Asian Credit Daily

March 1, 2017

Credit Headlines (Page 2 onwards): Olam International Limited, Sabana Shari'ah Compliant Industrial REIT, Hong Fok Corp Ltd, Ezra Holdings Ltd, CIMB Group Holdings Berhad, Yanlord Land Group Ltd

Market Commentary: The SGD swap curve was relatively flattish yesterday, with the exception of the longer tenors (15 -30 year) which traded lower at around 2bps. Flows in SGD corporates were heavy, with better buying seen in UOBSP 3.5%'29s, GUOLSP 4%'22s, OLAMSP 7%'49s, ANZ 3.75%'27s, and mixed interest in PILLSP 5.9%'17s, UOBSP 3.5%'26s, OLAM 6%'22. In the broader dollar space, the spread on JACI IG corporates rose 3bps to 195bps while the yield on JACI HY corporates fell 6bps to 6.60%. 10y UST yields rose 3bps to 2.39%, after Federal Reserve officials showed hawkish signals; Federal Reserve Bank of San Francisco President John Williams said he expects an interest-rate increase to receive "serious consideration" at the March meeting, while Federal Reserve Bank of New York President William Dudley said the case for tightening "has become a lot more compelling," with most data consistent with above-trend economic growth.

New Issues: CALC Bond 3 Ltd. priced a USD500mn two-tranche deal (guaranteed by China Aircraft Leasing Group Holdings Ltd.) with the USD300mn 5-year piece priced at 4.7% (tightening from initial guidance of 5%) and the USD200mn 7-year piece priced at 5.5% (tightening from initial guidance of 5.75%). Grand China Air (Hong Kong) Ltd. priced a USD450mn 2-year bond (guaranteed by Grand China Air Co.) at 6.5%, tightening from initial guidance of 7%. BOS Funding Limited priced a USD500mmn 5-year bond (guaranteed by Bank of Sharjah) at MS+225bps, tightening from initial guidance of MS+250bps. The expected issue ratings are 'NR/NR/BBB+'. Eros International PLC scheduled investor roadshows from 1 March for a potential USD bond issuance. The expected issue ratings are 'B+/NR/NR'. Trafigura Group Pte Ltd. scheduled investor roadshows from 6-10 March for a potential USD Perp issuance.

Table 1: Key Financial Indicators

	1-Mar	1W chg (bps)	1M chg (bps)		1-Mar	1W chg	1M chg
iTraxx Asiax IG	96	0	-17	Brent Crude Spot ($/bbl)	56.54	1.25%	-0.46%
iTraxx SovX APAC	27	1	-6	Gold Spot ($/oz)	1,244.68	0.59%	2.88%
iTraxx Japan	52	0	-2	CRB	190.62	-0.74%	-1.91%
iTraxx Australia	84	0	-10	GSCI	402.22	-0.57%	0.13%
CDX NA IG	62	0	-4	VIX	12.92	11.67%	9.40%
CDX NA HY	108	0	1	CT10 (bp)	2.410%	-0.33	-6.03
iTraxx Eur Main	73	-1	-1	USD Swap Spread 10Y (bp)	-2	1	7
iTraxx Eur XO	292	-3	-10	USD Swap Spread 30Y (bp)	-37	0	5
iTraxx Eur Snr Fin	92	-2	1	TED Spread (bp)	56	2	3
iTraxx Sovx WE	21	-2	-2	US Libor-OIS Spread (bp)	24	-9	-11
iTraxx Sovx CEEMEA	65	-2	-11	Euro Libor-OIS Spread (bp)	2	0	0
					1-Mar	**1W chg**	**1M chg**
				AUD/USD	0.767	-0.39%	1.15%
				USD/CHF	1.007	0.32%	-1.39%
				EUR/USD	1.057	0.10%	-1.86%
				USD/SGD	1.406	0.51%	0.52%
Korea 5Y CDS	45	2	-2	DJIA	20,812	0.33%	4.63%
China 5Y CDS	92	0	-19	SPX	2,364	-0.07%	3.69%
Malaysia 5Y CDS	109	2	-22	MSCI Asiax	564	-0.84%	2.95%
Philippines 5Y CDS	85	3	-14	HSI	23,808	-1.63%	2.10%
Indonesia 5Y CDS	130	4	-21	STI	3,117	-0.16%	1.62%
Thailand 5Y CDS	55	-1	-18	KLCI	1,694	-0.82%	1.35%
				JCI	5,373	0.26%	0.85%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
28-Feb-17	CALC Bond 3 Ltd.	Not Rated	USD300mn	5-year	4.7%
28-Feb-17	CALC Bond 3 Ltd.	Not Rated	USD200mn	7-year	5.5%
28-Feb-17	Grand China Air (Hong Kong) Ltd.	Not Rated	USD450mn	2-year	6.5%
28-Feb-17	BOS Funding Limited	"NR/NR/BBB+"	USD500mn	5-year	MS+225bps
27-Feb-17	Westpac Banking Corp	"AA-/Aa2/NR"	USD1.65bn	3-year	CT3+72bps
27-Feb-17	Westpac Banking Corp	"AA-/Aa2/NR"	USD600mn	3-year	3mL+43bps
27-Feb-17	Westpac Banking Corp	"AA-/Aa2/NR"	USD1bn	10-year	CT10+100bps
27-Feb-17	China Development Bank (HK Branch)	"AA-/Aa3/NR"	USD850mn	3-year	3mL+55bps

