Asian Credit Daily

OCBC Bank

August 8, 2016

Credit Headlines (Page 2 onwards): DBS Group Holdings, Suntec REIT, Dyna-Mac Holdings, Century Sunshine

Market Commentary: The SGD dollar swap curve flattened last Friday. The short-end rates traded 1-3bps lower while the middle-to-long-end rates traded 3-5bps lower. Flows in the SGD corporates were muted ahead of the non-farm payroll report with only mixed interests seen in PILLSP 5.9%'17s. In the broader dollar space, the spread on JACI IG corporates were 217bps while the yield on JACI HY corporates were 6.5% as of 4 August, 2016. 10y UST yield increased 9bps to 1.59% last Friday following the release of the US non-farm payroll (255,000) that exceeded the forecasted figures (180,000), putting at least 1 rate hike this year very well on the table.

New Issues: Small and Medium Business Corp. has scheduled investor road shows from today onwards for potential USD bond issuance.

Rating Changes: Fitch has affirmed QBE Insurance Group Ltd.'s (QBE) issuer financial strength at "A+" with stable outlook. The ratings were subsequently withdrew following commercial reasons. Prior the withdrawal, the affirmation reflects QBE's solid capital ratios, adequate financial leverage ratios, historically strong underwriting performance and a comprehensive reinsurance programme, along with a low-risk investment portfolio.

Table 1: Key Financial Indicators

	8-Aug	1W chg (bps)	1M chg (bps)		8-Aug	1W chg	1M chg
iTraxx Asiax IG	116	-5	-20	Brent Crude Spot ($/bbl)	44.39	5.34%	-5.07%
iTraxx SovX APAC	46	-2	-7	Gold Spot ($/oz)	1,333.55	-1.45%	-2.40%
iTraxx Japan	54	-2	-14	CRB	181.80	0.43%	-2.87%
iTraxx Australia	109	-1	-16	GSCI	342.03	0.78%	-4.47%
CDX NA IG	71	-5	-2	VIX	11.39	-4.04%	-13.71%
CDX NA HY	105	1	1	CT10 (bp)	1.594%	7.23	23.58
iTraxx Eur Main	66	-1	-10	USD Swap Spread 10Y (bp)	-11	0	0
iTraxx Eur XO	315	-8	-26	USD Swap Spread 30Y (bp)	-47	-1	-5
iTraxx Eur Snr Fin	88	-4	-18	TED Spread (bp)	53	3	12
iTraxx Sovx WE	25	0	-7	US Libor-OIS Spread (bp)	37	2	9
iTraxx Sovx CEEMEA	119	-2	-5	Euro Libor-OIS Spread (bp)	5	0	-2
					8-Aug	1W chg	1M chg
				AUD/USD	0.762	1.09%	0.65%
				USD/CHF	0.981	-1.22%	0.29%
				EUR/USD	1.109	-0.69%	0.32%
				USD/SGD	1.348	-0.42%	-0.13%
Korea 5Y CDS	47	-3	-8	DJIA	18,544	0.60%	2.19%
China 5Y CDS	106	-5	-15	SPX	2,183	0.43%	2.49%
Malaysia 5Y CDS	133	-10	-17	MSCI Asiax	534	-0.19%	6.62%
Philippines 5Y CDS	95	-7	-13	HSI	22,146	-0.13%	7.69%
Indonesia 5Y CDS	152	-11	-28	STI	2,828	-1.41%	-0.66%
Thailand 5Y CDS	92	-2	-16	KLCI	1,664	0.65%	1.19%
				JCI	5,420	3.92%	9.02%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
4-August-16	FCOT Treasury Pte. Ltd.	"NR/Baa2/NR"	SGD100mn	5-year	2.84%
4-August-16	UBS Group Funding (Jersey) Ltd.	"A-/NR/A"	USD2bn	5-year	CT5+160bps
4-August-16	UBS Group Funding (Jersey) Ltd.	"A-/NR/A"	USD500mn	5-year	3mL+153bps
4-August-16	UBS Group AG	"BBB+/A1/BBB+"	USD1bn	PNC5	7.13%
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

Source: OCBC, Bloomberg

Credit Headlines:

DBS Group Holdings Ltd ("DBS"): Reported its 2QFY2016 results with total income up 8% y/y and 2% q/q to SGD2.92bn. This was driven by growth in all income segments on a y/y basis although on a q/q basis net interest income and other non-interest income was flat with q/q growth driven by net fee and commission income (mostly from investment banking). Net interest margins improved on a q/q basis by 2bps to 1.87% which was a relatively solid result with the fall in average interest rates on assets mitigated by a larger fall in average interest rates on liabilities. As expected however, a material rise in allowances against subdued income growth translated to weaker reported net profit of SGD1.05bn, down 6% y/y and 13% q/q. In particular, net allowances were higher due to a $440mn increase in specific allowances including the SGD150mn net allowance charge for Swiber group (although this was somewhat balanced by a write-back in general allowances). DBS continues to grow its balance sheet with loans growth of 4% in constant currency terms due to solid growth in non-trade loans which offset the ongoing contraction in trade loans. Q/q loan growth was seen mostly in Singapore and in the transportation, storage & communications and general commerce segments. Non-performing loans rose 21% due to Swiber resulting in the NPL ratio rising to 1.1% from 1.0% in 1Q2016. The NPL ratio worsened in the institutional banking segment while the NPL ratio in the consumer banking / wealth management segment remained stable at 0.4%. Allowance coverage reduced to 113% as at 30 June 2016 (226% including collateral) from 134% as at 31 March 2016 (286% including collateral). Capital ratios improved q/q with risk weighted assets (RWA) stable due to a fall in market RWA against a 2% increase in total capital from retained earnings. Overall, the solid income performance of DBS highlights its strong franchise and somewhat mitigated the rise in allowances but this could be a short term benefit. The significant rise in specific provisions suggests there could be more pain to come from the asset quality perspective in the coming quarters. (Company, OCBC)

