

Market Commentary

- The SGD swap curve bear-steepened last Friday, with the shorter tenors and belly traded 2-4bps higher, while the longer tenors traded 5-7bps higher.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS tightened 1bps to 137bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 2bps to 573bps.
- Flows in SGD corporates were heavy, with large ticket flows in STANLN 5.375%-PERPs and UOBSP 3.58%-PERPs. We also saw flows in HSBC 4.7%-PERPs, FPL 4.98%-PERPs, KEPSP 4.0%'42s, SOCGEN 6.125%-PERPs, TMGSP 4.8%'22s and KITSP 4.75%-PERPs.
- 10Y USTs gained 3bps to close at 1.56% amidst assessment on the extent of trade war impact, reports that the German government may be open to running a budget deficit to boost growth and rebound in stocks. Spread between 3-month treasury bills and 10-year treasury notes remains inverted, with the spread narrowing to -28bps.

Credit Summary:

- [Westpac Banking Corporation](#) | **Positive (2)**: WSTP announced its 3Q2019 trading update covering its credit quality, capital and funding positions. Credit quality is under pressure with stressed assets as a percentage of total committed exposures rising 10bps in the quarter to 1.20%. Australian unsecured 90+ delinquencies rose 4bps in the quarter although remains at a relatively low level of 1.91%. WSTP's capital position remains solid with its APRA compliant CET1 ratio as at 30 June 2019 of 10.5%, down 10bps from 10.6% as at 31 March 2019. In all, WSTP appears to have adequate buffers to meet operating challenges and as such the results are consistent with our Positive (2) issuer profile on WSTP.
- [Lendlease Group](#) | **Neutral (4)**: LLC reported FY2019 results for the year ended 30 Jun. Reported operating EBITDA declined 9% y/y to AUD1.49bn. LLC also confirmed that the sales process is underway for the E&S business. If the sale is completed, this would likely be credit positive as the E&S business is still a source of uncertainty, noting that the E&S business backlog remains somewhat significant at AUD3.8bn. Reported gearing fell h/h to 9.9% with an estimated cashflow from operating activities of ~AUD884.2mn in 2HFY2019, while liquidity remains ample at AUD3.9bn with AUD1.29bn in cash and AUD2.8bn in bank facilities. We continue to hold LLC at a Neutral (4) Issuer Profile.
- [China Aoyuan Group Limited](#) | **Neutral (5)**: CAPG announced its preliminary results for the six months ended 30 June 2019. Revenue was up 73.2% y/y to RMB23.7bn while gross profit was up by 80.6% y/y to RMB7.0bn. Reported interest expense was only RMB276.4mn though much of the interest expense were capitalised as part of properties under development for sale and investment properties under development. As at 30 June 2019, unadjusted gross gearing had ballooned to 2.19x, up from the 1.88x as at end-2018. Net-net, we think CAPG's credit direction is increasingly inconsistent with that of an issuer profile of Neutral (5) and we are reviewing the company for a downgrade.

Credit Research

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Asian Credit Daily**Credit Headlines****Westpac Banking Corporation (“WSTP”) | Issuer Profile: Positive (2)**

- WSTP also announced its 3Q2019 trading update covering its credit quality, capital and funding positions
- As expected given prior peer results and its exposure to the housing sector, WSTP’s credit quality is under pressure with stressed assets as a percentage of total committed exposures rising 10bps in the quarter to 1.20%. Components of the increase include rises in impaired assets (+1bps), watchlist and substandard facilities, particularly retail trade, manufacturing and property (+3bps) and 90+ day past due but not impaired (+6bps). As per Australia & New Zealand Banking Group Ltd’s recent results, the rise in 90+ day past due is from higher mortgage delinquencies. Management have indicated that the rise in Australian mortgage portfolio weakness is due to a combination of a soft property market as well as payment stress which is leading to longer time to sell properties in possession.
- In addition, Australian unsecured 90+ day delinquencies rose 4bps in the quarter although remains at a relatively low level of 1.91%. Credit quality pressures resulted in WSTP’s total provisions rising 1.8%, although the ratio of provisions to gross loans remained unchanged at 58bps indicated loan balances continue to grow despite softer operating conditions.
- WSTP’s capital position remains solid with its APRA compliant CET1 ratio as at 30 June 2019 of 10.5%, down 10bps from 10.6% as at 31 March 2019 due to the 2019 interim dividend payment as well as a 0.6% rise in risk weighted assets q/q. Driving risk weighted assets up were operational risk model changes towards standardised model outcomes and higher credit risk weighted assets from loans growth and weakness in the mortgage portfolio which was offset by a large reduction in interest rate risk in the banking book given lower interest rates. Earnings and the dividend reinvestment plan also helped keep WSTP’s CET1 ratio relatively stable. On an internationally comparable basis, the CET1 ratio was 15.9% as at 30 June 2019 against 16.2% as at 31 March 2016.
- As per APRA’s [recently announced proposal to improve the loss absorbing capacity for banks](#) in early July, WSTP expects to issue around AUD13bn in Tier 2 capital to meet the proposed 3% increase in total capital by January 2024 using risk weighted assets as at 31 March 2019. So far, WSTP has raised USD2.25bn of this amount.
- In all, WSTP appears to have adequate buffers to meet operating challenges and as such the results are consistent with our Positive (2) issuer profile on WSTP. (Company, OCBC)

