

February 10, 2017

Credit Headlines (Page 2 onwards): Société Générale SA, Henderson Land Development Co. Ltd.

Market Commentary: The SGD dollar swap curve was range-bound yesterday, with the shorter tenors trading 1-2bps higher, while the longer end of the swap curve traded 1-2bps lower. Flows in SGD corporates were heavy, with better buying seen in GUOLSP 4%'22s, SOCGEN 4.3%'26s, GENSSP 5.13%'49s, better selling in SOCGEN 4.3%'26s, and mixed interest in GEMAU 5.5%'19s, ABNANV 4.7%'22s. The medium-term swap rates changed little yesterday. In the broader dollar space, the spread on JACI IG Corporates fell 1bps to 196bps while the yield on JACI HY Corporates held steady at 6.73%. 10y UST yield rose 6bps to 2.39% after U.S President Trump promised a "phenomenal" tax plan and said action on taxes would be forthcoming in two or three weeks. President Trump's promises reignited inflation concerns and reflation trades.

Market Commentary: Future Land Development Holdings Ltd. priced a USD350mn 3-year bond at 5.125%, tightening from initial guidance of 5.625%. The expected issue rating is 'BB-/Ba3/BB-'. Industrial & Commercial Bank of China Ltd. (ICBC) is in talks with banks for a potential USD bond issuance. Oil India Ltd. is planning for a potential USD800mn bond issuance and has hired banks for proceedings.

Rating Changes: S&P downgraded NEC Corp's ('NEC') long term ratings by one notch to 'BBB-' from 'BBB', with a stable outlook. The rating action reflects S&P's view that an expected drop in the sales of NEC's main businesses is likely to further erode its profitability in FY2016, causing key financial metrics for the company to fall short of S&P's previous assumptions.

Table 1: Key Financial Indicators

| | 10-Feb | 1W chg (bps) | 1M chg (bps) | | 10-Feb | 1W chg | 1M chg |
|--------------------|--------|--------------|--------------|----------------------------|----------|--------|--------|
| iTraxx Asiax IG | 107 | -1 | -8 | Brent Crude Spot (\$/bbl) | 55.69 | -1.97% | 3.82% |
| iTraxx SovX APAC | 29 | -2 | -5 | Gold Spot (\$/oz) | 1,224.73 | 0.36% | 3.10% |
| iTraxx Japan | 53 | -1 | -2 | CRB | 192.76 | -0.39% | 0.85% |
| iTraxx Australia | 91 | -2 | -8 | GSCI | 401.76 | 0.35% | 3.28% |
| CDX NA IG | 65 | 1 | -1 | VIX | 10.88 | -8.80% | -5.31% |
| CDX NA HY | 107 | 0 | 1 | CT10 (bp) | 2.414% | -5.04 | 3.87 |
| iTraxx Eur Main | 74 | 2 | 5 | USD Swap Spread 10Y (bp) | -8 | 0 | 5 |
| iTraxx Eur XO | 299 | 9 | 10 | USD Swap Spread 30Y (bp) | -42 | -1 | 7 |
| iTraxx Eur Snr Fin | 93 | 6 | 5 | TED Spread (bp) | 50 | -2 | 0 |
| iTraxx Sovx WE | 24 | 1 | 4 | US Libor-OIS Spread (bp) | 34 | -1 | 0 |
| iTraxx Sovx CEEMEA | 70 | -2 | -8 | Euro Libor-OIS Spread (bp) | 2 | 0 | -1 |
| | | | | | | | |
| | | | | | 10-Feb | 1W chg | 1M chg |
| | | | | AUD/USD | 0.764 | -0.59% | 3.62% |
| | | | | USD/CHF | 1.002 | -0.86% | 1.54% |
| | | | | EUR/USD | 1.066 | -1.13% | 1.01% |
| | | | | USD/SGD | 1.421 | -0.77% | 1.08% |
| | | | | | | | |
| Korea 5Y CDS | 47 | 1 | -1 | DJIA | 20,172 | 1.45% | 1.60% |
| China 5Y CDS | 105 | 0 | -10 | SPX | 2,308 | 1.18% | 1.72% |
| Malaysia 5Y CDS | 121 | -3 | -12 | MSCI Asiax | 556 | 1.32% | 4.57% |
| Philippines 5Y CDS | 92 | 0 | -10 | HSI | 23,646 | 2.23% | 3.96% |
| Indonesia 5Y CDS | 140 | -4 | -14 | STI | 3,097 | 1.82% | 3.03% |
| Thailand 5Y CDS | 67 | 0 | -8 | KLCI | 1,696 | 1.34% | 1.68% |
| | | | | JCI | 5,372 | 0.34% | 1.17% |

