Asian Credit Daily

OCBC Bank

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Credit Headlines (Page 2 onwards): Ascendas Hospitality Trust, Soilbuild Business Space REIT, Singapore Post Ltd, Industry Outlook – Financial Institutions, ESR-REIT, Pacific Radiance Ltd, Ezion Holdings Ltd

Market Commentary: The SGD swap curve bear-steepened yesterday with swap rates trading 4-7bps higher across most tenors. Flows in SGD corporates were moderate yesterday. In the broader dollar space, the Bloomberg Barclays Asia USD IG Bond Index average OAS narrowed 1bps to 107bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS narrowed 2bps to 328bps. 10Y UST yields rose 8.5bps to 2.79%, after a hawkish Federal Reserve statement and a better than expected ISM Manufacturing data led to rising optimism over the strength of the global economy. Expectations that inflationary pressures were picking up was one of the reasons attributing to the bond sell-off in markets yesterday.

New Issues: China Cinda Finance (2017) I Ltd has priced a USD2.5bn deal (guaranteed by China Cinda Holdings Co Ltd, keepwell provider: China Cinda Asset Management Co Ltd) across four-tranches, with the USD800mn 5-year bond priced at CT5+140bps, tightening from its initial guidance of CT5+170bps area; the USD300mn 7-year bond priced at CT7+170bps, tightening from its initial guidance of CT7+200bps area; the USD1.2bn 10-year bond priced at CT10+200bps, tightening from its initial guidance of CT10+230bps and the USD200mn 3-year bond priced at 5.1%, tightening from its initial guidance of 5.3%. The expected issue ratings are 'A-/Baa1/A'. China Logistics Property Holdings Co Ltd has priced a USD100mn 362-day bond (guaranteed by certain restricted subsidiaries incorporated outside of the PRC) at 9%, in line with the initial guidance of 9%. New Metro Global Ltd has priced a USD300mn 364-day bond (guaranteed by Future Land Holdings Co Ltd) at 4.75%, tightening from initial guidance of 5.25%. Guorui Properties Ltd has hired banks for its potential USD bond issuance.

Rating Changes: Moody's has assigned a first-time 'Baa2' issuer rating to Hubei Science & Technology Investment Group Co Ltd (HSTIG). It has also assigned a 'Baa2' rating to HSTIG's senior

Table 1: Key Financial Indicators

	2-Feb	1W chg (bps)	1M chg (bps)		2-Feb	1W chg	1M chg
iTraxx Asiax IG	65	2	-2	Brent Crude Spot ($/bbl)	69.65	-1.09%	4.16%
iTraxx SovX APAC	11	1	-1	Gold Spot ($/oz)	1,347.36	-0.13%	2.26%
iTraxx Japan	43	0	-3	CRB	198.35	-0.50%	1.87%
iTraxx Australia	57	2	-1	GSCI	460.23	-0.14%	3.96%
CDX NA IG	48	2	-1	VIX	13.47	16.32%	37.87%
CDX NA HY	108	-1	0	CT10 (bp)	2.795%	13.54	33.20
iTraxx Eur Main	44	1	-2	USD Swap Spread 10Y (bp)	4	1	6
iTraxx Eur XO	240	8	6	USD Swap Spread 30Y (bp)	-12	2	10
iTraxx Eur Snr Fin	42	1	-2	TED Spread (bp)	33	0	1
iTraxx Sovx WE	18	-1	-4	US Libor-OIS Spread (bp)	24	0	-2
iTraxx Sovx CEEMEA	32	-1	0	Euro Libor-OIS Spread (bp)	1	-1	0
					2-Feb	1W chg	1M chg
				AUD/USD	0.803	-0.95%	2.59%
				USD/CHF	0.927	0.63%	4.87%
				EUR/USD	1.251	0.63%	3.70%
				USD/SGD	1.309	-0.11%	1.56%
Korea 5Y CDS	49	3	-4	DJIA	26,187	-0.78%	5.49%
China 5Y CDS	54	4	5	SPX	2,822	-0.61%	4.68%
Malaysia 5Y CDS	57	2	-1	MSCI Asiax	761	-1.92%	6.70%
Philippines 5Y CDS	59	3	0	HSI	32,642	-0.04%	6.97%
Indonesia 5Y CDS	81	2	-5	STI	3,547	-0.71%	3.41%
Thailand 5Y CDS	42	1	-4	KLCI	1,869	1.66%	3.99%
				JCI	6,598	-0.26%	4.09%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
1-Feb-18	New Metro Global Ltd	Not Rated	USD300mn	364-day	4.75%
1-Feb-18	China Logistics Property Holdings Co Ltd	Not rated	USD100mn	362-day	9%
1-Feb-18	China Cinda Finance (2017) I Ltd	'A-/Baa1/A'	USD200mn	3-year	5.1%
1-Feb-18	China Cinda Finance (2017) I Ltd	'A-/Baa1/A'	USD1.2bn	10-year	CT10+200bps
1-Feb-18	China Cinda Finance (2017) I Ltd	'A-/Baa1/A'	USD300mn	7-year	CT7+170bps
1-Feb-18	China Cinda Finance (2017) I Ltd	'A-/Baa1/A'	USD800mn	5-year	CT5+140bps
31-Jan-18	Zhongtai International Finance (BVI) Company Ltd	Not rated	USD200mn	364-day	4.1%
29-Jan-18	Yes Bank Ltd	'NR/Baa3/NR'	USD600mn	5-year	CT5+130bps
29-Jan-18	Poly Real Estate Finance Ltd	'BBB-/Baa3/BBB'	USD500mn	5-year	CT5+155bps
25-Jan-18	Roshine China Holdings Ltd	'NR/NR/B+'	USD325mn	3-year	9%

