Asian Credit Daily

OCBC Bank

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Market Commentary: The SGD dollar swap curve was range-bounded yesterday. The short-end rates traded 1-2bps higher while the belly-to-long-end rates traded 1-2bps lower. Flows in the SGD corporates were heavy with better buying seen in GENSSP 5.13%'49s, BAERVX 5.9%'49s and SSREIT 4.25%'19s while mixed interests were seen in UOBSP 4%'49s and ANZ 3.75%'27s. In the broader dollar space, the spread on JACI IG corporates remained relatively unchanged at 218bps while yield on JACI HY corporates decreased by 2bps to 6.45%. 10y UST decreased by 3bps to 1.55%.

New Issues: SGSP (Australia) Assets Pty Ltd. priced a USD500mn 10-year bond at CT10+175bps, tightening from its initial guidance at CT10+200bps. The issue is expected to be rated "BBB+/A3/NR". ONGC Videsh launched a USD1bn two-tranche deal yesterday, with the USD400mn 5year-bond priced at CT5+175bps, tightening from its initial guidance of CT5+195bps. The other tranche of USD600mn 10-year bond was priced at CT10+220bps, tightening from its initial guidance of CT10+235bps. The expected ratings for the issue are "BBB-/Baa2/NR".

Rating Changes: S&P revised its outlook on Deutsche Bank AG to negative from stable. The revision reflects S&P's view that the unfavourable operating environment poses particular challenges to Deutsche Bank as it implements its 2016-2020 strategic plan (known as Strategy 2020). Although market conditions may recover somewhat from the weak first quarter of 2016, ultra-low interest rates and generally subdued client trading activity may persist for the foreseeable future. These pressures affect the entire sector, but is particularly harmful for Deutsche Bank as it seeks to strengthen capital and maintain its franchise while fundamentally restructuring its business model and balance sheet. Moody's upgraded Shinsei Bank Ltd's long-term deposit rating to "Baa2" from "Baa3" with the outlook revised to stable from positive. The rating upgrade was prompted by the change in Shinsei Bank's BCA to "ba1" from "ba2" due to improvements in the bank's asset quality and capital position. The "ba1" BCA reflects (1) the bank's improved asset quality, but risker business profile due to its structured finance business and consumer business, (2) its improved capitalization, (3) its ability to attract deposits and (4) potential instability associated with Shinsei Bank's business model, which is still developing. Moody's also revised its outlook on Higo Bank Ltd.'s "A1" deposit rating to negative from stable. The revision reflects the opacity in Higo Bank's disclosure which has been simplified following its merger with Kagoshima Bank under the newly formed Kyushu Finance Group on 1 October, 2015. The public disclosure is less informative and reduces the transparency of the bank's risk position and financial performance.

