Asian Credit Daily

OCBC Bank

October 20, 2017

Credit Headlines (Page 2 onwards): Capitaland Commercial Trust, Keppel Corp, GuocoLand Ltd

Market Commentary: The SGD swap curve traded upwards yesterday, with swap rates trading 2-3bps higher across all tenors. Flows in SGD corporates were heavy, with better buying seen in CAPLSP 3.08%'27s, and mixed interest seen in OUECT 3.03%'20s. In the broader dollar space, the spread on JACI IG Corp rose 1bps to 180bps, while the yield on JACI HY Corp traded little changed at 6.80%. 10Y UST yields fell 3bps to 2.32%, as a Politico report stated that Trump was leaning towards Jerome Powell for Fed chair.

New Issues: China Merchants Bank Co has priced a USD1bn Perp NC5 AT1 at 4.4%, tightening from initial guidance of 4.7% area. The expected issue ratings are 'BB-/NR/NR'. Jiangsu Nantong Sanjian International Co has priced a USD300mn 3-year bond (guaranteed by Jiangsu Nantong Sanjian Construction Group Co) at 7.8%, tightening from initial guidance of 8.25% area. The expected issue ratings are 'NR/B2/NR'. Zhongrong International Resources Co has priced a USD500mn 3-year bond (guaranteed by Zhongrong Xinda Group Co) at 7.25%, tightening from initial guidance of 7.375%. The expected issue ratings are 'BB-/NR/BB'. Kia Motors Corp has priced a two-tranche deal, with the USD600mn 5.5-year bond priced at CT5.5+120bps, tightening from initial guidance of CT5.5+145bps; and the USD300mn 10-year bond priced at CT10+125bps, tightening from initial guidance of CT10+150bps. The expected issue ratings are 'A-/Baa1/NR'. Central Nippon Expressway Company Ltd has priced a two-tranche deal, with the USD425mn 4-year fixed rate bond at MS+56bps, in line with initial guidance of MS+ high 50bps area; and the USD375mn 4-year floating rate bond priced at 3mL+56bps, in line with initial guidance of 3mL+ high 50bps area. The expected issue ratings are 'NR/A1/NR'. GMR Hyderabad International Airport Ltd has priced a USD350mn 10-year bond at 4.25%, tightening from initial guidance of 4.625% area. The expected issue ratings are 'BB+/NR/BB+'. Koh Brothers Group Limited has stated its intention to issue a SGD70mn 5.10% 5-year bond. The notes are expected to be issued on or about 27 Oct.

