Asian Credit Daily

October 31, 2016

Credit Headlines (Page 2 onwards): Starhill Global REIT, DBS Group Holdings Ltd., Australia and New Zealand Banking Group Ltd., Bank of Communications Co. Ltd., Central China Real Estate Ltd., Frasers Hospitality Trust.

Market Commentary: The SGD swap curve traded upwards last Friday with swap rates trading 1-7bps higher across all tenors. Notably, the overnight swap rate traded ~11bps higher. Flows in the SGD corporates were light with better selling seen in FCLSP 4.88%'49s while mixed interest was seen in BAERVX 5.75%'49s. In the broader dollar space, the spread on JACI IG corporates decreased 1bps to 205bps while the yield on JACI HY corporates remained levelled at 6.63%. Likewise, 10y UST yield remained relatively unchanged at 1.85% with investors staying cautious ahead of Federal Reserve and Bank of Japan meetings this week.

New Issues: Shanxi Road & Bridge Construction Group Co. priced a USD250mn 3-year bond at 4.85%, tightening from its initial guidance at 6.25%. The expected issue ratings are "BB/NR/NR". Suqian Economic Development Co. Ltd. has scheduled investor road shows from 31 October onwards for potential USD bond issue with expected issue ratings of "NR/NR/BB". Beazley PLC has priced a USD250mn 10-year tier 2 bond at CT10+402.5bps. The expected issue ratings are "NR/NR/BBB+".

Rating Changes: S&P has upgraded Mitsui Life Insurance Co. Ltd.'s insurer financial strength and long-term counter party credit ratings to "A" from "A-" with a stable outlook. The upgrades reflect S&P's revision of Mitsui Life's stand-alone credit profile to "bbb" from "bbb-", which is based on the assessment that its capital and earnings have improved and therefore its financial risk profile is strengthened. S&P upgraded Longfor Properties Co. Ltd.'s corporate credit rating to "BBB-" from "BB+" with a stable outlook. The upgrade reflects S&P's expectation that Longfor's strategy to increase its rental income in the coming years will improve its earnings quality. At the same time, S&P also expects the company to maintain steady operating performance over the period, continuing to be prudent in financial management and maintain its debt leverage at the current level.

Table 1: Key Financial Indicators

	31-Oct	1W chg (bps)	1M chg (bps)		31-Oct	1W chg	1M chg
iTraxx Asiax IG	116	1	0	Brent Crude Spot ($/bbl)	49.42	-3.96%	0.73%
iTraxx SovX APAC	34	0	1	Gold Spot ($/oz)	1,277.17	1.01%	-2.94%
iTraxx Japan	56	0	-1	CRB	189.21	-0.10%	1.55%
iTraxx Australia	103	--	1	GSCI	370.01	-1.54%	1.52%
CDX NA IG	78	4	3	VIX	16.19	21.36%	21.82%
CDX NA HY	104	-1	-1	CT10 (bp)	1.843%	7.85	24.88
iTraxx Eur Main	73	2	0	USD Swap Spread 10Y (bp)	-14	2	0
iTraxx Eur XO	329	13	0	USD Swap Spread 30Y (bp)	-55	2	-1
iTraxx Eur Snr Fin	96	5	-5	TED Spread (bp)	61	5	4
iTraxx Sovx WE	19	0	-6	US Libor-OIS Spread (bp)	38	-1	-3
iTraxx Sovx CEEMEA	90	-3	-2	Euro Libor-OIS Spread (bp)	4	0	-1
					31-Oct	1W chg	1M chg
				AUD/USD	0.759	-0.29%	-0.98%
				USD/CHF	0.988	0.54%	-1.70%
				EUR/USD	1.098	0.85%	-2.31%
				USD/SGD	1.392	0.07%	-2.09%
Korea 5Y CDS	41	1	1	DJIA	18,161	0.09%	-0.80%
China 5Y CDS	104	-1	0	SPX	2,126	-0.69%	-1.93%
Malaysia 5Y CDS	124	3	5	MSCI Asiax	543	-1.85%	-1.38%
Philippines 5Y CDS	115	1	-1	HSI	22,955	-1.80%	-1.47%
Indonesia 5Y CDS	154	4	5	STI	2,816	-0.52%	-1.85%
Thailand 5Y CDS	95	-1	10	KLCI	1,670	0.02%	1.07%
				JCI	5,410	0.02%	0.85%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
31-Oct-16	Shangxi Road & Bridge Construction	"BB/NR/NR"	USD250mn	3-year	4.85%
31-Oct-16	Beazley PLC	"NR/NR/BBB+"	USD250mn	10-year	CT10+402.5bps
27-Oct-16	Guangxi Communications Group Corp.	"NR/Baa3/BBB"	USD300mn	3-year	CT3+202.5bps
27-Oct-16	Li & Fung Ltd.	"BBB-/Baa3/NR"	USD650mn	Perp-NC5	5.25%
27-Oct-16	China Development Bank Corp.	"AA-/Aa3/NR"	USD350mn	5-year	CT5+70bps
27-Oct-16	Bank of East Asia Ltd.	"BBB-/NR/NR"	USD500mn	10NC5	CT10+270bps
27-Oct-16	Bright Galaxy International Ltd.	"NR/NR/BBB-"	USD500mn	5-year	CT5+225bps
27-Oct-16	Golden Wheel Tiandi Holdings Co. Ltd.	"NR/B2/B"	USD100mn	3-year	8.25%
27-Oct-16	Sirius International Group. Ltd.	"BBB/NR/BBB-"	USD400mn	10-year	CT10+285bps

