

July 18, 2016

Market Commentary: The SGD swap curve steepened last Friday as the short-end rates traded 2-3bps lower while the belly-to-long-end rates traded 1-2bps lower. Flows in the SGD corporates were heavy with better buying seen in STANLN 4.4%'26s while mixed interests were seen in OLAMSP 6%'22s, NAB 4.15%'28s and GEMAU 5.5%'19s. In the broader dollar space, the spread on JACI IG corporates remains relatively unchanged at 218bps while the yield on JACI HY corporates increased by 1bps to 6.46%. 10y UST yield increased by 1bps to 1.55%, seeing a 19bps w/w increase over the record lows seen the previous Friday.

New Issues: China Minmetals Corp has scheduled investor meetings from today onwards for potential USD bond issuance with expected ratings of "NR/Baa1/BBB+". China Railway Group has scheduled investor meetings from today onwards for potential USD bond issuance with expected ratings of "NR/A3/A-". Greenland Hong Kong Holdings Ltd. has scheduled investor meetings from today onwards for potential USD bond issuance with expected ratings of "B+/Ba3/BB+".

Rating Changes: S&P upgraded China Metallurgical Group Corp's (MCC) corporate credit rating to "BBB" from "BBB-" with stable outlook. The upgrade reflects S&P's views that MCC is now a core subsidiary of China Minmetals Corp, while government extraordinary support will continue to extend to MCC through the parent if needed. Moody's assigned first-time issuer rating of "A3" to China Railway Group Ltd (CRG) with negative outlook. The rating assigned incorporates its standalone credit strength, and a three-notch uplift, based on Moody's expectation that the company will receive strong support from its parent, China Railway Engineering Corp, in times of stress.

Table 1: Key Financial Indicators

	18-Jul	1W chg (bps)	1M chg (bps)		18-Jul	1W chg	1M chg
iTraxx Asiax IG	121	-9	-21	Brent Crude Spot (\$/bbl)	47.73	3.20%	-2.93%
iTraxx SovX APAC	47	-3	-5	Gold Spot (\$/oz)	1,333.35	-1.63%	3.37%
iTraxx Japan	53	-7	-15	CRB	188.86	0.90%	-1.83%
iTraxx Australia	110	-11	-18	GSCI	361.12	0.86%	-4.17%
CDX NA IG	72	--	-8	VIX	12.67	-4.02%	-34.72%
CDX NA HY	105	0	2	CT10 (bp)	1.551%	19.30	-2.11
iTraxx Eur Main	71	-4	-7	USD Swap Spread 10Y (bp)	-14	-3	-2
iTraxx Eur XO	326	-8	-16	USD Swap Spread 30Y (bp)	-45	-3	3
iTraxx Eur Snr Fin	98	-8	-5	TED Spread (bp)	39	-1	-1
iTraxx Sovx WE	26	-6	-3	US Libor-OIS Spread (bp)	28	0	2
iTraxx Sovx CEEMEA	118	-2	-10	Euro Libor-OIS Spread (bp)	7	0	-2
					18-Jul	1W chg	1M chg
				AUD/USD	0.760	0.84%	1.85%
				USD/CHF	0.983	-0.06%	-2.17%
				EUR/USD	1.106	0.01%	-2.25%
				USD/SGD	1.347	0.35%	-0.27%
Korea 5Y CDS	48	-2	-11	DJIA	18,517	2.04%	4.76%
China 5Y CDS	110	-5	-13	SPX	2,162	1.49%	4.37%
Malaysia 5Y CDS	130	-9	-30	MSCI Asiax	524	2.49%	6.87%
Philippines 5Y CDS	99	-5	-13	HSI	21,659	5.33%	7.38%
Indonesia 5Y CDS	159	-11	-31	STI	2,925	2.75%	5.86%
Thailand 5Y CDS	96	-8	-19	KLCI	1,668	1.45%	2.72%
				JCI	5,110	2.79%	5.69%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
14-July-16	ICBC Ltd.	"NR/A2/A"	USD1bn	Perp-NC5	4.25%
14-July-16	Link REIT	"A/A2/NR"	USD500mn	10-year	CT10+145bps
13-July-16	Zurich Insurance Co.	"AA-/Aa3/NR"	USD1bn	Perp-NC5	4.75%
13-July-16	Dai-ichi Life	"A-/NR/A-"	USD2.5bn	Perp-NC10	4%
13-July-16	Regal Hotels International Holdings	"NR/NR/NR"	USD350mn	5-year	3.88%
13-July-16	Olam International Ltd.	"NR/NR/NR"	USD500mn	Perp-NC5	5.35%
12-July-16	SMBC Aviation	"BBB+/NR/BBB+"	AUD500mn	3-year	Swap+117bps
12-July-16	SMBC Aviation	"BBB+/NR/BBB+"	USD500mn	5-year	CT5+160bps

