

Sep 13, 2017

Credit Headlines (Page 2 onwards): Croesus Retail Trust, Sembcorp Industries/ Sembcorp Marine, Heeton Holdings Limited, Westpac Banking Corporation

Market Commentary: The SGD swap curve bear-steepened yesterday, with swap rates trading 2-4bps higher across most tenors. The largest increase was seen in the 15-year tenor, which rose 5bps. Flows in SGD corporates were heavy, with better buying seen in OLAM 5.5%-PERPs, WINGTA 4.35%-PERPs, SIASP 3.13%'27s, ARASP 5.2%-PERPs, SCISP 3.7%-PERPs, HRAM 3.2%'21s, better selling seen in UOBSP 4%-PERPs, and mixed interest seen in PILLSP 7.25%'18s, GEMAU 5.5%'19s. In the broader dollar space, the spread on JACI IG Corp fell 1bps to 190bps, while the yield on JACI HY Corp rose 2bps to 6.77%. 10Y UST yields rose 3bps to 2.17%, following the rise in yields of gilts and EGBs. Yields of gilts rose on strong UK inflation data, while yields of EGBs rose due to the supply concession in EGBs. Yields were also potentially affected by the large IG credit issuance.

New Issues: The Korea Development Bank has priced a three tranche deal, with the USD500mn 3-year floating rate bond priced at 3mL+67.5bps, tightening from initial guidance of 3mL+80bps; the USD350mn 5.5-year fixed rate bond priced at CT5.5+100bps, tightening from initial guidance of CT5.5+115bps; and the USD150mn floating rate being a re-tap of its KDB FLOAT'22s and priced at 3mL+80bps, tightening from initial guidance of 3mL+85~90bps. The expected issue ratings are 'AA/Aa2/AA-'. Bank of Qingdao Co Ltd has priced a USD1.203bn AT1 Perp NC5 at 5.5%, tightening from initial guidance of 5.7%. Sino-Ocean Land Treasure III Ltd has priced a USD600mn Perp NC5 (guaranteed by Sino-Ocean Group Holding Ltd) at 5%, tightening from initial guidance of 5.375% area. The expected issue ratings are 'NR/Ba2/BB'. Inventive Global Investments Limited (a wholly-owned subsidiary of ABC International Holdings Ltd) has priced a USD500mn 3-year bond (guaranteed by Agricultural Bank of China Ltd Hong Kong Branch) at CT3+107.5bps, tightening from initial guidance of CT3+130bps area. The expected issue ratings are 'NR/NR/A'.

Table 1: Key Financial Indicators

| | 13-Sep | 1W chg (bps) | 1M chg (bps) | | 13-Sep | 1W chg | 1M chg |
|--------------------|--------|--------------|--------------|----------------------------|---------------|---------------|---------------|
| iTraxx Asiax IG | 74 | -5 | -12 | Brent Crude Spot (\$/bbl) | 54.21 | 0.02% | 4.05% |
| iTraxx SovX APAC | 18 | -2 | -5 | Gold Spot (\$/oz) | 1,332.52 | -0.13% | 3.93% |
| iTraxx Japan | 43 | -2 | -1 | CRB | 181.41 | -0.51% | 1.00% |
| iTraxx Australia | 67 | -3 | -12 | GSCI | 388.65 | -0.97% | 1.48% |
| CDX NA IG | 56 | -2 | -3 | VIX | 10.58 | -13.49% | -31.79% |
| CDX NA HY | 107 | 0 | 0 | CT10 (bp) | 2.159% | 5.39 | -3.03 |
| iTraxx Eur Main | 52 | -2 | -4 | USD Swap Spread 10Y (bp) | -5 | -1 | 0 |
| iTraxx Eur XO | 227 | -8 | -17 | USD Swap Spread 30Y (bp) | -35 | -1 | -2 |
| iTraxx Eur Snr Fin | 50 | -2 | -4 | TED Spread (bp) | 29 | -1 | 2 |
| iTraxx Sovx WE | 5 | 0 | 0 | US Libor-OIS Spread (bp) | 16 | 0 | 0 |
| iTraxx Sovx CEEMEA | 43 | 1 | -5 | Euro Libor-OIS Spread (bp) | 3 | 0 | 0 |
| | | | | | 13-Sep | 1W chg | 1M chg |
| | | | | AUD/USD | 0.803 | 0.40% | 2.29% |
| | | | | USD/CHF | 0.959 | -0.23% | 1.37% |
| | | | | EUR/USD | 1.198 | 0.56% | 1.73% |
| | | | | USD/SGD | 1.345 | 0.39% | 1.36% |
| Korea 5Y CDS | 67 | -3 | -2 | DJIA | 22,119 | 1.68% | 1.19% |
| China 5Y CDS | 57 | -3 | -11 | SPX | 2,496 | 1.57% | 2.26% |
| Malaysia 5Y CDS | 67 | -5 | -15 | MSCI Asiax | 671 | 2.03% | 4.93% |
| Philippines 5Y CDS | 60 | -4 | -12 | HSI | 27,807 | 0.70% | 3.43% |
| Indonesia 5Y CDS | 97 | -6 | -18 | STI | 3,225 | -0.22% | -1.66% |
| Thailand 5Y CDS | 50 | -4 | -14 | KLCI | 1,791 | 1.05% | 1.36% |
| | | | | JCI | 5,875 | 0.87% | 1.88% |

