

Jan 25, 2016

**Market Commentary:** The SGD swap curve bull steepened last Friday, where the short-end rates traded 2bps-3bps lower while the belly-to-longer-end rates traded 1bp-2bps lower. In the broader dollar space, JACI IG corporates spread tightened by 2bps to 237bps while the yield on the JACI HY corporates decreased by 1bp to 8.27%. 10y UST increased by 2bps to 2.05%.

**New Issues:** The Housing Development Board of Singapore priced a SGD1bn 7-year bond at 2.5%

**Rating Changes:** Moody's reviews Chinese energy companies for downgrade, having placed the ratings of three Chinese Exploration and Production and oilfield services companies on review for downgrade. They are namely, China Oilfield Services Ltd, Hilong Holding Ltd and CITIC Resources Holdings Ltd. Moody's cited their view that oil prices may recover much more slowly over the medium term, and there might still be a risk that prices might fall further following a review of their oil price assumption. This will result in these companies facing a much lower cash flow. Moody's also placed the ratings on seven south and south east Asian upstream and integrated oil and gas companies on review for downgrade for the same reasons with the weaker industry conditions having the potential to lead to rating changes as a result of the review (Moody's, Bloomberg).

Table 1: Key Financial Indicators

	25-Jan	1W chg (bps)	1M chg (bps)		25-Jan	1W chg	1M chg
iTraxx Asiax IG	152	-7	16	Brent Crude Spot (\$/bbl)	32.33	13.24%	-14.67%
iTraxx Sovx APAC	75	-6	2	Gold Spot (\$/oz)	1,097.67	0.73%	2.00%
iTraxx Japan	91	5	17	CRB	163.80	0.42%	-6.98%
iTraxx Australia	143	-5	17	GSCI	290.20	1.11%	-7.58%
CDX NA IG	104	-7	15	VIX	22.34	-6.72%	41.93%
CDX NA HY	99	1	-2	CT10 (bp)	2.052%	1.72	-18.38
iTraxx Eur Main	93	-5	14	USD Swap Spread 10Y (bp)	-15	2	-9
iTraxx Eur XO	369	-21	45	USD Swap Spread 30Y (bp)	-47	3	-14
iTraxx Eur Snr Fin	88	-1	16	TED Spread (bp)	32	-7	-8
iTraxx Sovx WE	19	1	2	US Libor-OIS Spread (bp)	25	0	1
iTraxx Sovx CEEMEA	200	-23	26	Euro Libor-OIS Spread (bp)	13	1	2
					25-Jan	1W chg	1M chg
				AUD/USD	0.701	2.04%	-3.76%
				USD/CHF	1.016	-1.09%	-2.77%
				EUR/USD	1.079	-0.91%	-1.52%
				USD/SGD	1.429	0.73%	-1.79%
Korea 5Y CDS	64	-8	8	DJIA	16,094	-1.74%	-8.31%
China 5Y CDS	123	-5	14	SPX	1,907	-0.78%	-7.48%
Malaysia 5Y CDS	197	-20	10	MSCI Asiax	448	0.22%	-11.11%
Philippines 5Y CDS	123	-7	15	HSI	19,081	-2.26%	-13.81%
Indonesia 5Y CDS	243	-14	9	STI	2,577	-2.04%	-10.44%
Thailand 5Y CDS	159	-5	22	KLCI	1,625	-0.21%	-2.30%
				JCI	4,457	-1.49%	-1.46%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
25-Jan-16	Housing Development Board of Singapore	Aaa/NR/NR	SGD1bn	7-year	2.5%
22-Jan-16	KEB Hana Bank	A/A1/A-	USD300mn	5-year	CT5+125bps
21-Jan-16	China Nonferrous Metal Co Ltd	Nr/NR/NR	USD500mn	3-year	CT3+145bps
20-Jan-16	Bank of Communications Ltd	A-/A2/NR	USD500mn	3-year	CT3+115bps
15-Jan-16	Huaneng Hong Kong Capital Ltd	NR/NR/NR	USD500mn	Perp NC3	4.3%
15-Jan-16	Singapore Technologies Telemedia Pte Ltd	NR/NR/NR	SGD300mn	10-year	4.05%
15-Jan-16	Hsin Chong Construction Group Ltd	NR/NR/NR	USD150mn	3-year	8.5%
15-Jan-16	Hong Kong Airlines International Holdings	NR/NR/NR	USD180mn	3-year	7.25%

