Asian Credit Daily

February 7, 2018

Credit Headlines: ESR-REIT, OUE Limited, BNP Paribas SA

Market Commentary: The SGD swap curve bull-flattened yesterday, with swap rates trading 2-4bps lower for the shorter tenors while the longer tenors traded 5-6bps lower. Flows in SGD corporates were heat yesterday, with better selling seen in HSBC 4.7%-PERPs. In the broader dollar space, the Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 110bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 5bps to 348bps. 10Y UST yields rose 9.6bps to 2.804%, as equities strongly rebounded, with VIX falling from its high of 37.32 to below 30.

New Issues: Sunshine 100 China Holdings Ltd has priced a USD165mn re-tap (guaranteed by certain non-PRC subsidiaries of the issuer) of its SUNCH 8.5%'20s at 8.5%.

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ESR-REIT ("EREIT"): EREIT is proposing to sell 9 Bukit Batok Street 22 for SGD23.9mn (excluding divestment costs and applicable goods and services tax). The property is a warehouse building with ancillary office and basement carpark and a remaining land tenure of ~35 years. As at 31 December 2017, the property was valued at SGD23.6mn. Given the scale of the transaction at 1.4% of EREIT's total asset value of SGD1.7bn, we see the credit impact as minimal. We maintain EREIT's issuer profile at Neutral (4). (Company, OCBC)

OUE Limited ("OUE"): OUE Lippo Healthcare Limited ("OLH", formerly International Healthway Corporation, 86.2%-owned subsidiary of OUE), has announced that it expects to report a net loss for 4Q2017 results and for the fiscal year 2017 (to be announced on or before 01/03/18). Management had indicated that the losses were driven by operating costs as well as provisions. As OUE consolidates OLH's results, we expect OLH to be a drag when OUE reports its 4Q2017 results (expected by end February 2018). In aggregate though, as mentioned previously, given that OLH is small (~6% of OUE's consolidated total assets) relative to OUE's development and investment property businesses, it is

Table 1: Key Financial Indicators

	7-Feb	1W chg (bps)	1M chg (bps)		7-Feb	1W chg	1M chg
iTraxx Asiax IG	70	5	9	Brent Crude Spot ($/bbl)	67.45	-2.32%	-0.25%
iTraxx SovX APAC	13	1	2	Gold Spot ($/oz)	1,329.02	-1.20%	0.65%
iTraxx Japan	46	3	2	CRB	194.75	-	0.67%
iTraxx Australia	62	5	9	GSCI	447.38	-2.02%	0.82%
CDX NA IG	55	7	9	VIX	29.98	102.70%	225.16%
CDX NA HY	107	-1	-2	CT10 (bp)	2.796%	9.10	31.97
iTraxx Eur Main	50	6	6	USD Swap Spread 10Y (bp)	3	0	4
iTraxx Eur XO	255	17	30	USD Swap Spread 30Y (bp)	-15	-2	6
iTraxx Eur Snr Fin	49	6	6	TED Spread (bp)	35	-2	4
iTraxx Sovx WE	19	0	-2	US Libor-OIS Spread (bp)	27	2	2
iTraxx Sovx CEEMEA	35	3	1	Euro Libor-OIS Spread (bp)	3	1	1
					7-Feb	1W chg	1M chg
				AUD/USD	0.790	-1.96%	0.70%
				USD/CHF	0.936	-0.49%	4.41%
				EUR/USD	1.238	-0.26%	3.47%
				USD/SGD	1.318	-0.45%	1.10%
Korea 5Y CDS	52	2	6	DJIA	24,913	-4.46%	-1.51%
China 5Y CDS	59	5	14	SPX	2,695	-4.51%	-1.75%
Malaysia 5Y CDS	62	4	9	MSCI Asiax	716	-6.63%	-2.98%
Philippines 5Y CDS	63	4	10	HSI	31,470	-4.31%	2.13%
Indonesia 5Y CDS	86	5	8	STI	3,440	-2.65%	-1.40%
Thailand 5Y CDS	42	0	1	KLCI	1,839	-1.67%	1.17%
				JCI	6,578	-0.42%	3.53%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
06-Feb-18	Sunshine 100 China Holdings	Not Rated	USD165mn	SUNCH 8.5%'20s	8.5%
2-Feb-18	Greenland Global Investment Ltd	'NR/Ba2/NR'	USD400mn	3-year	5.25%
2-Feb-18	GLL IHT Pte Ltd	Not Rated	SGD50mn	GUOLSP 4.6%-PERPs	100% + accrued interest
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%

