Asian Credit Daily

Jun 30, 2017

Credit Headlines (Page 2 onwards): Industry Outlook – Singapore Residential Property, China Vanke Ltd, Keppel REIT, CWT Ltd

Market Commentary: The SGD swap curve bear-steepened yesterday, with swap rates trading 1-3bps higher across all tenors. Flows in SGD corporates were heavy, with better buying seen in NOLSP 4.65'20s, LBBW 3.75%'27s, CHIPEN 4.9%'22s, better selling seen in WINGTA 4.08%-PERPs, and mixed interest seen in STHSP 3.95%-PERPs, OUESP 4.25%'19s, HSBC 4.7%-PERPs. In the broader dollar space, the spread on JACI IG changed little at 193bps while the yield on JACI HY Corporates rose by 2bps to 6.89%. 10y UST yields rose 4bps to 2.27%, following the decline in stocks as markets continue to assess the recent spate of comments by central banks to hike interest rates.

New Issues: SGSP (Australia) Assets Pty Limited priced a USD500mn 10-year bond at CT10+132bps, tightening from initial guidance of CT10+155 area. The expected issue ratings are 'A-/A3/NR'. Modern Land (China) Co., Ltd priced a USD130mn 1-year bond at 6.5%. The Republic of Indonesia has scheduled investor meetings for the potential issuance of EUR and/or USD bonds from 3 Jul.

Rating Changes: S&P has withdrawn Sino-Ocean Group Holding (SOG) Limited's corporate credit rating at the company's request after downgrading SOG's rating to 'BB+' from 'BBB-' with a stable outlook. The rating action reflects S&P's view that the strategic relationship of SOG with its largest shareholder, China Life Insurance Co. Ltd., has not progressed as expected. Moody's has assigned a 'Ba1' corporate family rating to Shanghai Huayi (Group) Company (Huayi), while downgrading Huayi's senior bonds to 'Ba2' from 'Ba1', with a stable outlook. In addition, Moody's has withdrawn Huayi's 'Baa3' issuer rating. The rating action reflects Moody's expectation of weak earnings in Huayi's commodity chemicals business amid persistent oversupply, while its business transformation creates execution risks and additional capital spending that will keep debt leverage elevated. Moody's has assigned a long-term foreign currency issuer rating of 'Aaa' to the Asian Infrastructure Investment Bank.

Table 1: Key Financial Indicators

	30-Jun	1W chg (bps)	1M chg (bps)		30-Jun	1W chg	1M chg
iTraxx Asiax IG	87	1	-4	Brent Crude Spot ($/bbl)	47.81	4.98%	-4.97%
iTraxx SovX APAC	20	1	0	Gold Spot ($/oz)	1,246.12	-0.84%	-1.80%
iTraxx Japan	39	-1	-3	CRB	171.89	3.23%	-4.39%
iTraxx Australia	83	-2	-3	GSCI	365.33	3.26%	-3.31%
CDX NA IG	62	1	0	VIX	11.44	9.16%	9.89%
CDX NA HY	107	0	-1	CT10 (bp)	2.267%	12.43	5.68
iTraxx Eur Main	55	1	-7	USD Swap Spread 10Y (bp)	-2	1	4
iTraxx Eur XO	244	10	-8	USD Swap Spread 30Y (bp)	-30	3	14
iTraxx Eur Snr Fin	53	0	-17	TED Spread (bp)	28	-5	-1
iTraxx Sovx WE	6	0	-2	US Libor-OIS Spread (bp)	13	0	2
iTraxx Sovx CEEMEA	55	2	10	Euro Libor-OIS Spread (bp)	3	0	0
					30-Jun	1W chg	1M chg
				AUD/USD	0.770	1.76%	3.65%
				USD/CHF	0.956	1.42%	1.27%
				EUR/USD	1.144	2.22%	1.77%
				USD/SGD	1.378	0.68%	0.38%
Korea 5Y CDS	53	1	-3	DJIA	21,287	-0.52%	1.33%
China 5Y CDS	70	1	-7	SPX	2,420	-0.61%	0.33%
Malaysia 5Y CDS	86	2	-14	MSCI Asiax	629	0.20%	1.62%
Philippines 5Y CDS	78	1	-4	HSI	25,721	0.20%	0.24%
Indonesia 5Y CDS	117	2	-7	STI	3,229	0.43%	0.58%
Thailand 5Y CDS	63	1	5	KLCI	1,769	-0.36%	0.19%
				JCI	5,830	0.92%	1.73%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
29-Jun-17	SGSP (Australia) Assets Pty Limited	'A-/A3/NR'	USD500mn	10-year	CT10+132bps
29-Jun-17	Modern Land (China) Co., Ltd	Not Rated	USD130mn	1-year	6.5%
28-Jun-17	Baidu, Inc.	'NR/A3/A'	USD900mn	5-year	CT5+118bps
28-Jun-17	Baidu, Inc.	'NR/A3/A'	USD600mn	10-year	CT10+145bps
28-Jun-17	CSCEC Finance (Cayman) II Ltd	'A/A2/A'	USD500mn	5-year	CT5+112.5bps
28-Jun-17	CSCEC Finance (Cayman) II Ltd	'A/A2/A'	USD500mn	10-year	CT10+135bps
28-Jun-17	Fantasia Holdings Group Co	'B/B3/NR'	USD300mn	5NC3	8.0%
27-Jun-17	FH REIT Treasury Pte Ltd	Not Rated	SGD120mn	5-year	2.63%

Source: OCBC, Bloomberg

Credit Headlines:

Industry Outlook – Singapore Residential Property: MAS managing director Ravi Menon said that “it is not time yet to ease the cooling measures” because “easing the measure now would send a wrong signal”. Meanwhile, Government Land Sales for 2H17 private housing will increase to 8,125 units (1H17: 7,465) as demand for homes has risen while the number of unsold units has declined. We continue to hold the view that property prices have likely bottomed (Refer OCBC Asia Credit – Singapore Property Sector Update: A turnaround in sight?). However, with the key cooling measures (ABSD, TDSR, LTV) still in place, we think this may cap the magnitude of a potential near-term rebound. We think that the increase in land supply can be a double-edged sword. Developers may use the opportunity to replenish their landbank as unsold inventory fell to 5Y lows. However, it remains to be seen if this will eventually support profit margins as recent land bids appear aggressive, including Bidadari site which sold for SGD1.1bn (SGD1,181 psf), Stirling Road which sold for SGD1bn (SGD1,050 psf) and Toh Tuck Site which sold for SGD265mn (SGD939 psf). In the near term, we can expect developers (e.g. GuocoLand, Oxley) to continue gearing up to bid for land. (Straits Times, Business Times, OCBC)

China Vanke Ltd (“VNKRLE”): VNKRLE has won the bid to acquire some of Guangdong International Trust Investment Corp’s (“GITIC”) real estate assets for RMB55.1bn (~USD8.1bn). GITIC, a state-owned entity, defaulted in 1998. This is a significant transaction for VNKRE to replenish its land bank. Among the assets, VNKRLE would own a prime land site in Guangzhou which it aims to develop into residential and commercial properties including offices and hotels. VNKRLE added that it will be tying up with potential partner(s) to jointly develop the site though no information on funding structure has been provided. Our base case assumes that the acquisition will be debt-funded (and/or with VNKRLE assuming existing debt on the assets), thus stretching VNKRLE’s gross debt-to-equity to 1.2x (as at 31 March 2017: 0.9x), exceeding the gross debt-to-equity of investment-grade peers with similar scale. VNKRLE’s cash balance was RMB83.6bn (USD12.3bn) as at 31 March 2017. We expect bulk of VNKRLE’s cash balance would need to be kept aside to fund property development-related working capital. VNKRLE is also reportedly part of the consortium in a bid for Global Logistics Properties Ltd (“GLP”), which may entail further capital outlays. We are reviewing VNKRLE’s issuer profile. (Company, OCBC)

Keppel REIT (“KREIT”): KREIT has announced that it would be acquiring a 50% stake in an office development at 311 Spencer Street, Melbourne, Australia (“311 Spencer Street”). 311 Spencer Street will be developed into a 42-floor Grade A office tower with NLA of 717,000 sqft based between Melbourne CBD and the Docklands precinct. Work is expected to commence in 3Q2017, with practical completion expected in 4Q2019. The consideration for the stake is AUD347.8mn (~SGD362.4mn), and is expected to be funded by proceeds from the 77 King Street divestment (done in January 2016) as well as debt. Management has estimated that if the loans funding the acquisition was fully drawn as of end-2016, it would have increased pro-forma aggregate leverage by 1.8ppt to 40.3%. The transaction would increase the development property portion of KREIT’s portfolio to 4.3% (below the 10% cap as per CIS for assets not developed from existing properties). The 50% stake was acquired from Cbus Property Pty Ltd, the developer of 311 Spencer Street as well as the co-owner to the balance 50% stake. The asset is on a freehold site, and will be 100% leased to the Assistant Treasurer for the State of Victoria, for 30 years on a net lease basis, with fixed annual escalations (subject to a market rent review on the 16th year). Management has indicated that the projected NPI yield would be 6.4% per annum (over the first 15 years of the lease, which would have factored in the expected lease escalations as well, or in other words initial NPI yield should be lower). When completed, the asset would boost both portfolio occupancy as well as portfolio WALE. As the transaction would be debt funded, it would be a credit negative. KREIT would have also exhausted its debt headroom when the loans funding the development are fully drawn, assuming that KREIT would like to keep aggregate leverage at 40% versus the cap of 45%. That said, aggregate leverage is only expected to inch up with time, when the progressive payments are due. It may be possible for KREIT to keep its aggregate leverage at current levels if: 1) it continues to recognize revaluation gains on its portfolio, which is possible given the recent transactions seen in the office space in Singapore; 2) monetize assets; and/or 3) raise perpetual securities to serve as equity, reducing aggregate leverage. For now, we will retain KREIT’s Neutral Issuer Profile. (Company, OCBC)

Credit Headlines (Cont'd):

CWT Ltd ("CWT"): HNA Holding Group Co. Limited ("HNA HK") has issued a shareholder's circular pertaining to the pre-conditional offer for CWT. HNA HK's board has recommended that shareholders vote in favour of the resolution to be proposed at a general meeting. The date for the general meeting though has not been set. The Offeror (being HNA Belt and Road Investments (Singapore) Pte Ltd, a wholly-owned subsidiary of HNA HK) intends to (1) Make CWT its wholly-owned subsidiary (2) Delist CWT and (3) Make no major changes to the management team of CWT post-acquisition. The offer is intended to be financed by a combination of internal resources, external financing and an interest-free unsecured fund of up to SGD1.4bn to be provided by HNA Group and its associates ("HNA Group") to HNA HK. Discussions with financial institutions is still on-going though in the event that such external financing is not available, the acquisition will be solely funded by the interest-free unsecured funds from HNA Group. SGD1.4bn that will be obtained by HNA HK from the various funding sources is sufficient to satisfy the offer price of SGD2.33 per share for CWT. (Company, OCBC)

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