

Feb 16, 2016

**Market Commentary:** The SGD swap curve higher yesterday, with the short-end rates trading 6bps-8bps higher and the long-end rates trading 8bps-9bps higher.

**Rating Changes:** Moody's downgraded Anglo American PLC senior unsecured ratings to junk grade; "Ba3" from "Baa3". This reflects Moody's assessment that the company now faces a higher business risk due to deterioration in commodities market conditions, as well as a longer and more uncertain deleveraging period than previously expected. Outlook is negative. Moody's has also withdrawn Anglo American PLC's issuer rating as of 15 February 2016. S&P upgraded BG Energy Holdings Ltd long-term rating to "A+" from "A-", in light of Royal Dutch Shell PLC's completion of acquisition of BG Group PLC (the parent company of BG Energy Holdings Ltd). Shares of BG Group PLC were delisted on 15 February 2016. This also reflect S&P's expectation that BG will become fully integrated with Shell over the next few quarters, and is key to Shell's strategy, particularly an increased focus on LNG and offshore deep-water. S&P have placed BG Energy Holdings Ltd long-term rating on Negative CreditWatch, to reflect the CreditWatch on the Royal Dutch Shell PLC. Moody's downgraded the corporate family rating of Dar Al Arkan Real Estate Development Company ("DAAR") to "B1" from "Ba3", reflecting Moody's view of the inter-linkages between the weakening operating and macroeconomic environment. Outlook is negative. S&P downgraded Oi SA, a fixed-line and mobile telecommunications services provider in Brazil, to "BB-" from "BB+", due to expectation that the Oi will post increasing debt levels as higher costs and expenses pressure its cash flow generation. Moody's Japan K.K. upgraded Sumitomo Mitsui Financing Group's subordinated bonds with contractual point of non-viability loss absorption features (Basel III Tier 2 bonds) to "A2" from "Baa2", reflecting a change in the level of government support probability to "Very High" from "Low".

Table 1: Key Financial Indicators

	16-Feb	1W chg (bps)	1M chg (bps)		16-Feb	1W chg	1M chg
iTraxx Asiax IG	167	-5	8	Brent Crude Spot (\$/bbl)	33.39	1.55%	15.38%
iTraxx SovX APAC	79	-6	-1	Gold Spot (\$/oz)	1,208.05	1.59%	10.86%
iTraxx Japan	108	7	22	CRB	160.36	-0.97%	0.27%
iTraxx Australia	162	-6	13	GSCI	294.98	1.15%	5.66%
CDX NA IG	121	1	10	VIX	25.4	8.64%	-6.00%
CDX NA HY	97	0	0	CT10 (bp)	1.793%	6.70	-24.17
iTraxx Eur Main	115	-5	17	USD Swap Spread 10Y (bp)	-15	-8	1
iTraxx Eur XO	449	-12	60	USD Swap Spread 30Y (bp)	-52	-10	-3
iTraxx Eur Snr Fin	121	-12	32	TED Spread (bp)	34	-2	-5
iTraxx Sovx WE	33	2	14	US Libor-OIS Spread (bp)	24	-1	-1
iTraxx Sovx CEEMEA	195	-5	-28	Euro Libor-OIS Spread (bp)	14	-1	3
	71	-5	-1				
					16-Feb	1W chg	1M chg
				AUD/USD	0.717	1.40%	4.41%
				USD/CHF	0.987	-1.46%	1.83%
				EUR/USD	1.116	-1.19%	2.45%
				USD/SGD	1.399	-0.14%	2.94%
Korea 5Y CDS	71	-5	-1	DJIA	15,974	-1.43%	-0.09%
China 5Y CDS	138	-8	10	SPX	1,865	-0.81%	-0.83%
Malaysia 5Y CDS	184	-16	-33	MSCI Asiax	451	-1.11%	0.14%
Philippines 5Y CDS	129	-9	-1	HSI	18,918	-0.39%	-3.09%
Indonesia 5Y CDS	242	-16	-15	STI	2,608	1.93%	-0.87%
Thailand 5Y CDS	162	-10	-2	KLCI	1,650	-0.41%	1.31%
				JCI	4,741	-1.21%	4.79%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
2-Feb-16	Export-Import Bank of Korea	AA-/Aa2/AA-	USD400mn	5-year	CT5+87.5bp
2-Feb-16	Westpac Banking Corp.	AA-Aa2/NR	CNH130mn	4-year	5.40%
1-Feb-16	HNA Group	NR/NR/NR	USD35mn	2-year	8.125%
29-Jan-16	Vista Land & Lifescapes Inc.	NR/NR/NR	USD125mn	6-year	7.375%
29-Jan-16	Kookmin Bank	A/A1/A	USD500mn	5-year	MS+95bps
28-Jan-16	China Development Bank Corp (CDB)	AA-/Aa3/A+	USD1bn	4-year	CT4+85bps
28-Jan-16	China Development Bank Corp (CDB)	AA-/Aa3/A+	EUR1bn	2-year	MS+75bps
28-Jan-16	ANZ New Zealand (International) Ltd	AA-/Aa2/AA-	USD750mn	3-year	CT3+115bps

