

Aug 30, 2017

Credit Headlines (Page 2 onwards): Industry Outlook – Singapore Residential Property, ASL Marine Holdings Ltd, Nam Cheong Ltd

Market Commentary: The SGD swap curve traded downwards yesterday, with swap rates trading 4-6bps lower across all tenors (with the exception of the 12-year tenor, which traded 13bps lower). Flows in SGD corporates were heavy, with better buying seen in WINGTA 4.35%-PERPs, OLAMSP 6%'22s, OUECT 3.03%'20s, better selling seen in UOBSP 3.5%'29s, and mixed interest seen in SIASP 3.13%'27s, OLAMSP 5.5%-PERPs. In the broader dollar space, the spread on JACI IG Corporates rose 2bps to 192bps, while the yield on JACI HY Corp fell 1bps to 6.91%. 10y UST yields fell 3bps to 2.13%, after a missile launch by North Korea caused investors to switch to safe haven assets.

New Issues: BDO Unibank Inc has scheduled investor meetings for potential USD bond issuance from 29 Aug. Sun Hung Kai & Co (BVI) Ltd has scheduled investor meetings for potential USD bond issuance (guaranteed by Sun Hung Kai & Co Ltd) from 30 Aug. Asahi Group Holdings Ltd has scheduled investor meetings for potential EUR 4-year and 8-year bonds from 4 Sep. The expected issue ratings are 'NR/Baa2/NR'. SP PowerAssets has scheduled investor meetings starting 11 Sep.

Rating Changes: S&P has upgraded Yuzhou Properties Co Ltd's (Yuzhou) corporate credit rating to 'BB-' from 'B+', while raising the rating on its senior unsecured notes to 'B+' from 'B'. The outlook is stable. The rating action reflects Yuzhou's increased operating scale and earnings stability, as well as its increasingly more diversified sales. Moody's has affirmed Rural Electrification Corporation Limited's (REC) and Power Finance Corporation Limited's (PFC) issuer ratings at 'Baa3'. The outlook has been changed to positive. The rating action reflects REC and PFD's strategic role in the power space in India, as well as Moody's repositioning of its support assumptions for Indian's public sector banks.

Table 1: Key Financial Indicators

| | 30-Aug | 1W chg (bps) | 1M chg (bps) | | 30-Aug | 1W chg | 1M chg |
|--------------------|--------|--------------|--------------|----------------------------|---------------|---------------|---------------|
| iTraxx Asiax IG | 79 | -2 | -3 | Brent Crude Spot (\$/bbl) | 51.88 | -1.31% | -1.22% |
| iTraxx SovX APAC | 19 | -2 | 0 | Gold Spot (\$/oz) | 1,313.28 | 1.73% | 3.45% |
| iTraxx Japan | 44 | 1 | 4 | CRB | 177.53 | 0.45% | -2.52% |
| iTraxx Australia | 73 | -1 | -4 | GSCI | 377.48 | -0.66% | -2.37% |
| CDX NA IG | 60 | -1 | 3 | VIX | 11.7 | 3.08% | 13.70% |
| CDX NA HY | 107 | 0 | -1 | CT10 (bp) | 2.145% | -2.11 | -14.40 |
| iTraxx Eur Main | 57 | 0 | 5 | USD Swap Spread 10Y (bp) | -6 | 0 | -1 |
| iTraxx Eur XO | 247 | -2 | 12 | USD Swap Spread 30Y (bp) | -36 | -2 | -1 |
| iTraxx Eur Snr Fin | 57 | 0 | 6 | TED Spread (bp) | 29 | -3 | 6 |
| iTraxx Sovx WE | 6 | 0 | 1 | US Libor-OIS Spread (bp) | 16 | 0 | 1 |
| iTraxx Sovx CEEMEA | 45 | 0 | -3 | Euro Libor-OIS Spread (bp) | 3 | 0 | 0 |
| | | | | | | | |
| | | | | | 30-Aug | 1W chg | 1M chg |
| | | | | AUD/USD | 0.799 | 1.09% | -0.16% |
| | | | | USD/CHF | 0.955 | 1.04% | 1.21% |
| | | | | EUR/USD | 1.198 | 1.43% | 1.13% |
| | | | | USD/SGD | 1.355 | 0.49% | 0.06% |
| | | | | | | | |
| Korea 5Y CDS | 61 | -2 | 4 | DJIA | 21,865 | -0.16% | 0.16% |
| China 5Y CDS | 58 | -5 | -6 | SPX | 2,446 | -0.25% | -1.04% |
| Malaysia 5Y CDS | 72 | -3 | -8 | MSCI Asiax | 657 | 0.25% | 0.72% |
| Philippines 5Y CDS | 63 | -4 | -7 | HSI | 27,976 | 2.10% | 3.70% |
| Indonesia 5Y CDS | 103 | -5 | -9 | STI | 3,261 | 0.03% | -2.09% |
| Thailand 5Y CDS | 56 | -4 | -6 | KLCI | 1,761 | -0.68% | -0.35% |
| | | | | JCI | 5,889 | -0.43% | 0.99% |

