

November 25, 2016

Credit Headlines (Page 2 onwards): Keppel Corp Ltd. & Kris Energy Ltd., Malayan Banking Berhad

Market Commentary: The SGD swap curve bear-steepened yesterday with swap rates trading 4-11bps higher across all tenors as the USD rallied against major currencies to its highest level in more than a decade. Flows in the SGD corporates were heavy with better buying in NAB 4.15%'28s and SOCGEN 4.3%'26s. Better selling were seen in, UCGIM 5.5%'23s while mixed interests were seen in STANLN 4.4%'26s. In the broader dollar space, the spread on JACI IG corporates decreased 1bps to 200bps while the yield on JACI HY corporates increased 1bps to 6.89%. 10y UST yield last closed at 2.35% on 23 November as the treasury market was closed yesterday for Thanksgiving.

New Issues: Shaanxi Xixian New Area Fengxi New City Development & Construction Co. Ltd. has launched a USD 3-year bond deal with initial guidance at 6%. Zhenjiang Cultural Tourism Industry Group Co. has mandated banks for a potential USD bond issue.

Rating Changes: S&P affirmed Standard Chartered Bank's (SCB) issuer credit ratings at "A" and Standard Chartered PLC's (SCPLC) issuer credit ratings at "BBB+". The outlook on SCB's ratings and its operating subsidiaries were revised to stable from positive while the outlook on SCPLC's ratings remains stable. The outlook was revised on SCB because S&P viewed that their previously anticipated profitability recovery will be protracted. Therefore, there will be increased uncertainty over the efficacy of the group's strategy, especially in comparison with similarly highly rated peers over the next 18-24 months. Moody's affirmed Cooperatieve Rabobank UA's (Rabobank) deposit and senior unsecured debt ratings of "Aa2". The outlook was revised to negative from stable. Additionally, Rabobank's baseline credit assessment (BCA) and adjusted BCA was affirmed at "a2". The rating action was in view that Rabobank's current BCA largely incorporates the expected improvements resulting from the bank's on-going restructuring programme while the negative outlook reflects the execution risks inherent to the transformation.

Table 1: Key Financial Indicators

	25-Nov	1W chg (bps)	1M chg (bps)		25-Nov	1W chg	1M chg
iTraxx Asiax IG	127	-3	13	Brent Crude Spot (\$/bbl)	49.00	5.40%	-4.78%
iTraxx SovX APAC	43	-1	10	Gold Spot (\$/oz)	1,182.63	-2.09%	-7.16%
iTraxx Japan	55	-2	-1	CRB	187.69	2.93%	-0.93%
iTraxx Australia	110	-4	7	GSCI	371.24	3.83%	-0.99%
CDX NA IG	74	-3	-1	VIX	12.43	-9.40%	-4.53%
CDX NA HY	104	1	0	CT10 (bp)	2.389%	3.46	63.34
iTraxx Eur Main	81	-1	9	USD Swap Spread 10Y (bp)	-18	-3	-2
iTraxx Eur XO	340	-9	19	USD Swap Spread 30Y (bp)	-58	-2	-2
iTraxx Eur Snr Fin	108	0	14	TED Spread (bp)	44	-1	-12
iTraxx Sovx WE	23	1	5	US Libor-OIS Spread (bp)	33	-2	-6
iTraxx Sovx CEEMEA	100	-3	7	Euro Libor-OIS Spread (bp)	4	0	0
					25-Nov	1W chg	1M chg
				AUD/USD	0.741	0.93%	-3.14%
				USD/CHF	1.018	-0.77%	-2.32%
				EUR/USD	1.055	-0.40%	-3.15%
				USD/SGD	1.433	-0.49%	-3.04%
Korea 5Y CDS	51	-1	10	DJIA	19,083	1.14%	4.72%
China 5Y CDS	119	-3	14	SPX	2,205	1.28%	2.48%
Malaysia 5Y CDS	169	-4	49	MSCI Asiax	519	0.66%	-6.26%
Philippines 5Y CDS	125	-8	13	HSI	22,608	1.55%	-4.06%
Indonesia 5Y CDS	175	-7	26	STI	2,844	1.07%	-0.36%
Thailand 5Y CDS	92	-2	-3	KLCI	1,624	-0.16%	-3.17%
				JCI	5,108	-1.64%	-5.38%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
23-Nov-16	Changsha Pilot Investment Holdings	"BBB-/NR/BBB-"	USD350mn	3-year	CT3+220bps
23-Nov-16	Chalico Hong Kong Corp.	"BB-/NR/NR"	USD350mn	Perp-NC3	5.7%
23-Nov-16	Horsepower Finance Ltd.	"NR/A1/NR"	USD550mn	3-year	CT3+107.5bps
22-Nov-16	Studio City Co. Ltd.	"BB-/B1/NR"	USD350mn	3-year	5.875%
22-Nov-16	Studio City Co. Ltd.	"BB-/B1/NR"	USD850mn	5NC2	7.25%
22-Nov-16	Chengdu Xingcheng Investment Group	"NR/NR/BBB+"	USD300mn	5-year	CT5+190bps
22-Nov-16	Ping An Real Estate	"NR/NR/NR"	USD300mn	3-year	CT3+235bps
22-Nov-16	Dah Sing Bank Ltd.	"NR/Baa2/BBB"	USD250mn	10NC5	CT10+255bps
21-Nov-16	CMB Financial Leasing	"BBB+/Baa1/NR"	USD300mn	3-year	CT3+140bps

