

Feb 18, 2016

**Market Commentary:** The SGD swap curve bear flattened yesterday, with the short-end rates trading 1bp-4bps higher, while the long-end rates traded 5bps lower. In the broader dollar space, JACI IG corporates widened 2bps to 252bps, while the yield on the JACI HY corporates increased by 1bp to 8.39%. 10y UST yield increased by 5bps to 1.82%.

**New Issues:** Philippines sold USD2bn in 25-year bonds at 3.7%, tightening from IPT at the 4% area. This is the first bond issue in in the Asian USD space in 2 weeks. UOB has mandated BNP, Commerzbank, Bank, HSBC, Natixis, UBS and UOB to arrange a series of fixed income investor meetings in Europe starting 22 Feb 2016 for a EUR benchmark covered bond issued.

**Rating Changes:** S&P downgraded Vedanta Resources PLC “B” from “B+”, and placed it on CreditWatch negative. This reflects S&P’s expectation that Vedanta’s financial performance will remain very weak for the next 12-15 months because of weak commodity prices and high debt. Moody’s placed the following companies on review for downgrade, following Moody’s global rating actions on many other energy companies. This is due to Moody’s expectation that there remains substantial risk that oil prices may recover much more slowly over the medium term. The companies placed on review are:

- China National Offshore Oil Corp
- China National Petroleum Corp
- China Petrochemical Corp
- China Petroleum & Chemical Corp
- China Shenhua Energy Co Ltd
- CNOOC Ltd
- Kunlun Energy Co Ltd

**Table 1: Key Financial Indicators**

	18-Feb	1W chg (bps)	1M chg (bps)		18-Feb	1W chg	1M chg
iTraxx Asiax IG	162	-20	4	Brent Crude Spot (\$/bbl)	34.50	11.87%	19.21%
iTraxx Sovx APAC	78	-9	-3	Gold Spot (\$/oz)	1,208.00	-1.34%	10.76%
iTraxx Japan	109	9	22	CRB	162.54	3.81%	1.63%
iTraxx Australia	155	-16	7	GSCI	300.42	7.06%	7.61%
CDX NA IG	118	-7	6	VIX	22.31	-15.94%	-17.43%
CDX NA HY	98	2	0	CT10 (bp)	1.807%	14.78	-22.78
iTraxx Eur Main	108	-17	11	USD Swap Spread 10Y (bp)	-15	2	0
iTraxx Eur XO	433	-53	43	USD Swap Spread 30Y (bp)	-52	2	-4
iTraxx Eur Snr Fin	113	-26	24	TED Spread (bp)	32	1	-7
iTraxx Sovx WE	36	0	17	US Libor-OIS Spread (bp)	23	-2	-1
iTraxx Sovx CEEMEA	188	-14	-35	Euro Libor-OIS Spread (bp)	14	0	3
					18-Feb	1W chg	1M chg
				AUD/USD	0.718	1.90%	4.11%
				USD/CHF	0.993	-2.29%	1.24%
				EUR/USD	1.112	-1.68%	2.14%
				USD/SGD	1.405	-1.04%	2.46%
Korea 5Y CDS	68	-15	-5	DJIA	16,454	2.74%	2.91%
China 5Y CDS	134	-18	5	SPX	1,927	4.03%	2.47%
Malaysia 5Y CDS	178	-33	-39	MSCI Asiax	453	1.96%	0.59%
Philippines 5Y CDS	126	-17	-5	HSI	18,925	-1.89%	-1.63%
Indonesia 5Y CDS	237	-34	-21	STI	2,614	1.23%	0.80%
Thailand 5Y CDS	160	-14	-4	KLCI	1,664	1.21%	2.57%
				JCI	4,766	0.70%	6.34%

