Asian Credit Daily

May 2, 2019

Credit Headlines:

Frasers Hospitality Trust, Fraser and Neave Ltd, CWT International Ltd, CapitaLand Ltd, Lippo Malls Indonesia Retail Trust, Standard Chartered PLC, Australia & New Zealand Banking Group Ltd, Westpac Banking Corporation, National Australia Bank Ltd

Market Commentary

- The SGD swap curve steepened on Tuesday, with the shorter tenors and belly trading 1-3bps higher while the longer tenors (above 10-years) traded 2bps higher. The SGD swap curve was unchanged yesterday given the Labour day holiday.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 130bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 7bps to 467bps.
- Flows in SGD corporates were heavy, with flows largely from the new Keppel Corp Ltd issues KEPSP 3.66%'29s and KEPSP 3.0%'24s. Flows were also seen in SOCGEN 6.125%-PERPs, ACAFP 3.8%'31s, CELSP 3.9%-PERPs, FPLSP 4.98%-PERPs, and OHLSP 5.0%'19s.
- 10Y UST yields fell 3bps to 2.50%, on the back of the Fed's policy statement that the low inflation may be more persistent than expected and the slowing of US manufacturing data in April.

Credit Headlines

Frasers Hospitality Trust ("FHREIT") | Issuer Profile: Neutral (3)

- FHREIT announced its second quarter for the financial year ended September 2019 ("2QFY2019") financial results. Gross revenue was down 7.6% y/y to SGD34.6mn on the back of weaker performance in Japan, Australia and Malaysia. Net property income ("NPI") was down 9.1% y/y to SGD25.2mn. While weakness at these three markets had been flagged, the magnitude of such fall had been larger than expected.
- EBITDA was down 9.7% y/y to SGD22.2mn following the NPI decline while finance cost increased by 2.7% y/y to SGD5.0mn, in part due to higher average debt balance. Resultant EBITDA/Interest coverage was lower, though still healthy at 4.4x (2QFY2018: 5.0x). FHREIT has SGD100mn in outstanding perpetuals. Assuming it pays out SGD4.5mn in distributions p.a, SGD1.1mn per quarter and taking 50% of this as interest, we find EBITDA/(Interest plus 50% perpetual distribution) at 4.0x.
- Reported aggregate leverage was healthy 34%, in line with end-2018, though assuming half of the perpetual as debt, we find adjusted aggregate leverage at 36%, still manageable.
- Short term debt as at 31 March 2019 is heavy at SGD418.6mn which is about half of total debt, although we think FHREIT would be able to refinancing this given its strong financial flexibility from debt markets and SGD2.4bn of its portfolio remains unencumbered, which should help the REIT raise secured debt if need be while access to debt markets remain considerable.
- We are maintaining FHREIT's issuer profile at Neutral (3) on the back of its still healthy credit metrics, though see its credit profile gap with Ascott Residence Trust ("ART", Issuer profile: Neutral (4)) as narrowing on the back of FHREIT's weaker results and dimming outlook over Australia growth rate. Conversely, we are monitoring ART's issuer profile for an upgrade in the next 6 to 12 months, especially if our expectations of a merger between ART and Ascendas Hospitality Trust (Issuer profile: Unrated) transpire.
- Australia still makes up 40% of FHREIT's NPI and there has been no updates on the possible sale of Sydney Wentworth Australia which the media reported was put up for sale back in January 2019. (Company, The Australian, OCBC,)

Credit Headlines (cont'd)

Fraser and Neave Ltd ("FNN") | Issuer Profile: Neutral (4)

