

November 3, 2017

Credit Headlines (Page 2 onwards): CITIC Envirotech Ltd, Sembcorp Industries Ltd, Wharf Holdings Ltd, StarHub Ltd, Lippo Malls Indonesia Retail Trust, United Overseas Bank Ltd, Chip Eng Seng Corp Ltd

Market Commentary: The SGD swap curve bull-flattened yesterday, with swap rates trading 2-9bps lower across all tenors. Flows in SGD corporates were heavy, with better buying seen in HRAM 3.8%'25s, better selling seen in HRAM 3.2%'21s, and mixed interest seen in EREIT 4.6%-PERPS. In the broader dollar space, the spread on JACI IG Corp rose 1bps to 177bps, while the yield on JACI HY Corp fell 1bps to 6.86%. 10Y UST yields fell 3bps to 2.35%, after details of the Republican tax bill emerged and US President Trump selected Jerome Powell to serve as the next Chairman of the Federal Reserve.

New Issues: HNA Group (International) Co has priced a USD300mn 363-day bond (guaranteed by HNA Group Co) at 8.875%, tightening from initial guidance of 9% area. Suncorp-Metway Ltd has priced a USD500mn 3-year bond at CT3+68bps, tightening from initial guidance of CT3+75bps. The expected issue ratings are 'A+/A1/A+'. Heungkuk Life Insurance Co Ltd has priced a USD500mn 30-year NC5 bond at 4.475%, tightening from initial guidance of 4.625% area. The expected issue ratings are 'NR/Baa3/BBB-'. Vanke Real Estate (Hong Kong) Company Ltd has priced a USD1bn 10-year bond (supported with a keepwell deed and an equity interest purchase undertaking by China Vanke Co) at CT10+165bps, tightening from initial guidance of CT10+200bps. The expected issue ratings are 'BBB+/NR/NR'. Indika Energy Capital III Pte Ltd has priced a USD575mn 7NC4 bond (guaranteed by PT Indika Energy Tbk) at 6.125%, tightening from initial guidance of 6.625% area. The expected issue ratings are 'NR/B2/B+'. Yunnan Energy Investment Overseas Finance Co has scheduled investor meetings for potential USD bond issuance (guaranteed by Yunnan Energy Investment (HK) Co and supported with a keepwell deed and an equity interest purchase and investment undertaking by Yunnan Provincial Energy Investment Group Co) from 3 Nov. QBE Insurance Group has scheduled investor meetings for potential USD Perp AT1 issuance from 6 Nov. the expected issue ratings are 'NR/Baa3/BBB-'.

Table 1: Key Financial Indicators

	3-Nov	1W chg (bps)	1M chg (bps)		3-Nov	1W chg	1M chg
iTraxx Asiax IG	75	1	-3	Brent Crude Spot (\$/bbl)	60.84	0.66%	8.64%
iTraxx SovX APAC	15	0	-2	Gold Spot (\$/oz)	1,277.96	0.36%	0.50%
iTraxx Japan	48	0	2	CRB	188.13	1.18%	4.00%
iTraxx Australia	65	0	-4	GSCI	415.70	1.75%	5.55%
CDX NA IG	53	0	-1	VIX	9.93	-12.12%	4.42%
CDX NA HY	108	0	0	CT10 (bp)	2.345%	-11.59	0.42
iTraxx Eur Main	50	-1	-6	USD Swap Spread 10Y (bp)	-2	1	2
iTraxx Eur XO	226	-7	-22	USD Swap Spread 30Y (bp)	-26	4	7
iTraxx Eur Snnr Fin	50	-4	-9	TED Spread (bp)	23	-4	-7
iTraxx Sovx WE	4	-1	-1	US Libor-OIS Spread (bp)	10	-1	-5
iTraxx Sovx CEEEMEA	43	-1	4	Euro Libor-OIS Spread (bp)	3	0	0
					3-Nov	1W chg	1M chg
				AUD/USD	0.769	0.21%	-1.82%
				USD/CHF	0.999	-0.10%	-2.54%
				EUR/USD	1.166	0.44%	-0.72%
				USD/SGD	1.359	0.42%	0.22%
Korea 5Y CDS	71	-1	-1	DJIA	23,516	0.49%	3.86%
China 5Y CDS	54	5	-5	SPX	2,580	0.76%	1.79%
Malaysia 5Y CDS	64	1	-2	MSCI Asiax	698	1.81%	4.14%
Philippines 5Y CDS	64	2	-1	HSI	28,519	1.12%	1.23%
Indonesia 5Y CDS	94	1	-7	STI	3,381	-0.18%	4.14%
Thailand 5Y CDS	48	1	-2	KLCI	1,741	-0.29%	-1.06%
				JCI	6,031	0.59%	1.54%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
2-Nov-17	HNA Group (International) Co	Not Rated	USD300mn	363-day	8.875%
2-Nov-17	Suncorp-Metway Ltd	'A+/A1/A+'	USD500mn	3-year	CT3+68bps
2-Nov-17	Heungkuk Life Insurance Co Ltd	'NR/Baa3/BBB-'	30-year NC5	30-year	4.475%
2-Nov-17	Vanke Real Estate (Hong Kong) Company Ltd	'BBB+/NR/NR'	USD1bn	10-year	CT10+165bps
2-Nov-17	Indika Energy Capital III Pte Ltd	'NR/B2/B+'	USD575mn	7NC4	6.125%
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