Source: OCBC, Bloomberg

## Credit Headlines:

Ascendas REIT ("AREIT"): AREIT announced its 3QFY2016 results on Friday evening with net property income up 24.1% and 14.8% on a y/y and q/q basis respectively. This was due to contributions from newly acquired properties (The Kendall, Australian logistics portfolio acquisition), asset enhancements (DBS Asia Hub Phase 2), improved occupancy at Aperia and positive rental reversion on contracted properties across all property segments of 7.3% in 3QFY2016. Business performance remains robust with total portfolio occupancy improving slightly q/q to 89.2% from 89.0% although this was entirely due to the inclusion of the Australian logistics portfolio which currently has an occupancy of 94.4%. Otherwise portfolio occupancy was softer in Singapore and China. While leverage increased as expected following the Australian logistics portfolio acquisition to 37.3% as at 31 Dec 15 from 34.6% as at 30 Sep 15, we think the Australian acquisition is credit supportive given its diversification benefits as well as longer WALE and higher occupancy compared to AREITs other assets. Newly acquired assets in Singapore (One@Changi City) and Australia (6-20 Clunies Ross Street) along with the recent equity raising is expected to be concluded in 1QFY2016 with leverage likely to remain at current levels. Going forward, management is expecting mid-single digit positive rental reversions for the remainder of FY2016 considering current market rental rates and the new supply of industrial property coming on stream. Although not entirely immune to the soft industry dynamics, we continue to have a positive view on AREIT's credit profile given it's higher exposure to the business park and high specification industrial sectors which will see lower new supply than light industrial and logistics/distribution over the next 2-3 years. (Company, OCBC)

Guocoland Ltd ("GUOL"): GUOL reported a decent set of 1HFY2016/2QFY2016 results. 2QFY2016 revenue was down 33% y/y to SGD239.5mn while gross profit declined 50% y/y to SGD60.9mn, mainly due to lack of sale of an office tower in Shanghai Guoson Centre in 2QFY2015. There was less volatility in the half-yearly results however, with 1HFY2016 revenue up 17% y/y to SGD680mn due to better performance from Singapore and China in 1QFY2016. Gross margins were relatively stable at 30%. Net profit increased to SGD594.4mn from SGD67.9mn previously mainly due to gains from the disposal of the SGD2.1bn Dongzhimen project. Management has committed to using the proceeds from the disposal towards reducing the company's debt levels, and has already delivered on this aspect. Gross debt decreased by SGD1.08bn to SGD4.2bn while cash increased to SGD2.1bn from SGD663mn as at end June 2015. Net gearing subsequently improved to 60% as of end December 2015 from 147% in June 2015. We continue to like the GUOL curve. We believe the SGD200mn GUOLSP 4.70% perp-c16 could be called this May because the reset at initial spread (411bps) + SDSW3 (206bps) + step up (100bps) will see coupons increase from 4.70% to 7.17% if not called. The perps are currently trading at YTC of 3.16% and spread to swaps of 160bps, offering a pickup of 54bps on a spread basis to GUOLSP 4.875% '16 (YTM:2.28%, spread:106bps). If not called, the perps will yield 6.37% at a spread of 425bps until next reset in 2019. This is a pickup of 248bps on a spread basis over the GUOLSP 3.95% '19 (YTM: 3.86% spread: 175bps). (Company, OCBC)

Vallianz Holdings ("VALZ"): We previously mentioned how VALZ (an associate company of Swiber Holdings) managed to restructure most of its vessel financing into an off-balance sheet arrangement, to be ultimately financed by Sukuk bonds. VALZ has announced that subsidiaries of China's state-owned rail corporation, CRRC, will be making a SGD23.65mn investment into VALZ in exchange for a 14% post-investment stake. Adjusting for both the off balance sheet financing, as well as the equity infusion, VALZ's net gearing would fall from ~234% (end-3QFY2015) to pro-forma ~85% (note that VALZ is still contingently liable for the debt financing). This could make it easier for VALZ to refinance its SGD100mn in bonds maturing in April 2016 as well as SGD60mn in bonds maturing in November 2016. VALZ is not currently part of our research coverage. (Company, OCBC)

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