Asian Credit Daily

Aug 31, 2017

Credit Headlines (Page 2 onwards): Bank of China Ltd, Sembcorp Industries Ltd, Malayan Banking Berhad, Wing Tai Properties Ltd

Market Commentary: The SGD swap curve traded upwards yesterday, with swap rates trading 1-2bps higher across all tenors (with the exception of the 1-year tenor, which traded little changed, and the 1.5-year tenor, which traded 1bps lower). Flows in SGD corporates were heavy, with better buying seen in WINGTA 4.35%-PERPs, SIASP 3.13%'27s, HSBC 4.7%-PERPs, and mixed interest seen in STANLN 4.4%'26s, OUECT 3.03%'20s. In the broader dollar space, the spread on JACI IG Corporates fell 1bps to 191bps, while the yield on JACI HY Corp was little changed at 6.91%. 10y UST yields traded little changed at 2.13% despite higher than expected GDP and consumption numbers, as traders await inflation and non-farm payroll data due later in the week.

New Issues: Lotte Shopping Business Management (Hong Kong) Ltd has priced a USD300mn 3-year bond (guaranteed by The Export-Import Bank of Korea) at CT3+105bps, tightening from initial guidance of CT3+130bps area. The expected issue ratings are 'NR/Aa2/NR'. Mitsubishi UFJ Lease & Finance Company Ltd has scheduled investor meetings for potential USD bond issuance from 6 Sep. The expected issue ratings are 'A/A3/NR'. Santos Finance Ltd has scheduled investor meetings for potential USD 10-year bond issuance from 1 Sep.

Rating Changes: S&P has placed China Longyuan Power Group Corp Ltd's (Longyuan) 'A-' and Hero Asia Investment Ltd's (Hero Asia) 'BBB+' corporate credit ratings on CreditWatch with developing implications. At the same time, S&P placed China Shenhua Energy Co Ltd's 'AA-' and Shenhua Hong Kong Ltd's 'A+' corporate credit ratings on CreditWatch with negative implications. The ratings were placed on CreditWatch due to the uncertain rating impact following the planned merger of China Guodian Corp (the parent of Longyuan and Hero Asia) with China Shenhua Group.

Table 1: Key Financial Indicators

	31-Aug	1W chg (bps)	1M chg (bps)		31-Aug	1W chg	1M chg
iTraxx Asiax IG	77	-3	-5	Brent Crude Spot ($/bbl)	50.86	-2.27%	-3.40%
iTraxx SovX APAC	18	-2	-1	Gold Spot ($/oz)	1,302.40	1.24%	2.60%
iTraxx Japan	44	1	3	CRB	176.87	-0.40%	-3.16%
iTraxx Australia	72	-3	-5	GSCI	375.85	-0.83%	-3.15%
CDX NA IG	59	-1	2	VIX	11.22	-8.41%	9.36%
CDX NA HY	107	0	-1	CT10 (bp)	2.148%	-4.55	-14.58
iTraxx Eur Main	56	0	4	USD Swap Spread 10Y (bp)	-5	1	-1
iTraxx Eur XO	243	-2	9	USD Swap Spread 30Y (bp)	-35	0	0
iTraxx Eur Snr Fin	55	-1	5	TED Spread (bp)	30	-2	7
iTraxx Sovx WE	6	0	1	US Libor-OIS Spread (bp)	16	0	1
iTraxx Sovx CEEMEA	43	-2	-4	Euro Libor-OIS Spread (bp)	3	0	0
					31-Aug	1W chg	1M chg
				AUD/USD	0.791	0.04%	-1.19%
				USD/CHF	0.964	0.17%	0.31%
				EUR/USD	1.188	0.69%	0.32%
				USD/SGD	1.358	0.27%	-0.22%
Korea 5Y CDS	60	-2	3	DJIA	21,892	0.37%	0.01%
China 5Y CDS	57	-4	-8	SPX	2,458	0.55%	-0.51%
Malaysia 5Y CDS	71	-3	-9	MSCI Asiax	663	0.66%	1.10%
Philippines 5Y CDS	61	-4	-9	HSI	27,949	1.56%	2.29%
Indonesia 5Y CDS	101	-6	-11	STI	3,279	0.20%	-1.52%
Thailand 5Y CDS	56	-1	-6	KLCI	1,773	0.01%	0.75%
				JCI	5,869	-0.43%	0.48%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
30-Aug-17	Lotte Shopping Business Management (Hong Kong) Ltd	'NR/Aa2/NR'	USD300mn	3-year	CT3+105bps
28-Aug-17	Keppel Land Limited	Not Rated	SGD150mn	6-year	2.843%
25-Aug-17	Keppel Telecommunications & Transportation Ltd	Not Rated	SGD100mn	7NC5	2.85%
24-Aug-17	OUE CT Treasury Pte Ltd	Not Rated	SGD150mn	3-year	3.03%
24-Aug-17	Franshion Brilliant Ltd	'NR/Baa3/NR'	USD200mn	CHJMAO 4%-PERP	100.09
24-Aug-17	China Great Wall International Holdings III Ltd	'BBB+/Baa1/A'	USD500mn	3-year	CT3+135bps
24-Aug-17	China Great Wall International Holdings III Ltd	'BBB+/Baa1/A'	USD1bn	5-year	CT5+145bps
24-Aug-17	China Great Wall International Holdings III Ltd	'BBB+/Baa1/A'	USD500mn	10-year	CT10+180bps