Table 1: Key Financial Indicators

	20-Oct	1W chg (bps)	1M chg (bps)		20-Oct	1W chg	1M chg
iTraxx Asiax IG	75	-2	-3	Brent Crude Spot ($/bbl)	57.27	0.17%	1.74%
iTraxx SovX APAC	16	0	0	Gold Spot ($/oz)	1,288.76	-1.16%	-0.95%
iTraxx Japan	49	0	4	CRB	184.07	0.43%	-0.30%
iTraxx Australia	67	-2	-5	GSCI	401.03	0.74%	0.58%
CDX NA IG	54	-1	-5	VIX	10.05	1.41%	2.76%
CDX NA HY	108	0	1	CT10 (bp)	2.320%	4.66	5.20
iTraxx Eur Main	56	0	0	USD Swap Spread 10Y (bp)	-2	2	1
iTraxx Eur XO	246	2	-8	USD Swap Spread 30Y (bp)	-30	2	2
iTraxx Eur Snr Fin	61	2	4	TED Spread (bp)	28	0	-1
iTraxx Sovx WE	5	0	0	US Libor-OIS Spread (bp)	12	-1	-3
iTraxx Sovx CEEMEA	39	0	4	Euro Libor-OIS Spread (bp)	3	0	0
					20-Oct	1W chg	1M chg
				AUD/USD	0.787	-0.22%	-2.00%
				USD/CHF	0.977	-0.22%	-0.70%
				EUR/USD	1.185	0.23%	-0.38%
				USD/SGD	1.357	-0.57%	-0.62%
Korea 5Y CDS	69	0	0	DJIA	23,163	1.41%	3.35%
China 5Y CDS	54	-2	-4	SPX	2,562	0.44%	2.15%
Malaysia 5Y CDS	63	-2	-4	MSCI Asiax	684	-0.66%	0.75%
Philippines 5Y CDS	63	-1	1	HSI	28,159	-1.11%	0.11%
Indonesia 5Y CDS	96	-2	-4	STI	3,343	1.22%	3.89%
Thailand 5Y CDS	47	-1	-2	KLCI	1,745	-0.53%	-1.63%
				JCI	5,911	-0.26%	0.07%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
19-Oct-17	China Merchants Bank Co	'BB-/NR/NR'	USD1bn	Perp NC5	4.4%
19-Oct-17	Jiangsu Nantong Sanjian International Co	'NR/B2/NR'	USD300mn	3-year	7.8%
19-Oct-17	Zhongrong International Resources Co	'BB-/NR/BB'	USD500mn	3-year	7.25%
19-Oct-17	Kia Motors Corp	'A-/Baa1/NR'	USD600mn	5.5-year	CT5.5+120bps
19-Oct-17	Kia Motors Corp	'A-/Baa1/NR'	USD300mn	10-year	CT10+125bps
19-Oct-17	Central Nippon Expressway Company Ltd	'NR/A1/NR'	USD425mn	4-year	MS+56bps
19-Oct-17	Central Nippon Expressway Company Ltd	'NR/A1/NR'	USD375mn	4-year	3mL+56bps
19-Oct-17	GMR Hyderabad International Airport Ltd	'BB+/NR/BB'	USD350mn	10-year	4.25%
18-Oct-17	Genting Singapore PLC	Not Rated	JPY20bn	5-year	0.669%
17-Oct-17	CDBL FUNDING 1	'NR/A2/A+'	USD400mn	5.5-year	CT5+117.5bps

Source: OCBC, Bloomberg

New Issues (Cont'd): Jiuding Group Finance Co Ltd has set a final guidance for the re-tap of its BJTCJD 6.03'20s at 6.9%, tightening from initial guidance of 7.25% area. Baoxin Auto Finance I Ltd has scheduled investor meetings for potential USD Perp issuance (guaranteed by China Grand Automotive Services Co Ltd and China Grand Automotive Services (Hong Kong) Ltd) from 20 Oct.

Rating Changes: Moody's has affirmed Mitsui & Co Ltd's (Mitsui) 'A3' senior unsecured MTN program rating and 'Baa2' subordinated debt ratings, while revising the outlook to stable from negative. The rating action reflects Moody's expectation that Mitsui's leverage will recover to levels before the commodity price drop, and that the company's cash flow is allocated towards deleveraging. Moody's has affirmed Dah Sing Bank Limited's (Dah Sing Bank) 'A3' long-term deposit rating, baseline credit assessment (BCA) and adjusted BCA, as well as its 'A2' counterparty risk assessments. The outlook has been revised to stable from negative. The rating action reflects Dah Sing Bank's resilient performance despite subdued economic growth in Hong Kong. Fitch has assigned Jinan West City Investment and Development Group Co Ltd (JWC) an issuer default rating of 'BBB'. The outlook is stable. At the same time, Fitch has assigned a senior unsecured rating of 'BBB' to JWC's senior unsecured notes. JWC's ratings are credit linked to, but not equalized with, the rating of Jinan Municipality due to JWC's strategic importance with the municipality, and that JWC receives support from the municipality in the form of land use rights and financial subsidies.

Credit Headlines:

