Asian Credit Daily

March 13, 2017

Credit Headlines (Page 2 onwards): Wheelock & Co Ltd., CMA CGM SA

Market Commentary: The SGD swap curve traded upwards last Friday, with swap rates trading 1-3bps higher across all tenors. Flows in SGD corporates were heavy, with better buying seen in UOBSP 3.5%'29s, OHLSP 5%'19s, better selling seen in STANLN 4.4%'26s, and mixed interest seen in BNP 3.65%'24s, BAERVX 5.9%'49s, SCISP 4.75%'49s, FCLSP 4.15%'27s, GEMAU 5.5%'19s, FCLSP 4.88%'49s, OLAMSP 6%'22s, GENSSP 5.13%49s. In the broader dollar space, the spread on JACI IG corporates rose 1bps to 193bps while the yield on JACI HY corporates rose 2bps to 6.80%. 10y UST yields fell 3bps last Friday to 2.58%, supported by the weaker dollar and short covering.

New Issues: SEEK Ltd. scheduled investor meetings from 15 March for potential USD bond issuance while Aluminium Corp. of China Ltd. (Chalco) is undergoing plans to issue USD senior perpetuals.

Rating Changes: Moody's affirmed Ascott Residences Trust's (Ascott REIT) 'Baa3' issuer rating and senior unsecured notes rating issued under the MTN program by Ascott REIT MTN Pte. Ltd. (wholly owned subsidiary of Ascott REIT). In addition, Moody's revised the outlook on all ratings to stable from negative. The rating action reflects the improvement in Ascott REIT's credit profile following the announced fully underwritten rights issuance to partially fund the acquisition of Ascott Orchard Singapore (AOS) and the proposed acquisitions of two properties in Germany. Moody's affirmed Fukoku Mutual Life Insurance Company's (Fukoku Life) 'Baa1 (hyb)' subordinated bond rating and revised Fukoku Life's outlook to positive from stable. The rating action reflects the company's sustained strengthening of its capitalization levels over the past few years, driven by the accumulation of retained earnings.

Table 1: Key Financial Indicators

	13-Mar	1W chg (bps)	1M chg (bps)		13-Mar	1W chg	1M chg
iTraxx Asiax IG	95	-1	-6	Brent Crude Spot ($/bbl)	51.05	-8.86%	-8.17%
iTraxx SovX APAC	28	0	0	Gold Spot ($/oz)	1,204.63	-1.69%	-1.68%
iTraxx Japan	51	0	-1	CRB	182.65	-3.72%	-4.90%
iTraxx Australia	84	1	-5	GSCI	380.06	-4.70%	-5.88%
CDX NA IG	65	4	1	VIX	11.66	6.39%	5.33%
CDX NA HY	107	-1	-1	CT10 (bp)	2.584%	8.39	14.78
iTraxx Eur Main	72	1	-2	USD Swap Spread 10Y (bp)	-3	1	4
iTraxx Eur XO	283	4	-12	USD Swap Spread 30Y (bp)	-38	2	2
iTraxx Eur Snr Fin	86	-1	-6	TED Spread (bp)	38	-3	-12
iTraxx Sovx WE	17	-3	-6	US Libor-OIS Spread (bp)	23	-2	-12
iTraxx Sovx CEEMEA	64	0	-3	Euro Libor-OIS Spread (bp)	2	0	0
					13-Mar	1W chg	1M chg
				AUD/USD	0.756	-0.32%	-1.11%
				USD/CHF	1.010	0.27%	-0.39%
				EUR/USD	1.069	1.00%	0.85%
				USD/SGD	1.413	-0.02%	0.81%
Korea 5Y CDS	47	-1	3	DJIA	20,903	-0.49%	2.40%
China 5Y CDS	88	-2	-11	SPX	2,373	-0.44%	1.90%
Malaysia 5Y CDS	111	1	-5	MSCI Asiax	561	-0.05%	0.18%
Philippines 5Y CDS	84	-2	-4	HSI	23,579	-0.07%	-0.56%
Indonesia 5Y CDS	131	2	-3	STI	3,133	0.38%	0.70%
Thailand 5Y CDS	56	-1	-10	KLCI	1,719	-0.51%	0.49%
				JCI	5,392	-0.33%	-0.33%

