Asian Credit Daily

May 4, 2017

Credit Headlines (Page 2 onwards): BreadTalk Group Ltd, StarHub Ltd, BNP Paribas SA, National Australia Bank Ltd., Sembcorp Industries Ltd.

Market Commentary: The SGD swap curve bull-flattened yesterday, with swap rates trading 1-3bps lower across all tenors. Flows in SGD corporates were heavy, with better buying seen in HPLSP 4.65%'25s, OUESP 3.75%'22s, and mixed interest in GEMAU 5.5%'19s, BNP 3.65%'24s, GUOLSP 3.62%'21s, UOBSP 3.5%'29s. In the broader dollar space, the spread on JACI IG corporates changed little at 197bps, while the yield on JACI HY corporates fell 2bps to 6.60%. 10y UST yields rose 4bps to 2.32% yesterday, after the Federal Open Market Committee said a slowdown in economic growth last quarter was "transitory", hinting that the pace of rate hikes will not be affected. The Federal Reserve also didn't signal any change to its balance sheet policy.

New Issues: PT Perusahaan Listrik Negara (PLN) has mandated banks for investor meetings from 3 – 9 May for potential USD bond issuance.

Rating Changes: Moody's affirmed the BHP Billiton Limited's and BHP Billiton Plc's issuer ratings at 'A3'. In addition, Moody's changed the ratings outlook of their subsidiaries to positive from stable and affirmed the other ratings of the Group. The rating action reflects Moody's expectation that BHP Billiton will continue to generate material earnings and solid free cash flow in the current environment. Moody's affirmed Standard Chartered Bank (Singapore) Limited's (SCBSL) issuer ratings at 'Aa3'. Moody's has also affirmed the bank's 'A2' baseline credit assessment (BCA) and adjusted BCA. In addition, Moody's has changed the outlook on the ratings to stable from negative. The rating action reflects SCBSL's strong credit fundamentals, limited spillover risks after the parent bank's downgrade, and Moody's incorporation of support uplift for SCBSL from the Singapore government.

Table 1: Key Financial Indicators

	4-May	1W chg (bps)	1M chg (bps)		4-May	1W chg	1M chg
iTraxx Asiax IG	92	-2	-3	Brent Crude Spot ($/bbl)	50.64	-1.56%	-6.52%
iTraxx SovX APAC	22	-1	1	Gold Spot ($/oz)	1,240.88	-1.85%	-1.23%
iTraxx Japan	43	-1	-1	CRB	180.40	-0.72%	-2.80%
iTraxx Australia	81	-2	-3	GSCI	378.80	-0.42%	-2.73%
CDX NA IG	63	-1	-3	VIX	10.68	-1.57%	-9.41%
CDX NA HY	108	0	0	CT10 (bp)	2.318%	1.45	-0.13
iTraxx Eur Main	65	-2	-10	USD Swap Spread 10Y (bp)	-5	-2	-3
iTraxx Eur XO	259	-10	-34	USD Swap Spread 30Y (bp)	-45	-2	-6
iTraxx Eur Snr Fin	71	-4	-21	TED Spread (bp)	31	-5	-6
iTraxx Sovx WE	8	-1	-4	US Libor-OIS Spread (bp)	16	-2	-5
iTraxx Sovx CEEMEA	44	-1	-9	Euro Libor-OIS Spread (bp)	3	0	1
					4-May	1W chg	1M chg
				AUD/USD	0.741	-0.72%	-2.04%
				USD/CHF	0.994	-0.01%	0.78%
				EUR/USD	1.089	0.18%	2.05%
				USD/SGD	1.398	-0.02%	0.06%
Korea 5Y CDS	57	0	6	DJIA	20,958	-0.08%	1.30%
China 5Y CDS	79	-2	-2	SPX	2,388	0.03%	1.19%
Malaysia 5Y CDS	106	-3	-1	MSCI Asiax	599	0.55%	2.56%
Philippines 5Y CDS	78	-3	-4	HSI	24,607	0.62%	1.42%
Indonesia 5Y CDS	124	-3	-4	STI	3,222	1.53%	1.36%
Thailand 5Y CDS	55	-1	4	KLCI	1,760	-0.49%	0.75%
				JCI	5,667	-1.05%	0.26%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
27-Apr-17	China Southern Power Grid International Finance (BVI) Co. Ltd.	Not Rated	USD600mn	5-year	CT5+100bps
27-Apr-17	China Southern Power Grid International Finance (BVI) Co. Ltd.	Not Rated	USD900mn	10-year	CT10+130bps
27-Apr-17	SOCAM Development Ltd.	Not Rated	USD200mn	3-year	6.25%
27-Apr-17	China Minsheng Banking Corp. Ltd. (Hong Kong Branch)	"BBB/NR/NR"	USD500mn	3-year	CT3+115bps
27-Apr-17	Suncorp-Metway Ltd.	"NR/A1/A+"	USD500mn	5-year	CT5+100bps
27-Apr-17	Heeton Holdings Limited	Not Rated	SGD75mn	3-year	6.1%
26-Apr-17	Hotel Properties Ltd.	Not Rated	SGD150mn	Perp NC5	4.65%
26-Apr-17	State Grid Overseas Investment (2016) Ltd	Not Rated	USD900mn	3-year	CT3+85bps
26-Apr-17	State Grid Overseas Investment (2016) Ltd	Not Rated	USD1.25bn	5-year	CT5+110bps

