Asian Credit Daily

OCBC Bank

November 3, 2016

Credit Headlines (Page 2 onwards): BreadTalk Group Ltd., CWT Ltd., Gallant Venture Ltd., Australia and New Zealand Banking Group Ltd., Keppel Corp Ltd. & KrisEnergy Ltd.

Market Commentary: The SGD swap curve bull-steepened yesterday with swap rates trading 1-3bps lower across all tenors. Flows in the SGD corporates were moderate with two-way flows seen in BAERVX 5.75%'49s, OLAMSP 6%'18s and UOBSP 4%'49s. In the broader dollar space, the spread on JACI IG corporates increased 3bps to 205bps while the yield on JACI HY corporates decreased 1bps to 6.54%. 10y UST yield decreased 3bps to 1.80% as the Federal Reserve left interest rates unchanged and tightening polls in the election race spurred some risk-off sentiments. The committee did not mentioned any possible rate hike in December's meeting but has once again indicated that the case for a hike has continued to strengthen.

New Issues: China Yangtze Power Co. Ltd. has launched a two-tranche deal, consisting of a USD300mn and EUR200mn 5-year exchangeable bond deal that is expected to be priced later today. China Nuclear Engineering Corp. Ltd. has scheduled investor meetings on 3 November for a potential USD bond issue.

Rating Changes: S&P has placed Shanghai Electric Power Co. Ltd.'s (SEP) "BBB" corporate credit rating on CreditWatch with negative implications. The rating decision follows S&P's expectation that SEP will face heightened business risk and cash flow volatility following its acquisition of a controlling stake in K-Electric Ltd.. S&P upgraded Bank of Kyoto Ltd. and Iyo Bank Ltd.'s counterparty credit ratings to "A" from "A-" with negative outlooks. The rating actions are in view of a heightened likelihood for the banks risk-adjusted capital ratios to remain relatively stable, even in the face of fluctuations in domestic stock prices. Moody's revised its outlook on RWH Finance Pty. Ltd.'s "Baa2" senior secured rating to positive from stable. The outlook revision reflects the combined effect of: 1) receding refinancing risk, given the sponsor's ability and Moody's view that it is committed to refinance RWH's maturing debt; and 2) the project's continued solid credit fundamentals, which in the absence of refinancing risk are more consistent with a higher rating level.

Table 1: Key Financial Indicators

	3-Nov	1W chg (bps)	1M chg (bps)		3-Nov	1W chg	1M chg
iTraxx Asiax IG	119	3	2	Brent Crude Spot ($/bbl)	47.23	-6.42%	-7.19%
iTraxx SovX APAC	36	3	3	Gold Spot ($/oz)	1,297.65	2.31%	-1.06%
iTraxx Japan	57	--	1	CRB	184.29	-2.35%	-1.46%
iTraxx Australia	106	3	3	GSCI	354.90	-4.20%	-3.25%
CDX NA IG	80	4	5	VIX	19.32	35.67%	42.37%
CDX NA HY	103	-1	-1	CT10 (bp)	1.803%	0.94	20.81
iTraxx Eur Main	76	4	1	USD Swap Spread 10Y (bp)	-14	1	0
iTraxx Eur XO	339	13	3	USD Swap Spread 30Y (bp)	-55	0	-2
iTraxx Eur Snr Fin	101	6	-3	TED Spread (bp)	53	-2	-4
iTraxx Sovx WE	19	2	-2	US Libor-OIS Spread (bp)	38	0	-4
iTraxx Sovx CEEMEA	92	2	2	Euro Libor-OIS Spread (bp)	4	0	-1
					3-Nov	1W chg	1M chg
				AUD/USD	0.766	0.88%	-0.25%
				USD/CHF	0.973	2.14%	0.07%
				EUR/USD	1.110	1.84%	-1.01%
				USD/SGD	1.384	0.76%	-1.38%
Korea 5Y CDS	44	3	3	DJIA	17,960	-1.32%	-1.61%
China 5Y CDS	112	8	7	SPX	2,098	-1.94%	-2.93%
Malaysia 5Y CDS	128	6	9	MSCI Asiax	537	-1.53%	-3.46%
Philippines 5Y CDS	117	4	0	HSI	22,811	-2.21%	-3.28%
Indonesia 5Y CDS	157	5	7	STI	2,807	-0.76%	-2.22%
Thailand 5Y CDS	96	2	12	KLCI	1,660	-0.86%	0.43%
				JCI	5,405	0.11%	-1.07%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
1-Nov-16	Wuhan Metro Group Co. Ltd.	"NR/NR/A"	USD290mn	3-year	CT3+180bps
1-Nov-16	Central China Real Estate	"B+/Ba3/NR"	USD200mn	5NC3	6.75%
31-Oct-16	Chalco Hong Kong Investment Co. Ltd.	"NR/NR/BBB"	USD500mn	Perp-NC5	4.25%
31-Oct-16	Shangxi Road & Bridge Construction	"BB/NR/NR"	USD250mn	3-year	4.85%
31-Oct-16	Beazley PLC	"NR/NR/BBB+"	USD250mn	10-year	CT10+402.5bps
27-Oct-16	Guangxi Communications Group Corp.	"NR/Baa3/BBB"	USD300mn	3-year	CT3+202.5bps
27-Oct-16	Li & Fung Ltd.	"BBB-/Baa3/NR"	USD650mn	Perp-NC5	5.25%
27-Oct-16	China Development Bank Corp.	"AA-/Aa3/NR"	USD350mn	5-year	CT5+70bps
27-Oct-16	Bank of East Asia Ltd.	"BBB-/NR/NR"	USD500mn	10NC5	CT10+270bps

