

Sep 22, 2017

Credit Headlines (Page 2 onwards): CWT Ltd, Capitaland Commercial Trust

Market Commentary: The SGD swap curve traded mostly upwards yesterday, with swap rates trading 4-6bps higher across most tenors, with the exception being the -12-year tenor, which traded 6bps lower. Flows in SGD corporates were heavy, with better buying seen in OLAMSP 5.5%-PERPs, better selling seen in WINGTA 4.35%-PERPs, and mixed interest seen in GEMAU 5.5%'19s, SIASP 3.13%'27s, HSBC 4.7%-PERPs. In the broader dollar space, the spread on JACI IG Corp fell 2bps to 184bps, while the yield on JACI HY Corp traded little changed at 6.80%. 10Y UST yields rose 1bps to 2.28%, as President Trump announced further sanctions on North Korea.

New Issues: Postal Savings Bank of China Co has priced a USD7.25bn Perp NC5 AT1 at 4.50%, tightening from initial guidance of 4.85%. The issue ratings are 'NR/Ba3/NR'. Newcastle Coal Infrastructure Group Pty Ltd has priced a USD500mn 10-year bond (guaranteed by NCIG Holdings Pty Ltd) at CT10+215bps, tightening from initial guidance of CT10+240bps area. The expected issue ratings are 'BBB/NR/BBB-'. Hosa International has filed to sell a USD50mn 364-day note at 7.0%.

Rating Changes: : S&P has downgraded CapitaLand Commercial Trust's (CCT) corporate credit rating to 'BBB+' from 'A-'. The outlook is stable. Similarly, S&P downgraded the rating on CCT's existing notes to 'BBB+' from 'A-'. The rating action reflects S&P's expectation that CCT's leverage is likely to increase due to its proposed debt-funded acquisition of Asia Square Tower 2. S&P has downgraded China-based property developer and financial holdings group Oceanwide Holdings Co. Ltd's (Oceanwide) long-term corporate credit rating and issue rating on the senior unsecured notes to 'B-' from 'B'. The outlook is negative. The lower rating reflects Oceanwide's weaker than expected property sales and lower dividend income from financial services with the weaker operating cash flow resulting in elevated leverage in the next two years.

Table 1: Key Financial Indicators

	22-Sep	1W chg (bps)	1M chg (bps)		22-Sep	1W chg	1M chg
iTraxx Asiax IG	79	6	-2	Brent Crude Spot (\$/bbl)	56.36	1.33%	8.66%
iTraxx SovX APAC	15	-3	-6	Gold Spot (\$/oz)	1,295.75	-1.85%	0.83%
iTraxx Japan	46	3	2	CRB	183.40	0.05%	3.77%
iTraxx Australia	72	5	-3	GSCI	397.27	0.77%	5.25%
CDX NA IG	59	3	-1	VIX	9.67	-7.38%	-14.80%
CDX NA HY	107	0	0	CT10 (bp)	2,257%	5.47	4.39
iTraxx Eur Main	57	5	-1	USD Swap Spread 10Y (bp)	-4	-1	2
iTraxx Eur XO	253	26	6	USD Swap Spread 30Y (bp)	-32	1	2
iTraxx Eur Snr Fin	57	8	1	TED Spread (bp)	30	2	-2
iTraxx Sovx WE	4	-1	-1	US Libor-OIS Spread (bp)	14	-1	-2
iTraxx Sovx CEEMEA	44	3	-2	Euro Libor-OIS Spread (bp)	3	0	#N/A N/A
					22-Sep	1W chg	1M chg
				AUD/USD	0.792	-1.05%	0.09%
				USD/CHF	0.968	-0.84%	-0.03%
				EUR/USD	1.196	0.08%	1.64%
				USD/SGD	1.349	-0.30%	0.97%
Korea 5Y CDS	70	1	5	DJIA	22,359	0.70%	2.10%
China 5Y CDS	59	4	-4	SPX	2,501	0.20%	1.96%
Malaysia 5Y CDS	67	2	-9	MSCI Asiax	677	0.87%	3.50%
Philippines 5Y CDS	63	4	-3	HSI	27,943	0.49%	1.98%
Indonesia 5Y CDS	102	8	-6	STI	3,203	-0.19%	-1.85%
Thailand 5Y CDS	50	2	-7	KLCI	1,771	-0.58%	-0.03%
				JCI	5,907	1.04%	0.78%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
21-Sep-17	Postal Savings Bank of China Co	'NR/Ba3/NR'	USD7.25bn	Perp NC5	4.50%
21-Sep-17	Newcastle Coal Infrastructure Group Pty Ltd	'BBB/NR/BBB-'	USD500mn	10-year	CT10+215bps
21-Sep-17	Hosa International	Not Rated	USD50mn	364-day	7.0%
20-Sep-17	Export-Import Bank of Korea	'AA/Aa2/NR'	SGD200mn	5-year	5YSOR+55bps
20-Sep-17	Olam International Ltd	Not Rated	JPY8bn	5-year	0.9825%
20-Sep-17	QBE Insurance Group Limited	Not Rated	USD300mn	6-year	CT6+130bps
20-Sep-17	Sunshine 100 China Holdings Ltd	Not Rated	USD235mn	3NC2	8.5%
19-Sep-17	HSBC Institutional Trust Services (Singapore) Ltd (Mapletree Logistics Trust)	Not Rated	SGD180mn	Perp NC5.5	3.65%
19-Sep-17	SP PowerAssets Ltd	'AA/NR/NR'	USD600mn	10-year	CT10+77.5bps
19-Sep-17	Eastern Creation II Investment Holdings Ltd	'NR/A1/A+'	USD700mn	3-year	CT3+125bps

