

Feb 24, 2016

**Market Commentary:** The SGD swap curve traded 3-6bps higher across the curve yesterday. In the SGD space, better buying was seen in FRESHK 4.25% '17 and GENSSP 5.125% perp-c17 and mixed flows in GALVSP 5.95% '16 and AREIT 4.75% perp-c20. In the broader dollar space, JACI IG corporates tightened 1bp to 249bps, while the yield on the JACI HY corporates was 4bps lower at 8.27%. The 10y UST yield was down 3bps to 1.72%.

**New Issues:** Heavy day of issuance from financials yesterday after a 2-week long hiatus. Mitsubishi UFJ Financial Group sold USD5bn of TLAC eligible senior unsecured notes across 3 tranches. USD400mn of 5-year FRNs were priced at 3mL+188bps, USD2.1bn of 5-year notes came in at CT5+180bps while the USD2.5bn 10-year tranche priced at CT215bps. The notes which are Asia's first TLAC-eligible issuance will count towards MUFG's TLAC requirements due to the structural subordination to debt issued out of the operating entities. Bank of China HK branch sold USD900mn of 3-year FRNs at 3mL+105bps, USD600mn of 3-year notes at CT3+107.5bps and USD500mn of 5-year paper at CT5+120bps. Temasek came to market with a dual tranche deal, pricing a EUR600mn 5-year tranche at MS+48bps while the EUR500mn 12-year tranche came in at MS+80bps. Khazanah issued a 5-year USD750mn sukuk at CT10+180bps.

**Rating Changes:** Moody's downgraded Maoye International Holdings Ltd.'s corporate family rating to Caa1 from B1 and the company's senior unsecured ratings to Caa2 from B2 citing increased probability of default from weakening operating cash flow and potential cash drainage from further acquisitions. The ratings outlook is negative. Moody's also downgraded Noble Group's corporate family, senior unsecured bond ratings and the provisional rating on the company's senior unsecured medium-term note program to Ba3 from Ba1 reflecting the impact of the unexpected assets write-down on Noble's business and financial profile. All ratings remain on review for further downgrades. S&P lowered its long-term corporate credit rating on PT Energi Mega Persada Tbk to B- from B reflecting substantial refinancing risk on debt. The outlook is negative.

Table 1: Key Financial Indicators

	24-Feb	1W chg (bps)	1M chg (bps)		24-Feb	1W chg	1M chg
iTraxx Asiax IG	160	-2	3	Brent Crude Spot (\$/bbl)	32.96	-4.46%	2.42%
iTraxx Sovx APAC	79	2	2	Gold Spot (\$/oz)	1,225.52	1.41%	10.62%
iTraxx Japan	102	-7	12	CRB	160.44	0.99%	-2.06%
iTraxx Australia	151	-4	7	GSCI	294.46	1.20%	1.47%
CDX NA IG	115	-2	9	VIX	20.98	-12.98%	-6.09%
CDX NA HY	98	0	0	CT10 (bp)	1.733%	-8.61	-31.90
iTraxx Eur Main	108	0	15	USD Swap Spread 10Y (bp)	-14	1	-1
iTraxx Eur XO	428	-5	54	USD Swap Spread 30Y (bp)	-49	4	-3
iTraxx Eur Snr Fin	118	5	28	TED Spread (bp)	31	-3	-2
iTraxx Sovx WE	32	-4	12	US Libor-OIS Spread (bp)	23	-1	0
iTraxx Sovx CEEMEA	182	-6	-17	Euro Libor-OIS Spread (bp)	14	0	1
					24-Feb	1W chg	1M chg
				AUD/USD	0.719	0.11%	3.42%
				USD/CHF	0.993	0.00%	2.05%
				EUR/USD	1.100	-1.13%	1.41%
				USD/SGD	1.407	-0.28%	1.63%
Korea 5Y CDS	70	3	4	DJIA	16,432	1.45%	2.10%
China 5Y CDS	137	3	6	SPX	1,921	1.36%	0.75%
Malaysia 5Y CDS	181	3	-26	MSCI Asiax	461	1.73%	2.86%
Philippines 5Y CDS	124	-2	-7	HSI	19,289	1.93%	1.09%
Indonesia 5Y CDS	240	3	-17	STI	2,659	1.73%	3.18%
Thailand 5Y CDS	163	3	-1	KLCI	1,674	0.57%	2.99%
				JCI	4,654	-1.92%	4.43%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
23-Feb-16	MUFJ	A/A1/A	USD400mn/ USD2.1bn/U SD2.5bn	5-yr FRN/5- yr/10-yr	3mL+188bps /CT%+180bp s/CT10+215 bps
23-Feb-16	BOC HK branch	A/A1/NR	USD900mn/ USD600mn/ USD500mn	3-yr FRN/ 3- yr/ 5-yr	3mL +105bps/CT 3+107.5bps/ CT5+120bps
23-Feb-16	Temasek Holdings Pte Ltd	AAA/Aaa/NR	EUR600mn/ EUR500mn	5-yr/12- yr	MS+48bps/M S+80bps
23-Feb-16	Khazanah Nasional Bhd	NR/A3/NR	USD750mn	5-yr	CT10+180bp s

