

Apr 07, 2016

Market Commentary: The SGD swap curve bull steepened yesterday, with the short-end rates trading 2bps-3bps lower while the belly-to-long-end rates traded 1bp lower. Flows in the SGD corporates were heavy, with better selling of CENCHI 6.5%'17s post the S&P downgrade and SCISP 4.75% perp-c20. GENSSP 5.125% perp-c17 continued to see buying while HACL 6.5%'19s continued to strengthen on the Sinochem acquisition. There was mixed interest in KREITS 4.98%' perpc-20 and OCBCSP 3.8% AT1s. In the broader dollar space, the spread on the JACI IG corporates tightened by 1bp to 233bps, while the yield on the JACI HY corporates increased by 1bp to 7.62%. 10y UST increased by 3bps to 1.75% reflecting strong oil price gains of 5% after Russia came out to say it sees USD45-50 per barrel as "acceptable".

New Issues: Orix Corporation priced a USD500mn 5-year bond at CT5+150bps, tightening from an initial guidance of CT5+170bps. Mizuho Financial Group priced a three part USD debt offering, pricing a USD1.75bn 5-year fixed rate bond at 2.632%, a USD500mn 5-year bond at 3mL+148bps and a USD1.75bn 10-year fixed rate bond at 3.477%. The debt offering tightened from an initial guidance of CT5+150bps, 5 year FRN Libor equivalent and CT10+180bps respectively. The expected ratings for the issue is "A-/A1/NR". CK Hutchison sold EUR2bn of bonds, comprising of EUR1.35bn 7-year bonds at MS+110 bps and EUR650m 12-year bonds at MS+138 bps. Both bonds priced within range of initial guidance.

Rating Changes: S&P affirmed Sime Darby Bhd's "BBB+" long-term issue rating with a negative outlook. This reflects the company's earnings from diversified operations across Asia, entrenched market share in most business lines, and exposure to cyclical industries and volatile palm oil prices. Subsequently, S&P withdrew all the ratings at Sime Darby's request. Sime Darby had been reported earlier by the media that it is exploring various options to pare down debt, including possible sale of its property assets.

Table 1: Key Financial Indicators

	7-Apr	1W chg (bps)	1M chg (bps)		7-Apr	1W chg	1M chg
iTraxx Asiax IG	146	1	-1	Brent Crude Spot (\$/bbl)	40.00	1.01%	-2.06%
iTraxx SovX APAC	59	0	-10	Gold Spot (\$/oz)	1,225.32	-0.70%	-3.39%
iTraxx Japan	87	1	-2	CRB	167.52	-2.02%	-2.43%
iTraxx Australia	140	4	-2	GSCI	317.59	-1.77%	-2.04%
CDX NA IG	78	-1	-16	VIX	14.09	3.91%	-18.79%
CDX NA HY	103	0	1	CT10 (bp)	1.757%	-1.21	-14.91
iTraxx Eur Main	77	4	-13	USD Swap Spread 10Y (bp)	-13	0	3
iTraxx Eur XO	316	12	-50	USD Swap Spread 30Y (bp)	-47	1	5
iTraxx Eur Snr Fin	98	8	-1	TED Spread (bp)	40	-3	3
iTraxx Sovx WE	26	1	-4	US Libor-OIS Spread (bp)	25	0	2
iTraxx Sovx CEEMEA	152	6	-29	Euro Libor-OIS Spread (bp)	10	-1	-4
					7-Apr	1W chg	1M chg
				AUD/USD	0.761	-0.92%	2.87%
				USD/CHF	0.956	0.66%	4.56%
				EUR/USD	1.141	0.25%	4.14%
				USD/SGD	1.347	-0.03%	2.67%
Korea 5Y CDS	66	2	5	DJIA	17,716	0.00%	3.76%
China 5Y CDS	124	3	-3	SPX	2,067	0.13%	3.24%
Malaysia 5Y CDS	154	2	-10	MSCI Asiax	495	-2.49%	2.11%
Philippines 5Y CDS	104	0	-5	HSI	20,207	-0.78%	0.23%
Indonesia 5Y CDS	202	6	-4	STI	2,811	-2.14%	-0.43%
Thailand 5Y CDS	128	-2	-15	KLCI	1,717	-0.05%	1.12%
				JCI	4,868	1.07%	0.76%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
06-Apr-16	Orix Corporation	A-/NR/A-	USD500mn	5-year	CT5+150bps
06-Apr-16	Mizuho Financial Group	A-/A1/NR	USD1.75bn	5-year	2.632%
06-Apr-16	Mizuho Financial Group	A-/A1/NR	USD500mn	5-year	3mL+148bps
06-Apr-16	Mizuho Financial Group	A-/A1/NR	USD1.75bn	10-year	3.477%
06-Apr-16	CK Hutchison	A-/A3/A-	EUR1.35bn	7-year	MS+110bps
06-Apr-16	CK Hutchison	A-/A3/A-	EUR650mn	12-year	MS+138bps
05-Apr-16	PSA International Ltd	NR/Aa1/NR	USD500mn	10-year	CT10+87.5bp
05-Apr-16	Korea National Oil Corp	AA-/Aa2/AA-	USD500mn	5-year	CT5+95bps

