Asian Credit Daily

August 16, 2016

Credit Headlines (Page 2 onwards): Mapletree Commercial Trust, Otto Marine Ltd., Keppel Corp & Sembcorp Industries, CK Hutchison Holdings Ltd, China Vanke Co. Ltd., Wheelock & Co. Ltd., Wharf Holdings Ltd.

Market Commentary: The SGD dollar swap curve bull-flattened yesterday with swap rates trading 1-7bps lower across all tenors on expectations that the Federal Reserve is in no rush to raise interest rates in the near term after last week's retail results. Flows in the SGD corporates were heavy with better selling seen in FIRTSP 5.68%'49s, GENSSP 5.13%'49s, BAERVX 5.9%'49s and SCISP 4.75%'49s. Meanwhile we also saw mixed interest in MFCCN 3.85%'26s. In the broader dollar space, the spread on JACI IG corporates remained relatively unchanged at 204bps while the yield on JACI HY corporates decreased 3bps to 6.39%. 10y UST yield increased 4bps to 1.56% as US stocks and oil recorded gains for the session yesterday.

New Issues: Mapletree Commercial Trust has priced a SGD175mn 10-year bond at 3.11% with an expected issue rating of "NR/Baa1/NR". China Aircraft Leasing Group Holdings Ltd. has priced a USD300mn 5-year bond at 4.9%, tightening from its initial guidance at 5.25%.

Rating Changes: Moody's downgraded Noble Group's credit rating to "B2" from "Ba3" with a negative outlook. The downgrade was in view that Noble Group's liquidity could come under pressure over the next 12 months due to weaker than expected profitability. Moody's revised its outlook on Deere & Company, John Deere Capital Corporation and their supported subsidiaries to negative from stable and affirmed their "A2" credit ratings. The negative outlook reflects the challenges Deere is facing as a result of the broad and lengthy weakness in farm equipment demand which is contributing to low profits and cash flow, and low margins. Moody's revised its outlook on China SCE Property Holdings Ltd.'s "B1" corporate family rating to negative from stable. The revision reflects Moody's expectation that China SCE's debt leverage will remain high over the next 12-18 months relative to its "B1" rated peers. Fitch has affirmed Sony Corp.'s "BB" issuer default ratings and revised the outlook to positive from stable. The revision reflects Fitch's expectation that Sony will continue to generate modest operating profit from its non-financial businesses following cost reductions and restructuring. Additionally, Fitch also expects profitability to become less volatile and also improve for the financial year ending March 2017.

Table 1: Key Financial Indicators

	16-Aug	1W chg (bps)	1M chg (bps)		16-Aug	1W chg	1M chg
iTraxx Asiax IG	114	1	-5	Brent Crude Spot ($/bbl)	48.18	7.11%	1.20%
iTraxx SovX APAC	44	-1	-4	Gold Spot ($/oz)	1,342.30	0.12%	1.01%
iTraxx Japan	53	2	0	CRB	185.14	1.29%	-1.97%
iTraxx Australia	102	-2	-8	GSCI	359.65	3.66%	-0.41%
CDX NA IG	70	-1	-1	VIX	11.81	2.70%	-6.79%
CDX NA HY	105	0	0	CT10 (bp)	1.553%	0.55	0.16
iTraxx Eur Main	65	0	-6	USD Swap Spread 10Y (bp)	-12	-1	3
iTraxx Eur XO	304	0	-23	USD Swap Spread 30Y (bp)	-50	-3	-4
iTraxx Eur Snr Fin	87	1	-9	TED Spread (bp)	54	2	16
iTraxx Sovx WE	23	-2	-4	US Libor-OIS Spread (bp)	40	1	12
iTraxx Sovx CEEMEA	113	0	-10	Euro Libor-OIS Spread (bp)	5	0	0
					16-Aug	1W chg	1M chg
				AUD/USD	0.768	0.04%	1.12%
				USD/CHF	0.973	0.84%	0.96%
				EUR/USD	1.118	0.56%	0.94%
				USD/SGD	1.342	0.15%	0.39%
Korea 5Y CDS	43	-3	-5	DJIA	18,636	0.58%	0.65%
China 5Y CDS	103	-2	-7	SPX	2,190	0.42%	1.31%
Malaysia 5Y CDS	124	-4	-5	MSCI Asiax	548	1.47%	4.75%
Philippines 5Y CDS	89	-4	-10	HSI	22,933	1.95%	5.88%
Indonesia 5Y CDS	142	-5	-17	STI	2,867	1.38%	-1.99%
Thailand 5Y CDS	88	-3	-6	KLCI	1,690	1.06%	1.31%
				JCI	5,321	-2.54%	4.12%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
16-Aug-16	Mapletree Commercial Trust	"NR/Baa1/NR"	SGD175mn	10-year	3.11%
16-Aug-16	China Aircraft Leasing Group Holdings Ltd.	"NR/NR/NR"	USD300mn	5-year	4.9%
11-Aug-16	China Construction Bank Corp (Singapore)	"NR/NR/NR"	CNH1bn	2-year	3.25%
11-Aug-16	HNA Group (International) Co.	"NR/NR/NR"	USD300mn	3-year	6.0%
11-Aug-16	Standard Chartered Plc	"BB-/Ba1/BBB-"	USD2bn	Perp-NC6.5	7.5%
11-Aug-16	Westpac Banking Corp.	"NR/Aa2/NR"	USD1.5bn	3-year	1.6%
11-Aug-16	Westpac Banking Corp.	"NR/Aa2/NR"	USD500mn	3-year	3mL+56bps
11-Aug-16	Westpac Banking Corp.	"NR/Aa2/NR"	USD1.5bn	5-year	2.0%

