

May 24, 2017

Credit Headlines (Page 2 onwards): G8 Education Ltd

Market Commentary: The SGD swap curve traded downwards yesterday, with swap rates falling by 2-3bps across all tenors. Flows in SGD corporates were heavy, with better buying seen in UOBSP 3.5%'29s, mixed interest seen in GENSSP 5.13%'49s. In the broader dollar space, the spread on JACI IG corporates fell 1bps to 197bps, while the yield on JACI HY corporates rose 2bps to 6.80%. 10y UST yields rose 2bps to 2.26% yesterday, pushed by a heavy Investment Grade issuance slate, along with elevated equities and European Government Bond (EGB) weakness.

New Issues: China Construction Bank Corporation (Hong Kong) priced a USD1.2bn 3-year bond at 3mL+77bps, tightening from initial guidance of 3mL+100bps. The expected issue ratings are 'NR/A1/NR'. Beijing Gas Singapore Capital Corporation priced a USD500mn 5-year bond (guaranteed by Beijing Gas Group Company Ltd.) at CT5+116bps, tightening from initial guidance of CT5+140bps. The expected issue ratings are 'A-/A3/A'. Wuzhou International Holdings Ltd. hired banks for a potential USD bond issue.

Rating Changes: Moody's downgraded China's local currency and foreign currency issuer ratings to 'A1' from 'Aa3' and revised the outlook to stable from negative today. The downgrade reflects Moody's expectation that China's financial strength will erode somewhat over the coming years, with economy-wide debt continuing to rise as potential growth slows. Moody's also added that; while ongoing progress on reforms is likely to transform the economy and financial system over time, it is not likely to prevent a further material rise in economy-wide debt, and the consequent increase in contingent liabilities for the government.

Table 1: Key Financial Indicators

	24-May	1W chg (bps)	1M chg (bps)		24-May	1W chg	1M chg
iTraxx Asiax IG	90	-2	-5	Brent Crude Spot (\$/bbl)	54.27	3.95%	5.17%
iTraxx SovX APAC	20	-1	-3	Gold Spot (\$/oz)	1,251.93	-0.75%	-1.91%
iTraxx Japan	42	-1	-4	CRB	185.06	1.60%	2.28%
iTraxx Australia	83	0	-1	GSCI	393.04	2.26%	3.10%
CDX NA IG	62	-3	-2	VIX	10.72	0.66%	-1.11%
CDX NA HY	108	0	0	CT10 (bp)	2.275%	5.04	0.17
iTraxx Eur Main	62	-1	-6	USD Swap Spread 10Y (bp)	-6	2	-4
iTraxx Eur XO	251	-4	-21	USD Swap Spread 30Y (bp)	-45	2	-2
iTraxx Eur Snr Fin	67	-3	-11	TED Spread (bp)	29	1	-9
iTraxx Sovx WE	8	1	-1	US Libor-OIS Spread (bp)	12	-4	-7
iTraxx Sovx CEEMEA	46	-3	-1	Euro Libor-OIS Spread (bp)	3	0	0
					24-May	1W chg	1M chg
				AUD/USD	0.747	0.44%	-1.40%
				USD/CHF	0.975	0.36%	2.09%
				EUR/USD	1.119	0.27%	2.95%
				USD/SGD	1.390	0.01%	0.17%
Korea 5Y CDS	57	-1	2	DJIA	20,938	-0.20%	0.84%
China 5Y CDS	78	-3	-5	SPX	2,398	-0.09%	1.02%
Malaysia 5Y CDS	99	-4	-9	MSCI Asiax	613	0.27%	4.63%
Philippines 5Y CDS	78	-2	-2	HSI	25,297	0.01%	4.79%
Indonesia 5Y CDS	124	-7	-3	STI	3,229	0.14%	2.69%
Thailand 5Y CDS	57	-1	3	KLCI	1,768	-0.41%	0.70%
				JCI	5,700	1.50%	0.63%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
23-May-17	China Construction Bank Corporation (Hong Kong)	"NR/A1/NR"	USD1.2bn	3-year	3mL+77bps
23-May-17	Beijing Gas Singapore Capital Corporation	"A-/A3/A"	USD500mn	5-year	CT5+116bps
22-May-17	Hong Seng Ltd.	"B-/NR/B"	USD250mn	3-year	8.25%
22-May-17	Korea Eximbank	"AA/Aa2/AA-"	EUR750mn	5-year	MS+40bps
22-May-17	Nan Fung Treasury (II) Ltd.	"NR/Baa3/NR"	USD500mn	Perp NC3	5.5%
22-May-17	MCC Holding (Hong Kong) Corporation Ltd	"NR/Baa2/NR"	USD500mn	3-year	CT3+155bps
19-May-17	Housing & Development Board of Singapore	"NR/Aaa/NR"	SGD500mn	10-year	2.35%
18-May-17	Amber Treasure Ventures Ltd.	"NR/Baa2/NR"	USD500mn	3NC1.5	CT1.5+180bps
17-May-17	BOC Aviation Ltd.	"BBB+/NR/A-"	USD500mn	5-year	CT5+130bps

