Asian Credit Daily

Friday, February 21, 2020

Market Commentary

- The SGD swap curve bull-steepened yesterday, with the shorter tenors trading 1-2bps lower, while the belly and the longer tenors traded 0-0.5bps lower.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS was relatively flat at 118bps, and the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 2bps to 473bps. The HY-IG Index Spread widened 2bps to 354bps.
- Flows in SGD corporates were heavy, with flows in ESRCAY 5.1%'25s, UBS 4.85%-PERPs, ARASP 5.6%-PERPs, ESRCAY 6.75%'22s, SPHSP 3.2%'30s, HSBC 4.7%-PERPs and HSBC 5%-PERPs.
- 10Y UST Yields fell 5bps to 1.52%, driven by COVID-19 fears as the number of COVID-19 cases in the capital city of China and outside of China rose.

Credit Research

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Credit Summary:

- Hongkong Land Ltd ("HKL") | **Issuer Profile: Positive (2):** HKL has secured a prime 23.1 hectare mixed-use site on the West Bund of Shanghai from the Government and the development of the land for mixed use is expected to complete by 2027. HKL is considering using internal resources and external funding to fund the land cost.
- Heeton Holdings Ltd ("HHL") | **Issuer Profile: Neutral (5):** HHL reported 2019 results. Revenue rose 17.7% y/y, mainly from the increase in hotel operation income which outweighed the decline in property development segment. Credit metrics look manageable for now, as net gearing rose slightly q/q to 88%. While adjusted EBITDA barely covers interest expense, liquidity is ample.
- Sembcorp Industries Ltd ("SCI") **("SCI") | Issuer Profile: Neutral (5):** SCI announced their 4Q2019 and FY2019 results. Overall revenue was down 9.7% y/y for 4Q2019 driven by a fall in the Marine segment (via 61%-owned Sembcorp Marine Ltd ("SMM")) and the Energy segment. SCI on a consolidated level faces SGD2.6bn in short term debt, of which SGD1.4bn are short term debt relating to SMM. In our view, the highly levered nature and loss trend at SMM would continue to drag SCI's credit profile through 2020, barring a spin-out of SMM from SCI.
- StarHub Ltd ("StarHub") | **Issuer Profile: Neutral (3):** StarHub reported 4Q2019 results. Revenue declined 1.8% y/y but profit before tax rose 71.3%. Looking forward, StarHub guides for an increase of 1-3% y/y in service revenue though service EBITDA is expected to decline.
- OUE Limited ("OUE") | **Issuer Profile: Neutral (5):** OUE announced its full year financial results for 2019. In 2019, OUE reported revenue of SGD930.8mn, with the largest contributor being the Development property segment. Based on our calculation of EBITDA, EBITDA/Interest coverage is thin at only 1.3x. Beyond the short term, we expect OUE to need to pursue further asset disposals, in light of the thin liquidity generation at the company.
- Julius Baer Group Ltd ("JBG") | **Issuer Profile: Neutral (3):** The Swiss Financial Market Supervisory Authority FINMA has found anti-money laundering shortcomings at JBG and has assigned non-financial penalties with JBG. FINMA will now be examining if they need to commence proceedings against any individuals.
- United Overseas Bank Ltd ("UOB") | **Issuer Profile: Positive (2):** UOB announced its 4Q2019 and FY2019 results, with full-year net profit before tax up 7% y/y. UOB's balance sheet grew, and total risk-weighted assets increased 3% y/y. NPL ratio was stable at 1.5%. CET1/CAR ratios were 14.3%/17.4%, above the minimum capital requirements. Compared to DBS, UOB's exposure to Greater China seems considerably lower.

