

October 5, 2016

Credit Headlines (Page 2 onwards): OUE Ltd., Wharf Holdings Ltd.

Market Commentary: The SGD swap curve steepened yesterday as expectation that the Federal Reserve is likely to raise interest rates by year-end weighed on the longer end of the swap curve. The shorter term rates (<3Y) traded 1-2bps lower while the longer term rates (5-30Y) traded 1-6bps higher. Flows in the SGD corporates were heavy with better buying seen in KEPSP 3.145%'22s and better selling seen in OLAMSP 6%'22s and FCLSP 4.25%'26s. Meanwhile, mixed interest was seen in FCL 5%'49s. In the broader dollar space, the spread on JACI IG corporates remained relatively unchanged at 205bps while the yield on JACI HY corporates decreased 1bps to 6.48%. 10y UST yield increased 6bps to 1.68% following a selloff in treasuries, spurred by the European Central Bank surprisingly announcing that it is likely to wind down bond purchases as it ends quantitative easing.

New Issues: Korea Housing Finance Corp. has priced a USD500mn 5-year covered bond at CT5+85bps, tightening from its initial guidance of CT5+100bps. The expected issue ratings are "NR/Aa1/NR". International Container Terminal Services Inc. has scheduled investor meetings from 4 – 5 October onwards for a potential USD bond issue. Industrial Bank of China NY branch has scheduled investor meetings from 11 – 14 October onwards for potential USD bond issue. Asciano Ltd. has scheduled investor meetings from 11 – 28 October for a potential USD bond issue.

Rating Changes: S&P downgraded the counterparty credit ratings of Higo Bank Ltd. and Kagoshima Bank Ltd., who are core bank subsidiaries of Kyushu Financial Group, to "A-" from "A" with stable outlooks. The downgrades follow the downward revision of Kyushu Financial Group's capital and earnings' assessment to adequate from strong. The stable outlook reflects S&P's view that Kyushu Financial Group's financial base is likely to remain commensurate with the current ratings over the next one to two years. Fitch has revised its credit outlook on Wells Fargo & Co. to negative from stable. The outlook revision reflects potential damage to the firm's franchise and earnings profile following recent regulatory actions regarding improper unauthorized account openings.

Table 1: Key Financial Indicators

	5-Oct	1W chg (bps)	1M chg (bps)		5-Oct	1W chg	1M chg
iTraxx Asiax IG	118	0	6	Brent Crude Spot (\$/bbl)	51.28	5.32%	7.66%
iTraxx SovX APAC	33	2	-4	Gold Spot (\$/oz)	1,270.38	-3.87%	-4.27%
iTraxx Japan	56	-3	5	CRB	187.30	2.29%	4.06%
iTraxx Australia	103	-1	6	GSCI	367.42	4.86%	5.83%
CDX NA IG	76	0	3	VIX	13.63	4.05%	13.77%
CDX NA HY	104	0	0	CT10 (bp)	1.673%	10.06	7.01
iTraxx Eur Main	75	1	9	USD Swap Spread 10Y (bp)	-15	0	-1
iTraxx Eur XO	335	-1	26	USD Swap Spread 30Y (bp)	-54	1	-1
iTraxx Eur Snr Fin	103	2	18	TED Spread (bp)	55	-7	4
iTraxx Sovx WE	22	-3	-3	US Libor-OIS Spread (bp)	41	0	4
iTraxx Sovx CEEMEA	91	1	-15	Euro Libor-OIS Spread (bp)	4	0	0
					5-Oct	1W chg	1M chg
				AUD/USD	0.761	-1.04%	0.40%
				USD/CHF	0.979	-0.77%	0.14%
				EUR/USD	1.121	-0.07%	0.56%
				USD/SGD	1.371	-0.88%	-1.07%
Korea 5Y CDS	41	1	-1	DJIA	18,168	-0.33%	-1.75%
China 5Y CDS	105	0	6	SPX	2,150	-0.44%	-1.35%
Malaysia 5Y CDS	121	1	2	MSCI Asiax	558	0.38%	1.09%
Philippines 5Y CDS	118	4	31	HSI	23,689	0.50%	0.17%
Indonesia 5Y CDS	152	5	8	STI	2,885	0.85%	1.15%
Thailand 5Y CDS	85	1	2	KLCI	1,661	-0.49%	-1.00%
				JCI	5,472	0.97%	2.15%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
4-Oct-16	Korea Housing Finance Corp.	"NR/Aa1/NR"	USD500mn	5-year	CT5+85bps
29-Sep-16	Croesus Retail Asset Management	"NR/NR/NR"	SGD50mn	Re-Tap	99.5
29-Sep-16	Kasikornbank PCL (Hong Kong)	"BBB+/Baa1/BBB+"	USD400mn	5.5-year	2.375%
29-Sep-16	Jubilant Pharma Ltd.	"BB-/NR/BB"	USD300mn	5NC3	4.875%
29-Sep-16	Television Broadcast Ltd.	"NR/NR/NR"	USD500mn	5-year	3.625%
29-Sep-16	RHB Bank	"BBB+/A3/NR"	USD500mn	5-year	CT5+137.5bps
29-Sep-16	China CITIC Bank International Ltd.	"NR/Ba2/NR"	USD500mn	Perp-NC5	4.25%
28-Sep-16	Jababeka International B.V.	"B+/NR/B+"	USD20.617mn	7NC4	6.5%

Source: OCBC, Bloomberg

Rating Changes (cont'd): Fitch has withdrawn its foreign-currency issuer default rating (IDR) on Hua Han Industry Holdings Ltd. (Hua Han). This follows the suspension of the audit assessment by Ernst & Young which resulted in Fitch's inability to ascertain Hua Han's liquidity position, which is viewed as critical under Fitch criteria for maintaining ratings on Hua Han.

Credit Headlines:

OUE Ltd. ("OUE"): News reported that the Riady Family (of PT Lippo Karawaci Tbk) plans to pursue a stake in United Engineers Limited ("UEM"). Specifically, OUE (68% owned by Riady family related entities) has an interest in the ~30% stake held by OCBC Bank, Great Eastern Holdings and the OCBC founding Lee family. Based on current market prices, the stake is worth ~SGD500mn, while the total market cap of UEM stands at ~SGD1.6bn. Should a transaction occur, depending on how the transaction is funded, it could have a meaningful impact on OUE's credit profile. This is in part mitigated by the ~SGD205mn in proceeds to be reflected in 3Q2016 results from the divestment of the Crowne Plaza Changi extension into OUE-HT. We currently hold OUE at Neutral Issuer Profile. (Bloomberg, OCBC)

Wharf Holdings Ltd. ("Wharf"): Wharf will be selling Wharf T&T for HKD9.5bn (~USD1.2bn), which will be paid all in cash. The buyer is a consortium of MKB Partners and TPG Capital, which has been buying telecom related assets in Taiwan and South Korea. Post-sale, we estimate net debt/equity to fall to very healthy levels of 0.12x (1H16: 0.15x). We think that part of the proceeds will fund the planned expenditure of HK\$42.2bn, which will be used mainly to expand Wharf's portfolio of China investment properties and development properties. There is also room for a one-off dividend, given that cash of HK\$18.5bn exceeds bank loans and other borrowings due within a year of HK\$14.0bn. We are reviewing Wharf's issuer profile rating. (Bloomberg, Reuters, OCBC)

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