

March 20, 2017

Credit Headlines (Page 2 onwards): Industry Outlook – China Property, AIMS AMP Capital Industrial Trust, Mapletree Industrial Trust, China Westpac Banking Corporation, Nam Cheong Ltd., Ezra Holdings Ltd.

Market Commentary: The SGD swap curve traded downwards last Friday, with swap rates trading 1-4bps lower across all tenors. Flows in SGD corporates were moderate, with better buying seen in FCLSP 4.88%'49s, FCLSP 4.15%'27s. In the broader dollar space, the spread on JACI IG corporates held steady at 194bps while the yield on JACI HY corporates fell 1bps to 6.72%. 10y UST yields fell 4bps last Friday to 2.50%, as the University of Michigan survey found that consumers' expected inflation reading for the next five years fell.

New Issues: China Evergrande Group priced a USD1.5bn 2-tranche deal; with the USD500mn 3-year piece at 7%, tightening from initial guidance of 7.5%; and the USD1bn 5NC3 piece at 8.25%, tightening from initial guidance of 8.5%. The expected issue ratings are 'NR/B3/B-'. Mapletree Industrial Trust Treasury Co. Pte. Ltd. priced a SGD100mn 7-year bond at 3.16%. China Zheshang Bank Co. Ltd. scheduled an investor roadshow from 20 March for potential USD AT1 Perp issuance.

Rating Changes: S&P downgraded Toshiba Corp.'s (Toshiba) corporate credit rating to 'CCC-' from 'CCC+', and downgraded Toshiba's senior unsecured debt rating to 'CCC-' from 'B-'. In addition, the ratings will remain on CreditWatch with negative implications. The rating action reflects S&P's view that absent unanticipated, significantly favorable changes in the issuer's circumstances, there is a growing likelihood that Toshiba will become unable to fulfill its financial obligations in a timely manner or will undertake a debt restructuring that S&P classifies as distressed in the next six months.

Table 1: Key Financial Indicators

	20-Mar	1W chg (bps)	1M chg (bps)		20-Mar	1W chg	1M chg
iTraxx Asiax IG	84	-10	-18	Brent Crude Spot (\$/bbl)	51.42	0.14%	-8.47%
iTraxx SovX APAC	25	-2	-2	Gold Spot (\$/oz)	1,233.41	2.42%	-0.41%
iTraxx Japan	52	0	-3	CRB	184.48	1.00%	-3.98%
iTraxx Australia	80	-4	-8	GSCI	383.12	0.81%	-4.94%
CDX NA IG	61	-4	-3	VIX	11.28	-3.26%	-1.83%
CDX NA HY	107	1	0	CT10 (bp)	2.501%	-7.40	8.58
iTraxx Eur Main	69	-4	-5	USD Swap Spread 10Y (bp)	-2	0	2
iTraxx Eur XO	276	-11	-21	USD Swap Spread 30Y (bp)	-38	0	0
iTraxx Eur Snr Fin	85	-2	-7	TED Spread (bp)	43	5	-11
iTraxx Sovx WE	15	0	-8	US Libor-OIS Spread (bp)	24	0	-10
iTraxx Sovx CEEMEA	61	-3	-7	Euro Libor-OIS Spread (bp)	2	0	0
					20-Mar	1W chg	1M chg
				AUD/USD	0.772	1.93%	0.38%
				USD/CHF	0.996	1.10%	0.66%
				EUR/USD	1.076	0.98%	1.35%
				USD/SGD	1.400	1.01%	1.28%
Korea 5Y CDS	42	-5	-5	DJIA	20,915	0.06%	1.41%
China 5Y CDS	77	-10	-22	SPX	2,378	0.24%	1.15%
Malaysia 5Y CDS	97	-13	-18	MSCI Asiax	583	2.78%	3.42%
Philippines 5Y CDS	77	-7	-11	HSI	24,341	2.14%	0.81%
Indonesia 5Y CDS	119	-11	-16	STI	3,169	0.69%	2.33%
Thailand 5Y CDS	49	-7	-15	KLCI	1,753	1.79%	2.34%
				JCI	5,540	2.78%	3.38%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
17-Mar-17	China Evergrande Group	"NR/B3/B-"	USD500mn	3-year	7%
17-Mar-17	China Evergrande Group	"NR/B3/B-"	USD1bn	5NC3	8.25%
17-Mar-17	Mapletree Industrial Trust Treasury Co. Pte. Ltd.	Not Rated	SGD100mn	7-year	3.16%
16-Mar-17	Scentre Management Ltd.	"A/A1/NR"	USD500mn	10-year	CT10+130bps
16-Mar-17	Fortune Star (BVI) Ltd.	"BB/NR/NR"	USD800mn	5NC3	5.25%
16-Mar-17	APT Pipelines Ltd.	Not Rated	USD850mn	10-year	CT10+180bps
16-Mar-17	AACI REIT MTN Pte. Ltd.	Not Rated	SGD50mn	5-year	3.6%
15-Mar-17	Fujian Zhanglong Group Co. Ltd. (re-tap)	"NR/NR/BB+"	USD200mn	2.75-year	99.233
14-Mar-17	Azure Nova International Finance Ltd.	"NR/A2/A"	USD700mn	3-year	CT3+140bps

