Asian Credit Daily

February 8, 2017

Credit Headlines (Page 2 onwards): BNP Paribas SA, Cambridge Industrial Trust, Ezra Holdings Ltd., Olam International Ltd., Yanlord Land Group Ltd., Perennial Real Estate Holdings Ltd., Sabana Shari'ah Compliant REIT, OUE Limited/International Healthway Corp/Oxley Holdings Limited

Market Commentary: The SGD dollar swap curve traded downwards yesterday, with swap rates trading 1-3bps lower across all tenors – except for 1-2year tenors, which traded higher by around 1bps. Flows in SGD corporates were heavy, with better buying seen in GUOLSP 4%'22s, SOCGEN 4.3%'26s, GENSSP 5.13%'49s, better selling in OCBCSP 3.8%'49s, and mixed interest in MAPLSP 4.5%'49s. In the broader dollar space, the spread on JACI IG Corporates held steady at 197bps while the yield on JACI HY Corporates fell another 3bps to 6.78%. 10y UST yield fell 1bps to 2.39%, touching a 3-week low, as Treasuries were underpinned by oil prices which came under pressure (WTI Oil price tanked 2% at one stage).

Market Commentary: Bank of China Ltd (Hong Kong Branch) priced a USD2bn 3-tranche deal, with the USD1.2bn 3-year bond priced at 3mL+77bps; the USD300mn 3-year bond priced at CT3+105bps, tightening from initial guidance of CT3+120bps; and the USD500mn 5-year bond priced at CT5+115bps. The expected issue ratings are 'A/A1/A'. Hong Kong has scheduled an investor roadshow from 13 February for a potential USD Sukuk bond offering. Vodafone Group Plc is planning for a potential USD 30-year non-callable Formosa Bond issue. Power China scheduled non-deal roadshows from 14-20 February for a potential bond issuance.

Rating Changes: S&P assigned Qinghai Provincial Investment Group Co. Ltd. (QPIG) and its proposed notes a 'BB-' corporate credit rating, with stable outlook. The rating action reflects the company's 'B-' stand-alone credit profile and S&P's view of a high likelihood that the government of Qinghai province would extend timely and sufficient extraordinary support if the company comes under financial distress.

Table 1: Key Financial Indicators

	8-Feb	1W chg (bps)	1M chg (bps)		8-Feb	1W chg	1M chg
iTraxx Asiax IG	108	-5	-8	Brent Crude Spot ($/bbl)	54.54	-3.98%	-4.48%
iTraxx SovX APAC	29	-3	-5	Gold Spot ($/oz)	1,234.88	2.07%	4.55%
iTraxx Japan	55	1	-1	CRB	191.37	-0.34%	-1.12%
iTraxx Australia	92	-2	-6	GSCI	395.50	-0.08%	-0.67%
CDX NA IG	65	-1	0	VIX	11.29	-5.84%	-0.27%
CDX NA HY	107	1	1	CT10 (bp)	2.377%	-9.34	-4.28
iTraxx Eur Main	75	2	7	USD Swap Spread 10Y (bp)	-7	2	6
iTraxx Eur XO	302	0	12	USD Swap Spread 30Y (bp)	-41	1	8
iTraxx Eur Snr Fin	93	3	6	TED Spread (bp)	50	-2	0
iTraxx Sovx WE	24	1	3	US Libor-OIS Spread (bp)	35	0	2
iTraxx Sovx CEEMEA	71	-5	-7	Euro Libor-OIS Spread (bp)	2	0	-1
					8-Feb	1W chg	1M chg
				AUD/USD	0.764	0.66%	3.83%
				USD/CHF	0.997	-0.39%	1.84%
				EUR/USD	1.069	-0.75%	1.08%
				USD/SGD	1.417	-0.27%	1.39%
Korea 5Y CDS	47	0	-1	DJIA	20,090	1.14%	0.63%
China 5Y CDS	107	-4	-8	SPX	2,293	0.62%	0.71%
Malaysia 5Y CDS	125	-7	-9	MSCI Asiax	553	0.81%	4.80%
Philippines 5Y CDS	93	-6	-9	HSI	23,198	-0.52%	3.09%
Indonesia 5Y CDS	144	-7	-10	STI	3,060	-0.25%	3.28%
Thailand 5Y CDS	67	-5	-7	KLCI	1,688	0.97%	0.73%
				JCI	5,370	0.80%	0.42%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
7-Feb-17	Bank of China Ltd (Hong Kong Branch)	"A/A1/A"	USD1.2bn	3-year	3mL+77bps
7-Feb-17	Bank of China Ltd (Hong Kong Branch)	"A/A1/A"	USD300mn	3-year	CT3+105bps
7-Feb-17	Bank of China Ltd (Hong Kong Branch)	"A/A1/A"	USD500mn	5-year	CT5+115bps
6-Feb-17	ReNew Power Ventrures Pvt Ltd.	"NR/Ba3/B+"	USD475mn	5NC3	6%
6-Feb-17	PT Bukit Makmur Mandiri Utama	"NR/Ba3/BB-"	USD350mn	5NC3	8%
6-Feb-17	Shanghai Pudong Development Bank Co. Ltd.	"NR/Baa2/NR"	USD500mn	3-year	CT3+107.5bps
25-Jan-17	China Water Affairs Group Ltd.	"BB+/Ba1/NR"	USD300mn	5NC3	5.5%
25-Jan-17	Jain International Trading BV	"B+/NR/B+"	USD200mn	5NC3	7.375%

