Asian Credit Daily

October 7, 2016

Credit Headlines (Page 2 onwards): Julius Baer Group Ltd, Otto Marine Ltd, Rickmers Maritime, Chip Eng Seng Corp Ltd, Industry Outlook – China Property.

Market Commentary: The SGD swap curve bull flattened with the short end trading down 1-2bps while the belly to long end fell 2-5bps. Flows in the SGD corporates were moderate with better buying seen in FCLSP 4.88%49s, better selling were seen in OLAMSP 6%'22s and mixed interests was seen in SCISP 4.75%'49s. In the broader dollar space, the spread on JACI IG corporates fell 1 bps to 203bps while the yield on JACI HY corporates decreased 2bps to 6.48%. 10y UST yield increased 4bps to 1.74% following a sell-off in treasuries ahead of anticipated comments from key Federal Reserve speakers and a key US jobs report.

New Issues: China Construction Bank is planning to issue USD 5Y bonds. Export-Import Bank of Malaysia Bhd has scheduled investor meetings on 11 Oct 2016 for potential USD bond issue.

Rating Changes: S&P has placed Asia Capital Reinsurance's Financial Strength of "A-" on CreditWatch with negative implications. This reflects the concerns over the lack of track record when making overseas reinsurance investments.

Table 1: Key Financial Indicators

	7-Oct	1W chg (bps)	1M chg (bps)		7-Oct	1W chg	1M chg
iTraxx Asiax IG	116	0	9	Brent Crude Spot ($/bbl)	52.52	7.05%	9.46%
iTraxx SovX APAC	33	0	-3	Gold Spot ($/oz)	1,258.13	-4.39%	-6.47%
iTraxx Japan	55	-2	-3	CRB	188.54	1.46%	3.33%
iTraxx Australia	103	1	8	GSCI	372.85	2.62%	5.87%
CDX NA IG	74	-1	3	VIX	12.84	-8.42%	7.54%
CDX NA HY	104	0	0	CT10 (bp)	1.727%	13.23	18.76
iTraxx Eur Main	74	1	8	USD Swap Spread 10Y (bp)	-16	-1	-1
iTraxx Eur XO	332	-3	26	USD Swap Spread 30Y (bp)	-54	0	-1
iTraxx Eur Snr Fin	99	-2	16	TED Spread (bp)	55	-5	4
iTraxx Sovx WE	22	-3	-3	US Libor-OIS Spread (bp)	41	-1	0
iTraxx Sovx CEEMEA	90	-2	-11	Euro Libor-OIS Spread (bp)	5	0	0
					7-Oct	1W chg	1M chg
				AUD/USD	0.758	-1.08%	-1.20%
				USD/CHF	0.981	-1.01%	-1.17%
				EUR/USD	1.113	-0.91%	-0.94%
				USD/SGD	1.373	-0.71%	-1.89%
Korea 5Y CDS	41	1	1	DJIA	18,269	0.69%	-1.39%
China 5Y CDS	105	1	11	SPX	2,161	0.45%	-1.16%
Malaysia 5Y CDS	118	-1	4	MSCI Asiax	560	1.62%	-0.20%
Philippines 5Y CDS	118	2	34	HSI	23,860	2.42%	0.50%
Indonesia 5Y CDS	149	0	13	STI	2,874	0.14%	-0.69%
Thailand 5Y CDS	84	-1	4	KLCI	1,666	-0.19%	-1.37%
				JCI	5,409	-0.42%	0.52%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
5-Oct-16	UPL Corp. Ltd.	"BBB-/Baa3/BBB-"	USD500mn	5-year	CT5+200bps
4-Oct-16	Korea Housing Finance Corp.	"NR/Aa1/NR"	USD500mn	5-year	CT5+85bps
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%

Source: OCBC, Bloomberg

Credit Headlines:

Julius Baer Group Ltd ("JBG"): Moody's lowered its issue rating on JBG's SGD450mn 5.9% AT1's to "Baa3" from "Baa2." The action was driven by (1) a substantial fall in JBG's last reported transitional CET1 ratio of 15.9% as at 30 June 2016 (from 19.1% as at 30 June 2015); (2) anticipated further decline in JBG's CET1 ratio in 2017 due to the phase out of old style capital instruments which will lower CET1 levels; and (3) the high trigger of 7% and the now reduced buffer above this trigger before write-down. Taking a look at the CET1 ratio in a little more detail, CET1 ratios as at 30 June 2016 appear to be more impacted by growth in risk weighted assets (up 13% y/y) rather than the fall in CET1 (down 6% y/y). It should be noted that Moody's baseline credit assessment remains unchanged at "a2" and reflects JBG's well-established franchise in global onshore and offshore private banking, low financial and moderate business risks, and solid financial fundamentals (liability driven balance sheet and high liquidity) through Bank Julius Baer & Co. Ltd. which accounts for the vast majority of JBG's assets. We view the potential pressure on JBG's capital ratios as distinct from the sort of pressure exerted on Deutsche Bank AG's capital ratios which is more driven by potential capital level impacts from significant litigation claims. While Moody's ratings on JBG are on negative outlook to reflect the potential capital ratio impact of a larger than anticipated litigation charge, the immediate action on the BAERVX 5.9%'49s appears more driven by JBG's recent and expected growth plans. JBG announced an accelerated organic growth initiative in its 1H2016 results at the end of July. OCBC does not currently cover JBG. (Company, Moody's, OCBC)