Source: OCBC, Bloomberg

Rating Changes (cont'd): Moody's affirmed Sydney Airport Finance Company Pty Ltd's (SAFC) 'Baa2' senior secured debt rating and bank credit facility. In addition, Moody's revised the outlook on the senior secured ratings to positive from stable. The rating action reflects the increased visibility around Sydney Airport's capital structure, following the airport's announcement that it will not exercise its right of first refusal over the Western Sydney Airport. Moody's withdrew St. Barbara Limited's 'B2' corporate family rating and its stable outlook. Moody's has withdrawn the rating for its own business reasons.

Credit Headlines:

BreadTalk Group Ltd ("BGL"): BGL reported 1Q2017 results for the quarter ended 31 Mar 2017. BGL revenue decreased 4.5% y/y to SGD147.6mn, mainly due to closure of underperforming stores at Food Atrium and lower China franchise revenue due to elimination of underperforming franchises at the Bakery segment. However, overall results were good, with reported EBITDA for the core F&B segment surging 32% y/y to SGD18.8mn helped by the turnaround in the Food Atrium segment. The core F&B segment net profit also turned from a loss of SGD5.4mn to SGD3.1mn due to the better results in the Food Atrium segment and lower depreciation. Credit metrics have improved, with reported Net Debt/EBITDA declined to 0.54x from 0.69x in FY16, with net gearing also declining to 0.41x from 0.47x a quarter ago (4Q16). We expect net gearing to improve further as BGL will receive the proceeds for the SGD26.5mn divestment of TripleOne Somerset in 2Q17, though SGD5.6mn will be paid in special dividends. We maintain a Neutral Issuer Profile of BGL. (Company, OCBC)

StarHub Ltd ("STH"): STH reported 1Q2017 results for the quarter ending 31 Mar 2017. Revenue is flat y/y, with the mobile segment remaining relatively unchanged while the fall in Pay TV services (-6.8%) was mitigated by the increase in Enterprise services (+2.9%) and Sales of Equipment (+6.7%). Despite a flat headline, reported EBITDA fell 12% y/y to SGD161mn with a lower EBITDA margin of 29.9% (1Q16: 33.8%) mainly due to increased cost of equipment (+17% y/y) exceeding its corresponding revenue growth. Beneath the relatively flat mobile headline of SGD296.2mn, post-paid mobile subscribers increased by 0.36% q/q to 1.39mn, though ARPU softened to SGD67/mth (4Q16: SGD70/mth) due to lower voice, IDD and roaming usage. The weaker revenue of SGD88.4mn posted by the Pay TV segment was due to continued decline in subscribers to 487k in 1Q17 (4Q16: 498k). Meanwhile, broadband revenue inched up 0.5% y/y to SGD53.7mn due to a net increase in subscribers as more customers signed up to fibre broadband. For the Enterprise segment, revenue increased 3% y/y to SGD98.7mn due to increased data and internet revenue. We do not currently cover STH. (Company, OCBC)

