Asian Credit Daily

OCBC Bank

May 22, 2017

Credit Headlines (Page 2 onwards): Industry Outlook – Australian Banks, First Real Estate Investment Trust, VIVA Industrial Trust ,

Market Commentary: The SGD swap curve bear-steepened last Friday, with swap rates trading 3-7bps higher across all tenors. Flows in SGD corporates were moderate, with better buying seen in FCLSP 4.15%'27s. In the broader dollar space, the spread on JACI IG corporates fell 2bps to 198bps, while the yield on JACI HY corporates rose 2bps to 6.78%. 10y UST yield rose 1bps to 2.23% last Friday, after the Washington Post reported that investigators were looking at White House official close to US President Trump as person of interest in Russia probe.

New Issues: Housing and Development Board of Singapore priced a SGD500mn 10-year bond at 2.35%. The expected issue ratings are 'NR/Aaa/NR'. Melco Resorts Finance Limited mandated banks to arrange investor meetings from 19 May for potential USD bond issuance. CNRC Capitale Ltd. scheduled investor roadshow from 22 May for potential USD perp (guaranteed by China National Chemical Corp) issuance. The expected issue ratings are 'NR/Baa2/BBB+'. Korea Eximbank may sell EUR 5-year bonds early this week after investor roadshow concluded last Friday.

Rating Changes: S&P upgraded the sovereign credit rating of Indonesia to 'BBB-' from 'BB+' last Friday. Following which, S&P raised the corporate credit ratings on seven Indonesian companies; namely, PT Pertamina (Persero), PT Pelabuhan Indonesia II (Persero), PT Perusahaan Gas Negara (Persero) Tbk., PT Pelabuhan Indonesia III (Persero), PT Saka Energi Indonesia, PT Telekomunikasi Selular, and PT Astra International Tbk. In addition, S&P also raised the issue ratings to 'BBB-' from 'BB+' on the outstanding notes issued by the following entities: PT Pertamina (Persero); PT Pelabuhan Indonesia II (Persero); PT Pelabuhan Indonesia III (Persero); PT Perusahaan Gas Negara (Persero) Tbk.; and the issue ratings to 'BB+' from 'BB' on the outstanding notes issued by PT Saka Energi Indonesia.

Table 1: Key Financial Indicators

	22-May	1W chg (bps)	1M chg (bps)		22-May	1W chg	1M chg
iTraxx Asiax IG	89	0	-6	Brent Crude Spot ($/bbl)	54.07	4.34%	4.06%
iTraxx SovX APAC	20	0	-3	Gold Spot ($/oz)	1,253.26	1.82%	-1.81%
iTraxx Japan	43	0	-3	CRB	185.08	1.86%	1.76%
iTraxx Australia	85	3	0	GSCI	391.04	2.20%	2.09%
CDX NA IG	63	2	-1	VIX	12.04	15.77%	-17.70%
CDX NA HY	107	0	0	CT10 (bp)	2.250%	-9.30	0.23
iTraxx Eur Main	63	1	-5	USD Swap Spread 10Y (bp)	-6	3	-3
iTraxx Eur XO	253	0	-20	USD Swap Spread 30Y (bp)	-46	2	-3
iTraxx Eur Snr Fin	69	2	-9	TED Spread (bp)	27	-5	-9
iTraxx Sovx WE	9	1	0	US Libor-OIS Spread (bp)	13	-1	-7
iTraxx Sovx CEEMEA	48	1	2	Euro Libor-OIS Spread (bp)	3	0	0
					22-May	1W chg	1M chg
				AUD/USD	0.744	0.40%	-1.69%
				USD/CHF	0.974	2.31%	2.23%
				EUR/USD	1.119	1.98%	2.98%
				USD/SGD	1.387	0.79%	0.40%
Korea 5Y CDS	56	-2	1	DJIA	20,805	-0.44%	1.25%
China 5Y CDS	78	-1	-5	SPX	2,382	-0.38%	1.41%
Malaysia 5Y CDS	102	-1	-7	MSCI Asiax	609	-0.37%	4.53%
Philippines 5Y CDS	78	0	-2	HSI	25,399	0.11%	5.64%
Indonesia 5Y CDS	122	-7	-4	STI	3,217	-1.44%	2.46%
Thailand 5Y CDS	56	0	2	KLCI	1,770	-0.49%	0.79%
				JCI	5,831	2.50%	2.94%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
19-May-17	Housing & Development Board of Singapore	"NR/Aaa/NR"	SGD500mn	10-year	2.35%
18-May-17	Amber Treasure Ventures Ltd.	"NR/Baa2/NR"	USD500mn	3NC1.5	CT1.5+180bps
17-May-17	BOC Aviation Ltd.	"BBB+/NR/A-"	USD500mn	5-year	CT5+130bps
17-May-17	ICBC Dubai (DIFC) Branch	"NR/A1/NR"	EUR500mn	3-year	3mE+60bps
16-May-17	National Australia Bank Ltd.	"AA-/Aa2/NR"	USD1bn	3-year	CT3+70bps
16-May-17	National Australia Bank Ltd.	"AA-/Aa2/NR"	USD1bn	3year	3mL+51bps
16-May-17	National Australia Bank Ltd.	"AA-/Aa2/NR"	USD1bn	5-year	CT5+78bps
16-May-17	National Australia Bank Ltd.	"AA-/Aa2/NR"	USD500mn	5-year	3mL+72bps
16-May-17	Korea Water Resources Corporation	"AA/Aa2/NR"	USD350mn	5-year	CT5+102.5bps

