

October 30, 2017

**Credit Headlines (Page 2 onwards):** OUE Limited, Starhill Global REIT, Industry Outlook – Australian Financial Institutions

**Market Commentary:** The SGD swap curve traded upwards on Friday, with swap rates trading 1-4bps higher across all tenors. Flows in SGD corporates were heavy, with better buying seen in WINGTA 4.35%-PERPs, HRAM 3.2%'21s, better selling seen in HSBC 4.7%-PERPs, and mixed interest seen in EREIT 4.6%-PERPs, CELSP 3.9%-PERPs. In the broader dollar space, the spread on JACI IG Corp fell 1bps to 176bps, while the yield on JACI HY Corp rose 2bps to 6.86%. 10Y UST yields fell 5bps on Friday, as a report stated that US President Donald Trump is leaning towards Jerome Powell to be the next chairman of the Fed.

**New Issues:** FH-REIT Treasury Pte Ltd may price a SGD-denominated 7-year bond at 3.3% area (guaranteed by Perpetual (Asia) Ltd in its capacity as trustee of Frasers Hospitality Real Estate Investment Trust) today. Huarong Finance 2017 Co has scheduled investor meetings for potential USD and SGD bonds issuance (guaranteed by China Huarong International Holdings Ltd) from 30 Oct. China Minmetals Corporation has scheduled investor meetings for potential USD Perp issuance from 30 Oct. The expected issue ratings are 'NR/Baa1/NR'.

**Rating Changes:** Moody's has placed the ratings of CK Hutchison Holdings Ltd, Longfor Properties Co Ltd and Jardine Strategic Holdings Ltd on review for upgrade. At the same time, Moody's has placed the senior unsecured ratings of Modern Land (China) Co Ltd, Country Garden Holdings Co Ltd, Yuzhou Properties Company Ltd, Central China Real Estate Ltd and Yanlord (HK) Co Ltd on review for downgrade. The rating action follows Moody's update of its methodology regarding priority of claim and structural subordination at the operating subsidiary level which will have various impacts on the ratings of holding companies.

**Table 1: Key Financial Indicators**

	30-Oct	1W chg (bps)	1M chg (bps)		30-Oct	1W chg	1M chg
iTraxx Asiax IG	75	0	-7	Brent Crude Spot (\$/bbl)	60.46	5.39%	5.07%
iTraxx SovX APAC	16	0	-3	Gold Spot (\$/oz)	1,271.40	-0.85%	0.02%
iTraxx Japan	48	0	2	CRB	186.89	1.51%	2.08%
iTraxx Australia	65	0	-6	GSCI	412.04	2.26%	3.19%
CDX NA IG	53	0	-2	VIX	9.8	-1.71%	3.05%
CDX NA HY	108	0	0	CT10 (bp)	2.399%	3.28	6.56
iTraxx Eur Main	51	-3	-4	USD Swap Spread 10Y (bp)	-3	0	1
iTraxx Eur XO	232	-7	-18	USD Swap Spread 30Y (bp)	-30	0	3
iTraxx Eur Snr Fin	54	-4	-5	TED Spread (bp)	29	3	1
iTraxx Sovx WE	5	0	-1	US Libor-OIS Spread (bp)	11	0	-3
iTraxx Sovx CEEMEA	44	3	3	Euro Libor-OIS Spread (bp)	3	0	0
					30-Oct	1W chg	1M chg
				AUD/USD	0.767	-1.72%	-1.97%
				USD/CHF	0.998	-1.27%	-2.31%
				EUR/USD	1.161	-1.17%	-1.04%
				USD/SGD	1.365	-0.24%	-0.26%
Korea 5Y CDS	72	2	-2	DJIA	23,434	0.45%	4.59%
China 5Y CDS	49	-3	-13	SPX	2,581	0.23%	2.45%
Malaysia 5Y CDS	62	0	-6	MSCI Asiax	686	-0.14%	3.72%
Philippines 5Y CDS	62	1	-3	HSI	28,446	0.49%	3.23%
Indonesia 5Y CDS	93	0	-10	STI	3,373	0.68%	4.75%
Thailand 5Y CDS	47	0	-5	KLCI	1,750	0.47%	-0.34%
				JCI	5,998	0.80%	1.64%

Source: OCBC, Bloomberg

**Table 2: Recent Asian New Issues**

Date	Issuer	Ratings	Size	Tenor	Pricing
26-Oct-17	Wing Tai Properties Finance Ltd (re-tap)	Not Rated	SGD100mn	WINGTA 4.35%-PERP	100.10
26-Oct-17	People's Republic of China	Not Rated	USD1bn	5-year	CT5+15bps
26-Oct-17	People's Republic of China	Not Rated	USD1bn	10-year	CT10+25bps
26-Oct-17	Hainan Airlines (Hong Kong) Co	Not Rated	USD300mn	Perp NC5	6.35%
25-Oct-17	RBC Investor Services Trust Singapore Limited	Not Rated	SGD150mn	Perp NC5	4.60%
25-Oct-17	Government of Mongolia	'B-/B-/NR'	USD800mn	5.5-year	5.625%
25-Oct-17	Korea Housing Finance Corporation	'NR/Aa1/NR'	USD500mn	5-year	CT5+100bps
25-Oct-17	Korean Air Lines Co Ltd	Not Rated	USD30mn	3-year	3mL+95bps
24-Oct-17	Housing & Development Board	'NR/Aaa/NR'	SGD640mn	12-year	2.598%
24-Oct-17	Asian Development Bank	'AAA/Aaa/AAA'	USD1.5bn	10-year	MS+22bps

