Asian Credit Daily

OCBC Bank

Apr 27, 2016

Market Commentary: The SGD swap curve steepened yesterday, with the short-end rates trading 6bps-7bps higher, while the belly-to-long-end rates traded 7bps-9bps higher. Flows in the SGD corporates were moderate with activity mostly in the bank capital and corporate perpetuals space. We saw better buyers in ABNANV 4.75%'26s, STANLN 4.4%'26s and mixed interests in GENSSP 5.125%'49s, SCISP 4.75%'49s, ABNANV 4.7%'22s and GALVSP 5.9%'17s post the company's divestment of interests in a Shanghai project. In the broader dollar space, the spread on the JACI IG corporates tightened by 1bp to 225bps, while the yield on the JACI HY corporates was level at 7.57%. 10y UST yield increased by 2bps to 1.93% ahead of the FOMC meeting.

New Issues: Fantasia Holdings Group Co Ltd priced a CNH600mn 3-year bond at 9.5%, from an initial guidance of 9%. The expected rating for the issue is "B/B3/NR". Tianjin Rail Transit Group scheduled investor meetings starting today for a potential USD bond issue.

Rating Changes: S&P downgraded Exxon Mobil Corp's corporate credit rating to "AA+" from "AAA", in light of expectations that Exxon Mobil's credit measures will be weak due to low commodity prices, high reinvestment requirements and large dividend payments. S&P also expects leverage to remain weaker than levels consistent with an "AAA" rating, in light of higher spending to maintain production and replace reserves. Outlook is stable as S&P removed the ratings from CreditWatch. S&P revised the outlook on Wan Hai Lines Ltd's "BB+" long-term corporate credit rating to negative from stable. The outlook revision reflects the material likelihood that a prolonged industry downturn and rising competition from long-haul peers in the intra-Asia and Middle East trade routes would substantially weaken Wan Hai's competitive position and profitability. Fitch downgraded Evergrande Real Estate Group Ltd to "B+" from "BB-", due to persistently high leverage which leaves Evergrande with limited financial flexibility to face potential headwinds in the domestic property markets. Outlook is negative.

Table 1: Key Financial Indicators

	27-Apr	1W chg (bps)	1M chg (bps)		27-Apr	1W chg	1M chg
iTraxx Asiax IG	141	3	-15	Brent Crude Spot ($/bbl)	46.26	1.00%	14.39%
iTraxx SovX APAC	58	1	-1	Gold Spot ($/oz)	1,243.79	-0.32%	2.21%
iTraxx Japan	67	-4	-25	CRB	181.48	2.00%	5.40%
iTraxx Australia	132	0	-15	GSCI	351.68	2.36%	7.25%
CDX NA IG	75	2	-8	VIX	13.96	5.44%	-5.29%
CDX NA HY	103	-1	1	CT10 (bp)	1.916%	7.14	1.64
iTraxx Eur Main	71	1	-6	USD Swap Spread 10Y (bp)	-14	-1	-1
iTraxx Eur XO	305	5	-17	USD Swap Spread 30Y (bp)	-47	-1	-1
iTraxx Eur Snr Fin	87	1	-8	TED Spread (bp)	39	-4	4
iTraxx Sovx WE	26	-1	-1	US Libor-OIS Spread (bp)	24	0	1
iTraxx Sovx CEEMEA	131	4	-23	Euro Libor-OIS Spread (bp)	9	-1	-1
					27-Apr	1W chg	1M chg
				AUD/USD	0.775	-0.82%	2.85%
				USD/CHF	0.974	-1.31%	0.33%
				EUR/USD	1.130	-0.60%	1.23%
				USD/SGD	1.351	-0.90%	1.34%
Korea 5Y CDS	64	2	-5	DJIA	17,990	-0.35%	2.71%
China 5Y CDS	127	6	-3	SPX	2,092	-0.43%	2.74%
Malaysia 5Y CDS	163	1	-2	MSCI Asiax	510	-0.49%	2.71%
Philippines 5Y CDS	102	4	-8	HSI	21,407	-0.14%	5.22%
Indonesia 5Y CDS	194	0	-16	STI	2,895	-1.94%	1.66%
Thailand 5Y CDS	124	1	-17	KLCI	1,693	-1.09%	-0.66%
				JCI	4,814	-1.39%	-0.27%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
27-Apr-16	Suncorp-Metway Ltd	A+/A1/A+	USD500mn	3-year	CT3+110bps
27-Apr-16	Fantasia Holdings Group Co Ltd	B/B3/NR	CNH600mn	3-year	9.5%
25-Apr-16	Bank Muscat	BBB-/A3/BBB+	USD500mn	5-year	MS+275bps
25-Apr-16	Sinopec Group Overseas Development Ltd	A+/Aa3/NR	USD1bn	3-year	CT3+120bps
25-Apr-16	Sinopec Group Overseas Development Ltd	A+/Aa3/NR	USD900mn	5-year	CT5+142.5bps
25-Apr-16	Sinopec Group Overseas Development Ltd	A+/Aa3/NR	USD700mn	10-year	CT10+170bps
25-Apr-16	Sinopec Group Overseas Development Ltd	A+/Aa3/NR	USD400mn	30-year	CT30+153.5bps
20-Apr-16	BOC Aviation	BBB+/NR/A-	USD750mn	10-year	CT10+215bps

Source: OCBC, Bloomberg

Rating Changes (con'td): Meanwhile, S&P initiated a "A-" long-term corporate credit rating on Tianjin Rail Transit Group ("TRT"), primarily reflecting the creditworthiness of the Tianjin Municipal People's government. The rating is six notches higher than the company's stand-alone credit profile, which S&P assesses as "bb-". Outlook is stable. Along the same theme, Fitch has initiated ratings on Tianjin Rail Transit Group with an "A" long-term issuer default rating. The link between TRT and Tianjin Municipality reflects strong oversight and supervision of TRT by the municipal government. Outlook is stable.

