Asian Credit Daily

October 26, 2016

Credit Headlines (Page 2 onwards): DBS Group Holdings, Cambridge Industrial Trust, Pacific Radiance, Sembcorp Industries / Sembcorp Marine, First Sponsor Group

Market Commentary: The SGD swap curve bear-steepened yesterday with the short-end rates trading within +/- 1bps while the middle to longer term-rates traded 1-3bps higher. Flows in the SGD corporates were heavy with better buying seen in SCISP 4.75%'49s and FCLSP 4.88%'49s while mixed interests were seen in SOCGEN 4.3%'26s, TRAFIG 7.5%'49s and STANLN 4.4%'26s. In the broader dollar space, the spread on JACI IG corporates decreased 2bps to 206bps while the yield on JACI HY corporates increased 2bps to 6.59%. 10y UST yield decreased 1bps to 1.76% amidst an appreciating USD that weighed on oil, commodities and stocks.

New Issues: Commonwealth Bank of Australia has priced a two-tranche deal with the USD1bn 3-year bond priced at CT3+80bps while the other USD500mn 3-year tranche was priced at 3mL+64bps. The expected issue ratings are "AA-/Aa2/AA-". BOCOM Financial Leasing priced a two-tranche deal with the USD500mn 3-year bond priced at CT3+127.5bps while the other USD1bn 5-year tranche was priced at CT5+142.5bps. The expected issue ratings are "NR/A2/A". Standard Chartered has priced a SDR100mn 1-year bond at 1.2%. Industrial & Commercial Bank of China (Tokyo) has priced a CNH500mn 3-year bond at 3.8%. The expected issue ratings are "NR/A1/NR". Li & Fung has scheduled investor road shows from 25 October for a potential USD bond issue. BOC London has scheduled investor road shows from 26 October for potential USD green bond issue.

Rating Changes: S&P revised the outlook on Aluminium Corp. of China Ltd.'s "BBB-" foreign currency corporate credit rating to stable from negative. The revision follows the release of financial results for the first nine months of 2016 that was above S&P's expectation, due to a material recovery in aluminium prices and the company's continual effort to reduce its electricity price.

Table 1: Key Financial Indicators

	26-Oct	1W chg (bps)	1M chg (bps)		26-Oct	1W chg	1M chg
iTraxx Asiax IG	115	-2	-7	Brent Crude Spot ($/bbl)	50.21	-4.67%	6.04%
iTraxx SovX APAC	34	0	1	Gold Spot ($/oz)	1,274.29	0.40%	-4.76%
iTraxx Japan	56	0	-2	CRB	189.35	-0.23%	2.36%
iTraxx Australia	103	-2	-2	GSCI	373.11	-0.65%	4.67%
CDX NA IG	75	1	-4	VIX	13.46	-11.91%	-7.17%
CDX NA HY	104	0	0	CT10 (bp)	1.752%	0.92	16.85
iTraxx Eur Main	72	1	-1	USD Swap Spread 10Y (bp)	-16	1	0
iTraxx Eur XO	321	-3	-13	USD Swap Spread 30Y (bp)	-56	1	-1
iTraxx Eur Snr Fin	95	-1	-5	TED Spread (bp)	57	-1	-12
iTraxx Sovx WE	18	-1	-6	US Libor-OIS Spread (bp)	39	-2	-4
iTraxx Sovx CEEMEA	93	-2	4	Euro Libor-OIS Spread (bp)	4	0	0
					26-Oct	1W chg	1M chg
				AUD/USD	0.765	-0.98%	0.13%
				USD/CHF	0.995	-0.55%	-2.54%
				EUR/USD	1.089	-0.77%	-3.24%
				USD/SGD	1.389	-0.16%	-2.05%
Korea 5Y CDS	41	0	-2	DJIA	18,169	0.04%	0.41%
China 5Y CDS	105	0	0	SPX	2,143	0.17%	-0.14%
Malaysia 5Y CDS	120	-2	-9	MSCI Asiax	553	0.48%	0.25%
Philippines 5Y CDS	112	-4	-4	HSI	23,565	2.29%	1.06%
Indonesia 5Y CDS	149	-3	-7	STI	2,854	0.83%	0.14%
Thailand 5Y CDS	94	-2	6	KLCI	1,677	0.59%	0.47%
				JCI	5,398	-0.59%	0.85%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
25-Oct-16	Commonwealth Bank of Australia	"AA-/Aa2/AA-"	USD1bn	3-year	CT3+80bps
25-Oct-16	Commonwealth Bank of Australia	"AA-/Aa2/AA-"	USD500mn	3-year	3mL+64bps
25-Oct-16	BOCOM Financial Leasing	"NR/A2/A"	USD500mn	3-year	CT3+127.5bps
25-Oct-16	BOCOM Financial Leasing	"NR/A2/A"	USD1bn	5-year	CT5+142.5bps
25-Oct-16	Standard Chartered PLC	"NR/NR/NR"	SDR100mn	1-year	1.2%
25-Oct-16	Industrial & Commercial Bank of China	"NR/A1/NR"	CNH500mn	3-year	3.8%
24-Oct-16	MTR Corp. Ltd.	"AAA/Aa1/NR"	USD600mn	10-year	CT10+80bps
24-Oct-16	Lippo Karawaci	"B+/Ba3/BB-"	USD425mn	10NC5	6.75%
21-Oct-16	Delhi International Airport	"BB/Ba2/NR"	USD523mn	10-year	6.125%

