

June 17, 2016

**Market Commentary:** The SGD swap rates traded downwards significantly yesterday, trading 6-9bps lower across all tenors following the Federal Reserve's decision to hold off raising interest rates in June. Flows in the SGD corporates were heavy with better buying in SOCGEN 4.3%'26s and better selling in GEMAU 5.5%'19s. Meanwhile we also saw mixed interest in UOBSP 4%'49s, MFCCN 3.85%'26s and GENSSP 5.13%'49s. In the broader dollar space, the spread on JACI IG Corporates increased by 4bps to 234bps, while the yield on JACI HY Corporate decreased by 1bps to 7.02%. 10y UST yield increased by 1bps to 1.58% after touching lows not seen since 2012.

**News Issues:** China Development Bank priced a USD1bn 3-year bond at CT3+90bps, tightening from its initial guidance of CT3+105bps. The expected ratings are "AA-/Aa3/NR". Zhongrong International Bond 2016 Ltd. priced a USD500mn 3-year bond at 6.95%, tightening from its initial guidance of 7.15%. The expected ratings are "BB-/NR/NR".

**Rating Changes:** S&P upgraded its credit rating on Barmenco Holdings Pty Ltd. (Barmenco) to "B-" from "SD", and its senior unsecured notes rating to "B-" from "D", following S&P's view that although the totality of the buybacks to date are viewed as a de-facto restructuring, the reduction in debt has somewhat reduced the company's refinancing risk. The outlook is stable. S&P upgraded its credit rating on Victoria Power Networks (Finance) Pty. Ltd. (VPNF) to "A-" from "BBB+" with a stable outlook. The upgrade was in view that VPNF has high cash flow visibility until December 2020 on the back of the regulatory reset decision in May 2016 for both entities and their efficient operating cost base. Together with resetting of interest rate hedges for VPNF's debt portfolio, VPNF's funds from operations (FFO) to debt is likely to be about 12-13% over the next two to three years. S&P has placed Crown Resorts' "BBB" crediting rating on CreditWatch with negative implications. The decision follows Crown's announcement of demerger plans and other potential structural changes. The proposed demerger would reduce Crown's diversification and scale. In the case of successful demerger, S&P would either affirms or cut its rating by one notch. Similarly, the same announcement led to Moody's decision to place Crown Resort's credit rating of "Baa2" on review for downgrade. Fitch revised its rating outlook for Mitsubishi UFJ Financial Group & its subsidiaries, Sumitomo Mitsu Financial Group, Inc. & its subsidiaries, Mizuho Financial Group, Inc. & its subsidiaries, The Shizuoka Bank, Ltd., Nomura Holdings, Inc. (Nomura) & its subsidiaries and Daiwa Securities Group Inc. (Daiwa) & its subsidiaries to negative from stable. At the same time, Fitch also affirmed all credit ratings. The outlook revision for the financial institutions follows the affirmation of Japan's sovereign rating of "A" and its revision of outlook to negative from stable on 13 June, 2016