Credit Headlines

Hongkong Land Ltd ("HKL") | Issuer Profile: Positive (2)

- HKL has secured a prime 23.1 hectare mixed-use site on the West Bund of Shanghai from the Government via auction for a consideration of RMB31.1bn (~USD4.4 bn) which will be paid in instalments. The land is estimated to account for 8.8% of HKL's enlarged total asset base.
- The development of the land for mixed use (Grade A office, retail, residential and hotel purposes) will be in multiple phases and is expected to complete by 2027. Post completion, the project is expected to provide the Group with a stable stream of recurring earnings.
- HKL is considering using internal resources and external funding such as pre-sales, cooperation with strategic partners and debt to fund the land cost. As at 30 June 2019, HKL has USD1.2bn cash on hand and a total current assets of USD4.2bn. We will continue to hold HKL at Positive (2) Issuer Profile. (Company, OCBC)

Heeton Holdings Ltd ("HHL") | Issuer Profile: Neutral (5)

- HHL reported 2019 results. Revenue rose 17.7% y/y to SGD64.8mn, mainly from the increase in hotel operation income which outweighed the decline in property development segment.
  - Hospitality: Grew SGD23.2mn y/y to SGD41.3mn mainly due to newly acquired hotels including Hotel Indigo Glasgow in Scotland, Smile Hotel Asakusa in Tokyo, Stewart by Heeton Concept Aparthotel in Edinburgh, Scotland and Crowne Plaza London Kensington in London.
  - Property development: Fell to SGD11.0mn (2018: SGD24.2mn) as Onze@Tanjong Pagar has been substantially sold.
  - Property investment: Revenue remains largely unchanged at SGD11.2mn.
- As a result of higher revenues, we calculate that adjusted EBITDA (based on reported PBT before depreciation, interest and fair value changes) rose 5.8% y/y to SGD26.2mn.
- Credit metrics look manageable for now, as net gearing rose slightly q/q to 88% (3Q2019: 87%). While adjusted EBITDA barely covers SGD20.8mn in interest expense, liquidity is ample with cash and fixed deposits of SGD116.9mn more than sufficient to cover short term debt of SGD94.5mn.
- We continue to hold HHL at a Neutral (5) Issuer Profile though we will be wary if net gearing rises substantially – we note that HHL is still looking to grow its investment properties and hospitality assets. (Company, OCBC)

Credit Headlines

Sembcorp Industries Ltd ("SCI") | Issuer Profile: Neutral (5)

- SCI announced their fourth quarter and full year financial results for 2019. Overall revenue was down 9.7% y/y to SGD2.3bn for 4Q2019 driven by a fall in the Marine segment (via 61%-owned Sembcorp Marine Ltd ("SMM")) and the Energy segment. Reported Profit from Operations before exceptional items ("PFO") was down 18% y/y to SGD246mn in 4Q2019, with the main drag coming from SMM which reported a loss from operations of SGD89mn. This was mainly offset by PFO from the Urban segment of SGD146mn in 4Q2019. This was mainly from revenue recognition of residential units sold in Nanjing (4Q2018 Urban PFO: SGD35mn). PFO for the Energy segment grew 14% y/y to SGD200mn.
- While overall Energy PFO improved, significant one-offs were reported (we estimate SGD44mn from India), which more than offset the reduction of Energy PFO from Singapore (SGD2mn in 4Q2019 versus SGD45mn in 4Q2018) due to lower gas sales and planned maintenance shutdown. Energy PFO from the UK grew while new assets from Myanmar and Bangladesh came online and contributed to Energy PFO.
- SCI though reported significant items which we consider as once-off including impairments, gains from asset sales, settlements with vendors and an insurance claim during the quarter. The most significant of these was the impairments at its UK Power Reserve and Chile water business which was part of the company's negative profit guidance on 6 February 2020. The company reported a loss before tax of SGD22mn in 4Q2019.
- EBITDA (based on our calculation which adds back impairments that was reported within cost of sales and exclude other income and other expenses) was SGD340mn while SCI's finance cost was SGD146mn. We get to an EBITDA/Interest coverage of 2.3x for SCI during the quarter.
- As at 31 December 2019, unadjusted net gearing for SCI on a consolidated level was 1.15x (at similar levels to 30 September 2019) though we estimate SCI's standalone unadjusted net gearing (excluding SMM) was lower at 0.9x. SCI has SGD800mn of perpetuals outstanding across two issues. Both of these faces first call in 2020 although we see the probability of a first call in June 2020 for the SCISP 3.7%-PERP as low. Including 50% of the perpetuals as debt, we find SCI's consolidated adjusted net gearing at 1.3x. Another SGD500mn of cash that SCI has committed to on-lent to SMM has yet to be drawn down.
- SCI on a consolidated level faces SGD2.6bn in short term debt (representing 24% of its gross debt), of which SGD1.4bn are short term debt relating to SMM. Per SCI, SMM is in the process of finalising refinancing and terming out maturities. While SCI did not share the full details of its committed funding facilities, it has disclosed that it has at least SGD1.0bn in committed revolving credit facilities that can be drawn down. In our view, the highly levered nature and loss trend at SMM would continue to drag SCI's credit profile through 2020, barring a spin-out of SMM from SCI. We are maintaining the issuer profile of SCI at Neutral (5) though may lower this should SMM's refinancing with a term out fail to materialise and/or SCI needing to continue its financial support to SMM. (Company, OCBC).

