Asian Credit Daily

August 22, 2016

Credit Headlines (Page 2 onwards): China Vanke Co. Ltd, Bank of East Asia Ltd., First Sponsor Group Ltd

Market Commentary: The SGD dollar swap curve traded upwards with swap rates trading 1-5bps higher across all tenors. Flows in the SGD corporates space were moderate with mixed interests seen in OLAMSP 6%'18s, MCTSP 3.11%'26s and ARTSP 4.68%'49s. In the broader dollar space, the spread on JACI IG corporates remained relatively unchanged at 200bps while the yield on JACI HY corporates decreased 1bps to 6.39%. 10y UST yield increased 4bps to 1.58% following hawkish comments from the San Francisco Federal Reserve President John Williams that stated the September meeting is "in play" for a rate hike.

New Issues: Modernland Realty Tbk PT has priced a USD57mn retap of its 2019 bond at CT3+108bps, tightening from its initial guidance at CT3+107.5bps. The expected issue ratings are "B/B2/B". British Columbia has priced a AUD100mn 10-year bond at 2.5%.

Rating Changes: Moody's has placed Cheung Kong Property (CKP) Holdings Ltd.'s "A3" issuer rating on review for upgrade. The review decision reflects CKP's prudent approach to financial discipline, its low debt leverage, and strong liquidity, as evidenced by its latest results, which together position it strongly against its similarly rated peers. Moody's affirmed Barrick Gold Corp.'s "Baa3" credit rating and revised its outlook to stable from negative. The outlook revision reflects Barrick's reducing leverage and management commitment to further reduce debt. Moody's assigned a first time credit rating of "Baa2" to NSW Electricity Finance's proposed senior secured notes with a stable outlook. The assignment reflects the underlying strength and low risk-nature of TransGrid's regulated network business, underpinned by its monopoly-like market position, essential nature and established operating track record. Fitch has affirmed the issuer default rating of Malayan Banking Berhad (Maybank) of "A-" and revised the outlook to stable from negative. The affirmation reflects Maybank's market-leading franchise in Malaysia, reasonably stable asset quality backed by a robust risk framework, diversified earnings sources, disciplined funding and liquidity management as well as improved earnings sources. The outlook revision incorporates more stable financial markets and an improved policy environment. At the same time, Fitch also upgraded the issuer default rating of Hong Leong Bank Berhad to "A-" from "BBB+" with a stable outlook. The upgrade reflects Hong Leong's strengthened capitalisation, as well as its long-standing prudent risk appetite, sound asset-quality track record, and stable funding and liquidity profile.

Table 1: Key Financial Indicators

	22-Aug	1W chg (bps)	1M chg (bps)		22-Aug	1W chg	1M chg
iTraxx Asiax IG	113	-1	-6	Brent Crude Spot ($/bbl)	50.41	4.26%	10.33%
iTraxx SovX APAC	43	-1	-4	Gold Spot ($/oz)	1,335.63	-0.28%	0.98%
iTraxx Japan	54	1	-4	CRB	188.78	3.34%	3.21%
iTraxx Australia	100	-2	-10	GSCI	370.44	4.90%	6.13%
CDX NA IG	71	0	0	VIX	11.34	-1.82%	-5.66%
CDX NA HY	105	0	0	CT10 (bp)	1.587%	2.90	2.03
iTraxx Eur Main	68	2	-1	USD Swap Spread 10Y (bp)	-14	-2	-5
iTraxx Eur XO	311	6	-8	USD Swap Spread 30Y (bp)	-53	-3	-10
iTraxx Eur Snr Fin	93	6	1	TED Spread (bp)	52	-2	12
iTraxx Sovx WE	25	2	-1	US Libor-OIS Spread (bp)	39	1	8
iTraxx Sovx CEEMEA	115	2	-14	Euro Libor-OIS Spread (bp)	6	0	0
					22-Aug	1W chg	1M chg
				AUD/USD	0.760	-1.02%	1.80%
				USD/CHF	0.963	1.07%	2.55%
				EUR/USD	1.129	0.95%	2.85%
				USD/SGD	1.352	-0.61%	0.53%
Korea 5Y CDS	44	1	-4	DJIA	18,553	-0.13%	-0.10%
China 5Y CDS	102	-1	-7	SPX	2,184	-0.01%	0.41%
Malaysia 5Y CDS	119	-5	-16	MSCI Asiax	546	-0.47%	3.84%
Philippines 5Y CDS	88	-1	-12	HSI	22,937	0.75%	4.43%
Indonesia 5Y CDS	137	-5	-26	STI	2,844	-0.82%	-3.44%
Thailand 5Y CDS	86	-2	-3	KLCI	1,688	0.21%	1.83%
				JCI	5,416	-0.06%	4.21%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
22-Aug-16	Modernland Realty Tbk PT	"B/B2/B"	USD57mn	3-year	CT3+108bps
22-Aug-16	British Columbia	"NR/NR/NR"	AUD100mn	10-year	2.5%
19-Aug-16	Chinalco Capital Holdings	"NR/NR/NR"	USD800mn	5-year	4%
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%

Source: OCBC, Bloomberg

Credit Headlines:

