

November 30, 2017

Credit Headlines (Page 2 Onwards): Industry Outlook – Australian Banks, Chip Eng Seng Corp Ltd, Industry Outlook – Singapore Residential Property

Market Commentary: The SGD swap curve traded marginally higher yesterday, with swap rates trading 1-2bps higher across most tenors. Flows in SGD corporates were heavy yesterday. In the broader dollar space, the spread on JACI IG Corp fell 1bps to 180bps, while the yield on JACI HY Corp rose 2bps to 6.98%. 10Y UST yields rose 6bps to 2.39%, as US Treasuries sold off after Federal Reserve Chairwoman Janet Yellen called economic growth “increasingly broad based” and USD GDP data came in stronger-than-expected.

New Issues: Alibaba Group Holding Ltd has priced a five-tranche deal, with the USD700mn 5.5-year bond priced at CT5+73bps, tightening from CT5+100bps area; the USD2.55bn 10-year bond priced at CT10+108bps, tightening from initial guidance of CT10+125-130bps area; the USD1bn 20-year bond priced at CT20+118bps, tightening from initial guidance of CT20+140bps area; the USD1.75bn 30-year bond priced at CT30+138bps, tightening from initial guidance of CT30+160bps area, and the USD1bn 40-year bond priced at CT30+158bps, tightening from initial guidance of CT30+180bps. The Third Pakistan International Sukuk Company Ltd has priced a two-tranche deal (with The President of the Islamic Republic of Pakistan for and on behalf of the Islamic Republic of Pakistan being the obligor), with the USD1bn 5-year Sukuk bond priced at 5.625%, tightening from initial guidance of 6% area; and the USD1.5bn 10-year bond priced at 6.875%, tightening from initial guidance of low 7% area. The expected issue ratings are ‘B/B3/NR’. Indian Railway Finance Corporation Ltd has scheduled investor meetings for potential USD-denominated 10-year green bonds issuance from 30 Nov.

Table 1: Key Financial Indicators

	30-Nov	1W chg (bps)	1M chg (bps)		30-Nov	1W chg	1M chg
iTraxx Asiax IG	73	-3	-2	Brent Crude Spot (\$/bbl)	63.36	-0.30%	3.24%
iTraxx SovX APAC	14	-1	-2	Gold Spot (\$/oz)	1,284.24	-0.56%	1.01%
iTraxx Japan	46	-1	-2	CRB	190.90	0.57%	1.78%
iTraxx Australia	64	-2	-1	GSCI	426.11	0.34%	2.64%
CDX NA IG	53	--	1	VIX	10.7	9.97%	5.11%
CDX NA HY	108	0	-1	CT10 (bp)	2,388%	6.95	1.98
iTraxx Eur Main	48	-1	-2	USD Swap Spread 10Y (bp)	-1	0	2
iTraxx Eur XO	229	-9	4	USD Swap Spread 30Y (bp)	-24	-2	5
iTraxx Eur Snr Fin	46	-2	-5	TED Spread (bp)	20	1	-8
iTraxx Sovx WE	4	0	-1	US Libor-OIS Spread (bp)	11	0	0
iTraxx Sovx CEEMEA	46	-2	3	Euro Libor-OIS Spread (bp)	3	0	0
					30-Nov	1W chg	1M chg
				AUD/USD	0.758	-0.60%	-1.01%
				USD/CHF	0.984	-0.22%	1.38%
				EUR/USD	1.186	0.09%	1.85%
				USD/SGD	1.347	-0.12%	1.17%
Korea 5Y CDS	58	-6	-15	DJIA	23,941	1.48%	2.41%
China 5Y CDS	57	-2	6	SPX	2,626	1.04%	1.97%
Malaysia 5Y CDS	63	-4	0	MSCI Asiax	709	-1.05%	2.41%
Philippines 5Y CDS	63	-3	0	HSI	29,300	-1.37%	3.73%
Indonesia 5Y CDS	93	-4	0	STI	3,429	0.18%	1.64%
Thailand 5Y CDS	47	-1	0	KLCI	1,724	0.18%	-1.35%
				JCI	6,053	-0.17%	0.78%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
29-Nov-17	Alibaba Group Holding Ltd	Not Rated	USD700mn	5.5-year	CT5+73bps
29-Nov-17	Alibaba Group Holding Ltd	Not Rated	USD2.55bn	10-year	CT10+108bps
29-Nov-17	Alibaba Group Holding Ltd	Not Rated	USD1bn	20-year	CT20+118bps
29-Nov-17	Alibaba Group Holding Ltd	Not Rated	USD1.75bn	30-year	CT30+138bps
29-Nov-17	Alibaba Group Holding Ltd	Not Rated	USD1bn	40-year	CT30+158bps
29-Nov-17	Third Pakistan International Sukuk Company Ltd	'B/B3/NR'	USD1bn	5-year	5.625%
29-Nov-17	Third Pakistan International Sukuk Company Ltd	'B/B3/NR'	USD1.5bn	10-year	6.875%
28-Nov-17	Fortune Star (BVI) Ltd	'BB/NR/NR'	USD300mn	3-year	5.375%
28-Nov-17	Huarong Universe Investment Holding Ltd	'NR/NR/A'	EUR300mn	5-year	MS+150bps
28-Nov-17	Anton Oilfield Services Group	'NR/Caa1/CCC'	USD300mn	3-year	99.366%

