Asian Credit Daily

May 2, 2017

Credit Headlines (Page 2 onwards): Oxley Holdings Ltd , Capitaland Commercial Trust, Gallant Venture Ltd, DBS Group Holdings Ltd., Australia and New Zealand Banking Group Ltd.

Market Commentary: The SGD swap curve was range-bound last Friday, with swap rates trading 1-2bps across all tenors. Flows in SGD corporates were heavy last Friday, with better buying seen in GUOLSP 4%'22s, BAERVX 5.9%'49s, CREISP 3.5%'18s BNP 3.65%'24s, and better selling seen in GUOLSP 3.62%'21s. In the broader dollar space, the spread on JACI IG corporates fell 1bps to 197bps, while the yield on JACI HY corporates changed little at 6.62%. 10y UST yields rose 3bps to 2.32% over the long weekend, after US Treasury Secretary Steven Mnuchin said ultra-long bonds could "absolutely" make sense, sparking a sell-off in the longer tenors.

Rating Changes: S&P assigned Logan Property Holdings Co. Ltd.'s (Logan) a 'BB-' corporate credit rating. The rating outlook is stable. The rating action reflects Logan's high geographical concentration and current high leverage. These factors are tempered by the company's established market position in Shenzhen and decent asset quality. Moody's downgraded Lippo Karawaci Tbk's (P.T.) (Lippo Karawaci) corporate family rating and the senior unsecured rating of the bonds issued by Theta Capital Pte. Ltd. (guaranteed by Lippo Karawaci) to 'B1' from 'Ba3'. The rating action reflects the weak operating performance of Lippo Karawaci's property development business, led by continued delays in its new project launches and uncertainty over the completion of its targeted asset sales in 2017. Moody's downgraded Global A&T Electronics Ltd.'s (GATE) corporate family rating and senior secured ratings to 'Ca' from 'Caa3'. The ratings outlook remains negative. The rating action reflects the company's extremely tight liquidity situation and highly leveraged balance sheet, raising the likelihood of a requisite restructuring event or interest payment default over the next six months.

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Table 1: Key Financial Indicators

	2-May	1W chg (bps)	1M chg (bps)		2-May	1W chg	1M chg
iTraxx Asiax IG	93	0	-2	Brent Crude Spot ($/bbl)	51.50	-1.15%	-2.52%
iTraxx SovX APAC	22	0	1	Gold Spot ($/oz)	1,257.21	-0.55%	0.30%
iTraxx Japan	43	-2	-1	CRB	181.59	0.36%	-2.31%
iTraxx Australia	82	-1	-2	GSCI	381.64	0.11%	-1.70%
CDX NA IG	63	1	-3	VIX	10.11	-6.73%	-18.27%
CDX NA HY	108	0	1	CT10 (bp)	2.320%	-1.24	-6.76
iTraxx Eur Main	67	0	-9	USD Swap Spread 10Y (bp)	-4	-2	-2
iTraxx Eur XO	266	0	-28	USD Swap Spread 30Y (bp)	-45	-3	-7
iTraxx Eur Snr Fin	74	0	-18	TED Spread (bp)	34	0	-5
iTraxx Sovx WE	9	0	-4	US Libor-OIS Spread (bp)	18	-1	-4
iTraxx Sovx CEEMEA	45	0	-7	Euro Libor-OIS Spread (bp)	3	0	2
					2-May	1W chg	1M chg
				AUD/USD	0.754	0.08%	-0.84%
				USD/CHF	0.996	-0.20%	0.57%
				EUR/USD	1.091	-0.16%	2.24%
				USD/SGD	1.395	-0.08%	0.15%
Korea 5Y CDS	58	4	7	DJIA	20,913	0.72%	1.21%
China 5Y CDS	81	0	-2	SPX	2,388	0.60%	1.08%
Malaysia 5Y CDS	107	-1	0	MSCI Asiax	595	0.07%	2.17%
Philippines 5Y CDS	80	0	-3	HSI	24,685	2.26%	2.38%
Indonesia 5Y CDS	126	-1	-3	STI	3,201	1.83%	0.83%
Thailand 5Y CDS	58	3	5	KLCI	1,772	0.88%	1.81%
				JCI	5,704	0.70%	2.44%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
27-Apr-17	China Southern Power Grid International Finance (BVI) Co. Ltd.	Not Rated	USD600mn	5-year	CT5+100bps
27-Apr-17	China Southern Power Grid International Finance (BVI) Co. Ltd.	Not Rated	USD900mn	10-year	CT10+130bps
27-Apr-17	SOCAM Development Ltd.	Not Rated	USD200mn	3-year	6.25%
27-Apr-17	China Minsheng Banking Corp. Ltd. (Hong Kong Branch)	"BBB/NR/NR"	USD500mn	3-year	CT3+115bps
27-Apr-17	Suncorp-Metway Ltd.	"NR/A1/A+"	USD500mn	5-year	CT5+100bps
27-Apr-17	Heeton Holdings Limited	Not Rated	SGD75mn	3-year	6.1%
26-Apr-17	Hotel Properties Ltd.	Not Rated	SGD150mn	Perp NC5	4.65%
26-Apr-17	State Grid Overseas Investment (2016) Ltd	Not Rated	USD900mn	3-year	CT3+85bps
26-Apr-17	State Grid Overseas Investment (2016) Ltd	Not Rated	USD1.25bn	5-year	CT5+110bps

