Asian Credit Daily

February 2, 2017

Credit Headlines: Ezra Holdings Ltd, Julius Baer Group Ltd, Bankruptcy / Restructuring

Market Commentary: The SGD dollar swap curve bull-flattened yesterday, with swap rates trading 1-2bps lower across all tenors. Flows in SGD corporates were heavy, with better buying seen in GUOLSP 4%'22s, MAPLSP 4.5%'49s, and mixed interest in OCBCSP 3.8%'49s, ABNANV 4.7%'22s. In the broader dollar space, the spread on JACI IG Corporates rose 1bps to 196bps, while the yield on JACI HY Corporates fell 1bps to 6.87%. 10y UST yield rose 2bps to 2.47%, with treasuries paring initial losses after Federal Open Market Committee's ("FOMC") more-dovish-than-anticipated statements. Yields had risen as much as 5-7 basis points in trading on stronger-than-expected U.S. employment and manufacturing data.

Credit Headlines:

Ezra Holdings Ltd ("EZRA"): On 01/02/17, EZRA had requested for a trading halt pending an announcement. The day before, Chiyoda Corp ("Chiyoda") had given a profit warning, indicating that it was reviewing its 35% stake in the EMAS Chiyoda Subsea JV for impairments, while Nippon Yusen ("NYK") took a JPY13bn charge on their exposure to EMAS Chiyoda Subsea (NYK has a 25% stake). EZRA could potentially be reviewing its own 40% stake in the JV for possible impairment, and hence the trading halt. Through December 2016 and January 2017, there has been news of EMAS Chiyoda Subsea falling behind on its trade payments. On 13/12/16, EZRA had announced that its subsidiary, EMAS Offshore ("EMAS") had been able to reach an agreement with its financial lenders to refinance its financial obligations over 5 years and was contemplating the raising of new working capital facilities, with definitive agreements to be entered into between parties within 60 days from 12/12/16. As part of EMAS's 1QFY2017 quarterly results (released mid-January 2017), it was indicated that as a result of uncertainties, including those relating to associate company Perisai Petroleum Teknologi, the completion of the refinancing exercise as well as attempts to obtain additional working capital facilities has been delayed. We will update accordingly as the situation develops. (Company, Bloomberg)

Table 1: Key Financial Indicators

	2-Feb	1W chg (bps)	1M chg (bps)		2-Feb	1W chg	1M chg
iTraxx Asiax IG	114	2	-8	Brent Crude Spot ($/bbl)	56.58	0.60%	-0.42%
iTraxx SovX APAC	32	0	-4	Gold Spot ($/oz)	1,212.96	2.06%	5.70%
iTraxx Japan	54	-1	-4	CRB	194.34	0.18%	0.95%
iTraxx Australia	94	2	-9	GSCI	401.70	0.95%	0.88%
CDX NA IG	66	2	-2	VIX	11.81	9.25%	-15.88%
CDX NA HY	106	0	0	CT10 (bp)	2.474%	-3.07	2.93
iTraxx Eur Main	74	4	1	USD Swap Spread 10Y (bp)	-9	0	2
iTraxx Eur XO	302	12	14	USD Swap Spread 30Y (bp)	-42	-1	6
iTraxx Eur Snr Fin	90	5	-3	TED Spread (bp)	52	-1	2
iTraxx Sovx WE	22	1	2	US Libor-OIS Spread (bp)	35	0	2
iTraxx Sovx CEEMEA	76	-2	-4	Euro Libor-OIS Spread (bp)	2	0	-1
					2-Feb	1W chg	1M chg
				AUD/USD	0.763	1.22%	6.17%
				USD/CHF	0.992	0.81%	3.20%
				EUR/USD	1.078	0.94%	3.13%
				USD/SGD	1.412	1.01%	2.72%
Korea 5Y CDS	47	2	3	DJIA	19,891	-0.88%	0.65%
China 5Y CDS	111	2	-7	SPX	2,280	-0.82%	1.82%
Malaysia 5Y CDS	131	4	-6	MSCI Asiax	548	-0.10%	6.58%
Philippines 5Y CDS	99	1	-11	HSI	23,347	1.73%	6.12%
Indonesia 5Y CDS	152	5	-6	STI	3,057	0.58%	6.13%
Thailand 5Y CDS	73	--	-6	KLCI	1,676	-0.26%	2.11%
				JCI	5,327	0.18%	0.57%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
25-Jan-17	China Water Affairs Group Ltd.	"BB+/Ba1/NR"	USD300mn	5NC3	5.5%
25-Jan-17	Jain International Trading BV	"B+/NR/B+"	USD200mn	5NC3	7.375%
24-Jan-17	Vedanta Resources Plc	"B+/B3/NR"	USD1bn	5.5-year	6.375%
24-Jan-17	Fujian Zhanglong Group Co. Ltd. (re-tap)	"NR/NR/BB+"	USD150mn	3-year	4.8%
23-Jan-17	Industrial Bank of Korea	"AA-/Aa2/AA-"	USD300mn	3-year	CT3+85bps
23-Jan-17	Shui On Development (Holding) Ltd.	"NR/NR/NR"	USD500mn	4-year	5.875%
23-Jan-17	Siam Commercial Bank PCL	"BBB+/Baa1/BBB+"	USD400mn	5.5-year	CT5+150bps
23-Jan-17	Biostime International Holdings Ltd. (retap)	"BB-/Ba3/NR"	USD200mn	5-year	104.50