Capitaland Commercial Trust ("CCT"): The issuer reported 3Q2017 results. Gross revenue dipped slightly by 0.4% y/y to SGD74.1mn while NPI increased 2.7% y/y to SGD58.6mn. On a q/q basis though, revenue declined 15.3%, driven by the divestment of the 50% stake in One George Street, closure of Golden Shoe Car Park ("GSCP") for redevelopment as well as sale of Wilkie Edge during the quarter. With regards to properties that remain on the portfolio, on Twenty Anson showed some revenue weakness (as forewarned by its low occupancy of 84.2% last quarter). Raffles City Singapore ("RCS") was also impacted by lower hotel turnover rent due to renovations at the Swissotel. Occupancy recovered slightly at Twenty Anson to 86.1%, coupled with closures and divestments, CCT's portfolio occupancy improved q/q to 98.5% (remaining distinctly stronger than CBRE's Singapore core CBD office occupancy of 92.5% for 3Q2017). Lease rates CCT's portfolio average office rent actually improved to SGD9.23 psf (2Q2017: SGD9.18 psf) reflecting both strengthening of the underlying market, as well as the closure / divestment of lower yielding assets. It remains stronger than CBRE's Grade A office average rents of SGD9.10 psf (which had also increased). With regards to CCT's lease expiry profile, 2017 is largely done, while CCT still had 10% and 33% of NLA due for renewal in 2018 and 2019 respectively. Like its other office REIT peers, it would seem that CCT is now less inclined to renew leases ahead of time given the rising rental rate environment. 2019 remains challenging for CCT as its average lease expiring then is SGD10.24 psf. That said, the office supply situation would taper off by end 2018, alleviating the situation. WALE was largely steady at 6.4 years. Aggregate leverage had continued to improve improved sharply to 33.9% (2Q2017: 35.2%) due to the divestment of Wilkie Edge during the quarter, with proceeds (SGD277mn) used to pare down debt. As mentioned previously, CCT would need the debt headroom for funding needs for the GSCP redevelopment. CCT's 45% share of the development cost is ~SGD819mn (of which SGD491.4mn will be debt funded, with the balance funded via proceeds from the recent divestments). As mentioned previously (please refer to OCBC Asian Credit Daily - 22 Sep 2017), CCT has also announced that it will be acquiring Asia Square Tower 2, in a transaction worth SGD2.1bn. Management had previously guided that CCT's pro-forma aggregate leverage would increase to 37.1% due to the Asia Square Tower 2 transaction, though we believe this did not factor CCT's pro-rata of GSCP's development cost. We note that both Moody's as well as S&P have taken negative rating action on CCT's credit ratings as a result of recent transactions. Reported interest coverage improved to 5.1x (2Q2017: 4.9x) due to lower debt in the quarter. There are not more borrowings due to 2017, though 2018 looks heavier with SGD350mn due (both bank loans). We will hold CCT's Issuer Profile rating at Neutral, as though most of CCT's rumoured transactions have crystalized, the transactions have signalled management willingness to endure higher levels of leverage (versus historical) that are comparable to its peers. (Company, OCBC)

