Asian Credit Daily

Feb 14, 2019

Credit Headlines: Frasers Property Ltd, Wing Tai Holdings Ltd, ABN Amro Group NV, Singapore Telecommunications Ltd

Market Commentary

- The SGD swap curve flattened yesterday, trading 1bps lower across most tenors (with the exception of the 12-year swap rate unchanged and the 30-year swap rate trading 2bps higher).
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 2bps to 146bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 7bps to 511bps.
- Flows in the SGD corporates were heavy yesterday, with flows seen in UBS 5.875%-PERPs, DBSSP 3.98%-PERPs, HSBC 4.7%-PERPs and JTCSP 2.965%'21s.
- 10Y UST yields rose 1bps to close the trading session at 2.70%, after data released showed a rise in inflation with core consumer prices rising in January, indicating room for the Federal Reserve to continue its interest rate hike.

Credit Headlines

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

- FPL reported 1QFY2019 results for the quarter ending 31 Dec. Revenue rose 44.7% y/y to SGD1.08bn, mainly due to (1) outperformance in the Australia SBU (+119.4% y/y to SGD471.1mn) with 580 units settled in 1QFY2019 and (2) outperformance in the Europe & rest of Asia SBU (+132.8% y/y to SGD159.5mn) with sales and settlements from Phase 3B of Baitang One (Suzhou), contribution from business parks acquired over FY2018 and consolidation of Frasers Property Thailand (previously known as TICON) from Apr 2018. The remaining segments from Singapore SBU (-4.1% y/y to SGD242.7mn) and Hospitality SBU (-0.5% y/y to SGD210.0mn) impacted the results less.
- Reported PBIT rose 50.7% y/y to SGD354.4mn, in-line with revenue trends. Australia SBU recorded a significant rise (+119.1% y/y to SGD139.4mn) mainly due to residential development (+424% y/y to SGD83.9mn). Europe & rest of Asia (SGD89.5mn) grew strongly with better results from Europe (+23.5% y/y to SGD36.3mn), China (reversing from loss of SGD1.2mn to +SGD27.8mn) and Thailand and Vietnam (+80.1% y/y to SGD25.4mn). Singapore SBU (+0.8% y/y to SGD101.6mn) and Hospitality SBU (+8.4% y/y to SGD39.8mn) posted smaller growth. As a result, net profit rose 50.0% y/y to SGD213.8mn
- Looking forward, Australia should continue to sustain earnings with (1) SGD1.1bn in unrecognised residential revenue, (2) 2,300 units planned to be released in FY2019 and (3) potential sale of five industrial facilities under development with gross development value of SGD436mn. Contribution from Europe & rest of Asia should also be boosted with acquisitions of 6 logistic warehouses in Austria (3 totalling SGD95.6mn) and Germany (3 totalling SGD105.4mn) and SGD0.3mn unrecognised development revenue in China. In Singapore, commencements of operations at Frasers Tower and south wing of Northpoint City should support revenues, along with SGD0.2bn of unrecognised revenue from residential sales.
- Net gearing remained flattish q/q at 0.87x with a big part of operating cashflows of SGD362.2mn consumed by net cash used in investing activities (SGD142.3mn), dividends (SGD112.4mn) and interest/distributions (SGD92.7mn). Despite having higher net gearing than peers such as CapitaLand Ltd (0.51x) and City Developments Ltd (0.24x), we remain comfortable with FPL with its recurring income (from ownership in REITs and other investment properties) and potential to recycle assets. (Company, OCBC)

Credit Headlines (cont'd)

Wing Tai Holdings Ltd ("WTH") | Issuer Profile: Neutral (4)

- WTH reported 2QFY2019 results for the quarter ended 31 Dec. Revenue rose 7% y/y to SGD116.0mn, which we think is due to property sales in Malaysia. However, we think that margins on such development projects are likely lower, which corresponds to the dip in gross profit (-17% y/y to SGD42.0mn).
- Despite lower gross profit, net profit though rose y/y to SGD16.5mn (2QFY2018: SGD2.1mn) as other losses in 2QFY2018 (SGD8.8mn) reversed into gains of SGD1.7mn in 2QFY2019 due to the absence of write-off of development costs incurred for a project and higher share of profits of associated and joint venture companies (+70% y/y to SGD22.8mn) due to higher contributions from Wing Tai Properties Ltd and Uniqlo in Singapore and Malaysia.
- Net cash position is smaller q/q, declining to SGD50.6mn (1QFY2019: SGD75.2mn) with cash outflows from dividends (SGD61.5mn) and interest/distribution paid (SGD9.2mn) exceeding SGD47.3mn in operating cashflows. Adjusting the senior perpetuals as debt, net gearing still look healthy at 2.9%. We think net gearing may potentially climb as WTH continues to guide that it is on a lookout for investment opportunities in Singapore and overseas markets. Meanwhile, we continue to hold WTH at a Neutral (4) Issuer Profile in view of its healthy credit metrics. (Company, OCBC)

