Asian Credit Daily

March 27, 2017

Credit Headlines (Page 2 onwards): Industry Outlook – China Property, Central China Real Estate Limited, China Vanke Ltd, Cambridge Industrial Trust, Australia and New Zealand Banking Group Ltd.

Market Commentary: The SGD swap curve bear-steepened slightly last Friday, with swap rates trading 1-2bps higher. Flows in SGD corporates were heavy, with better buying seen in BNP 3.65%'24s, UOBSP 3.5%'29s, FCLSP 4.15%'27s. In the broader dollar space, the spread on JACI IG corporates changed little at 195bps. Likewise, the yield on JACI HY held steady at 6.66%. 10y UST continued its advance last Friday, dropping 1bps to 2.41%, after U.S. Republicans cancelled the vote on the health-care bill, casting doubt on the Trump administration's inflationary fiscal agenda.

New Issues: Frasers Centrepoint Trust priced a SGD90mn 3-year bond at 2.365%. The bond is rated 'BBB+' (issue rating) by S&P. China Evergrande Group priced a USD1bn 7NC4 bond at 9.5%. The expected issue ratings are 'NR/B3/B-'. China Opportunity Intl Ltd. hired banks for potential USD repackaged notes issuance, while Hesteel Group Co. Ltd. scheduled investor meetings from 27 March for potential USD bond issuance.

Rating Changes: S&P downgraded China Hongqiao Group Ltd.'s (Hongqiao) corporate credit rating and issue ratings on the company's outstanding senior unsecured notes to 'B+' from BB-'. In addition, S&P placed the ratings on CreditWatch with negative implications. The rating action reflects the company's increasing management and governance risks, and possible strain on liquidity, on top of potential negative implications for the company's operations and financing. S&P withdrew Manchester Unity Friendly Society's 'B+' local issuer credit rating last Friday. Moody's upgraded the long-term ratings on Glencore International AG (Glencore) and its related entities by one notch to 'Baa2'. The outlook on all ratings is stable. The rating action reflects the company's reduced debt and strengthened leverage profile. S&P notes that for 2017 and 2018, Glencore should maintain its improved cost positions, benefit from higher commodity prices and deliver higher earnings and further improvement in leverage.

Table 1: Key Financial Indicators

	27-Mar	1W chg (bps)	1M chg (bps)		27-Mar	1W chg	1M chg
iTraxx Asiax IG	94	-2	-2	Brent Crude Spot ($/bbl)	50.80	-1.59%	-9.17%
iTraxx SovX APAC	21	1	-5	Gold Spot ($/oz)	1,256.74	1.82%	0.32%
iTraxx Japan	45	-5	-7	CRB	183.47	-0.55%	-3.38%
iTraxx Australia	88	-2	4	GSCI	378.13	-1.05%	-5.72%
CDX NA IG	68	-1	5	VIX	12.96	14.89%	7.20%
CDX NA HY	107	0	-1	CT10 (bp)	2.362%	-9.86	-0.29
iTraxx Eur Main	75	-1	1	USD Swap Spread 10Y (bp)	-2	2	1
iTraxx Eur XO	291	-4	-3	USD Swap Spread 30Y (bp)	-37	1	1
iTraxx Eur Snr Fin	89	-3	-4	TED Spread (bp)	39	-3	-16
iTraxx Sovx WE	12	-2	-10	US Libor-OIS Spread (bp)	23	-1	-6
iTraxx Sovx CEEMEA	48	2	-17	Euro Libor-OIS Spread (bp)	2	0	-1
					27-Mar	**1W chg**	**1M chg**
				AUD/USD	0.763	-1.36%	-0.61%
				USD/CHF	0.988	1.07%	2.14%
				EUR/USD	1.085	1.02%	2.47%
				USD/SGD	1.395	0.10%	0.65%
Korea 5Y CDS	49	3	4	DJIA	20,597	-1.52%	-1.16%
China 5Y CDS	83	-2	-9	SPX	2,344	-1.44%	-1.09%
Malaysia 5Y CDS	106	-1	-3	MSCI Asiax	584	-0.29%	3.41%
Philippines 5Y CDS	82	-3	-2	HSI	24,363	-0.57%	1.83%
Indonesia 5Y CDS	129	-1	0	STI	3,126	-1.25%	0.56%
Thailand 5Y CDS	55	-1	1	KLCI	1,748	-0.07%	3.21%
				JCI	5,561	0.49%	3.31%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
24-Mar-17	FCT MTN Pte. Ltd.	"BBB+/NR/NR"	SGD90mn	3-year	2.365%
24-Mar-17	China Evergrande Group	"NR/B3/B-"	USD1bn	7NC4	9.5%
23-Mar-17	PT Japfa Comfeed Indonesia Tbk	"BB-/NR/BB-"	USD150mn	5NC3	5.625%
23-Mar-17	Emperor International Holdings Ltd.	Not Rated	USD200mn	5-year	5%
22-Mar-17	The Republic of Indonesia	"NR/Baa3/BBB-"	USD2bn	5-year	3.40%
22-Mar-17	The Republic of Indonesia	"NR/Baa3/BBB-"	USD1bn	10-year	4.15%
22-Mar-17	China Zheshang Bank Co. Ltd..	"NR/Ba1/NR"	USD2.175bn	Perp NC5	5.45%
21-Mar-17	Shinhan Bank	"A+/Aa3/NR"	USD500mn	5-year	CT5+120bps
21-Mar-17	ING Groep N.V.	"A-/Baa1/A+"	USD1.5bn	5-year	CT5+100bps

