Asian Credit Daily

Apr 2, 2018

Market Commentary

- Markets were closed last Friday due to Easter holiday.
- The SGD swap curve steepened last Thursday, with swap rates for the shorter tenors trading little changed while the longer tenors traded 2-6bps higher.
- Flows in SGD corporates were moderate last Thursday.
- The Bloomberg Barclays Asia USD IG Bond Index average OAS widened 1bps to 125bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS widened 2bps to 359bps.
- 10Y UST yield fell 4bps to 2.74% last Thursday, as investors piled into low-risk government bonds on worries about economic growth and a dramatic pullback in stock prices in March.

Credit Headlines

Barclays PLC ("Barclays") | Issuer Profile: Neutral (4)

- Barclays became the first UK bank to complete its ring fencing restructuring under UK regulations, which seeks to split retail banking services into a standalone unit and apart from the bank's riskier investment banking activities.
- Completion of the bank's restructuring, along with an assessment of its future profitability (particularly in its International operations, which comprises the bulk of its total and risk weighted assets) will drive Moody's review of Barclay's ratings with the long-term issuer, senior unsecured and subordinated debt ratings on review for downgrade. This will likely be resolved shortly.
- Barclays recently-announced USD2bn settlement with the US Department of Justice (regarding the sale of toxic mortgages during the Global Financial Crisis) did not help matters although the settlement amount is at the lower end of the scale compared to peers. In addition, Barclays historical profitability already reflects the bank's litigation and conduct issues with recent results reflecting recurring provisions for UK customer redress and on-going litigation. These have been reducing since FY2015 with Barclays' provisions at GBP3.54bn as at 31 December 2017. As such, the recent settlement can be accommodated with existing provisions.
- Despite these pressures, we maintain Barclays' issuer profile at Neutral (4) (OCBC, Company, Moody's)

Lippo Malls Indonesia Retail Trust ("LMRT") | Issuer Profile: Neutral (5)

- Moody's has withdrawn LMRT's corporate family rating and negative outlook for its own business reasons.
- We continue to hold LMRT at a Neutral (5) Issuer Profile. (Moody's, OCBC)

Industry Outlook – Singapore Property

- According to URA flash estimates, Singapore private property prices rose 3.1% q/q in 1Q2018. We note the increase is very substantial as it surpasses the 1.1% increase in the whole of 2017 and reversed the 3.1% price decline in the whole of 2016.
- Amongst the regions, Core Central Region rose the most by 5.0% (4Q2017: 1.4%), followed by Outside Central Region at 3.8% (4Q2017: 0.8%) and Rest of Central Region at 1.1% (4Q2017: 0.4%). (Bloomberg, URA, OCBC)

CWT International ("CWTI") | Issuer Profile: Negative (6)

