# Asian Credit Daily

**Aug 15, 2017**

**Credit Headlines (Page 2 onwards):** Sembcorp Industries Ltd (results released 3rd August), Sabana Shari'ah Compliant Industrial REIT, Soilbuild Business Space REIT, Hong Fok Corp Ltd, Golden Agri-Resources Ltd, Wheelock & Co Ltd, Nam Cheong Ltd, ASL Marine Holdings Ltd, Swissco Holdings Ltd, Australia and New Zealand Banking Group, Singapore Post Ltd (results released 4th August)

**Market Commentary:** The SGD swap curve bear-steepened yesterday, with swap rates trading 2-4bps higher across all tenors. Flows in SGD corporates were heavy, with better buying seen in HSBC 4.7%-PERPs and OLAMSP 5.5%-PERPs. In the broader dollar space, the spread on JACI IG Corporates fell 2bps to 189bps, while the yield on JACI HY Corp traded little changed at 7.02%. 10y UST yields rose 3bps to 2.22%, after comments by the Federal Reserve's Dudley saw yields end near session highs.

**New Issues:** Singapore Airlines Ltd has priced a SGD700mn 10-year bond at 3.13%, in line with initial guidance of 3.13%. Wing Tai Properties (Finance) Ltd has scheduled investor meetings for potential SGD perpetual issuance (guaranteed by Wing Tai Properties Ltd) from 14 Aug. Singtel Optus Pty has mandated ANZ and CBA for a potential 5 year AUD MTN issue.

**Rating Changes:** S&P has upgraded Yingde Gases Group Co Ltd's (Yingde) corporate credit rating to 'CCC+' from 'CCC-'. The outlook is positive. The outlook reflects S&P's view that Yingde will pay its outstanding debt and that its controlling shareholder, PAG Asia Capital, will provide liquidity support when needed. S&P has downgraded Noble Group Ltd's (Noble) corporate credit rating to 'CCC-' from 'CCC+' while downgrading the rating on Noble's senior unsecured notes to 'CC' from 'CCC'. The outlook is negative. The rating action reflects S&P's view that Noble will not be able to meet its debt obligations in the next six months, and will breach its financial covenants. Moody's has downgraded Noble Group Ltd's (Noble) corporate family and senior unsecured rating, as well as the rating on its senior unsecured medium-term note to 'Caa3' from 'Caa1'. The rating action reflects the significant default risks that Noble faces in the next several quarters, given its operating cash burn, declining cash levels and large debt maturities.

**Table 1: Key Financial Indicators**

| | 15-Aug | 1W chg (bps) | 1M chg (bps) | | 15-Aug | 1W chg | 1M chg |
|---|---|---|---|---|---|---|---|
| iTraxx Asiax IG | 86 | 7 | 2 | Brent Crude Spot ($/bbl) | 50.85 | -2.47% | 3.97% |
| iTraxx SovX APAC | 23 | 4 | 1 | Gold Spot ($/oz) | 1,276.30 | 1.22% | 3.42% |
| iTraxx Japan | 44 | 3 | 4 | CRB | 177.51 | -1.91% | 0.69% |
| iTraxx Australia | 79 | 4 | -2 | GSCI | 378.02 | -1.79% | 1.22% |
| CDX NA IG | 60 | 1 | 2 | VIX | 12.33 | 24.17% | 29.65% |
| CDX NA HY | 107 | 0 | -1 | CT10 (bp) | 2.243% | -1.89 | -8.89 |
| iTraxx Eur Main | 56 | 3 | 3 | USD Swap Spread 10Y (bp) | -4 | 0 | 1 |
| iTraxx Eur XO | 244 | 10 | 6 | USD Swap Spread 30Y (bp) | -33 | -1 | 1 |
| iTraxx Eur Snr Fin | 54 | 2 | 3 | TED Spread (bp) | 30 | 2 | 3 |
| iTraxx Sovx WE | 5 | 0 | -1 | US Libor-OIS Spread (bp) | 16 | 1 | 2 |
| iTraxx Sovx CEEMEA | 48 | 7 | -7 | Euro Libor-OIS Spread (bp) | 3 | 0 | 0 |
| | | | | | 15-Aug | 1W chg | 1M chg |
| | | | | AUD/USD | 0.787 | -0.54% | 0.90% |
| | | | | USD/CHF | 0.973 | 0.10% | -1.09% |
| | | | | EUR/USD | 1.178 | 0.25% | 2.64% |
| | | | | USD/SGD | 1.363 | 0.05% | 0.50% |
| Korea 5Y CDS | 70 | 12 | 13 | DJIA | 21,994 | -0.56% | 1.65% |
| China 5Y CDS | 68 | 5 | 2 | SPX | 2,466 | -0.61% | 0.27% |
| Malaysia 5Y CDS | 82 | 4 | -1 | MSCI Asiax | 645 | -2.54% | 0.50% |
| Philippines 5Y CDS | 72 | 4 | 0 | HSI | 27,340 | -1.85% | 3.60% |
| Indonesia 5Y CDS | 115 | 6 | -1 | STI | 3,297 | -0.72% | 0.28% |
| Thailand 5Y CDS | 64 | 5 | 2 | KLCI | 1,771 | -0.60% | 0.90% |
| | | | | JCI | 5,825 | 0.25% | -0.11% |

