

May 09, 2016

Market Commentary: The SGD swap curve was range-bounded last Friday, with the short-end rates trading 1bp higher while the belly-to-long-end rates traded 1bp-2bps lower. Flows in the SGD corporates space were moderate, where we saw better buyers in STANLN 4.4%'26s, and mixed interests in CHEUNG 5.125%'49s, OLAMSP 4.25%'19s and YLLGSP 6.2%'17s. In the broader dollar space, the spread on the JACI IG corporates widened by 1bp to 229bps, while the yield on the JACI HY corporates decreased by 1bp to 7.34%. 10y UST yield increased by 3bps to 1.78%.

New Issues: Sun Hung Kai has scheduled investor meetings in Hong Kong and Singapore from today onwards for a potential USD bond issuance as an exchange offer for its USD350mn 6.375% 2017 bonds. CICC has also scheduled for investor meetings commencing today in Hong Kong and Singapore for a potential USD bond issuance.

Rating Changes: Moody's downgraded Kawasaki Kisen Kaisha Ltd to "Ba3" from "Ba2", reflecting Moody's expectation that the environment in which K-Line operates will remain challenging, making it difficult for the company to quickly deleverage. Outlook is stable. Moody's placed Mitsui O.S.K. Lines Ltd's "Ba1" corporate family rating under review for downgrade. This stems from Mitsui's anticipated earnings decline for the fiscal year ending on 31 March 2017. Fitch placed Noble Group's long-term issuer default rating of "BBB-" on Rating Watch Negative ("RWN"). The RWN is driven by Fitch's expectations that Noble will focus more on shorter-term and secured financing to lower financing costs amid a difficult operating environment. S&P upgraded Pakuwon Jati to "BB-" from "B+", in light of maintenance of a conservative balance sheet with moderate debt, ample cash balance, and steady cash flows over the past two years.

Table 1: Key Financial Indicators

	9-May	1W chg (bps)	1M chg (bps)		9-May	1W chg	1M chg
iTraxx Asiax IG	148	4	2	Brent Crude Spot (\$/bbl)	46.19	0.79%	10.13%
iTraxx Sovx APAC	55	1	-4	Gold Spot (\$/oz)	1,285.50	-0.47%	2.20%
iTraxx Japan	76	2	-10	CRB	179.91	-2.55%	5.19%
iTraxx Australia	136	3	-2	GSCI	350.62	-2.72%	6.56%
CDX NA IG	85	7	4	VIX	14.72	-6.24%	-4.17%
CDX NA HY	102	-1	-1	CT10 (bp)	1.784%	-8.82	6.74
iTraxx Eur Main	80	6	2	USD Swap Spread 10Y (bp)	-14	-3	-1
iTraxx Eur XO	332	19	-1	USD Swap Spread 30Y (bp)	-49	-2	-2
iTraxx Eur Snr Fin	100	10	0	TED Spread (bp)	44	1	3
iTraxx Sovx WE	26	1	-2	US Libor-OIS Spread (bp)	24	0	-1
iTraxx Sovx CEEMEA	135	8	-14	Euro Libor-OIS Spread (bp)	9	0	-1
					9-May	1W chg	1M chg
				AUD/USD	0.737	-3.89%	-2.98%
				USD/CHF	0.973	-1.90%	-1.92%
				EUR/USD	1.139	-1.29%	-0.20%
				USD/SGD	1.362	-1.59%	-1.36%
Korea 5Y CDS	65	0	1	DJIA	17,741	-0.19%	0.93%
China 5Y CDS	130	1	7	SPX	2,057	-0.40%	0.47%
Malaysia 5Y CDS	163	-3	9	MSCI Asiax	486	-2.99%	-2.12%
Philippines 5Y CDS	117	6	15	HSI	20,110	-5.98%	-1.28%
Indonesia 5Y CDS	194	3	-11	STI	2,731	-4.59%	-2.76%
Thailand 5Y CDS	125	0	-4	KLCI	1,649	-1.52%	-4.02%
				JCI	4,823	-0.48%	-0.73%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
05-May-16	Fraser's Hospitality Trust	NR/NR/NR	SGD100mn	perpNC5	4.45%
04-May-16	Tianjin Rail Transit Group Co Ltd	A/A3/NR	USD200mn	3-year	CT3+162.5bps
04-May-16	Tianjin Rail Transit Group Co Ltd	A/A3/NR	USD300mn	5-year	CT5+182.5bps
03-May-16	Ascendas Pte Ltd	NR/NR/NR	SGD130mn	5-year	2.68%
03-May-16	ICBC Singapore	NR/A1/NR	USD800mn	3-year	CT3+115bps
28-Apr-16	Cambridge Industrial Trust	NR/Baa3/NR	SGD50mn	7-year	3.95%
28-Apr-16	China Aircraft Leasing Group Holdings Ltd	NR/NR/NR	USD300mn	3-year	5.9%
28-Apr-16	Huawei Investment & Holding Co	NR/NR/NR	USD2bn	10-year	CT10+230bps

