OCBC TREASURY RESEARCH

Asian Credit Daily

Thursday, August 8, 2019

Market Commentary

- The SGD swap curve bull-flattened yesterday, with the shorter tenors and belly traded 2-3bps lower, while the longer tenors traded 3-5bps lower.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 141bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 4bps to 540bps.
- Flows in SGD corporates were heavy, with large ticket flows in UOBSP 3.58%-PERPs. We also saw flows in CS 5.625%-PERPs, F 4.125%'24s, SOCGEN 6.125%-PERPs, ESRCAY 6.75%'22s, OLAMSP 5.5%-PERPs, FPLSP 4.98%-PERPs, and HSBC 4.7%-PERPs.
- 10Y USTs gained 3bps to close at 1.73%, rebounding from lows of around the 1.59% level, due to weak demand for the additional supply from the sale of $27bn in 10-year notes. Spread between 3-month treasury bills and 10-year treasury notes remains inverted, with the spread narrowing to -29bps.

Credit Research

Andrew Wong
+65 6530 4736
WongVKAM@ocbc.com

Ezien Hoo, CFA
+65 6722 2215
EzienHoo@ocbc.com

Wong Hong Wei, CFA
+65 6722 2533
WongHongWei@ocbc.com

Seow Zhi Qi
+65 6530 7348
zhiqiseow@ocbc.com

Credit Summary:

- Perennial Real Estate Holdings Ltd | **Neutral (5)**
- Fraser and Neave Ltd | **Neutral (4)**
- CapitaLand Ltd | **Neutral (3)**
- Singapore Telecommunications Ltd | **Positive (2)**
- ABN Amro Bank N.V. | **Neutral (3)**
- Commerzbank AG | **Neutral (4)**

Credit Headlines

Perennial Real Estate Holdings Ltd ("PREH") | Issuer Profile: Neutral (5)

- PREH reported 1Q2019 results. Revenue rose 52.4% y/y to SGD27.6mn, mainly due to increased revenue from Singapore (+92.8% y/y to SGD10.0mn) and China (+37.5% y/y to SGD13.0mn) while the management business (+25.3% y/y to SGD6.5mn) recorded higher fee income.
  - Singapore: Increase is mainly due to revenue contribution from Capitol Singapore
  - China: Increase is mainly due to revenue contribution from Perennial International Health and Medical Hub ("PIHMH")
- Reported EBIT though fell 16.8% y/y to SGD34.9mn due to the absence of fair value gain from revaluation of PIHMH in 2Q2018, even with gain on disposal of Chinatown Point.
- Net gearing rose slightly to 75.9% (1Q2019: 75.5%) despite proceeds from sale of Chinatown Point as capital was allocated to associates and JVs, which we think are most likely used to fund projects near the highspeed railways in China while PREH took a SGD61.0mn hit below the line on foreign currency translation loss.
- SGD1.0bn of borrowings will be due within a year, which PREH intends to finance through divestments. One particular asset that PREH is looking to dispose (at least in part) is AXA Tower though the sale is not concrete yet. We continue to hold PREH at a Neutral (5) Issuer Profile. (Company, OCBC)

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

- FNN reported 3QFY2019 results. Revenue rose 6.7% y/y to SGD489.7mn, led by increases in Beverages (+11.6% y/y to SGD133.0mn), Dairies (+5.5% y/y to SGD294.3mn) and Printing & publishing (+2.6% y/y to SGD62.3mn).
- Meanwhile, reported PBIT rose 25.6% y/y to SGD91.0mn, mainly due to outperformance in Printing & publishing which turned a positive PBIT of SGD9.4mn (3QFY2019: SGD4.7mn) while PBIT also rose for Beverages to SGD6.7mn (3QFY2019: SGD2.9mn) and Dairies (+4.8% y/y to SGD77.2mn). The only segment which underperformed is contribution from Vietnam which has fallen to SGD31.2mn (3QFY2019: SGD38.4mn), which should be majority due to Vinamilk.
- Net gearing rose q/q to 15.2% (2Q2019: 10.6%) due to net cash outflow from investing activities of SGD139.6mn, which is mainly due to acquisition of Starbucks Thailand (through a joint venture with Maxim's Caterers Ltd) which resulted in FNN making SGD114.8mn capital injection. Separately in 3QFY2019, FNN also made acquisitions of 20.75%-stake in Genki Sushi Thailand and acquisition of 60%-stake in Print Lab. We continue to hold FNN at a Neutral (4) Issuer Profile. (Company, OCBC)