Source: OCBC, Bloomberg

Rating Changes: S&P assigned Gome Electrical Appliances Holdings Ltd. (Gome) a 'BB' corporate credit rating, with a stable outlook. In addition, S&P assigned a 'BB-' issue rating to Gome's proposed U.S dollar-denominated senior unsecured notes. The rating actions reflect Gome's operations in the highly competitive electronics and appliance retail industry in China and its moderate product differentiation, which has resulted in weak profitability. However, the company's satisfactory market position, strong brand name, and extensive distribution network temper these weaknesses. S&P assigned Yanfeng Global Automotive Interior Systems Co. Ltd. (YFAI) a 'BBB-' corporate credit rating, with a stable outlook. The rating action reflects S&P's view of the company's sound market position in the auto-interior sector and its low leverage. However, S&P notes that "YFAI's concentration in commodity-like auto-interior products and its short record of operating as a combined entity pose some uncertainty to its profitability and cash flow over the next 12-24 months". At the same time, Moody's assigned a '(P)Baa3' issuer rating to YFAI, with a stable outlook. The provisional status of the rating will be removed once YFAI publishes 2016 audited financials that are in line with Moody's expectations

Credit Headlines:

Olam International Limited ("OLAM"): OLAM reported its FY2016 results. Revenue increased by 8.1% to SGD20.6bn (12M2015: SGD19.0bn) and EBITDA increased 10.8% to SGD1.2bn based on company EBITDA calculation which excludes exceptional items. Increase in EBITDA was driven by the Confectionary and Beverage Ingredient segment and Food Staples and Packaged Foods business (collectively up SGD241.3mn) against declines in Edible Nuts, Spices and Vegetable Ingredients ("Edible Nuts and SVI"), Industrial Raw Materials, Logistics and Infrastructure and Commodity Financial Services ("CFS"), collectively down SGD123.8mn. Adjusting for the effects of exceptional items, OLAM's finance cost went down in FY2016 to SGD446.2mn (against SGD485mn annualising for 12M2015). This follows the company's efforts in debt optimisation by repurchasing expensive debt and refinancing in 2016. We find EBITDA/Interest to have improved to 2.8x from 2.2x in 12M2015. In FY2016, OLAM reported significantly higher profit after tax of SGD339.1mn against a net loss of SGD116.6mn in 12M2015. Nevertheless, depreciation of the Mozambican Metrical and Nigerian Naira led to a SGD306mn foreign currency translation adjustment. Along with other fair value losses, losses on hedged transactions and share of other comprehensive loss of JVs and associates (collectively loss of SGD117.9mn), OLAM reported a comprehensive loss of SGD84.9mn. While these items are non-cash, book value equity suffered as a result. The company reported cash flow from operations (before tax and interest) of SGD1.05bn against SGD242.3mn. While we are comforted that OLAM has generated a strong CFO for FY2016, we believe this was boosted by one-off working capital items received (eg: receipt of cash from sale and leaseback arrangements). Though we are not certain if OLAM is able to repeat its SGD1.05bn CFO come FY2017, we see the integration of the midstream cocoa assets (from OLAM's October 2015 acquisition of ADM's cocoa business) improve CFO stability. Margins for this business should also benefit from projected low cocoa prices in FY2017. In FY2016, OLAM only spent SGD1.4bn in investing activities (against SGD2.1bn in 12M2015). During the year, net borrowings and perpetual issuance amounted to SGD1.1bn, which helped fund dividend payments and share buybacks (collectively, SGD278.4mn), in addition to capex. While cash flow saw an improvement, leverage increased somewhat. Gross debt to equity was 2.4x against 2.3x as at 31 December 2016 while headline net debt to equity was 2.0x against 1.9x. This hits the 2.0x ceiling company has set for itself since 2013. Perpetuals are treated as equity in OLAM's financials. Assuming perpetuals as 50% debt and 50% equity, we find adjusted net debt to adjusted equity at 2.3x (31 December 2015: 2.0x). Adjusting net debt downwards for readily marketable inventory and secured receivables (which per company is highly liquid in nature) we find net debt to equity at 0.75x (31 December 2015: 0.71x). We maintain OLAM's issuer profile at Neutral. (Company, OCBC)