Source: OCBC, Bloomberg

Credit Headlines:

Wing Tai Holdings Ltd (“Wing Tai”): Wing Tai reported a soft set of 3QFY2016 numbers as expected given the challenging operating environment in Singapore residential and retail. 3Q2016 revenue was down 35% y/y to SGD113mn while EBITDA was down 95% y/y to SGD1.3mn. On a 9-month basis however, the decline was not that sharp with 9MFY2016 revenue down 13% y/y to SGD404mn and EBITDA down 23% y/y to SGD37mn. Main contributors to 9MFY2016 revenue was progressive sales recognized from The Tembusu (TOP in 4Q2016) and additional sales in Le Nouvel Ardmore in Singapore and The Lakeview in China. The credit profile has deteriorated due to weaker earnings with 9MFY2016 net debt/EBITDA increasing to 12.6x from 5.5x in the prior period. Wing Tai’s balance sheet remained strong however although net gearing deteriorated to 18% from 11% one year ago. The company has ample liquidity at its disposal having termed out its debt well with SGD794mn in cash covering short term debt of SGD41mn by 19x. We maintain our Neutral issuer profile on Wing Tai. The SGD WINGTA curve is relatively long with 4 bonds maturing from 2020-2024. Only other issuers with similar duration bonds are CapitaLand and City Developments and as such the WINGTA curve might be interesting to investors looking to go down the credit curve for yield/spread pick-up given how tight the CITSP and CAPLSP curves are trading. (Company, OCBC)

CWT Limited (“CWT”): A Bloomberg article on Friday, quoting unnamed sources, raised that the HNA Group is in talks with CWT’s controlling shareholders over a possible bid for their stake in CWT. CWT was also queried by the SGX on unusual trading activity (~6% share price increase on Friday). The company has since released an announcement stating that the board had been informed that the controlling shareholders’ strategic review (first announced in August 2015) is still in progress. The announcement added that controlling shareholders had been approached by various interested parties, and that preliminary discussions have been held. However, there are no assurances that these discussions will lead to any transaction. We expect to see immediate/near term heightened volatility on the bonds, with some investors taking this new info as a negative occurrence. We do not see a change in ownership in itself as a credit negative as this would depend on the actual transaction structure and terms, should a deal gets consummated. We continue to monitor the situation and are keeping CWT at Neutral Issuer Profile, for now. (Bloomberg)

Neptune Orient Lines (“NOL”): The issuer reported 1Q2016 results, with quarterly revenue falling 28.0% y/y to SGD1.14bn. Revenue was pressured by both lower volume (-6% y/y) as well as weaker freight rates (-23% y/y). The fall in freight rates was particularly painful, with the Shanghai Containerized Freight Index 47% lower y/y for the quarter, reaching record lows. The difficult environment has impacted NOLs peers as well, with Hanjin Shipping (the largest South Korea shipping liner and one of the top ten globally) heading into debt restructuring. The weak revenue drove NOL to barely generate a gross profit, realizing gross margin of 40bps (1Q2015: 8.6%). Though NOL continued to trim operating costs, and the low bunker fuel was a boon, it was insufficient to offset the sharp fall in freights. This lead NOL to generate a net loss from continuing operations of SGD105.1mn (1Q2015: -SGD36.2mn). The weak results led NOL to generate negative operating cash flow of SGD56.5mn, worsening from -SGD20.7mn in 4Q2015. Coupled with SGD23.0mn in capex, NOL generated negative SGD79.5mn in free cash flow. This was funded by SGD23.7mn increase in net borrowings as well as consuming NOL’s cash balance. As such, net gearing increased from 106% to 116% y/y. Due to the weaker EBITDA generation, net debt / EBITDA has worsened from 8.5x (end-2015) to 21.8x (end-1Q2016). Interest coverage worsened as well from 2.5x (end-2015) to 1.0x (end-1Q2016). Given the weak global container freight rates, we expect NOL’s credit profile to continue to be pressured, with negative free cash flow funded mainly by borrowings. With regards to the proposed acquisition of NOL by CMA CGM, management has reported that the European Commission has provided anti-trust regulatory clearance, and that the remaining anti-trust regulatory clearances are expected to be satisfied by mid-2016. We will review NOL’s current Neutral Issuer Profile for potential changes. (Company, OCBC)

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