# Asian Credit Daily

OCBC Bank

**December 15, 2016**

**Credit Headlines (Page 2 onwards):** Singapore Post Ltd., Genting Singapore PLC, Sabana Shari'ah Compliant Industrial REIT, Mapletree Logistics Trust, Industry Outlook – Financial Institutions

**Market Commentary:** The SGD swap curve bull-flattened as swap rates traded 2-5bps lower across all tenors. Flows in the SGD corporates were relatively muted. In the broader dollar space, the spread on JACI IG corporates were steady at 200bps while the yield on JACI HY corporates were also unchanged at 6.92%. 10y UST yield hit the highest level since 2014, increasing 11bps to 2.58% following FOMC's decision to raise interest rate, as expected by the market. Surprisingly, the Federal Reserve was more hawkish on 2017's hike cycle, indicating that it is targeting to raise interest rate three times, up from 2 that was previously anticipated.

**Rating Changes:** S&P assigned Hangzhou Finance and Investment Group Co. Ltd. (HFI) a "BBB" long-term credit rating with stable outlook. The assignment reflects HFI's unsupported group credit profile of "bb-" and S&P's view that there is very high likelihood that the Hangzhou city government may extend extraordinary financial support to the company, if needed. Moody's has taken the following rating actions on DBS Bank Ltd. (DBS), DBS Group Holdings Ltd. (DBSH), Oversea-Chinese Banking Corporation Ltd. (OCBC) and United Overseas Bank Ltd. (UOB): (1) Affirmed the "Aa1" deposits and senior debt ratings of DBS, OCBC and UOB; (2) Affirmed the "Aa2" senior unsecured debt rating of DBSH; (3) Downgraded by one notch the subordinated debt and capital instrument ratings of DBS, DBSH, OCBC and UOB and; (4) Downgraded the baseline credit assessments (BCA) and adjusted BCAs of DBS, OCBC and UOB to "a1" from "a3". The "Aa1" senior debt and deposit ratings of DBS, OCBC and UOB were affirmed due to Moody's expectation that the banks will likely benefit from very high government support in case of need. As a result, their ratings now are 3-notches above their "Aa1" rating, as compared to 2 notches previously. The outlooks on the banks' ratings were revised to stable from negative, reflecting Moody's view that further solvency pressure will be manageable for these financial institutions.

**Table 1: Key Financial Indicators**

| | 15-Dec | 1W chg (bps) | 1M chg (bps) | | 15-Dec | 1W chg | 1M chg |
|---|---|---|---|---|---|---|---|
| iTraxx Asiax IG | 120 | 1 | -6 | Brent Crude Spot ($/bbl) | 53.90 | 1.70% | 21.31% |
| iTraxx SovX APAC | 36 | 0 | -7 | Gold Spot ($/oz) | 1,139.58 | -2.66% | -7.26% |
| iTraxx Japan | 50 | -3 | -7 | CRB | 191.79 | 0.49% | 6.40% |
| iTraxx Australia | 104 | 1 | -7 | GSCI | 391.14 | 2.01% | 11.83% |
| CDX NA IG | 69 | 0 | -5 | VIX | 13.19 | 7.94% | -8.91% |
| CDX NA HY | 106 | 0 | 2 | CT10 (bp) | 2.573% | 16.54 | 35.36 |
| iTraxx Eur Main | 73 | -1 | -5 | USD Swap Spread 10Y (bp) | -13 | 1 | 1 |
| iTraxx Eur XO | 295 | -21 | -45 | USD Swap Spread 30Y (bp) | -47 | 5 | 9 |
| iTraxx Eur Snr Fin | 95 | -2 | -6 | TED Spread (bp) | 43 | -3 | -1 |
| iTraxx Sovx WE | 21 | -3 | 0 | US Libor-OIS Spread (bp) | 31 | -1 | -5 |
| iTraxx Sovx CEEMEA | 84 | -7 | -18 | Euro Libor-OIS Spread (bp) | 3 | 0 | 0 |
| | | | | | 15-Dec | 1W chg | 1M chg |
| | | | | AUD/USD | 0.739 | -0.92% | -2.18% |
| | | | | USD/CHF | 1.025 | -0.83% | -2.24% |
| | | | | EUR/USD | 1.048 | -1.31% | -2.29% |
| | | | | USD/SGD | 1.443 | -1.35% | -2.04% |
| Korea 5Y CDS | 42 | -1 | -9 | DJIA | 19,793 | 1.24% | 4.90% |
| China 5Y CDS | 115 | 3 | -1 | SPX | 2,253 | 0.53% | 4.12% |
| Malaysia 5Y CDS | 141 | 3 | -13 | MSCI Asiax | 527 | -1.27% | 2.43% |
| Philippines 5Y CDS | 106 | -4 | -19 | HSI | 22,457 | -1.51% | 0.59% |
| Indonesia 5Y CDS | 160 | 4 | -18 | STI | 2,954 | -0.20% | 5.59% |
| Thailand 5Y CDS | 81 | -3 | -12 | KLCI | 1,643 | 0.83% | 0.78% |
| | | | | JCI | 5,263 | -0.19% | 3.63% |

