

January 18, 2017

Credit Headlines (Page 2 onwards): Industry Outlook - Financial Institutions, CapitaLand Commercial Trust, Lippo Malls Indonesia Retail Trust, First Real Estate Investment Trust

Market Commentary: The SGD swap curve bull-flattened yesterday, with swap rates falling 3-9bps across all tenors. In the broader dollar space, the spread on JACI IG Corporates rose 1bps to 199bps, while the yield on JACI HY Corporates fell 3bps to 6.76%. 10y UST yield fell 7bps yesterday to 2.32%, driven by weaker dollar expectations after President-elect Donald Trump commented that the dollar is already “too strong”. Treasury yields and the Bloomberg Dollar Spot Index have moved in tandem since Trump’s election.

New Issues: China Development Bank priced a USD1bn 5-year bond at CT5+87.5bps, tightening from initial guidance of CT5+110bps, and a USD500mn 10-year bond at CT10+115bps, tightening from initial guidance of CT10+135bps. The expected issue ratings are ‘AA-/Aa3/NR’. Genting Overseas Holdings (GOHL) Capital Ltd. priced a USD1bn 10-year bond at CT10+198bps, tightening from initial guidance of CT10+220bps. The expected issue ratings are ‘NR/Baa1/A-’. State Bank of India priced a USD500mn 5-year bond at CT5+145bps, tightening from initial guidance of CT10+170bps. The expected issue ratings are ‘BBB-/Baa3/BBB-’. FWD Ltd. priced a USD250mn NC5 Perp at 6.25%, tightening from initial guidance of 6.875%. The expected issue ratings are ‘NR/Baa1/BB+’. Bukit Makmur Mandiri Utama (P.T.) (Buma) scheduled investor roadshows from 18 – 26 January for a potential USD bond issue. Huaxing Investment Holding Company Ltd. scheduled investor meetings from 18 January for a potential USD bond issue (guaranteed by Zhuhai Huafa Group Co.). The expected issue ratings are ‘NR/NR/BBB’. Jain International scheduled investor roadshows from 18 January for a potential USD green bond issuance.

Table 1: Key Financial Indicators

	18-Jan	1W chg (bps)	1M chg (bps)		18-Jan	1W chg	1M chg
iTraxx Asiax IG	116	0	-6	Brent Crude Spot (\$/bbl)	55.69	1.07%	0.87%
iTraxx SovX APAC	34	0	-3	Gold Spot (\$/oz)	1,214.48	1.92%	6.70%
iTraxx Japan	56	1	5	CRB	195.14	2.38%	1.94%
iTraxx Australia	99	1	-5	GSCI	400.91	2.67%	1.89%
CDX NA IG	67	1	-1	VIX	11.87	2.68%	-2.70%
CDX NA HY	106	0	0	CT10 (bp)	2,338%	-3.40	-25.35
iTraxx Eur Main	70	0	-2	USD Swap Spread 10Y (bp)	-13	0	-3
iTraxx Eur XO	291	1	2	USD Swap Spread 30Y (bp)	-48	0	-6
iTraxx Eur Snr Fin	87	-2	-8	TED Spread (bp)	49	-2	-1
iTraxx Sovx WE	21	1	1	US Libor-OIS Spread (bp)	35	0	0
iTraxx Sovx CEEMEA	81	-1	-3	Euro Libor-OIS Spread (bp)	3	0	-1
					18-Jan	1W chg	1M chg
				AUD/USD	0.754	1.37%	4.11%
				USD/CHF	1.003	1.12%	2.44%
				EUR/USD	1.069	1.05%	2.80%
				USD/SGD	1.419	0.56%	2.11%
Korea 5Y CDS	48	-1	4	DJIA	19,827	-0.30%	-0.08%
China 5Y CDS	115	0	-5	SPX	2,268	-0.04%	0.43%
Malaysia 5Y CDS	131	-3	-11	MSCI Asiax	536	0.28%	3.45%
Philippines 5Y CDS	97	-5	-12	HSI	23,136	0.88%	5.06%
Indonesia 5Y CDS	152	-2	-10	STI	3,007	0.20%	2.35%
Thailand 5Y CDS	74	-4	-5	KLCI	1,670	-0.32%	1.96%
				JCI	5,287	-0.27%	1.06%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
17-Jan-17	China Development Bank	“AA-/Aa3/NR”	USD1bn	5-year	CT5+87.5bps
17-Jan-17	China Development Bank	“AA-/Aa3/NR”	USD500mn	10-year	CT10+115bps
17-Jan-17	Genting Overseas Holdings (GOHL) Capital Ltd.	“NR/Baa1/A-”	USD1bn	10-year	CT10+198bps
17-Jan-17	State Bank of India	“BBB-/Baa3/BBB-”	USD500mn	5-year	CT5+145bps
17-Jan-17	FWD Ltd.	“NR/Baa1/BB+”	USD250mn	Perp NC5	6.25%
16-Jan-17	Yanlord Land (HK) Co.	“BB-/Ba3/NR”	USD450mn	5NC3	5.875%
16-Jan-17	Times Property Holdings Ltd.	“B/B2/B+”	USD375mn	3NC2	6.25%
16-Jan-17	Chang Development International Ltd. (re-tap)	“NR/Baa1/NR”	USD100mn	3-year	CT3+230bps

Source: OCBC, Bloomberg

Rating Changes:

Moody's assigned a 'Ba3' corporate family rating to Bukit Makmur Mandiri Utama (P.T.) (Buma) and a 'Ba3' rating to its proposed senior secured notes. The rating outlook is stable. The rating action reflects its well-recognised franchise and established relationships with Indonesia's largest coal concession holders and the long-term contractual nature of its revenue base which provides cash flow visibility. Moody's has placed China Metallurgical Group Corporation's (CMGC) 'Baa3' issuer rating and the 'Baa3' senior unsecured bond rating of its subsidiary, China Jingye Construction Engineering (Singapore) Pte. Ltd., under review for upgrade. The rating action reflects CMGC's credit positive private equity placement, as it plans to use the proceeds for debt repayment, working capital needs and investments in projects.