*Source: OCBC, Bloomberg*

**Table 2: Recent Asian New Issues**

| Date | Issuer | Ratings | Size | Tenor | Pricing |
|---|---|---|---|---|---|
| 14-Aug-17 | Singapore Airlines Ltd | Not Rated | SGD700mn | 10-year | 3.13% |
| 10-Aug-17 | Greenland Global Investment Ltd | 'NR/Ba2/NR' | USD500mn | 3-year | 4.9% |
| 10-Aug-17 | China Huiyuan Juice Group Limited | 'NR/B1/B+' | USD150mn | 3-year | 6.5% |
| 10-Aug-17 | Medco Strait Services Pte Ltd | 'B/B2/B' | USD300mn | 5NC3 | 8.75% |
| 9-Aug-17 | Country Garden Holdings Co Ltd | 'NR/Ba1/BB+' | USD100mn | COGARD 4.75%'22s | 99.875 |
| 8-Aug-17 | Gold Ridge Pte Ltd | Not Rated | SGD100mn | 6-year | 2.9% |
| 8-Aug-17 | Gemstones International Limited | 'NR/B3/B+' | USD225mn | 3-year | 8.5% |
| 7-Aug-17 | Agile Group Holdings Ltd | 'B+/B1/NR' | USD200mn | 5NC3 | 5.125% |

*Source: OCBC, Bloomberg*

**Rating Changes (Cont'd):** Moody's has withdrawn United Energy Distribution Pty Limited's (UED) issuer and senior unsecured ratings. The rating outlook was stable. Moody's states that it has withdrawn the ratings for its own business reasons. Fitch has upgraded Sony Corporation's (Sony) Issuer Default Rating (IDR) and senior unsecured ratings to 'BB+' from 'BB'. The outlook is positive. The rating action reflects Sony's improving profitability and credit profile after restructuring.