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): Moody's downgraded Hengdeli Holdings Limited's (Hengdeli) corporate family and senior unsecured ratings to 'B1' from 'Ba3', with a negative outlook. The rating action reflects the continued deterioration in Hengdeli's existing operations, as evidenced in its profit warning, as well as the reduction in the company's scale once it completes the sale of its core watch retailing and distribution business in China. Moody's downgraded Hitachi Construction Machinery Co. Ltd's (HCM) issuer rating to 'Baa1' from 'A3', with a negative outlook. The rating action reflects Moody's expectation that the company's leverage will deteriorate materially and that HCM will acquire a majority shareholding in Bradken through a takeover offer process that will end on 24 March pending regulatory approvals. Moody's affirmed LafargeHolcim Ltd.'s (LafargeHolcim) and its subsidiaries' 'Baa2' issuer and senior unsecured ratings, with a negative outlook. The rating affirmation reflects the group's strong operating performance in 2H2016, the associated robust deleveraging path and a sound outlook for 2017 despite some material headwinds, in particular from expected cost inflation. Fitch upgraded PT Indosat Tbk's (Indosat Ooredoo) foreign-currency issuer default rating (IDR) and foreign-currency senior unsecured debt rating to 'BBB+' from 'BBB'. In addition, Fitch affirmed its local-currency IDR at 'BBB+'. The outlook on the ratings is stable. The rating action reflects Indosat Ooredoo's (1) established market position, (2) legal and strategic linkages with its parent, and (3) sufficient free cash flow generation to cover capex. Fitch assigned DBS Bank Ltd's AUD300mn floating-rate notes a final rating of 'AA-'. According to Fitch, the notes are rated at the same level as DBS's 'AA-' Long-Term Issuer Default Rating (IDR), as they constitute direct, unsecured and unsubordinated obligations of the bank, and will rank equally with all its other unsecured, unsubordinated obligations. The notes will be issued through DBS Bank Ltd's Australia Branch under the parent bank's USD30bn global medium-term note program.

Credit Headlines:

Wheelock & Co Ltd ("WHEELK"): WHEELK announced FY2016 results. Revenue increased 5% to HKD60.6bn, with profit before tax increasing 12% to HKD29.8bn. The good results were not surprising following the earnings release of Wharf Holdings Ltd ("WHARF"), which is 61.6% owned by WHEELK. As a recap, WHARF's revenue grew by 14% y/y to HKD40.9bn and net profit before tax grew 24.9% to HKD25.8bn, with the good performance driven by investment property (Revenue: +5.7% y/y to HKD15.3bn) and development property (Revenue: +29.2% y/y to HKD23.3bn). For WHEELK standalone, we estimate that revenues from its Hong Kong development properties fell 25.8% y/y to HKD11.5bn, though this is due to timing difference in recognition of revenue. FY2016's recognised revenues include HKD10.35bn sales from HarbourGate, Peninsula East and Kensington Hill. Meanwhile, contracted sales for HK development properties contracted sales for the full year increased by 71% y/y to HKD22.1bn (substantial increase from 1HFY16's HKD5.8bn contracted sales), which include the launch and sales of Peak luxury residence, O'South residence and Grade A office. 86% of 423 launched units at ONE HOMANTIN were presold (1H16: Sold 130 units) for HKD4.3bn, while Mount Nicholson (ultra-luxury residence on the Peak) generated HKD5.0bn sales attributable to WHEELK. The East Office Tower and East Retail Villa of One HarbourGate was sold en-bloc for HKD4.5bn to China Life Insurance and Cheung Kei Group in 2HFY16. As a result of strong property sales, recurring cashflows from investment properties and disposal of Wharf T&T, net gearing for WHEELK declined to 15% (1H16: 21%), mainly due to the reduction in net debt. WHEELK standalone net gearing is also healthy at 14% (2015: 16%). Meanwhile, we note that WHARF is exploring the listing of its investment properties via distribution in specie. If WHEELK were to hold a direct stake in the investment properties (e.g. Harbour City, Times Square) as a result, this would be a minor credit positive for WHEELK, which would enjoy higher financial flexibility (e.g. disposal of stake) and receive cashflows from the properties directly. While the plans have yet to be finalised, we continue to hold WHEELK at a Positive Issuer Profile due to its strong sales performance and healthy balance sheet. (Company, OCBC)