Table 1: Key Financial Indicators

	20-Jul	1W chg (bps)	1M chg (bps)		20-Jul	1W chg	1M chg
iTraxx Asiax IG	121	-5	-21	Brent Crude Spot ($/bbl)	46.79	1.15%	-7.62%
iTraxx SovX APAC	48	-1	-4	Gold Spot ($/oz)	1,332.70	-0.74%	3.32%
iTraxx Japan	57	5	-11	CRB	186.10	-2.17%	-4.27%
iTraxx Australia	112	-2	-16	GSCI	355.34	-2.79%	-7.20%
CDX NA IG	71	0	-9	VIX	11.97	-11.66%	-34.84%
CDX NA HY	105	0	2	CT10 (bp)	1.548%	7.32	-14.11
iTraxx Eur Main	71	-1	-7	USD Swap Spread 10Y (bp)	-13	1	-1
iTraxx Eur XO	330	5	-12	USD Swap Spread 30Y (bp)	-44	0	3
iTraxx Eur Snr Fin	99	1	-3	TED Spread (bp)	39	0	0
iTraxx Sovx WE	27	-4	-2	US Libor-OIS Spread (bp)	28	0	2
iTraxx Sovx CEEMEA	127	9	-1	Euro Libor-OIS Spread (bp)	6	-1	-2
					20-Jul	**1W chg**	**1M chg**
				AUD/USD	0.749	-1.54%	0.46%
				USD/CHF	0.986	-0.05%	-2.40%
				EUR/USD	1.101	-0.69%	-2.65%
				USD/SGD	1.356	-0.70%	-0.97%
Korea 5Y CDS	49	1	-10	DJIA	18,559	1.15%	4.24%
China 5Y CDS	111	-2	-12	SPX	2,164	0.54%	3.87%
Malaysia 5Y CDS	130	-3	-30	MSCI Asiax	524	1.32%	5.45%
Philippines 5Y CDS	101	-1	-10	HSI	21,673	2.11%	5.67%
Indonesia 5Y CDS	164	0	-27	STI	2,920	0.31%	4.24%
Thailand 5Y CDS	96	-7	-20	KLCI	1,671	0.61%	2.22%
				JCI	5,173	1.44%	6.36%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
19-July-16	SGSP Assets Pty. Ltd.	"BBB+/A3/NR"	USD500mn	10-year	CT10+175bps
19-July-16	ONGC Videsh	"BBB-/Baa2/NR"	USD400mn	5-year	CT5+175bps
19-July-16	ONGC Videsh	"BBB-/Baa2/NR"	USD600mn	10-year	CT10+220bps
14-July-16	ICBC Ltd.	"NR/A2/A"	USD1bn	Perp-NC5	4.25%
14-July-16	Link REIT	"A/A2/NR"	USD500mn	10-year	CT10+145bps
13-July-16	Zurich Insurance Co.	"AA-/Aa3/NR"	USD1bn	Perp-NC5	4.75%
13-July-16	Dai-ichi Life	"A-/NR/A-"	USD2.5bn	Perp-NC10	4%
13-July-16	Regal Hotels International Holdings	"NR/NR/NR"	USD350mn	5-year	3.88%

Source: OCBC, Bloomberg

Credit Headlines:

China Vanke Co. Ltd ("Vanke"): The media has reported that Vanke had filed an open letter to the Shenzhen Stock Exchange and China Securities Regulatory Commission) accusing Baoneng Group of breaching a number of securities regulations. Per the letter, Jushenghua (a subsidiary of Baoneng Group) had set up nine structured asset management plans ("AMP") to fund its stake purchase of Vanke. The letter questioned the financial sustainability of such AMPs, among 12 other alleged improprieties. AMPs are leveraged funding vehicles issued by brokerages and fund management companies containing both senior and junior tranches. The senior tranche is most typically bought by banks while the junior piece of these AMPs are reportedly held by Jushenghua. Should Vanke's share price drop to the "stop-loss level", it would need to inject additional cash into the vehicles to avoid a forced liquidation of Vanke's shares by senior holders. Our base case remains that the saga will remain protracted and that China Resources would continue to seek to protect its equity interest (and any other potential strategic considerations), regardless of the outcome on Baoneng Group's involvement. China Resources via its unit CR Land is also a significant residential real estate developer in China. We currently hold Vanke's issuer profile at Neutral but see the intensification of the fight for control as limiting upside potential on the bonds. (SCMP, Financial Times, OCBC)

