Asian Credit Daily

Apr 28, 2016

Market Commentary: The SGD swap curve traded down 3bps-4bps, with the exception of the 1-year rate which traded down by 5bps. Flows in the SGD corporate space were moderate, where we saw better buyers in GENSSP 5.125%'49s, STANLN 4.4%'26s and mixed interests in ASPSP 5.05%'19s, ABNANV 4.75%'26s, SCISP 4.75'49s, OLAMSP 4.25%'19s and FCL 4.25%'26s. In the broader dollar space, the spread on the JACI IG corporates widened by 1bp to 226bps, while the yield on the JACI HY corporates decreased by 4bps to 7.53%. 10y UST yield decreased by 8bps to 1.85% following the release of the FOMC statement where rates were left on hold while signalling that the concerns about a slowdown in growth had eased.

New Issues: Boubyan Bank has scheduled for investor meetings in Asia, the Middle East and Europe from 1st May 2016, which may result in a USD AT1 Sukuk issue.

Rating Changes: S&P affirmed Cambridge Industrial Trust's "BBB-" long-term corporate credit rating with a stable outlook. The rating reflected the company's stable position within the Singapore industrial market, as Cambridge continues its strategy to improve its portfolio quality. S&P subsequently withdrew all outstanding ratings on Cambridge Industrial Trust at the company's request. Moody's has downgraded Gemdale Corporation's corporate family rating to "Ba2" from "Ba1", at the same time revising the outlook on the rating to stable from negative. The downgrade reflects our expectation that the company will continue to show weakened credit metrics over the next 12-18 months. Fitch has withdrawn China Shanshui Cement Group Ltd's ("Shanshui") rating, as Shanshui has chosen to stop participating in the rating process. Before the withdrawal, Shanshui had a senior unsecured rating of "C". Fitch has affirmed China Yangtze Power Company Ltd's ("CYPC") long-term issuer default rating at "A+", with stable outlook. The rating is in light of an equalizing with that of parent China Three Gorges Corporation due to the strong integration between the two firms.

Table 1: Key Financial Indicators

	28-Apr	1W chg (bps)	1M chg (bps)		28-Apr	1W chg	1M chg
iTraxx Asiax IG	139	2	-16	Brent Crude Spot ($/bbl)	46.99	5.52%	16.69%
iTraxx SovX APAC	57	0	-2	Gold Spot ($/oz)	1,242.09	-1.36%	2.07%
iTraxx Japan	68	2	-24	CRB	182.49	0.58%	5.75%
iTraxx Australia	132	5	-15	GSCI	356.09	1.02%	8.62%
CDX NA IG	74	0	-9	VIX	13.77	3.69%	-9.65%
CDX NA HY	103	0	2	CT10 (bp)	1.845%	-1.56	-4.06
iTraxx Eur Main	71	3	-6	USD Swap Spread 10Y (bp)	-13	2	0
iTraxx Eur XO	302	11	-20	USD Swap Spread 30Y (bp)	-47	1	0
iTraxx Eur Snr Fin	87	6	-9	TED Spread (bp)	40	-1	6
iTraxx Sovx WE	26	-1	-1	US Libor-OIS Spread (bp)	33	9	10
iTraxx Sovx CEEMEA	129	-2	-26	Euro Libor-OIS Spread (bp)	9	-1	1
					28-Apr	1W chg	1M chg
				AUD/USD	0.759	-2.80%	0.80%
				USD/CHF	0.973	-0.07%	0.45%
				EUR/USD	1.131	-0.03%	1.30%
				USD/SGD	1.349	-0.26%	1.49%
Korea 5Y CDS	64	--	-5	DJIA	18,042	-0.30%	2.89%
China 5Y CDS	127	4	-3	SPX	2,095	-0.34%	2.85%
Malaysia 5Y CDS	164	8	-1	MSCI Asiax	509	-1.46%	2.74%
Philippines 5Y CDS	103	4	-7	HSI	21,566	-0.26%	6.00%
Indonesia 5Y CDS	190	-5	-19	STI	2,894	-2.27%	2.24%
Thailand 5Y CDS	123	-3	-17	KLCI	1,696	-1.50%	-0.39%
				JCI	4,846	-0.63%	1.51%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
27-Apr-16	Suncorp-Metway Ltd	A+/A1/A+	USD500mn	3-year	CT3+110bps
27-Apr-16	Fantasia Holdings Group Co Ltd	B/B3/NR	CNH600mn	3-year	9.5%
25-Apr-16	Bank Muscat	BBB-/A3/BBB+	USD500mn	5-year	MS+275bps
25-Apr-16	Sinopec Group Overseas Development Ltd	A+/Aa3/NR	USD1bn	3-year	CT3+120bps
25-Apr-16	Sinopec Group Overseas Development Ltd	A+/Aa3/NR	USD900mn	5-year	CT5+142.5bps
25-Apr-16	Sinopec Group Overseas Development Ltd	A+/Aa3/NR	USD700mn	10-year	CT10+170bps
25-Apr-16	Sinopec Group Overseas Development Ltd	A+/Aa3/NR	USD400mn	30-year	CT30+153.5bps
20-Apr-16	BOC Aviation	BBB+/NR/A-	USD750mn	10-year	CT10+215bps