Source: OCBC, Bloomberg

Credit Headlines (**Cont'd):**

likely that the impact on overall profits would be manageable. We had also mentioned ITOCHU's announced SGD78.75mn investment into OLH (for new shares accounting for a 25.3% stake post dilution, with completion targeted by 10/02/18, refer to OCBC Asian Credit Daily (11 Jan 2018)) which would be a credit positive for both OUE and OLH (though it will only be reflected in 1Q2018 results). We will monitor OUE's 4Q2017 results closely. (Company, OCBC)

BNP Paribas SA ("BNPP"): BNPP announced its 4Q2017 and FY2017 results, with 4Q2017 revenues down 1.2% y/y to EUR10.656bn. Within this, operating division revenues were down 0.6% y/y, with 0.8% y/y growth in Domestic Markets (driven by volumes) and 2.5% y/y growth in International Financial Services dragged down by weak performance in the Corporate & Institutional Banking (CIB) segment (which was down 6.9% due to weaker markets activity in 4Q2017 from low volatility and client volumes). Operating expenses for the group increased 2.4% y/y which was largely driven by higher than usual transformation costs. This was despite operating expenses for the operating divisions actually falling 1.8% y/y (largely at the Domestic Markets and CIB segments although rising in International Financial Services due to higher business volumes). As such, overall gross operating income fell 9.4% y/y although it improved 1.9% y/y for the operating divisions. The cost of risk for the group inched 3.7% higher y/y with asset quality continuing to stabilize in both the Domestic Markets (-7.6% y/y) and International Financial Services segments (-16.9%) while cost of risk in CIB rose from EUR70mn in 4Q2016 to EUR264mn in 4Q2017. As such, operating income and pre-tax income for the group fell 14.9% and 6.4% respectively y/y in 4Q2017, as the weak CIB division performance (-42.7% y/y) consumed strong operating income performance in Domestic Markets (+31.2% y/y) and International Financial Services (+12.1% y/y). As for FY2017, overall revenues fell marginally y/y by 0.6%, attributable mainly to the low interest rate environment. Domestic Markets revenue was flat even though loan volume growth was solid as the low interest rate environment suppressed segment revenue. Revenue for International Financial Services rose +2.7% y/y as the Personal Finance segment benefited from good business drive and acquisitions, with outstanding loans growing 12.2% y/y. This was further driven by continued growth in International Retail Banking and good asset inflow in insurance and Wealth & Asset Management. Revenue for CIB climbed 2.1% y/y to EUR11.7bn with significant growth in Corporate Banking (+6.1%) due to a rise in average outstandings to EUR131bn in loans (+1.3% y/y) and EUR130bn deposits (11.1% y/y). Improvement in Securities Services (+8.3%) was attributed to the sustained growth in assets under custody and under administration. Overall operating expenses for FY2017 were up 1.9% y/y, with operating expenses for domestic markets and CIB broadly flat (-0.1% and -0.4% y/y respectively) as cost-saving efforts paid off. The gains were offset to an extent by 1.9% expense growth in International Financial Services due to business growth and a 36.9% y/y rise in expenses on other activities (possibly restructuring charges). This translated into gross operating income falling 5.8% y/y. Cost of risk for FY2017 followed previously reported trends and fell 10.9% y/y due the improving operating environment both domestically and internationally, while BNPP also saw a 12.6% y/y rise in Share of Earnings of Equity-Method Entities and a rise in other non-operating items. Pre-tax income for FY2017 was however suppressed by higher transformational costs y/y, which resulted in it being up just 0.9% y/y. Business segment wise, the improved pre-tax income performance y/y was driven by International Financial Services and CIB while Domestic Markets pre-tax income also rose 5.3% y/y due primarily to the lower cost of risk. In line with the lower cost of risk across the board, BNPP's reported doubtful loans to gross outstandings ratio improved to 3.3% for FY2017 against 3.8% in FY2016. Owing to the solid earnings performance, capital ratios improved with the fully loaded CET1/CAR ratios at 11.9%/14.8% for FY2017 against 11.6%/14.5% in FY2016. Overall, the results highlight BNPP's resilient business and diversified segments. The results do not alter our view of BNPP's Neutral (3) issuer profile. (Company, OCBC)

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