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

| Date | Issuer | Ratings | Size | Tenor | Pricing |
|----------|--|---------------|----------|--------|------------|
| 9-Feb-17 | Future Land Development Holdings Ltd. | "BB-/Ba3/BB-" | USD350bn | 3-year | 5.125% |
| 8-Feb-17 | China Singyes Solar Technologies Holdings Ltd. | Not Rated | USD260bn | 2-year | 7.95% |
| 8-Feb-17 | Pakuwon Prime Pte. Ltd. | "BB-/Ba3/BB-" | USD250mn | 7NC4 | 5% |
| 8-Feb-17 | Sumitomo Mitsui Financial Group | Not Rated | USD470mn | 30NC10 | 4.3% |
| 7-Feb-17 | Bank of China Ltd (Hong Kong Branch) | "A/A1/A" | USD1.2bn | 3-year | 3mL+77bps |
| 7-Feb-17 | Bank of China Ltd (Hong Kong Branch) | "A/A1/A" | USD300mn | 3-year | CT3+105bps |
| 7-Feb-17 | Bank of China Ltd (Hong Kong Branch) | "A/A1/A" | USD500mn | 5-year | CT5+115bps |
| 6-Feb-17 | ReNew Power Ventures Pvt Ltd. | "NR/Ba3/B+" | USD475mn | 5NC3 | 6% |

Source: OCBC, Bloomberg

Rating Changes (Cont'd):

Moody's revised the ratings outlook of eight Indonesian banks to positive from stable, following the affirmation of Indonesia's 'Baa3' sovereign rating and the change in outlook for Indonesia's rating to positive from stable two days ago. The affected banks are: (1) Bank Mandiri (P.T.); (2) Bank Rakyat Indonesia (P.T.) (BRI); (3) Bank Central Asia Tbk (P.T.); (4) Bank Negara Indonesia TBK (P.T.) (BNI); (5) PT Bank CIMB Niaga Tbk; (6) Bank Tabungan Negara (P.T.) (BTN); (7) Bank Danamon Indonesia TBK (P.T.); and (8) Lembaga Pembiayaan Ekspor Indonesia (Indonesia Eximbank). Moody's also revised the ratings outlook of Indonesian government-related infrastructure issuers (GRIs) to positive from stable. The affected companies include: (1) Perusahaan Gas Negara (P.T.) (PGN); (2) Perusahaan Listrik Negara (P.T.) (PLN); and (3) Pelabuhan Indonesia II (Persero) (P.T.) (Pelindo II). Moody's withdrew Daimler Australia/Pacific Pty. Ltd.'s '(P)A2' senior unsecured debt rating.

Credit Headlines:

Société Générale SA ("SG"): SG reported its FY2016 results with operating income up 12.5% y/y to EUR6.39bn. This was driven entirely by a 32% y/y fall in risk costs. Otherwise, results were reflective of the still weak albeit recovering operating conditions in Europe which contributed 82% of net banking income in 2016 (with 48% from France). Elsewhere, net interest income rose 1.7% y/y to EUR9.47bn and net fee and commission income grew marginally by 0.3% y/y to EUR6.70bn with weaker performance in French Retail Banking and Asset and Wealth Management offset by improvement in International Retail Banking, Financial Services to Corporates and Insurance. Gross Operating Income however was down 3% y/y to EUR8.48bn due to higher expenses. Cost of risk improvement was across the board in SG's segments with the bulk coming from the International Retail Banking Segment through structural de-risking of the portfolio. 4Q2016 profit performance was also strong with a 228% rise in operating income driven by a 1.7% improvement in gross operating income and a 58% fall in risk costs. SG's balance sheet continues to be sound with total assets up 3.6% to EUR1,382.2bn largely driven by customer loan growth of 5.2%, mostly in short term loans and housing loans. Customer deposits grew by 10.9% and as such the calculated loan to deposit ratio fell to 101.3% for FY2016 from 106.7% in FY2015. Capital ratios improved from earnings generation and lower risk weighted assets with FY2016 fully loaded CET1/CAR ratios at 11.5%/17.9% (FY2015: 10.9%/16.3%), exceeding the 2017 SREP requirement by 400bps according to management. Including the senior non-preferred debt issue in 4Q2016 and other TLAC adjustments (senior preferred and others), SG's reported TLAC ratio was 21.1% as at 31 December 2016, above the 2019 minimum requirement. Overall, SG's performance benefits from its multi-branded and diversified business offerings with International businesses mitigating soft but recovering conditions in France and Europe. We maintain our Neutral issuer profile for now. (OCBC, Company)

Henderson Land Development Co. Ltd. ("HLD"): According to the Hong Kong Economic Times, HLD will be selling Newton Inn to an unnamed listed company for HKD1.1bn. This follows an earlier news from the South China Morning Post that HLD's Kwun Tong hotel will be sold for HKD2.3bn. If both hotel transactions are completed, we expect net gearing to inch down to 0.13x (1H2016: 0.14x). We maintain a Neutral issuer profile for HLD. (Hong Kong Economic Times, South China Morning Post, Bloomberg, OCBC).

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