**Credit Headlines:**

**Sembcorp Industries Ltd ("SCI"):** SCI reported its 2Q2017 results on August 3rd. For 2Q2017, SCI reported SGD2.28bn in revenue, up 23.2% y/y. On a q/q basis, revenue was also up 6.5%. Like 1Q2017, the driver of revenue performance was SCI's utilities segment, which saw segment sales surge 74.5% y/y to SGD1569.6mn (+18.9% q/q) and now accounting for 69% of SCI's total sales. Like previous periods, the strong revenue growth at utilities mitigated continued weakness at the marine segment, which saw revenue decline 27.8% to SGD655.5mn. As mentioned previously (OCBC Asian Credit Daily – 28 Jul 2017) the marine business (mainly Sembcorp Marine) continues to face pressure given weak offshore E&P activity, resulting in difficulty securing new orders as well as client-requested delivery delays leading to lower revenue recognition. The marine segment saw revenue declines across all sub-segments (Drilling, Offshore Platforms and Repairs & Upgrades), while no new orders were won during the quarter (net marine orders excluding Sete Brasil stood at SGD3.6bn). On the bright side, marine gross margins recovered q/q to 11.6% (1Q2017: 2.6%). In aggregate though, top line pressure would mean that marine's contribution to earnings would remain anaemic in the near term (marine generated just ~16% of group net profit for the quarter). Like the previous quarter, utilities segment's strong revenue growth was driven by Singapore (+35.5% y/y to SGD752.1mn) and India (+118.0% y/y to SGD454.7mn). The former was driven by higher heavy sulphur fuel oil ("HSFO") prices which drove domestic electric tariffs higher while the latter was driven by Sembcorp Gayatri Power ("SGPL") commencing commercial operation (started in February 2017). Construction revenue recognition from Myingyan (~80% complete) and Sirajganj Unit 4 (40% complete) power projects in Myanmar and Bangladesh contributed to the SGD225.4mn in revenue recognized from Rest of Asia. Utilities segment profitability continues to be weak, declining 42.4% to SGD43.0mn (and lower than 1Q2017's SGD55.3mn). This was driven by continued losses at the India power business, which generated SGD37.2mn loss (including SGPL refinancing costs) during the period. As per previous periods, SCI was still unable to secure long-term PPAs for SGPL, and hence had to sell into the weak spot and short-term Indian power market. SGPL alone generated SGD55mn in net loss (SCI was operating SGPL covering cash cost basis). Management expects spot and short-term power tariffs to remain weak over the next two to three years. In aggregate, SCI's net profit was down 37.2% y/y to SGD59.5mn, driven by the slump in utilities earnings as well as lack of contribution from marine. For the quarter, SCI's operating cash flow (including interest service) swung sharply negative at –SGD459.4mn due to working capital needs for marine and utilities. CAPEX was minimal with SCI indicating that the bulk of marine yard capex has been spent. SCI also paid out ~SGD84mn in dividends during the quarter. To fund the cash gap, SCI issued SGD200mn in perpetual securities during the quarter, as well as increased borrowings by ~SGD521mn. This helped boost cash balance by ~SGD220mn to ~SGD2.0bn at end-2Q2017. The increase in borrowings drove net gearing higher q/q to 96% (1Q2017: 94%), and would have been worse if not for the SGD200mn in perpetual securities issued (these were accounted for as equity). Management reported interest cover continued to weaken to 2.3x for the quarter (1Q2017: 2.7x, 2016: 3.3x) largely to due higher financing costs. Cash / current borrowings remains at 0.8x. Management has indicated that the strategic review (which commenced in 2Q2017) is about half way through and is targeted to be completed in 4Q2017. Management had also reiterated that the strategic review remains a work-in-progress and that it would be premature to disclose details. In our view, SCI would likely continue to see credit profile deterioration, but at a glacier pace. We will hold SCI's Issuer Profile at Neutral. (Company, OCBC)

**Sabana Shari'ah Compliant Industrial REIT ("SSREIT"):** SSREIT has completed the divestment of the property at 218 Pandan Loop. The sale consideration of SGD14.8mn is about 15.6% higher than its book value as at 30 June 2017. The divestment fee of 0.5% has been waived by the REIT Manager. The divestment is in line with the REIT Manager's strategy to divest non-core and underperforming assets to recycle capital. The proposed sale was first announced on 5/12/16 and as at end-2016, the building was vacant. This is a small transaction versus SSREIT's total asset base as at 30 June 2017 of SGD994.8mn. (Company, OCBC)

**Credit Headlines (Cont'd):**

**Soilbuild Business Space REIT ("SBREIT"):** Pursuant to the occurrence of a Change of Control event announced on 14/7/17, the put option on both SBREIT's bonds had been triggered. On 14/08/17, SBREIT shared that bondholders holding SGD6.5mn in principal amount of the SBREIT'18s and SGD12mn in principal amount of the SBREIT'21s have elected to exercise the option. SBREIT shall redeem these notes together with interest accrued to 12/09/2017. Post redemption, the outstanding amount on the SBREIT '18s and SBREIT '21s would be SGD93.5mn and SGD88mn respectively. We do not expect a change to aggregate levels as the bonds will be redeemed via replacement bank borrowings. As at 30 June 2017, aggregate level at SBREIT stood at 37.9%. (Company, OCBC)