Source: OCBC, Bloomberg

Rating Changes (cont'd): Apart from the seven Indonesian companies, S&P upgraded PT Bank Negara Indonesia (Persero) Tbk.'s (BNI) issuer credit ratings to 'BB+' from 'BB', with stable outlook, and Lembaga Pembiayaan Ekspor Indonesia's (Indonesia Eximbank) issuer credit rating and senior unsecured rating to 'BBB-' from 'BB+', with stable outlook. Moody's revised to stable from negative the outlook on Bright Food (Group) Co. Ltd.'s (Bright Food) 'Baa3' issuer rating and senior unsecured ratings on the USD and EUR notes it guaranteed. In addition, Moody's affirmed the aforementioned ratings. The rating action reflects Moody's expectation that Bright Food's debt leverage over the next 12 to 18 months will not rise above the improved level achieved at end-December 2016. Moody's upgraded Tokyo Electric Power Company Holdings, Inc.'s (TEPCO) corporate family rating to 'Ba2' from 'Ba3' and its senior secured debt ratings to 'Ba1' from 'Ba2'. The rating outlook is stable. In addition, Moody's upgraded TEPCO's baseline credit assessment (BCA) to 'B3' from 'Caa1'. The rating action reflects the Japanese government's continued support of TEPCO in approving the company's latest business plan, which also provides clarity on how TEPCO will pay for the decommissioning costs for its Fukushima Daiichi nuclear plant.

Credit Headlines:

Industry Outlook – Australian Banks: Following a sector wide review of Australia's financial institutions (connected to the recent rating affirmation of Australia's sovereign credit rating at 'AAA/Negative'), S&P lowered the ratings of 23 Australian Financial Institutions (revising the outlooks on these institutions to stable from negative) and affirmed the current ratings and outlooks ('AA-/Negative') on Australia's big 4 banks (Australia & New Zealand Banking Group Ltd. (ANZ), Commonwealth Bank of Australia, Macquarie Group Ltd., National Australia Bank Ltd. (NAB) and Westpac Banking Corp.(WBC)). Within the rating affirmation of the big 4 however was a lowering of the stand-alone credit profiles (SACP) of these banks to 'a-' from 'a'. This was mitigated by an increase in implied government support notching for the big 4 banks to 3 notches from 2 notches, hence keeping the final ratings the same. However as a result of the lower SACP, the ratings on certain capital instruments issued by the big 4 were also lowered. These include the ANZ 3.75 '27c22, NAB 4.15 '28c23 and WSTP 4.0 '27c22 with the issue ratings on these instruments lowered to 'BBB' from 'BBB+'. The rating actions are somewhat mechanical and eventually boil down to rising property prices and rapid credit growth in Australia which have increased economic imbalances and risks in S&P's view and drives the negative outlook on the sovereign. These imbalances have continued to increase and while this is yet to hit the sovereign rating (hence the recent sovereign rating affirmation), it's risen enough to impact S&P's view of banking sector risks resulting in a lowering of S&P's Banking Industry Country Risk Assessment. This is the anchor for Financial Institutions ratings (basically representing industry risk) within S&P's rating criteria, hence drove the fall in the stand alone ratings for Australia's big 4 banks. As capital instruments do not benefit from government support, their ratings followed suit with the stand-alone downgrade. It is worth noting that the affirmation of the final rating and rise in government support notching is based on rating grids, not due to any change in the government's stance or improvement in willingness or ability of the Australia government to support. In some respects, Australia's banking sector appears to have structural similarities to the Australian economy with compression on earnings from potentially higher credit costs having a double detrimental impact on profitability given their high reliance on wholesale funding and the potential rise in funding costs from weakening fundamentals. Notwithstanding the more conservative view of Australia's banking sector risks, S&P also commented that the outlook for Australian banks 'remains relatively benign by global standards' and that the potential for economic risks to unfold could be mitigated by recent actions by Australia's banking regulator, the Australian Prudential Regulation Authority, to reduce rising risks in Australia's housing sector by limiting the proportion of new interest only residential mortgage loans and stricter limits on interest only loans. For this reason, the creditworthiness of Australia's banking system still remains one of the highest globally with structural concerns somewhat mitigated by pro-active and well defined regulatory oversight. (S&P, OCBC)

First Real Estate Investment Trust ("FIRT"): Dr Ronnie Tan Keh Poo will retire from his role as Executive Director and Chief Executive Officer of Bowsprit Capital Corporation Limited, the REIT Manager of FIRT. Dr Tan has been with FIRT since the inception of the REIT in 2006. Mr Victor Tan Kok Mian has been appointed as Executive Director and Acting CEO of the REIT Manager with effect from 19 May 2017. Mr. Tan is the current Chief Financial Officer (since July 2008) and would continue to assume the role as CFO until the new CFO is appointed. We see this management transition as credit neutral. (Company, OCBC)

Credit Headlines (cont'd):

VIVA Industrial Trust ("VIT"): Earlier on 23 April 2017, a liquidation notice was received from Jackson International Private Limited ("JIPL"). At that time, JIPL was the integrated facilities manager of the Jackson Square building. JIPL was responsible for operating, maintaining, managing and marketing of the building. VIT had in 2014 purchased JS from JIPL and JIPL had (1) agreed to provide rental income support to VIT and (2) subsidiaries of JIPL are tenants of JS contributing 19% of total gross rental collection of JS for the month of March 2017. Subsequently on 19 May 2017, VIT has entered into a settlement agreement with and Mr Tan Phong Guan (director and shareholder of JIPL). They key terms of the Settlement Agreement include the following (1) The appointment of JIPL as integrated facilities manager shall be terminated (2) VIT shall receive SGD1mn as compromise amount (3) VIT shall not be obstructed from calling upon the Rental Support Bank Guarantee of SGD3.9mn and after full payment has been received, JIPL shall be fully released and discharged from all its obligations under the Rental Support Arrangement (3) VIT shall receive additional security deposits of approximately SGD1.7mn in relation to the existing leases by subsidiaries of JPIL. In aggregate, VIT is expected to receive SGD6.6mn, which will aid liquidity for FY2017 and providing a buffer from the adverse impact. The Master Lessee for Jackson Design Hub (29 Tai Seng Street), namely Jackson Global Pte Ltd is an entity sharing the same Company Direct as JIPL. Jackson Global Pte Ltd is not in liquidation nor has it defaulted on its lease agreement at Jackson Design Hub. We estimate that entities related to JIPL and Jackson Global Pte Ltd paid a total of SGD5.7mn to VIT in the previous year (rental support and rental income combined). Conservatively though, if we also assume zero rental from Jackson Design Hub, VIT's EBITDA plus rental support over interest will fall to ~3.3x (FY2016: 3.5x). Given the manageable impact, we are keeping VIT's issuer profile at Neutral (Company, OCBC).

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