Asian Credit Daily

OCBC Bank

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Credit Headlines (Page 2 onwards): CIMB Group Holdings Berhad, Industry Outlook – Hong Kong Property, ASL Marine, Guocoland Ltd.

Market Commentary: The SGD dollar swap curve traded upwards yesterday with swap rates traded 1-5bps higher across all tenors as the dollar appreciated following Yellen's speech last Friday. Flows in the SGD corporates were moderate with better selling seen in HYFSP 5.75%'49s and mixed interests seen in GEMAU 5.5%'19s and GENSSP 5.13%'49s. In the broader dollar space, the spread on JACI IG corporates decreased 3bps to 196bps while the yield on JACI HY corporates increased 3bps to 6.31%. 10y UST yield decreased 7bps to 1.56%, erasing last Friday's gains.

New Issues: Jiangsu Newheadline Development Group Co Ltd. has priced a USD100mn 3-year bond at 6.2% with expected issue ratings of "BB/NR/BB+". Greenland Holdings Group has priced a USD300mn 3-year bond at 3.6% with expected issue rating of "NR/Ba2/BB+". Commonwealth Bank of Australia has priced a 4-tranche deal with the USD700mn 2-year bond priced at 1.375%, the USD1bn 5-year bond priced at 2%, the USD600mn 5-year bond priced at 3mL+83bps and the USD1bn 10-year bond priced at 2.625%. The expected issue ratings are "NR/Aa2/NR". Road King Infrastructure Ltd. has launched a USD 5NC3 bond with initial price guidance at 5% that is to be priced later today. The expected issue ratings are "BB-/B1/NR". Woodside Finance Ltd is arranging investor meetings in Sydney, Asia and the US beginning Aug 31 for a potential USD deal. with expected ratings of "BBB+/Baa1/NR".

Rating Changes: S&P has assigned a first time corporate credit rating of "BB-" to Yestar International Holdings Co. Ltd. (in vitro diagnostics, imaging) with a stable outlook. The rating on Yestar reflects the company's concentrated service offerings and high reliance on a limited number of suppliers when compared with its global peers. The stable outlook reflects S&P's expectation that Yestar will continue its good growth and profitability over the next 12 months. At the same time, Moody's and Fitch assigned a "Ba3" and "BB-" credit rating respectively with stable outlooks to Yestar.

Table 1: Key Financial Indicators

	30-Aug	1W chg (bps)	1M chg (bps)		30-Aug	1W chg	1M chg
iTraxx Asiax IG	114	2	-7	Brent Crude Spot ($/bbl)	49.34	-1.24%	16.20%
iTraxx SovX APAC	42	0	-6	Gold Spot ($/oz)	1,323.09	-1.08%	-2.22%
iTraxx Japan	53	-1	-3	CRB	184.43	-1.41%	1.89%
iTraxx Australia	101	0	-9	GSCI	359.14	-1.44%	5.82%
CDX NA IG	71	0	-4	VIX	12.94	5.46%	9.01%
CDX NA HY	105	0	1	CT10 (bp)	1.580%	3.42	15.77
iTraxx Eur Main	67	0	0	USD Swap Spread 10Y (bp)	-14	0	-4
iTraxx Eur XO	306	-6	-16	USD Swap Spread 30Y (bp)	-55	0	-9
iTraxx Eur Snr Fin	89	-2	-3	TED Spread (bp)	51	-3	1
iTraxx Sovx WE	24	0	-1	US Libor-OIS Spread (bp)	38	-1	3
iTraxx Sovx CEEMEA	109	-7	-13	Euro Libor-OIS Spread (bp)	6	0	0
					30-Aug	1W chg	1M chg
				AUD/USD	0.757	-0.63%	0.41%
				USD/CHF	0.980	-1.65%	-1.12%
				EUR/USD	1.117	-1.18%	0.08%
				USD/SGD	1.361	-0.68%	-1.36%
Korea 5Y CDS	44	1	-6	DJIA	18,503	-0.14%	-0.20%
China 5Y CDS	101	0	-10	SPX	2,180	-0.10%	-0.21%
Malaysia 5Y CDS	121	3	-21	MSCI Asiax	541	-0.73%	2.69%
Philippines 5Y CDS	86	--	-16	HSI	22,821	-0.77%	4.25%
Indonesia 5Y CDS	144	6	-18	STI	2,842	-0.29%	-0.99%
Thailand 5Y CDS	83	0	-11	KLCI	1,686	0.20%	2.01%
				JCI	5,371	-1.04%	2.92%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
29-Aug-16	Jiangsu Newheadline Development Group	"BB/NR/BB+"	USD100mn	3-year	6.2%
29-Aug-16	Greenland Holdings Group	"NR/Ba2/BB+"	USD300mn	3-year	3.6%
29-Aug-16	Commonwealth Bank of Australia	"NR/Aa2/NR"	USD700mn	2-year	1.38%
29-Aug-16	Commonwealth Bank of Australia	"NR/Aa2/NR"	USD1bn	5-year	2%
29-Aug-16	Commonwealth Bank of Australia	"NR/Aa2/NR"	USD600mn	5-year	3mL+83bps
29-Aug-16	Commonwealth Bank of Australia	"NR/Aa2/NR"	USD1bn	10-year	2.63%
25-Aug-16	Development Bank of Japan	"NR/NR/NR"	USD550mn	5-year	CT5+57bps
25-Aug-16	Development Bank of Japan	"NR/NR/NR"	USD1.1bn	10-year	CT10+41bps

