

October 9, 2017

**Credit Headlines (Page 2 onwards):** Sembcorp Industries ("SCI") / Sembcorp Marine ("SMM")

**Market Commentary:** The SGD swap curve bear-steepened yesterday, with swap rates trading 1-5bps higher across most tenors. The 20-year tenor fell by 1bps. Flows in SGD corporates were light on Friday. In the broader dollar space, the spread on JACI IG Corp traded little changed at 183bps. Similarly, the yield on JACI HY Corp traded little changed at 6.88%. 10Y UST yields rose 1bps to 2.36%, after the re-emergence of North Korean tensions reversed gains in yields due to the release of the non-farm payrolls report, which showed a spike in hourly wages.

**New Issues:** Singapore Airlines Ltd has priced a SGD200mn re-tap of its SIASP 3.13%'26s at 101.5%. FCL Treasury Pte Ltd has priced a SGD30mn re-tap of its FCLSP 4.25%'26s (guaranteed by Frasers Centrepoint Ltd) at 103.435%. ICICI Bank Ltd of Dubai has priced a USD200mn re-tap of its ICICI 3.25%'22s through a private placement. The issue ratings are 'BBB-/Baa3/NR'.

**Rating Changes:** Moody's has downgraded Honda Motor Co Ltd's (Honda) long-term rating to 'A2' from 'A1'. The outlook is stable. The rating action reflects Honda's margins, which have been lower than other auto companies, and that profitability will remain lower or similar to the range anticipated to its peers due to intense competition from global markets. Moody's has affirmed Sydney Water Corporation's (Sydney Water) 'Aa3' issuer rating while revising the outlook to negative from stable. The rating action reflects Moody's expectation that Sydney Water's financial leverage will gradually decline below the rating tolerance threshold over the next three to four years. Fitch has placed Dalian Wanda Commercial Property Co Ltd's (Wanda) 'BBB' Long-Term Issuer Default Rating (IDR), senior unsecured rating and the rating of its outstanding US dollar senior notes on Rating Watch Negative (RWN). The rating action reflects the lack of clarity surrounding Wanda's offshore liquidity, as early termination provisions on Wanda's offshore loans were triggered by the rating downgrade of Wanda by agencies other than Fitch.

**Table 1: Key Financial Indicators**

	9-Oct	1W chg (bps)	1M chg (bps)		9-Oct	1W chg	1M chg
iTraxx Asiax IG	78	-4	2	Brent Crude Spot (\$/bbl)	55.77	-0.62%	3.70%
iTraxx Sovx APAC	16	-2	-2	Gold Spot (\$/oz)	1,279.92	0.69%	-3.59%
iTraxx Japan	45	-1	1	CRB	180.95	-1.17%	-0.12%
iTraxx Australia	69	-2	2	GSCI	391.85	-1.87%	1.20%
CDX NA IG	54	-1	-3	VIX	9.65	1.47%	-20.38%
CDX NA HY	108	0	1	CT10 (bp)	2.359%	1.81	30.82
iTraxx Eur Main	57	1	5	USD Swap Spread 10Y (bp)	-4	0	0
iTraxx Eur XO	248	-2	19	USD Swap Spread 30Y (bp)	-33	0	3
iTraxx Eur Snr Fin	61	1	10	TED Spread (bp)	29	-1	2
iTraxx Sovx WE	5	0	0	US Libor-OIS Spread (bp)	14	0	-2
iTraxx Sovx CEEMEA	40	-1	-3	Euro Libor-OIS Spread (bp)	3	1	0
					<b>9-Oct</b>	<b>1W chg</b>	<b>1M chg</b>
				AUD/USD	0.778	-0.59%	-3.09%
				USD/CHF	0.978	-0.34%	-2.22%
				EUR/USD	1.174	0.05%	-1.79%
				USD/SGD	1.365	-0.25%	-1.32%
Korea 5Y CDS	70	-4	2	DJIA	22,774	1.65%	4.48%
China 5Y CDS	59	-3	1	SPX	2,549	1.19%	3.57%
Malaysia 5Y CDS	66	-2	-1	MSCI Asiax	676	2.00%	1.87%
Philippines 5Y CDS	65	-1	4	HSI	28,458	2.95%	2.85%
Indonesia 5Y CDS	101	-3	2	STI	3,291	0.89%	1.94%
Thailand 5Y CDS	49	-2	-2	KLCI	1,764	0.53%	-0.89%
				JCI	5,905	0.08%	0.82%