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

- CAPL reported 2Q2019 results. We published our take on the earnings yesterday.
- Key takeaways are that the underlying results are flattish y/y, with the headline reported fall in EBIT mainly due to portfolio and revaluation gains.
- Following the acquisition of Ascendas-Singbridge Pte Ltd ("ASB"), net gearing has risen to 73.2% q/q (1Q2019: 57.9%). Going forward, we expect CAPL to focus on deleveraging and reduce net gearing to 64%.
- We remain comfortable with CAPL's credit metrics given that it is anchored by recurring income from investment properties, which forms 84.5% of total reported EBIT. (Company, OCBC)

Credit Headlines (cont'd)

Singapore Telecommunications Ltd ("SingTel") | Issuer Profile: Positive (2)

- SingTel reported 1QFY2020 results for the quarter ending 30 June 2019. Operating revenue rose 2% y/y to SGD4.1bn mainly due to growth in Group Digital Life ("GDL") growing 16.5% y/y to SGD301mn, which offset the declines in Group Enterprise (-5.1% y/y to SGD1.4bn) while Group Consumer remained flattish (+0.6% y to SGD2.4bn).
    - Group Consumer: Singapore continues to disappoint (1QFY2019 revenue: -5.1% y/y to SGD518mn) due to intense competition. That said, Australia saw better performance (+8.2% y/y to AUD1.9bn) on the back of mobile growth driven by higher equipment sales and growth in customer base which offset pressure on ARPU.
    - Group Enterprise: The fall is mainly impacted by Optus business (-19.2% y/y to AUD312mn) on lower voice usage, price erosion and weaker demand from government and financial sectors.
    - Group Digital Life: Growth is mainly driven by contributions from VIdeology acquired in Aug 2018 and recognition of technology licensing fee from ITV plc.
- Reported EBITDA, despite the small growth in revenue, fell 2% y/y to SGD1.19bn which is mainly due to Group Enterprise (-7.0% y/y to SGD417mn) while Group Consumer is flattish (+0.6% y/y to SGD799mn).
    - Group Enterprise: Decline is mainly due to revenue, with the higher margin legacy segments seeing a higher impact.
    - Group Consumer: Flattish growth is in-line with revenue.
- Regional associates continued to disappoint with PBT falling 14% y/y to SGD335mn, mainly weighed by Airtel.
- Net debt gearing rose to 28.4% q/q (4QFY2019: 24.9%) mainly due to rise in net debt to SGD11.8bn (1QFY2019: SGD9.9bn) mainly due to SGD735mn paid for the subscription to Airtel's rights issue, as well as the adoption of SFRS(I) 16 Leases (+SGD2.3bn in secured borrowings which are lease liabilities in nature). Consequently, net debt to EBITDA and share of associates pre-tax profits also rose to 1.9x (1QFY2019: 1.6x). Free cashflow has fallen 17% y/y to SGD1.2bn, mainly due to declines in Singapore to SGD98mn (1QFY2019: SGD268mn). We continue to review SingTel's results. (Company, OCBC)

Credit Headlines (cont'd)

ABN Amro Bank N.V. ("ABN") | Issuer Profile: Neutral (3)