Source: OCBC, Bloomberg

## Credit Headlines:

**OUE Limited (“OUE”):** OUE Lippo Healthcare Limited (“OLH”, formerly International Healthway Corporation, 86.2%-owned subsidiary of OUE), has announced that it expects to report a net loss for 3Q2017 results (to be announced on 14/11/17). Management had indicated that the losses were driven by operating costs. As OUE consolidates OLH’s results, we expect OLH to be a drag when OUE reports its 3Q2017 results (expected on 02/11/17). In aggregate though, given that OLH is small (~6% of OUE’s consolidated total assets) relative to OUE’s development and investment property businesses, it is likely that the impact on overall profits would be manageable. We will monitor OUE’s 3Q2017 results closely. (Company, OCBC)

**Starhill Global REIT (“SGREIT”):** For 1QFY2018 (ending September 2017) results, revenue was down 4.1% y/y to SGD53.0mn while NPI was down 3.5% y/y to SGD41.4mn. In a continuation of last fiscal year’s trends, SGREIT’s Singapore assets (which contributed ~61% of total revenue) have remained weak, reporting a 7.5% decline in revenue and 7.1% decline in NPI. Specifically, Wisma Atria reported weaker retail revenue (-11.1% y/y), lacking the one-off boost from pre-termination rental compensation seen in 1QFY2017. In mitigation the occupancy at Wisma Atria remained high at 97.4%. The office assets at Wisma Atria and Ngee Ann City reported 13.2% revenue declines to SGD5.7mn in aggregate, driven by a sharp q/q decline in occupancy from 92.9% to 83.5%. Management had reported island-wide office market competition, which is consistent with our view that CBD grade A office assets have recovered at the expense of older assets, or assets outside of the CBD area. That said, SGREIT reported that it is finalizing terms for roughly a third of vacant Singapore office space. Comparatively, Australia supported performance with revenue and NPI up 6.9% and 3.8% respectively to SGD12.6mn and SGD7.8mn. This was driven by higher retail revenue at Myer Centre Adelaide and David Jones Building, as well as due to the appreciation of the AUD against SGD. The AEI on-going at Plaza Arcade, Perth, has continued to be a drag on performance, though it is expected to be completed by 3QFY2018. For SGREIT’s other markets, there were some declines driven by currency weakness in Malaysia and Japan, and building transition in China. In aggregate, portfolio occupancy worsened q/q to 93.4% (1QFY2018: 95.5%) due to the sharp occupancy decline in Singapore Office, as well as increasing vacancies at Myer Centre Adelaide Office. WALE by NLA remains decent at 6.6 years, though we note that numbers are skewed by the relatively longer lease on the Toshin master lease as well as on Australian assets. Aggregate leverage remained stable q/q at 35.4%. Reported interest coverage remained unchanged q/q at 4.1x. With regards to SGREIT’s debt maturity profile, FY2018 maturities have all been refinanced, such as the AUD145mn refinanced to FY2022 (the facility to be drawn down in November 2017). FY2019 and FY2020 maturities are manageable at just SGD67mn and SGD106mm respectively. As such, SGREIT is unlikely to come to market unless they are financing opportunistically. We will reiterate SGREIT’s Neutral Issuer Profile. (Company, OCBC)

**Industry Outlook – Australian Financial Institutions:** As previously mentioned sometime back (refer to [OCBC Asian Credit Daily – 7 Mar 2016](#), [OCBC Asian Credit Daily – 6 Apr 2016](#) and [OCBC Asian Credit Daily – 8 Jun 2017](#)), the Australian Securities and Investment Commission (‘ASIC’) commenced formal civil proceedings in 2016 against National Australia Bank Ltd (NAB), Westpac Banking Corp. (WBC) and Australia and New Zealand Banking Group Ltd (ANZ) in relation to the alleged manipulation of the bank-bill swap rate (Australia’s equivalent of LIBOR). These proceedings were scheduled to go to court last week. However, last minute settlements by NAB and ANZ delayed proceedings by one week. The settlements by NAB and ANZ were for AUD50mn each, covering 50 and 43 counts of unconscionable conduct respectively and included payment of ASIC’s settlement costs. WBC on the other hand has elected to proceed to trial on the basis that it has been accused of only 16 counts of unconscionable conduct and that it believes its case against ASIC to be stronger than the other two banks. While the quantum of the fines payable to ASIC are immaterial to the banks’ earnings, the key issue in the recent settlements will be the banks’ admission of attempting to engage in unconscionable conduct as opposed to a settlement with no admission of wrongdoing. This admission could have implications for future class actions, with a class action already filed by U.S. funds in the U.S. District Court suing 17 banks including NAB, WBC and ANZ for the same reason. While there remains no news of potential liabilities stemming from this, such developments will likely cast a shadow over these names until further details are clarified. (OCBC, Bloomberg)

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