Nov 9, 2018

Credit Headlines: Frasers Property Ltd, City Developments Ltd, Hyflux Ltd, Mapletree Logistics Trust, Société Générale, Groupe BPCE, Commerzbank AG

Market Commentary

- The SGD swap curve steepened yesterday, with swap rates for the shorter tenors trading 1-2bps higher while the longer tenors traded 2-3bp higher.
- Flows in SGD corporates were heavy yesterday, with better buying seen in HSBC 5.0%-PERPs, SLHSP 4.5%'25s, DBSSP 3.98%-PERPs, HSBC 4.7%-PERPs and SOCGEN 4.3%'26s.
- 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 11bps to 563bps.
- Overall, 10Y UST yields rose 1bps to close at 3.24% as the Federal Reserve hinted that the US economic expansion remained on track which warrants further interest rate hikes.

Credit Headlines:

Frasers Property Ltd ("FPL") | Issuer Profile: Neutral (4)

- FPL announced its full year results for the financial year ended September 2018 ("FY2018"). Revenue was up 7% y/y to SGD4.31bn on the back of timing of settlements of developments sold in Singapore and Australia and maiden contributions from business parks in the UK. Revenue for the Singapore Strategic Business Unit ("SBU") increased 58% y/y to SGD1.36bn driven by growth in retail and commercial properties though partly offset by lower contributions from Frasers Commercial Trust ("FCOT")'s properties which saw lower occupancies and impact from a weaker AUD. Singapore residential reported higher revenue at SGD879mn (up SGD467mn), largely due to settlement of Parc Life Executive Condominium.
- Australian SBU though saw a 4% decline in revenue to SGD1.58bn due to declines in residential properties (lumpiness of sales settlements) while commercial, industrial, retail and investment properties saw revenue that was fairly consistent y/y. Revenue from Frasers Logistics and Industrial Trust grew by 15% y/y due to the acquisition of properties in Germany and the Netherlands. Hospitality SBU saw revenue that was fairly consistent at SGD802mn while for Europe & rest of Asia, revenue declined 20% y/y to SGD576mn.
- EBITDA (based on our calculation which does not include other income and other expenses) was up 15% y/y to SGD1.1bn though interest expense had ballooned to SGD316.3mn (FY2017: SGD153.5mn), driven by higher levels of debt taken to fund acquisitions. This resulted in a lower EBITDA/Interest coverage ratio of 3.5x versus 6.2x in FY2017. Average debt balance for FY2018 was SGD13.3bn against FY2017's SGD10.7bn. FPL recorded large fair value gains on investment properties of SGD636.9mn (FY2017: SGD295.0mn) which helped lift profits before tax and exceptional items to SGD1.64bn, though exceptional losses of SGD158.5mn (from impairment losses of brands and goodwill) gave way to some of these profits. FPL ended the year with net profit of SGD1.20bn (FY2017: SGD1.03bn).
- As at 30 September 2018, unadjusted net gearing of FPL was 0.87x (reducing somewhat from 0.91x as at 30 June 2018), though had increased significantly from 0.68x as at 30 September 2017. We are reviewing the issuer profile of FPL on the back of its weakened credit metrics. (OCBC, Company)

Credit Headlines (cont'd):

City Developments Ltd ("CDL") | Issuer Profile: Positive (2)

- CDL reported 3Q2018 results. Overall revenue increased 17.7% y/y to SGD1.0bn due to higher revenue from the property development segment due to sales in Singapore. However, gross profit only increased 13.6% y/y to SGD485.7mn as the profit margin for the sale of The Criterion Executive Condominium is lower. For the hotel operations segment, which includes Millenium & Copthorne Hotel PLC ("M&C") results, revenue declined by 3.8% y/y to SGD428mn, in-line with reported figures by M&C (-3.8% y/y to GBP253mn).
- Reported EBITDA grew only 5.7% y/y to SGD319.3mn while overall, net profit fell by 2.2% y/y, due to higher finance costs (+30.0% y/y to SGD37.4mn) from increase in borrowings and higher tax expense (+38.3% y/y to SGD53.8mn). This was despite higher profit before tax ("PBT") reported by the property development segment (+84% y/y to SGD155mn). Hotel operations PBT plunged 50% y/y to SGD37mn, impacted by the full closure of Millennium Hotel London Mayfair (since Jul 2018), lower contribution from Millennium Hilton Bangkok (undergoing refurbishment) and Maldives (impacted by closure of a resort for rebranding) and higher payroll costs. Rental properties also saw a decline in PBT to SGD44mn (-31% y/y) though this is due to lower divestment gains in 3Q2018 (3Q2017 divestment gain included SGD30mn disposal gain from an office building in Osaka).
- Net gearing increased to 0.24x (2Q2018: 0.22x) even with SGD201.6mn operating cashflows from sales of properties due to ~SGD328mn acquisition of Aldgate House which was settled in 3Q2018. Net gearing may increase further to ~0.28x following the settlement of Sengkang Central GLS site (under a JV with CapitaLand) which the JV won for SGD777.8mn. The credit metrics, though expected to somewhat weaken, still falls within our threshold of an Issuer Profile of Positive (2). We continue to review CDL's results. (Company, OCBC)

