Asian Credit Daily

February 15, 2017

Credit Headlines (Page 2 onwards): Sabana Shari'ah Compliant Industrial REIT, ASL Marine Holdings Ltd, Ezra Holdings Ltd, CapitaLand Ltd.

Market Commentary: The SGD dollar swap curve traded downwards yesterday, with swap rates trading 1-3bps lower across all tenors. Flows in SGD corporates were heavy, with better buying seen in GUOLSP 4%'22s, GENSSP 5.13%'49s, NAB 4.15%'28s, and mixed interest seen in SOCGEN 4.3%'26s, BAERVX 5.75%'49s. In the broader dollar space, the spread on JACI IG Corporates fell 3bps to 190bps while the yield on JACI HY Corporates fell 1bps to 6.71%. 10y UST yields rose 3bps to 2.47% yesterday, after Federal Reserve Chairwoman Janet Yellen mentioned that the Fed does not need to wait for the Trump administration's plans on fiscal stimulus to hike rates.

New Issues: Ronshine China Holdings Ltd. priced a USD225mn re-tap of RONXIN 6.95%'19s at 8%, tightening from initial guidance of 8.125%. The expected issue ratings are 'B/B2/B+'. Proven Glory Capital Ltd. priced a USD1bn 5-year bond at CT5+132.5bps, tightening from initial guidance of CT5+165bps; and a USD500mn 10-year bond at CT10+162.5bps, tightening from initial guidance of CT10+190bps. The bonds are guaranteed by Huawei Investment & Holding Co. Apple Inc. is said to price a 30-year USD 4.3% bond in Taiwan, its second Formosa bond issuance since June 2016.

Rating Changes: S&P downgraded Canon Inc.'s (Canon) corporate credit rating by one notch to 'AA-' yesterday, with a stable outlook. The rating action reflects S&P's view that Canon's profitability is in a prolonged decline amid market saturation in its core businesses despite average profitability from planned launches of new products and the benefits of continued cost reductions. S&P withdrew Hua Han Health Industry Holdings Ltd.'s (Hua Han) 'CCC-' corporate credit rating and issue rating, with a negative outlook. The withdrawal followed the rating downgrades to 'CCC-'. S&P announced that they withdrew all the ratings on Hua Han due to heightened information risks.

Table 1: Key Financial Indicators

	15-Feb	1W chg (bps)	1M chg (bps)		15-Feb	1W chg	1M chg
iTraxx Asiax IG	100	-9	-16	Brent Crude Spot ($/bbl)	55.76	1.16%	0.56%
iTraxx SovX APAC	27	-2	-7	Gold Spot ($/oz)	1,226.44	-1.22%	1.97%
iTraxx Japan	55	0	0	CRB	192.28	0.47%	-1.16%
iTraxx Australia	87	-5	-11	GSCI	404.83	2.36%	1.24%
CDX NA IG	63	-4	-3	VIX	10.74	-4.87%	-4.36%
CDX NA HY	108	1	1	CT10 (bp)	2.477%	14.07	8.06
iTraxx Eur Main	73	-3	4	USD Swap Spread 10Y (bp)	-7	1	5
iTraxx Eur XO	294	-9	4	USD Swap Spread 30Y (bp)	-41	1	5
iTraxx Eur Snr Fin	92	-2	5	TED Spread (bp)	51	-2	1
iTraxx Sovx WE	24	-1	3	US Libor-OIS Spread (bp)	34	-2	-1
iTraxx Sovx CEEMEA	65	-6	-17	Euro Libor-OIS Spread (bp)	2	0	0

	15-Feb	1W chg	1M chg
AUD/USD	0.767	0.33%	2.58%
USD/CHF	1.007	-1.21%	0.48%
EUR/USD	1.057	-1.19%	-0.28%
USD/SGD	1.422	-0.34%	0.63%

	15-Feb	1W chg (bps)	1M chg (bps)		15-Feb	1W chg	1M chg
Korea 5Y CDS	44	-3	-3	DJIA	20,504	2.06%	3.11%
China 5Y CDS	98	-9	-16	SPX	2,338	1.94%	2.77%
Malaysia 5Y CDS	114	-10	-17	MSCI Asiax	559	0.98%	4.13%
Philippines 5Y CDS	86	-7	-14	HSI	23,939	1.93%	4.37%
Indonesia 5Y CDS	132	-9	-21	STI	3,090	0.76%	2.14%
Thailand 5Y CDS	64	-4	-11	KLCI	1,711	1.34%	2.33%
				JCI	5,381	-0.01%	2.04%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
14-Feb-17	Ronshine China Holdings Ltd. (re-tap)	"B/B2/B+"	USD225mn	3-year	8%
14-Feb-17	Proven Glory Capital Ltd.	Not Rated	USD1bn	5-year	CT5+132.5bps
14-Feb-17	Proven Glory Capital Ltd.	Not Rated	USD500mn	10-year	CT10+162.5bps
13-Feb-17	RKP Overseas Finance 2016 (A) Ltd.	"NR/B1/NR"	USD300mn	PNC5	7.95%
13-Feb-17	Industrial & Commercial Bank of China (Hong Kong)	"A/A1/NR"	USD500bn	3-year	3mL+75bps
13-Feb-17	Industrial & Commercial Bank of China (Hong Kong)	"A/A1/NR"	USD900mn	5-year	CT5+105bps
13-Feb-17	Industrial & Commercial Bank of China (Hong Kong)	"A/A1/NR"	USD600mn	5-year	3mL+96.5bps
13-Feb-17	BNZ International Funding Limited	"AA-/Aa3/NR"	USD500mn	3-year	CT3+93bps