*Source: OCBC, Bloomberg*

**Table 2: Recent Asian New Issues**

| Date | Issuer | Ratings | Size | Tenor | Pricing |
|---|---|---|---|---|---|
| 13-Dec-16 | Shandong Ruyi Technology Group | "B-/B3/NR" | USD250mn | 3-year | 8.2% |
| 13-Dec-16 | L.R. Capital Global Markets | "NR/NR/NR" | USD150mn | 3-year | 5% |
| 12-Dec-16 | BOCOM Financial Leasing | "A2/NR/NR" | USD150mn | 5-year | 3.5% |
| 12-Dec-16 | BOCOM Financial Leasing | "A2/NR/NR" | USD150mn | 7-year | 4.5% |
| 9-Dec-16 | Danyang Investment | "NR/NR/NR" | USD220mn | 3-year | 5.85% |
| 9-Dec-16 | Fujian Zhanglong Group Co. Ltd. | "NR/NR/BB+" | USD150mn | 3-year | 4.8% |
| 8-Dec-16 | Changde Urban Construction & Inv. | "NR/NR/BBB-" | USD250mn | 3-year | CT3+280bps |
| 8-Dec-16 | China Grand Automotive Services | "NR/NR/B+" | USD300mn | Perp-NC3 | 9% |
| 8-Dec-16 | Tewoo Group Finance No. 2 Ltd. | "NR/NR/BBB-" | USD300mn | 3-year | CT3+360bps |

*Source: OCBC, Bloomberg*

**Rating Changes (cont'd):**

Fitch revised PT Japfa Comfeed Indonesia Tbk (Japfa) issuer default rating's ("BB-") outlook to stable from negative. The revision reflects improved industry dynamics following intervention by the Indonesian government to address the demand-supply imbalance, lower leverage driven mainly by higher profitability and better liquidity.

**Credit Headlines:**

**Singapore Post Ltd. ("SPOST")**: The SGX has given in-principle approval for SPOST to issue 107,553,907 new shares. These shares are meant to be issued to Alibaba, as part of Alibaba's second investment into SPOST (which would increase Alibaba's stake in SPOST from 10.23% to 14.51%). As part of the original announcement (on 08/07/15), the consideration for the stake was SGD187.1mn. The stake sale is still pending shareholders' approval, with the current long stop date for the transaction 28/02/17. (Company)

**Genting Singapore PLC ("GENS")**: Japan's parliament has passed a bill legalizing casinos in Japan. The next step would be a separate implementation bill, in which the details (such as the number of licenses to award, where the casinos will be etc) will be firmed up. Only after the implementation bill has passed would gaming companies be invited to bid for the licenses. It is unlikely that any of these "integrated resorts" will be ready before the Tokyo Olympics in 2020. GENS had previously indicated their interest in bidding to build an integrated resort in Japan. (Bloomberg, OCBC)