Source: OCBC, Bloomberg

Rating Changes: S&P has affirmed Onsite Rental Group Pty Ltd's (Onsite Rental) 'B-' corporate credit rating while revising its outlook to stable from negative. S&P then withdrew the 'B-' issue rating on the loan issued by Onsite Rental. At the same time, S&P assigned Onsite Rental Group Operations Pty Ltd (Onsite Rental Operations) a 'B-' corporate credit rating. The outlook is stable. S&P then assigned a 'B-' issue rating on Onsite Rental Operations' senior secured term loan. The rating action reflects the improvement in Onsite Rental Operations' financial flexibility as the new term loan removes the company's previous debt covenant pressures. Moody's has affirmed Shenzhen Expressway Company Limited's (SZEC) 'Baa2' issuer rating and senior unsecured debt rating, while revising the outlook to positive from stable. The rating action reflects SZEC's strengthened financial profile which is supported by its toll road operations and resilience of its credit metrics against increased capital expenditure. Moody's has affirmed Emeco Holdings Limited's (Emeco) 'Caa1' corporate family rating as well as Emeco Pty Limited's 'Caa1' backed senior secured debt rating. The outlook has been revised to positive from stable. The rating action follows Emeco's announcement to acquire Force Equipment Pty Limited, which will be funded through a fully underwritten equity raising. The positive outlook also reflects Emeco's improving credit profile, and that the acquisition will increase Emeco's fleet size, earnings and diversification. Fitch has assigned KB Kookmin Card Co Ltd (KB Card) a Long-Term Issue Default Rating (IDR) of 'A-' and a support rating of '1'. The outlook is stable. The rating action reflects Fitch's view that KB Card's parent, KB Financial Group Inc, would provide support to KB Card if needed.

Credit Headlines:

CITIC Envirotech Ltd ("CEL"): CEL announced its results for 3Q2017 and 9M2017. Gross revenue increased 38.6% y/y to SGD522.0mn. The increase in revenue was driven by the Engineering segment which increased 81% to SGD368.1mn and Treatment which increased 7% to SGD129.1mn. Growth in these segments in aggregate more than offset the fall in Membrane revenue. The Engineering segment continued to be the largest revenue contributor, with 70% of total revenue in 9M2017. EBITDA (based on our calculation which does not include other operating expenses and other income) improved 29.8% to SGD192.2mn. CEL's high cost SGD bond (issued before CEL's change in shareholding) had matured in September 2016, in our view this helped drive interest expense lower by 18.3% y/y to SGD24.2mn. EBITDA/Interest was correspondingly stronger at 7.9x against 5.0x in 9M2016. Net cash flow from operations (before interest paid) ("CFO") was SGD201.1mn, providing a 9.7x coverage to cash interest paid. As at 30 September 2017, perpetuals were still relatively constant at SGD481.3mn (the CELSP 5.45%-PERP). We assume SGD19.7mn of distribution from perpetuals for 9M2017 given CEL's distribution rate of 5.45%. Assuming such perpetual distribution as interest, we find adjusted CFO/Interest paid of 5.0x (down versus 5.6x in 9M2016). In October 2017, CEL had raised SGD240mn in a SGD-denominated perpetual. We expect contribution of perpetuals to total capital to have increased to ~28% versus 23% in end-2016 following this new issuance. As at 30 September 2017, CEL's unadjusted net debt-to-equity had increased to 0.2x from 0.04x in end-2016. Notwithstanding CEL's accounting treatment which records the perpetuals as equity, we adjust "net debt" upwards for the perpetuals. The perpetuals are senior perpetuals (rank *pari passu* with other unsecured obligations of the issuer) and contain an onerous step-up margin which increases the likelihood of a call (ie: we see them as more "debt-like"). We find adjusted net debt-to-equity at 0.8x as at 30 September 2017 (increasing from 0.5x in end-2016). In September and October 2017, CEL had announced further projects with a total investment value of SGD1.1bn (including CEL's largest project to date in Lanzhou City, Gansu Province). CEL's cash balance stood at SGD440mn as at 30 September 2017 though this is insufficient to cover the full investment value. We expect CEL to continue tapping both the Chinese bank debt market and offshore fixed income markets. Over the next 12-24 months, we expect CEL's unadjusted net debt-to-equity to increase to at least 1.0x and adjusted net debt-to-equity to also expand significantly. In our view, CEL's credit profile has weakened on a standalone basis on the back of its changing capital structure amidst growth. 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. CEL's major shareholders are CITIC Ltd (partly state-owned and rated at BBB+/A3/NR) and China Reform Fund Envirotech Co. Ltd (backed by China Reform Holdings Corporate Ltd, a wholly state-owned investment company). (Company, OCBC)

Credit Headlines (Cont'd):

Sembcorp Industries Ltd ("SCI"): For 3Q2017, SCI reported SGD1.81bn in revenue, down 15.5% y/y. On a q/q basis, revenue was also down 20.6%. Performance was weighed down by the Marine segment (mainly Sembcorp Marine, "SMM"), which reported 64.3% y/y decline in sales to SGD317mn. This was partially mitigated by the 16.9% y/y increase in Utilities revenue to SGD1.40bn. In general, the Marine segment was affected by the cancellation of two rig contracts, which resulted in revenue reversal and suppressed Rigs & Floaters revenue (see [OCBC Asian Credit Daily – 1 November 2017](#)). The Offshore Platform segment was weaker as well due to fewer projects. Repairs & Upgrades segment saw some growth, with cruise ship refits highlighted as a source of strength. The weak top line caused marine gross margins to plunge to 4% (2Q2017: 11.6%). Looking forward, there is some good news, with SMM able to complete a bulk sale of 9 jack-up rigs to Borr Drilling Ltd for a total consideration of USD1.3bn. USD500mn has already been paid to SMM during October, with the balance to be paid within 5 years of delivery of each rigs (delivery over a 14-month period from 4Q2017 till 1Q2019). Though the bulk sale was conducted at a slight loss, the sale helped remove uncertainty as 6 of these rigs were originally contracted to stressed customers (contract completion was uncertain). The sale helped to boost net order book (including SGD3.1bn worth of Sete Brasil orders) to SGD8.0bn (2Q2017: SGD6.7bn). Looking forward though, we expect the market for drilling assets to remain challenging, which would suppress the Marine segment's order book growth. Comparatively, the Utilities segment is already ~80% of group revenue. Like the previous quarter, Utilities segment's revenue growth was driven by Singapore (+17.5% y/y to SGD725.6mn) and India (+69.2% y/y to SGD442.4mn). Similar reasons as previous quarters drove performance, with Singapore contribution driven by higher heavy sulphur fuel oil ("HSFO") prices which drove domestic electric tariffs higher while India driven by Sembcorp Gayatri Power ("SGPL") commencing commercial operation (started in February 2017). We note however that Utilities revenue from the Rest of Asia fell sharply q/q to SGD94.3mn (2Q2017: SGD225.4mn) likely due to power construction revenue recognized tapering off as projects move towards completion. Utilities segment profitability continues to be weak, declining 74.7% to SGD27.6mn. This was in part driven by SGD56.3mn in impairment charges, relating to some old boilers as well as on the writing down of goodwill on SembCogen. Excluding the impairments, segment profit would have been SGD83.9mn. We note that SCI's India power business continues to generated losses of SGD2.7mn. As per previous periods, SCI had been unable to secure long-term PPAs for SGPL, and hence had to sell into the weak spot and short-term Indian power market. SGPL alone generated SGD26mn in loss for the quarter. Management had previously expressed expectations that spot and short-term power tariffs will remain weak over the next two to three years. The Urban Development segment helped contribute to performance with SGD8.2mn in segment profits, driven by land sales in Vietnam, China and Indonesia. In aggregate, SCI's net profit was down 27.7% y/y to SGD42.2mn, driven by impairment losses in Utilities as well as lack of contribution from Marine. For the quarter, SCI's operating cash flow (including interest service) was negative SGD14.4mn, due to working capital needs for Marine. CAPEX was SGD133.3mn, largely due to the Utilities segment. SCI also paid out ~SGD53.6mn in dividends during the quarter. The cash gap was funded by additional borrowings, as well as by the ~SGD200mn in proceeds from the Cosco Shipyard divestment. The increase in borrowings drove net gearing slightly higher q/q to 97% (1Q2017: 96%). We note that the USD500mn received from Borr Drilling Ltd by SMM will help deleverage SCI to a pro-forma net gearing of 88%. Management reported interest cover improved to 3.0x for 3Q2017 (2Q2017: 2.3x). Cash / current borrowings improved to 0.95x. Management has indicated that the strategic review (which commenced in 2Q2017) will be completing soon, and that announcements will be made at the appropriate time. We will continue to hold SCI's Issuer Profile at Neutral, as we do not expect meaningful improvements in SCI's leverage profile in the near-term given the continued challenges in its Marine segment. (Company, OCBC)