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

- ABN announced its 4Q2018 and FY2018 results with a challenging 4Q2018 partially dragging down the full year results. 4Q2018 operating income was down 11% y/y to EUR2.2bn due to a 3% y/y fall in net interest income (stable to slightly lower loan volumes and stable net interest margins) and a 4% y/y fall in net fee and commission income.
- Other operating income was also down 69% y/y due to the inclusion of divestment gains in 4Q2017 while impairment charges rose materially by EUR242mn to EUR208mn. This mitigated an 8% y/y fall in 4Q2018 operating expenses and contributed to a 42% y/y fall in 4Q2018 profit after tax of EUR316mn.
- For FY2018, operating income was down 2% y/y largely as a result of the lower other operating income in 4Q2018 mentioned previously while profit after tax was down 17% y/y due to the large rise in impairment charges. The positive amongst the weaker y/y results is the 4% y/y fall in operating expenses from cost savings (including divestment and incidentals), lower employees and lower restructuring costs.
- With regards to the higher impairments that had a large impact on results, these were due to specific clients & sectors, in particular those related to offshore energy and diamonds exposures in Corporate & Institutional Banking. Corporate Banking impairments were across various industries. According to management, half of the impairments were due to model reviews with the impairments made on already impaired loans.
- Overall, ABN's credit profile remains supported by its solid capital position with its CET1 ratio at 18.4% as at 31 December 2018. It fell by 20bps from 30 September 2018 (but rose 70bps against 17.7% as at 31 December 2017) due to dividend accrual and RWA asset increase from model reviews. Its fully loaded leverage ratio was 4.2% as at 31 December 2018 against 4.1% as at 30 Sept 2018. Both the CET1 and leverage 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%. As a reminder, the 2018 European Banking Authority stress test announced early November 2018 showed that in a stress scenario, ABN would fare better than other European banks under our coverage.
- In additional news, ABN flagged its intention to legally merge ABN Amro Group with ABN Amro Bank to simplify the bank's corporate structure. This is expected to positively impact ABN's leverage ratio by 20bps as well as its Tier 1 and total capital ratios. The merger remains subject to approval from depositary receipts holders, shareholders and regulators.
- On balance, the weaker y/y results are due to the presence of one-offs in 2017 that improved prior year other operating income and impairment charges. Deceleration of loans growth shows potential challenges to 2019 earnings from expectations that economic growth will gradually slow over 2018-2020, however all up the results would not alter ABN's neutral (3) issuer profile. (OCBC, Company)

Credit Headlines (cont'd)

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

- SingTel reported 3QFY2019 results for the quarter ending 31 Dec. Overall, results are lacklustre despite stability in the topline.
- Revenue rose 1% y/y to SGD4.63bn mainly due to growth in Group Enterprise (+0.9% y/y to SGD1.61bn) and Group Digital Life (+16.7% y/y to SGD379mn) which outweighed the declines in Group Consumer (-1.0% y/y to SGD2.64bn).
    - Group Consumer's decline is mainly due to Singapore, which fell 5.7% y/y to SGD598mn with declines in mobile service (-4.2% y/y to SGD261mn) with intense competition and sale of equipment (-7.4% y/y to SGD188mn). The fall is partly mitigated by higher operating revenue from Australia (+6.0% y/y to AUD2.07bn) due to higher equipment sales (+31.1% y/y to AUD634mn) though mobile service saw declines (-3.5% y/y to AUD897mn) with data price competition.
        - Singapore Postpaid ARPU down 7%, Australia Postpaid ARPU declined 7.3% y/y.
    - 0.9% rise in Group Enterprise to SGD1.61bn with outperformance in ICT (+8.7% y/y to SGD771mn) offsetting declines in traditional legacy services. Which include mobile service (-8.3% y/y to SGD192mn) and fixed voice (-11.7% y/y to SGD112mn).
- However, reported EBITDA plunged 11% y/y to SGD1.19bn, with declines in the core segments of Group Consumer (-10.8% y/y to SGD795mn) and Group Enterprise (-9.0% y/y to SGD428mn) while Group Digital Life remained a small negative contributor (-SGD16mn). Without the impact from NBN migrations and dispute settlement (one-off), reported EBITDA would have declined just 2.5% y/y.
    - Singapore Consumer reported EBITDA down 3.2% y/y to SGD194mn in-line with fall in revenue. Australia reported EBITDA down 8.3% y/y to AUD615mn due to due to lower NBN migration and one-off dispute settlement in 3QFY2018, though reported EBITDA would have increased 3.1% y/y without NBN and dispute settlement.
    - EBITDA for Group Enterprise fell 9.0% y/y to SGD428mn due to change in revenue mix (with higher ICT revenue that has lower margin), increased price competition and investments in cyber security business.
- Associates pre-tax earnings were down 35% y/y to SGD342mn, mainly due to lower contribution from Telkomsel (-7.4% y/y to SGD305mn) and Airtel which delivered a negative pre-tax earnings of SGD129mn (3QFY2018: +SGD38mn) with intense competition.
- On the back of weaker results, SingTel has shaded down its guidance for FY2019. EBITDA is forecasted to decline by low single digit (2QFY2019: stable), Australia mobile service revenue is forecasted to be stable (2QFY2019: grow by low single digit) and Group ICT revenue is expected to increase by low single digit (2QFY2019: grow by mid single digit).
- Reported net debt/(EBITDA + share of associates pre-tax profits) and reported net gearing are stable q/q at 1.58x and 25.2% respectively though free cash flow has declined 51.3% y/y to SGD387mn. While operating results have deteriorated, credit metrics are still within our Positive (2) Issuer Profile which we are maintaining. (Company, OCBC)

