Asian Credit Daily

November 2, 2017

Credit Headlines (Page 2 onwards): CITIC Envirotech Ltd, Oxley Holdings Ltd, National Australia Bank Ltd

Market Commentary: The SGD swap curve bear-steepened yesterday, with swap rates trading marginally lower across the 1-year and 2-year tenors. The yield curve noticeably steepened towards the longer-end of the curve, with swap rates trading 1-2bps higher across the 3-year to 10-year tenor, and 5bps to 9bps higher across the 12-year to 30-year tenors. Flows in SGD corporates were heavy, with better buying seen in HRAM 3.8%'25s, CNQCHK 4.9%'20s, CAPLSP 3.08%'27s, better selling seen in HRAM 3.8%'25s, HRAM 3.2%'21s, and mixed interest seen in UOBSP 3.5%'29s, EREIT 4.6%-PERPs, SBC 4.7%-PERPs. In the broader dollar space, the spread on JACI IG Corp fell 1bps to 176bps, while the yield on JACI HY Corp traded little changed at 6.87%. 10Y UST yields fell by 1bps to 2.37%, after the FOMC kept rates unchanged, while acknowledging that the labour market is strengthening and economic activity has been rising at a solid rate. However, the Fed acknowledges that inflation remains soft and is expected to remain below 2 percent in the near term.

New Issues: Industrial and Commercial Bank of China Ltd New York Branch has priced a three-tranche deal, with the USD500mn 3-year floating rate bond priced at 3mL+75bps, tightening from initial guidance of 3mL+95bps; the USD500mn 5-year fixed rate bond priced at CT5+95bps, tightening from initial guidance of CT5+125bps area; and the USD500mn 10-year fixed rate bond priced at CT10+118bps, tightening from initial guidance of CT10+150bps. The expected issue ratings are 'NR/A1/NR'. China Minmetals Corporation has priced a USD1bn Perp NC5 at 3.75%, tightening from initial guidance of 4% area. The expected issue ratings are 'NR/Baa1/NR'. Harvest Operations Corp has priced a USD200mn re-tap of its KOROIL 3%'22s (guaranteed by Korea National Oil Corp) at CT5+115bps, tightening from initial guidance of CT5+135bps. The expected issue ratings are 'AA/Aa2/NR'. Telstra Corp Ltd has scheduled investor meetings for potential USD bonds from 6 Nov. HNA Group (International) Co has scheduled investor meetings for potential USD-denominated 363-day bond (guaranteed by HNA Group Co) on 2 Nov. The initial guidance is at 9% area.

Table 1: Key Financial Indicators

	2-Nov	1W chg (bps)	1M chg (bps)		2-Nov	1W chg	1M chg
iTraxx Asiax IG	74	0	-8	Brent Crude Spot ($/bbl)	60.65	2.28%	8.07%
iTraxx SovX APAC	15	-1	-4	Gold Spot ($/oz)	1,280.78	1.09%	0.76%
iTraxx Japan	47	-1	1	CRB	187.94	1.37%	3.89%
iTraxx Australia	65	-1	-7	GSCI	415.16	2.15%	5.38%
CDX NA IG	53	-2	-2	VIX	10.2	-9.17%	7.94%
CDX NA HY	108	0	0	CT10 (bp)	2.356%	-10.50	1.51
iTraxx Eur Main	50	-3	-6	USD Swap Spread 10Y (bp)	-2	1	2
iTraxx Eur XO	223	-15	-27	USD Swap Spread 30Y (bp)	-26	3	6
iTraxx Eur Snr Fin	50	-6	-9	TED Spread (bp)	23	-4	-7
iTraxx Sovx WE	4	-1	-1	US Libor-OIS Spread (bp)	10	-2	-5
iTraxx Sovx CEEMEA	43	0	2	Euro Libor-OIS Spread (bp)	3	1	1
					2-Nov	1W chg	1M chg
				AUD/USD	0.771	0.68%	-1.47%
				USD/CHF	0.999	-0.17%	-2.45%
				EUR/USD	1.166	0.09%	-0.61%
				USD/SGD	1.358	0.73%	0.29%
Korea 5Y CDS	70	-2	-3	DJIA	23,435	0.45%	3.89%
China 5Y CDS	52	4	-10	SPX	2,579	0.87%	1.99%
Malaysia 5Y CDS	63	1	-5	MSCI Asiax	699	2.26%	5.53%
Philippines 5Y CDS	63	1	-3	HSI	28,533	1.17%	3.55%
Indonesia 5Y CDS	93	-1	-11	STI	3,383	0.79%	3.70%
Thailand 5Y CDS	48	1	-4	KLCI	1,743	0.38%	-0.65%
				JCI	6,038	0.21%	2.10%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
1-Nov-17	Industrial and Commercial Bank of China Ltd	'NR/A1/NR'	USD500mn	3-year	3mL+75bps
1-Nov-17	Industrial and Commercial Bank of China Ltd	'NR/A1/NR'	USD500mn	5-year	CT5+95bps
1-Nov-17	Industrial and Commercial Bank of China Ltd	'NR/A1/NR'	USD500mn	10-year	CT10+118bps
1-Nov-17	China Minmetals Corporation	'NR/Baa1/NR'	USD1bn	Perp NC5	3.75%
1-Nov-17	Harvest Operations Corp (re-tap)	'AA/Aa2/NR'	USD200mn	KOROIL 3%'22s	CT5+115bps
31-Oct-17	FCT MTN Pte Ltd	'BBB+/NR/NR'	SGD70mn	7-year	2.77%
31-Oct-17	CNQC International Holdings Limited	Not Rated	SGD100mn	3-year	5%
31-Oct-17	Huarong Finance 2017	'NR/Baa1/A'	SGD400mn	8-year	3.80%
31-Oct-17	Huarong Finance 2017	'NR/Baa1/A'	USD500mn	5-year	3mL+115bps
31-Oct-17	Huarong Finance 2017	'NR/Baa1/A'	USD1.1bn	10-year	CT10+190bps

