

August 4, 2016

**Credit Headlines (Page 2 onwards):** Soilbuild Business Space REIT, CapitaLand Ltd., OUE Ltd., Ezra Holdings

**Market Commentary:** The SGD dollar swap curve traded upwards yesterday with swap rates traded 1-4bps higher across all tenors. Flows in the SGD corporates were heavy with mixed interests seen in SOCGEN 4.3%'26s, TATAIN 4.95%'23s, HACLS 6.5%'19s, NOLSP 4.25%'17s and GENSSP 5.13%'49s. In the broader dollar space, the spread on JACI IG corporates increased by 2bps to 215bps while the yield on JACI HY corporates remained relatively unchanged at 6.52%. 10y UST yield decreased 2bps to 1.54%.

**New Issues:** PT Lippo Karawaci Tbk has priced a USD260mn 5-year bond at CT5+103.75bps, tightening from its initial guidance of CT5+102.5bps. The ratings for the issue are "B+/Ba3/BB-". Fenghui Leasing has priced a USD150mn 3-year bond at 8.25%, tightening from its initial guidance of 8.5%. The expected issue ratings are "NR/B2/B". Road King Infrastructure Ltd. has priced a USD450mn 3-year bond at 5%, tightening from its initial guidance at 5.5%. The expected issue ratings are "BB-/NR/NR". ICBC Ltd. (Singapore) has priced a USD500mn 3-year bond at CT3+117.5bps, tightening from its initial guidance at CT3+145bps. The expected issue ratings are "NR/A1/NR".

**Rating Changes:** Moody's revised the rating outlook for Soilbuild Business Space REIT (SBREIT) to negative from stable and affirmed its rating at "Baa3". The revision in outlook reflects Moody's expectation that SBREIT credit profile will weaken in 2017 following the lack of clarity on its leasing strategy for 72 Loyang Way, its partially debt-funded acquisition of Bukit Batok Connection and pressure on occupancy rates. Moody's upgraded Reliance Rail Finance Pty Ltd.'s (RRF) senior debt and bank credit facility rating to "Ba2" from "Ba3". At the same time, Moody's also upgraded RRF's subordinated debt rating to "B1" from "B2". The upgrade reflects Moody's expectation that Reliance Rail will continue to build on its solid reliability and abatement performance over its current operation. The outlook is stable. Moody's downgraded the Northern Territory Treasury Corporation's (NTTC) issuer rating to "Aa2" from "Aa1" and revised its outlook to stable from negative. The downgrade reflects NTTC's deteriorating financial performance as revenues weaken in the wake of slower economic growth as the large INPEX project winds down and mining sector activity slows.

**Table 1: Key Financial Indicators**

	4-Aug	1W chg (bps)	1M chg (bps)		4-Aug	1W chg	1M chg
iTraxx Asiax IG	121	2	-16	Brent Crude Spot (\$/bbl)	43.43	1.71%	-13.31%
iTraxx SovX APAC	48	-1	-5	Gold Spot (\$/oz)	1,356.56	1.56%	0.43%
iTraxx Japan	57	-1	-8	CRB	179.79	0.09%	-7.45%
iTraxx Australia	111	2	-12	GSCI	336.81	-0.77%	-10.53%
CDX NA IG	75	1	-2	VIX	12.86	0.23%	-12.93%
CDX NA HY	104	0	0	CT10 (bp)	1.545%	4.10	10.13
iTraxx Eur Main	71	1	-10	USD Swap Spread 10Y (bp)	-11	0	-1
iTraxx Eur XO	329	6	-19	USD Swap Spread 30Y (bp)	-46	-2	-1
iTraxx Eur Snr Fin	96	1	-14	TED Spread (bp)	49	6	9
iTraxx Sovx WE	24	-2	-7	US Libor-OIS Spread (bp)	35	1	8
iTraxx Sovx CEEMEA	125	-6	0	Euro Libor-OIS Spread (bp)	5	-1	-2
					4-Aug	1W chg	1M chg
				AUD/USD	0.760	1.31%	0.84%
				USD/CHF	0.973	0.84%	-0.19%
				EUR/USD	1.115	0.65%	-0.04%
				USD/SGD	1.341	0.95%	0.31%
Korea 5Y CDS	50	0	-4	DJIA	18,355	-0.63%	2.26%
China 5Y CDS	112	2	-7	SPX	2,164	-0.13%	2.89%
Malaysia 5Y CDS	142	3	-8	MSCI Asiax	524	-1.34%	2.83%
Philippines 5Y CDS	101	0	-8	HSI	21,739	-1.77%	3.23%
Indonesia 5Y CDS	161	-2	-18	STI	2,828	-3.87%	-1.50%
Thailand 5Y CDS	94	1	-16	KLCI	1,649	-0.91%	-0.38%
				JCI	5,352	1.47%	7.65%