BNP Paribas SA ("BNPP"): BNPP announced its 1Q2017 results with total revenues up 4.2% y/y to EUR11.3bn. This included a 7% y/y increase in operating revenues with FY2016 trends persisting. In particular, domestic markets performance was soft (revenues down 0.3% y/y) due to low interest rates and despite a 5.2% y/y growth in loans. However this was more than compensated for by solid performance in international businesses (+5.8% y/y due to personal finance, Europe-Mediterranean, Wealth and Asset Management, Insurance) and a sharp improvement in Corporate & Institutional Banking (CIB) (+20%y/y due to strong global markets performance in FICC, equity and prime services). Operating expenses rose 6.5% y/y due to exceptional restructuring costs related to acquisitions, transformation costs and full year tax expenses while risk costs continue to improve, down 21.8% y/y due to net write backs at CIB, risk controls at loan origination, low interest rates and continued improvement in operating conditions and loan book repositioning in Italy. As a result, group operating income was up 5.1% y/y to EUR2.59bn. Given strong earnings performance as well as the positive capital charge from sale of a 20.6% stake in First Hawaiian Bank, BNPP's capital position improved marginally q/q. On a fully loaded basis, the CET1 ratio of 11.6% for 1Q2017 was 15bps higher than FY2016 (11.45%). BNPP's numbers continue to reflect BNPP's resilient business profile and the results do not alter our view of BNPP's Neutral issuer profile. Cash prices for the BNP 4.3%'25s and BNP 3.65%'24s have risen since the start of April as part of the broader risk rally and following a market pacifying result in the first round of the French elections last month. Expectations for Macron's success this weekend appear to be baked into current prices which we presently see at fair value. (Company, OCBC)

Credit Headlines (cont'd):

National Australia Bank Ltd. ("NAB"): NAB released its 1HFY2017 (ended March 31st) results which are not influenced from restructuring and asset divestment initiatives that impacted 1HFY2016 results. Excluding discontinued operations, cash earnings rose 2.3% y/y to AUD3.29bn. Growth was driven by a 1.8% growth in revenues from increased lending volumes (which mitigated net interest margin (NIM) compression of 11bps y/y to 1.82%), better fee collection and improved trading performance. This overshadowed higher expenses (+0.8%) from personnel costs and redundancies, ongoing technology investment and higher bad debt charges (+5.1% y/y). While this is in contrast to Australia and New Zealand Banking Group Ltd's ("ANZ") 1H2017 results (credit impairment charges fell 30% and 20% h/h and y/y), the increase was due to higher collective provision charges for potential stress in NAB's commercial real estate portfolio. This conservative approach to loan quality is prudent in our view considering NAB's relatively higher impaired assets ratio (including loans 90+ days past due) to gross loans and acceptances of 0.85% for 1H2017, which was stable h/h but up 7bps from 1H2016 (0.78%). Performance h/h exhibited somewhat more stability with cash earnings up 1% and of note was the rise in net interest income from a 0.8% h/h rise in gross loans and acceptances and stable NIMs. Trends seen h/h for bad debt charges were also positive with 1H2017 charges down 7.3%, driven by lower levels of new impairments in Business & Private Banking as well as lower specific provisions in New Zealand. Segment wise, NAB now reports along 4 customer segments comprising 3 in Australia (Business & Private Banking, Consumer Banking & Wealth, Corporate & Institutional Banking) and 1 in New Zealand (NZ Banking). Business & Private Banking performance was solid reflecting NAB's strong market position with improved NIMs and lending growth which mitigated higher bad debt charges, however the bulk of NAB's overall earnings growth came from improved performance in Corporate & Institutional Banking (CIB) from top line growth, lower expense and bad debt charges and a AUD15bn reduction in risk weighted assets y/y. NZ Banking performance was also solid with cash earnings up 10.4% y/y from better operating conditions leading to lower bad debt charges (to recall, loan quality issues in FY2016 were concentrated in NAB's New Zealand dairy exposures). As mentioned previously, lending grew 0.8% h/h and 3.3% y/y with continued growth in housing lending to Business & Private Banking and Consumer Banking & Wealth clients while lending volumes fell in CIB from reduced exposures in institutional lending. Total NZ Banking loan volumes fell 1.4% h/h but grew 8.6% y/y as the NZ loan portfolio benefited from growth in priority segments. NAB's capital position remains strong and improved h/h due to solid earnings performance (+25bps including dividend payment and dividend reinvestment scheme) and the ongoing benefits of its restructuring initiatives (+24bps from credit and market RWA reduction). The bank's 1HFY2017 CET1/CAR ratios was 10.1%/14.7% against FY2016 CET1/CAR ratios of 9.8%/14.1%. In our Monthly Credit View for May published 3rd May 2017, we moved our bond level recommendation on the NAB 4.15 '28c23 to Neutral from Underweight given fair value compared to other Aussie Tier 2 papers and expected improvement in the credit profile from a more focused business structure. With NAB's performance in line with expectation, we maintain our Neutral issuer profile rating on NAB. (Company, OCBC)