Source: OCBC, Bloomberg

Rating Changes (Cont'd): S&P has affirmed Vietnam Joint Stock Commercial Bank for Industry and Trade's (Vietinbank) issuer credit rating at 'BB-', while revising the outlook to negative from stable. The rating action follows S&P's expectation that downside risk could emerge in Vietinbank in the case of higher-than-expected growth, cash dividend payouts, or weaker-than-expected profitability. Moody's has assigned Australia and New Zealand Banking Group Ltd's (ANZ) floating rate notes a senior unsecured rating of 'Aa3'. The outlook is stable. The rating action reflects ANZ's highly profitable retail banking franchise, low bad debt metrics and strengthening capital position. However, earnings growth for ANZ is under pressure due to weakness in its net interest margin. Fitch has affirmed Australia's State of Queensland's (Queensland) and Queensland Treasury's (QTC) issuer default ratings at 'AA', while revising the outlooks of both entities to positive from stable. The rating action on Queensland reflects its improving direct debt position, sound liquidity and debt management policies, while QTC's ratings are credit linked to that of Queensland due to the state's statutory guarantee for all its liabilities. Fitch has affirmed PLDT Inc's (PLDT) issuer default rating at 'BBB', while revising the outlook to stable from negative. The rating action reflects PLDT's commitment towards deleveraging as seen from its divestment of non-core assets. However, the rating action is capped at Philippines' country ceiling of 'BBB'. Fitch has assigned PT Medco Energy Internasional Tbk's (Medco) senior unsecured unsubordinated notes a rating of 'B'. The rating action reflects Medco's profile as a small upstream oil and gas producer as well as the fact that it is working on a number of measures to reduce leverage.

Credit Headlines:

Bank of China Ltd ("BOC"): BOC reported its 1H2017 results yesterday with profit before tax up 8.3% y/y to RMB140.4bn. This was entirely driven by a 46.0% fall in impairment losses on assets as y/y growth in net interest income of 6.6% (higher loans mitigated weaker net interest margins ("NIMs") y/y with 1H2017 NIM of 1.84% against 1H2016 NIM of 1.9%) was overshadowed by non-interest income falling 22.7% y/y (due to inclusion of gain on disposal of Nanyang Commercial Bank, Limited in 1H2016). This dragged down operating income by 5.4% y/y to RMB248.4bn for 1H2017. A 2.3% fall in operating expenses partially mitigated the weaker operating income and translated to a cost to income ratio of 25.4% for 1H2017, marginally higher than 24.25% for 1H2016 due to the lower operating income. Segment wise, personal banking continues to support operating income performance and was up 4.4% y/y for 1H2017 while Treasury Operations improved by 27.4% y/y. As mentioned above, loans grew 7.0% h/h and 10.4% y/y to support the bank's further alignment with key government policies including the 'Belt and Road Initiative' and progress in its internationalization strategy. This saw foreign currency loans grow 11.7% h/h while RMB denominated loans grew 6.1% h/h. Loan quality trends appear to be stabilizing with non-performing loans rising only 0.7% h/h and combined with the higher h/h loan growth, the non-performing loan ratio declined to 1.38% as at 30 Jun 2017 against 1.46% as at 31 Dec 2016. BOC in-turn reduced its impairment provisions and together with management's stated "strengthened credit asset quality management and enhanced country risk management", the Group's allowance for loan impairment losses fell RMB13.6bn to RMB224.2bn and the allowance coverage ratio declined h/h to 152.5% from 162.8%. BOC's capital ratios weakened h/h with CET1/CAR ratios falling to 10.9%/13.4% in 2Q2017 (FY2016: 11.4%/14.3%) as growth in capital was lower than growth in risk weighted assets. We maintain our Neutral issuer profile rating for now as we continue to look through the results. (Company, OCBC)

