

March 31, 2017

Credit Headlines (Page 2 onwards): Industry Outlook – Australian Banks. GuocoLand Ltd., Suntec REIT

Market Commentary: The SGD swap curve traded downwards yesterday, with swap rates trading 1-2bps lower across all tenors. Flows in SGD corporates were heavy, with mixed interest in UOBSP 3.5%'29s, ABNANV 4.75%'26s. In the broader dollar space, the spread on JACI IG corporates rose 1bps to 195bps while the yield on JACI HY fell 3bps to 6.62%. 10y UST yields rose 4bps to 2.42% due to rekindled inflation expectations after the U.S. 4Q economic growth rate was revised higher and crude oil rose. Expectations were also supported by FOMC members' hawkish tone, with Federal Reserve Bank of New York President William Dudley mentioning that U.S. government policy may further boost the economy and eventually add fuel to an inflation rate that is already approaching the central bank's official target.

New Issues: Keppel REIT MTN Pte. Ltd. issued a SGD75mn 7-year bond at 3.275%, while Frasers Centrepoint Ltd. priced a SGD52mn re-tap of its bond due 2027 at 4.15%. CK Hutchison International (17) Ltd. priced a USD1.8bn 2-tranche deal (guaranteed by CK Hutchison Holdings Ltd); with the USD1bn 5-year piece at CT5+95bps, tightening from initial guidance at CT5+115bps and; the USD800mn 10-year piece at CT10+115bps, tightening from initial guidance of CT10+135bps. The expected issue ratings are 'A-/A3/A-'. Indonesia Eximbank priced a USD500mn 7-year bond at 3.9%, tightening from initial guidance of 4.2%. The expected issue ratings are 'NR/Baa3/BBB-'. Hesteel Hong Kong Co. priced a USD500mn 3-year bond (guaranteed by Hesteel Group Co.) at 4.375%, tightening from initial guidance of 4.625%. Blue Skyview Company Ltd. priced a USD315mn NC3.5 Perp re-tap (guaranteed by Hong Kong Airlines International Holdings Ltd.) at 7.12%, tightening from initial guidance of 7.25%. Fullerton Health Corporation Ltd. priced a USD175mn Perp NC3 at 7%, tightening from initial price guidance of 7.25%.

Table 1: Key Financial Indicators

	31-Mar	1W chg (bps)	1M chg (bps)		31-Mar	1W chg	1M chg
iTraxx Asiax IG	94	0	-2	Brent Crude Spot (\$/bbl)	52.68	3.70%	-5.23%
iTraxx SovX APAC	21	0	-5	Gold Spot (\$/oz)	1,241.28	-0.18%	-0.57%
iTraxx Japan	45	0	-7	CRB	185.52	1.02%	-2.68%
iTraxx Australia	85	-3	1	GSCI	387.16	2.39%	-3.74%
CDX NA IG	67	-1	5	VIX	11.54	-12.04%	-10.68%
CDX NA HY	107	0	-1	CT10 (bp)	2.414%	0.20	2.44
iTraxx Eur Main	74	-1	1	USD Swap Spread 10Y (bp)	-1	1	1
iTraxx Eur XO	291	0	-1	USD Swap Spread 30Y (bp)	-37	0	0
iTraxx Eur Snr Fin	88	-1	-4	TED Spread (bp)	39	-1	-6
iTraxx Sovx WE	12	0	-9	US Libor-OIS Spread (bp)	21	-2	-4
iTraxx Sovx CEEMEA	51	3	-14	Euro Libor-OIS Spread (bp)	2	0	0
					31-Mar	1W chg	1M chg
				AUD/USD	0.764	0.28%	-0.17%
				USD/CHF	1.001	-0.95%	0.49%
				EUR/USD	1.068	-1.07%	1.01%
				USD/SGD	1.398	0.05%	0.34%
Korea 5Y CDS	51	1	5	DJIA	20,728	0.35%	-0.40%
China 5Y CDS	82	-1	-10	SPX	2,368	0.94%	0.19%
Malaysia 5Y CDS	104	-1	-5	MSCI Asiax	585	0.14%	3.68%
Philippines 5Y CDS	83	1	-2	HSI	24,149	-0.86%	1.72%
Indonesia 5Y CDS	126	-3	-4	STI	3,172	0.94%	2.45%
Thailand 5Y CDS	52	-2	-2	KLCI	1,746	-0.01%	3.06%
				JCI	5,598	0.61%	3.92%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
30-Mar-17	Keppel REIT MTN Pte. Ltd.	Not Rated	SGD75mn	7-year	3.275%
30-Mar-17	Frasers Centrepoint Ltd. (re-tap)	Not Rated	SGD75mn	10-year	4.15%
30-Mar-17	CK Hutchison International (17) Ltd.	"A-/A3/A-"	USD1bn	5-year	CT5+95bps
30-Mar-17	CK Hutchison International (17) Ltd.	"A-/A3/A-"	USD800mn	3-year	CT10+115bps
30-Mar-17	Indonesia Eximbank	"NR/Baa3/BBB-"	USD500mn	7-year	3.9%
30-Mar-17	Hesteel Hong Kong Co.	Not Rated	USD500mn	10NC5	5%
30-Mar-17	Blue Skyview Company Ltd.	Not Rated	USD315mn	Perp NC3.5	7.12%
30-Mar-17	Fullerton Health Corporation Ltd	Not Rated	USD175mn	Perp NC3	7%
30-Mar-17	Tewoo Group Finance No 3 Ltd.	"NR/NR/BBB-"	USD300mn	3-year	CT3+335bps