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Keppel Corp ("KEP"): KEP reported 3Q2017 results, with total revenue up 10.8% y/y to SGD1.62bn. On a q/q basis, revenue was also up 4.5%. Segment revenue derived from the offshore marine ("O&M") segment continued to be on the downtrend, declining 26.2% to SGD380.6mn. O&M revenue has been declining sequentially since its last quarterly peak of SGD799.8mn in 4Q2016. We had flagged our concerns at the beginning of the year (refer to OCBC Asian Credit Daily - 27 January 2017) given the low net contract value of SGD525mn as of end-2016, and this concern was realized given the consistent revenue decline. In general, given the still weak environment, we believe that KEP would continue to face challenges winning new orders for drilling assets. That said, management has been attempting to rebuild its yard order book via non-drilling related contracts, such as the USD400mn contract for two LNG containerships for Pasha Hawaii (to be delivered in 1Q2020 and 3Q2020). This has allowed KEP to see an increase in its net orderbook for the first time in a while, with net orderbook (excluding Sete Brasil) climbing slightly to SGD3.9bn (2Q2017: SGD3.4mn). YTD O&M order wins have exceeded SGD1bn. Client stress continues to be an issue though, with TS Offshore deferring its jackup rig delivery from 2017 to 2019. Net contract value for 2018 remains lean at just SGD156mn. With segment revenue continuing to be pressured, segment profitability remains weak with KEP generating a slight loss of SGD1.7mn for the segment for 3Q2017. Property segment sales increased 13.3% y/y to SGD546.3mn (flattish q/q), with 1,320 homes during the quarter (3Q2016: 1,370) totaling ~SGD800mn in sales value. Interestingly, Vietnam (620 units) has outpaced China (570 units mostly from Chengdu and Wuxi) in the number of homes sold, with management highlighting tightening measures in China as a cause. In aggregate though, management reiterated that they believe in the positive long-term trends in China, and that they believe housing regulations going forward would remain more region specific. With regards to Singapore, KEP was able to sell 80 homes during the quarter. What's more interesting is that they have released 150 units previously held as corporate housing at Reflections at Keppel Bay, and was able to secure a further 37 units committed to buys under a deferred payment scheme. We believe that the release of these units reflect the confidence that management has in the recovery of the domestic property market. Management has guided that they intent to launch the new development at Serangoon North Ave 1 (a JV with Wing Tai Holdings with SGD446.3mn land purchase) in the middle of 2018, with a target of completing the project by 2021. KEP indicated that it has pre-sales of 6,330 foreign units sold to be recognized at completion through 2019. The pipeline remains healthy, with 62,000 homes, of which 16,674 are ready to launch through end-2019. Segment profits jumped 26.85% y/y to SGD197.9mn, in part driven by divestment gains such as that of their Waterfront Residences in Nantong stake, which reaped a gain of ~SGD79mn. Infrastructure segment performance continues to strengthen, seeing revenue jump 44.2% y/y to SGD625.8mn. The segment benefited from both revenue recognition on their desalination project as well as the domestic power and gas business recovering. Segment profits were flattish y/y at SGD40mn. Investments generated a segment profit of SGD53mn, up 194% y/y. The quarter lacked the boost from land sales in Tianjin Eco-City. Finally, it is worth noting that KEP has launched a new business unit, Keppel Urban Solutions ("KUS") to focus on integrated master development for large-scale mixed-used developments in the Asia-Pacific region by levering off KEP's existing verticals. They used Saigon Sports City as an example of a collaboration between KUS and Keppel Land. In aggregate, KEP reported SGD291.6mn in net profit, up 29.2% y/y, with weakness at O&M offset by gains at Property and Investments. Cash flow generation for the quarter was strong with SGD700.8mn in operating cash flow generated, while free cash flow stood at SGD634.0mn. KEP had also generated SGD520.9mn in cash from the disposal of varies subsidiaries (such as the property related ones mentioned earlier). KEP paid down SGD239.3mn in net debt during the quarter, as well as paid out SGD145.4mn in dividends. In aggregate, with KEP's significant cash generation contributing to cash balance ending at SGD2.3bn, net gearing fell sharply to 50% (2Q2017: 58%). In general, we do not expect KEP's credit profile to deviate greatly from current levels, and hence will retain our Neutral Issuer Profile. (Company, OCBC)

Credit Headlines (Cont'd):

GuocoLand Ltd ("GUOL"): GUOL reported 1QFY2018 results. Revenue rose 79% y/y to SGD362.0mn due to higher sales. In the quarter, according to URA caveats, Sims Urban Oasis moved 89 units worth SGD121.2mn and Leedon Residence moved 15 units worth SGD117.2mn. In addition, revenue was bolstered by progressive revenue recognition from Singapore's residential projects, and we note Martin Modern sold well with 139 units moved worth SGD351.3mn. While gross profit increased by 41% y/y to SGD60.4mn, net profit surged by a larger proportion to SGD162.8mn (1QFY2017: SGD23.9mn) largely due to SGD170.5mn share of profit from Changfeng Residence, a residential project in Shanghai as it is substantially sold and was completed. Meanwhile, Guoco Tower continues to contribute to recurring income, and we expect revenues of more than SGD20mn per quarter. Net gearing improved q/q to 0.74x (4QFY2017: 0.84x) largely because GUOL repaid debt (including the redemption of the GUOLSP 4.35% '17 that matured in September) from monetising its inventories while equity increased 5.0% q/q due to the sizeable profits. However, we expect net gearing to reach 1.0x when GUOL funds, as part of a JV with its parent, 70% of the purchase of the SGD1.62bn commercial site at Beach Road. As such, while GUOL holds SGD1.0bn in cash, we expect most of this to be used for the site purchase. GUOL has a sizeable SGD2.27bn current loans and borrowings as at 30 September 2017, which we think GUOL should be able to refinance, though we would not be surprised if GUOL taps the market in the short term. With a solid set of results, and despite the high expected cash outlay for the land site acquisition and short term liquidity needs, we continue to hold GUOL at a Neutral Issuer Profile. (Company, URA, OCBC)

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