Credit Headlines (cont'd):

Sembcorp Industries Ltd. ("SCI"): For 1Q2017, SCI reported SGD2.14bn in revenue, up 12.9% y/y. On a q/q basis, revenue was also up 5.6%. The largest revenue driver was SCI's utilities segment, which saw revenue increase 47.0% y/y to SGD1.32bn. This mitigated weakness at the marine segment, which saw revenue decline 17.2% y/y. As mentioned previously (OCBC Asian Credit Daily – 28 Apr 2017), the marine business (mainly Sembcorp Marine) continues to face a challenging environment, with the slump driven by lower revenue recognized on the execution of drilling asset contracts. Weak segment revenue and fixed costs drove the segment gross margins lower to just 2.6%. The segment avoided a loss due to the gain from the divestment of 30% of COSCO Shipyard Group (which contributed ~SGD28.5mn of the SGD24.1mn in marine segment net profit). The outlook for the marine business remains weak, with challenges in rebuilding the marine net order book (declined q/q from SGD7.8bn to SGD7.1bn) and uncertainties over the rigs ordered by Perisai Petroleum Teknologi (currently in default) and Oro Negro. As mentioned, the utilities segment continued to show growth, with segment revenue from Singapore and India increasing sharply by 40.5% y/y to SGD750.3mn and 70.0% y/y to SGD362.5mn respectively. The former was driven by higher heavy sulphur fuel oil ("HSFO") prices which drove domestic electric tariffs higher while the latter was driven by Sembcorp Gayatri Power (SGPL) commencing commercial operation (started in February 2017). Utilities segment profitability was a disappointment, falling 26.5% y/y to SGD55.3mn. This was driven by continued losses at the India power business, which generated SGD21.8mn loss (including SGPL refinancing costs) during the period. Like the previous quarter, SCI is still unable to secure long-term PPAs for SGPL, and hence had to sell into the weak spot and short-term Indian power market. SCI had reiterated that industry utilization is expected to remain weak over the next couple of years (due to oversupply). With SGPL ramping up without PPA, management had indicated that SGPL managed to cover cash cost, but not depreciation (in other words SGPL generated losses). As such, the utilities segment would likely remain pressured by SGPL until long-term PPAs are signed. In aggregate, SCI's net profit was up 11.3% y/y to SGD119.1mn, largely due to the surge in profit at Urban Development of SGD37.2mn (driven by the sale of land at the Nanjing Eco Island JV). If we excluded the non-recurring gains from Urban Development and the COSCO divestment, net profit would have been SGD53.4mn, a y/y decline of 50.1%. This would have been consistent with the weaker profitability seen at marine and utilities. During the quarter, SCI managed to keep operating cash flow (including interest service) positive at SGD9.9mn, with cash flows from the utilities business offsetting the outflows at marine. However, after factoring capex (of which SGD282.0mn was due to utilities), free cash flow remained negative at SGD342.0mn. The cash burn was plugged by a SGD358.8mn q/q increase in borrowings. This drove net gearing higher to 94% (4Q2016: 90%). Management reported interest cover also weakened to 2.7x (compared to 3.3x for 2016) largely to due higher financing costs. Cash / current borrowings worsened q/q from 0.9x to 0.8x. It is worth noting that Neil McGregor took over as CEO for SCI on 01/04/17. He had been on SCI's board for 3 years, and was formerly the Senior Managing Director and Head of Energy & Resources at Temasek International. Temasek Holdings is SCI's largest shareholder, holding a 49.5% stake. As part of the transition process, SCI will be undertaking a strategic review of all its businesses and strategic direction. The outcome of the strategic review, after its approved by the Board, was guided to take around six months. We will review SCI's current Neutral Issuer Profile for potential changes. (Company, OCBC)

Andrew Wong
Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6530 4736
wongVKAM@ocbc.com

Nick Wong Liang Mian, CFA
Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6530 7348
NickWong@ocbc.com

Ezien Hoo, CFA
Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6722 2215
EzienHoo@ocbc.com

Wong Hong Wei
Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6722 2533
WongHongWei@ocbc.com