- FNN reported 2QFY2019 results. Revenue rose 3.4% y/y to SGD467.4mn with strong performance from both the Beverages segment (+6.1% y/y to SGD122.1mn) and Dairies segment (+5.0% y/y to SGD287.6mn) though Printing and publishing segment (-8.6% y/y to SGD57.6mn) declined. For the Beverages segment, it benefited from the growth of Soft Drinks Singapore with improved sales of 100Plus and Seasons Iced Lemon Tea. For the Dairies segment, this was mainly due to successful execution in the Dairies Thailand segment (+14% y/y to SGD158mn). For the Printing and publishing segment, the decline was due to continued decline in print volume and timing difference in textbook publication.
- Overall EBIT rose to SGD65.6mn (2QFY2018: SGD36.0mn), supported by the growth from the Dairies segment (+42.7% y/y to SGD73.2mn), mostly from Vinamilk (+81% y/y to SGD29mn) which saw recovery of domestic demand and absence of one-off expense and Dairies Thailand (+55% y/y to SGD34mn) which benefited from higher sales and favourable input costs. However, Beverages segment continued to remain loss-making with losses deepening to SGD1.7mn (2Q2018 loss: SGD0.8mn) due to higher marketing spending and distribution costs, as well as pre-operating costs incurred for greenfield brewery in Myanmar and higher promotion expenses and unfavourable input costs by Soft Drinks Malaysia.
- Overall, the Beverages segment is expected to remain challenging with intensifying competition in Malaysia and the implementation of excise duty on sugar sweetened beverages (expected date of implementation: 1st Jul 2019). That said, FNN is guiding for better prospects at Thailand still, with improvements in both sweetened and unsweetened condensed milk segment.
- Overall, credit metrics remains healthy. Net gearing inched up q/q to 10.6% (1Q2019: 10.4%). Cash from operations of SGD66.0mn (2QFY2018: SGD32.8mn) remains healthy. Liquidity is ample with cash of SGD233.9mn and fixed deposits of SGD92.0mn well-covering SGD166.2mn of short-term borrowings. (Company, OCBC)

CWT International Ltd ("CWTI") | Issuer Profile: Negative (6)

- The parent company of CWT Pte Ltd ("CWT SG", SGD bond issuer with SGD100mn outstanding) issued a follow up announcement on the default of a facility agreement. Per CWTI, the security agent of the charged assets under this facility agreement has taken enforcement actions over certain of the charged assets on 18 April 2019.
- Chiefly, it is taking possession over CWTI's 100%-stake in CWT SG, investment properties located in the US and gold courses in China. Joint receivers and managers have been appointed over such charged assets.
- The security agent is also taking possession of CWTI's 100%-stake in the holding companies which hold investment properties in the UK (book value of HKD1.2bn in end-2018).
- CWTI no longer has any power or authority to deal with the above charged assets or exercise any rights attached to those charged assets except in cases where authority is delegated by the receivers and dealings in those charged assets must now be authorised by receivers (and or their authorised representatives).
- CWTI though is continuing its discussions and negotiations with lenders and receivers on devising a plan for repayment of the outstanding amounts due under the facility agreement. In our view, this is indicative of CWTI still aiming continue its ownership of the assets and it is too early for us to say if CWTI is able to work out a plan with its lenders. We think this is reliant on whether CWTI is able to access other financing external to CWTI (eg: from the broader HNA Group entities).
- Trading in CWTI shares remain suspended and under the Hong Kong Stock Exchange rules, it may cancel CWTI's listing if trading has remained upended for 18 continuous months (expires only on 9 October 2020). We continue monitoring the situation. (Company, OCBC,)

OCBC Bank

Credit Headlines (cont'd)

CapitaLand Ltd ("CAPL") | Issuer Profile: Neutral (3)

