Asian Credit Daily

Feb 18, 2019

Credit Headlines: Frasers Property Ltd, Keppel Corp Ltd, Singapore Post Ltd, DBS Group Holdings Ltd, Westpac Banking Corporation, Hyflux Ltd

Market Commentary

- The SGD swap curve bull-flattened Friday, trading 0-2bps lower across the shorter tenors and ~3bps lower across the longer tenors.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 146bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 4bps to 508bps.
- We saw moderate buying in SINTEC 5 PERP, ANZ 3.75% '27s and STHSP 3.95%-PERP on Friday.
- 10Y UST yields rose 1bps to close the trading session at 2.66% with pressure on treasuries from February's New York Fed Empire Index rising more than expected and positive sentiment towards trade discussions between the US and China.

Credit Headlines

Frasers Property Ltd ("FPL") | Issuer Profile: Neutral (4)

- FPL announced that it is buying a 17.8265% stake in PGIM Real Estate AsiaRetail Fund Ltd which holds retail malls in Singapore and Malaysia for SGD356.4mn.
- The seller is a shareholder of the fund. The fund owns and manages six retail malls (Tiong Bahru Plaza, White Sands, Liang Court, Hougang Mall, Century Square, Tampines 1), an office property (Central Plaza) in Singapore and four retail malls in Malaysia.
- FPL is buying to grow both recurring income and its presence in the retail sector in Singapore. In addition, the Singapore retail malls are suburban retail properties, which FPL has significant experience in.
- Post transaction, we expect net gearing to rise to 0.89x (0.87x as at 1QFY2019). (Company, OCBC)

Keppel Corp Ltd ("KEP") | Issuer Profile: Neutral (4)

- Konnectivity Pte. Ltd ("Offeror", jointly owned by KEP and Singapore Press Holdings ("SPH")) had offered to acquire all the issued and paid-up ordinary shares in M1 Limited ("M1"). Immediately prior to the announcement, KEP via its ~79%-owned subsidiary Keppel Telecommunications & Transportation Limited owned a ~19%-stake in M1 while SPH owned a ~13.5%-stake. The largest shareholder prior to the announcement was Bursa-listed Axiata Group Bhd ("Axiata"), holding a ~28.7%-stake and Axiata has tendered its shares in M1 to the Offeror.
- On 15 February 2019, the Offeror has received valid acceptances which represent ~57% of the total number of shares. Including the 19%-stake held by KPTT, the Offeror and its Concert Parties held a 76%-stake in M1.
- With Axiata having shown its hand and the very low probability of a competing offer, we think other minority investors would follow suit in tendering their shares. The offer has been extended from 18 February 2019 to 4 March 2019.
- Per KEP, the total maximum cash outlay would be SGD1.28bn (assuming all shareholders accept the offer) and we have used this amount as base case in our Neutral (4) Issuer Profile for KEP. (Company, OCBC)

Credit Headlines (cont'd)

Singapore Post Ltd ("SPOST") | Issuer Profile: Positive (2)

- SPOST has acquired key stockholder's (Paul Demirdjian) ~5.95mn units of Jagged Peak shares following his exercise of the Put Right. Consequentially, Jagged Peak is now an indirect wholly-owned subsidiary of SPOST.
- The consideration payment includes (1) initial purchase price of USD1.59mn (~SGD14.39mn) and (2) a post-closing payment of up to USD1.75mn (~SGD2.37mn) for the outstanding customer debt owed to Jagged Peak Canada, a wholly-owned subsidiary of Jagged Peak. Given the acquisition was funded by internal resources, we estimate that SPOST remains in a net cash position though weaker at ~SGD35.8mn, down from SGD52.7mn as at 31 December 2018.
- Jagged Peak is a US eCommerce logistics enabler (end-to-end fulfilment of eCommerce orders) for high-velocity consumer products with SPOST acquiring a 71.7%-stake in October 2015. We note that eCommerce segment of SPOST has been making operating losses since FY2016 and that as at 31 December 2018, the book value and net tangible asset value of the ~5.95mn units of Jagged Peak shares is –USD0.6mn and –USD3.8mn respectively. (Company, OCBC)

DBS Group Holdings Ltd ("DBS") | Issuer Profile: Positive (2)

