

Apr 1, 2019

Credit Headlines: China Eastern Airlines Corporation Limited, Bank of China Ltd, Industry Outlook – Singapore Property

Market Commentary

- The SGD swap curve steepened last Friday, with the shorter tenors trading little change while the belly and longer tenors traded 2bps higher.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 136bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 2bps to 464bps.
- Flows in SGD corporates were heavy, with majority of the flows seen in SIASP 3.03%'24s. Other corporate flows are SIASP 3.13%'26s, HFCSP 4.2%'22s, ESRCAY 6.75%'22s and HSBC 4.7%-PERPs.
- 10Y UST yields rose 2bps to close the session at 2.41%, on the back of improvement in market risk sentiments and lowering of safe haven demand. US equities rose along with positive news from US-China trade talks, however, the increase in yields was offset by the lower-than-expected US consumer spending data released. The yield curve between the 3-month and 10-year treasury yields turned positive, after lingering in a state of inversion for the week.

Credit Headlines

China Eastern Airlines Corporation Limited (“CHIEAS”) | Issuer Profile: Neutral (4)

- CHIEAS reported its 2018 financials. Revenue increased 12.5% y/y to RMB115.3bn, similar to 2017, passenger revenue continue to be the largest driver contributing 91% to revenue. Available seat-kilometres (a measure of capacity) increased 8.34% y/y and encouragingly, revenue passenger-kilometres (a measure of demand) grew faster at 9.99% y/y.
- CHIEAS' operating expenses were higher y/y by 12.6% (excluding gain on fair value changes on derivatives). CHIEAS does not hedge aircraft fuel. This had increased 34% y/y which was insufficiently offset by declines elsewhere. CHIEAS's reported operating profit was 1.3% lower y/y at RMB9.3bn with higher finance cost further curtailing profits. The company ended the year with reported profit before tax of RMB3.9bn (2017: RMB8.6bn). It is worth noting though that 2017 results included significant one-off gains.
- EBITDA (based on our calculation which exclude other income and other expenses, though includes subsidy income) was RMB23.1bn, up 9.3% y/y. Interest expense (including capitalised interest but before foreign exchange impact) was significant at RMB4.6bn, up 15.1% y/y. We think this was driven by increase in average debt balance, particularly from the increase use of finance leases at CHIEAS though interest cost would have also contributed to the increase. Despite the increase in EBITDA, EBITDA/Interest was lower at 5.1x (2017: 5.3x).
- As at 31 December 2018, adjusted net gearing (assuming finance leases and operating leases as debt) was significant at 2.7x versus 2.5x in end-2017. CHIEAS is still in the midst of an equity raising from the issuance of new A shares and H shares (total of ~RMB14.9bn) which should see its adjusted net gearing levels decline. Bulk of the new shares is proposed to be placed out to private companies related to Juneyao Airlines who also has its main hub in Shanghai. RMB2.0bn is proposed to be placed to the China Structural Reform Fund, a state-backed fund. The equity deal is subject to approval from the China Securities Regulatory Commission. Assuming the transaction goes through, we estimate CHIEAS' unadjusted net gearing to improve to ~2.2x.
- There is no change to our Neutral (4) issuer profile on account of CHIEAS' latest results release and expect this to be stable in the next 6 months. That being said, we may cease coverage of CHIEAS in the near-term to ensure our resources are being directed optimally. Periodically, we adjust our coverage universe to best serve our readers. (Company, OCBC)

Credit Headlines (cont'd)

Bank of China Ltd ("BOC") | Issuer Profile: Neutral (3)

- BOC's FY2018 results reflect very similar trends to [China Construction Bank Corporation's \("CCB"\) recent FY2018 results](#) with solid underlying business momentum driving profit before tax up 3.0% y/y to RMB229.6bn.
- This was due to 4.1% y/y growth in operating income to RMB503.8bn from a 6.3% y/y growth in net interest income (from 6bps net interest margin improvement to 1.9% and loans growth). Non-interest income was flat y/y.
- While operating expenses were kept in check (+1.8% y/y), impairment losses on assets rose 12.6% y/y. Again similar to CCB, the increase is reflective of a more challenging operating environment in China in the next 12 months from slowing economic growth (more than addressing actual deterioration in loan quality) as well as a conservative approach by management in increasing impairment allowances in the income statement. Owing to solid loans growth (+8.5% y/y), the non-performing loan ratio fell marginally to 1.42% as at 31 December 2018 against 1.45% as at 31 December 2017. Given the rise in impairment losses, the allowances for loan impairment losses to non-performing loans coverage ratio improved to 182.0% as at 31 December 2018 from 159.2% as at 31 December 2017.
- Given decent earnings, common equity Tier 1 capital rose 8.1% y/y. This was higher than the 5.6% y/y growth in risk weighted assets and as such, BOC's CET1/CAR ratios at 11.4%/15.0% as at 31 December 2018 was higher against 11.2%/14.2% as at 31 December 2017. This remains well above expected 2018 minimum CET1/CAR ratio requirements of 8.5%/11.5% including a fully phased in capital conservation buffer of 2.5%. Minimums however do not include any counter cyclical capital buffer (yet to be finalized) nor any capital buffer requirement as a global systemically important bank (currently 1.5% with compliance date in January 2025).
- Overall, we see trends consistent with BOC's Neutral (3) issuer profile which we raised in our January [Singapore Credit Outlook 2019](#) to reflect BOC's on-going resilient performance. The government's supportive growth policies to stimulate the economy are seen in BOC's balance sheet and earnings which should contribute to earnings performance in FY2019. We expect management to continue to manage BOC's risk exposures as it assists in supporting the economy and expect its credit profile to remain stable in the short to medium term. (Company, OCBC)

