

May 12, 2016

Market Commentary: The SGD swap curve bull-steepened yesterday, with the short-end trading 4bps lower while the belly-to-long end rates traded 1bp-2bps lower. Within the SGD corporates space, we saw better buyers in FCLSP 4.25%'26s, better sellers in OLAMSP 6%'22s, BNP 4.3%'25s, SCISP 4.75%'49s, and mixed interests in GEMAU 5.5%'19s, ABNANV 4.75%'26s, GENSSP 5.125%'49s, OCBCSP 3.8%'49s. In the broader dollar space, the spread on the JACI IG corporates was level at 229bps, while the yield on the JACI HY corporates decreased 2bps to 7.31%. 10y UST yield decreased by 2bps to 1.74%.

New Issues: CICC Hong Kong Finance 2016 MTN Ltd priced a USD500mn 3-year bond at CT3+192.5bps, tightening from an initial guidance of CT3+225bps. The paper is expected to be rated "BBB+/NR/BBB+". State Grid Overseas Investment (2016) Ltd priced a two part deal yesterday, with the USD500mn 5-year tranche priced at CT5+95bps, tightening from an initial guidance of CT5+120bps. The USD500mn 10-year tranche was priced at CT10+125bps, tightening from an initial guidance of CT10+150bps. The expected rating for the papers are "AA-/Aa3/A+". Societe Generale priced a SGD425mn Tier 2 10NC5 at 4.3%, tightening from an initial guidance of 4.5%. The paper is expected to be rated "BBB/A-/Baa3". CBA priced a USD1bn 10-year bond at CT10+112.5bps, tightening from an initial guidance of CT10+125bps. The paper is expected to be rated "AA-/Aa2/AA-". UOB priced SGD750mn in AT1 NC5 perpetual capital securities at 4%, tightening from an initial guidance of 4.25%. The paper is expected to be rated "NR/A3/BBB".

Rating Changes: S&P downgraded STATS ChipPAC Ltd to "B+" from "BB-", in light of weaker than expected earnings in the past two quarters for STATS ChipPAC and parent company JCET. Outlook is negative, reflecting the risk of continued weakness in the outsourced semiconductor assembly and testing ("OSAT") industry.

Table 1: Key Financial Indicators

	12-May	1W chg (bps)	1M chg (bps)		12-May	1W chg	1M chg
iTraxx Asiax IG	145	0	2	Brent Crude Spot (\$/bbl)	47.30	5.09%	5.84%
iTraxx SovX APAC	53	-1	-4	Gold Spot (\$/oz)	1,277.64	-0.05%	1.68%
iTraxx Japan	73	-3	-9	CRB	183.34	1.93%	4.47%
iTraxx Australia	134	-1	-4	GSCI	361.15	3.86%	5.73%
CDX NA IG	82	-3	2	VIX	14.69	-8.47%	-1.08%
CDX NA HY	102	1	0	CT10 (bp)	1.721%	-2.47	-5.55
iTraxx Eur Main	77	-2	0	USD Swap Spread 10Y (bp)	-15	0	-1
iTraxx Eur XO	322	-7	-7	USD Swap Spread 30Y (bp)	-49	0	-2
iTraxx Eur Snr Fin	95	-3	-4	TED Spread (bp)	37	-7	-4
iTraxx Sovx WE	26	-1	-2	US Libor-OIS Spread (bp)	25	0	0
iTraxx Sovx CEEMEA	134	-2	-7	Euro Libor-OIS Spread (bp)	8	-1	-2
					12-May	1W chg	1M chg
				AUD/USD	0.736	-1.52%	-3.90%
				USD/CHF	0.971	-0.71%	-1.81%
				EUR/USD	1.143	0.02%	0.17%
				USD/SGD	1.367	-0.53%	-1.60%
Korea 5Y CDS	63	-2	0	DJIA	17,711	0.34%	-0.06%
China 5Y CDS	127	-2	6	SPX	2,064	0.65%	0.13%
Malaysia 5Y CDS	159	-6	8	MSCI Asiax	485	-1.00%	-3.35%
Philippines 5Y CDS	113	-4	13	HSI	20,055	-2.29%	-2.19%
Indonesia 5Y CDS	185	-5	-15	STI	2,733	-1.45%	-2.91%
Thailand 5Y CDS	125	0	1	KLCI	1,645	-0.78%	-4.11%
				JCI	4,800	-0.17%	-0.61%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
11-May-16	CICC Hong Kong Finance 2016 MTN Ltd	BBB+/NR/BBB+	USD500mn	3-year	CT3+192.5bps
11-May-16	State Grid Overseas Investment (2016) Ltd	AA-/Aa3/A+	USD500mn	5-year	CT5+95bps
11-May-16	State Grid Overseas Investment (2016) Ltd	AA-/Aa3/A+	USD500mn	10-year	CT10+125bps
11-May-16	Societe Generale	BBB/A-/Baa3	SGD425mn	10NC5	4.3%
11-May-16	Commonwealth Bank of Australia	AA-/Aa2/AA-	USD1bn	10-year	CT10+112.5bps
11-May-16	United Overseas Bank Ltd	NR/A3/BBB	SGD750mn	PERPNC5	4.0%
10-May-16	Metropolis of Tokyo	A+/NR/NR	USD1bn	5-year	MS+90bps
09-May-16	Agricultural Bank of China	A/A1/NR	USD400mn	3-year	CT3+107.5bps