Sabana Shari'ah Compliant Industrial REIT ("SSREIT"): The company has announced that Ng Shin Ein, a non-executive director of Sabana REIT Manager since 2 November 2010 (prior to IPO) has reinstated her resignation with effect from 27 February 2017. Her resignation letter had indicated her inability to contribute to the REIT manager as a result of certain internal dynamics within the company as the main reason for resigning. It was added that due to unitholder revolt that happened soon after, she withdrew the resignation to ensure a basic framework and process for the strategic review was established. The company had on 24 February 2017 announced the appointment of a financial adviser in relation to the strategic review of SSREIT. (Company, OCBC)

Credit Headlines (Cont'd):

Hong Fok Corp Ltd ("HFC"): HFC reported FY2016 results. Full year revenue fell 3% y/y to SGD58.4mn due to a 5.3% decline of rental income from property investments to SGD47.6mn, even with the increase in rental income from the residential units at Concourse Skyline. We think this is likely due to negative rental reversions or lower occupancy given the general weakness seen in the office rental market. Due to SGD97.6mn revaluation gain on investment properties, mainly due to The Concourse, HFC recorded a SGD82.0mn profit (SGD199.2mn). Without the revaluation gains, the loss before tax would have been SGD14.3mn. The biggest expense line for HFC is due to other expenses at SGD44.9mn, which includes expenses paid to the directors of the company, which represents a 20% y/y decline. As a result of the profits, net gearing inched down to 0.32x (3Q2016: 0.33x). Meanwhile, HFC is still recording net cash outflows due to capex for Yotel. Nevertheless, looking ahead, cashflows should improve when Yotel opens in 2H2017 and begins to contribute. As HFC's credit metrics appear manageable, we continue to hold HFC at a Neutral Issuer Profile. (Company, OCBC)

Ezra Holdings Ltd ("EZRA"): EZRA's subsea JV, EMAS Chiyoda Subsea ("ECS"), has filed for bankruptcy protection under Chapter 11 in the United Bankruptcy Court in Houston, Texas. ECS, which is a global engineering, procurement, construction, installation and commissioning ("EPCIC") service provider focused on offshore marine work, had been under pressure due to the slump in E&P activity reducing development work. Though ECS currently has over USD1bn in order book across 15 projects to execute, ECS had indicated that the commencement date of many of these projects remain uncertain, pressuring ECS's fleet utilization levels. As such, ECS had been generating losses with EZRA recognizing USD40.3mn and USD74.3mn in losses in FY2015 and FY2016 (fiscal year ending August) respectively. Despite fresh capital injected when Chiyoda Corp ("Chiyoda") and Nippon Yusen ("NYK") came on board as shareholders of ECS (35% and 25% stake respectively), conditions at ECS continued to deteriorate, with Chiyoda and NYK taking impairments charges on their ECS exposure (refer OCBC Asian Credit Daily – 2 Feb 2017). ECS's troubles had spurred trade creditors such as Forland Subsea AS ("Forland") to take action (refer OCBC Asian Credit Daily – 21 Feb 2017) in pursuing their claims. The escalation in creditor actions would have likely driven ECS into seeking bankruptcy protection, in order to continue its restructuring while under the protection of an "automatic stay". As part of the filing, it was disclosed that ECS has lined up USD90mn in debtor-in-possession ("DIP") financing to be provided by Chiyoda and Subsea 7 S.A (a competitor to ECS), subject to various approvals. The DIP financing would likely be used for ECS to continue operations while under bankruptcy protection. It is worth noting that DIP financing is typically super priority, ahead of unsecured pre-petition debt. For now, EZRA remains in trading halt, with no announcement yet made. EZRA had last indicated (on a filing dated 02/02/17) that it had investment in, shareholder loans (EZRA had provided USD36mn in shareholder loans) to and inter-company balances owed by ECS totalling ~USD170mn. With ECS seeking Chapter 11, EZRA could potentially write off its exposure to ECS. There are potentially corporate guarantees that EZRA had provided to ECS as well, such as the vessel financing for the Lewek Constellation. As such, much remains uncertain with regards to EZRA's strategy in managing the ECS situation. As mentioned previously (refer OCBC Asian Credit Daily – 20 Feb 2017), key to EZRA's efforts to restructure are the ongoing loan financing efforts of EMAS Offshore (EZRA's OSV subsidiary). We currently hold EZRA's Issuer Profile at Negative, and will continue to monitor the situation closely. (Company, Bloomberg, Reuters, OCBC)

