Asian Credit Daily

OCBC Bank

May 10, 2019

Credit Headlines: Oxley Holdings Ltd, Aspial Corp Ltd, Group BPCE

Market Commentary

- The SGD swap curve flattened yesterday trading 1-2bps lower.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 2bps to 132bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 6bps to 476bps.
- Flows in SGD corporates were heavy, with flows seen in SOCGEN 6.125%-PERPs, CENCHI 6.25%'20s and UBS 5.875%-PERPs.
- 10Y UST yields fell 4bps to 2.44%, as US and China resumed tense trade talks ahead of US President Donald Trump's planned hike in tariffs on USD200bn of Chinese goods from 10% to 25% later today.

Credit Headlines

Oxley Holdings Ltd ("OHL") | Issuer Profile: Neutral (5)

- Following the sale and purchase agreement entered into for Chevron House, OHL made further disclosures. In addition to the initial disclosure that a SGD210mn consideration will be paid in the earlier phase, it is further disclosed that upon completion, the bank loans to be discharged is ~SGD520mn and a final sum of SGD295mn (subject to adjustments) will be received by OHL. Adding these up (SGD210mn + SGD520mn + SGD295mn), we arrive at the SGD1.025bn valuation of Chevron House.
- The purchaser has the right to require OHL to purchase any unsold retail and banking units. While the price is not disclosed, we understand that any shortfall in sales proceeds from a Target Amount (not disclosed) of the retail and banking units will be offset against the final sum of SGD295mn to be received. Conversely, any excess amount over the Target Amount will be used to defray costs (e.g. marketing costs) first before being shared equally between OHL and the purchaser of Chevron House.
- Our understanding is that Oxley Beryl (and not OHL), the company that holds Chevron House, will pay for the construction costs of the AEI. However, if the construction costs exceed an agreed estimated amount (not disclosed), OHL will pay for the additional costs while conversely OHL will receive any savings on construction.
- At this junction, it is difficult to ascertain if OHL will receive the final tranche of SGD295mn in full (or more), given that AEI works are still undergoing while OHL is still in the process of selling the retail and banking units. However, we think it is a significant credit positive as we expect OHL to receive the initial SGD210mn tranche, which should improve OHL's liquidity. In addition, the discharge of the bank loan of SGD520mn will also help OHL to deleverage. (Business Times, Company, OCBC)

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Credit Headlines (cont'd)

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

- Aspial reported 1Q2019 results. Revenue fell 19% y/y to SGD173.8mn due to declines in all the major business segments.
    - Real Estate (-26.3% y/y to SGD98.5mn) made up bulk of the decline due to lower sales with Avant and CityGate projects completed in 2018, despite higher contribution from Australia 108 projects.
    - Financial Service Business also saw 13.5% y/y lower revenue to SGD7.3mn with lower sales from the retailing and trading of jewellery and branded merchandise.
    - Jewellery business similarly recorded a drop of 2.6% y/y revenue of SGD0.8mn due to disposal of Citigems Pte Ltd in Apr 2018.
- Despite weaker revenues,, pre-tax profits from the key segments are higher.
    - Real Estate pre-tax profit up 31.0% y/y to SGD15.2mn mainly due to higher profit contribution from Australia 108 project
    - Financial Service Business pre-tax profit up 30.8% y/y due to higher profit from pawnbroking and lower foreign exchange loss.
    - Jewellery pre-tax loss shrunk to SGD1.4mn (1Q2018 pre-tax loss: SGD1.8mn) due to reduction in operating costs.
- Net profit fell 22% y/y to SGD7.1mn despite higher profits, mainly due to increase in financing costs (+59% y/y to SGD11.3mn) as Aspial no longer capitalises borrowing costs related to contracts with customers. Also, share of results of associates and joint venture turning to negative SGD1.1mn (1Q2018: +SGD0.6mn) due to reversal of capitalised borrowing costs of an associate and lower profit from its share of profit from AF Global Ltd.
- The results also saw the adoption of SFRS(I) 16 Leases. The impact to the financials led to depreciation rising 327% y/y to SGD6.3mn, with SGD78.3mn right-of-use assets now booked on the balance sheet (previously: nil) along with SGD78.7mn of lease liabilities. The change in accounting also likely resulted in other operating costs falling 28% y/t to SGD21.2mn as leases are no longer expensed off.
- According to Aspial, it expects to receive up to SGD520mn from the settlement and handovers of units from Australia 108 project, which has progressed to level 75 out of 100 levels, which is expected to complete progressively from 2019 to 2020. However, we think the actual settlement may differ, noting that the percentage sold for Australia 108 falling to 88% (4Q2018: 89%, 1Q2018: 98%), which we think is due to buyers walking away.
- Net gearing improved to 2.54x (4Q2018: 2.67x) though the levels remain elevated. Cash of SGD75.9mn does not cover SGD530.9mn in short term debt. Excluding the amounts due to 64.7%-owned Maxi-Cash, short term debt remains substantial at SGD294.8mn. That said, we note operating cashflow improved to SGD41.9mn (1Q2018: SGD26.5mn), helped by settlement of units sold for Avant and Australia 108. **As such, it will be critical for the settlement from Australia 108 (Melbourne) project to progress**, while we note that Melbourne residential prices have softened in recent quarters (-6.4% y/y as of Dec 2018)**.** We also note that AUD has depreciated ~5% y/y against SGD, which may reduce the eventual amounts that Aspial receive if AUD continues to depreciate. Aspial intends to use the cash proceeds to repurchase its term notes and bonds, including those maturing in 2019 and 2020. Aspial expects its debt and cash profile to improve in the coming quarters. We continue to hold Aspial at a Negative (6) Issuer Profile. (Company, OCBC)