Source: OCBC, Bloomberg

Rating Changes (cont'd): S&P downgraded Mingfa Group International Co Ltd, a China-based property developer, to “CCC+” from “B-” in light of heightened refinancing and liquidity risk. This rating action was post auditor PwC’s statement that they were unable to opine on some of the company’s recent transactions. S&P placed all ratings on Mingfa on CreditWatch with negative implications. S&P downgraded China Oilfield Services to “BBB+” from “A-”, as S&P expects the company’s financial performance to weaken over the next two years. Outlook is stable. Moody’s assigned its first ever long term rating of “Aa1” to PSA Treasury Pte Ltd, a subsidiary of Singapore’s PSA International Pte Ltd. Moody’s has assigned a first rating of “A1” to USD senior unsecured bonds issued by Mizuho Financial Group. The rating assigned were a higher rating than the standard guideline provided in Moody’s Bank Methodology, reflecting three notches of government support uplift for its main operating bank subsidiary, Mizuho Bank. Outlook is stable.

Credit Headlines:

Guocoland Ltd (“Guocoland”): Guocoland provided updates on leasing progress at Tanjong Pagar Centre which is on schedule to obtaining TOP in 3 months’ time in July 2016. Current pre-commitments for 890,000 sq ft of office space at Guoco Tower is approximately 18%, up from 10% at the topping out ceremony in January this year. Tenant profile mix looks fairly diversified at this preliminary stage with companies in industries such as transportation (K Line), agriculture (Bunge) and hospitality (Accor). Notably AccorHotels will relocate its Asia-Pacific headquarters to Guoco Tower from Raffles City Tower where they currently occupy 12,800 sq ft. Guocoland will also centralize Singapore operations at Guoco Tower. We think that current leasing progress is understandably weak at the moment given the current challenges in the commercial leasing environment. To give some context, CapitaGreen was 40% pre-committed 3 months prior to TOP and 50% at TOP. That said, management is in final stages of negotiations with other companies with a healthy pipeline of interest and expects tenancy rate to pick up in the next few months. We maintain our Positive issuer profile on Guocoland on the deleveraging story post the Dongzhimen project disposal. The company does have a SGD200mn perp callable in May this year and we believe a call is likely because the reset at initial spread (411bps) + SDSW3 (165bps) + step up (100bps) will see coupons increase from 4.70% to 6.76% if not called. (Business Times, Company, OCBC)

Keppel Corp (“KEP”): KEP has won a new ~SGD190mn FPSO contract from Modec Offshore. The vessel will be deployed in Brazil, at the Campos basin off Rio de Janeiro. KEP indicated that the order is not likely to have a material impact on EPS for FY2016. KEP last reported SGD9.0bn in net order book (end-2015). (Company, OCBC)

Croesus Retail Trust (“CRT”): CRT has announced that it will be acquiring a retail property, Fuji Grand Natalie, that is located in Hatsukaichi City, Hiroshima, Japan. The mall is a freehold suburban mall built in 1999, with 31,065sqm of NLA. The property is master leased to Fuji Co, a listed retail chain with 98 stores and a market capitalisation of ~SGD954mn. As such, occupancy is 100%. WALE is about 8.2 years. The listed priced for the asset is JPY3.3bn (below the valuation by Cushman & Wakefield of JPY3.52bn). The all-in cost (after tax and fees) is SGD44.3mn. CRT had recently raised SGD52.5mn in equity via a private place, as well as SGD60mn in bonds (which were swapped into JPY). Management gave pro-forma numbers assuming that the acquisition will be made via 62% debt, 38% equity, and have indicated that they are seeking more Japanese onshore JPY-denominated debt financing. Based on the capital raised recently, we estimate that CRT’s gearing ratio has increased from 46.3% to 46.8%. Management has indicated that they continue to review acquisition opportunities. We do not currently cover CRT. (Company, OCBC)

Credit Headlines:

Triyards Holding ("ETL"): ETL, 61% owned by Ezra Holdings (EZRA), has reported 2QFY2016 results. Quarterly revenue increased 15.4% y/y to USD70.5mn, driven by work done on four liftboats, two support vessels and three chemical tankers. Net profit was up 3.6% y/y. Operating cash flow for the quarter was negative, driven by working capital needs (~USD46.5mn increase during the quarter). This drove FCF negative to -USD22.3mn. The cash gap was funded by increase in borrowings (up USD47.2mn), which in turn worsened net gearing q/q (38% to 41%, these numbers include netting out restricted cash). Liquidity could be tight as well looking forward, with ETL having USD144.1mn in ST debt compared to USD159.4mn in total debt, versus 69.3mn in restricted / unrestricted cash. ETL was able to win USD17.8mn in new orders during the quarter, none of which are related to offshore marine. The net order book declined slightly q/q, from USD564mn to USD513mn. ETL is likely the strongest part of Ezra's divisions, given the pressure seen at OSV chartering and Subsea EPC. We believe that the results in aggregate are supportive of EZRA (Company, OCBC)

Singapore Post ("SPOST"): We last reported on SPOST's Chairman transition on Monday (04/04/16), with Professor Low Teck Seng (an existing member of the Board) being announced as the replacement. Today, SPOST came out with a new statement, with Professor Low declining to accept the post of Chairman of the Board. As such, the Board has begun the search for a suitable Chairman, and will consider both internal and external candidates. (SGX)

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