OCBC Bank

Table 1: Key Financial Indicators

	14-Feb	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	75	-5	-15
iTraxx SovX APAC	58	-2	-9
iTraxx Japan	61	0	-16
iTraxx Australia	74	-2	-16
CDX NA IG	65	-4	-14
CDX NA HY	106	1	3
iTraxx Eur Main	70	-3	-12
iTraxx Eur XO	307	-10	-35
iTraxx Eur Snr Fin	88	-3	-16
iTraxx Sovx WE	24	-1	-2
AUD/USD	0.712	0.27%	-1.07%
EUR/USD	1.128	-0.55%	-1.66%
USD/SGD	1.357	-0.07%	-0.28%
China 5Y CDS	53	-3	-11
Malaysia 5Y CDS	75	-6	-21
Indonesia 5Y CDS	110	-4	-20
Thailand 5Y CDS	45	5	-1

	14-Feb	1W chg	1M chg
Brent Crude Spot ($/bbl)	64.15	4.09%	8.75%
Gold Spot ($/oz)	1,308.79	-0.10%	1.32%
CRB	178.72	-1.02%	0.52%
GSCI	414.69	2.10%	3.77%
VIX	15.65	1.76%	-17.93%
CT10 (bp)	2.709%	5.21	0.69
USD Swap Spread 10Y (bp)	3	0	0
USD Swap Spread 30Y (bp)	-18	1	3
US Libor-OIS Spread (bp)	29	-1	-8
Euro Libor-OIS Spread (bp)	5	0	0
DJIA	25,543	0.60%	6.83%
SPX	2,753	0.78%	6.60%
MSCI Asiax	646	0.81%	6.90%
HSI	28,376	1.38%	7.90%
STI	3,248	1.49%	2.36%
KLCI	1,685	-0.48%	0.55%
JCI	6,412	-1.90%	1.20%

New issues

- Shimao Property Holdings Ltd has priced a USD1.0bn 5NC3 bond (subsidiary guarantors: certain of company's restricted subsidiaries outside the PRC) at 6.125%, tightening from IPT of 6.5% area.
- Times China Holdings Limited has priced a USD500mn 3NC2 bond (subsidiary guarantors: certain of issuer's restricted subsidiaries incorporated outside the PRC) at 7.625%, tightening from IPT of 8.0% area.
- Airport Authority (statutory body wholly owned by the Government of Hong Kong) has priced a USD500mn 10-year bond at CT10+78bps, tightening from IPT of CT10+105bps area.
- Shriram Transport Finance Co. has scheduled investor meetings from 14 Feb for its potential USD bond issuance.
- China Resources Land Ltd has scheduled roadshows from 14-15 Feb for its potential USD bond issuance.

Date	Issuer	Size	Tenor	Pricing
13-Feb-19	Shimao Property Holdings Ltd	USD1.0bn	5NC3	6.125%
13-Feb-19	Times China Holdings Ltd	USD500mn	3NC2	7.625%
13-Feb-19	Airport Authority	USD500mn	10-year	CT10+78bps
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%

Source: OCBC, Bloomberg

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