

Apr 01, 2016

Market Commentary: The SGD swap curve steepened yesterday, with the short-end rates trading 1bp lower, while the belly-to-long-end rates traded 1bp to 4bps higher. In the broader dollar space, the spread on JACI IG corporates was level at 232bps, while the yield on the JACI HY corporates fell by 5bps to 7.68%. 10y UST decreased by 5bps to 1.77%.

New Issues: CapitaLand Commercial Trust priced a HKD585mn 5-year bond at 2.27%.

Rating Changes: Given the volume, we have split the rating actions by ratings agency:

- Moody's revised the rating outlook on OCBC Bank, DBS Bank, DBS Group Holdings and UOB to negative from stable. The rating action reflects Moody's expectation of a more challenging operating environment for banks in Singapore in 2016, and possibly beyond, which may pressure the banks' asset quality and profitability. Moody's has confirmed the "A2" issuer rating of SINOPEC Engineering (Group) Co Ltd. The "A2" rating incorporates its standalone credit strength and a three-notch uplift for expected strong support from Sinopec Group in times of need. Outlook is negative. Moody's has confirmed the "Baa1" issuer rating of China Oilfield Services Ltd ("COSL"). This confirmation follows the confirmation of the "Aa3" rating for its parent, China National Offshore Oil Corporation ("CNOOC"). Outlook is negative. Moody's affirmed Greentown China Holdings Ltd's "Ba3" corporate family rating, reflecting Greentown's standalone credit strengths and a two-notch rating uplift based on expected extraordinary financial support from China Communications Construction Group (unrated) in times of financial distress.
- Fitch downgraded China-based Honghua Group Ltd's long-term issuer default rating to "B-" from "B", reflecting a deterioration of the company's financials in a sharp industry downturn. Honghua did not manage to unlock cash from working capital as revenue dropped dramatically, on top of declining margins.

Table 1: Key Financial Indicators

	1-Apr	1W chg (bps)	1M chg (bps)		1-Apr	1W chg	1M chg
iTraxx Asiax IG	145	-9	-7	Brent Crude Spot (\$/bbl)	40.16	-0.69%	9.10%
iTraxx Sovx APAC	59	0	-14	Gold Spot (\$/oz)	1,232.71	1.29%	-0.56%
iTraxx Japan	85	-8	-10	CRB	170.52	-1.57%	4.06%
iTraxx Australia	136	-10	-13	GSCI	323.42	-1.81%	6.13%
CDX NA IG	79	-5	-22	VIX	13.95	-6.63%	-21.19%
CDX NA HY	103	-2	3	CT10 (bp)	1.791%	-10.86	-3.35
iTraxx Eur Main	73	-4	-22	USD Swap Spread 10Y (bp)	-13	1	4
iTraxx Eur XO	304	-17	-83	USD Swap Spread 30Y (bp)	-47	1	7
iTraxx Eur Snr Fin	89	-6	-14	TED Spread (bp)	43	8	11
iTraxx Sovx WE	26	-2	-7	US Libor-OIS Spread (bp)	24	1	3
iTraxx Sovx CEEMEA	146	-5	-36	Euro Libor-OIS Spread (bp)	10	0	-4
					1-Apr	1W chg	1M chg
				AUD/USD	0.767	2.21%	7.36%
				USD/CHF	0.961	1.77%	4.06%
				EUR/USD	1.138	1.94%	4.70%
				USD/SGD	1.348	1.77%	3.95%
Korea 5Y CDS	64	-2	-2	DJIA	17,685	1.04%	4.86%
China 5Y CDS	121	-8	-10	SPX	2,060	1.13%	4.11%
Malaysia 5Y CDS	153	-7	-16	MSCI Asiax	508	2.32%	9.52%
Philippines 5Y CDS	104	-4	-13	HSI	20,777	0.53%	7.06%
Indonesia 5Y CDS	197	-12	-30	STI	2,841	-1.43%	5.91%
Thailand 5Y CDS	130	-12	-21	KLCI	1,718	0.12%	2.80%
				JCI	4,845	-0.18%	1.37%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
31-Mar-16	CapitaLand Commercial Trust	A-/A3/NR	HKD585mn	5-year	2.27%
30-Mar-16	Soilbuild REIT	NR/Baa3/NR	SGD100mn	5-year	3.6%
29-Mar-16	Ascendas REIT	NR/A3/NR	SGD130mn	5-year	2.655%
29-Mar-16	Government of Mongolia	B/B2/B	USD500mn	5-year	10.875%
24-Mar-16	Yunnan Provincial Investment Holdings	NR/NR/BBB+	USD300mn	3-year	3.375%
24-Mar-16	TMB Bank Public Co Ltd	BBB-/Baa2/BBB-	USD300mn	5.5-year	3.108%
23-Mar-16	ABN AMRO Bank	Baa3/BBB-/A-	SGD450mn	10-year	4.75%
23-Mar-16	Blue Sky Fliers Co	NR/NR/NR	USD120mn	3-year	6.90%

