

August 23, 2016

**Credit Headlines (Page 2 onwards):** City Development Ltd., Mencast Holdings Ltd., Central China Real Estate Ltd., Otto Marine Ltd., Wing Tai Holdings Ltd.

**Market Commentary:** The SGD dollar swap curve traded upwards yesterday. Swap rates traded 5-8bps higher across all tenors as the USD appreciated on rising expectation of an interest rate hike this year given hawkish Fed speak on Friday. Implied probability rose to 51%, up from 46% a week earlier. Flows in the SGD corporates were moderate with better buying seen in SOCGEN 4.3%'26s and mixed interests seen in GENSSP 5.13%'49s, SANYPH 7%'17s. In the broader dollar space, the spread on JACI IG corporates decreased 2bps to 198bps while the yield on JACI HY corporates was levelled at 6.39%. 10y UST yield decreased 4bps to 1.54% reversing part of the Friday move due to mixed comments by Federal Reserve Vice Chairman Stanley Fischer.

**New Issues:** Small and Medium Business Corp. has priced a USD500mn 10-year bond at CT10+67.5bps, tightening from its initial guidance at CT10+90bps. The expected issue ratings are "NR/Aa2/AA-". DBS Group has scheduled investor meetings from 24 August onwards for USD AT1 bond issuance. The expected issue ratings are "NR/A3/BBB".

**Rating Changes:** S&P downgraded its credit rating on Development Bank of Mongolia (DBM) to "B-" from "B" with a stable outlook after the sovereign downgrade initiated on 19 August, 2016 (Mongolia rating lowered to "B-" on weakening fiscal and growth performance). Fitch upgraded Modern Land Co. Ltd.'s issuer default rating to "B+" from "B" with a stable outlook. The upgrade is supported by Fitch's view that Modern Land can sustain attributable contracted sales of above CNY10bn from 2016. Additionally, the company's strong liquidity and its lower funding costs also support the rating.

**Table 1: Key Financial Indicators**

	23-Aug	1W chg (bps)	1M chg (bps)		23-Aug	1W chg	1M chg
iTraxx Asiax IG	112	-3	-9	Brent Crude Spot (\$/bbl)	49.03	-0.41%	7.31%
iTraxx SovX APAC	43	-2	-6	Gold Spot (\$/oz)	1,339.45	-0.50%	1.81%
iTraxx Japan	58	3	0	CRB	187.08	1.05%	2.29%
iTraxx Australia	101	-2	-10	GSCI	364.40	1.32%	4.40%
CDX NA IG	72	1	-2	VIX	12.27	3.90%	2.08%
CDX NA HY	105	0	0	CT10 (bp)	1.549%	-2.54	-1.71
iTraxx Eur Main	70	4	1	USD Swap Spread 10Y (bp)	-14	-1	-6
iTraxx Eur XO	316	12	-4	USD Swap Spread 30Y (bp)	-54	-2	-11
iTraxx Eur Snr Fin	93	8	0	TED Spread (bp)	52	-3	13
iTraxx Sovx WE	25	1	-1	US Libor-OIS Spread (bp)	39	1	8
iTraxx Sovx CEEMEA	116	3	-14	Euro Libor-OIS Spread (bp)	6	0	0
					<b>23-Aug</b>	<b>1W chg</b>	<b>1M chg</b>
				AUD/USD	0.764	-0.66%	2.33%
				USD/CHF	0.962	0.02%	2.53%
				EUR/USD	1.133	0.46%	3.06%
				USD/SGD	1.350	-0.70%	0.95%
Korea 5Y CDS	44	0	-5	DJIA	18,529	-0.57%	-0.22%
China 5Y CDS	101	-3	-9	SPX	2,183	-0.34%	0.35%
Malaysia 5Y CDS	119	-6	-21	MSCI Asiax	543	-1.12%	3.34%
Philippines 5Y CDS	88	-3	-15	HSI	22,998	0.29%	4.71%
Indonesia 5Y CDS	138	-5	-25	STI	2,841	-0.91%	-3.54%
Thailand 5Y CDS	86	-3	-7	KLCI	1,691	0.04%	2.03%
				JCI	5,427	0.93%	4.42%

Source: OCBC, Bloomberg

**Table 2: Recent Asian New Issues**

Date	Issuer	Ratings	Size	Tenor	Pricing
22-Aug-16	Small and Medium Business Corp.	"NR/Aa2/AA-"	USD500mn	10-year	CT10+68bps
21-Aug-16	Modernland Realty Tbk PT	"B/B2/B"	USD57mn	3-year	CT3+108bps
21-Aug-16	British Columbia	"NR/NR/NR"	AUD100mn	10-year	2.5%
19-Aug-16	Chinalco Capital Holdings	"NR/NR/NR"	USD800mn	5-year	4%
16-Aug-16	Mapletree Commercial Trust	"NR/Baa1/NR"	SGD175mn	10-year	3.11%
16-Aug-16	China Aircraft Leasing Group Holdings Ltd.	"NR/NR/NR"	USD300mn	5-year	4.9%
11-Aug-16	China Construction Bank Corp ( Singapore)	"NR/NR/NR"	CNH1bn	2-year	3.25%
11-Aug-16	HNA Group (International) Co.	"NR/NR/NR"	USD300mn	3-year	6.0%

Source: OCBC, Bloomberg

## Credit Headlines:

**City Development Limited (“CDL”):** CDL will be divesting its 39% stake in Exchange Tower Limited (which holds the Exchange Tower asset, a 42-storey retail / office building in Bangkok) to SCCP REIT Company Limited (“SCCP”), Mr Suchad Chiaranussati and Wideachieve Holdings (an indirect wholly-owned subsidiary of CDL). SCCP is in the process of setting up a REIT in Thailand known as “Thailand Prime Property Freehold and Leasehold Real Estate Investment Trust” (“TPRIME”). The transaction is ~SGD184mn, and the proceeds will be in cash. The transaction size is small relative to CDL’s SGD3.3bn in cash and SGD19.9bn in total assets (as of end-1H2016). (Company, OCBC).

