

Mar 18, 2019

Credit Headlines: China Aoyuan Group Ltd, Commerzbank AG

Market Commentary

- The SGD swap curve flattened last Friday, with the shorter tenors trading 1bps lower, while the belly and longer tenors traded 2-4bps lower.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS traded little change at 137bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 3bps to 470bps.
- Flows in SGD corporates were heavy, with flows largely made of perpetuals, DBSSP 3.98%-PERPs, GUOLSP 4.6%-PERPs, HSBC 4.7%-PERPs, PREHSP 5.95%'20s and UBS 5.875%-PERPs.
- 10Y UST yields tumbled 4bps to close the session at 2.59%, on the back of softer-than-expected US economic data from the US manufacturing sector. The data compounded the market's benign inflation outlook and slowing US economy growth, with the Federal Reserve expected to continue with its dovish stance in the upcoming two-day policy meeting this week.

Credit Headlines

China Aoyuan Group Ltd (“CAPG”) | Issuer Profile: Neutral (5)

- CAPG announced its preliminary 2018 financials (income statement and statement of financial position provided though cash flow statement not provided). Gross revenue for 2018 was up by 62.2% y/y to RMB31.0bn, with the second half of the year recognising 27% more revenue than 1H2018.
- The increase in revenue for 2018 was driven by both the increase in gross floor area delivered (up 35.8% y/y) to 3.3mn sqm and the increase in average selling price by 21.8% to RMB9,007 per sqm. By segment, residential properties (aggregate of residential apartments and commercial apartments) made up 77% of total revenue versus 71% in 2017.
- Gross profit margin was also stronger at 31.1% versus 26.7% in 2017 driven by the rise in average selling price.
- Contracted sales as at end-2018 was RMB91.3bn, exceeding the full year target of RMB73.0bn by 25.1%. The average selling price on these were RMB10,300 per sqm, higher than those recognised in 2018. The Greater Bay Area (9 cities in Guangdong Province plus Hong Kong and Macao) comprise 31% of total contracted sales. For 2018, CAPG's cash collection ratio was ~78% (2017 and 1H2018: ~80%).
- EBITDA (based on our calculation which does not include other income and other expenses) was RMB6.5bn (up 91% y/y). While reported interest expense was only RMB410.6mn, with EBITDA/Interest of 15.8x (2017: 12.6x). In our view this overstates interest coverage at CAPG and using cash interest expense when this number is available is more representative (1H2018: cash flow from operations to cash interest paid of 3.8x).
- The higher EBITDA and fair value gains from investment properties and completed properties transferred to investment properties (~RMB865mn) helped offset higher expenses and an exchange loss of RMB605.3mn (2017: foreign exchange gain of RMB407.4mn), leading to a profit before tax of RMB7.0bn (2017: RMB3.6bn).
- As at 31 December 2018, unadjusted gross debt to equity was 1.9x (30 June 2018: 1.6x) while unadjusted gross debt to total assets was in line at 0.3x. Noticeably, long term debt had increased, with senior notes and bonds, bank loans and obligations under finance leases increasing. For now we are maintaining CAPG at Neutral (5). (Company, OCBC)

Credit Headlines (cont'd)

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

- Following the build-up of noise in the [past few weeks](#) and multiple [reports in the past](#), both CMZB and Deutsche Bank AG (OCBC Credit Research Issuer Profile: Unrated) have confirmed that talks are underway on a possible merger of the two. That said, the tone of the confirmations appear to be more open ended with the discussions as part of a review of each banks’ strategic options.
- Commentary surrounding a proposed transaction has not been complimentary with many seeing this as a combination out of convenience (or reluctance) rather than there being clear positives from such a combination.
- While intent is clearly there on the parts of both banks’ boards and also from the German government and makes the deal more likely to happen than not, there still remains questions on whether the benefits will outweigh the costs of such a complex merger and if the two banks can ultimately combine to become a stronger one. There is also expected to be resistance from the banks’ respective unions given the expected job attrition.
- We continue to monitor developments. (OCBC, Bloomberg)

Table 1: Key Financial Indicators

	18-Mar	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	67	-2	-8
iTraxx SovX APAC	50	-1	-7
iTraxx Japan	56	-3	-4
iTraxx Australia	69	-2	-3
CDX NA IG	58	-2	-4
CDX NA HY	106	0	0
iTraxx Eur Main	60	-2	-8
iTraxx Eur XO	270	-13	-26
iTraxx Eur Snr Fin	72	-2	-13
iTraxx Sovx WE	20	-1	-5
AUD/USD	0.711	0.62%	-0.22%
EUR/USD	1.134	0.81%	0.22%
USD/SGD	1.352	0.42%	0.32%
China 5Y CDS	46	-2	-7
Malaysia 5Y CDS	61	-2	-13
Indonesia 5Y CDS	98	-1	-13
Thailand 5Y CDS	44	-1	-4

