

May 31, 2017

**Credit Headlines (Page 2 onwards):** Industry Outlook – Singapore Banks, Swissco Holdings Ltd, AusGroup Limited, International Healthway Corp, Ascendas Real Estate Investment Trust, Ascott Residence Trust

**Market Commentary:** The SGD swap curve bull flattened yesterday, with swap rates trading 1-3bps lower across all tenors. Flows in SGD corporates were heavy, with better buying seen in UOBSP 3.5%’29s, mixed interest seen in RHTSP 4.5%’18s. In the broader dollar space, the spread on JACI IG corporates fell 1bps to 198bps, while the yield on JACI HY corporates changed little at 6.82%. 10y UST yields fell 4bps yesterday to 2.21%, supported by month-end buying of 10y and 30y USTs.

**New Issues:** Frasers Centrepoint Limited priced a SGD50mn re-tap on its FCL 4.15%’27s at 100.50. The expected issue ratings are ‘BBB+/NR/NR’. The Republic of Maldives scheduled investor calls yesterday for potential USD bond issuance. The expected issue ratings are ‘NR/B2/B+’. Shougang Corporation scheduled investor meetings from 31 May for potential EUR 3-year bond issuance. The expected issue ratings are ‘NR/NR/A-’.

**Rating Changes:** S&P downgraded Australia-based sandalwood producer Quintis Ltd.’s (Quintis) corporate credit rating and the ratings on the company’s senior secured notes to ‘CCC+’ from ‘B’. Quintis has also been placed on CreditWatch with negative implications. The rating action reflects the company’s stressed liquidity, due to 1) continued delays in the sale of Quintis’ Indian sandalwood products which would worsen plantation investor confidence and potentially result in materially lower investor inflows for the company, and 2) the prospect of the AUD37mn option on 400 hectares (ha) being put back to the company. S&P upgraded Australian business services company Broadspectrum Ltd.’s (Broadspectrum) corporate credit rating to ‘BBB-’ from ‘BB+’. The outlook on the rating is stable. The rating action reflects Broadspectrum’s position as a highly strategic subsidiary to its sole parent Ferrovial S.A. Broadspectrum is rated one notch below the rating on Ferrovial and S&P expects the parent to maintain its 100% ownership of Broadspectrum over the next two to three years.

**Table 1: Key Financial Indicators**

	31-May	1W chg (bps)	1M chg (bps)		31-May	1W chg	1M chg
iTraxx Asiax IG	91	0	-2	Brent Crude Spot (\$/bbl)	51.70	-4.19%	-0.06%
iTraxx SovX APAC	19	0	-3	Gold Spot (\$/oz)	1,260.09	0.11%	0.28%
iTraxx Japan	42	0	-1	CRB	181.33	-2.55%	-0.22%
iTraxx Australia	86	2	4	GSCI	382.86	-2.59%	0.03%
CDX NA IG	62	0	-1	VIX	10.38	-5.03%	-4.07%
CDX NA HY	108	0	0	CT10 (bp)	2.222%	-2.82	-5.82
iTraxx Eur Main	62	0	-4	USD Swap Spread 10Y (bp)	-6	0	-2
iTraxx Eur XO	252	-2	-14	USD Swap Spread 30Y (bp)	-44	0	1
iTraxx Eur Snr Fin	69	1	-5	TED Spread (bp)	27	-3	-11
iTraxx Sovx WE	9	1	0	US Libor-OIS Spread (bp)	11	-3	-7
iTraxx Sovx CEEMEA	42	-3	-3	Euro Libor-OIS Spread (bp)	3	0	0
					31-May	1W chg	1M chg
				AUD/USD	0.745	-0.65%	-0.96%
				USD/CHF	0.976	-0.28%	2.11%
				EUR/USD	1.118	-0.39%	2.53%
				USD/SGD	1.386	-0.09%	0.80%
Korea 5Y CDS	56	0	-2	DJIA	21,029	0.64%	0.42%
China 5Y CDS	78	-2	-3	SPX	2,413	0.79%	1.20%
Malaysia 5Y CDS	100	0	-7	MSCI Asiax	620	1.06%	4.28%
Philippines 5Y CDS	81	1	1	HSI	25,777	1.47%	4.72%
Indonesia 5Y CDS	125	0	-1	STI	3,210	-0.65%	1.09%
Thailand 5Y CDS	58	0	0	KLCI	1,763	-0.46%	-0.29%
				JCI	5,709	-0.38%	0.41%

