Asian Credit Daily

Nov 1, 2018

Credit Headlines: National Australia Bank Ltd, Ascott Residence Trust, Ascendas Hospitality Trust, Standard Chartered PLC, Frasers Property Ltd, Suntec Real Estate Investment Trust, Hyflux Ltd

Market Commentary

- The SGD swap curve steepened yesterday, with the swap rates for the shorter tenors trading 2-3bps higher while the longer tenors traded 3-5bps higher (with the exception of the 20-year swap rates trading 2bps higher).
- Flows in SGD corporates were heavy yesterday, with better buying seen in SIASP 3.16%'23s and better selling seen in HSBC 5.0%-PERPs.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS was unchanged at 149bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 4bps to 567bps.
- Overall, 10Y UST yields rose 3bps to close at 3.15% on the back of better-than-expected ADP employment data as well as a stronger stock market.

Credit Headlines:

National Australia Bank Ltd ("NAB") | Issuer Profile: Positive (2)

- NAB announced its FY2018 results with cash earnings down 14.2% y/y to AUD5.70bn due to the impact of restructuring related costs and customer remediation charges. Excluding these, underlying cash earnings were down 2.2% y/y to AUD6.49bn.
- Driving underlying performance was a 6.4% y/y rise in operating expenses (higher investment spend, staff costs and Royal Commission costs, offset by productivity savings) and lower Markets & Treasury income which overshadowed underlying revenue growth of 1.8% y/y due to growth in housing and business lending and weaker group net interest margins at 1.84% (1.88% in FY2017). The growth rate in expenses is in line with the bank's expectation of 5-8% expense growth as part of its strategic plan with forecast investment spending to remain elevated in FY2019 before falling in FY2020.
- Impairment charges fell 3.8% y/y amidst stable asset quality with the ratio of 90+days past due and gross impaired assets to gross loans and acceptance ratio stable broadly at 0.71%. Watch loans as a percentage of gross loans and acceptances was also broadly stable at 1.20% while new impaired asset formation moderated in FY2018.
- As previously mentioned by NAB, additional costs for customer remediation matters and regulatory compliance impacted results materially. These comprised AUD755mn for restructuring (mainly due to workforce reductions) and AUD360mn for customer-related remediation (refunds and compensation in NAB's Wealth business). Including these in operating expenses inflates expense growth to 17.8% y/y.
- Underlying division performance showed some divergence y/y with Consumer Banking & Wealth cash earnings (22% of total underlying cash earnings) down 5.8% y/y due to weaker margins in housing from competition and shifts in the product mix as well as higher investment spend. Corporate & Institutional Banking (22% of total underlying cash earnings) was stable y/y as lower markets activity and higher investment spend was mitigated by higher non-markets revenue and lower credit impairments. New Zealand Banking (14% of total underlying cash earnings) cash earnings rose 6.7% y/y due to higher margins and volumes. However, the key driver of overall performance continues to be NAB's Business & Private Banking division (42% of total underlying cash earnings), in particular its small to medium enterprise business which benefited from higher volumes and margins.
- Capital ratios improved with the APRA CET1 ratio at 10.20% as at 30 Sept 2018, up 14bps y/y as cash earnings compensated for dividend payments and growth in risk weighted assets. On an internationally comparable basis, the CET1 ratio improved to 14.6% from 14.5% over the same period. NAB's capital ratios continue to lag peers with its CET1 ratio still below APRA's minimum 10.5% CET1 benchmark for 'unquestionably strong' capital ratios in Australia's banking sector (comes into force January 2020). (OCBC, Company)

OCBC Bank

Credit Headlines (cont'd):

Ascott Residence Trust ("ART") | Issuer Profile: Neutral (4)

