

Apr 19, 2016

**Market Commentary:** SGD swap rates continued to retrace post-MAS easing gains, traded 3bps-5bps lower yesterday. Notably, the 5-year rate traded 8bps lower. Flows in the SGD corporate space were moderate, with the new FCLSP issue last week generating activity in the FCLSP complex. We saw better buyers in the GENSSP 5.125%'49s, better sellers in the FCLSP 5% '49s, NOLSP 4.4% '19s, ANVAU 5.5% '76s and mixed interest in the FCLSP 4.25% '26s. In the broader dollar space, the spread on the JACI IG corporates widened by 1bp to 229bps while the yield on the JACI HY corporates decreased by 2bps to 7.46%. 10y UST yield increased by 2bps to 1.77%.

**New Issues:** China Aoyuan Property Group priced a USD250mn 3-year bond at 6.525%, tightening from an initial guidance of 7%. The expected rating for the issue is "B/B2/B+". The Export-Import Bank of China scheduled for investor meetings for potential USD 5-year and 10-year bonds as well as a potential EUR 3-year bond.

**Rating Changes:** S&P affirmed its "A-" long-term counterparty credit ratings on Kuwait Finance House ("KFH"), at the same time removing the rating from CreditWatch with negative implications. The affirmation reflects S&P's view that the bank's well-established divestment plan could have a positive impact on its capitalization. S&P initiated a "BBB-" long-term corporate credit rating to JD.com Inc, in light of a satisfactory market position supported by its improving product and service offering as well as a highly scalable technology platform. Outlook is stable as S&P expects the company to maintain good business growth and improvement in its core online retail business margins. Moody's also initiated a "Baa3" issuer rating to JD.com Inc, taking into consideration JD.com's improving profitability, increasing scale as well as its track record of monetizing strategic benefits from Tencent Holdings' investment in the company. Outlook is stable.

Table 1: Key Financial Indicators

	19-Apr	1W chg (bps)	1M chg (bps)		19-Apr	1W chg	1M chg
iTraxx Asiax IG	138	-4	-11	Brent Crude Spot (\$/bbl)	42.95	-3.89%	4.25%
iTraxx Sovx APAC	58	0	0	Gold Spot (\$/oz)	1,228.82	-2.14%	-1.20%
iTraxx Japan	76	-5	3	CRB	174.11	1.33%	-1.27%
iTraxx Australia	137	-2	-11	GSCI	335.85	1.16%	0.16%
CDX NA IG	78	-2	0	VIX	13.35	-17.90%	-4.78%
CDX NA HY	103	0	0	CT10 (bp)	1.783%	0.72	-8.99
iTraxx Eur Main	72	-5	0	USD Swap Spread 10Y (bp)	-15	-3	2
iTraxx Eur XO	309	-20	13	USD Swap Spread 30Y (bp)	-47	-2	4
iTraxx Eur Snr Fin	87	-12	0	TED Spread (bp)	43	1	9
iTraxx Sovx WE	27	0	1	US Libor-OIS Spread (bp)	25	0	1
iTraxx Sovx CEEMEA	133	-7	-12	Euro Libor-OIS Spread (bp)	10	0	-1
					19-Apr	1W chg	1M chg
				AUD/USD	0.776	1.03%	2.44%
				USD/CHF	0.965	-0.98%	0.54%
				EUR/USD	1.131	-0.69%	0.60%
				USD/SGD	1.351	-0.58%	0.64%
Korea 5Y CDS	63	1	-2	DJIA	18,004	2.55%	2.28%
China 5Y CDS	120	-1	-4	SPX	2,094	2.56%	2.18%
Malaysia 5Y CDS	163	13	2	MSCI Asiax	511	1.87%	1.93%
Philippines 5Y CDS	99	0	-7	HSI	21,162	3.53%	2.37%
Indonesia 5Y CDS	201	1	-2	STI	2,918	3.86%	0.38%
Thailand 5Y CDS	124	0	-14	KLCI	1,718	0.14%	0.08%
				JCI	4,866	1.64%	-0.41%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
18-Apr-16	China Aoyuan Property Group	B/B2/B+	USD250mn	3-year	6.525%
14-Apr-16	Kia Motors	A-/Baa1/NR	USD400mn	5-year	CT5+145bps
14-Apr-16	Kia Motors	A-/Baa1/NR	USD300mn	10-year	CT10+152.5bps
14-Apr-16	Frasers Centrepoint Ltd	NR/NR/NR	SGD250mn	10-year	4.25%
14-Apr-16	Hungary	BB+/Ba1/BB+	CNH1bn	3-year	6.25%
13-Apr-16	China Vanke Co Ltd	BBB/Baa2/BBB+	HKD1.375bn	3-year	2.5%
13-Apr-16	Central Nippon Expressway Co Ltd	NR/A1/NR	USD250mn	5-year	3mL+107bps
13-Apr-16	Central Nippon Expressway Co Ltd	NR/A1/NR	USD350mn	5-year	CT5+107bps

