Asian Credit Daily

OCBC Bank

Jun 12, 2017

Credit Headlines (Page 2 onwards): Industry Outlook – Financial Institutions, AusGroup Limited

Market Commentary: The SGD swap curve was relatively flattish last Friday. Flows in SGD corporates were heavy, with better buying seen in HSBC 4.7%'49s, STHSP 3.95%'49s. In the broader dollar space, the spread on JACI IG corporates changed little at 197bps. Similarly, the yield on JACI HY corporates changed little at 6.79%. 10y UST yields rose 1bps to 2.20%, with Treasuries recouping a portion of their session losses into the close after sharp drop in the Nasdaq composite drove a rebound, led by the long-end of the curve.

New Issues: Hainan Airlines (Hong Kong) Co. scheduled investor roadshow from 13 Jun for potential USD bond issuance (guaranteed by Hainan Airlines Holding Co.). New Terminal Financing Company Pty Ltd., the funding vehicle of Adelaide Airport Ltd, scheduled investor meetings from the week starting 19 Jun for potential USD bond issuance. Bank of Queensland Ltd scheduled investor roadshow for potential EUR bond issuance. The expected issuance rating are 'NR/Aaa/AAA'.

Rating Changes: Moody's affirmed JD.com Inc.'s (JD.com) 'Baa3' issuer and senior unsecured ratings and revised the company's outlook to positive from ratings under review. The rating action reflects Moody's expectation that JD.com will sustain the profitable level of operations reported in 1Q 2017, and the improvement in JD.com's financial position, if it completes the disposal of its equity stake of 68.6% in JD Finance. Moody's Investors Service has affirmed the 'Baa1' issuer ratings of China Baowu Steel Group Corporation Limited (Baowu) and its flagship subsidiary, Baoshan Iron & Steel Co., Ltd. (BISC). In addition, Moody's affirmed the 'Baa2' issuer rating of Baosteel Resources International Company Ltd's (BRIC), a wholly owned subsidiary of Baowu, as well as the 'Baa2' senior unsecured rating on the USD bond BRIC guaranteed. Moody's revised the ratings outlook to stable from negative. The rating action reflects Baowu's distinctive market leadership, large business scale, improved financial profile and substantial financial assets which enhance its financial flexibility.

Table 1: Key Financial Indicators

	12-Jun	1W chg (bps)	1M chg (bps)		12-Jun	1W chg	1M chg
iTraxx Asiax IG	85	-2	-4	Brent Crude Spot ($/bbl)	48.40	-2.16%	-4.80%
iTraxx SovX APAC	18	-1	-3	Gold Spot ($/oz)	1,267.04	-1.00%	3.14%
iTraxx Japan	41	1	-2	CRB	176.76	-0.67%	-2.71%
iTraxx Australia	84	-2	3	GSCI	369.81	-0.52%	-2.55%
CDX NA IG	61	0	-2	VIX	10.7	9.74%	2.88%
CDX NA HY	108	0	0	CT10 (bp)	2.216%	3.46	-10.94
iTraxx Eur Main	59	-4	-4	USD Swap Spread 10Y (bp)	-5	1	3
iTraxx Eur XO	241	-8	-17	USD Swap Spread 30Y (bp)	-43	1	3
iTraxx Eur Snr Fin	65	-6	-4	TED Spread (bp)	23	-2	-5
iTraxx Sovx WE	8	-1	0	US Libor-OIS Spread (bp)	9	-1	-6
iTraxx Sovx CEEMEA	50	7	4	Euro Libor-OIS Spread (bp)	3	0	0
					12-Jun	1W chg	1M chg
				AUD/USD	0.753	0.52%	1.88%
				USD/CHF	0.969	-0.39%	3.31%
				EUR/USD	1.121	-0.43%	2.52%
				USD/SGD	1.383	-0.13%	1.48%
Korea 5Y CDS	52	-2	-3	DJIA	21,272	0.31%	1.80%
China 5Y CDS	70	-5	-9	SPX	2,432	-0.30%	1.71%
Malaysia 5Y CDS	89	-6	-13	MSCI Asiax	629	0.48%	3.53%
Philippines 5Y CDS	75	-3	-2	HSI	25,720	-0.55%	2.24%
Indonesia 5Y CDS	117	-3	-11	STI	3,264	0.80%	0.28%
Thailand 5Y CDS	57	-1	1	KLCI	1,789	0.67%	0.73%
				JCI	5,695	-0.93%	0.34%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
8-Jun-17	GLL IHT Pte. Ltd.	Not Rated	SGD170mn	5-year	3.85%
8-Jun-17	AMTD Group Company Ltd	Not Rated	USD200mn	Perp NC3	7.625%
8-Jun-17	FWD Group Ltd.	Not Rated	USD500mn	Perp NC5	6.625%
7-Jun-17	Starhub Ltd	Not Rated	SGD200mn	Perp NC5	3.95%
7-Jun-17	Far East Horizon Ltd	Not Rated	USD300mn	Perp NC5	4.35%
7-Jun-17	Tunghsu Venus Holdings Ltd	"B/NR/B+"	USD350mn	3-year	7.25%
7-Jun-17	DianJian Haiyu Ltd	"NR/Baa1/BBB+"	USD500mn	Perp NC5	3.5%
6-Jun-17	State Elite Global Ltd.	"A/A1/NR"	USD600mn	5-year	CT5+110bps
6-Jun-17	China Everbright Bank	"NR/NR/BBB"	USD300mn	3-year	3mL+85bps

