

Apr 15, 2016

**Market Commentary:** The SGD swap curve bear-flattened yesterday, with the short-end rates trading 11bps–14bps higher, while belly-to-long-end rates traded 6bps–8bps higher. Flows in the SGD corporates space were heavy, where we saw better buyers of STANLN 4.4%’26s, CENCHI 6.5%’17s, better sellers of FCL 5%’49s, FCL 4.88%’49s, NOLSP 4.4%’19s, and mixed interest in GENSSP 5.125%’49s, TATSP 4.5%’18s, SCISP 4.75%’49s, HACLSP 6.5%’19s and ABNAV 4.75%’26s. In the broader dollar space, the spread on the JACI IG corporates tightened 1 bps to 229bps while the yield on the JACI HY corporates decreased by 5bps to 7.46%. 10y UST yield increased by 3bp to 1.79%.

**New Issues:** Kia Motors priced a two-part deal, with the USD400mn 5-year tranche priced at CT5+145bps and the USD300mn 10-year tranche priced at CT10+152.5bps. The initial guidance for the tranches were CT5+170bps and CT10+185bps respectively. The expected rating for the issue is “A-/Baa1/NR”. Frasers Centrepoint Ltd priced a SGD250mn 10-year bond at 4.25%, tightening from an initial guidance of 4.30%. There is no expected rating for the issue. Hungary priced a CNH1bn 3-year bond at 6.25%, tightening from an initial guidance of 6.5%. The expected rating for the issue is “BB+/Ba1/BB+”. BOC Aviation has scheduled for investor meetings for a possible USD bond issue starting today in Singapore and Hong Kong. Hong Kong Electric Co. has mandated four banks for a potential USD bond with investor meetings scheduled over April 18-20.

**Rating Changes:** Moody’s has revised the rating outlook on five Korean banks to negative from stable. They are Daegu Bank Ltd, KEB Hana Bank, Kyongnam Bank, Shinhan Bank and Busan Bank. On the same note, Moody’s changed Jeonbuk Bank’s rating outlook to stable from positive. The rating action reflects Moody’s expectation that a more challenging operating environment for banks in Korea in 2016 will pressure banks’ asset quality and profitability.

**Table 1: Key Financial Indicators**

	15-Apr	1W chg (bps)	1M chg (bps)		15-Apr	1W chg	1M chg
iTraxx Asiax IG	137	-10	-4	Brent Crude Spot (\$/bbl)	43.84	11.18%	10.90%
iTraxx Sovx APAC	56	-4	-11	Gold Spot (\$/oz)	1,229.05	-0.94%	-0.38%
iTraxx Japan	74	-12	-6	CRB	174.77	4.76%	2.16%
iTraxx Australia	134	-4	-2	GSCI	339.67	7.41%	4.89%
CDX NA IG	79	-3	-10	VIX	13.72	-15.10%	-18.53%
CDX NA HY	103	1	1	CT10 (bp)	1.785%	6.82	-18.50
iTraxx Eur Main	72	-7	-5	USD Swap Spread 10Y (bp)	-14	-3	1
iTraxx Eur XO	311	-25	-18	USD Swap Spread 30Y (bp)	-47	-2	2
iTraxx Eur Snr Fin	88	-13	6	TED Spread (bp)	41	1	9
iTraxx Sovx WE	27	-1	-2	US Libor-OIS Spread (bp)	25	-1	2
iTraxx Sovx CEEMEA	135	-17	-35	Euro Libor-OIS Spread (bp)	10	0	-2
					15-Apr	1W chg	1M chg
				AUD/USD	0.769	1.77%	3.17%
				USD/CHF	0.967	-1.33%	2.29%
				EUR/USD	1.127	-1.16%	1.64%
				USD/SGD	1.363	-1.01%	1.34%
Korea 5Y CDS	62	-5	-1	DJIA	17,926	2.19%	3.91%
China 5Y CDS	119	-7	-2	SPX	2,083	2.00%	3.32%
Malaysia 5Y CDS	147	-9	-15	MSCI Asiax	512	3.06%	5.20%
Philippines 5Y CDS	97	-8	-8	HSI	21,338	5.29%	5.17%
Indonesia 5Y CDS	197	-11	-7	STI	2,914	3.57%	2.62%
Thailand 5Y CDS	123	-8	-12	KLCI	1,724	-0.03%	1.94%
				JCI	4,815	-1.08%	-0.72%