- CWTI has released its unaudited numbers for FY2017, CWTI reported HKD24.0bn in revenue, HKD811.2mn in gross profit and HKD137.8mn in profit from continuing operations. This was significantly higher than FY2016, mainly attributable to a non-recurring gain of HKD327.2mn in bargain purchase from the acquisition of CWT Limited (now known as CWT Pte. Limited and its subsidiaries ("CWT SG")) and (2) the consolidation of profits from CWT SG from 7 September 2017 to end-2017. Effectively, the profile of CWTI's business has changed significantly post-the acquisition of CWT SG, with the four new CWT SG business segments contributing ~97% of CWTI's profit before tax from continuing operations (adjusting out one-off gains on disposal of property, plant and equipment.
- Finance costs had ballooned to HKD383.7mn in FY2017 against HKD113.1mn in FY2016. Interest expense (which forms part of finance cost) amounting to HKD129.2mn in FY2017 was attributable to underlying business operations while HKD201.9mn of interest expense is considered as unallocated expenses. In our view, bulk of the incremental interest expense were attributable to interest incurred on expensive borrowings taken at the CWTI level to fund the acquisition of CWT SG. Based on our EBITDA calculation which does not include other income (eg: one-off gain from the bargain purchase) and other expenses, we find EBITDA/Interest at CWTI weak at only 0.8x.
- In end-2017, we find gross gearing levels elevated at 2.5x (30 June 2017: 0.4x), it was disclosed that USD561mn (~HKD4.3bn/SGD736mn) in acquisition debt was taken to fund the purchase of CWT SG. USD300mn (~HKD2.3bn) is due in May 2018 while USD261mn (~HKD2.0bn) is due in September 2018.
- Per CWTI's draft independent auditor's report, the auditors have indicated their intention to cast a material uncertainty related to going concern should refinancing agreements in relation to the acquisition debt is not put in place by time of approval of statutory financial statements (CWTI have historically issued annual report a month after release of unaudited financials). Per CWTI directors, the acquisition debt is guaranteed by HNA Group (International) Company Limited, a substantial shareholder of CWTI and HNA Group Co Ltd (an intermediate holding company) of CWTI and both have confirmed their intention to provide adequate financial support to CWTI and also to continue CWTI's business operations until at least end-2018. Additionally, CWTI is in the midst of refinancing negotiations with lenders and has received certain non-binding term sheets.
- In end-2017, investment properties totalled HKD2.5bn at CWTI. CWTI owns 17 Columbus Courtyard, an office building in Canary Wharf (acquired in July 2016 for GBP131mn (~HKD1.4bn) which is also reportedly up for sale. While these indicate that CWTI has assets it can sell to help pay down the debt taken to acquire CWT SG, there is significant timing uncertainty as to time of a transaction. On 30 March 2018, the media reported that CWTI is looking to potentially sell some warehouses under CWT SG. Per CWT SG, the cessation/disposal of material subsidiaries (defined as those subsidiaries where net profit is at least 15% of CWT SG's consolidated net profit or those whose net assets are at least 15% of CWT SG's consolidated net assets) will constitute an Event of Default ("EoD"). This clause is intended to provide some protection to bondholders at CWT SG from asset stripping.
- While standalone financials for material CWT SG subsidiaries are not disclosed, net assets of the Logistics business (where the warehouses fall under) have traditionally contributed about half of total net assets of CWT SG. While some asset sale is possible, we are of the view that a large scale asset disposal to the extent required to pay down the acquisition debt is unlikely without company seeking bondholders vote. In our view, an attempt by CWTI to sell significant warehouse assets without bondholders vote would be only used as a measure of last resort given future negative implications fundraising in the SGD market.
- For comparative purposes, CWT SG's standalone gross gearing was 1.5x as at 30 September 2017 and while we no longer have access to CWT SG's standalone financials, it is likelier than not for CWT SG to currently have a stronger credit profile versus its parent company CWTI. The two outstanding SGD bonds continue to be assumed at the initial issuing entity, namely CWT SG. CWT's SGD bondholders sit nearer to the operations and assets of CWT SG and in a worst-case scenario of insolvency at the CWTI level, would take priority over debtholders of CWTI and HNA.

- We currently hold CWTI's issuer profile at Negative (6), albeit precariously. On a relative value basis, we continue to see CWT SG bonds as paying more than those on the HNA curve. Nonetheless, we are placing both the CWT SG bonds on Neutral (from Overweight) in view of the heightened event risk at CWTI. (Company, Bloomberg, OCBC)

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

- OUE has announced the sale and transfer of its indirect subsidiary, the PT Alpha Sentra Prima group of entities ("PT Alpha"). OUE had previously announced subscribing to the shares of PT Alpha a few months back on 01/11/18 for ~SGD5.0mn. At the time of subscription, PT Alpha was an investment holding company that was dormant.
- On 30/03/18, OUE announced that PT Alpha will be sold to PT Megafeat Internasional Indonesia (a private company, defined as the First Purchaser) as well as Mr Mas Agoes Ismail Ning (defined as the Second Purchaser). PT Alpha will be sold for a consideration of ~SGD7.0mn. It was disclosed that OUE had extended ~SGD228.9mn in shareholder loans to PT Alpha. The shareholder loans will be novated to the First Purchaser, with the First Purchaser making repayment via the issuance of a promissory note.
- In our view, given the sizable amounts (~SGD228.9mn) to be due from PT Megafeat Internasional, and the current lack of information regarding both the asset sold as well as the purchaser, counterparty risk may be introduced. We have sought for more information and will update accordingly. Currently no change to OUE's Neutral (4) Issuer Profile. (Company, OCBC)

Bank Of China ("BOC") | Issuer Profile: Neutral (4)

