

Mar 8, 2019

**Credit Headlines:** Singapore Telecommunications Ltd, Wharf Holdings Ltd

## **Market Commentary**

- The SGD swap curve flattened yesterday, with the shorter tenors trading 1bps lower while the belly to longer tenors traded 2 bps lower.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS traded 1 bps wider at 140bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 4bps to 491bps.
- Flows in SGD corporates were focused on perpetuals, with flows seen in MAPLSP 3.58% '29s, UBS 5.875%-PERPs, DBSSP 3.98%-PERP, GUOLSP 4.6%-PERPs, HSBC 4.7%-PERPs, FPLSP 4.15% '27s and OUECT 3.03% '20s.
- 10Y UST yields fell 5bps to 2.64%, largely towards the end of the session, directionally following the fall in European yields. This stemmed from the European Central Bank's decision to delay its interest-rate hike until 2020, at the earliest and offer banks a fresh round of Targeted Long-Term Refinancing Operation (TLTRO), effectively cheap loans, that aims to prevent a credit crunch.

## **Credit Headlines**

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

- SingTel announced that it will subscribe for USD525mn (SGD714mn) in rights issue, which represents its 15% direct interest in Airtel, from Airtel's fund raising exercising.
- We note that SingTel also owns a ~49% stake in Bharti Telecom, which in turns owns 50.1%-stake in Airtel. However, Bharti Telecom Ltd will renounce its rights entitlement to GIC. Post the fund raising exercise, Bharti Telecom's stake will be diluted to 32% while GIC will emerge as a significant shareholder, holding 20% of Airtel.
  - As a result, SingTel's effective stake in Airtel will fall to 35.2% from 39.5%.
- We view this as a small credit negative. While the amount invested is small compared to total equity of SGD28.9bn, SingTel is putting more cash into Airtel, which is recording increasing losses even on a pre-tax basis. (Company, OCBC)

## Credit Headlines (cont'd)

### **Wharf Holdings Ltd (“WHARF”) | Neutral (3)**

- Wharf reported full year 2018 results. Revenue fell by 13% y/y to HKD21.1bn (excluding Wharf REIC’s contribution), as the 24% y/y dip in Development Properties (“DP”) to HKD12.9bn more than offset the 28% y/y increase in revenue from Investment Properties (“IP”) to HKD3.4bn. Revenue from CME segment was also absent in 2018 as Wharf had exited the segment in September 2017. Contributions from investment properties were largely driven by the maturing Chengdu International Finance Square (“IFS”) and the newly-opened Changsha IFS.
- Underlying net profit (excludes revaluation gains of IP, mark-to-market and exchange gain/loss on financial instruments and exceptional items )dropped by 11% y/y to HKD6.5bn. The decline is largely due to the DP and logistics segments which declined by 26% y/y and 12% y/y respectively, even though IP gained 43% y/y. DP continue to account for a large portion of Wharf even though we see the ratios drifting towards IP (DP vs IP 2018: 71% vs 16%, 2017: 85% vs 10%).
- The deferral of sales recognition under the new accounting standards (HKFRS 15: requires recognition at the time of assignment instead of signing of formal agreement) led to a deferral of HKD260mn from Mount Nicholson project, which contributed to the fall in underlying net profit for DP. That said, we expect this to be one-off.
- Net debt decreased h/h to HKD25.6bn from HKD29.3bn leading to net gearing ratio of 18.5%, down from 20.1% (end-2017: net cash). Cash was mainly used for reinvestment in DP projects in Hong Kong and the Mainland. Excluding debts that are non-resource debts to Wharf and its subsidiaries, net debt is HKD19.3bn (end-2017: net cash). Wharf continues to have healthy liquidity with more than enough cash (HKD17.4bn) to pay off its short term debt (HKD11.2bn).
- During the year, Mount Nicholson in Hong Kong continued to make sales and sold 2 houses and 3 apartments for HKD3.8mn which translates to an average of HKD125,000 psf.
- On the retail front, sales continue to be robust. Average monthly sales at Changsha IFS surpassed Management’s expectations of RMB300mn in 2018. In addition, Hotel Niccolo Changsha soft-opened in late October 2018. Chengdu IFS saw revenue growth of 27% y/y to HKD1.6mn, and tenant sales grew 20% while foot traffic increased 18%. Evidently, growth momentum continues to be strong.
- In the year, Wharf made RMB18.1bn (approximately HKD20.8bn) new land acquisitions in various cities in China, including Foshan, Guangzhou, Hangzhou and Suzhou. The land bank for development properties amounted to 3.7mn sq m at end-2018. We continue to maintain WHARF at Neutral (3) issuer profile. (Company, OCBC)

