Asian Credit Daily

Feb 20, 2019

Credit Headlines: BreadTalk Group Ltd, CapitaLand Ltd, HSBC Holdings PLC, Citic Envirotech Ltd

Market Commentary

- The SGD swap curve was lower yesterday, with the 15-year swap rates and below trading within 1bps lower while the 20-year and 30-year swap rates traded 2bps and 1bps higher respectively.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 145bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 6bps to 502bps.
- Flows in SGD corporates were light yesterday, with flows seen only in MAPLSP 4.5%-PERPs.
- 10Y UST yields fell 3bps to 2.64%, on the back of safe haven demand as trade talks between the US and China neared the March 1 deadline. The Federal Open Market Committee is also due to release minutes from its January policy-setting meeting as investors await more clues after the dovish Fed stance announced in January.

Credit Headlines

BreadTalk Group Ltd ("BGL") | Issuer Profile: Neutral (5)

- BGL reported 4Q2018 results. Revenue rose 3.1% y/y to SGD154.8mn with higher contribution from Food Atrium (+7.5% y/y to SGD39.7mn) and Restaurant (+9.8% y/y to SGD39.5mn) though Bakery segment saw a decline (-5.3% y/y to SGD70.0mn).
    - Bakery: Revenue fell likely due to lower revenue from direct operated stores with store count decreasing y/y from 240 to 221, though this is partly mitigated by increase of franchise outlets which increased from 631 to 642.
    - Food Atrium: Revenue grew with net opening of 2 new food atriums (Opened 1 in Shenzhen, 1 in Hong Kong, 1 in Cambodia and closed 1 outlet in Hangzhou). In addition, BGL has opened 3 Direct Operated Restaurants (in total, BGL now operates 5 of such restaurants) under the "Sergeant Kitchen" brand.
    - Restaurant: Revenue grew with net addition of 3 outlets (opened 1 in Singapore, 2 in Thailand, 1 in UK though 1 outlet was closed in Singapore).
- Reported EBITDA from core segments increased 5.0% y/y to SGD20.9mn, mainly due to outperformance in Food Atrium (+36.6% y/y to SGD10.1mn) due to growth in revenue with EBITDA margin improving 5.5ppt to 25.6% from decline in stall vacancy. Bakery also delivered 60.3% growth y/y to SGD6.9mn though we read it as a partial rebound due to a much weaker 4Q2017 (SGD4.5mn) compared to 4Q2016 (SGD7.6mn). For Restaurant, EBITDA fell 23.4% y/y to SGD6.0mn as higher staff and administrative costs continue to be incurred from the opening of a Din Tai Fung outlet in the UK.
- Despite having a cash generative business, with SGD30.8mn net cash generated from operating activities in 4Q2018, we note that BGL has begun to significantly ramp up capex, with SGD23.1mn spent on capex. That said, net debt/reported EBITDA and reported EBITDA / Interest expense remains healthy at 0.52x and 8.7x respectively and we continue to hold BGL at a Neutral (5) Issuer Profile. (Company, OCBC)

OCBC Bank

Credit Headlines (cont'd)

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

- CAPL announced 4Q2018 results. Revenue rose 34% y/y to SGD1.62bn with higher handover of units from residential projects in China (+86.9% y/y to RMB4.8bn) and rental revenue from acquisitions overseas including that in USA (16 multifamily properties which cost USD835mn) and Germany (by 30%-owned CapitaLand Commercial Trust, which acquired Gallileo, a Grade A office building which cost SGD548.3mn). Together with stronger revenue, net profit rose 4.6% y/y to SGD708.5mn.
- By segment, as a recap CAPL classifies its business into CapitaLand Singapore Malaysia and Indonesia ("CL SMI"), CapitaLand China ("CL China"), CapitaLand Vietnam ("CL Vietnam") and CapitaLand International ("CL International").
    - CL SMI: Revenue fell 5.8% y/y to SGD551.9mn as the development landbank in Singapore has been drying up though reported EBIT rose 7.2% y/y due to higher writeback of impairment for residential projects upon sale of units.
    - CL China: Revenue rose 105.5% y/y to SGD759.6mn with reported EBIT higher by 76.6% y/y to SGD774.1mn with 2,764 units handed over from residential projects (4Q2017: 2,156 units).
    - CL Vietnam: Revenue rose 124.1% y/y to SGD52.2mn with handover of units from subsidiaries' project though reported EBIT fell to a negative SGD12.9mn (4Q2017: SGD34.4mn) due to FX losses, which materialised upon the divestment of a project.
    - CL International: Revenue rose 22.1% y/y to SGD289.5mn with reported EBIT rising to SGD68.7mn (4Q2017: negative SGD14.6mn) due to the acquisition of the multifamily properties.
- Despite the strong results, the development pipeline looks volatile. In China, residential sales have fallen to RMB12.5bn (2017: RMB15.8bn). The Soft results may persist in the short term as CAPL has been deferring launches due to tight government measures (e.g. price caps). In Singapore, residential sales have plunged to SGD371mn (2017: SGD1.5bn) with launched projects already substantially sold. That said, CAPL's results will be underpinned by investment properties (which forms 79% of total assets as of end-2018).
- From recurring sources (retail, commercial, lodging), CAPL recorded SGD2.0bn in operating reported EBIT in 2018, without factoring portfolio gains and revaluation gains. This outweighs reported EBIT of SGD838.3mn from residential and commercial strata.
- Net gearing rose q/q to 55.8% (3Q2018: 50.5%) due to cash outflows for (1) acquisition of Pearl Bank Apartment site (SGD677.4mn) in Singapore, (2) deposits placed for acquisition of residential sales in China and (3) SGD1.39bn used for acquisition of 16 multi-family properties in USA, as well as acquisitions in China and Indonesia. We continue to expect net gearing to increase to over 70%, mainly due to the proposed acquisition of Ascendas Singbridge with an enterprise value of SGD10.9bn and the acquisition of Pufa Tower in China. Despite the rise in net gearing, we note that CAPL continues to benefit from recurring income from its investment properties. Meanwhile, reported interest coverage ratio remains healthy at 8.3x (2017: 8.6x) with a well staggered debt maturity profile. We continue to hold CAPL at a Neutral (3) Issuer Profile. (Company, OCBC)

