Asian Credit Daily

November 10, 2017

Credit Headlines (Page 2 onwards): Pacific Radiance Ltd, Commerzbank AG, Banyan Tree Holdings Limited, City Developments Ltd, Frasers Centrepoint Limited, Hongkong Land Holdings Ltd

Market Commentary: The SGD swap curve traded upwards yesterday, with gains led by the belly of the curve, as the 7-year tenor recorded the largest increase in yields at 3bps. The shorter-end of the curve traded little changed, while the longer-end traded 1-2bps higher. Flows in SGD corporates were heavy, with better buying seen in HRAM 3.8%'25s, WINGTA 4.35%-PERPs, better selling seen in EREIT 3.5%'18s and mixed interest seen in IOCLIN 4.1%'22s. In the broader dollar space, the spread on JACI IG Corp traded little changed at 179bps, while the yield on JACI HY Corp rose 2bps to 6.85%. 10Y UST yields rose 1bps to 2.34%, following the gains in yields of European Government Bonds and the release of details of the US tax plan.

New Issues: China Development Bank has priced a two-tranche deal, with the USD500mn 5-year bond priced at CT5+78bps, tightening from initial guidance of CT5+100bps area; and the EUR1bn 4-year bond priced at MS+43bps, tightening from initial guidance of MS+60/65bps. The expected issue ratings are 'NR/A1/NR'. China Minsheng Banking Corp (Hong Kong Branch) has priced a two-tranche deal, with the USD450mn 3-year floating rate bond priced at 3mL+92bps, tightening from initial guidance of 3mL+120bps area; and the USD250mn 3-year fixed rate bond priced at CT3+115bps, tightening from initial guidance of CT3+140bps area. The expected issue ratings are 'BBB-/NR/NR'. Jiayuan International Group Ltd has priced a USD300mn 364-day bond at 8.25%, tightening from initial guidance of 8.5% area. The expected issue ratings are 'NR/B2/NR'. The Siam Commercial Bank PCL, Cayman Islands Branch has priced a USD500mn 5.5-year bond at CT5.5+92.5bps, tightening from initial guidance of CT5.5+115bps area. The expected issue ratings are 'BBB+/Baa1/BBB+'. Telstra Corporation Ltd has priced a USD500mn 10-year bond at CT10+95bps, tightening form initial guidance of CT10+110bps area. The expected issue ratings are 'A/A2/NR'.

Table 1: Key Financial Indicators

	10-Nov	1W chg (bps)	1M chg (bps)		10-Nov	1W chg	1M chg
iTraxx Asiax IG	80	5	2	Brent Crude Spot ($/bbl)	63.78	2.75%	12.67%
iTraxx SovX APAC	16	1	-1	Gold Spot ($/oz)	1,285.50	1.23%	-0.20%
iTraxx Japan	48	1	1	CRB	191.87	1.99%	4.73%
iTraxx Australia	67	2	-2	GSCI	429.19	2.04%	7.70%
CDX NA IG	56	3	2	VIX	10.5	5.74%	4.17%
CDX NA HY	107	-1	-1	CT10 (bp)	2.340%	0.73	-2.09
iTraxx Eur Main	52	3	-4	USD Swap Spread 10Y (bp)	-2	0	3
iTraxx Eur XO	243	19	-4	USD Swap Spread 30Y (bp)	-27	0	6
iTraxx Eur Snr Fin	52	2	-8	TED Spread (bp)	19	-4	-11
iTraxx Sovx WE	4	0	-1	US Libor-OIS Spread (bp)	10	0	-4
iTraxx Sovx CEEMEA	50	5	10	Euro Libor-OIS Spread (bp)	3	0	0
					10-Nov	1W chg	1M chg
				AUD/USD	0.768	0.41%	-1.25%
				USD/CHF	0.995	0.61%	-1.95%
				EUR/USD	1.165	0.34%	-1.36%
				USD/SGD	1.360	0.38%	-0.26%
Korea 5Y CDS	72	3	2	DJIA	23,462	-0.23%	2.76%
China 5Y CDS	61	7	2	SPX	2,585	0.18%	1.33%
Malaysia 5Y CDS	69	5	3	MSCI Asiax	704	0.70%	3.35%
Philippines 5Y CDS	69	4	4	HSI	29,182	2.02%	2.43%
Indonesia 5Y CDS	102	7	1	STI	3,425	1.25%	4.13%
Thailand 5Y CDS	52	4	3	KLCI	1,747	0.34%	-0.81%
				JCI	6,043	0.05%	2.32%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
9-Nov-17	China Development Bank	'NR/A1/NR'	USD500mn	5-year	CT5+78bps
9-Nov-17	China Development Bank	'NR/A1/NR'	EUR1bn	4-year	MS+43bps
9-Nov-17	China Minsheng Banking Corp (Hong Kong Branch)	'BBB-/NR/NR'	USD450mn	3-year	3mL+92bps
9-Nov-17	China Minsheng Banking Corp (Hong Kong Branch)	'BBB-/NR/NR'	USD250mn	3-year	CT3+115bps
9-Nov-17	Jiayuan International Group Ltd	'NR/B2/NR'	USD300mn	364-day	8.25%
9-Nov-17	Siam Commercial Bank PCL, Cayman Islands Branch	'BBB+/Baa1/BBB+'	USD500mn	5.5-year	CT5.5+92.5bps
9-Nov-17	Telstra Corporation Ltd	'A/A2/NR'	USD500mn	10-year	CT10+95bps
8-Nov-17	Suntec REIT	Not Rated	SGD300mn	7-year	100.0
8-Nov-17	ICBCIL Finance Co	'NR/A2/A'	USD700mn	5-year	CT5+115bps
8-Nov-17	ICBCIL Finance Co	'NR/A2/A'	USD250mn	10-year	CT10+132.5bps

