

Mar 5, 2018

Credit Headlines: China Eastern Airlines

Market Commentary: The SGD swap curve flattened, with swap rates trading 4-6bps lower across most tenors. Flows in SGD corporates were heavy yesterday, with better buying seen in UOBSP 3.5%'29s and better selling seen in WINGTA 4.35%-PERP. In the broader dollar space, the Bloomberg Barclays Asia USD IG Bond Index average OAS traded little changed at 114bps while the Bloomberg Barclays Asia USD HY Bond Index average OAS tightened 2bps to 342bps. 10Y UST yield rose 6bps to 2.86%, in the wake of a possible hint from Haruhiko Kuroda about the Bank of Japan's possible exit from years of ultra-loose monetary stimulus.

New issues: Arab Petroleum Investment Corporation has priced a CNH630mn 3-year bond at 4.7%, in line with its initial guidance of 4.7%. The expected issue ratings are 'NR/Aa3/NR'. Kexim has priced a CNH1.5bn 3-year bond at 4.68%. Tewoo Group No 5 has scheduled for investor meetings from 5 Mar for its potential USD perp issuance (guaranteed by Tewoo Group Co Ltd). The expected issue ratings are 'NR/NR/BBB-'. Xinhailian Group (BVI) Co Ltd has scheduled for investor meetings from 5 Mar for its potential USD issuance (guaranteed by Jiangsu Newheadline Development Group Co Ltd). The expected issue ratings are 'BB/NR/BB+'. Wealthy Link Global Ltd has scheduled for investor meetings from 5 Mar for its potential USD issuance (guaranteed by Zhejiang Hengyi Group Co Ltd). The expected issue ratings are 'NR/B3/NR'. Toyota Industries Group has scheduled for investor meetings from 5 Mar for its potential USD issuance. The expected issue ratings are 'AA-/A1/NR'.

Rating Changes: S&P has affirmed its 'BBB' long-term corporate credit rating on China National Chemical Corp Ltd (ChemChina), as well as its 'BBB' long-term issue rating on the outstanding senior unsecured notes that ChemChina guarantees. The outlook is stable. The rating action follows S&P's affirmation on subsidiary Syngenta AG and its belief that the Chinese government's extraordinary support to ChemChina will remain intact given the very strong link coupled with its strategic importance to China's central government. Moody's has assigned a first-time 'B2'.

Table 1: Key Financial Indicators

	5-Mar	1W chg (bps)	1M chg (bps)		5-Mar	1W chg	1M chg
iTraxx Asiax IG	70	-1	2	Brent Crude Spot (\$/bbl)	64.72	-4.12%	-4.29%
iTraxx SovX APAC	12	-1	0	Gold Spot (\$/oz)	1,326.46	-0.54%	-0.99%
iTraxx Japan	50	1	6	CRB	194.12	-0.96%	-0.79%
iTraxx Australia	61	-1	1	GSCI	441.56	-2.21%	-2.22%
CDX NA IG	56	0	3	VIX	19.59	18.80%	-47.51%
CDX NA HY	107	0	0	CT10 (bp)	2.842%	-1.99	13.68
iTraxx Eur Main	55	-2	8	USD Swap Spread 10Y (bp)	1	1	0
iTraxx Eur XO	273	-1	22	USD Swap Spread 30Y (bp)	-19	2	-1
iTraxx Eur Snr Fin	56	-3	10	TED Spread (bp)	39	7	7
iTraxx Sovx WE	20	-1	1	US Libor-OIS Spread (bp)	41	3	13
iTraxx Sovx CEEMEA	33	0	-1	Euro Libor-OIS Spread (bp)	3	1	1
					5-Mar	1W chg	1M chg
				AUD/USD	0.776	-1.16%	-1.45%
				USD/CHF	0.936	0.26%	-0.42%
				EUR/USD	1.234	0.15%	-0.25%
				USD/SGD	1.318	-0.17%	0.27%
Korea 5Y CDS	51	-1	-1	DJIA	24,538	-3.05%	0.79%
China 5Y CDS	56	-2	-1	SPX	2,691	-2.04%	1.60%
Malaysia 5Y CDS	64	0	3	MSCI Asiax	721	-2.72%	-2.74%
Philippines 5Y CDS	65	0	4	HSI	30,583	-2.19%	-5.15%
Indonesia 5Y CDS	88	0	4	STI	3,479	-2.16%	-0.11%
Thailand 5Y CDS	41	-1	-1	KLCI	1,856	-0.22%	0.16%
				JCI	6,582	-0.57%	-0.11%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
2-Mar-18	Kexim	Not rated	CNH1.5bn	3-year	4.68%
2-Mar-18	Arab Petroleum Investment Corporation	'NR/Aa3/NR'	CNH630mn	3-year	4.7%
1-Mar-18	Agile Group Holdings Ltd	'NR/B1/NR'	USD100mn	Perp NC5	100+accrued interest
1-Mar-18	UPL Corp Ltd	'BBB-/NR/BBB-'	USD300mn	10-year	CT10+173bps
1-Mar-18	Bank Of China Ltd (HK Branch)	'A/A1/A'	USD250mn	10-year	CT10+125bps
1-Mar-18	Bank Of China Ltd (HK Branch)	'A/A1/A'	USD1bn	5-year	3mL+85bps
1-Mar-18	Bank Of China Ltd (HK Branch)	'A/A1/A'	USD1bn	3-year	3mL+75bps
1-Mar-18	Franshion Brilliant Ltd	'BBB-/NR/NR'	CNH1.25bn	3-year	5.2%
1-Mar-18	Fantasia Holdings Group Co Ltd	'B+/B3/NR'	USD350mn	3-year	8.375%
28-Feb-18	Mizuho Financial Group	'A-/A1/NR'	USD1.3bn	10-year	CT10+115bps