Source: OCBC, Bloomberg

Rating Changes: Moody's has affirmed SK E&S Co Ltd's (SK E&S) 'Baa2' issuer profile and 'Baa1' preferred stock ratings, while revising the outlook to stable from negative. The rating action reflects the reduction in ramp-up risk associated with SK E&S' new power and co-generation plants, which started commercial operations in February – April 2017, and cash proceeds from the issuance of new shares, which will improve credit metrics. Fitch has affirmed Sunac China Holdings Limited's (Sunac) 'BB-' Issuer Default Rating with a negative outlook. At the same time, Fitch has downgraded Sunac's senior unsecured ratings to 'B+' from 'BB-'. The ratings have also been removed from Rating Watch Negative. The rating action follows Sunac's payment for its 91% stake in 13 Wanda City projects, and Fitch's belief that the required capex commitments on the projects will affect Sunac's financial profile. Fitch has assigned PT Bank BRISyariah (BRIS) a long-term Issuer Default Rating of 'BB+' with a stable outlook. The rating action reflects Fitch's expectation that BRIS will benefit from extraordinary support from its parent, PT Bank Rakyat Indonesia (Persero) Tbk, which is the majority owner of the bank.

Credit Headlines:

CITIC Envirotech Ltd ("CEL"): CEL has announced that it has been awarded a RMB4.6bn (~SGD947mn) public-private-partnership project for wastewater treatment and an engineering, procurement and construction ("EPC") project for land remediation in Lanzhou City (capital of Gansu Province). The project is CEL's largest project to-date. (1) The wastewater treatment project involves the investment, upgrading and expansion of an existing conventional municipal wastewater treatment plant into an underground wastewater treatment plant using CEL's membrane technology. CEL would also be providing ancillary services to construct wastewater treatment facilities and piping in thirteen townships in Lanzhou City. (2) The land remediation project involves land clean-up services, the planning, designing and implementation of an ecological environmental system for land located in Anning District of Lanzhou City. The land would be developed into a mixed commercial and residential waterfront by China Vanke Co. Ltd. For now, we assume that CEL is taking on this project by itself and would be funding the project from internal resources and bank financing. As at 30 June 2017, CEL has ample cash balance of SGD539.6mn and in October 2017, CEL raised a further SGD240mn in perpetuals. On 4 September 2017, CEL announced that it had secured an RMB315mn (SGD64.8mn) hazardous waste treatment project in Binzhou City, Shandong. Funding is targeted to come from perpetuals and bank financing. Assuming that 70% of both projects would be taken in the form of onshore bank debt and 30% would come from CEL's existing cash balance. We expect leverage expansion and perpetuals as a proportion of CEL's capital structure to increase beyond 25% and project headline net debt-to-equity to rise above 1.0x (30 June 2017: 0.2x). For now though, we are maintaining CEL's issuer profile at Neutral in view of CEL's strategic business nature amidst China's focus on environment protection and green development. We may relook CEL's issuer profile should this policy stance change. (Company, OCBC)

