Asian Credit Daily

July 28, 2016

Credit Headlines (Page 2 onwards): Swiber Holdings, United Overseas Bank, CITIC Envirotech Ltd., Soilbuild Business Space REIT

Market Commentary: The SGD dollar swap curve traded upward yesterday, trading 2-5bps higher across all tenors. Flows in the SGD corporates were heavy with better buying seen in MLTSP 4.18%'49s, SCISP 4.75%'49s and SOCGEN 4.3%'26s. Meanwhile, mixed interests were seen in NOLSP 4.25%'17s, SINTEC 4.05%'17s, NOLSP 4.4%'19s and NAB 4.15%'28s. In the broader dollar space, the spread on JACI IG corporates decreased by 1bps to 213bps while the yield on JACI HY corporates increased by 1bps to 6.4%. 10y UST yield decreased by 6bps to 1.50% as the Federal Reserve held off raising interest rates following the FOMC meeting held yesterday.

New Issues: CDB Capital priced its USD500mn 5-year bond at CT5+115bps, tightening from initial guidance of CT5+145bps. China Minsheng Investment priced a USD500mn 3-year bond at 3.8%, tightening from its initial guidance at 4.13%.

Rating Changes: S&P revised Australian National University's (ANU) "AA+" credit rating outlook to stable from negative. The revision was in view of ANU's healthy market position which is backed by strong management, economic fundamentals, and financial resources that are balanced against its average financial performance and moderate debt burden. Moody's affirmed Malaysia Airports Holdings Berhad's (MAHB) issuer rating of "A3" and revised its outlook to negative from stable. The revision reflects heightened operating challenges for MAHB's wholly owned subsidiary, Sabiha Gokcen International Airport (SGIA), which owns and operate the second largest airport in Istanbul, Turkey. Moody's expects SGIA to experience a material decline in passenger traffic growth in the next 12-18 months, following the coup attempt that ended on 16 July. Following the downgrade of the local currency issuer default rating on Malaysia to "A-" from "A" and Thailand to "BBB+" from "A-", Fitch has downgraded the following 7 Asian insurance companies' insurer financial strength ratings; (1) Etiqa Insurance Berhad to "A-" from "A", (2) Etiqa Takaful Berhad to "A-" from "A", (3) Etiqa Insurance Pte Ltd. to "A-" from "A", (4) Malaysian Reinsurance Berhad to "A-" from "A", (5) Muang Thai Life Assurance Public Co. Ltd. to "BBB+" from "A-", (6) Thai Life Insurance Public Co. Ltd. to "BBB+" from "A-" and (7) Thai Reinsurance Public Co. Ltd. to "BBB+" from "A-". All outlooks are stable. The other companies that are affected by the downgrade of Malaysia and Thailand's issuer default ratings are Petronas Capital Ltd. to "A-" from "A", Petroliam Nasional Bhd. to "A-" from "A", and PTT Public Co. Ltd. to "BBB+" from "A-". All outlooks are stable.