Source: OCBC, Bloomberg

Rating Changes (cont'd): Moody's upgraded Longfor Properties Co. Ltd.'s (Longfor) corporate family rating to 'Baa3' from 'Ba1' and its senior unsecured rating to 'Ba1' from 'Ba2'. The rating outlook is stable. The rating action reflects Moody's expectation that Longfor will maintain its current strong credit metrics through a moderate pace of sales growth, cautious land acquisitions, and prudent financial management in the next 12-18 months. Moody's affirmed Tencent Holdings Limited's (Tencent) 'A2' issuer rating, senior unsecured bond ratings , and provisional '(P)A2' senior unsecured MTN program rating. In addition, Moody's revised Tencent's ratings outlook to positive from stable. The rating action reflects Moody's expectation that Tencent's revenue and EBITDA growth, which are supported by an expanded business profile, will remain strong in the coming 12-18 months.

Credit Headlines:

Industry Outlook – China Property: Over the past week, a new spate of property cooling measures had been announced in Beijing. (1) Beijing will tighten rules in relation to partitioned houses for sale. This move targets residences near elite schools which tend to command higher housing prices. Based on current norms, schoolchildren living within the vicinity of elite schools are given enrollment priority, thus pushing up surrounding home prices (on a per sqm basis) and inducing owners to partition existing houses into mini-units. (2) Beijing has also introduced new rules to curb new commercial property purchases by individuals. New commercial plots can now only be sold to enterprises, public entities and social organizations. (Xinhua, Reuters)

Central China Real Estate Limited ("CENCHI"): CENCHI has announced its preliminary FY2016 results. Revenue has declined 24.4% to RMB9.5bn largely on the back of a decline in revenue from property sales due to a decrease in area sold (down 13.9% from 2.04mn sqm in FY2015) and decline in average selling price (down 15.9% from RMB5,993 per sqm in FY2015). According to the company, progress of certain projects had fallen short of expectation due to environmental guidelines implemented by the government, resulting in lower revenue recognition. Based on our calculation of EBITDA which does not take into account other revenue, other income and share of results from joint ventures and associates ("JCE"), we find EBITDA at RMB1.2bn (26% lower than FY2015). EBITDA/Interest (including capitalized interest) was lower at 1.2x versus 1.4x in 1H2016 (FY2015: 1.8x). While EBITDA had only fallen by 26%, the fall on profit before tax was more significant at 41% (FY2016: RMB1.0bn). This was driven by the smaller other revenue and other net income recognized in FY2016 of RMB246.3mn against RMB378.6mn in the previous year as CENCHI took on higher net fair value gains on deemed disposals of subsidiaries (certain stakes in wholly-owned subsidiaries sold to third parties). In addition, share of profits/(loss) of JCEs were lower at RMB106.2mn versus RMB267.0mn in FY2015. Gross debt increased 36% to reach RMB14.4bn while book value equity saw a 4% decline. Other comprehensive loss for the year amounting to RMB526.0mn wiped out the RMB404.1mn in net profit (resulting in total comprehensive loss of RMB121.9mn). In FY2016, CENCHI saw a RMB539.4mn foreign exchange translational loss (stem from mismatch in foreign debt versus RMB receipts). CENCHI has also provided corporate guarantees to JCEs in respect of bank loans and other loans taken at that level amounting to RMB2.9bn and RMB650mn in an irrevocable liquidity support facility for an independent third party who is a service provider to CENCHI. Adjusting these items as debt, we find adjusted gross debt to equity at 2.6x, relatively constant against 30 June 2016. We take some comfort that CENCHI's cash balance of RMB9.8bn still stands higher than receipts in advance (a current liability item from pre-sales) of RMB6.8bn. Contracted sales for FY2016 amounted to RMB20.1bn, representing a 28% y/y growth which should help income recognition in FY2017. We see low liquidity on CENCHI's SGD bond, the CENCHI 6.5%'17s maturing May 2017 as CENCHI had successfully raised a new USD200mn bond in November 2016 which is catered for repayment of existing debt. In light of the decline in CENCHI's credit profile, **we are lowering CENCHI's issuer profile to Negative from Neutral**. (Company, OCBC)

Credit Headlines (cont'd):