Source: OCBC, Bloomberg

Rating Changes (cont'd): Moody's placed Shanghai Huayi (Group) Company's (Huayi) 'Baa3' issuer rating and 'Ba1' rating on the USD notes issued by Huayi Finance I Ltd. under review for downgrade. The rating review reflects the continued weakness in Huayi's core business earnings, elevated debt leverage, reinvestment needs and related execution risk in the next 1-2 years, amid a slowing domestic economy.

Credit Headlines:

Oxley Holdings Ltd ("OHL"): OHL reported 3QFY17 results for the quarter ending 31 Mar 2017. Revenue rose 91% y/y to SGD386.5mn, mainly from the completion of The Flow, handover of plots in The Royal Wharf Phase 1A and revenue recognition from the progression of several development projects in Singapore (Floraville/Floraview/Floravista, The Rise@Oxley). However, without one-off gains of SGD38mn from the divestment of a long-term asset and fair value gain on a financial instrument in the previous year, profit fell by 38% y/y to SGD45.5mn. On the credit negative side, net gearing increased from 1.78x (in 2QFY17) to 1.89x in 3QFY17 due to a lower equity base with SGD70.2mn dividends paid to NCI (SGD55.6mn) and shareholders (SGD14.6mn) while the development projects progressed. Nevertheless, we think the higher gearing is due to timing issue as we expect OHL to receive SGD740mn from the unbilled contracts from Royal Wharf, which will TOP by next quarter. Other than Royal Wharf, the other development projects that will TOP within the next 12 months will deliver a further SGD310mn of unbilled contracts. While cash declined from SGD462.4mn to SGD236.3mn q/q, we think the liquidity profile is manageable as short-term debt fell to SGD790mn in 3QFY17 (2Q17: SGD1.4bn), while short-term debt may fall further if the USD200mn bond issue raised in Apr 2017 were used for refinancing. As we think that OHL may continue to deleverage with expected significant cash inflows from the upcoming projects, we continue to hold OHL at a Neutral Issuer Profile. (Company, OCBC)