Keppel REIT ("KREIT"): The issuer reported 2Q2016 results. Property income declined 5.6% y/y to SGD40.6mn while NPI fell 6.5% y/y to SGD32.5mn. The declines were driven by the divestment of the 77 King Street office asset in Sydney on 29/01/16. This has impacted q/q performance as well, with property income lower by 1.5% q/q and NPI lower by 1.4% q/q. Excluding the impact of 77 King Street, we estimate that property income was up 1.0% y/y, while NPI was flat. Note that DPU has fallen q/q from SGD1.68 to SGD1.61, in part due to the lack of NPI contribution from 77 King Street (~SGD2mn quarterly impact). Despite the challenging domestic office environment, KREIT was able to improve committed portfolio occupancy to 99.7% (1Q2016: 99.4%), reflecting the attractiveness of KREIT's young and well-located assets. Comparatively, CBRE reported that Singapore core CBD office occupancy slipped q/q from 95.2% to 95.1%. Management was able to retain almost all the expiring tenants in 1H2016. There are some signs of rental pressure though, as in 1Q2016 KREIT was able to renew leases with an average positive rental reversion of +7%. However, for 1H2016 leases were renewed at just a positive rental reversion of +2%. In mitigation, 2Q2016 leases were renewed at an average of SGD10.10 psf, higher than the CBRE's average Grade A rent of SGD9.50 psf. In addition, KREIT's lease expiry profile is strong, with management aggressively negotiating lease expiries ahead of time. For 2H2016, only 0.6% of NLA remains for renewal. Management has started to tackle 2017 and 2018 expiries as well, bring them down 2ppt each to 9.5% and 5.5% of NLA respectively. These outcomes are in line with our expectation that commercial REIT managers would aggressively tackle their lease expiries and support occupancy at the expense of lease rates, giving the looming supply of new offices coming into the market over the next twelve months. Portfolio WALE remains unchanged at ~6 years compared to end-2015. Aggregate leverage was unchanged q/q at 39.0%. Proportion of fixed rate debt remained at 75%, though it is worth noting that by unencumbering Ocean Financial Centre unencumbered assets increased from 72% to 83% q/q. Interest coverage remained steady at 4.6x (1Q2016: 4.5x). Cost of debt improved slightly by 3bps q/q to 2.55%. KREIT has no large refinancing needs till 2018 (KREIT recently refinanced SGD505mn in secured financing (secured against Ocean Financial Centre) with unsecured loan facilities. With KREIT's peers CCT and MCT announcing major acquisitions increase their aggregate leverage upon completion, KREIT's aggregate leverage will be comparable with peers. As such, we will retain our Neutral Issuer Profile on KREIT. (Company, OCBC)

Credit Headlines (cont'd):

Capitaland Commercial Trust ("CCT"): The issuer reported 2Q2016 results. Gross revenue declined 2.2% y/y to SGD67.6mn while NPI fell 4.5% y/y to SGD51.5mn. Gross revenue was weighed down by weakness at Capital Tower (property gross revenue lower 7.6% y/y) and One George Street (property gross revenue lower 5.4% y/y). NPI was pressured by higher leasing commission expenses, which caused other property operating expenses to increase 10.9% y/y. Despite the lower NPI, distributable income was up 1.0% due to contributions from Raffles City and CapitaGreen. Committed portfolio occupancy rates worsened q/q from 98.1% (end-1Q2016) to 97.2% (end-2Q2016), largely due to the sharp fall in occupancy at One George Street (fell from 99.4% to 91.3% q/q). We believe that the vacancies at One George Street could be driven by the departure of RBS, which was reported to vacate two floors (60,000 sqft) when their lease expired at the end of March 2016. Portfolio occupancies are however still stronger than CBRE's Singapore core CBD office occupancy of 95.1%. Though CCT reported positive rental reversions for leases committed in 2Q2016, we believe there to be looming pressure, as the average expiring rents at Six Battery Road and One George Street are higher than the comparable sub-market rents of ~SGD9 psf. That said, CCT was able to reduce its 2016 lease expiries further to just 4% of NLA (it was 10% as of end-2015). CCT has also started to renew 2017 expiries as well, bringing it down to 10% of NLA. As such, we believe that CCT is well-positioned to handle the looming supply of new office assets given 14% of NLA expiring till the end of 2017. WALE improved slightly q/q to 7.4 years (1Q2016: 7.3 years). Aggregate leverage has improved slightly q/q to 29.8% (1Q2016: 30.1%), driven by the +0.4% revaluation gain on properties. We note that the debt-funded acquisition of the balance of CapitaGreen has already been approved by unitholders, and is expected to be completed in 3Q2016. This would drive aggregate leverage sharply higher to pro-forma ~38%. Currently, CCT has no further debt maturities in 2016 and just SGD175mn in convertible bonds due in 2017. This might change though after the financing of the CapitaGreen acquisition is firmed up. As CCT's aggregate leverage would be in line with other commercial REITs post the acquisition, we will hold CCT's Issuer Profile rating at Neutral. (Company, OCBC)

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