

October 4, 2016

Credit Headlines (Page 2 onwards): CITIC Envirotech Ltd., National Australia Bank Ltd., Perisai Petroleum Teknologi Bhd, Swissco Holdings Ltd., Industry Outlook - Financial Institutions (Australia), Industry Outlook - Financial Institutions (Europe)

Market Commentary: The SGD swap curve traded upwards yesterday with swap rates trading 1-4bps higher across all tenors. Flows in the SGD corporates were heavy with better buying seen in ABNANV 4.7%'22s while better selling was seen in SCISP 4.75%'49s. Mixed interests were also seen in MFCCN 3.85%'26s, FCLSP 4.25%'26s and HYFSP 5.75%'49s. In the broader dollar space, the spread on JACI IG corporates decreased 2bps to 205bps while the yield on JACI HY corporates increased 2bps to 6.50%. 10y UST yield increased 3bps to 1.62% following better-than-expected September US ISM manufacturing data that boosted bets on raising interest rates this year. Implied probability for an interest rate hike in December has risen to 60%, up from 51% a week earlier.

New Issues: Chinese state-owned insurer PICC Life is planning to issue a USD tier 2 bond while Mitsubishi UFJ Financial Group Inc. is planning to issue Tier 1 perpetual subordinated USD bonds later this month. Bank of China is also planning to issue a USD green covered bond, the first by an Asian issuer. ITC Properties has scheduled investor meetings in Hong Kong and Singapore from Oct 4 onwards for a potential USD bond issue.

Rating Changes: S&P withdrew its financial strength rating on Federal Insurance Co. Japan. The rating prior to withdrawal was "A+" with stable outlook. Moody's downgraded Hua Han Industry Holdings Ltd.'s (Hua Han) corporate family rating to "Caa1" from "B1" with a negative outlook. The downgrade reflects the high uncertainty over Hua Han's financial position and potentially serious corporate governance issues, given the suspension of audit work. Fitch downgraded Emeco Holdings Ltd.'s (Emeco) issuer default ratings to "C" from "CC". The downgrade reflects the announcement of a prospective debt exchange that Fitch views as a distressed debt exchange (DDE) event, based on the agency's DDE criteria.

Table 1: Key Financial Indicators

	4-Oct	1W chg (bps)	1M chg (bps)		4-Oct	1W chg	1M chg
iTraxx Asiax IG	117	-3	5	Brent Crude Spot (\$/bbl)	50.79	10.49%	8.46%
iTraxx SovX APAC	33	1	-5	Gold Spot (\$/oz)	1,311.38	-1.20%	-1.18%
iTraxx Japan	56	-3	5	CRB	187.03	1.11%	3.91%
iTraxx Australia	103	-1	6	GSCI	366.81	2.90%	5.65%
CDX NA IG	75	-2	3	VIX	13.57	-6.41%	13.27%
CDX NA HY	104	1	0	CT10 (bp)	1.629%	7.26	2.66
iTraxx Eur Main	75	1	8	USD Swap Spread 10Y (bp)	-14	0	0
iTraxx Eur XO	336	-1	26	USD Swap Spread 30Y (bp)	-53	2	0
iTraxx Eur Snr Fin	104	2	19	TED Spread (bp)	58	-11	7
iTraxx Sovx WE	22	-3	-3	US Libor-OIS Spread (bp)	41	-2	3
iTraxx Sovx CEEMEA	90	2	-16	Euro Libor-OIS Spread (bp)	5	1	0
					4-Oct	1W chg	1M chg
				AUD/USD	0.768	0.17%	1.29%
				USD/CHF	0.974	-0.35%	0.59%
				EUR/USD	1.121	-0.07%	0.54%
				USD/SGD	1.367	-0.53%	-0.75%
Korea 5Y CDS	41	-1	-1	DJIA	18,254	0.88%	-1.29%
China 5Y CDS	106	-2	7	SPX	2,161	0.70%	-0.86%
Malaysia 5Y CDS	119	-7	0	MSCI Asiax	556	-0.14%	2.06%
Philippines 5Y CDS	116	1	29	HSI	23,584	1.14%	1.37%
Indonesia 5Y CDS	150	-5	6	STI	2,871	0.73%	2.39%
Thailand 5Y CDS	84	-2	1	KLCI	1,653	-1.10%	-1.15%
				JCI	5,464	2.09%	2.06%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
29-Sep-16	Croesus Retail Asset Management	"NR/NR/NR"	SGD50mn	Re-Tap	99.5
29-Sep-16	Kasikornbank PCL (Hong Kong)	"BBB+/Baa1/BBB+"	USD400mn	5.5-year	2.375%
29-Sep-16	Jubilant Pharma Ltd.	"BB-/NR/BB"	USD300mn	5NC3	4.875%
29-Sep-16	Television Broadcast Ltd.	"NR/NR/NR"	USD500mn	5-year	3.625%
29-Sep-16	RHB Bank	"BBB+/A3/NR"	USD500mn	5-year	CT5+137.5bps
29-Sep-16	China CITIC Bank International Ltd.	"NR/Ba2/NR"	USD500mn	Perp-NC5	4.25%
28-Sep-16	Jababeka International B.V.	"B+/NR/B+"	USD20.617mn	7NC4	6.5%
28-Sep-16	New World Development	"NR/NR/NR"	USD1.2bn	Perp-NC5	5.75%