Source: OCBC, Bloomberg

Rating Changes (cont'd) : unsecured notes. The outlook is stable. The rating action reflects Moody's expectation that HSTIG will receive extraordinary support from Wuhan Municipal Government (Wuhan Government) in times of need. It also reflects HSTIG's important role in the development of the East Lake High-tech Zone, and HSTIG's close linkage with the Wuhan Government through the Wuhan East Lake High-tech Development Zone Administrative Committee. Moody's has placed Fujifilm Holding Corp's 'A1' rating on review for downgrade after the Xerox deal. The rating action reflects potential weakening of Fujifilm's business profile due to its large exposure to the declining document business.

Credit Headlines:

Ascendas Hospitality Trust ("ASCHTS"): ASCHTS announced its financial results for the nine months ending fiscal year March 2018 ("9MFY2018"). Gross revenue improved 1.8% y/y to SGD170.0mn. This was led by improvements in room revenue and food & beverage saw an improvement though partly offset by declines in other income (includes car park revenue, utilities and other miscellaneous income). Net property income ("NPI") saw a decline of 1.9% y/y to SGD72.0mn. Four items, namely staff costs, operations & maintenance and sales and marketing expenses and administrative and general expenses make up 75% of property expenses and we observed that collectively these have increased 4.0% y/y in 9MFY2018, which drove NPI lower despite the gross revenue improvements. EBITDA was down 2.2% y/y to SGD65.0mn though comfortingly finance costs was down 14.2% y/y to SGD11.7mn. This was chiefly due to decrease in borrowing rates. Resultant EBITDA/Interest was stronger at 5.6x in 9MFY2018 versus 4.9x in 9MFY2017. In terms of geographical segment, we saw NPI for Australia (ASCHTS' largest market) and Japan (second largest market) decline 3.9% y/y and 2.2% y/y respectively. While the Australia portfolio saw an improvement in RevPAR, the portfolio was negatively impacted by weaker conference and events business in Melbourne and higher taxes. Going forward, the company expects suburban Sydney hotels to faced challenges from increased competition while Melbourne's performance is likely to moderate with increase in supply. Two of ASCHTS' four Sydney hotels are located away from the city centre while the sole Melbourne hotel is located at the city fringe. Japan's underlying performance was healthy though the weaker JPY against SGD led to the decline in NPI. In 9MFY2018, the two China hotels contributed 9.3% to NPI. In December 2017, ASCHTS had expanded its investment mandate to include geographies beyond Asia, Australia and New Zealand (ie: ASCHTS can now invest globally). As at 31 December 2017, reported aggregate leverage was manageable at 33.2% while short term debt was SGD173.1mn (representing 32% of total debt). While this is high, there are no maturities in 2019 and we see the ability of ASCHTS to pay down this debt as manageable. On 30 January 2018, ASCHTS announced that it was proposing to sell both hotels at a combined valuation of RMB1.16bn (~SGD235.9mn), to be adjusted for working capital. Post sale, ASCHTS would no longer own China hotel assets and we expect the net proceeds to be used for repayment of existing debt, asset enhancements, future acquisitions, working capital and distribution to stapled security holders. We maintain ASCHTS' issuer profile at Neutral(4). (Company, OCBC)

