

October 18, 2016

**Credit Headlines (Page 2 onwards):** Sabana Shari'ah Compliant Industrial Trust, CIMB Group Holdings Berhad, Ezra Holdings Limited

**Market Commentary:** The SGD swap curve bear-steepened yesterday with swap rates trading 1-6bps higher across all tenors with the exception of 1-year swap rate that traded ~1bps lower. Flows in the SGD corporates were heavy with two-way flow seen in BAERVX 5.75%'49s and STANLN 4.4%'26s. In the broader dollar space, the spread on JACI IG corporates increased 1bps to 206bps while the yield in JACI HY corporates increased 1bps to 6.61%. 10y UST yield decreased 3bps to 1.77% amid weakness in oil and US stocks following an unexpected drop in October's Empire Manufacturing data.

**New Issues:** BDO Unibank Inc. has priced a USD300mn 5-year bond at CT5+135bps, tightening from its initial guidance at CT5+155bps. The expected issue ratings are "NR/Baa2/NR". Alam Synergy has priced a USD245mn 5.5NC3.5 bond at 6.75% with expected issue ratings of "B/B2/B+". Industrial and Commercial Bank of China Co. Ltd. has priced a USD1bn 5-year bond at CT5+120bps with expected issue ratings of "A/A1/NR". Korea National Oil Corp. has priced a two-tranche deal with the USD350mn 5-year bond priced at CT5+83bps, while the other tranche of USD650mn 10-year was priced at CT10+80bps. The expected issue ratings are "AA/Aa2/AA-". China Great Wall AMC is planning to sell a senior USD bond as soon as this Thursday. The bank is expected to schedule an investor road show this week.

**Rating Changes:** Moody's has undertaken the following rating actions on nine Chinese banks due to rising weakness in their funding profiles and increasing asset quality pressure which is placing pressure on banks' standalone creditworthiness:

1. Affirmed China Guangfa Bank's Baseline Credit Assessment (BCA) and placed its deposit ratings on review for upgrade. The affirmation of BCA reflects the bank's relatively stable liquidity position.

2. Downgraded China Merchants Bank's BCA despite its more resilient performance in the first half of 2016 but affirmed its deposit ratings. Outlook has been revised to stable from negative.

**Table 1: Key Financial Indicators**

	18-Oct	1W chg (bps)	1M chg (bps)		18-Oct	1W chg	1M chg
iTraxx Asiax IG	118	1	8	Brent Crude Spot (\$/bbl)	51.76	-1.24%	13.09%
iTraxx SovX APAC	35	1	-3	Gold Spot (\$/oz)	1,256.41	0.29%	-4.32%
iTraxx Japan	55	--	3	CRB	189.39	0.57%	4.76%
iTraxx Australia	105	2	7	GSCI	374.62	-0.98%	7.62%
CDX NA IG	76	0	1	VIX	16.21	20.25%	5.47%
CDX NA HY	104	0	0	CT10 (bp)	1.766%	0.22	7.34
iTraxx Eur Main	74	-1	5	USD Swap Spread 10Y (bp)	-17	-1	0
iTraxx Eur XO	336	1	10	USD Swap Spread 30Y (bp)	-56	-1	0
iTraxx Eur Snr Fin	99	-1	7	TED Spread (bp)	59	3	6
iTraxx Sovx WE	20	-1	-6	US Libor-OIS Spread (bp)	41	0	0
iTraxx Sovx CEEMEA	95	1	-5	Euro Libor-OIS Spread (bp)	4	0	0
					18-Oct	1W chg	1M chg
				AUD/USD	0.765	1.43%	1.50%
				USD/CHF	0.988	0.08%	-0.79%
				EUR/USD	1.102	-0.35%	-1.43%
				USD/SGD	1.387	-0.52%	-1.80%
Korea 5Y CDS	42	1	2	DJIA	18,086	-1.32%	-0.21%
China 5Y CDS	108	1	11	SPX	2,127	-1.72%	-0.59%
Malaysia 5Y CDS	124	4	6	MSCI Asiax	542	-1.65%	-0.23%
Philippines 5Y CDS	120	1	24	HSI	23,038	-3.41%	-1.28%
Indonesia 5Y CDS	154	3	13	STI	2,817	-1.85%	-0.37%
Thailand 5Y CDS	100	10	19	KLCI	1,654	-0.70%	0.04%
				JCI	5,410	0.92%	2.71%