Source: OCBC, Bloomberg

New Issues (Cont'd): Yango Justice International Ltd has may price a USD-denominated 3-year bond today, with the initial guidance set at 7.625% area. The expected issue ratings are 'B-/B3/B-'. Wing Lung Bank Ltd has scheduled investor meetings for potential USD Tier 2 bond issuance from 10 Nov. The expected issue ratings are 'NR/Baa2/NR'.

Rating Changes: Moody's has assigned Wing Lung Bank Limited's (Wing Lung Bank) proposed subordinated notes a 'Baa2' rating. The rating on the notes are one notch below Wing Lung Bank's 'Baa1' adjusted baseline credit assessment as the notes are subjected to a partial or full principal write-down at the point of non-viability on a contractual basis. Moody's has assigned Woori Card Co Ltd (Woori Card) an issuer rating of 'Baa1'. The outlook is stable. The rating benefits from a three-notch uplift from Woori Bank's standalone rating of 'Ba1' as Moody's expects support from its parent, Woori Bank and the Government of Korea if necessary. Fitch has affirmed Yancheng Oriental Investment & Development Group Co Ltd's (Yancheng Oriental) 'BB+' Issuer Default Rating. The outlook is stable. At the same time, Fitch has affirmed the 'BB+' rating on the notes issued by Yancheng Oriental's wholly-owned subsidiary, Oriental Capital Company Limited. The ratings are credit-linked to, but not equalized with that of China's Yancheng Municipality, as there is strong government control and oversight and Fitch views that Yancheng Oriental is of strategic importance to the municipality.

Credit Headlines:

Pacific Radiance Ltd ("PACRA"): For 3Q2017, PACRA generated USD17.2mn in revenue, a decline of 9.0% y/y (flattish q/q). The OSV division reported USD12.5mn in revenue, a decline of 7.4% y/y, largely due to continued low utilization and charter rates due to the weak environment. That said, the OSV division's revenue did pick up 10.6% q/q, likely due to seasonal factors with activity sustained before slowing down into the winter months. Revenue from the subsea division (mainly DSV) had fallen sharply by 54.7% y/y to USD2.4mn (and lower by 44.1% q/q) likely due to prior contracts rolling off. The declines in existing businesses were mitigated by PACRA's relatively new shipyard segment (commenced 3Q2016), which contributed USD1.7mn (though it declined 15% q/q). Looking forward, PACRA's revenue generation continues to be pressured by soft offshore E&P activity, with the oversupply in the OSV chartering industry suppressing both charter rates as well as utilization. With PACRA heading into the quieter winter season, we expect 4Q2017 and 1Q2018 OSV division results to be even weaker due to seasonal factors. Though gross losses have improved to USD1.6mn versus USD8.2mn seen in 3Q2016, the prior period was affected by USD11.4mn in provisions over doubtful receivables resulting from Swiber Holdings default. In aggregate, PACRA generated a net loss of USD13.4mn, which was an improvement over 3Q2016's net loss of USD18.1mn, but poorer than the USD8.5mn loss seen in 2Q2017. Losses worsened q/q as PACRA recognized a USD1.0mn loss on disposal of assets (two vessel sales) as well as USD2.4mn loss on the dilution of Indonesia joint venture PT Logindo Samudramakmur TBK. Given PACRA's tight liquidity situation, it was assuring to see operating cash flow burn reduced to USD842k (2Q2017: USD10.4mn). Capex was also trimmed to minimal levels, while PACRA had also raised USD3.4mn in asset disposals (though generating losses while doing so). Gross debt repayments have also declined sharply from USD11.2mn in 2Q2017 to USD2.2mn in 3Q2017, likely due to the informal bank debt standstill which PACRA had negotiated with its bank lenders (refer to OCBC Asian Credit Daily - 17 October 2017). This had allowed PACRA to boost its cash balance slightly to USD36.8mn. Loss generated though have caused net gearing higher to 195% (2Q2017: 183%). As mentioned previously, PACRA faces significant liquidity needs given short-term borrowings coming due (3Q2017: USD132.7mn) which includes the SGD100mn bond due August 2017. We had previously highlighted (refer to OCBC Asian Credit Daily - 14 August 2017) the possibility that PACRA may consider the restructuring of its bonds. This seems to be crystalizing as PACRA had announced (as part of the announcement on the informal bank debt standstill) that they intent to convene an informal meeting with holders of the PACRA 4.3%'18s to update noteholders on the restructuring. With 3Q2017 results announced, the informal noteholder's meeting could be called in the near future. We will continue to hold PACRA's Issuer Profile at Negative. We had previously withdrawn our bond recommendation on the PACRA 4.3 '18s as we had believed that a restructuring of the bond could be imminent. We will continue to monitor the situation closely. (Company, OCBC)

Credit Headlines (Cont'd):

Commerzbank AG (CMZB): CMZB announced its 3Q2017 and 9M2017 results with pre-tax profit of EUR337mn for 9M2017 stable y/y compared to 9M2016. Driving the results was a 20.7% y/y fall in net interest income after loan loss provisions. Softer net interest income resulted from weaker margins on new business and lower interest income on deposits from low and negative interest rates, which overshadowed higher interest income from higher Private and Small-Business loan volumes and improvement in loan loss provisions (-13.1% y/y for 9M2017 due to lower provision requirements for corporate clients). Net fee and commission income was broadly stable but large improvements in net trading income, net investment income and other net income mitigated both the softer net interest income after loan loss provisions as well as the material increase in restructuring expenses (through implementation of the "Commerzbank 4.0" strategy). CMZB's strategic endeavours are reflected in segment performance with improved performance in CMZB's Asset & Capital Recovery ("ACR") segment with operating loss of EUR215mn up 40.1% for 9M2017 compared to an operating loss of EUR359mn in 9M2016. This was due to the shrinking loan balance in the ACR segment (-11.7% compared to FY2016 from lower commercial real estate and shipping exposures) which lowered funding costs and lowered loan loss provisions, as well as a one-off gain in 1Q2017 from the write-back of a previously written off position. Elsewhere, operating profits in the Private and Small-Business Customer segment fell 15.1% as low interest rates, increased loan loss provisions and higher operating expenses offset higher loan volumes. Operating profit in the Corporate Clients segment also fell 20% as lower income due to lower demand for credit and structured capital market products from businesses overshadowed lower loan loss provisions and a fall in expenses from lower personnel costs and cost management. The fall in loans at ACR supported overall loan quality with CMZB's reported NPL ratio falling marginally to 1.5% (driven by improvement in the Corporate Client segment) as at 30 Sep 2017 from 1.6% as at 31 Dec 2016 and also had a positive impact on CMZB's capital ratios with phased-in risk weighted assets down 7.1% compared to FY2016 due to the reduction in credit risk weighted assets ("RWA") and positive foreign currency movements. Market risk and operational risk RWAs also fell. The fall in RWA was more than a fall in Tier 1 capital due to the phase-in of Basel III compliant capital instruments with CMZB's CET1/CAR ratios at 14.4%/17.8% as at 30 Sep 2017. On a fully phased-in basis, CMZB's CET1 ratio was 13.5% as at 30 Sep 2017. We continue to look through the numbers and will update CMZB's Neutral issuer profile as necessary (OCBC, Company)

