

October 20, 2016

Credit Headlines (Page 2 onwards): First REIT, Century Sunshine

**Market Commentary:** The SGD swap curve traded downward yesterday with swap rates trading 2-6bps lower across all tenors. Flows in the SGD corporates were heavy with better buying seen in BAERVX 5.75%'49s while mixed interests were seen in GENSSP 5.13%'49s and STANLN 4.4%'26s. In the broader dollar space, the spread on JACI IG corporates increased 1bps to 208bps while the yield on JACI HY corporates was levelled at 6.61%. 10y UST yield remained relatively unchanged at 1.75%.

**New Issues:** Saudi Arabia priced a USD17.5bn 3-tranche deal yesterday with the USD5.5bn 5-year bond priced at CT5+135bps, the USD5.5bn 10-year bond priced at CT10+165bps, and the USD6.5bn 30-year bond priced at CT30+210bps. The expected ratings for the issue are "NR/A1/AA-".

**Rating Changes:** Moody's has assigned an "A3" senior unsecured rating to CITIC Group Corp.'s proposed Japanese Yen notes and affirmed its "A3" issuer ratings on CITIC Group and CITIC Ltd.. The rating outlook remains negative. The affirmation of CITIC Group and CITIC Ltd.'s "A3" ratings reflects Moody's view that their underlying credit strength can withstand a moderate deterioration in the credit profile of China CITIC Bank Corp. Ltd.. China CITIC Bank's deposit rating was downgraded to "Baa2" from "Baa1", and at the same time, its adjusted baseline credit assessment was downgraded to "ba2" from "ba1" on 17 October, 2016. Moody's downgraded Power Construction Corp. of China's (PowerChina) issuer rating to "Baa1" from "A3" with a stable outlook. The rating downgrade reflects PowerChina's high financial leverage – as measured by adjusted debt/EBITDA - of 8.0x in FY2015, up substantially from 6.4x in FY2014. Moody's also expects that the company's leverage will remain elevated at around 7.0x in the next 2 years. Fitch has assigned a "BBB+" issuer default rating and "BBB+" senior unsecured rating to China National Chemical Corp. (ChemChina). ChemChina's rating reflects the strong linkages with the China sovereign due to its key positions in the agriculture and national aerospace sectors, which are strategically important to the government.

Table 1: Key Financial Indicators

	20-Oct	1W chg (bps)	1M chg (bps)		20-Oct	1W chg	1M chg
iTraxx Asiax IG	116	-2	-5	Brent Crude Spot (\$/bbl)	52.64	1.17%	14.73%
iTraxx SovX APAC	34	-1	2	Gold Spot (\$/oz)	1,269.63	0.92%	-3.44%
iTraxx Japan	56	1	-4	CRB	190.77	1.44%	4.26%
iTraxx Australia	104	0	-3	GSCI	379.49	1.81%	8.37%
CDX NA IG	74	-2	-8	VIX	14.41	-9.43%	-9.48%
CDX NA HY	104	1	1	CT10 (bp)	1.749%	0.74	5.93
iTraxx Eur Main	71	-4	-3	USD Swap Spread 10Y (bp)	-17	-1	-1
iTraxx Eur XO	323	-14	-18	USD Swap Spread 30Y (bp)	-57	-1	-2
iTraxx Eur Snr Fin	95	-6	-7	TED Spread (bp)	55	2	-3
iTraxx Sovx WE	19	-2	-3	US Libor-OIS Spread (bp)	41	0	-1
iTraxx Sovx CEEMEA	95	0	9	Euro Libor-OIS Spread (bp)	4	1	0
					20-Oct	1W chg	1M chg
				AUD/USD	0.772	2.05%	2.22%
				USD/CHF	0.990	-0.33%	-1.05%
				EUR/USD	1.097	-0.78%	-1.62%
				USD/SGD	1.386	-0.36%	-1.75%
Korea 5Y CDS	40	-1	-2	DJIA	18,203	0.32%	0.40%
China 5Y CDS	105	0	-2	SPX	2,144	0.24%	0.21%
Malaysia 5Y CDS	122	--	-7	MSCI Asiax	551	1.80%	0.20%
Philippines 5Y CDS	115	-6	9	HSI	23,305	-0.44%	-0.96%
Indonesia 5Y CDS	152	-2	0	STI	2,845	1.10%	-0.35%
Thailand 5Y CDS	96	-10	8	KLCI	1,668	0.07%	0.75%
				JCI	5,409	0.83%	2.01%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
19-Oct-16	Saudi Arabia	"NR/A1/AA-"	USD5.5bn	5-year	CT5+135bps
19-Oct-16	Saudi Arabia	"NR/A1/AA-"	USD5.5bn	10-year	CT10+165bps
19-Oct-16	Saudi Arabia	"NR/A1/AA-"	USD6.5bn	30-year	CT30+210bps
18-Oct-16	Huai'an Traffic Holding Co.	"NR/NR/BBB+"	USD300mn	3-year	4.95%
18-Oct-16	Yuzhou Properties Co. Ltd.	"NR/B1/BB-"	USD250mn	7NC4	6%
17-Oct-16	BDO Unibank Inc.	"NR/Baa2/NR"	USD300mn	5-year	CT5+135bps
17-Oct-16	Alam Synergy	"B/B2/B+"	USD245mn	5.5NC3.5	6.75%
17-Oct-16	ICBC Co. Ltd.	"A/A1/NR"	USD1bn	5-year	CT5+120bps
17-Oct-16	Korea National Oil Corp.	"AA/Aa2/AA-"	USD350mn	5-year	CT5+83bps

