

Jun 27, 2017

Credit Headlines (Page 2 onwards): Industry Outlook – Financial Institutions, Oxley Holdings Ltd, Croesus Retail Trust

Market Commentary: The SGD swap curve traded downwards last Friday with rates trading 1-3bps lower across all tenors. Markets were closed yesterday due to public holiday. Flows in SGD corporates were heavy, with better buying seen in HSBC 4.7%-PERPs, WINGTA 4.08%-PERPs, STHSP 3.95%-PERPs, better selling seen in OUESP 4.25%’19s. In the broader dollar space, the spread on JACI IG corporates changed little last Friday at 195bps while the yield on JACI HY corporates fell 1bps to 6.82%. On Monday, the spread on JACI IG corporates changed little at 195bps while the yield on JACI HY corporates fell another 1bps to 6.81%. 10y UST yields fell by 1bps to 2.14% over Friday and Monday, mainly spurred by soft May durable goods data released on Monday.

New Issues: Melco Resorts Finance Limited will be pricing a USD350mn retap on its existing MPEL 4.875%’25s from 28 Jun. Wal-Mart has hired banks for a potential Yen-denominated bond issuance from 27 Jun. PTT Exploration & Production has scheduled investor meetings for a potential USD bond issuance from 26 Jun.

Rating Changes: S&P revised the rating outlook of Virgin Australia Holdings Ltd. (VAH) to stable from negative. In addition, S&P has affirmed the ‘B+’ corporate credit rating on the company. The rating action reflects S&P’s growing confidence that Virgin has a realistic deleveraging path, growing confidence that Virgin has a realistic deleveraging path. S&P believes that VAH’s repositioning as a full-service airline is substantially complete, and this focus has now turned to cash generation. S&P has assigned fully state-owned Guangdong Hengjian Investment Holding Co. Ltd. (Hengjian) an ‘A-’ corporate credit rating with a stable outlook. The rating action reflects S&P’s view that there is an extremely high likelihood that the company will receive support from the Guangdong provincial government if needed, due to its special status as the platform for the Guangdong provincial government for core asset holdings, asset management, and financing and capital market operations. Moody’s also assigned Hengjian a first-time ‘A3’ issuer rating with a stable outlook.

Table 1: Key Financial Indicators

	27-Jun	1W chg (bps)	1M chg (bps)		27-Jun	1W chg	1M chg
iTraxx Asiax IG	85	0	-6	Brent Crude Spot (\$/bbl)	45.97	-0.11%	-11.85%
iTraxx SovX APAC	19	1	0	Gold Spot (\$/oz)	1,244.71	0.14%	-1.84%
iTraxx Japan	40	0	-2	CRB	168.57	-1.58%	-7.38%
iTraxx Australia	83	-1	-2	GSCI	355.50	-0.45%	-7.78%
CDX NA IG	60	-2	-3	VIX	9.9	-4.53%	0.92%
CDX NA HY	107	0	0	CT10 (bp)	2.135%	-2.13	-11.13
iTraxx Eur Main	53	-2	-8	USD Swap Spread 10Y (bp)	-2	0	1
iTraxx Eur XO	232	1	-18	USD Swap Spread 30Y (bp)	-31	2	12
iTraxx Eur Snr Fin	51	-10	-15	TED Spread (bp)	32	6	4
iTraxx Sovx WE	7	1	-2	US Libor-OIS Spread (bp)	14	0	1
iTraxx Sovx CEEMEA	52	-4	9	Euro Libor-OIS Spread (bp)	3	0	0
					27-Jun	1W chg	1M chg
				AUD/USD	0.760	0.21%	2.10%
				USD/CHF	0.972	0.35%	0.62%
				EUR/USD	1.119	0.52%	0.25%
				USD/SGD	1.387	0.16%	-0.06%
Korea 5Y CDS	51	0	-5	DJIA	21,410	-0.55%	1.56%
China 5Y CDS	67	0	-11	SPX	2,439	-0.59%	0.96%
Malaysia 5Y CDS	84	0	-17	MSCI Asiax	631	0.69%	1.65%
Philippines 5Y CDS	76	1	-4	HSI	25,894	0.20%	0.99%
Indonesia 5Y CDS	114	-2	-11	STI	3,222	-0.76%	0.09%
Thailand 5Y CDS	61	1	3	KLCI	1,779	-0.66%	0.40%
				JCI	5,830	0.92%	1.73%

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

Date	Issuer	Ratings	Size	Tenor	Pricing
22-Jun-17	Adani Ports & Special Economic Zone Ltd	‘BBB-/Baa3/BBB-’	USD500mn	10-year	CT10+195bps
22-Jun-17	Franshion Brilliant Limited	‘NR/Baa3/NR’	USD300mn	Perp NC5.5	4.0%
22-Jun-17	Shimao Property Holdings Ltd	‘BB/NR/BBB-’	USD450mn	5NC3	4.75%
22-Jun-17	NTT Finance Corporation	Not Rated	USD500mn	3-year	3mL+53bps
21-Jun-17	Westpac Banking Corp	‘AA-/Aa3/NR’	USD1bn	5-year	CT5+77bps
21-Jun-17	Westpac Banking Corp	‘AA-/Aa3/NR’	USD500mn	5-year	3mL+71bps
21-Jun-17	Suntory Holdings Ltd	Not Rated	USD600mn	5-year	CT5+82bps
20-Jun-17	Wing Tai Holdings Ltd.	Not Rated	SGD150mn	Perp NC5	4.08%
20-Jun-17	Export-Import Bank of Korea	‘AA/Aa2/NR’	USD400mn	5-year	3mL+80bps