Source: OCBC, Bloomberg

Rating Changes (cont'd) : corporate family rating (CFR) to Zhejiang Hengyi Group Co Ltd (Hengyi), as well as a 'B3' senior unsecured rating to the proposed bond issued by Wealthy Link Global Ltd and guaranteed by Hengyi. The outlook is stable. The rating action reflects Moody's expectation that Hengyi will complete the bond issuance on satisfactory terms and conditions, including proper registration with the State Administration of Foreign Exchange in n China. It also reflects Hengyi's large business scale, diversified customer base and its strong market position in purified terephthalic acid (PTA) and polyethylene terephthalate (PET). Fitch has downgraded China General Nuclear Power Corporation's (CGNPC) long-term foreign and local-currency issuer default ratings and its senior unsecured rating to 'A' from 'A+'. The outlook is stable. The rating action follows Fitch's assessment of the credit profile of CGNPC following the publication of the Government-Related Entities Rating Criteria (GRE criteria) on 7 Feb 2018. It also reflects CGNPC's strategic importance to the state and the substantial tangible support it has consistently received from the state. Fitch has assigned a final rating of 'BB+' for Fujian Zhanglong Group Co Ltd's (Zhanglong) USD 5.60% senior unsecured guaranteed bonds due 2021. The outlook is stable. The rating action reflects Zhanglong ratings being credit-linked to, but not equalized, with Fitch's internal assessment of the creditworthiness of Zhangzhou municipality in China's Fujian Province. The link reflects strong government control and oversight of the entity, resulting in a high likelihood of extraordinary support, if needed, from the municipality. Fitch has affirmed Shandong Yuhuang Chemical Co Ltd's (Yuhang) senior unsecured USD notes due 2021 at 'B'. The outlook has been revised to negative from positive. The rating action reflects the uncertainties surrounding the restructuring of Hongye Chemical Group Co Ltd (Hongye), which had CNY.4bn of debt guaranteed by Yuhuang, and Yuhuang's restricted access to the domestic bond market since early 2018 as a result of its situation and overall tightening in China's credit environment. Fitch has upgraded Shanghai Construction Group Co Ltd's (SCGC) long-term foreign-currency issuer default rating, senior unsecured rating and the rating on the USD400mn 3.75% notes due 2020 issued by subsidiary, Yongda Investment Ltd, to 'BBB+' from 'BBB', removing it from Rating Watch Positive. The upgrade was driven by Fitch's assessment of SCGC's under the Government-Related Entities Rating Criteria released on 7 Feb 2018. The rating action reflects SCGC's potential support from its parent, the Shanghai State-Owned Assets Supervision and Administration Commission (Shanghai SASAC) as well as Fitch's expectation that SCGC will maintain its operations, with the continual support of Shanghai SASAC.

Credit Headlines:

China Eastern Airlines ("CHIEAS"): The controlling shareholder of CHIEAS, namely China Eastern Air Holding Company ("CEA Holding") has reportedly applied to the State-owned Assets Supervision and Administration Commission of the State Council ("SASAC") to allow diversification of its shareholding, including potentially becoming a mixed-ownership company with new strategic partners from the private-sector taking a stake in the company. Currently, CEA Holding is wholly-owned by SASAC (ie: CEA Holding is a state-owned enterprise ("SOE")) and CEA Holding in turn owns ~56% of CHIEAS. Despite CHIEAS being already a publicly listed company, with non-SOE investors on its shareholding roster, such investors are largely deemed as financial investors. In our view, CHIEAS benefits from lower cost of funding on the back of implicit state support due to its controlling shareholder's status as an SOE. China is going through mixed ownership reforms and CEA Holding has been slated as one of the SOEs to embark on mixed-ownership reforms (including shareholding changes at its operating units). Our base case assumes that SASAC would continue to be a significant shareholder of CEA Holding, notwithstanding a potential reduction in actual percentage of state ownership at CHIEAS. Bondholders of the SGD500mn CHIEAS 2.8% '20s are protected by a Change of Control ("CoC") clause which gives bondholders the right to redeem the bonds @101 should SASAC cease to directly or indirectly control CHIEAS. We maintain our issuer profile on CHIEAS at Neutral(4). (China Securities Journal, OCBC).

Andrew Wong

Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6530 4736
wongVKAM@ocbc.com

Nick Wong Liang Mian, CFA

Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6530 7348
NickWong@ocbc.com

Ezien Hoo, CFA

Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6722 2215
EzienHoo@ocbc.com

Wong Hong Wei

Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6722 2533
WongHongWei@ocbc.com

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