

April 13, 2017

Credit Headlines (Page 2 onwards): Soilbuild Business Space REIT, Oxley Holdings Ltd, Industry Outlook - Hong Kong Residential Property, Rickmers Maritime Trust, Suntec REIT, Gallant Venture Ltd

Market Commentary: The SGD swap curve bull-flattened yesterday, with swap rates trading 1-4bps lower across all tenors. Flows in SGD corporates were heavy, with better buying seen in OUESP 3.75%'22s, and mixed interest in BNKEA 4.25%'20s, SOCGEN 4.3%'26s. In the broader dollar space, the spread on JACI IG corporates rose 3bps to 200bps while the yield on JACI HY changed little at 6.55%. 10y UST yields continued to trend lower, falling 6bps to 2.24%, after President Trump said that he likes the Federal Reserve's low-interest-rate policy and is leaving open the possibility of renominating the U.S Federal Reserve Chairwoman Janet Yellen.

New Issues: Oxley MTN Pte Ltd. priced a USD200mn 4-year bond (guaranteed by Oxley Holdings Ltd.) at 6.375%, tightening from initial guidance of 6.5%. CCB Life Insurance Company Ltd. priced a USD500mn extendible 60NC5 bond at 4.5%, tightening from initial guidance of 4.8%. The expected issue ratings are 'BBB/Baa3/NR'. Daiwa Securities Group, Inc. priced a USD1bn 5-year bond at CT5+130bps, tightening from initial guidance of CT5+145bps. The expected issue ratings are 'A-/Baa1/NR'. Japan Finance Organization for Municipalities priced a USD1bn 5-year bond at MS+74bps, tightening from initial guidance of MS+78bps. The expected issue ratings are 'A+/A1/NR'. China Huarong AMC Ltd. is planning for potential USD bond issuance. Chinalco Capital Holdings Ltd. sets final guidance for its USD 5-year bond (guaranteed by Aluminum Corporation of China Ltd.) at 4.25%. The initial guidance was 4.6% area. Nuoxi Capital Ltd. sets final guidance for its USD 3-year bond (guaranteed by Hongkong JHC Co., Ltd.) at 4.6%. The initial guidance was at 5% area.

Table 1: Key Financial Indicators

	13-Apr	1W chg (bps)	1M chg (bps)		13-Apr	1W chg	1M chg
iTraxx Asiax IG	100	4	6	Brent Crude Spot (\$/bbl)	55.73	1.53%	8.53%
iTraxx SovX APAC	23	2	-5	Gold Spot (\$/oz)	1,287.49	2.86%	6.91%
iTraxx Japan	46	2	-5	CRB	187.38	0.66%	2.31%
iTraxx Australia	87	3	3	GSCI	400.06	1.84%	5.24%
CDX NA IG	67	2	2	VIX	15.77	22.34%	38.94%
CDX NA HY	107	-1	0	CT10 (bp)	2.229%	-11.23	-39.73
iTraxx Eur Main	77	2	4	USD Swap Spread 10Y (bp)	-4	-1	-1
iTraxx Eur XO	296	9	9	USD Swap Spread 30Y (bp)	-40	-1	-3
iTraxx Eur Snr Fin	93	4	6	TED Spread (bp)	34	-1	-4
iTraxx Sovx WE	12	0	-2	US Libor-OIS Spread (bp)	21	1	-2
iTraxx Sovx CEEMEA	52	2	-12	Euro Libor-OIS Spread (bp)	1	-1	-1
					13-Apr	1W chg	1M chg
				AUD/USD	0.757	0.32%	-0.03%
				USD/CHF	1.002	0.35%	0.57%
				EUR/USD	1.067	0.24%	0.16%
				USD/SGD	1.396	0.46%	1.31%
Korea 5Y CDS	58	8	12	DJIA	20,592	-0.27%	-1.39%
China 5Y CDS	87	4	-1	SPX	2,345	-0.34%	-1.20%
Malaysia 5Y CDS	113	4	3	MSCI Asiax	583	-0.34%	2.77%
Philippines 5Y CDS	86	3	2	HSI	24,228	-0.19%	1.67%
Indonesia 5Y CDS	136	5	6	STI	3,169	-0.20%	0.71%
Thailand 5Y CDS	56	7	1	KLCI	1,736	-0.20%	0.82%
				JCI	5,653	-0.48%	4.50%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
12-Apr-17	Oxley MTN Pte Ltd.	Not Rated	USD200mn	4-year	6.375%
12-Apr-17	CCB Life Insurance Company Ltd.	"BBB/Baa3/NR"	USD500mn	60NC5	4.5%
12-Apr-17	Daiwa Securities Group, Inc.	"A-/Baa1/NR"	USD1bn	5-year	CT5+130bps
12-Apr-17	Japan Finance Organization for Municipalities	"A+/A1/NR"	USD1bn	5-year	MS+74bps
11-Apr-17	Barmenco Finance Pty Limited	"NR/B2/NR"	USD350mn	5NC2	6.625%
11-Apr-17	Korea Expressway Corporation	"AA/Aa2/NR"	USD400mn	3-year	3mL+70bps
11-Apr-17	Bank of China Limited, Dubai Branch	"NR/A1/A"	USD650mn	3-year	3mL+77bps
11-Apr-17	Bank of China Limited, Macau Branch	"NR/A1/A"	USD750mn	5-year	CT5+112.5bps
11-Apr-17	Bank of China Limited, Macau Branch	"NR/A1/A"	USD300mn	10-year	CT10+135bps