Sembcorp Industries Ltd ("SCI"): SCI has announce that its wholly-owned subsidiary, Sembcorp Utilities, has entered into an agreement to acquire IDFC Private Equity Fund III's ("IDFC") remaining stake in Sembcorp Green Infra ("SGI") for INR 1,410 Crores (approximately SGD301mn). SGI is involved in the renewables sector in India. SCI previously owned 70.38% of SGI as of 7 Jun 2017, which was increased to 72% on 17 Aug. The net profits attributable to the assets acquired from this arrangement contributes approximately 2.6% of the group's profit before taxes and minority interest for 1H2017. Management did state that the acquisition will be funded through internal funds and borrowings, although we do note that the transaction is well covered by SCI's cash on hand of SGD2.0bn. The deal is expected to be completed in 1Q2018. (Company, OCBC)

Credit Headlines (Cont'd):

Malayan Banking Berhad ("Maybank"): Maybank reported its 2Q2017 and 1H2017 results. Total operating income grew 9.6% y/y for 2Q2017 to MYR7.0bn due to broad based growth in net interest income (+5.5% y/y), income from Islamic Banking Scheme Operations (+15.3% y/y), and other operating income (+7.7% y/y due to better commissions, underwriting fees and investment income). Overhead expenses were up 6.5% y/y for 2Q2017 due to higher personnel expenses and administration and other expenses while allowances for impairment losses were down 29.2% y/y due mostly to lower specific allowances made and higher individual allowances written back. While this headline number indicates a better operating environment, it is worth noting that the q/q trend is not as supportive with allowances for impairment losses on loans, advances, financing and other debts up 53% q/q in 2Q2017 due to a material rise in individual allowances made. This dragged down overall operating profit for 2Q2017 compared to 1Q2017 which was 1.3% lower q/q at MYR2.2bn. Y/y however, Maybank's operating profit rose 41.5% due to strong operating income performance as well as the lower impairments. For 1H2017, total operating income improved 6.4% due to solid performance in net interest income (improved net interest margins y/y to 2.41% from 2.28% in 1H2016 from better funding sources) and Islamic Banking Operations while operating profits were up 27.8% as a result of lower y/y impairment losses for 1H2017. Segment-wise, Community Financial Services (Consumer Banking, SME Banking, Business Banking) continues to support the improved performance from higher net interest income and lower impairment losses while Corporate Banking and Global Markets performance continues to be somewhat depressed. Maybank's loan book grew 6.2% y/y but fell 1.3% q/q with strong y/y growth in housing loans, hire purchase receivables and revolving credits. Loans to these segments continued to grow q/q with the q/q fall in overall loans due to a decline in syndicated loans and other loans/financing and lower loans in Singapore and Indonesia (only loans in Malaysia grew meaningfully both y/y and q/q). Impaired loans rose 7.2% y/y due to higher new impairments in 2H2016 while impaired loans grew 6.3% q/q again due to a material rise in new impairments in 2Q2017 in Maybank's Singapore exposures and this drove our estimate of the ratio of impaired loans and advances to total net loans and advances to 1.75% as at 30 Jun 2017 from 1.62% as at 31 Mar 2017 and 1.53% as at 31 Dec 2016. Given the higher impaired loans, Maybank's reported loan loss coverage ratio weakened slightly y/y and q/q to 70.1% from 70.5% and 71.2% respectively for 2Q2016 and 1Q2017. Maybank's reported gross impaired loan ratio of 2.53% as at 30 Jun 2017 includes restructured and rescheduled loans as well as performing loans impaired due to judgmental/obligatory triggers. By geography, asset quality trends remain stable in Malaysia, continue to weaken in Singapore and remain elevated in Indonesia. Oil & gas continues to be a pain point for loan quality with a deterioration in the portfolio in 1H2017 with Maybank classifying 37% of oil and gas exposures as 'normal' (40% as at 31 Dec 2016) while 43% are on watchlist and 16% are classified as impaired (11% as at 31 Dec 2016). As mentioned above, Maybank's net interest income performance was supported by better funding sources with overall deposit growth of 1.0% y/y with lower cost savings and demand deposits growing 10.7% and 9.6% respectively while fixed deposits and negotiable instruments of deposit fell 3.2%. Maybank's capital ratios remain solid and well above minimum requirements with Maybank's CET1/CAR ratios before proposed dividend at 13.8%/19.2% for 2Q2017 (13.4%/18.9% for 1Q2017; 14%/19.3% for FY2016). Ratios improved q/q due to higher growth in capital from retained earnings than growth in risk weighted assets which were impacted by lower loan balances q/q. While Maybank's earnings generation continues to be robust, loan quality continues to be a concern given the bank's material exposure to oil and gas compared to domestic peers. That said, Maybank's strong market position in Malaysia positions the bank well to take advantage of improved operating conditions domestically. We maintain our Neutral Issuer Profile on Maybank. (Company, OCBC)