Source: OCBC, Bloomberg

Credit Headlines:

CITIC Envirotech Ltd. ("CEL"): China Reform Puissance Overseas GP has emerged as a substantial shareholder of CEL after acquiring a 23.85% stake in CEL for ~SGD390 million via an off-market transaction (at SGD1.45 per share). The new buyer is listed as being involved in fund management within the SGX filling. We believe this is a relatively new private equity fund set up to invest in Chinese companies and think the stake was purchased from KKR China Water Investment Limited (an affiliate of KKR & Co. LP). As at 31 March 2016, this entity directly held 23.85% stake in CEL. In end-2014, the offer price on the joint bid by CITIC Ltd and KKR for United Envirotech Limited (former name of CEL) was at SGD1.65 per share. We continue to hold CEL's issuer profile at Neutral given no change to the ownership of its parent company CITIC Ltd. CITIC Ltd continues to be majority owned by the Chinese government. (Company, OCBC)

National Australia Bank Ltd. ("NAB"): NAB announced the completion of its sale of 80% of its life insurance business to Nippon Life for AUD2.4bn. NAB Chief Executive Andrew Thorburn stated that this marked the end of the bank's major divestments as part of its non-core asset divestment plans. As a result of the sale, NAB expects a loss of between AUD1.2-1.3bn which will be included in its FY2016 results due at the end of October. NAB will retain a 20% stake under a long-term partnership with Nippon Life through a 20 year distribution deal to provide life insurance products through NAB-owned and aligned distribution networks. NAB will also retail full ownership of its existing investments business including superannuation, platforms, advice and asset management. NAB expects the transaction to deliver a ~50bps increase in its CET1 ratio. We continue to expect that NAB's overall focus on its core Australia and New Zealand businesses to have a net positive impact on NAB's earnings and credit profile but retain our issuer profile rating at 'Neutral'. (National Australia Bank, OCBC)

Perisai Petroleum Teknologi Bhd ("PPT"): PPT announced that its consent solicitation to restructure the SGD125mn bonds has failed. News reported more than 70% of bondholders that voted on Monday rejected the proposal to extend the bond's maturity to February 2017. With PPT's failure to make payment on the bond's maturity yesterday (03/10/16), the issuer has five days grace to make payment on the bonds. The same announcement by PPT disclosed that on 30/09/16, PPT and its JV partner Emas Offshore Limited ("EMAS") have received an indicative offer of financing from a financial institution. Part of the financing proceeds, USD20mn worth (~SGD27m), will be earmarked to bondholders as part of an alternative proposal which PPT intends to pursue with investors. As part of the financing conditions, PPT and EMAS will have to resolve the put option (in which PPT will be able to put the balance 51% ownership of SJR Marine back to EMAS for ~USD37mn). Aside from SJR Marine, PPT is also a JV partner with EMAS over the Perisai Kamelia FPSO (held in Emas Victoria (L) Bhd). OCBC does not currently cover PPT. EMAS is a subsidiary of Ezra Holdings, and in aggregate Ezra Holdings holds ~23% ownership of PPT. (Bloomberg, KLSE)