**Hong Fok Corp Ltd ("HFC"):** HFC reported 2Q2017 results. Revenue increased 5% y/y to SGD14.7mn mainly due to increase in rental income. HFC turned a net profit of SGD6.3mn (2Q2016: -SGD1.9mn) mainly due to SGD9.2mn gain on disposal of subsidiaries. We think this disposal is likely related to the disposal of Wellpoll International Ltd in June 2014 that was engaged in property development. The gain is made as HFC opines that the tax exposure in relation to this disposal is no longer applicable. Without the gain on disposal, HFC would have recorded a net loss before tax of SGD2.5mn (2Q2016 net loss before tax: SGD1.3mn). During the quarter, HFC spent SGD21.7mn on capex, mainly to fund the construction of Yotel. Nevertheless, with Yotel obtaining TOP in June 2017 and commencing operations in 4Q17, we expect capex to taper off while HFC should begin to see cash inflows when the hotel ramps up on operations. To fund the capex, net gearing inched up to 0.36x (1Q2017: 0.34x) as HFC borrowed more. Although SGD167mn of debt is due within the next 12 months (including HFCSP '18s), HFC mentioned that it can repay the loans and borrowings from available undrawn facilities and/or refinance them. Going forward, the recovery in the residential property market may further lift HFC's results as we note that 4 units at Concourse Skyline has been sold YTD. Despite the weak core results, with a manageable net gearing position, we continue to hold HFC at a Neutral Issuer Profile. (Company, OCBC)

**Golden Agri-Resources Ltd ("GGR"):** GGR announced its 1H2017 results. GGR's revenue increased 17.5% to USD3.8bn while EBITDA (per company's calculation) increased 44.1% to USD328.3mn. This was driven by higher average crude palm oil ("CPO") price and the recovery in palm production. Cost of sales, selling expenses, general and administrative expenses had also declined as a proportion of revenue following strong increase in output (ie: cost base spread across larger volume). In 1H2017, the plantation and palm oil mills segment saw a 64% growth in EBITDA USD244mn. It was the largest EBITDA contributor, contributing 74% to total. In 1H2017, CPO FOB price was USD702 per MT (up 10%) while palm product output was 1.34mn MT (up 32%). Palm product yield was 2.8 tonnes per hectare in 1H2017, up from 2.1 tonnes per hectare y/y. Driven by higher CPO prices, a main input, the palm and lauric segment saw EBITDA margin decline to 2.3% in 1H2017 from 2.7% in 1H2016. EBITDA still saw a 5% growth to USD79mn as a result of stronger sales volume and prices which helped push revenues for the segment up by 21%. Per company, as the business integration improves, it can maintain a 2-3% EBITDA margin. This segment contributed 24% to total EBITDA in 1H2017. Despite a still-challenging environment in China, GGR managed to eke out an improvement in EBITDA margin for the oilseeds segment to 1.3% (1H2016: 0.8%) to USD4.5mn. As a result of strong overall EBITDA generation, EBITDA/Interest was 4.6x (1H2016: 3.5x), this was despite higher interest rates driving interest expense to increase to USD71.3mn (1H2016: USD64.4mn). Absent a large foreign exchange gain and the net tax credit of USD110.8mn in 1H2016 (due to recognition of deferred tax assets), profit after tax was USD60.5mn in 1H2017 versus USD137.2mn in the previous period. As at 30 June 2017, GGR's net gearing was relatively flat at 0.7x versus end-December 2016. In 1H2017, GGR spent a total of USD94.8mn in investing outflows, of which USD89mn was in relation to planned capex (replanting with higher-yielding seeds and downstream investments). We expect capex in 2H2017 to be contained at ~USD60mn, based on company's USD150mn guidance for FY2017. GGR ended the period with a healthier cash balance of USD181.0mn (excluding pledged cash) against USD122.7mn at the beginning of the period. As at 30 June 2017, GGR's adjusted asset base (excluding intangible assets, bearer plants and long term investments) provided a 2.1x coverage to gross debt. Excluding debt which we estimate to be working capital related and likely routinely rolled over, GGR has USD640mn (as at 30 June 2017) in short term debt which will need to be refinanced/paid down. Our base case is that the company is able to refinance, notwithstanding legacy issues surrounding the major shareholders and their other companies. We maintain our issuer profile of GGR at Neutral. (Company, OCBC)