Credit Headlines (Cont'd):

CIMB Group Holdings Berhad ("CIMB"): CIMB reported solid 4Q2016 and FY2016 results despite still challenging operating conditions. Total operating income was up 6.7% y/y for 4Q2016 to MYR4.3bn. This was due to 7.5% growth in net interest income from solid y/y loan growth of 8.6% and net interest margin expansion y/y by 3bps to 2.69% despite ongoing competition and higher domestic deposit costs. Income from Islamic Banking scheme operations also grew 2.6% y/y while net non-interest income rose 6.4% y/y in 4Q2016 from strong growth in fees on loans, advances and financing. In line with management's strategic focus, overhead expenses growth was marginal for 4Q2016, up 0.9% y/y as slightly higher personnel expenses were mitigated by lower establishment, marketing and administration costs and this improved the cost to income ratio for 4Q2016 to 51.7% (against 53.9% for FY2016 and 55.6% in FY2015), close to management's target cost to income ratio of 50%. Allowances however continue to be elevated rising 23.7% y/y for the quarter, as loan quality soured noticeably in commercial banking segments in Singapore and Thailand y/y. That said, profit before tax (PBT) still improved 7.0% to MYR1.2bn for 4Q2016. For FY2016, PBT rose 24.8% to MYR3.56bn due to record operating income of MYR16.1bn (including a MYR150mn gain from the sale of its 51% interest in PT CIMB Sun Life) which expanded 4.3% y/y and strong cost performance (FY2016 overhead expenses fell 6.5% due to lower personnel expenses and absence of restructuring and mutual separation scheme costs) that led to a 20.6% rise in pre-provision operating profit. Segment wise, consumer banking performance continues to be strong, contributing 46% of consolidated PBT (and +35% y/y) while contribution from Commercial Banking to consolidated PBT fell to 6% from 16% in FY2015 as higher loan provisions in Singapore and Thailand overshadowed solid performance in Malaysia and Indonesia (segment PBT fell 55% y/y). Wholesale banking PBT rose 26% y/y (40.1% of consolidated PBT) due to solid cost containment and lower provisions. As previously mentioned, balance sheet growth was robust with total loans and advances growing 8.6% y/y with most growth by loan type occurring in housing loans, revolving credits/working capital and others. Individuals comprised around 50% of total loans growth by customer type followed by loans growth for domestic businesses contributing to particularly strong loans growth in Malaysia (+9.2% y/y). Loans growth was also strong in Indonesia (+8.9% y/y) while loan growth in Singapore and Thailand was comparatively lower albeit still solid (4.3% and 5.0% respectively). While loan growth speaks to potentially improving operating conditions, impaired loans nevertheless continued to rise, up 17.2% y/y despite a 32% rise in reclassifications to non-impaired and a 54.1% rise in write-offs due to a 27.5% rise in new loan impairments. As such, the gross impairment ratio rose to 3.3% for FY2016 from 3.0% in FY2015. Half of impaired loan growth came from Thailand, followed by Indonesia and Singapore while impaired loans fell marginally in Malaysia. The y/y rise for Singapore NPLs was noticeable however (+290%) translating to a material rise in the NPL ratio for Singapore exposures to 1.4% in FY2016 from 0.4% in FY2015. Similarly, the Thailand NPL ratio grew to 7.0% in FY2016 from 4.7% in FY2015. Conversely, the NPL ratios for Malaysia and Indonesia fell and remained stable respectively owing to strong loan growth. Overall loan loss coverage ratios weakened to 79.8% for FY2016 against 84.7% in FY2015 as impaired loans grew higher than allowances. Despite strong loan growth, risk weighted assets only grew 2.1% as a 2.8% rise in credit risk weighted assets was offset by lower market risk weighted assets. Combined with its solid earnings and active capital management, CIMB's reported CET1/CAR capital ratios (post dividends) improved to 11.3%/16.4% in FY2016 against 10.4%/15.4% in FY2015. In summary, the strong performance of CIMB's domestic and consumer franchises (in terms of loans growth and asset quality) mitigated certain aspects of CIMB's earnings which indicate still vulnerable business segments. Growth trends remain focused on better performing segments which is positive for CIMB's underlying risk profile and particularly indicate improved domestic operating conditions. Progress of the bank's T18 strategy remains positive given the fall in overhead expenses, particularly in 4Q2016 and management is optimistic that the improving trend will continue in FY2017. That said, while competitive dynamics remain and loan quality remains a concern (albeit concentrated) for FY2017, we maintain our Neutral Issuer Profile on CIMB. (Company, OCBC)

