

September 1, 2016

Credit Headlines (Page 2 onwards): Mapletree Logistics Trust , Century Sunshine Group, Hotel Properties Limited

Market Commentary: The SGD dollar swap curve traded upward slightly with swap rates trading 1-2bps higher across all tenors with the exception of the 5Y swap rate that traded 1bps lower. Flows in the SGD corporates were heavy with better buying seen in OLAMSP 4.25%'19s and SOCGEN 4.3%'26s. Better selling was seen in UCGIM 5.5%'23s while mixed interests were seen in GEMAU 5.5%'19s, GENSSP 5.13%'49s, and MFCCN 3.85%'26s. In the broader dollar space, the spread on JACI IG corporates decreased 1bps to 195bps while the yield on JACI HY corporates decreased 1bps to 6.41%. 10y UST yield increased 1bps to 1.58%.

New Issues: United Overseas Bank Ltd. priced a USD600mn 10.5-year bond at CT10+170bps, tightening from its initial guidance at CT10+200bps. The expected issue ratings are "NR/A2/A+". Far East Consortium International priced a USD300mn 5-year bond at 3.75%, tightening from its initial guidance at 4%.

Rating Changes: Moody's downgraded KWG Property Holdings Ltd.'s corporate family rating to "B1" from "Ba3" with a stable outlook. The downgrade reflects Moody's expectation that its debt leverage levels will remain high over the next 12-18 months. Moody's upgraded the rating of four Chinese financial leasing companies to align with their parent banks' ratings. Namely, the four banks are, (1) China Development Bank Financial Leasing – issuer rating upgraded to "Aa3" from "A1" with a negative outlook, aligned with China Development Bank Corp.'s rating (Aa3, Negative Outlook); (2) ICBC Financial Leasing Co. Ltd. – issuer rating upgraded to "A1" from "A2" with a negative outlook, aligned with Industrial & Commercial Bank of China Ltd.'s rating (A1, Negative Outlook);

Table 1: Key Financial Indicators

	1-Sep	1W chg (bps)	1M chg (bps)		1-Sep	1W chg	1M chg
iTraxx Asiax IG	114	-1	-7	Brent Crude Spot (\$/bbl)	46.89	-4.40%	10.43%
iTraxx SovX APAC	38	-2	-9	Gold Spot (\$/oz)	1,309.51	-0.94%	-3.23%
iTraxx Japan	52	-2	-4	CRB	180.21	-2.98%	1.12%
iTraxx Australia	101	-1	-9	GSCI	348.21	-3.68%	4.75%
CDX NA IG	73	1	-2	VIX	13.42	-0.22%	7.88%
CDX NA HY	104	0	1	CT10 (bp)	1.577%	0.35	5.52
iTraxx Eur Main	68	0	1	USD Swap Spread 10Y (bp)	-14	0	-3
iTraxx Eur XO	311	2	-12	USD Swap Spread 30Y (bp)	-54	1	-8
iTraxx Eur Snr Fin	90	-1	-2	TED Spread (bp)	51	-1	1
iTraxx Sovx WE	24	-1	-1	US Libor-OIS Spread (bp)	38	0	3
iTraxx Sovx CEEMEA	110	-7	-12	Euro Libor-OIS Spread (bp)	5	0	0
					1-Sep	1W chg	1M chg
				AUD/USD	0.752	-1.30%	-0.23%
				USD/CHF	0.984	-1.63%	-1.55%
				EUR/USD	1.115	-1.16%	-0.08%
				USD/SGD	1.362	-0.65%	-1.48%
Korea 5Y CDS	44	-1	-6	DJIA	18,401	-0.44%	-0.02%
China 5Y CDS	101	-2	-10	SPX	2,171	-0.21%	0.01%
Malaysia 5Y CDS	121	-2	-22	MSCI Asiax	543	0.04%	1.59%
Philippines 5Y CDS	88	-3	-14	HSI	22,977	0.68%	3.83%
Indonesia 5Y CDS	148	1	-15	STI	2,821	-1.71%	-2.49%
Thailand 5Y CDS	84	-4	-10	KLCI	1,678	-0.30%	1.50%
				JCI	5,386	-0.33%	0.46%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
31-Aug-16	United Overseas Bank Ltd.	"NR/A2/A+"	USD600mn	10-year	CT10+170bps
31-Aug-16	Far East Consortium International	"NR/NR/NR"	USD300mn	5-year	3.75%
31-Aug-16	Haikou Meilan International Airport	"NR/NR/NR"	USD200mn	3-year	5.25%
30-Aug-16	DBS Group Holdings	"NR/A3/BBB"	USD750mn	Perp-NC5	3.6%
30-Aug-16	Chongqing Western Modern Logistic	"NR/NR/BBB"	USD500mn	5-year	CT5+220bps
30-Aug-16	Road King Infrastructure	"BB-/B1/NR"	USD500mn	5-year	4.7%
30-Aug-16	Mitsubishi UFJ Lease & Finance	"A/A3/NR"	USD500mn	5-year	2.25%
30-Aug-16	BNP Paribas	"BBB+/Baa2/A"	AUD250mn	10-year	4.75%

