

May 18, 2016

Market Commentary: The SGD swap curve steepened yesterday, with the short-end traded 1bps lower, while the belly-to-long end rates traded 1-2 bps higher. Flows in the SGD corporates where heavy, where we saw better buyers in SOCGEN 4.3%'26s, NAB 4.15%'28s, GENSSP 5.13%'49s, STANLIN 4.4%'26s, BAERVX 5.9%'49s, better sellers in MLTSP 4.18%'49ss and OLAMSP 4.25%'19s. Meanwhile we also saw mixed interest in UOBSP 4%'49s, MFCCN 3.85%'26s and GEMAU 5.5%'19s. In the broader dollar space, the spread on JACI IG corporates decreased by 3bps to 225bps, while the yield on the JACI HY Corporate was level at 7.19%. 10y UST increased by 2bps to 1.77% on positive macro data out of the US and hawkish comments on rate hikes

New Issues: Lendlease Group priced a USD400m 10 year bond at CT10+280bps, tightening from its initial guidance of CT10+300bps. The expected rating is "BBB-/Baa3/BBB-". China Three Gorges Corporation (Aa3/A/A+) has scheduled an investor road show during May 18-23.

Rating Changes: Moody's downgraded Beijing Capital Land's rating to "Baa3" from "Baa2" as well as its subsidiary, International Financial Center Property Ltd, to "B1" from "Ba3". The outlook is negative. This rating action concludes the rating review for downgrade that was initiated on 29 February. The downgrade reflects its weakened credit profile due to its high debt leverage and contracted profit margin. Moody's reaffirmed its credit rating on 1MDB Energy Ltd's senior bonds at "Aa2", concluding the rating review for downgrade that was initiated on 8 March. This is following the concurrent conclusion of the rating review for downgrade on the guarantor of the senior bonds, International Petroleum Investment Company (IPIC). The "Aa2" ratings on IPIC were confirmed and assigned a negative outlook following the confirmation of the "Aa2" long-term issuer rating on the government of Abu Dhabi and the assignment of a negative outlook on 14 May 2016. These related rating actions reflect the credit linkage between the Abu Dhabi government and IPIC as well as IPIC's linkage to 1MDB Energy Ltd's notes as guarantor. Meanwhile, Moody's withdrew all credit ratings for Kawasaki Kisen Kaisha Ltd. The rating was "Ba3" prior the withdrawal. S&P upgraded its rating on Sharp Corporation to "CCC+" from "CCC". The upgrade reflects more clear confirmation that Sharp's creditor banks intend to maintain their supportive stance toward the company. The outlook is positive. Finally Fitch downgraded Noble Group Ltd's long-term issuer default rating to "BB+" from "BBB-" to reflect the company's higher reliance on shorter-term financing which weakens its debt maturity profile below what's expected for an investment grade rating. Outlook is stable.

