

Jul 4, 2017

Credit Headlines (Page 2 onwards): Olam International Ltd, Capitaland Commercial Trust, CMA CGM S.A.

Market Commentary: The SGD swap curve bear-steepened yesterday, with swap rates trading 1-7bps higher across all tenors. Flows in SGD corporates were heavy, with better buying seen in HSBC 4.7%-PERPs, STHSP 3.95%-PERPs, LMRTSP 6.6%-PERPs, and mixed interest seen in WINGTA 4.08%-PERPs and OLAMSP 4.25% '19s. In the broader dollar space, the spread on JACI IG Corporates fell by 2bps to 187bps, while the yield on JACI HY Corporates rose by 2bps to 6.89%. 10y UST yields rose by 5bps to 2.35%, as the Institute for Supply Management's (ISM) PMI index rose more than expected.

New Issues: Hengjian International Investment Limited has priced a USD500mn 3-year bond (guaranteed by Guangdong Hengjian Investment Holding Co Ltd) at CT3+130bps, tightening from initial guidance of CT3+160bps. The expected issue ratings are 'NR/A3/A+'. Bank of China Ltd, Hong Kong Branch has priced a USD1.05bn two-tranche deal, with the USD550mn 2-year bond priced at 3mL+73bps, tightening from initial guidance of 3mL+95bps; and the USD500mn 5-year bond priced at 3mL+88bps, tightening from initial guidance of 3mL+110bps. The expected issue ratings are 'A/A1/A'. The Agricultural Bank of China has scheduled investor meetings for potential USD bond issuance from 3 Jul.

Rating Changes: Moody's has assigned Australian Catholic University Limited's (ACU) forthcoming AUD Medium Term Notes programme a provisional '(P)Aa2' rating. The rating action reflects ACU's 'Aa2' issuer rating. Moody's has assigned University of Technology Sydney's (UTS) forthcoming AUD Medium Term Notes programme a provisional '(P)Aa1' rating. The rating action reflects UTS's 'Aa1' issuer rating. Fitch has affirmed EHI Car Services Limited's (EHI) 'BB-' long-term issuer default rating, while revising its outlook to negative from stable. The rating action reflects EHI's higher leverage, ongoing CAPEX requirements and Fitch's expectation that deleveraging is not probable for EHI in the next few years.

Table 1: Key Financial Indicators

	4-Jul	1W chg (bps)	1M chg (bps)		4-Jul	1W chg	1M chg
iTraxx Asiax IG	87	2	0	Brent Crude Spot (\$/bbl)	49.40	5.89%	-1.10%
iTraxx SovX APAC	21	2	2	Gold Spot (\$/oz)	1,223.20	-1.92%	-4.42%
iTraxx Japan	40	1	-1	CRB	176.16	4.50%	-1.02%
iTraxx Australia	83	0	-2	GSCI	377.72	6.25%	0.90%
CDX NA IG	60	-1	0	VIX	11.22	13.33%	15.08%
CDX NA HY	107	0	-1	CT10 (bp)	2.350%	14.48	19.08
iTraxx Eur Main	55	0	-7	USD Swap Spread 10Y (bp)	-3	0	3
iTraxx Eur XO	244	7	-4	USD Swap Spread 30Y (bp)	-29	2	14
iTraxx Eur Snr Fin	52	-1	-19	TED Spread (bp)	28	-4	3
iTraxx Sovx WE	6	0	-2	US Libor-OIS Spread (bp)	13	0	3
iTraxx Sovx CEEMEA	55	2	12	Euro Libor-OIS Spread (bp)	3	0	1
					4-Jul	1W chg	1M chg
				AUD/USD	0.766	1.04%	2.34%
				USD/CHF	0.963	-0.31%	0.17%
				EUR/USD	1.137	0.24%	1.00%
				USD/SGD	1.382	0.38%	-0.03%
Korea 5Y CDS	54	2	-1	DJIA	21,479	0.33%	1.29%
China 5Y CDS	69	1	-5	SPX	2,429	-0.41%	-0.41%
Malaysia 5Y CDS	85	1	-10	MSCI Asiax	627	-0.55%	0.33%
Philippines 5Y CDS	76	0	-1	HSI	25,819	-0.08%	-0.41%
Indonesia 5Y CDS	117	3	-3	STI	3,228	0.26%	-0.37%
Thailand 5Y CDS	62	0	4	KLCI	1,763	-0.90%	-0.76%
				JCI	5,892	2.61%	2.60%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
3-Jul-17	Hengjian International Investment Limited	'NR/A3/A+'	USD500mn	3-year	CT3+130bps
3-Jul-17	Bank of China Ltd, Hong Kong Branch	'A/A1/A'	USD550mn	2-year	3mL+73bps
3-Jul-17	Bank of China Ltd, Hong Kong Branch	'A/A1/A'	USD500mn	5-year	3mL+88bps
29-Jun-17	SGSP (Australia) Assets Pty Limited	'A-/A3/NR'	USD500mn	10-year	CT10+132bps
29-Jun-17	Modern Land (China) Co., Ltd	Not Rated	USD130mn	1-year	6.5%
28-Jun-17	Baidu, Inc.	'NR/A3/A'	USD900mn	5-year	CT5+118bps
28-Jun-17	Baidu, Inc.	'NR/A3/A'	USD600mn	10-year	CT10+145bps
28-Jun-17	CSCEC Finance (Cayman) II Ltd	'A/A2/A'	USD500mn	5-year	CT5+112.5bps