Source: OCBC, Bloomberg

Rating Changes (cont'd): Moody's has assigned a first-time 'B2' corporate family rating to China Logistics Property Holdings Co., Ltd (CNLP) with a stable outlook. The rating action reflects the company's strong market position in Grade-A logistics facilities in China, and its portfolio of reputable tenants. Moody's has affirmed Fenghui Leasing Co., Ltd's (Fenghui) 'B2' corporate family rating (CFR) with stable outlook but downgraded its fully-owned subsidiary's backed senior unsecured debt rating to 'B3' from 'B2'. The rating action reflects Moody's concerns on the company's: 1) faster than system average asset growth, which pressures its risk management and capital adequacy; 2) high reliance on short-term funding, which results in a liquidity mismatch; and 3) increasing secured borrowing, which weakens its financial flexibility. Fitch has revised Indonesia-based homebuilder PT Modernland Realty Tbk's (Modernland) Outlook to stable from negative and affirmed the Foreign-Currency Issuer Default Rating (IDR) at 'B'. The outlook revision reflects the significant improvement in the company's presales, which may result in higher EBITDA recognition, and the subsequent reduction in the risk of the company breaching its local-currency debt covenants in 2017. Fitch has downgraded Indonesian holding company PT Multipolar Tbk's (Multipolar) Long-Term Issuer Default Rating to 'B-' from 'B' with stable outlook. The rating action reflects Fitch's expectation of Multipolar's weaker credit profile on account of persistently weak performance from its majority-owned PT Matahari Putra Prima Tbk (MPPA) for the next two years due to increasing mini-market format competition. Fitch has downgraded Hong Kong-based commodities trader Noble Group Limited's (Noble) Foreign-Currency Issuer Default Rating (IDR) to 'CCC' from 'B-'. In addition, Fitch has removed these rating from Rating Watch Negative. The rating action follows continued uncertainty regarding Noble's funding capacity and how this will affect its operation at its current business scale.

Credit Headlines:

Industry Outlook – Financial Institutions: The European Central Bank has assessed two further banks, Italy-based Veneto Banca SpA and Popolare di Vicenza Spa, as failing or likely to fail and approved a plan by the Italian Government whereby the banks will be treated under Italy's insolvency laws rather than the European Union's Bank Resolution and Recovery Directive (BRRD). According to the plan, Italy's second largest bank, Intesa Sanpaolo SpA, will acquire only the performing assets of Veneto Banca SpA and Popolare di Vicenza Spa for EUR1 and receive from the Italian government (1) around EUR5bn in capital to maintain its capital ratios following the expanded risk weighted asset base and cover restructuring and integration charges; and (2) EUR12bn in government guarantees to cover bad loans and potential legal risks. This is in contrast to the recent resolution of Spain's Banco Popular Espanol S.A. (refer to [OCBC Asia Credit: Financial Institutions - The Spanish Resolution \(13 June 2017\)](#)) under BRRD rules (which restrict the use of tax payer funds to bail out banks), with the EU relying on their own discretion in deciding on whether a bank resolution (and hence write-down of capital, senior debt and deposits before state aid) or a wind-down under local insolvency laws serves banking sector stability better. While the EU's actions have raised some uncertainty on the resolution process and how bond holders will be treated, the recent events nevertheless support our view that regulator actions will be dictated by specific circumstances surrounding a bank's stress and that regulator intent to preserve system stability will lead to a practical solution over a theoretical one. The actions remove an overhang on Europe's banking sector although Italian banking sector risks remain, particularly with Banca Monte dei Paschi di Siena SpA still negotiating a potential recapitalization. In any case, the developments further highlight the write down risk of bank capital instruments and that investors should remain focused on bank fundamentals. (Company, OCBC)

Oxley Holdings Ltd ("OHL"): OHL priced a USD55mn tap of its existing '21s at par. This increases the total amount raised from the '21s to USD355mn, which we think is significantly larger than needed to refinance its existing debt, as we expect more than SGD1bn cash inflows from the TOP of key projects (e.g. Royal Wharf, Floraview). As mentioned previously (refer [OCBC Asian Credit Daily – 26 May 2017](#)), our Neutral Issuer Profile is premised on OHL's commitment to deleverage. We have noted that OHL has re-entered the Singapore property market with the en-bloc of Rio Casa in May 2017, which could indicate that OHL may have refocused towards deploying capital on new developments. As such, we are currently reviewing OHL's Issuer Profile. (Company, OCBC)

Croesus Retail Trust ("CRT"): CRT has requested for trading halt. While no reason has been given, CRT had announced previously (refer [OCBC Asian Credit Daily – 29 May 2017](#)) that it is in discussions that may lead to a potential takeover. We continue to hold CRT at a Neutral Issuer Profile. (Company, OCBC)

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