Banyan Tree Holdings Limited ("BTH"): BTH announced its 3Q2017 and 9M2017 financials. Revenue was relatively flat y/y at SGD228.6mn for 9M2017, similar to the previous years, with hotel investments the largest revenue driver. Headline operating profit was markedly higher at SGD53.7mn in 9M2017 versus SGD14.9mn in 9M2016 though this was boosted by SGD41.9mn in other income. In 9M2017, BTH had entered into a collaboration with China Vanke Ltd ("VNRKLE") to form a new joint venture entity, namely Banyan Tree China ("BTC") on a 50:50 basis. Effectively, BTH had disposed its Chinese hospitality assets into BTC and recorded a SGD40.4mn gain on this transaction. EBITDA (based on our calculation which does not include other income) was SGD11.7mn in 9M2017, down 2.2% y/y. EBITDA/Interest in 9M2017 was 0.6x, in line with the previous corresponding period. Despite generating an EBITDA of SGD18.1mn during 1Q2017, BTH recorded losses before interest, tax and depreciation during the second and third quarter based on our calculation (in line with that observed in 9M2016). There is still a possibility that BTH is able to generate a stronger set of results in 4Q2017 given the seasonality prevalent among resort businesses (as in the case of BTH). BTH generated SGD10.0mn of EBITDA in 4Q2016 against SGD12.0mn in 9M2016. As at 30 September 2017, BTH reported debt-to-equity of 0.8x, falling somewhat from 0.9x as at 30 June 2017 and on a net gearing basis, fell to 0.6x versus 0.7x as at 30 June 2017. Cash balance increased to SGD172mn as at 30 September 2017 from SGD91.6mn as at 30 June 2017. Short term debt was SGD142.7mn, with cash representing 1.2x of short term debt, and we see manageable short term refinancing risk at BTH. Cash mainly rose as a result of disposal of Chinese assets which generated SGD65.8mn in cash in 9M2017 and proceeds from issue of new shares of ~SGD24.0mn to VNRKLE. During the period, BTH also raised SGD24.0mn in convertible debenture from Accor SA, though prior to conversion, this instrument is recorded as debt. Both Accor SA and VNKRLE holds options to raise further equity in BTH (further ~5%-stake each). Net-net though, BTH's EBITDA and cash flow from operations generation remains weak against its ~SGD29mn p.a of interest expense and we await to see the turnaround progress at the company. We continue to hold BTH at a Neutral issuer profile though may adjust this downwards should operating cash flow generation continue to be weak in the coming quarters. (Company, OCBC)

Credit Headlines (Cont'd):

