Asian Credit Daily

January 2, 2018

Credit Headlines (Page 2 onwards): Australia and New Zealand Banking Group Ltd, Chip Eng Seng Corp Ltd, Lippo Malls Indonesia Retail Trust, Industry Outlook – Singapore Property, Keppel Corp, Soilbuild Business Space REIT, Industry Outlook - Financial Institutions

Market Commentary: The SGD swap curve bull-flattened last Friday, with swap curves trading 1-3bps lower across all tenors. Singapore markets were closed yesterday for the New Year's Day Holiday. We did not observe any flows in SGD corporates last Friday. In the broader dollar space, the spread on the Itraxx Asia ex-Japan traded little changed at 67bps last Friday. 10y UST yields ended the year at 2.41%. US markets were closed yesterday for the New Year's Day Holiday

New Issues: Intermedia Capital Tbk PT has published a prospectus stating that it plans to sell a USD300mn 5-year bond at max 10%. Toba Bara Sejahtra Tbk PT has published a statement stating that it plans to sell a USD250mn 5-year bond at max 10% yield.

Rating changes: Fitch has upgraded PT Penjaminan Infrastruktur Indonesia (Persero) and PT Sarana Multi Infrastruktur's (Persero) Issuer Default Ratings (IDRs) to 'BBB' from 'BBB-'. The outlook is stable. The rating action follows the upgrade of Indonesia long term IDR to 'BBB' from 'BBB-' as the ratings Penjaminan Infrastruktur Indonesia and Sarana Multi Infrastruktur are credit-linked and equalised to the sovereign rating of Indonesia.

Table 1: Key Financial Indicators

	2-Jan	1W chg (bps)	1M chg (bps)		2-Jan	1W chg	1M chg
iTraxx Asiax IG	67	-1	-6	Brent Crude Spot ($/bbl)	67.16	2.93%	5.38%
iTraxx SovX APAC	13	-1	-1	Gold Spot ($/oz)	1,306.57	1.83%	2.38%
iTraxx Japan	45	0	0	CRB	193.86	3.26%	1.67%
iTraxx Australia	58	-1	-5	GSCI	442.44	3.42%	3.02%
CDX NA IG	49	0	-4	VIX	11.04	14.76%	-3.41%
CDX NA HY	108	0	0	CT10 (bp)	2.405%	-7.56	4.39
iTraxx Eur Main	45	0	-3	USD Swap Spread 10Y (bp)	-1	1	-1
iTraxx Eur XO	233	3	4	USD Swap Spread 30Y (bp)	-20	3	0
iTraxx Eur Snr Fin	44	0	-3	TED Spread (bp)	32	-5	11
iTraxx Sovx WE	4		0	US Libor-OIS Spread (bp)	26	-1	14
iTraxx Sovx CEEMEA	33	-2	-13	Euro Libor-OIS Spread (bp)	-1	-2	-2
					2-Jan	**1W chg**	**1M chg**
				AUD/USD	0.782	1.20%	2.94%
				USD/CHF	0.974	1.53%	1.09%
				EUR/USD	1.201	1.28%	1.21%
				USD/SGD	1.335	0.64%	0.94%
Korea 5Y CDS	52	-1	-6	DJIA	24,719	-0.25%	2.01%
China 5Y CDS	50	-1	-6	SPX	2,674	-0.41%	1.19%
Malaysia 5Y CDS	58	-1	-5	MSCI Asiax	713	1.19%	2.73%
Philippines 5Y CDS	59	-1	-4	HSI	30,387	3.47%	4.51%
Indonesia 5Y CDS	85	-1	-8	STI	3,413	0.80%	-1.07%
Thailand 5Y CDS	46	0	-2	KLCI	1,773	0.76%	3.23%
				JCI	6,352	2.73%	6.72%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues (Last updated on 15 Dec)