Source: OCBC, Bloomberg

**Table 2: Recent Asian New Issues**

Date	Issuer	Ratings	Size	Tenor	Pricing
17-Oct-16	BDO Unibank Inc.	"NR/Baa2/NR"	USD300mn	5-year	CT5+135bps
17-Oct-16	Alam Synergy	"B/B2/B+"	USD245mn	5.5NC3.5	6.75%
17-Oct-16	ICBC Co. Ltd.	"A/A1/NR"	USD1bn	5-year	CT5+120bps
17-Oct-16	Korea National Oil Corp.	"AA/Aa2/AA-"	USD350mn	5-year	CT5+83bps
17-Oct-16	Korea National Oil Corp.	"AA/Aa2/AA-"	USD650mn	10-year	CT10+80bps
13-Oct-16	Modern Land China Co. Ltd.	"NR/B2/B+"	USD350mn	3-year	6.875%
13-Oct-16	Export-Import of Malaysia	"NR/A3/A-"	USD500mn	5-year	CT5+120bps
13-Oct-16	China Construction Bank Corp.	"A/A1/NR"	USD700mn	5-year	CT5+107.5bps
13-Oct-16	Julius Baer Group Ltd.	"NR/Baa3/NR"	SGD325mn	Perp-NC5.5	5.75%

Source: OCBC, Bloomberg

## Rating Changes:

3. Downgraded Ping An Bank BCA but affirmed its deposit ratings, due to an increase in affiliate support. Outlook has been revised to stable from negative.
4. Affirmed the deposit ratings of China Everbright Bank Co. Ltd. while maintaining its outlook at negative. At the same time, China Everbright Bank's BCA was affirmed by Moody's to reflect the positive impact of the planned capital injection by China Everbright Group and the bank's abundant liquid resources, despite its rapid asset growth and increasing reliance on wholesale market funds.
5. Downgraded Industrial Bank Co. Ltd.'s BCA and deposit ratings, as a result of its increasing reliance on market funds that is already at a very high level as well as continued pressure on asset quality due to China economic slowdown. Outlook has been revised to stable from negative.
6. Downgraded China CITIC Bank's BCA and deposit ratings, as a result of increasing reliance on market funds, declining CET1 ratio due to rapid asset growth, and continued pressure in asset quality due to China's economic slowdown. Outlook has been revised to stable from negative.
7. Downgraded Shanghai Pudong Development Bank's BCA and deposit ratings as a result of its increasing usage of market funds which is already at relatively higher level than many other joint-stock banks peers, continued pressure on asset quality due to China's economic slowdown, and the bank's relatively weak capital compared to its peer group. Outlook has been revised to stable from negative.
8. Downgraded Bank of Shanghai's BCA and deposit ratings, as a result of its increasing usage of wholesale funding, particularly as it has grown its investments in loans and receivables. Outlook has been revised to stable from negative.
9. Downgraded Bank of Ningbo BCA and deposit ratings, as a result of the pressures on its capital ratio due to rapid asset growth and on profitability due to its narrowing net interest margins and growing credit costs. Outlook has been revised to stable from negative.

