

August 31, 2016

**Credit Headlines (Page 2 onwards):** Bank of China Ltd., Wing Tai Properties Ltd.

**Market Commentary:** The SGD dollar swap curve flattened yesterday with the short to middle term rates (<10Y) traded 1-2bps higher while the longer term rates (>10Y) traded 1-3bps lower. Flows in the SGD corporates were heavy with better buying seen in SOCGEN 4.3%'26s and STANLN 4.4%'26s while mixed interests were seen in HYFSP 5.75%'49s and UOBSP 4%'49s. In the broader dollar space, the spread on JACI IG corporates remained relatively unchanged at 196bps while the yield on JACI HY corporates increased 1bps to 6.42%. 10y UST yield was levelled at 1.57%.

**New Issues:** DBS Group Holdings has priced a USD750mn Perp-NC5 AT1 bond at 3.6%, tightening from its initial guidance at 4%. The expected issue ratings are "NR/A3/BBB". Chongqing Western Modern Logistics Industry Zone Development Construction Co. Ltd. (Chongqing Western Modern Logistic) has priced a USD500mn 5-year bond at CT5+220bps, tightening from its initial guidance at CT5+250bps. The expected issue ratings are "NR/NR/BBB". Road King Infrastructure Ltd. has priced a USD500mn 5-year bond at 4.7%, tightening from its initial guidance at 5%. The expected issue ratings are "BB-/B1/NR". Mitsubishi UFJ Lease & Finance Co. Ltd. has priced a USD500mn 5-year bond at 2.25%. The expected ratings for the issue are "A/A3/NR". BNP Paribas has priced a AUD250mn 10.5-year Tier 2 bond at 4.75%, tightening from its initial guidance at 4.8%. The expected issue ratings are "BBB+/Baa2/A". Haikou Meilan International Airport Co. Ltd. has priced a USD200mn 3-year bond at 5.25%, tightening from its initial guidance at 5.35%.

**Rating Changes:** S&P downgraded its corporate credit rating on China Automation Group Ltd. (CAG) to "CCC" from "B-" with a negative outlook. The downgrade reflects the company's heightened refinancing and liquidity risk over the next 12 months due to its large short-term debt maturities, arising from CAG's deteriorating operating cash flows and an unexpected delay in its refinancing plan.

**Table 1: Key Financial Indicators**

	31-Aug	1W chg (bps)	1M chg (bps)		31-Aug	1W chg	1M chg
iTraxx Asiax IG	113	2	-8	Brent Crude Spot (\$/bbl)	48.35	-1.43%	13.87%
iTraxx SovX APAC	42	1	-6	Gold Spot (\$/oz)	1,313.45	-0.81%	-2.93%
iTraxx Japan	52	-7	-4	CRB	182.82	-2.95%	1.00%
iTraxx Australia	100	0	-9	GSCI	355.72	-3.08%	4.81%
CDX NA IG	71	0	-4	VIX	13.12	5.98%	10.53%
CDX NA HY	105	0	1	CT10 (bp)	1.580%	1.89	12.69
iTraxx Eur Main	67	0	0	USD Swap Spread 10Y (bp)	-14	1	-3
iTraxx Eur XO	306	-2	-16	USD Swap Spread 30Y (bp)	-54	2	-9
iTraxx Eur Snr Fin	88	-2	-4	TED Spread (bp)	51	-3	1
iTraxx Sovx WE	25	0	0	US Libor-OIS Spread (bp)	38	-1	3
iTraxx Sovx CEEMEA	110	-7	-11	Euro Libor-OIS Spread (bp)	6	0	0
					31-Aug	1W chg	1M chg
				AUD/USD	0.752	-1.23%	-0.23%
				USD/CHF	0.983	-1.64%	-1.49%
				EUR/USD	1.115	-1.04%	-0.14%
				USD/SGD	1.364	-0.65%	-1.57%
Korea 5Y CDS	43	-1	-6	DJIA	18,454	-0.50%	0.12%
China 5Y CDS	100	-2	-11	SPX	2,176	-0.49%	0.12%
Malaysia 5Y CDS	120	1	-22	MSCI Asiax	545	0.51%	3.36%
Philippines 5Y CDS	88	0	-13	HSI	23,016	0.86%	5.14%
Indonesia 5Y CDS	143	3	-19	STI	2,820	-1.72%	-1.69%
Thailand 5Y CDS	85	0	-8	KLCI	1,678	-0.30%	1.50%
				JCI	5,362	-1.01%	2.81%

Source: OCBC, Bloomberg

**Table 2: Recent Asian New Issues**

Date	Issuer	Ratings	Size	Tenor	Pricing
31-Aug-16	Haikou Meilan International Airport	"NR/NR/NR"	USD200mn	3-year	5.25%
30-Aug-16	DBS Group Holdings	"NR/A3/BBB"	USD750mn	Perp-NC5	3.6%
30-Aug-16	Chongqing Western Modern Logistic	"NR/NR/BBB"	USD500mn	5-year	CT5+220bps
30-Aug-16	Road King Infrastructure	"BB-/B1/NR"	USD500mn	5-year	4.7%
30-Aug-16	Mitsubishi UFJ Lease & Finance	"A/A3/NR"	USD500mn	5-year	2.25%
30-Aug-16	BNP Paribas	"BBB+/Baa2/A"	AUD250mn	10-year	4.75%
29-Aug-16	Jiangsu Newheadline Development Group	"BB/NR/BB+"	USD100mn	3-year	6.2%
29-Aug-16	Greenland Holdings Group	"NR/Ba2/BB+"	USD300mn	3-year	3.6%