Source: OCBC, Bloomberg

New Issues (cont'd): Tewoo Group Finance No 3 Ltd. priced a USD500mn 2-tranche deal (guaranteed by Tewoo Group Co.); with the USD300mn 3-year piece at CT3+335bps, tightening from initial guidance of CT3+360bps and; the USD200mn 5-year piece at CT5+375bps, tightening from initial guidance of CT5+385bps. The expected issue ratings are 'NR/NR/BBB-'. State Bank of India priced a USD500mn 3-year bond at 3mL+95bps, tightening from initial guidance of 3mL+110bps. The expected issue ratings are 'BBB-/Baa3/BBB-'. Beijing Enterprises Holdings Ltd. hired banks and scheduled investor meetings from 4-10 April for potential EUR bond issuance. The expected issue ratings are 'BBB+/ Baa1/NR'.

Table 3: Recent Asian New Issues (cont'd)

Date	Issuer	Ratings	Size	Tenor	Pricing
30-Mar-17	Tewoo Group Finance No 3 Ltd.	"NR/NR/BBB-"	USD200mn	5-year	CT5+375bps
30-Mar-17	State Bank of India	"BBB-/Baa3/BBB-"	USD500mn	3-year	3mL+110bps

Source: OCBC, Bloomberg

Rating Changes: Moody's affirmed Wanhua Chemical Group Co. Ltd's (Wanhua Chemical) 'Baa3' issuer rating and senior unsecured notes issued by Wanhua Chemical International Holding Co., Ltd. and guaranteed by Wanhua Chemical. In addition, Moody's revised the outlook on the issuer rating to stable from negative. The rating action reflects Moody's expectation that Wanhua Chemical's improved credit metrics will be sustained over the next 12-18 months. Moody's assigned University of Technology Sydney (UTS) a first time issue rating of 'Aa1', with a stable outlook. The rating action reflects UTS' important market position as a leading technology-oriented university in Australia, with credit quality which is further enhanced by the presence of a supportive institutional framework.

Credit Headlines:

Industry Outlook – Australian Banks: Australia's banking regulator, the Australian Prudential Regulation Authority (APRA), has moved to reduce rising risks in Australia's housing sector by limiting the proportion of new interest only residential mortgage loans written to 30% of the total written. New measures also include stricter limits on interest only loans with a loan to value ratio (LTV) above 80% (and more so for loans with LTV above 90%). The moves were more or less foreshadowed by APRA following the recent announcements by Australia's main banks on higher interest rates for residential mortgages with pricing structures seeking to improve the risk profile of residential lending books. The moves also add to existing APRA measures to rein in housing sector risks including a 10% cap on lending growth for residential investment loans. To this end, APRA also indicated that a breach of the existing 10% limit would attract more scrutiny from APRA on the bank's capital adequacy ratios. Such moves are consistent with our view of Australian banks' exposure to regulatory risk in 2017. Within our coverage, Westpac Banking Corporation (WBC) is expected to be more exposed to these changes compared to Australia & New Zealand Banking Group Ltd and National Australia Bank Ltd given WBC's stronger franchise in consumer banking and position as the second largest mortgage lender in Australia. That said, we don't expect these changes to materially impact earnings and capital levels and hence we maintain our Neutral Issuer Profiles on these banks. (Company, APRA, OCBC)

GuocoLand Ltd ("GUOL"): GUOL announced that it has been allocated shares for 27% of Eco World International Berhad ("EWI") for MYR777.6mn (SGD245.7mn). The amount paid is higher than our original expectations of MYR540mn (SGD180mn) based on EWI's initial target to raise MYR2bn. As mentioned in our [OCBC Asian Credit Daily – 23 Mar 2017](#), as we expect further deterioration in net gearing, we continue to hold GUOL at a Negative Issuer Profile (Company, OCBC)

Suntec REIT ("SUN"): The managers of Suntec REIT announced yesterday that they would no longer engage Moody's Investors Service ("Moody's") to maintain a corporate credit rating on the REIT. Suntec REIT is currently rated 'Baa2/Negative' by Moody's. The outlook was revised to negative from stable on 8 Aug 2016. According to Moody's latest report (dated 13 Mar 2017), the negative outlook reflects "Suntec REIT's weaker credit metrics following the debt-funded acquisition of Southgate Complex". The managers did not include the reason for the termination of Moody's services, but highlighted that there is no requirement for a credit rating as at 1 Jan 2016, after the adoption of the 45% single-tier leverage limit (aggregate leverage) set by MAS. (Company, Moody's, OCBC)

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