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

| Date | Issuer | Ratings | Size | Tenor | Pricing |
|-----------|--------------------------------------|----------------|------------|---------------|--------------|
| 12-Sep-17 | Korea Development Bank | 'AA/Aa2/AA-' | USD500mn | 3-year | 3mL+67.5bps |
| 12-Sep-17 | Korea Development Bank | 'AA/Aa2/AA-' | USD350mn | 5.5-year | CT5.5+100bps |
| 12-Sep-17 | Korea Development Bank | 'AA/Aa2/AA-' | USD150mn | KDB FLOAT'22s | 3mL+80bps |
| 12-Sep-17 | Bank of Qingdao Co Ltd | Not Rated | USD1.203bn | Perp NC5 | 5.5% |
| 12-Sep-17 | Sino-Ocean Land Treasure III Ltd | 'NR/Ba2/BB' | USD600mn | Perp NC5 | 5% |
| 12-Sep-17 | Inventive Global Investments Limited | 'NR/NR/A' | USD500mn | 3-year | CT3+107.5bps |
| 12-Sep-17 | Westpac Banking Corporation | 'BB+/Baa2/BBB' | USD1.25bn | Perp NC10 | 5% |
| 12-Sep-17 | Nippon Life Insurance Company | 'A3/NR/NR' | USD800mn | 30NC10 | 4% |
| 11-Sep-17 | Sumitomo Mitsui Trust Bank Limited | 'A/A1/NR' | USD700mn | 2-year | CT2+67bps |

Source: OCBC, Bloomberg

New Issues (Cont'd): Westpac Banking Corporation has priced a USD1.25bn Perp NC10 AT1 at 5%, tightening from a revised initial guidance of 5.25% area. The expected issue rating are 'BB+/Baa2/BBB'. Nippon Life Insurance Company has priced a USD800mn 30NC10 bond at 4%, tightening from initial guidance of 4.125%~4.25%. The expected issue ratings are 'A3/NR/NR'. Beijing Infrastructure Investment Co Ltd has scheduled investor meetings for a potential bond issuance (guaranteed and supported with a keepwell and a liquidity and support deed, as well as a deed of equity interest purchase by Beijing Infrastructure Investment Co Ltd) from 13 Sep. The expected issue ratings are 'NR/A2/A+'.

Rating Changes: Moody's has assigned Eastern Creation II Investment Holdings Ltd's proposed medium term note a senior unsecured rating of 'A2'. The notes will be guaranteed by Beijing Infrastructure Investment Co Ltd's (BII). The outlook is stable. The rating action reflects BII's 'A1' issuer rating and the structural features of the note. Fitch has also assigned an expected rating of 'A+' to the notes. Moody's has assigned Asahi Group Holdings Ltd's (Asahi) bonds a senior unsecured rating of 'Baa2'. The outlook is stable. The rating action reflects Asahi's 'Baa2' rating and the limited proportion of secured debt, which minimizes subordination to be reflected in the senior unsecured rating. Asahi's 'Baa2' rating reflects its diversified product portfolio, strong presence, and stable cash flow generation capability. However, the rating is constrained by the company's high leverage, execution risk related to the integration of its European business, low margins and limited geographic diversification. Moody's has placed all ratings and counterparty risk assessments of Bank of America (BAC) Corporation under review for an upgrade. The rating action follows the recent improvement in BAC's profitability and management's commitment to a conservative risk profile. As a result, the ratings of Merrill Lynch Japan Finance Co Ltd and Bank of America NA of Australia has been placed on review for an upgrade.