Table 1: Key Financial Indicators

	18-May	1W chg (bps)	1M chg (bps)		18-May	1W chg	1M chg
iTraxx Asiax IG	145	0	7	Brent Crude Spot (\$/bbl)	49.39	3.76%	15.10%
iTraxx SovX APAC	53	0	-4	Gold Spot (\$/oz)	1,277.79	0.05%	3.68%
iTraxx Japan	70	-3	-6	CRB	185.86	3.09%	6.75%
iTraxx Australia	131	-4	-6	GSCI	370.76	5.42%	10.39%
CDX NA IG	82	1	5	VIX	15.57	14.23%	16.63%
CDX NA HY	102	0	-1	CT10 (bp)	1.765%	2.87	-0.57
iTraxx Eur Main	78	2	6	USD Swap Spread 10Y (bp)	-13	3	2
iTraxx Eur XO	327	5	18	USD Swap Spread 30Y (bp)	-48	1	-1
iTraxx Eur Snr Fin	99	4	12	TED Spread (bp)	34	-4	-7
iTraxx Sovx WE	26	0	-2	US Libor-OIS Spread (bp)	22	-3	-4
iTraxx Sovx CEEMEA	135	1	2	Euro Libor-OIS Spread (bp)	9	0	-1
					18-May	1W chg	1M chg
				AUD/USD	0.731	-0.88%	-5.68%
				USD/CHF	0.980	-0.94%	-1.62%
				EUR/USD	1.131	-0.98%	0.01%
				USD/SGD	1.372	-0.43%	-1.48%
Korea 5Y CDS	64	1	0	DJIA	17,530	-2.22%	-2.63%
China 5Y CDS	127	1	7	SPX	2,047	-1.78%	-2.25%
Malaysia 5Y CDS	156	-2	-7	MSCI Asiax	484	-0.13%	-5.25%
Philippines 5Y CDS	112	0	13	HSI	20,119	-0.61%	-4.93%
Indonesia 5Y CDS	188	3	-14	STI	2,781	1.46%	-4.68%
Thailand 5Y CDS	124	-2	0	KLCI	1,633	-0.15%	-4.91%
				JCI	4,729	-0.71%	-2.80%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
17-May-16	Lendlease Group	BBB-/Baa3/BBB-	USD400mn	10-year	CT10+280bps
16-May-16	Manulife Financial	A-/NR/NR	SGD500mn	10NC5	3.85%
16-May-16	ICBC Hong Kong	A/A1/NR	USD500m	3-year	CT3+107.5bps
16-May-16	Mapletree Logistic Trust	NR/NR/NR	SGD250mn	PerpNC5.5	4.18%
12-May-16	National Australia Bank Ltd	BBB+/A3/NR	SGD450mn	12-year	4.15%
12-May-16	ANZ Banking Group Ltd	NR/A3/A+	USD1.5bn	10-year	CT10+265bps
11-May-16	CICC Hong Kong Finance 2016 MTN Ltd	BBB+/NR/BBB+	USD500mn	3-year	CT3+192.5bps
11-May-16	State Grid Overseas Investment (2016) Ltd	AA-/Aa3/A+	USD500mn	5-year	CT5+95bps

Source: OCBC, Bloomberg

Credit Headlines:

Oxley Holdings Ltd ("Oxley"): Oxley announced the issuance of SGD150mn in 4-year 5.15% bonds after the close of the institutional placement and public retail offers. Notably, this was the first retail bond deal that was not upsized after a relatively weak order book with SGD89.2mn in retail orders and an additional SGD25mn reallocated to the placement tranche with a subsequent SGD20mn reopening for total placement size of SGD70mn from initial tranche size of SGD25mn. On aggregate SGD80mn (on SGD89.2mn in orders, initial size SGD125mn) was allocated to the retail tranche and SGD70mn (initial size SGD25mn) to the institutional placement. We take this as a sign that the depth of the retail market for high yielding property issuers has been fully tested after a sudden influx of supply in a short span of time (SGD1.38bn from Aspial, Oxley and Perennial across 6 bond issues in 8 months). (Company, OCBC)

AusGroup Ltd ("AUSG"): AUSG announced that it has violated its minimum consolidated total equity covenant, based off 3QFY2016 results (period ending March 2016). AUSG generated an operating loss of AUD25.9mn for the quarter, driven by AUD17.1mn in impairments taken. For 9MFY2016, impairments / provisions were AUD61.7mn of the AUD99.5mn of operating losses generated. During 3QFY2016, AUSG saw gross margin compress sharply to 6.0% (3QFY2015: 12.7%) with challenges in the O&G market reducing the margins realized on services rendered. These factors drove AUSG to a net loss (from continuing operations) of AUD24.2mn. Leverage deteriorated q/q as well with net gearing at 106% (2QFY2016: 90%). Total equity fell as well due to the losses to AUD149.0mn, below the AUD160mn required by the covenant. In addition, the quarter saw AUSG adjust its reporting to reflect its intent to divest its scaffolding and access business ("MAS Business"), which AUSG believes to be highly probable and expected to be completed within 12 months. The MAS Business was hence deconsolidated from AUSG's financial statements. The MAS Business was a sizable part of AUSG, generating AUD181.8mn in revenue for 9MFY2016, compared to AUD196.6mn in revenue generated by continuing operations at AUSG. The MAS Business was also profitable, generating AUD12.2mn for 9MFY2016 (compared to the AUD105.7mn loss generated from continuing operations). AUSG has indicated that it intends to seek waivers from bondholders to cure the covenant violation. Its SGD110mn AUSGSP 7.45% bonds are maturing soon on 20/10/2016. AUSG is an associate company of Ezion Holdings (18% ownership). We do not currently cover AUSG. (Company, OCBC)

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