

May 28, 2019

Credit Headlines: Metro Holdings Ltd, China Construction Bank Corporation

Market Commentary

- The SGD swap curve steepened slightly yesterday, with the shorter tenors and belly trading little changed while the longer tenors traded within 1bps higher.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS saw no change at 135bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS was little changed at 493bps.
- Flows in SGD corporates were moderate, with activity in SOCGEN 6.125%-PERPs, CMZB 4.875%'27s and ACAFP 3.8%'31s.
- 10Y UST yields remain unchanged at 2.32%, as US markets were shut yesterday in observance of Memorial Day.

Credit Headlines

Metro Holdings Ltd (“METRO”) | Issuer Profile: Neutral (4)

- METRO announced fourth quarter results for financial year ended 31 March 2019 (“4QFY2019”). Revenue grew by 16.6% y/y to SGD40.0mn due to the sale of property rights of the residential development properties in Bekasi, Jakarta. Gross profit fell by 65.5% y/y to just SGD0.8mn, despite higher revenue, due to a 22.6% y/y increase in cost of revenue.
- METRO conducts majority of its property business via associates and joint ventures. Profit before tax (including interest in associates and joint ventures) grew to SGD58.1mn in 4QFY2019 from SGD8.9mn a year ago. This was largely attributable to a fair value gain on investment property (GIE Tower, Guangzhou) of SGD14.7mn and share of results of joint ventures of SGD32.1mn. Of the SGD32.1mn, SGD22.6mn of which is fair value gains on investment properties concerning Metro Tower and Metro City in Shanghai and 5 Chancery Lane, London. Excluding all fair value gain on investment properties, we find adjusted profit before tax lower at SGD14.4mn (~1.62x that of 4QFY2018).
- Over the quarter, METRO had also invested another SGD12.2mn into InfraRed NF China Real Estate Fund III L.P and loaned SGD54.4mn to an associate, Global Charm Ventures Ltd.
- Credit health of METRO remains firm with net gearing (excluding pledged fixed deposits of SGD37.2mn) of 0.02x as at 31 March 2019, vs 0.03x at the end of last year. The small improvement is largely due to lower debt from repayment of shareholder loan from a UK associate and a larger equity reserve.
- Having said that, we think METRO’s leverage is likely to creep higher with the completion of the purchase of [The Atrium in Chengdu](#) and [7 & 9 Tampines Grande in Singapore](#).
- Looking forward, we expect rental income from investment properties to remain stable, and construction and sales of residential and mixed-use projects to continue to progress both in Singapore, UK and Indonesia.
- Separately, METRO has named Mr Yip Hoong Mum as Group Chief Executive Officer (“CEO”) and Executive Director, with effect from 1 June 2019. He succeeds Mr Lawrence Chiang, who will step down on 31 May 2019. Mr Yip is presently Metro’s Deputy Group CEO, a position he assumed since May 2018. Mr Yip was appointed as Group Chief Operating Officer and CEO of Metro China Holdings since January 2017. (Company, OCBC)

Credit Headlines (cont'd)

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

- China’s People’s Bank of China (PBOC) and the China Banking and Insurance Regulatory Commission (CBIRC) recently announced the takeover of Baoshang Bank Co. Ltd (“Baoshang”). CCB has been appointed to oversee the operations of Baoshang while it remains under the control of the regulators.
- The takeover of Baoshang was prompted by the discovery of a weaker than expected financial position from shadow banking activities.
- While we do not expect any material impact to CCB’s credit profile from this arrangement, it nevertheless highlights the strong policy role that the state owned banks play in China’s financial sector. As much as their systemic importance provides some measure of support and their scale underlies their credit fundamentals, the government’s willingness to leverage its control of the banks to fulfil policy obligations does open the banks to risks within China’s wider financial sector in our view. (Caixin, Bloomberg, OCBC)

Table 1: Key Financial Indicators

	28-May	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	74	3	10
iTraxx SovX APAC	48	2	6
iTraxx Japan	64	2	9
iTraxx Australia	74	2	8
CDX NA IG	65	2	7
CDX NA HY	106	-1	-2
iTraxx Eur Main	68	3	10
iTraxx Eur XO	293	14	45
iTraxx Eur Snr Fin	87	5	18
iTraxx Sovx WE	18	0	0
AUD/USD	0.693	0.61%	-1.86%
EUR/USD	1.118	0.20%	-0.03%
USD/SGD	1.377	0.00%	-1.12%
China 5Y CDS	53	4	12
Malaysia 5Y CDS	67	3	14
Indonesia 5Y CDS	108	4	14
Thailand 5Y CDS	37	1	1

	28-May	1W chg	1M chg
Brent Crude Spot (\$/bbl)	70.03	-2.98%	-2.94%
Gold Spot (\$/oz)	1,283.36	0.68%	0.27%
CRB	178.63	-1.30%	-3.26%
GSCI	427.13	-3.69%	-4.09%
VIX	15.85	-0.69%	24.51%
CT10 (bp)	2,308%	-11.85	-19.03
USD Swap Spread 10Y (bp)	-5	0	-3
USD Swap Spread 30Y (bp)	-28	-1	-4
US Libor-OIS Spread (bp)	15	1	-3
Euro Libor-OIS Spread (bp)	6	0	0
DJIA	25,586	-0.69%	-3.61%
SPX	2,826	-1.17%	-3.87%
MSCI Asiax	616	-0.96%	-8.44%
HSI	27,405	-0.91%	-7.43%
STI	3,161	-0.70%	-5.83%
KLCI	1,605	-0.03%	-2.04%
JCI	6,091	2.35%	-4.84%

New issues

- Shaanxi Xixian New Area Qinhan New City Development and Construction Group Co Ltd has scheduled investor meetings from 28 May for its potential USD bond issuance.

<u>Date</u>		<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
23-May-19	Huarong Finance 2019 Co. Ltd	USD300mn USD900mn USD700mn	3-year 5-year 10-year	CT3+135bps CT3+165bps CT10+220bps
23-May-19	ESR Cayman Ltd	SGD47.75mn	ESRCAY 6.75%'22s	6.75%
22-May-19	Chouzhou International Investment Ltd	USD600mn	3-year	4.6%
22-May-19	Pingxiang Urban Construction Investment Developing Company Ltd	USD300mn	35-month	4.95%
22-May-19	Horse Gallop Finance Ltd	USD700mn	3-year	CT3+112.5bps
22-May-19	Soar Wise Ltd	USD450mn	3-year	CT3+132.5bps
22-May-19	Kaisa Group Holdings Ltd	USD400mn	3.67NC2 bond	11.625%
21-May-19	China Huadian Overseas Development Management Company Ltd	USD500mn	NC5-perpetual	4.0%
21-May-19	Lee & Man Paper Manufacturing Ltd	USD300mn	NC5-perpetual	5.5%
21-May-19	SDG FINANCE I LIMITED	USD100mn	NC3-perpetual	5.3%
21-May-19	Land Transport Authority of Singapore	SGD1.4bn	35-year	3.3%
17-May-19	Oceanwide Holdings International Development III Co., Ltd	USD134.97mn	2-year	14.5%

Source: OCBC, Bloomberg

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