Soilbuild Business Space REIT ("SBREIT"): The independent financial adviser ("IFA") to the independent directors of SBREIT has issued a circular to unitholders in relation to the proposed divestment of the KTL Offshore building to Sponsor. The IFA has opined that the independent directors can recommend that unitholders vote in favour of the transaction. On 28 December 2017, SBREIT first announced the proposed deal which is expected to unlock SGD55.0mn in cash to SBREIT. An extraordinary general meeting will be held on 21 February 2018 and the disposal is targeted to complete by 28 February 2018. We see the proposed sale of KTL Offshore building as a credit positive as this would help SBREIT generate liquidity to face its short term debt due. As at 31 December 2017, SBREIT faces SGD55.0mn in interest-free loan from the Sponsor and SGD93.5mn in bonds that would need to be repaid. We see manageable refinancing risk at SBREIT, albeit at higher cost of funding. This is in part driven by rising interest rates and changing industrial space sector dynamics where SBREIT's closest two peers are proposing to merge, leading to a more challenged outlook for other small-to-mid size industrial REITs such as SBREIT. (Company, OCBC)

Credit Headlines (cont'd) :

Singapore Post Ltd ("SPOST"): SPOST reported 3QFY2018 results for the quarter ending December 2017. 3QFY2018 revenue increased 11.7% y/y to SGD412.8mn, with growth at the Postal and eCommerce segments mitigating muted performance at the Logistics segment. Specifically, the postal segment revenue continued its strong growth and was up 15.8% y/y to SGD166.0mn, driven by the surge in international mail (+37.7% sales y/y) which offset the structural decline in domestic mail (-7.0% sales y/y). Similar to the previous quarters, the boost in international mail was partly attributed to higher volumes with the Alibaba Group (the Double Eleven event was the highlight of the quarter). However, as mentioned previously, due to the continued shift in product mix (domestic mail is more lucrative), though postal operating profit still managed to grow 4.0% y/y to SGD40.1mn, operating margins continued to compress to 24.2% (3QFY2017: 26.9%). Though this was stronger than the 23.6% operating margin seen in 2QFY2018, there may be some seasonal factors at play with stronger volumes seen in the 4th quarter of each year due to the festive season. The current revenue split between domestic and international mail is 39% / 61%. For the logistics segment, revenue was flattish at 1.5% to SGD173.9mn, driven by higher volumes due to last-mile deliveries in Singapore (SP Parcels) and Australia (Couriers Please), as well as higher freight forwarding volumes at Famous Holdings. Weakness persisted at Quantium Solutions with revenue declining 17.3% due to competitive pressures at its Hong Kong operations. Logistics segment operating profit declined 44.8% y/y to SGD4.9mn driven by increased line haul and handling costs as well as due to the slump at Quantium Solutions. This caused operating margin to weaken to 2.8% (3QFY2017: 5.2%). We continue to consider the Logistics segment to be challenged given the high costs associated with last-mile deliveries and increasing cost pressures for freight forwarding. It is assuring to finally see some growth at the eCommerce segment, with segment revenue up 19.7% y/y to SGD97.1mn. This was largely driven by performance at Jagged Peak, which saw revenue surge 43.9% y/y to SGD46.6mn due to strong volumes over the peak US shopping season. The haemorrhage at TradeGlobal also looked to have ceased with revenue up 2.3% y/y to SGD42.1mn (previous periods were affected by the loss of two key customers). The stronger revenue performance helped trimmed segment operating losses to SGD3.9mn (3QFY2017: SGD8.4mn operating loss). In aggregate, SPOST's operating profit (before exception items) margin improved to 11.0% (3QFY2017: 10.1%), largely driven by rental income from SingPost Centre retail mall (+SGD3.1mn of the +SGD7.8mn in operating profit improvement) coupled with the improvements seen across the core segments. For the quarter, SPOST generated SGD91.6mn in operating cash outflow (including interest service). We note, however, that the bulk of the cash generated was from the increase in trade payables (SGD68.8mn impact, historically seasonal factor, likely due to the peak volume from festive season) which should partly reverse in time (usually during 2Q of the fiscal year). Capex was SGD14.0mn hence free cash flow was strong at SGD77.6mn. SPOST had also used SGD15.6mn to pay dividends and buyback shares during the period as well as paid down SGD71.3mn in net debt. The cash gap was funded via selling financial assets (SGD1.6mn) and fixed assets (SGD8.7mn). This drove SPOST back to a net cash company, with SPOST holding SGD284.3mn in cash versus SGD235.3mn in total borrowings. Looking forward, though 3QFY2018 was undeniably a decent quarter, we continue to believe that SPOST would continuing to face structural pressures on its margins (given the shift away from the lucrative domestic postal business), and this would in turn pressure cash flow. As a reference, the Postal segment contributed 89% of operating profit (before exceptional items) for the quarter. As such, revenue growth has to be strong enough to offset the margin compression, in order for cash flow generation to stabilize or improve. We will continue to hold SPOST's Issuer Profile at Neutral (3), balancing SPOST's structural challenges versus its current strong balance sheet. (Company, OCBC)