Source: OCBC, Bloomberg

Credit Headlines:

Industry Outlook – Financial Institutions: Last week, the resolution of Banco Popular Espanol S.A. (Banco Popular) by the European Central Bank and Single Resolution Board resulted in the write-off of common equity and Additional Tier 1 (AT1) capital instruments as well as the effective write off of Tier 2 (T2) capital instruments. Market reaction however has been minimal with both The Markit iTraxx Europe Senior Financial index and iTraxx Europe Subordinated Financial index tightening following the announcement. In the SGD space, the spreads on AT1 and T2 instruments for both Asian and European names also tightened towards the end of the week. Market reaction implies that the stress at Banco Popular is more idiosyncratic, which is consistent with our view. Key factors that separate the circumstances of Banco Popular with the names under our coverage include (1) The Spanish banking sector is more fragmented with the market share of the top 3 banks lower than peers aside from Germany. Banco Popular itself was at the time the 6th largest banking group in Spain; (2) Banco Popular was fundamentally one of the weakest in Spain's banking sector due to weak revenue performance, a relatively high cost to income ratio and more importantly a significantly high level of non-performing assets; and (3) the Spanish banking sector was previously characterized by excess capacity following a period of excessive credit growth leading up to the Global Financial Crisis leading to restructuring and consolidation in the past few years including a material reduction in branch numbers and staffing levels. While the Spanish economy is recovering at a pace better than the wider Eurozone and investor perception of Spain's banks improving in kind, underlying fundamentals remain somewhat fragile. Unemployment remains high, system leverage remains elevated (albeit is improving) and the banking sector is still working through a high level of non-performing real estate exposures while capital buffers above minimum requirements remain lower than peers. We think the previous characteristics incentivized regulators to resolve the bank given the minimal likely impact on system stability and rather than expose the fragile recovery to any contagion risk. Although this calls into question whether local regulators will also exert their discretionary powers to resolve, (even if capital ratios remain above minimum requirements), we think that local regulators will act differently, but still in a way that preserves the health of their respective banking systems. This is given the somewhat more concentrated nature of banking sectors regionally, which increases each bank's strategic importance. We see local regulator's discretionary trigger as a way to intervene earlier should weakening trends develop in the credit profile of major regional banks. (Company, OCBC)

AusGroup Limited ("AUSG", associate company of Ezion Holdings ("EZI")): As mentioned previously (refer to OCBC Asian Credit Daily - 23 May 2017 and OCBC Asian Credit Daily - 31 May 2017), AUSG had announced a voluntary debt-to-equity exchange for its SGD110mn in bonds due 20/10/18, exchanging the bonds for new shares in AUSG priced at SGD0.058 per share, with EZI exchanging part of its shareholder loan to AUSG as well in a related transaction. The exchange offer has closed, with SGD27.9mn of the bonds (or about 26.3% of bonds outstanding) being tendered for exchange. As a result, these noteholders will receive 482.8mn in new shares in AUSG. EZI had also announced that it will be capitalising USD5.9mn (~SGD8.2mn) worth of its shareholder loans to AUSG (out of the last reported AUD39.3mn worth) and receive 140.8mn in new shares in AUSG. Post completion, participating noteholders will control 35.4% of the company's enlarged shareholdings while EZI will see its shareholdings increase to 20.0% (which is the low end of the 20.0% - 29.9% range originally floated). AUSG last reported AUD169.7mn in borrowings and negative AUD6.8mn in total equity (as of end-March 2017). The capitalisation would reduce borrowings to ~AUD135.0mn while equity would increase to ~AUD27.9mn. It is worth noting that as per EZI's 2016 annual report, EZI had already reduced its carrying amount of interest in AUSG to zero. We do not currently cover AUSG. (Company)

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