Source: OCBC, Bloomberg

Rating Changes (cont'd):

Moody's downgraded Nippon Yusen Kabushiki Kaisha's (NYK) issuer rating to "Baa3" from "Baa2" with a negative outlook. The downgrade reflects Moody's view that low freight rates will keep NYK's cash flow low and leverage high in the near to medium term. Moody's has affirmed the "A3" issuer ratings of four Chinese distressed asset management companies: 1) China Cinda Asset Management Co. Ltd.; 2) China Huarong Asset Management; 3) China Orient Asset Management Co. Ltd.; and 4) China Great Wall Asset Management Corp.. At the same time, their baseline credit assessments (BCAs) remain unchanged while their outlooks were revised to stable from negative. The primary drivers for the change in outlooks are: 1) government support for these companies is unlikely to change over the medium term; 2) each company's rating is resilient to a hypothetical downside scenario in which the sovereign rating is downgraded by one notch and; 3) the companies standalone credit profiles, as indicated by their BCAs in the case of state owned enterprises are appropriate at current levels. Fitch affirmed Mitsui Life Insurance Company Ltd.'s (Mitsui) insurer financial strength rating of "A" with a negative outlook. The rating was subsequently withdrawn for commercial reasons.

Credit Headlines:

BreadTalk Group Ltd. ("BREAD"): BREAD announced 3Q16 results yesterday. Revenue declined 2.7% y/y to SGD157.3mn, mainly due to the fall in revenue at Food Atrium. Despite lower revenues, net profit improved 57.3% y/y to SGD5.4mn, driven largely by improvements in gross profit margins and lower distribution and selling expenses. We note that EBITDA is higher by 8.7% y/y, mainly due to improvements in the Bakery division, with net debt/trailing 12M EBITDA at 0.95x (3Q15: 1.06x). Liquidity remains ample with SGD112.5mn cash on hand. We do not currently cover BREAD. (Company, OCBC)

CWT Ltd. ("CWT"): CWT announced its 3Q2016 and 9M2016 financial results. In 9M2016, CWT reported a 14% decline in revenue to SGD6.6bn, on the back of lower commodity trading volume in naphtha and a general drop in commodity prices. Gross profit, however, only dropped marginally by 3% to SGD244.4mn (9M2015: SGD252.7mn), due to the higher contribution from financial services, a higher margin business. Overall, gross profit margin improved to 3.7% in 9M2016 against 3.3% in 9M2015. Based on our calculations of EBITDA (excluding share of income from associates), we find EBITDA/Gross interest weaker at 3.0x against 3.8x in 9M2015. Profit after tax was SGD63.3mn, declining 27% from SGD86.6mn, mainly as a result of higher net finance expense, followed by the decline in business performance. Net debt-to-equity was 1.5x as at 30 Sept 2016, decreasing from 1.7x in the immediately preceding quarter. The bulk of CWT's short term debt relates to revolving facilities which are collateralized by inventory, trade & other receivables. Removing such debt, adjusted net debt-to-equity falls to 0.2x (30 September 2016: 0.6x). There has been no further updates on the discussions between HNA and the major shareholders of CWT. We maintain CWT's issuer profile at Neutral. (Company, OCBC)

Gallant Venture Ltd. ("GALV"): GALV's ~71.5% subsidiary Indomobil Sukses International Tbk ("IMAS") announced its 9M2016 results. In 9M2016, IMAS revenue decreased by 15% to SGD1.2bn (9M2015: SGD1.4bn) while operating income decreased by 38% to SGD37.9mn (9M2015: SGD61.2mn). Driven by the weaker operating environment and high financing charges (9M2016: SGD64.2mn), loss before tax at IMAS was significant at SGD22.4mn (9M2015: loss of SGD3mn). IMAS reported net cash from operating activities at negative SGD120mn against a smaller operating cash outflow of SGD51mn in 9M2015. In addition, investing activities used up SGD118.4mn with the cash gap plugged by higher borrowings. IMAS paid out minimal dividends during the period of SGD6.1mn (9M2015: SGD4.5mn). We hold GALV's issuer profile at Negative. (Company, OCBC)

