

March 10, 2017

**Credit Headlines (Page 2 onwards):** Wharf Holdings Ltd, Ezra Holdings Ltd

**Market Commentary:** The SGD swap curve bear-steepened yesterday, with swap rates trading 2-6bps higher across all tenors. Flows in SGD corporates were heavy, with better buying seen in BNP 3.65%'24s, FCLSP 4.15%'27s, better selling seen in CENCHI 6.5%'17s, and mixed interest seen in UOBSP 3.5%'29s, SINTEC 4.05%'25s, STANLN 4.4%'26s, UOBSP 4.9%'49s. In the broader dollar space, the spread on JACI IG corporates changed little at 192bps while the yield on JACI HY corporates rose 6bps to 6.78%. 10y UST yields continued its climb by 3bps to 2.59%, led by eurozone bond markets after European Central Bank's (ECB) President Mario Draghi took a hawkish tone in yesterday's ECB meeting and said that "economic risks" are less pronounced.

**New Issues:** Lenovo Group Ltd. priced a USD500mn 5-year bond at CT5+180bps, tightening from initial guidance of CT5+190bps. Lenovo Group Ltd. also priced a USD850mn NC5 Perp at 5.375%. Top Wise Excellence Enterprise Co. priced a USD300mn 3-year bond (guaranteed by Kangde Xin Composite Material Group Co.) at 6%, tightening from initial guidance of 6.5%. The expected issue ratings are 'NR/Ba3/BB'. Asian Development Bank priced a USD1bn 4-year bond at 3mL+5ps. The expected issue ratings are 'AAA/Aaa/AAA'. KWG Property Holding Ltd. priced a USD400mn 5.5NC3 bond at 6%, tightening from initial guidance of 6.125%. The expected issue ratings are 'B+/NR/BB-'. APT Pipelines Ltd. scheduled investor roadshows from March 13 for potential USD bond issuance.

**Rating Changes:** S&P upgraded Sony Corp.'s (Sony) and its overseas subsidiary Sony Global Treasury Services PLC's corporate credit ratings and senior unsecured debt rating to 'BBB' from 'BBB-'. The outlook on the corporate credit ratings are stable. The ratings outlook reflects S&P's view that Sony's business restructurings and enhanced business portfolio management have greatly reduced downside risk to earnings in its volatile electronics business and have improved its operating efficiency.

**Table 1: Key Financial Indicators**

|                    | 10-Mar | 1W chg (bps) | 1M chg (bps) |                            | 10-Mar   | 1W chg | 1M chg |
|--------------------|--------|--------------|--------------|----------------------------|----------|--------|--------|
| iTraxx Asiax IG    | 98     | 4            | -6           | Brent Crude Spot (\$/bbl)  | 52.56    | -5.97% | -7.30% |
| iTraxx SovX APAC   | 28     | 2            | 0            | Gold Spot (\$/oz)          | 1,199.24 | -2.88% | -2.79% |
| iTraxx Japan       | 52     | 1            | 0            | CRB                        | 183.22   | -2.96% | -5.57% |
| iTraxx Australia   | 86     | 3            | -4           | GSCI                       | 382.60   | -3.41% | -6.19% |
| CDX NA IG          | 65     | 5            | 0            | VIX                        | 12.3     | 4.15%  | 13.36% |
| CDX NA HY          | 107    | -1           | -1           | CT10 (bp)                  | 2.613%   | 13.46  | 20.53  |
| iTraxx Eur Main    | 71     | 2            | -4           | USD Swap Spread 10Y (bp)   | -4       | -1     | 4      |
| iTraxx Eur XO      | 284    | 10           | -17          | USD Swap Spread 30Y (bp)   | -39      | -1     | 2      |
| iTraxx Eur Snr Fin | 87     | 1            | -7           | TED Spread (bp)            | 40       | -7     | -10    |
| iTraxx Sovx WE     | 16     | -5           | -8           | US Libor-OIS Spread (bp)   | 22       | -3     | -12    |
| iTraxx Sovx CEEMEA | 66     | 0            | -4           | Euro Libor-OIS Spread (bp) | 2        | 0      | 0      |
|                    |        |              |              |                            |          |        |        |
|                    |        |              |              |                            | 10-Mar   | 1W chg | 1M chg |
|                    |        |              |              | AUD/USD                    | 0.752    | -1.00% | -2.01% |
|                    |        |              |              | USD/CHF                    | 1.012    | -0.44% | -0.99% |
|                    |        |              |              | EUR/USD                    | 1.059    | -0.28% | -0.48% |
|                    |        |              |              | USD/SGD                    | 1.420    | -0.63% | 0.06%  |
|                    |        |              |              |                            |          |        |        |
| Korea 5Y CDS       | 49     | 4            | 3            | DJIA                       | 20,858   | -0.69% | 2.90%  |
| China 5Y CDS       | 92     | 3            | -11          | SPX                        | 2,365    | -0.72% | 2.11%  |
| Malaysia 5Y CDS    | 115    | 6            | -4           | MSCI Asiax                 | 560      | 0.06%  | 0.45%  |
| Philippines 5Y CDS | 88     | 4            | -2           | HSI                        | 23,525   | -0.12% | -0.21% |
| Indonesia 5Y CDS   | 136    | 8            | -1           | STI                        | 3,119    | -0.11% | 0.60%  |
| Thailand 5Y CDS    | 57     | 2            | -9           | KLCI                       | 1,715    | 0.39%  | 0.95%  |
|                    |        |              |              | JCI                        | 5,399    | 0.14%  | 0.50%  |

