Asian Credit Daily

February 17, 2017

Credit Headlines: Ascendas Real Estate Investment Trust, Chip Eng Seng Corp Ltd, CapitaLand Ltd., OUE Limited/ International Healthway Corp / Oxley Holdings Limited, United Overseas Bank Ltd., Groupe BPCE SA, Australia and New Zealand Banking Group Ltd.

Market Commentary: The SGD dollar swap curve was range bound yesterday, with the shorter and medium tenors trading 1bps higher, while the longer end of the curve traded lower by 1bps. Flows in SGD corporates were heavy, with better buying seen in GENSSP 5.13%'49s, and better selling seen in FCLPSP 4.25%'26s, MAPLSP 4.5%'49s, OLAMSP 6%'22s, GLPSP 5.5%'49s. In the broader dollar space, the spread on JACI IG Corporates rose 1bps to 189bps while the yield on JACI HY Corporates fell 1bps to 6.72%. 10y UST yields fell 4bps to 2.46%, as the risk rally eased, causing prices to rebound after a 5-day slide that drove yields to 2017 highs.

New Issues: FCL Treasury Pte. Ltd. priced a SGD348mn 10-year bond (guaranteed by Frasers Centrepoint Ltd.) at 4.15%, tightening from initial guidance of 4.5%. Sri Lanka is planning investor meetings for a potential USD1.5bn bond sale. China Reinsurance Group Corp is planning for a potential debut USD dollar bond issuance.

Rating Changes: Moody's withdrew its 'Ba2' long-term ratings on Australian rail freight provider Genesee & Wyoming Australia Pty Ltd.

Credit Headlines:

Ascendas Real Estate Investment Trust ("AREIT"): AREIT announced the completion of its acquisition of 12, 14 and 16 Science Park Drive from its Sponsor. The purchase consideration was SGD420mn (SGD437.5mn including acquisition cost). 40.8mn new units were issued at a price of SGD2.4489 per new unit (total SGD100mn) to its Sponsor while the remaining was paid in cash. As at 31 December 2016, AREIT's headline aggregate leverage was 32% and adjusting 50% of perpetuals as debt, we find adjusted aggregate leverage at 33%. Post the acquisition of the Science Park properties, we expect AREIT's headline aggregate leverage to rise slightly to 33% and 35% on an adjusted basis. We are maintaining AREIT's Neutral issuer profile. (Company, OCBC)

Table 1: Key Financial Indicators

	17-Feb	1W chg (bps)	1M chg (bps)		17-Feb	1W chg	1M chg
iTraxx Asiax IG	101	-4	-15	Brent Crude Spot ($/bbl)	55.74	-1.69%	0.49%
iTraxx SovX APAC	27	-2	-7	Gold Spot ($/oz)	1,237.76	0.34%	1.70%
iTraxx Japan	53	1	-3	CRB	192.76	0.00%	-1.22%
iTraxx Australia	88	-3	-11	GSCI	403.71	0.49%	0.70%
CDX NA IG	64	-1	-3	VIX	11.76	8.09%	-0.93%
CDX NA HY	107	0	1	CT10 (bp)	2.457%	5.01	13.21
iTraxx Eur Main	73	-2	3	USD Swap Spread 10Y (bp)	-6	1	6
iTraxx Eur XO	294	-6	3	USD Swap Spread 30Y (bp)	-40	2	9
iTraxx Eur Snr Fin	92	-3	4	TED Spread (bp)	51	1	1
iTraxx Sovx WE	23	-2	2	US Libor-OIS Spread (bp)	32	-2	-3
iTraxx Sovx CEEMEA	66	-4	-15	Euro Libor-OIS Spread (bp)	2	0	0
					17-Feb	1W chg	1M chg
				AUD/USD	0.770	0.36%	1.78%
				USD/CHF	0.997	0.51%	0.42%
				EUR/USD	1.067	0.27%	-0.38%
				USD/SGD	1.417	0.25%	-0.11%
Korea 5Y CDS	47	1	-1	DJIA	20,620	2.22%	4.00%
China 5Y CDS	98	-5	-16	SPX	2,347	1.71%	3.50%
Malaysia 5Y CDS	116	-3	-14	MSCI Asiax	564	1.21%	5.16%
Philippines 5Y CDS	87	-3	-10	HSI	24,098	2.22%	5.50%
Indonesia 5Y CDS	138	1	-14	STI	3,112	0.38%	3.30%
Thailand 5Y CDS	64	-3	-10	KLCI	1,707	0.49%	2.66%
				JCI	5,378	0.32%	2.11%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
16-Feb-17	FCL Treasury Pte. Ltd.	Not Rated	SGD348mn	10-year	4.15%
15-Feb-17	Mitsubishi UFJ Financial Group Inc. (MUFG)	"NR/A1/A"	USD500mn	5-year	CT5+100bps
15-Feb-17	Mitsubishi UFJ Financial Group Inc. (MUFG)	"NR/A1/A"	USD500mn	5-year	3mL+92bps
15-Feb-17	Mitsubishi UFJ Financial Group Inc. (MUFG)	"NR/A1/A"	USD1bn	10-year	CT10+118bps
15-Feb-17	Qinghai Provincial Investment Group Co Ltd	"BB-/NR/NR"	USD300mn	3-year	7.25%
14-Feb-17	Ronshine China Holdings Ltd. (re-tap)	"B/B2/B+"	USD225mn	3-year	8%
14-Feb-17	Proven Glory Capital Ltd.	Not Rated	USD1bn	5-year	CT5+132.5bps
14-Feb-17	Proven Glory Capital Ltd.	Not Rated	USD500mn	10-year	CT10+162.5bps