Source: OCBC, Bloomberg

**Table 2: Recent Asian New Issues**

Date	Issuer	Ratings	Size	Tenor	Pricing
14-Apr-16	Kia Motors	A-/Baa1/NR	USD400mn	5-year	CT5+145bps
14-Apr-16	Kia Motors	A-/Baa1/NR	USD300mn	10-year	CT10+152.5bps
14-Apr-16	Frasers Centrepoint Ltd	NR/NR/NR	SGD250mn	10-year	4.25%
14-Apr-16	Hungary	BB+/Ba1/BB+	CNH1bn	3-year	6.25%
13-Apr-16	China Vanke Co Ltd	BBB/Baa2/BBB+	HKD1.375bn	3-year	2.5%
13-Apr-16	Central Nippon Expressway Co Ltd	NR/A1/NR	USD250mn	5-year	3mL+107bps
13-Apr-16	Central Nippon Expressway Co Ltd	NR/A1/NR	USD350mn	5-year	CT5+107bps
13-Apr-16	Sunshine Life Insurance Corporation	NR/Baa1/NR	USD500mn	3-year	CT3+165bps

Source: OCBC, Bloomberg

**Rating Changes (cont'd):** On the other hand, Moody's downgraded Woori Bank to "A2" from "A1". Woori Bank's baseline credit assessment ("BCA") was lowered to "baa3" from "baa2". This is due to deteriorating financial metrics, with the CET1 ratio declining. Outlook is negative. Moody's has also affirmed the credit ratings of Citibank Korea Inc; Industrial Bank of Korea (IBK); Jeju Bank; Korea Development Bank (KDB); KDB Asia Ltd.; Kookmin Bank; Korea Securities Finance Corporation (KSFC); NongHyup Bank; and Suhyup Bank. The rating outlooks for these banks remain stable. Moody's downgraded Binhai Investment Co Ltd ("BICL") corporate family rating to "Ba1" from "(P)Baa3", reflecting the fact that BICL's ratings no longer incorporate one-notch of uplift based on likely support from its parent and largest gas customer, Tianjin TEDA Investment Holdings. Outlook is negative. Fitch initiated a rating on Shaoxing City Investment Group Ltd at "BBB+".

## Credit Headlines:

**Perennial Real Estate Holdings ("PREH"):** PREH has filed applications to wind up Capitol Investment Holdings Pte, Capitol Retail Management Pte and Capitol Hotel Management Pte. These entities collectively own 50% of the Capitol Singapore development. The application is based on disagreements between PREH and the other shareholder (Chesham Properties Pte) resulting in PREH proposing to either sell its stake, buy out Chesham Properties Pte Ltd or have existing shareholders sell the entire project. This news is unlikely to impact our current issuer profile rating of 'Neutral' on PREH. (OCBC, Company)

**Golden Agri Resources Ltd ("GGR"):** Indonesia's Commission for the Supervision of Business Competition ("KPPU") has announced that it will investigate Palm Oil Pledge Group (IPOP) on possible anti-competition concerns. IPOP is an industry group set up in September 2014 that aims to advance Indonesia's sustainable palm oil agenda. Companies that are part of IPOP include GGR, Wilmar International Ltd, Cargill, Asian Agri, Musim Mas, and Astra Agro Lestari. For now, there is insufficient information to determine the financial impact on the issuers under our coverage. We expect further discussions to be carried out between the relevant ministries and agencies as the immediate next course of action given that the issue concerns divergent policy aims of the country. (Company, OCBC)

**Ezra Holdings Limited ("EZRA"):** EZRA reported 2QFY2016 results (ending Feb 2016). EZRA generated a huge net loss of USD282.6mn, driven by several impairments and provisions taken during the quarter. EZRA took USD18.1mn loss on the disposal of assets, USD60.5mn impairment loss on its PSV fleet, and USD38.3mn in losses from JVs and Associates (including Perisai). EZRA also took USD67.5mn in write offs in bad debt as well as provisions for doubtful debts. These losses are non-cash, but total ~USD185mn for the quarter. Total borrowings increased by 7% q/q to USD1294mn, due to cash needs arising from the negative FCF of ~USD 131mn during the quarter. Coupled with the losses generated during the quarter, net gearing worsened sharply from 81% (end-1QFY2016) to 110% (end-2QFY2016). Though the Chiyoda JV has been completed, it was done end-March 2016, and will only be reflected in the 3QFY2016 results. Management reported that the group's order backlog is currently ~USD1.5bn. The OSV chartering business remains very challenged with utilization at ~50% while leases remain under pressure. EZRA have announced that they are seeking to divest the two FPSOs that they currently own. We are currently reviewing EZRA's Issuer Profile rating (currently at Negative). (Company, OCBC).

