Asian Credit Daily

October 27, 2016

Credit Headlines (Page 2 onwards): Bank of China Ltd., CMA CGM, Mapletree Commercial Trust, National Australia Bank Ltd., Viva Industrial Trust, CK Hutchison Holdings, CWT Ltd., CITIC Envirotech Ltd.

Market Commentary: The SGD swap rates were range-bound on the short-end to middle-end of the curve, trading +/- 1bps within yesterday's rates while the longer-end swap rates traded ~3bps higher. This is reflective of the key global central bank's monetary policy stance that seemingly suggest they are likely to accommodate an overshoot of inflation. Flows in the SGD corporates were heavy with better buying seen in FCLSP 4.88%'49s, BAERVX 5.75%'49s and GENSSP 5.13%'49s while we also saw mixed interests in ABNANV 4.75%'26s and STANLN 4.4%'26s. In the broader dollar space, the spread on JACI IG corporates remained relatively unchanged at 205bps while the yield on JACI HY corporates decreased 1bps to 6.58%. 10y UST yield increased 3bps to 1.79% amidst a rebound in oil prices on bullish inventory data.

New Issues: Japan Bank for International Cooperation launched a two-tranche deal yesterday that is to be priced later today. The USD 5-year bond has an initial price guidance at MS+65bps while the USD10-year bond has an initial price guidance at MS+67bps. The expected issue ratings are "A+/A1/NR". Huishang Bank has mandated several banks for potential USD preference shares issue.

Rating Changes: Moody's has assigned a definitive "A3" rating to China Railway Xunjie Co. Ltd.'s USD500mn 3.25%'26s notes with a stable outlook.

Table 1: Key Financial Indicators

	27-Oct	1W chg (bps)	1M chg (bps)		27-Oct	1W chg	1M chg
iTraxx Asiax IG	116	-1	-5	Brent Crude Spot ($/bbl)	49.98	-5.11%	5.55%
iTraxx SovX APAC	34	0	1	Gold Spot ($/oz)	1,265.70	0.00%	-4.64%
iTraxx Japan	56	-1	-4	CRB	188.72	-1.07%	3.07%
iTraxx Australia	103	-1	-2	GSCI	370.47	-2.38%	5.73%
CDX NA IG	75	1	-2	VIX	14.24	-1.18%	8.70%
CDX NA HY	104	0	0	CT10 (bp)	1.797%	4.11	24.03
iTraxx Eur Main	71	0	-2	USD Swap Spread 10Y (bp)	-16	0	-1
iTraxx Eur XO	322	2	-15	USD Swap Spread 30Y (bp)	-55	1	0
iTraxx Eur Snr Fin	96	1	-6	TED Spread (bp)	55	0	-13
iTraxx Sovx WE	18	-1	-6	US Libor-OIS Spread (bp)	39	-2	-5
iTraxx Sovx CEEMEA	91	-2	3	Euro Libor-OIS Spread (bp)	4	0	0
					27-Oct	1W chg	1M chg
				AUD/USD	0.765	0.28%	-0.25%
				USD/CHF	0.994	-0.10%	-2.30%
				EUR/USD	1.091	-0.19%	-2.74%
				USD/SGD	1.391	0.05%	-2.28%
Korea 5Y CDS	41	1	-1	DJIA	18,199	-0.02%	-0.16%
China 5Y CDS	105	0	-3	SPX	2,139	-0.23%	-0.95%
Malaysia 5Y CDS	121	0	-4	MSCI Asiax	548	-0.51%	-1.49%
Philippines 5Y CDS	113	-3	-2	HSI	23,325	-0.29%	-1.05%
Indonesia 5Y CDS	151	0	-3	STI	2,829	-0.56%	-1.11%
Thailand 5Y CDS	94	-2	8	KLCI	1,674	0.34%	0.55%
				JCI	5,400	-0.18%	-0.37%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
25-Oct-16	Commonwealth Bank of Australia	"AA-/Aa2/AA-"	USD1bn	3-year	CT3+80bps
25-Oct-16	Commonwealth Bank of Australia	"AA-/Aa2/AA-"	USD500mn	3-year	3mL+64bps
25-Oct-16	BOCOM Financial Leasing	"NR/A2/A"	USD500mn	3-year	CT3+127.5bps
25-Oct-16	BOCOM Financial Leasing	"NR/A2/A"	USD1bn	5-year	CT5+142.5bps
25-Oct-16	Standard Chartered PLC	"NR/NR/NR"	SDR100mn	1-year	1.2%
25-Oct-16	Industrial & Commercial Bank of China	"NR/A1/NR"	CNH500mn	3-year	3.8%
24-Oct-16	MTR Corp. Ltd.	"AAA/Aa1/NR"	USD600mn	10-year	CT10+80bps
24-Oct-16	Lippo Karawaci	"B+/Ba3/BB-"	USD425mn	10NC5	6.75%
21-Oct-16	Delhi International Airport	"BB/Ba2/NR"	USD523mn	10-year	6.125%

