Asian Credit Daily

Mar 28, 2019

Credit Headlines: Wing Tai Properties Ltd, CWT International Ltd, China Construction Bank Corporation, Julius Baer Group Ltd, Ascott Residence Trust

Market Commentary

- The SGD swap curve flattened yesterday, with the shorter tenors trading 1-3bps lower while the belly and longer tenors traded 4-6bps lower.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS traded little changed at 1bps 135bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 3bps to 461bps.
- Flows in SGD corporates were heavy, with large flows in METRO 4.3%'24s, while ESRCAY 6.75%'22s constituted a smaller flow.
- 10Y UST yields fell 5bps to close the session at 2.37%, on the back of dovish tones adopted by the New Zealand central bank and European Central Bank. This was partially offset by the further-than-expected decrease in the US trade deficit, which rallied US equity. The yield curve between the 3-month and 10-year treasury yields extended its inversion to 7bps.

Credit Headlines

Wing Tai Properties Ltd ("WTP") | Issuer Profile: Neutral (4)

- WTP reported 2018 results. Revenue fell to HKD884.7mn (2017: HKD1.06bn), mainly due to lower contribution from property investment and management segment which fell to HKD674.3mn (2017: HKD77.5mn) due to disposal of W Square and Winner Godown Building in 2018.
- The disposal of these buildings contributed towards disposal gain of HKD693.3mn booked in 2018. Without this and other fair value changes, profit would have fallen to HKD376.7mn (2017: HKD487.8mn).
- On the property front, 2018 was slower with sales falling to HKD32.2mn (2017: HKD139.5mn) mainly due to fewer units handed over, with only 25% of 35%-owned Le Cap and La Vetta (which totals 460k sq ft) sold and handed over in 2018. Going forward, results from the property development segment should pick up as WTP expects the remaining 75% to be handed over and booked in 2019. In addition, 100%-owned The Carmel (159k sq ft) saw 76% of residential units sold, which should be booked in 2020.
- Landmark East, which is WTP's flagship Grade A office building in Kowloon East (1.3mn sq ft) continues to anchor the portfolio. While occupancy declined to 93% as at end-2018 (end-1H2018: 98%), WTP continues to report stable rents at this property. Diversifying out of Hong Kong, in addition to the disposal of W Square and Winner Godown Building, WTP has acquired 30 Gresham Street in Central London for GBP460mn (HKD4.8bn) in Nov 2018 in a 50-50 JV with Manhatten Garment Holdings.
- Credit metrics look healthy still, with net gearing rising to 7.5% due to the central London acquisition (1H2018: 4.7%). Even if we include HKD8.1bn in contingent liabilities and SGD260mn WINGTA 4.35% PERP (which ranks senior unsecured) as debt, adjusted net gearing remains comfortable at ~40%. Liquidity is ample with HKD2.9bn of cash covering HKD1.3bn of bank borrowings. We continue to hold WTP at a Neutral (4) Issuer Profile. (Company, OCBC)

Credit Headlines (cont'd)

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

- CWTI announced their preliminary 2018 financial results. 2018 numbers are not comparable y/y due to the acquisition of CWT Pte. Limited and its subsidiaries ("CWT SG") in September 2017.
- In 2018, CWTI recorded HKD71.4bn in revenue (1H2018: HKD36.3bn in revenue), HKD1.7bn in gross profit and a loss before tax of HKD931.3mn. Key drivers for CWTI's loss was a HKD401.4mn in other losses (predominantly due to fair value loss on investment properties and a foreign exchange loss) though offset by HKD300.4mn in disposals of subsidiaries, associates and joint ventures. For example during the year CWT SG had sold off its associate stakes in Cache Logistics Trust' property manager and REIT Manager.
- CWTI is a levered entity, as it took on acquisition debt to fund CWT SG. Finance cost remained high at HKD819.7mn for 2018 which reduced profitability. Encouragingly though, on a h/h basis, finance cost had declined 18.5% to HKD368.2mn in 2H2018.
- Based on our calculation of EBITDA (which does not take into account of other income and other expenses), we find EBITDA at HKD519.3mn which was still insufficient to cover finance cost.
- We estimate that in 2018 CWT SG's four business units collectively contributed revenue of HKD71.2bn and profit before tax of HKD193.2mn. Profit before tax though was impacted by significant one-off gains from disposal and impairments. Adjusting these out, we think CWT SG would have recorded a small loss before tax of HKD12.3mn. We estimate CWT SG's EBTIDA at HKD490.3mn. With interest expense at HKD270.3mn, this represented an EBITDA/Interest coverage of 1.8x. This indicates a EBITDA margin of 1.0% and lower than its historical 1.5-1.8%. The lower EBITDA margin is in line with our expectations as CWT SG had sold five of its crown jewel warehouses to Mapletree Logistics Trust in September 2018 under a sales and leaseback and CWT SG would have had to pay rents on such facilities. Additionally per CWTI's disclosure, the warehousing business was softer in 2018 while commodity marketing was challenging (including available financing for the business being reduced).
- As at 31 December 2018, CWTI's unadjusted net gearing was 1.5x, lower than the 2.4x as at 30 June 2018 and lower than 2.1x as at end-2017. Per company, CWTI's USD561mn (~HKD4.3bn) of acquisition debt has also been repaid via proceeds from the CWT SG warehouses that was sold and a new borrowing of HKD1.4bn which would be due in October 2019 (effectively kicking a smaller can down the road). CWTI's cash balance in end-2018 was HKD1.7bn (excluding pledged cash) and the company is in the process of selling its UK investment property. The UK investment property was valued at HKD1.2bn in the books of CWTI, although it has been pledged for borrowings of HKD744.8mn. Assuming this can be sold, we assume HKD462.2mn in net proceeds.
- CWTI's financials continue to indicate the existence of material uncertainty over its ability to continue as a going concern, although in our view its immediate liquidity concerns has been alleviated. This is particularly crucial and a credit positive for the SGD100mn in bonds due on 18 April 2019. We think further assets need to be sold (including the sale of CWT SG itself) before we are able to give a definitive view that the CWTSP 3.9% '20s which matures in March 2020 would be able to be redeemed. We continue maintaining CWTI at a Negative (6) issuer profile.