Source: OCBC, Bloomberg

Credit Headlines:

Olam International Ltd (“OLAM”): OLAM has priced SGD300mn in subordinated perpetual securities at par with a distribution rate of 5.50% for the first five year. This has tightened from IPT of 5.75%. We think that at 5.5%, the perpetuals are priced fair, with limited tightening potential relative to where the senior bonds are trading at. The distribution rate will be reset and subject to a step-up margin of 200bps at the end of five years from issue date and each date falling every five years thereafter. OLAM may also choose to redeem in whole the perpetuals on each distribution payment date falling on or after the fifth anniversary. We expect bulk of proceeds from this perpetual to be used towards redeeming its existing SGD perpetual, the OLAMSP 7% 49c17, which the company has announced its intention to call in September. (Company, OCBC)

Capitaland Commercial Trust (“CCT”): CCT announced that it has divested Wilkie Edge to a JV between Lian Beng Group and the private investment vehicle of Super Group's Teo family. The divestment was for SGD280mn, with the last valuation of Wilkie Edge being SGD201mn, allowing CCT to book a net gain of SGD76mn (adjusted for fees). The transaction is expected to close in September 2017. Management estimated that should transaction proceeds be used to deleverage, aggregate leverage would fall from 38.1% to 35.7% (based on 1Q2017 figures). Do note that the estimates have not included the 50% divestment of One George Street, which was completed during June 2017. Proceeds for the divestment of 50% of OGS was ~SGD590mn, with aggregate leverage potentially going even lower (the finalized structure of how OGS will be funded has not yet been disclosed). Long story short, CCT has created a fair bit of balance sheet room for itself. As mentioned previously, CapitaLand was reported to be interested in acquiring Asia Square Tower 2, and may be involving CCT in any potential transaction. We had previously estimated the quantum for Asia Square Tower 2 to be ~SGD2.1bn. CCT is also in the process of redeveloping the Golden Shoe Car Park, and would need funds. As such, though the divestment was a credit positive with aggregate leverage potentially dipping lower, investors should be cautious that CCT's credit profile could change rapidly in the event of a transaction. (Company, Business Times, OCBC)

CMA CGM S.A. (acquired Neptune Orient Lines, “NOL”): CMA CGM has announced that on 30/06/17 it had signed an agreement to sell 90% of Global Gateway South (“GGS”) Terminal in Los Angeles (USA) to EQT Infrastructure III (“EQT Fund”), for an Enterprise Value of USD875mn. CMA CGM would receive a cash consideration of USD817mn, as well as deferred and contingent cash consideration based on GGS's future performance. The transaction is expected to be completed by end-2017. CMA CGM would also entered into a long-term industrial partnership and utilization agreement with EQT Fund to remain a major user of the terminal with preferential conditions. CMA CGM had indicated that the GGS divestment would complete the financial deleveraging plan communicated in December 2015 (upon the announcement of the NOL acquisition). Should the proceeds be used to reduce debt, we estimate the net gearing would fall from 143% to 126%. Separately, CMA CGM has mandated for a EUR500mn 5NC2 bond. Proceeds will be used to refinance both the EUR300mn bond due December 2018, as well as paid down the revolver (previously drawn to redeem the SGD400mn NOLSP'17 bonds that matured in April 2017). The bonds will be rated 'B3/CCC+/NR'. Do note that CMA CGM's issuer rating remains 'B1/B/NR', with the unsecured bonds notched lower due to CMA CGM's large proportion of secured borrowings (vessel financing). S&P had also revised CMA CGM's outlook from Negative to Positive. In aggregate, we consider both the divestment of the port assets, and expected successful tapping of credit markets to be credit positive for the issuer. Though we will retain CMA CGM's issuer profile at Neutral due to the high levels of absolute leverage, the positive events should support the NOLSP legacy curve. (Company, Moody's, S&P, OCBC)

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