

Feb 13, 2019

Credit Headlines: Perennial Real Estate Holdings Ltd, Groupe BPCE

Market Commentary

- The SGD swap curve steepened yesterday, with the shorter tenors trading 1-2bps higher while the longer tenors traded 2-3bps higher (with the exception of the 12-year swap rate trading only 1bps higher).
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 149bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 6bps to 518bps.
- Flows in the SGD corporates were heavy yesterday, with flows seen in SINTEC 5.0%-PERPs, LLCAU 3.9%'27s, UBS 5.875%-PERPs and MAPLSP 3.95%-PERPs.
- 10Y UST yields rose 4bps to close the trading session at 2.69%, after a tentative agreement was made by US lawmakers to avoid another government shutdown, boosting stock markets and reducing safe-haven demand. Optimism that a deal will materialise out of the ongoing US-China trade talks also weighed in positively on market sentiments. Investors await the expected release of inflation data later in the day for further signals regarding the interest rate policy going forward.

Credit Headlines

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

- PREH released 4Q2018 results. Revenue increased 43.6% y/y to SGD23.0mn due to revenue from Capitol Singapore (which PREH fully acquired in May 2018 after the [resolution of the deadlock](#)) and Perennial International Health and Medical Hub (“PIHMH”) which started contributing since 2Q2018. However, due to (1) operational costs of Capitol Singapore, especially due to staff hired for Capitol Kempinski Hotel, (2) costs of operating PIHMH and (3) marketing and promotional expenses to market the 39-unit luxury Eden Residence, gross profit fell 40.3% y/y to SGD5.3mn. As a result, net profit fell by 38.2% y/y to SGD25.5mn. Correspondingly, we estimate that reported EBIT (without fair value changes) fell 22.2% y/y to SGD18.9mn.
- While results appear weak now, we expect underlying results to improve following the opening and repositioning of Capital Singapore, which should benefit from the opening of Capitol Kempinski Hotel.
- Cash of SGD76.9mn is insufficient to cover SGD762.0mn borrowings due within the next 12 months, which include SGD125mn PREHSP 4.9% '19s due in Mar 2019, unsecured loan of SGD410mn and SGD227mn. These will need to be refinanced as we do not expect operating cashflows to cover the shortfall. That said, we remain comfortable as PREH may obtain liquidity from divestments (e.g. AXA Tower) while it maintains access to the loan and capital market. However, we do note that no transaction has taken place yet for AXA Tower despite being put up for sale since Jul 2017, perhaps as PREH is holding out for a better offer. In the worst case scenario, we think PREH can also monetise its ~11%-stake in United Engineers Ltd, which we estimate is worth ~SGD184mn.
- Net gearing though inched down q/q to 72.7% (3Q2018: 76.0%) due to loans and capital injection from joint venture and non-controlling interests of SGD60.4mn. We continue to hold PREH at a Neutral (5) Issuer Profile. (Company, OCBC)

Credit Headlines (cont'd)

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

- GBPCE announced its FY2018 results which were somewhat of a contrast to [BNP Paribas SA's](#) and [Société Générale's](#) recent results announcements although overall reported income before tax fell 4.0% y/y to EUR5.3bn. This was driven mostly by a 3.4% rise in reported operating expenses due to materially higher transformation and re-organization costs (+146% y/y). Excluding these, underlying operating expenses rose 1.7% y/y.
- Otherwise, reported net banking income rose 1.2% y/y due to solid performance in GBPCE's retail banking networks as well as past strategic focus on Insurance, Specialized Financial Services and Payments businesses. Business momentum in Asset & Wealth Management was also supportive as was revenue growth in Global Finance and M&A which mitigated weaker Global markets performance within Corporate & investment Banking.
- Cost of risk continued to improve, down 4.6% y/y with cost of risk stable in retail banking and down ~10% y/y in Corporate & Investment Banking. Other loan quality indicators also improved in kind with the ratio of non-performing loans to gross loan outstandings down to 2.8% as at 31 December 2018 against 3.2% as at 1 January 2018 while the impaired loans coverage ratio improved to 74.5% against 71.4% over the same period.
- Underlying performance which excludes transformation and re-organization costs and other exceptional items paints a more constructive picture with underlying income before tax only down 0.4% y/y as a 0.1% y/y rise in underlying net banking income and a 7.8% y/y fall in underlying cost of risk offset the aforementioned 1.7% y/y rise in underlying operating expenses (1.2% y/y rise excluding the Single Resolution Fund contribution).
- GBPCE's capital position remains sound with its estimated CET1 capital ratio at 15.8% as at 31 December 2018 compared to 15.2% as at 1 January 2018. This was due primarily to net capital generation (retained earnings less growth in risk weighted assets) as well as issuance of co-operative shares with its pro-forma CET1 ratio at 15.5% as at 31 December 2018 including proforma impacts from business integration, disposals and acquisitions. GBPCE's Total Loss-Absorbing Capacity (TLAC) ratio rose to 22.5% and remains above the target level in its TEC 2020 strategic plan of more than 21.5% by early 2019.
- Overall results show GBPCE's underlying business resilience. Note that we raised our issuer profile rating on GBPCE in our [Singapore Credit Outlook 2019](#) to Neutral (3) from Neutral (4) on its consistent performance so the results are in line with our expectations. We are overweight the BPCEGP 4.45 '25c20 and BPCEGP 4.5 '26c21. (OCBC, Company)