Source: OCBC, Bloomberg

## Credit Headlines:

**Sembcorp Marine ("SMM"):** SMM reported preliminary 4Q2015 results. Revenue fell 8.2% y/y to SGD1.3bn, driven largely by the revenue reversal resulting from the Marco Polo jackup rig contract cancellation. The contract value was USD214.3mn, with the rig largely completed. Client-requested delivery deferments as well as the slowdown on work done on the Sete Brasil contract have also pressured revenue. The quarter saw a net loss of SGD553.5mn. This was largely driven by SGD609mn in provisions taken during FY2015 (mainly recognized in 4Q2015) for rig contracts, with SGD329mn relating to the Sete Brasil contract. SMM also saw SGD150.3mn in share of losses from associates / JVs, mainly relating to its 30% stake in COSCO Shipyard Group. SMM generated negative SGD581.1mn in operating cash flow, largely due to working capital needs for its rig contracts. It also spent SGD206.0mn in capex, due to its Brazil shipyard as well as Tuas shipyard extension. The cash usage was met by ~SGD594mn increase in net borrowings as well as ~SGD195mn decline in cash balance. As such, net gearing deteriorated sharply from 66% (3Q2015) to 103% (4Q2015). The Sete Brasil contract remains on SMM's order book of SGD10.4bn, with the balance of the contract worth SGD3.2bn. Though we expect capex needs for SMM to decline going forward, with the Tuas yard extension and Brazil yard largely completed, operating cash flow will continued to be pressured due to the weak environment for drilling rigs, which would make it difficult for SMM to deleverage. Outstanding risks include continued client stress resulting in more delivery deferments, or even cancellations, as well as uncertainty over the Sete Brasil situation. We will consider the performance of Sembcorp Industries in aggregate (reported on 17/02/16) while reviewing its Issuer Credit Profile. (Company, OCBC)

**Central China Real Estate Ltd ("CENCHI"):** CENCHI announced contracted sales for January 2016 up 62.7% y/y to RMB364mn with GFA sold up 46.2% y/y to 53,659 sqm. Average selling prices increased 11.3% y/y RMB6,780 per sqm. The company had missed full-year 2015 contracted sales target of RMB17.5bn last year, only managing RMB15.7bn. Meanwhile, the company is starting to execute on its asset-light strategy, announcing 3 management entrustment contracts where the company was engaged by third parties for developing, operating and managing the development project while charging royalty fees and receiving a share of surplus profits. We note that in the USD space, the CENCHI curve (BB-/Ba3/NR) continues to trade wider than single "B" peers, more than pricing in downgrade risks. In the SGD space, the CENCHI curve has been hit the hardest in the January selloff, with CENCHI 6.50% '17 (yielding 7.20%, 545bps over swaps) widening 166bps YTD. We continue to like the CENCHI curve on valuations. (Company, OCBC)

**United Overseas Bank Ltd ("UOB"):** UOB reported its audited financial results for FY2015 this morning. Total income improved 7.9% y/y to SGD8.05bn due to loan growth and a better net interest margin from rising interest rates. Non-interest income also grew 7.7% y/y due to solid growth in credit cards, fund management and wealth management performance. Total expenses however grew faster due to higher staff costs, revenue and IT-related expenses as well as one-off expenses. Total allowances for credit and other losses also increased 5.7% driven by a rise in specific allowances, mainly in Singapore, Indonesia and Greater China which grew by more than 100% y/y. As a result of the higher costs, rising allowances and higher tax expense, NPAT for FY2015 fell 1.2% y/y to SGD3.2bn. With regards loan quality, the NPL ratio edged up to 1.4% from 1.2% in FY2014 with NPL's growing the fastest in Indonesia (UOB's fastest growing market). Total gross loans grew 4% while deposits grew 2.9% and as such LDR weakened to 84.7% from 83.8% in FY2014. Management disclosed that their exposure to oil and gas comprises 3.6% of total loans while exposure to commodity related borrowers in total is SGD14.8bn or 7% of total loans. Capital ratios weakened (Actual CET1/Total CAR at 13.0%/15.6% for FY2015) as a result of risk weighted assets growing faster than capital but remain at solid levels compared to minimum requirements (minimum CET1/Total CAR at 6.5%/10.0% for FY2015). In summary, the results are within expectations although at the low end. Loan growth was a positive but higher expenses eroded that benefit and capital ratios have weakened as a result. The key is seeing how the credit portfolio in Indonesia performs. The fast growth, rising NPLs and weak profitability in Indonesia could become a drag on UOB's overall credit profile unless losses are reduced. (Company, OCBC)

Singapore property sales: New private home sales in Singapore fell 16% m/m and 14.4% y/y in January 2016 to 322 units according to data released by the URA. Including ECs, 478 units were sold, down 5.9% m/m and 15.2% y/y. However, the poor numbers were mainly due to the lack of new launches ahead of CNY and sales should pick up post-CNY with several projects slated for launch. Under our coverage, decent sales performance came from Sims Urban Oasis by Guocoland which sold 21 units at a median price of SGD1405 per sqf and The Brownstone EC by City Developments which sold 21 units at a median price of SGD810 per sqf. Overall, we still expect private residential prices to dip 5%-15% over 2016-2017 with primary residential sales muted at between 6,000-9,000 units. (The Straits Times, The Business Times, OCBC)

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