- BOC has reported its FY2017 results, with pre-provision operating profits rising 9.10 % y/y to RMB307.15bn.
- Operating income fell marginally (-0.39% y/y) to RMB483.7bn as gains from net interest income (+10.57% y/y from net interest margin improvement y/y to 1.84% from 1.83% and higher loan volumes) were partially offset by weak performance in non-interest income (-19.06% y/y). Performance in its net fee and commission income was soft as income increased by only 0.03% y/y to RMB88.69bn from RMB88.66bn.
- Operating profit rose by RMB226bn (+0.10% y/y) lifted by lower operating expenses (-0.69% y/y) and impairment losses on assets (-1.02% y/y). Operating expenses fell due to lower general operating and administrative expenses (-0.79% y/y) and taxes and surcharges (-52.33% y/y). PBT rose by RMB491mn to RMB222.9bn (+0.22% y/y).
- Overseas PBT rose by 20.3% due to improved global service network and expanded cross-border business. BOC transacted RMB3.83tn in settlement and RMB349.68bn in cross-border RMB clearing to maintain its leading market share in terms of underwriting volumes in both domestic interbank Panda Bonds business and Chinese enterprises' offshore G3 currency bonds business. Overseas loans and deposits both saw significant growth with an increase of 13.8% y/y and 14.5% y/y respectively.
- With regards to the balance sheet, BOC's asset grew 7.27% y/y to RMB19.5tn underpinned by growth in investments (+14.65% y/y) and gross loans to customers (+9.26% y/y). In particular, loans to SMEs have grown 13.5% to RMB1.5tn. Liabilities, on the other hand, rose 7.38% y/y to RMB17.9tn as deposits from customers grew 5.5% y/y to RMB13.7tn.
- In line with the fall in impairment losses on assets, asset quality remained sound as NPL ratio improved 1bps y/y to 1.45%. The special-mention loans and overdue ratio also fell to 2.91% y/y (-20bps) and 1.86% y/y (-2bps) respectively.
- Even though CET1 capital has improved 6.2% to RMB1.4tn, CET1/CAR ratio for FY2017 fell to 11.15%/14.19% from 11.37%/14.28% on the back of an increase in risk-weighted assets (RWAs) from RMB1.1tn to RMB1.2tn (+7.9% y/y).
- With a solid set of results, we maintain our Neutral (4) rating on BOC (OCBC, Company).

Nam Cheong Ltd ("NCL") | Issuer Profile: Negative (7)

- NCL has announced that it is seeking for an extension to the debt moratorium that will otherwise lapse by 06/04/18. The court application will be heard on 03/04/18. NCL is seeking to extend the moratorium by a further four months till 06/08/18 as NCL continues to take the necessary steps to fulfil the conditions precedent to the NCL Scheme and make an application to the Court for the sanction of the NCL Scheme. As a reminder, creditors (including bondholders) have already approved the NCL Scheme (refer to OCBC Asian Credit Daily (25 Jan)) with the restructuring currently being held up by the fulfilment of the conditions precedent as required by the Court. We will continue to monitor the situation closely. (Company, OCBC)

China Eastern Airlines Corporation Limited ("CHIEAS") | Issuer Profile: Neutral (4)

- CHIEAS announced its audited financial results for FY2017. CHIEAS reported a 3.6% y/y increase in FY2017 revenue (not including other operating income an gains) to RMB102.5bn while EBITDA (including subsidy income but excluding other gains) was RMB20.9bn, down 12.0% y/y. Subsidy income (granted by various local governments based on taxes paid and granted to encourage CHIEAS to operate certain routes) were RMB4.9bn in FY2017, significant to CHEAIS' bottom line. Despite the lower EBITDA, profit before tax was higher at RMB8.6bn in FY2017 (FY2016: RMB6.5bn), this was largely attributable to a RMB2.1bn in finance income recognised in FY2017 and a lower finance cost of RMB3.2bn versus RMB6.3bn in the previous year (FY2016's finance cost included RMB3.6bn in foreign currency translation losses).
- Despite the stronger operating performance at CHIEAS, EBITDA was dragged by aircraft fuel (up 28% y/y) (similar to its recent past, CHIEAS did not hedge fuel cost in FY2017) and higher wages, salaries and benefits (up 12% y/y). Wages, salaries and benefits were up due to the increase in number of personnel (in-flight and maintenance), increase in-flight hours and the rise in standard flight hour fees. Taking away the foreign currency impact to finance cost and including capitalised interest, we find EBITDA/Interest weaker at 5.2x in FY2017 (FY2016: 6.9x).
- Gross debt levels was higher by 12% between end-2017 and end-2016 to RMB63.8bn, we think due to CHIEAS taking additional debt to fund the cash gap at the company. According to CHIEAS annual report in China accounting standards, net cash flow from operations (before interest paid) was RMB19.6bn in FY2017 against net investing outflow of RMB21.3bn. Nonetheless, given that book value equity was boosted by profits during the year, headline net gearing was slightly lower at 1.0x versus 1.1x at end-2016. Common across airlines, finance lease obligations and operating leases (an off-balance sheet item) are significant at CHIEAS. Adjusting debt upwards for these items, we find adjusted net gearing at 2.5x (end-2016: 2.7x). In March 2018, CHIEAS raised JPY50bn (~RMB2.9bn) in bonds. Adding these into debt, we find adjusted net gearing higher at 2.6x.
- While CHIEAS' interest coverage has weakened, we are maintaining CHIEAS at a Neutral (4) Issuer Profile on the back of CHIEAS' state-owned profile amidst a profitable growing industry (Company, OCBC)