- CAPL reported 1Q2019 results. Revenue declined 23.8% y/y to SGD1.05bn mainly due to lower contributions from residential projects in Singapore and China, partly mitigated by higher handover of units in Vietnam and revenue from properties acquired in USA (e.g. multifamily) and Europe in 2018. Share of results from associates (-45.9% y/y to SGD76.0mn) and joint ventures (-29.6% y/y to SGD27.3mn) also fell. This is due to absence of gain from divestment of 20 malls recognised in 1Q2018 and lower contributions from development projects JVs. As a result, excluding fair value gains on investment properties of SGD190.3mn (1Q2018: SGD9.0mn), profit before tax fell 31% y/y to SGD429.8mn. We note that the sizeable fair value gains mostly relate to the divestment of Ascott Raffles Place Singapore and revaluation gains from reclassification of One iPark Office from development to investment property.
- From 1 Apr 2019, CAPL will be reorganising its strategic business units ("SBUs") and the way the results will be reported. Our reading is that the current SBUs of CapitaLand Singapore, Malaysia and Indonesia ("CL SMI") and CapitaLand Vietnam ("CL Vietnam) and CapitaLand International ("CL International") will be merged into "CL SMI, Vietnam and International" as a single SBU. CapitaLand China ("CL China") will remain as a SBU. There will be 2 new SBUs, namely CapitaLand Lodging ("CL Lodging") and CapitaLand Financial ("CL Financial"). When Ascendas Singbridge ("ASB") merges into CAPL, a new India SBU will be formed. The business parks/logistics/industrial businesses under ASB will merge into CL China and CL SMI, Vietnam and International while the REIT managers and funds will be merged under CL Financial.
- For the CL SMI, Vietnam and International segment SBU, EBIT fell 9.0% y/y to SGD327.4mn mainly due to declines in CL SMI (-5.7% y/y to SGD295.0mn) due to lower revenue from development projects in Singapore. CL Vietnam also saw a decline (-93.6% y/y to SGD2.0mn) with handover value falling to SGD33mn (1Q2018: SGD55mn) though we think this is a timing issue as 2,371 units have been sold with a value of SGD732mn, of which CAPL is guiding for SGD227mn to be recognised in the rest of 2019. Meanwhile, the acquisition of a multifamily portfolio in USA boosted the results at CL International (+92.2% y/y to SGD30.4mn). For Singapore, results will likely trend up from here with the expected launch of Pearl Bank (774 units) in 2Q2019 and Sengkang Central (680 units) in 3Q2019. Meanwhile, Jewel Changi Airport opened on 17 Apr 2019 with 98% occupancy.
- For the CL China SBU, EBIT fell 21.8% y/y to SGD257.0mn mainly due to lower handover of units, with just RMB1.2bn handed over (1Q2018: RMB1.9bn) with fewer units completed compared to 1Q2018. However, we think this is a timing issue. ~RMB10bn of value in units is expected to be recognised over the remainder of 2019 upon handing over. Meanwhile, residential sales by value surged to RMB2.6bn (1Q2018: RMB1.7bn) with 91% of launched units sold as of 31 Mar 2019. CAPL is guiding for another 5,259 units to be launched over the remainder of 2019.
- For the CL Lodging SBU, EBIT grew 328.0% y/y to SGD193.2mn, mainly due to fair value gains from the divestment of Ascott Raffles Place (SGD134mn gain). Excluding the gain, EBIT would have grown by 31.3% y/y to SGD59.2mn due to higher revenue from Synergy Global Housing (acquired in Jul 2017) and contribution from Tauzia, which was acquired in 3Q2018. Overall, RevPAU is up 4% y/y to SGD114, mainly from Singapore (+15% y/y to SGD234) and North Asia ex China (+14% y/y to SGD139). This segment is expected to grow strongly with ~43.3k units under development in the pipeline, with the target to achieve 160k units by 2023 (YTD2019: 101.5k).
- For CL Financial, EBIT fell 42.7% y/y to SGD26.5mn. This is mainly due to the operating expenses for structure of new funds, such as CREDO I China Fund, which raised USD556mn in Feb 2019. We understand that CAPL intends to expand this real estate debt fund.
- Overall, credit metrics remain manageable with net gearing inching up to 58% (4Q2018: 56%), mainly due to changes in SFRS(I) 16 which included lease liabilities (SGD548.8mn) as part of debt. When CAPL completes the acquisition of ASB, which is expected to take place some time in 2H2019, we expect net gearing to increase to over 70%. (Company, OCBC)

Credit Headlines (cont'd)

Lippo Malls Indonesia Retail Trust ("LMRT") | Issuer Profile: Negative (6)

- LMRT announced the appointment of Mr Liew Chee Seng James ("Mr Liew") as the new CEO with effect from 1 May 2019. Mr Liew was earlier appointed as the Deputy CEO in Oct 2018 and the reason for his promotion is that he has provided full support to the previous CEO Ms Gouw Vi Ven and has proven his contributions. According to LMRT, Mr Liew has played a pivotal role in managing the operations and capital structure of LMRT. (Company)