OCBC Bank

Credit Headlines (cont'd)

China Construction Bank Corporation ("CCB") | Issuer Profile: Neutral (3)

- CCB's FY2018 results reflect decent business momentum with profit before tax up 2.79% y/y to RMB308.2bn. Driving this was a 6.69% y/y growth in operating income. This was due to 7.48% y/y growth in net interest income (from a 10bps net interest margin improvement to 2.31% and loans growth), 4.45% y/y growth in net fee and commission income (credit cards and electronic finance) and 2.87% y/y growth in other net non-interest income.
- This overshadowed a 4.62% y/y growth in operating expenses mostly from a rise in staff costs and also from higher premises and equipment expenses. As such, the cost to income ratio improved to 26.61% in FY2018 from 27.15% in FY2017.
- Of note is the 18.55% rise in impairment losses – this was due to a 82.6% y/y rise in impairments to Personal Banking clients. Impairment losses in Commercial Banking rose 13.7% y/y while the Treasury Business saw a net write-back in impairment losses.
- Segment wise, Commercial Banking and Personal Banking continues to contribute evenly to operating income (41.8% and 39.6% respectively), however owing to significantly higher impairment losses in Commercial Banking (80% of total impairment losses), Personal Banking's contribution to profit before tax rose to 45.3% in FY2018 while Commercial Banking's contribution fell to 24.1%. CCB's Treasury Business contribution rose to 27.5% in FY2018 against 18.2% in FY2017 due to strong growth in operating income (+44.7%) and the aforementioned net write-back in impairment losses.
- As mentioned above, loans grew with net loans and advances to customers up 6.3% y/y. This drove overall balance sheet growth with total assets up 5.0% y/y. The non-performing loan ratio fell marginally as a result of the strong loans growth to 1.46% as at 31 December 2018 against 1.49% as at 31 December 2017. Given the rise in impairment losses, the allowances to NPL coverage ratio improved to 208.4% as at as at 31 December 2018 from 171.1% as at 31 December 2017. This indicates more a conservative approach by management in increasing impairment allowances in the income statement rather than addressing deterioration in loan quality.
- Given loans growth, risk weighted assets rose 5.72% y/y. Combined with solid capital growth of 11.71%, CCB's CET1/CAR ratios at 13.83%/17.19% as at 31 December 2018 was higher against 13.09%/15.50% as at 31 December 2017.
- Overall, the results are decent and support our Neutral (3) issuer profile. While business momentum reflects the government's supportive growth policies to stimulate the economy, we expect CCB's management to continue to manage its risk profile as China's economic growth slows. (Company, OCBC)

Credit Headlines (cont'd)

Julius Baer Group Ltd ("JBG") | Issuer Profile: Neutral (3)

- It has been reported that JBG's market head of Brazil has departed the bank along with 6-7 relationship managers to join rival Pictet Group.
- This has been an ever present and now apparent risk since ex-CEO of JBG Boris Collardi resigned to join Pictet Group in November 2017 and follows the defection of JBG's Head of Middle East Markets along with seven other private bankers to join Pictet Group in December 2018.
- JBG appears to be undergoing a period of transition. While we are maintaining the current Neutral (3) issuer rating on JBG, we continue to monitor ongoing performance through FY2019 for an improvement in current trends and how management actions to address performance such as cost reductions impact future growth. (OCBC, Bloomberg)

Ascott Residence Trust ("ART") | Issuer Profile: Neutral (4)

- ART is buying a freehold hotel near Sydney Airport for AUD60.6mn (~SGD59mn), to be re-flagged as Citadines Connect Sydney Airport upon completion targeted in May 2019. This is a small acquisition for ART and only makes up 1% of its asset size as at 31 December 2018 and we see this as a credit neutral event.
- ART is in the midst of selling Ascott Raffles Place in Singapore for ~SGD353mn while simultaneously developing a greenfield serviced apartment lyf at one-North (total development cost of ~SGD117mn).
- The REIT may use a combination of bank debt and net proceeds from sale of Ascott Raffles Place to fund the Sydney hotel. Although assuming ART funds this with full debt and taking into account the new lyf development which would be debt funded, ART's aggregate leverage will rise to 38.2% (slightly higher than the 37.4% expected earlier). (Company, OCBC)