- ABN announced its 2Q2019 and 1H2019results with ABN Amro Bank N.V. now the reporting entity since the merger between ABN Amro Bank N.V. and parent company ABN AMRO Group N.V. was finalized on 29 June 2019. ABN AMRO Group N.V. now no longer exists.
- Operating profit before taxation of EUR883mn was -1% down y/y for 2Q2019. This was due to faster growth in operating expenses which rose 4% y/y and outpaced operating income growth of 1% y/y. Impairment charges on financial assets were down 4% y/y but as these remain at low levels, it did not compensate for the higher operating expenses. By segment, the overall operating profit before taxation performance was driven by stronger performance in Group Functions and Corporate & Institutional Banking, while 2Q2019 performance was weaker y/y in Retail Banking, Commercial Banking and Private Banking.
- For overall results, net interest income was up 2% y/y on higher incidentals (excluding these, net interest income was stable on stable net interest margins excluding one-offs) while other operating income rose 10% y/y. Conversely, net fee and commission income fell 3% y/y on business divestment (Stater) which conversely explains the better y/y performance of other operating income as well as lower asset management fees in Private Banking on reduced managed portfolios and lower net fee and commission income in Corporate & Institutional Banking due to lower client activity.
- The rise in operating expenses was due to an 11% y/y rise in other expenses on a EUR114mn provision for the customer due diligence remediation programme in Retail Banking. Otherwise, overall operating expenses benefited from 5% y/y fall in personnel expenses from cost-saving programmes that reduced headcount as well as the sale of Stater.
- Impairment charges were more or less stable with lower charges in Commercial Banking offset by higher charges in Retail Banking. Other loan quality metrics appear relatively stable and still at low levels with the Stage 3 impaired ratio at 2.3% as at 30 June 2019, up from 2.2% as at 31 March 2019 and 31 December 2018.
- ABN's overall credit profile remains supported by its solid capital position with its CET1 ratio at 18.0% as at 30 June 2019, stable q/q and down from 18.4% as at 31 December 2018. Stability in the CET1 ratio was due to both reductions in common equity Tier 1 (from an additional supervisory capital deduction and absence of profits attributable to owners of ABN AMRO Group N.V. were no longer added to CET1 capital after the merger) and reductions in total risk weighted assets. Otherwise the lower CET1 ratio compared to 31 December 2018 was due to a rise in risk weighted assets. That said, the CET1 ratio remains within the bank's capital target range of 17.5%-18.5%. The CET1 ratio is also well above the 2019 Maximum Distributable Amount (MDA) trigger level of 12.32% comprising the 2019 11.75% Supervisory Review and Evaluation Process requirements, counter-cyclical buffer and an Additional Tier 1 shortfall. We continue to review the numbers but our Neutral (3) issuer profile continues to hold (OCBC, Company)

Credit Headlines (cont'd)

Commerzbank AG ("CMZB") | Issuer Profile: Neutral (4)

- CMZB released its 2Q2019 results with pre-tax profit of EUR318mn down 18.3% y/y. This was driven by a large rise in risk results which rose 117%. Otherwise lower revenues y/y by 2.2% was offset by a 3.4% y/y fall in operating expenses.
- The rise in risk results was due to a few individual cases in the Corporate Clients segment according to management as well as lower writebacks compared to prior periods. Risk results in Private and Small Business Customers were lower y/y while the group non-performing loan ratio (calculated as default volume loans held at Amortised Cost and Fair Value Other Comprehensive Income over Exposure at Default) reduced to 0.8% as at 30 June 2019 against 0.9% as at 30 June 2018 and 31 March 2019. This was due to a fall in non-performing loans y/y.
- CMZB's CET1 ratio improved q/q by 20bps to 12.9% on a -10bps impact from risk weighted asset growth offset by a 30bps accretion from retained earnings and lower regulatory capital deductions. As such, the CET1 ratio is now above its target CET1 ratio of 12.75% in 2019.
- In all banks are facing a difficult operating environment going forward with earnings pressure from lower interest rates and lower economic growth. These challenges are somewhat amplified in Germany's competitive banking industry which has necessitated a desire for consolidation and the exploration of a merger with Deutsche Bank AG (Unrated by OCBC Credit Research). Although these discussions have ended, ongoing difficulties in earnings generation may continue to raise the possibility of industry consolidation.
- We continue to look through the numbers but hold the Neutral (4) issuer profile for now. (OCBC, Bloomberg)