Date	Issuer	Ratings	Size	Tenor	Pricing
15-Dec-17	CFLD (Cayman) Investment Ltd	Not Rated	USD500mn	3-year	6.5%
15-Dec-17	China Shandong International Economic & Technical Finance 1 Ltd	Not Rated	USD400mn	3-year	4%
15-Dec-17	Luso International Banking Ltd	Not Rated	USD250mn	10NC5.5	5.375%
13-Dec-17	Charming Light Investments Ltd	'NR/Baa1/A-'	USD750mn	3-year	3mL+115bps
13-Dec-17	Charming Light Investments Ltd	'NR/Baa1/A-'	USD1bn	10-year	CT10+205bps
13-Dec-17	Charming Light Investments Ltd	'NR/Baa1/A-'	USD250mn	Perp NC5	4.25%
13-Dec-17	Bank of Chongqing Co Ltd	Not Rated	USD750mn	Perp NC5	5.4%
13-Dec-17	Huzhou City Investment Development Group Co Ltd	'NR/NR/BBB-'	USD300mn	3-year	CT3+295bps
12-Dec-17	Yangzhou Urban Construction State-owned Assets Holding (Group) Co Ltd	'BBB/NR/BBB'	USD300mn	3-year	CT3+245bps

Source: OCBC, Bloomberg

Credit Headlines:

Australia and New Zealand Banking Group Ltd ("ANZ"): ANZ's business restructuring continued throughout the holiday period with ANZ announcing the completion of the sale of its 20% stake in Shanghai Rural Commercial Bank on 18th December. In the context of the bank's solid capital ratios (FY2017 CET1/CAR APRA compliant capital ratios of 10.6%/14.8%) against APRA's minimum 10.5% CET1 January 2020 benchmark for 'unquestionably strong' capital ratios, as well as other recent asset sales (refer to OCBC Asian Credit Daily – 12 December 2017), ANZ also announced concurrently a share buy-back of AUD1.5bn for capital management purposes. The asset sale and share buy-back will effectively cancel each other out, meaning CET1 ratios for ANZ will remain relatively unchanged according to management. In other news, ANZ's previously announced sale of UDC Finance (UDC) to HNA Group will no longer proceed as HNA Group's application to New Zealand's Overseas Investment Office was declined. According to ANZ, HNA Group has the opportunity to try and overturn the decision and the sales agreement remains in place until HNA Group decides whether to challenge the ruling. Until then, UDC will continue to operate as normal. ANZ further stated that this news does not impact the share buy-back. As previously mentioned (refer to OCBC Asian Credit Daily – 11 January 2017), this transaction would be marginally credit positive in our view given an expected 10bp benefit to ANZ's CET1 ratio without a material loss in earnings. That said, given ANZ's other asset sales and solid earnings in FY2017, the aforementioned events have not impacted our view of ANZ's Neutral Issuer Profile. (OCBC, Company)

Chip Eng Seng Corp Ltd ("CES"): CES announced a proposed investment of 60% effective stake in a real estate development project known as "Soai Kinh Lam Apartment – Commerce Center", located in Ho Chi Minh City, Vietnam. To carry out the investment, CES has provided Giai Loi Investment Joint Stock Co ("GL") a loan of VND423.1bn (SGD24.9mn) and intends to purchase a 75%-stake in GL, of which the indicative consideration is worth USD19.7mn (SGD26.3mn). GL holds 80% of the capital of Soai Kinh Lam Construction Investment Co Ltd, which holds the rights to develop and construction the development project. The site has a land area of 4,829 sqm and has an estimated total GFA of 50,000 sqm. We expect net gearing of CES to reach ~1.5x following this acquisition and purchase of the Woodleigh land parcel (refer to OCBC Asian Credit Daily – 12 Jul 2017), Grade A office building in New Zealand (refer to OCBC Asian Credit Daily – 4 Aug 2017), hotel in Adelaide (refer to OCBC Asian Credit Daily – 30 Nov 2017) and enbloc of Changi Garden Garden (refer to OCBC Asian Credit Daily – 17 Oct 2017). Although we project that net gearing will be elevated, we believe CES will benefit from the recovery in the Singapore property market to move more units at Grandeur Park while Fulcrum has been nearly fully sold. We are reviewing our Neutral issuer profile on CES, and will update as necessary. (Company, OCBC)