Industry Outlook – Singapore Property

- Singapore private residential property prices declined 0.6% q/q in 1Q2019, according to the URA flash estimate. The brunt of the decline was borne by Core Central Region (-2.9% q/q), followed by Rest of Central Region (-0.2% q/q). Meanwhile, prices Outside Central Region remained largely unchanged.
- This is in-line with our view in our [Singapore Credit Outlook 2019](#) that prices may fall by low single digit in 2019. We continue to [reiterate](#) that the outlook of Singapore property looks subdued amidst the impending supply overhang. (Company, OCBC)

Table 1: Key Financial Indicators

	1-Apr	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	70	-3	1
iTraxx SovX APAC	46	-1	-6
iTraxx Japan	61	-1	2
iTraxx Australia	75	-1	8
CDX NA IG	63	-5	4
CDX NA HY	107	1	0
iTraxx Eur Main	65	-4	2
iTraxx Eur XO	269	-14	-12
iTraxx Eur Snr Fin	79	-10	4
iTraxx Sovx WE	19	0	-2
AUD/USD	0.712	0.11%	0.58%
EUR/USD	1.123	-0.72%	-1.18%
USD/SGD	1.354	-0.25%	0.13%
China 5Y CDS	45	-3	-4
Malaysia 5Y CDS	61	-5	-2
Indonesia 5Y CDS	103	-1	3
Thailand 5Y CDS	42	-2	-2

	1-Apr	1W chg	1M chg
Brent Crude Spot (\$/bbl)	68.10	1.32%	4.66%
Gold Spot (\$/oz)	1,293.36	-2.16%	-0.01%
CRB	183.75	-0.22%	1.24%
GSCI	434.13	-0.04%	3.03%
VIX	13.71	-16.81%	1.03%
CT10 (bp)	2.433%	3.51	-31.97
USD Swap Spread 10Y (bp)	1	5	0
USD Swap Spread 30Y (bp)	-23	6	-2
US Libor-OIS Spread (bp)	20	-1	2
Euro Libor-OIS Spread (bp)	5	0	0
DJIA	25,929	1.67%	-0.38%
SPX	2,834	1.20%	1.10%
MSCI Asiax	663	1.52%	1.13%
HSI	29,558	3.63%	2.59%
STI	3,239	1.75%	0.56%
KLCI	1,636	-0.81%	-3.82%
JCI	6,461	0.78%	-0.60%

New issues

- 21 Vianet Group Inc has scheduled investor meetings from 1 April for its potential USD bond issuance.
- BOC Aviation Ltd has scheduled investor meetings from 29 March for its potential USD bond issuance.

<u>Date</u>	<u>Issuer</u>	<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
28-Mar-19	Vertex Capital Investment Ltd	USD500mn	5-year	4.75%
28-Mar-19	Country Garden Holdings Co Ltd	USD550mn USD950mn	5NC3 7NC4	6.50% 7.25%
28-Mar-19	Bank of Baroda	USD500mn USD300mn	3-year 5-year	CT3+145bps CT5+170bps
28-Mar-19	Caiyun International Investment Ltd	USD800mn	3-year	5.6%
28-Mar-19	Power Best Global Investments Ltd	USD100mn	2-year	13.0%
28-Mar-19	ESR Cayman Ltd	USD250mn	3-year	8.0%
27-Mar-19	Zhenro Properties Group Ltd	USD420mn	3.8NC2	8.65%
27-Mar-19	Mei Nian Investment Ltd	USD200mn	2-year	8.5%
27-Mar-19	CMT MTN Pte Ltd	USD300mn	10-year	CT10+122.5bps
27-Mar-19	Yango Justice International Ltd	USD250mn	2-year	10.25%
27-Mar-19	CFLD (Cayman) Investment Ltd	USD350mn USD650mn	3-year 5-year	7.125% 8.60%

Source: OCBC, Bloomberg

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