Source: OCBC, Bloomberg

**Rating Changes (cont'd):** S&P has assigned Japan Post Insurance Co. Ltd. a “A+” financial strength and counterparty credit rating with a stable outlook. The rating reflects S&P’s business risk assessment which is built on the strong competitive position of the company and the financial risk assessment which is underpinned by the company’s very strong capital and earnings. Moody’s revised its outlook on Geely Automobile Holdings Ltd.’s “Ba2” corporate family rating to positive from stable. The revision reflects an expectation that Geely’s profitability and credit profile will continue to improve over the next 12-18 months. Moody’s revised its outlook on Agile Group Holdings Ltd.’s “Ba3” corporate family rating to stable from negative. The revision reflects Moody’s consideration that Agile’s refinancing risk has fallen due to its improved level of pre-sales and demonstrated access to both onshore and offshore debt markets. The revision also reflects the improvement in the company’s debt leverage level. Fitch has assigned a “BBB/Stable” rating to Xi’an Municipal Infrastructure Construction Investment Group Co Ltd..

## Credit Headlines:

**Bank of China Ltd (“BOC”):** BOC reported its 1H2016 results with operating income up 9.9% y/y to RMB262.6bn. This was due to strong growth in non-interest income which mitigated the ongoing pressure on net interest income which fell 5.2% to RMB154.9bn for the six months ended 30 June 2016. Net interest income pressure came from the y/y compression in net interest margins which fell to 1.9% for 1H2016 from 2.18% in 1H2015 although gross loans grew 6.5% during the six months since 31 December 2015. With operating expenses rising 4.2% and impairment losses up 75% y/y, operating profit growth was lower at 4.9%. Loan quality concerns remain with non-performing loans rising faster than loan growth at 9.2% and translated in a slight rise in the non-performing loan ratio to 1.47% as at 30 June 2016 (1.43% as at 31 December 2015). Of note was the 20.6% increase in special mention loans which appear to be new additions to this classification as all rescheduled loans remain classified as impaired. Allowance coverage for loan impairment losses improved however to 155.1% from 153.3% over the same period. Owing to loan growth above growth in capital, capital ratios weakened slightly but remain at solid levels with CET1/CAR ratios at 11.1%/13.9% as at 30 June 2015 (11.1%/14.1% as at 31 Dec 2015). In all, BOC’s profit performance was solid and compensated for rising impairments as asset quality continues to weaken. We expect asset quality to continue to pressure profitability and will take a closer look at how growth in operating income and loan volumes influences BOC’s overall risk profile and future profits. Nevertheless, allowance coverage remains high and capital ratios continue to be solid. We therefore maintain our neutral issuer profile rating on BOC. (Company, OCBC)

**Wing Tai Properties Ltd (“WTP”):** WTP’s 1H2016 revenue decreased by 13% to HKD468mn (1H2015: HKD540mn) on the back of lower revenue from the property development segment. The property investment segment underpinned overall profitability, with revenue increasing 7% to HKD366mn and profits before fair value change increasing 10% to HKD271mn. WTP’s flagship Landmark East Grade A office in Kowloon East continued to see close to full occupancy of 98% with commendable rental reversions. The hospitality investment and management segment (comprising of Lanson Place Hong Kong and the management of various serviced residences) saw softer results with revenue at HKD65mn against HKD71mn in 1H2015. Correspondingly, profit before fair value change was also lower at HKD11mn (1H2015: HKD20mn). Excluding change in fair value of investment properties and financial instruments, overall profit from operations increased by 5% to HKD236mn. Total change in fair value of investment properties decreased to HKD201.4mn (1H2015: HKD245.2mn). WTP’s leverage ratio was healthy with gross debt-to-equity relatively stable at 0.17x since December 2015 although net debt-to-equity has increased to 0.14x from a very low 0.07x as at 31 December 2015. As at 30 June 2016, contingent liabilities of WTP largely made up of guarantees for banking facilities granted to joint ventures was HKD2.5bn. In the off-chance that such contingent liabilities becomes a realized liability, gross debt-to-equity will rise to 0.27x which is still very manageable in our view. In July 2016, WTP entered into an agreement to sell its 50% stake in a joint venture project in Shanghai, with WTP receiving HKD458mn. WTP also acquired new land in Hong Kong with land premiums amounting to HKD982mn in Hong Kong. With unutilized revolving loan facilities of HKD2.2bn, we see the risk of payment ability for this expenditure as low. We maintain our Positive issuer profile on WTP. (Company, OCBC)

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