Asian Credit Daily

OCBC Bank

February 13, 2017

Credit Headlines (Page 2 onwards): Perennial Real Estate Holdings Ltd, Singapore Post Ltd., Groupe BPCE

Market Commentary: The SGD dollar swap curve traded upwards last Friday, with swap rates trading 5-7bps higher. Flows in SGD corporates were heavy, with better buying seen in GUOLSP 4%'22s, GENSSP 5.13%'49s, and mixed interests in OCBCSP 3.8%'49s, PILLSP 7.25%'18s, CREISP 3.5%'18s. In the broader dollar space, the spread on JACI IG Corporates fell 2bps to 194bps while the yield on JACI HY Corporates rose 1bps to 6.74%. 10y UST yields rose 2bps to 2.41% last Friday after Trump's affirmation of the One-China policy curbed global demand for safe-haven assets.

Market Commentary: Bank of Communications Co. Ltd. (Hong Kong) hired banks for potential USD floating rate notes issuance. Fosun International Ltd. is planning for a potential USD bond issuance. Road King Infrastructure Ltd. is also planning for a potential USD perpetuals issuance.

Rating Changes: S&P placed Pactera Technology International Ltd.'s (Pactera) 'B' corporate credit rating and issue rating on the US275mn senior unsecured notes guaranteed by the company on CreditWatch with developing implications. The rating action reflects the uncertain impact of HNA Group's change of control offer on Pactera's leverage and liquidity. On February 2, HNA Group completed the acquisition of all outstanding shares of Pactera's parent company. Fitch withdrew all ratings on Telstra Corporation Limited last Friday for commercial reasons. Prior to the withdrawal, Fitch affirmed Telstra Corporation Limited's Issuer Default Rating (IDR) and senior unsecured rating at 'A'. The outlook on the IDR is stable.

Table 1: Key Financial Indicators

	13-Feb	1W chg (bps)	1M chg (bps)		13-Feb	1W chg	1M chg
iTraxx Asiax IG	105	-3	-10	Brent Crude Spot ($/bbl)	56.55	1.49%	1.98%
iTraxx SovX APAC	29	-1	-5	Gold Spot ($/oz)	1,230.83	-0.38%	2.80%
iTraxx Japan	52	-2	-3	CRB	194.04	0.43%	-0.26%
iTraxx Australia	90	-2	-8	GSCI	407.83	1.86%	2.00%
CDX NA IG	65	0	-1	VIX	10.85	-1.09%	-3.38%
CDX NA HY	107	0	1	CT10 (bp)	2.425%	1.74	2.87
iTraxx Eur Main	75	1	6	USD Swap Spread 10Y (bp)	-7	-1	4
iTraxx Eur XO	300	4	13	USD Swap Spread 30Y (bp)	-41	-1	6
iTraxx Eur Snr Fin	94	3	8	TED Spread (bp)	50	-3	-1
iTraxx Sovx WE	24	1	4	US Libor-OIS Spread (bp)	34	-2	-1
iTraxx Sovx CEEMEA	69	0	-12	Euro Libor-OIS Spread (bp)	2	0	0
					13-Feb	1W chg	1M chg
				AUD/USD	0.767	0.18%	2.29%
				USD/CHF	1.004	-1.30%	0.41%
				EUR/USD	1.062	-1.21%	-0.22%
				USD/SGD	1.423	-0.99%	0.35%
Korea 5Y CDS	46	1	-1	DJIA	20,269	0.99%	1.93%
China 5Y CDS	103	-2	-10	SPX	2,316	0.81%	1.82%
Malaysia 5Y CDS	119	-5	-11	MSCI Asiax	557	0.55%	3.69%
Philippines 5Y CDS	90	-1	-9	HSI	23,626	1.19%	3.00%
Indonesia 5Y CDS	137	-6	-14	STI	3,111	1.77%	2.84%
Thailand 5Y CDS	66	-2	-8	KLCI	1,706	1.27%	2.03%
				JCI	5,404	0.15%	2.49%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
9-Feb-17	Future Land Development Holdings Ltd.	"BB-/Ba3/BB-"	USD350mn	3-year	5.125%
8-Feb-17	China Singyes Solar Technologies Holdings Ltd.	Not Rated	USD260bn	2-year	7.95%
8-Feb-17	Pakuwon Prime Pte. Ltd.	"BB/Ba3/BB-"	USD250mn	7NC4	5%
8-Feb-17	Sumitomo Mitsui Financial Group	Not Rated	USD470mn	30NC10	4.3%
7-Feb-17	Bank of China Ltd (Hong Kong Branch)	"A/A1/A"	USD1.2bn	3-year	3mL+77bps
7-Feb-17	Bank of China Ltd (Hong Kong Branch)	"A/A1/A"	USD300mn	3-year	CT3+105bps
7-Feb-17	Bank of China Ltd (Hong Kong Branch)	"A/A1/A"	USD500mn	5-year	CT5+115bps
6-Feb-17	ReNew Power Ventures Pvt Ltd.	"NR/Ba3/B+"	USD475mn	5NC3	6%