Source: OCBC, Bloomberg

Rating Changes (cont'd): Moody's revised its outlook on PICC Life Insurance Company Ltd.'s "A2" insurance financial strength rating to stable from negative. The revision reflects that the standalone credit profile of PICC Life remains stable and that the level of government support is unlikely to change over the medium term despite the evolving nature of government policy. Moody's upgraded Panasonic Corp.'s unsecured debt rating and issuer rating to "A3" from "Baa1", and revised its outlook to stable from positive. The rating action reflects the consideration that Panasonic's operating performance has steadily improved – with increasing signs of stability over the last several quarters and Moody's expectation that this earnings stability is sustainable, supported by management's focus on maintain a solid financial profile. Fitch has assigned Zhuzhou City Construction Development Group Co. Ltd.'s USD300mn 2.98%'19s bond a "BBB-" credit rating. Fitch assigned a final rating of "B+" to Modern Land Co. Ltd.'s USD350mn 6.875%'19s note. Fitch assigned a final rating of "BB+" to Huai An Traffic Holding Co. Ltd.'s USD300mn 4.95%'19s note. China Great Wall International Holdings III Ltd.'s USD700mn 2.25%'19s note and USD800mn 2.625%'21s note was rated "A" by Fitch. The bonds are issued under the USD6.5bn MTN program which is also rated "A" by Fitch.

Credit Headlines:

DBS Group Holdings Ltd ("DBS"): DBS is reportedly considering a bid for ABN Amro Group NV's (ABN) private banking business in Asia. The sale is expected to generate around USD300mn-USD350mn for assets under management (AUM) of around USD20bn or 1.5%-1.75% of AUM. Other interested parties include Swiss private banks Julius Baer Group Ltd (JBG) and LGT Bank. ABN is the 18th largest private bank in Asia according to 2015 AUM rankings from the Asian Private Banker and an acquisition by DBS would increase Asia AUM by around 27% with current Asia AUM of USD75mn. The acquisition size is not material in our view to the consolidated credit profile given the existing size of the balance sheet and liquidity resources of DBS. The sale by ABN and interest from DBS and JBG follows similar sales by Barclays PLC and Societe Generale SA who sold their wealth management businesses recently. (Company, OCBC)