Wharf Holdings Ltd ("Wharf"): Wharf will be presenting to its Board on 14 Nov 2017 the resolutions on the spin-off and separate listing of Wharf REIC. We expect the distribution of Wharf REIC to be declared, and we expect the spin-off of Wharf REIC to weaken Wharf's credit profile (refer to [OCBC Asian Credit Daily – 5 Sep 2017](#)). We continue to hold Wharf at a Neutral Issuer Profile. (Company, OCBC)

Credit Headlines (Cont'd):

StarHub Ltd (“StarHub”): StarHub reported 3Q2017 results. Beneath the flattish revenue of -0.8% y/y to SGD580.4mn, results were mixed for the various segments. Mobile continues to see some pressure (-0.8% y/y to SGD297mn) with lower voice, IDD and outbound roaming usage, partially mitigated by increased usage of data and higher revenue from mobile value-added services. Pay TV (-8.5% y/y to SGD85.7mn) and Broadband (-2.8% y/y to SGD53.2mn) revenue declined more significantly due to a lower subscriber base. Only Enterprise Fixed services performed better (+11.3% y/y to SGD109.4mn). However, net profit sank 11.0% y/y to SGD76.5mn as operating expense inched up (+0.4% y/y to SGD481.8mn) while rollout grants have been fully amortised and adoption grants from residential fibre have been fully claimed, resulting in a decline in other income (SGD4.1mn lower y/y). We also note that mobile customer base has shrunk (from both post-paid and pre-paid segments) to 2.26mn (down 1.5% q/q). Reported net debt to trailing 12 months EBITDA is at 0.80x, largely flat compared to 3Q2016's 0.78x. We do not currently cover StarHub. (Company, OCBC)