**Credit Headlines (Cont'd):**

**Wheelock & Co Ltd ("WHEELK"):** WHEELK reported 1H2017 results. Revenue increased 21% y/y to HKD33.0bn, mainly due to higher contribution from development property in Hong Kong (1H2017: HKD15bn, 1H2016: HKD5.9bn) as Capri, ONE HOMANTIN and SAVANNAH were completed in 1H2017, which allowed WHEELK to recognised revenues of HKD4bn, HKD5.5bn and HKD5.4bn respectively. 1H2017 contracted sales continued to be strong at HKD10.1bn (1H2016: HKD5.1bn), mainly attributable to MONTEREY (HKD5.8bn), Mount Nicholson (HKD1.6bn), ONE HOMANTIN (HKD1.2bn) and NAPA (HKD1.1bn). Sales at MONTEREY were especially strong with all 648 launched units fully presold. Meanwhile, core profits increased 6% y/y to HKD5.4bn. This is mainly due to the outperformance of the 61.6%-owned Wharf which delivered HKD4.5bn profits (1H2016: HKD3.6bn) (refer to Asian Credit Daily – 10 Aug 2017). However, WHEELK's own core profit fell 46% y/y to HKD742mn mainly due to the absence of recognition of profit from One HarbourGate in 1H2016. With strong sales, WHEELK's net gearing fell to 13% (2H16: 14.6%) as net debt levels fell at both WHEELK (own) and Wharf. WHEELK mentioned that it expects another HKD12.8bn sales receivable to be recouped in the coming 18 months, which we think would boost its liquidity profile further. Meanwhile, WHEELK continues to receive recurrent dividend income from Wharf and Wheelock Properties (Singapore), which we expect to amount to HKD4.1bn and SGD54.7mn in FY2017, which is significantly in excess of HKD500mn (HKD1bn annualised) in finance cost recorded in 1H2017. Meanwhile, Wharf announced plans to demerge several of its key HK investment properties into Wharf REIC, which may be listed on the HKEX. WHEELK will hold both entities. While the demerger is expected to be dividend neutral to WHEELK, we think this is a slight credit positive to WHEELK as cashflows would flow straight to WHEELK, instead of being passed through Wharf. WHEELK also has higher flexibility to dispose shares in Wharf REIC. With good results and a strong credit profile, we continue to hold WHEELK at a Positive Issuer Profile. (Company, OCBC)

**Nam Cheong Ltd ("NCL"):** NCL reported 2Q2017 results. The most pivotal piece of information would be NCL taking MYR1.88bn in asset impairments and write-offs during the quarter. Specifically, NCL took MYR299.6mn impairment on its PPE, MYR15.5mn on its investment property, MYR8.6mn on trade receivables as well as wrote off MYR1.51bn in inventory as well as MYR47.5mn in prepayments. There was no further information on the impairment loss generated, such as the drivers of the impairments and write downs relative to NCL's audited statements ending December 2016. Aside from this, NCL also took a MYR54.4mn impairment on investment in associates (PT Pelayaran Nasional Bina Buana Raya Tbk, with a book value of MYR74.8mn as of end-2016) as well as MYR61.8mn on amounts owed by jointly controlled entities (the two material JVs are Synergy Kenyalang Offshore Bhd and Marco Polo Offshore (IV) Pte Ltd). In aggregate, the impairments and write downs drove NCL to a net loss of MYR2.02bn for the quarter and wiped out shareholders' equity (NCL reported negative MYR700.3mn in equity as of end-2Q2017). In terms of operational performance, NCL reported MYR151.2mn in revenue, up 28.8% y/y. The biggest driver of revenue was the shipbuilding segment, which reported 17.3% increase y/y to MYR133.7mn, driven by the sale and delivery of two vessels during the quarter. Shipbuilding gross margin however compressed sharply to 9% (2Q2016: 19%), likely due to heightened competition in the market. Like the previous quarter, the vessel chartering segment provided some revenue growth, with NCL reporting MYR17.6mn in revenue (2Q2016: MYR3.4mn) due to 3 additional vessels being added to the chartering fleet. Segment gross profit also swung into a small positive at MYR92,000. In aggregate, due to the overall compression in gross margin from 13% to 8% y/y, overall gross profit fell 23.2% y/y to MYR12.0mn. Excluding the impairments mentioned earlier, NCL would have faced a net loss of MYR26.9mn (which includes MYR17.4mn in FX losses). The adjusted net loss would have been an improvement over the net loss of MYR47.5mn in 1Q2017. During 2Q2017, NCL reported MYR106.6mn in operating cash flow with NCL monetizing the 2 vessels that were sold during the quarter. NCL also paid down MYR63.6mn in net borrowings. As such, NCL generated MYR47.7mn in cash during the quarter, increasing its cash balance. It is worth noting that NCL's net gearing numbers no longer make sense given the negative equity. In our view, the stark impairments and write-downs taken now set the stage for negotiation with various stakeholders as part of NCL's on-going restructuring process. The next steps in NCL's restructuring may likely be the holding of another informal noteholders' meeting to communicate the details of the tentative restructuring plan, in order to seek feedback. It is only when NCL has adequate support from creditors (including noteholders) that it would then be able to provide to court to initiate the formal process to enter a Scheme of Arrangement. NCL is currently held at Negative Issuer Profile. We will continue to monitor the situation closely. (Company, OCBC)