Source: OCBC, Bloomberg

Rating Changes (cont'd): S&P affirmed China Baowu Steel Group Corp. Ltd.'s (Baowu) 'BBB+' corporate credit rating and its subsidiary, Baosteel Resources International Co. Ltd.'s (Baosteel Resources) 'BBB' corporate credit rating. The outlook on both companies is stable. In addition, S&P affirmed the 'BBB' issue rating on Baosteel Resources' guaranteed outstanding senior unsecured notes and removed all the ratings from CreditWatch. The rating action reflects S&P's expectation for Baowu to maintain its competitive position and financial leverage following the completion of its merger with Wuhan Iron & Steel Group Co. Ltd. in March 2017. S&P also affirmed Baowu's core subsidiary, Baoshan Iron & Steel Co. Ltd.'s (Baoshan) and Bao-Trans Enterprises Ltd.'s (Bao-Trans) 'BBB+' corporate credit rating. The outlook is stable. In addition, S&P also affirmed the 'BBB+' issue rating on Bao-Trans' outstanding senior unsecured notes and removed all the ratings from CreditWatch. Moody's upgraded Goodman Group's (Goodman) issuer rating by one notch, to 'Baa1' from 'Baa2'. In addition, Moody's upgraded, by one notch, the ratings on Goodman and its subsidiaries' credit facilities and debt issuances, which include: Goodman Australia Finance Pty Limited Senior Unsecured EMTN Notes upgraded to 'Baa1' from 'Baa2', Goodman Funding Pty Limited Backed Senior Unsecured Notes upgraded to 'Baa1' from 'Baa2', and Goodman Plus Trust Junior Subordinate rating upgraded to 'Baa3' from 'Ba1'. The outlook on all ratings remains stable. The rating action reflects Moody's expectation for Goodman's revised gearing policy to result in a stronger credit profile through the cycle, which underpins a higher rating. Fitch affirmed the Foreign-Currency Issuer Default Ratings (IDRs) of China's five large state-owned commercial banks at 'A' with Stable Outlooks. The five banks involved are: Agricultural Bank of China Limited (ABC), Bank of China Ltd. (BOC), Bank of Communications Co., Ltd. (BOCOM), China Construction Bank Corporation (CCB) and Industrial and Commercial Bank of China Limited (ICBC). The rating actions reflect the banks' systemic importance and thus an extremely high propensity for the state to support them, if required.

Credit Headlines:

G8 Education Ltd ("G8"): G8 did a private placement to raise AUD100mn at AUD3.20 per share, which will be used mainly to repay existing debt facilities (AUD50mn bond, AUD40mn Bankwest working capital facility) and fund committed acquisitions of child-care centres. However, we do not view this as entirely new monies, as G8 was originally expected to receive AUD149mn from Tranche 2 of the share placement to CFCG Investment Partners International (Australia) Pty Ltd ("CIPI") on 17 May 2017. However, the proceeds of share placement from CIPI were renegotiated to AUD31.8mn after CIPI requested for an extension of time for payment of Tranche 2. G8 also provided a trading update yesterday. Like-for-like occupancy declined 3.4 ppts to 77.7% on a 12 month rolling basis to 30 Apr 2017. However, we are not overly concerned as G8 mentioned that EBIT and EBIT margin has improved as the lower occupancy was offset by price increases and cost controls. As such, we continue to hold G8 at a Neutral Issuer Profile. (Company, OCBC)

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