Source: OCBC, Bloomberg

**Table 2: Recent Asian New Issues**

Date	Issuer	Ratings	Size	Tenor	Pricing
30-May-17	FCL Treasury Pte Ltd (re-tap)	“BBB+/NR/NR”	SGD50mn	FCL 4.15%’27s	100.50
29-May-17	Fraser Centrepoint Trust	“BBB+/NR/NR”	SGD30mn	5-year	2.645%
26-May-17	RCS Trust	“A-/NR/NR”	SGD300mn	6-year	2.6%
25-May-17	Century Sunshine Group Holdings Ltd	Not Rated	SGD100mn	3NC2	7%
25-May-17	Tuan Sing Holdings Ltd	Not Rated	SGD120mn	3-year	6%
25-May-17	Kookmin Bank	Not Rated	USD400mn	5-year	3mL+95bps
25-May-17	Dr. Peng Holding Hongkong Ltd	“BB/Ba2/NR”	USD500mn	3-year	5.05%
25-May-17	APL Realty Holdings Pte. Ltd.	“NR/Ba3/BB-”	USD300mn	7NC4	5.95%
25-May-17	Melco Resorts Finance Ltd..	“BB-/Ba3/NR”	USD650mn	8NC3	4.875%

Source: OCBC, Bloomberg

## Credit Headlines:

**Industry Outlook – Singapore Banks:** Moody's this morning announced the revision of its outlook for Singapore's Banking System to Stable from Negative. Under Moody's criteria, a Banking System's outlook is based on the evaluation of 5 factors: operating environment; asset quality and capital; funding and liquidity; profitability and efficiency and; government support. Moody's previously judged three of these factors as deteriorating (operating environment, asset quality and capital and profitability and efficiency). However, the operating environment has improved on a better economic growth outlook globally and regionally as well as improved commodity prices. Asset quality has also stabilized and should translate in a benign trend for credit costs. Together with US interest rate normalization, Moody's expects Singapore bank profitability to be somewhat restored. 1Q2017 results for DBS Group Holdings Ltd. and United Overseas Bank Ltd. (UOB) support this view with earnings generation stable to improved y/y from either top line growth or moderating credit costs and stabilizing loan quality trends, especially on a q/q basis. Rising interest rates and net interest margins q/q point to an improved earnings outlook however there still remains vulnerabilities in the banks' loan portfolios. That said, coverage ratios including collateral remain solid and capital ratios should still remain well above minimum capital requirements. (Moody's, OCBC)

**Swissco Holdings Ltd (“SWCH”):** The judicial managers for SWCH have announced on 30/05/17 that the Singapore High Court, on 26/04/17, have granted further orders allowing for (1) extension of the judicial management order period for 3 months up till 18/01/18 (2) extension of time until 16/09/17 to present to creditors a statement of proposals (3) extension of time until 30/09/17 to convene meetings with creditors to consider the proposals. In a separate filing, it was announced that SWCH's CFO, Ms Lee Kah Hong, has resigned to pursue other career opportunities. (Company)

