	47	-3	-5	DJIA	24,895	1.16%	2.91%
China 5Y CDS	57	1	-7	SPX	2,739	2.29%	4.56%
Malaysia 5Y CDS	64	1	-2	MSCI Asiax	728	0.96%	4.52%
Philippines 5Y CDS	66	1	-1	HSI	30,655	-1.26%	3.89%
Indonesia 5Y CDS	90	2	-1	STI	3,480	-0.95%	3.06%
Thailand 5Y CDS	40	0	-4	KLCI	1,840	-1.14%	1.09%
				JCI	6,443	-2.47%	-0.96%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
8-Mar-18	Shimao Property Ltd	'NR/NR/BBB-'	CNH950mn	3NC2	5.75%
8-Mar-18	Taizhou Huaxin Pharmaceutical Investment Co Ltd	'NR/NR/BB+'	USD150mn	3-year	6.8%
8-Mar-18	Tewoo Group No 5 Ltd	'NR/NR/BBB-'	USD450mn	Perp NC3	5.8%
8-Mar-18	Rizal Commercial Banking Corporation	'NR/Baa2/NR'	USD300mn	5-year	CT5+150bps
8-Mar-18	Export- Import Bank of Korea	'AA/Aa2/NR'	USD400mn	5-year	3mL+74bps
7-Mar-18	Hyundai Capital America	'NR/Baa1/NR'	USD250mn	3-year	3mL+82bps
7-Mar-18	Hyundai Capital America	'NR/Baa1/NR'	USD550mn	3-year	CT3+105bps
7-Mar-18	CNAC (HK) Finbridge Company Ltd	'BBB/NR/A-'	USD100mn	30-year	5.5%
7-Mar-18	CNAC (HK) Finbridge Company Ltd	'BBB/NR/A-'	USD1.75bn	10-year	CT10+235bps
7-Mar-18	CNAC (HK) Finbridge Company Ltd	'BBB/NR/A-'	USD800mn	7-year	CT7+220bps

Source: OCBC, Bloomberg

Rating Changes (cont'd): Co Ltd (Thai Oil). The outlook is stable. The rating action reflects Thai Oil's sound domestic competitive position, robust cash flow generation capacity and support from its controlling shareholder PTT Public Co Ltd. S&P has assigned 'BBB' long-term corporate credit rating to GLP and 'BBB-' long-term issue rating to the GLP's MTN program and all debt drawdowns from this program. The outlook is stable. The rating action reflects GLP's position as one of the largest operators of modern logistics centers globally. Its large portfolio spread across China, Japan, US, Brazil and Europe should mitigate the impact of increase in GLP's debt leverage following its privatisation in early 2018. Moody's has affirmed Singapore Management University's (SMU) 'Aaa' issuer and senior unsecured ratings. The outlook is stable. The rating action reflects SMU's ample level of internal liquidity, favourable operating performance and a significant share of subsidized debt, minimizing its debt burden. Moody's has downgraded Scentre Group's long-term ratings and its subsidiaries to 'A2' from 'A1'. The outlook is stable. The rating action reflects Moody's view that Scentre's current credit metrics are more indicative of an 'A2' rating as well as the company's previously announced changes to its financial policy.

Credit Headlines:

Wharf Holdings Ltd ("WHARF"): WHARF reported full year 2017 results. Note that y/y results are not strictly comparable due to the spinoff of Wharf Real Estate Investment Co Ltd ("Wharf REIC") in Nov 2017. As a result, 2017 results reflect ~10 months' worth of contributions from Wharf REIC related assets, that will be deconsolidated going forward. Revenue declined 7.2% y/y to HKD43.3bn, with declines in contribution from investment properties (-4.5% y/y to HKD14.6bn) and the CME segment (-72.2% y/y to HKD874mn). Contributions from investment properties fell mainly because of the spinoff of Wharf REIC (which primarily holds Hong Kong investment properties), though the fall is partly mitigated by the increase from Mainland China investment properties (+12.1% y/y to HKD2.6bn) due to strong contribution from the Chengdu IFS. In particular, retail sales at the Chengdu IFS surged 30% y/y to RMB5.0bn, with net revenue at RMB761mn. The CME segment fell mainly due to the spinoff of the stakes in i-CABLE (which contributed HKD1.4bn in revenue in 2016). Operating profit though increased 20.8% y/y to HKD20.6bn, lifted mainly by Mainland China development properties (+137% y/y to HKD7.7bn) due to higher profit margins from the projects completed in 2017. Including associates and JVs, PBT from development properties surged 129.0% y/y to HKD12.3bn as Mount Nicholson in Hong Kong sold well. In particular, Mount Nicholson sold 5 houses and 14 apartments in 2017 for HKD9.4bn, at an eye-popping average of HKD91,600 psf. While WHARF reported a net cash position of HKD9.3bn as at end 2017, we note that that WHARF had won a land plot in Kowloon Tong for HKD12.5bn. WHARF also announced that it has spent HKD25.5bn buying equities, including blue-chip Hong Kong developers for short-term investment and companies in the telecom, media and entertainment sectors. We note that as of end 2017, equity investments have surged to HKD19.1bn (2016: HKD5.7bn). Assuming this implies that HKD12.1bn of equity investments were purchased after end-2017, we expect net gearing to increase to ~10%. Nevertheless, we think liquidity should remain healthy as WHARF (before consolidating subsidiaries such as Modern Terminals, which had a net debt of HKD6.8bn) held HKD16.1bn of net cash. Meanwhile, we remain comfortable with WHARF's credit profile, anchored by HKD82.1bn (out of HKD222.6bn in assets) in investment properties. We expect investment properties to continue delivering more, with the opening of the Chongqing IFS (in Sep 2017), with 95% of area leased/under offer and the expected opening of Changsha IFS in May 2018, with 94% area already leased/under offer. As such, we continue to hold WHARF at a Neutral (3) Issuer Profile. (Company, OCBC)

Credit Headlines (cont'd):

Hongkong Land Ltd (“HKL”): HKL reported full year 2017 results. While headline numbers were weaker, overall results appear decent. Revenue declined 1.7% y/y to USD1,959.8mn as sale of properties declined 9.6% y/y to USD907.8mn, which we think is due to timing differences, though revenue from rental income increased (+6.2% y/y USD911.7mn) on the back of stronger contribution from the Hong Kong Central portfolio. Central office vacancy declined to 1.4% (2016: 2.2%), with rental reversions lifting average office rents to HKD108 psf (2016: HKD103 psf). Despite the reported industry headwinds in retail, central retail remains fully let, with average rentals increasing 3% y/y to HKD224 psf due to the full-year effect of reversions in 2016 (though reversion in 2017 were zero). However, the Singapore office portfolio was lacklustre with negative reversions, with average rent declining to SGD9.10 psf (2016: SGD9.30 psf), though vacancy was still healthy at 0.3% given the prime area of the portfolio. In-line with the declines in revenue, operating profit fell to USD907.6mn (2016: USD970.6mn) mainly due to lower contributions from development properties (-45% y/y to USD123.9mn) though operating profit from investment properties remains solid (+5.7% y/y to USD851.5mn). Nevertheless, reported underlying profit rose 14% y/y to USD970mn, as a result of contributions from associates and JVs of USD298.5mn (2016: USD117.0mn) mainly due to timing of completions of projects in Mainland China. Net profit surged 67% y/y to USD5.6bn, mainly due to USD4.6bn revaluation gains derived from lower capitalisation rates which lifted investment portfolio valuation higher by 17% y/y. Meanwhile, net gearing is 7%, inching up by 1pp y/y, due to USD670.5mn investments in its associates and joint ventures – we think this should include the capital committed for the JV with Yanlord and Transfar Group in Aug 2017 to develop two mixed use sites in Xiaoshan District (total developable area of 776,000 sqm) and 50% JV with Zall Group in Feb 2017 to develop a mixed-use site in Dongxihu District (developable area of 493,000 sqm). HKL guided for net debt to increase modestly due to committed land purchases, with total capital commitments increasing to USD1.4bn (2016: USD623.0mn), though the Marina Bay Financial District site has yet to progress. Factoring the capital commitments, we expect net gearing to increase to ~10%. Looking ahead, we expect more contributions from several developments that were completed or will be completing, including the retail component of WF Central in Beijing (opened in Nov 2017), hotel component of WF Central (to open in 2H2018), development of the 5th tower of World Trade Centre in Jakarta (to complete in early 2018), EXCHANGE SQUARE in Phnom Penh (opened in early 2017). HKL guided that the development properties business is expected to generate higher profits from both mainland China and Singapore. With operating cashflow remaining strong (USD800.2mn) and a healthy net gearing profile, we continue to hold HKL at an Issuer Profile of Positive (2). (Company, OCBC)

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