

September 27, 2016

Credit Headlines (Page 2 onwards): Yanlord Land Group Limited, Century Sunshine Group Holdings Limited

Market Commentary: The SGD dollar swap curve steepened yesterday with the shorter term rates (<2Y) trading ~1bps lower while the middle to longer term rates traded 1-3bps higher. Flows in the SGD corporates were heavy with better buying seen in LMRTSP 7%'49s, while mixed interests were seen in FCLSP 5%'49s, GENSSP 5.13%'49s, UOBSP 4%'49s and ABNAV 4.7%'22s. In the broader dollar space, the spread on JACI IG corporates increased 2bps to 204bps while the yield on JACI HY corporates increased 2bps to 6.42%. 10y UST yield decreased 4bps to 1.58%.

New Issues: Bluestar Finance Holdings Ltd. has priced a two-tranche deal with the USD500mn 3-year bond priced at 3.125% while the other tranche of USD600mn 5-year bonds were priced at 3.5%. Shui On Land has priced a USD250mn 3-year bond at 4.5%, tightening from its initial price guidance at 4.65%. Singapore Telecommunications Ltd. (Singtel) has priced a USD500mn 10-year bond at 2.375%. The expected issue ratings are "A+/Aa3/NR". ICBC Leasing has priced a two tranche deal, with the USD700mn 3-year bond priced at CT3+137.5bps while the other tranche of USD700mn 5-year bond was priced at CT5+145bps. The expected issue ratings are "NR/A2/A". Goodman Australia priced a USD600mn 10-year bond at CT10+185bps, tightening from its initial price guidance at CT10+215bps. The expected issue ratings are "BBB+/Baa1". Chorus Ltd. has scheduled investor meetings from 3 October onwards for potential USD/EUR bond issuance.

Rating Changes: S&P downgraded EMECO holdings Ltd.'s (Emeco) credit rating to "CC" from "CCC" with a negative outlook following Emeco's announcement of a proposed recapitalization of its current outstanding notes, which S&P viewed as a distressed exchange and equivalent to a de-facto default under S&P's criteria.

Table 1: Key Financial Indicators

	27-Sep	1W chg (bps)	1M chg (bps)		27-Sep	1W chg	1M chg
iTraxx Asiax IG	122	0	8	Brent Crude Spot (\$/bbl)	47.06	2.57%	-5.73%
iTraxx SovX APAC	32	1	-9	Gold Spot (\$/oz)	1,335.42	1.57%	0.91%
iTraxx Japan	58	-2	5	CRB	184.98	1.84%	-0.61%
iTraxx Australia	104	-3	4	GSCI	356.46	1.79%	-1.82%
CDX NA IG	79	-3	8	VIX	14.5	-6.63%	6.23%
CDX NA HY	104	1	0	CT10 (bp)	1.598%	-9.15	-3.19
iTraxx Eur Main	73	-1	6	USD Swap Spread 10Y (bp)	-16	0	-1
iTraxx Eur XO	333	-8	27	USD Swap Spread 30Y (bp)	-55	0	0
iTraxx Eur Snr Fin	99	-3	10	TED Spread (bp)	62	4	10
iTraxx Sovx WE	24	2	0	US Libor-OIS Spread (bp)	43	1	6
iTraxx Sovx CEEMEA	89	3	-20	Euro Libor-OIS Spread (bp)	4	0	-1
					27-Sep	1W chg	1M chg
				AUD/USD	0.764	1.15%	0.98%
				USD/CHF	0.970	0.97%	0.89%
				EUR/USD	1.125	0.85%	0.51%
				USD/SGD	1.361	0.07%	-0.04%
Korea 5Y CDS	43	0	-1	DJIA	18,095	-0.14%	-1.63%
China 5Y CDS	105	-2	4	SPX	2,146	0.33%	-1.06%
Malaysia 5Y CDS	129	0	8	MSCI Asiax	552	0.43%	1.47%
Philippines 5Y CDS	116	9	30	HSI	23,449	-0.35%	2.35%
Indonesia 5Y CDS	156	4	12	STI	2,850	-0.17%	-0.27%
Thailand 5Y CDS	89	0	6	KLCI	1,664	0.52%	-1.11%
				JCI	5,310	0.14%	-2.37%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
26-Sep-16	Bluestar Finance Holdings Ltd.	"NR/NR/NR"	USD500mn	3-year	3.125%
26-Sep-16	Bluestar Finance Holdings Ltd.	"NR/NR/NR"	USD600mn	5-year	3.5%
26-Sep-16	Shui On Land	"NR/NR/NR"	USD250mn	3-year	4.5%
26-Sep-16	Singapore Telecommunication Ltd.	"A+/Aa3/NR"	USD500mn	10-year	2.375%
26-Sep-16	ICBC Leasing	"NR/A2/A"	USD700mn	3-year	CT3+137.5bps
26-Sep-16	ICBC Leasing	"NR/A2/A"	USD700mn	5-year	CT5+145bps
26-Sep-16	Goodmand Australia	"BBB+/Baa1/NR"	USD600mn	10-year	CT10+185bps
23-Sep-16	China South City	"B-/NR/B"	USD150mn	5-year	7%

Source: OCBC, Bloomberg

Rating Changes (cont'd): Moody's revised its outlook on AIA Group Ltd's "A3" issuer rating to positive from stable. The change in outlook reflects the steady improvement and strength in the Group's financial profile, particularly its financial flexibility; resilience in earnings against capital-market volatility and a low interest rate environment; and its capitalization.

