

January 19, 2018

Credit Headlines (Page 2 onwards): Sembcorp Industries, China Eastern Airlines Corporation Limited, HSBC Holdings PLC

Market Commentary: The SGD swap curve bear-steepened yesterday, with swap rates for the shorter tenors trading 2-4bps higher while the longer tenors traded 5-6bps higher. Flows in SGD corporates were heavy yesterday, with better buying in WINGTA 4.35%-PERPs and HRAM 3.2%'22s In the broader dollar space, both the Bloomberg Barclays Asia USD IG Bond Index average OAS and the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 1bps to 107bps and 325bps respectively. 10Y UST yields rose by 3.25bps to 2.63%, with fears of a potential U.S government shutdown rising.

New Issues: Azure Orbit IV International Finance Ltd has priced a deal (guaranteed by BOCOM Leasing Management Hong Kong Company Ltd) across three-tranches, with the USD300mn 3-year bond priced at CT3+135-140bps, tightening from its initial guidance of CT3+160bps area; the USD 950mn 5-year bond priced at CT5+142.5bps, tightening from its initial guidance of CT5+165bps area and the USD250mn 10-year bond priced at CT10+150bps area, tightening from its initial guidance of CT10+175bps area. The expected issue ratings are 'A-/NR/A'. Tata Steel Ltd has priced its USD300mn 5.5-year bond at 4.45% and USD1bn 10-year bond at 5.45%, tightening from its initial guidance of 4.875% and 5.875% respectively. The expected issue ratings are 'BB-/NR/NR'. Sino Trendy Investment Ltd has priced its USD200mn 3-year bond (guaranteed by Guangxi Communications Investment Group Co Ltd) at CT3+182.5bps, tightening from its initial guidance of CT3+215bps area. The expected issue ratings are 'NR/NR/BBB'. Geely Automobile Holdings Ltd has priced its USD300mn 5-year bond at CT5+130bps, tightening from its initial guidance of CT5+150bps area. The expected issue ratings are 'BBB-/NR/NR'. Housing & Development Board has priced a SGD515mn 10-year bond at 2.32%. Triceratops Capital Co Ltd has priced its EUR500mn 3-year bond (keepwell provider: Jinjiang Internation Holding Co) at MS+77bps, tightening from its initial guidance of MS+95bps area. The expected issue ratings are 'NR/A1/NR'. China South City Holdings Ltd has set final guidance for its USD 3-year bond (guaranteed by certain restricted

Table 1: Key Financial Indicators

	19-Jan	1W chg (bps)	1M chg (bps)		19-Jan	1W chg	1M chg
iTraxx Asiax IG	61	2	-8	Brent Crude Spot (\$/bbl)	69.31	0.07%	9.30%
iTraxx SovX APAC	10	0	-3	Gold Spot (\$/oz)	1,328.97	-0.65%	5.33%
iTraxx Japan	43	-1	-4	CRB	196.34	0.78%	5.55%
iTraxx Australia	55	2	-6	GSCI	453.12	0.59%	7.17%
CDX NA IG	48	1	-2	VIX	12.22	24.44%	21.83%
CDX NA HY	108	0	0	CT10 (bp)	2.626%	7.94	16.12
iTraxx Eur Main	45	0	-3	USD Swap Spread 10Y (bp)	1	2	3
iTraxx Eur XO	232	2	-3	USD Swap Spread 30Y (bp)	-16	3	5
iTraxx Eur Snr Fin	43	0	-3	TED Spread (bp)	31	0	1
iTraxx Sovx WE	0			US Libor-OIS Spread (bp)	25	0	3
iTraxx Sovx CEEMEA	32	-1	-4	Euro Libor-OIS Spread (bp)	2	1	0
					19-Jan	1W chg	1M chg
				AUD/USD	0.801	1.14%	4.49%
				USD/CHF	0.959	0.87%	2.70%
				EUR/USD	1.224	0.31%	3.38%
				USD/SGD	1.321	0.29%	1.97%
Korea 5Y CDS	43	0	-12	DJIA	26,018	2.56%	5.10%
China 5Y CDS	49	3	-3	SPX	2,798	1.81%	4.35%
Malaysia 5Y CDS	54	2	-7	MSCI Asiax	751	1.05%	7.31%
Philippines 5Y CDS	55	2	-6	HSI	32,122	3.22%	9.80%
Indonesia 5Y CDS	80	2	-11	STI	3,521	0.02%	3.43%
Thailand 5Y CDS	41	0	-5	KLCI	1,822	-0.06%	4.87%
				JCI	6,473	1.35%	4.95%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
19-Jan-18	Triceratops Capital Co Ltd	'NR/A1/NR'	EUR500mn	3-year	MS+77bps
19-Jan-18	Housing & Development Board	Not rated	SGD515mn	10-year	2.32%
19-Jan-18	Geely Automobile Holdings Ltd	'BBB-/NR/NR'	USD300mn	5-year	CT5+130bps
19-Jan-18	Sino Trendy Investment Ltd	'NR/NR/BBB'	USD200mn	3-year	CT3+182.5bps
19-Jan-18	Tata Steel Ltd	'BB-/NR/NR'	USD1bn	10-year	5.45%
19-Jan-18	Tata Steel Ltd	'BB-/NR/NR'	USD300mn	5.5-year	4.45%
19-Jan-18	Azure Orbit IV International Finance Ltd	'A-/NR/A'	USD250mn	10-year	CT10+150bps
19-Jan-18	Azure Orbit IV International Finance Ltd	'A-/NR/A'	USD 950mn	5-year	CT5+142.5bps
19-Jan-18	Azure Orbit IV International Finance Ltd	'A-/NR/A'	USD300mn	3-year	CT3+135-140bps
18-Jan-18	Golden Asset International Investment Pte Ltd	Not rated	SGD150mn	3-year	4.75%