Credit Headlines:

First Sponsor Group Limited ("FSG"): FSG announced its 1Q2016 results this morning with revenue up 260% to SGD45mn and gross profit up 36% to SGD14.4mn. The positives were the higher revenue recognition from sale of development properties (324 units handed over in 1Q2016 in the Millennium Waterfront project) and full quarter contribution from the Zuiderhof I and Arena Towers investment properties. The key negative however was the fall in property financing revenue due to the non-recognition of interest due on loans currently in default. Combined with associated legal expenses to recover the defaulted loans as well as higher selling costs to support property developments, operating income actually fell 73% to SGD2.9mn although the weaker property financing performance was mitigated by the share of profits of SGD6.6mn from the disposal of non-core Netherlands assets. This translated to profit before tax improving 6.5% to SGD15.9mn. With regards the property financing business, the company has called an event of default and initiated legal proceedings with first preservation orders placed over the first legal mortgaged property collaterals and the guarantors assets. While the company has stated that this has improved the LTV for the defaulted loans and that other developments are positive, we remain mindful that the time to resolve these loans could be long while the company needs more capital for its development projects in 2016 in China (Chengdu and Dongguan) and possibly the Netherlands (redevelopment in Rotterdam). FSG's balance sheet has improved due to cash inflow from repayment of its performing entrusted loans and loans from its Netherland associate. This allowed the company to reduce debt and improve gross gearing to 41% as at end-1Q2016 from 49% as at end-2015. We are currently reviewing FSG's 'Neutral' issuer profile for any potential changes (OCBC, Company).

Mapletree Commercial Trust ("MCT"): MCT reported results for the fiscal year 2016 ending March 2016. Revenue was up 1.9% y/y to SGD287.8mn while NPI was up 4.3% y/y to SGD220.7mn. Performance was mainly driven by Vivocity, as MCT's office properties faced some softness through the year due to transitional vacancies. On a q/q basis though, revenue declined 1.1% while NPI fell 2.8%. Again, this was largely driven by MCT's office properties, specifically Mapletree Anson and the PSA Building. The former saw occupancy fall to 91.0% (3QFY2016: 99.3%) while the latter saw occupancy fall to 92.8% (3QFY2016: 94.3%). The commercial real estate sector in Singapore faces supply pressure due to several large developments completing in 2016. This includes Guoco Tower in Tanjong Pagar, which would directly compete with Mapletree Anson. We believe though that MCT's main asset, VivoCity, will continue to do well due to its unique positioning and support the REIT in aggregate. Occupancy at VivoCity stood at 99.6%, while MCT was able to increase retail lease rates by 12.3% during rental reversions as well as retain 88% of their retail tenants. Portfolio WALE (by gross rental revenue) was 2.2 years, though in April MCT successfully renewed/restructured its Merrill Lynch HarbourFront ("MLHF") single-tenant asset (6.4% of portfolio gross rental revenue). This was originally the main near-term lease expiry for MCT (it was roughly 1/3 of portfolio office leases, expiring November 2017). About 25% of the lease was brought forward to expire in FY2017, while the balance has been renewed till FY2021 and beyond. MCT also saw portfolio revaluation gains of 3.4% during FY2016, with VivoCity providing the lion's share (+5.5% to SGD2.6bn). This resulted in aggregate leverage improving from 36.3% (end-3QFY2016) to 35.1% (end-4QFY2016). Gross debt remained unchanged q/q. Interest coverage weakened slightly from 5.1x to 5.0x q/q, driven by the fall in EBITDA q/q (due to the fall in revenue). As of 26/04/16, MCT had already refinanced SGD190mn of debt via term loans earlier in 2016, extending average term to maturity to 4.0 years. For FY2017, MCT still has about SGD185.5mn in debt maturing (bank debt) which we believe that MCT will be able to refinance due to the strong performance of VivoCity. We will reaffirm our Neutral Issuer Profile on MCT, due to our expectation that MCT will unlikely to see significant changes to its credit profile in either direction. (Company, OCBC).

Credit Headlines:

Century Sunshine ("CENSUN"): CENSUN has announced that it has entered into a subscription agreement with Wan Tai Investments, a indirectly and wholly owned subsidiary of China Construction Bank. CENSUN will be issuing HKD232mn (~SGD40mn) in exchangeable bonds to the investor. The bond has a 3 year maturity (with a one year extension at the option of the investor), paying 8%. Coupon. The bonds are exchangeable into shares of China Rare Earth Magnesium Technology ("China Rare Earth", a 87.95% owned subsidiary of CENSUN), capped at 11% of the total number of China Rare Earth shares in issue. The announcement also made mentioned to the potential listing of China Rare Earth. We believe that CENSUN being able to receive an investment from China Construction Bank to be a credit positive for CENSUN. The proceeds will be used to for the expansion of CENSUN's fertilizer and magnesium product businesses. CENSUN last reported its net gearing to be 2% (end-2015), and that it has a fair bit of cash. The We believe that CENSUN continues to consider both organic and inorganic growth. (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