Asian Credit Daily

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Credit Headlines: Perennial Real Estate Holdings Ltd, ABN Amro Group NV, Industry Outlook – Financial Institutions, Aspial Corp Ltd, Singapore Telecommunications Ltd

Market Commentary

- The SGD swap curve steepened yesterday, with swap rates trading 1bps higher across most tenors (with the exception of the 30-year swap rates trading 2bps higher).
- Flows in SGD corporates were heavy yesterday, with better buying seen in HSBC 5.0%-PERPs, SIASP 3.16%'23s and SLHSP 4.5%'25s.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS was unchanged at 148bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 3bps to 574bps.
- 10Y UST yields fell 5bps to 3.18% in the earlier part of the trading session as the results of a divided Congress after the US midterm elections caused concerns over the impact on government spending and borrowing in the coming year. Yields subsequently rose 6bps to close at 3.24% on the back of supply pressure from a USD19bn 30-year bond auction as well as a rally in Wall Street stocks.

Credit Headlines:

Perennial Real Estate Holdings Ltd ("PREH") | Issuer Profile: Neutral (5)

- PREH reported 3Q2018 results. Revenue increased 8.7% y/y to SGD22.2mn due to Capitol Singapore which was fully acquired in 2Q2018, Perennial International Health and Medical Hub which started contributing since 2Q2018 and improved performance from 2 malls in China.
- Meanwhile, 3Q2018 reported EBIT surged to SGD247.5mn (3Q2017: SGD37.5mn) due to SGD241.9mn fair value gains from reclassification of two plots at Beijing Tongzhou Phase 1 from development properties to investment properties, following the receipt of construction permits. Without including the effects of one-offs including SGD247.5mn fair value gain in 3Q2018 and SGD25.9mn gain on bargain purchase of SGD25.9mn in 3Q2017 and management fee earned from acquisition of United Engineers in 3Q2017 (est: ~SGD6mn), we estimate that reported EBIT would have remained relatively stable at around SGD5.6mn.
- Meanwhile, net gearing inched up to 0.75x (2Q2018: 0.74x) despite the revaluation gains due to SGD15.3mn cash outflow from operating activities with further capital deployed for development properties, as well as SGD31.9mn investment in associates and joint ventures, which is most likely due to investment in the Tianjin South High Speed Railway project. We expect net gearing to continue inching higher to around 90% when PREH funds its 40%-share in the development of a freehold residential site in partnership with Qingjian as well as deployment of capital to its 45%-share (USD540mn) in the China High Speed Railway JV that it is leading.
- That said, the near-term liquidity and debt maturity profile has improved somewhat q/q, with the redemption of SGD300mn PREHSP 4.65% '18s (likely partly from the issuance of SGD180mn PREHSP 5.95% '20s) and refinancing of SGD72mn in unsecured loans due in 2018. Even if banks continue to rollover PREH's debt due in 2019 (est: SGD364mn), we think PREH may still need some additional funding, given that SGD113.2mn in cash is insufficient to meet SGD125mn PREHSP 4.9% '19s due in Mar 2019. We remain comfortable as PREH should retain access to the bank loans and debt capital markets (albeit with the need to pay up substantially). PREH may also obtain liquidity from divestments (e.g. sale of 31.2%-stake in AXA Tower). As such, we continue to hold PREH at a Neutral (5) Issuer Profile. (Company, OCBC)

Credit Headlines (cont'd):

ABN Amro Group NV ("ABN") | Issuer Profile: Neutral (3)