Source: OCBC, Bloomberg

Credit Headlines (Cont'd):

Chip Eng Seng Corp Ltd ("CES"): CES reported 4Q2016 yesterday for the quarter ended 31 Dec. Revenue increased 62.5% y/y to SGD250mn mainly due to higher contribution from the property developments segment (+97.6% y/y to SGD148mn) with progressive revenue recognised for High Park Residences and higher contribution from the construction segment (+31.4% y/y to SGD93mn) as the projects at Woodlands N1C26 & N1C27 and Tampines C6C1A/1B progressed. Profits increased by a larger proportion of 118.2% to SGD22.9mn due to higher revenue and absence of fair value loss on investment properties and absence of impairment loss on a development property. As a result of better performance during 4Q, full year revenue and profits before tax increased 10.6% and 12.6% to SGD748mn and SGD76mn respectively. During the quarter, CES sold more units at Fulcrum, High Park Residences and Willow Apartments in Australia. However, progress at Tower Melbourne (2020E completion) continues to be held up as a neighbour appealed against the demolition plan, and CES is awaiting the determination from the Building Appeal Board. Going forward, CES will launch the New Upper Changi Road development (720 units) – Grandeur Park Residences towards the end of February. Meanwhile, the construction orderbook has declined to SGD537.4mn (3Q16: SGD628.8mn) as no order was won during the quarter. Amidst the challenging market, the profit margins of the construction segment has declined to 5.6% in FY2016 (FY2015: 6.9%). On the brighter side, the impact is cushioned by property investments which in FY2016 generated SGD4.3mn segment profit before fair value gains. Net debt/equity has also declined to 0.89x (3Q2016: 0.94x) mainly due to cash receipts from buyers of Nine Residences & Junction Nine. As such, we continue to hold CES at a Neutral Issuer Profile (Company, OCBC)

•**CapitaLand Ltd. ("CAPL")**: CAPL announced that it is proposing to acquire (via CapitaLand Mall Asia) three multi-tenanted office properties as well as one retail mall in the Greater Tokyo area of Japan. The properties are all freehold. The agreed consideration for the portfolio is JPY49.7bn (~SGD620mn), and would increase CAPL's Japan total asset size to ~SGD2.5bn. CAPL will be paying slightly below the JPY49.8bn valuation, but will be paying an additional ~SGD16.2mn in property related taxes for the acquisition. The transaction will be satisfied in cash, and funded via a mix of internal funds and borrowings. It is expected to be completed during 1Q2017. CAPL had indicated that the new assets are expected to contribute ~SGD25.0mn in net operating income each year (NPI yield of ~4.1% according to management). Management of CapitaLand Mall Asia had indicated that the acquisition advances CAPL's long-term business strategy in Japan, and that vacancies for Greater Tokyo office space is expected to stay below 5% through 2025. For the retail mall, its GFA of ~393,000sqft would increase CAPL's existing retail footprint by ~25% (CAPL currently owns and manages four retail malls in Japan). Assuming that CAPL uses its cash balance to acquire the properties, pro forma end-2016 net gearing would increase from 41% to 44%. As such, the impact on CAPL's credit profile is minimal in our view. We will retain our Positive Issuer Profile on CAPL. (Company, OCBC)