Source: OCBC, Bloomberg

Rating Changes (cont'd):

S&P upgraded Liberty Financial Pty. Ltd's credit ratings to "BBB" from "BBB-" with a negative outlook. The upgrade reflects Liberty's strengthened capital position and S&P's expectation that the company will maintain its very strong capitalization. Moody's withdrew its corporate family rating on IXOM Pty. Ltd. due to business reasons. The rating prior to withdrawal was "B1" with a stable outlook. Moody's withdrew its credit rating on Chemstralia Pty. Ltd. due to business reasons. The rating prior to withdrawal was "B1" with a stable outlook. Fitch affirmed Beijing Capital Land Ltd's issuer default ratings of "BB+" with a stable outlook. Fitch has assigned Suqian Economic Development Corp. (SEDC) issuer default ratings of "BB" with a stable outlook. At the same time, Fitch also assigned its proposed senior unsecured USD bond issue with an expected rating of "BB". Fitch assigned John Deere Financial Ltd. an issuer default rating of "A" with a stable outlook.

Credit Headlines:

Starhill Global REIT ("SGREIT"): 1QFY2017 results (for the quarter ending September 2016) reported that gross revenue declined 2.7% y/y to SGD55.3mn. NPI declined 1.7% y/y to SGD42.8mn. The softness was largely driven by its Australia assets, which reported revenue decline of 10.0% y/y to SGD11.7mn (21% of total revenue), driven by both vacancies at Myer Centre Adelaide office and planned lease terminations at Plaza Arcade due to the looming AEI. There was continued weakness at SGREIT's Chengdu mall as well. Given the supply glut of retail space looming in Chengdu, SGREIT is converting the mall into a long-term anchor tenant with fixed rental. The asset will be impacted while existing tenants are being eased out, though the impact to the trust would be minimal given the small size of the asset relative to the portfolio (~2% of revenue). On a q/q basis, numbers were stronger with gross revenue up 3.0%, while NPI was up 3.6%. Improvements were driven by Wisma Atria's retail as Isetan's strata-owned retail space ramped back up. Some improvements were also seen at SGREIT's Malaysian assets. NPI improved q/q as revenue increased while property expenses remained stable. Portfolio occupancy dipped to 93.8% (4QFY2016: 95.1%), driven by sharp falls in occupancy in both Japan (100% to 87.8% q/q) and China (96.4% to 74.4% q/q). The latter was due to the tenant transition mentioned earlier while no details were given regarding the sharp fall in the Japanese assets' occupancies. We note that Ngee Ann City's office occupancy continues to dip (to 92.5%, compared to 100% as of end-March 2016), reflecting challenging conditions for the office market. Myer Centre Adelaide's occupancy remains weak at 85.7%, due to the lease expiry of one office tenant during 3QFY2016. WALE by NLA remains decent at 6.9 years, though it has worsened slightly q/q (4QFY2016: 7.1 years). Aggregate leverage remained stable at 35.1% (end-4QFY2016: 35.0%). Reported interest coverage remained steady at 4.4x q/q. Though SGREIT has minimal debt maturing in FY2017 (SGD9mn worth), it has SGD250mn term loan and AUD145mn loan due in FY2018. It is worth noting that SGREIT issued a 10 year SGD70mn bond in October 2016, of which SGD9mn will be used to retire the SGD9mn revolver due FY2017 as well as retire a SGD50mn term loan due in September 2018. We believe that SGREIT has some financial flexibility as 73% of its assets remain unencumbered. Going forward, we believe that SGREIT will be weighed down by gradual deterioration to its Singapore office and retail assets due to the challenging domestic environment, as well as by transitional issues for its overseas assets. We will reiterate SGREIT's Neutral Issuer Profile. (Company, OCBC)