Source: OCBC, Bloomberg

Rating Changes (cont'd):

Moody's downgraded Pactera Technology International Ltd.'s corporate family rating to "B3" from "B2" with a negative outlook. The downgrade reflects the company's on-going weak operations and the uncertainty that exists over its future business and liquidity profile.

Credit Headlines:

Keppel Corp Ltd. ("KEP"), Kris Energy Ltd. ("KRIS", 40% owned by KEP): Earlier in the week, an open letter to noteholders was published by a group of noteholders of KRIS, indicating that they consider the current consent solicitation exercise ("CSE") to be inequitable, and will be rejecting the offer. In the letter, the group also encouraged other noteholders to reject the offer as well. Contentious areas include 1) the new zero coupon bond being secured and senior to the existing notes 2) the coupon haircut 3) the 5 year extension being too long. KRIS has since published a follow-up statement, stating in summary that 1) there will be no revision to the existing terms of the CSE 2) there is no time to do so 3) failure of the CSE could trigger cross default, resulting in the revolving credit facility lender in accelerating claims (with the facility secured by all of KRIS's producing assets as well as majority of KRIS's development assets). KRIS also declined to provide details regarding the projections on which the new business plan was based. As a reminder, the deadline for the early bird early consent fee of 50bps is 29/11/16, while the day of the actual vote is 09/12/16. OCBC credit research does not currently cover KRIS. (Company)

Malayan Banking Berhad ("Maybank"): Maybank announced its 3Q2016 results yesterday. Overall, the bottom line was slightly weaker than the previous year with 3Q2016 net profit down approximately 3.4% y/y amounting to MYR1.86bn (3Q2015: MYR1.93bn). This was due to lower net interest income generation as net interest margin (NIM) decreased 16bps y/y to 2.22% from 2.38%. Net fee based income also fell 10.6% translating to a 5.0% fall in net operating income y/y. The Group also incurred higher operating expenses as net insurance benefits and claims incurred, net fee and commission expenses, change in expense liabilities and taxation of life and takaful fund increased by a total of MYR504.8mn to MYR1.11bn. As a result, the cost-to-income ratio continued to inch upwards to 49.3% in 3Q2016, from 45.1% a year earlier. On a quarter on quarter basis, net operating income improved 2.1% as continued NIM pressure was mitigated by a 10.4% rise in net fee based income with net profit up materially due to a 72% fall in net impairment losses. On a positive note, the gross impaired loan ratio (which includes restructured and rescheduled as well as performing loans impaired due to judgmental/ obligatory triggers) improved 12bps, dropping to 2.22% from 2.34% on a q/q basis (but is still up from 1.54% on a year on year basis) and despite the fall in allowances, the loan loss coverage ratio improved to 74.8% in 3Q2016 from 70.5% in 2Q2016. Gross non-performing loans deteriorated to 1.35% (1.32% in June 2016 and 1.15% in December 2015) and remains elevated reflective of the tougher operating environment and slowing economy that hurts the ability of debtors to make due diligent payments. In terms of the balance sheet, the external environment is showing signs of improvement as total gross loans improved 2.2% on a quarter-on-quarter basis, with total net loans and advances improving 2.2% as well (loan balances however are more or less flat compared to FY2015 levels). Loans growth occurred across the board with 1.6% growth in Malaysia and 3.2% growth in International loans on a q/q basis with Malaysia loan growth occurring across consumer, business banking, SME and global banking segments. With Maybank's solid earnings performance, capital levels have improved marginally with reported CET1/CAR ratios at 13.7%/19.1% as at 3Q2016 from 13.6%/19.0% as at 2Q2016, remaining well above minimum requirements. In our view, growth in operating income across all Maybank's business segments highlights Maybank's solid market positions across various segments. That said, the tougher operating environment continues to pressure Maybank's asset quality and loan growth, particularly domestically, impacting its margin. We expect profitability to remain under pressure for the rest of 2016 but maintain our neutral issuer profile for now. (Company, OCBC)

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