Source: OCBC, Bloomberg

Rating Changes (Cont'd): Moody's affirmed Emeco Holdings Limited's 'Caa1' corporate family rating, while at the same time downgrading to 'Ca' from 'Caa1' the rating on the senior secured notes issued by Emeco Pty Limited. The outlook for all ratings remain at negative. The rating action follows the announcement on 16 March that its creditor scheme of arrangement has received at least 75% noteholder approval. The downgrade of the senior secured notes to 'Ca' considers this default and Moody's assessment of the resultant high economic loss when compared to the original payment promise for the notes, while the rating affirmation reflects Moody's expectation that earnings and cashflow generation should improve as a result of cost and capex savings achieved if the transaction is completed. Moody's affirmed ING Bank N.V.'s (ING Bank) 'A1' senior unsecured debt ratings, 'Baa2' subordinated debt rating, and 'Baa1' Baseline Credit Assessment, and changed the rating outlooks to positive from stable. In addition, Moody's affirmed ING Groep N.V.'s (ING Groep) 'Baa1' senior unsecured debt rating, with stable outlook. The rating changes in ING Bank reflects the likely evolution of the group's liability structure following the expected issuance of senior unsecured and subordinated debt by holding company ING Groep over the next two years. Moody's assigned a 'A2' long-term rating to Azure Nova International Finance Ltd. The rating outlook is Negative.

Credit Headlines:

Industry Outlook – China Property: China has announced further property cooling measures in response to still high property prices in certain Tier 1 and Tier 2 cities. For Beijing, down payments for second-time "ordinary home" buyers was raised to a minimum of 60% (from 50%) while second-time "non-ordinary home" buyers will have to pay a minimum of 80% (from 70%). Non-ordinary homes refer to houses larger than 144 sqm or prices that are 20% higher than government guidelines. This new measure makes it harder for would-be upgraders to purchase. In addition, the definition of first-time buyers have been defined to exclude those who have had a mortgage history (whether or not they own a house at that particular point in time). Following Beijing's fresh measures, Guangzhou also announced measures to raise the minimum downpayment requirement for second home purchases, in addition to restricting number of home purchases for unmarried buyers and non-local residents. Other cities which have had issued cooling measures in the past week include: Shijiazhuang, Zhengzhou, Qingdao, Nanjing and Ningbo. We see this round of measures as relatively severe and would limit number of new transactions in the affected cities. (South China Morning Post, China Daily)

AIMS AMP Capital Industrial Trust ("AAREIT"): AAREIT has priced a SGD50mn 5 year bond at 3.6%. The net proceeds from the issue will be used to partially repay bank debt due in November 2017. This is a credit positive to the issuer profile of AAREIT as it pushes out debt maturity to 2.5 years against 2.1 years as at 31 December 2016. We expect a reduction in secured debt as a percentage of total assets from 29% to 26% post the debt replacement. (Company, OCBC)