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

- As forbearance on the part of its sole secured lender at Tuaspring Pte Ltd's ("Tuaspring"), Maybank gave the company a deadline to execute a binding agreement with a bidder/investor for the Tuaspring asset by 29 October 2018. Originally, the deadline was 15 October 2018. On 8 November 2018, HFY announced that it had obtained Maybank's approval for a further extension of the deadline to 29 November 2018 for a binding bid to happen.
- In October 2018, HFY entered into a Restructuring Agreement with SM Investments (owned by Indonesia-based Salim Group and Medco Group). On the back of this conditional agreement, HFY had intended for Tuaspring to continue as part of the group and was seeking to negotiate with Maybank as to how this can be achieved.
- In our view, the right to decide whether or not Tuaspring stays within the HFY group sits with Maybank rather than HFY (notwithstanding bidders need to be pre-qualified by the offtaker). We think Maybank would at the same time need to decide if it would be willing to continue as a lender to HFY, in deciding whether or not to push through a sale of Tuaspring. This is especially more so given the involvement of proposed new controlling shareholders who intend for the company to be rehabilitated.
- Given the latest extension of deadline, it appears that Maybank still intends for a sale of Tuaspring to happen. For the avoidance of doubt, while the proposed transactions with SM Investments is heavily conditional and subject to regulatory approvals, there appears no statements from SM Investments that the proposed transaction is conditional upon Tuaspring staying with the group. In our view, whether or not Tuaspring stays with the group and the price tag for the asset though would impact upon eventual recovery values to bondholders, perpetual and preference shareholders.
- A court hearing in relation to the company's proposed super-priority financing and application to extend the moratorium by four months (to April 2019) has been fixed for 26 November 2018. (Company, OCBC)

Credit Headlines (cont'd):

Mapletree Logistics Trust ("MLT") | Issuer Profile: Neutral (4)

- MLT has announced the proposed acquisition of a logistics property in South Korea, the Wonjin Logistics Centre for KRW37.85 bn (~SGD46.4mn) from Wonjin Logistics Co. Ltd ("Wonjin"). Wonjin will partially leased back 60% of the space at the property. Including transaction costs and fees, the total acquisition cost is expected to be ~SGD49.8mn, to be fully debt funded. This is MLT's third proposed acquisition announcement in the past two weeks, though each are bite-sized.
- Taking into account the divestment of 531 Bukit Batok Street 23 in Singapore that was completed on 18 October 2018 and the other announced acquisitions, MLT's unadjusted aggregate leverage is projected at ~39.2% (30 September 2018: 38.1%) while on an adjusted basis, taking into account 50% of perpetuals as debt, we estimate MLT's adjusted aggregate leverage at ~42%. (OCBC, Company)

Société Générale ("SG") | Issuer Profile: Neutral (4)

- SG reported its 3Q218 results. Underlying net banking income was up significantly by 9.0% y/y to EUR6.5bn, mainly driven by (1) the International Retail Banking & Financial Services segment with net banking income up 7.3% y/y to EUR2.1bn due to the growth in activities across all business and geographical regions; and (2) the Global Banking & Investor Solutions segment with net banking income up 7.7% y/y to EUR2.2bn due to a rebound in Global Markets and the healthy momentum in Financing & Advisory activities. Net banking income from French Retail Banking also rose slightly by 1.8% y/y to EUR1.9bn due to dynamic commissions despite the persistent low interest rate environment.
- Underlying operating expenses was 5.2% higher y/y at EUR4.4bn as a result of the efforts in supporting growth in International Retail Banking & Financial Services and Global Banking & Investor Solutions as well as the transformation of the French Retail Banking.
- Despite the increase in underlying cost of risk by 24.5% y/y, underlying operating income rose 16.5% y/y to EUR1.9bn as the higher net banking income more than offset the rise in underlying operating expenses and cost of risk.
- Reported gross doubtful outstandings ratio was lower at 3.8% as at 30 September 2018 (3.9% as at 30 June 2018; 4.2% as at 31 March 2018 and 4.5% as at 30 September 2017) while reported gross coverage ratio for doubtful outstandings was stable q/q at 55% as at 30 September 2018 despite the higher risk costs.
- SG's balance sheet grew slightly with total assets at EUR1,304bn as at 30 September 2018 (EUR1,274bn as at 1 January 2018) and net customer loans, including lease financing up 4.3% y/y to EUR410bn. Average loan outstandings in French Retail Banking rose 3.5% y/y while International Retail Banking and Equipment Finance rose 6.2% and 5.6% y/y respectively due to the good performance in Scandinavia.
- As a result, risk weighted assets rose 3.3% y/y to EUR364.7bn (EUR352.9bn as at 30 September 2017). Together with the 1.4% y/y fall in CET1 capital, CET1 ratios fell to 11.2% as at 30 September 2018 (11.7% as at 30 September 2017) though this still remains above SG's minimum phased in CET1 ratio requirement of 8.63%. Including senior non-preferred debt issues and other TLAC adjustments, SG's reported TLAC ratio was 22.8% as at 30 September 2018, up from 21.6% as at 30 September 2017 and above the Financial Stability Board's 2019 and 2022 minimum requirements of 19.5% and 21.5% respectively. (OCBC, Company)