Source: OCBC, Bloomberg

Credit Headlines:

Perennial Real Estate Holdings Ltd ("PREH"): PREH is shortlisted to bid for United Engineers, which has a market cap of SGD1.9bn as of 10th Feb 2017. The other contenders include KKR & Co, Samling Group, Ascendas-Singbridge Pte and an investment vehicle of Malaysian tycoon Lee Ming Tee. Post divestment of TripleOne Somerset, net debt/equity is expected to improve to 0.46x (4Q2016: 0.66x). If PREH wins the bid and assumes SGD523mn net debt from United Engineers, PREH's net debt/equity may be significantly increased, depending on the bid price and the acquisition funding structure. The final bids for United Engineers was reported to be submitted around the end of March. We keep our Neutral Issuer Profile on PREH pending the outcome of the bid. (Bloomberg, Company, OCBC)

Singapore Post Ltd. ("SPOST"): SPOST reported 3QFY2017 results for the quarter ending December 2016. Revenue increased 16.8% y/y to SGD369.4mn, 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 surge by 106.8% to SGD81.1mn. The logistics segment increased by 5.6% y/y to SGD171.3mn, driven by higher contributions from Couriers Please and Quantium Solutions (due to eCommerce-related activities). Despite structural pressure, the core postal segment managed to grow 2.9% y/y to SGD143.4mn, with higher international mail revenue (due to cross-border eCommerce activity) offsetting the continued decline in domestic mail revenue. SPOST had indicated that it benefitted from higher volumes from the Alibaba Group ("Alibaba"). The current revenue split between domestic and international mail is 46% / 54%. Compared to 2QFY2017, SPOST also saw revenue growth, with total revenue up 14.8% q/q. All segments reported q/q growth, likely driven by seasonal effects with 4Q seeing festive season volumes. Operating margin continues to decline from 17.3% (2QFY2016) to just 10.1% (3QFY2017), with revenue growth coming from the lower-margin eCommerce and logistics segments. Even then, all segments saw operating margin compression. For the postal segment, operating profit margin compressed 270bps to 26.9%, driven by the shift towards lower-margin international transhipment mail. The logistic segment saw operating profit margin compressed 260bps to 5.2% due to incremental costs relating to the Regional eCommerce Logistics Hub (which opened on 01/11/16) as well as competition in the eCommerce logistics space. Finally, the eCommerce segment continues to generate an operating loss (despite increasing revenues). In fact, q/q losses have widened from SGD6.8mn to SGD8.4mn. TradeGlobal (acquired in November 2015 for USD168.5mn) was highlighted as underperforming, with one key customer having faced financial difficulties (and since filed for bankruptcy protection) and another key customer having decided to in-source their eCommerce freight operations. TradeGlobal also saw cost pressure. As such, TradeGlobal incurred a significant loss instead of a projected profit in the 3QFY2017 peak season. As part of SPOST's outlook, the Board of SPOST is in the view that there is a risk of significant impairment to TradeGlobal's carry value. Operating cash flow (including interest service) was SGD50.1mn during the quarter, though after factoring capex free cash flow was just SGD2.1mn. SPOST also paid out SGD21.6mn in dividends. During the quarter though, SPOST received ~SGD86mn from the 34% sale of Quantium Solutions International ("QSI") to Alibaba in October. This helped boost SPOST's cash balance, which drove net gearing lower q/q to 11% (2QFY2017: 16%). Furthermore, with the 2nd tranche of Alibaba investment into SPOST being completed early January, with Alibaba paying SGD187.1mn to increase its stake in SPOST from 10.2% to 14.4%, this should further strengthen SPOST's cash balance. This should help to offset potential impairment losses that SPOST may have to take on its investments. In aggregate though, we continue to believe that SPOST would face structural pressures on its margins, and this would in turn pressure cash flow. We will continue to hold SPOST's Issuer Profile at Neutral. (Company, OCBC)