City Developments Ltd ("CDL"): CDL reported 3Q2017 results, with revenue falling 6.5% y/y to SGD863.1mn (though on a q/q basis revenue was up 1.1%). Like previous quarters, the decline in revenue was largely driven by lower contributions from its property development segment (which fell 21.7% y/y to SGD291.2mn). The decrease in segment revenue for 3Q2017 was largely driven by the absence of revenue recognition from the Jewel@Buangkok condominium seen in 3Q2016, from the Hanover House in Reading, UK, as well as lower contributions from D'Nest and Coco Palms. This was mitigated by the progressive handover of units in Hong Leong City Center (Phase 1), Suzhou and Hongqiao Royal Lake, Shanghai, as well as sales at Gramercy Park. On a q/q basis segment revenue was comparable (2Q2017: SGD303.0mn). Segment PBT was also lower by 9.1% to SGD86.2mn (though higher q/q) due to lower revenue as well as absence share of contributions from JV projects such as Bartley Ridge and Echelon, but supported by JVs Forest Woods and Commonwealth Towers. The performance of CDL's domestic property development sales was also highlighted, with CDL selling 365 units (3Q2016: 158 units) with a sales value of SGD616.7mn (inclusive of JV projects). On a YTD basis, numbers are even stronger with 1,056 units sold (9M2016: 482 units) while sales value rocketed to SGD1.76bn (9M2016: SGD622.4mn). Specifically for 3Q2017 units were sold at Gramercy Park (37 units), Coco Palms (17 units), Brownstone EC (31 units), Criterion EC (139 units), Forest Woods (17 units) and Commonwealth Towers (118 units). The strong sales at Criterion EC was especially telling of the recovery of the domestic property market as the EC launched September 2015, and was only 22% sold as of June 2016. Sales at Gramercy Park have sustained their strong pace with 153 units out of 174 units sold (as of 5/11/17) while ASP continues to be higher, with the South Tower (soft launched in March 2017) having an ASP of SGD2,869 psf for 58 units versus SGD2,674 psf for the 85 units sold earlier for the North Tower. Though sales at Gramercy Park have been supportive of revenue (it received TOP end-May 2016), deferred payment schemes used to facilitate the sale of some of these units means some revenue recognition will be delayed. Like a few of its developer peers, the strengthening of the domestic property market has led CDL to actually delay the launch of its New Futura project at Leonie Hill (3Q2017 TOP, 124 units), which was formerly planned to be launched in 4Q2017, but now deferred to 1Q2018 with management citing to capitalize on the improving sentiment. The improving market sentiment had also resulted in CDL deciding to launch South Beach Residences (190 units, received TOP end 2016) in 1H2018. In aggregate, CDL still has 254 units in unsold inventory for the Singapore market (launched units only) versus 737 units in 4Q2016, though we note this excludes the 203 units at The Residences at W Singapore and 156 units at Nouvel 18 (both of these are off-balance sheet as they are held in Profit Participation Schemes) as well as the units at New Futura and South Beach. The pipeline in Singapore would include the SGD370.1mn Tampines Ave 10 plot, with a cost of SGD565 psf gfa, which CDL intends to launch in 2018. It would also include the SGD906.7mn Amber Park en-bloc (CDL has a 80% stake) announced on 04/10/17. The transaction is expected to be completed in 1H2018, and the launch ready by 1Q2019. The property is freehold, with the land price at SGD1515 psf ppr. CDL also guided that it would be able to book gains on the Brownstone EC in 4Q2017 (as the EC would achieve TOP during the period). For the international property development side, as mentioned previously, there are no sizable projects (that had meaningful percentage sold) due for completion for the balance of 2017, and hence contributions would be lower. Status of Ransomes Wharf site in Battersea, London, remains unchanged with site demolition expected in 1Q2018. It is worth noting that CDL had monetized part of its China assets via the strategy partnership with China Vanke Co, with CDL divesting 70% of Huang Huayuan and 50% of Eling Residences to China Vanke Co for RMB986mn (completion expected in December 2017). The hospitality segment (includes Millennium & Copthorne Hotels ("M&C")) saw revenue increasing 5.0% y/y to SGD445.3mn. There seems to be stabilization, with like-for-like RevPar up 0.3% y/y for the quarter. The growth in revenue was boosted by Millennium Hilton New York One UN Plaza (which was previously closed for refurbishment) and a New Zealand hotel acquisition. Though performance in London had been strong, the weakening of the GBP versus SGD had impacted reported revenues. Asia in aggregate still reported negative 2.1% RevPar in constant currency terms. Despite this, hospitality PBT was up 33.6% y/y to SGD73.9mn. Rental property revenue slumped 3.0% y/y to SGD89.2mn. This was driven by the sale of Exchange Tower (hence absent rental income), as well as Le Grove Serviced Apartments being closed for renovations. These were offset by maiden contribution from the Pullman Hotel Munich (acquired by CDL-HT in July 2017). CDL's office portfolio occupancy had fallen q/q to 92.5% (2Q2017: 96.4%) though we expect occupancy to improve when Distrii, the co-working operator, opens its 60,000 sqft facility in Republic Plaza in 1H2018. Rental property PBT increased 86.4% y/y to SGD71.6mn, driven by the divestment gain from the sale of an Osaka office building.

