Asian Credit Daily

OCBC Bank

August 3, 2016

Credit Headlines (Page 2 onwards): The Wharf (Holdings) Limited, Gallant Venture, Sembcorp Industries, Industry Outlook – Financial Institutions

Market Commentary: The SGD dollar swap curve traded upwards yesterday with swap rates traded 1-7bps higher across all tenors. Flows in the SGD corporates were heavy with better selling seen in SOCGEN 4.3%'26s while mixed interest were seen in MLTSP 4.18%'49s, MDASP 6%'16s, GENSSP 5.13%'49s, HYFSP 6%'49s, UOBSP 4%'49s, GEMAU 5.5%'19s and ABNANV 4.75%'26s. In the broader dollar space, the spread on JACI IG corporates remained relatively unchanged at 213bps while the yield on JACI HY corporates increased by 7bps to 6.52%. 10y UST yield increased by 3bps to 1.56%.

New Issues: Small and Medium Business Corp. has scheduled investor road shows from 8 August onwards for potential USD bond issuance. Housing & Development Board has launched a SGD 7-year bond with final price guidance at 1.91% that is to be priced later today. The expected issue ratings are "NR/Aaa/NR".

Rating Changes: S&P downgraded PT MNC Investama Tbk.'s corporate credit rating to "B-" from "B" with negative outlook. The downgrade reflects MNC Investama's increasingly unfavourable debt maturity profile and delays in articulating a comprehensive refinancing strategy for the company's maturing debts. S&P affirmed its "BB+" corporate credit rating on Broadcom Ltd. and revised its outlook to positive from stable. The revision reflects Broadcom's de-leveraging to date and S&P's expectation that continuing operating growth will provide opportunities for further de-leveraging and capital deployment flexibility. At the same time, S&P also assigned a "BBB" issue-level rating to Broadcom's new term loan. Moody's downgraded JFE Holdings Inc's senior unsecured debt rating to "Baa2" from "Baa1" with a negative outlook. The rating downgrade reflects the deterioration in JFE's financial leverage and increasing concerns over its ability to sustain profits and financial leverage amid a challenging operating environment and significant Japanese Yen appreciation. Fitch has published its long term issuer default rating of "AA-" for General Electric Company (GE) and GE Capital Global Holdings with stable outlook. The ratings for GE incorporate the company's global presence, broad product portfolio, large market shares in its core infrastructure and healthcare markets, and strong technological capabilities. The ratings for GE Capital incorporate the parental support from GE.

Table 1: Key Financial Indicators

	3-Aug	1W chg (bps)	1M chg (bps)		3-Aug	1W chg	1M chg
iTraxx Asiax IG	121	-1	-15	Brent Crude Spot ($/bbl)	41.80	-6.84%	-16.98%
iTraxx SovX APAC	48	-1	-5	Gold Spot ($/oz)	1,363.42	1.74%	0.94%
iTraxx Japan	57	-2	-9	CRB	177.32	-2.15%	-8.72%
iTraxx Australia	111	-1	-11	GSCI	330.85	-3.92%	-12.11%
CDX NA IG	77	3	0	VIX	13.37	2.45%	-9.48%
CDX NA HY	103	-1	0	CT10 (bp)	1.551%	5.30	10.65
iTraxx Eur Main	71	2	-9	USD Swap Spread 10Y (bp)	-11	-1	-1
iTraxx Eur XO	331	13	-16	USD Swap Spread 30Y (bp)	-46	-3	-1
iTraxx Eur Snr Fin	98	3	-13	TED Spread (bp)	50	5	10
iTraxx Sovx WE	24	-2	-7	US Libor-OIS Spread (bp)	35	1	7
iTraxx Sovx CEEMEA	124	-6	-1	Euro Libor-OIS Spread (bp)	6	0	-2
					3-Aug	1W chg	1M chg
				AUD/USD	0.760	1.43%	0.80%
				USD/CHF	0.965	2.17%	0.61%
				EUR/USD	1.122	1.45%	0.57%
				USD/SGD	1.341	0.92%	0.32%
Korea 5Y CDS	50	-2	-4	DJIA	18,314	-0.87%	2.03%
China 5Y CDS	111	-1	-8	SPX	2,157	-0.56%	2.57%
Malaysia 5Y CDS	144	2	-6	MSCI Asiax	532	0.36%	5.08%
Philippines 5Y CDS	102	-2	-7	HSI	22,129	0.62%	6.42%
Indonesia 5Y CDS	163	-4	-16	STI	2,857	-2.62%	0.36%
Thailand 5Y CDS	95	1	-14	KLCI	1,660	-0.07%	0.85%
				JCI	5,373	2.85%	8.08%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
1-August-16	Hong Kong Airlines	"NR/NR/NR"	USD250mn	3-year	5.65%
1-August-16	CSI Properties Ltd.	"NR/NR/NR"	USD250mn	5-year	4.88%
28-July-16	Adani Transmission	"BBB-/Baa3/BBB-"	USD500mn	10-year	CT10+260bps
28-July-16	Export-Import Bank of India	"BBB-/Baa3/NR"	USD1bn	10-year	3.38%
28-July-16	Glenmark Pharmaceuticals	"NR/NR/BB"	USD200mn	5NC3	4.5%
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

