OCBC Bank

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Credit Headlines: Hong Fok Corp Ltd, Hongkong Land Ltd, Landesbank Baden-Württemberg

Market Commentary

- The SGD swap curve bear-steepened yesterday, with shorter tenors trading 1bps higher while the belly and longer tenors traded 2-3bps higher (with the exception of the 12-year swap rate at 4bps higher).
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 2bps to 141bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 7bps to 503bps.
- Flows were light in SGD Corporates.
- 10Y UST yields rose 4bps to 2.72%, on the back of a less-than-expected slowdown in the US gross domestic product reported by the Commerce Department yesterday.

Credit Headlines

Hong Fok Corp Ltd ("HFC") | Issuer Profile: Neutral (5)

- HFC reported full year 2018 results. Revenue increased 87% y/y to SGD131mn from SGD70mn in 2017, mainly due to the higher sales of residential units in Singapore. Specifically, according to URA caveats, 38 units at Concourse Skyline were sold in 2018 for SGD92mn in total versus 12 units in 2017 for SGD30mn. We note that bulk of the sales in 2018 took place in 2Q and 3Q 2018. Revenue for the year was also boosted by contributions from YOTEL Singapore Orchard Road ('YOTEL'), which had commenced its operations in 4Q2017.
- Consequentially, profit before tax (before other income, other expenses, fair value changes, revaluation, impairment and gain on disposal) improved substantially by 94% y/y to SGD71mn (2017: SGD36mn). Reported net profit, however, was only higher by 20% y/y at SGD269mn (2017: SGD223mn). Even though revaluation gains from investment properties was marginally higher (8%) as compared to 2017, the mere size of this gain (2018: SGD253mn, 2017: SGD233mn) eroded the y/y change seen in the top line and largely led to the +20% y/y in reported net profit .
- HFC generated significant net cash from operations amounting to SGD81mn on the back of property sales though this was largely used to repay SGD16mn (net amount) of loans and borrowings, SGD26mn of interest costs, SGD7mn of dividends and purchase SGD20mn (net amount) of other investments which comprise equity and equity-linked securities and SGD14mn of capex. As such, overall cash balance was somewhat stable at SGD50mn (2017: SGD51mn) despite the significant net operating cashflow.
- HFC remains confident that the SGD120mn HFCSP 4.75% '19s can be refinanced or repaid from its available undrawn facilities. Net gearing is manageable at 28.7% (2017: 33.3%). While total borrowing is lower, the decrease in net gearing is largely due to HFC having larger reserves.
- Looking forward, HFC expects to recognise profit from sales of residential units albeit at a slower pace and contributions from YOTEL to be stable. (Company, OCBC)

Credit Headlines (cont'd)

Hongkong Land Ltd ("HKL") | Issuer Profile: Positive (2)

- HKL reported full year 2018 results. Even though revenue rose by 65% y/y to USD2.7bn mainly due to greater sales of properties of USD1.5bn (2017: USD564.1mn), net operating costs surged by 126% y/y to USD1.6bn. As a result, profit before tax (before fair value changes and gain on acquisition) was higher by just 9% y/y at USD1.3bn while reported net profit tumbled by 54% y/y due to the absence of gains in fair value of investment properties (which was USD4.7bn in 2017) in 2018.
- Rental reversion at the Hong Kong Central office portfolio remains positive, with rent rising to HKD113 psf (2017: HKD108 psf) while vacancy rates was unchanged at 1.4%. Leasing momentum in Hong Kong has slowed in the recent months, particularly in terms of demand from mainland Chinese companies. Meanwhile, Singapore's office rent was flattish at SGD9.2 psf (2017: SGD9.1 psf) with vacancy higher at 2.5%% (end-2017: 0.3%), though this is expected to decline as committed spaces get taken up in 2019.
- At 31st December 2018, HKL had USD1.4bn in sold but unrecognised contracted sales, compared with USD1bn at the end of 2017 due to residential projects in mainland China.
- Operating profit from investment properties (USD903mn) continues to well cover financing charges (USD172mn) by 5.3x, though down from 7.2x a year ago. While net gearing has inched up to 9% (end-2017: 7%) due to land purchases for its new projects and is expected to increase modestly due to payments for committed land purchase in 1H2019, we think the overall credit metrics remain healthy.
- Looking ahead, management expects the investment properties to remain stable and anticipates higher profits from development properties in mainland China as a result of more completions, though these will likely help offset lower contributions from projects in Southeast Asia. (OCBC, Company)

Landesbank Baden-Württemberg ("LBBW") | Issuer Profile: Neutral (4)