- DBS announced its 4Q2018 and FY2018 results, which showed a q/q deceleration in performance in 4Q2018 in an otherwise record year.
- Key drivers for weaker q/q performance in 4Q2018 were (1) lower net fee and commission income (-9% q/q due to lower wealth management and loan related fees) and noticeably weaker other non-interest income (-31% q/q due to lower trading income), which drove total income to fall 4% q/q; and (2) marginally higher expenses (+1% q/q due to higher computerisation and occupancy costs) that offset a 13% q/q fall in allowances for credit and other losses. These factors combined to result in a 7% q/q fall in profit before tax.
- Overall however, DBS's results on a y/y comparison were strong with total income up 6% y/y for 4Q2018 and up 11% y/y for FY2018 which mitigated an 11% and 13% y/y rise in operating expenses for 4Q2018 and FY2018 respectively partially due to the consolidation of acquired businesses from Australia and New Zealand Banking Group Ltd. Combined with a 9% and 54% y/y fall in allowances for credit and other losses, profit before tax rose 4% and 27% respectively for 4Q2018 and FY2018 to SGD1.54bn and SGD6.67bn, achieving a record net profit of SGD5.63bn for FY2018.
- Underlying business performance appears decent due to loan growth (+2% q/q and +6% y/y in constant currency terms). Along with net interest margins rising 1bps q/q and 9bps y/y for 4Q2018, profit before tax in Consumer Banking/Wealth Management was stable q/q and up 29.4% y/y, while Institutional Banking profit before tax was down 3% q/q but up 25.3% y/y. Treasury Markets was the laggard generating a loss of SGD54mn in 4Q2018 against a profit of SGD155mn in 3Q2018 and SGD43mn in 4Q2017.
- With regards asset quality, non-performing assets fell 4% q/q and together with loans growth the non-performing loan ratio improved to 1.5% as at 31 December 2018 from 1.6% as at 30 September 2018. The loan allowance coverage ratio remains solid at 98% and 178% without and with collateral respectively, improved on a q/q and y/y basis.
- DBS's capital position remains strong with its fully phased in CET1 ratio of 13.9% as at 31 December 2018 improved by 60bps against 30 September 2018 (due to earnings growth and lower credit and market risk weighted assets) and stable y/y (given both earnings and loans growth). The ratio continues to remain above the minimum CET1 capital adequacy ratio requirements of 8.7% as at 31 December 2018. We continue to look through the numbers but do not see the results as inconsistent with our issuer profile for DBS at Positive (2). (Company, OCBC)

Credit Headlines (cont'd)

Westpac Banking Corporation ("Westpac") | Issuer Profile: Positive (2)

- Westpac announced its 1Q2019 trading update and Pillar 3 report with regards to their capital position. Unaudited statutory net profit was broadly stable at AUD1.95bn while unaudited cash earnings of AUD2.04bn was up 6.8% (stable excluding remediation charges) compared to the quarterly average of 2H2018.
- Drivers for 1Q2019 performance were higher net interest margins following repricing of mortgages, weaker treasury and markets income and lower expenses although this was due to absence of remediation costs. Management have indicated that these will likely be booked in 2Q2019.
- Capital ratios remain strong with its APRA compliant CET1 ratio at 10.4%. This is marginally lower than the 10.6% as at FY2018 (30 September 2018) due to dividend payment which had a 69bps capital impact. Excluding this, Westpac's CET1 ratio would have improved 49bps.
- Another point to note in the results is that although the stressed assets to total committed exposures was broadly stable at 1.14% as at 31 December 2018 and there were no new large impaired exposures, Australian mortgage delinquencies were 4bps higher over the quarter while Australian unsecured delinquencies were also higher, up 10bps. While this is still low on an absolute basis, there is a weakening trend in delinquencies.
- We continue to expect profit pressures for Australian banks in FY2019 from higher compliance costs as a result of the Royal Commission on misconduct in the Banking industry and a weakening operating environment in the Australian economy. (OCBC, Company)