## Credit Headlines:

**Keppel REIT ("KREIT"):** The issuer reported 1Q2016 results. Property income declined 2.9% y/y to SGD41.2mn while NPI fell 4.8% y/y to SGD32.9mn. The declines were driven by the divestment of the 77 King Street office asset in Sydney on 29/01/16. Excluding this, management reported that property income was up 2.5% y/y while NPI was up 1.6% y/y, despite the challenging domestic office market. Committed portfolio occupancy improved to 99.4%, compared to 99.3% as of end-2015 and 99.3% as of end-1Q2015. KREIT pegged Singapore's core CBD occupancy at 95.2%, and believes 2016 and 2017 will be challenging given the looming office supply. KREIT was also able to manage its 2016 lease expiry well, reducing the outstanding leases expiring in 2016 from 13.6% (end-2015, based on NLA) to 3.2% (end-1Q2016). Tenant retention was 99%, while average rental reversion was +7% for new and renewal leases. Rental reversion was softer relative to the +13% seen in 2015 though, reflecting the oversupply in office space. KREIT has 3.2% of NLA left expiring in 2016, and 11.5% for 2017. Management is confident of retaining the tenants for most of these leases as they are in their first renewal cycle. They have also initiated discussions with tenants with leases expiring in 2018 (7.5% of NLA). WALE remains unchanged at ~8 years compared to end-2015. Aggregate leverage improved slightly from 39.3% (end-2015) to 39.0% (end-1Q2016). Proportion of fixed rate debt increased to 75% (2015: 70%), while interest coverage remained steady at 4.5x (2015: 4.4x). Cost of debt increased 8bps though q/q to 2.58%. KREIT has no refinancing needs till 2H2017 (refinanced the 2016 and some 2019 maturities during 1Q2016 with a SGD126mn T/L, pushing the maturities to 2021). In total, though KREIT's aggregate leverage is slightly higher compared to peers, underlying portfolio performance has been strong. We do not currently cover KREIT (Company, OCBC).

**Capitaland Commercial Trust ("CCT"):** The issuer reported 1Q2016 results. Gross revenue declined 1.9% y/y to SGD66.9mn while NPI fell 3.6% y/y to SGD52.0mn. Gross revenue was weighed down by lower occupancies at Capital Tower (property gross revenue lower 8.8% y/y) and Golden Shoe Car Park. NPI was squeezed by higher property tax (+9.3% y/y due to higher portfolio values). Distributable income ended 3.3% higher y/y, driven by stronger contributions from JVs (due to the ramping up of CapitaGreen). CCT was also able to improve committed portfolio occupancy rates from 97.1% (end-2015) to 98.1% (end-1Q2016), including improvements at Capital Tower (which saw committed occupancy increase from 92.2% as at end-3Q2015 to 98.1% as at end-1Q2016). That said, though CCT managed to get positive rental reversions for most of the leases committed in 1Q2016, we note that the lower end of the range of leases committed at Capital Tower (SGD7.70psf) was lower than Cushman & Wakefield's as well as Knight Frank's sub-market comparative rents of SGD7.92psf and SGD8.20psf respectively. CCT has already managed to reduce its office lease expiry in 2016 by 7ppt to just 8% of portfolio NLA. The q/q incremental reduction in 2016 lease expiries though was only 2%. WALE has also worsened slightly though from 7.5 years (end-2015) to 7.3 years (end-1Q2016). 2017 lease expiries look manageable at 13% of NLA. Aggregate leverage has worsened slightly from 29.5% (end-2015) to 30.1% (end-1Q2016), driven by the HKD585mn bond issue done during the quarter (this was opportunistic to lock in long-dated low rate debt). CCT originally had about SGD626mn due in 2016 and these debts all relate to its Raffles City JV. CCT has announced that it and Capitaland Mall Trust have refinanced the Raffles City borrowings with a SGD1.07bn unsecured loan facility. Interest coverage for CCT remains healthy at 7.4x. We will hold CCT's Issuer Profile rating at Neutral (Company, OCBC).

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