

September 15, 2016

Credit Headlines (Page 2 onwards): Otto Marine Limited, Marco Polo Marine Ltd., Perennial Real Estate Holdings

Market Commentary: The SGD dollar swap curve traded upwards yesterday with swap rates trading 1-6bps higher across all tenors with the exception of shorter term rates (<1Y) which traded ~1bps lower. Flows in the SGD corporates were significantly heavier with better buying seen in STANLN 4.4%'26s and ANZ 3.75%'27s. Better selling were seen in ABNANV 4.75%'26s and MFCCN 3.85%'26s while mixed interests were seen in OCBCSP 4%'49s, FCLSP 5%'49s, SCISP 4.75%'49s and ABNANV 4.7%'22s. In the broader dollar space, the spread on JACI IG corporates increased 2bps to 200bps while the yield on JACI HY corporates increased 6bps to 6.51%. 10y UST yield decreased 3bps to 1.69% as the past week's selloff created a lower cost buying opportunity for investors.

New Issues: State Bank of India has priced a USD300mn Perp-NC5 AT1 bond at 5.5%. The ratings for the issue are "B+/B1/NR". Hon Hai Precision Industry Co. Ltd. has priced a two-tranche deal with the USD600mn 5-year bond priced at CT5+110bps, tightening from its initial guidance at CT5+130bps while the other tranche of USD400mn 10-year bonds was priced at CT10+140bps, tightening from its initial guidance at CT10+160bps. The expected issue ratings are "A-/NR/NR". Goodman Australia has scheduled investor meetings from 19 September, 2016 onwards for potential USD bond issuance. Dongxing Voyage scheduled investor meetings from today onwards for potential USD bond issuance.

Rating Changes: Moody's has placed Shanghai International Port (Group) Co. Ltd.'s (SIPG) "A1" rating on review for downgrade following SIPG's announced investment in Postal Savings Bank of China Co. Ltd.. The acquisition is expected to be debt-funded, representing a significant investment for SIPG, with consideration amount of around USD2.4bn adding approximately 70% to SIPG's debt load.

Table 1: Key Financial Indicators

	15-Sep	1W chg (bps)	1M chg (bps)		15-Sep	1W chg	1M chg
iTraxx Asiax IG	114	7	1	Brent Crude Spot (\$/bbl)	46.08	-7.82%	-4.69%
iTraxx SovX APAC	39	3	-5	Gold Spot (\$/oz)	1,322.96	-1.15%	-1.23%
iTraxx Japan	54	1	1	CRB	179.49	-1.63%	-3.05%
iTraxx Australia	100	5	-2	GSCI	346.47	-1.62%	-3.66%
CDX NA IG	77	6	7	VIX	18.14	51.93%	53.60%
CDX NA HY	103	-1	-2	CT10 (bp)	1.694%	9.51	13.65
iTraxx Eur Main	70	4	4	USD Swap Spread 10Y (bp)	-17	-2	-5
iTraxx Eur XO	329	25	25	USD Swap Spread 30Y (bp)	-56	-2	-6
iTraxx Eur Snr Fin	91	6	4	TED Spread (bp)	51	0	-4
iTraxx Sovx WE	25	1	2	US Libor-OIS Spread (bp)	41	2	2
iTraxx Sovx CEEMEA	106	4	-8	Euro Libor-OIS Spread (bp)	4	1	-1
					15-Sep	1W chg	1M chg
				AUD/USD	0.748	-2.16%	-2.55%
				USD/CHF	0.973	-0.07%	-0.04%
				EUR/USD	1.125	-0.12%	0.55%
				USD/SGD	1.364	-0.90%	-1.52%
Korea 5Y CDS	42	3	-2	DJIA	18,035	-2.65%	-3.23%
China 5Y CDS	101	7	-2	SPX	2,126	-2.76%	-2.94%
Malaysia 5Y CDS	123	10	0	MSCI Asiax	540	-3.88%	-1.46%
Philippines 5Y CDS	95	11	6	HSI	23,191	-2.32%	1.13%
Indonesia 5Y CDS	147	11	4	STI	2,809	-3.01%	-2.02%
Thailand 5Y CDS	84	7	-4	KLCI	1,661	-1.69%	-1.71%
				JCI	5,146	-4.21%	-3.28%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
14-Sep-16	State Bank of India	"B+/B1/NR"	USD300mn	Perp-NC5	5.5%
14-Sep-16	Hon Hai Precision Industry Co. Ltd.	"A-/NR/NR"	USD600mn	5-year	CT5+110bps
14-Sep-16	Hon Hai Precision Industry Co. Ltd.	"A-/NR/NR"	USD400mn	10-year	CT10+140bps
13-Sep-16	Westpac Banking Corp.	"AA-/Aa2/NR"	AUD1bn	1-year	BBSW+43bps
13-Sep-16	Industrial Bank Co. Ltd. (Hong Kong)	"NR/Baa2/NR"	USD700mn	3-year	CT3+113bps
13-Sep-16	Industrial Bank Co. Ltd. (Hong Kong)	"NR/Baa2/NR"	USD300mn	5-year	CT5+125bps
12-Sep-16	Emperor International Holdings	"NR/NRNR"	USD200mn	5-year	4%
9-Sep-16	Housing and Development Board	"NR/Aaa/NR"	SGD600mn	10-year	2.04%