Source: OCBC, Bloomberg

## Credit Headlines:

**First REIT ("FREIT"):** FREIT reported its 9M2016 results yesterday with 9M2016 gross revenue up 6.7% to SGD80.0mn (9M2015: SGD75.0mn). This was largely due to additional revenue generated from acquisitions done in December 2015 (Siloam Hospitals Kupang and Lippo Plaza Kupang). Removing the contribution from these two properties, we estimate the nine-months earnings to be relatively flat on a y/y basis. Likewise, Net Property Income (NPI) grew 7.1% to SGD79.2mn in 9M2016 (9M2015: 73.9mn). During 3Q2016, the REIT reported a 6.5% y/y increase in gross revenue while NPI increased 6.3% amidst higher property operating expense (26.2% as compared to 3Q2015) due to higher valuation and building audit expense. Interest Income for 9M2016 also grew significantly to SGD0.80mn due to returns from the first progress payment made in March 2016 for the development works on new Siloam Hospitals Surabaya. 9M2016's EBITDA / Gross Interest Expense remained relatively healthy at 5.2x (1H2016: 5.1x) while the trust gearing ratio (Debt / Total Asset) reduced to 30.0% as at 30 September 2016 as compared to 34.4% as at 30 June 2016. This is attributed to the issuance of SGD60mn subordinated perpetual securities in July 2016, which has been used to repay existing loans. Management have stated that with the lower gearing, the REIT has adequate headroom to pursue inorganic and organic growth through acquisitions and asset enhancement initiatives. This fits well with the leverage pressure at sponsor PT Lippo Karawaci Tbk ("Lippo") whose credit ratings remain under pressure from weak credit metrics (Moody's lowered the ratings outlook to negative earlier this week) and its pipeline of 42 hospitals which it can inject into the REIT to alleviate this pressure. We continue to view FREIT's credit profile as reasonably healthy and maintain our Neutral issuer profile. (Company, OCBC)

**Century Sunshine ("CSG"):** The EGM for the acquisition of Hongri Acron was held with 100% of the shareholders present approving the acquisition. As mentioned in our credit update regarding CSG, we believe that the acquisition is consistent with CSG's growth strategy and would serve to ramp up production capacity as well as market share for CSG's fertilizer segment. There would however likely be some margin deterioration due to shifts in product mix, as well as the current stressed situation facing Hongri Acron. Coupled with expected working capital needs for Hongri Acron, we believe there would be a negative impact on CSG's consolidated operating cash flows post the acquisition. This would in turn squeeze EBITDA and consume part of the current covenant headroom for its interest coverage covenant. That said, we believe that CSG has adequate liquidity to fund these cash needs given its huge cash balance. In aggregate, CSG currently does have the balance sheet to absorb the Hongri Acron acquisition, with pro-forma net gearing staying low. We acknowledge though that CSG would likely continue to execute its inorganic and organic growth strategy causing its credit profile to slip. As such, we reiterate our Neutral Issuer Profile rating on CSG. We will reiterate our Overweight on the CENSUN'18s as we believe that the sell-off post the initial acquisition announcement was overdone. Though the bond has recovered to par since our credit update, we continue to believe that CENSUN'18 offers attractive carry for short-dated paper. (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)

**Ezien Hoo, CFA**

Treasury Research & Strategy  
Global Treasury, OCBC Bank  
(65) 6722 2215  
[EzienHoo@ocbc.com](mailto:EzienHoo@ocbc.com)

**Wong Hong Wei**

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

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC and/or its related and affiliated corporations may at any time make markets in the securities/instruments mentioned in this publication and together with their respective directors and officers, may have or take positions in the securities/instruments mentioned in this publication and may be engaged in purchasing or selling the same for themselves or their clients, and may also perform or seek to perform broking and other investment or securities-related services for the corporations whose securities are mentioned in this publication as well as other parties generally.

Co.Reg.no.:193200032W