Suntec REIT ("SUN"): SUN announced that Southgate Trust (50% owned by SUN, 50% owned by a property fund managed by Ara Fund Management, a related corporation of SUN's REIT manager) has acquired a 50% interest the Southgate Complex in Melbourne, Australia("Southgate"). As such, SUN will have an effective interest of 25%. Southgate is situated in Melbourne City, right beside the Crown Melbourne hotel & casino complex. Southgate consists of two office towers, a 3-storey retail podium and carpark with 1,026 lots (office / retail NLA split is 87% : 13%.) It seats on a freehold site of 20,800 sqm, and is currently 88% occupied with a WALE of 4.6 years. The annual lease escalations are between 3% – 4%. The current open market valuation on Southgate is AUD578.8mn, with SUN paying AUD154.9mn after costs for the acquisition. SUN stated that the acquisition will be debt funded, which we estimate would increase pro-forma aggregate leverage to about ~37.3%, based on 1H2016 financials. This would be a slight increase relative to the 36.1% last reported. It should be noted that the Southgate Trust has also entered into an agreement with the vendor for the balance 50% in the Southgate. The vendor has the put option to sell the balance 50% of Southgate to Southgate Trust within 480 days upon the completion of the current transaction, while the Southgate Trust (and related parties) have the call option on the balance 50% of Southgate post the expiry of the put option. This acquisition would be the second Australia asset which SUN has, aside from the 177 Pacific Highway, Sydney development asset (which also recently achieved practical completion on 01/08/16), which would contribute to SUN in 2H2016. We believe that the impact on the acquisition on SUN's credit profile will be controlled, and will reiterate our Neutral Issuer Profile. (Company, OCBC)

Credit Headlines:

Dyna-Mac Holdings ("DMHL"): The issuer reported 2Q2016 results, which showed revenue declining 6.6% y/y to SGD34.1mn. The revenue decline was driven by lower revenue recognized as projects executed were largely completed (on the tail end). On a q/q basis, the fall was sharper at 60.7%. Net order book has fallen from SGD77mn (end-1Q2016) to SGD38mn (end-2Q2016), with revenue visibility through 2H2016. With the slowdown in new orders, management indicated that they are seeking to manage cost to better match work volume. For the quarter, gross margins have improved sharply to 42.1% (1Q2016: 9.7%), in part driven by mismatch in timing due to costs relating to variation to work orders being recognized in prior periods, while the approval by customers for such costs (and hence higher revised contract revenue) only given near completion of the contract. Stronger gross profit, coupled with unrealized gains on foreign exchange, helped DMHL generated a net profit of SGD6.5mn for the period (1Q2016: net loss of SGD6.1mn). Operating cash flow for the quarter was SGD1.7mn (lower than the SGD34.4mn generated in 1Q2016), due in part to DMHL paying down trade payables. Given minimal capex of SGD0.5mn, DMHL generated SGD1.2mn in free cash flow. As such, DMHL's cash balance remained steady at SGD121.5mn (1Q2016: SGD119.5mn). The company remains net cash, with just SGD84.8mn in gross debt (of which SGD35mn is short-term). As such, DMHL does not face liquidity pressure. However, given the challenging environment, It would be difficult for DMHL to win new contracts going forward, which would pressure future revenues beyond 2H2016. We do not currently cover DMHL. (Company, OCBC)

Century Sunshine ("CENSUN"): CENSUN has announced seeking to acquire 50.5% of Hongri Acron, a fertilizer manufacturer, for a consideration of USD1, as well as the assumption of certain borrowings. It should be noted that Hongri Acron is a troubled company, seeing revenue declines over the last few years, and generating net losses in 2015 as well as 1H2016. It is the intent of CENSUN to help provide working capital and to turn the target company around. For now, CENSUN has agreed to pay off RMB20.3mn in existing borrowings as well as to provide corporate guarantees up to RMB250mn for the target company to obtain working capital. In addition, Hongri Acron itself is a corporate guarantor for RMB308mn worth of borrowings to 3rd parties, in which CENSUN is seeking to reduce. As the acquisition is a related party transaction, it would be put to a vote. It is also not clear of the extent which CENSUN would guarantee Hongri Acron's existing borrowings, aside from the RMB250mn in addition borrowings plus RMB20.3mn to be paid. As the acquisition is for 50.5% of the target, the financial results for the target will be consolidated into CENSUN's numbers as well. We are currently reviewing CENSUN's Neutral Issuer Profile and will update accordingly if required. CENSUN's last reported net gearing was just 2% (end-2015). (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

Ezien Hoo, CFA
Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6722 2215
EzienHoo@ocbc.com