Source: OCBC, Bloomberg

Rating Changes (cont'd): S&P upgraded Australian hard-rock contract mining company Barmenco Holdings Pty Ltd.'s (Barmenco) issuer credit rating to 'B' from 'B-'. The outlook is stable. In addition, S&P removed all Barmenco's ratings from CreditWatch with positive implications. The rating action reflects the company's successful issuance of US\$350 million senior secured notes maturing in 2022, which removed any refinancing pressure over the next 12 months. S&P affirmed Hydo International Holding Ltd.'s (Hydo) corporate credit rating at 'B' and issue rating on its outstanding notes at 'B-'. In addition, Hydo revised the company's outlook to negative from stable. The rating action reflects S&P's expectation for Hydo's financial leverage to remain high in the next 12-24 months, as sales performance and revenue may remain weak associated with the down cycle in the trade center industry. Moody's withdrew SOHO China Limited's (SOHO) 'Ba3' corporate family rating with a negative outlook. Moody's announced that the withdrawal is based on its own business reasons. Moody's assigned Xinjiang Guanghui Industry Investment (Group) Co. Ltd. (Xinjiang) a definitive 'B3' rating, with stable outlook. The definitive rating assignment follows Guanghui Group's completion of its USD bond issuance, the final terms and conditions of which are consistent with Moody's expectations, and the registration with the National Development and Reform Commission and the State Administration of Foreign Exchange in China. Fitch affirmed Indonesia-based port operator PT Pelabuhan Indonesia III (Persero)'s (Pelindo III) Foreign-Currency Issuer Default Rating (IDR) and the rating on the USD500mn senior unsecured notes due 2024 at 'BBB-'. In addition, Fitch revised the outlook on Pelindo III to Stable from Positive. However, Fitch downgraded Pelindo III's standalone rating from 'BB+' to 'BB'. The rating action reflects the lower-than-expected margins and higher-than-previously expected capex plan in the medium term, which will result weaker metrics in 2017-2020 due to its higher debt required to finance the elevated capex. The two-notch uplift from the standalone rating reflects Pelindo III's moderate linkages with its parent, the government of Indonesia.

Credit Headlines:

Soilbuild Business Space REIT ("SBREIT"): SBREIT has released its 1Q2017 financials, revenue was up 9.2% to SGD22.0mn, largely driven by contribution from Bukit Batok Connection building acquired from Sponsor in October 2016. Headline EBITDA/Interest was healthy at 4.5x (1Q2016: 4.8x). In 1Q2017, revenue was still being recognized on 72 Loyang Way though the tenant has defaulted. Unutilised rental deposits would run until mid-May 2017. Removing the revenue recognised from 72 Loyang Way and new contribution from Bukit Batok Connection we find revenue down slightly at 0.8% versus 1Q2016. As such, adjusted EBITDA/Interest was 4.1x in 1Q2017 against 4.3x in the corresponding quarter. Aggregate leverage at SBREIT remains manageable at 37.5% (31 December 2016: 37.6%). We see no near term liquidity risk. The next major debt due is in May 2018 (ie: the SGD100mn SBREIT'18s). Aided by short term rentals of about 6 months, SBREIT's portfolio occupancy rate was 91.8% as at 31 March 2017 (31 December 2016: 89.6%). 72 Loyang Way is now 9.9% occupied, while we expect some recovery in occupancies, we see low probability of the building returning to full occupancy (the building is purpose built for marine and oil & gas users). In 1Q2017, tenants from the marine and oil & gas sector collectively made up 13.4% of gross rental income (versus ~23% historically). This was driven by the injection of Bukit Batok Connection where Sponsor is the Master Lessee (7 year lease term). In light of the challenging situation with the marine and oil & gas sector, this diversification is credit positive in our view. The Sponsor itself is unlisted. It is actively involved in construction activities (mainly through its listed construction arm Soilbuild Construction Group Limited) and property development. In the downside case of a total loss of revenue from existing marine and oil & gas sector, we continue to expect EBITDA/Interest to be above 3.5x and well within its covenanted level of 1.5x. We continue to maintain SBREIT's issuer profile at Neutral. (Company, OCBC)

