Asian Credit Daily

November 8, 2016

Credit Headlines (Page 2 onwards): Singapore Post, First REIT, OUE Ltd.

Market Commentary: The SGD swap curve traded upwards yesterday with swap rates trading 1-4bps higher across all tenors amidst a global stock rally, along with commodities, on speculation that Hillary Clinton's chances of a US election victory has increased following the FBI's conclusion of her email probe. Flows in the SGD were light with investors staying cautious ahead of US presidential results this week. In the broader dollar space, the spread on JACI IG corporates decreased 1bps to 207bps while the yield on JACI HY corporates decreased 1bps to 6.59%. 10y UST yield increased 5bps to 1.83% as risk-off sentiments eased and the market re-priced a higher likelihood of a Clinton victory.

New Issues: China Huarong Asset Management Ltd. has scheduled investor meetings from 8 November for a potential USD bond issue with expected issue ratings of "BBB+/NR/A". China Grand Automotive Services has scheduled investor road shows from 8 November for a potential USD bond issue with expected issue ratings of "NR/NR/B+". Shinhan Bank has scheduled investor road shows from 14 November onwards for potential USD Tier-2 bond issue. Oil India Ltd. has indicated that it plans to issue a USD800mn 5-year bond to refinance its existing loans.

Rating Changes: Moody's has affirmed its "Baa3" issuer rating on Alcoa of Australia Ltd. (AoA) with a stable outlook. This concludes the review for downgrade initiated on 23 September, 2016 following a reorganization of the broader Alcoa group and Moody's first-time assignment of a "Ba3" corporate family rating with stable outlook to Alcoa Nederland Holding on 20 September, 2016. The rating affirmation of AoA's "Baa3" rating reflects Moody's expectation that AoA will continue to operate with very low debt levels, and that AoA will continue to operate with minimal debt in its capital structure going forward.

Table 1: Key Financial Indicators

	8-Nov	1W chg (bps)	1M chg (bps)		8-Nov	1W chg	1M chg
iTraxx Asiax IG	116	-2	-1	Brent Crude Spot ($/bbl)	46.27	-3.88%	-10.90%
iTraxx SovX APAC	35	-1	2	Gold Spot ($/oz)	1,281.72	-0.50%	1.75%
iTraxx Japan	57	2	2	CRB	183.50	-1.49%	-2.56%
iTraxx Australia	105	1	1	GSCI	352.92	-2.41%	-5.08%
CDX NA IG	77	-3	2	VIX	18.71	9.67%	38.80%
CDX NA HY	104	1	0	CT10 (bp)	1.817%	-1.02	9.91
iTraxx Eur Main	74	-1	1	USD Swap Spread 10Y (bp)	-14	1	3
iTraxx Eur XO	327	-9	-4	USD Swap Spread 30Y (bp)	-55	-1	1
iTraxx Eur Snr Fin	97	-3	-1	TED Spread (bp)	52	-9	-2
iTraxx Sovx WE	19	0	-2	US Libor-OIS Spread (bp)	37	-1	-6
iTraxx Sovx CEEMEA	91	0	0	Euro Libor-OIS Spread (bp)	4	0	-1
					8-Nov	1W chg	1M chg
				AUD/USD	0.770	0.68%	1.28%
				USD/CHF	0.975	0.08%	0.81%
				EUR/USD	1.104	-0.15%	-0.91%
				USD/SGD	1.392	-0.22%	-1.21%
Korea 5Y CDS	44	2	4	DJIA	18,260	0.65%	0.10%
China 5Y CDS	107	-4	3	SPX	2,132	0.25%	-1.03%
Malaysia 5Y CDS	122	-3	4	MSCI Asiax	537	-1.30%	-3.54%
Philippines 5Y CDS	111	-4	-5	HSI	22,801	-1.49%	-4.40%
Indonesia 5Y CDS	152	-4	2	STI	2,815	0.03%	-2.11%
Thailand 5Y CDS	92	-4	9	KLCI	1,655	-0.98%	-0.65%
				JCI	5,386	-0.67%	0.17%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
7-Nov-16	EXIM Korea (Re-tap of SGD60mn)	"NR/Aa2/AA-"	SGD310mn	3-year	2.04%
7-Nov-16	Mapletree Commercial Trust	"NR/Baa1/NR"	SGD85mn	7-year	2.795%
4-Nov-16	China Nuclear Engineering	"NR/NR/NR"	CNH1.5bn	3-year	4.3%
3-Nov-16	Intl. Bank for Reconstruction & Dev.	"NR/Aaa/NR"	SGD500mn	3-year	1.12%
3-Nov-16	Bank of China Ltd.	"NR/Aa3/NR"	USD500mn	3-year	CT3+95bps
3-Nov-16	Huishang Bank Corp.	"NR/NR/NR"	USD888mn	Perp-NC5	5.5%
1-Nov-16	Wuhan Metro Group Co. Ltd.	"NR/NR/A"	USD290mn	3-year	CT3+180bps
1-Nov-16	Central China Real Estate	"B+/Ba3/NR"	USD200mn	5NC3	6.75%
31-Oct-16	Chalco Hong Kong Investment Co. Ltd.	"NR/NR/BBB"	USD500mn	Perp-NC5	4.25%