Industry Outlook – Financial Institutions: Australia's regulator, the Australian Prudential Regulation Authority ('APRA'), released this week an information paper on APRA's policy priorities for 2018. Main priorities for the banking sector include a focus on capital prudential standards on different layers (which APRA does not expect to finalize until 2019 or later and should not impact the quantum of capital required), introduction of a minimum leverage ratio requirement at a level consistent with the existing Basel III framework (currently 3.0%), and consultation on the implementation of a framework for minimum loss-absorbing and recapitalization capacity (similar to total loss-absorbing capacity requirements in existence elsewhere). We will continue to monitor regulatory developments as they impact the Australian banks under our coverage (Westpac Banking Corporation ('WBC'), Australia & New Zealand Banking Group Ltd ('ANZ') and National Australia Bank Ltd('NAB')) (OCBC, APRA)

Credit Headlines (cont'd) :

ESR-REIT ("EREIT"): EREIT is holding an extraordinary general meeting ("EGM") for unitholders on 27 February 2018 to vote on certain matters, including amendment of its Trust Deed. Among the various limitations provided in the current trust deed: (1) Equity issuances (other than by way of a rights issue offered on a pro-rata basis to existing unitholders) in a financial year must not exceed 10% of the value of total assets (2) Where units are issued via private placement, these units cannot be issued at more than 5% discount to market price. Historically, these terms protect incumbent unitholders from dilution, though contractually it also reduces EREIT's financial flexibility to raise equity via private placements against its bond issuing peers. Per EREIT, the proposed changes would help reduce confusion, where requirements under the trust deed and the listing manual differs. Assuming unitholders approve the changes, we see this as a credit positive as this enhances EREIT's equity fundraising ability and bringing it more aligned with its other REIT peers. (Company, OCBC)

Pacific Radiance Ltd ("PACRA"): PACRA has formally commenced its consent solicitation exercise ("CSE") to restructure its PACRA 4.3% 2018 bonds. The terms are similar to the tentative terms disclosed during the 2nd informal noteholder's meeting (refer to OCBC Asian Credit Daily – 22 January 2018), with the key difference between the sweetening of the conversion ratio. Instead of SGD1 notional for 3 shares (or ~SGD0.333 per share), the ratio has been improved to SGD5 notional for 19 shares (or ~SGD0.263 per share). Given the current bid price of the shares of SGD0.116, this implies a haircut of ~56% on the notional (assuming that bondholders are able to liquidate their holdings at that price). Noteholders will hold ~35% of PACRA's shares post issuance, with the founding Pang family still retaining ~44% (based on ~68% existing shareholdings). As mentioned previously, we note, however, that in several other restructurings, such as those by Ezion Holdings, part of the restructuring includes a rights issue to build capital, which would be dilutive to shareholders (such as PACRA noteholders post the conversion). The CSE meeting is scheduled to be held on 26/02/18. We are reviewing the terms and will update according in the near future. (Company, OCBC)

Ezion Holdings Ltd ("EZI"): The Straits Times reported that Ezion will be redeeming its EZISP 3.65% 2020 notes (these are backed by a committed funding facility by DBS). There was previously contention over these bonds, with a bondholder arguing that with the cessation of trading of EZI's shares, the bondholder would have the right to request for early redemption of the EZISP 3.65% 2020, as per terms in the bond's issuance documentation (refer to OCBC Asian Credit Daily (26 Sep 2017)). Straits Times reported that the EZISP 3.65% 2020 bonds will be redeemed on 05/02/18, the same day that EZI is due to make coupon payment. (Straits Times)

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