Credit Headlines (cont'd)

Groupe BPCE ("GBPCE") / BPCE SA | Issuer Profile: Neutral (3)

- GBPCE announced its 1QFY2019 results with reported gross operating income down 9.8% y/y. This was driven by a 1.0% y/y fall in net banking income from continued weakness in Global markets performance within Corporate & investment Banking which was partially offset by solid performance in GBPCE's Retail Banking & Insurance division, particularly its retail networks.
- Conversely, reported operating expenses rose 1.7% y/y although this was due to contributions to the Single Resolution Fund (+10.7% y/y) and transformation and reorganization costs of EUR257mn. Excluding these costs, operating expenses fell 2.9% y/y mostly due to cost reductions in retail banking networks while costs in Corporate & investment Banking rose y/y.
- Reported risk costs rose 13.4% y/y to EUR294mn which is against prior period trends but in line with peers given the low base in 1Q2018. GBPCE maintains that the cost of risk as measured as a percentage of gross customer outstandings remains low at 17bps for 1Q2019 against 16bps for 1Q2018 and below average risk costs in both FY2017 and FY2018 (23bps) as well as management guidance of 20-30bps in its 2018/2020 Strategic Plan. The reported ratio of non-performing loans to gross loan outstandings fell to 2.7% as at 31 March 2019 against 2.8% as at 31 December 2018.
- By segment, the Retail Banking & Insurance division continues to perform well across all divisions with net banking income up 2.3% y/y, operating expenses fell 2.3% and cost of risk up 27.1% leading to income before tax up 6.2% y/y. Conversely, income before tax for Corporate & investment Banking fell 40.4% y/y on a 14.5% y/y fall in net banking income and a 2.5% y/y rise in operating expenses. Asset & Wealth Management also saw y/y decline in income before tax (-12.1% y/y) on weaker net banking income (-3.3% y/y) and marginally higher expenses (+0.9% y/y). Retail Banking & Insurance continues to be the largest contributor to business unit net banking income contributing 72.0% while Corporate & investment Banking and Asset & Wealth Management contribute evenly to the rest.
- As such, reported income before tax fell 26.3% y/y to EUR901mn. Excluding the impact of transformation and reorganization costs, income before tax still fell 8.7% y/y due to the fall in net banking income.
- GBPCE's capital position remains sound with its estimated CET1 capital ratio at 15.6% as at 31 March 2019 against 15.8% as at 31 December 2018. This was due primarily to risk weighted asset growth (-35bps) and other changes (-14bps) which was mitigated by capital generation (+11bps) and issue of co-operative shares (+17bps). GBPCE have further highlighted that the estimated CET1 ratio would fall further to 15.4% if including strategic initiatives as per its transformation plan such as acquisitions including a 50.1% stake in the capital of Oney Bank and disposal of assets in Africa. This remains above GBPCE's minimum 9.77% as defined in the 2018 Supervisory Review and Evaluation Process. This includes Pillar 1 and Pillar 2 requirements as well as buffers for capital conservation and global systemic importance. GBPCE's Total Loss-Absorbing Capacity (TLAC) ratio rose marginally to 22.6% from 22.5% and remains above the target level in its TEC 2020 strategic plan of more than 21.5% by early 2019.
- We continue to view GBPCE's performance as resilient and supporting of its Neutral (3) issuer profile rating. (OCBC, Company)