Source: OCBC, Bloomberg

Rating Changes (Cont'd):

Moody's downgraded Beijing Enterprises Holdings Limited's (BEHL) and Beijing Enterprises Group (BVI) Company Ltd's (BE BVI) issuer ratings to 'Baa1' from 'A3'. In addition, Moody's downgraded the senior unsecured rating on the bonds guaranteed by BEHL/BE BVI to 'Baa1' from 'A3'. The outlook on the ratings is stable. The rating action reflects the significant weakening of BEHL's standalone credit profile, due to its acquisitive appetite and heightened business risks, in particular, its acquisition of EEW Holdings GmbH in March 2016 and announced investment in Verknechonskneftegaz in November 2016.

Credit Headlines:

Sabana Shari'ah Compliant Industrial REIT ("SSREIT"): A unitholder of SSREIT has reportedly lodged a complaint to the Commercial Affairs Department ("CAD") of the Singapore Police Force against property valuers Colliers, Savills and Knight Frank. This is in relation to reports done for the proposed acquisition of 47 Changi South Avenue 2 by SSREIT from its Sponsor, Vibrant Group. The proposed acquisition was announced on 15 December 2016 and is subject to unitholder approvals. In light of the unfolding situation at SSREIT, we think unitholders will be less inclined to approve the proposed acquisition. To recap, SSREIT is carrying out a Strategic Review and there are two groups of unitholders which are disgruntled with the REIT Managers. To date, only one group has officially sent in a requisition letter asking for an Extraordinary General Meeting. It is believed that the second group will only be sending in their requisition letter sometime this week. (The Edge, OCBC)

ASL Marine Holdings Ltd ("ASL"): 2QFY2017 results showed revenue decreasing 16.1% y/y to SGD83.7mn. Revenue was also weaker q/q, falling 13.4%. The shipbuilding segment had a soft quarter, declining 43.1% y/y to SGD34.9mn. There was a decline in revenue recognized across all vessel types, given the consumption of ASL's existing order book and the difficulty in winning new orders in the current oversupply environment. The declines in OSVs and Barges / Others was particularly sharp. Shiprepair and conversion segment revenue increased 17.7% y/y to SGD14.7mn, and remained comparable to 1QFY2017 numbers. Shipchartering segment managed to sustain the revenue growth seen in the previous quarter, with revenue up 45.9% y/y to SGD26.6mn, driven by stronger demand for landing craft (+58.5% y/y), tugs (+19.6% y/y) and barges (+26.8% y/y) with ASL benefitting from the commencement of large marine infrastructure projects in Singapore and South Asia during 4QFY2016. ASL also benefitted from trade sales relating to the marine infrastructure contracts mentioned. Gross margins have weakened to 12.0% (2QFY2016: 15.0%, 1QFY2017: 13.5%) - shipbuilding margins saw further q/q expansion from 11.3% to 12.4%, while shiprepair and conversion margins remained stable. The shipchartering segment saw a sharp q/q decline from 7.6% to 0.9%, likely due to seasonal factors (winter season has low demand). Despite the weaker gross margins, ASL was able to grind out a small SGD0.8mn profit before tax for the quarter. In aggregate, net order book stands at SGD146mn (1QFY2017: SGD177mn) for shipbuilding (for 17 vessels to be delivered through end-FY2018, with 28% to be recognized in 2H2017) and SGD136mn for shipchartering. ASL was able to continue generating positive operating cash flow, with SGD36.6mn in operating cash flow (including interest service). Like previous quarters, this was driven by ASL managing its working capital (chasing trade receivables). After factoring capex, ASL was able to generate SGD27.6mn in free cash flow for the quarter (after generating SGD29.2mn in 4QFY2016 and SGD24.3mn in 1QFY2017). The balance of proceeds from the rights issue (non-insider related) was also received during the period. The cash flow generated (and more from the cash balance) was used to pay down SGD32.2mn in net debt. The reduction in debt as well as increase in shareholder equity helped drive net gearing sharply lower q/q from 125% to 110%. Reported short-term borrowings remained elevated at SGD339.2mn, but this does not factor in the successful extension of the SGD100mn ASLSP'17 bonds by 3 years to 2020 (the extension was effective January 2017). The extension, coupled with the pending 5-year SGD99.9mn club term loan facility should help support ASL's short-term liquidity needs. In aggregate, though the free cash flow generation and deleveraging of ASL is commendable, the industry remains highly challenging, and ASL may see its leverage profile deteriorate when it starts to tap on its new club loan. As such, we will retain our Negative Issuer Profile on ASL. We will hold the ASLSP'20s and ASLSP'21s at Neutral as though ASL's operational performance has shown some stabilization, there are no catalysts driving a decisive improvement to the credit profile in the near future. (Company, OCBC)