Source: OCBC, Bloomberg

Credit Headlines:

Ascott Residence Trust ("ART"): ART has 17 properties located in France (10 in Paris and the rest located in Cannes, Montpellier, Marseille, Grenoble, Lyon and Lille). France contributes ~11% to ART's total asset and gross profit in 1Q2016. We expect risks of income loss in relation to the after-effects from Thursday's attacks to be mitigated as all of the properties are currently still underpinned by Master Leases with entities within The Ascott Limited (a wholly-owned subsidiary of CapitaLand). We will retain ART's Issuer Profile at Neutral. (Company, OCBC)

Frasers Centrepoint Trust ("FCT"): FCT reported 3QFY2016 results, with gross revenue falling 4.4% y/y to SGD45.0mn for the quarter. This was largely due to the fall in occupancy to 81.3% in Northpoint due to the commencement of its AEI in 2QFY2016. As a result, Northpoint's gross revenue fell SGD2.1mn y/y to SGD10.5mn. Occupancy at Changi City Point fell as well, due to transitional vacancy (the fitting out of a new anchor tenant), though we note that occupancy has been at around ~90% since end 2014. NPI fell by 5.1% y/y to SGD31.2mn, due to Northpoint as well as Changi City Point. FCT's largest three malls continue to provide the lion's share of NPI at 85% of portfolio NPI. Portfolio occupancy was 90.8%, the lowest level in years (2QFY2016: 92.0%, 3QFY2015: 96.5%). This was largely driven by the fall in occupancy in Northpoint and Changi City Point (39.6% of portfolio valuation). Looking forward, with management indicating that Northpoint's AEI will continue to keep occupancy at around 80% till the end of 2016, we don't believe that portfolio gross revenue will be able to recovery decisively through the end of this year. On the bright side, FCT managed a +8.3% average rental reversion for 3QFY2016, up from +5.6% (2QFY2016). Numbers were strong due to 8.0% of Causeway Point's NLA (33,366 sqft) being renewed at +9.4%. FCT's lease expiring profile looks challenging though, with ~43% of NLA expiring over the next 15 months. Aggregate leverage worsened slightly q/q from 28.3% to 28.5% due to the slight increase in total borrowings. Though cost of debt improved q/q to 2.26% (2QFY2016: 2.29%), due to EBIT pressure, EBIT / Interest coverage fell from 7.4x to 7.1x q/q. FCT has about SGD349mn of current borrowings as of end-June 2016. Of this, SGD159mn will be due in 4QFY2016. It is worth noting that of the SGD159mn, SGD136mn in secured loans against Northpoint has already been refinanced, leaving the SGD23mn balance of unsecured loans. The rest of the current borrowings due are SGD70mn 5Y secured term loan due to DBS in December 2016, SGD90mn unsecured term facility due to DBS in June 2017, SGD30mn bond due in June 2017. Though FCT's cash balance is only SGD21.0mn, we believe that FCT continues to have good access to capital markets, last issuing SGD50mn in 5Y bonds in June 2016. As such, the looming maturities are expected to be refinanced. We will retain FCT's Issuer Profile at Neutral though, as we expect the sponsor to inject The Centrepoint asset into FCT once the property stabilizes. (Company, OCBC)

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