Asian Credit Daily

January 24, 2017

Credit Headlines (Page 2 onwards): UOL Group Ltd., Banyan Tree Holdings Ltd., OUE Limited., Soilbuild Business Space REIT, Mapletree Logistics Trust, Ascott Residence Trust

Market Commentary: The SGD swap curve bull-steepened yesterday, as swap rates traded lower by 1-4bps across all tenors. Flows in SGD corporates were moderate, with better buying seen in MAPLSP 4.5%'49s, GENSSP 5.13%'49s, and better selling seen in MAPLSP 4.5%'49s. In the broader dollar space, the spread on JACI IG Corporates rose 2bps to 196bps, while the yield on JACI HY Corporates fell 1bps to 6.83%. 10y UST yields fell 7bps yesterday to 2.40%, surging after the newly sworn in U.S. President continued his protectionist tone and vowed a "very major border tax" on imports in a meeting with business leaders.

New Issues: Industrial Bank of Korea priced USD300mn 3-year bonds at CT3+85bps, tightening from initial guidance of CT3+95bps. The expected issue ratings are 'AA-/Aa2/AA-'. Shui On Development (Holding) Ltd. priced a USD500mn 4-year bond at 5.875%, tightening from initial guidance of 6.25%. Siam Commerical Bank PCL priced a USD400mn 5.5-year bond at CT5+130bps, tightening from initial guidance of CT5+150bps. The expected issue ratings are 'BBB+/Baa1/BBB+'. Biostime International Holdings Ltd. priced a USD200mn re-tap of its June 2021 notes at 104.50, with initial guidance in the 104.25 area. The expected issue ratings are 'BB-/Ba3/NR'. In the SGD space, GLL IHT Pte. Ltd. issued SGD200mn 5-year bonds (guaranteed by GuocoLand Ltd.) at 4%, tightening from initial guidance of low 4% area. The issue is unrated.

Rating Changes: S&P affirmed Melco Crown (Macau) Ltd.'s (Melco Crown) 'BB' corporate credit rating with a negative outlook. In addition, S&P affirmed Melco Crown's 'BB-' issue rating on the senior unsecured notes that MCE Finance Ltd. issued (guaranteed by Melco Crown), and removed all ratings from CreditWatch. Melco Crown was placed on CreditWatch with negative implications on 19 December 2016. The rating actions reflect S&P's belief that Melco Crown's debt service capability is unlikely to weaken materially following its ultimate parent's proposed debt-funded purchase of 13.4% of the issue shares of Melco Crown Entertainment Ltd.

Table 1: Key Financial Indicators

	24-Jan	1W chg (bps)	1M chg (bps)		24-Jan	1W chg	1M chg
iTraxx Asiax IG	114	-2	-7	Brent Crude Spot ($/bbl)	55.53	0.11%	0.67%
iTraxx SovX APAC	34	0	-3	Gold Spot ($/oz)	1,216.59	-0.04%	7.35%
iTraxx Japan	56	0	7	CRB	194.44	-0.05%	2.05%
iTraxx Australia	97	-1	-5	GSCI	398.77	-0.27%	1.76%
CDX NA IG	67	0	0	VIX	11.77	4.81%	2.88%
CDX NA HY	106	0	0	CT10 (bp)	2.401%	7.54	-13.66
iTraxx Eur Main	71	1	1	USD Swap Spread 10Y (bp)	-10	2	1
iTraxx Eur XO	293	2	9	USD Swap Spread 30Y (bp)	-44	5	0
iTraxx Eur Snr Fin	87	0	-4	TED Spread (bp)	55	5	7
iTraxx Sovx WE	19	-2	-2	US Libor-OIS Spread (bp)	36	1	2
iTraxx Sovx CEEMEA	78	-3	-3	Euro Libor-OIS Spread (bp)	3	0	0
					24-Jan	1W chg	1M chg
				AUD/USD	0.759	0.24%	5.46%
				USD/CHF	0.998	0.33%	2.91%
				EUR/USD	1.075	0.33%	2.80%
				USD/SGD	1.418	-0.21%	2.04%
Korea 5Y CDS	46	-2	2	DJIA	19,800	-0.43%	-0.67%
China 5Y CDS	112	-3	-6	SPX	2,265	-0.42%	0.06%
Malaysia 5Y CDS	130	-1	-10	MSCI Asiax	539	0.61%	6.68%
Philippines 5Y CDS	100	2	-12	HSI	22,899	0.25%	6.14%
Indonesia 5Y CDS	150	-2	-6	STI	3,027	0.48%	5.44%
Thailand 5Y CDS	74	0	-5	KLCI	1,672	0.55%	3.40%
				JCI	5,251	-0.36%	4.44%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
22-Jan-17	Industrial Bank of Korea	"AA-/Aa2/AA-"	USD300mn	3-year	CT3+85bps
22-Jan-17	Shui On Development (Holding) Ltd.	"NR/NR/NR"	USD500mn	4-year	5.875%
22-Jan-17	Siam Commercial Bank PCL	"BBB+/Baa1/BBB+"	USD400mn	5.5-year	CT5+150bps
22-Jan-17	Biostime International Holdings Ltd. (retap)	"BB-/Ba3/NR"	USD200mn	5-year	104.50
22-Jan-17	GLL IHT Pte. Ltd.	Unrated	SGD200mn	5-year	4%
20-Jan-17	Blue Skyview Company	"NR/NR/NR"	USD250mn	Perp NC3.5	7.125%
18-Jan-17	Republic of Philippines	"BBB/Baa2/BBB-"	USD2bn	25-year	3.70%
18-Jan-17	The Export-Import Bank of Korea	"AA/Aa2/AA-"	USD500mn	3-year	CT3+70bps

