Asian Credit Daily

OCBC Bank

May 10, 2018

Credit Headlines: Frasers Property Limited , Aspial Corp Ltd, OUE Limited, Hongkong Land Holdings Ltd

Market Commentary

- The SGD swap curve bear-steepened yesterday, with swap rates trading 5bps higher across most tenors while the 20-year and 30-year swap rates traded 6bps and 7bps higher respectively.
- Flows in SGD corporates were light yesterday, with better buying seen in GSHSP 5.15%'20s.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS traded little changed at 1.36% while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 1bps to 425bps.
- 10Y UST yields rose 3bps to 3% ahead of the auction of USD25bn in new supply later in the day.

Credit Headlines

Frasers Property Limited ("FPL") | Issuer Profile: Neutral (4)

- FPL had a decent 2QFY2018 results. Revenue was up 19.3% y/y to SGD841.7mn, driven by the Singapore SBU (+12.4% y/y to SGD197.0mn) and International segment (+318.7% y/y to SGD147.5mn), while the Australia SBU (+1.4% y/y to SGD310.8mn) and Hospitality SBU (-1.2% y/y to SGD186.3mn) were relatively flattish.
- Performance was driven by higher progressive revenue recognition of North Park Residence and higher residential deliveries at China. Adjusted PBIT increased 61.7% y/y to SGD290.0mn with sharp increases from the Australia SBU (+60.5% to SGD88.1mn, largely JV developments) and International segment (+412% y/y to SGD93.6mn on China) mitigating weakness see at Hospitality SBU (-29.9% y/y to SGD22.8mn) on weaker UK performance.
- Cash flow was weak, with operating cash flow (including interest service) turning to an outflow of SGD813.5mn (2QFY2017: SGD5.5mn inflow), largely driven by the balance payment required for the Jiak Kim site purchase (SGD907mn impact) while investing cash flows saw outflow of SGD1004.5mn on various acquisitions (UK business park, German logistics assets etc). FPL had also paid out ~SGD250mn in dividends and perp distributions during the quarter. The ~SGD2.1bn cash gap was funded partly by the SGD100mn rights issue at FCOT, SGD283mn in bonds issued (by FPL and FCOT), SGD300mn in perpetual securities issued and SGD1.18bn in additional bank borrowings. FPL also drew down SGD203mn in cash balance with FPL ending the period with SGD1.41bn in cash. These drove net gearing higher to 96% (1QFY2018: 85%) to the higher end of FPL's target net gearing range of 80% - 100%.
- FLT (20.4%-owned and consolidated by FPL) will be raising SGD476.0mn in fresh equity via private placement and preferential offering (the new shares are expected to be issued on 21/05/18). The funds are used by FLT to acquire 21 properties (EUR596.8mn in portfolio value, or ~SGD972.8mn) in Germany and Netherlands from FPL for a consideration of EUR316.2mn (~SGD515.4mn) as well as debt assumption. It is estimated that FPL will be subscribing to SGD97.1mn of the FLT equity raise, though the balance ~SGD420mn (in additional minority interest in FLT) would be the net cash proceeds that FPL would receive from injecting the assets into FLT. This would be a credit positive, though we note FPL's growth trajectory would mean continued capital needs in the future. (Company, OCBC)

Credit Headlines (cont'd):

Aspial Corp Ltd ("ACL") | Issuer Profile: Negative (6)

- ACL reported 1Q2018 results. Revenue increased 51% y/y to SGD212.4mn, mainly due to the real estate segment which grew 96.9% y/y to SGD133.7mn from sales of CityGate and settlement and handover of completed residential units for Avant project in Australia. Financial service also did better (+19.7% y/y to SGD44.1mn) due to higher interest income from pawnbroking and secured lending and higher sales from retail and trading of jewellery and branded merchandise. Jewellery revenue also increased 2.6% y/y to SGD31.0mn.
- As a result of real estate business pre-tax profits, which increased 31.8% y/y to SGD11.6mn, pre-tax profit for ACL increased 20.8% y/y to SGD12.8mn.
- Net gearing declined to 3.26x q/q (4Q2017: 3.35x), due to cash proceeds received from its development projects. Looking ahead, ACL expects to receive SGD1.0bn cash proceeds from sales in 2018, which it intends to use to repay outstanding loans and cover remaining development costs. If ACL follows through on its commitment to deleverage, we expect its credit profile to strengthen as net gearing should fall substantially. This may lead us to consider revising ACL's Issuer Profile rating upwards. (Company, OCBC)

OUE Limited ("OUE") | Issuer Profile: Neutral (4)

- OUE Lippo Healthcare Limited ("OLH", formerly International Healthway Corporation, 64.4%-owned subsidiary of OUE) reported its 1Q2018 results.
- Revenue had fallen 6.1% y/y to SGD9.8mn due to lower revenue derived from the Wuxi New District Phoenix Hospital, as well as lower sales from its China drug distribution business. A weaker JPY versus SGD also impacted its otherwise stable Japanese nursing home business. After factoring higher staff cost (which increased 36.3% y/y on higher headcount) and lower financing costs (-46.8% y/y on lower leverage and cheaper interest rates), loss after tax trimmed to SGD2.7mn (1Q2017: SGD11.2mn loss). Losses were also sharply lower versus 4Q2017 loss of SGD54.5mn, absent the one-off legal and restructuring fees see in the prior quarter.
- In aggregate though, as OUE consolidates OLH's results, the overall performance of OLH, though improved, would remain a drag on OUE's results. In mitigation, the previously mentioned ITOCHU's announced SGD78.75mn investment into OLH (for new shares accounting for a 25.3% stake post dilution, refer to OCBC Asian Credit Daily (11 Jan 2018)) had been executed with OLH receiving the investment during the quarter. As mention previously, this is a credit positive for both OUE and OLH, with OLH having used the proceeds to partly pay down debt. We will monitor OUE's 1Q2018 results closely, particularly given the PT Alpha / Megafeat Internasional Indonesia transaction we mentioned previously (refer to OCBC Asian Credit Daily (2 Apr)). (Company, OCBC)