Lippo Malls Indonesia Retail Trust ("LMRT"): Moody's placed the Baa3 issuer rating of LMRT on review for downgrade on 21 Dec 2017. If downgraded, this would push LMRT below investment grade. This is due to the deteriorating credit quality of the Lippo Group, which comprise about one-third of LMRT's revenue. We are not overly worried as the majority of the tenants for LMRT continue to come from non-sponsor related entities. LMRT has also affirmed that it sees no reason to believe that the Lippo Group will not be able to fulfil their payment obligations to LMRT in the future. Further, with the high occupancy of the malls (>90% on average), we think any potential vacancy left by the sponsor in the worst case scenario would likely result in LMRT's occupancy approaching the industry average occupancy of 85%. In the near term, we note that the master leases signed with the sponsor-related entities 10Y ago will likely result in some negative rental reversion, though these master leases comprise <10% of the NPI. We continue to maintain that the main risks for LMRT is FX-related as its balance sheet is not hedged. In our view, further acquisitions that would push up aggregate leverage would compound the FX risks – we will continue to watch LMRT on this front. (Company, OCBC)

Industry Outlook – Singapore Property: According to URA's flash estimate, Singapore private home prices rose 0.7% q/q in 4Q2017, continuing the rise from 3Q2017 (also +0.7% q/q). (URA, Bloomberg)

Credit Headlines (Cont'd):

Keppel Corp ("KEP"): On 23/12/17, KEP had announced that its offshore marine subsidiary, Keppel Offshore & Marine ("KOM") had reached a global resolution with regards to corruption payments made by a former agent of KOM in Brazil. KOM will be paying USD422mn in fines in aggregate to the United States, Brazil and Singapore. The fines will be provisioned for in 4Q2017. For now, this is balanced against the announced divestment of Keppel China Marina Holdings for RMB2.9bn, for a divestment gain of ~SGD290mn, which would help mitigate the ~SGD570mn Brazil provision. It is estimated that this would cause pro-forma net gearing to inch higher to ~51%. We will continue to monitor the situation closely and will update accordingly. KEP's Issuer Profile is currently rated at Neutral. (Company, OCBC)

Soilbuild Business Space REIT ("SBREIT"): SBREIT announced the proposed divestment of the property KTL Offshore for SGD55.0mn to Soilbuild Group Holdings Ltd, which is the sponsor of SBREIT. This exercise is targeted to unlock capital, reduce exposure to the marine offshore sector and minimise SBREIT's exposure to credit risk. While SBREIT has kept the use of proceeds in a general manner (including acquisition, capex, debt repayment), we note that SBREIT has announced it is exploring investment opportunities in Australia (refer to OCBC Asian Credit Daily – 28 Nov 2017). We will assess SBREIT's credit profile impact if and when a transaction happens. (Company, OCBC)

Industry Outlook - Financial Institutions: The European Central Bank has announced the Pillar 2 requirement applicable to Société Générale SA ("SG") and Groupe BPCE ("GBPCE") for 2018. The Pillar 2 requirement is a binding bank-specific capital requirement that is combined with Pillar 1 legal requirements for the purposes of restricting distributions if breached. SG's Pillar 2 requirement is 1.5% meaning its combined phased in CET1 minimum regulatory requirement for 2018 will be 8.7%. This is up 90bps from the 2017 regulatory requirement. According to SG, the January 2019 requirement will rise a further 90bps to 9.6%. As per 3Q2017 results, SG's fully loaded CET1 ratio was 11.7%. As for GBPCE, it's combined phased in CET1 minimum regulatory requirement for 2018 is 8.625% which also includes a Pillar 2 requirement of 1.5%. According to GBPCE, the January 2019 requirement will rise a further ~90bps to 9.5%. GBPCE's phased in CET1 capital ratio for 3Q2017 was 14.9%. As both banks have adequate headroom above the recently announced requirements, their Neutral issuer profiles remain unchanged. (OCBC, Company, ECB)

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