**Sabana Shari'ah Compliant Industrial REIT ("SSREIT"):** SSREIT has announced its proposed acquisition of 107 Eunos Avenue 3 (second proposed acquisition in the past 10 days) from General Cars Fleet Management Pte Ltd ("Vendor"). The purchase consideration is SGD34.5mn and will be paid in cash to the Vendor. The property, a light industrial building has a gross floor area of 133,946 sq ft and a remaining land tenure of ~24 years. The Vendor will lease back ~34% of the total GFA of the property for 5 years, with an option to renew for 3 more years. The purchase consideration will be paid in cash to the vendor and is subject to certain conditions precedent, including (i) HDB approvals and (ii) successful equity fundraising by SSREIT, if applicable. Expected completion is 1H2017. Under the sales and purchase agreement, the Vendor is obliged to pay to SSREIT a sum equal to the difference of the actual net property income ("NPI") and the guaranteed NPI of about SGD3.1mn per annum. Upon completion of the acquisition, SGD6.3mn will be deducted from the purchase consideration for the purpose of the rental income support which the Vendor is providing ("Retention Sum"). Any unutilized balance of the Retention Sum and accrued income from such sums shall be returned to the Vendor upon the expiry of a 5 year period. As at 30 September 2016, SSREIT's gross debt-to-total asset was 0.41x. Taking into account asset movements announced but yet to be completed, we estimate additional debt headroom of about SGD60mn, before breaching the regulatory cap of 0.45x. While this headroom is more than sufficient to cover the impending obligations from acquisitions (net investments of ~SGD41m), we see heightened risk in the REIT leveraging up to fund distribution to unitholders. We continue to maintain SSREIT's issuer profile at Negative but are lowering the SSREIT 4.00 '18s and SSREIT 4.25 '19s to Neutral from Overweight as we see downside risk on bond prices. (Company, OCBC)

**Credit Headlines:**

**Mapletree Logistics Trust ("MLT"):** MLT announced that it is proposing to acquire 4 logistics properties in Victoria, Australia for AUD142.2mn (~SGD152mn). Including transaction costs (stamp duty and fees), the estimated acquisition cost is ~SGD162mn. The 4 properties have a total gross floor area of 103,517 sqm, are fully occupied and have a weighted average lease expiry ("WALE") of 6.4 years. 3 of the properties sit on freehold land while one has 290 years land tenure remaining. Post-acquisition, MLT's revenue from Australia will rise from ~6% to 9% as a proportion of total revenue. MLT intends to fund the acquisition from the remaining proceeds from its perpetuals issued in mid-2016 and AUD denominated debt facilities. MLT expects aggregate leverage to increase from 37.6% to 39.4% post transaction (targeted completion by December 2016) and within its regulatory cap. As at 30 September 2016, outstanding perpetuals at MLT amounted to SGD595.7mn (up from SGD344.0mn as at 31 December 2015) and that perpetuals account for ~12% of total capital. Adjusting 50% of such perpetuals as debt, we find adjusted gross debt-to-total asset at 42.9% as at 30 September 2016. We expect this new Australian transaction to push adjusted gross debt-to-total asset up to ~45%. We are downgrading MLT's issuer profile from Neutral to Negative on the back of its heightened leveraged profile (which puts its Baa1 corporate credit rating at risk) and expectations that leverage will stay at elevated levels for the next 6 months as asset recycling may be protracted in the current environment. Our base case remains that the MLTSP'49c17 perpetuals will be called in September 2017 as such keeping this bond at Neutral. At a Ask YTC of 3.9% on the MLTSP'49c21, the perpetuals looks somewhat rich, after taking into account declining fundamentals. We think fair value for the MLTSP'49c21 should be ~20-30 bps wider and lowering this perpetual to Underweight. (Company, OCBC)

**Industry Outlook - Financial Institutions**: Moody's lowering of the baseline credit assessments for Singapore banks is more of a calibration in our view following a challenging 2016 rather than a view of weaker performance going forward. The action now more or less brings its underlying ratings a little bit closer to those of the other major rating agencies. Overall we expect the operating environment will actually improve for Asia-Pacific banks in 2017 compared to 2016 from a recovery in net interest margins from rising interest rates and further stabilization in loan book quality. Banks have concentrated on improving the quality of their balance sheets and earnings which holds them in better stead in 2017 as opposed to 2016 when they looked somewhat unprepared for the challenges that unfolded. (Moody's, OCBC)

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