Source: OCBC, Bloomberg

Rating Changes (Cont'd): S&P has downgraded China's sovereign credit rating to 'A+' from 'AA-'. The outlook has been revised to stable from negative. The rating action reflects the increase in economic and financial risk due to a prolonged period of strong credit growth. At the same time, S&P has downgraded the ratings of DBS China, Hang Seng China and HSBC China to 'A+' from 'AA-'. The outlooks on the ratings are stable. The rating action on these banks reflects S&P's view that these 3 banks are unlikely to avoid default if China defaulted on its sovereign debt, as they primarily operate in China. Additionally, the downgrade of the sovereign credit rating of China has led to the downgrade of the Agricultural Development Bank of China (ADBC), China Development Bank Corp (CDB), and The Export-Import Bank of China (China EXIM), as S&P equates their rating with the sovereign credit ratings on China. S&P has downgraded Hong Kong (Special Administrative Region)'s issuer credit rating to 'AA+' from 'AAA'. The outlook is stable. The rating action follows the downgrade on China's sovereign credit rating, as strong institutional and political ties exist between China and Hong Kong. S&P has affirmed Taiwan Semiconductor Manufacturing Co Ltd's (TSMC) 'A+' corporate credit rating and 'A+' issue rating on its senior unsecured notes. The outlook has been revised to positive from stable. The rating action reflects S&P's view that TSMC will continue to strengthen its competitive position, increase its revenue from high-performance computing applications, and boost its resilience to market risks over the next one to two years. Moody's has assigned a 'Ba2' rating to the notes guaranteed by Dr Peng Telecom & Media Group Co Ltd (Dr. Peng). The outlook is stable. The rating action follows the successful issuance of Dr Peng's notes, which was assigned a provisional rating of 'Ba2' previously. Moody's has affirmed Korea Specialty Contractor Financial Cooperative's (KSCFC) 'A3' insurance financial strength rating. The outlook is stable. The rating action reflects KSCFC's established position in the niche specialty construction guarantee market and its strong capitalization relative to its risks taken. Fitch has upgraded Country Garden Holdings Co Ltd's (Country Garden) Issuer Default Rating (IDR) to 'BBB-' from 'BB+'. The Outlook is stable. Similarly, Fitch has upgraded Country Garden's senior unsecured rating and the ratings on its outstanding notes to 'BBB-' from 'BB+'. The rating action reflects Country Garden's stronger business profile, as it has secured sufficient land across China to take advantage of the business upcycle in the lower tier cities. S&P has affirmed PT Mitra Pinasthika Mustika Tbk (MPM)'s 'B+' corporate credit rating and ratings on its senior unsecured notes. S&P has also affirmed the stable outlook on the ratings. The rating action reflects S&P's view that MPM will maintain its market share in the motorcycle distribution segment. S&P then withdrew the ratings at MPM's request. Moody's has upgraded Thai Beverage Public Company Limited's (ThaiBev) issuer rating to 'Baa2' from 'Baa3'. The outlook has been changed to stable from positive. The rating action reflects ThaiBev's position as the largest beverage producer in Thailand and its stable cash flows. However, the rating considers the competitive environment and ThaiBev's exposure to regulatory risks and potential changes in excise taxes.

