

May 2, 2018

Credit Headlines: CWT International Limited, Australia and New Zealand Banking Group Ltd, ESR-REIT & Viva Industrial REIT, CapitaLand Ltd

Market Commentary

- The SGD swap curve traded lower on Monday, with swap rates for the shorter tenors down sharply by 14bps while the rest of the curve was broadly lower by 2-4bps.
- Flows in SGD corporates were light yesterday with better selling seen in HSBC 4.7%-PERP and better buying seen in CENCHI 6.25% '20s, FPLSP 3.95%-PERP and CELSP 3.9%-PERP.
- 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 tightened 2bps to 381bps.
- 10Y UST yields remained at 2.96% given minimal news flow.

Credit Headlines

CWT International Limited ("CWTI") | Issuer Profile: Negative (6)

- CWTI has published its annual report 2017 (containing the finalised Independent Auditor's Report dated 24 April 2018). The auditors have cast material uncertainty related to the going concern of CWTI. This was indicated earlier during the release of the [unaudited numbers](#).
- CWTI took on acquisition debt to help fund the purchase of CWT Pte. Limited (formerly known as CWT Limited "CWT SG") and needs to repay USD561mn within the year. USD300mn falls due in May 2018 while USD261mn falls due in September 2018.
- The acquisition debt is guaranteed by HNA Group (International) Company Limited, a substantial shareholder of CWTI and HNA Group Co Ltd (an intermediate holding company of CWTI) and both have confirmed their intention to provide adequate financial support to CWTI and also to continue CWTI's business operations until at least end-2018.
- The company has added that directors have been actively negotiating with (1) financial institutions to raise funds from new facilities to the group and (2) real estate companies on sales and lease back arrangements of certain warehouses in Singapore. A number of non-binding term sheets, letters of intent and expressions of interest have been received. CWTI is undergoing due diligence and negotiation on these proposed financing deals.
- The sale and leaseback likely refer to warehouses held by CWT SG rather than other entities within CWTI. We maintain that CWT SG bondholders are structurally superior to debtholders at CWTI with regards to CWT SG's assets and businesses. While some asset disposal (including sales-and-leaseback) is possible and reasonably allowed in the information memorandum, we urge bondholders to seek legal advice on protections afforded to them should any material sale-and-leaseback of Singapore warehouses occur. Disposal of material subsidiaries is considered an Event of Default (refer clause (9)(i) in information memorandum). The Trust Deed further details disposals that are considered a breach.
- We no longer have access to standalone financials at CWT SG (given it is now a private company) though annually, these should still be availed to CWT SG's bondholders. The Trust Deed is a non-public document, and again only available to bondholders. (Company, OCBC)

Credit Headlines (cont'd):

Australia and New Zealand Banking Group Ltd ("ANZ") | Issuer Profile: Positive (2)

- ANZ reported 1HFY2018 results for the 6 months ended 31 March with underlying cash profits (which reflects the results of continuing businesses) up 4% y/y to AUD3.5bn. The better y/y profit performance was driven by the cost side with a 2% y/y fall in operating expenses (lower personnel and premises expenses outside Australia) and 43% y/y reduction in credit impairment charges mitigating a 2% y/y fall in operating income.
- The weaker operating income result was driven by a 1% y/y fall in net interest income as a 7bps y/y fall in net interest margins to 1.93% overshadowed a 3% y/y rise in average interest earnings assets while other operating income fell 4% y/y due mostly to lower markets related income despite growth in market-related assets.
- Profit by segment reflects ANZ's on-going restructuring activities with solid profit growth in ANZ's core Australia and New Zealand segments of 9% y/y and 7% y/y respectively while Institutional and the remaining Wealth Australia segments fell 26% y/y and 24% y/y respectively.
- Total assets (including discontinued operations) grew 4.3% y/y to AUD935.1bn and was supported, amongst increases in cash and trading assets, by a 4.4% y/y increase in net loans and advances. This was driven mostly by foreign currency translation impacts with underlying growth in average net loans and advances of 1% y/y due to growth in home loans in Australia and New Zealand. Growth in markets-related assets drove a corresponding increase in ANZ's liquidity portfolio holdings. In line with reduced impairment charges, new impaired assets fell 46% y/y (-32% h/h) indicating still solid metrics for loan quality.
- Despite growth in total assets, risk weighted assets were broadly stable y/y and along with solid earnings generation and asset divestments, the APRA CET1 ratio improved to 11.0% for 1HFY2018, up from 10.1% in 1HFY2017 and 10.6% as at FY2017. On an internationally comparable basis, the CET1 ratio improved to 16.3% for 1HFY2018 from 15.2% for 1HFY2017. This incorporates the 88bps impact from dividend payments and share buyback. (OCBC, Company)

ESR-REIT ("EREIT") | Issuer Profile: Neutral (4) and VIVA Industrial Trust | Issuer Profile: Neutral (5)

- EREIT and VIT have announced that both parties remain in exclusive discussion in relation to the proposed merger and that discussions are at an advanced stage.
- Both parties have agreed to extend the period of exclusivity to the earlier of (a) date of execution of a definitive implementation agreement between EREIT and VIT and (b) 15 May 2018 (or such other date as may be agreed in writing).
- We like the proposed merger (assuming an all-script deal) and our base case assumes the proposed merger happens. (Company, OCBC)

Credit Headlines (cont'd):

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

•Revenue was up sharply by 53.3% y/y to SGD1.38bn. It is worth noting that CAPL both restated its financial statements to adhere to SFRS (I) 15 accounting standards, as well as changed its segment disclosure to focus on geography instead of business segment. CAPL had also consolidated its two retail REITs (CMT, CRCT) from August 2017 onwards, which boosted total revenue.

