

August 1, 2016

Credit Headlines (Page 2 onwards): Frasers Hospitality Trust, Starhill Global REIT, Pacific Radiance, Ezra Holdings, Industry Outlook - China Property

Market Commentary: The SGD dollar swap curve traded upwards last Friday. Swap rates traded 1-4bps higher across all tenors with the exception of the shorter-end rates (less than 2 years). Notably, the overnight swap rate decreased by 52bps. Flows in the SGD corporates were heavy with better buying seen in GENSSP 5.13%'49s and UOBSP 4%'49s. Better selling were seen in GEMAU 5.5%'19s and SCISP 4.75%'49s while mixed interests were seen in ASPSP 5.05%'19s, BAERVX 5.9%'49s, FCLSP 4.25%'26s, BNP 4.3%'25s, BPCEGP 4.5%'26s, MLTSP 4.18%'49s and VIBGSP 4.6%'17s. In the broader dollar space, the spread on JACI IG corporates decreased by 2bps to 213bps while the yield on JACI HY corporates increased by 9bps to 6.47%. 10y UST yield decreased by 5bps to 1.45% following the release of weaker-than-expected US GDP data that dimmed bets on an interest rate hike in the near term.

New Issues: Fenghui Leasing has scheduled investor meetings for a potential USD bond issuance, with expected ratings of "NR/B2/B".

Rating Changes: S&P downgraded Asciano Ltd.'s credit rating to "BBB-" from "BBB" with a stable outlook. The downgrade reflects S&P's view that Asciano's business diversification will reduce following the planned divestment of the ports business, which is likely to happen in the near term. S&P upgraded Broadspectrum Ltd.'s credit rating to "BB+" from "BB" with a stable outlook. The upgrade reflects S&P's view of the implied support from Broadspectrum's sole parent-Ferrovial S.A., which generated revenue of EUR9.2bn in 2015. S&P revised its outlook on Australia-based gaming machine maker, Aristocrat Leisure Ltd.'s "BB" credit rating to positive from stable. The positive outlook reflects S&P's view of Aristocrat's improved operating performance as a result of the company's strengthening market position, higher-margin product mix, and successful integration of Video Gaming Technologies, Inc. (VGT) in October 2014. Fitch upgraded the issue ratings on Greenko's USD500mn notes to "B+" from "B" and assigned holdco Greenko Energy Holdings (GEH) a "B+" long term foreign currency issuer default rating. The rating reflects GEH's established track record and low construction risks associated with its wind and solar power projects, financial support from GEH's shareholders and expected improvement in the financial profile. Outlook is stable. The rating on the notes reflects the benefits of ownership from GIC and the guarantee on the notes by GEH and operating subsidiaries.

