OCBC TREASURY RESEARCH

Asian Credit Daily

Tuesday, August 18, 2020

Market Commentary

- The SGD swap curve slightly steepened yesterday, with the shorter and belly tenors trading 0-1bps lower while the longer tenors traded slightly higher.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 168bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 2bps to 663bps. The HY-IG Index Spread widened 1bps to 495bps.
- Flows in SGD corporates were heavy, with flows in OLAMSP 6%'22s, MAPLSP 3.15%'31s, STTGDC 3.13%'28s, FPLSP 4.15%'27s, SINTEC 4.1%-PERPs and SLHSP 3.5%'30s.
- 10Y UST Yields fell 2bps to 0.69% after the New York Fed's Empire Manufacturing Survey fell 13.5 points to 3.7 in August, signalling a slower pace of US economic recovery.

Credit Research

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Credit Summary:

- **Hotel Properties Ltd ("HPL") | Issuer Profile: Neutral (5):** HPL reported 1H2020 results. Revenue fell 47.8% y/y to SGD144.8mn. HPL reported a gross loss of SGD3.7mn. Cash balances have dwindled to SGD111.3mn as of end-June and net gearing has risen h/h to 43%.
- **Singapore Airlines Ltd ("SIA") | Issuer Profile: Neutral (5):** SIA reported its July 2020 operating data. On a group airline basis, passenger load factor was at 21.6% in July 2020, higher than June 2020's 12.2% (July 2019: 85.8%). SIA cargo load factor was at 84.6% in July 2020, somewhat higher versus 82.5% in June 2020. Per company, demand for air travel continued to be curtailed as border controls and travel restrictions remained in place.
- **China Aoyuan Group Limited ("CAPG") | Issuer Profile: Negative (6):** Revenue was up 19.3% y/y to RMB28.2bn in 1H2020 while reported gross profit was up by 17.5% y/y to RMB8.3bn on the back of higher gross floor area delivered which more than offset the decline in average selling price (exclusive of tax) by 12.1% y/y. EBITDA based on our calculation increased 16.9% y/y to RMB5.9bn. Reported interest expense was RMB443.8mn in 1H2020 (1H2019: RMB276.4mn). As at 30 June 2020, unadjusted gross gearing was 2.5x though ballooning from 2.2x as at 30 June 2019.
- **Westpac Banking Corporation ("Westpac") | Issuer Profile: Positive (2):** Westpac announced its 3Q2020 trading update. While 3Q2020 unaudited cash earnings of AUD1.32bn are up materially against the 1H2020 quarterly average of AUD497mn and up 19% excluding notable items from AUD1.14bn, this is due to the significant provisions raised in 1H2020. Otherwise, earnings were under pressure from lower margins on lower interest rates and funding mix.

Credit Headlines

Hotel Properties Ltd ("HPL") | Issuer Profile: Neutral (5)

- HPL reported 1H2020 results. Revenue fell 47.8% y/y to SGD144.8mn mainly due to lower contribution from the hotel division (which contributed 95% of 2019's revenue) as a result of travel restrictions. According to HPL, revenue from investment properties have also fallen due to rental relief.
- HPL booked another SGD33.8mn mark to market fair value losses on long term investments, which dragged its loss before tax to SGD77.8mn (1H2019 profit before tax: SGD34.7mn).
- While HPL has reportedly undertaken measures to contain operating costs, HPL sank into a gross loss of SGD3.7mn (1H2019 gross profit: SGD71.8mn) – costs has not fallen in pace with revenue. Cash used in operating activities stands at SGD36.1mn, which is in contrast to 1H2019 cash generated from operations of SGD25.9mn.
- Despite raising SGD170mn from issuance of HPLSP 3.8% '25s in June and starting 2020 with SGD192.3mn of cash, cash balances have dwindled to SGD111.3mn as of end-June. Aside from cash used in operating activities, HPL recorded SGD61.1mn net investment in associates and jointly controlled entities. We understand that losses have been incurred by hotel owning associates and jointly controlled entities, which depressed share of results of associates and jointly controlled entities to SGD4.2mn (1H2019: SGD15.5mn) despite higher profit from Holland Park Villas development in London.
- Net gearing has risen h/h to 43% (2019: 32%). Due to the significant deterioration in results and higher than expected cash burn with short-term borrowings of SGD255.0mn exceeding SGD111.3mn, we are viewing HPL for a downgrade in Issuer Profile. (Company, OCBC)

