Asian Credit Daily

OCBC Bank

November 17, 2016

Credit Headlines (Page 2 onwards): Rickmers Maritime Trust, Keppel Corp Ltd. & Kris Energy Ltd., CIMB Group Holdings

Market Commentary: The SGD swap curve steepened yesterday with shorter-term rates (<2Y) trading 1-3bps lower while the middle-to-longer term rates traded 1-3bps higher across the rest of the tenors. Flows in the SGD corporates were moderate with two-way flow seen in UOBSP 4%'49s, SCISP 4.75%'49s, ARTSP 4.205%'22s and OUESP 3.8%'20s. In the broader dollar space, the spread on JACI IG corporates decreased 3bps to 199bps while the yield on JACI HY corporates was steady at 6.87%. 10y UST yield remained relatively unchanged at 2.21% (-1bps) as the market seems to have more or less stabilized after assessing the potential impact following the unexpected presidential election results.

New Issues: Fosun International has priced a USD290mn re-tap of its existing 5.5%'23s bond at 5.35%, tightening from its initial guidance of 5.5%. The expected issue ratings are "BB/NR/NR". Australia & New Zealand Banking Group Ltd. has priced a 4-tranche deal with the USD900mn 3-year bond priced at CT3+80bps, USD850mn 5-year bond at CT5+90bps, USD850mn 3-year bond at 3mL+66bps and USD400mn 5-year bond at 3mL+87bps. The expected issue ratings are "AA-/Aa2/NR". Ping An Real Estate Capital Ltd. has scheduled investor road shows from 17 November onwards for a potential USD bond issue. China Aluminum International has scheduled investor road shows from 17 November onwards for a potential USD bond issue with expected issue ratings of "BB/NR/NR".

Rating Changes: Moody's affirmed FWD Ltd's "Baa2" issuer rating and revised its outlook to negative from stable. The outlook revision reflects Moody's view that the benefits to holding company creditors from diversification through ownership of FWD General Co. Ltd., the non-life insurance subsidiary of FWD Ltd., through contributions of dividends, has become less evident relative to the Group's financial obligations.

Table 1: Key Financial Indicators

	17-Nov	1W chg (bps)	1M chg (bps)		17-Nov	1W chg	1M chg
iTraxx Asiax IG	129	5	11	Brent Crude Spot ($/bbl)	46.63	0.58%	-10.24%
iTraxx SovX APAC	44	5	9	Gold Spot ($/oz)	1,227.32	-2.53%	-2.27%
iTraxx Japan	56	1	1	CRB	182.34	-0.66%	-3.76%
iTraxx Australia	111	7	6	GSCI	357.56	0.28%	-4.81%
CDX NA IG	75	0	-1	VIX	13.72	-26.79%	-14.89%
CDX NA HY	104	0	0	CT10 (bp)	2.203%	5.29	43.70
iTraxx Eur Main	79	4	6	USD Swap Spread 10Y (bp)	-14	-1	3
iTraxx Eur XO	344	8	8	USD Swap Spread 30Y (bp)	-55	2	1
iTraxx Eur Snr Fin	102	6	3	TED Spread (bp)	42	-5	-17
iTraxx Sovx WE	21	2	1	US Libor-OIS Spread (bp)	35	-3	-6
iTraxx Sovx CEEMEA	104	9	9	Euro Libor-OIS Spread (bp)	4	0	-1
					17-Nov	**1W chg**	**1M chg**
				AUD/USD	0.749	-1.60%	-1.81%
				USD/CHF	1.001	-1.42%	-1.20%
				EUR/USD	1.071	-1.71%	-2.66%
				USD/SGD	1.414	-0.15%	-1.72%
Korea 5Y CDS	52	3	10	DJIA	18,868	1.50%	4.02%
China 5Y CDS	119	2	11	SPX	2,177	0.63%	2.06%
Malaysia 5Y CDS	170	34	46	MSCI Asiax	516	-3.48%	-5.15%
Philippines 5Y CDS	130	11	10	HSI	22,281	-0.60%	-3.29%
Indonesia 5Y CDS	184	14	30	STI	2,794	0.15%	-0.82%
Thailand 5Y CDS	95	-3	-5	KLCI	1,628	-1.21%	-1.58%
				JCI	5,185	-4.23%	-4.16%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
16-Nov-16	Fosun International (Re-Tap)	"BB/NR/NR"	USD290mn	5.5%'23s	5.35%
16-Nov-16	Australia & New Zealand Banking Group	"AA-/Aa2/NR"	USD900mn	3-year	CT3+80bps
16-Nov-16	Australia & New Zealand Banking Group	"AA-/Aa2/NR"	USD850mn	5-year	CT5+90bps
16-Nov-16	Australia & New Zealand Banking Group	"AA-/Aa2/NR"	USD850mn	3-year	3mL+66bps
16-Nov-16	Australia & New Zealand Banking Group	"AA-/Aa2/NR"	USD400mn	5-year	3mL+87bps
15-Nov-16	Housing & Development Board	"NR/Aaa/NR"	SGD900mn	5-year	2.2%
15-Nov-16	Doosan Infracore Co.	"AA/NR/NR"	USD300mn	3-year	CT3+115bps
15-Nov-16	China Huarong Asset Management	"BBB+/NR/A"	USD1bn	5-year	CT3+170bps
15-Nov-16	China Huarong Asset Management	"BBB+/NR/A"	USD1.35bn	10-year	CT5+200bps