Source: OCBC, Bloomberg

Rating Changes (cont'd):

Moody's has assigned a "B1" corporate family rating to China Grand Automotive Services Co. Ltd. (CGA) with a stable outlook. The rating reflects CGA's strong position in China's auto dealership market as well as its moderately high debt leverage, weak liquidity, and exposure to regulatory risk. Fitch also assigned CGA a "BB-" foreign-currency issuer default rating with a stable outlook. The rating is supported by its large operating scale and leading market position, along with its robust long-term growth prospects. This is mitigated by CGA's weak bargaining power in a competitive industry and its high leverage.

Credit Headlines:

Singapore Post Ltd. ("SPOST"): SPOST reported 2QFY2017 results for the quarter ending September 2016. Revenue jumped 22.3% y/y to SGD321.7mn, largely driven by acquisitions made in the eCommerce business segment (Trade Global in November 2015, Jagged Peak in March 2016). The acquisitions caused the eCommerce segment revenue to jump from SGD8.1mn (2QFY2016) to SGD64.0mn (2QFY2017). The logistics segment declined slightly by 1.2% y/y to SGD154.1mn, with the general economic downturn impacting the freight forwarding business. The core postal segment was flattish as well at SGD126.9mn, with the trend of international mail revenue growth offsetting the structural decline in domestic mail revenue continuing. The quarter's international mail revenue of SGD58.9mn is roughly equal to domestic mail revenue of SGD60.4mn. We note that SPOST's q/q total revenue actually fell 3.5%, with all three segments seeing q/q revenue declines. The postal business declined 7.4% q/q, with the slump in international mail revenue sharper than that of domestic mail revenue, which is a concern given that the growth in international mail revenue was supposed to offset structural decline in the domestic mail business. The eCommerce business saw revenue decline 2.0% q/q, with both TradeGlobal and Jagged Peak seeing q/q revenue declines. This is troubling as these acquisitions were made with high growth in mind. The logistics business saw q/q 1.7% revenue decline, with Quantium Solutions showing some weakness. Operating margin continues to decline from 24.5% (2QFY2016) to just 11.8% (2QFY2017). Aside from the on-going segment rotation away from the more profitable postal business to the logistics and eCommerce businesses, the postal business saw operating profit slump sharply due to one-off events that boosted domestic mail business in 2QFY2016 (such as the general elections and SG50). The logistics segment saw margin compression due to expenses relating to the completion of the Regional eCommerce Logistics Hub as well as pricing pressures in the eCommerce Logistics space. Finally, operating losses at the eCommerce segment continue to widen, generating an operating loss of SGD6.8mn (1QFY2017: -SGD3.5mn). Management attributed the losses to SPOST continued investments into IT and operational activities, as well as cost increases for seasonal fulfilment labour in the US due to competition. Operating cash flow (including interest service) has worsened sharply q/q from SGD78.1mn (1QFY2016) to SGD17.2mn (2QFY2016). This resulted in negative free cash flow of SGD29.3mn. Coupled with SGD94mn paid out in dividends and perpetual securities distributions, the cash gap was covered by SGD39.0mn increase in net borrowings and SGD74.8mn drawdown on SPOST's cash balance. This drove SPOST's net gearing higher q/q to 16% (1QFY2017: 8%). Looking forward, management has declared that future dividends will be dependent on SPOST's quarterly net income, with a payout ratio of 60% – 80% rather than the fixed targeted amount in the past. This should help align SPOST's future dividends to underlying earnings and is a credit positive. We note as well that SPOST has completed the 34% sale of Quantium Solutions International ("QSI") to Alibaba in October, with Alibaba paying SGD86.2mn for new shares. As SPOST will continue to consolidate QSI post the transaction, the cash infusion will be a credit positive. Finally, Alibaba's second investment into SPOST has been delayed yet again, with the long stop date extended to 28/02/17. The investment was first announced in July 2015. We will continue to hold SPOST's Issuer Profile at Neutral. (Company, OCBC)