Source: OCBC, Bloomberg

Rating Changes (Cont'd):

S&P revised Biostime International Holdings Ltd.'s (BIH) outlook to stable from positive. In addition, S&P affirmed BIH's 'BB' issue rating on the company's senior unsecured notes. The rating action reflects S&P's view that BIH's proposed primarily debt-funded acquisition of the minority shares of Swisse Wellness Group and the prolonged regulatory uncertainty for distribution of vitamin, herbal, mineral and health products in China will delay the company's debt reduction plan to beyond the next 12 months. S&P revised to stable from negative the outlooks on the core captive insurers of BHP Billiton Ltd. (BPHB) – BHP Billiton Marine & General Insurances Pty Ltd. (M&G) and Stein Insurance Co. Ltd. (Stein). In addition, S&P affirmed the 'A' ratings on the captive insurers. The rating action follows S&P's outlook revision on BHPB on 20 January. S&P revised Honda Motor Co. Ltd.'s outlook to negative from stable on its 'A+' corporate credit rating. In addition, S&P affirmed the 'A+' long-term and 'A-1' short-term corporate credit ratings on Honda and its rated subsidiaries. The rating action reflects a rise in risks that may prevent Honda from sustaining higher profitability than similarly rated peers amidst a challenging environment for the company. Fitch assigned Asahi Mutual Life Insurance Co.'s USD350m 7.25% NC5 perp a final rating of 'BB-'. The subordinated bonds are rated one notch below Asahi Life's Long-Term IDR to reflect Fitch's baseline assumption of "below average" recovery.

Credit Headlines:

UOL Group Ltd ("UOL"): UOL has been granted an option to purchase a freehold 69,858 sqf land with a 2.1 plot ratio at 45 Amber Road for SGD156mn. The site can accommodate 190 apartment units. According to Mr Liam Wee Sin, UOL's deputy group chief executive, this is part of UOL's strategy to replenish its land bank. Based on 3Q2016 figures, if the transaction is fully funded with debt, net gearing may rise to 0.29x (3Q2016: 0.27x), which is manageable compared to peers such as CapitaLand (0.49x) and City Development (0.27x). We do not cover UOL. (Straits Times, Company, OCBC)

Banyan Tree Holdings Ltd ("BTH"): BTH will be forming a 50:50 joint venture with China Vanke ("Vanke"), with an estimated initial paid-up capital of up to RMB2bn. This will be done via the injection of BTH's assets into the new entity. Based on the latest 3Q2016 results, the book value of the assets is RMB659mn (SGD134mn). The new JV will develop and manage new hospitality, senior living and wellness projects. BTH will also issue shares amounting to SGD25mn to Vanke at SGD0.60 per share, which will see Vanke taking a 5% stake in BTH. A further option is granted to Vanke to purchase more shares, which may see Vanke owning up to 10% of the enlarged share capital of BTH. We do not cover BTH. (Straits Times, Company)

OUE Limited ("OUE"): On 23/01/17, OUE announced that it has acquired a 12.54% stake in International Healthway Corporation Limited ("IHC"). OUE paid SGD0.077 per share, for 208.1mn ordinary shares, or ~SGD16mn in consideration. With this acquisition, OUE will be the third largest shareholder of IHC, though OUE had indicated that the acquisition was for investment purposes. IHC had recently been in the news over its board fight, with a slate supported by Oxley Holdings founders Mr Ching Chiat Kwong and Mr Eric Low seeking to oust the existing board. The EGM had been held on 23/01/17, with the existing board of IHC ousted. Eyes will now be on IHC's SGD50mn in bonds maturing in April 2017. The investment size is small relative to OUE's balance sheet and hence it will not impact OUE's credit profile. (Company, OCBC)

Credit Headlines (cont'd):

