Asian Credit Daily

May 8, 2017

Credit Headlines (Page 2 onwards): Suntec REIT, OUE Ltd., Westpac Banking Corporation

Market Commentary: The SGD swap curve traded upwards last Friday, with swap rates trading 1-3bps higher across all tenors. Flows in SGD corporates were heavy, with better buying seen in HPLSP 4.65%'49s, NTUCSP 3.65%'27s, better selling seen in MAPLSP 4.5%'49s, mixed interest in OUESP 3.75%'22s, BNP 4.3%'25s, BNP 3.65%'24s, UOBSP 3.5%'29s, SCISP 4.75%'49s, MAPLSP 5.13%'49s, MLTSP 4.18%'49s, ABNANV 4.75%'26s. In the broader dollar space, the spread on JACI IG corporates held steady at 195bps, while the yield on JACI HY corporates added 2bps to 6.63%. 10y UST yield changed little at 2.35% last Friday, after Treasuries prices fell when nonfarm payrolls increased more than forecast, followed by a rebound as attention turned to downward revisions to March data and am unexpected drop in y/y average hourly earnings.

New Issues: Huachen Energy Co. Ltd. scheduled investor meetings from 8 May for potential USD bond issuance. The expected issue ratings are 'NR/B2/NR'.

Rating Changes: Moody's upgraded Yingde Gases Group Company Limited's (Yingde Gases) corporate family rating to 'B3' from 'Caa1'. In addition, Moody's upgraded the senior unsecured rating on the bonds issued by Yingde Gases Investment Limited and guaranteed by Yingde Gases to 'Caa1' from 'Caa2'. The ratings have been placed on review for further upgrade. The rating action reflects Yingde Gases' reduced risk of default following its change of ownership and management control to PAG Asia II LP, an investment partnership managed by PAG Asia Capital Limited. Moody's assigned a first-time '(P)B1' corporate family rating and '(P)B2' senior unsecured rating to the proposed bond issued by Huachen Energy Co. Ltd. (Huachen) The rating action reflects Huachen's solid market positions in the power generation sector in Zhangjiagang in Jiangsu Province and Zhengzhou in Henan Province; and its competitiveness due to its high operating efficiency.

Table 1: Key Financial Indicators

	8-May	1W chg (bps)	1M chg (bps)		8-May	1W chg	1M chg
iTraxx Asiax IG	92	-1	-4	Brent Crude Spot ($/bbl)	49.75	-3.44%	-9.94%
iTraxx SovX APAC	21	-1	0	Gold Spot ($/oz)	1,231.05	-2.03%	-1.88%
iTraxx Japan	43	0	-1	CRB	177.92	-2.09%	-4.91%
iTraxx Australia	82	0	-3	GSCI	371.39	-2.69%	-6.02%
CDX NA IG	62	-1	-3	VIX	10.57	-2.31%	-17.87%
CDX NA HY	108	0	0	CT10 (bp)	2.358%	3.98	-2.44
iTraxx Eur Main	64	-3	-12	USD Swap Spread 10Y (bp)	-6	-2	-2
iTraxx Eur XO	256	-10	-34	USD Swap Spread 30Y (bp)	-45	0	-6
iTraxx Eur Snr Fin	69	-5	-23	TED Spread (bp)	30	-8	-6
iTraxx Sovx WE	7	-2	-5	US Libor-OIS Spread (bp)	15	-3	-6
iTraxx Sovx CEEMEA	47	1	-6	Euro Libor-OIS Spread (bp)	3	2	1
					8-May	1W chg	1M chg
				AUD/USD	0.740	-1.74%	-1.41%
				USD/CHF	0.989	0.72%	1.97%
				EUR/USD	1.098	0.72%	3.60%
				USD/SGD	1.405	-0.56%	0.02%
Korea 5Y CDS	58	--	5	DJIA	21,007	0.32%	1.70%
China 5Y CDS	81	0	-3	SPX	2,399	0.63%	1.86%
Malaysia 5Y CDS	108	0	-2	MSCI Asiax	595	0.07%	1.84%
Philippines 5Y CDS	79	-1	-4	HSI	24,505	-0.78%	0.98%
Indonesia 5Y CDS	126	0	-5	STI	3,233	1.80%	1.75%
Thailand 5Y CDS	57	0	3	KLCI	1,766	-0.14%	1.37%
				JCI	5,718	0.58%	1.14%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
5-May-17	Bank of China Ltd. (Singapore Branch)	"A/A1/A"	USD600mn	3-year	3mL+77bps
4-May-17	Democratic Socialist Republic of Sri Lanka	"B+/B1/B+"	USD1.5bn	10-year	6.20%
27-Apr-17	China Southern Power Grid International Finance (BVI) Co. Ltd.	Not Rated	USD900mn	10-year	CT10+130bps
27-Apr-17	SOCAM Development Ltd.	Not Rated	USD200mn	3-year	6.25%
27-Apr-17	China Minsheng Banking Corp. Ltd. (Hong Kong Branch)	"BBB/NR/NR"	USD500mn	3-year	CT3+115bps
27-Apr-17	Suncorp-Metway Ltd.	"NR/A1/A+"	USD500mn	5-year	CT5+100bps
27-Apr-17	Heeton Holdings Limited	Not Rated	SGD75mn	3-year	6.1%
26-Apr-17	Hotel Properties Ltd.	Not Rated	SGD150mn	Perp NC5	4.65%
27-Apr-17	China Southern Power Grid International Finance (BVI) Co. Ltd.	Not Rated	USD600mn	5-year	CT5+100bps