Source: OCBC, Bloomberg

Rating Changes (cont'd): Fitch downgraded Hua Han Health Industry Holdings Ltd.'s issuer default rating to "B+" from "BB-". The downgrade reflects the weakness of Hua Han's internal controls, which was evident in the company's delays in responding to allegations that it had inflated its revenue and cash balance. The rating remains on Rating Watch Negative. Fitch has affirmed Fortescue Metals Group Ltd.'s issuer default rating at "BB+" and revised its outlook to stable from negative. Fitch also upgraded the senior unsecured rating and rating on the outstanding USD478mn notes due in 2022 to "BB+" from "BB". The revision reflects the company's strong ability to reduce production costs amid persistently low iron-ore prices and the company's commitment to deleverage by its strengthening free cash flow. At the same time, S&P also revised its outlook on Fortescue's "BB" credit rating to stable from negative.

Credit Headlines:

CIMB Group Holdings Berhad ("CIMB"): CIMB announced 2Q2016 results which were relatively solid in our view. Operating income was up 1.8% q/q and 4.8% y/y to MYR3.9bn. While year on year growth was driven by net interest income growth of 3.7% due to stable loan volumes and marginally higher net interest margins, q/q growth was supported by a 26% rise in other operating income, mostly from net gains from financial assets and derivatives. Reflecting ongoing industry pressures, net interest income fell slightly q/q by 1.3% due to lower net interest margins from higher funding costs. Indicating some success in its Target 2018 strategy, overhead expenses fell 2.2% q/q and 14.3% y/y which translated to an improved cost to income ratio. As expected and in line with other bank results, allowances continue to rise increasing by 27.6% q/q and 21.7% y/y. While growth in allowances continues to be concentrated in the wholesale banking segment (Investment Banking, Corporate Banking, Treasury and Markets, Transaction Banking, Equities and Private Banking), growth in allowances was higher on a relative basis in CIMB's corporate banking segment (SMEs and mid-sized corporations) resulting in a fall in profit contribution from this segment to 10% of overall profit before tax (PBT) for 1H2016 compared to 16.2% in 1H2015. PBT continues to be anchored by the consumer banking segment with 35.8% y/y growth in 1H2016. PBT from wholesale banking also grew y/y although this was largely due to better performance in treasury and markets which mitigated weak performance in corporate and investment banking. Indicative of the slow economic conditions, CIMB's balance sheet has remained stable following a fall in loans in 1Q2016 with loan volumes more or less stable since 31 Dec 2015. Fall in revolving credit loans and working capital loans has been compensated for by a rise in housing loans to individuals which has supported the solid income and profit performance in the consumer banking segment. Loan growth is focused in Malaysia whereas loans have fallen in Singapore, Thailand and Indonesia. Impaired loans continue to rise, most notably in Thailand, Singapore and Malaysia translating to higher NPLs in those countries while loan impairment trends have actually improved in Indonesia albeit from a high starting point. Owing to active capital management activities, capital ratios have remained broadly stable since 31 Dec 2015 (and improved q/q) with growth in capital levels (new AT1 and Tier 2 issues) mitigating movements in risk weighted assets. Overall, CIMB's results are somewhat resilient considering industry headwinds. Ongoing success in cost management initiatives will be positive for maintaining profitability as loan quality deteriorates. We maintain our issuer profile at neutral. (Company, OCBC)

