Asian Credit Daily

Nov 5, 2018

Credit Headlines: Chip Eng Seng Corp Ltd, DBS Group Holdings Ltd, Hyflux Ltd, Westpac Banking Corporation

Market Commentary

- The SGD swap curve steepened last Friday, with swap rates for the shorter tenors trading 2-3bps lower while the longer tenors traded around 1bps lower.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 2bps to 149bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 17bps to 571bps.
- Overall, 10Y UST yields rose 7bps to close at 3.21% on the back of strong October job and wage growth data which reinforced bets on more rate hikes by the Federal Reserve.

Credit Headlines:

Chip Eng Seng Corp Ltd ("CES") | Issuer Profile: Negative (6)

- CES reported 3Q2018 results. Revenue grew 50.1% y/y to SGD320.1mn, largely driven by strong contribution from the property development segment (+76.5% y/y to SGD257.3mn) and the hospitality division (+74.4% y/y to SGD18.2mn) though partially offset by the construction division (-22.6% y/y to SGD42.2mn).
- Much like previous quarters, property development grew due to progressive recognition of High Park Residences, Grandeur Park Residences, Park Colonial and sale of property at 150 Queen Street, Melbourne, Australia (ie: where the originally intended Tower Melbourne project would sit). Similar to 2Q2018, CES' island resort in Maldives, Grand Park Kodhipparu Resort contributed to the revenue from the Hospitality division. The two newly acquired hotels in Australia in 2H2017, The Sebel Mandurah (in Perth) and Mercure & Ibis Styles Grosvenor Hotel (in Adelaide) continued to boost its overall topline. In contrast, construction underperformed as lower revenue was recognised from its Tampines N6C1A/1B and Woodlands N1C26 & N1C27 contracts which were reaching completion.
- Despite a higher gross profit (+40.3% y/y), profit before tax was down 33.3% y/y at only SGD15.9mn (3Q2017: SGD23.8mn) due to absence of gain from disposal of investment property and higher marketing and distribution expenses incurred for Park Colonial sale launch.
- Net gearing eased q/q to 1.79x (2Q2018: 1.96x, 1Q2018: 1.57x), mainly due to slightly lower debt balance following repayment of debt and cash generated from sale of Tower Melbourne (completed on 3 July 2018) and progressive payments from sale of development properties. As at 30 September 2018, cash balance of SGD382.8mn exceeded short term borrowings of SGD11.7mn. On 8 October 2018, the founder of CES and his family had sold their stake in CES to Celine and Gordon Tang, triggering a Change of Control ("CoC") event for bondholders of the SGD120mn CHIPEN 4.75% 21s and SGD125mn CHIPEN 4.9% '22s. This means that post-quarter end, CES's short term borrowings had ballooned to SGD256.7mn. We think liquidity at CES continues to look tight, notwithstanding that based on 30 September 2018 financials, CES has enough cash on hand to fund redemption of these if both bonds are fully put back to the company. We expect CES to seek external financing to either fund the put or meet commitments of its ongoing development project.
- As the property cooling measures and recently announced URA weigh on the property market, the 805 unit-Park Colonial has sold 65.1% of the units to date (2Q2018: 52.6%, soft launched on June 30 weekend) and CES is in preparation for the sale launch of the Changi Garden project in 1H2019. CES has also sold 4.1% of the first phase of Fifteen85 (a South Melbourne project), which was launched in June 2018. Lastly, CES has 20 apartments available for sale from the Williamson Estate project. We maintain CES' issuer profile at Negative (6) (Company, OCBC)

Credit Headlines (cont'd):

DBS Group Holdings Ltd ("DBS") | Issuer Profile: Positive (2)