**Mencast Holdings Limited (“Mencast”):** Mencast is a regional maintenance, repair and overhaul (“MRO”) service provider focused on the offshore marine and O&G sectors. It last reported 126% in net gearing (end-2Q2016) and about SGD201mn in total borrowings. Mencast had about SGD50mn in bonds maturing in September. It was announced on 19/08/16 that Mencast has entered into banking facility agreements with UOB, which consists of a secured loan of SGD50mn and secured facilities up to SGD24.9mn. The facility will be used to redeem its SGD50mn bond due in September. We do not currently cover Mencast. (Company).

**Central China Real Estate Limited (“CENCHI”):** CENCHI reported a 35% decline in revenue to RMB2.5bn (1H2015: RMB3.9bn) on the back of lower number of completed projects in 1H2016. Income from sales of properties saw a decline from a combination of lower area sold as well as a decline in average selling price to RMB5,116 per sqm for 1H2016 against RMB5,419 per sqm in 1H2015. Nevertheless, the decline in gross profit was more controlled (11% down) to RMB968mn (1H2015: RMB1.1bn). Overall gross profit margin improved in 1H2016 to 38% as the company had offered discounts in 1H2015, forsaking margins that period (gross profit 28%). Including capitalized interest, EBITDA/Gross interest was 1.3x, lower than the 1.8x in FY2015 as a result of lower income generation. CENCHI took a RMB34.2mn hit in comprehensive income due to foreign exchange translation losses, corollary, book value equity was negatively affected. This, combined with a higher gross debt at RMB12.5bn, saw gross debt-to-equity rise to 1.7x (31 December 2015: 1.4x). Contracted sales amounted to RMB9.4bn during 1H2016, representing an increase of 58% from the same period last year. Zhengzhou (Henan Province) which made up 65% of total contracted sales have seen an uptrend in housing prices, as such we expect average selling prices to improve within the next 12 months. As at 30 June 2016, CENCHI engaged in 15 light-asset model projects and had begun recognizing management fee income (1H2016: RMB25mn). While this development bodes well for the future credit profile of the company, it is unlikely to be a main income driver during the life of CENCHI’s SGD bond (maturing in 9 months). Over the next 12 months, CENCHI has RMB2.0bn of notes and loans maturing. CENCHI has RMB9.4bn in cash and cash equivalents, exceeding its receipts in advance of RMB6.9bn by RMB2.5bn. In our view, this provides a buffer against its current liabilities to customers and that the cash can be applied for other purposes. We are comfortable with the company’s liquidity profile and continue to hold its issuer profile at Neutral. (Company, OCBC)

**Otto Marine Limited (“OTML”):** OTML will be holding an EGM on 14/09/16 regarding the voluntary delisting of OTML. As mentioned in the past, the exit offer is SGD0.32 per share. As per the terms of the bond maturity extension, upon the delisting of OTML, the bond will be redeemed within a fixed period. (Company)

## Credit Headlines:

**Wing Tai Holdings Ltd ("Wing Tai"):** Wing Tai reported 4Q2016 and full-year FY2016 results for the fiscal year ending June 2016. 4Q2016 results were soft, with revenue down 34.8% y/y to SGD140.7mn and Wing Tai generating a quarterly EBITDA (for EBITDA we exclude contributions from JV / associates) loss of SGD2.3mn. For the full year, Wing Tai generated SGD544.5mn in revenue, a decline of 19.5% y/y. Full year EBITDA was SGD31.7mn, a decline of 58.3% y/y. Main contributors to FY2016 revenue was progressive sales recognized from The Tembusu (TOP in 4Q2016) and additional sales in Le Nouvel Ardmore in Singapore and The Lakeview in China. The biggest drag to EBITDA would be the fall in development property EBIT, which fell from SGD96.4mn (FY2015) to 22.8mn (FY2016). The segment split was 61% development properties (EBIT: SGD22.8mn), 7% investment properties (EBIT: SGD98.4mn, inclusive of revaluation gains) and 32% retail (EBIT: SGD4.2mn). Looking forward, Wing Tai expects to launch both the 195 units in Le Nouvel KLCC (completed) and 301 units in Malaren Gardens, Shanghai. We expect the latter to do well given the still strong property market in Shanghai. In addition, Wing Tai monetized its 50% stake in the Nouvel 18 by selling it to the JV partner, CDL, for an aggregate consideration of SGD411mn, to be recognized in 3Q2016. As such, though Wing Tai's credit profile has worsened due to earnings pressure from 9% (end-FY2015) to 20% (end-FY2016), we are comfortable holding Wing Tai at Neutral Issuer Profile. Though we recognize that EBITDA generation has been weak, liquidity remains strong given Wing Tai's SGD722.9mn in cash balance versus SGD87.3mn in short-term debt and SGD45.5mn in finance expense. We are currently Overweight the Wing Tai curve as we believe that it trades wider relative to larger developers despite having lower absolute levels of debt and sizable cash cushion. We also believe that the looming positive catalysts (Nouvel 18 proceeds, Shanghai launch) could be supportive of the bonds looking forward. (Company, OCBC).

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