Credit Headlines (Cont'd):

Wing Tai Properties Ltd ("WTP"): WTP reported 1H2017 results. Revenue grew 16.6% y/y to HKD545.8mn, with profit from operations higher by 20.8% y/y to HKD480.9mn. Revenue growth was mainly due to property development which contributed HKD94.0mn in 1H2017 (1H2016: HKD26.4mn) through sales of the remaining units at The Warren and The Pierre. However, gross profit grew by a lower amount as property development is a lower margin contributor than property investment, which contributed HKD381.2mn revenue in 1H2017 (+4.2% y/y). Property investment remains the main contributor to gross profit (+8.8% y/y to HKD495.2mn), lifted by higher fair value gains of HKD230.6mn (1H2016: HKD183.8mn). However, without fair value gains, gross profits would have declined 2.5% y/y to HKD264.6mn. We are not worried as Landmark East, which is WTP's flagship property, recorded 12% upward reversion, with a small improvement in its occupancy to 94% (2016: 93%), with Winner Godown Building and Shui Hing Centre's occupancy held steady at 87% (2016: 86%). We think that the decline is likely due to W Square, with occupancy dipping to 94% (2016: 100%), and a bigger dip for its 3 wholly-owned UK properties with occupancy of 73% (2016: 94%). Net profit rose 50.1% y/y to HKD450.8mn mainly driven by the higher profit from operations and contribution from JVs of HKD41.8mn (1H2016: -HKD6.9mn), as more units in JV projects in Providence Bay, Providence Peak and Homantin Hillside were sold. Meanwhile, net gearing went down to 12.5% from 14.4% due to improved cash collections. Post the issuance of the SGD160mn perp, net gearing should decline further to 8.5%. WTP mentioned that the perpetual bond was said to further diversify funding sources and lengthen the funding profile. However, WTP mentioned that it is looking for opportunities to acquire strategic sites and properties for residential, commercial and hospitality developments, both domestically and abroad. Barring outsized acquisitions, we think net gearing is likely to remain contained going forward as WTP looks to complete the 35%-owned Le Cap and Le Vetta in 2H2017 and early 2018 respectively, with a combined GFA of 460,000 sq ft. WTP expects Landmark East to maintain rental rates and high occupancy going forward. We continue to hold WTP at a Positive Issuer Profile. (Company, OCBC)

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