OUE Limited ("OUE") / International Healthway Corp ("IHC") / Oxley Holdings Limited ("Oxley"): As mentioned previously, OUE last reported controlling 21.8% of IHC. It was then disclosed that OUE entered into a share purchase agreement with Ching Chiat Kwong, Low See Ching, Low Bee Lan Audrey and Tee Wee Sien to acquire a further 35.77% in IHC via a married deal. OUE will be acquiring 593,470,029 shares from the sellers at SGD0.106 per share (compared to OUE's existing stake of 362,204,008 shares, which was acquired at SGD0.077 per share). As OUE would control 57.6% of IHC post completion, this triggered a mandatory unconditional cash offer for the balance 42.4% shares of IHC. The formal offer document will be sent to the shareholders of IHC within the next 14 – 21 days. IHC's board has separately announced that they will be appointing an independent financial adviser to review the offer. For bondholders, the pertinent question would be the change-of-control ("CoC") clause. As per the bond documents, the issuer has to give notice to bondholders within 7 days of confirmation of the occurrence of the event (the last update from IHC on 08/02/17 was that they were still investigating if the CoC clause has been triggered). Upon notice of CoC, IHC bondholders will then have the option to make IHC redeem its bonds. Currently, the tentative proposal was for Oxley and its insiders to provide SGD55mn in convertible loans in aggregate to IHC for IHC's near-term liquidity needs, but given that OUE now has a majority stake in IHC, these plans are now uncertain. In the scenario that OUE acquires all 78.2% of IHC that it did not already own before the current announcement, the stake would cost ~SGD138mn. We will wait for the looming 4Q2016 results for OUE to review the potential impact of the acquisition, and will revise our Neutral Issuer Profile if necessary. (Company, OCBC).

Credit Headlines (Cont'd):

United Overseas Bank Ltd. ("UOB"): UOB reported its 4Q2016 results. Net interest income for 4Q2016 was stable as strong y/y growth in average interest bearing assets of 6.0% mitigated the fall in interest rates and subsequent softer net interest margins (NIMs) y/y to 1.69% for 4Q2016 (1.79% for 4Q2015). Fee and commission income rose 10.6% (due to growth in credit cards, fund management and wealth management) while other non-interest income was softer by 6.3% (lower trading income and net gains from sale of investment securities) and this combined with net interest income performance to generate a 2.5% fall in total income to SGD2.0bn for 4Q2016. What is noticeable however in the result is the fall in overall expenses including allowances with operating expenses falling 0.7% and total allowances falling 31.4% y/y for 4Q2016 (note that DBS Group Holdings Ltd ('DBS') announced yesterday an 87% y/y rise in allowances for credit and other losses in 4Q2016). This translated to a 2.6% y/y fall in net profit before tax, better than DBS' reported 6% y/y fall in net profit before tax. The divergence in headline numbers is due to UOB significantly releasing its general allowance to compensate for a substantial rise in specific allowances to SGD428mn (+SGD313mn), an increase that was proportionately larger than DBS' reported y/y rise in 4Q2016 specific provisions. As expected, this was due to stresses in UOB's oil and gas and shipping exposures with specific allowances rising the most in 4Q2016 in Singapore but also rising y/y in UOB's other geographic segments. Of note is the substantial rise in specific allowances in UOB's Greater China exposures (+SGD88mn to SGD107mn). Segment wise, the Group Retail performance continues to be resilient with 4Q2016 profit before tax up 9.0% y/y while Group Wholesale Banking bore the brunt of the rise in allowances with profit before tax falling 50% y/y in 4Q2016. In terms of the balance sheet, the non-performing loan ratio edged up slightly to 1.5% for 4Q2016 from 1.4% in 4Q2015 and actually fell q/q from 1.6% in 3Q2016 however this is more due to strong y/y growth in net customer loans which rose 8.9% to SGD221.7bn (in contrast NPLs rose 15.5%). Similar to DBS, most loans growth occurred in Singapore by geography (51.6% of all growth) and in building and construction and housing loans by industry (38.7% and 27.7% respectively). Customer deposits rose less than loans, up 6.1% y/y and as a result the reported loan to deposit ratio rose to 86.8% for FY2016 (84.7% for FY2015). Capital ratios were more or less stable y/y with CET1/CAR ratios at 13.0%/16.2% (FY2015: 13.0%/15.6%) as growth in capital from retained earnings and active capital management (strong take up of the scrip dividend scheme and issuance of capital instruments) mitigated ongoing balance sheet growth and a 7.4% rise in risk weighted assets. On a fully loaded basis however, CET1 ratios improved y/y to 12.1% for FY2016 against 11.7% for FY2015 and remain above the regulatory CET1 minimum of 7.2%. In summary, UOB's results reflect the weak operating conditions facing Singapore banks, of which UOB appears the most exposed. Balance sheet growth is commendable despite slow domestic and regional economic growth and could position UOB well for a fundamental recovery. However the current environment has also exposed some of the general weakness in UOB's loan portfolio. In that respect, active capital management will continue to be important in our view given current and prospective loan quality pressures, particularly as interest rates rise. UOB's counter-cyclical provisioning strategy could expose the bank to further provisioning pressure if conditions worsen although we note that new non-performing asset formation slowed and upgrades and recoveries improved in 4Q2016 from 3Q2016. Total allowance coverage levels also appear adequate at 118% of total non-performing loans (NPLs) and 262.4% of unsecured NPLs. We maintain our Neutral Issuer Profile rating for now. (Company, OCBC)