Source: OCBC, Bloomberg

**Table 2: Recent Asian New Issues**

Date	Issuer	Ratings	Size	Tenor	Pricing
3-August-16	PT Lippo Karawaci Tbk	"B+/Ba3/BB-"	USD260mn	5-year	CT5+104bps
3-August-16	Fenghui Leasing	"NR/B2/B"	USD150mn	3-year	8.25%
3-August-16	Road King Infrastructure Ltd.	"BB-/NR/NR"	USD450mn	3-year	5%
3-August-16	ICBC Ltd. (Singapore)	"NR/A1/NR"	USD500mn	3-year	CT3+118bps
2-August-16	Housing & Development Board	"Aaa/NR/NR"	USD700mn	7-year	1.91%
1-August-16	Hong Kong Airlines	"NR/NR/NR"	USD250mn	3-year	5.65%
1-August-16	CSI Properties Ltd.	"NR/NR/NR"	USD250mn	5-year	4.88%
28-July-16	Adani Transmission	"BBB-/Baa3/BBB-"	USD500mn	10-year	CT10+260bps

Source: OCBC, Bloomberg

## Rating Changes (cont'd)

Moody's has placed its outlook on Nippon Yusen Kabushiki Kaisha's (NYK) "Baa2" rating under review for downgrade. The review stems from NYK's anticipated earnings decline for the fiscal year ending 31 March 2017. Moody's affirmed Mitsui O.S.K Lines Ltd.'s (MOL) corporate family rating of "Ba1" with a negative outlook. The affirmation was in view that the company will be able to right-size its cost structure and improve earnings such that leverage will come down from its very high levels. Moody's downgraded Volkswagen Financial Services' (VWFS) long-term debt rating to "A2" from "A1" and upgraded Volkswagen Bank's (VWB) debt rating to "Aa3" from "A1". The downgrade of VWFS reflects Moody's view that the senior unsecured creditors of VWFS will face higher losses in the unlikely event of failure than previously anticipated. On the other hand, the upgrade of VWB was in view that the debt instruments will face only extremely low losses upon a failure of the bank. The outlook of the ratings remains negative.

## Credit Headlines:

**Soilbuild Business Space REIT ("SBREIT"):** SBREIT has announced that the Extraordinary General Meeting ("EGM") for the proposed acquisition and entry into the Master Lease agreement of Bukit Batok Connection will be held on 18 August 2016. The property will be acquired from the Sponsor with the Sponsor being the Master Lessee under a 7 year term. The purchase consideration of the property is SGD96.3mn (total acquisition cost including fees and expenses ~SGD100.5mn). SBREIT total property portfolio stands at SGD1.19bn as at 30 June 2016. The property is yet to be stabilized with underlying tenants only occupying 40.3% of the property. We see the acquisition as a "replacement asset" to Technics Building (remains unoccupied). The acquisition also reduces SBREIT's concentration risk to the marine, offshore oil and gas sector and has the potential to stabilize the interest coverage of the REIT, depending on the finalized funding structure. We retain our Neutral issuer profile on SBREIT, but may change this view in the off-chance the REIT over-leverages for the acquisition. (Company, OCBC)

**CapitaLand Ltd ("CAPL"):** CAPL reported 2Q2016 results, with revenue increasing 9.7% y/y to SGD1.13bn. The increase in revenue was largely driven by higher contributions from development projects in Singapore (The Cairnhill Nine development sold well) and China (Shanghai and Beijing developments), as well as higher rental income from their Ascott service apartments as well as from the ramp-up in occupancy of CapitaGreen. These revenue gains were offset by the absence of SGD148.4mn in FV gains recognized in 2Q2015 on a development project in China. In aggregate, Singapore and China generated ~80% of CAPL's group revenue. Operating profit fell sharply by 38.5% y/y from SGD638.9mn to SGD393.0mn. This was largely driven by lower FV gains on investment property (+SGD132.7mn) compared to 2Q2015 (+SGD322.4mn). Though pre-sales in Singapore were strong y/y (up ~220% to 82 units), it was much lower compared to 222 units sold in 1Q2016 (1Q2016 saw the launch of 268 units of Cairnhill Nine, which was well received). The pace of sales has slowed since, with 31 units of Cairnhill Nine sold during 2Q2016 (78% of the development sold). The bulk of future near-term Singapore sales would be from the 109 units from Victoria Park Villas (not yet launched). China pre-sales were comparable y/y and q/q at 2896 units sold, though contracted sales declined 22% y/y to RMB4.43bn. Management has estimated about ~RMB7.8bn in revenue to be recognized over 2H2016 due to expected deliveries. Cash increased by SGD125.0mn (though cash balance remained unchanged after factoring the impact of FX fluctuations), driven by strong CFO of SGD600.9mn, though about ~SGD400mn in dividends was paid during the quarter. Net gearing increased slightly q/q from 47% to 49% due to the slight increase in gross borrowings. We will retain our Positive issuer profile on CAPL. Note that CAPL has divested their balance stake in CapitaGreen into CapitaLand Commercial Trust (which is consolidated into CAPL's financials) in July, and this will be reflected in 3Q2016 results. (Company, OCBC)

