

March 2, 2017

Credit Headlines (Page 2 onwards): Gallant Venture Ltd, Citic Envirotech Ltd.

Market Commentary: The SGD swap curve traded upwards yesterday, with swap rates trading 5-7bps higher across tenors. Flows in SGD corporates were heavy, with better buying seen in UOBSP 3.5%'29s, FCLSP 4.15%'27s, BAERVX 5.75%'49s, GENSSP 5.13%'49s, BNP 3.65%'24s, better selling seen in IHCSP 7%'17s, and mixed interest in ABNANV 4.75%'26s, PINGIN 4.13%'19s, OLAMSP 7%'49s. In the broader dollar space, the spread on JACI IG corporates fell 2bps to 193bps while the yield on JACI HY corporates rose 2bps to 6.62%. 10y UST yields rose 6bps to 2.45%, extending a slide sparked by hawkish Fed comments yesterday.

New Issues: China Everbright Bank Co. Ltd. (Hong Kong Branch) priced a USD500mn 3-year bond at CT3+105bps, tightening from initial guidance of CT3+130bps. The expected issue ratings are 'NR/NR/BBB'. Keen Idea Global Ltd. priced a USD300mn 3-year bond (guaranteed by Beijing Properties (Holdings) Ltd.) at 4.625%, tightening from initial guidance of 5%. Macquarie Bank Ltd., through its London Branch, priced a USD750mn AT1 NC10 Perp at 6.125%, tightening from initial guidance around the 6.375% area. The expected ratings are 'BB/Ba1/NR'. Olam International Ltd. priced a USD300mn 5-year bond at 4.5%, tightening from initial guidance of 4.65%. The Sultanate of Oman priced a USD5bn 3-tranche deal; with the USD1bn 5-year piece at MS+190bps, tightening from initial guidance of MS+215bps; the USD2bn 10-year piece at MS+300bps, tightening from initial guidance of MS+325bps; and the USD2bn 30-year piece at MS+387.5bps, tightening from initial guidance of MS+425bps. Gome Electrical Appliance Holding Ltd. scheduled investor meetings for a potential USD bond issuance. The expected issue ratings are 'BB-/NR/NR'.

Table 1: Key Financial Indicators

	2-Mar	1W chg (bps)	1M chg (bps)		2-Mar	1W chg	1M chg
iTraxx Asiax IG	94	-2	-17	Brent Crude Spot (\$/bbl)	56.36	-0.39%	-0.35%
iTraxx SovX APAC	26	1	-6	Gold Spot (\$/oz)	1,246.21	-0.27%	2.49%
iTraxx Japan	52	1	-3	CRB	191.27	0.02%	-1.16%
iTraxx Australia	83	-2	-10	GSCI	403.23	0.41%	0.72%
CDX NA IG	60	-2	-6	VIX	12.54	6.81%	5.11%
CDX NA HY	108	0	2	CT10 (bp)	2.462%	8.96	-1.21
iTraxx Eur Main	71	-3	-1	USD Swap Spread 10Y (bp)	-3	-1	6
iTraxx Eur XO	281	-12	-16	USD Swap Spread 30Y (bp)	-39	-1	4
iTraxx Eur Snr Fin	88	-6	0	TED Spread (bp)	47	-7	-5
iTraxx Sovx WE	23	2	0	US Libor-OIS Spread (bp)	23	-9	-12
iTraxx Sovx CEEMEA	65	-1	-9	Euro Libor-OIS Spread (bp)	2	0	0
					2-Mar	1W chg	1M chg
				AUD/USD	0.766	-0.67%	0.07%
				USD/CHF	1.011	-0.43%	-1.77%
				EUR/USD	1.053	-0.50%	-2.14%
				USD/SGD	1.411	-0.29%	0.06%
Korea 5Y CDS	44	0	-2	DJIA	21,116	1.64%	6.19%
China 5Y CDS	90	-2	-20	SPX	2,396	1.40%	5.05%
Malaysia 5Y CDS	106	-2	-23	MSCI Asiax	565	-0.84%	3.00%
Philippines 5Y CDS	84	1	-13	HSI	23,880	-0.98%	3.00%
Indonesia 5Y CDS	126	-2	-23	STI	3,136	-0.04%	3.02%
Thailand 5Y CDS	53	0	-18	KLCI	1,709	0.29%	2.15%
				JCI	5,426	0.98%	1.34%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
1-Mar-17	China Everbright Bank Co. Ltd. (HK Branch)	"NR/NR/BBB"	USD500mn	3-year	CT3+105bps
1-Mar-17	Keen Idea Global Ltd.	Not Rated	USD300mn	3-year	4.625%
1-Mar-17	Macquarie Bank Ltd.	"BB/Ba1/NR"	USD450mn	2-year	6.5%
1-Mar-17	Olam International Ltd.	Not Rated	USD300mn	5-year	4.5%
1-Mar-17	Sultanate of Oman	Not Rated	USD1bn	5-year	MS+190bps
1-Mar-17	Sultanate of Oman	Not Rated	USD2bn	10-year	MS+300bps
1-Mar-17	Sultanate of Oman	Not Rated	USD2bn	30-year	MS+387.5bps
28-Feb-17	CALC Bond 3 Ltd.	Not Rated	USD300mn	5-year	4.7%