OCBC Bank

Credit Headlines (Cont'd):

CMA CGM (acquired Neptune Orient Lines, "NOL"): CMA CGM reported 4Q2016 / full-year 2016 results. For 4Q2016 results, CMA CGM reported USD4.57bn in revenue, up 28.0% y/y. This was largely due to the NOL acquisition, with NOL's contribution starting from 2Q2016 onwards (2 weeks in 2Q2016, full contribution from 3Q2016 onwards). Excluding NOL, CMA CGM would have seen revenue decline 7.9% to USD3.29bn. Management had indicated that despite the challenging environment seen through 2016, recent months have shown a recovery in freight rates. Management had also indicated that a focus on volumes generating the highest contributions (better margins) have paid off. This can be seen with CMA CGM reporting 4.2% in core EBIT (this excludes disposals, impairments and non-recurring elements) margin for 4Q2016, +3.6ppt versus 0.6% in core EBIT margin for 4Q2015. Had NOL's contribution been excluded, core EBIT margin would have been even wider at 5.3%. In aggregate, this allowed CMA CGM to generate a net profit of USD45mn for 4Q2016, a sharp improvement over the net loss of USD258.9mn seen in 3Q2016. For the full year, CMA CGM reported USD16.0bn in revenue, up 1.9% y/y largely due to the acquisition of NOL. Excluding the NOL acquisition, revenue would have fallen 14.7% y/y, due to the sharp slump in freight rates seen through 2016. In terms of volumes carried, excluding NOL's contribution, CMA CGM reported 12.8mn TEU carried, just slightly slower than the 13.0mn TEU seen in 2015. The slump in freight rates though reduced average income per TEU by 13.6% in 2016. For the whole of 2016, CMA CGM reported a net loss of USD452mn (NOL contributed USD127mn to the consolidated net loss). This was an improvement over the 9M2016 net loss of USD496.8mn. Going forward, we believe that 4Q2016 results would be more reflective of CMA CGM's consolidated performance. CMA CGM had reiterated its commitment to cut costs by USD1bn over 18 months through December 2017 via its Agility plan. In terms of capex needs, CMA CGM does not plan to make any new ship orders in the short term, and had also postponed delivery of 3 vessels originally due 2017 to 2018. In aggregate, committed capex for CMA CGM stood at USD646.5mn for 2017 and USD405.6mn for 2018. For these, USD895.8mn in committed financing is already available. As mentioned previously, CMA CGM was planning to complete a USD880mn sale and leaseback transaction involving 11 vessels in 4Q2016. More details were provided for full year 2016, with CMA CGM (including NOL) selling 13 vessels in all via sale and leaseback contracts as well as scrapping 8 vessels. Though CMA CGM recognized a loss on disposal of USD21.4mn, it generated USD1113.7mn in cash in aggregate. CMA CGM had used the proceeds to reduce debt, with total borrowings falling q/q from USD9.6bn to USD8.3bn. This allowed net gearing to improve q/q to 143% (3Q2016: 170%). As a reminder, the bridge financing taken for the NOL acquisition was already repaid ahead of time. We continue to believe that CMA CGM will focus on deleveraging in the near future. The other major asset up for divestment would be the terminal assets. We currently hold CMA CGM's Issuer Profile at Neutral and will update accordingly if required. As mentioned previously, though CMA CGM has not provided a corporate guarantee on NOL's outstanding bonds, as a material wholly-owned subsidiary to CMA CGM, we believe that NOL would likely receive support from CMA CGM. The SGD400mn NOLSP'17s are due soon on 26/04/17. CMA CGM last reported a cash balance of USD1.2bn as of end-2016. (Company, OCBC)

Andrew Wong
Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6530 4736
wongVKAM@ocbc.com

Nick Wong Liang Mian, CFA
Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6530 7348
NickWong@ocbc.com

Ezien Hoo, CFA
Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6722 2215
EzienHoo@ocbc.com

Wong Hong Wei
Treasury Research & Strategy
Global Treasury, OCBC Bank
(65) 6722 2533
WongHongWei@ocbc.com