**Credit Headlines (Cont'd):**

**ASL Marine Holdings Ltd ("ASL")**: ASL has provided a profit guidance for 4QFY2017 (ending June 2017), indicating that the company expects to report a net loss for the quarter. ASL has attributed the expected loss to 1) weaker contribution from operations 2) impairment losses on receivables, inventories and chartering fleet of vessels given the protracted downturn and uncertainty of recovery in the global marine industry. Results will be released on 29/08/17. We will monitor its performance closely, particularly its EBITDA-to-Interest covenant (required to be at least 2.0x on a trailing 12 month basis). We currently rate ASL with a Negative Issuer Profile. (Company, OCBC)

**Swissco Holdings Ltd ("SWCH")**: The judicial managers for SWCH have announced on 14/08/17 that Scott and English Energy Limited ("S&EE"), wholly-owned subsidiary of SWCH, will be placed into provisional liquidation as its Board of Directors made a statutory declaration under Section 291(1) of the Companies Act (Cap. 50) that S&EE cannot by the reason of its liabilities continue its business. S&EE was formerly the entity that held all of SWCH's rig assets. SWCH's other main operating entity would be Swissco International Pet Ltd, which holds the OSV fleet and related chartering business. A meeting between liquidators of S&EE and its creditors will be held on 23/08/17 with details to be shared. We currently do not rate SWCH. (Company)

**Australia and New Zealand Banking Group Ltd. ("ANZ")**: ANZ released its third quarter trading update (end 30 Jun 2017) with cash profits (excluding non-core items hence more closely reflecting ongoing earnings) of AUD1.79bn for 3QFY2017 up 5.3% compared to the average of the first two quarters of FY2017. Other performance highlights include a 0.3% decrease in revenues from (1) lower markets performance (mainly trading business) following a strong 1H2017; as well as (2) the recognition of sale proceeds of ANZ's headquarters in 1HFY2017. This was offset by a 1% fall in expenses. Group net interest margins ('NIM') were stable with better NIMs in the Australia division mitigating lower NIMs in the Institutional division. Management have advised that the new Australian Bank Levy will impact future NIMs through a higher cost of funds. Net lending assets have grown 2.0% in 3QFY2017 compared to the average of the first two quarters of FY2017 due to better-than-system average growth in owner occupier residential mortgages in Australia (reflective of Australian Prudential Regulation Authority's (APRA) prudential measures to lower risks in Australia's housing sector) while ANZ continues to rationalize and improve the risk profile of its Institutional asset base with Institutional RWA's down 7% compared to FY2016. The changing composition of Institutional exposures resulted in a release in collective provisions with total provisions of AUD243mn for 3QFY2017 (including AUD308mn in individual provisions). For the 9 months to 30 Jun 2017, total provisions of AUD963mn was down noticeably from AUD1.4bn in the 9 months to 30 Jun 2016. Reflective of the lower provisions, reported gross impaired assets fell to AUD2.95bn as at 30 Jun 2017 from AUD3.17bn as at 30 Sep 2016. ANZ's capital position remains sound with its APRA CET1 position of 9.8% down marginally from 1HFY2017 (10.1%) due to interim dividend payments and higher risk weights for Australian Residential Mortgages which offset earnings generation. On a proforma basis (which includes the positive capital impact from announced but yet to be completed asset disposals), ANZ's CET1 ratio was 10.5% as at 30 Jun 2017, the same level as APRA's minimum CET1 requirement of 10.5% by Jan 1, 2020 for banks to have 'unquestionably strong' capital ratios as recommended by the 2014 Financial System Inquiry which endorsed a strong and well capitalized banking system. As mentioned in our mid-year credit outlook (refer to OCBC Asia Credit - Singapore Mid-Year 2017 Credit Outlook (8 Jul)), ANZ's portfolio rationalization is expected to reinforce ANZ's capital position against earnings pressures. This rationalization is evident in the combined impact of growth in owner occupier home loans and the reduction in Institutional risk weighted assets which have resulted in improved returns from growth in lower risk and better return business as well as lower credit costs as top line performance remains soft. We maintain our Neutral Issuer Profile on ANZ. (Company, OCBC)