Credit Headlines (Cont'd):

Ezra Holdings Ltd ("EZRA"): EZRA entered a trading halt yesterday morning, and made a general announcement regarding 3 issues before lifting the trading halt later in the evening. The issues include 1) Necotrans Singapore Pte Ltd, likely a trade creditor, has filed a winding up application with the Singapore High Court on 6 February 2017 to wind up EMAS-AMC Pte Ltd, a wholly-owned subsidiary of EMAS Chiyoda Subsea ("ECS", EZRA's subsea JV). The hearing has been fixed for 3rd March 2017. 2) Ocean Yield, a vessel owner, has served notice to terminate the bareboat charter of the Lewek Connector (which ECS is currently leasing and behind on charter payments). Ocean Yield had indicated in its own announcement that it continues to participate in a financial restructuring of ECS, and that the Lewek Connector is being considered for a short-term contract to a related company of EZRA's while discussions are being made. EZRA had wished to clarify that it is open to enter into discussions with Ocean Yield over the vessel. 3) EZRA is seeking for further extension to announce its 1QFY2017 results (for the quarter ending November 2017), with EZRA applying to the SGX for a 60-day extension, instead of a 30-day extension. EZRA indicated that as previously announced, EZRA is still currently in discussions with various stakeholders and consolidating its funding requirements. In the event that the discussions do not achieve a favourable and timely outcome, EZRA will be faced with a going concern issue. As mentioned previously, EZRA is likely to be reviewing its ECS stake for possible impairments given that the other co-owners of ECS have already done so. On 09/02/17, Chiyoda Corp announced booking a JPY13bn (~SGD162mn) charge on its ECS stake, as well as a JPY23.8bn (~SGD296mn) charge on loans to ECS. We will continue to monitor the situation closely. (Company, OCBC)

CapitaLand Ltd. ("CAPL"): CAPL reported full-year 2016 results, with revenue up 10.3% to SGD5.25bn, mainly driven by development projects in Singapore and China, investment properties in Singapore and Ascott's service apartment business. Singapore's contribution to CAPL's revenue was 32.2% while China was 50.6%. These were similar with 2015 proportions. PATMI was 11.7% higher to SGD1.19bn, with lower net provisions (SGD40.6mn versus SGD185.1mn for 2015) on development projects mitigating the decline in revaluation gains on CAPL's investment properties (SGD432.6mn versus SGD632.9mn). For 4Q2016, revenue was up 6.5% to SGD1.85bn, driven by the handover of more development projects in China (such as One iPark in Shenzhen and Riverfront in Hangzhou) as well as rental income from the Ascott serviced residences. This helped offset lower revenue from residential projects in Singapore as well as lower fees from its malls. 4Q2016 EBIT was up sharply higher by 35.9% to SGD815.8mn despite lower net fair value gains of SGD147.1mn (4Q2015: SGD174.8mn). CapitaLand China was the largest EBIT contribution at SGD432.1mn (+110% y/y) versus CapitaLand Singapore (SGD120.0mn, +58% y/y) and CapitaLand Mall Asia (219.3mn, -4% y/y). EBIT contribution by The Ascott Ltd was sharply lower by 37% to SGD61.7mn for the quarter, due to lower revaluation gains and lower divestment gains. It is worth noting that China was the main driver of EBIT, contributing 65.4% of 4Q2016 EBIT. This was driven by CAPL recognizing a record RMB8.23bn worth of Chinese sales during the quarter. Stripping out revaluation gains, operating PATMI growth was fair at 16.0% to SGD 289.1mn. Looking forward though, with CAPL's inventory of Singapore residential projects running low, and commercial developments (Funan, Golden Shoe) still nascent, we expect China to continue to drive near-term performance, especially given that CAPL still has over RMB8.9bn in pre-sales to be recognized from 2017 onwards (with >60% to be recognized during 2017). CFO (including interest service) was strong at SGD1.24bn, which drove cash balance higher to SGD4.79bn. This caused net gearing to fall sharply form 47% to 41%. Looking forward, CAPL's Chinese residential pipeline and recurring cash flow from its investment properties will continue to support CAPL's credit profile and liquidity. We will, however, observe CAPL closely given its need to restock its land inventory as well as looming development costs. We will retain our Positive issuer profile on CAPL. (Company, OCBC)

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