Table 1: Key Financial Indicators

	2-Apr	1W chg (bps)	1M chg (bps)
iTraxx Asiax IG	77	-4	8
iTraxx SovX APAC	13	0	1
iTraxx Japan	50	-1	10
iTraxx Australia	70	-2	10
CDX NA IG	65	-2	8
CDX NA HY	106	0	0
iTraxx Eur Main	60	-1	7
iTraxx Eur XO	284	-8	17
iTraxx Eur Snr Fin	66	-2	12
iTraxx Sovx WE	18	0	-2
AUD/USD	0.769	-0.75%	-0.90%
EUR/USD	1.233	-0.94%	0.08%
USD/SGD	1.310	-0.05%	0.79%
China 5Y CDS	63	-6	7
Malaysia 5Y CDS	72	-4	9
Indonesia 5Y CDS	101	-6	13
Thailand 5Y CDS	46	-2	6

	2-Apr	1W chg	1M chg
Brent Crude Spot ($/bbl)	69.72	-1.04%	8.31%
Gold Spot ($/oz)	1,328.61	-1.84%	0.44%
CRB	195.36	0.07%	0.73%
GSCI	452.94	0.59%	2.15%
VIX	19.97	-14.44%	0.60%
CT10 (bp)	2.761%	-9.13	-10.36
USD Swap Spread 10Y (bp)	4	0	3
USD Swap Spread 30Y (bp)	-15	0	3
TED Spread (bp)	61	4	23
US Libor-OIS Spread (bp)	59	0	18
Euro Libor-OIS Spread (bp)	3	1	0
DJIA	24,103	0.61%	-3.70%
SPX	2,641	-0.11%	-2.69%
MSCI Asiax	717	-0.79%	-0.63%
HSI	30,093	-3.15%	-2.44%
STI	3,428	0.19%	-2.56%
KLCI	1,863	0.19%	0.40%
JCI	6,189	-1.04%	-6.19%

Source: OCBC, Bloomberg

OCBC Bank

New issues

- Greenland Global Investment Ltd has priced a USD60mn re-tap of its GRNLGR 5.25%'21 bond (guaranteed by Greenland Holding Group Co Ltd)at 5.25%.
- SMRT Capital Pte Ltd has priced a SGD200mn 5-year bond (guaranteed by SMRT Corp Ltd) at 2.59%.

Table 2: Recent Asian New Issues

Date	Issuer	Size	Tenor	Pricing
29-Mar-18	SMRT Capital Pte Ltd	SGD200mn	5-year	2.59%
29-Mar-18	Greenland Global Investment Ltd	USD60mn	GRNLGR 5.25%'21	100+accrued interest
28-Mar-18	Shougang Group Co Ltd	USD500mn	360-day	3.95%
27-Mar-18	Ease Trade Global Ltd	USD350mn	3-year	5.2%
27-Mar-18	Baoxin Auto Finance I Ltd	USD300mn	364-day	6.625%
26-Mar-18	Car Inc	CNH400mn	3NC2	6.95%
26-Mar-18	Agile Group Holdings Ltd	USD100mn	AGILE 6.875% Perp NC5	100+accrued interest
26-Mar-18	Huaxin Pharmaceutical (HK) Co Ltd	USD56mn	TAIHUA 6.8%'21	100+accrued interest
23-Mar-18	Land Transport Authority of Singapore	SGD300mn	LTAZSP 3.35%'48	100+accrued interest

Source: OCBC, Bloomberg

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