Credit Headlines (cont'd):

Groupe BPCE ("GBPCE") / BPCE SA | Issuer Profile: Neutral (4)

- GBPCE announced its 3Q2018 results with reported income before tax down 9.9% y/y to EUR1.4bn. Excluding exceptionals (mostly transformation and reorganization costs) however, underlying income before tax was up 3.8% y/y on solid growth in net banking income (+2.1% y/y on improved commission income and insurance and Specialized Financial Services revenues in Retail Banking as well as solid Asset & Wealth Management performance) and a 4.9% fall in the cost of risk. This mitigated a 1.5% rise in operating expenses.
- 9M2018 results showed broadly similar trends with underlying income before tax up 2.4% y/y due to a marginal rise in gross operating income (+0.7% as operating expense growth marginally outpaced net banking income growth) and a material improvement in the cost of risk (-13.4% y/y).
- In line with the lower risk costs for the quarter and YTD, GBPCE's ratio of non-performing loans to gross loan outstandings improved to 2.9% as at 30 Sept 2018 from 3.2% as at 1 Jan 2018. Gross outstanding loans to customers and credit institutions rose 4.0% YTD while non-performing loans fell 4.7% over the same period. The impaired loans coverage ratio also improved to 74.4% from 71.4% over the same period.
- Given solid earnings generation, GBPCE's CET1 capital position improved compared to 15.2% as at 1 Jan 2018 with its CET1 ratio at 15.6% as at 30 Sep 2018. This was due to net capital generation (retained earnings less growth in risk weighted assets) as well as issuance of co-operative shares and remains well above its Supervisory Review and Evaluation Process requirement of 8.63% (includes Pillar 1 requirement, phased in 2018 G-SIB and capital conservation buffers). GBPCE's Total Loss-Absorbing Capacity (TLAC) ratio rose to 22.4% as at 30 Sept 2018 from 21.6% as at 30 June 2018 (31 March 2018: 21.5%; 31 Dec 2017: 20.8%). This remains above the target level in its TEC 2020 strategic plan of more than 21.5% by early 2019.
- With solid income momentum in 3Q2018 and maintenance of strong capital ratios, GBPCE's fundamentals remain sound in our view (OCBC, Company)

Commerzbank AG (CMZB) | Issuer Profile: Neutral (4)

- CMZB released its 3Q2018 and 9M2018 results with net profit after tax of EUR218mn down 53.3% y/y and 19.9% q/q. Driving the y/y performance was a 12.4% y/y decline in revenues due to EUR502mn in exceptionals. Excluding this and other exceptional items, revenues actually improved 8.6% y/y due to growth in Private and Small Business Customers and lower interest expense from capital market issuances. Operating expenses were broadly stable y/y while risk costs improved 20% y/y, so on an underlying basis, net profit after tax for 3Q2018 actually improved materially y/y.
- Underlying 9M2018 performance was also solid, with underlying net profit after tax of EUR715mn materially improved from EUR242mn in 3Q2017. This excludes both EUR617mn in exceptional revenues and EUR807mn in restructuring costs with the improvement due to higher underlying revenues as well as a 44% reduction in risk costs.
- Also supporting underlying performance was growth in customers and increased loans in both Private and Small Business Customers and Corporate Clients while the Asset & Capital Recovery segment continues to generate positive operating results in FY2018 from the ongoing reduction of the portfolio with risk weighted assets within this segment at EUR12.6bn as at 30 Sept 2018 against EUR19.1bn as at 30 Sept 2017. This has had a positive impact on revenues, risk costs and operating expenses.
- Given the loans growth and fall in risk weighted assets within the Asset & Capital Recovery segment, overall risk weighted assets remained stable. Together with retained earnings growth, CMZB's fully-phased in CET1 ratio rose to 13.2% as at 30 Sept 2018 from 13.0% as at 30 June 2018 (13.3% as at 1 March 2018).
- CMZB's results continue to show CMZB's efforts to minimize the impact of Germany's competitive banking environment through implementation with its 2020 strategic plan. We continue to review the numbers but do not foresee any shift in CMZB's credit fundamentals. (OCBC, Company)