Table 1: Key Financial Indicators

	10-May	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	71	7	4
iTraxx SovX APAC	47	4	3
iTraxx Japan	60	5	2
iTraxx Australia	73	7	2
CDX NA IG	63	5	4
CDX NA HY	107	-1	-1
iTraxx Eur Main	67	8	7
iTraxx Eur XO	280	28	26
iTraxx Eur Snr Fin	79	10	7
iTraxx Sovx WE	17	1	-1
AUD/USD	0.699	-0.36%	-2.48%
EUR/USD	1.123	0.29%	-0.39%
USD/SGD	1.364	-0.22%	-0.86%
China 5Y CDS	48	7	5
Malaysia 5Y CDS	65	9	10
Indonesia 5Y CDS	106	10	8
Thailand 5Y CDS	38	2	-3

	10-May	1W chg	1M chg
Brent Crude Spot ($/bbl)	70.99	0.20%	-1.03%
Gold Spot ($/oz)	1,284.92	0.45%	-1.76%
CRB	179.01	-1.59%	-5.62%
GSCI	434.00	-1.42%	-4.37%
VIX	19.1	32.45%	43.61%
CT10 (bp)	2.453%	-7.21	-1.20
USD Swap Spread 10Y (bp)	-2	0	0
USD Swap Spread 30Y (bp)	-25	-2	0
US Libor-OIS Spread (bp)	17	1	-3
Euro Libor-OIS Spread (bp)	6	0	0
DJIA	25,828	-1.82%	-1.26%
SPX	2,871	-1.60%	-0.61%
MSCI Asiax	643	-5.37%	-5.98%
HSI	28,311	-5.89%	-6.00%
STI	3,287	-3.10%	-1.22%
KLCI	1,613	-1.49%	-1.62%
JCI	6,199	-2.76%	-4.31%

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New issues

- Asian Infrastructure Investment Bank has priced a USD2.5bn 5-year bond at MS+6bps, tightening from IPT of MS+8bps area.
- Yankuang Group (Cayman) Limited has priced a USD500mn re-tap of its existing YGCZCH 6.0%'22s (Yankuang Group Co Ltd) at 5.5%, tightening from IPT of 5.8% area.
- E-House (China) Enterprise Holdings Limited has priced a USD100mn re-tap of its existing EHOUSE 7.75%'21s (subsidiary guarantors: certain of issuer's existing subsidiaries incorporated outside the PRC) at 8.5%, tightening from IPT of 8.625% area.
- Industrial and Commercial Bank of China Limited has priced a USD200mn 2-year bond at 2.5%.

Date	Issuer	Size	Tenor	Pricing
9-May-19	Asian Infrastructure Investment Bank	USD2.5bn	5-year	MS+6bps
9-May-19	Yankuang Group (Cayman) Limited	USD500mn	YGCZCH 6.0%'22s	5.5%
9-May-19	E-House (China) Enterprise Holdings Limited	USD100mn	EHOUSE 7.75%'21s	8.5%
9-May-19	Industrial and Commercial Bank of China Limited	USD200mn	2-year	2.5%
8-May-19	CCBL (Cayman) 1 Corporation Ltd	USD500mn USD200mn	5-year 10-year	T+130bps T+195bps
8-May-19	MGM China Holdings Limited	USD750mn USD750mn	5NC2 7NC3	5.375% 5.875%
7-May-19	Car Inc	USD372.3mn	3-year	8.875%
7-May-19	Woori Financial Group Inc	USD450mn	5-year	3M-US LIBOR+77bps
7-May-19	Qingdao Jiaozhou Bay Development Group Co Ltd	USD80mn	QDJZWD 6.5%'21s	7.2%
2-May-19	Medco Oak Tree Pte Ltd	USD650mn	7NC4	7.70%
2-May-19	SD International Sukuk Ltd	USD300mn	3-year	6.30%
2-May-19	Alam Synergy Pte Ltd	USD125mn	ASRIIJ 6.625%'22s	95.176+accrued

Source: OCBC, Bloomberg

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