Asian Credit Daily

Aug 2, 2017

Credit Headlines (Page 2 onwards): Hotel Properties Ltd, CWT Ltd, Groupe BCPE

Market Commentary: The SGD swap curve traded upwards yesterday, with swap rates trading 1-3bps higher across all tenors. Flows in SGD corporates were heavy, with better buying seen in WINGTA 4.08%-PERPs, CMZB 4.875%-PERPs, better selling seen in OLAMSP 5.5%-PERPs, GRCHAR 6%'17s, RHTSP 4.5%'18s, and mixed interest seen in HSBC 4.7%-PERPs, GEMAU 5.5%'19s, ABNANV 4.7%'22s. In the broader dollar space, the spread on JACI IG Corporates fell 1bps to 186bps. Similarly, the yield on JACI HY Corporates fell 1bps to 7.02%. 10y UST yields fell by 4bps to 2.25% after July auto sales came in weaker-than-expected, which stoked concerns about the impact of rising interest rates on consumer spending.

New Issues: Axis Bank Ltd, through its DIFC branch, has priced a USD500mn 5-year bond at CT5+130bps, tightening from initial guidance of CT5+155bps area. The expected issue ratings are 'BBB-/Baa3/BBB-'. China Logistics Property Holdings Co has priced a USD100mn 3-year bond (guaranteed by certain non-PRC restricted subsidiaries) at 8%, unchanged from initial guidance. The expected issue ratings are 'NR/B3/B'. New Metro Global Ltd has priced a USD200mn 5NC3 bond (guaranteed by Future Land Holdings Co) at 5.25%, tightening from initial guidance of 5.75% area. The expected issue ratings are 'NR/Ba3/BB-'.

Rating Changes: S&P has affirmed China Railway Group Ltd's (CREC) corporate credit rating and the rating on its guaranteed notes at 'BBB+', while revising the outlook to positive from stable. The rating action reflects S&P's view that CREC will continue to reduce its debt leverage and grow its revenue and profit over the next 12-24 months. Fitch has downgraded Global A&T Electronics Ltd's (GATE) Issuer Default Rating to 'C' from 'CC'. The rating action reflects GATE's announcement that it is unable to pay its coupon due on the 1st of August. GATE has also disclosed that it is in talks with certain bondholders for a potential debt restructuring.

Table 1: Key Financial Indicators

	2-Aug	1W chg (bps)	1M chg (bps)		2-Aug	1W chg	1M chg
iTraxx Asiax IG	81	-2	-6	Brent Crude Spot ($/bbl)	51.28	0.61%	7.01%
iTraxx SovX APAC	19	-2	-2	Gold Spot ($/oz)	1,266.23	0.45%	3.77%
iTraxx Japan	41	1	1	CRB	180.76	1.74%	3.42%
iTraxx Australia	76	-1	-7	GSCI	382.96	0.43%	2.84%
CDX NA IG	56	0	-4	VIX	10.09	7.00%	-9.75%
CDX NA HY	108	0	1	CT10 (bp)	2.264%	-2.33	-3.98
iTraxx Eur Main	52	1	-3	USD Swap Spread 10Y (bp)	-5	-1	-2
iTraxx Eur XO	235	1	-10	USD Swap Spread 30Y (bp)	-34	-1	-5
iTraxx Eur Snr Fin	50	0	-2	TED Spread (bp)	24	8	-4
iTraxx Sovx WE	5	0	-1	US Libor-OIS Spread (bp)	15	0	1
iTraxx Sovx CEEMEA	45	-5	-10	Euro Libor-OIS Spread (bp)	3	0	0
					2-Aug	1W chg	1M chg
				AUD/USD	0.795	-0.72%	3.73%
				USD/CHF	0.967	-1.64%	-0.33%
				EUR/USD	1.180	0.60%	3.87%
				USD/SGD	1.360	-0.22%	1.65%
Korea 5Y CDS	58	3	4	DJIA	21,964	1.62%	2.88%
China 5Y CDS	63	-1	-7	SPX	2,476	-0.03%	2.18%
Malaysia 5Y CDS	80	-2	-6	MSCI Asiax	658	0.74%	5.17%
Philippines 5Y CDS	69	-1	-7	HIS	27,618	2.51%	7.19%
Indonesia 5Y CDS	110	-2	-7	STI	3,333	-0.10%	3.31%
Thailand 5Y CDS	61	-3	-1	KLCI	1,768	0.14%	0.27%
				JCI	5,803	0.06%	-0.45%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
1-Aug-17	New Metro Global Ltd	'NR/Ba3/BB-'	USD200mn	5NC3	5.25%
1-Aug-17	China Logistics Property Holdings Co	'NR/B3/B'	USD100mn	3-year	8%
1-Aug-17	Axis Bank Ltd	'BBB-/Baa3/BBB-'	USD500mn	5-year	CT5+130bps
31-Jul-17	KT Corporation	'A-/A3/A-'	USD400mn	5-year	CT5+92.5bps
31-Jul-17	Olam International Limited (re-tap)	Not Rated	SGD50mn	OLAMSP 5.5%-Perp	100.25
28-Jul-17	Powerlong Real Estate Holdings Ltd (re-tap)	'B-/B2/NR'	USD100mn	PWRLNG 5.95%'20s	99.196
27-Jul-17	BNZ International Funding Ltd	'NR/A1/NR'	USD650mn	5.25-year	CT5.25+85bps
27-Jul-17	Incitec Pivot Finance LLC	'BBB/Baa2/NR'	USD400mn	10-year	CT10+167.5bps