Source: OCBC, Bloomberg

Credit Headlines (Cont'd):

Julius Baer Group Ltd (JBG): JBG reported FY2016 results with operating income up 6% to CHF2,852.4mn. This was driven by stronger net interest income (increased loans and lending margins as well as interest income on available-for-sale financial investments) and increased net commission and fee income (advisory and management commissions). This offset the decline in net trading income and brokerage commissions from lower client transaction volumes as well as higher interest expense on debt issued and negative interest rates in Europe. Lower client activity as well as growth in assets under management (AuM) also impacted JBG's gross margins (defined as operating income divided by average AuM) which fell slightly to 91bps from 93.5bps in FY2015. Adjusted operating expenses, which exclude the 2015 settlement with the US Department of Justice, rose faster by 8% and this translated to a slight rise in the cost-to-income ratio to 68.9% from 67.2% in FY2015. The expense increase was largely driven by growth investments with a 9% rise in employees and personnel expenses through acquisitions of Kairos Investment Management S.p.A. and Commerzbank International S.A. Luxembourg (CISAL) as well as aggressive hiring of experienced relationship managers and investments in technology. As a result, FY2016 adjusted profit before taxes (and excluding the DoJ settlement) grew 2% y/y to CHF848mn. JBG's investments in staff had a positive impact on its balance sheet with total assets up 14% to CHF96.2bn due to 4% growth in client deposits and 6% growth in loans (mostly Lombard loans and the rest mortgages which were fully collateralized) while assets under management grew 12% or CHF36bn to a record CHF336.2bn. Of interest was the balanced contribution to increased AuM from market performance (CHF12.2bn), net new money (CHF11.9bn) and net acquisitions of Kairos and CISAL (CHF11.2bn). While the loan-to-deposit ratio weakened slightly due to higher growth in loans, it still remained strong at 57%. Capital ratios weakened y/y but improved h/h with JBG's FY2016 phased in CET1/CAR capital ratios at 16.4%/17.5%, compared to 18.3%/19.4% for FY2015 (15.9%/17.3% as of 1H2016). Ratios were impacted by a 9% rise in risk weighted assets while capital levels also fell from higher deductions for goodwill and intangible assets. Overall, growth investments characterize FY2016 results with management expecting its larger asset base and personnel together with higher client activity to translate to better income generation and a year of consolidation in FY2017. Although growth investments have impacted capital ratios, they still remain well above JBG's management floors of 11%/15% and minimum CET1/CAR regulatory requirements of 8%/12.2% on both a phased in and fully loaded basis. We are currently reviewing JBG's Neutral Issuer Profile for changes and will provide updates if required. (Company, OCBC)

Bankruptcy / Restructuring: It was reported that the United States Bankruptcy Court for the District of Delaware and the Supreme Court of Singapore will formally implement communication and cooperation guidelines on cross-border insolvency matters. In our view, this could allow the better management of cross border restructurings for issuers / related issuers with both SGD and USD denominated debt, such as in the case of Pacific Andes (SGD-denominated debt) and its subsidiary China Fishery (USD-denominated debt). (OCBC, Bloomberg)

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