Asian Credit Daily

OCBC Bank

Feb 22, 2016

Market Commentary: The SGD swap curve flattened last Friday, with the belly falling 1-3bps and the long end falling 4bps. In the broader dollar space, JACI IG corporates widened 4bps to 253bps, while the yield on the JACI HY corporates tightened by 4bps to 8.31%. The 10y UST yield remained flat at 1.74%.

New Issues: Capitaland Mall Trust priced a SGD100mn 10-year bond at 3.5% (SDSW10Y + 87bps) last Thursday.

Rating Changes: Moody's placed the Baosteel group of companies on negative credit watch, expecting deterioration in earnings and debt leverage given the adverse operating environment for the steel industry in China. Moody's has placed Hengdeli Holdings ("Ba2") on negative credit watch given the weak earnings guidance which the issuer gave during its recent earnings announcement. S&P affirmed and withdrew Philippine National Bank ("B+")' ratings at the bank's request.

Credit Headlines:

Keppel Corp ("KEP") & Sembcorp Industries ("SCI"): Sete Brasil officials reportedly met with Petrobras officials last Friday to discuss about the status of the long-term lease contracts for Sete Brasil's drilling rigs. Petrobras is to revert by this Friday with revised terms for the contracts, else Sete Brasil may file for bankruptcy protection. Both KEP and SCI have taken provisions on their Sete Brasil exposure, and have largely stopped work on the contract. (Reuters, OCBC)

Table 1: Key Financial Indicators

	22-Feb	1W chg (bps)	1M chg (bps)		22-Feb	1W chg	1M chg
iTraxx Asiax IG	162	-5	11	Brent Crude Spot ($/bbl)	32.98	-1.23%	2.49%
iTraxx SovX APAC	79	-1	4	Gold Spot ($/oz)	1,224.97	1.30%	11.57%
iTraxx Japan	105	-4	14	CRB	159.63	2.98%	-2.55%
iTraxx Australia	156	-6	13	GSCI	293.73	4.27%	1.22%
CDX NA IG	118	-3	14	VIX	20.53	-27.04%	-8.10%
CDX NA HY	98	1	-1	CT10 (bp)	1.762%	1.40	-28.98
iTraxx Eur Main	113	-1	21	USD Swap Spread 10Y (bp)	-14	1	1
iTraxx Eur XO	445	-5	75	USD Swap Spread 30Y (bp)	-50	2	-2
iTraxx Eur Snr Fin	121	0	33	TED Spread (bp)	33	-1	-6
iTraxx Sovx WE	33	0	13	US Libor-OIS Spread (bp)	23	-1	0
iTraxx Sovx CEEMEA	191	-4	-9	Euro Libor-OIS Spread (bp)	15	0	2
					22-Feb	1W chg	1M chg
				AUD/USD	0.716	0.22%	2.19%
				USD/CHF	0.991	-0.42%	2.50%
				EUR/USD	1.111	-0.40%	2.92%
				USD/SGD	1.407	-0.43%	1.66%
Korea 5Y CDS	71	0	7	DJIA	16,392	4.67%	1.85%
China 5Y CDS	137	-1	14	SPX	1,918	4.85%	0.57%
Malaysia 5Y CDS	181	-3	-16	MSCI Asiax	460	2.00%	2.66%
Philippines 5Y CDS	125	-4	2	HSI	19,286	5.27%	1.07%
Indonesia 5Y CDS	243	0	-1	STI	2,657	4.60%	3.10%
Thailand 5Y CDS	161	-1	2	KLCI	1,675	1.89%	3.06%
				JCI	4,698	-0.36%	5.40%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
19-Feb-16	CapitaLand Mall Trust	NR/A2?NR	SGD100mn	10-year	SDSW10+87 bps
19-Feb-16	Westpac Banking Corp.	AA-Aa2/NR	USD1350mn	5-year	MS+98bp
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%