Source: OCBC, Bloomberg

Rating Changes (cont'd): Moody's assigned a "Baa2" issuer rating to China National Chemical Corporation (ChemChina) with a negative outlook. ChemChina's rating reflects its baseline credit assessment (BCA) of "ba3" and a four-notch uplift, based on Moody's expectation of strong support from the Chinese government to the company in times of financial distress. Fitch assigned Chengdu Xingcheng Investment Group (CXIG) first-time issuer ratings of "BBB+" with a stable outlook. The rating assignment reflects the 100% municipality ownership of the entity, which shows a strong government oversight of CXIG's financials, and the strategic importance of the entity's operation to the municipality. These factors result in a high likelihood of the government providing extraordinary support to the entity.

Credit Headlines:

Rickmers Maritime Trust ("RMT"): RMT announced that it was unable to pay SGD4.26mn in coupons due on 15/11/16. The issuer has a grace period of 5 business days from the date of the coupon to make payment, and if RMT fails to do so it would constitute an Event of Default. The Event of Default could trigger cross default clauses on RMT's other debt facilities, resulting in an acceleration of repayments of those facilities. The issuer is currently negotiating standstill agreements / waivers with its senior lenders over the matter. The first attempt to restructure its bonds was hampered by the lack of quorum, with the next attempt to be held at earliest on 23/11/16. Bondholders will be given at least 10 days' notice before the next meeting. Given the uncertain outcome of discussions with senior lenders as well as noteholders, RMT was unable to demonstrate that it will be able to continue as a going concern. As such, management has requested for a trading halt on the shares and notes till the going concern issue has been resolved. OCBC credit research does not currently cover RMT. (Company)