Industry Outlook - Hong Kong Property: In an interview with the South China Morning Post, Hong Kong's Secretary for Development dispelled impending uncertainties surrounding Hong Kong land leases which are set to expire in 2047, adding that a smart solution would be worked out by the government. Majority of Hong Kong home mortgages and commercial property financing loans are currently capped at a 30 year tenure and concerns surrounding the expiry of land (and its knock-on financing impact) have emerged over the past few years. We see low risk to short-dated bonds within our Hong Kong property coverage universe, but until the time such policy uncertainties are resolved, upside potential for bonds in the belly-longer end of the curve will be capped. Mapletree Logistics Trust ("MLT") has two SGD perpetuals with call dates in September 2017 and November 2021 respectively. Hong Kong assets amounts to ~SGD1.1bn (representing 22% of MLT's investment properties), these assets have a remaining land lease of ~30 years. (South China Morning Post, OCBC)

Credit Headlines:

ASL Marine ("ASL"): 4QFY2016 results showed revenue increasing 34.7% y/y to SGD98.7mn. The shipbuilding segment had a strong quarter, growing 113.2% y/y to SGD49.9mn. The bulk of revenue generated from shipbuilding was due to tugs and barges, rather than OSVs. Shiprepair and conversion segment revenue was flattish y/y at SGD17.1mn and can be lumpy as some partial conversion work takes more than one quarter and revenue is only recognized upon completion. Shipchartering segment saw revenue jump 41.4% y/y to SGD26.9mn, driven by stronger demand for tugs and barges with ASL benefitting from demand for marine infrastructure business in the region. There was gross margin compression however, from 14.7% (end-4QFY2015) to 11.2% (end-4QFY2016). This was mainly driven by margin pressure at the shipbuilding segment (gross margin fell from 11.1% to 5.4% y/y) and shipchartering segment (gross margin fell from 4.9% to 3.1%). In addition, during the quarter, ASL also took provisions for doubtful receivables of SGD4.0mn (which includes 100% impairment on the amount owed by Swiber Holdings) as well as SGD3.9mn in impairment losses on its built-to-stock vessels as well as on its chartering fleet. The share of results from JV / associates were also a drag, generating SGD3.0mn in losses during the quarter (largely due to ASL's Indonesian associates). In aggregate ASL generated a pre-tax loss of SGD9.5mn for the quarter (4QFY2015: SGD2.5mn profit). Excluding the impairments / provisions, pre-tax loss would have been SGD1.6mn, which is commendable given the challenging environment for offshore marine. For the full-FY2016, ASL generated SGD364.4mn in revenue, up 97.9% y/y (as it had to reverse revenue on certain vessel sales in FY2015) as well as SGD0.9mn in net profits for the year. In aggregate, net order book stands at SGD223mn for shipbuilding (with ~67% to be recognized over FY2017) and SGD150mn for shipchartering. ASL was able to generate SGD55.4mn in operating cash flow (including interest service) for the quarter, a sharp improvement over –SGD1.0mn in 3QFY2016. This was largely due to ASL managing its working capital, with trade payables increasing. After factoring capex, ASL was able to generate SGD29.2mn in free cash flow for the quarter. ASL used the cash generated to deleverage, paying down SGD34.3mn in net borrowings. As such, net gearing fell from 140% to 134% q/q. We note that ASL's interest coverage covenant of 4.0x could be tight, and is largely dependent on the adjustments for EBITDA taken given the impairments / provisions taken during the quarter. ASL has SGD362.9mn in short-term borrowings (62% secured financing), of which SGD100mn is due to a bond maturing on 28/03/17. About SGD84mn relates to the amortizing portion of its long-term vessel & asset financing and a further SGD105mn relates to shipbuilding related. The shipbuilding related borrowings are only payable upon the completion and delivery of the vessels to end-clients. Management indicated that they are in advance stage of discussions to obtain new facility loans to meet ASL's short-term requirements. In addition, ASL has announced a non-underwritten rights issue (1 right for 2 existing shares) to raise up to SGD25mn (at SGD0.12 per share), with the controlling Ang family (~67% stake) undertaken to subscribe to their full entitlements. Though ASL has had a fair quarter given circumstances, with its non-O&G businesses helping to offset the weakness in O&G, short-term liquidity remains an issue and leverage remains high. Though we acknowledge that management is attempting to address the situation, and that cash flow should flow in with vessel deliveries, we will hold ASL's Issuer Profile at Negative. (Company, OCBC)