Source: OCBC, Bloomberg

Credit Headlines:

Bank of China Ltd ("BOC"): BOC reported its 9M2016 results update with operating income up 4% to RMB370.3bn. Within the results was softer net interest income performance which fell by 6.7% y/y due to the noticeable fall in net interest margin to 1.85% from 2.14%. Net fee and commission income also fell y/y by 4.2% to RMB68.5bn. This was mitigated however by strong growth in other operating income which rose by 89% to RMB72bn. Y/y quarterly performance for 3Q2016 though was softer with weaker net interest income (-9.6%), net fee and commission income (-3.6%) and other operating income (-5.3%) translating to an 8% fall in 3Q2016 operating income to RMB107.7bn. To mitigate the weaker income performance, operating expenses have been contained and fell y/y by 14% for the quarter and 8% for the year to date translating to a slight y/y decrease in the cost to income ratio to 26.5% for 9M2016 from 26.6%. Impairment losses appear to be decelerating with impairment losses of RMB14.0bn for 3Q2016 down 14% from 3Q2015 although YTD loan impairments continue to be higher than 9M2015 (up 42.5% to RMB64.0bn). As a result of the higher impairments, NPL coverage ratios (loan impairment losses to non-performing loans) actually improved slightly to 155.8% as at 30 September 2016 (153.7% as at 30 September 2015). Non-performing loans reportedly increased around 13% to RMB146bn but with overall loans achieving solid growth since FY2015 of 8%, the NPL ratio increased to 1.48% from 1.43% for FY2015. Capital formation was slightly higher than our estimate of growth in risk weighted assets and as a result, BOC's capital ratios improved compared to FY2015 with 3Q2016 CET1/CAR ratios of 11.3%/14.1% (CET1/CAR for FY2015 of 11.1%/14.1%). In all, underlying performance trends remain, in particular profitability pressures (from the sharp fall in net interest margins) and asset quality concerns are rising. Bad loan formation continues and although the headline numbers appear stable, this is only due to continued credit driven growth in the economy which presents its own set of risks. Although the profitability outlook is starting to look weaker in our view, we will keep the neutral issuer profile rating for now as we continue to look through the results. (Company, OCBC)

CMA CGM (acquired Neptune Oriental Lines, "NOL"): Bloomberg reported that CMA CGM has commenced its sale of NOL's terminal business, which could raise about USD1bn in proceeds. Specifically, CMA CGM is seeking a buyer for NOL's container terminals in the US, Japan, Taiwan, as well as NOL's JVs in Vietnam, Thailand, China and the Netherlands. First round bids were reported to start next month. Potential acquirers could be terminal and ship operators as well as infrastructure funds. The divestments are also intended for CMA CGM to avoid duplication against its existing terminal assets. The sale of these terminal assets are likely part of the intended divestments which CMA CGM alluded to when making the NOL acquisition, and would be a credit positive when completed. The proceeds are likely to be used to paid down part of the bridge financing taken to acquire NOL. A week ago, Reuters reported that CMA CGM had already paid down half the USD1.6bn bridge loan taken to fund the NOL acquisition (with CMA CGM having till August 2017 to pay down the full facility) via a sale-and-leaseback deal for containers worth USD578mn and a USD259mn securitization programme covering customer debts to refinance the pay down (this was reportedly done after 1H2016). Though we consider the terminal divestments to be a credit positive and in line with our expectations that CMA CGM would focus on deleveraging its balance sheet post the NOL acquisition, given that we are heading into year-end, it is unlikely that a deal for the terminals can be completed during 4Q2016. As such, these improvements to CMA CGM's credit profile would likely only be seen in CMA CGM's 1Q2017 results. We note as well that CMA CGM's 2H2016 results would likely be weighed down by both the still-weak environment for container liners, as well as dragged down by NOL's full-quarter contributions during 3Q2016 and 4Q2016. We currently hold NOL / CMA CGM at Neutral Issuer Profile, and will await for 3Q2016 results (expected in November) for further review. (Bloomberg, Reuters, OCBC)

Credit Headlines:

Mapletree Commercial Trust ("MCT"): 2QFY2017 results (ending September 2016) reported gross revenue up 23.6% y/y to SGD88.1mn, while NPI was up 24.8 y/y to SGD68.4mn. The gains were largely driven by MCT's acquisition of Mapletree Business City Phase 1 ("MBC"), which completed on 25/08/16. As such, 3QFY2017 numbers are likely to be even stronger with MBC's full quarter contribution. Excluding the MBC impact, management reported that MCT's original portfolio performed as well, with gross revenue and NPI both up ~6% y/y. This can be observed in MCT's portfolio occupancy, which improved to 98.8% (1QFY2017: 97.8%). In fact, all of MCT's assets reported higher occupancies. This includes the PSA Building and Mapletree Anson, which reported 98.5% and 100% respectively (versus 92.8% and 91.0% respectively as of end-FY2016). Furthermore, committed occupancies are even higher across the board as well. This is strong performance given the challenging market for office assets. In addition, it would seem that MCT did not have to concede on lease rates, with 1HFY2017 rental reversion at +13.8% for Retail and +12.3% for Office / Business Park. The former largely reflects VivoCity's strong performance (Shopper Traffic up 7.0% y/y, Tenant Sales up 2.7% y/y for the quarter). Retention rates are strong as well at 95.4% for Retail and 83.3% for Office /Business Park. WALE for both Retail and Office / Business Park remained relatively unchanged q/q at 2.2 years and 3.4 years respectively. The lease expiry profile looks manageable, with MCT having 11.7% and 9.9% of gross rental revenue expiring for Retail and Office / Business Park respectively over the next 18 months. Aggregate leverage worsened to 37.3% (1QFY2017: 35.0%), mainly due to the debt and equity funded acquisition of MBC in 2QFY2017. This is lower than the 38.4% estimate provided by management post the acquisition announcement. Cost of debt improved from 2.73% (1QFY2017) to 2.66%, potentially driven by MCT refinancing SGD150mn worth of bank debt (due in FY2017) with its SGD175mn bond issue (3.11% coupon maturing 2026) as well as by potentially lower financing costs on the MBC facilities. Currently, MCT has minimal debt due in FY2017 and FY2018, as the borrowings taken to finance the MBC acquisition are longer dated (MBC's financing are estimated to be 2Y T/L: SGD253.8mn, 4Y T/L: SGD272mn, 6Y T/L: SGD264mn). MCT's portfolio remains entirely unencumbered, while proportion of fixed debt is 74%. YTD interest coverage remains stable at 4.9x (1QFY2017: 4.8x). In aggregate, though MCT's credit profile has worsened as a result of the MBC acquisition, aggregate leverage remains in line with peers. We also believe that the acquisition would help diversify MCT's future cash flows from VivoCity, helping to reduce the concentration of Vivocity from ~66% of NPI (based on FY2016 numbers) to ~45%. MBC has also benefited from tenants shifting away from the CBD area (MCT estimates that ~78% of MBC's current tenant base relocated from the Central Area) as well as the flight to quality from older developments. It is likely that MCT's management would retain aggregate leverage at around 37% – 39%. As such, we will retain our Neutral Issuer Profile on MCT. (Company, OCBC)

National Australia Bank Ltd. ("NAB"): NAB released its full year results which reflect recent strategic initiatives and major asset sales with net profit of AUD352mn down 94.4% due mostly to recognition of loss on sale of CYBG PLC and 80% of the life insurance business. Excluding these transactions and other asset sales, net profit or cash earnings was down y/y by 4.2% to AUD6.48bn. Earnings were supported by a 3.5% increase in net interest income from a 4.6% increase in gross loans and acceptances which mitigated a fall in net interest margins to 1.88% from 1.9% in FY2015 from higher funding costs. Loan impairments (or provisions for bad and doubtful debts) rose 7.0% to AUD800mn reflecting higher specific provisions for several large exposures with the reported ratio of bad and doubtful debts to gross loans and acceptances increasing noticeably to 0.85% from 0.63% in FY2015. Loan quality issues are concentrated in NAB's New Zealand dairy exposures and this contributed to the weaker y/y profit performance from NAB's NZ Banking segment with earnings up 2% y/y compared to 7% growth in Australian Banking and 13% growth in NAB Wealth. This translated to a slightly higher contribution to consolidated earnings from Australian Banking (84.4%) compared to FY2015 (82.0%). As expected, NAB's restructuring initiatives have had a net positive impact on APRA compliant capital ratios since 1H2016 and remain above regulatory minimum requirements with the bank's FY2016 CET1/CAR ratios of 9.8%/14.1% against 1H2016 CET1/CAR ratios of 9.7%/13.3%. Results on balance have no immediate impact on our Neutral issuer profile rating however we continue to review the results for any possible changes. (Company, OCBC)

Credit Headlines:

Viva Industrial Trust ("VIVA"): VIVA announced its proposed acquisition of 6 Chin Bee Avenue in Jurong yesterday for a total transaction value of SGD96.8mn. The asset is a newly completed 5-storey ramp-up logistics/warehouse facility that caters to the food services sector and would be acquired under a sales-and-leaseback structure from the vendors, Sharikat National Pte Ltd. The master lease is structured as a 7 year triple net lease at SGD7.44m per annum (representing a 8% net property income yield), with an option to renew for a further term of 3 years. At the beginning of year 3, there would be a 1.5% rental escalation p.a for every subsequent year of the lease term. The transaction will be funded via a 31:69 debt-to-equity structure. Of the 69% in equity, SGD45mn has been raised via an overnight private placement from both new and existing investors while SGD23mn in equity will be issued to vendors as partial consideration. The issuance of this tranche will be on the date of completion (targeted December 2016), at an issue price equal to the volume weighted average price for the 10 days immediately preceding the date of issuance. Using an illustration of SGD0.74 per stapled security, 31.1mn securities will be issued, rendering the vendors to hold ~3% of the enlarged equity capital. As at 30 September 2016, aggregate leverage of VIVA (as measured by gross debt-to-total assets is 39.8%, post transaction, gross debt-to-total assets is expected to decrease slightly to 39.3%. We like the alignment of interest from the vendor and see the transaction as a credit positive for VIVA. We are currently reviewing the VIVA's issuer profile rating. (Company, OCBC)

CK Hutchison Holdings ("CKHH"): Following its earlier announcements to form a 50:50 joint venture between Hutchison's 3 Italia business and VimpelCom Limited's WIND Mobile, final approvals for the transaction were granted by the relevant Italian regulatory authorities. The transaction is expected to occur as soon as practicable (before end-2016). Post completion, 3 Italia will be deconsolidated from CKHH. (Company)

CWT Ltd ("CWT"): The media has reported that HNA Group Co.'s ("HNA") potential bid for CWT has been delayed as it has yet decide on the deal structure. Earlier on 13 of October, CWT issued its 5th holding statement stating that its board has been informed by the major shareholders that it is continuing negotiations on the potential transaction with HNA. In May 2016, CWT first announced that its major shareholders were in exclusive discussions with HNA on a possible buyout of their stake in CWT. Since then, HNA has continued its acquisition spree (reducing its financial headroom in the process). On 24 October 2016, it emerged that HNA will acquire a 25% stake in Hilton Worldwide Holdings from the Blackstone for US$6.5bn. We continue to hold CWT at Neutral and see the uncertainty surrounding ownership as capping upside of the bonds beyond par. (Bloomberg, OCBC)

CITIC Envirotech Ltd ("CEL"): CEL released its 3Q2016 results yesterday evening. 3Q2016 revenue saw a 93.4% increase to SGD137.1mn against SGD70.9mn as at 3Q2015, largely attributed to the increase in engineering revenue (SGD83mn from SGD27.7mn, up 200%) as revenue was recognized upfront from contracts won. CEL's recurring water treatment revenue stream improved to SGD39.8mn from SGD32.6mn (up 22%) while membrane sales improved to SGD14.3mn from SGD10.6mn (up 35%). During the 9M2016, CFO (before interest paid) was SGD226.8mn, driven by the refund of deposits earlier placed for acquisitions (eg: project acquisitions). In 9M2015, we estimate distribution to perpetual securities holders to be ~SGD12mn while interest expense paid was SGD21.1mn. CFO/(Gross interest and perpetual distribution) was 6.8x as at 30 September 2016. Investing activities during 9M2016 amounted to an outflow of SGD366.5mn, with the funding gap covered by opening cash balances and the issuance of perpetual securities. Bolstered in part by the issuance of SGD246mn in perpetual securities during 9M2016, headline gearing as measured by gross debt-to-equity decreased significantly to 0.4x (31 December 2015: 0.7x) while net debt-to-equity decreased to 0.09x (31 December 2015: 0.18x). However, as we had opined in our Mid-Year Credit Outlook, CEL's USD perpetuals are accounted for as equity but rank pari passu with all present and future unsecured obligations (ie: the existing SGD bonds). From the perspective of an existing SGD bondholder, we are of the view that perpetual does not constitute an "equity cushion". As such, adjusting "net debt" upwards, we find adjusted net debt-to-equity to have deteriorated to 0.7x as at 30 September 2016 (31 December 2015: 0.5x). As at 30 September 2016, perpetual securities as a proportion of total capital is 25% against only 13% in end-2015. We are keeping CEL's issuer profile at Neutral for now. (Company, OCBC)

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