Standard Chartered PLC ("StanChart") | Issuer Profile: Neutral (4)

- StanChart announced its 1QFY2019 results with operating profit before impairments and taxation stable y/y at USD1.4bn. Net interest income was up 4% y/y due to higher average interest earning assets that offset a 3bps fall in net interest margins and operating expenses were 2% lower y/y due to foreign currency movements (in constant currency terms, operating expenses rose 1% y/y as higher investment expenditure on technology was somewhat balanced by cost control). However this was mitigated by a 9% y/y fall in other income from debit valuation adjustments.
- Underlying profit before taxation was 10% higher y/y at USD1.4bn. This was driven by a 62.8% y/y fall in credit and other impairment charges due to the release of Private Banking provisions and discontinuation of StanChart's ship leasing business and reclassification to restructuring. Including provisions for regulatory matters of USD186mn which were for potential regulatory fines related to legacy financial crime control matters and FX trading issues, statutory profit before taxation was 5% higher y/y at USD1.2bn. The USD186mn charge is in addition to the setting aside of USD900mn in its 4Q2018 results and according to management legacy conduct matters are now largely resolved.
- By segment, operating income performance was a little more varied compared to FY2018 which had broad based improvement. Corporate & Institutional Banking income was up by 3% y/y due to Transaction Banking and Financial Markets performance. Retail banking however was down by 6% y/y due to lower wealth management income compared to a strong 2018 as well as adverse foreign exchange movements. Commercial Banking income was up 6% y/y due to better performance in cash management, financial markets and lending. Finally, Private Banking was up by 3% y/y with USD1.0bn in net new money gained in 1Q2019.
- Loan quality continues to improve partially due to the bank's focus on high-quality new origination but also from the reduction of exposures in the liquidation portfolio, which is now reported as part of outstanding balances rather than be reported separately. Stage 3 or gross credit impaired loans have fallen 1% q/q as at 31 March 2019, while early alert accounts (accounts that display increased credit risk or potential weaknesses that require closer monitoring, supervision or attention by management) fell 11%q/q. Despite the lower impairment charges, coverage ratios for Stage 3 loans (both before and after collateral) were stable q/q at 59% and 82% respectively.
- StanChart's CET1 ratio fell marginally to 13.9% as at 31 March 2019 against 14.2% as at 31 December 2018. This was due to higher risk weighted assets, dividend payments and the USD186mn regulatory provision which offset capital generation.
- With the resolution of legacy conduct and control issues, progress on achievement of its key targets and results that continue the constructive tone in FY2018 results, the bank has announced a USD1bn share buyback. This should be contained within its credit profile in our view. The buyback is expected to reduce its CET1 capital ratio by around 30bps, however should keep the ratio within StanChart's target CET1 range of 13-14%.
- In all the results are in line with our expectations for StanChart's Neutral (4) issuer profile. (OCBC, Company)

Credit Headlines (cont'd)

Australia & New Zealand Banking Group Ltd ("ANZ") | Issuer Profile: Positive (2)

- ANZ released its 1HFY2019 results with cash profit (which excludes non-core items) up 2% y/y to AUD3.6bn. Conversely, statutory profit was down 5% y/y to AUD3.2bn.
- By segment for 1HFY2019, ANZ's institutional segment saw profit before provisions rise 22% y/y due to cost reduction and lower provisions while the New Zealand division profit before provisions rose 1% y/y on home lending growth. Conversely, the Australia division saw a 8% y/y decline in profit before provisions due to lower loans and advances while net interest margins also fell despite loan re-pricing from shift in product mix to principal and interest loans, higher funding costs and competition. Provisions in the Australia division also increased 27% y/y and as a result cash profits after provisions fell 12% y/y.
- Credit quality indicators though appear solid. Overall credit impairment charges fell 3.7% y/y on lower new and increased impairments. While credit impairments rose 40.4% h/h, this was due to lower write backs and recoveries h/h. Overall new and increased impairments was also lower h/h although overall gross impaired assets remain constant at AUD2.0bn compared to 1H2018 and 2H2018. That said, Australia's housing sector continues to see some strain with 90+ day delinquency rate continuing to edge higher and accelerating in 1HFY2019, likely necessitating the higher provisions.
- ANZ's capital position remains solid and well above APRA's minimum 10.5% CET1 benchmark for 'unquestionably strong' capital ratios in Australia's banking sector (comes into force January 2020). Its APRA CET1 ratio improved to 11.5% as at 31 March 2019 against 11.4% as at 30 September 2018 and 11.0% as at 31 Mar 2018. Y/y improvement was driven by capital generation which offset dividends paid and AUD3bn share buyback. On an internationally comparable basis, the CET1 ratio improved to 16.9% against 16.8% as at 31 September 2018 and 16.3% as at 31 march 2018.
- While we continue to review the numbers, we see on-going resilience in ANZ's numbers which support the Positive (2) issuer profile. (OCBC, Company)

