

September 5, 2016

Credit Headlines (Page 2 onwards): Cambridge Industrial REIT, CITIC Envirotech Ltd., CMA CGM (acquired NOL)

Market Commentary: The SGD dollar swap curve traded downwards last Friday. Swap rates traded 1-4bps lower across all tenors with the exception of the overnight swap rate which traded 21bps higher. Flows in the SGD corporates were heavy with better buying seen in GALVSP 7%'18s, SOCGEN 4.3%'26s and ARTSP 4.2%'22s while mixed interests were seen in PILLSP 5.9%'17s. In the broader dollar space, the spread on JACI IG corporates remained relatively unchanged at 195bps while the yield on JACI HY corporates decreased 2bps to 6.44%. 10y UST yield decreased 3bps to 1.60% following the release of August non-farm payrolls that missed its estimates (Actual: 151,000 Vs. Forecast: 180,000). Market now prices in a 32% chance of a rate hike in September, down from 34% prior to the release of the results.

New Issues: Xi'an Municipal has priced a USD500mn 3-year bond at 2.8% with expected issue ratings of "NR/NR/BBB".

Rating Changes: S&P revised its outlook on Sunac China Holdings Ltd.'s "B+" corporate credit rating to negative from stable. The revision reflects Moody's expectation that Sunac's financial leverage is likely to deteriorate in 2016 owing to the company's aggressive land acquisitions so far this year. S&P affirmed Maoye International Holdings Ltd.'s "B-" corporate credit rating with a negative outlook. The negative outlook reflects the expectation that Maoye's refinancing risk will remain high over the next 12 months because of its significant short-term debt maturities. Moody's assigned a first time "Baa2" insurance financial strength rating (IFSR) to Union Life Insurance Co. Ltd. (Union Life). The rating reflects Union Life's balanced distribution channels and conservative product pricing strategy when compared to its peers. Fitch has affirmed Guangzhou R&F Properties Co. Ltd. issuer default ratings at "BB" and revised its outlook to stable from negative. The revision reflects Fitch's view that Guangzhou R&F's leverage is past its peak and will stabilise at around 55-60% in 2016-2017.

Table 1: Key Financial Indicators

	5-Sep	1W chg (bps)	1M chg (bps)		5-Sep	1W chg	1M chg
iTraxx Asiax IG	112	-2	-4	Brent Crude Spot (\$/bbl)	46.51	-5.58%	5.06%
iTraxx SovX APAC	39	-3	-7	Gold Spot (\$/oz)	1,324.31	0.07%	-0.88%
iTraxx Japan	51	-2	-3	CRB	179.99	-3.29%	-0.99%
iTraxx Australia	98	-2	-10	GSCI	347.18	-4.38%	1.51%
CDX NA IG	73	1	2	VIX	11.98	-12.23%	5.18%
CDX NA HY	105	0	0	CT10 (bp)	1.602%	4.29	1.39
iTraxx Eur Main	68	1	1	USD Swap Spread 10Y (bp)	-14	0	-3
iTraxx Eur XO	310	3	-5	USD Swap Spread 30Y (bp)	-53	2	-7
iTraxx Eur Snr Fin	87	-2	-1	TED Spread (bp)	52	0	2
iTraxx Sovx WE	25	0	0	US Libor-OIS Spread (bp)	38	0	1
iTraxx Sovx CEEMEA	107	-2	-12	Euro Libor-OIS Spread (bp)	4	-1	-1
					5-Sep	1W chg	1M chg
				AUD/USD	0.758	0.09%	-0.56%
				USD/CHF	0.979	-0.11%	0.13%
				EUR/USD	1.117	-0.21%	0.71%
				USD/SGD	1.358	0.15%	-0.85%
Korea 5Y CDS	41	-3	-6	DJIA	18,492	0.52%	-0.28%
China 5Y CDS	98	-3	-8	SPX	2,180	0.50%	-0.13%
Malaysia 5Y CDS	120	-2	-13	MSCI Asiax	545	0.65%	2.04%
Philippines 5Y CDS	88	2	-7	HSI	23,267	1.56%	5.06%
Indonesia 5Y CDS	148	4	-4	STI	2,804	-1.88%	-0.86%
Thailand 5Y CDS	82	-1	-10	KLCI	1,672	-0.51%	0.47%
				JCI	5,353	-1.57%	-1.23%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
2-Sep-16	Xi'an Municipal	"NR/NR/BBB"	USD500mn	3-year	2.8%
31-Aug-16	United Overseas Bank Ltd.	"NR/A2/A+"	USD600mn	10-year	CT10+170bps
31-Aug-16	Far East Consortium International	"NR/NR/NR"	USD300mn	5-year	3.75%
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%