Credit Headlines (Cont'd):

City Developments Ltd ("CDL") (Cont'd): In aggregate, CDL reported SGD312mn in EBITDA, flattish y/y. ~61% was generated overseas (higher than previous periods) due to stronger contributions from the hospitality segment. Operating cash flow (including interest service) remains fair at SGD141.6mn (though payables increased potentially due to the deposits made for properties sold). CDL had also received SGD201.3mn for its divestment to China Vanke Co as well as SGD63.7mn for the divestment of the Osaka office building. CDL-HT had also completed a rights issue during the quarter, with CDL reporting net proceeds of SGD159.7mn for the quarter. Cash usage includes SGD153.7mn due to the Pullman Hotel Munich acquisition by CDL-HT in 3Q2017, SGD65.5mn paid out in dividends as well as SGD115mn in net debt repayment. As such, cash balance increased by SGD240.0mn q/q, ending at SGD3.32bn. Net gearing inched ended lower to 13% (2Q2017: 18%). Looking forward, we expect CDL's credit profile to worsen due to 1) ~SGD723mn expected payments for their stake in Amber Park and 2) the potential acquisition of the balance of M&C. We estimate that these factors would drive CDL's net gearing higher to ~30%. That said, despite the expected deterioration, CDL's credit profile remains more conservative compared to its peers. As such, we will retain our Positive Issuer Profile. (Company, OCBC)

Frasers Centrepoint Limited ("FCL"): FCL reported FY2017 results (ending-September 2017). Revenue increased 17.1% y/y to SGD4.03bn, driven largely by the Australia SBU (+13.3% y/y to SGD1.64bn) and the International segment (+183.0% y/y to SGD717.1mn), which helped offset flattish performance at the Hospitality SBU (+2.3% y/y to 807.3mn) and weakness in the Singapore SBU (-9.2% y/y to SGD859.2mn). Total PBIT was also up 16.1% y/y to SGD1.10bn, driven by gains seen in the International segment (+47.6% y/y to SGD274.1mn), Australia SBU (+33.2% y/y to SGD290.1mn) and Hospitality SBU (+14.2% y/y to SGD154.2mn). These helped to mitigate the PBIT decline at the Singapore SBU (-4.7% y/y to SGD408.2mn). When reviewing 4QFY2017 results however, we note that total revenue declined 20.0% y/y to SGD950.6mn, driven by a sharp decline in revenue recognized at the Australia SBU (-44.0% y/y to SGD437.6mn) which was partly mitigated by strong growth in the Singapore SBU (+40.5% y/y to SGD238.8mn). 4QFY2017's PBIT trends were similar as well, declining 33.5% y/y to SGD222.0mn, with Singapore SBU PBIT of SGD127.2mn (+25.0% y/y) offsetting declines at Australia SBU PBIT (-67.5% y/y to SGD108.0mn). We note as well that the International segment, which contributed strongly in 9MFY2017, was relatively mute in 4QFY2017. Currently, it is worth noting that 85% of FCL's total assets of SGD27.0bn are property assets that generate recurring income. These assets contribute 61% of PBIT (~SGD670mn is recurring). Geographical diversification has also improved with Singapore contributing just 33% of FCL's total PBIT (though we note that much of the PBIT recognized from the International segment for FY2017 is development driven and hence non-recurring). Pre-sale revenue aggregating SGD3.4bn (across Singapore, China and Australia) would help support development revenue over the next 2-3 years. When considering the various SBUs, we believe that the Singapore SBU may continue to see revenue declines, largely due to the consumption of its development pipeline, as FCL had not replenished its domestic land bank. Though we note that FCL had participated in some recent government land sales, and management had indicated that they did participate in some en-bloc tenders, management had reiterated that they would prefer to remain disciplined when making land acquisitions. As such, segment PBIT, which had already been pressured by lower development contribution in FY2017, would likely continue to be a drag. Comparatively, the performance of the SBU's investment property side (both inside the REITs and directly held) should improve as the AEI at the Northpoint mall has been completed and the Northpoint City retail portion is expected to open by December 2017. Management had also highlight contributions by the Waterway Point as well as the Centrepoint. The completion of Frasers Tower, expected in 1H2018, would also contribute to FY2018 performance (pre-leasing was indicated to be healthy). With regards to the Australia SBU, management had indicated the completion and settlement of 2,540 units in FY2017, and expect to complete and settle over 3,000 units in FY2018, which would support the segment's FY2018 results. The lower release of 1,650 units for sale over FY2017 and the intended release of 2,000 units over FY2018 was guided to be partially due to construction manpower limitations curtailing launches. Management had also indicated that completion risk remains manageable despite the headlines regarding risk of foreign buyers being unable to complete transactions. Pipeline in Australia residential remains healthy with 17,450 units with a GDV of SGD9.3bn. For commercial and industrial development, GDV of SGD1.5bn remains healthy though declining (FY2016: GDV of SGD1.9bn). Frasers Logistics Trust ("FLT") had also performed as expected. Given the slowdown in performance for Australia SBU in 4QFY2017 though, we will monitor closely for the SBU's FY2018 performance.