Source: OCBC, Bloomberg

## Credit Headlines:

**Lippo Malls Indonesia Retail Trust** – Lippo Malls Indonesia Retail Trust announced its FY2015 unaudited results. Gross rental income grew 23.0% y/y to SGD141mn and net property income grew 26% y/y to SGD158mn. Growth was mainly due to the acquisitions of Lippo Mall Kemang, Lippo Plaza Batu and Palembang Icon. Results were impacted by the IDR depreciation against the SGD with gross rent and net property income in local currency terms having grown 28% and 31% respectively. As a result of the depreciation and property revaluations, the value of investment properties was constant. With debt raised to fund the acquisitions, leverage ratios have weakened. We estimate gross gearing rose from 54% in FY2014 to 64% in FY2015. Note that OCBC Credit Research does not cover Lippo Malls Indonesia Retail Trust. (Company, OCBC)

**Neptune Orient Lines (“NOL”)**: NOL reported 4Q2015 results. For the full year, revenue fell 23.4% y/y to USD5.4bn. The environment remains challenging, with container trade demand remaining weak and freight rates pressured by overcapacity. Revenue was also impacted by planned capacity cuts by NOL. 4Q2015 revenue fell 28.5% y/y for similar reasons, though the sharper decline reflects further deterioration to the environment. NOL managed to trim its losses q/q though with net losses falling from USD95.6mn (end-3Q2015) to USD75.2mn (end-4Q2015). For the year, losses for the continuing liner business improved from a net loss of USD250.2mn (end-2014) to USD141.9mn (end-2015). NOL swung from positive USD55.9mn in free cash flow (end-3Q2015) to negative USD35.8mn (end-4Q2015). This was mainly due to NOL paying down USD100.8mn in payables during 4Q2015, though it could be a seasonal factor as 4Q2014 saw USD112.5mn in payables being paid down. The cash gap was funded with additional borrowings, which drove net gearing higher to 107% (was 103% as of end-3Q2015). We expect the container liner industry to remain pressured through 2016, but believe that the CMA CGM acquisition of NOL would provide the combined entity with sufficient scale to compete effectively. Though the combined entity is expected to be more leveraged post the acquisition, we believe that CMA CGM will focus on deleveraging. We currently hold NOL’s Issuer Profile at Neutral (Company, OCBC).

**OUE Ltd (OUE)**: OUE has entered into an agreement to acquire 203.1mn units of OUE Commercial REIT (OUECT) for SGD166mn from Mr Gordon Tang. The acquisition when completed will increase OUE’s stake in OUECT to 65% from 47% currently. The price works out to SGD0.817 per unit, and represents a 26% premium to yesterday’s close of SGD0.645 and a 14% discount to net tangible asset value per unit of SGD0.95. Mr Gordon Tang together with his wife are directors and controlling shareholders of SingHaiyi Group. Tang was one of the cornerstone investors in OUECT’s IPO in 2014. OUE said the acquisition reinforces the company’s commitment to grow OUECT and allows the company access to a stable income stream from OUECT’s distributions. We estimate the annual dividends received post acquisition will be ~SGD40mn based on OUECT’s last reported semi-annual distribution. We note that after the acquisition, the company’s total market value of quote investments on the balance sheet will be SGD1.2bn, representing 24.5% of OUE’s consolidated net tangible assets of SGD4.7bn. This includes the 26.8% stake in Hong Kong-listed Gemdale Properties and Investment Corp. Ltd (~SGD303mn), 65% stake in OUECT (~SGD549mn) and 41.4% in OUE Hospitality Trust (~SGD416mn). In addition to that the company has SGD371.4mn of investments in a mutual fund. Going forward, the company has limited capex needs with AEs at OUE Downtown and U.S. Bank Tower as well as construction on the Crowne Plaza Changi Airport Extension are on track to be completed by 2016 (SGD205mn purchase consideration) while there are no residential projects in the pipeline. 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 for now and will continue to monitor the company’s use of cash. (Company, OCBC)

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