Oxley Holdings Ltd ("OHL"): OHL reported 1QFY2018 results for the quarter ended 30 Sep 2017. Revenue grew 146% y/y to SGD310.6mn due to handover of certain plots in the Royal Wharf Phase 1A and progress on construction from 2 mixed-residential projects in Singapore (Floraville/Floraview/Floravista and The Rise @ Oxley-Residences). Net profit grew 199% y/y to SGD45.9mn due to higher revenues recorded, FX gains of SGD12.4mn and increase in share of profits from equity-accounted JVs and associates by SGD13.4mn (which in turn were contributed by Galliard (SGD5.63mn) and a JV project in Cambodia (SGD7.27mn). Despite SGD62.7mn cashflow generated from operating activities as OHL hands over units of the Royal Wharf, net gearing grew to 2.01x (4Q17: 1.88x) mainly due to SGD248.8mn purchase of available-for-sale financial assets, which should be mostly related to the purchase of stakes in United Engineers Ltd. Further use of cash includes the settlement for acquisitions including Rio Casa (SGD783mn purchase price plus top-up cost for land lease) which OHL holds a 35% stake, acquisition of Serangoon Ville (SGD694mn purchase price plus top-up cost for land lease) which OHL holds a 40% stake, acquisition of a site at Pasir Panjang for SGD120mn. However, we expect the rise in leverage to be capped from significant cash inflows from parts of the Royal Wharf project (Phases 1A, 1B, 2) which will TOP in the next 12 months (with an unbilled contract value of SGD1.18b). While gearing remains elevated, we continue to hold OHL at a Negative Issuer Profile. (Company, OCBC)

Credit Headlines (Cont'd):

National Australia Bank Ltd ("NAB"): NAB released its FY2017 results with cash earnings up 2.5% to AUD6.6bn. Supporting earnings was a 2.7% jump in revenues from growth in housing and business lending which offset a 3bp fall in net interest margins (net interest income was +1.8% y/y). Markets and treasury income also boosted revenue performance with other operating income up 5.0% y/y in FY2017. Expenses were up 2.6% (1.5% excluding redundancies) due to higher investment which was partially offset by productivity savings. Expenses are expected to remain elevated as the bank continues to transform its business to achieve better returns through increased digitization and optimizing its workforce. Cash earnings improvement was broad based across divisions with Consumer Banking & Wealth (+4.3% y/y) benefitting from volume growth and improved asset quality and Business & Private Banking (+6.3%) also seeing lending growth and higher margins but exposed to higher loan impairment charges y/y. Loan impairment charges rose 1.3% to AUD810mn although represented a smaller proportion of gross loans and acceptances compared to FY2016 due to solid growth in lending so can be seen as more proactive in nature (note that more than 30% of the charges were collective in nature). Supporting this assertion is that asset quality has improved (similar to trends seen in the FY2017 results for Australia and New Zealand Banking Group Ltd) with the ratio of 90+ days past due and gross impaired assets to gross loans and acceptances down 15bps to 0.70%. Key supports of the better asset quality according to NAB were improved operating conditions in New Zealand Dairy exposures and the successful work-out of impaired business loans in Australia. Capital ratios improved y/y in FY2017 with NAB's APRA–compliant CET1 ratio at 10.1% as at 30 September 2017 (FY2016: 9.8%). On an internationally comparable basis, NAB's CET1 capital ratio was 14.5% while other regulatory ratios (leverage ratio, liquidity coverage ratio, net stable funding ratio) remain sound and above current and future minimum requirements. Overall the results are solid and reflect NAB's entrenched market position and efforts to improve returns which has seen FY2017 as a year of consolidation. Acknowledging the somewhat competitive operating environment, the bank is now focused on the next phase of growth and moving forward with a strategy that aims over the next 3 years to (1) increase investment by AUD1.5bn on innovation and supporting its key strength in Australian SME lending, and (2) achieve AUD1bn in cost savings. Although we continue to look through the numbers, the results announcement does not alter NAB's Neutral issuer profile for now. (Company, OCBC)

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