Source: OCBC, Bloomberg

Credit Headlines:

MapleTree Commercial Trust ("MCT"): MCT has issued SGD175mn in 10-year bonds with a coupon of 3.11% (or ~110bps above 10Y SDSW). Use of funds was stated to be for refinancing purposes. MCT has SGD185.5mn in bank debt maturing for the fiscal year ending March (FY2017). For the looming Mapletree Business City Phase 1 acquisition, the debt financing was indicated to be loan facilities with 2Y, 4Y and 6Y maturities. As such, there would be minimum debt maturities for MCT till end-FY2018. (Company, OCBC)

Otto Marine Limited ("OTML"): OTML has received a no-objection letter from the SGX with regards to its proposed delisting. As such, the process towards privatization continues to move along. (SGX)

Keppel Corp & Sembcorp Industries ("KEP & SCI"): Sete Brasil has filed its restructuring plan to the courts. The plan highlights Sete Brasil's intent to complete 12 of the drilling rigs previously ordered. KEP's and SCI's original contract was for 6 semi submersibles and 7 drillships respectively. Sete Brasil is seeking up to USD5bn to finance the completion of the rigs. (Company)

CK Hutchison Holdings Ltd ("CKHH"): CKHH's business profile remained diversified with steady income from infrastructure continuing to underpinned the credit profile of the group (telecommunications and infrastructure make up more than 60% of EBITDA). In 1H2016 infrastructure remained the biggest contributor to EBITDA at 38%, telecommunications 25%, retail 15%, ports 13%, energy 8% and others 1%. Overall, CKHH reported mixed results, with improvements in certain segments driven by cost efficiencies. 1H2016 EBITDA (based on company's calculation which includes proportionate share of associated companies and JV) was down 4% to HKD44.3bn against 1H2015 pro-forma of HKD46.1bn. However, in local currency terms, EBITDA would have been flat. (1) Infrastructure: EBITDA grew by 4% to HKD16.7bn driven by the full half year contribution of UK Rails and Portugal Renewal Energy acquired in 2015 although this was offset by translation impact arising from weakness of the British Pound. In local currency terms, the business grew by 9% in EBITDA. (2a) Europe Telecommunications: 3 Group Europe saw a 9% EBITDA improvement to HKD8.5bn, driven by 3 UK, 3 Italy and 3 Austria. Improvements were primarily attributed to the increase in overall net customer servicer margins, cost synergies and cost management. Subject to regulatory approval by 3Q2016, 3 Italy and Wind (owned by VimpelCom Ltd) would merge and form an equal joint venture which will be the largest telco in Italy. (2b) Hong Kong telco: EBITDA was down 13% to HKD1.3bn mainly due to lower handset sales (iPhone 6S did not perform well) and reduction in mobile roaming revenue. (2c) Asia telco: Hutchison Asia Telecommunications saw a marked improvement in EBITDA to HKD1.2bn, growing 204%. This was largely due to continuing customer base expansion in Indonesia and improvement in margins. (3) Retail: EBITDA was down by 2% to HKD6.6bn. On a comparable store sales basis, retail sales in Asia was weaker (down 3.1%), whilst Europe saw a good growth of 3.6%. Headline EBITDA also held up due to overall growth in store count and cost management initiatives (4) Ports: 6% decline in EBITDA to HKD5.7bn (though only 1% decline in local currency terms) mainly due to weaker intra-Asia and transshipment cargoes in Hong Kong and increased competition in Rotterdam (5) Husky Energy: Worst hit segment reporting a 33% decrease in EBITDA (negative HKD1.81bn) to HKD3.7bn. This was mainly due to the impact of low oil and gas prices, a loss on short term hedging and lower contribution from the US refineries but partially boosted by a disposal gain on certain Western Canadian assets. We see the SGD CHEUNG '18s as providing more value with a yield of 2.2% versus the AREIT '19s yielding 1.97% and maturing 10 months later. Both are rated at A3 by Moody's with a Stable outlook. (Company, OCBC)