Soilbuild Business Space REIT ("SBREIT"): SBREIT announced its FY2016 results. Gross revenue was up 2.3% to SGD81.1mn. Headline EBITDA/Interest was 4.4x, decreasing from 4.5x in FY2015. Technics Building is currently vacant though SBREIT was still recognizing rental during the financial reporting period. Taking out the impact of Technics Building (ie: 72 Loyang Way), gross revenue was SGD77.9mn, (declining 7.7% from FY2015) while adjusted EBITDA/Interest was 4.0x. This was partly supported by contribution from Bukit Batok Connection (acquired on 27 September 2017) and stronger performance at Solaris and Eightrium which helped offset weaknesses at West Park and Tuas Connection. SBREIT reported aggregate leverage of 37.6% as at 31 December 2016 (31 December 2015: 36.0%). As at 31 December 2016, the balance of the unutilized security deposit at 72 Loyang Way was sufficient to cover 4.4 months of rent and property operating expenses. Cash balances as at 31 December 2016 stood at SGD25.7mn and there was no short term debt due. SBREIT's next major refinancing will be in May 2018. Portfolio revaluation loss was SGD50.9mn for FY2016, largely driven by lower valuation at 72 Loyang Way, Tuas Connection and West Park BizCentral. The decline in valuation at 72 Loyang Way (SGD32mn fall) was largely due to the termination of lease with Technics. The decline in the other two buildings were attributable to higher vacancies and negative rental reversions. Portfolio occupancy was 89.6%, largely due 72 Loyang Way (~5.2% of portfolio NLA) which remained vacant. We continue to maintain SBREIT's issuer profile at Neutral. (Company, OCBC)

Mapletree Logistics Trust ("MLT"): MLT announced its 9 months financials for the period ended December 2016 ("9M2017"). Gross revenue was up 5.8% to SGD276.7mn while net property income ("NPI") was up 6.3% to SGD231.9mn. This was mainly attributable to contribution from 7 new properties (3 acquired in FY2016 and 4 during 9M2017). The completion of the redevelopment at Mapletree Logistics Hub – Toh Guan in Singapore and extension building in Moriya Centre Japan also helped. These partly offset weakness in certain properties in Singapore and the absence of revenue from 2 properties divested, negative rental reversion for one lease in South Korea and weaker RMB. Headline EBITDA/Interest was 5.7x in 9M2017 (falling from 6.0x in 9M2016). Perpetuals form 11% of total capital as at 31 December 2016 (rising from 7% as at 31 March 2016). Adjusting 50% of perpetual distribution as interest, we find adjusted EBITDA/(Interest plus 50% perpetual distribution) to be 4.7x (falling from 5.2x in 9M2016). MLT's reported aggregate leverage was 38.7% as at 31 December 2016, slightly falling from 39.6% as at 31 March 2016. Nevertheless, adjusting for 50% of the perpetuals as debt, we find adjusted aggregate leverage at 44% and rising from 42.9% as at 31 March 2016. The increase in adjusted leverage (adjusted debt includes 50% perp) was mainly due to acquisition of properties in Australia (net additional loans drawn down of ~SGD174mn). Management has guided that capital expenditure for the next 12 months is ~SGD100mn (largely driven by redevelopment of Ouluo Logistics Centre in Shanghai). Assuming that this capital expenditure is debt-funded, MLT's headline aggregate leverage will rise to 40.5% and adjusted aggregate leverage will rise to 46%. MLT is likely to continue to be acquisitive while simultaneously in the market to divest some assets. As at 31 December 2016, MLT has cash balances of SGD84.3mn and faces short term debt of SGD273.1mn. Our base case remains that MLT will call on its MLTSP'49c17 perpetual (September call date). In our view, refinancing risk at MLT remains low. All assets remain unencumbered. We continue to maintain our Negative issuer profile on MLT. We may adjust this back to neutral should we see positive traction from MLT's asset recycling plans and where proceeds are used to pare down debt. (Company, OCBC)

Credit Headlines (cont'd):

Ascott Residence Trust ("ART"): ART announced its FY2016 results. Gross revenue improved 12.9% to SGD475.6mn while gross profit increase 8.6% to SGD222.2mn. This was largely on the back of full-year contributions from acquisitions in FY2015 and new acquisitions in FY2016 (ie: two properties in New York). On a same-store basis, gross revenue fell by SGD18.9mn mainly due to lower revenue from the UK in reporting currency terms (following depreciation of GBP against SGD), weaker demand from China and on-going renovation in the Philippines. EBITDA/Interest was 3.9x, improving from 3.6x in FY2015. Perpetuals made up about 9% of total capital as at 31 December 2016. Adjusting 50% of these into interest coverage, we find EBITDA/(Interest plus 50% perpetuals) at 3.3x. As at 31 December 2016, headline aggregate leverage was 40% while adjusting 50% of perpetuals as debt, we find adjusted aggregate leverage at 44%. This is in line with levels as at 31 December 2015 and a tad shy of its credit rating downgrade trigger. As at 31 December 2016, cash balances was SGD143.1mn while short term debt was SGD145mn. We see low debt refinancing risk at ART. Nevertheless, ART is due to pay ~SGD385mn for Ascott Orchard Singapore (a hospitality property located on Cairnhill in Singapore) in 2017. Ascott Orchard Singapore has become operational in December 2016, though the full completion of the integrated redevelopment will occur in 4Q2017. To date, ART has not announced the funding structure of the acquisition. We think this will entail some form of equity given the weakened standalone credit profile of ART. We are maintaining our Neutral issuer profile on ART as our base case remains that ART's sponsor (namely, CapitaLand) will be supportive of an equity exercise. (Company, OCBC)

GuocoLand Ltd. ("GLL"): Please note that due to OCBC's engagement in other business activities, we have suspended our coverage on GLL until these activities are completed.

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