Credit Headlines:

CWT Ltd ("CWT"): HNA Belt and Road Investments (Singapore) Pte Ltd has issued offer documents for the acquisition of CWT. The closing date has been set at 19 Oct 2017. For a recap of the deal, please refer to [OCBC Asian Credit Daily - 8 Sep 2017](#) and [OCBC Asian Credit Daily - 22 Aug 2017](#). We are currently underweight on both CWT bonds with CWT's issuer profile at Neutral. (Company, OCBC)

Credit Headlines (Cont'd):

CapitaLand Commercial Trust (“CCT”): CCT has announced that it has agreed to acquire Asia Square Tower 2 (“AST2”) from BlackRock Asia Property Fund III L.P for SGD2.1bn (or ~SGD2,689 psf). This was similar to the ~SGD2,700 psf which Qatar Investment Authority paid for Asia Square Tower 1 in June 2016. The transaction is expected to be completed in November 2017. The transaction did not come as a complete surprise, as CapitaLand, CCT’s sponsor, had previously been reported expressing interest in the asset (refer to [OCBC Asian Credit Daily – 17 Mar 2017](#)) since March this year, while CCT had been creating balance sheet room via its recent divestments (refer to [OCBC Asian Credit Daily – 19 Jul 2017](#)). The transaction would be 32% funded by an underwritten rights issue (~SGD690mn), 52% funded by bank borrowings (SGD1.1bn) and 16% funded by divestment proceeds (obtained from the recent stake sale in One George Street and Golden Shoe redevelopment as well as the outright divestment of the Wilkie Edge). CCT’s balance sheet also benefitted from the conversion of SGD175mn in convertible bonds during 3Q2017 into shares. The historical NPI yield of AST2 based on 1H2017 figures was 3.4%, largely due to average occupancy being just 81.2%. CCT has guided that they expect NPI yield to increase to 3.6% based on committed occupancy of 88.7% (with signed leases with tenants commencing from March 2018). In aggregate, CCT’s portfolio size would increase from SGD8.0bn to SGD10.1bn while Grade A offices would increase from 62% of its portfolio to 70% of its portfolio. However, given the low NPI yield, the acquisition looks to be DPU dilutive, with pro-forma 1H2017 DPU yield falling to 5.13% (from 5.38%). Management’s estimates for pro-forma 1H2017 aggregate leverage post the transaction was 37.1% (from 35.2%) though it should be noted that this factors 1) the rights issue 2) completion of the transaction. For 3Q2017 results looming, it would capture the Wilkie Edge divestment proceeds as well as Golden Shoe stake sale impact. It would also capture the conversion of SGD175mn in convertible bonds into equity. As such aggregate leverage is expected to be lower, before rising again when the AST2 transaction completes in November 2017. The rights issue shares are also only expected in October. For now, we will hold CCT’s Issuer Profile rating at Neutral, acknowledging the prior divestments made to bolster CCT’s balance sheet for the capital commitments required for the redevelopment, and given the pro-forma levels of aggregate leverage assuming the completion of the transaction. The portfolio quality will improve though we might see a hit to CCT’s margins given the lower NPI yield. We will monitor for the looming 3Q2017 results. (Company, OCBC)

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