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

- HKL released an Interim Management Statement for 1Q2018. The Central office portfolio continues to do well, with positive rental reversions and vacancy reducing to 0.9% (end-4Q2017: 1.4%). However, the Central retail portfolio saw mildly negative rental reversions. While rental reversions for the Singapore office portfolio were negative, HKL expects this to turn positive later in 2018.
- HKL reported that net debt is modestly higher q/q. As net gearing for end-2017 was 7%, HKL's credit metrics should remain healthy. (Company, OCBC)

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Table 1: Key Financial Indicators

	10-May	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	77	2	0
iTraxx SovX APAC	13	1	0
iTraxx Japan	52	1	-2
iTraxx Australia	67	2	-2
CDX NA IG	61	0	-4
CDX NA HY	107	0	1
iTraxx Eur Main	56	2	-1
iTraxx Eur XO	273	1	-12
iTraxx Eur Snr Fin	60	2	-1
iTraxx Sovx WE	17	1	-1
AUD/USD	0.747	-0.88%	-3.80%
EUR/USD	1.186	-1.11%	-4.05%
USD/SGD	1.346	-1.11%	-2.72%
China 5Y CDS	62	3	-1
Malaysia 5Y CDS	91	16	19
Indonesia 5Y CDS	128	20	28
Thailand 5Y CDS	46	2	1

	10-May	1W chg	1M chg
Brent Crude Spot ($/bbl)	77.70	5.54%	9.37%
Gold Spot ($/oz)	1,313.30	0.09%	-1.97%
CRB	203.70	1.04%	3.34%
GSCI	485.64	2.78%	5.31%
VIX	13.42	-15.97%	-34.44%
CT10 (bp)	2.984%	3.83	18.32
USD Swap Spread 10Y (bp)	4	1	1
USD Swap Spread 30Y (bp)	-10	1	4
TED Spread (bp)	51	-3	-12
US Libor-OIS Spread (bp)	48	-4	-10
Euro Libor-OIS Spread (bp)	3	0	1
DJIA	24,543	2.58%	0.55%
SPX	2,698	2.36%	1.54%
MSCI Asiax	713	0.43%	-1.63%
HSI	30,536	0.73%	-0.63%
STI	3,543	-0.92%	2.20%
KLCI	1,847	-0.29%	-0.78%
JCI	5,908	-1.73%	-6.61%

Source: OCBC, Bloomberg

New issues

- Guang Ying Investment Ltd has priced a USD250mn 3-year bond (guaranteed by Guangzhou Finance Holdings Group Co Ltd) at CT3+185bps, tightening from its initial price guidance of CT3+215bps.
- Bank of Communications Co Ltd (HK Branch) has priced a USD1.3bn deal across two-tranches, with the USD600mn 3-year FRN priced at 3mL+75bps (tightening from its initial price guidance of 3mL+100bps) and the USD700mn 5-year FRN priced at 3mL+85bps (tightening from its initial price guidance of 3mL+110bps). Bank of Communications Co Ltd (HK Branch) has also priced a HKD3bn 2-year FXD at 2.95%, tightening from its initial price guidance of 3.2%.
- ASB Bank has scheduled for investor meetings from 14 May for its potential USD 5-year bond issuance.
- The Commercial Bank has scheduled for roadshows from 10 May for its potential USD bond issuance.

Date	Issuer	Size	Tenor	Pricing
9-May-18	Bank of Communications Co Ltd (HK Branch)	HKD3bn	2-year	2.95%
9-May-18	Bank of Communications Co Ltd (HK Branch)	USD700mn	5-year	3mL+85bps
9-May-18	Bank of Communications Co Ltd (HK Branch)	USD600mn	3-year	3mL+75bps
9-May-18	Guang Ying Investment Ltd	USD250mn	3-year	CT3+185bps
8-May-18	ICBCIL Finance Co Ltd	USD900mn	3-year	3mL+95bps
8-May-18	ICBCIL Finance Co Ltd	USD600mn	5-year	3mL+110bps
8-May-18	Westpac Banking Corp	USD750mn	5-year	3mL+72bps
8-May-18	Westpac Banking Corp	USD1bn	5-year	CT5+85bps
8-May-18	Westpac Banking Corp	USD750mn	2-year	3mL+28bps
8-May-18	Westpac Banking Corp	USD500mn	2-year	CT2+55bps
8-May-18	Korea Water Resources Corp	USD300mn	5-year	CT5+110bps
7-May-18	Manulife Financial Corp	CAD600mn	10NC5	CT10+115bps
3-May-18	Suntec REIT MTN Pte Ltd	SGD100mn	5-year	3.4%
2-May-18	CMT MTN Pte Ltd	SGD130mn	5-year	3.212%

Source: OCBC, Bloomberg

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