Capitaland Commercial Trust ("CCT"): CCT has entered into a limited liability partnership agreement ("LLP Agreement") with the OGS (II) Limited (the "JV Partner"), a SPV owned by FWD Group. The LLP Agreement forms OGS LLP, which CCT would sell the property One George Street ("OGS") into. CCT would ultimately own 50% of OGS LLP while the JV Partner would hold the balance. FWD Group is the insurance arm of Pacific Century Group, chaired by Richard Li. As of end-2016, OGS was valued at SGD1,014mn. The agreed sale value for OGS into OGS LLP was SGD1,183.2mn, or SGD2,650 psf. As such, CCT will be booking a gain of SGD84.6mn (or SGD79.7mn after factoring transaction costs) on the divestment of 50% of OGS. It should be noted that as part of the terms and conditions to the transaction, if the JV Partner does not achieve an agreed after-tax return on equity during the first two years, CCT would direct OGS LLP to pay the JV Partner part of CCT's income entitlement to offset the shortfall. CCT estimates that such payments may aggregate SGD2.3mn over the two years (at the higher end of the spectrum), and that in aggregate the transaction is of interest to the unitholders due to the premium to valuation paid. OGS LLP will be obtaining external bank financing to part finance the acquisition of OGS from CCT. Completion of the transaction is expected to take place in approximately six weeks, and hence will likely be reflected in CCT's 2Q2017 results. CCT had indicated that the proceeds will be used to reduce gearing, in order to increase flexibility for future acquisitions. Though the transaction is a credit positive, and would likely reduce CCT's aggregate leverage of 38.1% (end-1Q2017), we note that CCT is still evaluating the funding structure for the redevelopment of Golden Shoe. In addition CCT's sponsor, CapitaLand, had express interest in Asia Square Tower 2 (with a quantum of ~SGD2.1bn), and may involve CCT in any potential transaction. We are currently rating CCT with a Neutral Issuer Profile. (Company, OCBC)

Credit Headlines (cont'd):

Gallant Venture Ltd ("GALV"): GALV's ~72%-owned subsidiary, Indomobil Sukses International Tbk ("IMAS") announced its 1Q2017 results. Gross revenue fell 11% to IDR3,745bn (SGD393.0mn) though gross profit (based on company's calculation) improved 6% to IDR705bn (SGD73.9mn). We believe this is a result of the higher tilt towards higher margin businesses (eg: vehicle financing). In 1Q2017, gross margin was 19% against 16% in 1Q2016. Based on our calculation, EBITDA was IDR296bn (SGD31.1mn), rendering EBITDA/Interest of 1.5x (1Q2016: 1.7x). IMAS reported a net loss of IDR145bn (net loss of SGD15.2mn). In contrast, IMAS reported a net profit of IDR38bn (SGD4mn) in 1Q2016. As at 31 March 2017, IMAS's net debt-to-equity was 2.5x (higher versus 2.2x as at 31 December 2016). IMAS's elevated net gearing is partially due to its vehicle financing business (ie: 89.6%-owned Indomobil Multi Jasa Tbk), whose business model by nature has a higher leveraged funding structure. Net cash outflow from operating activities (after taking into account of interest expenses, finance charges and taxes) was significant at IDR672bn (SGD70.5mn) in 1Q2017. Compounding the negative cash flow from operations, IMAS also spent IDR289bn (SGD30.4mn) on investing cash flows. The cash gap at IMAS was mostly funded via borrowings and there was no dividend upstream to GALV during the period. We maintain GALV at Negative and are Underweight the bonds. (Company, OCBC)