Source: OCBC, Bloomberg

Rating Changes: S&P placed Yuexiu Property Co. Ltd.'s (Yuexiu) 'BBB-' corporate credit rating on CreditWatch with negative implications. The rating action reflects the high likelihood that a deterioration in the company's leverage will weaken the credit profile of its parent, Guangzhou Yuexiu Holdings Ltd. As a core subsidiary, Yuexiu Property contributes a significant 70% of the parent's non-financial-service EBITDA, but its leverage is likely to stay elevated in the next 12 months after it further deteriorated in 2016. Moody's revised the ratings outlook on China SCE Property Holdings Limited (China SCE) to stable from negative. At the same time, Moody's also affirmed China SCE's 'B1' corporate family rating and the 'B2' senior unsecured ratings for the bonds issued by the company. The rating action reflects Moody's expectation that the company will show a sustained improvement in its credit metrics, supported by strong revenue growth, improved gross profit margins, as well as prudent land acquisitions and debt management over the next 12-18 months.

Credit Headlines:

Gallant Venture Ltd ("GALV"): GALV reported its FY2016 results. The company also issued its unaudited and restated FY2015 financials following the advisory letter issued by the Accounting and Corporate Regulatory Authority ("ACRA") to the company in October 2016. One significant change was the recognition of GALV's investment in Market Strength Limited ("MLS") as a subsidiary versus as a "Notes Receivable". MLS is a holding company that owns a property project in Shanghai and likely to have been loss-making in the early years of project development. In FY2016, revenue was down 15.2% to SGD1.7bn following weaker vehicles sales during the year at GALV's ~71.5% owned vehicle arm (ie: Indomobil Sukses International ("IMAS")). Excluding IMAS, lower revenue of SGD160.4mn was recorded in the rest of the GALV's business (industrial park, utilities, resort operations, property development) versus SGD163.5mn in FY2015. This was driven by lower revenue in the utilities and resort operations segment. Based on our calculation of EBITDA which excludes other income and other expenses, EBITDA was SGD133.9mn (down 7.3% against FY2015). Finance cost was lower at SGD132.9mn (FY2015: SGD145.2mn). Interest coverage as measured by EBITDA/Interest was kept relatively steady at 1.0x despite the lower EBITDA. During the year, GALV recorded at large one-off gain of SGD220.6mn from the disposal of MLS in FY2016 which helped boost profit before tax to SGD63.1mn against loss before tax of SGD136.3mn in FY2015. Without this asset monetization, GALV would have reported a full year loss before tax of SGD180.7mn. Total consideration for the disposal of MLS is SGD462.4mn, covering both gain on the disposal and amount due from MSL and its associates. Of these, GALV received SGD390.1mn in cash in FY2016 while deferred payment stands at SGD72.3mn. As at 31 December 2016, cash balances at GALV stood at SGD425.9mn. Gross debt to equity was 1.3x, in line with levels seen as at 31 December 2015. Net debt to equity was slightly lower at 1.1x against 1.2x as at 31 December 2015. The large gain from the monetization of MLS helped offset losses recognized post-restatement of FY2015 financials (estimated at SGD35mn). Net-net this led to a boost