Credit Headlines:

DBS Group Holdings Ltd. ("DBS"): Reported relatively stable 3Q2016 results on a y/y and q/q basis. Profit before allowance performance was solid on stable net interest income (combination of loan growth from corporate loans and Singapore housing loans and weaker net interest margins in line with lower interest rates), higher non-interest income (increase in trading income and gains on fixed assets) and lower expenses (cost to income ratio for 3Q2016 was 40.9% against 44.0% and 46.5% for 2Q2016 and 3Q2015 respectively). However allowances grew materially as expected due to oil and gas support services exposures which are reportedly well collateralized and losses expected to be minimal. Nevertheless, total allowances have doubled for the 9M2016 to SGD972mn, with DBS disclosing that this is due to higher specific allowances related to Swiber Holdings, and this has translated to 3Q2016 and 9M2016 net profit staying flat on a y/y basis. In terms of loan quality, the non-performing loan ratio rose to 1.3% as at 3Q2016 from 1.1% and 0.9% as at 2Q2016 and 3Q2015 respectively and despite the large increase in allowances, the allowance coverage fell to 100% from 113% and 161% as at 2Q2016 and 3Q2015 respectively. Unsecured allowance coverage improves to 204% with collateral considered. DBS' balance sheet remains strong with solid liquidity and leverage buffers and higher capital ratios. This was due to higher growth in capital from scrip election for dividends, retained earnings and the USD750mn Additional Tier 1 issue in late August which compensated for the growth in risk weighted assets from changes in exchange rates and risk weights with CET1/CAR ratios as at 3Q2016 of 14.4%/16.5% (2Q2016: 14.2%/16.3%). In summary, strong pre-provision income performance continues to be the result of DBS's solid franchise and market position but rising allowances have negated this performance and translated to stable profit performance. The fact that allowance coverage ratios have fallen now to 100% though raises the question of whether current provisions are enough in terms of DBS' loan quality (total allowance coverage is now lower than peers) and if the collateral for these non-performing assets are adequate. While we believe that allowances may need to rise further to appropriately cover quality issues in the loan book (and subsequently needs to dent profit performance), DBS's ongoing solid earnings generation and strong capital ratios remain a buffer for the credit profile through the current challenging environment. Separately, DBS announced that it will buy Australia and New Zealand Banking Group Ltd's ("ANZ") Asian retail and wealth management businesses in five Asian countries, with the bulk of the business located in Singapore (please see credit headline for ANZ for further details). Loans and deposits to be acquired comprise around 4% and 5% respectively of 3Q2016 balances while assets under management ("AUM") to be acquired comprise around 9% of DBS's AUM (based on Asian Private Banker 2015 Asia AUM rankings). While this acquisition will be accretive to DBS's existing business position both domestically and regionally, it is still subject to regulatory approvals and will take around 2-3 years to complete. This announcement together with the 3Q2016 results do not alter our Neutral Issuer Profile rating on DBS. (Company, OCBC)

Australia and New Zealand Banking Group Ltd. ("ANZ"): ANZ has announced the sale of its Asian retail and wealth management businesses in Singapore, Indonesia, Taiwan, Hong Kong and China for a purchase consideration of AUD110mn (representing the estimated premium to net tangible assets at completion). ANZ has disclosed that the businesses being sold include ~AUD11bn in gross lending assets, ~AUD7bn in credit risk weighted assets and ~AUD17bn in deposits based on 30 September 2016 values and contributed approximately AUD825mn in revenue and AUD50mn in net profit for FY2016. This announcement is consistent with ANZ's previously announced strategy of re-focusing on core businesses in Australia and New Zealand and selectively concentrating on more profitable segments in Asia. The move is also consistent with the broader industry consolidation being seen in Asian wealth management as smaller businesses look to exit this increasingly competitive segment. As part of its announcement, ANZ stated it will focus on its Institutional Banking businesses in Asia. ANZ will record a net loss of ~AUD265mn including write-downs of software, goodwill and fixed assets, and separation and transaction costs but ANZ expected its CET1 capital ratio to increase by ~15-20 basis points. The transaction is expected to begin from mid-2017 and is still subject to regulatory approvals. ANZ is due to report its annual results on 3 November 2016. We will wait for the full year results release before contemplating any changes to the Neutral Issuer Profile for ANZ. (Company, OCBC)