Source: OCBC, Bloomberg

**Table 2: Recent Asian New Issues**

| Date     | Issuer                             | Ratings       | Size      | Tenor    | Pricing     |
|----------|------------------------------------|---------------|-----------|----------|-------------|
| 9-Mar-17 | Lenovo Group Ltd.                  | Not Rated     | USD500mn  | 5-year   | CT5+180bps  |
| 9-Mar-17 | Lenovo Group Ltd.                  | Not Rated     | USD850mn  | Perp NC5 | 5.375%      |
| 9-Mar-17 | Top Wise Excellence Enterprise Co. | "NR/Ba3/BB"   | USD300mn  | 3-year   | 6%          |
| 9-Mar-17 | Asian Development Bank             | "AAA/Aaa/AAA" | USD1bn    | 4-year   | 3mL+5bps    |
| 9-Mar-17 | KWG Property Holding Ltd.          | "B+/NR/BB-"   | USD400mn  | 5.5NC3   | 6%          |
| 8-Mar-17 | CIMB Bank Berhad                   | "NR/A3/NR"    | USD500mn  | 5-year   | 3mL+80bps   |
| 8-Mar-17 | CIMB Bank Berhad                   | "NR/A3/NR"    | USD500mn  | 10-year  | CT5+115bps  |
| 8-Mar-17 | Chugoku Electric Power Company Inc | "NR/A3/NR"    | USD500mn  | 3-year   | CT3+105bps  |
| 7-Mar-17 | The Export-Import Bank of China    | "AA-/Aa3/NR"  | USD1.15bn | 5-year   | CT5+85bps   |
| 7-Mar-17 | The Export-Import Bank of China    | "AA-/Aa3/NR"  | USD850mn  | 10-year  | CT10+110bps |

Source: OCBC, Bloomberg

**Rating Changes (Cont'd):** S&P raised the long-term local currency corporate credit rating on PT Astra International Tbk. (Astra) to 'BBB' from 'BBB-' and affirmed the 'BBB-' long-term foreign currency corporate credit rating. The rating actions reflect S&P's view that Astra's strengthened financial position should allow Astra to repay all debt in a sovereign stress scenario but that access to foreign exchange for non-sovereigns in Indonesia would be restricted by the sovereign, hence constraining the foreign currency corporate credit rating. The outlook on the local currency and foreign currency ratings is positive, reflecting the outlook on the sovereign credit ratings on Indonesia. Moody's affirmed Daikin Industries Ltd.'s (Daikin) 'A3' issuer rating and senior unsecured rating. In addition, Moody's revised the ratings outlook to positive from stable. The rating action reflects Daikin's improved profitability and Moody's expectation that the company's financial profile will remain strong for its 'A3' rating over the next 12-18 months. Moody's also expects leverage to stay around 2.0x, supported by solid cash flow generation, in the absence of material debt funded acquisitions. Fitch affirmed Australia-based retailer Wesfarmers Limited's 'BBB+' Issuer Default Rating (IDR) and senior unsecured rating, based on its leading market share, diversified earnings stream, and stable credit metrics. The outlook on the IDR is stable. At the same time, Fitch has chosen to withdraw the ratings of Wesfarmers for commercial reasons.