- ART announced its 3Q2018 results. Gross revenue increased 6.0% y/y to SGD134.5mn on the back of additional revenue from the acquisition of Ascott Orchard Singapore (October 2017) and DoubleTree by Hilton Hotel New York Times Square South (August 2017) and higher revenue from existing properties (SGD3.6mn contribution). This was partly offset by decrease in revenues from divested properties (two China properties in January 2018). Reported gross profit performed stronger at 9.2% y/y led by Singapore, Japan and the USA.
- EBITDA (based on our calculation which does not include other income and other expenses) was though only up 8.6% y/y driven by a 11.6% y/y increase in management fees from enlarged asset base. Finance costs was up 5.9% y/y to SGD12.0mn as ART had taken more debt to fund acquisitions. Average debt balance was SGD1.9bn in 3Q2018 against only SGD1.6bn in 3Q2017. Resultant EBITDA/Interest though was manageable at 4.4x (3Q2017: 4.3x). Outstanding perpetuals was SGD401.9mn as at 30 September 2018, representing 8% of total capital. Assuming ART pays out SGD19.2mn p.a in distribution for perpetual per annum, we find EBITDA/Interest plus 50% perpetual distribution at 3.7x in 3Q2018.
- As at 30 September 2018, aggregate leverage had risen to 36.4% (30 June 2018: 35.7%). Including 50% of perpetual as debt, we find adjusted aggregate leverage at 40%, relatively high versus other REITs we cover.
- Shorter term debt was SGD240.0mn, making up only 13% of total debt and manageable in our view.
- In September 2018, ART announced its first development in Singapore – a co-living property in one-north with a total development cost (including land cost) for SGD117mn, which is intended to be fully funded by debt. This may increase aggregate leverage to ~38%. (Company, OCBC)

Ascendas Hospitality Trust ("ASCHT") | Issuer Profile: Neutral (4)

- ASCHT reported its second quarter financial results for FY2019 ("2QFY2019"). ASCHT had divested its China portfolio on 18 May 2018 and had reported this as part of discontinued operations in its financials. Taking into account of contribution from the China Portfolio (ie: on a same-store basis), gross revenue was 11.9% y/y lower at SGD46.4mn while net property income ("NPI") is declined by 7.5% y/y to SGD20.5mn. The decline in NPI was driven by lower contribution from Australia (down SGD2.6mn or 19.9% y/y), exacerbated by unfavourable FX movement in AUD.
- Occupancy rate in its Australia properties dipped to 85.8% from 87.6%, revenue per available room ("RevPAR") was also lower by 4.7% y/y. In the near term, the soft market conditions in Australia are expected to persist due to higher supply.
- For the Japan portfolio, NPI was down 1.6% y/y due to the earthquake and typhoon which occurred in Osaka during the quarter, largely affecting Sunroute Namba. ASCHT has also completed the acquisition of 2 of out 3 WBF Hotels on 28 September 2018. Acquisition of the third hotel is expected to be completed by January 2019.
- Aggregate leverage has reverted back to 30.8% (1QFY2019: 23.7%, 4QFY2018: 30.8%) largely due to the drawdown of JPY7.52bn to fund the acquisitions in Osaka. Reported interest cover was somewhat stronger at 5.3x, up from 5.3x in 1QFY2019 as weighted interest rates continued to fall to 1.9% from 2.4% in 1QFY2019 (2.9% a year ago). Refinancing risk remains low as ASCHT has sufficient cash on hand to offset the maturing bank loan in the short term of SGD15mn.
- Additionally, ASCHT announced a new CFO, Woo Yeng Yeng, 42 as of 1st November 2018. She has a background in audit, account and finance-related work and was previously the CFO of Singbridge and its subsidiaries (OCBC, Company).

Credit Headlines (cont'd):

Standard Chartered PLC ("StanChart") | Issuer Profile: Neutral (4)