Credit Headlines (cont'd):

Groupe BPCE ("GBPCE"): GBPCE reported its 4Q2016 and FY2016 results last week with previously reported trends on track. Pre-adjusted net banking income improved 2.6% for 4Q2016 despite the low interest rate environment. Operating expenses however grew 3% y/y due to the influence of transformation costs translating to 4Q2016 gross operating income rising 1.6% y/y to EUR1.7bn. Cost of risk continues to fall, declining 14.8% y/y on a pre-adjusted basis translating to a 2.5% rise in 4Q2016 income before tax to EUR1.3bn. On an adjusted basis (adjusted for non-economic and exceptional items), top line performance was weaker but due to a lower rise in operating expenses, 4Q2016 net income before tax rose 6.3% y/y to EUR1.4bn. For FY2016, adjusted topline performance continues to be muted from low interest rates with revenues from banking activities down 1.1% to EUR23.4bn. In particular, retail banking revenues fell 2.2% y/y despite 3.7% y/y growth in loan outstandings and related improvements in commission income from higher activity. This was partially offset however by better performance in GBPCE's global markets business (equity and fixed income) as well as a 7% y/y rise in gross inflows in life insurance and a 9% y/y rise in non-life insurance portfolio growth. Together with a 1.6% rise in operating expenses from business growth in Corporate & Investment Banking, gross operating income fell 7.1% to EUR6.9bn. A 14.7% fall in the cost of risk did not mitigate the weaker net banking income however and this translated to a 3.1% y/y fall in FY2016 income before tax to EUR5.8bn. A substantial fall in tax expense (of which more than a third is structural) as well as lower minority interests translated to a 7.6% rise in FY2016 pre-adjusted net income to EUR3.4bn and this fed through to GBPCE's estimated CET1 capital ratio for FY2016 which improved to 14.3% on a fully loaded basis against 13.0% for FY2015 (14.0% as at 30 Sept 2016). Earnings performance and stable risk weighted assets contributed around half of the capital ratio improvement with the rest likely due to capital gains from the disposal of Visa Europe. The balance sheet also showed positive trends with the reported ratio of non-performing loans to gross loan outstandings falling to 3.4% in FY2016 from 3.7% in FY2015 and GBPCE's impaired loans coverage ratio (including guarantees related to impaired outstandings) improving to 83.5% from 81.0% over the same period. According to the bank, these trends reflect an improving operating environment within retail banking in France and comes despite higher provisions for oil & gas exposures at Natixis in 1H2016. In all, GBPCE's results are consistent with peers which show some pressure on domestic retail revenues. That said, strong domestic market positions, diverse business segments and stabilizing risk costs have still translated to solid capital generation and improved capital ratios. Its investment priorities within the current 2014-2017 Strategic Plan have paid off with solid growth in its insurance business and y/y falls in operating expenses excluding the impact of one-off transformation costs. In the future, the bank is targeting on transformation and efficiency at Natixis and will be presenting its plans for transforming the retail banking business on Feb 21st as part of its 2018-2020 Strategic Plan. It's TLAC capital position appears solid with the reported TLAC ratio of 19.4% (which includes the January 2017 issue of EUR1.6bn in senior non-preferred debt) on target to meet the minimum requirement of 19.5% by January 2019. Similarly, the estimated phased in CET1 ratio of 14.14% as at 31 December 2016 is well above the minimum requirement of 8.92% as guided by the Supervisory Review and Evaluation Process which includes Pillar 2 requirements. We maintain our Neutral Issuer Profile for now on GBPCE. (Company, OCBC)

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