- ABN announced its 3Q2018 results with profit after tax up 8% y/y to EUR725mn. This was driven by a 9% y/y rise in operating income from 4% y/y growth in net interest income (net interest margin improvement to 1.63% in 3Q2018 from 1.54% in 3Q2017 and corporate loan growth) and 96% y/y growth in other operating income.
- Y/y growth in operating expenses was lower at 2% as savings on personal expenses from lower employee numbers were offset by related restructuring provisions as well as digitilisation costs and higher costs for M&A activities at Private Banking.
- While this drove solid growth in operating results which rose 19% y/y to EUR1.1bn, profit after tax performance was hit by a material increase in impairment charges which rose to EUR106mn in 3Q2018 from EUR5mn in 3Q2017. This was due to specific stresses in shipping and offshore energy exposures in 3Q2018 and higher impairment releases in 3Q2017. This trend looks temporary given 1Q2018 and 2Q2018 impairments were higher than 3Q2018 and the trend in impaired loans is improving (down 13% q/q).
- As mentioned above, better net interest income was also driven by loans growth, particularly within corporate clients (both Corporate & Institutional Banking and Commercial Banking) while mortgage lending fell and consumer loans remained broadly stable. Management has flagged that future loan growth may moderate, particularly in Trade & Commodity Finance and Global Transportation & Logistics, given the bank's strategy refocus within Corporate & Institutional Banking.
- In terms of segment profit before tax performance, Retail Banking was down 7% y/y as weaker operating income and higher y/y impairment charges offset lower operating expenses. Commercial Banking profit before tax was 29% lower y/y due to lower operating income (margin pressure, model changes) and materially higher impairments. Private Banking saw profit before tax up marginally by 3% y/y on better operating income and lower expenses while Corporate & Institutional Banking segment performance saw noticeable improvement with profit before tax up 105% on strong operating income growth of 43% y/y (higher volumes and higher interest-related fees as well as better net interest income at Global Markets) which mitigated higher operating expenses and impairment charges.
- Despite loans growth, risk weighted assets fell marginally from lower credit risk and active balance sheet management. Together with ABN's strong earnings performance, ABN's fully-loaded CET1 ratio rose to 18.6% (2Q2018: 18.3%; FY2017: 17.7%). Its fully loaded leverage ratio also improved to 4.6% as at 30 Sept 2018 against 4.1% as at 30 June 2018. Both ratios are now above the bank's capital target range of 17.5%-18.5% and leverage ratio target of 4.0%. The CET1 ratio is also well above the 2019 fully-loaded Maximum Distributable Amount (MDA) trigger level of 11.75%.
- ABN's fundamentals remain solid given the recent results and are consistent with the outcome of the 2018 EBA stress test that was announced late last week which shows that in a stress scenario, ABN Amro would fare better than other European banks under our coverage. We presently have a Neutral (3) issuer profile on ABN. (Company, OCBC)

OCBC Bank

Credit Headlines (cont'd):

Industry Outlook – Financial Institutions:

- As part of its ongoing focus on Australia's bank capital framework, the Australian Prudential Regulation Authority ("APRA") has released a discussion paper on increasing the loss absorbing capacity of banks.
- Essentially, APRA is seeking to raise the minimum total capital requirement from 8.0% to 12-13.0%. This increased requirement will likely come from Tier 2 instruments given they are the cheapest loss-absorbing instrument to issue across the capital structure.
- The date for submissions to respond to this discussion paper is 8th February 2019. Regardless of the outcome, the higher capital requirement will be a negative for future bank returns given their recent weak results that have been impacted by slowing credit growth, higher operating costs and customer remediation charges. A higher cost of doing business is likely going to persist going forward, and together with a requirement to hold more capital, future returns will be under pressure.
- We expect capital requirements for Australian banks to remain dynamic in the future. While the credit profiles of Australian banks are still solid given the pro-active regulatory environment and their strong market and capital positions, we will continue to monitor developments given the shifting operating landscape in the Australian banking sector. (OCBC, APRA)

Aspial Corp Ltd ("Aspial") | Issuer Profile: Negative (6)