Source: OCBC, Bloomberg

OUE Ltd ("OUE"): OUE reported full-year 2015 results with revenue up 3.6% y/y to SGD431.5mn. Increased contributions from investment properties (revenue up 22.6% y/y due to consolidation of One Raffles Place and higher occupancy from US Bank Tower) offset weak property development (revenue down 38% y/y to SGD23.6mn from anemic sales at OUE Twin Peaks (TOP Feb 2015, 72 out of 462 units sold). Revenue contribution from hospitality was down 3% y/y to SGD204.4mn due to lower RevPARs. EBIT (including JVs and associates) was up 40% y/y to SGD257.8mn mainly due to SGD143.4mn in negative goodwill recognized from the acquisition of shares in Gemdale Properties and Investment Corp. Ltd in February and December. Net profit was down 85.6% y/y to SGD178.7mn due to one off-gains in 2014 from the disposal of Mandarin Orchard and Mandarin Gallery (SGD1bn) and lower revaluation gains on investment properties (SGD6.9mn in 2015 vs SGD259.2mn in 2014). Cash on the balance sheet increased to SGD172mn from SGD162mn at the end of 2014. Gross debt increased by SGD585mn to SGD2.9bn from the consolidation of One Raffles Place. Net gearing increased to 55% in 2015 from 44% in the prior year while net debt/EBITDA (including share of results from JVs and associates) increased to 9.97x from 9.65x while EBITDA/interest coverage (including share of results from JVs and associates) improved to 3.04x from 2.30x. Looking ahead in 2016, the sale of Crowne Plaza Changi Airport Extension (OUE recently announced that construction is at the halfway mark) is expected to be completed in June (purchase consideration of SGD205mn) while AEIs for OUE Downtown and US Bank Tower is also expected to be completed. The company will also look to sell down remaining unsold units (390 unsold units, 1 primary transaction in 2015 according to URA caveats) in OUE Twin Peaks in the face of weak sentiment in the Singapore property market especially in the luxury segment. We maintain our Neutral issuer profile on OUE and the OUESP 3.8% '20s and Overweights on the OUESP 4.95% 17s and OUESP 4.25% 19-c16.

DBS Group Holdings Ltd (DBS): Reported its annual audited results for FY2015 with total income up 12% y/y to SGD10.8bn. This was largely due to strong growth in net interest margins (up 12% y/y) due to higher interest rates. Otherwise, income growth occurred across the board with net fee and commission income and other non-interest income up 6% and 21% respectively. Growth in expenses (including operating and allowances for credit losses) was somewhat contained and as such net profit before one-offs grew 12% to SGD4.3bn. Lower trade loans were compensated by growth in other corporate and Singapore housing loans resulting in loan balances rising by 3%. As y/y deposit growth was lower, the loan to deposit ratio weakened to 88.5% from 86.9% y/y. Despite expected operating environment challenges, the non-performing loan ratio remained constant at 0.9%. We estimate DBS' loan exposure to oil and gas and commodities comprises around 4% and 3% respectively of DBS' total customer loan portfolio. Owing to DBS' strong profit performance, reported capital ratios improved (CET1/Tier 1/Total CAR at 13.5%/13.5%/15.4% for FY2015) as a result of risk weighted assets growing slower than capital. Ratios remain solid compared to minimum requirements (minimum CET1/Tier 1/Total CAR at 6.5%/8.0%/10.0% for FY2015). In summary, DBS's solid results are due to its strong franchise in Singapore, solid funding base and high exposure to Singapore and Hong Kong. That said, its exposure to oil and gas and commodities is slightly higher than peers so the evolution of this exposure could impact future profit performance. (Company, OCBC)

Andrew Wong
Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6530 4736
wongVKAM@ocbc.com

Nick Wong Liang Mian, CFA
Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6530 7348
NickWong@ocbc.com

Nicholas Koh Jun Ming
Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6722 2533
NicholasKoh@ocbc.com