Credit Headlines

StarHub Ltd ("StarHub") | Issuer Profile: Neutral (3)

- StarHub reported 4Q2019 results. Revenue declined 1.8% y/y to SGD608.4mn, mainly due to the decline in Mobile, Pay TV and Broadband though Enterprise Business saw growth.
    - Mobile: Revenue declined 1.8% y/y to SGD190.9mn despite 3.5% y/y growth in post-paid subscribers as post-paid ARPU declined y/y to SGD40/mth (4Q2018: SGD41/mth) with lower IDD, excess data usage, roaming, data subscriptions and value-added services revenue.
    - Pay TV: Steep decline in revenue of 20.8% y/y to SGD56.5mnas ARPU fell to SGD44/mth (4Q2018: SGD50/mth) and number of customers falling 19.6% y/y to 329k. The decline in customers, while significantly, has largely been expected due to competition (e.g. Netflix) while StarHub is no longer hosting several channels (e.g. Discovery, Scripps Networks').
    - Broadband: Revenue declined 10.2% y/y to SGD41.0mn due to fall in ARPU to SGD27/mth (4Q2018: SGD32/mth) because of promotional activities for cable to fibre migration.
    - Enterprise: Enterprise business revenue rose 6.3% y/y to SGD155.3mn mainly due to increase in Cyber security services revenue to SGD44.4mn (4Q2018: SGD32.4mn).
- That said, profit before tax rose 71.3% y/y to SGD37.8mn with lower cost of sales (-8.0% y/y to SGD262.7mn) and decline in other operating expenses (-3.8% y/y to SGD249.0mn). Aside from achieving 64% of the SGD210mn cost savings programme (e.g. from workforce reduction), interestingly we note that profits of sales of equipment surged y/y to SGD22.8mn (4Q2018: SGD5.2mn). Meanwhile, cost of services reduced by 9.9% y/y to SGD100.3mn, which we think is largely due to reduced TV content costs (which is helpful as we note that pay TV has not been a profitable segment to begin with).
- Looking forward, StarHub guides for an increase of 1-3% y/y in service revenue (which declined 3.7% y/y in 2019) though service EBITDA is expected to decline to 27-29% (2019: 31.7%). Given that StarHub is looking to rollout 5G progressively by 2023, capex is expected to increase though this should be mitigated by partnering with M1 Ltd.
- That said, credit metrics remains healthy, with reported net debt to EBITDA of 1.51x (2018: 1.52x). Reported EBITDA of SGD617.1mn is ample to cover SGD38.3mn in interest expense. We continue to hold StarHub at a Neutral (3) Issuer Profile. (Company, OCBC)