Westpac Banking Corporation ("Westpac") | Issuer Profile: Positive (2)

- Following its earlier announcement, Westpac has announced an additional AUD357mn provision for customer remediation programs that will be included in its 1HFY2019 results. These provisions relate to remediation for issues from prior financial years with regards on-going advice service fees. Management have indicated the provision is an estimate, so this amount may change.
- Including the previously announced AUD260mn provision, the total impact to 1HFY2019 earnings will be around AUD617mn of provisions for remediation programs. Together with AUD136mn in provisions following the restructuring or reset of Westpac's wealth businesses (exit of the personal financial advice business and shift to referral model), total provisions in 1HFY2019 expected to be recorded will be AUD753mn.
- We estimate that the additional provisions may lower expected 1H2019 profit before tax by around 14%. While this amount is expected to be one off, it nevertheless highlights the ongoing profit pressures facing Australian banks from regulatory and compliance costs and customer remediation programs.
- Westpac is expected to announce its 1HFY2019 results on May 6th. (OCBC, Company)

Credit Headlines (cont'd)

National Australia Bank Ltd ("NAB") | Issuer Profile: Positive (2)

- NAB released its 1HFY2019 results for the 6 months ended 31 March 2019. Given various extra-ordinary impacts on the results, the key number is underlying cash earnings of AUD3.3bn which was 0.3% lower y/y but up 2.3% h/h. Underlying cash earnings exclude the impact of AUD755mn in restructuring related costs recognized in 1HFY2018 and AUD464mn in customer-related remediation recognised in 1HFY2019. Including these impacts results in weaker net operating performance (down 2.4% y/y and 0.1% q/q) but overall better cash earnings (up 7.1% y/y and 0.4% q/q).
- Driving underlying results was a 0.4% y/y improvement in net interest income from lending volume growth and loan repricing which offset a shift in lending product mix, margin pressure from competition and higher funding costs. These factors drove net interest margins lower y/y by 8bps to 1.79%. Other operating income was up 4.2% y/y. Elsewhere, credit impairment charges rose 20.1% y/y due to the impairment of some large exposures within Corporate and Institutional Banking. The overall 90+ days past due to gross loans and acceptances ratio rose 10bps to 0.53% due to stress in the banks Australian mortgage portfolio while the ratio of gross impaired assets to gross loans and acceptance fell 2bps to 0.26% due to improvements in Australian business lending and the New Zealand Diary portfolio.
- By segment, Business and Private Banking underlying cash earnings was down 1.3% y/y while Corporate and Institutional Banking was up 0.4% y/y and New Zealand Banking was up 11.3% y/y. Consumer Banking and Wealth was down 20.6% y/y. Overall, Business Banking continues to drive NAB's performance contributing 44.6% of total underlying cash earnings, followed by Corporate and Institutional Banking (23.8%), Consumer Banking and Wealth (19.5%) and New Zealand Banking (15.3%).
- Capital ratios improved with the APRA CET1 ratio at 10.4% as at 31 March 2018 against 10.21% as at 31 March 2018 and 10.20% as at 30 September 2018. This was driven mostly by cash earnings. On an internationally comparable basis, the CET1 ratio was stable at 14.6%. NAB's capital ratios is now marginally below APRA's minimum 10.5% CET1 benchmark for 'unquestionably strong' capital ratios in Australia's banking sector (comes into force January 2020). We continue to review the numbers (OCBC, Company)