- DBS reported solid 3Q2018 results with total income up 10% y/y to SGD3.38bn, mainly driven by a 15% y/y growth in net interest income. This was due to a 13bps y/y improvement in net interest margin to 1.86% (on a group level) driven by higher interest rates in Singapore and Hong Kong and an 8% y/y growth in customer loans. Net fee and commission income was up slightly by 1% y/y to SGD695mn (3Q2017: SGD685mn) as decline in investment banking fees was mitgated by the growth in other activities (eg: cards, loan-related fees, wealth management and transaction services). Other non-interest income were stable at SGD407mn (3Q2017: SGD399mn) due to the increase in trading income which more than offset the lower gains from investment securities. On a q/q basis, NIM had increased 1bps at a group level and 3bps to 2.08% (excluding treasury markets).
- Expenses rose 18% y/y to SGD1.48bn across the board, mainly driven by a 19% y/y rise in staff expenses due to a one-off 50th-anniversary staff bonus as well as the inclusion of ANZ's wealth management and retail banking business. Excluding this one-off 50th-anniversary staff bonus as well as other non-recurring items (but including ANZ), underlying expenses rose 15% y/y. The cost to income ratio deteriorate moderately to 43.9% in 3Q2018 against 41.1% in 3Q2017 but in line with 2Q2018 at 44.3%.
- Allowances for credit and other losses fell 71% y/y to SGD236mn due to the recognition of an improving environment (exposure to oil and gas support service in FY2017) but rose >100% q/q due to a write-back in specific allowances in the previous quarter. Along with the strong income growth, profit before tax rose 68% y/y but fell 1% q/q.
- Segment wise, total income from Consumer Banking/Wealth Management rose 23% y/y to a record of SGD1.45bn on higher loan and an improved net interest margin while Institutional Banking total income rose 12% y/y as decline in loan-related and investment banking activities was mitigated by growth in cash management and treasury customer flows. Performance in Treasury Markets was solid with a 6% y/y increase in total income to SGD224mn and 30% y/y increase in PBT to SGD82mn on the back of higher contributions from foreign exchange activities.
- DBS's balance sheet grew which indicates favourable operating environment with total assets up 6.6% y/y, driven by a 8.2% y/y growth in customer loans while q/q growth remains stable with customer loans up by a mere 0.7%. Y/y loan growth was broad-based across businesses with Building and Construction loans and Financial institutions, investment & holding companies loans contributed to the bulk of loans growth (16.8% y/y and 37.8% y/y).
- Non-performing loans fell slightly by 3.3% y/y which resulted in non-performing loan ratio improving y/y to 1.6% as at 30 Sep 2018 (1.7% as at 30 Sep 2017). However, the improvement in non-performing loans y/y was largely due to the pro-active recognition in the oil and gas support service exposure in FY2017. On a q/q basis, non-performing loan ratio was stable.
- Total capital rose 7.1% y/y due to the issuance of a USD750mn Tier 2 note in June while risk weighted assets rose 2.9% y/y as a result of the growth in loans mentioned above. CET1 ratio fell marginally to 13.3% (13.6% as at 30 June 2018 and 14.0% 30 Sep 2017) though it remains well above the CET1 regulatory minimum requirement of 8.7%. We maintain our issuer profile of DBS at Positive (2). (Company, OCBC)

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

- HFY is in the midst of obtaining super priority debt as rescue financing. In conjunction with this, HFY has applied to the Singapore High Court on 1 November 2018 to give security over the unencumbered property of the company such that the super priority debt is secured by way of first priority fixed charges over (1) all of the company's ordinary shares in HyfluxShop Holdings Ltd (company still owns 30%-stake) (2) all of the company's cumulative non-convertible non-voting perpetual preference shares issued by HyfluxShop Holdings Ltd (3) all of the company's shares in Spring China Utility Ltd and (4) all of the company's shares in NewSpring Utility Pte Ltd.
- Assuming that the application is approved, this is likely to reduce recoveries to perpetual, preference shareholders, and bondholders of HYF's SGD bonds in the event of a liquidation as super priority debt would have first bite over such assets. (Company, OCBC)