- LBBW announced FY2018 results which were overall constructive with consolidated profit before tax up 8.4% y/y to EUR558mn. Contributing to the performance was continued weakness in the top line that was offset by improved expense performance.
- Net interest income was marginally down 1.8% y/y to EUR1.56bn as an increase in loans to corporate customers and real estate was offset by the low interest rate environment and intense competition within the banking sector. Net fee and commission income was also 3.9% lower y/y to EUR513mn due to lower brokerage fees and financing commissions while gains from remeasurements and disposals was down 23.4% y/y as a result of lower proceeds from the sale of securities and shares (FY2017 included an exceptional gain due to the more favourable environment). Within the net gains, allowances for losses on loans and securities rose 53.5% y/y to EUR142mn on the weaker operating outlook although remain below the long-term average according to management. Other operating income was up 38.1% y/y and this all contributed to total operating income down 3.1% y/y to EUR2.4bn.
- Administrative expenses were down 2.8% y/y despite higher investment in IT infrastructure from lower staff costs with the cost to income ratio improving to 72.8% in FY2018 against 76.4% in FY2017. This together with the absence of the state guarantee commission following the sale of the Sealink portfolio as well as a 70% y/y fall in restructuring expenses more than offset the 28.8% y/y rise in bank levy and deposit guarantee fees and drove the y/y improvement in consolidated profit before tax.
- As mentioned above, loans to corporate customers offset the lower interest rates with total assets up 1.5% y/y and risk weighted assets up 6.1% y/y. This drove a y/y fall in fully loaded CET1/CAR ratios to 15.1%/21.9% from 15.7%/22.2% in FY2017. This remains above regulatory minimum capital requirements, which have increased in line with the EU's Capital Requirements Regulations, and are set annually by the ECB on the basis of the Supervisory Review and Evaluation Process (SREP) with LBBW's phased in CET1/CAR 2018 capital requirement of 8.80%/12.30%. (OCBC, Company)

Table 1: Key Financial Indicators

	1-Mar	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	70	-2	-9
iTraxx SovX APAC	54	-3	-5
iTraxx Japan	60	0	0
iTraxx Australia	69	-2	-7
CDX NA IG	60	-1	-7
CDX NA HY	106	0	0
iTraxx Eur Main	62	-5	-9
iTraxx Eur XO	277	-15	-32
iTraxx Eur Snr Fin	74	-9	-13
iTraxx Sovx WE	22	-2	-2
AUD/USD	0.709	-0.52%	-2.18%
EUR/USD	1.137	0.34%	-0.72%
USD/SGD	1.352	-0.04%	-0.13%
China 5Y CDS	49	-2	-5
Malaysia 5Y CDS	65	-6	-16
Indonesia 5Y CDS	104	-5	-9
Thailand 5Y CDS	46	-1	5

	1-Mar	1W chg	1M chg
Brent Crude Spot ($/bbl)	66.55	-0.85%	6.06%
Gold Spot ($/oz)	1,312.85	-1.24%	-0.39%
CRB	182.75	-0.36%	1.22%
GSCI	426.35	-0.72%	3.16%
VIX	14.78	2.21%	-8.43%
CT10 (bp)	2.713%	6.14	2.90
USD Swap Spread 10Y (bp)	1	-1	-2
USD Swap Spread 30Y (bp)	-21	-1	-2
US Libor-OIS Spread (bp)	22	-2	-11
Euro Libor-OIS Spread (bp)	5	0	0
DJIA	25,916	0.25%	3.40%
SPX	2,784	0.35%	2.88%
MSCI Asiax	653	-0.46%	1.95%
HSI	28,705	-0.39%	2.77%
STI	3,221	-1.49%	1.02%
KLCI	1,699	-1.32%	0.90%
JCI	6,499	-0.04%	-0.61%

New issues

- Vanke Real Estate (Hong Kong) Co Ltd has priced a USD600mn 5.25-year bond at CT5+175bps, tightening from IPT of +200bps area.
- Tuspark Forward Ltd has priced a USD350mn 2-year bond (guarantor: Tus-Holdings Co Ltd) at 7.9%, tightening from IPT of 8.375% area.
- Sunrise (Cayman) Ltd (joint venture: Sunrise JV Ltd) has priced a USD500mn 5-year bond at CT5+285.5bps, tightening from IPT of +312bps area.
- Agile Group Holdings Ltd has priced a USD500mn 3NC2 bond (subsidiary guarantors: certain of issuer's restricted subsidiaries incorporated outside of the PRC) at 6.7%, tightening from guidance of 7% area.
- Jubilant Pharmaceuticals Ltd has priced a USD200mn 5NC3 bond at 6.0%.
- Phoenix Petroleum Philippines Inc has scheduled investor meetings from 1 March for its potential USD perpetual bond issuance.

Date	Issuer	Size	Tenor	Pricing
28-Feb-19	Vanke Real Estate (Hong Kong) Co Ltd	USD600mn	5.25-year	CT5+175bps
28-Feb-19	Tuspark Forward Ltd	USD350mn	2-year	7.9%
28-Feb-19	Sunrise (Cayman) Ltd	USD500mn	5-year	CT5+285.5bps
28-Feb-19	Agile Group Holdings Ltd	USD500mn	3NC2	6.7%
28-Feb-19	Jubilant Pharmaceuticals Ltd	USD200mn	5NC3	6.0%
27-Feb-19	Sichuan Languang Development Co Ltd	USD150mn	LGUANG 11.0%'20s	12.625%
27-Feb-19	Mitsui Sumitomo Insurance Co Ltd	USD910mn	NC10-perpetual	4.95%
27-Feb-19	Emirates NBD PJSC	SGD130mn	4-year	3.05%
26-Feb-19	Bi Hai Co	USD600mn	3-year	6.25%
26-Feb-19	ICBCIL Finance Co	USD700mn USD800mn	3-year 5-year	CT3+125bps CT5+142.5bps
26-Feb-19	Zhaojin Mining International Finance Ltd	USD300mn	3-year	5.5%
26-Feb-19	Mitsubishi UFJ Financial Group	USD1.5bn USD500mn USD1.5bn USD1.5bn USD500mn	3-year 3-year 5-year 10-year 20-year	CT3+77bps 3M-LIBOR+70bps CT5+95bps CT10+110bps CT20+115bps
25-Feb-19	Ronshine China Holdings Ltd	USD300mn	3-year	10.5%

Source: OCBC, Bloomberg

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