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Credit Headlines

Lendlease Group (“LLC”) | Issuer Profile: Neutral (4)

- LLC reported FY2019 results for the year ended 30 Jun. Reported operating EBITDA, excluding Engineering & Services (“E&S”) declined 9% y/y to AUD1.49bn. This is mainly due to mixed results from the various business segments.
 - Development: Development segment is the outperformer with reported EBITDA rising 18% y/y to AUD793mn due to strong residential for sale apartment settlements, PLQ Office and US residential investment partnership. While the communities sub-segment in Australia was impacted by subdued market conditions, strong residential for sale apartments (e.g. Darling Square) kept EBITDA contribution from Australia stable y/y at AUD556mn.
 - Construction (excluding E&S): Reported EBITDA down 29% y/y to AUD211mn, mainly due to lower margins of 2.2% (FY2018: 3.1%). The decline is mainly from Australia (reported EBITDA: -35% y/y to AUD126mn) with EBITDA margin for Australia falling to 3.1% (FY2018: 5.2%).
 - Investment: EBITDA fell 27% y/y to AUD489mn, mainly due to decline in revaluations. Meanwhile, operating earnings were higher (+8.3% y/y to AUD144mn) while Funds Under Management (“FUM”) grew to AUD35.2bn (FY2018: AUD30.1bn)
- Meanwhile, the E&S business reported a loss of AUD461mn, mainly due to previously announced AUD500mn pre-tax provision from the underperforming projects. According to management, the amount of provision is appropriate. We think that it is unlikely for the projects causing the provision to further underperform as they are either completed (e.g. Gateway Upgrade North) or completing (e.g. Kingsford Smith Drive, North Connex M1/M2 Tunnel).
- LLC also confirmed that the sales process is underway for the E&S business. If the sale is completed, this would likely be credit positive as the E&S business is still a source of uncertainty, noting that the E&S business backlog remains somewhat significant at AUD3.8bn, which relates mostly to Melbourne Metro Tunnel Project (<20% completed) and West Connex 3A M4-M5 Link Tunnels (<20% completed).
- LLC appears to be looking to monetise assets (likely including ones owned by third parties but managed by LLC). According to the Business Times, LLC is considering a REIT listing on the SGX worth at least SGD1bn in market cap, with one property each in Singapore and Milan. Separately, Bloomberg reported that GIC is buying 25.1%-stake in Lendlease International Towers Sydney Trust from LLC and the Canada Pension Plan Investment Board.
- The pipeline ahead remains solid, with the total development pipeline approaching AUD100bn as of timing of results release (end Jun 2019: AUD76.1bn) The most significant project clinched recently is a AUD20bn San Francisco Bay Area project (secured post-FY2019), which will be jointly undertaken with Google to deliver mixed-use neighbourhoods with 15,000 residential units. The pipeline may grow further, given LLC’s preferred status for two projects in London (AUD14.5bn) and Birmingham (AUD2.7bn). According to LLC, FUM can be expected to double from AUD35.2bn due to the urbanisation pipeline.
- Reported gearing fell h/h to 9.9% (1HFY2019: 15.2%) with an estimated cashflow from operating activities of ~AUD884.2mn in 2HFY2019, which should be mainly due to apartment settlements (FY2019: AUD1.4bn) that are skewed towards the second half. Meanwhile, liquidity remains ample at AUD3.9bn with AUD1.29bn in cash and AUD2.8bn in bank facilities. We continue to hold LLC at a Neutral (4) Issuer Profile. (Company, Business Times, Bloomberg OCBC)

Asian Credit Daily**Credit Headlines****China Aoyuan Group Limited (“CAPG”) | Issuer Profile: Neutral (5)**