Credit Headlines:

Bank of Communications Co. Ltd. ("BoCom"): BoCom reported its 9M2016 results with weaker operating income performance arising from a 12% and 7% y/y fall in net interest income for 3Q2016 and 9M2016 respectively. This was due to the ongoing pressure on net interest margins which fell to 1.91% for 9M2016 from 2.24% as at 9M2015. Net fee and commission income was marginally weaker (down 1.3%) y/y for the quarter but remains 5.4% up y/y for the 9M2016 due to growth in agency (fee income from insurance agency services) and management (asset management and agency wealth management) services and lower fee and commission expense. Impairment losses on loans and advances actually fell y/y for the quarter but remain up 7% y/y for the 9M2016 in line with anticipated rising weakness in the loan portfolio with BoCom's non-performing loan ratio and loan loss coverage ratio remaining broadly similar to 1H2016 levels at 1.53% and 150.31% respectively as at 30 September 2016 and higher than FY2015 (1.51% and 155.6%). BoCom's balance sheet continues to grow despite the slowing Chinese economy, with total assets up 13.1% from 31 Dec 2015, driven by the 8.2% rise in loans and advances to customers over the same period. Capital ratios have remained stable to marginally improved with reported CET1/CAR ratios at 11.1%/14.2% as opposed to 11.1%/13.5% for FY2015. Our take on the results is largely neutral with net interest income pressure and ongoing asset quality concerns depressing profitability. Earnings generation continues to be supported by balance sheet growth and given the weaker economic conditions, asset quality and new NPL formation will be key to maintaining BoCom's credit profile. As we previously mentioned in the results review of Bank of China, continued credit driven growth in the economy presents its own set of risks for China's banks. We maintain our neutral issuer profile on BoCom. (Company, OCBC)

Central China Real Estate Ltd. ("CENCHI"): CENCHI is proposing to conduct an offering of USD denominated senior notes (to be listed on the SGX). The company's current intention is to use the proceeds to repay existing debt, including to fully redeem or repurchase its existing SGD bonds (CENCHI 6.5% '17s). Reportedly, the new USD bonds have a 5 year maturity, non-callable for 3 years with an IPT of 6% and may price sometime today. We maintain a Neutral issuer profile on CENCHI. (Company, Bloomberg).

Frasers Hospitality Trust ("FHT"): FHT announced its 4Q2016 and preliminary FY2016 results. For 4Q2016, gross revenue was up 8.6% to SGD33.5mn while net property income ("NPI") increased 11.5% to SGD28.7mn. For the full year, gross revenue was up 17.1% to SGD123.6mn (annualized FY2015: SGD105.6mn) while NPI was up 20.6% to SGD104.2mn (annualized FY2015: SGD86.4mn), driven by acquisitions during the year EBITDA/Gross interest for FY2016 was 4.3x while fixed rent was SGD55.62mn (representing 45% of gross revenue). Fixed rent alone provided 2.5x coverage for FHT's gross interest and distribution on perpetual securities in FY2016. Aggregate leverage as at 30 September 2016 (as measured by Debt-to-Total Assets) was 37.7%, healthier than our earlier estimates in the immediate aftermath of Brexit. While FHT's UK portfolio value has deteriorated by ~20% in SGD terms to SGD319.7mn (30 Sep 2015: SGD398.2mn), overall portfolio excluding the Hotel Maritim Dresden (acquired in June 2016) was relatively flat. Valuation gains in all 3 Australian properties (collectively up SGD72.3mn) managed to offset the valuation losses in the UK. In light of FHT's recently equity funded acquisition for Novotel in Melbourne, we expect total asset base to increase by ~SGD243mn, thereby improving aggregate leverage to 34%. Perpetual securities at FHT is manageable at only SGD100mn and represent 5% of its total capital base. We are reviewing FHT's issuer profile. (Company, OCBC)

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