OCBC Bank

Credit Headlines:

First REIT ("FREIT"): First REIT (via an indirect wholly-owned subsidiary) has entered into a conditional sale and purchase agreement with an indirect wholly-owned subsidiary of its sponsor PT Lippo Karawaci Tbk ("Lippo Karawaci") to acquire Siloam Hospital Labuan Bajo for SGD20mn. The hospital has a maximum capacity of 153 beds and only commenced operations in January 2016. The expected initial base rent to be paid to FREIT is SGD1.85mn p.a. The town of Labuan Bajo (located in East Nusa Tenggara) focuses on fishing and tourism. Given that this is a related party transaction, the proposed acquisition is subject to the approval of unitholders. As at 30 September 2016, FREIT's asset base is SGD1.33n and upon completion of this transaction, FREIT's asset base will increase to SGD1.35bn. As part of the acquisition, a 15 year + 15 year renewal option Master Lease will be entered into. As at 30 September 2016, FREIT has cash balances of SGD37.9mn, no short term debt due and a healthy aggregate leverage as measured by gross debt-to-total assets of 29.7%. Adjusting gross debt by 50% for its perpetual securities outstanding, we find adjusted gross debt-to-total asset at 32%. Ceteris paribus, we see this transaction as credit neutral to FREIT though we do expect FREIT's leverage levels to creep up over a medium term period as the REIT continues to pursue further acquisitions (eg: from its Sponsor's hospital pipeline). Lippo Karawaci's Ba3 credit ratings was put on a negative outlook by Moody's in mid-October. (Company, OCBC)

OUE Ltd. ("OUE"): OUE reported 3Q2016 results, with revenue surging to SGD419.1mn (3Q2015: SGD99.0mn). This was driven by Development Property income, which generated no revenue in 3Q2015, but generated SGD89.2mn due to strong sales of the Twin Peaks condo (sustained due to the deferred payment scheme introduced in April), as well as SGD205mn recognized from the divestment of the Crowne Plaza Changi Airport extension ("CPEX") into OUEHT. Aside from this, Investment Properties income grew as well by 50.1% to SGD65.6mn, due to the consolidation of One Raffles Place into OUE's results. Revenue from the Hospitality segment was relatively stagnant at SGD52.4mn. Net income surged as well during the quarter to SGD113.6mn (with OUE recognizing a SGD66.7mn gain on the divestment of CPEX). As of end-3Q2016, OUE sold 268 units of the Twin Peaks development, out of 462 units across both towers (with marketing of Tower 1 units only having started in 2H2016). Profits were also supported by reversals on impairment losses (SGD15.1mn gain seen in the quarter) on the Twin Peaks. As a result of sales driven by DPS (with 20% non-refundable deposits paid) only being recognized upon completion, the deposits paid are booked as a non-current liability as deferred income. These stand at SGD58.8mn as of end-3Q2016, representing ~SGD294mn in sales, up from ~SGD190mn one quarter back. Cash flow from operations (CFO) (including interest service) surged as well to SGD313.6mn, mainly due to the cash proceeds from the CPEX divestment. About SGD44.3mn was spent during the quarter on the on-going AEI at OUE Downtown. OUE also paid down about SGD220mn in net debt and paid out ~SGD40mn in dividends. In aggregate, net gearing improved q/q from 67% to 60%. OUE continues to have SGD703.4mn in short-term debt versus SGD213.1mn in cash. We believe that OUE should be able to refinance its short-term borrowings, especially given the strong sales at Twin Peaks. Looking forward, most of the near-term catalysts have already played out, though future revenue recognition from Twin Peak DPS sales would help support total revenue. It could be challenging to ramp up the retail portion of the OUE Downtown given the tough environment. We will retain our Neutral issuer profile on OUE. (Company, OCBC)

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