Source: OCBC, Bloomberg

**Table 2: Recent Asian New Issues**

Date	Issuer	Ratings	Size	Tenor	Pricing
18-Feb-16	Republic of Philippines	BBB/Baa2/BBB-	USD2bn	25-year	3.7%
2-Feb-16	Export-Import Bank of Korea	AA-/Aa2/AA-	USD400mn	5-year	CT5+87.5bp
2-Feb-16	Westpac Banking Corp.	AA-Aa2/NR	CNH130mn	4-year	5.40%
1-Feb-16	HNA Group	NR/NR/NR	USD35mn	2-year	8.125%
29-Jan-16	Vista Land & Lifescapes Inc.	NR/NR/NR	USD125mn	6-year	7.375%
29-Jan-16	Kookmin Bank	A/A1/A	USD500mn	5-year	MS+95bps
28-Jan-16	China Development Bank Corp (CDB)	AA-/Aa3/A+	USD1bn	4-year	CT4+85bps
28-Jan-16	China Development Bank Corp (CDB)	AA-/Aa3/A+	EUR1bn	2-year	MS+75bps

Source: OCBC, Bloomberg

## Credit Headlines:

Sembcorp Industries ("SCI"): 4Q2015 results show revenue declining 9.2% y/y to SGD2.4bn. Both the utilities segment and marine segment (effectively Sembcorp Marine, "SMM") saw y/y revenue declines (15.9% and 8.2% respectively). The utilities segment was pressured by lower HSFO prices hurting the domestic power business performance, while the marine segment had revenue reversal from a contract cancellation, as well as faced some delivery deferrals. For the quarter, SCI reported a pre-tax loss of SGD266.3mn, compared to a pre-tax profit of SGD358.2mn (for the comparable period last year). This was largely driven by the SGD609mn in impairments and provisions taken by SMM. As a result, the marine segment saw a net loss of SGD327.5mn (adjusted for SCI's 61% ownership of SMM). Comparatively the utilities segment saw a net profit of SGD395.2mn, up 261.2% y/y. That said, the utilities segment was supported by a 353.2mn divestment gain recognized from the sale of SembSita, and also taken SGD52.0mn total in impairments in chemical feedstock business in Singapore and allowances for water utilities in China. Free cash flow generated during the period was negative SGD991.4mn, largely driven by working capital needs of the marine business. Aside from this, SCI made SGD267.2mn in investments into associates / JV (mainly equity investments into overseas utility projects). The use of cash was largely funded by ~SGD710mn increase in borrowings, as well as ~SGD488mn in asset disposals. As a result of the additional borrowings, net gearing increase from 55% (end-3Q2015) to 65% (end-4Q2015). We are currently reviewing our Neutral issuer profile rating, and will provide an update in the near future (Company, OCBC).

CWT Limited ("CWT"): CWT reported its FY2015 results today morning. Revenue fell 30% to SGD9.9bn, driven by the decline in revenue from the Commodity Marketing segment in line with lower trading volume of naphtha and general downturn in the commodity sector. External revenue and gross profit of the CWT's core logistics business also declined by 3% and 18% respectively, reflecting softening demand during the second half of the year. Despite the headline revenue declines and a SGD8.8m loss provisioning from the August 2015 Tianjin blasts, on a consolidated basis, operating EBITDA saw an improvement of 21% to SGD186m whilst net profit after tax held steady at SGD113.9m (FY2014: SGD113.9m). This is largely attributable to the rising significance of the higher-margin Financial Services business, comprising of financial brokerage, risk management and trade facilitation services catering to end-customers in the commodities space. Proportionately, this segment contributed ~18% to total gross profit in FY2015, rising from ~12% in FY2014. In FY2015, Financial Services reported gross margins of ~41% against the core logistics business of 14.6%. A combined effect from lower decline in interest expense and better gross margins in the Commodity Marketing lifted the bottom-line performance of this segment to SGD25.5m in FY2015 from SGD11.8m in FY2014.

Overall, we saw an improvement in both leverage and coverage ratios. Debt-to-equity stands at 1.6x (FY2014: 1.8x) while EBITDA/Total Interest improved to 4.0x from 3.2x in FY2014. Capex FY2015 declined significantly to only SGD48.4m from an average of SGD150m in the two years prior. This due to a planned pull-back by management from aggressive expansion during FY2015, particularly within the logistics business. SGD213m of current financial assets were added onto the company's balance sheet during the year, signaling a gear-up in further expansion of the Financial Services business. Since August 2015, there has been no new updates on the possible sale by major shareholders of the company, though any such changes could bring about an alteration in strategic direction and corollary, credit risk of the issuer. (Company, OCBC)

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