Source: OCBC, Bloomberg

Credit Headlines:

The Wharf (Holdings) Limited ("Wharf"): Wharf announced that it has submitted a formal application for the registration and proposed issue of onshore debt in an amount not exceeding RMB20bn (HKD23.4bn). Wharf intends to issue the first tranche up to RMB4bn (HKD4.7bn), with proceeds intended to be used for financing and refinancing of the group's projects in China. As at 31 December 2015, Wharf's book value equity amounted to HKD317.2bn, while the additional proposed debt of RMB4bn will raise gross debt-to-equity from 0.22x to 0.24x and is credit neutral in our view. (Company, OCBC)

Gallant Venture ("GALV"): GALV's ~71% subsidiary Indomobil Sukses International Tbk ("IMAS") announced its first half results. IMAS contributed ~92% to GALV revenue and 64% to EBITDA (based on company's calculation) in FY2015. In 1H2016, IMAS revenue decreased by 15% to SGD819.5mn (1H2015: SGD961.5mn) while operating income decreased 36% to SGD30.3mn (1H2015: SGD47.4mn). Driven by still persistent high financing charges and a weakened operating environment, net loss for the period increased to SGD8.1mn (1H2015: net loss of SGD4.3mn). IMAS managed to report SGD1mn in net cash from operating activities, significantly improving from negative SGD43.4mn in 1H2015. Nevertheless, IMAS made a SGD44.3mn investment in shares, contributing to a cash gap which was plugged by higher borrowings. We currently hold GALV at a Negative issuer profile. (Company, OCBC)

Sembcorp Industries ("SCI"): 2Q2016 results showed revenue declining 22.7% y/y to SGD1.8bn. The marine segment continues to face headwinds, with revenue falling 24.8% y/y. Demand for drilling assets was very weak, with the new orders won all non-drilling related. Utilities revenue was also weaker, declining 20.4%. The segment continues to be dragged down by continued weakness in the domestic power business (due to lower HSFO prices), though contribution from the Indian business helped to partially offset the decline (India utilities contribution surged 260% for 1H2016 due to the ramping up of both phase 1 & 2 of Thermal Powertech Corp). Now, SCI sees roughly equal contribution from both marine and utilities. Net profit plunged 65.3% y/y to SGD94.8mn, in part due to divestment gains recognized in 2Q2015 (SGD54.7mn gain from the sale of SBWI). Higher financing expenses (+61.4% y/y) due to higher borrowings as well as FX losses have also dragged down the bottom line. Operating cash flow (net of interest service) continues to improve q/q, from negative SGD16.6mn to positive SGD66.0mn. However capex remains high at SGD297.7mn (about 1/3 due to marine, the balance due to utilities as a result of investments in its Indian power business). This drove free cash flow to negative SGD231.7mn. In addition, SCI paid out SGD107.2mn in dividends during the quarter. The cash gap was funded by both additional borrowings as well as by drawing on SCI's cash balance. As a result, net gearing continues to grind higher to 86% (1Q2016: 80%). Management-reported interest cover for 1H2016 stood at 3.4x while cash / current borrowings stands at 1.1x. We will review SCI's current Neutral Issuer Profile for potential changes. (Company, OCBC)

Industry Outlook - Financial Institutions: Following the Reserve Bank of Australia's (RBA) rate cut to a record low 1.5%, Australia's banks have followed suit by reducing business and home loan rates although not to the full extent of the RBA's 25bps reduction. At the same time, Australia's major banks have actually raised some fixed term deposit rates to attract more deposits and improve their funding mix. We expect these moves could be positive overall for Australian banks' profitability given their high loan to deposit ratio and mitigate to an extent potential profit pressures from on-going competition in Australia's banking sector, a slowing housing sector and tepid economic outlook. That said, we remain comfortable in the fundamentals of Australian banks given their strong market positions and reiterate our hold call on T2 Aussie papers and buy on price weakness given spread pick up against Singapore bank names. (OCBC)

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