Source: OCBC, Bloomberg

Rating Changes (cont'd): S&P initiated a “BB+” long-term local issuer credit rating to Zhongrong International Trust Co Ltd, with no further information furnished on Bloomberg. S&P revised QBE Insurance Group Ltd’s rating outlook on its “A-“ issuer credit rating to positive from stable, in light of expectations that the group’s earnings profile will strengthen as well as a material improvement in the operating performance of its North American operations. Meanwhile, Moody’s initiated a “Baa2” long-term issuer rating to CMB Financial Leasing Co Ltd with a negative rating outlook, in line with the outlook for CMB Financial Leasing’s parent, China Merchants Bank Co Ltd. The rating incorporates the company’s standalone credit profile of “ba3” and a four-notch uplift from very high likelihood of support from China Merchants Bank Co Ltd, if needed.

Credit Headlines:

City Developments Ltd (“CDL”): CDL reported a soft set of 1Q2016 numbers which was not surprising given challenging conditions in Singapore residential and the global hospitality market. Revenue fell 11.2% y/y to SGD723mn driven by a 23% y/y drop in contribution from property development to SGD223.3mn while contribution from hospitality was also lower by 4.5% y/y to SGD359.4mn. EBITDA was only down slightly by 1.2% y/y to SGD194.3mn though, due to 1) better margins (gross margins improved to 49% from 45% in 1Q2015) and 2) increase in management fees and other miscellaneous income to SGD10.1mn from SGD0.8mn. CDL’s credit profile remained relatively stable despite the headwinds with net gearing at 26% (1Q2015:27%) and net debt/EBITDA at 3.7x (1Q2015: 3.7x) due to a reduction in the company’s net debt position to SGD2.85bn from SGD2.94bn during the quarter. We maintain our positive issuer profile on CDL as we believe the company has the balance sheet and diversified operations to weather the slowdown in Singapore residential. We are neutral across much of the CDL curve on valuations though with spreads generally trading at tight levels and in lockstep with the CAPLSP curve. We like the CITSP 3.48% ’23s (yield: 3.23%, i-spread: 108bps) for a 17bps spread pick up over the CAPLSP 3.8%’24 (3.23%, i-spread: 91bps) and ~1.5 year reduction in tenor. (Company, OCBC)

Nam Cheong (“NCL”): NCL reported negative MYR93.1mn in revenue (1Q2015: MYR326.3mn) due to the reversal of revenue previously recognized on the cancellation of an Accommodation Work Barge (by Perdana, which we reported previously). The order was originally valued at USD42mn, and was late stage when it was cancelled. The costs attributed to the order was also reversed though, which led to NCL generating a gross profit of MYR4.2mn. It was still sharply lower compared to the MYR68.3mn in gross profits generated in 1Q2015. Management noted that aside from the Perdana order, NCL had not faced other customer requests for cancellations. Performance continues to be pressured by the lack of demand for newbuild OSVs given weak O&G activity. NCL only delivered one vessel in 1Q2016, compared to six vessels in 1Q2015. NCL also generated MYR36.9mn in FX losses due to the weakening of the USD against SGD, which impacted NCL’s SGD denominated borrowings. This drove SG&A expense almost 100% higher y/y to MYR48.3mn. In aggregate, these factors drove NCL to a net loss of MYR40.1mn. Operating cash flow was positive before factoring working capital changes. However, due to increases in working capital needs as well as interest servicing, operating cash flow was negative MYR93.1mn for 1Q2016 (4Q2015: MYR26.7mn). NCL also paid down MYR81.5mn of debt during the quarter. In aggregate, this drove the cash balance of MYR232.5mn lower q/q to MYR209.5mn. Note that NCL has a further MYR120.6mn in restricted cash held at banks. Despite gross borrowings falling 12% q/q to MYR1.6bn, due to the decrease in cash balance, net gearing worsened from 95% (end-2015) to 102% (end-1Q2016). NCL has about MYR483.0mn in short-term debt. These are mostly secured financing relating to the construction of vessels for delivery as well as the financing of BTS vessels. Order book remains stable at MYR1.1bn (end-2015: MYR1.2bn) with deliveries schedule up till 2018. Looking forward, it would be key for NCL to monetize the BTS vessels sitting in its inventory in order to generate cash flows. We will continue to hold NCL’s Issuer Profile at Negative given the continued soft demand for OSVs due to lower upstream activity and oversupply of OSVs in the market. (Company, OCBC)