Table 1: Key Financial Indicators

	17-Jun	1W chg (bps)	1M chg (bps)		17-Jun	1W chg	1M chg
iTraxx Asiax IG	153	8	8	Brent Crude Spot (\$/bbl)	47.19	-9.16%	-3.63%
iTraxx SovX APAC	54	1	1	Gold Spot (\$/oz)	1,281.29	0.55%	0.18%
iTraxx Japan	70	1	-1	CRB	188.89	-3.19%	2.33%
iTraxx Australia	135	8	4	GSCI	367.81	-5.15%	0.04%
CDX NA IG	83	4	1	VIX	19.37	32.31%	31.95%
CDX NA HY	102	-1	0	CT10 (bp)	1.579%	-10.79	-17.45
iTraxx Eur Main	87	9	8	USD Swap Spread 10Y (bp)	-13	-1	0
iTraxx Eur XO	379	45	52	USD Swap Spread 30Y (bp)	-50	-2	-2
iTraxx Eur Snr Fin	114	12	15	TED Spread (bp)	39	-2	3
iTraxx Sovx WE	30	3	5	US Libor-OIS Spread (bp)	27	1	5
iTraxx Sovx CEEMEA	136	10	1	Euro Libor-OIS Spread (bp)	9	1	1
					17-Jun	1W chg	1M chg
				AUD/USD	0.737	0.00%	0.66%
				USD/CHF	0.966	-0.07%	1.54%
				EUR/USD	1.124	-0.14%	-0.69%
				USD/SGD	1.349	0.85%	1.53%
Korea 5Y CDS	63	2	-1	DJIA	17,733	-1.40%	0.13%
China 5Y CDS	130	5	3	SPX	2,078	-1.77%	0.55%
Malaysia 5Y CDS	171	8	15	MSCI Asiax	488	-2.90%	1.60%
Philippines 5Y CDS	118	5	5	HSI	20,038	-5.91%	-0.40%
Indonesia 5Y CDS	199	4	11	STI	2,752	-3.24%	-1.06%
Thailand 5Y CDS	120	1	-4	KLCI	1,615	-2.16%	-1.13%
				JCI	4,814	-1.28%	1.80%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
16-June-16	China Development Bank	AA-/Aa3/NR	USD1bn	3-year	CT3+90bps
16-June-16	Zhongrong International Bond 2016 Ltd.	BB-/NR/NR	USD500mn	3-year	6.95%
13-June-16	Biostime International Holdings Ltd.	BB-/Ba3/NR	USD400mn	5NC2	7.25%
10-June-16	QBE Insurance Group Ltd.	BBB-/NR/BBB	USD524mn	30NC10	5.88%
13-June-16	Fraser Centrepoint Trust	NR/BBB+/NR	SGD50mn	5-year	2.76%
10-June-16	Hua Han Health Industry Holdings Ltd.	BB-/Ba3/BB-	USD150mn	3-year	7%
8-June-16	Samvardhana Motherson Automotive	BB+/NR/NR	USD300mn	5NC3	4.875%
8-June-16	Sultanate of Oman	BBB-/Baa1/NR	USD1bn	7-year	MS+245bps

Source: OCBC, Bloomberg

## Credit Headlines:

Century Sunshine Group (“CSG”): Like in the past, management has voluntarily disclosed some key operational data regarding 1Q2016 quarter performance. They specifically disclosed performance data regarding their fertilizer segment and magnesium products segment. In aggregate, these businesses generated 86% of CSG’s total revenue for the quarter. On a y/y basis, fertilizer volumes were up 10.7% to 140,809 tonnes while magnesium product volumes were up 31.9% to 5,083 tonnes. On an annualized basis though, both segments saw lower volume relative to 661,748 tonnes of fertilizer and 24,031 tonnes of magnesium products sold for the whole of 2015. This could potentially be driven by seasonal factors. In terms of average selling price (“ASP”), both segments were pressured, with fertilizer ASP falling 12.7% y/y to HKD 2,123 per tonne while magnesium products falling harder at 16.7% y/y to HKD24,424 for the quarter. Management indicated that the depreciation of the CNY (CSG’s operational currency) against the HKD (CSG’s reporting currency) played a part, and that the ASP of the commoditized products under the two segments were also pressured. In aggregate, total revenue for these two segments were HKD423.0mn, flat y/y relative to HKD422.1mn (1Q2015). We are concern over the deceleration of top line growth, though we acknowledge that the general slowdown in China would have impacted demand for CSG’s products. For example, the magnesium products segment sells to the automotive industry. On a y/y basis, group gross margins fell slightly from 30.2% (1Q2015) to 28.7% (1Q2016). This was driven by margin compressions for both business segments, with fertilizer margins falling 50bps to 26.5% and magnesium products segment falling 170bps to 28.7%. When compared to 2015 full-year margins though, the compression was much sharper at -140bps for the fertilizer segment and -500bps for the magnesium products segment. Again, the margin compression could be due to 1Q seasonal factors. That said, we are cognizant of the weakness seen in both revenue growth and gross margins, and will observe the situation closely going forward. For now though, we are comfortable reiterating our Neutral Issuer Profile for CSG and remain Overweight on the CENSUN’18s given the attractive carry of 6.5% (YTM) for short-dated paper. As mentioned in the past, the key risk to CSG’s credit profile remains inorganic growth. (Company, OCBC)

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