Credit Headlines (cont'd)

HSBC Holdings PLC ("HSBC") | Issuer Profile: Positive (2)

- HSBC announced its 4Q2018 and FY2018 results with consistent trends to other banks which have reported results to date.
- 4Q2018 performance was weak with adjusted revenues (excluding foreign currency translation differences and significant items that do not contribute to underlying performance in HSBC's view) down 8% q/q due to weaker markets. On a y/y basis, adjusted revenue still rose 5% y/y. Loan impairment charges rose 36% y/y due to economic uncertainty and volatility in the UK while costs also rose 5% and as a result, adjusted profit before tax ("PBT") for 4Q2018 fell 1% y/y.
- 4Q2018 performance dragged down the full year results to an extent but given the solid performance for the first 9 months, FY2018 profit before tax was up 16% y/y to USD19.9bn. On an adjusted basis, FY2018 profit before tax rose 3% y/y to USD21.7bn. Key drivers for the adjusted profit before tax performance were 4% adjusted revenue growth from an 8% y/y rise in net interest income from higher net interest margins and higher loan volumes, which offset a 3% y/y rise in loan impairment charges and a 6% y/y rise in costs. Of note was the higher growth in costs against revenues in FY2018 due to inflation and investment expenditure that offset cost savings. Otherwise, adjusted revenue growth was seen across all business segments with higher growth in Retail Banking and Global Liquidity and Cash Management.
- By region, y/y adjusted revenue growth was strong in Hong Kong (+14% y/y) and the rest of Asia (+7% y/y). Adjusted revenue also grew 7% y/y in the UK ring fenced bank despite general wariness about operating conditions in the UK.
- In terms of loan quality, despite the rise in loan impairment charges overall stage 3 or credit impaired loans fell 6.5% y/y to USD13.0bn. Together with a 3% rise in loans and advances to customers, the percentage of credit impaired loans to total loans reduced to 1.3% as at 31 December 2018 from 1.4% as at 1 January 2018.
- HSBC's capital position remains sound and well above minimum requirements with its CET1 ratio of 14.0% as at 31 December 2018 down marginally from 14.3% as at 30 September 2018 due to dividend payment and risk weighted asset growth. For the full year, the CET1 ratio fell 0.5% due to risk weighted asset growth from lending and dividend payments that offset profit generation.
- With costs being somewhat of a drag on HSBC's results and expectations of slowing economic growth, profit performance is expected to be muted in FY2019. That said, HSBC's size and operating diversity along with a solid capital position continues to be a key credit strength in our view and supports its Positive (2) issuer profile (OCBC, Company)

Citic Envirotech Ltd ("CEL") | Issuer Profile: Neutral (5)

- CEL has announced that it has secured a RMB474mn (~SGD95mn) industrial hazardous waste treatment project in Linfen City, Shanxi Province, China.
- The project entails the design, construction and operation of a 30,000 tons/year industrial hazardous waste treatment plant, a 30,000 tons/year incineration plant and a 60,000 tons/year landfill.
- CEL will hold an 80%-stake in the project company, with 20% held by Shandong Zhengtian Environmental Technology Co., Ltd ("Shandong Zhengtian). Shandong Zhengtian is a company engaged in air pollution prevention, heavy metal sewage treatment and solid waste treatment. Proportionately, we think CEL's capital injection in the project would be ~SGD76mn and this would be funded by internal resources and bank debt. In November 2018, CEL's earlier USD-denominated perpetual was called and likely replaced by straight debt, alleviating immediate liquidity needs. CEL's outstanding capital commitments on contract wins are heavy, we estimate at ~SGD2.5bn, including this new contract win. We expect CEL's net gearing levels to progressively increase as capital commitments are carried out. (Company, OCBC)