Credit Headlines:

Yanlord Land Group Limited ("Yanlord"): Yanlord announced that it has acquired two prime development sites with a total gross floor area of 106,232 sqm in Suzhou for RMB3.7 bn (~SGD754mn), implying a purchase price of RMB35,000 per sqm. The land areas acquired are located in the Gusu District (53,863 sqm) and Gao Xin District (52,369 sqm). On 13 July 2016, Yanlord entered into a cooperative agreement with Shenzhen Lianxin Investment Management (a subsidiary of Ping An Insurance) to acquire a 30% stake in a project company which holds ~295,000 sqm of residential land in Gusu District which was acquired earlier for RMB4bn via a public auction. As at 30 June 2016, total assets at Yanlord amounted to RMB85.9bn (~SGD17.5bn) while gross debt to equity was manageable at 0.60x. We do not expect this acquisition to unduly affect Yanlord's credit profile. However, in light of the heightened land price in Suzhou, we expect Yanlord's gross margins from new projects in Suzhou to compress going forward. Since property cooling measures were incepted in Suzhou, average prices across the city has stayed flat between August and July 2016 and we do not expect house prices to accelerate faster than land price growth (Company, OCBC)

Century Sunshine Group Holdings Limited ("CSG"): The circular regarding the acquisition of Acronagrotrans Ltd ("Target", 50.5% owner of Shandong Hongri Acron Chemical Joint Stock Company Ltd ("Hongri Acron")) has been sent out, with EGM to be held on 19 October. As a reminder, Hongri Acron is a compound fertilizer company with production facilities in Linyi City, Shandong Province. It has a total production capacity of 820,000 tonnes, compared with CSG's planned 2016-end fertilizer capacity of 850,000 tonnes. The deal terms are largely intact, with CSG seeking to acquire the target for a consideration of USD1. In addition, as part of the acquisition agreement (subject to completion taking place), CSG undertakes to ultimately support Hongri Acron with financial assistance to repay RMB20.3mn owed to one of Hongri Acron's customers (by 30/12/16). In addition, CSG has undertaken to use reasonable efforts to assist Hongri Acron in securing financing for working capital. These efforts include the provision of guarantees or collateral with aggregate loan amount not succeeding RMB250mn (including the RMB20.3mn mentioned earlier) provided that the proceeds will solely be used for working capital purposes by Hongri Agri (aside from the customer repayment mentioned earlier). As such, though CSG will be consolidating the financials of Hongri Acron (given the 50.5% ownership), liabilities exposed to CSG would be capped at RMB250mn. CSG has indicated that Hongri Acron can be considered one of the leading compound fertilizer producers in the PRC, and have sold its fertilizers at an average price of RMB2,112 per tonne during 1H2016 (compared with CSG's own ASP of HKD2,123 per tonne for 1H2016). We note as well that CSG's niche positioning in silicon magnesium compound fertilizer and organic fertilizers have higher ASP. As mentioned previously, Hongri Acron is a distressed company (hence the token consideration for the acquisition). Revenue has fallen from HKD2.1bn in 2014 to HKD466.5mn in 1H2016, while net losses have increased from HKD34.3mn in 2014 to HKD135.9mn in 1H2016. Liquidity is tight, with Hongri Acron facing HKD687.0mn in net current liabilities, while it has negative net assets of HKD87.0mn. Due to working capital limitations, Hongri Acron brought its production down to 20% during early 2016, though it has since brought it back to 60% currently (with the intent to ramp it back up to 80% by end-2016). There is some risk of government relocation of Hongri Acron's production facilities (to be completed by 2020 if it occurs), but CSG's management is confident of mitigating this via the relocation of the fixed assets to CSG's new plants in Jiangxi. Based on management pro-forma figures, CSG's enlarged group level debt would increase to HKD2411mn while net assets would increase to HKD3330mn. This translates into a gross gearing of 72.4%. CSG reported HKD1.80bn in cash while Hongri Acron reported RMB161mn (~HKD187mn). As such, on a consolidated basis, pro-forma net gearing would be 13%. For now, we will continue to review the terms of the deal and update accordingly. We currently hold CSG's Issuer Profile at Neutral. (Company, OCBC)

Andrew Wong

Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6530 4736
wongVKAM@ocbc.com

Nick Wong Liang Mian, CFA

Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6530 7348
NickWong@ocbc.com

Ezien Hoo, CFA

Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6722 2215
EzienHoo@ocbc.com

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