**Table 1: Key Financial Indicators**

	8-Mar	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	69	-1	-13
iTraxx SovX APAC	51	-1	-9
iTraxx Japan	58	-1	-6
iTraxx Australia	69	1	-7
CDX NA IG	64	5	-3
CDX NA HY	105	-1	0
iTraxx Eur Main	63	0	-11
iTraxx Eur XO	285	5	-34
iTraxx Eur Snr Fin	76	0	-17
iTraxx Sovx WE	20	-1	-5
AUD/USD	0.701	-0.95%	-1.07%
EUR/USD	1.120	-1.49%	-1.12%
USD/SGD	1.360	-0.35%	-0.26%
China 5Y CDS	49	-1	-9
Malaysia 5Y CDS	62	-1	-21
Indonesia 5Y CDS	99	-1	-18
Thailand 5Y CDS	45	1	2

	8-Mar	1W chg	1M chg
Brent Crude Spot (\$/bbl)	65.83	1.17%	6.01%
Gold Spot (\$/oz)	1,287.08	-0.49%	-2.07%
CRB	180.87	-1.03%	1.59%
GSCI	423.37	0.48%	3.80%
VIX	16.59	12.25%	5.53%
CT10 (bp)	2.639%	-11.38	0.54
USD Swap Spread 10Y (bp)	2	2	-1
USD Swap Spread 30Y (bp)	-20	1	-2
US Libor-OIS Spread (bp)	19	0	-11
Euro Libor-OIS Spread (bp)	5	0	0
DJIA	25,473	-1.71%	1.46%
SPX	2,749	-1.28%	1.52%
MSCI Asiax	654	-0.39%	2.43%
HSI	28,360	-1.57%	1.48%
STI	3,207	-0.43%	0.14%
KLCI	1,682	-1.10%	-0.27%
JCI	6,409	-0.53%	-1.95%

## New issues

- AMP Group Finance Services Ltd has priced a USD300mn 2.5-year bond at CT3+160bps, tightening from IPT of +165 area.
- XINHU (BVI) 2018 Holding Company Limited has priced a USD275mn 3NPNC2 bond at 11.0%, tightening from IPG of 11.25% area.
- Hong Kong Mortgage Corp Ltd has priced a USD125mn 5-year FRN at 3M US LIBOR +16bps.

<u>Date</u>	<u>Issuer</u>	<u>Size</u>	<u>Tenor</u>	<u>Pricing</u>
7-Mar-19	AMP Group Finance Services Ltd	USD300mn	2.5-year	CT3+160bps
7-Mar-19	XINHU (BVI) 2018 Holding Co Ltd	USD275mn	3NPNC2	11.0%
7-Mar-19	Hong Kong Mortgage Corp Ltd	USD125mn	5-year	3M-LIBOR +16bps
6-Mar-19	Santos Finance Ltd	USD600mn	10-year	CT10+265bps
6-Mar-19	CES Treasury Pte Ltd	SGD100mn	3-year	6.0%
5-Mar-19	Greenland Global Investment Ltd	USD350mn	3-year	7.25%
5-Mar-19	Export-Import Bank of India	USD500mn	5-year	CT5+140bps
5-Mar-19	Renew Power Ltd	USD375mn	5NC2	6.67%
5-Mar-19	Competition Team Technologies Ltd	USD700mn USD300mn	5-year 10-year	CT5+125bps CT10+155bps
5-Mar-19	PT Delta Merlin Dunia Textile	USD300mn	5NC3	8.625%
5-Mar-19	ESR Cayman Ltd	SGD25mn	ESRCAY 6.75%'22s	6.75%
5-Mar-19	Housing and Developmental Board	SGD500mn	7-year	2.495%
5-Mar-19	Mapletree Treasury Services Ltd	SGD250mn	10-year	3.58%
4-Mar-19	Guotai Junan Holdings Ltd	USD500mn	3-year	CT3+147.5bps
4-Mar-19	CDBL Funding 2	USD700mn	3-year	CT3+125bps

Source: OCBC, Bloomberg

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