Keppel Corp Ltd. ("KEP"), Kris Energy Ltd. ("KRIS", 40% owned by KEP): KRIS has formally announced its consent solicitation exercise to restructure its SGD130mn KRISSP'17s and SGD200mn KRISSP'18 bonds. Some terms were sweetened compared to the original terms. Though the extension to the bonds' maturities remains 5 years (to 2022 and 2023), the coupon on the bonds is now proposed to be 2% (cash) + 2% (accrued) for the first 4 coupon payments, and 4% cash coupon for the subsequent coupon payments. This would help alleviate pressure on KRIS liquidity in the short-term. In addition, coupon upside is proposed with 1ppt in additional coupon paid should Brent crude prices exceed USD70/bbl and an additional 1ppt more for every USD10/bbl above USD70/bbl (for a maximum of +3% to the base coupon should Brent crude prices rise above USD90/bbl). In aggregate, KRIS bondholders could see a range of coupons on its restructured bonds, ranging from 4% to a maximum of 7%. This compares with the 5.75% and 6.25% coupons on the KRISSP'17s and KRISSP'18s. In addition, a 50bps early consent fee will be payable to bondholders that give consent before the 29/11/16 early consent deadline. To be clear, there will be no other consent fees. The formal deadline to submit consent would be 7/12/16, while the actual bondholders' meeting will be held on 9/12/16. The maintenance covenants on the bonds will be replaced by incurrence covenants instead (such as preventing KRIS from taking further borrowings should total debt to EBITDA exceed 2.5x). It should be noted that the restructured bonds will have a call option (at the option of the issuer), and that KRIS will not be able to pay dividends to shareholders nor make payments to the new SGD140mn zero coupon secured notes maturing 2024 (to be subscribed to by shareholders such as KEP) while the restructured bonds are outstanding. It should be noted that KRIS indicated that the success of the consent solicitation is needed in order for KRIS to utilize the remaining USD35mn in its bridge commitment to cover the upcoming coupon payments on the KRISSP'17s (coupon due on 9/12/16) and other critical business needs. KRIS had also indicated that any potential defaults or cross defaults arising from the failure of its consent solicitation exercise could lead to KRIS losing its operatorships and petroleum licenses as a result of government confiscation. OCBC credit research does not currently cover KRIS. (Company)

Credit Headlines:

CIMB Group Holdings Berhad ("CIMB"): CIMB's results continue to reflect relatively solid underlying operating performance with 3Q2016 operating income up 5.7% q/q and 7.4% y/y. Excluding a MYR150mn gain on sale of its 51% holding in PT CIMB Sun Life, normalized 3Q2016 operating income improved 1.8% q/q and 3.5% y/y. While normalized y/y growth was supported by broad improvement across all income segments, q/q normalized operating income growth mostly came from 4.0% net interest income growth from a 2.3% increase in gross loans which mitigated a 5bps fall in net interest margins to 2.58% in 3Q2016 due to higher funding costs. Net non-interest income was 3.0% weaker q/q due to higher fee and commission expenses. While overhead expenses increased faster q/q than normalized operating income growth, CIMB's Target 2018 strategy continues to see benefits with YTD overhead expenses down 8.8% and this improved the cost to income ratio to 54.6% for 9M2016 from 56.2% in 9M2015. Allowances are showing signs of stabilizing, rising 10.7% y/y in 3Q2016 but down 10.9% q/q to MYR586mn. Segment wise on a year to date basis, consumer banking continues to drive overall performance with operating income from Consumer Banking up 6.7% y/y for 9M2016 while Commercial Banking and Wholesale Banking improved 3.9% and 2.1% respectively. This marginally improved the contribution of Consumer Banking to overall operating income to 45% for 9M2016 from 43.5% in 9M2015. Solid Consumer Banking contribution also had a positive impact on CIMB's balance sheet with total assets up q/q by 3.8% due largely to loans growth which was driven entirely by 7.8% growth in Consumer Loans. On the funding front, total deposit growth was strong at 8.0% due to 12% growth in Consumer Banking deposits and this lowered CIMB's loan to deposit ratio to 89.8% as at 30 September 2016 from 95.9% as at 30 September 2015. CIMB's Malaysia market loan strong was the strongest relative to its other markets, and given the relatively better risk profile of Malaysia and Consumer Banking, we think this is positive development for CIMB's overall balance sheet strength and future loan quality. Supporting the stabilization in impairment allowances, loan quality ratios have improved with the gross impaired loan ratio falling 20bps y/y to 3.2% as at 30 September 2016 and allowance coverage improving 4.0% to 80.6%. Despite solid earnings generation, capital ratios weakened due to growth in risk weighted assets and total capital levels fell with CET1/CAR ratios as at 30 September 2016 for CIMB Bank of 10.7%/15.4% against 11.5%/15.8% for FY2015 (after deducting proposed dividends). On balance, although capital ratios are weaker the balance sheet has strengthened slightly in our view and underlying earnings trends continue to be solid and in line with the bank's T18 strategy, indicating some success in its implementation. We maintain our issuer profile at neutral. (Company, OCBC)

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