Credit Headlines:

Guocoland Ltd ("GUOL"): GUOL reported 4QFY2016 results with revenue and EBITDA down 15.8% y/y to SGD215mn and 70.7% y/y to SGD25.3mn respectively. Revenue was lower as the Goodwood Residence in Singapore and Seasons Park in Tianjin were substantially sold in the previous fiscal year. This was partially offset by higher progressive revenue recognized from the sale of the Sims Urban Oasis. Gross margin plunged to 19.8% (4QFY2015: 41.3%) due to the change in sales mix. Other income fell 41.8% y/y to SGD47.2mn due to sharply lower fair value gains on investment properties (fell from SGD72.5mn to SGD14.6mn y/y) though this was offset by a SGD19.0mn divestment gain during the quarter (the sale of Damansara City). As a result, net profit fell 60.7% y/y to SGD49.3mn. For FY2016 GUOL reported SGD1.06bn in revenue, a decline of 8.6% y/y. Full-year net profit was strong, up 155% y/y to SGD622.5mn, driven the gains booked on the divestment of the Dongzhimen development in 1QFY2016. GUOL generated SGD67.6mn in operating cash outflow during the quarter (including interest service). This was largely driven by working capital needs (though inventory was monetized, payables and receivables were both drags on cash). GUOL also made SGD29.6mn in capex, resulting in negative free cash flow of SGD97.2mn for the quarter. GUOL also spent SGD73.5mn in investment properties and redeemed its SGD200mn perpetual security. The ~SGD370mn cash gap was funded by SGD54mn in additional borrowings, SGD88mn divestment (Damansara City) and SGD215mn cash balance draw down. As a result of the perpetual redemption, cash usage and slight increase in borrowings, net gearing has increased to 70% (3QFY2016: 59%), which was in line with our original expectations when GUOL first announced redeeming the perp. Net debt / EBITDA ticked higher to 10.8x (3QFY2016: 8.2x) due to poor EBITDA generating in 4QFY2016. Interest coverage currently stands at 3.8x. We note that GUOL won the tender for a plot at River Valley, paying SGD560mn. This would be reflected in 1QFY2017 results. Assuming that the land acquisition was funded by GUOL's cash balance, it would drive net gearing higher to pro-forma 86%. Liquidity will be more stretched, with SGD2.1bn in short-term borrowings compared to SGD870mn in cash (after factoring the land acquisition). That said, we believe that the TOP of Tanjong Pagar Centre (80% effective interest, the largest part of GUOL's investment properties) in 2H2016 would help support GUOL's performance. We note as well that SGD1.6bn worth of short-term borrowings are secured and likely relate to development financing. In aggregate though, we will downgrade GUOL's Issuer Profile to Neutral given the distinct increase in leverage due to investments, despite the sharp improvement post the Dongzhimen divestment. GUOL has four bonds maturing through the end of 2017, which total SGD560mn. These can currently be met with GUOL's cash balance can could provide decent short-term carry. (Company, OCBC)

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