## Credit Headlines:

**Wharf Holdings Ltd ("WHARF"):** WHARF reported FY2016 results. With the tailwinds from the good 1H16 results continuing into the full year, revenue grew 14% y/y to HKD46.6bn, mainly due to higher revenues from development properties and increase in contribution from investment properties. Investment properties continue to anchor the portfolio, which makes up HKD12.5bn (73%) out of WHARF's total operating profit of HKD17.1bn. Despite the challenging Hong Kong retail environment, revenues at the retail components of Harbour City ("HC") and Times Square ("TS") increased 4% and 6% to HKD6.2bn and HKD2.1bn respectively in FY16. While both malls reported lower tenant sales (HC: -9.6% y/y to HKD27.7bn, TS: -11% to HKD2.1bn), we think the worst may be over as both showed stabilizing performance in 2H16. The development properties segment is the outperformer for FY2016, with profits before tax surging by 241% to HKD5.8bn. This was due to more properties sold in Mainland China (Operating Profit: +44% y/y to HKD3.3bn), joint ventures contributing more (+881% y/y to HKD2.0bn) while the completion of Peninsula East in Hong Kong delivered HKD387mn (2015: -HKD25mn). Net profits grew by 34% y/y to HKD21.4bn mainly due to much stronger development property performance and HKD7.3bn gain in disposal of equity interests in Wharf T&T, though a lower revaluation surplus from investment properties was recorded (FY16: HKD910mn, FY15: HKD6.7bn). Looking ahead, development sales continue to be healthy as contracted sales (including WHARF's share of JVs) surged by 21% y/y to HKD40.1bn. Most of the increase is due to contracted sales in Mainland China (+21% y/y to RMB31.4bn), with net order book increasing to RMB27.4bn (FY15: RMB24.6bn). While development property assets dropped to HKD23.9bn (FY15: HKD37.8bn), we think this reflects WHARF's strong sales execution and prudent landbanking strategy. The remaining land bank in China stands at 4.2mn sqm, which is still sufficient in the near-term, in our view. Together with cashflow generated from the investment properties, net debt to equity declined to 7.3% (1H16: 15%). Separately, WHARF also announced it is exploring the separate listing of its investment properties via distribution in specie. The impact on the credit profile depends on the amount of assets that will be separated. If WHARF no longer has a stake in HC and TS, we view this as a significant credit negative event as WHARF would lose the majority of its operating profit and recurring cashflows. However, if WHARF continues to hold a majority stake in HC and TS and the newly listed entity, we see the potential for WHARF to monetise its pipeline of investment properties in Mainland China, which includes 2.0mn sqm of attributable area across 5 International Finance Squares ('IFS') (Chengdu, Changsha, Chongqing, Suzhou, Wuxi). This would enhance WHARF's financial flexibility. While the plans have yet to be finalised, we continue to hold WHARF at a Positive Issuer Profile due to its strong sales performance and healthy balance sheet. (Company, OCBC)

## Credit Headlines (Cont'd):

**Ezra Holdings Ltd (“EZRA”)**: EZRA has reported that it received a statutory demand from the solicitors of VT Halter Marine, Inc (“VTH”) on 09/03/17 in relation to the payment of USD3.2mn over a loan agreement entered between VTH and EZRA’s JV EMAS Chiyoda Subsea (“ECS”). EZRA is the parent corporate guarantor for the loan agreement (as the agreement was made on 26/02/15, when ECS was still a wholly-owned subsidiary of EZRA). As mentioned previously (refer OCBC Asian Credit Daily – 6 Mar 2017), though ECS received bankruptcy protection via its Chapter 11 filing, EZRA is exposed to the corporate guarantees that it had provided to ECS, which includes guarantees for charter hire as well as loans (such as the loan agreement made with VTH). As mentioned, EZRA had indicated that in the event that claims against EZRA due to the ECS bankruptcy are accelerated, EZRA would immediately face a going concern situation. With regards to VTH, EZRA has 21 days from the date of the statutory demand (dated 09/03/17) to make payment, else VTH may apply for EZRA to be wound up. We currently hold EZRA’s Issuer Profile at Negative, and will continue to monitor the situation closely. (Company, OCBC)

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