Key Market Movements

	8-Aug	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	70	10	5
iTraxx SovX APAC	45	6	4
iTraxx Japan	62	5	3
iTraxx Australia	69	8	5
CDX NA IG	59	4	5
CDX NA HY	106	-1	-1
iTraxx Eur Main	58	7	7
iTraxx Eur XO	285	31	37
iTraxx Eur Snr Fin	70	6	7
iTraxx Sovx WE	17	1	1
USD Swap Spread 10Y	-12	-4	-6
USD Swap Spread 30Y	-41	-4	-9
US Libor-OIS Spread	27	1	9
Euro Libor-OIS Spread	6	1	1
China 5Y CDS	53	11	11
Malaysia 5Y CDS	62	11	8
Indonesia 5Y CDS	98	17	10
Thailand 5Y CDS	32	2	-3

	8-Aug	1W chg	1M chg
Brent Crude Spot ($/bbl)	57.78	-4.50%	-9.87%
Gold Spot ($/oz)	1,500.01	3.79%	7.49%
CRB	167.89	-5.96%	-7.08%
GSCI	387.47	-3.89%	-8.08%
VIX	19.49	20.91%	39.61%
CT10 (bp)	1.729%	-16.43	-31.84
AUD/USD	0.677	-0.43%	-2.88%
EUR/USD	1.121	1.13%	-0.04%
USD/SGD	1.382	-0.33%	-1.57%
DJIA	26,007	-3.19%	-2.98%
SPX	2,884	-3.23%	-3.09%
MSCI Asiax	597	-5.39%	-7.29%
HSI	26,170	-5.06%	-7.63%
STI	3,171	-3.67%	-4.89%
KLCI	1,614	-1.55%	-3.82%
JCI	6,253	-2.02%	-1.56%

Source: Bloomberg

New Issues

- Greenko Mauritius Ltd (a wholly-owned subsidiary of Greenko Energy Holdings) has scheduled investor roadshows commencing on 7 Aug for its potential USD bond issuance.
- Orient Securities Co., Ltd has scheduled investor roadshows commencing on 8 Aug for its potential USD bond issuance.
- SK Hynix Inc has mandated banks for its potential USD bond issuance.

Date	Issuer	Size	Tenor	Pricing
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
30-Jul-19	Korea Land & Housing Corporation	USD100mn USD100mn	3-year FRN 2-year FRN	3M-US LIBOR+66bps 3M-US LIBOR+47bps
30-Jul-19	Emirates NBD PJSC	SGD20mn	7-year	3.06%
29-Jul-19	Shinhan Financial Group Co Ltd	USD500mn	10.5NC5	T+150bps
29-Jul-19	Sino-Ocean Land Treasure IV Ltd	USD600mn	10-year	T+287.5bps
29-Jul-19	Malayan Banking Berhad	USD850mn	5-year FRN	3M-US LIBOR+80bps
29-Jul-19	National Australia Bank Ltd	USD1.5bn	15NC10	T+188bps
29-Jul-19	Hong Yang Group Co., Ltd	USD100mn	2-year	11.5%

Source: OCBC, Bloomberg

Treasury Research & Strategy

Macro Research

Selena Ling
Head of Strategy & Research
LingSSSelena@ocbc.com

Emmanuel Ng
Senior FX Strategist
NgCYEmmanuel@ocbc.com

Tommy Xie Dongming
Head of Greater China Research
XieD@ocbc.com

Terence Wu
FX Strategist
TerenceWu@ocbc.com

Howie Lee
Thailand, Korea & Commodities
HowieLee@ocbc.com

Alan Lau
Malaysia & Indonesia
AlanLau@ocbc.com

Carie Li
Hong Kong & Macau
carierli@ocbcwh.com

Dick Yu
Hong Kong & Macau
dicksnyu@ocbcwh.com

Credit Research

Andrew Wong
Credit Research Analyst
WongVKAM@ocbc.com

Ezien Hoo, CFA
Credit Research Analyst
EzienHoo@ocbc.com

Wong Hong Wei, CFA
Credit Research Analyst
WongHongWei@ocbc.com

Seow Zhi Qi
Credit Research Analyst
ZhiQiSeow@ocbc.com

Co.Reg.no.:193200032W