•CL Singapore, Malaysia, & Indonesia (“CLSMI”) saw revenue more than doubling to SGD602.1mn on the sale of further units at Victoria Park Villas, Sky Habitat and Marine Blue. CLSMI EBIT was 4.4% weaker though at SGD338.9mn, absent the prior period gain on the bulk divestment of The Nassim. Looking forward, CLSMI’s development revenue would likely decline due to falling levels of Singapore inventory. Already, residential units sold in Singapore fell to 40 units (1Q2017: 84 units) while sales value fell harder to SGD150mn (1Q2017: SGD504mn). 98% of CAPL’s Singapore launched units are already sold (as of end-1Q2018). The main Singapore land bank would be Pearl Bank Apartments (which is in the process of being acquired) with a land cost of SGD929.4mn (SGD1,515 psf).

•China revenue grew 25.7% y/y to SGD563.4mn. Residential units delivered during the quarter increased 9% y/y to 1,328 units, though value realized fell 35% y/y to RMB2.96bn on lower average selling prices. Revenue recognition pipeline looks healthy, with over 8,000 units sold totalling ~RMB15.1bn in value (of which ~70% will be recognized over the balance 9 months of 2018). Looking forward, with CAPL already selling 96% of its launched units in China, development revenue may fall. For 1Q2018, units sold fell 54% to 998 units, while sales value fell 57% to RMB1.68bn. CAPL indicated 5,725 units that are ready for launch over the balance of 2018. China EBIT surged 45.5% y/y to SGD283.3mn, driven by divestment gains recognized on their sale of 20 non-core retail malls.

•For International, revenue was up 38.4% y/y to SGD198.1mn, due to various investment properties acquired in Germany and Japan. Segment EBIT fell 33.1% to SGD44.4mn though, absent the divestment of two German assets the prior period.

•In aggregate, profit after tax was 6.3% higher y/y to SGD495.0mn. Operating cash flow (including interest service) was strong at SGD310.1mn on inventory monetization. Cash balance fell q/q by SGD535.0mn however, on share repurchases, debt pay down and investments. Net gearing remained stable q/q at 49%. (OCBC, Company)

Table 1: Key Financial Indicators

	02-May	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	75	-2	-4
iTraxx SovX APAC	12	0	-1
iTraxx Japan	51	-1	-5
iTraxx Australia	65	-1	-5
CDX NA IG	61	-1	-7
CDX NA HY	107	0	1
iTraxx Eur Main	55	-1	-5
iTraxx Eur XO	274	-6	-12
iTraxx Eur Snr Fin	59	1	-7
iTraxx Sovx WE	17	0	-1
AUD/USD	0.750	-0.82%	-2.09%
EUR/USD	1.201	-1.28%	-2.41%
USD/SGD	1.334	-0.37%	-1.60%
China 5Y CDS	58	-2	-7
Malaysia 5Y CDS	74	-1	-1
Indonesia 5Y CDS	106	-1	2
Thailand 5Y CDS	44	-2	-3

Source: OCBC, Bloomberg

	02-May	1W chg	1M chg
Brent Crude Spot (\$/bbl)	73.25	-1.01%	8.29%
Gold Spot (\$/oz)	1,310.95	-0.92%	-2.26%
CRB	201.26	0.59%	4.07%
GSCI	470.92	-0.23%	5.81%
VIX	15.49	-14.04%	-34.42%
CT10 (bp)	2.972%	-5.41	24.20
USD Swap Spread 10Y (bp)	3	0	-1
USD Swap Spread 30Y (bp)	-11	1	4
TED Spread (bp)	54	2	-8
US Libor-OIS Spread (bp)	52	-3	-6
Euro Libor-OIS Spread (bp)	3	0	0
DJIA	24,099	0.31%	1.92%
SPX	2,655	0.77%	2.82%
MSCI Asiax	721	2.27%	0.66%
HSI	30,630	-0.02%	1.78%
STI	3,616	0.88%	5.49%
KLCI	1,846	-1.03%	-0.93%
JCI	5,980	-4.01%	-3.38%

New issues

- Bumi Serpong Damai Tbk PT priced a USD50mn tap of its existing BSDEIJ 7.25% '21c20s at 100.125 + accrued interest.
- SGSP (Australia) Assets Pty Ltd has mandated banks for a potential 7Y-10Y AUD, EUR or USD issuance.

<u>Date</u>	<u>Issuer</u>	<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
30-May-18	Global Prime Capital Pte Ltd	USD50mn	BSDEIJ 7.25% '21	100.125+accrued
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

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