Singapore Airlines Ltd ("SIA") | Issuer Profile: Neutral (5)

- SIA reported its July 2020 operating data. On a group airline basis, passenger load factor was at 21.6% in July 2020, higher than June 2020's 12.2% (July 2019: 85.8%).
- Capacity in millions seat kilometres on a group airlines basis had declined 94.3% y/y to 867.7 million seat-kilometres in July 2020, though higher than the 721.2 million seat-kilometre in June 2020.
- SIA cargo load factor was at 84.6% in July 2020, somewhat higher versus 82.5% in June 2020.
- Per company, demand for air travel continued to be curtailed as border controls and travel restrictions remained in place. (Company)

Credit Headlines

China Aoyuan Group Limited ("CAPG") | Issuer Profile: Negative (6)

- Revenue was up 19.3% y/y to RMB28.2bn in 1H2020 while reported gross profit was up by 17.5% y/y to RMB8.3bn on the back of higher gross floor area delivered (up by 38.5% y/y) which more than offset the decline in average selling price (exclusive of tax) by 12.1% y/y. Contribution from Tier 2 city projects (eg: Ningbo and Nanjing) was higher in 1H2020 versus Tier 1 cities in 1H2019 (eg: Shenzhen and Guangzhou). For 7M2020, accumulated unaudited property contracted sales was RMB60.42bn (7M2019: RMB60.28bn), up 0.2% y/y.
- EBITDA (based on our calculation which does not include other income and other expenses) increased 16.9% y/y to RMB5.9bn as selling and distribution and administrative expenses were higher by 22.3% y/y. CAPG spent more on marketing, promotions and saw staff and other expenses increase from expansion of operations.
- Reported interest expense was RMB443.8mn in 1H2020 (1H2019: RMB276.4mn), although much of CAPG's interest expense were capitalised as part of properties under development for sale and investment properties under development. In our view, the gross amount of interest (including amounts capitalised) is more representative of the interest coverage at CAPG. This was RMB4.4bn in 1H2020 versus only RMB3.3bn in 1H2019, with resultant EBITDA/Interest coverage of 1.3x in 1H2020, lower than the 1.6x for 2019.
- CAPG reported a lower other income in 1H2020 at RMB221.1mn versus RMB363.9mn in 1H2019, despite a large increase in interest income (which is recorded within other income). During 1H2020, CAPG took a RMB213.4mn net exchange loss and impairments on trade and other receivables and right-of-use assets amounting to RMB80.6mn.
- Additionally, the company reported higher depreciation & amortisation and loss of joint ventures and associates amounting to RMB146.9mn in 1H2020 versus a share of profit from joint ventures and associates of RMB26.2mn in 1H2019, which along with higher interest expense led to a narrower improvement in profit before tax of 12.6% y/y to RMB6.1bn (1H2019: RMB5.4bn).
- As at 30 June 2020, unadjusted gross gearing (excluding amounts due to minority interest investors, joint venture partners and lease liabilities) was 2.5x (down from 2.6x as at 31 December 2019) though ballooning from 2.2x as at 30 June 2019. We maintain CAPG's issuer profile at Negative (6) in view of its levered credit profile. CAPG's sole SGD bond, the CAPG 7.15% '21s has a put date in September 2020. Bondholders who wish to put their bond back to the company may write in to the trustee. (Company, OCBC)

Credit Headlines

Westpac Banking Corporation (“Westpac”) | Issuer Profile: Positive (2)