China Vanke Co Ltd ("Vanke"): China Vanke released its 1H2016 results. Revenue increased by 49% RMB70.7bn (1H2015: RMB47.6bn) while overall gross profit increased by 16% to RMB15.6bn (1H2015: RMB12.6bn). The decline in gross profit margin to 22% from 27% was largely due to revenue being recognized for cities such as Changsha, Hangzhou, Wuxi, Shenyang, Chongqing, Ningbo and Xi'an which was affected more by the 2014 pricing environment). Vanke expects full year gross profit margin to increase. Net profit attributable to common shareholders was healthy at RMB5.4bn (1H2015: RMB4.8bn). Gross debt-to-equity rose somewhat to 0.66x from 0.58x as at 31 December 2015. Receipts in advance increased 31% to RMB278.3bn (31 December 2015: RMB212.6bn), in line with the strong growth in sales of commodity housing country-wide. In contrast, receipts in advance increased by only 16% between 31 December 2014 and 30 June 2015. Average land premium of newly acquired projects was RMB5,488 per sqm (1H2015: RMB3,984 per sqm), with aggregate gross floor area sufficient to satisfy Vanke's development needs for more than 2 years. Earlier in July 2016, Vanke announced that it was proposing to enter into acquisitions of certain commercial properties held by funds managed by Blackstone. Vanke and its partners are proposing to acquire the properties via establishment of an investment fund (limited partnership structure). On 21 August 2016, in connection with this investment, Vanke has also entered into a Cooperation Agreement with China Merchants Bank ("CMB") (CMB is a lender and via a subsidiary, also a limited partner). CMB may loan monies to the partnership while Vanke has committed to provide financial support of up to RMB9bn. In the event the partnership fails to repay its obligations, Vanke would be responsible. Thus far, Vanke's results have remained defensible amidst the on-going shareholder tussle. Nevertheless, management is of the view that its day-to-day operations have been affected, with staff and customer sentiment (particularly in the high-end segment) dampened. We think Vanke's credit profile is able to withstand a "deadlock" situation where the existing shareholders continue to hold Vanke as a financial investment (ie: current situation) and as such maintain our Neutral issuer profile on the company. The key risk in our view is control gets wrested by a shareholder with a divergent view on the use of leverage (eg: Evergrande, Baoneng Group) and a subsumed Vanke into the larger group is likely to dilute Vanke's currently solid investment grade rating. (OCBC, Company)

Bank of East Asia Ltd ("BEA"): BEA reported its 1H2016 results with operating income down 12% y/y to HKD7.13bn. This was largely driven by an 11% fall in net interest income to HKD5.483bn due to net interest margin falling to 1.59% from 1.71% y/y. This was influenced by a material fall in BEA China's net interest margin which fell from 1.95% to 1.61% y/y. Overall, all income segments experienced weaker y/y performance with net fee and commission income also down 21% to HKD1.253bn due to weaker securities and brokerage, trade finance, loans and guarantee, and retail banking services. Together with sticky operating expenses, BEA's cost to income ratio rose y/y to 59.4% in 1H2016 from 52%. Results were further negatively impacted by a 60% rise in impairments to HKD1.241bn which translated to a 47% y/y fall in operating profit after impairment losses to HKD1.65bn. Impairment losses rose significantly in Hong Kong corporate banking and China operations, indicating the weaker operating environment particularly in Mainland China. As such, BEA China's impaired loan ratio increased to 2.80% as at 30 June 2016 from 2.63% as at 31 Dec 2015 although this was partially due to lower loan volumes. BEA Hong Kong's impaired loan ratio also rose to 0.49% from 0.34% translating to the group's impaired loan ratio rising to 1.23% from 1.13% for FY2015. Challenging operating conditions also fed through to BEA's balance sheet with gross loans rising 1.7% since 31 Dec 2015 against a 2.3% fall in deposits resulting in an increase in BEA's reported loan to deposit ratio to 80.2% as at 30 June 2016 from 76.4% in FY2015 although this was somewhat due to the lowering of the loan to deposit cap in China. One positive impact from the latest results was an improvement in BEA's capital ratios with CET1/CAR ratios of 12.6%/17.4%, higher than FY2015 (12.2%/17.2%) as risk weighted assets reduced more than the reduction in total capital. Going forward, BEA has noted the ongoing challenges facing the bank, in particular in China. Strategic focus will be on cost containment as well as emphasizing BEA's retail banking business in both HK and China (HK personal banking was the only segment to perform better y/y) through higher investment in internet and mobile banking channels. Overall, the drag on BEA's credit profile from BEA China performance is overshadowing BEA's domestic business which remains anchored by its personal banking franchise. Overall credit trends are negative for now and have amplified the noise from Elliot Management Corporation who has commenced legal proceedings against the bank and its directors for alleged unfair prejudicial conduct and is trying to force the bank to seek a sale of itself. That said, we maintain our neutral issuer profile now as we undertake a closer look at the numbers. (Bloomberg, Company, OCBC)

Credit Headlines:

First Sponsor Group Ltd ("FSG"): FSG has announced that it has entered into an agreement with Vanke and Regent Land Investment Holdings ("Regent") to collaborate on the development of its Star of East River Project in Dongguan (Guangdong Province). Effectively, FSG will sell 70% of the project (55% to Vanke and 15% to Regent, owned by FSG's Guangdong CEO) and retain 30% to participate in the project's upside. The estimated net gain from the transaction is ~SGD95.3mn with net proceeds amounting to SGD243.4mn. We see the transaction as credit positive and expect the proceeds to be diverted for expansions, including in Europe. The Dongguan transaction is expected to be completed in October 2016. (OCBC, Company)

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