Lippo Malls Indonesia Retail Trust (“LMRT”): LMRT reported 3Q2017 results. Revenue increased by 5.5% y/y to SGD49.9mn, with NPI higher by 7.1% y/y to SGD46.4mn mainly due to the acquisitions of Kuta, Kendari and positive rental reversions. Occupancy remained healthy at 94.3% (unchanged from 2Q2017). However, we note that rental reversions for 3Q2017 at +2.9% is sharply lower than the +13% rental reversions seen in 2Q2017. This compares with a slower growth in retail sales in Indonesia in Sep 2017 (+2.4%), while the average growth in retail sales in June 2017 (+6.3%) and Mar 2017 (+4.2%) were higher. However, we believe that rental reversions may remain supported as LMRT has completed SGD14.5mn of AEI works at Ekalokasari Plaza (refer to [OCBC Asian Credit Daily – 10 Oct 2017](#)), which may also lift occupancy at the mall (3Q2017: 71.3%). Asset leverage ratio improved to 28.7% (from 30.6% in 2Q2017), mainly due to the net repayment of debt and bonds. If we account the perpetual bonds as half equity, half debt, asset leverage as of 3Q2017 would be 35.1%. We note that LMRT will be spending SGD98.1mn to acquire 2 retail malls at Jogja and Kediri (refer to [OCBC Asian Credit Daily – 16 Oct 2017](#)), and as such we expect asset leverage to climb to low 30%. We continue to hold LMRT at a Neutral Issuer Profile. (Company, OCBC)

United Overseas Bank Ltd (“UOB”): UOB reported its 3Q2017 results with total income up 10% y/y and 3% q/q due to growth in both net interest income (higher loan volumes and higher net interest margins which rose 10bps y/y and 4bps q/q to 1.79%) and fee and commission income (y/y rise due to wealth management and q/q rise due to loan related fees). Other non-interest income however was down 12% y/y and 10% q/q on weaker net trading income y/y and lower gains on investments and dividend income q/q. Expenses were up 5.9% y/y on staff costs and IT related investments (though down q/q) but given the solid rise in operating income, the expense to income ratio improved to 43.5% for 3Q2017 from 45.0% in 3Q2016 and 45.6% in 2Q2017. Total allowances continue to rise up 18% y/y and 23% q/q reflecting ongoing stress in UOB's oil and gas exposure although the y/y growth is partially due to a low base effect with 2Q2016 allowances lower (due to a large writeback in general allowances) while specific allowances were down 26.2% y/y. Meanwhile the q/q increase was due to a rise in specific allowances in Singapore and China exposures. This was not enough to dent profit before tax performance which rose 11.4% y/y and 3.7% q/q to SGD1.1bn. Segment wise y/y, Group Retail continues to support overall group performance from better loan volumes and fee income performance in wealth management and credit cards while the Group Wholesale segment performance was flat and Global Markets performance was weaker due to lower trading income. As mentioned above, loans grew with gross customer loans up 7.7% y/y and 2.8% q/q. The majority of loans growth occurred in Singapore and China on both a y/y and q/q basis while segment wise the growth was fairly broad based (although in percentage terms loans to Financial Institutions and Manufacturing grew the highest y/y). Non-performing loan (NPL) formation continues with NPL's up 7.2% y/y and 8.1% q/q and with allowances rising 3.6% y/y and 3.2% q/q, the allowance coverage ratio to non-performing loans fell to 111.8% in 3Q2017 from 115.7% in 3Q2016 and 117.2% in 2Q2017. That said, the coverage ratio against unsecured non-performing assets remains strong as 223.3% in 3Q2017. The most noticeable movement in NPLs was a sharp rise in Singapore within the Transport, storage and communications segment which relates to a specific oil and gas name. UOB's capital ratios remain solid (despite redemption of Tier 2 notes) and have improved y/y and q/q due to solid earnings performance and issuance of shares pursuant to the scrip dividend scheme and only moderate growth in risk weighted assets with CET1/CAR ratios at 14.3%/17.8% (2Q2017: 13.8%/17.8%). On a fully loaded basis, CET1 ratios improved y/y to 13.8% in 2Q2017 from 13.3% in 2Q2017. The results continue to support our Neutral Issuer Profile on UOB. (Company, OCBC)

Credit Headlines (Cont'd):

Chip Eng Seng Corp Ltd ("CES"): CES announced that it will commence the termination of sales contract with purchasers of units of Tower Melbourne. This is because works on the property has been stalled due to ongoing legal proceedings related to the objection raised by the owner of the adjoining property. Given the indefinite delay of the project timeline, CES would be unable to meet the contractual deadline and hence will be terminating the outstanding sales contract. The termination of the sales contract involves the return of the full deposit (10% of purchase price) together with the interest accrued on the deposit. The termination of the sales contracts is not expected to have a significant impact on the NTA and earnings of CES. (Company)

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