Source: OCBC, Bloomberg

**Table 2: Recent Asian New Issues**

Date	Issuer	Ratings	Size	Tenor	Pricing
6-Oct-17	Singapore Airlines Ltd (re-tap)	Not Rated	SGD200mn	SIASP 3.13%'26	101.5
6-Oct-17	FCL Treasury Pte Ltd (re-tap)	Not Rated	SGD30mn	FCLSP 4.25%'26	103.435
6-Oct-17	ICICI Bank Ltd of Dubai (re-tap)	'BBB-/Baa3/NR'	USD200mn	ICICI 3.25%'22	-
5-Oct-17	GSH Corporation Limited	Not Rated	SGD70mn	3-year	5.15%
4-Oct-17	The Bank of Nova Scotia	'NR/Baa3/NR'	USD1.25bn	Perp NC5	4.65%
3-Oct-17	Puma International Financing SA	'NR/Ba2/BB'	USD600mn	7-year	5.125%
29-Sep-17	21 Vianet Group Inc (re-tap)	Not Rated	USD100mn	VNET 7%'20s	100.04
28-Sep-17	FCL Treasury Pte Ltd (re-tap)	Not Rated	SGD42mn	FCLSP 3.95%-PERP	100.0
28-Sep-17	Industrial and Commercial Bank of China Ltd	'NR/A1/NR'	USD450mn	3-year	3mL+77bps
28-Sep-17	Industrial and Commercial Bank of China Ltd	'NR/A1/NR'	USD400mn	5-year	CT5+99bps

Source: OCBC, Bloomberg

## Credit Headlines:

**Sembcorp Industries (“SCI”) / Sembcorp Marine (“SMM”):** SMM has announced that it will be selling 9 jackup drilling rigs to Borr Drilling Ltd (“BORR”). BORR was the same party that acquired 5 jackup rigs from Keppel Corp (formerly built for Transocean) earlier this year. The 9 rigs sold include 6 rigs from contracts which SMM had earlier terminated as well as 3 rigs under various stages of construction. Based on our analysis, we believe that the rigs “resold” include 1 rig originally sold to Marco Polo Marine (“MPM”), 2 rigs originally sold to Perisai Petroleum Teknologi Bhd (“PPT”) and 3 rigs originally sold to Oro Negro (which had the deliveries delay, with the contract officially terminated just a few days ago). The 9 rigs are sold for a total consideration of USD1.3bn plus a market-based fee calculated based on an uplift in value of the rigs sold. BORR will be taking delivery of these rigs over a 14-month period from 4Q2017 till 1Q2019. BORR will make an upfront down payment of USD500mn, with the balance USD800mn to be paid anytime within 5 years from the delivery of the respective rigs. SMM is effectively financing the USD800mn balance, charging market interest rates on the balance amount when due, and the amounts will be secured by a first priority mortgage over the rigs and a corporate guarantee from BORR. The sale of the rigs will be below book, resulting in a slight loss of SGD15mn. This is not surprising as the average value per rig sold is just USD144mn. Comparatively, when SMM first sold 2 of the rigs to PPT, the contract value was ~USD420mn for both. That said, the losses were likely mitigated by the SGD280mn in provisions which SMM had already taken in 4Q2015. In aggregate, we consider the transaction to be a credit positive for both SMM as well as SCI, as it would remove the ambiguity over the state of these rigs (which were originally contracted to distressed buyers) as well as monetize part of SMM’s balance sheet (with cash from the down payment). Assuming that the down payment is used to pay down debt, we estimate that pro forma net gearing (based on 2Q2017 numbers) will fall from 131% to 104%. The transaction will not impact 3Q2017 results though so leverage will remain high in the interim. Looking forward, as the rigs get delivered and BORR makes payment, SMM and SCI will see their balance sheet deleverage further. This could potentially lift SMM’s bond curve higher. OCBC currently does not cover SMM, while SCI is held at a Neutral Issuer Profile. (Company, OCBC)

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