Cambridge Industrial Trust ("CREIT"): CREIT reported 0.7% increase in gross revenue in 9M2016 to SGD84.3mn from SGD83.7mn in 9M2015 mainly due to full period revenue contribution from property acquisitions, completion of Asset Enhancement Initiatives (AEIs) in the previous year, and the leasing up of properties and rental escalations in the existing portfolio. 3Q2016's revenue was lower at SGD27.6mn as compared to the previous quarter (2Q2016: SGD28.3mn). Net Property Income (NPI) however was marginally lower by 3.1% at SGD62.6mn due to higher expenses from on-going single-tenancy to multi-tenancy conversion, expiry of existing leases and divestment of property. CREIT has announced a proposed divestment of 2 Ubi View for SGD10.5mn, representing approximately 6 % above valuation and a 40% premium to the purchase price of SGD7.5mn in 2006. The divestment is targeted to be completed by the end of October, 2016. In terms of asset management, CREIT's portfolio occupancy and WALE as at 30 September 2016 was stable at 93.6% and 3.8 years respectively with a considerable improvement in tenant retention rate at 86.7% (1H2016: 71.4%). Contribution from multi-tenanted properties to rental income continues to grow, contributing 57.5% to total rental income in 9M2016 (up from 55.9% in 1H2016). CREIT's debt profile remains relatively stable as compared to the corresponding quarter with debt duration of 3.4 years and an all-in debt cost of 3.65%. CREIT's gearing ratio improved to 36.9% from 37.4% while interest coverage ratio decreased to 3.6x from 3.9x mainly due to lower earnings. CREIT liquidity remains sound with no major refinancing requirements until 2H2018. We maintain our Neutral Issuer Profile on CREIT. (Company, OCBC)

OCBC Bank

Credit Headlines:

Pacific Radiance ("PACRA"): PACRA announced that it was able to negotiate with its bank lenders to refinance part of its existing term loans as well as renew its revolving facilities. These credit facilities total USD185mn. PACRA last reported USD420.8mn in secured borrowings (likely to be mostly bank facilities) as of end-1H2016, or which USD100.2mn were due in 12 months. PACRA noted that the profile of these term loans have been refinanced to twelve years (from an average of seven years previously), and the maturity have largely been extended from 2019 to 2021. As a result, PACRA's loan principal repayment burden will be reduced by ~USD103mn over the next three years to 2019. In general, though the terming out of debt debt would have cost PACRA some bank fees, as well as may have resulted in higher interest rates, the lower near-term principal repayment burden would provide the group with some leeway to generate positive cash flows given the challenging environment. Before this restructuring, though PACRA would have been able to find charters for its fleet that cover OpEx (operating expenditure), there may not have been sufficient residue cash flows to cover both interest and principal service, resulting in a cash burn situation. The restructuring of these vessel financing to backend the principal repayments would allow PACRA to accumulate cash during these challenging times to fund its operational needs, while allowing PACRA to service its principal in the future when the market turns and charter rates improve (allowing PACRA more cash flow to service principal as well). To a certain extent, PACRA was able to do this as it has a relative young fleet with a longer expected working life. In aggregate, we believe this to be a credit positive as the terming out of bank debt would allow PACRA more operating leeway when tendering for charters. This should help PACRA improve its cash flow generation. We will await for 3Q2016 results (expected around mid-November) for more details regarding recent performance. We currently hold PACRA at Negative Issuer Profile given the challenging environment and PACRA's high leverage. We also currently hold the PACRA'18s at Neutral, and note that thin liquidity, and market turbulence arising from various offshore marine peer restructurings have driven the bond sharply lower. This was particularly notable post the Swiber Holdings default. (Company, OCBC)