Oxley Holdings Ltd ("OHL"): OHL priced a USD200mn 4-year issue at 6.375%, tightening from its initial price guidance of 6.5%, with an orderbook of USD350mn. The use of proceeds are for the refinancing of existing debt and general corporate purposes, though the quantum raised is somewhat larger than needed to refinance its existing SGD150mn OHLSP '17s. We currently rate OHL at a Neutral Issuer Profile. (Company, OCBC)

Industry Outlook - Hong Kong Residential Property: In a bid to cool the rapidly rising property market, the Hong Kong government has closed a loophole that allowed first-time homebuyers to purchase more than one flat without paying the 15% stamp duty. (Business Times)

Credit Headlines (cont'd):

Rickmers Maritime Trust ("RMT"): On 12/04/17, RMT's Trustee-Manager has announced that following the unsuccessful attempt to restructure RMT's SGD100mn in bonds in December 2016, the Trustee-Manager had been unable to reach an alternative agreement with its lenders to restructure RMT's debts. Given events of default on both its bank loans and bonds, there were material uncertainties on RMT's ability to continue as a going concern. The Trustee-Manager had indicated that potential investors have not supported an injection of new equity into RMT due to the difficulties of restructuring RMT's debt via a consensual process. As a result, the Trustee-Manager will be winding-up RMT (prior approval had been obtained from unitholders on 31/10/16, contingent on unsuccessful restructuring of RMT's debt). The Trustee-Manager had indicated that it is in advanced discussions with a potential buyer for RMT's assets. Though no deal has been finalized, the Trustee-Manager would execute the winding-up of RMT, with the proceeds of any asset sales used to meet creditor claims (including noteholders). It should be noted that the Trustee-Manager had indicated that unitholders are highly unlikely to recover any of their investments, which implies that unsecured creditors could see impairments on their claims. OCBC credit research does not currently cover RMT. (Company)

Suntec REIT ("SUN"): Due to the acquisition of ARA Asset Management (parent of SUN's REIT manager), a change of control ("CoC") event has occurred effective 12/04/17, impacting SUN's SGD300mn in convertible bonds (the SUNSP'21s). As a result, the noteholders of SUNSP'21s have the option to 1) convert their bonds at a unit price of SGD1.743, or 2) require SUN to redeem the bonds in whole. Noteholders have till 15/05/17 to exercise the two options. To be clear, the CoC event only applies to the SUNSP'21s. As SUN's stock price is currently trading at SGD1.76 per share, in order to be conservative, we are assuming that the entire SUNSP'21 will be put back to SUN by noteholders. As a reference, SUN's most recent financial report (for end-2016) reported SGD182.5mn in cash. In addition, SUN had recently tapped debt markets, issuing a SGD100mn 5Y bond. Comparatively, SUN has a SGD100mn loan due in 4Q2017, which we assumed has not been refinanced ahead of time. SUN would have paid out ~SGD66mn in distributions as well during 1Q2017. As such, SUN's estimated cash balance is SGD217mn. Given SUN's large balance sheet and recent access to capital markets (note that the acquisition of ARA Asset Management was announced in November 2016), we expect that SUN would be able to secure financing to bridge the gap, in the event that the entire SGD300mn SUNSP'21s are put to the issuer. We also assume that the redemption of the SUNSP'21s will be funded by debt, hence there would be no impact on SUN's credit profile. Our last pro-forma estimates of SUN's aggregate leverage (post the recent bond issue) was ~39%. We will monitor SUN's 1Q2017 results closely (it is expected to be released early May). We currently hold SUN on Neutral Issuer Profile. (Company, OCBC)

Gallant Venture Ltd ("GALV"): The independent auditors of GALV has issued a disclaimer opinion for the restated and re-audited financial statements for FY2014, FY2015 and FY2016. This was due to (1) lack of sufficient and appropriate audit evidence available to review the consolidated financial results of Market Strength Limited ("MSL") and (2) the accuracy of the gain on disposal of MSL in FY2016 (stemming from the disclaimer opinion for FY2014 and FY2015's restated and re-audited financial statement). Earlier in October 2016, the Singapore Accounting Corporate Regulatory Authority ("ACRA") had issued an Advisory Letter to the board which requires the company to re-state and re-audit its consolidated financial statements for FY2014 and FY2015. In addition, ACRA had also issued warning letters in relation to non-compliance with certain accounting standards. Among various matters, ACRA had raise the need for GALV to recognise MSL as a subsidiary by virtue of its contractual rights which gives GALV power to direct MSL's relevant activities. GALV has no legal ownership nor equity interest in MSL and had historically recorded its investment in MSL as "Notes Receivable" within Non-Current Assets. Given the uncertainty surrounding the company's financials (particularly the actual profits and Net Tangible Assets), we are still unable to determine whether or not the company will meet its covenants. In the event that this causes a covenant breach, the company will likely convene a consent solicitation exercise for bondholders to decide on a proposed change in terms. We maintain a Negative issuer profile on the company and maintain Underweight the curve. (Company, OCBC)

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