Table 1: Key Financial Indicators

	1-Aug	1W chg (bps)	1M chg (bps)		1-Aug	1W chg	1M chg
iTraxx Asiax IG	119	-1	-20	Brent Crude Spot (\$/bbl)	43.28	-3.22%	-14.04%
iTraxx SovX APAC	47	-1	-6	Gold Spot (\$/oz)	1,348.65	2.51%	0.54%
iTraxx Japan	58	0	-8	CRB	181.01	-1.03%	-6.82%
iTraxx Australia	110	-1	-15	GSCI	339.40	-2.76%	-9.84%
CDX NA IG	72	-1	-5	VIX	11.87	-1.25%	-19.63%
CDX NA HY	104	0	1	CT10 (bp)	1.465%	-10.81	2.09
iTraxx Eur Main	68	0	-11	USD Swap Spread 10Y (bp)	-10	-2	-1
iTraxx Eur XO	318	-3	-29	USD Swap Spread 30Y (bp)	-45	-2	-1
iTraxx Eur Snr Fin	92	0	-12	TED Spread (bp)	51	10	12
iTraxx Sovx WE	25	-1	-5	US Libor-OIS Spread (bp)	35	3	8
iTraxx Sovx CEEMEA	123	-6	-2	Euro Libor-OIS Spread (bp)	6	0	-1
					1-Aug	1W chg	1M chg
				AUD/USD	0.759	1.66%	1.28%
				USD/CHF	0.969	1.73%	0.43%
				EUR/USD	1.117	1.63%	0.34%
				USD/SGD	1.342	1.54%	0.29%
Korea 5Y CDS	49	0	-5	DJIA	18,432	-0.75%	2.69%
China 5Y CDS	110	0	-10	SPX	2,174	-0.07%	3.36%
Malaysia 5Y CDS	140	1	-11	MSCI Asiax	527	0.19%	4.03%
Philippines 5Y CDS	100	-3	-11	HSI	21,891	-0.33%	5.28%
Indonesia 5Y CDS	161	-3	-21	STI	2,869	-2.60%	0.78%
Thailand 5Y CDS	93	0	-17	KLCI	1,653	-0.25%	0.43%
				JCI	5,216	0.36%	4.92%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
28-July-16	Adani Transmission	"BBB-/Baa3/BBB-"	USD500mn	10-year	CT10+260bps
28-July-16	Export-Import Bank of India	"BBB-/Baa3/NR"	USD1bn	10-year	3.38%
28-July-16	Glenmark Pharmaceuticals	"NR/NR/BB"	USD200mn	5NC3	4.5%
27-July-16	CDB Capital	"AA-/NR/A+"	USD500mn	5-year	CT5+115bps
27-July-16	China Minsheng Investment	"NR/NR/NR"	USD500mn	3-year	3.8%
26-July-16	Bank of America Corp.	"NR/Baa1/A"	AUD500mn	5-year	3mBBSW+155bps
26-July-16	Bank of America Corp.	"NR/Baa1/A"	AUD200mn	5-year	3.3%
25-July-16	Kookmin Bank	"A/A1/NR"	USD500mn	3-year	CT3+88bps

Source: OCBC, Bloomberg

Credit Headlines:

Frasers Hospitality Trust ("FHT"): FHT reported a 20.6% growth in its 9MFY2016 gross revenue to SGD90.2mn (9M2016: SGD74.7mn) while 9MFY2016 net property income ("NPI") increased 24.5%. These were largely driven by the acquisitions of Sofitel Sydney Wentworth (SSW) which was acquired in July 2015. The Maritim Hotel Dresden also contributed since completion of the acquisition on 15 June 2016. FHT's UK portfolio was hit by a combination of terrorism and BREXIT concerns along with a 7.5% increase in minimum wage which took effect on April 1, 2016, leading to a combined drop in gross operating profit ("GOP") of 4.2% in 3Q2016 against 3Q2015. FHT's Singapore portfolio reported GOP growth of 8.7% as the InterContinental Singapore's renovation has completed, with full room inventory now contributing. Japan was slightly weaker due to decline in revenue from weddings while the gross revenue on the Malaysia portfolio was down by 5.7% on the back of continued weakness in the oil and gas industry and reduced arrivals from European countries. Excluding payment top-up, 3Q2016 EBITDA/Gross interest improved to 4.2x (2Q2016: 3.5x). Impact from BREXIT on asset revaluation (if any) will only come at financial year end. The Maritim Hotel Dresden was funded via FHT's perpetual issuance and as such had no impact on debt balances. FHT's aggregate leverage declined to 38.3% (31 March 2016: 39.3%) and the REIT faces minimal debt maturities in the next 12 months. We maintain FHT's issuer profile at Neutral. (Company, OCBC)