## Credit Headlines:

**Sabana Shari'ah Compliant Industrial Trust ("SSREIT"):** In 9M2016, SSREIT's gross revenue decreased by 9.2% to SGD69.3mn (9M2015: SGD76.3mn). This was largely due to (1) negative rental revisions for certain master leases renewals, (2) lower portfolio occupancy largely arising from the conversion of 23 Serangoon North Avenue 5, 34 Penjuru Lane and 15 Jalan Kilang Barat into multi-tenanted lease arrangement and the non-renewal of 218 Panda Loop upon the expiry of their master leases, and (3) absence of revenue from properties which were divested in 1Q2016. Net Property Income ("NPI") saw a larger decline of 22.2% to SGD43.0mn (9M2015: SGD55.3mn). The decline is attributed to higher operating expenses that were 26.7% y/y higher in 3Q2016 (25.2% y/y higher for 9M2016). Specifically, higher expenses were incurred due to the conversions into multi-tenanted lease arrangements. Higher property tax and land rent expenses were also incurred as 30 & 32 Tuas Avenue 8, 26 Loyang Drive and 21 Joo Koon Crescent were converted into non-triple net master lease arrangements. NPI as a proportion of gross revenue was only 62% in 9M2016 against 73% in 9M2015. As a consequence of weaker operating performance, EBITDA/Gross Interest was 2.5x for 9M2016 (9M2015: 3.1x) despite the relatively stable finance cost of SGD15.7mn. As of 30 September 2016, portfolio occupancy was 89.2% against 91.7% as at 30 September 2015. Weighted average lease term to expiry (including master leases) was 2.5 years. Aggregate leverage has increased slightly to 41.5% as at 30 September 2016 (30 June 2016: 41.2%). Amidst a weakened financial flexibility and credit profile, we maintain SSREIT at a Negative issuer profile. (Company, OCBC)

## Credit Headlines:

**CIMB Group Holdings Berhad (“CIMB”)**: CIMB announced yesterday that it has commenced negotiations with China Galaxy Securities Co. to establish a joint venture to pursue capital market deals in China. The 50:50 partnership will cover institutional and retail broking, equity research and other securities businesses while CIMB will continue to provide investment banking and other capital markets services. Although at an early stage, the possible establishment of a JV is a positive development in our view, considering the operating challenges for banks domestically as compared to the relatively still buoyant overseas M&A activity from China. CIMB is targeting to finalize the JV agreement within the next three months. Separately, CIMB Thai Bank PCL reported its 3Q2016 results with total operating income up 4.5% y/y driven by strong growth in net interest income and fee & service income. However, CIMB’s Thai operations continue to be weighed down by asset quality concerns with the NPL ratio rising to 4.2% as at 30 September 2016 from 3.1% as at 31 December 2015 (CIMB’s consolidated NPL ratio was 3.16% as at 30 June 2015). Overall, CIMB Thai’s results appear in line with YTD results and market expectations. Future profitability could continue to be pressured in the coming 6-12 months from an anticipated slowdown in Thailand’s economy. (Company, Bloomberg, OCBC)

**Ezra Holdings Limited (“EZRA”)**: EZRA has announced a consent solicitation for its EZRASP’18 bonds. The filing indicated that EZRA is embarking on the exercise due to the overall challenging situation for the oil & gas sector causing its associate company, Perisai Petroleum Teknologi Berhad (“PPT”), to default on its bonds. PPT had failed to restructure its bonds and had received a notice of default by the bond trustee on 3/10/16 for failing to pay its bond at maturity. As mentioned previously, PPT’s default had resulted in cross defaults on PPT’s loan facilities, which includes some term loans held in joint ventures with EZRA. In the filing, EZRA indicated that PPT is still in discussions with a financial institution to secure financing that may allow PPT to negotiate a mutually acceptable debt restructuring with its creditors. However, should PPT fail in negotiating a favourable outcome to its restructuring, EZRA will have to assess its investment in PPT and the accounting impact that arises from this. Currently, EZRA (along with its subsidiary EMAS Offshore) holds 22.3% of PPT. Besides the impact of the PPT restructuring, EZRA is in discussion with various parties regarding its financial obligations and is exploring various options, which may include securing additional working capital, amending the financial profile of certain financial obligations, extending certain repayment obligations, the issue of new securities and sale of non-core assets and/or refinancing of existing loans. As a precautionary measure to avoid non-compliance of its bond covenants, in summary EZRA is seeking to 1) waive its financial covenants for any existing breaches as well as future potential breaches till the maturity of the EZRASP’18s on the 24/04/18. EZRA is also seeking to 2) waive any event of defaults arising from attempts at restructuring material part of indebtedness held at either EZRA or at its principal subsidiaries (which include Triyards and EMAS Offshore). EZRA will be holding an informal bondholders meeting on the 25/10/16 to provide further information to bondholders. The early consent fee of 10bps will be provided should an affirmative vote be given by 02/11/16. The normal consent fee of 5bps will be provided if an affirmative vote be given on the voting day of 07/11/16. We are currently reviewing the situation and will provide updates accordingly (Company, OCBC)

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