Source: OCBC, Bloomberg

## Credit Headlines:

**Keppel Corp ("KEP"):** KEP reported 1Q2016 results, with total revenue down 38.1% y/y to SGD1.7bn. This was largely driven by the slump in the offshore marine segment, which saw revenue fall 57.6% y/y to SGD817.9mn. Offshore marine is now just 47% of total revenue in 1Q2016, compared to 68% in 1Q2015. The segment remains pressured given the weak energy markets. KEP has reiterated that they have stopped work on the Sete Brasil contracts since end-2015 given the lack of payment, and believe that the provisions taken during 4Q2015 are currently adequate. Management has also indicated that there is currently no need to make addition provisions over any other offshore marine contracts. That said, KEP has been in talks with its clients over potential delivery deferments, and have mentioned the rig deferments by Ensco and Transocean made during the quarter. The offshore marine net orderbook stood at SGD8.6bn, a decline of SGD400mn over end-2015. One area to note is that net contract value left for execution over the balance of 2016 is just SGD244mn. It is worth noting though that the segment managed to improve operating margins from 12.0% (1Q2015) to 13.6% (1Q2016). The property segment saw revenue grow 66.0% y/y to SGD503.0mn, with KEP selling 940 homes during the quarter (~31% higher relative to 1Q2015). About 62% of segment revenue was generated overseas. China continues to be a strong driver for the segment, with KEP generating RMB1.1bn in Chinese sales during 1Q2016. KEP still has a China pipeline of 37,375 units for sale. Operating margin for the segment kept steady at 22.0% (1Q2015: 22.8%). The infrastructure segment revenue slumped 22.9%, due to lower prices and volume from KEP's power and gas business. Operating margins for the segment remain weak at just 3.9%. In aggregate, management reported SGD334mn in EBITDA for the quarter. KEP generated negative SGD354.3mn in operating cash flow for the quarter, as it paid SGD512.5mn to trade creditors. As such, FCF was negative ~SGD405mn. The cash gap was funded by SGD172.3mn in net borrowings as well as by drawing on cash on its balance sheet. As a result, net gearing has worsened from 53% (end-2015) to 56% (end-1Q2016). Interest coverage stood at 7.2x for the quarter. Cash / current borrowings was 1.4x. No bond maturities till 2020. We believe that offshore marine will continue to be a drag on overall performance, but credit profile deterioration will be more muted going forward. We currently hold KEP at Neutral Issuer Profile. The KEP curve has rallied strongly since selling off at the beginning of the year. Given the prolong challenging environment for offshore marine limiting near-term improvements to credit fundamentals, investors could consider taking some profit, particularly at the shorter end of the curve, such as the KEPSP'20s. (Company, OCBC)

**Morgan Stanley ("MS"):** MS announced its 1Q2016 results with net income down 53% to USD1.13bn y/y primarily due to a fall in trading activity with revenues from institutional securities down 32% y/y to USD3.7bn. The weaker results reflect both the difficult trading environment for bonds, commodities and equities as well as the bank's ongoing de-emphasis on the trading side given the volatile nature of this business segment. While also weaker, revenues from wealth management were only down 4% to USD3.7bn with weaker transaction activity somewhat mitigated by higher deposit and loan balances. While results were weaker y/y, we note that on a q/q basis, net revenues actually grew marginally by 1% and net income was up 25% compared to 4Q2015. (OCBC, Company)

**First REIT ("FIRT"):** FIRT reported 1Q2016 results yesterday evening. Revenue for the quarter increased by 7.1% to SGD26.5m (1Q2015: SGD24.7m) on the back of contribution from FIRT's contribution from Siloam Hospitals Kupang & Lippo Plaza Kupang ("Kupang Property") which was acquired in December 2015. EBITDA/Interest cover remains healthy at 5.08x (FY2015: 5.07x and 1Q2015: 5.47x) despite the increased in debt taken on to part finance the acquisition of the Kupang Property and first progress payment for the development of Siloam Hospitals Surabaya. D/A remain flat at ~34%. Cash outflow from investing activities amounted to ~SGD18m, rising from a negligible amount in 1Q2015. This is on account of the first progress payment paid for the Siloam Hospitals Surabaya. The next progress payment of ~SGD9m will need to be paid before February 2017. (Company, OCBC)

**Andrew Wong**

Treasury Research & Strategy  
Global Treasury, OCBC Bank  
(65) 6530 4736  
[wongVKAM@ocbc.com](mailto:wongVKAM@ocbc.com)

**Nick Wong Liang Mian, CFA**

Treasury Research & Strategy  
Global Treasury, OCBC Bank  
(65) 6530 7348  
[NickWong@ocbc.com](mailto:NickWong@ocbc.com)

**Nicholas Koh Jun Ming**

Treasury Research & Strategy  
Global Treasury, OCBC Bank  
(65) 6722 2533  
[NicholasKoh@ocbc.com](mailto:NicholasKoh@ocbc.com)

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