Source: OCBC, Bloomberg

Rating Changes (cont'd): (3) CCB Financial Leasing Corp. Ltd. – issuer rating upgraded to “A1” from “A2” with a negative outlook, aligned with China Construction Bank Corp.’s rating (A1, Negative Outlook); and (4) CMB Financial Leasing Co. Ltd. – issuer rating upgraded to “Baa1” from “Baa2” with a negative outlook, aligned with China Merchant Bank Co. Ltd.’s rating (Baa1, Negative Outlook). The rating revisions follow Moody’s reassessment of parental support for the leasing companies and that the amount of extraordinary parental support the leasing companies would receive under a situation of stress has further increased in the context of their management control, business development, operations and regulatory framework over the recent years. Additionally, Moody’s believes that the explicit inclusion of liquidity and capital commitments in the articles of association of the leasing companies indicate the parent banks’ commitment to provide liquidity and capital support its subsidiaries. Fitch affirmed China Hongqiao Group Ltd.’s issuer default ratings at “BB” and revised its outlook to negative from stable. The outlook revision follows Hongqiao’s persistent high debt-funded capital expenditure, which has resulted in high negative free cash flow and financial leverage exceeding threshold for the “BB” rating.

Credit Headlines:

Mapletree Logistics Trust (“MLT”): MLT completed the acquisition of 4 Sydney warehouses (announced in end-May 2016). The acquisitions amount to AUD85mn (~SGD87.4mn) and will bring MLT’s Australian exposure up to 7% of total assets from 5% as at 30 June 2016. This transaction is credit neutral in our view, with MLT’s leverage post-acquisition expected to remain stable. (Company, OCBC)

Century Sunshine Group (“CSG”): CSG reported 1H2016 results. Revenue was flattish, up 2.7% y/y to HKD1.24bn, partly due to the slump in RMB (CSG’s operating currency) versus HKD (CSG’s reporting currency). The fertilizer business was pressured during the period, with segment revenue falling 6.2% y/y to HKD682.0mn. Comparatively, the fertilizer segment grew by 21.4% y/y in 2015. Management has indicated that though fertilizer sale volumes increased 8.3% y/y to 321.8 tonnes, segment revenue was pressured by the fall in ASP from HKD2,447 per tonne to HKD2,119 per tonne (13.4% decline). Management indicated that the prices of compound fertilizers have suffered from market fluctuation and fell by 10.6% during the period. CSG was able to defend its fertilizer gross margins however, with segment gross margin decreasing slightly to 27.6% (1H2015: 28.5%). This was due to the fall in raw material prices and CSG’s cost control measures. The magnesium products segment continues to grow, with revenue up 11.8% y/y to HKD424.4mn. Demand was strong, with volume up 43.2% y/y to 16,013 tonnes. However, there was a sharp 22.1% decrease in ASP to HKD25,510 per tonne (1H2015: HKD32,768 per tonne). The reason for the sharp increase in volume and decline in ASP was due to CSG starting the magnesium products trading business during the period, which sharply increased (+76% y/y) the volume of basic magnesium products (more commoditized, low margin products versus magnesium alloys) sold. This also caused segment gross margin to decline sharply to 30.7% (1H2015: 34.9%). In aggregate, due to the shift in product mix (towards magnesium products) mitigating segment gross margin pressure, CSG’s group gross margin compressed by 2.2ppt to 30.0%. Pre-tax profit fell HKD75.8mn to HKD203.7mn (-27.1% y/y) largely driven by the fall in gross profit, HKD37.9mn in FX losses and HKD22.2mn increase in finance costs (due to additional borrowings). It is worth noting that during the period, CSG has been acquiring additional interests in several subsidiaries via buying out non-controlling shareholders and capitalizing loans to subsidiaries. This caused NCI to decrease by HKD64.6mn and Other Reserve to fall by HKD109.2mn. Cash balance increased by HKD351.1mn (versus end-2015) to HKD1.80bn. This was largely driven by the HKD289.4mn increase in borrowings. As CSG has HKD1.79bn in total borrowings and HKD1.80bn in cash, CSG is currently a net cash company. On a gross gearing basis, it has increased from 45% (end-2015) to 57% (end-1H2016). Though CSG continues to hold significant amounts of cash, we note that CSG will continue to expand its production facilities for both the fertilizer segment (the greenfield facility at Ruichang City, Jiangxi, with phase 1 operational in 2018) as well as its magnesium segment (the recently acquired Xinjiang facilities). In addition, CSG would likely require capital as well to turnaround Hongri Acron (CSG intends to acquire a 50.5% stake in the troubled Hongri Acron, though its subject to shareholder approval via an EGM, with the relevant circular tentatively scheduled to be sent before 09/09/16). For now, we will hold our Neutral Issuer Profile for CSG, though we are likely to review our rating upon receiving further details regarding the Hongri Acron acquisition. (Company, OCBC)

Credit Headlines:

Hotel Properties Limited (“HPL”): HPL announced that its 50%-owned (the balance is owned by Mr Ong Beng Seng, substantial shareholder of HPL) associate company, Leisure Ventures Pte Ltd, will be divesting the Mandarin Oriental Hotel Prague, for a total consideration of EUR66mn (less outstanding net borrowings of ~EUR26mn). As such, HPL’s share of net consideration would be ~SGD30mn. (Company)

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