Table 1: Key Financial Indicators

	2-May	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	64	-1	-4
iTraxx SovX APAC	42	-1	-3
iTraxx Japan	54	0	-4
iTraxx Australia	66	-1	-6
CDX NA IG	59	0	-3
CDX NA HY	107	0	1
iTraxx Eur Main	58	-2	-5
iTraxx Eur XO	250	-5	-9
iTraxx Eur Snr Fin	69	-5	-10
iTraxx Sovx WE	17	-2	-3
AUD/USD	0.703	0.17%	-0.62%
EUR/USD	1.121	0.67%	0.03%
USD/SGD	1.360	0.20%	-0.40%
China 5Y CDS	41	-2	-2
Malaysia 5Y CDS	55	-1	-4
Indonesia 5Y CDS	95	-3	-5
Thailand 5Y CDS	36	-2	-5

	2-May	1W chg	1M chg
Brent Crude Spot ($/bbl)	71.92	-3.27%	3.68%
Gold Spot ($/oz)	1,274.00	-0.25%	-1.43%
CRB	183.66	-1.52%	-1.46%
GSCI	446.39	-1.42%	0.84%
VIX	14.8	12.63%	10.78%
CT10 (bp)	2.500%	-1.82	-0.10
USD Swap Spread 10Y (bp)	-1	1	1
USD Swap Spread 30Y (bp)	-22	1	3
US Libor-OIS Spread (bp)	18	1	-2
Euro Libor-OIS Spread (bp)	5	0	0
DJIA	26,430	-0.63%	0.96%
SPX	2,924	-0.12%	1.97%
MSCI Asiax	676	0.45%	0.48%
HSI	29,873	0.22%	1.05%
STI	3,386	0.70%	4.16%
KLCI	1,636	-0.10%	0.48%
JCI	6,407	-0.64%	-0.71%

New issues

- Alam Synergy Pte Ltd has priced a USD125mn re-tap of its existing ASRIIJ 6.625%'22s (guarantor: PT Alam Sutera Realty TBK) at 95.176 (yield: 8.50%), tightening from IPT of 94.53 (yield: 8.75%).
- Korea Gas Corp has mandated banks for its potential USD bond issuance.

Date	Issuer	Size	Tenor	Pricing
2-May-19	Alam Synergy Pte Ltd	USD125mn	ASRIIJ 6.625%'22s	95.176+accrued
29-Apr-19	Ronshine China Holdings Ltd	USD200mn	RONXIN 10.5%'22s	104.897+accrued
29-Apr-19	Mirae Asset Daewoo Co Ltd	USD300mn USD300mn	3-year 5-year	T3+95bps T5+112.5bps
29-Apr-19	Keppel Corp Ltd	SGD150mn SGD350mn	5-year 10-year	3.0% 3.66%
29-Apr-19	CDL Properties Ltd	SGD300mn	5-year	2.958%
26-Apr-19	Hanrui Overseas Investment Co Ltd	USD280mn	3-year	7.95%
25-Apr-19	Chengdu Tianfu New Area Investment Group Co Ltd	USD300mn	5-year	4.65%
25-Apr-19	Yango Justice International Ltd	USD150mn	SUNSHI 9.5%'21s	99.770+accrued
25-Apr-19	CICC Hong Kong Finance 2016 MTN Ltd	USD300mn USD700mn	3-year 3-year	T+115bps 3M-US LIBOR+117.5bps
25-Apr-19	Xinyuan Real Estate Co Ltd	USD100mn	XIN 14.2%'21s	103.932+accrued
24-Apr-19	Credit Agricole S.A.	SGD325mn	12NC7	3.8%
23-Apr-19	Redco Properties Group Ltd	USD180mn	2-year	99.337+accrued
23-Apr-19	Metro Holdings Ltd/Singapore	SGD35mn	METRO 4.3%'24s	100+accrued

Source: OCBC, Bloomberg

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