Table 1: Key Financial Indicators

	9-Nov	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	84	-4	-1
iTraxx SovX APAC	9	0	0
iTraxx Japan	60	-1	-2
iTraxx Australia	75	-4	-2
CDX NA IG	64	-3	2
CDX NA HY	106	1	-1
iTraxx Eur Main	68	-3	-3
iTraxx Eur XO	282	-7	-5
iTraxx Eur Snr Fin	86	-1	-2
iTraxx Sovx WE	26	0	-1
AUD/USD	0.727	1.06%	2.34%
EUR/USD	1.137	-0.18%	-1.07%
USD/SGD	1.375	0.05%	0.57%
China 5Y CDS	63	-3	-1
Malaysia 5Y CDS	104	-6	1
Indonesia 5Y CDS	142	-9	-4
Thailand 5Y CDS	43	0	0

	9-Nov	1W chg	1M chg
Brent Crude Spot ($/bbl)	70.65	-3.07%	-15.80%
Gold Spot ($/oz)	1,222.84	-0.82%	2.78%
CRB	189.71	-1.01%	-5.32%
GSCI	443.35	-1.66%	-10.69%
VIX	16.72	-13.55%	4.83%
CT10 (bp)	3.234%	2.15	2.73
USD Swap Spread 10Y (bp)	5	-1	1
USD Swap Spread 30Y (bp)	-10	2	0
TED Spread (bp)	26	2	6
US Libor-OIS Spread (bp)	27	-1	9
Euro Libor-OIS Spread (bp)	4	0	1
DJIA	26,191	3.19%	-0.91%
SPX	2,807	2.43%	-2.55%
MSCI Asiax	609	-0.50%	-0.72%
HSI	26,228	3.19%	0.21%
STI	3,093	2.47%	-2.32%
KLCI	1,721	0.71%	-2.97%
JCI	5,977	2.41%	3.11%

OCBC Bank

New issues

- Baidu Inc has priced a USD1bn deal across two tranches with the USD600mn 5.5-year bond priced at CT5+133bps (tightening from its initial price guidance of CT5+150bps area) and the USD400mn 10-year bond at CT10+170bps, tightening from its initial price guidance of CT10+195bps.
- Clifford Capital Pte Ltd has priced a USD300mn 3-year bond (guaranteed by The Government of Singapore) at CT3+40bps, tightening from its initial price guidance of CT3+40-45bps area.
- CDBL Funding 1 has priced a USD400mn 3-year FRN (guaranteed by CDB Aviation Lease Finance Designated Activity Company, keepwell provider: China Development Bank Financial Leasing Co Ltd) at 3mL+125bps, tightening from its initial price guidance of 3mL+145bps area.
- Hunan Xiangjiang New Area Development Group Co Ltd has priced a USD300mn 3-year bond at 5.9%, tightening from its initial price guidance of low 6.0%.
- Huayuan Property Co Ltd has priced a USD200mn 3NPNC2 at 11.0%, in line with its final price guidance.
- Thai Oil PCL has scheduled for investor meetings from 12 Nov for its potential USD bond issuance.
- DBS Bank Ltd has scheduled for investor meetings from 12-14 Nov for its potential USD 3-year/5-year covered bond issuance.
- Industrial & Commercial Bank of China Ltd has scheduled for investor meetings from 13 Nov for its potential bond issuance.
- Bi Hai Co Ltd has scheduled for investor meetings from 9 Nov for its potential USD bond issuance (guaranteed by Yunan Provincial Investment Holdings Group Co Ltd).

Date	Issuer	Size	Tenor	Pricing
8-Nov-18	Baidu Inc	USD600mn	5.5-year	CT5+133bps
8-Nov-18	Baidu Inc	USD400mn	10-year	CT10+170bps
8-Nov-18	Clifford Capital Pte Ltd	USD300mn	3-year	CT3+40bps
8-Nov-18	CDBL Funding 1	USD400mn	3-year	3mL+125bps
8-Nov-18	Hunan Xiangjiang New Area Development Group Co Ltd	USD300mn	3-year	5.9%
8-Nov-18	Huayuan Property Co Ltd	USD200mn	3NPNC2	11.0%
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

Source: OCBC, Bloomberg

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