Hyflux Ltd ("HYF") | Issuer Profile: Unrated

- HYF announced its proposed restructuring plan over the weekend. According to the affidavit, effectively unsecured creditors are proposed to receive 27% of the equity in the restructured HYF and a total cash distribution of SGD232mn. As for subordinated creditors (preference share and perpetual holders), it is proposed that they receive 10.3% of the equity in the restructured HYF and SGD27mn in cash distribution (3% of the face value of total outstandings of SGD900mn).
- A key moving part to any potential eventual recovery (particularly for senior bond holders who are treated as unsecured creditors) is the eventual crystallisation of contingent claims.
- Key dates going forward include:
  - 21st February – Court hearing for the scheme application
  - 1st March - deadline to file proofs of claim
  - 5th April – tentative date for scheme meeting
  - 16th April – long stop date under the Restructuring Agreement with SM Investments Pte. Ltd
  - 30th April – End of moratorium
- We continue to look through the terms and will update in due course. (OCBC, Company)

OCBC Bank

Table 1: Key Financial Indicators

	18-Feb	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	75	-4	-11
iTraxx SovX APAC	58	-2	-6
iTraxx Japan	61	-3	-11
iTraxx Australia	74	-2	-11
CDX NA IG	63	-5	-10
CDX NA HY	106	1	2
iTraxx Eur Main	69	-4	-7
iTraxx Eur XO	300	-15	-21
iTraxx Eur Snr Fin	76	-4	-9
iTraxx Sovx WE	25	0	0
AUD/USD	0.7152	1.27%	-0.22%
EUR/USD	1.1308	0.28%	-0.48%
USD/SGD	1.3558	0.38%	0.21%
China 5Y CDS	53	-4	-6
Malaysia 5Y CDS	74	-7	-15
Indonesia 5Y CDS	111	-5	-13
Thailand 5Y CDS	48	3	4

	18-Feb	1W chg	1M chg
Brent Crude Spot ($/bbl)	66.42	7.98%	5.93%
Gold Spot ($/oz)	1324.2	1.23%	3.28%
CRB	181.3293	1.85%	-0.49%
GSCI	423.3971	3.80%	2.47%
VIX	14.91	-5.15%	-16.24%
CT10 (bp)	2.663%	0.9	-12.16
USD Swap Spread 10Y (bp)	3	0	0
USD Swap Spread 30Y (bp)	-17	1	4
US Libor-OIS Spread (bp)	35	-6	-10
Euro Libor-OIS Spread (bp)	28	-1	-7
DJIA	25,883	3.09%	4.76%
SPX	2,776	2.50%	3.93%
MSCI Asiax	636	-0.63%	2.25%
HSI	27,901	-0.16%	2.99%
STI	3,240	1.04%	0.48%
KLCI	1,689	0.02%	-0.20%
JCI	6,389	-2.03%	-0.92%

New issues

- Wanda Properties Global Co. Limited has scheduled investor meetings and calls on 19-20 Feb for its potential USD bond issuance.
- E-House (China) Enterprise Holdings Ltd. has organised roadshows from 18 Feb for its potential USD bond issuance.

Date	Issuer	Size	Tenor	Pricing
14-Feb-19	CIFI Holdings (Group) Co Ltd	USD300mn	4NC2	7.625%
14-Feb-19	China Cinda Finance (2017) I Ltd	USD200mn USD200mn USD600mn	3-year 5-year 10-year	CT3+135bps CT5+170bps CT10+210bps
14-Feb-19	Jiangxi Railway Investment Group Corporation	USD300mn	3-year	4.85%
13-Feb-19	Shimao Property Holdings Ltd	USD1.0bn	5NC3	6.125%
13-Feb-19	Times China Holdings Ltd	USD500mn	3NC2	7.625%
13-Feb-19	Airport Authority	USD500mn	10-year	CT10+78bps
12-Feb-19	Sunac China Holdings Ltd	USD800mn	3NC2	7.875%
12-Feb-19	Korea Development Bank	USD500mn USD500mn	3-year 5-year	CT3+65bps CT5+85bps
12-Feb-19	Bank of New Zealand	USD750mn	5-year	CT5+108bps
12-Feb-19	RHB Bank Berhad	USD300mn	5-year	CT5+128bps
12-Feb-19	Perusahaan Penerbit SBSN Indonesia III	USD750mn USD1.25bn	5.5-year 10-year	3.9% 4.45%
11-Feb-19	China Aoyuan Group Ltd	USD225mn	4NC3	7.95%
11-Feb-19	Zhenro Properties Group Ltd	USD230mn	2.5-year	10.75%

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

Seow Zhi Qi
Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6530 7348
zhiqiseow@ocbc.com