Source: OCBC, Bloomberg

Note: Ratings for ABN AMRO Bank reflects issue ratings

Rating Changes (cont'd):

- S&P downgraded Standard Chartered group entities – Standard Chartered PLC (to “BBB+”/stable from “A-”/negative), Standard Chartered Bank (to “A”/positive from “A+”/negative), Standard Chartered Bank Hong Kong Ltd (to “A+”/positive from “AA-”/negative), Standard Chartered China Ltd (to “A”/positive, from “A+”/negative), Standard Chartered Bank Korea Ltd (to “A-”/positive from “A”/negative) and Standard Chartered Taiwan Ltd (to “A-”/positive from “A”/negative). The rating action follows S&P’s view that the group’s creditworthiness has deteriorated compared to peers. S&P revised the rating outlook on People’s Republic of China to negative from stable, reflecting S&P’s expectation that the economic and financial risks to the Chinese government’s creditworthiness are gradually increasing. Along the same theme, S&P also revised its outlook on Hong Kong (Special Administrative Region) to negative from stable, due to S&P’s view that the Special Administrative Region and China have a high degree of financial and economic linkage. S&P revised the CreditWatch placement on Sharp Corporation’s “CCC” long-term and “C” short-term corporate credit ratings to positive from negative. The revision follows Sharp’s announcement on 30 March that it will issue new shares through third-party allocations totaling JPY388.8bn to Taiwan’s Hon Hai Precision Industry Co Ltd and its group companies by 5 Oct 2016.

Credit Headlines:

Ezra Holdings (“EZRA”): The EZRA joint venture with Chiyoda Corp (“Chiyoda”) has formally been completed on the 31/03/16. The 50:50 joint venture will hold EMAS AMC, the subsea division of EZRA. The JV will be known as EMAS CHIYODA Subsea, and will commence operations with effect from 01/04/16. Based on the original MOU signed in August 2015, Chiyoda would pay EZRA USD150mn in cash for the 50% stake in EMAS AMC. In addition, Chiyoda will invest a further USD30mn into EMAS CHIYODA Subsea, to provide the JV with additional liquidity. It should be noted that based on the MOU, the consideration paid by Chiyoda may be adjusted lower (by up to 50%), depending on subsequent payments or assumption of liabilities made by EMAS AMC on behalf of Ezra. These adjustments have not been disclosed currently. Ezra had previously stated in the MOU that it intends to utilize net proceeds from the transaction to reduce its gearing levels. It should be noted that based on the initial transaction considerations, as the stake in EMAS AMC is sold below book value, Ezra estimated that it would in aggregate generate a loss of ~USD9.5mn, based on the financial quarter ending May 2015. We believe that the transaction is a credit positive for Ezra, and will be supportive of Ezra’s sole bond outstanding, the EZRASP’18s. We intend to publish an update shortly. (Company, OCBC).

CapitaLand Commercial Trust (“CCT”): CCT has issued HKD585mn in bonds paying 2.27% maturing 22/03/21. These notes were issued under CCT’s existing SGD2bn MTN programme, which has SGD575,750,000 issued in aggregate. The proceeds will be swapped into SGD102.5mn, and bear an interest of 2.7% per annum. The issuer intends to use the proceeds to refinance existing bank revolvers. As of end-2015, CCT had SGD626mn in short-term debt, all relating to its JV in Raffles City (Company).

Singapore Banks: Moody’s outlook revision for Singapore Bank’s to negative from stable reflects more macro-concerns rather than underlying fundamental credit concerns (their baseline credit assessments of ‘aa3’ were affirmed). That said, the macro environment in Singapore and within the region has a strong influence on bank’s prospective asset quality and profitability. It is worth noting that a rating outlook represents a one in three chance of a rating change, so a rating action is not set in stone. This is particularly the case in this instance where the outlook change is based on an expectation rather than an actual event.

Gallant Venture (“GALV”): GALV’s key subsidiary, Indomobil Sukses International Tbk (“IMAS”) released its FY2015 financials today. IMAS is ~72% owned by GALV, and is a significant driver of the latter’s financial performance. Net revenues at IMAS declined 7% to IDR18100bn in FY2015 (SGD1.8bn), while EBITDA (excluding share of associate d company’s results) increased by 4% to IDR1.6bn (SGD159m), driven by an increase in other operating income. Profitability at IMAS was constrained by losses at associates and persistently high finance charges. Prior to FY2014 and coinciding with a high revenue growth period, IMAS did not generate sufficient operating cash to fully fund outflows. As such, operations and capital expenditure were supported by increasing debt. We expect its ability to upstream dividend to GALV to be muted given IMAS’ upcoming debt maturities in 2016. As at 31-Dec-2015, IMAS has IDR1093bn (~SGD111m) bonds and IDR3240bn (~SGD329m) of short term bank loans outstanding within the year. We continue to hold our Negative issuer profile on GALV. GALV has a SGD175m bond maturing on 21st April 2016 which will need to be refinanced. (OCBC, Company)

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