- StanChart released its interim management statement for the period ended 30 Sept 2018 with underlying profit before tax for 9M2018 up 25% y/y to USD3.43bn. This was driven by a 10% y/y rise in net interest income (5bps y/y improvement in net interest margin to 1.58%) and a 56% fall in credit impairment charges from portfolio rebalancing. This mitigated a 5% rise in operating expenses due to higher investment spend and digitization. Including restructuring costs and other items (which combined together improved 92% y/y from lower restructuring costs), statutory profit before tax improved 35% to USD3.41bn.
- All business segments reported y/y growth in operating income with highest y/y growth in Retail Banking (+7% y/y) from better performance in Hong Kong and Singapore deposit business which offset lower mortgage and auto income and wealth management related income. Corporate & Institutional Banking growth was also solid, up 5% y/y due to transaction banking and improved deal activity in Corporate Finance which offset margin compression in Corporate Finance and lower client activity in Financial Markets.
- By geography, all regions except Africa and Middle East saw improved operating income, in particular in Greater China and North Asia and ASEAN and South Asia (mostly Singapore) which grew 11% and 4% y/y respectively.
- Loans and advances for ongoing business fell 1.5% since 30 June 2018 while credit quality appears to be managed with gross credit impaired loans down 4.7% due to debt sales, write offs, repayments and lower impaired loan origination. The liquidation portfolio also continues to reduce in line with management actions to exit these exposures.
- As a result of the fall in loans and advances as well as active loan portfolio repositioning, credit risk weighted assets fell q/q. Market risk weighted assets also fell from lower stressed value at risk and together with earnings generation, StanChart's CET1 ratio improved 28 bps to 14.5% from 14.2% as at 30 June 2018. This remains above StanChart's minimum 2019 CET1 requirement of 10.0%.
- While Stanchart's results are constructive, exposure to potential litigation charges and StanChart's ongoing focus on emerging markets (which raises its business risk in our view) are factored into our Neutral (4) issuer profile. (OCBC, Company)

Frasers Property Ltd ("FPL") | Issuer Profile: Neutral (4)

- FPL divested a freehold logistics property located at Mandeveld 12 in Meppel, the Netherlands for EUR24.8mn (SGD39.0mn) to its 15.4%-owned Frasers Logistics & Industrial Trust ("FLT").
- This is not expected to have a material impact on FPL's credit profile given the small transaction size in relation to its total assets of SGD31.7bn. That said, this is an affirmation that FPL's REITs continue to provide an avenue for capital recycling. (Company, OCBC)

Suntec Real Estate Investment Trust ("SUN") | Issuer Profile: Neutral (4)

- SUN announced that Chong Kee Hiong, 52 will succeed Mr Chan Kong Leong as the CEO with effect from 1st Jan 2019. He was previously the CEO of OUE Hospitality and Ascott Residence Trust. (Company)

Credit Headlines (cont'd):

Hyflux Ltd ("HYF") | Issuer Profile: Unrated

- In an interim creditors' update on 31 October 2018, the company shared that it, along with four of its subsidiaries, may apply for an extension of the existing moratorium. In relation to a proposed debtor-in-possession financing, the company would be making an application to the court for such loan to be secured by certain assets of the group.
- Reportedly an application for a four month extension is being contemplated (ie: until April 2019). Following the announcement that the company has entered into a Restructuring Agreement with SM Investments (owned by Indonesia-based Salim Group and Medco Group), the company intends for Tuaspring to continue as part of the group. As such, the company would continue to negotiate with Maybank as to how this can be achieved.
- In our view, this means that the company is no longer intending to sell Tuaspring and would need to seek Maybank's agreement on this, given Maybank is the sole secured lender on Tuaspring who has legal rights to foreclose the asset. As a recap, as part of Maybank's forbearance, it had extended the deadline until 29 October 2018 for the company to find a bidder for Tuaspring. As yet, there is still no announcement as to Maybank's decision. (Company, Channel News Asia, OCBC)

Table 1: Key Financial Indicators

	1-Nov	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	91	1	12
iTraxx SovX APAC	10	0	2
iTraxx Japan	62	-1	8
iTraxx Australia	82	0	8
CDX NA IG	68	-1	10
CDX NA HY	105	0	-2
iTraxx Eur Main	74	-1	7
iTraxx Eur XO	298	-2	26
iTraxx Eur Snr Fin	92	-3	7
iTraxx Sovx WE	27	0	2
AUD/USD	0.708	0.03%	-1.97%
EUR/USD	1.132	-0.52%	-2.26%
USD/SGD	1.386	-0.33%	-1.01%
China 5Y CDS	72	2	17
Malaysia 5Y CDS	112	4	20
Indonesia 5Y CDS	158	5	29
Thailand 5Y CDS	44	1	4