Table 1: Key Financial Indicators

	13-Feb	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	78	0	-12
iTraxx SovX APAC	60	1	-8
iTraxx Japan	63	3	-14
iTraxx Australia	76	3	-14
CDX NA IG	65	-1	-14
CDX NA HY	106	0	3
iTraxx Eur Main	71	1	-11
iTraxx Eur XO	309	2	-34
iTraxx Eur Snr Fin	90	3	-15
iTraxx Sovx WE	24	0	-2
AUD/USD	0.713	0.35%	-0.93%
EUR/USD	1.134	-0.23%	-1.16%
USD/SGD	1.355	0.09%	-0.09%
China 5Y CDS	55	2	-9
Malaysia 5Y CDS	79	0	-18
Indonesia 5Y CDS	114	3	-16
Thailand 5Y CDS	46	6	0

	13-Feb	1W chg	1M chg
Brent Crude Spot (\$/bbl)	62.94	0.40%	4.07%
Gold Spot (\$/oz)	1,313.55	0.53%	1.69%
CRB	178.21	-0.97%	0.07%
GSCI	410.36	-0.40%	1.85%
VIX	15.43	-0.90%	-15.17%
CT10 (bp)	2.690%	-0.51	-1.12
USD Swap Spread 10Y (bp)	2	0	0
USD Swap Spread 30Y (bp)	-18	0	2
US Libor-OIS Spread (bp)	28	-4	-9
Euro Libor-OIS Spread (bp)	5	0	0
DJIA	25,426	0.06%	5.96%
SPX	2,745	0.26%	5.72%
MSCI Asiax	642	-0.06%	4.94%
HSI	28,502	2.05%	6.88%
STI	3,236	1.61%	1.16%
KLCI	1,684	0.05%	0.07%
JCI	6,438	-1.67%	1.21%

New issues

- Sunac China Holdings Ltd has priced a USD800mn 3NC2 bond (subsidiary guarantors: certain of company's restricted subsidiaries outside the PRC) at 7.875%, tightening from IPT of 8.125% area.
- Korea Development Bank has priced a USD1bn deal across 2 tranches, with the USD500mn 3-year bond at CT3+65bps (tightening from IPT of CT3+90bps area) and the USD500mn 5-year bond at CT5+85bps (tightening from IPT of CT5+110bps area).
- Bank of New Zealand has priced a USD750mn 5-year bond at CT5+108bps, tightening from IPT of CT5+125bps area.
- RHB Bank Berhad has priced a USD300mn 5-year bond at CT5+128bps, tightening from IPT of CT5+155bps area.
- Perusahaan Penerbit SBSN Indonesia III (obligor: The Government of the Republic of Indonesia represented by the Ministry of Finance) has priced a USD750mn 5.5-year Sukuk bond at 3.9% and a USD1.25bn 10-year Sukuk bond at 4.45%, tightening from IPT of 4.2% and 4.7% area respectively.
- China Construction Bank Corporation has scheduled investor meetings from 14 Feb for its potential USD 10NC5 Tier 2 bond issuance.
- Airport Authority (wholly owned by the Government of Hong Kong) has mandated banks for its potential USD bond issuance.

<u>Date</u>	<u>Issuer</u>	<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
12-Feb-19	Sunac China Holdings Ltd	USD800mn	3NC2	7.875%
12-Feb-19	Korea Development Bank	USD500mn USD500mn	3-year 5-year	CT3+65bps CT5+85bps
12-Feb-19	Bank of New Zealand	USD750mn	5-year	CT5+108bps
12-Feb-19	RHB Bank Berhad	USD300mn	5-year	CT5+128bps
12-Feb-19	Perusahaan Penerbit SBSN Indonesia III	USD750mn USD1.25bn	5.5-year 10-year	3.9% 4.45%
11-Feb-19	China Aoyuan Group Ltd	USD225mn	4NC3	7.95%
11-Feb-19	Zhenro Properties Group Ltd	USD230mn	2.5-year	10.75%
31-Jan-19	Towngas (Finance) Ltd (The Hong Kong and China Gas Company Ltd)	USD300mn	NC5-perpetual	4.75%
31-Jan-19	Mongolian Mortgage Corp (MIK Holding JSC)	USD50mn	MGMTGE 9.75%'22s	9.75%
31-Jan-19	Chengdu Economic & Technological Development Zone State-Owned Assets Investment & Operating Co Ltd	USD250mn	3-year	7.5%
31-Jan-19	AC Energy Finance International Ltd	USD110mn USD75mn	10-year ACNRGY 4.75%'24s	5.3% 4.88%

Source: OCBC, Bloomberg

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