**Credit Headlines (Cont'd):**

**Singapore Post Ltd ("SPOST")**: SPOST reported 1QFY2018 results for the period ending June 2017 on August 4th. 1QFY2018 revenue increased 6.2% y/y to SGD354.1mn, with growth at the postal and logistics segments mitigating the decline at the eCommerce segment. Specifically, the postal segment revenue was up 9.3% y/y to SGD149.8mn, driven by the strong growth in international mail (+28.5% sales y/y) which offset the structural decline in domestic mail (-8.8% sales y/y). The boost in international mail was driven in part by higher volumes with the Alibaba Group (Lazada Singapore, owned by Alibaba Group, had moved its entire warehouse operations to SPOST's Regional eCommerce Logistics Hub). However, due to the shift in product mix (domestic mail is more lucrative), postal operating profit declined 13.7% y/y to SGD36.3mn, with operating margins compressing sharply to 24.2% (1QFY2017: 30.7%). The current revenue split between domestic and international mail is 41% / 59%. For the logistics segment, revenue was up 6.1% to SGD166.3mn, driven by higher volumes due to eCommerce deliveries recognized in Singapore (SP Parcels) and Australia (Couriers Please). However, there was weakness at Quantium Solutions with revenue declining 16.2%. Logistics segment operating profit slumped sharply by 39.3% to just SGD4.4mn, with the segment reporting 2.6% operating margin (1QFY2017: 4.6%). Management indicated that profits were pressured by planned investments into its eCommerce logistics network as well as pricing / competitive pressures hitting Quantium Solutions. The eCommerce segment, which used to be the driver of group revenue growth, actually saw segment revenue decline 0.9% to SGD64.7mn. Though Jagged Peak managed to grow its revenue by 7.0%, TradeGlobal was a drag, declining 5.6%. The eCommerce segment continued to generate operating losses (SGD4.2mn worth) due to continued pressure at TradeGlobal. On the bright side, segment operating losses improved q/q (4QFY2017: 15.1mn), with management executing its turnaround plan for the segment. In aggregate, SPOST's operating profit margin fell to 11.8% (1QFY2017: 14.8%) with labour, volume-related and depreciation expenses trending higher despite weaker revenue growth. For the quarter, SPOST generated SGD58.0mn in operating cash flow (including interest service). Capex was SGD26.4mn hence free cash flow was SGD31.6mn. The cash generated was used to pay down debt with total borrowings declining to SGD331.6mn. As SPOST has SGD364.4mn in cash balance, SPOST remains a net cash company. Looking forward, we continue to believe that SPOST would continuing to face structural pressures on its margins (given the shift away from the lucrative domestic postal business), and this would in turn pressure cash flow. We will continue to hold SPOST's Issuer Profile at Neutral. (Company, OCBC)

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