Source: OCBC, Bloomberg

Rating Changes (cont'd): Fitch revised its outlook on Dalian Wanda Commercial Property Co. Ltd.'s (Wanda) "BBB" issuer default rating to negative from stable. The revision reflects Fitch's expectation that Wanda's fast-paced land acquisitions for new Wanda Plaza projects in 1H2016 will weigh on the company's financial profile over the next two years.

Credit Headlines:

Cambridge Industrial REIT ("CREIT"): CREIT announced that it is in the process of selling 2 Ubi View, a light industrial property for SGD10.5mn to UBZ System Pte Ltd. The consideration represents 6% above current book value and 40% above the price bought by CREIT in 2006. 2 Ubi View contributed less than 1% to gross revenue in 1Q2016 and is credit neutral in our view. (Company, OCBC).

CITIC Envirotech Ltd ("CEL"): CEL has redeemed the SGD100mn CELSP'16s which matured on 2 September 2016. The redemption was largely funded by the re-tap of its USD perpetual in June. CEL has a SGD bond and a USD perpetual outstanding, namely, the SGD255mn CELSP'18s and the USD225mn CELSP'49c18. (Company, OCBC)

CMA CGM (acquired Neptune Oriental Lines, "NOL"): CMA CGM reported 2Q2016 results, the first quarter in which it consolidated NOL's performance after completing the transaction on 14/06/16. The income statement reflects NOL's contribution from 14/06/16 onwards while balance sheet figures are on a fully consolidated basis. Revenue declined 13.9% y/y to USD3.5bn. Excluding the two weeks contribution from NOL, volumes were flat at +0.2% y/y to 3.3 million TEU shipped. The decline in revenue reflects the challenging environment (due to overcapacity) pressuring freight rates. Average revenue per TEU (for CMA CGM standalone) fell 18.8% y/y and 6.0% q/q. Using the China Containerized Freight Index as a proxy, freight rates were down 18% y/y. Though CMA CGM was able to trim costs per unit by 10.7%, it was not enough to offset the decline in revenue, resulting in a net loss of USD122.6mn for the quarter (1Q2016: net loss of USD94.8mn). EBITDA was pressured as well, with CMA CGM generating just USD23.3mn in EBITDA for the quarter. For the quarter, CMA CGM was able to generate USD26.5mn in operating cash flow (including interest service). However, USD2.1bn was spent on the NOL acquisition, and a further USD107.2mn was spent on capex during the period. This was funded by USD76.6mn in disposals, USD602.2mn in monetized financial assets and USD1.8bn increase in net borrowings. As such, CMA CGM's cash balance increased USD254.0mn during the quarter and ended at USD1.3bn as of end-June 2016. As a result of the NOL acquisition, additional borrowings to fund the cash acquisition as well as the consolidation of NOL's debt led to CMA CGM's net gearing surging to 158% (end-2015: 73%). Looking forward, in the near-term we expect CMA CGM's performance to worsen as NOL's full quarter results get consolidated into CMA CGM's income statement from 3Q2016 onwards. Based on partially disclosed financials, NOL's 1H2016 standalone pro-forma results showed USD2.2bn in revenue (-25.3% y/y) and a net loss of USD390.0mn for the quarter. It would take some time for CMA CGM to integrate and reap synergies from the NOL acquisition. Management has also announced its Agility plan effective 01/07/16, with the aim to cut USD1bn in costs over 18 months (this excludes savings from synergies from NOL). Do note that more details regarding the CMA CGM – PSA JV was disclosed. The shareholding for the JV is 49% (CMA CGM): 51% (PSA), with CMA CGM injecting SGD108.1mn in equity into the JV in July 2016, with a further SGD42.3mn in equity to be injected within 6 months of the JV completion. We are currently reviewing NOL's Issuer Profile of Neutral and will update accordingly if required. (Company, OCBC)

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