## Credit Headlines:

**OUE Limited ("OUE"):** OUE reported 2Q2016 results, with revenue up 40.4% y/y to SGD134.3mn. This was largely driven by the 58.4% y/y increase in Investment Property income to SGD 67.6mn, due to the consolidation of One Raffles Place into OUE's results. Development Property income saw a sharp jump as well to SGD18.7mn (2Q2015: SGD3.3mn) due to strong sales at Twin Peaks after re-launching the development with deferred payment scheme ("DPS"). Note that only unit sales that were completed during the quarter are reported as revenue. The balance of sales which were conducted under the DPS will only be recognized upon completion (though OUE would have received a 20% non-refundable deposition). These non-refundable deposits are accounted for as Deferred Income under non-current liabilities and totalled SGD37.9mn as of the end of the quarter (implying ~SGD190mn in sales). The DPS scheme was so well-received and facilitated sales to the extent that OUE chose to launch Tower 1 of Twin Peaks late July 2016 (the original intent was reported to be a bulk sale). We believe that the sales of Twin Peaks would be supportive of OUE's Development Property income going forward, though there will be some uncertainty as to when revenue will be recognized (the DPS allows for completion to be delayed for as long as 2 years). Net profit jumped to SGD31.6mn (2Q2015: SGD11.4mn net loss). OUE took an impairment loss of SGD23.2mn on the Twin Peaks development in FY2015, and these were reversed during 2Q2016 due to the strong sales post the introduction of DPS. CFO was strong at SGD70.4mn, in part due to the deposits paid for Twin Peaks. About SGD50mn in cash balance was drawn on though due to investing cash flow used for developments such as the Crowne Plaza extension and AEI at OUE Downtown. Gross borrowings increased slightly q/q to SGD3.18bn (1Q2016: SGD3.16bn), of which SGD839.7mn are current. Net gearing increased slightly q/q from 65% to 67%. Looking forward, though OUE has significant short-term debt due, OUE would benefit from both the divestment of the Crowne Plaza extension into OUEHT (for ~SGD205mn) in 3Q2016, as well as from the strong sales at the Twin Peaks. As such, we believe that OUE should be able to refinance its near-term maturities. We will retain our Neutral issuer profile on OUE for now. (Company, OCBC)

**Ezra Holdings ("EZRA"):** EZRA has released a clarifying statement regarding press articles published over the last few days post news on the Swiber Holdings restructuring. The statement includes: "The Board wishes to clarify that on an ongoing basis, and especially in view of the current challenging market environment, the Company reviews options to preserve value for both Company and shareholders of the Company ("Shareholders") as well as to strengthen the financial position of the Company and, in connection with this, holds discussions with parties regarding possible transactions, which may include, inter alia, potential fund raising via new loans, issue of new securities and/or sale of non-core assets, and/or refinancing of existing loans." The Board also stated that no definitive agreements have been signed in relation to any transactions. Do note that though the referenced press articles mentioned the extension of Ezra's bonds, EZRA's clarification statement made no mention of any intent regarding their sole existing EZRASP'18 bond. In our view, as the EZRASP'18s are only maturing in April 2018, there is no current pressure to restructure the bonds. In addition, the two consent solicitations that EZRA has undergone has provided some covenant relief in the interim. For now, we will hold our Negative issuer profile on EZRA given the challenging environment while we reiterate our Overweight call on the EZRASP'18s given the attractive risk-reward profile. Note that given how liquidity amongst smaller offshore marine issues have worsened post the Swiber Holdings restructuring, any positions taken on the EZRASP'18s would likely have to be held till maturity (~20 months). (SGX, OCBC)

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