Credit Headlines

OUE Limited ("OUE") | Issuer Profile: Neutral (5)

- OUE announced its full year financial results for 2019. Following the combination of OUE Commercial Trust ("OUE-CT") and OUE Hospitality Trust ("OUE-HT"), OUE-HT was no longer recorded as an associate but as a subsidiary of OUE whose results are consolidated (i.e.: similar treatment as OUE-CT standalone). As such we find y/y comparison to be less useful for 2019. In 2019, OUE reported revenue of SGD930.8mn, with the largest contributor being the Development property segment at SGD349.6mn. The main driver for Development property was the sale of OUE's Nassim plot of land which was sold to the company's Chairman/deemed major shareholder and revenue recognition of OUE Twin Peaks properties which were previously sold on deferred payment schemes. No new development projects have been launched post OUE Twin Peaks.
- In 2019, the second largest revenue contributor was Investment properties at SGD287.6mn mainly due to the consolidation of Mandarin Gallery (owned by the enlarged OUE-CT) while Hospitality was SGD241.2mn from strong performance at Crowne Plaza Changi Airport. Healthcare revenue held up at SGD31.0mn.
- OUE's reported profit before tax was significant at SGD321.8mn for 2019 although it is worth noting that this was driven by a large SGD197.3mn in other gains (one-off gains from selling its equity stake in Aquamarine Hotel Private Limited) while share of results of equity-accounted investees (mainly from its Gemdale stake) was SGD170.7mn.
- EBITDA (based on our calculation which does not include other income and other expenses) was SGD224.7mn while interest expense was SGD170.0mn, implying a thin EBITDA/Interest coverage of only 1.3x.
- As at 31 December 2019, OUE's unadjusted net gearing had improved to 0.59x (0.65x as at 30 September 2019). During the year, OUE had sold a significant amount of assets, reporting SGD381.9mn in net investing inflows. Additionally, it also collected SGD314.4mn from development properties (sale of Nassim road land and collections of previously sold OUE Twin Peak units). The company paid out dividends amounting to SGD168.0mn during the year.
- Out of the short term debt at OUE, SGD300mn relates to the OUESP 3.8% '20s, which we think is comfortably covered. Beyond the short term though, we expect OUE to need to pursue further asset disposals, in light of the thin liquidity generation at the company. We maintain OUE's issuer profile at Neutral (5) on the back of its still asset-heavy profile while we estimate another SGD140mn remains to be collected from OUE Twin Peaks. (Company, OCBC)

Credit Headlines

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

- The Swiss Financial Market Supervisory Authority FINMA has found anti-money laundering shortcomings at JBG in connection with transactions involving PDVSA and FIFA. These shortcomings occurred between 2009 and 2018.
- FINMA has assigned non-financial penalties with JBG instructed to implement various measures in addition to what JBG is currently doing in order to comply with legal anti money-laundering requirements. These include:
  - Identifying client advisers and portfolios that have a higher money-laundering risk;
  - Changing the way it recruits, manages, remunerates and disciplines client advisers;
  - Greater attention to anti-money laundering responsibilities by the Board of Directors and the establishment of a Board Committee to specialise in conduct and compliance issues;
  - Ceasing large acquisitions that impact operational risk or organisation complexity until JBG is in full compliance with anti-money laundering laws; and
  - Appointment of an independent auditor by FINMA to monitor implementation of the above measures.
- Investigations accelerated on the arrest of one of JBG's client advisors in 2018 in connection with JBG's Venezuelan operations and anti-money laundering breaches with FINMA uncovering in its view irregularities across a vast sample of business relationships and transactions as well as systematic failures in risk management. Likely actions by JBG will be improving or correcting KYC processes, and improving the risk culture and organisation through the above changes.
- FINMA has announced that proceedings against the bank have been completed but that it will now be examining if they need to commence proceedings against any individuals.
- Of note for the above measures is the restriction on large and complex acquisitions which may impact new CEO Philipp Rickenbacher's growth plans and the possible rise in compliance costs which may impact margins.
- As we have not considered any acquisitions or margin improvement in our issuer profile, the Neutral (3) continues to hold. Instead, we will continue to monitor how the new CEO's strategy meets current industry challenges. (FINMA, OCBC)