in book value equity which kept gearing levels in check. Per company, the SGD2.4bn in total debt, SGD1.0bn relates to IMAS' car rental and vehicle financing business. We think such debt are likely to be routinely rolled over given the business nature. In February 2017, GALV repurchased and cancelled some bonds (amounting to SGD43.3mn). Current cash balance is around SGD383mn (post bond repurchase). Adjusting downwards for short term debt at the vehicle financing and car rental business, we think there is SGD800m-1bn of short term debt due. As at 31 December 2016, GALV has SGD612mn in land inventories and SGD233.5mn in investment properties held at GALV's subsidiaries which provides asset monetization options against upcoming debt due. Two SGD bonds are due this year at the GALV level: (1) GALVSP 5.9% '17 (SGD120mn outstanding) and (2) GALVSP 7.0% '17 (SGD61.75mn outstanding). We maintain GALV's issuer profile at Negative. (Company, OCBC)

Credit Headlines (Cont'd):

Citic Envirotech Ltd ("CEL"): CEL FY2016 revenue increased 62% to SGD544.6mn as a result of higher contribution from engineering and water treatment (collectively, up SGD225.1mn), which helped offset the decline in revenue from membrane sales (down SGD16.5mn). This was mainly due to additions to treatment capacity and newly acquired projects during the year. EBITDA (based on our calculation which does not include other income and other expenses) was SGD213.3mn versus SGD136mn, this helped boost EBITDA/Interest to 5.4x (FY2015: 4.0x) despite the 6% higher finance cost of SGD39.6mn. Adjusting 50% of perpetual distribution, we find EBITDA/(Interest plus 50% perpetual distribution) at 4.2x, only somewhat higher than 4.0x in FY2015. Driven by higher operating profit and an increase in share of profit of associates of SGD6.8mn, CEL achieved profit before tax of SGD131.4mn. Nevertheless, currency translation loss of SGD41.9mn due to RMB weakness dragged total comprehensive income for the year lower at SGD60.1mn, but this was still an improvement over SGD37.6mn generated in FY2015. As at 31 December 2016, headline gross debt-to-equity was 0.4x versus 0.7x while net debt-to-equity was 0.04x against 0.2x. While the perpetuals are counted as equity in CEL's accounts, from the perspective of a SGD bondholder though the perpetuals does not provide an "equity buffer". CEL's perpetuals rank pari passu with SGD bonds. Adjusting net debt upwards for the perpetuals (and only considering non-perpetual equity), we find adjusted gearing at 0.54x against 0.7x as at 30 September 2016 (31 December 2015: 0.5x). We continue to think CEL's net gearing will tilt higher as CEL embarks on its projects won in December 2016. During the year, investing cash flows ("CFI") were significant as CEL added to capex and built on its projects won. The retap of its perpetual of USD180mn (~SGD239.2mn) during the year helped plugged a SGD92mn gap between cash flow from operations and CFI. Certain amounts of the new raising also went towards repayment of debt. Perpetuals made up 23% of total capital as at 31 December 2016 against only 13% as at 31 December 2015. As at 31 December 2016, cash balances was SGD493.5mn against short term borrowings of only SGD76.5mn. We maintain CEL's issuer profile at Neutral. (Company, OCBC)

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