Mapletree Industrial Trust ("MINT"): MINT has priced a SGD100mn 7 year bond at 3.16%. The net proceeds from the issue will be used for refinancing. As at 31 December 2016, MINT's weighted average cost of funding was 2.6% and there was SGD214.9mn of short term unsecured bank debt due (representing 20% of total debt). MINT's higher cost of refinancing falls within our expectation and we expect the REIT's interest coverage ratio as measured by EBITDA/Interest to fall from its historically high levels of over 8.0x. Based on our calculation of EBITDA which does not take into account of other expenses, we find MINT's 3Q2017 EBITDA/Interest at 8.1x. While we expect a fall in interest coverage, we think it will stay healthy above 7.5x over the next 9 months. (Company, OCBC)

Credit Headlines (cont'd):

Westpac Banking Corporation (“WBC”): Following on from National Australia Bank Ltd.’s announcement last Thursday, WBC announced on March 17th that it too was raising home loan rates for both owner occupiers as well as investors in response to higher funding costs. Investor rates for interest only loans will rise 28bps to 5.96%pa while rates for principal and interest payment loans will rise 23bps to 5.79%pa. Standard variable home loan rates for owner-occupiers with interest only loans will rise 8bps to 5.49%pa while rates for principal and interest payment loans will rise 3bps to 5.32%pa. The higher rates will be effective from March 24th. Similar to NAB, the moves represent not only a reaction to margin compression from higher funding costs, but also regulator concerns on the build-up of risks within Australia’s housing sector from high property prices and elevated debt. With the tweaks, WBC seeks to incentivize customers to switch to principal and interest loans from interest only loans. What was different to NAB however was WBC’s decision to also lift variable rates for small business loans by 8bps effective from April 3rd. While we expect these measures to help relieve ongoing earnings pressure, we remain mindful of Australia’s banks’ exposure to (1) regulatory risk in 2017 from strong competition in a narrowing playing field to chase better risk-reward balance and (2) potentially higher funding costs. We maintain our Neutral issuer profile on WBC (Company, OCBC)

Nam Cheong Ltd. (“NCL”): NCL has announced that as its auditors, BDO LLP (“BDO”), have included an emphasis of matter with regards to the material uncertainty relating to NCL as a going concern in their report, for the fiscal year ending December 2016 (FY2016). BDO’s audit opinion remains unqualified. BDO had highlighted the sharp slump in revenue seen by NCL, the net loss of RMB42.8mn generated for FY2016 and the RMB948.7mn in short-term borrowings due versus RMB162.6mn in cash. In the same announcement, NCL communicated its plans to manage its financial position. Parts of the plan disclosed previously include its unutilized bank facilities as well as the monetization of the vessels on its balance sheet. What’s new is the disclosure that NCL had appointed a financial advisor to review NCL’s financial position as well as to formulate a debt restructuring plan. We had previously ([refer OCBC Asian Credit Daily – 28 Feb 2017](#)) highlighted that there remains uncertainty over NCL’s looming bond maturity as well as current covenant status. Based on what other issuers in the offshore marine sector have done, given balloon maturity pressure, it is possible that NCL may be exploring to extend the maturity of its bonds, as see in the restructurings done at Marco Polo Marine Ltd and ASL Marine Holdings Ltd. We will continue to hold NCL’s Issuer Profile at Negative. (Company, OCBC)

Ezra Holdings Ltd. (“EZRA”): EZRA has announced that it has filed for Chapter 11 bankruptcy protection in the United States. The filing was submitted on 18/03/17 during US time. Under Chapter 11, it is the current intent for EZRA to be restructured as a going concern, versus Chapter 7 (liquidation). As part of the filing, EZRA’s entities EMAS IT Solutions Pte Ltd and Ezra Marine Services Pte Ltd have also filed Chapter 11. As part of the filing, EZRA disclosed USD500mn – USD1bn in estimated assets, and USD100mn – USD500mn in estimated liabilities. This would be in line with Scenario #2: Restructuring at the HoldCo, which we hypothesized in our recent report ([refer Ezra Holdings Limited – Credit Update 17/03/17](#)). EZRA has announced as well that it would be convening an informal meeting with noteholders of the SGD150mn EZRASP’18s, with the details to be shared in due course. We are currently reviewing the situation, and would update accordingly. (Company, OCBC)

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