- Aspial reported 3Q2018 results. Revenue surged 217% y/y to SGD347.0mn, mainly due to the Real Estate Business with sales of development properties recognised by its 81.1%-owned subsidiary World Class Global, from the settlement and handover of completed residential units for the Avant and Australia 108 projects in Melbourne, Australia. As a result, pre-tax profit from this segment surged to SGD33.1mn (3Q2017: SGD2.3mn), which is the primary contributor to Aspial's (as a group) profit before tax of SGD32.6mn (+813% y/y).
- Other segments also saw revenue growth though pre-tax profits remained sluggish. Financial Services revenue grew 12% y/y to SGD51.1mn from higher income from pawnbroking and secured lending though pre-tax profit (-42% y/y to SGD2.8mn) was likely affected by foreign exchange losses. While Jewellery Business saw revenue growing 14.4% y/y to SGD30.1mn, pre-tax losses continued at SGD2.1mn (pre-tax loss in 3Q2017: SGD2.5mn), albeit smaller with maiden profit contribution from Niessing operations and lower loss from retail business in Singapore.
- Due to the significant cashflows received from the handover of completed residential units, net cash from operating activities surged to SGD184.6mn. Together with net SGD23.6mn divestment of investment securities, net gearing improved substantially q/q to 2.77x in 3Q2018 (2Q2018: 3.37x). According to Aspial, another SGD680mn of unbilled contracts remained from Australia 108 project, and Aspial expects to receive a further up to SGD228mn from settlement of its Australian projects. Aspial has explicitly stated its intention to use part of the cash proceeds to purchase some of the remaining term notes and bonds, including ASPSP 5.05% '19s, ASPSP 5.3% '20s and ASPSP 5.25% '20s.
- However, while net gearing levels remain elevated and significant near-term maturities remain to be refinanced (current debt: SGD800.4mn), we continue to hold Aspial at a Negative (6) Issuer Profile. (Company, OCBC)

Credit Headlines (cont'd):

Singapore Telecommunications Ltd ("SingTel") | Issuer Profile: Positive (2)

- SingTel reported 2QFY2019 results for the quarter ended 30 Sep 2018. Revenue remained relatively stable at SGD4.3bn though trends diverged for its operating segments. Group Consumer revenue grew 1.5% y/y to SGD2.39bn due to increase in sales of higher priced popular handsets in Singapore (+44% y/y to SGD134mn) and higher sales of mobile equipment from Australia (+60.6% y/y to AUD433mn). Group Digital Life revenue grew 12.8% y/y to SGD313mn due to maiden contribution from Videology (acquired in 22 Aug 2018). However, Group Enterprise revenue fell 4.1% y/y to SGD1.57bn with SingTel attributing this to the lumpy nature of ICT deals and continued declines in traditional legacy services.
- Overall reported EBITDA though plunged 23.5% y/y to SGD1.46bn, with all 3 core segments and regional associates reporting weaker numbers. The consumer segment continues to struggle, with EBITDA for the segment down 8.7% y/y to SGD745mn as EBITDA from Singapore fell 7.4% y/y to SGD180mn with lower revenue from mobile service (-5.1% y/y to SGD259mn), lower contribution from the higher margin legacy carriage services and absence of Singtel TV sub-license revenue for Premier League. Australia EBITDA for the segment also fell 1.8% y/y due to surge in cost of sales by 41% y/y to AUD488mn (which corresponds to the surge in sales of mobile equipment). Group Enterprise's reported EBITDA also fell 4.8% y/y to SGD440mn, which is in-line with the fall in revenue. For the Group Digital Life segment, it remains a negative contributor to EBITDA at -SGD34mn (2QFY2018: -SGD14mn).
- SingTel's associates continues to struggle, with Telkomsel reported 22% y/y lower pre-tax profit to SGD291mn and Airtel recording a loss of SGD165mn (reversing from 2QFY2018's pre-tax profit of SGD81mn).
- As at 30 September 2018, SingTel's net gearing increased to 0.35x against 0.29x as at 30 June 2018, as a result of both debt levels rising and equity compressing (driven by a final dividend paid). Net debt-to-EBITDA was 2.1x in 1HFY2019, increasing from 1.9x in 1HFY2018.
- During the quarter, SingTel generated cash flow from operations (after tax but before interest) of SGD1.0bn, down from the SGD1.3bn in 2QFY2018 while net investing outflows was SGD519.5mn. This was in contrast to 2QFY2018 when SingTel generated net investing inflows of SGD1.6bn, mainly from the listing of NetLink Trust and corresponding repayment of loan from this associate. On a net basis, SingTel drew down SGD1.4bn in borrowings which helped pay a dividend of SGD1.7bn during the quarter.
- Despite the fall in EBITDA, SingTel continues to affirm its guidance from FY2018's results that EBITDA should be stable for FY2019, though the growth of the Cyber security segment (under Group Enterprise) has been revised down to grow at high single digit, from low teens. While SingTel's results have weakened in 2QFY2019, the company still falls within our threshold of a Issuer Profile of Positive (2) and we will be maintaining it as such for now. (Company, OCBC)