- Westpac announced its 3Q2020 trading update. While 3Q2020 unaudited cash earnings of AUD1.32bn are up materially against the 1H2020 quarterly average of AUD497mn (the usual comparison measure) and up 19% excluding notable items (provisions for estimated customer refunds, costs associated with restructuring of the wealth business and AUSTRAC costs) from AUD1.14bn, this is due to the significant provisions raised in 1H2020. Otherwise, earnings were under pressure from lower margins (net interest margin down 11bps excluding notable items to 2.05%) on lower interest rates and funding mix. This offset better non-interest income performance from lower general insurance claims, better trading income and markets.
- Operating expenses rose 1% against the 1H2020 quarterly average on higher regulatory and compliance spend and the need for additional resources to address customer enquiries. This led to core earnings falling 1% y/y to AUD2.7bn excluding notable items. Including notable items, 3Q2020 core earnings were up 30% against the 1H2020 quarterly average.
- Other notables include impairment charges of AUD826mn and the board’s decision to forego a 1H2020 dividend to preserve capital with its CET1 capital position unchanged at 10.8% as growth in capital from earnings was largely offset by higher credit risk weighted assets (RWA), including a AUD7.0bn RWA overlay related to modelled COVID-19 impacts that influenced corporate business and specialised lending exposures. On an internationally comparable basis, the CET1 ratio was at 16.0% as at 30 June 2020. Other credit ratios are sound with the net stable funding ratio at 116% and the liquidity coverage ratio at 146% as at 30 June 2020.
- The impairment charge of AUD826mn in 3Q2020 is related mostly to collectively assessed provisions with management seeing building stress in Westpac’s loan book as customers were downgraded and delinquencies increased. The ratio of stressed exposures as a percentage of total committed exposures rose to 1.76% as at 30 June 2020 against 1.32% as at 31 March 2020 and 1.20% as at 30 September 2019. 90+ day delinquencies for consumer unsecured lending has also risen noticeably to 2.52% as at 30 June 2020 (1.97% as at 31 March 2020 and 1.77% as at 30 September 2019). That said for now, provision coverage has increased due to the provision build-up with total provisions to credit risk weighted assets up 13bps to 170bps. New and increased gross impaired assets rose by AUD283mn in 3Q2020 against AUD897mn in 1H2020.
- The underlying message in the results in our view is a weaker than expected outlook than was likely anticipated in 1H2020 results notwithstanding the higher uncertainty earlier in 2020. The expectations in the May period was a more meaningful or certain recovery in 2H2020 as economies re-open but these expectations have been watered down with Victoria’s lockdown and state borders still closed along with other countries experiencing second waves.
- As such, earnings expectations are now lower in our view. Westpac is also reviewing its Specialist Business, carrying values of capitalised software and goodwill and the valuation of its Life Insurance business in the context of potentially higher COVID-19 related claims, higher reinsurance costs and lower discount rates. This may also pressure earnings for FY2020.

(To be continued on the next page…)

Credit Headlines

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

- Westpac also disclosed that 78,000 or AUD30bn in mortgages are currently in deferral, down from 135,000 and AUD51bn that were previously provided. Amongst those that were previously provided, Westpac has sought updates from 85% or 115,000 of those on relief packages and following this three month check-in, around half of those in deferral are expected to return to making payments with a 40% reduction in outstanding mortgage deferral packages to 31 July following the early check-ins. In terms of business clients, Westpac has provided repayment relief packages to around 31,000 small business customers with up to 6 months repayment deferral and interest capitalising. This equates to over AUD9bn of lending exposures or 14% of the business lending book with most exposures occurring in Victoria and Tasmania by location and property and property services by industry. In New Zealand, around 10% of mortgage customers are under repayment relief programs.
- With multiple uncertainties facing Westpac including the eventual penalty related to civil proceedings by Australia's financial crimes regulator ("AUSTRAC") for alleged systemic breaches under the Anti-Money Laundering and Counter-Terrorism Financing Act, we continue to monitor Westpac closely. We continue to review Westpac's numbers but keep the Positive (2) issuer profile for now (Company, Bloomberg, OCBC)

Key Market Movements

	18-Aug	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	66	1	-11
iTraxx SovX APAC	37	0	-7
iTraxx Japan	59	0	-2
iTraxx Australia	68	0	-11
CDX NA IG	67	0	-3
CDX NA HY	104	0	3
iTraxx Eur Main	54	1	-5
iTraxx Eur XO	340	-2	-5
iTraxx Eur Snr Fin	65	2	-4
iTraxx Eur Sub Fin	135	4	-6
iTraxx Sovx WE	14	-1	-4
USD Swap Spread 10Y	-1	-1	1
USD Swap Spread 30Y	-41	-2	5
US Libor-OIS Spread	19	1	-1
Euro Libor-OIS Spread	-1	0	-4
China 5Y CDS	40	0	-4
Malaysia 5Y CDS	51	-1	-13
Indonesia 5Y CDS	105	0	-21
Thailand 5Y CDS	40	0	-2
Australia 5Y CDS	15	0	-2