Source: OCBC, Bloomberg

Rating Changes: S&P has downgraded Mitsubishi UFJ Financial Group Inc's (MUFG) long-term issuer credit rating and issue ratings on its senior unsecured instruments to 'A-' from 'A'. At the same time, S&P has downgraded the rating on MUFG's major banking subsidiaries, including Bank of Tokyo-Mitsubishi UFJ Ltd (BTMU) to 'A' from 'A+'. S&P has also downgraded the issue ratings of the senior unsecured instruments that BTMU and Mitsubishi UFG Trust and Banking Corp have issue to 'A' from 'A+', and lowered the issue ratings on preferred securities issued by MUFG's special purpose vehicle to 'BBB-' from 'BBB'. The outlook is stable. The rating action reflects S&P's view that the economic risks of MUFG's business portfolio has been rising, as MUFG has been expanding to overseas markets that have higher economic risks than Japan. Moody's has downgraded SAI Global Holding II (Australia) Pty Ltd's (SAI Global) corporate credit rating to 'B2' from 'Ba3'. At the same time, Moody's has downgraded the rating of SAI Global Holdings I (Australia) Pty Ltd's first lien term loan B and its senior secured rating to 'B2' from 'Ba3', and the senior secured rating of its second lien term loan facility to 'Caa1' from 'B2'. The outlook is stable. The rating action reflects SAI Global's weak operating performance in fiscal 2017 and that earnings in fiscal 2018 will also be significantly lower due to significant organizational restructure, additional new investment, and a delay in achieving its cost-out program. Fitch has affirmed Baidu Inc's (Baidu) Issuer Default Ratings and senior unsecured ratings at 'A', while removing the ratings from Rating Watch Negative. The outlook is stable. The rating action reflects Baidu's continued strong cash generation from its core search services and its commitment to manage exposure from its riskier Financial Services Group. Fitch has affirmed AquaSure Finance Pty Ltd's (AquaSure Finance) 'A-' senior secured debt and removed the ratings from Rating Watch Negative. The outlook is stable. The rating action follows the completion of repairs to the electrical equipment and the subsequent strong operating performance of AquaSure's desalination plant in Victoria.

Credit Headlines:

Industry Outlook – Australian Banks: The Australian government has announced that it will be establishing a royal commission to investigate the recent instances of misconduct that has been plaguing Australia's banking and financial services sector. This was shortly after the CEOs of Australia's four largest banks sent an open letter to the Treasurer, Scott Morrison, calling on the government to establish an inquiry into the financial sector, as a means to help restore public trust and end political uncertainty. The royal commission will run for 12 months, with the final report due 01/02/19. The royal commission will examine banks (both large and small), superannuation funds as well as wealth managers. It was reported that the commission will not be able to award compensation resulting from uncovered violations by the banks, but will be able to make recommendations for schemes that will be able to award compensation. Various Australian bank shares sold off on the news. In our view, it remains too early stage to assess the impact of the royal commission, particularly with the final report only due early 2019. Recent performance of the banks under our coverage (Westpac Banking Corporation ('WBC'), Australia & New Zealand Banking Group Ltd ('ANZ') and National Australia Bank Ltd ('NAB')) have remained decent while NPL ratios remained low. As such, we will retain our Neutral Issuer Profiles on WBC, NAB and ANZ for now, though we will revisit our views as the situation evolves. (Bloomberg, OCBC)

Chip Eng Seng Corp Ltd ("CES"): CES acquired Mercure & Ibis Styles Grosvenor Hotel and the adjoining commercial properties in Adelaide for AUD43mn (SGD43.8mn). The hotel comprises 245 guestrooms while the commercial properties consist of two 2-storey buildings. We expect net gearing to increase to ~1.5x, following the remaining payments for the Woodleigh land parcel (refer to [OCBC Asian Credit Daily – 12 Jul 2017](#)), SGD248.8mn for the enbloc of Changi Garden (refer to [OCBC Asian Credit Daily – 17 Oct 2017](#)) and SGD88mn for the acquisition of a Grade A office building in New Zealand (refer to [OCBC Asian Credit Daily – 4 Aug 2017](#)). Although we project that net gearing will be elevated, we believe CES will benefit from the recovery in the Singapore property market to move more units at Grandeur Park and Fulcrum. We are reviewing our Neutral issuer profile on CES, and will update as necessary. (Company, OCBC)

Credit Headlines (Cont'd):

Industry Outlook – Singapore Residential Property: How Sun Park was sold enbloc for SGD81.09mn (SGD1,092 psf ppr, inclusive of SGD2.92mn development charge). The buyer is Singhaiyi Huajiang Amber Pte Ltd, which is a 50-50 JV between Singhaiyi Group Ltd and an entity controlled by Mr Gordon Tang and Mrs Celine Tang, who are the controlling shareholders and directors of Singhaiyi Group Ltd. (Company, Straits Times)

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