Swissco Holdings Ltd. ("SWCH"): SWCH has announced that it would be appointing Ernst & Young as independent financial advisor to the issuer to assist in the refinancing and restructuring of the SGD100mn in bonds. SWCH has indicated that given the looming interest payment on the bonds due on 16/10/16, the issuer has engaged its bank lenders as well as holders of the redeemable exchangeable preference shares with the pay to restructure its borrowings. SWCH plans to hold an informal bondholder meeting on 10/10/16 to update noteholders on the situation. We are currently reviewing the situation and will update accordingly. We have downgraded SWCH's Issuer Profile to Negative from Neutral at the beginning of this year (see OCBC Singapore Credit Outlook 2016) as well as reiterated the Negative Issuer Profile based on 2Q2016 results (see OCBC Asian Credit Daily - 15 August 2016). We currently hold the SWCHSP'18 at Neutral on the basis of valuation. (Company, OCBC)

Credit Headlines:

Industry Outlook - Financial Institutions (Australia): The CEO's of Australia's big 4 banks will sit before a parliamentary committee this week to answer questions on their conduct including recent strong profit performance in the context of their responsibilities to the Australian community. This is following numerous cases amongst the banks dealing with compensation for misleading financial advice, mischarging of fees and the ongoing formal civil proceedings by the Australian Securities and Investment Commission ('ASIC') against National Australia Bank Ltd (NAB), Westpac Banking Corp. (WBC) and Australia and New Zealand Banking Group Ltd (ANZ) earlier this year in relation to allegedly manipulation of the bank-bill swap rate (Australia's equivalent of LIBOR). Public and political ire has peaked with recent central bank interest rate cuts not passed on in full to consumers at a time when the economic outlook for Australia is subdued at best following a slow-down in the resources sector and China's economy and household sector leverage is rising. Outcomes from the parliamentary committee are not so clear in terms of quantum and timing but could add to the negative pressures exerted on Australia's banking sector from higher funding costs, slowing loan growth and competition for deposits. That said, any outcomes will likely be balanced by the needs of the banking sector to have adequately strong capital as recommended in the 2014 Financial System Inquiry to mitigate structural weaknesses from the high reliance on foreign wholesale funding and mortgages. (Bloomberg, OCBC)

Industry Outlook – Financial Institutions (Europe) : Germany's share market was closed yesterday due to public holiday but shares of Deutsche Bank AG ("DB") in the US fell yesterday and retracted some of the gains from Friday as sentiment on ongoing negotiations on a settlement with the Department of Justice turned slightly negative on the pace of talks. At the same time, Moody's opined that it would be positive for DB's bondholders if the settlement amount was in the range of USD3.1bn (half of DB's existing litigation reserves) while a fine at the high end of expectations (USD5.7bn) would only dent profitability but not significantly impair DB's capital position. Elsewhere, Bloomberg reported that European banks are expected to cut around 20,000 jobs in the face of a challenging operating environment in the short to medium term. These cuts span across banks in the Netherlands, Germany and Spain. Finally, British Prime Minister Theresa May has stated that the Brexit process will start by the end of 1Q2017 with importance given to free trade of goods and services and co-operation on law enforcement and counter-terrorism rather than the financial services sector and a possible preservation of passporting rights. This amplifies concerns of the final Brexit impact on financial institutions exposed to the UK although the final impact still remains uncertain ahead of the start of the formal two year Brexit negotiation process. (Bloomberg, OCBC)

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