Source: OCBC, Bloomberg

Credit Headlines:

Otto Marine Limited (“OTML”): The EGM for approval of the delisting resolution was held on 14/09/16, with 98.11% of shareholders voting for the motion to delist. As mentioned previously, the exit offer would remain open to shareholders till 30/09/16. As a reminder, it should be noted that OTML will proceed with the delisting, regardless of the level of acceptance of the exit offer by minority shareholders. Note that there will be the mandatory redemption of the bonds within 14 days of the delisting date. (Company, OCBC)

Marco Polo Marine Ltd (“MPM”): MPM held an informal bondholder’s meeting on 13/09/16, for KMPG to provide an independent business review of MPM to noteholders, as well as to explore various options with regards to the maturity of the bonds due 18/10/16. The board of directors have informed shareholders and noteholders that MPM seeks to extend the maturity of the bonds, via a consent solicitation. The tentative terms of the extension have been privately briefed to noteholders, with the adjourned informal meeting to resume on 16/09/16 to obtain feedback. MPM indicated that noteholders present were generally supportive. More details are likely to be disclosed post the meeting on the 16/09/16. OCBC does not currently cover MPM. (Company)

Perennial Real Estate Holdings (“PREH”): PREH has announced that it has entered into an investment agreement to acquire a 49.9% equity interest in Shanghai RST Chinese Medical (“Renshoutang”), the largest integrated eldercare services operator in Shanghai (with 11 facilities and over 2,400 beds). This would be via a capital injection, with PREH becoming the single largest shareholder in Renshoutang, followed by Dr Feng Qiang, the founder of Renshoutang. Before the transaction, PREH had already entered into a MOU for a 40:40:20 JV with Shanghai Summit Property Development Limited and Renshoutang in January 2016 to operate Chengdu Xiehe International Healthcare and Retirement Home at Chengdu East High Speed Railway Integrated Development Plot D2 (a 50:50 JV development between PREH and Shanghai Summit). PREH will be paying ~SGD148mn for the Renshoutang stake, which was 12.9x Renshoutang’s 2015 EBITDA. The transaction is expected to close in 1Q2017, with PREH funding the acquisition with internal funds and borrowings. As of end-2Q2016, PREH had SGD190.6mn in cash and about SGD100.8mn in ST borrowings. Adjusting for a SGD50mn bond maturity in July, PREH would still have SGD140.6mn in cash (versus SGD50.8mn in ST borrowings). As such, PREH could potentially need to tap the market for additional funding, particularly given other on-going development work in China. That said, we note that PREH is still in the process of selling strata commercial space in TripleOne Somerset. In addition, it was recently reported that PREH had appointed JLL to market PREH’s stake in two floors of strata offices at AXA Tower, potentially generating ~SGD65mn in proceeds (expressions of interests to be received by 05/10/16). For now, our pro-forma net gearing, adjusted for the acquisition as well as the bond maturity, stands at ~63%, up from the ~59% reported for end-2Q2016. For now, we will continue to hold PREH at Neutral Issuer Profile as the impact of the acquisition on PREH’s balance sheet is minimal and absolute net gearing levels remain fair. PREH is likely to continue to generate negative free cash flow given its developments in China and given the timing uncertainty over the sale of strata assets in Singapore coupled with its development delivery in China, interim liquidity needs could likely be met via additional borrowings, adding some near-term pressure to its credit profile. (Company, OCBC).

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