Starhill Global REIT ("SGREIT"): 4QFY2016 results reported that gross revenue was up 3.6% y/y to SGD53.6mn, while Net Property Income ("NPI") was flattish, up 0.2% y/y to SGD41.4mn. Gross revenue was supported by the full-quarter contribution from Myer Centre Adelaide (acquired in May 2015). NPI was dampened by higher property expenses relating to Myer Centre Adelaide, as well as the lack of property tax refund on Singapore properties seen during the same quarter a year back. On a q/q basis, performance was stable, with both revenue and NPI flat. FY2016 and FY2015 financial years are not comparable as SGREIT changed its financial year end to June. In terms of portfolio performance, for 4QFY2016, SGREIT's Singapore assets (62% of portfolio revenue) reported a decline in revenue of 1.3% y/y, driven by a 4.1% y/y decrease in Wisma Atria's retail revenue, and 1.7% decrease in Ngee Ann City's office revenue. These declines were driven by lower occupancies, but were partly offset by sustained performance at Ngee Ann City's retail segment (+1.9%). In other regions, revenue growth from Australia (due to the acquisition) helped to offset declines in Malaysia (MYR depreciation), Chengdu (impacted by government austerity drive & increasing competition) and Japan (due to divestment). Portfolio occupancies have continued to dip lower, ending at 95.1% (3QFY2016: 95.6%). The sharp fall in Singapore office occupancy from 100% (end-3QFY2016) to 95.6% (end-FY2016) was largely driven by Ngee Ann City's office occupancy (94%). It would seem that SGREIT could not avoid the general pressures seen in the Singapore office sector. In mitigation though, SGREIT's Singapore office revenue is only 12.5% of portfolio gross revenue (for the quarter). SGREIT's Australia occupancy also remained stable at ~90% (partially due to AEI works for Plaza Arcade). WALE by NLA remains decent at 7.1 years, though it has worsened slightly q/q (3QFY2016: 7.3 years). During the quarter, SGREIT successfully negotiated and increase the base rent for the Toshin master lease (Ngee Ann City) by 5.5%, as well as extended the Malaysian master leases at 6.7% higher rents. Aggregate leverage improved further, ending at 35.0% (end-2QFY2016: 35.7%). This was largely driven by the valuation gain of +0.7% seen y/y to SGD3.1bn. Reported interest coverage remained steady at 4.3x q/q. Though SGREIT has minimal debt maturing in FY2017 (SGD16mn worth), it has SGD250mn term loan and AUD145mn loan due in FY2018. We believe that SGREIT has some financial flexibility as 73% of its assets remain unencumbered. Going forward, though SGREIT may face some pressure in its Singapore revenue, it would be mitigated partially by the rental reversion seen in the Toshin master lease (~20% of portfolio gross revenue) as well as by revenue contribution from its Australia assets (~23% of portfolio gross revenue). We will reiterate SGREIT's Neutral Issuer Profile. (Company, OCBC)

Credit Headlines:

Pacific Radiance ("PACRA"): Due to Swiber Holdings' restructuring, PACRA has announced that it expects to make provisions over doubtful receivables totalling USD10.1mn in respect to services to Swiber's related entities. Comparatively, PACRA last reported (as of end-1Q2016) USD412mn in net assets. Any provisions taken will hit PACRA's already strained income statement (PACRA generated USD3.8mn in net profits for 2015, and USD6.8mn net loss for 1Q2016), and likely drive net gearing higher from the current 106%. We will await for PACRA's 2Q2016 results (to be reported during the second week of August) to determine the overall impact the provisions may have on PACRA. (Company, OCBC)

Ezra Holdings ("EZRA"): Post announcement of the Swiber Holdings' restructuring, there was news that EZRA was seeking to raise USD100mn in new stock, as well as to term out USD100mn of its loans and bonds as it tries to ease a short-term financing strain in part by extending its debt maturities. EZRA has been raising fresh liquidity via the sale of 50% of its subsea division to Chiyoda Corp, as well as in the process of divesting its FPSOs. For now, we will wait for formal announcements by EZRA. We would consider any equity raising to be a credit positive for the issuer, but would consider any attempts to extend the EZRASP'18s to be hugely negative for the bond (it would only mature on 24/04/18 so EZRA is not facing balloon default pressure). (Company, OCBC)

Industry Outlook - China Property:

For the first time, top leaders flagged concerns about asset bubbles in the Politburo meeting, though the meeting did not specify the details with regards to the asset bubbles. In addition, China's banking regulator and Security regulator started to revisit the rules on wealth management products and refinancing activities from listed property companies as part of the campaign to contain asset bubbles. Our Greater China Macro Research team sees three implications from the message from Politburo (1) the differentiated property policies are likely to continue. De-stock of housing inventory in lower tier cities are likely to be the main policy focus while property cooling measures will continue in tier-1 and tier-2 cities (2) the pledge to curb asset bubble also shows China's intention to shift away from old investment growth model to service and consumption driven economy with the help of supply side reform (3) China is likely to remain cautious on further monetary easing. For more details, please refer to "OCBC Bank - Greater China-Week in Review" dated 1 August, 2016. We continue to prefer Central China Real Estate over other China property names in our coverage. (OCBC)

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