

May 03, 2016

Market Commentary: The SGD swap curve remained relatively level last Friday across the different tenors, trading ~1bp higher. Flows in the SGD corporate space were moderate, where we saw better buyers in the STANLN 4.4%'26s, ABNANV 4.75%'26s, and mixed interests in the GENSSP 5.125%'49s and ABNANV 4.7%'22s. For Monday close, in the broader dollar space, the spread on the JACI IG corporates was level at 226bps, while the yield on the JACI HY corporates decreased by 2bps to 7.31%. 10y UST yield increased by 4bps to 1.87% on the back of inflation concerns due to rising US manufacturing costs.

New Issues: State Grid Overseas Development (2016) Ltd scheduled fixed income roadshows in Asia, Europe and US from 4 May 2016 to 9 May 2016.

Rating Changes: S&P downgraded Yanzhou Coal Mining Co Ltd ("Yancoal") to "BB-" from "BB", as S&P anticipates continued weakness in China's coal industry fundamentals over the next 12 months to pressure Yancoal's cash flow and liquidity. Outlook is negative. S&P downgraded the long-term corporate credit rating on Greenland Hong Kong Holding Ltd ("Greenland HK") two notches down to "BB-" from "BB+", to reflect S&P's downgrade on the same day of the company's parent; Greenland Holding Group Co Ltd ("Greenland Group"). Outlook is negative. Greenland Group's rating was lowered two notches down to "BB" from "BBB-", due to its significantly higher leverage and a weakened likelihood of extraordinary support from the government to the company. Meanwhile, S&P withdrew its "D" long-term corporate credit rating on China Shanshui Cement Group Ltd at the issuer's request.

Table 1: Key Financial Indicators

	3-May	1W chg (bps)	1M chg (bps)		3-May	1W chg	1M chg
iTraxx Asiax IG	144	3	0	Brent Crude Spot (\$/bbl)	45.82	0.17%	18.49%
iTraxx SovX APAC	54	-3	-5	Gold Spot (\$/oz)	1,291.30	3.85%	6.24%
iTraxx Japan	74	7	-11	CRB	182.53	2.05%	8.63%
iTraxx Australia	133	1	-2	GSCI	355.13	2.87%	12.24%
CDX NA IG	78	3	2	VIX	14.68	4.26%	12.06%
CDX NA HY	103	0	1	CT10 (bp)	1.872%	-4.05	10.18
iTraxx Eur Main	74	2	0	USD Swap Spread 10Y (bp)	-12	2	1
iTraxx Eur XO	312	7	8	USD Swap Spread 30Y (bp)	-47	1	-1
iTraxx Eur Snr Fin	90	3	-1	TED Spread (bp)	43	2	2
iTraxx Sovx WE	25	-1	-1	US Libor-OIS Spread (bp)	25	0	0
iTraxx Sovx CEEMEA	127	-4	-20	Euro Libor-OIS Spread (bp)	9	0	-1
					3-May	1W chg	1M chg
				AUD/USD	0.768	-0.94%	0.93%
				USD/CHF	0.954	2.00%	0.47%
				EUR/USD	1.154	2.11%	1.26%
				USD/SGD	1.340	0.88%	0.91%
Korea 5Y CDS	65	2	-1	DJIA	17,891	-0.48%	0.55%
China 5Y CDS	130	3	8	SPX	2,081	-0.30%	0.42%
Malaysia 5Y CDS	167	4	11	MSCI Asiax	501	-1.62%	0.07%
Philippines 5Y CDS	111	9	4	HSI	21,067	-1.86%	2.77%
Indonesia 5Y CDS	191	-3	-10	STI	2,839	-3.47%	0.71%
Thailand 5Y CDS	125	2	-5	KLCI	1,673	-2.63%	-2.21%
				JCI	4,808	-1.45%	-0.72%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
28-Apr-16	Cambridge Industrial Trust	NR/Baa3/NR	SGD50mn	7-year	3.95%
28-Apr-16	China Aircraft Leasing Group Holdings Ltd	NR/NR/NR	USD300mn	3-year	5.9%
28-Apr-16	Huawei Investment & Holding Co	NR/NR/NR	USD2bn	10-year	CT10+230bps
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

Source: OCBC, Bloomberg

Credit Headlines:

Keppel Corp ("KEP") & Sembcorp Industries ("SCI"): Sete Brasil has filed for bankruptcy protection on 30/04/16. It was reported that Sete Brasil had about USD5.1bn of liabilities, of which more than half were owed to Brazil's state-owned banks and a government affiliated fund. Sete Brasil accounts for the largest part of KEP and SCI's offshore marine backlog, at ~USD3bn and ~USD2.4bn respectively. There could potentially be revenue reversals made for 2Q2016 results should KEP and SCI deem the Sete Brasil contracts cancelled given that Sete Brasil is now under bankruptcy protection. It is worth noting that Sembcorp Marine has already initiated arbitration proceedings with Sete Brasil. Both KEP and SCI have recently reiterated that the impairments and provisions made during the 4Q2015 quarter are adequate. We believe that the market has widely digested the potential impact of a Sete Brasil bankruptcy, with both KEP's and SCI's bonds rallying distinctly after the sharp selloff earlier in the year. We believe that both KEP and SCI have adequate balance sheet room to absorb the impact of the Sete Brasil bankruptcy and currently hold both their Issuer Profiles at Neutral. (Bloomberg, OCBC)

DBS Group Holdings Ltd ("DBS"): Reported its 1QFY2016 results with strong revenue and earnings performance. Total income was up 5% y/y and 8% q/q to SGD2.865bn. This was driven by continued strength in net interest income which was up 8% y/y and broadly flat q/q due to a 16bps y/y increase in net interest margin ('NIM') to 1.85% (NIM grew 1bps q/q). Operating costs were also contained in the quarter resulting in a fall in the cost to income ratio to 44.2% from 46.8% in 4QFY2015 and net profit before one offs growing 6% y/y and 20% q/q to SGD1.203bn. Revenue and earnings performance was achieved despite customer loans falling 2% y/y and 3% q/q (1% in constant currency terms) with a 23% decline in trade loans mitigated by a 3% increase in non-trade corporate loans and a 13% increase in Singapore housing loans. In terms of the balance sheet, non-performing loans rose to 1.0% from 0.9% in the previous quarter. Given the record quarterly earnings and lower risk weighted assets due to currency translation effects, capital ratios strengthened with the Common Equity Tier 1 ratio improving to 14.0% as at March 31, 2016 (13.5% at December 31, 2015). In our view, we see the results as supportive of DBS's solid credit profile given robust earnings and balance sheet results and a slight improvement in the composition of the customer loan book despite the challenging operating conditions. (OCBC, Company)

Mapletree Logistics Trust ("MLT"): MLT released its 4th quarter and full year results for the year ended March 2015 ("FY2016"). Gross revenue this quarter rose by 4.4% to ~SGD88m (4Q2015: SGD84.7m). However, this quarter's gross revenue was flat versus the immediate preceding quarter. Net property income ("NPI") increased by 3.3% to SGD72.6m from 4Q2015 and was 2% lower than the immediately preceding quarter. This was on the back of higher property expenses incurred for acquisitions during the year and conversions of single tenanted assets to multi-tenanted buildings. For the full year, MLT's gross revenue increased by 6% to ~SGD350m, while NPI increased by ~5%, largely driven by full year contribution of 6 buildings, 3 new additions acquired during the year and higher revenue from existing properties in Hong Kong and China. Borrowing costs increased by ~33% to SGD44m from SGD33m on the back of higher debt taken up to fund acquisitions and capex during the year. As at 31 March 2016, D/A for MLT was elevated at 39.5% (31 March 2015: 35%). EBITDA/(Total Interest) ratio remains acceptable at 5.3x, though reducing from ~7x in the preceding financial year. Adjusting for MLT's existing perps, EBITDA/(Total Interest and Perpetual Distribution) is at 3.7x. Despite the weakness overall in the Singapore industrial segment, MLT's weighted average lease expiry ("WALE") remains healthy at 4.5 years (FY2015: 4.3 years) while occupancy continues to hold up at ~96%. (Company, OCBC)

GuocoLand Ltd ("GUOL"): GUOL issued a redemption notice notifying investors of its intention to redeem in full the principal amount of its SGD200mn 4.70% perpetuals. This is in line with our expectations and we estimate net gearing could increase to 68% from 59% currently if funded using internal resources. We maintain a Positive issuer profile on GUOL as we believe the company still has room to deleverage with cash at historically high levels while the completion of Tanjong Pagar Centre in the middle of this year will also be another positive catalyst for the company. (Company)

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