Source: OCBC, Bloomberg

New Issues (cont'd): subsidiaries incorporated outside of PRC) at 7.625%, tightening from its initial guidance of 7%. The expected issue ratings are 'B-/NR/B'.

Rating Changes: Fitch has downgraded Inner Mongolia High-Grade Highway Construction and Development Company Ltd's (IMHCD) issuer default ratings to 'BBB-' from 'BBB', placing the ratings on Rating Watch Negative. The rating action follows the downgrade of Fitch's internal creditworthiness assessment of China's Inner Mongolia Autonomous Region, as the ratings on IMHCD are credit linked to the creditworthiness of the autonomous region's government given the strategic importance of IMHCD's public-sector business and mid-range integration with the regional government's budget.

Credit Headlines:

Sembcorp Industries Ltd ("SCI"): There has been news that SCI is seeking to list its India power business, with SCI reportedly appointing Credit Suisse and Axis Bank as the lead investment banks for the transaction. The same news stated that draft IPO papers are expected to be filed with SEBI in February 2018, with SCI raising USD500mn – USD600mn from the share sale. SCI had subsequently provided a statement, stating that "at present there are no developments warranting an announcement, but in the event of any, the company would update the market as necessary". As of 3Q2017, SCI's India power assets include two thermal power plants, as well as a number of renewable energy assets (such as solar) totalling 3,800MW. With SCI reporting SGD6.3bn in total assets in India (which we believe are largely related to the power business), this roughly constitutes 27% of SCI's total assets. We estimate as well that SCI had ~SGD4.4bn in borrowings related to its India power business. In the event that a majority stake in the India power business is sold, the India power business will become an associate and deconsolidated from SCI's balance sheet. In our view, such an outcome would be positive for SCI's credit profile as the power generation businesses tend to be highly levered due to their steady cash flow generation, and the deconsolidation would improve SCI's leverage profile (with net gearing easing). The deconsolidation would also have a positive impact on SCI's EBITDA as the India power business had been reporting losses (see [OCBC Asian Credit Daily – 3 November 2017](#)). Given that SCI has yet to announce the outcome of its strategic review, when SCI reports its 4Q2017 results it may give the management the opportunity to elaborate on any potential asset divestments (including the India power business) in the context of the management's overall strategic positioning. We currently hold SCI's Issuer Profile at Neutral (4), and will update accordingly should a transaction occur. (Company, OCBC)

China Eastern Airlines Corporation Limited ("CHIEAS"): Since 1996, CHIEAS and its controlling shareholder, CEA Holding, had an agreement in place that states that as long as CHIEAS is listed in China, Hong Kong or New York and if CEA Holding holds more than a 35%-stake in CHIEAS, CEA Holding shall not conduct any business that is (or may be in) competition with CHIEAS. Per this agreement, minority stakes not exceeding 10% was allowed. Currently CEA Holding owns a ~56.4%-stake in CHIEAS. CEA Holding is a centrally-administered state-owned enterprise. In December 2017, CHIEAS and CEA Holding entered into a supplemental agreement to amend the non-competition agreement which would provide more flexibility for CEA Holding to pursue investment opportunities in a similar business as CHIEAS. Safeguards to protect the interest of CHIEAS' shareholders have been included in the supplemental agreement, for example (1) CEA Holding referring the investment opportunity to CHIEAS first (2) CHIEAS has a right of first refusal for acquiring shares/equity in the new business should CEA Holding proposes to dispose the business. An extraordinary general meeting will be held on 8 February 2018 to approve the proposed changes. Should the proposals take place, we do not see an immediate impact to CHIEAS' credit profile. Nonetheless, this paves the way for CEA Holding (and eventually CHIEAS) to catalyse the consolidation of the domestic aviation sector and take further stakes in international airlines. We maintain CHIEAS's issuer profile at a Neutral(4). (Company, OCBC)

Credit Headlines:

HSBC Holdings PLC (“HSBC”): HSBC announced that it has settled with the US Department of Justice ('DoJ') with regards to the DoJ's investigations into HSBC's currency trading activities. The total fine of USD101.5mn includes both fines and restitution to HSBC's affected clients and is a 15% decline versus the original fine amount given HSBC's co-operation in the investigation, its remediation and improved internal controls as well as its agreement to and undertaking to continue to co-operate with authorities on on-going investigations. The settlement includes a 3 year deferred prosecution agreement and the amount has been fully provided for according to HSBC's disclosures. This does not impact our Positive (2) issuer profile on HSBC. (Company, OCBC)

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