China Vanke Ltd ("VNKRLE"): VNKRLE has release its FY2016 results. Revenue was up 24.2% to RMB228.9bn, on the back of stronger property sales. The property management and related services and construction contracts also showed strong growth of 44.8% and 33.6% respectively, though as it stands, property sales is still the most important revenue contributor (97% of total revenue). In FY2016, recognized sales area was 20.53mn sqm, representing a y/y growth of 20.5%. Based on our calculation of EBITDA which does not include other net income, other operating expenses and share of profits from joint ventures and associates ("JCE"), VNKRLE recorded a 26% increase in EBITDA to RMB47.1bn. EBITDA/Interest (including capitalized interest) was 8.5x, improving from 7.7x in FY2015. VNKRLE reported profit before tax of RMB49.5bn (smaller increase versus EBITDA, up 22% from FY2015). During the year, the company's write down of inventories and provision for doubtful debts increased significantly by 141% (though actual quantum is manageable at RMB1.2bn). Other net income was smaller at RMB1.4bn versus RMB3.4bn in FY2015 due to the existence of a large foreign exchange loss of RMB573.2mn and the absence of large one-off gains. During the year, gross debt increased 62.1% to RMB128.9bn while book value equity grew 18.6% to RMB161.7bn. As such, we find gross debt to equity increasing to 0.8x against 0.6x as at 31 December 2015. While gearing has increased, VNKRLE's debt levels are still below the sector median among internationally rated peers (sector median: 1.2x). VNKRLE's gross debt to EBITDA has also worsened to 2.7x from 2.1x. As at 31 December 2016, short term debt at VNKRLE was RMB43.3bn, against cash balances of RMB79.5bn. Contracted sales was RMB278.2bn, which should help keep FY2017 solid. We expect though that VNKRLE will take on more debt to fund construction of pre-sold properties. The company has disclosed that as part of its strategy going forward, it will (1) Actively grow via M&As and joint ventures (2) Establish itself as a major commercial property player and (3) pursue internationalization of operations). In our view, with the signing of the Strategic Cooperation Framework between the number 2 and 3 shareholders of VNKRLE, we see the takeover spat at VNKRLE as coming to an end and financial flexibility concerns to subside. We see low liquidity risk of the SGD bond, the VNKRLE 3.275% '17s maturing in November 2017 and maintain VNKRLE's issuer profile at Neutral. (Company, OCBC)

Cambridge Industrial Trust ("CREIT"): Mr. Adrian Chui has been appointed as CEO of CREIT. Mr. Chui was most recently Head of Real Estate - Southeast Asia for Standard Chartered and comes from an investment banking advisory and corporate banking background. Prior to banking, Mr. Chui was with CapitaCommercial Trust Management Limited and Ascendas-MGM Funds Management Ltd (now known as Ascendas Funds Management Limited, the manager of Ascendas Real Estate Investment Trust). Mr. Chui's appointment comes at an interesting time, with e-Shang Redwood Group having recently emerged as a significant unitholder of both CREIT and Sabana Shari'ah Compliant Industrial REIT. The current acting-CEO, Mr. Shane Hagan will resume his original role of CFO and COO. We maintain CREIT at Neutral and will monitor the developments at both CREIT and SSREIT. (Company, OCBC)

Australia and New Zealand Banking Group Ltd. ("ANZ"): Following on from National Australia Bank Ltd's (NAB) and Westpac Banking Corporation's (WBC) earlier announcements, ANZ have also announced expected updates to its variable home loan and business loan interest rates. Standard variable interest rates on principal and interest home loans for owner occupiers will remain unchanged at 5.25%pa while variable interest rates for property investors will rise by 0.25% to 5.85%pa from 31 March. For interest only loans, standard variable interest rates for owner-occupiers will increase by 0.20%pa from 5.25%pa to 5.45%pa while rates for investors will rise 0.11%pa to 5.96%pa. These changes will be implemented gradually, firstly from 22 April for new lending and from late July for existing interest only home loans. Finally, business variable rates will also increase by 0.08%pa. ANZ's changes reinforce regulator and bank desires to reduce built up risks in Australia's housing sector and improve bank's loan composition by reinforcing the preference for owner-occupier principal and interest loans while increasing the cost for investors in residential properties. Australian banks also have an eye on declining returns from rising funding costs and competition. Positive trends in ANZ's recent 1Q2017 trading results highlight solid progress in its restructuring initiatives. In particular, recent asset sales is expected to improve ANZ's CET1 capital ratio to around 10.2% (assuming all else constant). This is important given the regulator is considering the implementation of higher capital requirements meaning that ANZ could be better placed than its peers. That said, we maintain our Neutral issuer profile on ANZ. We continue to like the Aussie Tier 2 papers which balance yield and solid ratings in the SGD capital instrument space. The WSTP'27c22 currently offers good value against the ANZ'27c22 and NAB'28c23 given relative tenors and spreads as well as identical ratings. (Company, OCBC)

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