	18-Mar	1W chg	1M chg
Brent Crude Spot (\$/bbl)	67.03	0.68%	0.80%
Gold Spot (\$/oz)	1,299.69	0.49%	-2.05%
CRB	183.87	1.77%	1.40%
GSCI	432.48	2.05%	2.14%
VIX	12.88	-19.75%	-13.62%
CT10 (bp)	2.596%	-4.32	-6.65
USD Swap Spread 10Y (bp)	2	0	-1
USD Swap Spread 30Y (bp)	-22	-3	-5
US Libor-OIS Spread (bp)	22	2	-2
Euro Libor-OIS Spread (bp)	5	0	0
DJIA	25,849	1.57%	-0.13%
SPX	2,822	2.89%	1.69%
MSCI Asiax	658	1.43%	2.41%
HSI	29,249	2.62%	3.18%
STI	3,212	0.65%	-1.64%
KLCI	1,687	1.35%	-0.33%
JCI	6,488	1.91%	-0.15%

New issues

- Bank of Communications Co Ltd, Hong Kong Branch, has priced a USD800mn 3-year FRN at 3-month LIBOR +78bps, tightening from IPT of +105bps area.
- Export-Import Bank of China has priced a USD250mn 5-year FRN at 3-month LIBOR +70bps.
- City Developments Ltd has priced a SGD250mn 5-year bond at 3.0%.
- CJ Logistics Asia Pte Ltd has priced a SGD70mn 5-year bond at 2.938%.
- ESR Cayman Ltd has priced a SGD77.25mn re-tap of its existing ESRCAY 6.75%'22s at par.
- Indian Railway Finance Corporation has scheduled investor meetings from 18 March for its potential USD bond issuance.

<u>Date</u>	<u>Issuer</u>	<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
15-Mar-19	Bank of Communications Co Ltd, Hong Kong Branch	USD800mn	3-year	3M-LIBOR +78bps
15-Mar-19	Export-Import Bank of China	USD250mn	5-year	3M-LIBOR +70bps
15-Mar-19	City Developments Ltd	SGD250mn	5-year	3.0%
15-Mar-19	CJ Logistics Asia Pte Ltd	SGD70mn	5-year	2.938%
15-Mar-19	ESR Cayman Ltd	SGD77.25mn	ESRCAY 6.75%'22s	100
14-Mar-19	Sunny Express Enterprises Corp	USD500mn	3-year	CT3+110bps
14-Mar-19	Xinjiang Financial Investment Co Ltd	USD200mn	3-year	7.5%
14-Mar-19	Yango (Cayman) Investment Ltd	USD150mn	1.5-year	12.75%
14-Mar-19	Chengdu Communications Investment Group Co Ltd	USD100mn	CDCOMM 5.125%'21s	100.954
14-Mar-19	Mapletree Industrial Trust Treasury Company Pte Ltd	SGD125mn	10-year	3.58%
13-Mar-19	Joy Treasure Assets Holdings Inc	USD400mn USD300mn	5-year 10-year	CT5+150bps CT10+200bps
12-Mar-19	Guorui Properties Ltd	USD295mn	GUOPRO 13.5'22s	97
12-Mar-19	ANZ New Zealand (Int'l) Ltd	USD750mn	5-year	CT5+100bps

Source: OCBC, Bloomberg

Andrew Wong

Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6530 4736
wongVKAM@ocbc.com

Ezien Hoo, CFA

Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6722 2215
EzienHoo@ocbc.com

Wong Hong Wei, CFA

Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6722 2533
WongHongWei@ocbc.com

Seow Zhi Qi

Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6530 7348
zhiqiseow@ocbc.com

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC Bank, its related companies, their respective directors and/or employees (collectively "Related Persons") may or might have in the future interests in the investment products or the issuers mentioned herein. Such interests include effecting transactions in such investment products, and providing broking, investment banking and other financial services to such issuers. OCBC Bank and its Related Persons may also be related to, and receive fees from, providers of such investment products.

This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "**Relevant Materials**") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "**Relevant Entity**") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("**MiFID**") and the EU's Markets in Financial Instruments Regulation (600/2014) ("**MiFIR**") (together referred to as "**MiFID II**"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).