

November 9, 2016

Credit Headlines (Page 2 onwards): Perennial Real Estate Holdings, China Vanke Co Ltd., Pacific Radiance, CapitaLand Ltd.

Market Commentary: The SGD swap curve bull-flattened yesterday with swap rates trading 1-3bps lower across all tenors. Flows in the SGD corporates were moderate with two-way flows seen in, HACLSP 6%'19s, OUESP 3.8%'20s and UOBSP 4%'49s. In the broader dollar space, the spread on JACI IG corporates decreased 1bps to 206bps while the yield on JACI HY corporates decreased 2bps to 6.57%. 10y UST yield increased 4bps to 1.87% as safe haven asset demand continues to wane on expectations of a Clinton victory.

New Issues: Korea Southern Power has scheduled investor meetings from 14 November for a potential USD bond issue.

Rating Changes: S&P upgraded its issuer credit ratings on KEB Hana Bank to "A+" from "A" with a stable outlook. The rating was upgraded mainly because the bank and the parent group, Hana Financial Group (HFG), have sustainably strengthened their capitalization to an adequate level. S&P downgraded Yuexiu Real Estate Investment Trust's corporate credit rating to "BBB-" from "BBB" with a stable outlook. The downgrade reflects S&P's expectation that Yuexiu REIT's leverage is likely to remain elevated over the next 12-24 months. Moody's withdrew its ratings on Nextgen Networks Group Pty. Ltd. for business reasons. The rating prior withdrawal was "B1".

Table 1: Key Financial Indicators

	9-Nov	1W chg (bps)	1M chg (bps)		9-Nov	1W chg	1M chg
iTraxx Asiax IG	115	-4	-1	Brent Crude Spot (\$/bbl)	46.04	-4.36%	-11.34%
iTraxx SovX APAC	35	-1	2	Gold Spot (\$/oz)	1,273.21	-1.82%	1.08%
iTraxx Japan	56	-1	0	CRB	183.55	-1.22%	-2.53%
iTraxx Australia	104	-1	1	GSCI	354.65	-1.65%	-4.62%
CDX NA IG	76	-4	1	VIX	18.74	0.97%	39.02%
CDX NA HY	104	1	0	CT10 (bp)	1.858%	5.58	14.02
iTraxx Eur Main	73	-3	0	USD Swap Spread 10Y (bp)	-14	1	3
iTraxx Eur XO	325	-14	-5	USD Swap Spread 30Y (bp)	-55	-1	1
iTraxx Eur Snr Fin	96	-5	-3	TED Spread (bp)	49	-6	-7
iTraxx Sovx WE	19	0	-2	US Libor-OIS Spread (bp)	36	-1	-7
iTraxx Sovx CEEMEA	90	-2	-1	Euro Libor-OIS Spread (bp)	4	0	-1
					9-Nov	1W chg	1M chg
				AUD/USD	0.775	1.19%	1.91%
				USD/CHF	0.979	-0.56%	0.39%
				EUR/USD	1.103	-0.64%	-1.01%
				USD/SGD	1.387	-0.22%	-0.91%
Korea 5Y CDS	44	0	5	DJIA	18,333	1.64%	0.51%
China 5Y CDS	107	-6	3	SPX	2,140	1.32%	-0.66%
Malaysia 5Y CDS	122	-5	4	MSCI Asiax	541	0.88%	-2.83%
Philippines 5Y CDS	111	-5	-5	HSI	22,909	-1.03%	-3.95%
Indonesia 5Y CDS	152	-5	2	STI	2,820	0.23%	-1.91%
Thailand 5Y CDS	91	-5	8	KLCI	1,664	-0.43%	-0.09%
				JCI	5,471	1.01%	1.74%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
7-Nov-16	EXIM Korea (Re-tap of SGD60mn)	"NR/Aa2/AA"	SGD310mn	3-year	2.04%
7-Nov-16	Mapletree Commercial Trust	"NR/Baa1/NR"	SGD85mn	7-year	2.795%
4-Nov-16	China Nuclear Engineering	"NR/NR/NR"	CNH1.5bn	3-year	4.3%
3-Nov-16	Intl. Bank for Reconstruction & Dev.	"NR/Aaa/NR"	SGD500mn	3-year	1.12%
3-Nov-16	Bank of China Ltd.	"NR/Aa3/NR"	USD500mn	3-year	CT3+95bps
3-Nov-16	Huishang Bank Corp.	"NR/NR/NR"	USD888mn	Perp-NC5	5.5%
1-Nov-16	Wuhan Metro Group Co. Ltd.	"NR/NR/A"	USD290mn	3-year	CT3+180bps
1-Nov-16	Central China Real Estate	"B+/Ba3/NR"	USD200mn	5NC3	6.75%
31-Oct-16	Chalco Hong Kong Investment Co. Ltd.	"NR/NR/BBB"	USD500mn	Perp-NC5	4.25%

Source: OCBC, Bloomberg

Credit Headlines:

Perennial Real Estate Holdings (“PREHL”): 3QFY2016 revenue increased 53.2% y/y to SGD35.1mn mainly due to strata sales of office space at TripleOne Somerset in Singapore, with gross profit seeing a smaller 21.9% y/y increase to SGD18.3mn. However, EBIT and PATMI are lower by 15.6% to SGD15.8mn mainly due to absence of one-off investment income from a year ago. Longer-term, we should expect EBIT to increase as the newly acquired medical and healthcare businesses have begun to contribute. We note that the sale of the office and medical suites at AXA Tower have been achieved at or above SGD2,550 psf, which is higher than the SGD1,750 psf purchase price back in Jan 2015. However, net debt/equity increased to 0.63x (2Q2016: 0.59x), and may continue to increase in the short term. On 13 Sep 2016, Perennial acquired an equity interest of 49.9% in Renshoutang via a capital injection of RMB735.5mn. Meanwhile, the construction contract for AXA Tower is awarded (Development cost not expected to exceed SGD150mn) while construction is in progress at Beijing Tongzhou Integrated Development, Xi'an North HSR Integrated Development, Zhuhai Hengqin Integrated Development and Perennial International Health and Medical Hub, Chengdu. Near-term liquidity is manageable, with cash of SGD155.5mn slightly lower than short-term debt of SGD179.3mn. We maintain PREH's Issuer Profile at Neutral. (Company, OCBC)

China Vanke Co Ltd. (“VANKE”): China Evergrande Group (“Evergrande”), VANKE's third largest shareholder (~8% stake) is seeking a back door listing on the Shenzhen stock exchange through the Shenzhen Special Economic Zone Real Estate & Properties (Shenzhen SEZ), a company which is controlled by the state. Evergrande's proposed backdoor listing is subject to approvals. Reportedly, the Shenzhen government's approval is conditional on Evergrande selling its stake in VANKE to Shanghai Metro (another state-controlled firm and VANKE's proposed “white-knight”). We expect the ownership tussle on VANKE to continue as an overhang on VANKE's bond prices. (The Standard, OCBC)

Pacific Radiance (“PACRA”): For 3Q2016, PACRA generated USD18.9mn in revenue, a decline of 44.0% y/y. The sector continues to be challenged by poor utilization of OSVs and weak charter rates. Specifically, the OSV chartering segment revenue declined 51.4% y/y to USD13.5mn. Compared to previous quarters, revenue generated was comparable. PACRA generated a gross loss of USD8.2mn for the quarter, slightly larger than the USD7.7mn gross loss seen in 2Q2016. PACRA also took USD2.0mn in provisions over doubtful receivables. Coupled with USD4.4mn in financing costs, PACRA generated a net loss of USD18.1mn (3Q2015: USD1.6mn net profit). This was comparable with 2Q2016 net loss of USD16.9mn (excluding impairments / provisions taken). For the quarter, PACRA generated negative USD11.6mn in operating cash flow, comparable with the negative USD10.9mn generated in 2Q2016. Capex fell sharply q/q to USD5.9mn (2Q2016: USD32.9mn) as vessel delivery commitments taper off. The cash gap was funded by USD12.3mn in additional borrowings as well as drawing down on its cash balance. Net gearing increased further q/q from 137% to 149%. PACRA reported USD103.5mn in short-term borrowings (all secured financing likely related to vessels) compared to USD29.5mn of cash balance. It is worth noting that late October PACRA announced that it managed to negotiate and refinance USD185mn worth of short to medium term bank debt. The profile of these term loans have been refinanced to twelve years (from an average of seven years previously), and the maturity has largely been extended from 2019 to 2021. As a result, PACRA's loan principal repayment burden will be reduced by ~USD103mn over the next three years to 2019. As such, PACRA's short-term liquidity needs are being managed. We will continue to hold PACRA at Negative Issuer Profile, reflecting the challenging environment. (Company, OCBC)

Credit Headlines:

CapitaLand Ltd. ("CAPL"): CAPL reported 3Q2016 results, with revenue increasing sharply by 27.7% y/y to SGD1.37bn. The increase in revenue was largely driven by higher contributions from development projects in Singapore (The Nassim and Cairnhill Nine were highlighted) and China (Hangzhou, Shanghai and Beijing developments), as well as higher rental income from their Ascott service apartments as well as from their Singapore commercial assets. Profits from operations were up only 8.2% y/y to SGD345.0mn, largely due to lower Other Operating Income (lacking divestment gain from some Japanese assets in 3Q2015 as well as lower revaluation gains on its investment properties). Net income ended 15.6% higher y/y to SGD321.6mn, with gains from JVs driven by additional deliveries of a Chinese development. We note that residential sales in Singapore have continued to accelerate, with 206 units sold in 3Q2016 (versus 45 units in 3Q2015 and 82 units in 2Q2016). CAPL was able to move 88 units of d'Leedon and 73 units of the Interlace during 3Q2016, driven by the deferred payment schemes introduced as well as the outright discounts given. With these sales, CAPL was able to reduce their estimated QC extension charges on these two projects to just SGD5.1mn. For CAPL's Singapore residential pipeline, 92% of launched units (only Victoria Park Villas and The Nassim remain not fully launched) have been sold. The TOP of Sky Vue in July would have supported development revenue. China residential sales remain strong at 2,903 units sold (versus 2,422 units sold in 3Q2015). CAPL saw a big boost in units delivered in 3Q2016, at RMB3.3bn value (3Q2015: RMB1.6bn, these figures include JVs and Associates). CAPL has indicated that it has ~RMB14bn worth of sales to be recognized from 4Q2016 onwards, of which ~40% will be recognized in 4Q2016 itself. CFO (including interest service) was strong at SGD789.4mn, though CAPL spent SGD308.4mn in investing activities. The balance, after paying out SGD140.1mn in dividends, went to the cash balance. This helped net gearing improve slightly from 49% to 47%. Looking forward, CAPL's Chinese residential pipeline and recurring cash flow from its investment properties will sustain its near-term performance. We will retain our Positive issuer profile on CAPL. (Company, OCBC)

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