Credit Headlines:

Australia and New Zealand Banking Group Ltd. ("ANZ"): ANZ released its full year results with earnings reflecting the bank's ongoing restructuring initiatives with cash profit down 18% y/y to AUD5.9bn. Within these numbers, operating income was flat y/y at AUD20.6bn while operating expenses (including restructuring) rose 11% y/y translating to profit before provisions falling 9% to AUD10.2bn. Provisions were higher as expected by 62% y/y to AUD1.9bn due to continued weakness in the mining and resources segment and this led to return on equity falling to 10.3% from 14% in FY2015. Excluding restructuring charges, cash profit was down 2.5% y/y to AUD7bn on a 3.5% increase in operating income due mostly to solid performance in the Australian retail and commercial segment which was overshadowed by an 80% rise in total provisions mostly in the institutional and commercial segments (and including a one-off settlement for a legal dispute). While loan stress continues to be concentrated within institutional banking, the bank has stated that the deterioration has stabilized and that the NPL ratio is expected to remain stable in FY2017. ANZ's institutional segment continues to reshape with rationalization of customer numbers and risk weighted assets positively impacting profitability in 2HFY2016 from 1HFY2016. ANZ's APRA compliant capital ratios were stable to slightly improved y/y and remain above regulatory minimum requirements with the bank's FY2016 CET1/CAR ratios of 9.6%/14.3% against FY2015 CET1/CAR ratios of 9.6%/13.3% as solid earnings generation and reduction in institutional risk weighted assets ("RWA") was partially mitigated by dividend payments and higher RWA requirements for the bank's mortgage book. Based on international Basel III standards, ANZ's CET1/CAR ratios were relatively strong at 14.5%/20.7% as at 30 September 2016. Going forward, ANZ's performance will continue to be influenced by its restructuring activities amidst an expectation of higher funding costs, still elevated provisions and margin pressures from ongoing competition in Australian banking that will see the bank allocate its capital more efficiently. Its exposure at default is now slightly more skewed towards consumer lending and government and official institutions which have the lowest NPL ratios. Delinquency rates are broadly stable in ANZ's Australia home loan division although delinquency rates are showing an increasing trend in the investor segment. Restructuring initiatives in FY2017 are expected to include the recently announced sale of its Asian retail and wealth management businesses in Singapore, Indonesia, Taiwan, Hong Kong and China to DBS Group Holdings Ltd and on-going refocusing on core businesses in Australia and New Zealand. To this end, ANZ has also announced it is considering the sale of its wealth businesses in Australia comprising financial advice, life insurance and superannuation. ANZ could still distribute these products but would no longer concentrate on originating them. ANZ has put forward a multi-year transformation towards FY2019 based on a new operating model that is expected to provide more sustainable growth in the future. Given the potential for improving returns from ongoing restructuring and slight improvements in ANZ's balance sheet strength and capital ratios in FY2016, we maintain our Neutral issuer profile rating on ANZ. (Company, OCBC)

Keppel Corp Ltd. ("Keppel"), KrisEnergy Ltd, 40% owned by Keppel: Keppel has announced a non-renounceable and non-underwritten preferential offering of up to SGD140mn senior unsecured zero coupon bonds due 2024 that come with free detachable warrants. Through wholly owned indirect subsidiaries, Keppel will subscribe for its full entitlement of the notes and warrants as well as those not subscribed for which could potentially raise Keppel's stake in KrisEnergy to as much as 67% according to The Business Times. We previously flagged in our Asian Credit Daily on 30 September 2016 of Keppel's intention to explore opportunities to link its diverse units up including Keppel O&M providing solutions for KrisEnergy Ltd's offshore gas fields. We think this co-operation amongst subsidiaries and Keppel's support for the preferential offering could indicate that Keppel's investment in KrisEnergy is now viewed internally as more strategic. The preferential offering is subject to waivers, consents and approvals being obtained from the Securities Industry Council of Singapore, SGX and shareholders of KrisEnergy as well as KrisEnergy's noteholders approving the restructure of its SGD330mn in bonds due over 2017 and 2018 into new notes that mature in 2022 and 2023 respectively (earlier than the proposed senior unsecured zero coupon bonds) with lower coupons (some cash and some deferred) and incurrence covenants in place of financial covenants. We do not currently cover KrisEnergy Ltd.. (Business Times, Straits Times, OCBC)

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