

Feb 25, 2016

Market Commentary: The SGD swap curve traded 1bp-2bps lower yesterday. In the broader dollar space, JACI IG corporates tightened 1bp to 249bps, while the yield on the JACI HY corporates increased by 2bps to 8.29%. The 10y UST yield increased by 3bps to 1.75%.

New Issues: The Export-Import Bank of Korea (AA-/Aa2/AA-) priced a USD300mn 5-year FRN at 3mL+100bps, in line with its initial price guidance.

Rating Changes: S&P downgraded Singapore Post to “A-“ from “A”, citing increased earnings volatility due to competitive pressures. Singapore Post’s expansion into e-commerce and logistics is offsetting the profitability of its traditional postal business, which has higher and more stable margins. Outlook is stable. S&P reaffirmed Japan Expressway Holding and Debt Repayment Agency (“JEHDRA”), at “A+”, reflecting S&P’s view of an almost certain likelihood of extraordinary government support in the event of financial distress. Outlook is stable. S&P subsequently withdrew the ratings on JEHDRA at the agency’s request. S&P downgraded IOI to “BBB-“ from “BBB”, as S&P believes that IOI will use the majority of its operating cash flows for capital expenditure, shareholder remunerations and acquisitions over the coming 12 – 18 months. S&P also notes that IOI’s debt has increased following the depreciation of the MYR, and expects the debt-to-EBITDA ratio to stay above 3.0x through 2018. Outlook is stable. Brazil’ sovereign rating was downgraded to “Ba2” from “Baa3” by Moody’s with a negative outlook. This strips Brazil of its last investment grade rating by a rating agency and puts Moody’s rating in line with Standard & Poor’s and one level below Fitch Ratings. Both ratings are also on negative outlook.

Table 1: Key Financial Indicators

	25-Feb	1W chg (bps)	1M chg (bps)		25-Feb	1W chg	1M chg
iTraxx Asiax IG	160	-2	3	Brent Crude Spot (\$/bbl)	34.15	-0.38%	11.97%
iTraxx SovX APAC	78	-1	0	Gold Spot (\$/oz)	1,235.21	0.35%	11.49%
iTraxx Japan	104	-1	14	CRB	161.49	-0.64%	0.65%
iTraxx Australia	158	2	14	GSCI	297.85	-0.85%	5.19%
CDX NA IG	115	-2	8	VIX	20.72	-7.13%	-14.20%
CDX NA HY	98	0	0	CT10 (bp)	1.747%	0.71	-25.45
iTraxx Eur Main	111	1	18	USD Swap Spread 10Y (bp)	-16	-1	-2
iTraxx Eur XO	441	0	67	USD Swap Spread 30Y (bp)	-51	-1	-5
iTraxx Eur Snr Fin	123	6	33	TED Spread (bp)	30	-2	-2
iTraxx Sovx WE	33	0	12	US Libor-OIS Spread (bp)	23	0	0
iTraxx Sovx CEEMEA	189	-2	-11	Euro Libor-OIS Spread (bp)	14	-1	0
					25-Feb	1W chg	1M chg
				AUD/USD	0.717	0.21%	3.12%
				USD/CHF	0.989	0.37%	2.38%
				EUR/USD	1.102	-0.77%	1.59%
				USD/SGD	1.404	-0.06%	1.87%
Korea 5Y CDS	72	2	5	DJIA	16,485	0.19%	3.78%
China 5Y CDS	136	0	5	SPX	1,930	0.15%	2.81%
Malaysia 5Y CDS	182	3	-24	MSCI Asinx	457	-0.81%	0.90%
Philippines 5Y CDS	123	-1	-8	HSI	19,057	-1.58%	-1.47%
Indonesia 5Y CDS	241	0	-16	STI	2,628	-1.11%	1.76%
Thailand 5Y CDS	161	0	-3	KLCI	1,671	-0.54%	2.82%
				JCI	4,673	-2.21%	3.72%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
24-Feb-16	Export-Import Bank of Korea	AA-/Aa2/AA-	USD350mn	5-year	3mL+100bps
23-Feb-16	MUFJ	A/A1/A	USD400mn	5-year	3mL+188bps
23-Feb-16	MUFJ	A/A1/A	USD2.1bn	5-year	CT5+180bps
23-Feb-16	MUFJ	A/A1/A	USD2.5bn	10-year	CT10+215bps
23-Feb-16	BOC HK branch	A/A1/NR	USD900mn	3-year	3mL+105bps
23-Feb-16	BOC HK branch	A/A1/NR	USD600mn	3-year	CT3+107.5bps
23-Feb-16	BOC HK branch	A/A1/NR	USD500mn	5-year	CT5+120bps
23-Feb-16	Temasek Holdings Pte Ltd	AAA/Aaa/NR	EUR600mn	5-year	MS+48bps