Otto Marine Ltd ("OTML"): OTML has filed with the SGX that it will be delisting today (07/10/16). This was earlier than the original indicated timeline (of 4 – 6 weeks post the closing of the tender offer) in the circular to shareholders sent on 23/08/16 regarding the proposed delisting. As per the consent solicitation exercise: "*The Issuer shall redeem all (and not some only) of the Notes at their Redemption Amount within 14 days after the Delisting Date (the date to be fixed for redemption being the "Delisting Redemption Date"), together with interest accrued to the Delisting Redemption Date. Notice of redemption of the Notes pursuant to this Condition 5(j) shall be given by the Issuer (which notice shall be irrevocable) to the Trustee, the Issuing and Paying Agent and the Noteholders not less than seven (7) business days prior to the Delisting Redemption Date".* As such, Noteholders should expect the notice of redemption to be sent in the near future. Separately, OTML also filed its 2Q2016 results (having postponed the filing due to the delisting exercise). Revenue fell 40.8% y/y to USD42.2mn, driven by both a slowdown in shipbuilding and fabrication orders for its shipyard segment as well as lower utilization of its vessels for the OSV segment. These are in line with offshore marine sectorial challenges in general. Though cost cuts have helped increase gross profit at the shipyard segment, the weak revenue generation at the OSV segment drove OTML into a gross loss. As such, OTML generated a gross profit of just USD398,000 for the quarter, versus USD14.3mn in 2Q2015. After factoring finance expenses of USD9.9mn and other expenses, OTML generated a net loss of USD18.2mn. For the quarter, OTML was able to generate USD4.3mn in operating cash flow (including interest service), largely by reducing working capital. Given minimal capex of USD1.3mn, OTML generated USD3.0mn in free cash flow. For the period, OTML paid down USD5.5mn in net borrowings. Borrowings ended at USD604.2mn, while net gearing worsened to 314% (2Q2016) from 281% (1Q2016) due to the losses generated during the period. (Company. OCBC)

Rickmers Maritime ("RMT"): RMT will be holding an EGM on the 31/10/16 to obtain unitholder approval for the proposed restructuring of RMT's bonds. The EGM is for approval to allow RMT to issue 1.32bn in new units as part of the consideration to restructure the bonds (a vote is required due to the huge dilutive effect of the restructuring). RMT's sponsor has committed towards supporting the restructuring. In addition, RMT has announced paying a special coupon of SGD500,000 (or 50bps) to bondholders should the restructuring succeed. The restructuring remains hobbled by uncertainty, as a group of bondholders (claiming to representing more than 25% of the outstanding bonds) have sought to accelerate payment on the bonds on the basis of an event of default given the attempted restructuring. RMT had indicated that it was unable to verify that the group indeed represented 25% or more of bonds outstanding. OCBC does not currently cover RMT. (Company, OCBC)

Credit Headlines:

Chip Eng Seng Corp Ltd ("CES"): Through a joint venture, which CES holds a 70% stake, CES and Park Hotel Group acquired Kodhipparu Island Resort for USD65mn. The resort is located on North Malé Atoll in Maldives, and is expected to open in 2Q2017. This move marks further diversification into the hospitality sector, following CES's first foray into the industry with the official opening of Park Hotel Alexandra in Nov 2015. We note that CES maintains ample liquidity, with cash of SGD470.3mn as of end-2Q16. We do not currently cover CES. (Company, OCBC)

Industry Outlook – China Property: Nanjing, Xiamen, Zhuhai and Dongguan have issued new property cooling measures. For Nanjing and Xiamen, this represents a further tightening after measures were issued in the past few months. Dongguan, a satellite town of Shenzhen had seen strong price growth since the beginning of the year (albeit from a lower base) due to spillover effects from Shenzhen. Zhuhai had re-introduced restrictions on number of houses owned after lifting them just less than 6 months ago. This wave of policy changes (i) increases minimum down payment required (ii) restricts buying from non-residents and (iii) expands definition of mass housing to capture more properties under purchase restrictions. (Caixin, OCBC)

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