**AusGroup Limited (“AUSG”, associate company of Ezion Holdings (“EZI”)):** As mentioned previously (refer to [OCBC Asian Credit Daily - 23 May 2017](#)), AUSG had announced a voluntary debt-to-equity exchange for its outstanding SGD110mn in bonds due 20/10/18, exchanging the bonds for new shares in AUSG priced at SGD0.058 per share. AUSG had announced that it had already received and accepted from Noteholders principal amounts exceeding SGD10.6mn (AUSG had earlier on paid down SGD4mn in principal as part of its bond restructuring), hence clearing the 10% minimum offer condition. As such, the EGM to obtain shareholder approval for the transaction will be held (expected around 28/06/17), with the circular to be despatched around 13/06/17. The exchange offer is still on-going, and will expire on 08/06/17. We do not currently cover AUSG. (Company)

**International Healthway Corp (“IHC”, partially owned subsidiary of OUE Limited (“OUE”)):** IHC has filed its delayed FY2016 financial results, for the year ending December 2016. Revenue was up 9.0% y/y to SGD49.1mn due to the additional contribution from IHC's Australian assets. It should be noted that these assets have since been disposed, hence the lower revenue seen in 4Q2016. IHC took sizable impairments during the period, mainly in 4Q2016. For the full year, SGD32.6mn of goodwill impairment was taken on its Wuxi Hospital (due to deteriorating performance). SGD14.9mn of impairments were taken on trade receivables and SGD18.8mn in fair value losses were taken on IHC's investment properties (specifically its development property in China). As a result, IHC reported SGD76.9mn in net losses for the year. As IHC is now consolidated into OUE's financial statements, we are still reviewing the impact of IHC's results on OUE's financials and will update accordingly. (Company, OCBC)

**Ascendas Real Estate Investment Trust (“AREIT”):** AREIT has entered into a sale and purchase agreement with Sengkang Import & Export Pte Ltd for the sale of 10 Woodlands Link for SGD19.3mn. The proceeds of the sale price of SGD19.3mn is 16.8% higher than the valuation as at 31 March 2017 of SGD16.5mn and 60.7% higher than the original purchase price of SGD12.0mn in 2005. The building had been vacant since December 2016 after the lease expiry of the single tenant. Net proceeds are expected to be SGD18.9mn and we see minimal impact to AREIT's credit profile. As at 31 March 2017, AREIT's net assets was SGD6.3bn. (Company, OCBC)

## Credit Headlines (cont'd):

**Ascott Residence Trust (“ART”):** ART has announced the acquisition of the DoubleTree by Hilton Hotel New York – Times Square South and the freehold interest in the land of the hotel property (“Property”). The property, located at 341 West 36<sup>th</sup> Street, is in the Hell’s Kitchen area which is undergoing rapid redevelopment. Before transaction cost, the aggregate consideration is USD106mn (~SGD148mn) and the hotel consist of 224 rooms. As at 31 March 2017, ART’s headline aggregate leverage was high at 41.1%. Since then though, ART has (1) Completed a rights issue raising SGD442.7mn in gross proceeds (2) Completed the acquisition of two properties in Germany in May 2017 (3) Divested 18 rental housing properties in Japan in April 2017 and (4) Targeting to acquire the Ascott Orchard Singapore by 4Q2017. Management had guided that proforma aggregate leverage post the rights issues and asset movements (taking into account Ascott Orchard Singapore) would be 35.2%. Funding for the property has not been firmed up but ART is proposing to finance it via debt financing and/or the proceeds from an issuance of perpetual securities. Assuming that the property is fully funded by debt, we expect headline aggregate leverage to rise to ~37%. This is ART’s third acquisition in the USA (all 3 in New York City). On a proforma basis, USA properties make up 12.3% of total assets (factoring in recent asset movements) and in line with ART’s strategy to increase portfolio contribution in the USA to 20% by 2017. We see this transaction as a positive development for ART as it reduces ART’s concentration risk on serviced apartments in the Asia-Pacific region, which had been facing headwinds from tighter corporate travel budgets. We maintain ART’s issuer profile at Neutral. (Company, OCBC)

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