Credit Headlines (cont'd):

Westpac Banking Corporation ("WSTP") | Issuer Profile: Positive (2)

- WSTP announced its results for the full year ended September 2018 ("FY2018"). Cash earnings flat y/y at AUD8.1bn as higher costs from customer remediation and investment spend overshadowed solid underlying performance in Business Bank (cash earnings up 8% y/y on business growth and lower impairments) and improved New Zealand performance from better volumes and margins and lower expenses.
- Bottom line was also impacted by higher funding costs, particularly in 2HFY2018 as net interest margins fell 12bps h/h to 2.05% in 2HFY2018 from 2.17% in 1HFY2018. This is the lowest NIM since 1HFY2015.
- Impairment charges remain low on continued solid performance in mortgages (69% of total loans comprised of housing) and in line with the fall in impairment charges (-17% y/y) as well as 4% y/y growth in loans, the impaired assets to gross loans ratio fell marginally to 0.20% from 0.22% in FY2017. Impaired provisions to impaired assets fell marginally to 46.1%.
- CET1 ratio was stable y/y at 10.6% and still above the minimum year 2020 requirement of 10.5% as cash earnings mitigated dividend payments and higher risk weighted assets.
- In all, Westpac faces similar challenges to peers from higher costs (compliance, regulatory, funding) and slower credit growth. However the credit profile remains supported by their existing market position and solid capital positions. We maintain WSTP's issuer profile at Positive (2). (Company, OCBC)

Table 1: Key Financial Indicators

	5-Nov	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	88	-4	4
iTraxx SovX APAC	10	-1	0
iTraxx Japan	61	-2	4
iTraxx Australia	79	-3	4
CDX NA IG	66	-5	5
CDX NA HY	106	1	-1
iTraxx Eur Main	71	-5	1
iTraxx Eur XO	289	-12	9
iTraxx Eur Snr Fin	87	-6	0
iTraxx Sovx WE	26	-1	0
AUD/USD	0.720	2.03%	2.07%
EUR/USD	1.140	0.20%	-1.11%
USD/SGD	1.374	0.68%	0.60%
China 5Y CDS	66	-6	5
Malaysia 5Y CDS	110	-3	8
Indonesia 5Y CDS	150	-8	6
Thailand 5Y CDS	43	-1	0

	5-Nov	1W chg	1M chg
Brent Crude Spot ($/bbl)	72.71	-5.99%	-13.61%
Gold Spot ($/oz)	1,234.30	0.40%	2.55%
CRB	192.30	-1.64%	-3.38%
GSCI	450.54	-3.75%	-8.86%
VIX	19.51	-19.25%	31.65%
CT10 (bp)	3.206%	12.15	-2.64
USD Swap Spread 10Y (bp)	6	0	2
USD Swap Spread 30Y (bp)	-12	0	-1
TED Spread (bp)	28	8	8
US Libor-OIS Spread (bp)	28	4	11
Euro Libor-OIS Spread (bp)	4	0	0
DJIA	25,271	2.36%	-4.45%
SPX	2,723	2.42%	-5.63%
MSCI Asiax	612	7.11%	-1.45%
HSI	26,486	7.16%	-0.32%
STI	3,116	4.86%	-2.91%
KLCI	1,714	1.83%	-3.56%
JCI	5,906	2.10%	3.04%

New issues

- LLPL Capital Pte Ltd has scheduled for investor meetings from 5 Nov for its potential USD bond issuance (guaranteed by Lestari Banten Energi PT).
- Chengdu Hi-Tech Investment Group Co Ltd has scheduled for investor meetings from 5 Nov for its potential USD bond issuance.

Date	Issuer	Size	Tenor	Pricing
1-Nov-18	Chang Development International Ltd	USD400mn	3-year	5.7%
1-Nov-18	Shangri-La Hotel Limited	SGD825mn	7-year	4.5%
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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