Source: OCBC, Bloomberg

Credit Headlines:

China Vanke Co. Ltd ("Vanke"): Vanke reported a robust set of 1Q2016 results with the company benefitting from the recovery in the China property market and low base from 1Q2015 during the last legs of the downturn. Revenue was up 63% y/y to RMB13.7bn on a 61.3% y/y increase in booked area to 1.18mn sqm. Gross margins fell to 27.3% from 29.7% as industry margins remained pressured by stiff competition in acquiring land. 1Q2016 EBITDA was up 76% y/y to RMB1.8bn despite the decline in gross margins as the company remained disciplined on distribution costs and administrative expenses. Vanke's credit profile remained strong despite 1) ramping up land acquisitions during the quarter (7.3mn sqm, 133% of contracted area sold), 2) an increase in gross debt to RMB88.1bn q/q from RMB79.5bn mainly due to the issuance of onshore bonds to lower financing costs. Net gearing as a result increased to 25% from 20% at the end of 2015. Cash as a result decreased to RMB50.1bn from RMB51.7bn at the end of 2015, but was still sufficient to cover bonds and bank loans maturing within a year by 1.85x. Going forward, key thing to watch out will be the terms of the MOU with Shenzhen Metro Group and how the asset purchases are funded although it does look at this juncture that it might be substantially equity funded to dilute Baoneng Group's stake in the company. Overall, we maintain Vanke's issuer profile at positive with an Overweight recommendation on the SGD Vanke 17s. (Company, OCBC)

United Overseas Bank Ltd ("UOB"): UOB's 1QFY2016 results were more or less as expected with total income and net earnings impacted by the weaker operating environment. That said, there were some positives in the results with loan quality and the NPL ratio showing signs of stability, and the loan base expanding by 3% y/y and 1% q/q mostly from Singapore. This along with higher interest rates led to a y/y expansion by 2bps in UOB's net interest margin to 1.78% (although on a q/q basis, net interest income was flat as loan growth was offset by the decline in interest rates leading to slight drop in NIM to 1.78% from 1.79% in 4QFY2015). UOB's liquidity also benefitted from 6.4% growth in deposits, mostly from Singapore and China. These developments were somewhat mitigated however by weak performance in non-interest income which fell 8% y/y due to lower wealth management fees and trading and investment income. In particular, the Global Markets and Investment Management segment actually generated an operating loss of SGD24mn in 1Q16 against a SGD128mn operating profit in 1Q15. The overall impact on capital ratios was relatively muted with the Tier 1 capital ratio weakening slightly to 12.8% from 13.0% as at 31 December 2015 due to growth in risk weighted assets. Total capital ratios however improved to 16.0% from 15.6% due to the increase in retained earnings as well as issuance of USD700mn in Tier 2 subordinated notes. In summary, UOB's results are in line with the general operating environment. A key consideration going forward remains whether asset quality has indeed been contained and the worse is over. (OCBC, Company)

Sembcorp Industries / Sembcorp Marine ("SCI" / "SMM"): SMM reported 1Q2016 results with revenue declining 29.6% y/y to SGD918.4mn. Revenue continues to be pressured by the slump in O&G upstream activities impacting demand for newbuild drilling assets. SMM indicated that revenue generated from drilling assets (rigs & floaters) fell 43.0% y/y to SGD540.0mn. The decline in revenue was lower than Keppel's O&M segment (revenue fell 57.6% y/y). SMM's operating profit fell 48.1% y/y to SGD71.7mn, due to the fall in revenue and higher depreciation expense. Operating margin hence compressed to 7.8% (1Q2015: 10.6%). Operating cash flow was negative SGD72.9mn due to working capital needs for on-going rig building projects. Capex spend was SGD102.1mn, driven by investments in both the Tuas yard as well as Brazil yard (~SGD60mn). As such, FCF was negative SGD175mn for the quarter. SMM also spent SGD47.3mn on their Gravifloat acquisition. The cash gap was funded via additional borrowings (+15% q/q to SGD3.9bn). The additional borrowings helped improve SMM's cash balance as well to SGD957.1mn. As such, net gearing worsened from 103% to 107% q/q. Net order book has declined from SGD10.4bn (end-2015) to SGD9.7bn (end-1Q2016), with SMM winning SGD60mn in new contracts during the quarter for LNG modules fabrication. Note that the balance of the Sete Brasil orders are still part of the net order book. Management has reiterated that the SGD329mn in provisions taken for the Sete Brasil contract during 4Q2015 remain adequate. Given SCI's investment needs for its India power assets, and the still difficult domestic power market, we believe that SCI's non-O&M businesses could generate negative FCF as well. As such, SCI's net gearing is likely to increase as well when its 1Q2016 results are announced in a couple of weeks. (Company, OCBC).

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