	18-Aug	1W chg	1M chg
Brent Crude Spot ($/bbl)	45.24	1.66%	4.87%
Gold Spot ($/oz)	1,983.25	3.73%	9.10%
CRB	150.87	2.73%	7.13%
GSCI	357.21	2.42%	5.85%
VIX	21.35	-3.52%	-16.86%
CT10 (%)	0.679%	3.70	5.19
AUD/USD	0.722	1.06%	2.89%
EUR/USD	1.188	1.18%	3.76%
USD/SGD	1.368	0.42%	1.56%
AUD/SGD	0.987	-0.64%	-1.29%
ASX 200	6,100	-0.64%	1.09%
DJIA	27,845	0.19%	4.40%
SPX	3,382	0.64%	4.88%
MSCI Asiax	720	1.08%	4.90%
HSI	25,347	3.98%	1.03%
STI	2,572	1.02%	-1.79%
KLCI	1,561	-0.69%	-2.23%
JCI	5,248	2.02%	3.31%
EU Stoxx 50	3,306	1.42%	-1.78%

Source: Bloomberg

New Issues

- National Australia Bank Ltd priced a USD1.5bn 10-year Tier 2 bond at T+165bps, tightening from IPT of T+185-190bps.
- Vedanta Holdings Mauritius II Ltd. (Guarantors: Vedanta Resources Ltd., Vedanta Holdings Jersey Ltd. and Vedanta Holdings Mauritius Ltd.) priced a USD1.4bn 3-year amortizing bond at 13.0%, tightening from IPG of 13.25% area.
- Shui On Development Holding Ltd (Guarantor: Shui On Land) priced a USD500mn 4NC2 bond at 6.15%, tightening from IPT of 6.5% area.
- HSBC Institutional Trust Services (Singapore) Ltd. (in its capacity as trustee of Ascendas Real Estate Investment Trust) priced a SGD100mn 10-year green bond at 2.65%, tightening from IPT of 2.85% area.
- Olam International Limited priced a SGD400mn 5.5-year bond at 4.0%, tightening from IPT of 4.25%.
- Elect Global Investments Ltd. (Guarantor: Hysan Development Co.) has arranged investor calls commencing 17 August 2020 for its proposed USD Perp offering.

Date	Issuer	Size	Tenor	Pricing
17-Aug-20	National Australia Bank Ltd	USD1.5bn	10-year	T+165bps
17-Aug-20	Vedanta Holdings Mauritius II Ltd. (Guarantors: Vedanta Resources Ltd., Vedanta Holdings Jersey Ltd. and Vedanta Holdings Mauritius Ltd.)	USD1.4bn	3-year	13.0%
17-Aug-20	Shui On Development Holding Ltd (Guarantor: Shui On Land)	USD500mn	4NC2	6.15%
17-Aug-20	HSBC Institutional Trust Services (Singapore) Ltd. (in its capacity as trustee of Ascendas Real Estate Investment Trust)	SGD100mn	10-year	2.65%
17-Aug-20	Olam International Limited	SGD400mn	5.5-year	4.0%
14-Aug-20	Lotte Shopping Co., Ltd. (Guarantor: Kookmin Bank)	USD100mn	3-year	3m-US LIBOR+140bps
13-Aug-20	Yunnan Energy Investment Overseas Finance Co Ltd (Guarantor: Yunnan Provincial Energy Investment Group Co Ltd)	USD150mn USD150mn	3-year PerpNC3	3.58% 4.8%
12-Aug-20	China Great Wall International Holdings V Ltd (Guarantor: China Great Wall AMC International Holdings Co Ltd)	USD500mn	10-year	T+172.5bps
12-Aug-20	Hanhui International Limited (Guarantor: Guotai Leasing Limited Company)	USD200mn	3-year	4%
12-Aug-20	YUNDA Holding Investment Ltd. (Guarantor: YUNDA Holding Co.)	USD500mn	5-year	T+197.5bps

Source: OCBC, Bloomberg

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