Credit Headlines:

Industry Outlook - Financial Institutions: Moody's expects the ratings on Singapore banks to remain stable over the next 12-18 months despite ongoing challenges to asset quality and profitability. This is due to still solid underlying fundamentals (liquidity and capital ratios), slowing new problem loan formation, and ongoing government support. Moody's latest report published yesterday follows the lowering of the baseline credit assessments for Singapore banks in mid-December 2015. We continue to believe that improving operating conditions and bank actions during 2016 will provide a floor to bank performance in 2017 as rising interest rates, solid earnings generation and strong capital ratios buffer against further possible rises in allowances. (Moody's, OCBC)

CapitaLand Commercial Trust ("CCT"): Aggregating CCT's properties and its 60% interest in Raffles City Singapore, gross revenue increased 9.6% y/y to SGD125mn with NPI higher by 9.1% y/y to SGD96mn, largely due to CapitaGreen's contribution. Without CapitaGreen, the gross revenue and NPI would have stayed largely unchanged. 4Q2016 results point to signs of softening as the office rent of CCT's portfolio inched down 0.2% q/q to SGD9.20 psf. As mentioned in our Singapore Credit Outlook 2017, we think that there may be continued leasing pressure with the average 2017 expiring rents at Six Battery Road and One George Street higher than comparable sub-market rents. Nevertheless, this is expected to be contained with just about 7% of the total office rents under review in 2017. At a portfolio level, property valuations in 4Q2016 remained largely unchanged since 2Q2016 while aggregate leverage remained unchanged q/q at 37.8%. We keep CCT at a Neutral Issuer Profile. (Company, OCBC)

Lippo Malls Indonesia Retail Trust ("LMRT"): First Real Estate Investment Trust ("FIRT") and LMRT have terminated the joint venture and the sale and purchase agreement for Yogyakarta Property, which comprises a hospital component (Siloam Hospitals Yogyakarta) and a retail component (Lippo Plaza Jogja). This allows more time for their sponsor, Lippo Karawaci, to carry out asset enhancement works to Lippo Plaza Jogja and obtain licenses for the operation of Siloam Hospitals Yogyakarta. FIRT and LMRT will continue to have the first right of refusal to purchase the properties. We think this is credit neutral for LMRT and hence maintain our Neutral issuer profile. This is because we expect LMRT to continue acquiring assets regardless given its rapid pace of acquisition, while leverage is unlikely to increase significantly as we expect future acquisitions to be funded by a larger portion of equity given i) 45% regulatory debt/asset limit and ii) risk of downgrade by Moody's if debt/asset (adjusted for perpetuums) exceeds 40%. (Company, OCBC)

Credit Headlines (cont'd):

First Real Estate Investment Trust ("FIRTSP"): FIRTSP released its 4Q2016 and FY2016 financial results. Gross revenue was up 6.3% to SGD107.0mn while net property income ("NPI") was up 6.6% to SGD105.8mn. This was largely on account of the full year contribution of Kupang Hospital (acquired in December 2015). Taking out the impact of Kupang Hospital, FIRTSP's gross revenue was flat y-o-y. Based on our calculation of EBITDA which excludes other income and other expenses, FIRTSP's EBITDA was ~SGD95mn in FY2016, resulting in EBITDA/Gross interest of 5.3x and in line with FY2015. Headline aggregate leverage was healthy at 30.8% as at 31 December 2016 (31 December 2015: 33.7%). Adjusting 50% of perpetuals as debt, we find adjusted aggregate leverage to be 33%. As at 31 December 2016, independent valuation of FIRTSP's investment portfolio was SGD1.27bn, this includes SGD20.6mn attributable to Siloam Hospitals Labuan Bajo ("Labuan Bajo") which was acquired in December 2016. On a like-for-like basis (removing the impact of Labuan Bajo, we find portfolio value to have decreased by SGD15.7mn. This was driven by lower valuations at Siloam Hospitals Kupang & Lippo Plaza Kupang and Mochtar Riady Comprehensive Cancer Centre which collectively made up 26% of FIRTSP's portfolio. In our view, valuation of healthcare assets are subject to higher degree of uncertainties. Such assets tend to be built-to-specification with limited alternative uses and absent standardized/market-based leases. We take comfort that FIRTSP has kept its headline aggregate leverage low-moderate. Given that FIRTSP and its sister company LMRTSP has announced that they are terminating the conditional sale and purchase agreement for Siloam Hospitals Yogyakarta and Lippo Plaza Jogja, we expect FIRTSP's cash balance to be unused in the near term (until such time a new acquisition announced). As at 31 December 2016, FIRTSP's cash balances was SGD33.6mn. Had the Yogyakarta deal gone through, FIRTSP would have been obligated to pay SGD40.8mn to its Sponsor. We maintain our issue profile on FIRTSP at Neutral and are Underweight the FIRTSP '18s on valuation. A switch to LMRTSP'18s (matures 6 months later) still allows a yield pick-up of 70-90bps. (Company, OCBC)

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