Source: OCBC, Bloomberg

Credit Headlines:

Suntec REIT ("SUN"): SUN has announced that it has entered into a SGD600mn facility agreement with various banks to refinance part of its outstanding borrowings. As mentioned previously (refer to OCBC Asian Credit Daily - 13 Apr 2017), due to the acquisition of ARA Asset Management (parent of SUN's REIT manager), a change of control ("CoC") event has occurred effective 12/04/17, impacting SUN's SGD300mn in convertible bonds (the SUNSP'21s). As a result, it is possible that the noteholders of SUNSP'21s would exercise their option and put the entire SGD300mn worth of bonds back to SUN. As such, we believe that the new credit facility entered could be used to refinance the redemption of SUNSP'21. We note as well that for FY2018, SUN last reported SGD1.15bn in debt maturing, which could be met in part by the new facility. We currently hold SUN on Neutral Issuer Profile. (Company, OCBC)

OUE Ltd. ("OUE"): OUE reported 1Q2017 results. Revenue jumped 60.3% y/y to SGD196.3mn. Like for 2016, the strong results were driven by development properties income, which jumped to SGD72.6mn, compared to just SGD4.7mn in 1Q2016. This was largely driven by the sale of units at the Twin Peaks condo, with 411 units sold (out of 462 units) as of end-1Q2017, with OUE moving 63 units during the quarter. What's interesting though, is that OUE actually decided to transfer 22 units of Twin Peaks (out of the balance units) from development properties to investment properties, to be held for capital appreciation. As a reminder, the Twin Peaks condominium would have started facing QC extension charges (8% for 1st year for pro-rata land cost) for units left unsold by February 2017. As a reminder, revenue derived from units sold under Twin Peaks deferred payment scheme will only be recognized upon completion, which can take up to 2 years. Investment properties income increased 5.8% y/y to SGD68.0mn, due to better performance of OUE's investment properties. Specifically, OUE-CT (which is consolidated into OUE) saw revenue increase 4.4% y/y to SGD44.8mn, helped by increases in portfolio committed occupancy (currently at 95.8%). Hospitality income increased slightly by 0.5% y/y to SGD51.9mn, with lower room sales recorded by Mandarin Orchard (OUE operates the asset via management agreements with OUE-HT) mitigated by the enlarged room inventory at the Crowne Plaza Changi Airport (due to the expansion). Strong revenue drove gross profit 13.6% higher y/y to SGD61.7mn. However, SG&A expenses surged to SGD33.6mn (1Q2016: 15.3mn), driven by higher sales commission on Twin Peaks units sold, transaction costs occurred when the 22 units of Twin Peaks were transferred to investment properties, as well as transaction costs relating to the acquisition of International Healthway Corp ("IHC"), which became a subsidiary of OUE on 02/03/17. As such, operating income fell 38.3% y/y to SGD22.0mn. Results from associates also fell 69.8% y/y to SGD10.0mn (lacking the negative goodwill generated on acquisition of additional interest in Gemdale Properties during 1Q2016). In aggregate though, profit after tax was up 38.8% y/y to SGD21.2mn, aided by lower finance expense (-23.9% y/y to SGD31.8mn). Cash flow from operations (CFO) (including interest service) was fair at SGD42.2mn (1Q2016: -SGD35.8mn), of which OUE generated SGD65.7mn from development properties. Investing cash flow was dominated by SGD83.7mn spent on the IHC acquisition, SGD40.1mn spent largely on transferring the 22 units of Twin Peaks into investment properties, and SGD28.6mn inflows from the disposal of the entire equity interest in OCZ Holdings (JV focused on investment into integrated resort in South Korea). Total borrowings increased SGD248.7mn y/y, largely due to the consolidation of IHC. This was mitigated by the SGD150mn equity private placement by OUE-CT (which OUE did not participate in), which will be used to deleverage OUE-CT. As such, net gearing worsened slightly q/q to 60% (4Q2016: 57%). We are currently reviewing OUE's Neutral Issuer Profile to consider the impact of the IHC acquisition, as well as the recent partial redemptions of IHC's bonds and will update if necessary. (Company, OCBC)