Sembcorp Industries ("SCI") / Sembcorp Marine ("SMM"): SMM reported 3Q2016 results with revenue declining 21.4% y/y to SGD888.0mn. Though energy markets have seemed to achieve a certain equilibrium, demand for newbuild drilling assets remains weak due to oversupply of such assets, and still tepid upstream activity. The slump in revenue for SMM was lower than the 63.5% y/y decline seen for Keppel's O&M segment though. In terms of segment breakdown, Rigs & Floaters and Repairs & Upgrades saw revenue fall 41.4% y/y and 20.1% y/y. This was largely driven by customers' deferment requests as well as lower repair businesses. We note that the status of Perisai Petroluem Teknologi ("PPT")'s two jack-up rigs remain uncertain given PPT's recent default. In addition, it would seem that 3 jack-up rigs to be delivered to Oro Negro have been deferred as well, with SMM seeking options for these rigs, including sale to third parties. SMM also mentioned about the status of Sete Brasil, and that Sete Brasil's restructuring remains on-going, along with SMM's arbitration against them. SMM reiterated that the SGD329mn made in provision over the Sete Brasil contracts remain adequate. Net order book (including SGD3.1bn worth of Sete Brasil orders) has declined from SGD9.2bn (end-2Q2016) to SGD8.4bn (end-3Q2016). The decline could be partly driven by the delivery of a jack-up rig to Noble Corporation. Operating profits were squeezed by lower revenue as well as by a SGD18.9mn FX loss caused by the revaluation of certain assets in GBP post BREXIT. This drove operating profit 55.9% lower y/y to SGD32.9mn. After factoring SGD22.5mn in finance costs and SGD27.7mn loss from JV/associates, SMM reported a pre-tax loss of SGD18.3mn for the quarter (3Q2015: SGD22.6mn pre-tax profit). We note that due to the delivery of the rig to Noble Corporation, the cash payment helped improve operating cash flow for the quarter to SGD765.0mn. This allowed SMM to generate SGD682mn in free cash flow, which caused SMM's cash balance to jump to SGD1.5bn (2Q2016: SGD966.3mn). This in turn helped improve net gearing to 103% (2Q2016: 110%). It should be noted that SMM actually increased its gross borrowings by ~3% q/q to SGD4.1bn. The improvements in SMM's credit profile would support improvements to SCI's credit profile as well, though we will need to consider the performance of SCI's nascent India utilities business to gauge the overall trend in SCI's credit. In general, given the lower amount of new orders, SMM would like continue to monetize its working capital, boosting operating cash flow. This would be supportive of SCI's consolidated cash generation. SCI is expected to announce its 3Q2016 earnings on 27/10/16. (Company, OCBC)

Credit Headlines:

First Sponsor Group Limited ("FSG"): FSG announced its 3Q2016 results with quarterly revenue up 11.5% y/y to SGD80.4mn and YTD revenue up 46.6% y/y to SGD168.1mn. Gross profit however fell by 15.3% y/y for 3Q2016 and 4.1% y/y for 9M2016 as results continue to be influenced by the sharp y/y fall in property financing revenue which fell 90% y/y for the quarter and is down 84% y/y for the year to date. This partially mitigated the strong performance from the property development segment with 731 units in the Millennium Waterfront project handed over in 3Q2016, almost 40% more than what was handed over in 3Q2015. Property holding segment performance was stable due to contributions from Zuiderhof I and Arena Towers and given the positive performance of the segment, FSG has acquired a further two properties in the Netherlands (Dreeftoren and Blue Wings) with redevelopment potential to add to FSG's property holding business. Progress of court proceedings in the recovery of defaulted loans in the property financing segment is in varying degrees and while judgments so far continue to move forward in FSG's favor, the progress continues to be slow. We expect recoveries of outstanding monies to be protracted, which supports FSG's approach in not recognizing penalty interest income from the defaulted loans. FSG's financial position and balance sheet remains steady with FSG's debt-to-equity ratio remaining at 0.4x and net debt-to-equity ratio at 0.3x. We are currently reviewing FSG's Neutral Issuer Profile for any potential changes. (Company, OCBC)

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