Source: OCBC, Bloomberg

Credit Headlines:

Hotel Properties Ltd ("HPL"): HPL has entered into a 80-20 JV with Mr Ong Beng Seng, who is the Managing Director and deemed controlling shareholder of HPL, to acquire Hilton London Olympia ("HLO") for GBP114.85mn (SGD206.2mn). HLO is a 405-keys hotel situated near Olympia Exhibition Centre at the western end of Kensington High Street. Following the transaction, we expect net gearing to increase to 0.53x (1Q17: 0.51x), after accounting for previous transactions including GBP39.4mn (SGD70.8mn) acquisition of a freehold property at Ealing, London, SGD150mn perp issuance and purchase of Four Seasons Resort Langkawi in Malaysia for USD55mn (SGD76mn). While we deem the HLO purchase as a credit negative, we think that the net gearing remains manageable and will continue to hold HPL at a Neutral Issuer Profile. (Company, OCBC)

CWT Ltd ("CWT"): CWT announced its 2Q2017 and 1H2017 financial results. In 1H2017, revenue was up 22% to SGD5.2bn, driven by improvements in the Commodity Marketing, Engineering and Logistics segments. Commodity Marketing's revenue was driven by higher volumes in energy products and general increase in commodity prices (up 24%). This is a volume driven, low margin business. The Engineering segment (with lumpier, contract based revenue) saw revenue increased 83% on the back of the finalisation of a design and build project whilst Logistics revenue was up 7%, driven by Freight and Commodity Logistics. Financial Services revenue saw a 26% hit y/y mainly due to fewer structured trade services opportunities. Overall reported gross profit was up 11% to SGD167.7mn, driven by Commodity Marketing and Engineering. Gross margin though dipped to 3.2% from 3.6% in 1H2016. We think this is due to lower gross margins in the Logistics segment (14.1% against 15.8%) and the lower proportionate contribution from Financial Services (a higher-margin business). EBITDA based on our calculation which does not include other income and other expenses increased 23.4% to SGD103.1mn. EBITDA/Interest was healthy at 4.1x (1H2016: 2.9x). Finance income was up 212% to SGD36.8mn, though we think some of these are one-off items. According to disclosures, in 1H2017 the company recorded a SGD5mn mark-to-market gain on foreign currency hedges and SGD23.1mn of gains was realised in the second quarter in connection with a construction project. As at 30 June 2017, CWT's headline net gearing was 0.8x, relatively flat against net gearing levels as at 31 March 2017. Short term debt stood at SGD597.6mn. 94% of these relate to collateralised short term trade facilities utilised for commodity marketing and financial services activities. Adjusting net gearing downwards for such debt, we find adjusted net gearing to be 0.23x (31 March 2017: 0.18x). HNA Group (via its Hong Kong listed-entity) has announced a pre-conditional offer for CWT in April 2017. Subsequently on 26/7/2017, HNA Group had announced that it will be holding a general meeting for shareholders to vote on the CWT deal sometime in end-August to early September, though a definitive date has yet to be announced. On the back of CWT's still manageable credit profile, we are keeping its issuer profile at Neutral for now. We are 50:50 as to whether or not the sale of CWT to HNA Group would happen. In the downside scenario where CWT is acquired, CWT would be subsumed as a subsidiary of HNA Group. In recent weeks, the media has reported that certain non-Chinese banks are turning cautious over their banking relationships with the HNA Group. The Chinese banking regulator has also reportedly asked domestic Chinese banks to examine their exposure to five major conglomerates (HNA Group being one of them) who had been acquisitive overseas. On 2/8/2017, further news has emerged that the China foreign-exchange regulator is reviewing the use of domestic assets as collateral to secure loans abroad by these five conglomerates. Should concerns persist and CWT becomes a subsidiary of HNA Group, there is no certainty that existing and future credit facilities at CWT would be on existing terms and pricing levels. We are underweight the CWTSP'19s and the CWTSP'20s for now. (Company, Bloomberg, OCBC)