Credit Headlines (cont'd):

Westpac Banking Corporation ("WBC"): WBC released its 1HFY2017 results with cash net operating income up 2% h/h and 1% y/y respectively to AUD10.7bn. Loan growth in Consumer Bank along with strong markets-related performance in Institutional Bank mitigated further net interest margin compression (1HFY2017: 2.07% against 2.14% for 1HFY2016). This translated to stable net interest income h/h. NIMs were impacted by low lending rates along with higher deposit and funding costs from lengthening the bank's liability maturity profile. In contrast, non-interest income grew 6% h/h from a 39% rise in trading income. Operating expenses were more or less contained as higher personnel, technology and compliance costs were offset by productivity benefits and reduced professional and processing services costs, resulting in the cost to income ratio improving to 41.7% for 1HFY2017 (42.3% for 2HFY2016). Impairment charges rose 8% h/h as a 42% h/h rise in new individually assessed provisions for mining and manufacturing customers were offset by higher write backs from Westpac New Zealand and recoveries. The higher net operating income allowed operating profit before income tax to rise 2% h/h to AUD5.8bn. In terms of segment performance, Consumer Bank continues to be resilient with cash earnings up 5% y/y due to balance sheet growth but down 2% h/h (ongoing domestic market competition, a slowdown in lending growth due to tighter lending standards, higher impairments) while strong improvement in Institutional Bank (higher business activity, improved markets income, lower impairments) resulted in cash earnings up 34% y/y and 20% h/h respectively. Business Bank earnings were up 3% y/y and 1% h/h respectively on improved fee income, improved efficiency and run off in low return segments while BT Financial Group performance was lower by 11% y/y and 5% h/h from higher general insurance claims, lower advice income and higher migration and compliance costs. Westpac NZ earnings were up 2% y/y and 6% h/h from lending growth which offset competition-driven margin compression. WBC's balance sheet strength has improved in our view. As mentioned previously, overall loans growth assisted results with Consumer Bank loans growth (mortgages up 6% y/y and 2% h/h) and Business Bank loans growth (SMEs in professional services and health) translating to overall Australian lending up 4% y/y and 1% h/h. New Zealand loans also rose 7% y/y and 2% h/h due to mortgage growth while Institutional Bank loans fell 5% through reduction of low return and underutilized facilities and limits. According to management, overall lending growth was focused on higher value consumer and business relationships while lower return loans including commercial property and asset finance fell. Deposit growth was higher than overall loan growth and this resulted in a lower loan to deposit ratio (137.8% for 1HFY2017 against 138.7% for 2H2016 and 140.5% for 1H2016). Impaired assets reduced due to the work-out of larger exposures in Institutional Bank and in New Zealand (ratio of gross impaired assets to gross loans fell 2bps h/h and 9bps y/y respectively to 0.30%), and combined with the h/h rise in impairment charges, the ratio of gross impaired asset provisions to gross impaired assets rose to 52.1% for 1HFY2017 against 49.4% for 2HFY2016 and 47.6% for 1HFY2016. WBC's capital position remains strong with 1HFY2017 APRA compliant CET1 capital ratio at 10.0%, compared to 9.5% for 2HFY2016 and well above the bank's target CET1 ratio range of 8.75%- 9.25%. Based on international Basel III standards, WBC's CET1 ratio remains strong at 15.3% as at 31 March 2017 (14.4% in 2HFY2016). Capital ratios benefited from a 4% h/h rise in common equity Tier 1 capital from solid cash earnings as well as a 1% fall in risk weighted assets from reduced corporate exposures and lower mark-to-market related credit risk. WBC's results appear consistent with recent peer results with net interest income pressure mitigated by other business segments. Overall credit metrics appear solid compared to peers considering WBC's relatively better business risk from its stronger franchise in consumer banking. While we expect earnings to remain resilient, WBC could be more exposed to any negative developments in Australia's housing sector. At best, we expect growth to remain constrained from regulatory pressure to reduce risks in Australia's housing market. We maintain our Neutral issuer profile rating on WBC. (Company, OCBC)

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