Credit Headlines (Cont'd):

Yanlord Land Group Ltd ("YLLG"): YLLG reported its FY2016 results. Revenue was up 55% to RMB25.7bn while EBITDA based on our calculation was up 101% to RMB7.1bn. Stronger sales was booked in FY2016 following a 60.1% increase in gross floor area ("GFA") delivered to customers in FY2016 versus FY2015 while average selling prices was relatively stable at RMB26,812 per sqm. Finance cost (including capitalized interest) was RMB1.2bn in FY2016, relatively stable against FY2015 and leading to a marked improvement in EBITDA/Interest of 5.7x against 2.7x. YLLG's strong pre-sales of RMB26.5bn should keep its interest coverage healthy in FY2017. In FY2016, net cash from operations was RMB10.3bn against RMB14.0bn, as a result of higher working capital needs for properties under development and higher tax paid. Investing cash out flow was significant during the year due to YLLG replenishing its land bank (including those held via associates and joint ventures). In FY2016, net cash used in investing activities was a RMB8.1bn outflow against RMB584mn outflow in FY2015. As at 31 December 2016, existing land bank suitable for development was ~5 years, in line with historical levels. As at 31 December 2016, YLLG's gearing levels shown a marked increase (though from a low base). Including RMB1.4bn in obligations on a put instrument (potential contractual obligation incurred in 2016 for YLLG to purchase the equity interests from non-controlling shareholders of a subsidiary), we find gross debt-to-equity at 0.8x, rising from 0.6x as at 31 December 2016. While this is lower than our estimated 0.9-1.0x in our 2017 Singapore Credit Outlook ("Compendium"), we understand from company that of the RMB7.8bn land acquired in Nanjing in December 2016, around RMB4.0bn remains to be paid. We expect debt to be applied for the remaining payment. In addition to higher debt levels, YLLG also saw a net reduction in book value equity of RMB525mn following repayment of capital to minority investors. We find net debt to equity at 0.2x, rising from 0.02x as at 31 December 2015. Though with cash advance from customers (a current liability item) at RMB22.8bn, we maintain that bulk of YLLG's cash balance of RMB17.6bn needs to be conserved to fund working capital needs. In January 2017, YLLG successfully issued a USD450mn bond which is expected to fund the redemption of the YLLG 6.2% '17s due in early-May 2017. We lowered YLLG issuer profile to Negative on the back of (1) expectations that gearing will rise over a 6 month period and (2) uncertainty surrounding its upcoming debt due (ie: the SGD bond) on the back of a more challenging fundraising environment for Chinese property companies. Given that the increase in gearing has happened and there is now more certainty of the redemption of the SGD bond, we are revising YLLG's Negative issuer profile back to **Neutral**. Per Moody's YLLG's gearing levels are stronger than average for its Ba3-rated peers. (Company, OCBC)

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