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Table 1: Key Financial Indicators

	20-Feb	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	74	-1	-12
iTraxx SovX APAC	57	-1	-6
iTraxx Japan	60	-1	-11
iTraxx Australia	71	-2	-12
CDX NA IG	61	-4	-11
CDX NA HY	106	0	2
iTraxx Eur Main	66	-4	-9
iTraxx Eur XO	292	-15	-27
iTraxx Eur Snr Fin	82	-7	-10
iTraxx Sovx WE	24	0	-1
AUD/USD	0.716	1.02%	0.04%
EUR/USD	1.134	0.67%	-0.25%
USD/SGD	1.353	0.53%	0.50%
China 5Y CDS	53	0	-6
Malaysia 5Y CDS	73	-3	-16
Indonesia 5Y CDS	110	0	-12
Thailand 5Y CDS	48	3	6

	20-Feb	1W chg	1M chg
Brent Crude Spot ($/bbl)	66.36	4.32%	5.84%
Gold Spot ($/oz)	1,341.73	2.71%	4.78%
CRB	182.24	2.89%	0.01%
GSCI	424.21	3.37%	2.66%
VIX	14.88	-6.83%	-16.40%
CT10 (bp)	2.647%	-5.56	-13.77
USD Swap Spread 10Y (bp)	2	0	-2
USD Swap Spread 30Y (bp)	-18	0	-1
TED Spread (bp)	35	-6	-10
US Libor-OIS Spread (bp)	24	-4	-11
Euro Libor-OIS Spread (bp)	5	0	0
DJIA	25,891	3.35%	4.80%
SPX	2,780	2.58%	4.08%
MSCI Asiax	641	-0.79%	3.07%
HSI	28,479	-0.07%	5.12%
STI	3,276	0.95%	1.59%
KLCI	1,724	2.31%	1.89%
JCI	6,494	1.16%	0.71%

New issues

- China CITIC Bank International Limited has priced a USD500mn 10NC5 Tier 2 bond at CT10+225bps, in line with the final guidance.
- China Resources Land Ltd has priced a 2-tranche deal with the USD300mn 5.5-year bond at CT5+135bps (tightening from IPT of +170bps area) and the USD500mn 10-year bond at CT10+160bps (tightening from IPT of +195bps area).
- GLP China Holdings Ltd has priced a USD500mn 5-year bond at CT5+248bps, tightening from IPT of +275bps.
- Kaisa Group Holdings Ltd has priced a USD400mn 2-year bond (subsidiary guarantors: certain restricted subsidiaries incorporated outside the PRC) at 12.0%, tightening from IPT of 12.375% area.
- Logan Property Holdings Co Ltd has priced a USD300mn 3.5NC2 bond (subsidiary guarantors: certain offshore subsidiaries of issuer) at 7.5%, tightening from IPT of 8% area.
- Sun Hung Kai Properties (Capital Market) Ltd has priced a USD500mn 10-year bond (guarantor: Sun Hung Kai Properties Ltd) at CT10+118bps, tightening from IPT of +145bps area.
- Westpac Banking Corp has priced a USD1.75bn deal across 2 tranches, with the USD1.25bn 5-year bond at CT5+85bps (tightening from IPT of +100bps area), and the USD500mn 5-year FRN at 3-month LIBOR+77bps.
- Mitsubishi UFJ Lease & Finance Co has scheduled for investor meetings on 19 Feb for its potential USD bond issuance.
- Pacific National Holdings Pty Ltd has scheduled for investor meetings from 4 March for its potential bond issuance.

Date	Issuer	Size	Tenor	Pricing
20-Feb-19	China CITIC Bank International Ltd	USD500mn	10NC5	
20-Feb-19	China Resources Land Ltd	USD300mn USD500mn	5.5-year 10-year	CT5+135bps CT10+160bps
20-Feb-19	GLP China Holdings Ltd	USD500mn	5-year	CT5+248bps
20-Feb-19	Kaisa Group Holdings Ltd	USD400mn	2-year	12.0%
20-Feb-19	Logan Property Holdings Co Ltd	USD300mn	3.5NC2	7.5%
20-Feb-19	Sun Hung Kai Properties (Capital Market) Ltd	USD500mn	10-year	CT10+118bps
20-Feb-19	Westpac Banking Corp	USD1.25bn USD500mn	5-year 5-year	CT5+85bps 3M LIBOR+77bps
19-Feb-19	Ronshine China Holdings Ltd	USD208mn	2.5-year	11.25%
19-Feb-19	Yuzhou Properties Co Ltd	USD500mn	5NC3	8.5%
14-Feb-19	CIFI Holdings (Group) Co Ltd	USD300mn	4NC2	7.625%
14-Feb-19	Jiangxi Railway Investment Group Corporation	USD300mn	3-year	4.85%

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