Credit Headlines (Cont'd):

Frasers Centrepoint Limited ("FCL") (Cont'd): As for the Hospitality SBU, management continues to believe at it is on track to manage 30,000 units by 2019 (versus 24,248 units currently). FY2017 segment results were impacted by the weaker GBP hurting the results of their MHDV hotel chain in the UK. Comparatively, Frasers Hospitality Trust ("FHT") reported strong PBIT growth, driven by acquisitions in Australia and Germany. Looking forward, management had highlighted strength in Australia and North Asia, which may mitigate the mixed outlook in Europe and Singapore. Finally, the International segment had surged in FY2017 due to the delivery and recognition of projects in China. With pre-sales in China down to just SGD0.3bn though, this boost would likely be lacking in FY2018. Comparatively, we expect acquisitions in Thailand and Germany to help support future segment performance. Operating cash flow (including interest service) was healthy at SGD794.2mn for the year, with FCL monetizing development assets. Cash out flow was largely SGD830.3mn in acquisition / development on investment properties (such as Northpoint City and Frasers Tower) and net loans and investments into JV and associates (such as Golden Land and TICON) totalling ~SGD416mn. FCL had also made spent SGD736.4mn in acquisition of subsidiaries. These uses of cash resulted in SGD1.73bn in investing cash outflows. The cash gap was in part funded by the SGD966.6mn in bonds issued, and SGD306.3mn in perpetual securities. There was also equity raising by FCL's REITs, raising SGD301.7mn. In aggregate, total cash increased to SGD2.14bn. Net gearing remained largely stable q/q at 73% (3QFY2017: 73%). Cash / current borrowings improved to 1.4x (3QFY2017: 0.8x), due to the recent capital raise and pay down of shorter-term debt. Reported interest cover stood at 9x (FY2016: 7x). Looking forward, though we believe that FCL's investment property portfolio would continue to generate sizable recurring cash flows, and pre-sales would support near-term development revenue, we believe that FCL would continue to pursue both organic and inorganic growth. In addition, with the improvement of the domestic property market, FCL may be committing more capital to land banking. As such, we don't believe that FCL's credit profile would improve from current levels. We will retain our Neutral Issuer Profile. (Company, OCBC)

Hongkong Land Holdings Ltd ("HKL"): HKL released an interim management statement for 3Q2017. Rental reversion for the Central office portfolio remains positive. While vacancy rose to 2.4% (2Q2017: 1.5%), management expects vacancy to decline by 4Q2017. For the Central retail portfolio, it remains effectively occupied while Singapore's office portfolio saw positive rental reversions with vacancy below 1%. Meanwhile, Hongkong Land has announced the soft opening of the retail portion of WF Central in Beijing on 28th Nov. HKL also made USD195mn contracted sales, which brought 9M2017 contracted sales to USD896mn (9M2016: USD654mn). Net debt is marginally higher, and is expected to further increase with land purchases (e.g. acquisition of Eunosville for SGD765.8mn). Nevertheless, with a low net gearing of 5.5% as of 2Q2017, we believe gearing levels should remain healthy and continue to hold HKL at a Positive Issuer profile. (Company, OCBC)

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