Table 1: Key Financial Indicators

	28-Jul	1W chg (bps)	1M chg (bps)		28-Jul	1W chg	1M chg
iTraxx Asiax IG	122	3	-25	Brent Crude Spot ($/bbl)	43.57	-5.69%	-10.31%
iTraxx SovX APAC	49	1	-4	Gold Spot ($/oz)	1,339.45	0.60%	2.11%
iTraxx Japan	59	0	-15	CRB	179.62	-2.95%	-6.23%
iTraxx Australia	112	3	-22	GSCI	339.40	-4.39%	-8.79%
CDX NA IG	73	2	-11	VIX	12.83	9.01%	-31.57%
CDX NA HY	104	0	3	CT10 (bp)	1.506%	-4.98	3.98
iTraxx Eur Main	69	2	-24	USD Swap Spread 10Y (bp)	-10	-1	2
iTraxx Eur XO	318	5	-75	USD Swap Spread 30Y (bp)	-43	-1	4
iTraxx Eur Snr Fin	95	6	-35	TED Spread (bp)	43	5	6
iTraxx Sovx WE	26	0	-10	US Libor-OIS Spread (bp)	40	10	14
iTraxx Sovx CEEMEA	131	2	-4	Euro Libor-OIS Spread (bp)	6	0	-2
					28-Jul	1W chg	1M chg
				AUD/USD	0.752	0.33%	1.81%
				USD/CHF	0.985	0.05%	-0.34%
				EUR/USD	1.107	0.40%	0.05%
				USD/SGD	1.349	0.45%	0.30%
Korea 5Y CDS	52	3	-8	DJIA	18,472	-0.66%	6.10%
China 5Y CDS	112	2	-15	SPX	2,167	-0.30%	6.41%
Malaysia 5Y CDS	142	8	-20	MSCI Asiax	530	0.71%	8.53%
Philippines 5Y CDS	104	1	-14	HSI	22,219	1.54%	10.15%
Indonesia 5Y CDS	167	5	-24	STI	2,941	-0.14%	6.71%
Thailand 5Y CDS	94	2	-22	KLCI	1,664	-0.36%	1.81%
				JCI	5,274	0.60%	8.03%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
27-July-16	CDB Capital	"AA-/NR/A+"	USD500mn	5-year	CT5+115bps
27-July-16	China Minsheng Investment	"NR/NR/NR"	USD500mn	3-year	3.8%
26-July-16	Bank of America Corp.	"NR/Baa1/A"	AUD550mn	5-year	3mBBSW+155bps
26-July-16	Bank of America Corp.	"NR/Baa1/A"	AUD200mn	5-year	3.3%
25-July-16	Kookmin Bank	"A/A1/NR"	USD500mn	3-year	CT3+88bps
22-July-16	ANZ Ltd.	"AA-/Aa3/AA-"	USD750mn	5-year	CT5+105bps
22-July-16	ANZ Ltd.	"AA-/Aa3/AA-"	USD250mn	5-year	3mL+101bps
22-July-16	China Railway Xunjie Co. Ltd.	"NR/A3/A-"	USD500mn	10-year	CT10+170bps

Source: OCBC, Bloomberg

OCBC Bank

Credit Headlines:

Swiber Holdings ("SWIB"): SWIB's Board of Directors have made a court application to wind up the company. The hearing will be held on 19/08/16. As per the MTN programme information memorandum (Clause 10(h)) this constitutes an event of default. As per the last reported financial quarter (1Q2016), SWIB had USD1020mn in outstanding borrowings, of which USD323mn are bank loans, USD142mn are financial leases, and the balance USD555mn in notes payable. Since then, SWIB has redeemed two bonds, SGD130mn worth in June and SGD75mn worth early July. It likely tapped on its USD130mn cash balance (end-1Q2016) as well as additional borrowings to redeem the two bonds. Currently, SWIB still has 5 more bonds outstanding: SGD100mn due October 2016, SGD160mn due April 2017, RMB450mn due September 2017, SGD50mn Sukuk due October 2017 and SGD150mn Sukuk due August 2018. SWIB had been under pressure recently with a major USD710mn West Africa contract delayed. It is also currently in arbitration with ONGC, the Indian National Oil Company (recent contract wins with ONGC include USD643mn worth announced in March 2015). SWIB had generated a loss for FY2015 as well as for 1Q2016. We believe that the SWIB default would add negative technical pressure on the bonds of the offshore marine issuers that we cover. It is currently earnings season, and we can expect more sector colour from our coverage universe when 2Q2016 results are announced. We do not cover SWIB. (Company, OCBC)