Credit Headlines

United Overseas Bank Ltd ("UOB") | Issuer Profile: Positive (2)

- UOB announced its 4Q2019 and FY2019 results which were similarly robust to DBS Group Holding Ltd's. UOB's full-year net profit before tax ("PBT") was up 7% y/y to SGD5.17bn while net profit after tax reached a record SGD4.34bn.
- FY2019 total income was up 10% y/y to USD10.03bn. This was driven by a 54% y/y growth in other non-interest income (trading and investment income rose 72% y/y from improved customer flows and higher gains from investment securities) as well as 6% net interest income growth (average gross loans was up 9% y/y while net interest margins fell 4bps arising from lower interest rates and increased competition) and 3% y/y growth in net fee and commission income (18% y/y growth in wealth management and 11% y/y growth in credit cards, offset by 9% drop in fund management fees).
- Full-year operating expense growth was higher at 12% y/y to SGD4.47bn driven by IT-related expenses (+22% y/y) while allowances for credit and other losses rose 11% y/y, largely due to higher allowances on impaired assets (+25% y/y). Cost to income ratio rose 70bps to 44.6%.By segments, Group Retail income improved 9% y/y to SGD4.3bn on higher net interest income from volume growth and strong contribution from the wealth management business, Group Wholesale Banking income grew 6% y/y to SGD4.1bn due to better performance in cash management, treasury and loan-related activities. while Global Markets income increased 28% to SGD595mn, mainly from higher trading and investment income.
- UOB's balance sheet grew, with total assets increasing 4% y/y to SGD404.4bn and net customer loans rising 3% y/y. With the growth in balance sheet, total risk-weighted assets ("RWA") increased 3% y/y. NPL ratio was stable at 1.5% as growth in loans was matched by growth in NPLs.
- CET1/CAR ratios rose 40bps/40bps y/y to 14.3%/17.4% on earnings growth and issuance of SGD750mn in Additional Tier 1 capital with capital rising faster than RWA. Both ratios continue to remain above the minimum capital requirements. UOB's leverage ratio of 7.7% as at 31 December 2019 was also well above the regulatory minimum requirement of 3%.
- As at 31 December 2019, UOB's exposure to Mainland China was 7% of total assets and HKSAR exposure was 8% of total assets. Compared to DBS with 29.8% of total loans and 26.2% of PBT exposed to Greater China (Mainland China and HKSAR), UOB's exposure is considerably lower with 15% of total gross customer loans and 10.2% of PBT exposed to Greater China.
- Despite uncertainty surrounding the 2020 operating environment, we see UOB's results as indicative of UOB's steady credit profile. The results provide somewhat of a buffer against 2020 challenges and we maintain our Positive (2) issuer profile. (Company, OCBC)

Key Market Movements

	21-Feb	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	48	-1	-4
iTraxx SovX APAC	27	-1	0
iTraxx Japan	42	0	-1
iTraxx Australia	47	-1	-2
CDX NA IG	45	1	0
CDX NA HY	109	0	0
iTraxx Eur Main	42	1	-1
iTraxx Eur XO	215	4	4
iTraxx Eur Snr Fin	48	1	-4
iTraxx Eur Sub Fin	100	2	-10
iTraxx Sovx WE	10	0	-2
USD Swap Spread 10Y	-6	-1	-3
USD Swap Spread 30Y	-35	-2	-4
US Libor-OIS Spread	14	0	-9
Euro Libor-OIS Spread	5	1	0
China 5Y CDS	35	1	2
Malaysia 5Y CDS	36	0	0
Indonesia 5Y CDS	59	-1	-3
Thailand 5Y CDS	26	0	4
Australia 5Y CDS	16	0	0