- CAPG announced its preliminary results for the six months ended 30 June 2019 (“1H2019”). Revenue was up 73.2% y/y to RMB23.7bn while gross profit was up by 80.6% y/y to RMB7.0bn on the back of strong contracted sales where properties were handed over in 1H2019. Despite the expanded operations, the increase in selling and distribution and administrative expenses were contained at 68% y/y, leading to a higher EBITDA (based on our calculation which does not include other income and other expenses) by 87% y/y to RMB4.9bn. CAPG ended the half year at a profit for the period of RMB2.8bn (1H2018: RMB1.5bn). For the first seven months of the year, contracted sales had remained strong at RMB60.3bn (up 30% y/y), with 42% coming from South China, namely Guangdong, Guangxi and Hainan and should continue to boost 2H2019 and 2020 operating results.
- Reported interest expense was only RMB276.4mn though much of the interest expense were capitalised as part of properties under development for sale and investment properties under development. In our view, the gross amount of interest (including amounts capitalised) is more representative of the interest coverage at CAPG. This was RMB3.3bn in 1H2019 versus only RMB1.7bn in 1H2018, with resultant EBITDA/Interest coverage of 1.5x in 1H2019, in line with 1H2018 though lower than the 1.8x for 2018.
- As at 30 June 2019, unadjusted gross gearing (excluding amounts due to minority interest investors, joint venture partners and lease liabilities) had ballooned to 2.19x, up from the 1.88x as at end-2018). This is also significantly higher than the 1.6x as at 30 June 2018 latest available financials when we first initiated coverage on CAPG. In addition, CAPG owes another RMB7.4bn on amounts due to minority interest investors, joint venture partners and lease liabilities which brings adjusted gross gearing to 2.4x, if these are assumed as debt.
- Post quarter end, CAPG announced that it has entered into share transfer agreements [to buy ~13.86%-stake in Aeon Life Insurance Company Ltd](#) (“Aeon Life”, Issuer profile: Unrated) for RMB3.26bn. CAPG’s proposed entry into an unfamiliar business may lead CAPG’s credit ratios to further weaken going forward. Additionally, the below average solvency ratios of AEON Life increases the likelihood of future capital calls from shareholders, in our view. Net-net, we think CAPG’s credit direction is increasingly inconsistent with that of an issuer profile of Neutral (5) and we are reviewing the company for a downgrade. (Company, OCBC).

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Key Market Movements

	19-Aug	1W chg (bps)	1M chg (bps)		19-Aug	1W chg	1M chg
iTraxx Asiax IG	68	-3	5	Brent Crude Spot (\$/bbl)	59.22	1.11%	-5.20%
iTraxx SovX APAC	43	-1	4	Gold Spot (\$/oz)	1,508.16	-0.20%	5.81%
iTraxx Japan	64	1	6	CRB	170.41	-0.98%	-4.58%
iTraxx Australia	69	-2	7	GSCI	395.88	-0.96%	-4.82%
CDX NA IG	58	-4	4	VIX	18.47	2.78%	27.82%
CDX NA HY	106	0	-1	CT10 (bp)	1.579%	-6.62	-47.60
iTraxx Eur Main	53	-6	3				
				AUD/USD	0.678	0.36%	-3.78%
iTraxx Eur XO	280	-9	27	EUR/USD	1.109	-1.09%	-1.15%
iTraxx Eur Snr Fin	68	-6	7	USD/SGD	1.386	0.08%	-1.84%
iTraxx Sovx WE	19	0	4				
				DJIA	25,886	-1.53%	-4.67%
USD Swap Spread 10Y	-11	0	-5	SPX	2,889	-1.03%	-2.95%
USD Swap Spread 30Y	-42	-2	-7	MSCI Asiax	602	0.21%	-7.98%
US Libor-OIS Spread	27	0	8	HSI	26,150	1.26%	-9.09%
Euro Libor-OIS Spread	5	0	-1	STI	3,127	-1.34%	-7.44%
China 5Y CDS	51	-2	10	KLCI	1,597	-1.15%	-3.72%
Malaysia 5Y CDS	56	-5	6	JCI	6,311	0.96%	-2.26%
Indonesia 5Y CDS	95	-4	11				
Thailand 5Y CDS	31	-2	-2				

Source: Bloomberg

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New Issues

- Fujian Zhanglong Group Co., Ltd has priced a USD500mn 3-year bond at 6.15%, tightening from IPT of 6.5% area.

Date	Issuer	Size	Tenor	Pricing
16-Aug-19	Fujian Zhanglong Group Co., Ltd	USD500mn	3-year	6.15%
15-Aug-19	Qingdao Jimo District Urban Development Investment Co. Ltd	USD300mn	3-year	4.9%
15-Aug-19	Hanhui International Ltd	USD300mn	3-year	4.37%
14-Aug-19	Greenko Mauritius Ltd	USD350mn	3.5NC1.5	6.25%
13-Aug-19	Orient Securities Co., Ltd	USD300mn	3-year FRN	6M-US LIBOR+125bps
13-Aug-19	Zhenro Properties Group Ltd	USD110mn	ZHPRHK 9.15%'22s	8.55%
9-Aug-19	Excellence Commercial Management Ltd	USD150mn	3-year	6.8%
8-Aug-19	Dongxing Voyage Co. Ltd	USD400mn	5-year	T+180bps
8-Aug-19	Changde Economic Construction Investment Group Co., Ltd	USD200mn	3-year	6.6%
1-Aug-19	Central China Real Estate Ltd	USD300mn	3NC2	7.25%
1-Aug-19	Sinopec Group Overseas Development (2018) Ltd	USD800mn USD700mn USD500mn	5-year 10-year 30-year	T+88bps T+110bps 3.68%
31-Jul-19	Fantasia Holdings Group Company Ltd	USD100mn	FTHDGR 11.75%'22s	12.4%
30-Jul-19	China Aoyuan Group Ltd	USD250mn	CAPG 7.95%'23s	6.5%
30-Jul-19	Dexin China Holdings Company Ltd	USD200mn	2-year	14.0%
30-Jul-19	Lotte Property & Development Co., Ltd	USD300mn	3-year FRN	3M-US LIBOR+77.5bps

Source: OCBC, Bloomberg

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