Asian Credit Daily

October 24, 2016

Credit Headlines (Page 2 onwards): Capital Mall Trust, Otto Marine Ltd., Industry Outlook – Financial Institutions

Market Commentary: The SGD swap curve bear-flattened last Friday with the short-term to middle-term rates trading 2-4bps higher while the longer-term rates traded 1-2bps higher. Notably, the very short-end rates (<3-mth) traded 6-15bps higher. Flows in the SGD corporates were relatively quiet with mixed interests seen in BAERVX 5.75%'49s. In the broader dollar space, the spread on JACI IG corporates remained relatively unchanged at 207bps while the yield on JACI HY corporates decreased 1bps to 6.59%. 10y UST yield decreased 2bps to 1.73%.

New Issues: Delhi International Airport priced a USD523mn 10-year bond at 6.125%, tightening from its initial guidance at 6.5%. The expected ratings for the issue are "BB/Ba2/NR". India's Canara Bank has mandated several banks for potential USD bond issuance.

Rating Changes: Moody's has revised its outlook on the ratings of CMB Financial Leasing Co. Ltd. to stable from negative. The decision follows the rating action taken on CMB Financial Leasing's parent, China Merchant Banks Co. Ltd. (CMB), on 17 October, 2016 (CMB's deposit ratings were affirmed with the ratings outlook revised to stable from negative). S&P has affirmed its "AA" rating on the French Republic and revised the rating outlook to stable from negative to reflect the gradual introduction of tax system and labor code reforms, which are expected to stabilize employment, growth and competitiveness, and public finances.

Table 1: Key Financial Indicators

	24-Oct	1W chg (bps)	1M chg (bps)		24-Oct	1W chg	1M chg
iTraxx Asiax IG	116	-2	-5	Brent Crude Spot ($/bbl)	51.50	-0.04%	12.22%
iTraxx SovX APAC	34	-1	2	Gold Spot ($/oz)	1,266.51	0.85%	-5.34%
iTraxx Japan	57	2	-1	CRB	189.40	-0.04%	3.44%
iTraxx Australia	104	-1	0	GSCI	375.78	0.04%	6.90%
CDX NA IG	74	-2	-5	VIX	13.34	-17.25%	8.54%
CDX NA HY	104	0	0	CT10 (bp)	1.742%	-2.43	12.33
iTraxx Eur Main	71	-2	-2	USD Swap Spread 10Y (bp)	-16	1	0
iTraxx Eur XO	320	-16	-13	USD Swap Spread 30Y (bp)	-56	0	-1
iTraxx Eur Snr Fin	94	-6	-6	TED Spread (bp)	56	-4	-10
iTraxx Sovx WE	18	-1	-6	US Libor-OIS Spread (bp)	40	-1	-3
iTraxx Sovx CEEMEA	94	-1	5	Euro Libor-OIS Spread (bp)	4	0	0
					24-Oct	1W chg	1M chg
				AUD/USD	0.760	-0.33%	-0.42%
				USD/CHF	0.994	-0.50%	-2.50%
				EUR/USD	1.088	-1.05%	-3.29%
				USD/SGD	1.394	-0.30%	-2.38%
Korea 5Y CDS	41	-1	-2	DJIA	18,146	0.04%	-0.63%
China 5Y CDS	107	-1	2	SPX	2,141	0.38%	-1.09%
Malaysia 5Y CDS	123	-1	-7	MSCI Asiax	549	1.42%	-1.76%
Philippines 5Y CDS	117	-3	1	HSI	23,374	1.49%	-1.25%
Indonesia 5Y CDS	151	-3	-5	STI	2,831	0.56%	-0.91%
Thailand 5Y CDS	97	-4	8	KLCI	1,670	0.66%	-0.06%
				JCI	5,409	0.17%	0.38%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
21-Oct-16	Delhi International Airport	"BB/Ba2/NR"	USD523mn	10-year	6.125%
20-Oct-16	China Great Wall International	"NR/Baa1/BBB+"	USD800mn	5-year	CT5+145bps
20-Oct-16	China Great Wall International	"NR/Baa1/BBB+"	USD700mn	3-year	CT3+135bps
20-Oct-16	ICBC, Sydney Branch	"A/NR/NR"	CNH1.2bn	2-year	3.65%
19-Oct-16	Saudi Arabia	"NR/A1/AA-"	USD5.5bn	5-year	CT5+135bps
19-Oct-16	Saudi Arabia	"NR/A1/AA-"	USD5.5bn	10-year	CT10+165bps
19-Oct-16	Saudi Arabia	"NR/A1/AA-"	USD6.5bn	30-year	CT30+210bps
18-Oct-16	Huai'An Traffic Holding Co.	"NR/NR/BBB+"	USD300mn	3-year	4.95%
18-Oct-16	Yuzhou Properties Co. Ltd.	"NR/B1/BB-"	USD250mn	7NC4	6%

Source: OCBC, Bloomberg

Credit Headlines:

Capitaland Mall Trust ("CMT"): CMT reported 3Q2016 results. Gross revenue was up 4.9% y/y to SGD169.7mn while NPI was up 5.5% y/y to SGD119.5mn. As mentioned previously, y/y performance was supported by the Bedok Mall acquisition made during 4Q2015. On a q/q basis though, gross revenue was flattish at -0.7%, largely due to the absence of contribution from Funan DigitaLife Mall ("Funan", which closed on 01/07/16 for redevelopment). If we excluded Funan's contribution, gross revenue was actually up 1.2% y/y, which is commendable given the challenging environment. NPI improvements q/q were even stronger, up 2.9%, or 4.0% excluding the NPI losses generated at Funan. The q/q improvements in portfolio occupancy to 98.6% (2Q2016: 97.9%) could have driven performance. Though there was some dips in occupancy at some assets such as The Atrium and at IMM, occupancy in general remains decent at over 95% for the bulk of its assets. YTD, CMT managed to increase shopper traffic by 2.9%, though this was a deceleration compared to the 3.6% seen for 1H2016. Tenants' sales psf/mth have also decelerated from 2.3% (1H2016) to 1.2% (9M2016). These two figures reflect tepid demand by consumers in general, especially given that 3Q2016 should have seen some support from the Great Singapore Sale. In particular, YTD departmental store sales (psf/mth) have declined 5.0% y/y (1H2016: -1.8%). This is an area to watch, as departmental stores are anchor tenants that serve to drive traffic. There has been consolidation seen across departmental stores such as Metro and John Little reducing the number of outlets they have. In general, any closure of departmental store tenants would have a sizable impact on property occupancy. As a result of the soft retail environment, rental reversion continues to decelerate, with CMT seeing a +1.2% increase in rental rates across 541 leases (covering 16.2% of NLA). This compares against +1.7% for 2Q2016 and +3.7% for 2015. This trend is consistent with our view that REIT managers would concede on lease rates in order to keep occupancy high. Even then, certain assets, such as The Atrium, continue to face pressure with just a 50% tenant retention rate and negative rental reversions. WALE remains stable at 2.0 years, while CMT has just 3.7% of NLA left to be renewed during 4Q2016. (2016 started with 23.2% of NLA expiring in 2016). Looking into 2017, CMT has about 29.2% of leases (based on rental income) coming due. CMT's leverage remains in line with peers, with aggregate leverage at 35.4% (1Q2016: 35.3%). Net debt / EBITDA was stable as well at 6.2x (2Q2016: 6.0x). Interest coverage was comparable at 4.9x (1H2016: 5.0x). There are no debt maturities left for 2016, while CMT paid down SGD45mn in banking facilities for 2017, for total SGD250mn in borrowings due left for 2017. As mentioned previously, CMT continues to actively optimize its capital structure, having issued a HKD560mn 10 year 2.71% bond as well as a SGD150mn 15 year 3.35% bond early July 2016. These issues helped CMT push out its maturity profile to 5.5 years (2Q2016: 5.0 years). Based on the most recent maturity profile, it would seem that CMT used the bond proceeds to refinance ~SGD204mn worth of bank borrowings due 2019 and 2020. This helped CMT keep its aggregate leverage steady. That said, the preliminary plans for the Funan Mall redevelopment disclosed SGD560mn in redevelopment costs, with the redevelopment expected to be completed by 4Q2019. Currently, CMT has about SGD553.8mn in cash on its balance sheet. We will continue to hold CMT's Issuer Profile at Neutral, with the expectation that CMT will keep its aggregate leverage below 40%. (Company, OCBC)

Otto Marine Ltd. ("OTML"): On 21/10/16, OTML announced that it has successfully redeemed all of the OTMLSP'16 bond issue outstanding, and that the early consent fee or normal consent fee payable as part of its consent solicitation earlier this year has been paid. As OTML no longer has any bonds outstanding, we will be ceasing coverage on OTML. (Company, OCBC)

Credit Headlines:

Industry Outlook – Financial Institutions: This week sees the commencement of earnings announcements for financial institutions starting with Australian and Singapore banks later in the week. Key to the results for Singapore banks will be further disclosure of exposures to the oil and gas sector and whether the provisioning for non-performing loans has kept pace with the overall quality of the loan portfolio. There is also similar concern for Australian banks with regards asset quality given an anticipated slowdown in the housing sector which has been an earnings driver for Australian banks to mitigate the challenging operating conditions in Australia's corporate sector. Banks in both countries have enjoyed historically low non-performing loan ratios but this benefit is expected to end and add earnings pressure together with low loan demand and increasing domestic competition. Malaysian banks under our coverage are set to report towards the end of November although the 3Q2016 results announcement of Public Bank Berhad ("PBB") on Friday Oct 22nd could shed some light on possible earnings influences. Overall earnings are in line with market expectations with pre-tax profit for the 9MFY2016 up 2.8% as a result of a 7.2% increase in group loans and stabilized net interest margins q/q of 2.17% (and slightly improved y/y). Key to loans growth was solid performance in PBB's core retail business which also brought with it group deposit growth of 7.4%. The higher deposit growth contributed to the stabilized net interest margins which nevertheless continue to remain under pressure from intense competition. Loan quality ratios remain sound with overall loans growing faster than impaired loans and the gross impaired loans ratio remaining at 0.5% as at 30 September 2016 (FY2015: 0.5%). PBB's capital position still remains above minimum regulatory requirements although capital ratios have weakened as a result of growth in risk weighted assets and stable capital with CET1/CAR ratios of 11.0%/15.2% (FY2015: 11.4%/15.9%). While important to note that PBB's business profile differs from Malayan Bank Berhad and CIMB Group Holdings Berhad given its much higher focus on domestic retail banking, some key trends to highlight are the ongoing competitive environment in Malaysia which is capping earnings growth and weaker overseas contributions (Hong Kong loans fell 6.7% since December 2015). These influences along with expected lower capital markets activity are likely to temper earnings performance and pressure capital ratios in the upcoming results. OCBC does not currently cover PBB. (Company, Bloomberg, OCBC)

Andrew Wong
Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6530 4736
wongVKAM@ocbc.com

Nick Wong Liang Mian, CFA
Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6530 7348
NickWong@ocbc.com

Ezien Hoo, CFA
Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6722 2215
EzienHoo@ocbc.com

Wong Hong Wei
Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6722 2533
WongHongWei@ocbc.com