OCBC Bank

Table 1: Key Financial Indicators

	28-Mar	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	72	1	2
iTraxx SovX APAC	47	1	-6
iTraxx Japan	60	0	0
iTraxx Australia	76	0	8
CDX NA IG	68	4	8
CDX NA HY	106	-1	0
iTraxx Eur Main	68	1	7
iTraxx Eur XO	278	9	1
iTraxx Eur Snr Fin	83	0	10
iTraxx Sovx WE	20	1	-2
AUD/USD	0.708	-0.42%	-0.17%
EUR/USD	1.125	-1.08%	-1.06%
USD/SGD	1.356	-0.51%	-0.28%
China 5Y CDS	47	-1	-2
Malaysia 5Y CDS	63	0	-2
Indonesia 5Y CDS	105	5	2
Thailand 5Y CDS	44	1	-1

	28-Mar	1W chg	1M chg
Brent Crude Spot ($/bbl)	67.59	-0.40%	2.36%
Gold Spot ($/oz)	1,308.98	-0.03%	-0.33%
CRB	183.94	-0.89%	0.66%
GSCI	434.74	-0.84%	1.97%
VIX	15.15	8.91%	2.50%
CT10 (bp)	2.351%	-18.62	-36.43
USD Swap Spread 10Y (bp)	-3	-2	-4
USD Swap Spread 30Y (bp)	-27	-2	-7
US Libor-OIS Spread (bp)	21	2	1
Euro Libor-OIS Spread (bp)	5	0	0
DJIA	25,626	-0.47%	-1.12%
SPX	2,805	-0.67%	0.75%
MSCI Asiax	656	-1.42%	0.40%
HSI	28,652	-1.44%	0.07%
STI	3,205	-0.27%	-0.24%
KLCI	1,640	-1.40%	-3.95%
JCI	6,459	-0.65%	0.25%

OCBC Bank

New issues

- Zhenro Properties Group Ltd has priced a USD420mn 3.8NC2 bond (subsidiary guarantors: certain non-PRC restricted subsidiaries of issuer) at 8.65%, tightening from IPT of 9.125% area.
- Mei Nian Investment Ltd has priced a USD200mn 2-year bond (guarantor: Meinian Onehealth Healthcare Holdings Co Ltd) at 8.5%, tightening from IPT of high 8% area.
- CMT MTN Pte Ltd has priced a USD300mn 10-year bond at CT10+122.5bps, tightening from price guidance of +145bps area.
- Yango Justice International Ltd has priced a USD250mn 2-year bond (parent guarantor: Yango Group Co Ltd) at 10.25%, tightening from IPT of 10.75% area.
- CFLD (Cayman) Investment Ltd (guarantor: China Fortune Land Development Co Ltd) has priced a USD350mn 3-year bond at 7.125% (tightening from IPT of 7.625% area) and a USD650mn 5-year bond at 8.6% (tightening from IPT of 8.9% area).
- China Grand Automotive Services Ltd has priced a USD100mn 3-year bond (guarantor: China Grand Automotive Services Co Ltd) at 8.625%.
- Chongqin Banan Economic Park Development & Construction Co Ltd has priced a SGD20mn re-tap of its existing CQBNEP 4.35%'21s (SBLC provider: Shanghai Pudong Development Bank Co. Hong Kong Branch) at par.
- Shinhan Bank has scheduled investor meetings from 1 April for its potential USD Tier 2 bond issuance.
- Xinjiang Transportation Construction Investment Holding Co Ltd has scheduled investor meetings from 29 March for its potential USD bond issuance.
- Power Best Global Investments Ltd (parent guarantor: Hong Kong Junfa Property Co Ltd) has scheduled investor meetings from 27 March for its potential USD bond issuance.

Date	Issuer	Size	Tenor	Pricing
27-Mar-19	Zhenro Properties Group Ltd	USD420mn	3.8NC2	8.65%
27-Mar-19	Mei Nian Investment Ltd	USD200mn	2-year	8.5%
27-Mar-19	CMT MTN Pte Ltd	USD300mn	10-year	CT10+122.5bps
27-Mar-19	Yango Justice International Ltd	USD250mn	2-year	10.25%
27-Mar-19	CFLD (Cayman) Investment Ltd	USD350mn USD650mn	3-year 5-year	7.125% 8.6%
27-Mar-19	China Grand Automotive Services Ltd	USD100mn	3-year	8.625%
27-Mar-19	Chongqin Banan Economic Park Development & Construction Co Ltd	SGD20mn	CQBNEP 4.35%'21s	100
26-Mar-19	China Bright (Hong Kong) Ltd	USD138mn	3-year	6.5%
26-Mar-19	NTPC Ltd	USD450mn	5-year	CT5+155bps

Source: OCBC, Bloomberg

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