Credit Headlines (Cont'd):

Groupe BPCE ("GBPCE"): GBPCE reported solid results for 1H2017 with revenues (before non-economic and exceptional items) up 4.8% y/y. Performance was driven by all of GBPCE's business segments with Retail Banking declining only marginally by 0.4% as low interest rates and the renegotiation and early redemption of home loans were offset by 5.2% y/y loans growth (consumer loans +7.8%, home loans +5.1%, equipment loans +4.2%) and higher commissions and fees from an enlarged customer base and the early redemptions. Overall results were also supported by Investment Solutions (positive net inflows in Asset Management, improved insurance business on increasing synergies between GBPCE's retail banking networks and Natixis) and Corporate & Investment Banking (higher client activities in FICT and loan origination growth in global finance) revenues which rose 9.3% and 20.8% respectively from strong business momentum. Group operating expenses rose 2.2% y/y from Investment Solutions and Corporate & Investment Banking while cost of risk continues to decline, down 6.7% y/y due to the strong operating environment within retail banking in France as well as absence of elevated oil and gas provisions in 1H2016 within Corporate & Investment Banking. The fall in provisioning costs was consistent with the ongoing improvement in loan quality, with the reported ratio of non-performing loans to gross loan outstandings falling y/y to 3.4% in 1H2017 from 3.5% in 1H2016 but remaining constant with 1Q2017. GBPCE's impaired loans coverage ratio (including guarantees related to impaired outstandings) weakened marginally to 82.7% from 83.6% over the same period. Due to the solid earnings and issuance of cooperative shares together with stable risk weighted assets, GBPCE's capital ratios improved with the bank's CET1/CAR capital ratio for 2Q2017 at 14.7%/18.8% on a fully loaded basis (1Q2017: 14.4%/18.7%; FY2016: 14.3%/18.7%). TLAC position remains solid with the reported fully loaded TLAC ratio of 19.9% up 20bps and 60bps from 1Q2017 and FY2016 respectively and remaining above the minimum requirement of 19.5% by January 2019. GBPCE's leverage ratio was 5.0% as at 30 June 2017, above the 3.0% minimum requirement. With GBPCE's credit fundamentals intact and a better spread to call, we see the BPCEGP 4.5% '26c21s as being the best value of the Tier 2 SGD papers, trading wider than the lower rated CMZB 4.875% '27c22s despite shorter tenor and wider than similarly rated SOCGEN 4.3% '26c21s. We maintain our Neutral Issuer Profile for now on GBPCE. (Company, OCBC)

Andrew Wong
Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6530 4736
wongVKAM@ocbc.com

Nick Wong Liang Mian, CFA
Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6530 7348
NickWong@ocbc.com

Ezien Hoo, CFA
Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6722 2215
EzienHoo@ocbc.com

Wong Hong Wei
Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6722 2533
WongHongWei@ocbc.com