Source: OCBC, Bloomberg

Rating Changes (Cont'd):

Moody's withdrew all ratings on SABMiller Limited and those on its subsidiaries, which includes the 'A3' rating on the EUR1bn senior unsecured notes (issued by SABMiller Holdings Inc.) and 'A3' rating on the AUD700mn senior unsecured notes (issued by FBG Finance Pty Ltd.). Moody's withdrew the ratings of SABMiller for reorganization reasons following the merger into Anheuser-Busch InBev SA/NV which was completed on 10 October 2016. Moody's downgraded Gajah Tunggal Tbk's (P.T.) ('Gajah Tunggal') corporate family rating (CFR) and the rating on its USD500mn senior secured notes to 'Caa1' from 'B3'. The rating outlook is negative. The rating action reflects Moody's concerns over Gajah Tunggal's inability to secure funding one-year prior to its February 2018 notes maturity which exposes the company to material market risk. This increases the probability of a distressed exchange.

Credit Headlines:

BNP Paribas SA ("BNPP"): BNPP announced its 4Q2016 and FY2016 results with 4Q2016 revenues up 2% y/y to EUR10.6bn as soft performance in domestic markets (-1.0%) due to low interest rates was mitigated by solid performance in international retail (+3.1%) and improved performance in Corporate & Institutional Banking (CIB) (+8.0%) from FICC which rose 23% y/y and equity and prime services which rose 20% y/y. In particular, French Retail Banking performance was softer in 4Q2016 with net interest income down 5% despite a 4.2% rise in loan volumes due to reduced margins on deposits and renegotiation of existing loans at lower rates. Corporate banking within CIB was also softer y/y with 4Q2016 revenues down 4.9%. Operating expenses were more or less stable (+0.5%) largely due to the benefits of cost rationalization in CIB. Combined with lower risk costs y/y (-1.9%), operating income improved 14.5% to EUR2.26bn. For FY2016, full year operating income was up marginally y/y (+1.1%) to EUR43.4bn as stronger net gains on financial instruments and available-for-sale financial assets mitigated weaker net interest income (down 0.8% y/y) and weaker net commission income (-5.4% y/y). Core business performance was soft in FY2016 due to continuing low interest rates and soft economic conditions however, combined with broadly stable operating expenses as higher salary costs and ongoing restructuring and transformation costs were balanced by a fall in other operating expenses, gross operating income improved y/y by 2.7% to EUR14.1bn. Asset quality continues to stabilize with the cost of risk declining 16% y/y due to lower net allowances as well as lower write-offs, translating to a 10.2% improvement in operating income. While performance in BNPP's CIB segment continues to be a challenge with the cost of risk increasing 2% y/y compared to a 15% fall in the retail segment, the increase is materially lower than that seen in 2015 (+180%). Retail banking continues to generate the bulk of BNPP's revenues and operating income at ~70% of both on a consolidated basis. Despite weak economic conditions, BNPP's balance sheet continues to grow with total assets up 4% y/y - mostly driven by increases in cash and amounts due from central banks as well as a 4.4% rise in net loans and advances. Deposits due to customers increased by 9% translating to the loan to deposit ratio improving to 93% in FY2016 from 97.5% in FY2015. Given the solid earnings performance, capital ratios improved with the fully loaded CET1/CAR ratios at 11.5%/114.4% for FY2016 against 10.9%/13.0% in FY2015 (11.6%/14.4% for 3Q2016). While full year numbers were solid and reflect BNPP's resilient business profile, 4Q2016 numbers and management signals indicate still challenging times ahead for capital generation necessitating ongoing cost rationalization and restructuring to achieve bottom line growth and meet rising capital requirements. The bank's 2017-2020 business development plan is focused on digital investments costing EUR3bn and cost reductions of EUR3.4bn to achieve average net income growth of 6.5% per annum, as well as target CET1 and ROE ratios of 12.0% and 10% respectively by 2020. Given the new investments, efficiency ratios are expected to be under pressure in the next 3 years. The results do not alter our view of BNPP's Neutral issuer profile. (Company, OCBC)