Credit Headlines:

Yanlord Land Group Ltd (“Yanlord”): Yanlord reported a strong set of 1Q2016 results with the company benefiting from the robust residential demand from loose policies in the upper tier cities in China. Revenue was up 182% y/y to RMB2.85bn while EBITDA was up 171% y/y to RMB745.1mn due to an increase in GFA delivered and a greater proportion of higher priced projects delivered in Shanghai. However, EBITDA margins weakened to 26% from 27% due to high land costs. Momentum in contracted sales continued into 1Q2016 with contracted sales up 255% y/y to RMB10.07bn. All this drove an improvement in Yanlord’s credit metrics with the company turning into a net cash position of RMB100mn due to high cash levels of RMB16.5bn from strong pre-sales collections and a ~RMB2bn reduction in gross debt to RMB16.4bn during the quarter. We maintain our positive issuer profile on Yanlord but have recently moved to neutral on the YLLGSP 6.2% '17s (yield:3.88%, i-spread:243bps) on valuations having tightened tremendously over the past year or so (i-spread was 737bps at one point in early 2015). (Company, OCBC)

Ezion Holdings (“EZI”): 1Q2016 results showed revenue falling 8.9% y/y to USD82.1mn. On a q/q basis, the decline in revenue was more muted at 3.1%. Revenue declined due to the lack of certain logistics project revenue contribution from Australia. Liftboat and drilling rig utilization was also lower due to downtime related to modifications as well as routine class surveys. We believe that the continued slump in upstream O&G activities may have also impacted utilization rates. COGS jumped 26.3% y/y to USD12.8mn, driven by the deployment of additional service rigs. This led to sharp gross margin compression with the quarter generating a gross margin of 25.2% (1Q2015: 46.1%). Operating profit was boosted by a gain (USD13.1mn) realized from the completion of an asset held for sale (we believe this could be one of the two liftboats that EZI highlighted for divestment in previous periods). However, EZI generated some FX losses (USD14.6mn) on its SGD bond liabilities when the USD weakened against the SGD through 1Q2016. In aggregate, the above factors, coupled with higher financing costs due to increase in borrowings, drove net profit 62.2% lower to USD15.5mn y/y. The firm was able to generate operating cash flow (including interest service) of USD22.6mn and ~USD1.0mn in free cash flow. EZI also reduced gross debt by USD 28.5mn by drawing on its cash balance. Net gearing remained stable q/q at 112% (end-2015: 110%). EZI has about USD387.9mn in short-term debt, with the majority being vessel financing, compared to USD206.3mn in cash. We will continue to hold EZI’s Issuer Profile at Negative given the still challenging conditions for drilling assets. We believe it could take some time before utilization and charter rates improve. (Company, OCBC)

Pacific Radiance (“PACRA”): For 1Q2016, PACRA generated USD18.4mn in revenue, which was 41.8% lower y/y. The main driver was weakness in its OSV chartering segment, which saw revenue plunge USD11.6mn y/y to USD17.0mn for the quarter. The OSV chartering business faces intense competition due to fewer contracts as a result of lower upstream O&G activities, as well as oversupply. As a result, utilization and charter rates have both been pressured. PACRA’s small subsea division also remains challenged. Due to poor utilization and fixed costs, PACRA generated gross losses for the quarter of USD1.3mn (4Q2015: gross loss of USD3.4mn). Though PACRA was able to trim SG&A expenses by 9.8% y/y to USD5.4mn, FX losses weighed on performance. Finance costs was also higher on additional borrowings. This led to PACRA generating a net loss of USD6.9mn for the quarter. PACRA generated negative USD15.1mn in operating cash flow for the quarter, driven by USD11.3mn in working capital needs as well as USD3.6mn interest service. This, coupled with USD42.6mn in capex (they took delivery of two vessels during the quarter), drove PACRA to generate USD57.7mn in negative free cash flow. The cash gap was financed by ~USD48mn in borrowings (mainly vessel financing). Gross borrowings increased as well due to the step up acquisition of Aztec Offshore (resulting in the consolidation of the target’s debt on PACRA’s balance sheet). In total, gross borrowings increased by 17% q/q to USD466.9mn. This drove net gearing higher from 85% (end-2015) to 105% (end-1Q2016). PACRA currently has about USD110.0mn in short-term debt (mainly the amortizing part of vessel financing), compared to a cash balance of USD32.7mn. Given the challenging outlook for OSVs pressuring operating cash flow, and some additional committed capex due for the rest of 2016, we expect free cash flow to remain negative, which would in turn pressure PACRA’s credit profile. As such, we will retain PACRA’s Issuer Profile at Negative. (Company, OCBC)

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