	21-Feb	1W chg	1M chg
Brent Crude Spot ($/bbl)	58.93	2.81%	-8.76%
Gold Spot ($/oz)	1,624.44	2.55%	4.25%
CRB	174.73	1.73%	-3.77%
GSCI	403.22	2.85%	-5.16%
VIX	15.56	13.25%	21.09%
CT10 (%)	1.497%	-8.82	-27.77
AUD/USD	0.659	-1.79%	-3.67%
EUR/USD	1.079	-0.39%	-2.64%
USD/SGD	1.401	-0.61%	-3.64%
AUD/SGD	0.924	1.17%	0.03%
ASX 200	7,139	0.12%	1.03%
DJIA	29,220	-1.12%	0.08%
SPX	3,373	-0.18%	1.58%
MSCI Asiax	684	-0.98%	-2.09%
HSI	27,360	-1.64%	-2.23%
STI	3,199	-0.67%	-1.50%
KLCI	1,534	-0.70%	-3.38%
JCI	5,927	1.03%	-4.98%
EU Stoxx 50	3,823	-0.62%	0.89%

Source: Bloomberg

New Issues

- Shui On Development (Holding) Limited (Guarantor: Shui On Land Limited) priced a USD400mn 5NC3 bond at 5.5%, tightening from IPT of 5.875%.
- Semiconductor Manufacturing International Corp. priced a USD600mn 5-year bond at T+133bps, tightening from IPT of T+170bps area.
- Kunming Municipal Urban Construction Investment & Development Co., Ltd. priced a USD200mn re-tap of its KMCONS 5.8%'22s at 5.95%, tightening from IPT of 6.3% area.
- DBS Group Holdings Ltd. priced a USD1bn PERPNC5 AT1 bond at 3.3%, tightening from IPT of 3.65% area.
- UPL Corporation Limited priced a USD400mn PERPNC5.25 bond at 5.25%, tightening from IPT of 5.625% area.
- Muthoot Finance Ltd priced a USD550mn 3.5-year bond at 4.4%, tightening from IPT of 4.75% area.
- Bank of Communications (Hong Kong) Ltd arranged investor calls commencing 21 Feb for its proposed USD bond offering.
- LVGEM (China) Real Estate Investment Company Limited arranged investor calls commencing 21 Feb for its proposed USD bond offering.

Date	Issuer	Size	Tenor	Pricing
20-Feb-20	Shui On Development (Holding) Limited (Guarantor: Shui On Land Limited)	USD400mn	5NC3	5.5%
20-Feb-20	Semiconductor Manufacturing International Corp.	USD600mn	5-year	T+133bps
20-Feb-20	Kunming Municipal Urban Construction Investment & Development Co., Ltd.	USD200mn	KMCONS 5.8%'22s	5.95%
20-Feb-20	DBS Group Holdings Ltd.	USD1bn	PERPNC5	3.3%
20-Feb-20	UPL Corporation Limited	USD400mn	PERPNC5.25	5.25%
20-Feb-20	Muthoot Finance Ltd	USD550mn	3.5-year	4.4%
19-Feb-20	Huarong Finance 2019 Co., Ltd (Guarantor: China Huarong International Holdings Limited; Keepwell/EIPU Provider: China Huarong Asset Management Co., Ltd.)	USD400mn USD400mn USD300mn USD700mn	3-year 3-year 5-year 10-year	T+120bps 3m-US LIBOR+112.5bps 3m-US LIBOR+125bps T+185bps
19-Feb-20	Vena Energy Capital Pte. Ltd (Guarantors: Vena Energy Holdings Ltd, Vena Energy (Taiwan) Holdings Ltd, Zenith Japan Holdings Ltd)	USD325mn	5-year	T+172.5bps
19-Feb-20	Modern Land (China) Co	USD200mn	2-year	12.875%

Source: OCBC, Bloomberg

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