Cambridge Industrial Trust ("CREIT"): e-Shang Redwood Limited ("e-Shang"), a company backed by Warburg Pincus has completed the acquisition of 10.65% units in CREIT. This was pursuant to an option agreement entered into between e-Shang with certain existing unitholders in October 2016. e-Shang also holds an 80% stake in the CREIT REIT Manager. The REIT Manager holds 5.13mn units in CREIT, which brings e-Shang's deemed interest to ~11%. e-Shang is now the second largest unitholder of CREIT. We see e-Shang as a strategic investor. We are keeping CREIT's issuer profile at Neutral for now. (Company, OCBC)

Credit Headlines (Cont'd):

Ezra Holdings Ltd. ("EZRA"): EMAS Offshore Limited ("EMAS"), a listed subsidiary of EZRA's, has announced that it is applying to ACRA for further extensions to the filing of its Annual Financial Report for FY2016 (ending August 2016). EMAS is now seeking for an extension of up to 150 days, with AR2016 being released in the earlier part of May 2017 and its AGM to be held towards the end of May. EMAS highlighted that the reason for the delay (as disclosed previously in its 1QFY2017 results filing) was both EMAS and EZRA having going concern issues if the discussions on EMAS's fund raising and EZRA consolidating its ratfunding requirements do not achieve favourable and timely outcomes. EZRA is currently expected to file its 1QFY2017 results some time mid-February. In separate news, EZRA had received a statutory demand from Forland Subsea, for a sum totalling ~SGD4.4mn over charter payments for the vessel LEWEK INSPECTOR. The vessel was chartered by the EMAS Chiyoda subsea JV, with EZRA being the corporate guarantor for the charter. The statutory demand stated that Forland Subsea intends to apply for EZRA to be wound up by the High Court of Singapore unless payment of the sums demanded are made within 3 weeks from the date of the statutory demand. Finally, with regards to Perisai Petroleum Teknologi ("PPT"), as associate company of EZRA's, it was reported that PPT is seeking to settle its SGD125mn in defaulted bonds by paying ~4% of the bond notional amount in cash, and the balance in 5Y equity-linked instruments (the bulk in irredeemable convertible loan stocks). PPT's bond trustee has called for feedback to the PPT offer by 09/02/17. The current difficulty that EZRA faces in resolving the issues it has outstanding with PPT (e.g. resolution to SJR Marine put option, curing the cross defaults impacting the loan facilities on EZRA – PPT JVs) has been cited as hindering EZRA's ability to restructure. (Company, OCBC, Bloomberg).

Olam International Ltd. ("OLAM"): OLAM is intending to buyback outstanding SGD perpetuals (ie: OLAMSP 7.0% '49c17) between 1 March 2017 and 7 March 2017@101 together with distributions accrued to (but excluding) the Settlement Date of 10 March 2017. Outstanding perpetuals stand at SGD235.8mn. OLAM has announced its intention to exercise its option to redeem all of the outstanding perpetuals (ie: those not bought back and cancelled) on 1 September 2017 @100. For existing holders with no short term liquidity needs, we are recommending a Hold to September given the 7% p.a. distribution rate which is higher than OLAM's market implied cost of funding. (Company, OCBC

Yanlord Land Group Ltd ("YLLG"): YLLG has acquired an additional interest of 19.9% in Shenzhen Long Wei Xin Investment Co., Ltd ("Shenzhen LongWeiXin) for ~RMB1.665bn. The consideration will be paid in 4 tranches. Following the acquisition, YLLG's stake in Shenzhen LongWeiXin will increase to 94.9% from 75%. We are expecting YLLG's gross debt-to-equity to rise over a 6 month period and had lowered YLLG's issuer profile to Negative in December 2016. This largely stems from YLLG's intensification of land/development project replenishment through public land auctions, acquisition of new subsidiaries, joint ventures and associates which we expect to be debt-funded. We are maintaining our Neutral rating on the SGD YLLG 6.2% '17 bond given its short time to maturity (3 months left) and that YLLG had successfully issued a USD450mn bond on 23 January 2017. The new USD bond is intended to refinance certain debt (i.e.: the upcoming SGD bond), project development, acquisitions and for general corporate purposes. (Company, OCBC)