DBS Group Holdings Ltd. ("DBS"): DBS reported its 1Q2017 results with relatively stable net profit before tax, generating SGD1.21bn (1Q2016: SGD1.20bn) . Net interest income was flat as growth in customer loan mitigated a y/y fall in net interest margins (-11bps to 1.74pts) while weaker non-interest income (-15% y/y from lower trading income and absence of non-recurring gains) was offset by solid growth in net fee and commission income (+16% from wealth management, investment banking and transaction services). Expenses fell 1% and the cost-to-income ratio improved y/y due to productivity gains and ongoing digitization while allowances rose 18% y/y to SGD200mn or 26bps of total loans. This was lower than 4Q2016 and FY2016 credit costs and continues to comprise specific allowance movements only and almost exclusively for Singapore exposures. Results for 1Q2017 also included the proceeds from DBS' sale of the PWC building however the proceeds were fully allocated to general allowances. On a q/q basis, 1Q2017 results were comparatively solid with solid growth in net fee and commission income and materially lower allowances contributing to a 32% rise in quarterly net profit before tax. Segment wise, consumer banking and wealth management continues to perform well with segment profit before tax up 22% and 37% y/y and q/q respectively from volume growth and cross-selling of investment and insurance sales products while Institutional Banking segment performance improved q/q on lower allowances. Both segments' performance mitigated the weaker results from Treasury markets with profit before tax down 68% and 55% y/y and q/q respectively. While total loans and advances growth was solid y/y at 8.9%, q/q balances fell mostly in the Institutional Banking segment with loans outside Singapore falling in the manufacturing, building and construction and transportation, storage and communications segments for 1Q2017. Loan quality trends are stabilizing with non-performing loans (NPL) down 1.2% q/q due to a 1.7% q/q fall in Institutional Banking NPLs. As such, the NPL ratio for 1Q2017 was stable at 1.5% compared to 4Q2016 NPL ratio. Of note though within the NPL movements was a rise in NPLs in DBS' housing loans against the general fall in Institutional NPLs although the NPL ratio for housing loans still remains low at 0.2%. In addition, loans classified as overdue by less than 90 days rose 39% q/q indicating possible future stress in the loan portfolio. That said, allowance coverage ratios improved q/q with total allowances over non-performing assets at 103.2% (4Q2016: 96.9%) and total allowances over unsecured non-performing assets at 217.2% (4Q2016: 209.9%). DBS' capital position remains strong with CET1/CAR ratio at 14.6%/16.6% for FY2016 (14.1%/16.2% as at FY2016). On a fully loaded basis, DBS' CET1 ratio was 14.2% as at 1Q2017, well above the regulatory minimum of 8.0%. Capital ratios improved q/q due to lower credit risk weighted assets which offset only marginal growth in total capital q/q as retained earnings was offset by increased Tier 1 regulatory adjustments and redemption of Tier 2 capital instruments. We retain our Neutral Issuer Profile on DBS. (Company, OCBC)

Credit Headlines (cont'd):

Australia and New Zealand Banking Group Ltd. ("ANZ"): ANZ released its 1HFY2017 results with cash profits up 23% h/h and 43% y/y to AUD3.4bn. Within the results, net interest income was down 1% and 2% h/h and y/y respectively due to ongoing competition and rising funding costs with ANZ's net interest margins (NIMs) falling to 2.0% for 1HFY2017 from 2.06% in 2HFY2016 and 2.07% in 1HFY2016. Other operating income was also down 6% and 5% h/h and y/y respectively due to unfavorable impacts from ANZ's various asset sales which offset improved performance in Markets operating income. Supporting profitability however was ongoing solid management of expenses with operating expenses down 4% and 14% h/h and y/y respectively due to lower personnel and restructuring expenses and credit impairment charges falling 30% and 20% h/h and y/y respectively due to lower resource related exposures in the Institutional division and overall improvement in the loan book risk profile according to management. That said, impairment charges for the Australia division rose marginally by 3% h/h and 2% y/y, which could somewhat reflect the build-up of risks in Australia's housing sector. ANZ's balance sheet appears to remain robust with stable h/h loan volumes coupled with 7% h/h decline in impaired assets. This translated in an improvement in the ratio of gross impaired assets to total loans and advances to 0.51% in 1HFY2017 (2HFY2016: 0.55%) as loans growth in Australia was offset by falls in loans in all other segments (including Institutional, New Zealand and Wealth Australia). ANZ's APRA compliant capital ratios improved h/h and remain above regulatory minimum requirements with the bank's 1HFY2017 CET1/CAR ratios of 10.1%/14.5% against 2H2016 CET1/CAR ratios of 9.6%/14.3%. This was driven by solid earnings generation and risk weighted asset movements mitigating dividend payments. Based on international Basel III standards, ANZ's CET1/CAR ratios were relatively strong at 15.2%/21.3% as at 31 March 2017. We are continuing to review the numbers and will update if necessary. That said, the results are unlikely to impact our Neutral issuer profile rating on ANZ. (Company, OCBC)

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