Groupe BPCE SA ("GBPCE"): It was reported earlier this week that Natixis, one of GBPCE's core businesses, is formally under investigation by French authorities for two statements Natixis made in the second half of 2007 at the start of the Global Financial Crisis. The investigation is related to a 2010 investigation by French regulator l'Autorité des Marchés Financiers and is tied to Natixis potentially understating its losses in 2008. While Natixis is of the view that its communications at that time were done in good faith with all information available to it disclosed at the time, there is currently no details as of now regarding potential liabilities arising from the investigation. Natixis generates around 30% of GBPCE's net banking income. We will update as further information comes to hand. (Company, Bloomberg, OCBC)

Credit Headlines (Cont'd):

Australia and New Zealand Banking Group Ltd. ("ANZ"): ANZ released its first quarter trading update (end 31 Dec. 2016) with fairly solid results in our view (ANZ compares its 1QFY2017 results against the quarterly average of 2HFY2016 covering March 2016 –September 2016). Unaudited cash profit was AUD2.0bn, up 20% on an adjusted basis (to eliminate non-recurring items). Contributing to the performance was (1) a 4% improvement in adjusted revenues from solid performance in Australia and New Zealand retail and Institutional businesses (home lending segment continues to grow while commercial lending volumes were soft) ; (2) sale of its 100 Queen Street headquarters; (3) a 1% fall in adjusted expenses from efficiency improvements and cost management initiatives; and (4) lower provision charges. This translated to adjusted profit before provisions up 9% compared to 2HFY2016 despite a fall in net interest margins from higher funding costs due to better liability composition (strong deposit growth with commercial deposits up 6% and household deposits up 4%). Balance sheet quality in general appears to have improved with a reduction in Institutional lending products (and hence Institutional credit risk weighted assets (CRWA)) replaced by growth in Australian Home Lending CRWA. This led to the average risk weight in the lending book falling 50bps despite an overall 1% rise in risk weighted assets. ANZ's APRA compliant CET1 capital ratio of 9.5% was marginally weaker compared to the FY2016 level of 9.6% due to payment of the FY2016 final dividend. Excluding the dividend payment (net of the dividend reinvestment plan), ANZ's CET1 ratio would have improved to 9.9% largely due to the solid earnings performance. Nevertheless, capital ratios are likely to improve further following ANZ's ongoing strategic restructuring initiatives which will be capital accretive in the bank's view. Management expects the recently announced sales of (1) its 20% stake in Shanghai Rural Commercial Bank for AUD1.84bn, (2) its Asian retail and wealth management businesses in Singapore, Indonesia, Taiwan, Hong Kong and China to DBS Group Holdings Ltd; and (3) UDC Finance for NZD660mn to HNA Group to add around 70bps to ANZ's APRA CET1 position. This would potentially improve ANZ's CET1 capital ratio to around 10.2% (assuming all else constant) once all transactions are finalized and potentially put ANZ's CET1 capital ratio above those of its peers (National Australia Bank – CET1 ratio of 9.8% as at FY2016; Westpac Banking Corporation – CET1 ratio of 9.5% as at FY2016; Commonwealth Bank of Australia – CET1 ratio of 9.9% as at 31 Dec 2016). The results are somewhat consistent with our expectations that potentially improved returns and slightly improved balance sheet strength and capital ratios should mitigate on-going restructuring and soft operating conditions. While earnings are resilient in our view, we maintain our Neutral Issuer Profile on ANZ. (Company, OCBC)

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