Source: OCBC, Bloomberg

Table 2: Recent Asian New Issues

| Date | Issuer | Ratings | Size | Tenor | Pricing |
|-----------|-------------------------------------------------|---------------|----------|----------------|-------------|
| 28-Aug-17 | Keppel Land Limited | Not Rated | SGD150mn | 6-year | 2.843% |
| 25-Aug-17 | Keppel Telecommunications & Transportation Ltd | Not Rated | SGD100mn | 7NC5 | 2.85% |
| 24-Aug-17 | OUE CT Treasury Pte Ltd | Not Rated | SGD150mn | 3-year | 3.03% |
| 24-Aug-17 | Franshion Brilliant Ltd | 'NR/Baa3/NR' | USD200mn | CHJMAO 4%-PERP | 100.09 |
| 24-Aug-17 | China Great Wall International Holdings III Ltd | 'BBB+/Baa1/A' | USD500mn | 3-year | CT3+135bps |
| 24-Aug-17 | China Great Wall International Holdings III Ltd | 'BBB+/Baa1/A' | USD1bn | 5-year | CT5+145bps |
| 24-Aug-17 | China Great Wall International Holdings III Ltd | 'BBB+/Baa1/A' | USD500mn | 10-year | CT10+180bps |
| 23-Aug-17 | Housing & Development Board | 'NR/Aaa/NR' | SGD600mn | 5-year | 1.825% |

Source: OCBC, Bloomberg

Rating Changes (Cont'd): Moody's has downgraded IDBI Bank Ltd's (IDBI) bank deposit rating and senior unsecured rating to 'B1' from 'Ba2'. At the same time, Moody's has downgraded the counterparty risk assessment for IDBI to 'Ba3' from 'Ba1', while confirming its baseline credit assessment at 'Caa1'. The outlook has been changed to stable. The rating action is driven by a reduction in the amount of extraordinary government support incorporated into the bank's ratings and its weak standalone credit profile.

Credit Headlines:

Industry Outlook – Singapore Residential Property: According to the URA, 10,565 new and resale private homes were sold in the first 7 months in 2017, which is higher by 56% y/y. We think this paints a positive sign for the property market as demand-supply gap has closed up significantly when compared to the 15,085 units (excl ECs) that remained unsold as of 2Q2017. According to the ZACD Group, a real estate investment firm, Singaporeans comprise 77.6% of private home buyers, increasing from 74.4% a year ago and according to market sources, the current upturn is driven by owner-occupiers. (Straits Times, URA, OCBC)

ASL Marine Holdings Ltd (“ASL”): ASL reported 4QFY2017 results for the quarter ending 30 June. Revenue declined 21.2% y/y to SGD77.8mn, mainly due to the decline from shipbuilding (-58.4% y/y to SGD20.7mn), shipchartering (-10.2% y/y to SGD24.2mn) and Engineering (-61.8% y/y to SGD1.8mn) while ship repair and conversion took over as the main revenue contributor (+81.3% y/y to SGD31.0mn). Nevertheless, gross profit declined by 75.8% y/y to SGD2.7mn as both shipbuilding and shipchartering turned into a gross loss of SGD0.9mn (4QFY2016 gross profit: SGD2.7mn) and SGD1.4mn (4QFY2016 gross profit: SGD0.8mn) respectively while margins were squeezed at shiprepair and conversion, which saw gross profit shrinking to SGD4.2mn (4QFY2016: SGD6.8mn). The gross loss for the shipbuilding segment was mainly attributable to the rescission of three OSV vessels, which include two units of anchor handling tug/multi-purpose supply vessels (“AHTS”) and one unit of seismic support vessel (“SSV”). The gross loss from shipchartering was mainly due to gross loss from the OSV segment and tug boats and barges segment with reduced charter rate from an AHTS and off-hire of two AHTS, lower utilisation rate of grab dredgers. The shiprepair segment also saw margin compression due to competitive pricing, with several major projects delivering only single digit margin. Only the engineering segment held steady with gross profit 6.6% y/y higher at SGD0.8mn due to one-off high margin recorded. Loss for the quarter was SGD62.8mn, mainly dragged down by impairments of SGD13.8mn on inventories, SGD22mn on plant, property and equipment and SGD18.4mn net impairment of doubtful receivables. Without the impairments, gross loss before tax would only be SGD9.1mn. Mainly due to the smaller equity base (-14.3% q/q to SGD378.8mn), net gearing increased to 1.36x (3QFY2017: 1.16x). Liquidity remains tight with SGD21.9mn of cash on hand while SGD182.3mn of borrowings are due within a year, though this has improved somewhat since the previous quarter as about SGD50mn of term loans have been pushed out after approval from principal lenders to re-profile existing term loans were obtained. Meanwhile, ASL is still generating positive cashflows of SGD4.9mn from operations (SGD18.6mn before changes in working capital). Nevertheless, with a challenging operating environment, tight liquidity and high net gearing, we continue to hold ASL at a Negative Issuer Profile. (Company, OCBC)

Nam Cheong Ltd (“NCL”): NCL has paid the coupon for NCLSP 5.0% '17s and NCLSP 5.05% '19s from the interest service reserve account (“ISRA”) Series 002 and Series 003 respectively. NCL has also made partial principal payment for NCLSP 5.0% '17s as it has reached maturity. The amount of principal repayment is made also from the ISRA Series 002, which had contained two coupon payments prior to the payment of the coupon and partial principal repayment. As such, we estimate that bondholders of NCLSP 5.0% '17s should have received about 2.4795% of principal as coupon payments (based on: 5.0% coupon x 181 days / 365 days) and at least 2.5205% of the principal as partial principal repayment (based on 5.0% coupon less 2.4795% of principal used for coupon payments). As a numerical illustration, we estimate that a bondholder of a SGD250k NCLSP 5.0% '17s should receive SGD6,198.6 in coupon and at least SGD6,301.3 as partial principal repayment. As mentioned previously (refer to [OCBC Asian Credit Daily – 24 Aug 2017](#)), we still await further updated details on NCL's restructuring plans. We will continue to monitor the situation closely. (Company, OCBC)

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