Credit Headlines:

Croesus Retail Trust ("CRT"): CRT securities have been placed on trading halt pending an announcement in relation to the scheme meeting on 13 September 2017. Earlier in June 2017, funds managed or advised by affiliates of the Blackstone Group ("Offeror") had announced a proposed acquisition of CRT via a trust scheme. It is likely that CRT would be delisted from the SGX post-acquisition by the Offeror and there is a delisting put for the CRT '20s, which allows bondholders to put the bonds back to the issuer should they opt to do so. (Company, OCBC)

Sembcorp Industries ("SCI") / Sembcorp Marine ("SMM"): SMM's customer, North Atlantic Drilling Ltd ("NADL"), a majority subsidiary of Seadrill Limited, has filed for Chapter 11 bankruptcy with its parent company on 13/09/17. SMM was contracted to build the West Rigel semi-submersible drilling rig for NADL with a contract value of ~USD568mn (this order is still reflected in SMM's order book) and was originally scheduled for delivery by 4Q2015. SMM had since entered into a standstill agreement with NADL on 03/12/15, more than 18 months ago, due to NADL's inability to take delivery of the rig due to financial pressure. Since then, the standstill agreement had been extended numerous times, with the most recent extension announced early July 2017, to extend the deadline till 06/01/18. For the West Rigel, it seems that only the deposit was paid by NADL, there was a balance of USD455mn due to SMM upon the delivery of the rig. Given that NADL had entered into restructuring, the standstill agreement may be made void. This development was on top of the two Perisai Petroleum Teknologi Bhd ("PPT") contracts terminated earlier this month (refer to [OCBC Asian Credit Daily - 4 September 2017](#)), with a contract value of the two rigs aggregating ~USD420mn. As such, SMM's 3Q2017 results may be negatively impacted. As disclosed during SMM's 2Q2017 results, management had reiterated that the SGD280mn in provisions taken in 4Q2015 over non-Sete Brasil orders remain adequate, which may help mitigate the impact of these developments. As of end-2Q2017, SMM reported SGD6.7bn in net order book. This figure however includes SGD3.1bn attributable to distressed Sete Brasil, as well as the NADL and PPT orders (gross value of ~1bn USD, net basis uncertain). Aside from these, SMM also has 3 rigs ordered by Oro Negro (a stressed contract driller) that have been deferred. We will continue to monitor the situation and assess SMM's impact on SCI after SMM's 3Q2017 results are released. (Company, OCBC)

Credit Headlines (Cont'd):

Heeton Holdings Limited (“HTON”): HTON, along with two other joint acquirors, namely KSH Holdings Limited (“KSH”) and Ryobi Kiso Holdings Ltd (“Ryobi Kiso”) have announced that they are acquiring Dry Bar, an entertainment venue located in an iconic part of Manchester City, with a view to converting it into a new hotel. The property is a four-storey terraced building with one basement level. A planning permission has been granted for the conversion of the upper floors of the building into a hotel. A joint venture company, Treasure Choice Enterprises Limited (“Treasure Choice”) has been set up. HTON holds a 50% effective interest in Treasure Choice, while KSH and an associated company of Ryobi Kiso would each hold a 25%-stake. Upon completion, the property will be managed by HTON’s hospitality division which currently also manages five other hotels in the UK. Per Manchester City’s regional newspaper, the Dry Bar property was up for sale for GBP4.0mn (~SGD7.1mn) in August 2016 and the permission was for a boutique hotel of 69-rooms. We place the upper bound valuation of the property post-completion at ~SGD39mn. We expect HTON to take on further borrowings to help fund its proportionate 50%-stake and gearing to go up slightly. (Company, OCBC, Manchester Evening News)

Westpac Banking Corporation (“WBC”): WBC’s USD1.25bn Perp NC10 AT1 is priced at the tighter end in our view, notwithstanding the strong run up in prices over the past few months in the SGD bank capital space. Swapping into SGD, the new paper has a yield to call of 4.56%. In comparison, the BAERVX 5.9% PerpC20 and BAERVX 5.75% PerpC22 has a yield to call of 3.77% and 4.15% respectively for shorter tenors (3.2yrs and 4.6yrs) but one notch lower issue rating from Moody’s. This is considering the marked tightening in yields since early August, particularly for the Julius Baer papers given their solid carry and improving fundamentals. In the Tier 2 space, yields have been a little more volatile widening in the second half of August before returning of late to a tightening trajectory. In the Aussie Tier 2 space, the NAB 4.15% 28c23 looks relatively cheap offering a better carry and a spread of 140bps compared to ~126bps against its peers (ANZ 3.75% 27c22 and WSTP 4.0% 27c22). Investors may want to consider a switch although supply may be hard to come by. (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

Wong Hong Wei

Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6722 2533
WongHongWei@ocbc.com

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Co.Reg.no.:193200032W