	1-Nov	1W chg	1M chg
Brent Crude Spot ($/bbl)	74.67	-2.89%	-12.13%
Gold Spot ($/oz)	1,216.66	-1.26%	2.33%
CRB	190.97	-1.80%	-3.45%
GSCI	456.32	-1.64%	-8.01%
VIX	21.23	-15.85%	76.92%
CT10 (bp)	3.151%	3.44	6.75
USD Swap Spread 10Y (bp)	7	0	1
USD Swap Spread 30Y (bp)	-11	-1	-3
TED Spread (bp)	22	4	2
US Libor-OIS Spread (bp)	24	2	6
Euro Libor-OIS Spread (bp)	4	0	0
DJIA	25,116	2.17%	-5.76%
SPX	2,712	2.09%	-7.28%
MSCI Asiax	584	0.73%	-10.81%
HSI	24,980	-1.07%	-10.11%
STI	3,019	-0.44%	-7.27%
KLCI	1,709	1.14%	-4.64%
JCI	5,832	2.14%	-1.90%

New issues

- PT Pertamina (Persero) has priced a USD750mn 30-year bond at 6.65%, tightening from its initial price guidance of 6.75%.
- REC Limited has priced a USD700mn 5-year bond at CT5+240bps, tightening from its initial price guidance of CT5+250bps area.
- Agricultural Bank of China Ltd Hong Kong Branch has priced a USD800mn deal across two tranches with the USD500mn 3-year FRN at 3mL+74bps, tightening from its initial price guidance of 3mL+100bps area and the USD300mn 5-year FRN at 3mL+85bps, tightening from its initial price guidance of 3mL+110bps area.
- Bluestar Finance Holdings Ltd has priced a USD300mn Senior PerpNC3 (guaranteed by China National Bluestar (Group) Co Ltd) at 6.375%, tightening from its initial price guidance of 6.5%.
- Guohui International (BVI) Co Ltd has priced a USD600mn 363-Day bond (guaranteed by Shandong Guohui Investment Co Ltd) at 5.7%, in line with the initial price guidance.
- CFLD (Cayman) Investment Ltd has priced a USD100mn re-rap of its CHFOTN 9.0%'21s (guaranteed by China Fortune Land Development Co Ltd) at 9.0%.
- Mirae Asset Daewoo Co Ltd has priced a USD300mn 3-year bond at CT3+135bps, tightening from its initial price guidance of CT3+145bps area.
- Shanghai Commercial & Savings Bank Ltd has scheduled for investor meetings from 2 Nov for its potential USD Tier 2 bond issuance.

Date	Issuer	Size	Tenor	Pricing
31-Oct-18	PT Pertamina (Persero)	USD750mn	30-year	6.65%
31-Oct-18	REC Limited	USD700mn	5-year	CT5+240bps
31-Oct-18	Agricultural Bank of China Ltd Hong Kong Branch	USD500mn	3-year	3mL+74bps
31-Oct-18	Agricultural Bank of China Ltd Hong Kong Branch	USD300mn	5-year	3mL+85bps
31-Oct-18	Bluestar Finance Holdings Ltd	USD300mn	PerpNC3	6.375%
31-Oct-18	Guohui International (BVI) Co Ltd	USD600mn	363-Day	5.7%
31-Oct-18	CFLD (Cayman) Investment Ltd	USD100mn	CHFOTN 9.0%'21s	9.0%
31-Oct-18	Mirae Asset Daewoo Co Ltd	USD300mn	3-year	CT3+135bps
30-Oct-18	Scenery Journey Ltd	USD565mn	2-year	11.0%
30-Oct-18	Scenery Journey Ltd	USD645mn	4NC2	13.0%
30-Oct-18	Scenery Journey Ltd	USD590mn	5NC3	13.75%
30-Oct-18	China CITIC Bank International Ltd	USD500mn	PerpNC5	7.1%
30-Oct-18	Soar Wise Ltd	USD350mn	3-year	CT3+175bps

Source: OCBC, Bloomberg

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