Perennial Real Estate Holdings Ltd. ("PREH"): PREH reported full year results for FY2016. 4Q2016 revenue fell 38% q/q to SGD21.5mn, which is within expectations due to lower rental revenue after strata sales of office space at TripleOne Somerset in Singapore as well as non-renewal of leases due to asset enhancement initiatives. Net profit and EBIT for the quarter fell y/y by 44.2% and 38.5% respectively, driven largely by 1) a decrease in net fair value gains on revaluation by 45.5% y/y (4Q2016: SGD24.4mn, 4Q2015: SGD44.8mn) and 2) lower share of results from associates and JVs by 41% y/y (4Q2016: SGD13.3mn, 4Q2015: SGD22.6mn). EBITDA/Interest Expense (before adjusting for capitalised interest) fell y/y to 0.32x in 4Q2016 from 0.67x in 4Q2015 while net gearing rose y/y to 0.66x in 4Q2016 from 0.45x in 4Q2015. The increase in gearing is within expectations (due to the large development pipeline and investments) which should benefit from the divestment of its 20.2% stake in TripleOne Somerset. We find that the credit profile remains manageable for now, considering PREH's healthy access to financing. We retain our Neutral issuer profile on PREH for now and will update as necessary following further review of the results. (Company, OCBC)

Credit Headlines (Cont'd):

Sabana Shari'ah Compliant REIT ("SSREIT"): One of the two investor groups who have publicly expressed disenchantment with SSREIT's REIT Manager has sent a requisition letter to the REIT Manager requesting an extraordinary general meeting ("EGM"). This letter has been sent on behalf of 66 unitholders (representing 0.6% of total units in SSREIT). Among the resolutions contained in the requisition letter, these unitholders are asking for (1) Removal of the current SSREIT Manager (2a) Trustee to incorporate a new wholly-owned subsidiary to replace the current Manager and internalize the manager function (2b) Trustee to search for qualified candidates to assume the role of directors for the internalized manager (3) Direct the orderly winding-up and/or divestment of all properties in the portfolio in the event that (2a) is not approved by relevant authorities and (4) Direct the orderly winding up of SSREIT in the event that the resolution to remove the SSREIT Manager is not passed. The current REIT Managers are seeking legal advice in relation to this matter and assessing the validity of the requests. We think there is still considerable uncertainty at SSREIT, stemming from unitholder revolt and second-order effects to financial flexibility. Our base case is that unitholders will ultimately act in a manner which preserves value of the properties at SSREIT. We also think that a change in REIT Manager (should it happen), is more likely to be carried out in a proper manner in accordance to the Trust Deed. Nevertheless, we remain Underweight on the curve on the back of (1) expectation of further yield widening and (2) heavy impending liquidity needs (and knock-on effects to fundraising efforts) during this period of uncertainty. Yesterday, SSREIT announced that it has elected to repay SGD60mn in debt (debt that was originally due in August 2017) using proceeds from the rights issue. We estimate that SSREIT faces another SGD70mn in short term debt due. In addition, SSREIT also faces at least SGD57mn in acquisition obligations (aggregate outlay on 2 properties to be acquired from third parties). We estimate SSREIT's cash balance at SGD41mn (existing cash balance, impending proceeds from sale of 218 Pandan Loop and remaining proceeds from rights issue) and that the gap will need to come from new borrowings. Unencumbered assets were SGD331.5mn as at 31 December 2016 which should allow SSREIT to borrow, albeit at higher cost of funding. (Company, OCBC)

OUE Limited ("OUE") / International Healthway Corp ("IHC") / Oxley Holdings Limited ("Oxley"): As mentioned previously, OUE is now one of the largest shareholders of IHC, with a stake of ~12.5%. IHC had just released an update to shareholders, with the new board highlighting the current state of the company. The key points include (1) IHC has entered into a non-binding agreement with Oxley, Mr Ching Chiat Kwong and Mr Low See Ching, with the three parties collectively providing SGD55mn in convertible loans (paying 6% p.a) to IHC. Oxley will be providing SGD50mn while the balance will be provided by Mr Ching and Mr Low (who are now major shareholders of both Oxley and IHC). The loans are convertible at SGD0.06102 per share, or a 10% discount to the share price on 23/01/17. The loan from Oxley would be subject to Oxley calling an EGM and receiving approval from its shareholders. The sums to be raised are highlighted to be potentially used to redeem the SGD50mn IHCSP'17s due in April 2017. (2) IHC had also indicated that it has paid the coupon due early February on the IHCSP'18s. (3) IHC also noted the potential Event of Default occurring on the IHCSP'17s resulting from the public comments made by Ms Lim Beng Choo (the former executive director of IHC) as well as potentially the trigger of the Change-of-Control clause on the bonds due to the sell down in shares by the previous insiders. IHC has indicated that it will be engaging bondholders to explore a mutually acceptable way forward over the matters mentioned earlier. (Company)

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