Source: OCBC, Bloomberg

Credit Headlines:

Singapore Post (“SPOST”): S&P downgraded SPOST’s credit rating from “A” to “A-”. Outlook is stable. Its perpetual securities have been downgraded further from “A-” to “BBB+”. S&P mentioned that SPOST was facing EBITDA margin compression, and that its revenue is shifting away from the declining stable domestic postal business to the more volatile, lower-margin e-commerce and logistics business. S&P believes that SPOST would meaningfully reduce its leverage going forward after high capex and acquisition spending the past couple of years. We have previously downgraded SPOST’s Issuer Profile to Neutral during the compendium and are currently Underweight both the SPOST’20s and perpetual securities on valuation. (S&P, OCBC)

Pacific Radiance (“PACRA”): 4Q2015 results showed revenue declining 41.6% y/y to USD21.7mn. Revenue was pressured by falling utilization on both its subsea and OSV fleet, given weak market conditions. This drove PACRA to a gross loss of USD3.4mn for the quarter. Vessel divestment gains (USD5.3mn) helped to soften the weakness, reducing the net loss to USD2.8mn for the quarter. For the year, PACRA managed to generate USD24.4mn in positive operating cash flow, but due to USD161.6mn in capex (mainly receiving vessel deliveries), this resulted in USD137.2mn in negative free cash flow. Gross debt was flat q/q at ~USD400mn. However, due to the decline in cash balance, net gearing worsened q/q from 82% to 86%. We will continue to hold PACRA’s Issuer Profile rating at Negative (Company, OCBC)

Nam Cheong Limited (“NCL”): 4Q2015 results showed revenue slumping 53.8% y/y to MYR241.8mn. This was due to the completion and delivery of just two vessels in 4Q2015, compared to six vessels in 4Q2014. There was some gross margin compression as well from 14.6% (4Q2014) to 12.4% (4Q2015). Management indicated that gross margin for shipbuilding was kept intact at 16% (relative to 4Q2014), and that it was the OSV chartering business that generated a gross loss during the period. Due to MYR22.3mn share of losses from associates / JVs, it drove NCL to a pre-tax loss of MYR21.5mn. Otherwise, NCL would have broken even for the quarter. NCL looked to have improved its cash management, generating positive operating cash flow of MYR26.7mn (4Q2015) compared to an operating cash outflow of MYR564.6mn for the whole of 2015. Due to MYR32.5mn in capex however, NCL generated a small amount of negative free cash flow during the quarter. NCL reduced gross borrowings by MYR62.6mn (part of it was a bond redemption). This helped reduced net gearing slightly from 97% (end-3Q2015) to 95% (end-4Q2015). We will continue to hold our Negative Issuer Profile rating (Company, OCBC).

Swissco Holdings (“SWCH”): 4Q2015 results showed revenue falling sharply by 41.6% y/y to USD21.8mn. This was largely driven by both its wholly-owned drilling rigs falling off charter and idle during the quarter. One of its 50%-owned rigs was also off charter during the quarter. SWCH also took USD14mn in impairments during the quarter, writing down the value of some of its rigs as well as OSVs. Due to the impairments, the quarter swung to a net loss of USD15.1mn. For the year, SWCH still managed to generate about USD8.4mn in operating cash flow (including interest paid). The USD34.7mn in capex spent meant that free cash flow was negative for the year. Gross borrowings fell from USD238.7mn (3Q2015) to USD232.8mn (4Q2015), but net gearing increased from 65% to 71% due to the decline in cash balance. We are currently reviewing our Neutral Issuer Profile rating on SWCH. (Company, OCBC).

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