Credit Headlines (cont'd):

China Vanke Co Ltd ("VANKE"): In a filling to the Hong Kong Stock Exchange, China Evergrande Group ("Evergrande") disclosed that between 8 August 2016 and 15 August 2016, the company (via subsidiaries) has further acquired 235.8mn of A-shares in VANKE. Together with the previous acquisition, Evergrande now holds ~6.82% shareholding of VANKE. The aggregate consideration for VANKE shares amount to RMB14.6bn (USD2.2bn). S&P has earlier warned that the transaction is a credit negative for both companies, should Evergrande seeks greater influence beyond that as a financial investor. S&P currently holds Evergrande at B-/Negative while Vanke is held at BBB+/Stable. While we maintain a Neutral issuer profile on VANKE, we expect VANKE's non-SGD bonds to face downward pressure as with the escalation of Evergrande. (Evergrande fillings, OCBC)

Wheelock & Co Ltd ("Wheelock"): Wheelock, listed in Hong Kong with a market cap of HKD84.8bn is the parent company of Wharf Holdings Ltd ("Wharf"), holding 60.2% in Wharf. Wheelock also holds a 75.8% stake in Wheelock Properties (Singapore) Limited, listed on the Singapore Stock Exchange. On a consolidated basis, Wheelock reported a 5% decline in revenue to HKD27.2bn and operating profit declined 11% to HKD10.1bn (1H2015: HKD11.4bn). 2015 operating income benefitted from capital gains on the back of the One Bay East sale, a commercial building in Kowloon. This was also the reason behind the decline of Wheelock's core profit on a standalone basis vis-à-vis 1H2015. As a result of gains on cross currency interest rate swaps, 1H2016 finance cost (including amounts capitalized) was markedly lower at HKD331mn (against HKD831mn in 1H2015). Gross debt-to-equity at Wheelock was commendable at 0.3x, relatively stable against that as at 31 December 2016. We continue to like Wheelock for its defensible investment property portfolio which contributed 65% to operating profit in 1H2016. Net order book as at 30 June 2016 as HKD11.6bn (30 June 2016: HKD7.7bn). We maintain our Positive issuer profile on the company. (Company, OCBC)

Wharf Holdings Ltd ("Wharf"): Wharf reported operating profit growth of 8% to HKD8.1bn (1H2015: HKD7.5bn), driven by strong performance in all property segments in Hong Kong and China. Nevertheless, fair value of investment properties only increased by HKD495mn versus HKD3.5bn recognized in 1H2015. Wharf continues to be underpinned by a portfolio of quality retail and commercial assets, contributing 70% to operating profit. Despite the difficulties in the Hong Kong retail environment which reduced tenant sales, Harbour City performed steadily with operating profit increasing by 5% to HKD4.0bn (making up close to 70% of Wharf's Hong Kong investment property income and half of overall operating profit. We view outlets located in Harbour City as also performing a "marketing function" for international and new brands in Asia. As such Harbour City has a more defensible positioning amidst slumping Hong Kong retail sales which would keep base rents at least stable. Times Square (mixed office and retail property) did well, with operating profit improving 11% to HKD1.3bn. Both development and investment income from China posted double digit growth rates at 16% and 17% respectively, led by Chengdu International Finance Square ("IFS"), a upper scale shopping mall. Wheelock is replicating its IFS across few Chinese cities including Chongqing (scheduled to open in April 2017), Changsha (2019) and Suzhou (2018). Gross debt-to-equity remains stable at 0.2x. For the 1H2016, Wharf has announced a HKD1.8bn in dividends to its shareholders as interim dividends, rising HKD100mn from 1H2015. We maintain our Neutral issuer profile on the company. (Company, OCBC)

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