

May 5, 2017

Credit Headlines (Page 2 onwards): Chip Eng Seng Corp Ltd, Lippo Malls Indonesia Retail Trust, Swissco Holdings Ltd, Société Générale SA

Market Commentary: The SGD swap curve bear-steepened yesterday, with swap rates trading 1-3bps higher across all tenors. Flows in SGD corporates were heavy, with better selling seen in MAPLSP 4.5%'49s, mixed interest in TATAIN 4.95%'23s, BNP 4.3%'25s, UOBSP 4%'49s, HPLSP 4.65%'49s, HRAM 3.2%'27s. In the broader dollar space, the spread on JACI IG corporates fell 2bps to 195bps, while the yield on JACI HY corporates added 1bps to 6.61%. 10y UST yield rose 4bps to 2.35%, extending losses early in the session after 1Q unit labor costs growth rate beat estimates, while initial jobless claims fell more than forecast.

New Issues: Sri Lanka priced a USD1.5bn 10-year bond at 6.20%, tightening from initial guidance of 6.625%. The expected issue ratings are 'B+/B1/B+'. Bank of China Ltd. (Singapore) Branch priced a USD600mn 3-year bond at 3mL+77bps, tightening from initial guidance of 3mL+100bps. The expected issue ratings are 'A/A1/A'. Bank of Communications (Hong Kong) is planning to issue USD bonds as early as next week. HPCL-Mittal Energy Ltd is planning to issue USD bonds to fund capex requirements, but the timing of bond issue has not been confirmed.

Table 1: Key Financial Indicators

	5-May	1W chg (bps)	1M chg (bps)		5-May	1W chg	1M chg
iTraxx Asiax IG	93	0	-1	Brent Crude Spot (\$/bbl)	48.43	-6.38%	-10.91%
iTraxx SovX APAC	21	-1	0	Gold Spot (\$/oz)	1,228.11	-3.17%	-2.20%
iTraxx Japan	43	0	-1	CRB	177.01	-1.93%	-4.91%
iTraxx Australia	82	0	-1	GSCI	367.82	-3.91%	-5.86%
CDX NA IG	63	-1	-2	VIX	10.46	0.97%	-18.85%
CDX NA HY	108	0	0	CT10 (bp)	2.354%	5.95	-0.64
iTraxx Eur Main	64	-2	-11	USD Swap Spread 10Y (bp)	-5	-2	-3
iTraxx Eur XO	257	-9	-33	USD Swap Spread 30Y (bp)	-45	-1	-6
iTraxx Eur Snr Fin	70	-4	-21	TED Spread (bp)	30	-7	-7
iTraxx Sovx WE	8	-1	-5	US Libor-OIS Spread (bp)	16	-2	-6
iTraxx Sovx CEEMEA	47	3	-2	Euro Libor-OIS Spread (bp)	3	0	1
					5-May	1W chg	1M chg
				AUD/USD	0.739	-1.26%	-2.33%
				USD/CHF	0.987	0.80%	1.84%
				EUR/USD	1.098	0.73%	2.93%
				USD/SGD	1.401	-0.29%	0.01%
Korea 5Y CDS	58	1	8	DJIA	20,951	-0.14%	1.47%
China 5Y CDS	82	0	1	SPX	2,390	0.03%	1.55%
Malaysia 5Y CDS	107	-1	0	MSCI Asiax	598	0.71%	1.80%
Philippines 5Y CDS	79	-1	-2	HSI	24,501	-0.31%	0.41%
Indonesia 5Y CDS	126	-1	-2	STI	3,224	1.65%	1.48%
Thailand 5Y CDS	57	-1	5	KLCI	1,760	-0.44%	0.88%
				JCI	5,665	-0.74%	-0.21%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
5-May-17	Bank of China Ltd. (Singapore Branch)	"A/A1/A"	USD600mn	3-year	3mL+77bps
4-May-17	Democratic Socialist Republic of Sri Lanka	"B+/B1/B+"	USD1.5bn	10-year	6.20%
27-Apr-17	China Southern Power Grid International Finance (BVI) Co. Ltd.	Not Rated	USD900mn	10-year	CT10+130bps
27-Apr-17	SOCAM Development Ltd.	Not Rated	USD200mn	3-year	6.25%
27-Apr-17	China Minsheng Banking Corp. Ltd. (Hong Kong Branch)	"BBB/NR/NR"	USD500mn	3-year	CT3+115bps
27-Apr-17	Suncorp-Metway Ltd.	"NR/A1/A+"	USD500mn	5-year	CT5+100bps
27-Apr-17	Heeton Holdings Limited	Not Rated	SGD75mn	3-year	6.1%
26-Apr-17	Hotel Properties Ltd.	Not Rated	SGD150mn	Perp NC5	4.65%
27-Apr-17	China Southern Power Grid International Finance (BVI) Co. Ltd.	Not Rated	USD600mn	5-year	CT5+100bps

Source: OCBC, Bloomberg

Credit Headlines:

Chip Eng Seng Corp Ltd (“CES”): CES reported 1Q2017 results for the quarter ending 31 Mar. Revenue increased 62.6% y/y to SGD181.9mn mainly due to higher progressive revenue recognised at High Park Residences and sales of Fulcrum (sales reached 78.9%, up from the previous quarter’s 43.8%), while higher revenue was also recognised for achieving higher percentage of completion for the construction project at Woodlands N1C26 & N1C27 and Tampines N6C1A/1B. CES also recorded SGD7.7mn in other income, which is mainly driven by net gain on disposal of quoted investment securities worth SGD4.9mn and FX gains. As a result, profits surged 292.2% y/y to SGD10.3mn. With higher sales from Grandeur Park Residences and Fulcrum, we expect CES to collect more cash in the coming quarters, with trade receivables increasing to SGD96mn (4Q16: SGD81mn). We think the supportive property market may continue to benefit CES’s property sales. During the quarter, CES spent USD65mn (SGD91mn) for the purchase of a Maldives resort. Nevertheless, due to the cash collections from buyers of Nine Residences and HDB, net gearing remained unchanged q/q at 0.89x. As for CES’s Tower Melbourne project, there has been no significant progress pending the determination and decision of the Building Appeal Board and Supreme Court. CES yesterday announced that it secured a Toa Payoh Bidadari HDB project worth SGD110.8mn, replenishing the construction orderbook which fell to SGD457.2mn (4Q: SGD537.4mn). Overall, we think the results are decent, and we continue to hold CES at a Neutral Issuer Profile. (Company, OCBC)

Lippo Malls Indonesia Retail Trust (“LMRT”): LMRT reported 1Q2017 results for the quarter ending 31 Mar. Revenue increased 6.7% to SGD48.6mn, driven by higher gross rents with strong rental reversions. NPI increased faster than revenue, at 12.9%, to SGD46.1mn as LMRT moved to a new contract arrangement for carpark income where the outsourced carpark operator absorb all the carpark operating costs. The underlying property performance remains decent, with rental reversion of +7.5%, and as such as we not overly worried about the 20% leases that will expire in 2017, though occupancy inched down to 93.8% (4Q16: 94.3%). We note that LMRT’s sponsor, Lippo Karawaci, had its credit rating of LT Corp Family rating downgraded to B1 (from Ba3). As such, we would not be surprised if more malls are divested to LMRT going forward as the sponsor has plans to develop another 40 new retail malls. LMRT’s net gearing inched up to 32.2% from 31.5% due to a weaker IDR which resulted in the investment properties in SGD terms falling to SGD1.88bn (4Q16: SGD1.92bn). Nevertheless, leverage ratios remain healthy. We also think LMRT can refinance the upcoming SGD125mn bonds due in July and Nov this year. As such, we continue to hold LMRT at a Neutral Issuer Profile. (Company, OCBC)

Swissco Holdings Ltd (“SWCH”): Bloomberg reported that SWCH’s judicial managers have received a firm offer from among the six bids for SWCH’s entire OSV division. Previously, it was reported that six parties were in the second phase of due diligence for SWCH’s assets as of the end of March. The report also stated that SWCH has a live fleet of 31 vessels, of which 16 are OSVs worth USD59.1mn, and that another 7 newbuild OSVs are valued at USD65.1m, according to data provided by UK-based Vesselsvalue. Should SWCH’s OSV division be sold, most of SWCH’s assets would have been disposed, given that its JV stake with Ezion Holdings will be sold to Ezion, and its other rigs have been seized by other creditors. When the proceeds from the sale are received, there could be more clarity regarding potential recoveries for bondholders. It should be noted that part of the proceeds from Ezion Holdings for the JV stake are contingent on recoveries on outstanding receivables. As such, it could still take some time for final recovery amounts to be determined. (Bloomberg, Company, OCBC)

Credit Headlines (cont'd):

Société Générale SA ("SG"): SG announced its 1Q2017 results with net banking income up 4% y/y to EUR6.5bn. Similar to FY2016 results, the better performance was driven by International Retail Banking (+8.4% y/y due to Russia and Africa activity growth) and Global Banking & Investor Solutions (+5.4% y/y due to growth in FICC) while French Retail Banking (-1.3% y/y) continues to grapple with low interest rates. Operating expense growth (+2.6% y/y) was lower than income growth and stated by management to be 'controlled', with business growth in International Retail Banking & Financial Services and transformation expenses in French Retail Banking offset by cost savings in Global Banking & Investor Solutions. Operational risk costs for SG's businesses continued its improving trend down 22bps or 48% y/y to 24bps. Improvements were seen across all segments, particularly International Retail Banking, due to improvements in the loan portfolio and recovery process. Overall cost of risk however was 20% higher y/y due to a EUR350mn settlement provision for a civil dispute with the Libyan Investment Authority (LIA) and this resulted in underlying group net income of EUR747mn for 1Q2017, 19% lower than 1Q2016 group net income of EUR924mn. On a normalized basis, underlying group net income (which excludes non-economic items, impact of IFRIC 21, additional dispute provision and partial refund of a Euribor fine in Q12016) of EUR1.39bn was 50% higher than 1Q2016 adjusted group net income of EUR928mn. In line with the improving risk cost position, the NPL ratio has improved y/y and q/q to 4.8% as at 1Q2017 compared with 5.3% for 1Q2016 and 4.8% for FY2016. The allowance coverage ratio improved marginally y/y by 1bps to 65%. CET1 ratios improved marginally q/q from a combination of earnings generation and lower risk weighted assets with 1Q2017 fully loaded CET1/CAR ratios at 11.6%/17.8% (FY2016: 11.5%/17.9%). Including senior non-preferred debt issues and other TLAC adjustments (senior preferred and others), SG's reported TLAC ratio was 21.5% as at 31 March 2017, above the 2019 minimum requirement. SG's results are in line with the overall operating environment. While low interest rates are dampening domestic retail earnings, business activity appears solid and underlying performance in French Retail Banking (higher individual loans and customer numbers, lower loan to deposit ratio, rising commissions) is in line with soft but recovering economic conditions in France. Similarly, International Retail Banking benefitted from a 9.7% y/y increase in outstanding loans and a 9.6% increase in deposits as economic conditions in Europe and Russia appear to be stabilizing. SG's performance continues to benefit from its multi-branded and diversified business offerings and we maintain our Neutral issuer profile. (OCBC, Company)

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