Table 1: Key Financial Indicators

	8-Nov	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	84	-6	-1
iTraxx SovX APAC	10	-1	0
iTraxx Japan	61	-1	0
iTraxx Australia	77	-5	0
CDX NA IG	62	-5	0
CDX NA HY	106	1	0
iTraxx Eur Main	67	-5	-5
iTraxx Eur XO	280	-11	-7
iTraxx Eur Snr Fin	84	-5	-5
iTraxx Sovx WE	26	-1	-1
AUD/USD	0.728	0.97%	2.80%
EUR/USD	1.143	0.20%	-0.53%
USD/SGD	1.371	0.36%	0.89%
China 5Y CDS	63	-8	-1
Malaysia 5Y CDS	105	-9	1
Indonesia 5Y CDS	143	-14	-5
Thailand 5Y CDS	43	-1	-1

	8-Nov	1W chg	1M chg
Brent Crude Spot ($/bbl)	72.07	-4.51%	-14.37%
Gold Spot ($/oz)	1,225.78	-0.62%	3.17%
CRB	191.34	0.20%	-3.87%
GSCI	447.23	-1.99%	-9.38%
VIX	16.36	-22.94%	10.39%
CT10 (bp)	3.232%	10.15	-0.10
USD Swap Spread 10Y (bp)	6	-1	2
USD Swap Spread 30Y (bp)	-10	1	1
TED Spread (bp)	25	3	5
US Libor-OIS Spread (bp)	27	-1	10
Euro Libor-OIS Spread (bp)	4	1	0
DJIA	26,180	4.24%	-1.16%
SPX	2,814	3.77%	-2.45%
MSCI Asiax	608	2.63%	-2.07%
HSI	26,148	4.68%	-0.21%
STI	3,065	3.33%	-3.65%
KLCI	1,715	1.72%	-3.43%
JCI	5,940	1.86%	3.10%

New issues

- Geely Sweden Finance AB has priced a USD250mn 3-year bond (guaranteed by Zhejiang Geely Holding Group Company Limited) at 5.0%, tightening from its initial price guidance of 5.25%.
- PT Indonesia Asahan Aluminium (Persero) has priced a USD4bn deal across 4 tranches, with the USD1bn 3-year bond priced at 5.5%, tightening from its initial price guidance of 5.875%; the USD1.25bn 5-year bond at 6.0%, tightening from its initial price guidance of 6.5%; the USD1bn 10-year bond at 6.875%, tightening from its initial price guidance of 7.375% and the USD750mn 30-year bond at 7.375%, tightening from its initial price guidance of 8.0%.
- LG Display Co Ltd has priced a USD300mn 3-year green bond (guaranteed by Korea Development Bank at CT3+90bps, tightening from its initial price guidance of CT3+115bps area.
- Suhyup Bank has scheduled for investor meetings from 12 Nov for its potential bond issuance.
- PJSC RusHydro has scheduled for investor meetings from 12 Nov for its potential CNH/Ruble bond issuance.

Date	Issuer	Size	Tenor	Pricing
7-Nov-18	Geely Sweden Finance AB	USD250mn	3-year	5.0%
7-Nov-18	PT Indonesia Asahan Aluminium (Persero)	USD1bn	3-year	5.5%
7-Nov-18	PT Indonesia Asahan Aluminium (Persero)	USD1.25bn	5-year	6.0%
7-Nov-18	PT Indonesia Asahan Aluminium (Persero)	USD1bn	10-year	6.875%
7-Nov-18	PT Indonesia Asahan Aluminium (Persero)	USD750mn	30-year	7.375%
7-Nov-18	LG Display Co Ltd	USD300mn	3-year	CT3+90bps
6-Nov-18	Chengdu Hi-Tech Investment Group Co Ltd	USD300mn	3-year	6.5%
6-Nov-18	Jiayuan International Group Limited	USD70mn	JIAYUA 12.0%'20s	12.0%
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%

Source: OCBC, Bloomberg

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