United Overseas Bank Ltd ("UOB"): UOB reported its 2Q2016 results with solid performance despite the weak operating environment. Net interest margins fell as expected to 1.68% in 2Q2016 (from 1.77% in 2Q2015 and 1.78% in 1Q2016) in line with lower interest rates and translated to a 0.2% and 5.0% fall in net interest income on a y/y and q/q basis respectively. However growth in fee and commission income (higher wealth management and credit card fees) and other non-interest income (higher trading gains) supported a 5.0% y/y and 2.8% q/q rise in total income to SGD2.0bn and a higher contribution of non-interest income to total income (40.2% in 2Q2016 vs 35.3% in 1Q2016). Allowances rose as expected to SGD161mn (up 5.7% y/y and 37.3% q/q) and rose highest in Singapore and Malaysia, but together with more moderate increases in operating expenses, net profit after tax rose 5.1% y/y and 4.6% q/q to SGD801mn. In terms of the balance sheet, UOB's net customer loans grew 1.4% q/q and 4.9% y/y (6.2% y/y growth in constant currency terms) with growth in building and construction loans and loans to professionals and individuals while customer deposits fell 2.6% resulting in the loan to deposit ratio rising to 84% from 81% in 1Q2016. The NPL ratio continued to show signs of stability remaining at 1.4% with NPL coverage ratios remaining solid at 125.6% although NPL's rose 7.6% q/q. Of note is that exposure to commodities and oil and gas were up marginally q/q and comprise 3.5% and 4.0% of total loans respectively as at 30 June 2016. UOB's Tier 1 capital position improved as expected following the SGD750mn AT1 issuance in May 2016 with CET1/Tier 1 ratios at 13.1%/13.2% (12.8%/12.8% in 1Q2016) although overall CAR ratios were relatively stable. Overall, UOB's performance has been supported by non-interest income which mitigated the fall in net interest income. We retain the neutral issuer rating on UOB and continue to look for stabilization in asset quality amidst the ongoing weak operating environment. (Company, OCBC)

CITIC Envirotech Ltd ("CEL"): CEL reported a 65% growth in revenue in 1H2016 to SGD239.4mn (1H2015: SGD145.1mn) and a 67% growth in 2Q2016 revenue to SGD140mn (2Q2015: SGD83.8mn). Revenue growth in 2Q2016 was driven by the increase in all three business segments. The engineering segment, in particular contributed 71% of the total absolute growth in revenue. Based on our calculation of EBITDA which does not factor other income, other expense and share of results of associates, 1H2016 EBITDA grew by 54% to SGD99.9mn (1H2015: SGD65mn), contributing to an improvement in EBITDA/(Gross interest) of 4.6x despite the increase in interest expense since 1H2015. As at 30 June 2016, CEL's net debt-to-equity was 34%, increasing from 29% as at 31 March 2016 and 18% as at 31 December 2015. CFO (before interest paid) was SGD68mn in 1H2016 while interest paid was SGD21mn. Collectively, interest paid and distribution on perpetual would have collectively amount to SGD27.5mn, leading to CFO/(Gross interest and perpetual distribution) of 2.5x. On 28 June 2016, CEL issued additional USD perpetual securities under a re-tap, with the re-tap completed after end-June 2016. We estimate distribution on this perpetual to be ~SGD6.5mn for a 6 month period, leading to a thinner proforma coverage of 2.0x. As we highlighted on 11 July 2016, CEL's USD perpetuals are accounted for as equity but rank pari passu with all present and future unsecured obligations (ie: the existing SGD bonds). Cash balance as at 30 June 2016 declined to SGD226.1mn from SGD332mn as CEL continues bulking up its water portfolio. We maintain a Neutral issuer profile on CEL. (Company, OCBC)

Credit Headlines:

Soilbuild Business Space REIT ("SBREIT"): Moody's issued a statement capturing their scenario analysis which may result in a negative credit action for SBREIT. Moody's three scenario analysis hinges upon two assumptions (a) lower revenue from Technics Building post 3Q2017 (when the security deposit runs out) and (b) the proposed funding structure for the Bukit Batok acquisition. Our base case remains that Bukit Batok will be funded via a mix of debt and equity and see Moody's downside risk scenario as remote. Currently, Moody's holds SBREIT's issuer credit rating at Baa3. On the back of wider sectoral concerns over the oil and gas sector, we are currently reviewing SBREIT's "Neutral" issuer profile for any potential changes. (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